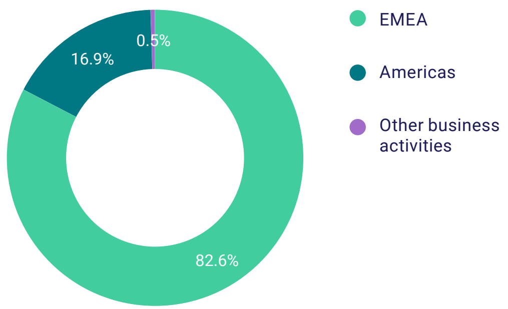
Annual Report 2021

The Retail Innovators

Summary of Consolidated Results

		31.12.2021	31.12.2020	31.12.2019	2021/2020 changes in %
Turnover	EUR K	130,847	117,560	115,448	11.3
Operating performance	EUR K	130,847	118,391	115,448	10.5
Total operating revenue	EUR K	139,589	122,688	119,285	13.8
EBIT	EUR K	17,306	10,535	3,430	64.3
EBIT margin (on turnover)	%	13.2	9.0	3.0	—
EBITDA	EUR K	26,790	19,078	12,256	40.4
EBITDA margin (on turnover)	%	20.5	16.2	10.6	
EBT	EUR K	16,454	9,090	1,233	81.0
Annual net profit/loss	EUR K	13,298	6,266	(3,139)	112.2
Earnings per share (weighted)	EUR	5.98	3.04	(1.60)	—
Earnings per share (diluted)	EUR	5.66	3.00	(1.60)	—
Equity ratio	%	58.0	44.0	37.1	—
Net debt	EUR K	(42,431)	243	11,907	—
Employees		1,096	1,162	1,168	(5.7)

Turnover distribution according to segments



Turnover (EUR million)

130.8

Earnings per share (weighted, EUR)

5.98

EBIT (EUR million)

17.3

Equity ratio (%)

58

Dear readers,

We are presenting this Annual Report to you in a screen-optimised layout. The purpose of this is to adapt the document to changes in digital reading and usage habits. Our goal is to make it is as simple as possible for you to navigate your way through the Report.

Despite optimising the Report to be read on a screen, we have, of course, made sure that the document can still be printed.

We hope that these changes make it easier for you to read our Annual Report.

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To the Shareholders

“Overall, we consider ourselves to be in a good position to continue our growth course and increase our profitability in 2022 and the coming years.”

Rainer Gläss,
CEO

Letter from the Management Board

Dear shareholders,

We would like to take this opportunity to present you with the 2021 annual report for GK Software[1] and to review another successful fiscal year. Both our business figures and our market position improved further in a year that was still characterised by the worldwide COVID-19 pandemic. On the other hand, we can see that our revenue growth has accelerated just as much as our transformation into a cloud company.

We are pleased to report that we were able to increase the turnover to EUR 130.85 million, exceeding the previous year's results by EUR 13.29 million (up 11.3 percent). EBITDA reached a figure of EUR 26.79 million, exceeding the previous year's results (EUR 19.08 million) by almost a third. The growth in earnings before interest and taxes (EBIT) was even higher at EUR 17.31 million (2020: EUR 10.54 million). This makes the 2021 fiscal year the most successful and most profitable for many years. This is true even when the one-off effect caused by the sale of AWEK microdata GmbH is taken into consideration.

This trend is also reflected in our market position, with independent market research once again confirming our international leadership position and naming GK as one of the key providers worldwide. But that's not all: Once again, the 2021 edition of the annually published Global POS Software study[2] of British advisory company RBR found that GK is the world's fastest-growing provider in its target market in terms of the number of new installations: In this market (retailers with more than 1,000 systems, not including fuel stations and hospitality), GK rolled out more new POS installations worldwide than any of its competitors in the period investigated between June 2020 and June 2021. Even taking into account all segments (i.e., including fuel stations and hospitality), GK was the world's number 2 in terms of new installations during this period. But it is not just our momentum that justifies our being assessed as a world-leading provider of store-automation software: Our installed base also puts GK in sixth place worldwide and in second place in Europe. Furthermore, in the period under evaluation by RBR, one in every four new installations (26 percent) in Europe was implemented using GK software.

This positioning will be further improved by the progress made over the past year toward becoming a cloud company. Our cloud products impressed new CLOUD4RETAIL customers just as much as did the performance of our subsidiary Deutsche Fiskal's Fiskal Cloud, which has been operating at full capacity since April: At the time of reporting – one year after going into production – we will have processed 20 billion transactions in real time without recording any malfunctions worthy of mention.

And we are working on new solutions for retail – in particular GK SPOT. With this, we want to give retailers the opportunity to make the most of the large amounts of data they have, and of course this big data solution is being developed as a purely cloud-based solution.

In 2021, sales to new customers revealed that GK successfully adapted to the limited sales opportunities available due to the pandemic. Overall, we were able to win 15 new customers for CLOUD4RETAIL. A very large new acquisition in South Africa was particularly prominent among these customers. These new customers also come from the UK, the US, Panama, Egypt, Mexico and France. Almost half of the new contracts (7) are already software-as-a-service (SaaS) contracts, and we are assuming that this trend will continue to strengthen in the coming years. With the installations going live at these customers, the revenue GK generates from the cloud-license business will continue to grow and lead to a significant and foreseeable development overall. Overall, the new CLOUD4RETAIL customers acquired in 2021 represent up to 44,665 installations in 6,120 stores on four continents. In addition, there are five more new customers in the AIR (Artificial Intelligence for Retail) segment, and more than 200 customers in the Deutsche Fiskal segment.

1 The name GK Software always refers to the corporate group in the following text. "The Company" is also used as a synonym. When GK Software SE is used, it exclusively refers to the individual company.
2 rbr: Global POS Software 2021

In the reporting period, our long-term, trusting partnership with SAP also continued to prove successful. We also concluded further important partnerships in order to establish ourselves even better in the cloud environment and to tap any additional sales potential. As part of a global alliance with IBM, CLOUD4RETAIL will now also be available in the IBM cloud. In addition, a joint go-to-market strategy was agreed, which enables IBM Global Services to provide solutions and offers for retailers. Through an agreement with AWS – yet another hyperscaler – we were able to create the conditions necessary to make our solution available on major cloud platforms. Due to our partnerships with SAP, IBM, Microsoft, and AWS as well as other innovation partnerships, we are convinced that we will improve our global reach and visibility.

Both our business figures and our market position improved further in a year that was still characterised by the worldwide COVID-19 pandemic.

Another significant event in the financial year was the sale of AWEK microdata, developer of the euroSUITE solution, to the Zucchetti Group in Lodi, Italy, for a figure in the mid single-digit million range. We made this decision in view of our plan to focus more strongly on our cloud solutions, CLOUD4RETAIL and retail7. In the 2020 fiscal year, AWEK microdata generated less than five percent of the Group's revenue and had 41 employees in Hamburg and Bielefeld.

At the end of March 2021, we successfully placed a capital increase. In this context, investors subscribed for a total of 180,000 new shares, at a placement price of EUR 105.75 per share, through ICF BANK AG. This equates to gross proceeds from the issue of EUR 19.04 million, which were entered on the books at the start of the second quarter. This further strengthened the Company's liquidity. In order to meet the high demand, Mr Rainer Gläß also sold shares, which has now increased the free float to 58.15 per cent.

One important topic for us in 2021 was the reorganisation of the Group financing. Within this framework, we took out a syndicated loan for the first time on 8 December 2021 in the total amount of 45 million euros for 3 years plus a one-year option. This harmonised and streamlined the financing structure, while ensuring robust financing for the Group in an amount that will be sufficient in the long term.

In September, we set up a branch in Paris to extend our penetration into the French market and to provide our customers with local support. We also want to have more of a present in the UK and have built up further capacities there. In the first quarter of 2022, in order to increase our geographical sales reach and to provide better service for existing customers, we successfully launched two further subsidiaries in Singapore and Australia.

In the 2021 fiscal year, research and development was able to successfully develop new products and make several solutions ready for the market. We worked constantly on the further improvement of our CLOUD4RETAIL core solution and were able to provide numerous additional functionalities and improved operability, with our solutions completing the SAP Premium Qualification process on schedule.

With eReceipt (eMailBon), we were able to offer retailers a solution that meets the statutory requirement for receipts for tax purposes and roll it out successfully for the first time. With the new service for Go-style shopping introduced in autumn, we make it possible for retailers to offer a checkout-free, grab-and-go shopping experience ("frictionless retail"). With this service, shoppers don't need to scan the products or pay for them at conventional checkouts. The Deutsche Fiskal solutions obtained the necessary certifications on schedule and are under constant further development. For example, Deutsche Fiskal's native Android solution was completed in the reporting period and certified by BSI in early-2022. This makes Deutsche Fiskal available to users of a further operating system with the associated hardware. In the AIR segment, we further developed our solutions for personalisation and dynamic pricing, as well as developing a new mobile solution for preventing food waste, using artificial intelligence to ensure that goods are sold in time. In 2021, following the first test customers, further customers from a wide range of industries were connected up to our retail7 solution, and this cloud product was also further extended.

GK SPOT – our new big data solution – was a major focus of development in the past fiscal year. Its technological base was consolidated and work was carried out on initial AI-based testing applications. Besides real-time business-intelligence topics, the focus is on applications in the field of hyper-personalisation in particular.

We were also able to continue expanding our installed base for CLOUD4RETAIL last year through on-schedule project progress. The go-live of about 27,000 new installations means that 380,289 systems (tills, mobile devices, servers) are now in productive use in 63 countries. Not included in these figures are the installations of Deutsche Fiskal, of our TransAction+ payment platform in the US, and our AI solutions, as these products are distributed in a technically different manner.

As in previous years, we were able to strengthen our business relations with almost all our existing customers. Besides the annually recurring revenue arising from extension business and general operational support, we were also able to conclude contracts with several customers for the purchase of additional solutions or for switching to CLOUD4RETAIL OmniPOS. These relationships are a reliable component in GK Software's business development as our customers are permanently adapting their solutions to new requirements in their business by expanding into new countries, developing new sales concepts or introducing omni-channel standards.

The last Annual Report included a medium-term forecast for the period up to the end of the 2023 fiscal year. This would only apply, however, if the Coronavirus pandemic were brought under control by the end of 2022. Even if this is not yet foreseeable, the war in the Ukraine has presented another issue, the ramifications of which could be significantly more serious and even more difficult to assess in terms of their duration. On the condition that these issues do not result in global upheaval, we continue to stand by our current forecast and expect to be able to achieve a sales range of between EUR 160 million and EUR 175 million by the end of 2023. This could be accompanied by additional inorganic growth, but also supported by sources of organic growth if the market launch of GK SPOT opens up new geographical markets or further potential – particularly for Deutsche Fiskal and prudsys.

We expect that we will grow in 2022 by the same amount that we grew in the past year, bringing the trend in earnings closer to our target margin for the EBIT of 15 percent for 2023. With this, we are assuming that the transformation to SaaS products will also continue for CLOUD4RETAIL. The achievement of these targets will also be significantly influenced by overcoming the negative external factors caused by the pandemic and the war in Ukraine.

Overall, we consider ourselves to be in a good position to continue our growth course and increase our profitability in 2022 and the coming years. So we will continue to be optimistic about the years ahead and are delighted that you are supporting

GK Software SE and its pathway of growth. We would also like to take this opportunity to thank you for placing your long-term trust in the company.

Schöneck, 28 April 2022

The Management Board

Rainer Gläss
Chief Executive Officer

André Hergert
Chief Financial Officer

“The year was characterised by a very encouraging economic development of GK Software SE despite the overall continuing adverse circumstances caused by the pandemic.”

Dr Philip Reimann
Chair of the Supervisory Board

Report of the Supervisory Board

Dear Shareholders,

We would like to take this opportunity to present you with the report of the Supervisory Board of GK Software SE for the 2021 fiscal year. The year was characterised by a very encouraging economic development of GK Software SE despite the overall continuing adverse circumstances caused by the pandemic. The results of the 2021 fiscal year confirm to the Supervisory Board that the course taken by the Company in 2019 and 2020 – years characterised by the implementation of the efficiency program – continues to be the right one. Furthermore, the strategic realignment of GK SOFTWARE SE makes even clearer and more tangible the networking of decades of experience as a leading European provider of integrated branch solutions and thus consistency on the one hand, with the innovative capacity, dynamism, readiness for change and agility of GK Software SE on the other, and therefore also contributes significantly to successful development. The Supervisory Board is convinced that the 2021 fiscal year once again saw the laying of important foundations for GK Software SE to achieve its goal of becoming the world's leading provider of the most comprehensive retail applications for omni-channel business in real time.

Composition of the Supervisory Board

In accordance with the articles of association, the Supervisory Board consists of three members. During the 2021 fiscal year these were:

- Dr Philip Reimann (Chair)
- Thomas Bleier (Deputy Chair) and
- Herbert Zinn

Meetings

The Supervisory Board held its ordinary meetings on 23 February, 27 April, 17 June, 6 September, and 09 December 2021, with all meetings since June again being held in Schöneck. Due to the Covid-19 situation, the meetings in February and April were held as video conferences. Additionally in 2021, regular meetings were held as phone or video conferences, many of which led to resolutions being passed. Such meetings at which resolutions were passed were held on 11 January, 15 January, 25 March, 26 March, 30 March, 28 April, 6 May, 28 May, 21 June, 25 June, 30 June, 5 August, 13 August, 27 August, 3 September, 1 October, 24 November and 26 November.

All members of the board attended all ordinary meetings and conferences. It is customary practice at GK Software to always involve the representatives of the Management Board in the meetings. Beyond these meetings, the members of the Supervisory Board were also regularly in contact with each other and – particularly through the Chair of the Supervisory Board – also with the Management Board and the members of the Group Management Board. Decisions were made during the meetings or by way of a circulation procedure. During its meetings, the Supervisory Board was briefed in detail about the Company's economic and financial situation and its fundamental corporate policy by way of verbal and written reports from the Management Board. At the request of the Supervisory Board, the Management Board also provided interim reports on the latest course of business and earnings at regular intervals between the meetings and promptly forwarded the minutes of each Group Management Board meeting.

Functions of the Supervisory Board

During the 2021 fiscal year, GK Software SE fulfilled the tasks incumbent upon it according to law, the articles of association, the recommendations of the government's "German Corporate Governance Code" commission and the Supervisory Board's latest rules of procedure, and monitored the Company's management continuously and carefully.

In the 2021 fiscal year, the Supervisory Board focused in particular on the realignment of the strategy and the brand of GK Software SE, as well as, of course, on the effects of the ongoing pandemic and, in particular, on the effects on the working conditions of the employees of GK Software SE. The Supervisory Board received regular reports on the status of the realignment as well as on the measures taken to protect the employees of GK Software SE. It also supported the Group Management Board in defining and implementing the targets for the fiscal year and beyond.

The ongoing development and adaptation of risk-management systems was a subject again urgently pursued by the Supervisory Board during the 2021 fiscal year, as were the increase in efficiency and quality in the HR area, the advancement of further expansion, the implementation of the capital increase and the continued focus on the topic of data security and protection. The Supervisory Board welcomed the progress made in these respects.

The Supervisory Board also focused on the appropriateness of the remuneration paid to Management Board members, particularly in respect of the adjustments that have to be made to the existing employment contracts and pension agreements. As in previous years, we focused our attention on the relation of the remuneration payments to the economic situation of the Company and on the conditions prevalent at comparable companies, the soundness of the overall remuneration structure within GK Software and the composition of fixed and variable salary elements.

In order to monitor the Company's management, the Supervisory Board took the annual budget passed for 2021 for guidance and had reports prepared by the Management Board, particularly regarding the ongoing cost trends, profitability, specific characteristics of corporate policy, the reasons behind the corporate planning in all business segments, the further course of business and important measures adopted by the Company. Throughout the entire fiscal year, the Supervisory Board also requested additional reports on business development. Throughout the year, the Management Board also supplied the Supervisory Board with information, both during and outside the meetings, which was discussed and critically reviewed by the Supervisory Board.

Corporate Governance

The Supervisory Board and Management Board have been acting for many years in the knowledge that good corporate governance forms an important basis for the Company's success and is therefore in the best interests of shareholders and capital markets. In April 2022, the Management Board and the Supervisory Board issued their annual declaration of compliance in accordance with Section 161 AktG [German Stock Corporation Act]. The wording of this declaration is included in this annual report as part of the Corporate Governance Report. In this declaration, both the Management Board and the Supervisory Board have pledged to follow the recommendations of the German Corporate Governance Code as far as possible. On 31 August 2015, a decision was made on the legal stipulation to have equal representation of women and men in management positions; this continues to apply. Again in 2021, no conflicts of interest arose for the members of the Supervisory Board.

Sustainability reporting

In line with the statutory provisions, an independent sustainability report is being published by GK Software SE together with this report for the fourth time. The Supervisory Board therefore requested an explanation of the principles of reporting and the content of the sustainability report from the Management Board at the same time as the annual accounts and consolidated accounts in accordance with requirements.

Audit of the annual accounts for 2021

The GK Software SE annual accounts compiled by the Management Board in keeping with the guidelines set by the German Commercial Code, the IFRS consolidated accounts, and the respective management report were audited by the auditing firm PriceWaterhouseCoopers GmbH, Erfurt, and were given an unqualified audit certificate. Taking into account these audit reports, the Supervisory Board inspected the annual accounts compiled by the Management Board, the consolidated accounts, the dependency report, the management report of GK Software SE and of the Group, and the Management Board's proposal for the appropriation of profits, for 2021. At its meeting on 27 April 2022, the Supervisory Board asked the Management Board to explain the 2021 annual and consolidated accounts and to report on the profitability, the Company's equity, the ongoing course of business and the Company's broader situation. All members of the Supervisory Board received the necessary paperwork and documents prior to this meeting.

During the meeting, the auditors commented on the Management Board's presentation and explained the audit findings on the basis of the audit reports and answered all the questions on these reports. The auditors were able to satisfactorily answer all issues raised. There are no concerns regarding the auditors' independence. At its meeting on 27 April 2022, the Supervisory Board approved the annual accounts of GK Software SE and endorsed the consolidated accounts of GK Software. The annual accounts have therefore been approved.

The Management Board also prepared a report on the relationships with associated companies in accordance with Section 312 AktG [German Stock Corporation Act]. The auditors examined this report and gave an oral account of the results of their examination at the meeting on 27 April 2022. The review by the Supervisory Board did not give rise to any grounds for objection. Accordingly, it had no objection to the Management Board's final statement in its report in accordance with Section 312 AktG [German Stock Corporation Act] and confirmed this by voting in favour of it at the meeting on 27 April 2022.

The Supervisory Board would like to thank the Management Board, the complete management team and all employees for their work in 2021.

Schöneck, 27 April 2022

Dr Philip Reimann
Chair of the Supervisory Board

Corporate Governance Report

in accordance with Section 289a HGB [German Commercial Code]

GK Software considers responsible and transparent behaviour to be absolutely essential for its long-term economic value creation. Both the Management and the Supervisory Board have therefore issued the statutory declaration of compliance in accordance with Section 161 AktG [German Stock Corporation Act]. Accordingly, monitoring compliance with the declaration is considered an important task for the Management Board and Supervisory Board. The declaration is issued every year and is available to the public on the Internet at https://investor.gk-software.com in the "Corporate Governance" section.

Cooperation between the Management Board and the Supervisory Board

The Management Board and the Supervisory Board have been working together for many years on a basis of trust. The Management Board reports at regular intervals to the Supervisory Board on profitability and the Group's strategy and its implementation, and also on existing or potential risks. These reports are given during the scheduled Supervisory Board meetings, ten of which were held in the past fiscal year, and also directly through regular monthly meetings with the Chair of the Supervisory Board. Further information on this can be found in the Supervisory Board's report. Due to the fact that it has only three members, the Supervisory Board did not form any committees. All issues are discussed and decided by the full board. The Chair of the Supervisory Board is solely authorised to conduct negotiations on personnel decisions that pertain to the Management Board, but these must be approved by the full board. No conflicts of interest arose for members of the Management Board or the Supervisory Board.

Transparency

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

The Company will also appoint a voting proxy for the 2022 Annual General Meeting; this will allow shareholders to exercise their voting rights, even if they are unable to attend the meeting in person. All public information, such as ad-hoc announcements and press releases, financial reports or reports on the annual shareholders' meeting, can be viewed at any time on the Company's website.

Risk management

The risk-management system established by the Company is geared towards the needs of its business. It is designed to help identify risks at an early stage and to prevent or limit any risks that occur. Please see the Consolidated Report for details.

Statement of compliance

On 19 April 2022, the Management Board and the Supervisory Board of GK Software SE declared that, since issuing the last annual declaration of compliance in April 2021, the recommendations of the government's German Corporate Governance Code commission had been met, apart from the exceptions noted in the declaration of April 2021, and will continue to be met with the following exceptions. The Corporate Governance Code in its 16 December 2019 version, which was valid at the time this declaration was issued, forms the basis for this declaration.

A. Management and supervision

I. Business management tasks of the Management Board

Principle 3, Recommendation A.1 In the interests of the Company, the candidates for management positions will be selected by the Management Board mainly on the basis of their personal skills and abilities. Only then will other objective background circumstances of the candidates be taken into account so as not to generally restrict the interests of the Company. When setting the target rate for the proportion of women at the first management level below the Management Board, the

Management Board will take into account that this consists of only three members.

Principle 5, Recommendation A.2 Work on completing the compliance system is still in progress. The Management Board plans to disclose the main features of this once it is completed. Opportunities for employers and outside parties to securely provide information about legal infringements already exist.

III. Function of the annual shareholders' meeting
Principle 8, Recommendation A.5 The Company's articles of association do not provide any regulations for this case. The Management Board will comply with the statutory provisions envisaged for these cases and shall reserve the right to summon an extraordinary shareholders' meeting.

B. Composition of the Management Board
Principle 9, Recommendation B.1 When filling vacant positions on the Management Board, the Supervisory Board will mainly take into account the candidates' personal suitability, based on their individual skills and specialist expertise, so as not to generally restrict the interests of the Company. Only then will other criteria be considered. When setting the target rate for the proportion of women on the Management Board, the Supervisory Board will essentially take into account that this consists of only two members.

Principle 9, Recommendation B.2 The Supervisory Board and the Management Board will jointly ensure long-term planning with regard to successors. This method will be adapted to the relevant requirements of the specific situation in each individual case and will be described in the declaration on company management for 2022.

Principle 9, Recommendation B.5 There is no age limit for members of the Management Board; GK Software SE believes that the professional qualifications of the members of the Management Board are of greater significance.

C. Composition of the Supervisory Board

I. Composition of the Supervisory Board
Principle 11, Recommendation C.1 The composition of the Supervisory Board of GK Software SE is not decided by the Supervisory Board, but by the Company's Annual General Meeting. The Supervisory Board aims at successful cooperation between its members and constructive cooperation with the Management Board. The nominations submitted by the Supervisory Board at the annual shareholders' meeting will take into account the geographical distribution and the degree of complexity of the business activities of GK Software. Criteria such as age, origin or gender of the candidates are not primary factors in considerations. When setting the target rate for the proportion of women on the Supervisory Board, the Supervisory Board will essentially take into account that this consists of only three members.

Principle 11, Recommendation C.2 There is no obligatory age limit for the members of the Supervisory Board as particularly the older members of the Supervisory Board enrich the board with their wealth of experience and their professional qualifications are of greater significance.

II. Independence of the members of the Supervisory Board
Principle 12, Recommendation C.7 In special situations, such as proposals for the necessary appointment of members to the Supervisory Board by a court, the Management Board will, in the best interest of the Company, also propose candidates who do not meet the criteria of the Code as regards independence. The Company does not see any restrictions of independence for the Supervisory Board members who have served on this board for more than twelve years.

Principle 12, Recommendation C.10 In special situations, such as proposals for the necessary appointment of members to the Supervisory Board, who at the same time are to be appointed as Chairpersons of the Supervisory Board by a court, the Management Board will, in the best interest of the Company, also propose candidates who do not meet the criteria of the Code as regards independence.

D. How the Supervisory Board operates

I. Rules of procedure
Recommendation D.1 The rules of procedure for the Supervisory Board are not made public.

II. Cooperation within the Supervisory Board and with the Management Board
Principle 14, Recommendation D.2 The Supervisory Board of GK Software SE does not form any committees as, due to its size (the Supervisory Board consists of three members), meetings attended by all members of the Supervisory Board are the most efficient way to guarantee that consistent and extensive information is provided to all members of the Supervisory Board. All questions can be discussed and answered appropriately when the full board meets.

Principle 14, Recommendation D.3 See explanation for the deviation from Recommendation D.2.

Principle 14, Recommendation D.4 See explanation for the deviation from Recommendation D.2.

Principle 14, Recommendation D.5 See explanation for the deviation from Recommendation D.2.

Recommendation D.7 The Supervisory Board usually meets together with the members of the Management Board, as both boards believe that the flow of information and the discussion of subjects that concern the Company can be best handled this way.

Recommendation D.11 See explanation for the deviation from Recommendation D.2.

F. Transparency and external reporting
Recommendation F.2 The consolidated accounts will not be published within 90 days of the end of the fiscal year, but – in keeping with the current guidelines of Deutsche Börse AG – after four months. The interim reports will not be presented after 45 days, but – in keeping with the current guidelines of Deutsche Börse AG – after two months. GK Software SE believes that the periods of time stipulated by Deutsche Börse AG are sufficient to provide shareholders with detailed information.

G. Remuneration of the Management Board and the Supervisory Board

I. Remuneration of the Management Board
Recommendation G.1 It is not possible to precisely determine the relative share that the fixed remuneration on the one hand and short-term variable and long-term variable elements of remuneration on the other hand have in the overall target remuneration. Whereas the ratio of fixed remuneration and maximum short-term variable remuneration has been clearly defined, the long-term variable remuneration is paid out solely in the form of share options; however, the value these shares will have on the date of issue cannot be determined at the time the option is exercised.

The remuneration system stipulates the correlation between the achievement of the previously agreed performance criteria and the variable remuneration. However, the Supervisory Board reserves the right to consider the Company's overall situation when assessing the targets that have actually been achieved in terms of overall target achievement.

The variable remuneration that results from achieving long-term targets does not exceed the proportion resulting from short-term targets pro forma. However, it is deliberately assumed that the instruments for the remuneration of long-term goals (share options) with a growth value such as the company represents, have an inherent value lever - even if not exactly determinable - which can and should lead to the remuneration of the long-term goals clearly exceeding that for the short-term goals.

Recommendation G.10 The members of the Management Board are not expected to invest the variable remuneration granted to them mainly in

Company shares, because the long-term remuneration is already paid out solely in the form of share options.

Recommendation G.11 In justified cases, there is no possibility for the Supervisory Board at GK Software to withhold or reclaim any variable remuneration earned. In such cases, mutual agreement will be sought with the members of the Management Board.

Recommendation G.13 The Supervisory Board will ensure in future contracts that payments to a member of the Management Board do not exceed the value of two annual salaries if they leave the Management Board prematurely.

Recommendation G.14 The Supervisory Board will ensure in future contracts that payment promises in the event that the employment contract is ended prematurely by the member of the Management Board due to a change of control are not agreed. As both members of the Management Board were appointed to their positions over a decade ago, the practice adopted for years has been applied to one of the current contracts.

Recommendation G.15 For those members of the Management Board, who hold supervisory board positions within the Group, the remuneration is not currently taken into account in their salaries as the decisions were made before the corresponding rules of the Code were adopted and the additional responsibility associated with this is compensated. When making future decisions, the Supervisory Board plans to ensure that the remuneration for supervisory board positions within the Group is taken into account in the salaries.

GK Software SE Shares

Basic data

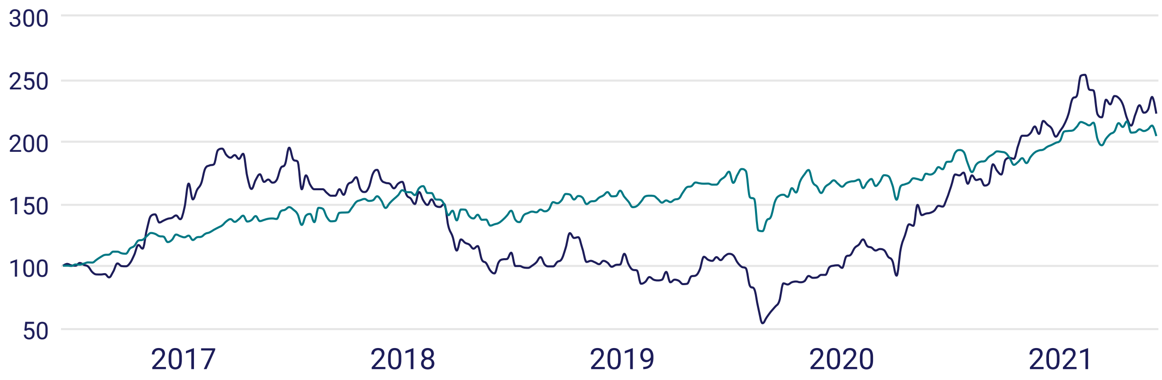
T.01 Basic data

Securities Identification Number (WKN)	757142
ISIN	DE0007571424
Trading symbol	GKS
GK Software AG IPO	19 June 2008
Type of shares	Ordinary stock in the name of the holder without any nominal value (individual share certificates)
Trading markets	Frankfurt and XETRA
Market segment	Regulated Market (Prime Standard)
Designated sponsor	ICF Bank AG
Number of shares	2,258,425
Share capital	EUR 2,258,425
Free float	58.15 %
Highest price in 2021	EUR 171.50 (8 September 2021)
Lowest price in 2021	EUR 96.80 (5 January 2021)

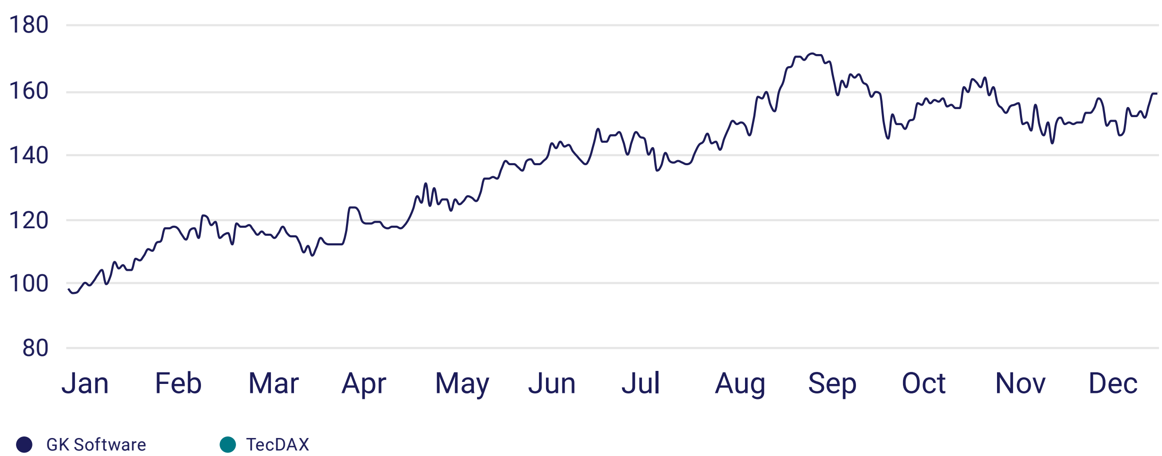
Summary/share performance

The price of GK Software shares, which are listed on the Prime Standard section of the Frankfurt Stock Exchange, continued its increase last year. The share price started the year at EUR 100.50, peaked at over EUR 170 in September and closed at EUR 160 at the end of the reporting period. Market capitalisation lay at EUR 361 million at the end of the year.

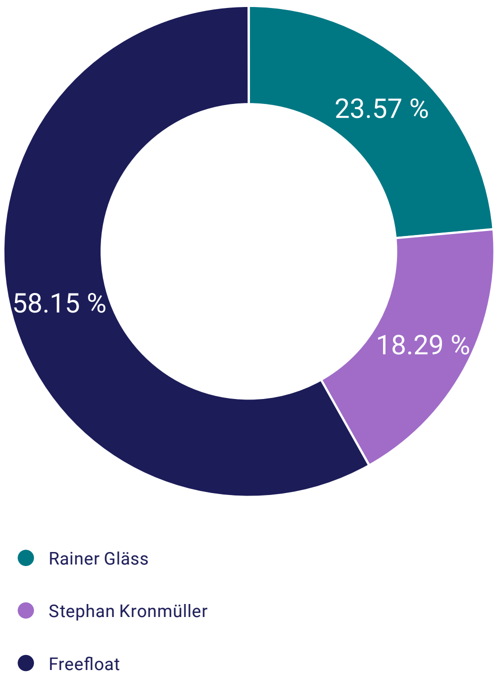
Share price development (in %) 2017 to 2021



Share price development (in %) in 2021



Shareholder structure on 31 December 2021



Number of shares issued

On 31 December 2021, the total number of voting rights was 2,258,425 shares at the end of the reporting period.

Shareholder structure

GK Software SE has an extremely stable shareholder base and this is enabling the Company to achieve long-term and sustained development. The shareholder structure on the reporting date (31 December 2021) was as follows: Rainer Gläss, company founder and Chair of the Management Board, directly held 3.00 percent and, indirectly through Rainer Gläss Vermögensverwaltungs GmbH & Co. KG, 20.57 percent of the shares. Stephan Kronmüller, also a company founder and the former Head of Technology and Development, directly held 1.63 percent and, through Stephan Kronmüller Vermögensverwaltungs GmbH & Co. KG, 16.66 percent of shares. This meant that 58.15 percent of the shares were in free float on 31 December 2021.

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

T.02 Amounts exceeding/falling below the threshold value

Date	Shareholder	Proportion in %
1.10.2021[1]	Universal-Investment-GmbH, Frankfurt am Main	5.03

Directors' dealings in 2021

T.03 Directors Dealings

Date	Person trading	Position	Activity	Volume EUR	Quantity
23.12.2021	André Hergert	Management Board	Sale	38,171.05	257
23.12.2021	André Hergert	Management Board	Purchase	233,380.00	2,000
27.9.2021	Rainer Gläss	Management Board	Sale	934,200.00	6,000
27/9/2021	Rainer Gläss	Management Board	Sale	628,000.00	4,000
26.3.2021	Rainer Gläss	Management Board	Sale	6,345,000.00	60,000
1.2.2021	André Hergert	Management Board	Sale	80,649.79	670
27.1.2021	André Hergert	Management Board	Purchase	229,900.00	5,000

Investor relations

GK Software deliberately chose to have its shares listed in the most stringently regulated sector at

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

Deutsche Börse, the Prime Standard, for its flotation in the summer of 2008. The highest possible degree of transparency towards its investors and all the other participants in the capital markets has been one of the most important Company principles from the outset.

André Hergert, the CFO, is responsible for investor relations, which has been assigned its own department. This guarantees that any enquiries from investors and potential investors are answered immediately.

GK Software SE also attaches great importance to providing a continual flow of information for the future. Among other things, this involves the completion of quarterly reports and extensive half-yearly and annual reports in German and English, a finance calendar, compulsory announcements, which have to be published immediately, and corporate news items. The accounting system has been adapted to the international IFRS accounting standards and also meets investors' requirements for information. As in previous years, GK Software will hold its analysts' conference during the Frankfurt Equity Capital Forum in 2021 again. Investor and press roadshows also take place at regular intervals, so that the Company remains in permanent contact with the capital markets.

Products and Services

The CLOUD4RETAIL platform

The CLOUD4RETAIL platform is the technological basis for the major share of GK Software's solutions. All solutions based on this cloud platform adhere to identical development paradigms and a comprehensive framework. The purpose of this is to enable software components to be used multiple times and resources to be shifted quickly between the various modules based on the platform. CLOUD4RETAIL's main goal is to further reduce the complexity of the various retail processes by way of a suitable platform solution and create solutions that remain operable and manageable for the users despite growing demands, particularly from consumers. The Company's slogan "Simply Retail" takes this into account. This is why the Company has made such significant investments during the last few years in order to enable the process of digital transformation with specific solutions. This has meant that significant parts of the range of solutions have been newly developed in order to safeguard the future viability of the GK range of solutions for years to come and not just rely on the status quo. The results of this fundamental management decision were not as clearly evident at first glance as, for example, the switch from DOS to Java. However, if we consider the resulting effect, the expenditure associated with it and the dimension of this change in general terms, the step that has been taken in the field of software development is probably much bigger as it gives digitalisation a powerful boost and leads to large parts of the corporate IT being transformed into the cloud.

One unique feature of the CLOUD4RETAIL platform of solutions is the use of **artificial intelligence** to optimise decision processes involving large amounts of data. Using AIR (Artificial Intelligence for Retail), GK Software has developed the first specifically retail-oriented services based on artificial intelligence in order to optimise retail processes. This is based on a self-developed AI solution, which uses processes such as machine learning and other AI methods to analyse even large amounts of data in real time and generate recommended courses of action.

The CLOUD4RETAIL platform is not geared to any individual retail segment, but is equally (**not industry specific**) suitable for **all formats and segments in the retail sector**, ranging from small shops to department stores, from food retailers to fashion and even specialist retailers.

The architecture of the platform has been designed to be used not only with a particular type or class of device (**device independence**). The underlying open client concept ensures that nearly all standard devices can be used on the basis of the same cloud-enabled services. They include mobile and stationary checkouts using very different hardware, scales, self-checkouts, self-scanning devices, mobile data logging devices for employees, tablets or, not least, the wide variety of consumer smartphones.

The CLOUD4RETAIL platform has been designed for use in very large and widespread branch networks. It is critical for the retail business to be able to ensure that the daily operations involving thousands of devices and the central services associated with these are not disrupted (**scalable**). Retailers operating internationally are faced with the additional challenge of meeting the legal and fiscal requirements that apply in each country (**internationalised for more than 60 countries**). Due to this complexity, only a few providers worldwide are able to implement large international investment projects.

Elements of CLOUD4RETAIL

Three essential elements form the basis of the CLOUD4RETAIL platform. The first element is the CLOUD4RETAIL platform, which focuses on the retailers' processes ranging from the local branch to the headquarters and the extensive omni-channel features. The second element is the Mobile Consumer Cloud, which is geared towards processes performed and initiated by the customer. The third segment involves power apps, which can be made available to all retailers independent of the other elements and cover special requirements.

CLOUD4RETAIL as a transaction processor for retail
Starting in 2015, a fundamental new development in the range of GK solutions was launched. The first new solution that emerged from these investments was OmniPOS (POS = point of sale). The experience gained from this and the basic groundwork carried out on it formed the basis for the CLOUD4RETAIL solution platform. At the time of its official launch in 2016, OmniPOS was therefore far better than the preceding solution GK/Retail POS (version 12), which was already being used by most customers at that time. The idea of the fundamental architecture was to enable all functions to be used in both a modular and distributed way, both with and without user interfaces. Each function must be usable as a central service, but also as a local instance and be secure across network boundaries. At the same time, the central services must be able to handle the simultaneous operation of very many clients at a data centre or in a (private) cloud. This is the only way of guaranteeing operations at thousands of checkouts, calculating prices at a web shop or safeguarding communications with a huge number of customer devices, all at the same time.

The CLOUD4RETAIL platform has not only made it possible for GK Software to provide the first major enterprise-store solution entirely in the cloud, but also allows it to continue to make customised adjustments to the software at the same time. These specific characteristics for each individual retail company are just part of the industry-specific necessities being called for.

The elements of the GK/Retail range of solutions include various components such as the comprehensive omni-channel solution package OmniPOS and the data supply/removal infrastructure for large branch networks associated with it. Also included are other device-specific components, components that concentrate on certain functions such as OmniScale or Label&Poster Print, and special industry models, such as GK Drive and GK Hospitality. In 2021 the existing Scan & Go solution (with scanning and payment by smartphone) by GK GO was further adapted to allow completely contactless shopping. Here, conventional scanning is carried out completely automatically using integrated lidar technology and intelligent scales. In addition, we pressed ahead with the development of our new GK SPOT solution, enabling us to distribute hyper-personalised offers in real-time, for example, based on big data.

The CLOUD4RETAIL platform has been designed for use in very large and widespread branch networks.

With retail7, the Company offers a completely new cloud product for small retailers and restaurateurs; this can be purchased on app stores and is offered purely as an SaaS product.

The Mobile Consumer Cloud
The Mobile Consumer Cloud is another element of the CLOUD4RETAIL platform. This combines all of the solutions that think processes from the perspective of the (mobile) customers and place these at the head of the process chain. The Mobile Consumer Cloud was based on the Mobile Consumer Assistant (MCA), which is used modularly depending on the customer's needs. Over the past years, investments have been made in the further development of the solution, allowing us to offer an extensive range of self-scanning and buy online / pick-up in store (BOPIS) products as well as other mobile application scenarios. The Mobile Consumer Cloud follows a framework approach. Retailers can use the framework and other components and integrate them into their existing apps so that they can offer self-scanning and self-payment options to consumers straight on their smartphones, for example. The Mobile Consumer Cloud works together seamlessly

with the modules of the GK/Retail range of solutions, significantly increasing its added value and thus its competitive ability.

Power apps
Power apps form the third segment of the CLOUD4RETAIL platform. They share the same technological basis as the GK/Retail range of solutions and the Mobile Consumer Cloud, but can be used completely as stand-alones. Each power app is geared towards a specific retail-related topic. The main solutions are currently being used in the Deutsche Fiskal and AIR segments. All power apps are usually available as cloud solutions only in a Software-as-a-Service form.

Deutsche Fiskal
GK Software has been developing a solution to meet the new tax requirements that can be summarised under the heading of "German fiscalisation of till systems" since the end of March 2019 and has put this successfully on the market through its subsidiary, DF Deutsche Fiskal GmbH. GK Software is not only providing a cloud solution for customers of the corporate group, but for all operators of till systems through Deutsche Fiskal. As the requirements in Germany in terms of cryptography and the security architecture are more complex than in any other EU member state, an exclusive partnership has been established with the Bundesdruckerei (Federal Printing Office). This cooperation resulted in the development of the cloud solution by Deutsche Fiskal, while Bundesdruckerei is making the certified technical security facilities available and is hosting them at its high-security data centre. GK Software has pooled its activities related to German fiscalisation in its subsidiary known as "DF Deutsche Fiskal GmbH".

Since 1 April 2021, a large number of customers have activated their till and register systems. Transactions in the high double-digit million range are made every day in real time. Fiskal Cloud exceeded the 20-billion transaction mark in just one year. with an error rate of practically zero.

AIR – Artificial Intelligence for Retail
In the AIR – Artificial Intelligence for Retail segment, GK Software provides services based on artificial intelligence, each of which focuses on specific retail processes. Retailers can automatically introduce many processes by using AIR – ranging from dynamic pricing to personalisation and even fraud detection – on the basis of machine learning and other AI methods. The major solutions in this segment concentrate on dynamic pricing and personalisation/recommendations.

The AIR | Dynamic Pricing module determines the fair market value for each product at any time. The AI service reduces the workload for management, optimises the price strategy and makes the best pricing decisions for the product range taking into account the respective targets (for example, increased turnover or a higher margin). A number of factors are included such as competition, costs, product relationships, relationships between the various price categories and price sensitivity.

The aim of the real-time solution AIR | Personalisation is to address customers' current needs at any time by offering intelligent recommendations. Personalisation can be offered at a different place each time – it may be on a website, a smartphone or a printed invoice in a parcel. The goal is to offer the customer a personal, relevant and positive shopping experience along each step of their customer journey,

Fiskal Cloud exceeded the 20-billion transaction mark in just one year. with an error rate of practically zero.

In the AIR segment, a new solution was developed that makes it possible to open up a new dimension of personalised offers on the basis of image similarity.

eMailBon.de
Another power app has emerged in the retail7 segment. The slimline solution for all retailers makes it possible to issue completely digital receipts, saving cost and reducing environmental waste.

GK Software solutions under the SAP brand
SAP is also selling almost the entire portfolio related to the CLOUD4RETAIL platform with identical features using the SAP Omnichannel Point-of-Sale by GK, SAP Mobile Consumer Assistant by GK, SAP Store Inventory Management by GK, SAP Pricing by GK and SAP Frictionless Checkout by GK product names.

Ongoing product development
In 2021, investments were made in the further development of CLOUD4RETAIL and the associated services of the GK/Retail range of solutions as well as in the Mobile Consumer Cloud and the power apps. The solutions sold by SAP, including those from the AIR segment, have once again successfully completed the premium qualification process. New products and functions are checked by SAP as part of this kind of product test and in each case the current version is approved for sale. Development activities concentrated on the topics of GK SPOT and GK GO, the latter of which is almost ready for the market. In the Deutsche Fiskal segment, in addition to the further development of products, a new native version was developed for Android devices.

Other solutions in the portfolio

Payment services
In the field of payment services, GK Software, in our view, offers a market-leading solution for handling payments in the USA in the form of TransAction+ and it is able to integrate a large number of point-of-sale systems and a large range of payment authorisation providers. It meets the highest data protection standards and supports credit and debit cards and gift vouchers, “electronic benefits” as well as handling cheque authorisation and accounting for payment providers in the USA. The software controls the payment devices in the branches and makes it possible for retailers to significantly reduce their costs. We continue to work on the transition to cloud technology, meaning that this solution will become a power app in future.

Retailers can automatically introduce many processes by using AIR – ranging from dynamic pricing to personalisation and even fraud detection – on the basis of machine learning and other AI methods.

The euroSUITE solution from AWEK
For customers in German-speaking countries, GK Software developed and marketed a solution, known as euroSUITE, through its subsidiary, AWEK microdata GmbH. This solution complements the GK Software product range for medium-sized retailers.

The SQRS software package
When acquiring the assets of the former company Solquest GmbH, its range of solutions, Solquest Retail Solutions (SQRS), was also taken over and is still being used by one customer.

Developing and adapting software
In addition to its products, GK Software also provides comprehensive software services. The most important component in this context involves customising and

adapting software developments during the initial projects and subsequently introducing change requests, which are a permanent feature of most projects. They include, for example, adapting software that is already in productive use to broader customer requirements, such as integrating new bonus systems in the checkout environment. Classic issues like consulting, project management or training courses come under the heading of developing and adapting software too.

Maintenance and services

In addition to software maintenance that is subject to charges, where the aim is to eliminate errors and faults, GK Software offers other services to the retail trade. A customer care management department has been established as part of focusing the Company's software service portfolio; it supports existing customers in a wide variety of tasks related to operating and adapting the solutions that they use. A special services department has also been made available to customers to help them continually optimise their productive applications and the way that they interact.

Partner training

The GK Academy is responsible for qualifying implementation partners and customer employees as well as training GK Software workers. The Group is also training implementation partners in 2021, which can then introduce CLOUD4RETAIL on their own.

New customers acquired in 2021

GK Software and its subsidiaries oversee a total of more than 458 customers. A distinction must be made between projects that apply the core solution, which run today under CLOUD4RETAIL, and were primarily sold under the name OmniPOS or GK 12 until 2019. This segment also includes projects that were sold by SAP under the SAP brand, but in most cases are still implemented and overseen by GK Software. The core solutions segment covers all major and long-term projects. Overall, i.e., not only directly, but also in cooperation with SAP, GK Software oversees in this segment 98 mainly large and medium-sized customers on all continents and in many different branches of industry. SAP also sells a central solution for pricing and promotion, which was developed by GK, directly and solely under its own brand. Taking into account this pricing engine, SAP and GK Software share more than 150 customers.

In the reporting period, the Group won 15 new projects for CLOUD4RETAIL, five new customers for prudsys, and a large number of new customers for Deutsche Fiskal.

Other customers are being supported by prudsys, the US company, AWEK and Deutsche Fiskal. The AI solutions offered by prudsys and the US company's payment solution TransAction+ are each being used by around 50 customers. Some of the solutions offered by Deutsche Fiskal are being used by the same customers that use the core solutions. Many other retailers and partners have opted to use them as well. Deutsche Fiskal has a total of 215 customers.

The majority of the Company's customers are retailers, with a focus on large, internationally leading companies. Of the Global TOP 50 retailers alone, GK Software counts ten among its customers.

In the reporting period, the Group won 15 new projects for CLOUD4RETAIL, five new customers for prudsys, and a large number of new customers for Deutsche Fiskal. In addition to these are two migration projects involving the switch from an older GK solution to OmniPOS. A total of seven new customers have signed SaaS contracts.

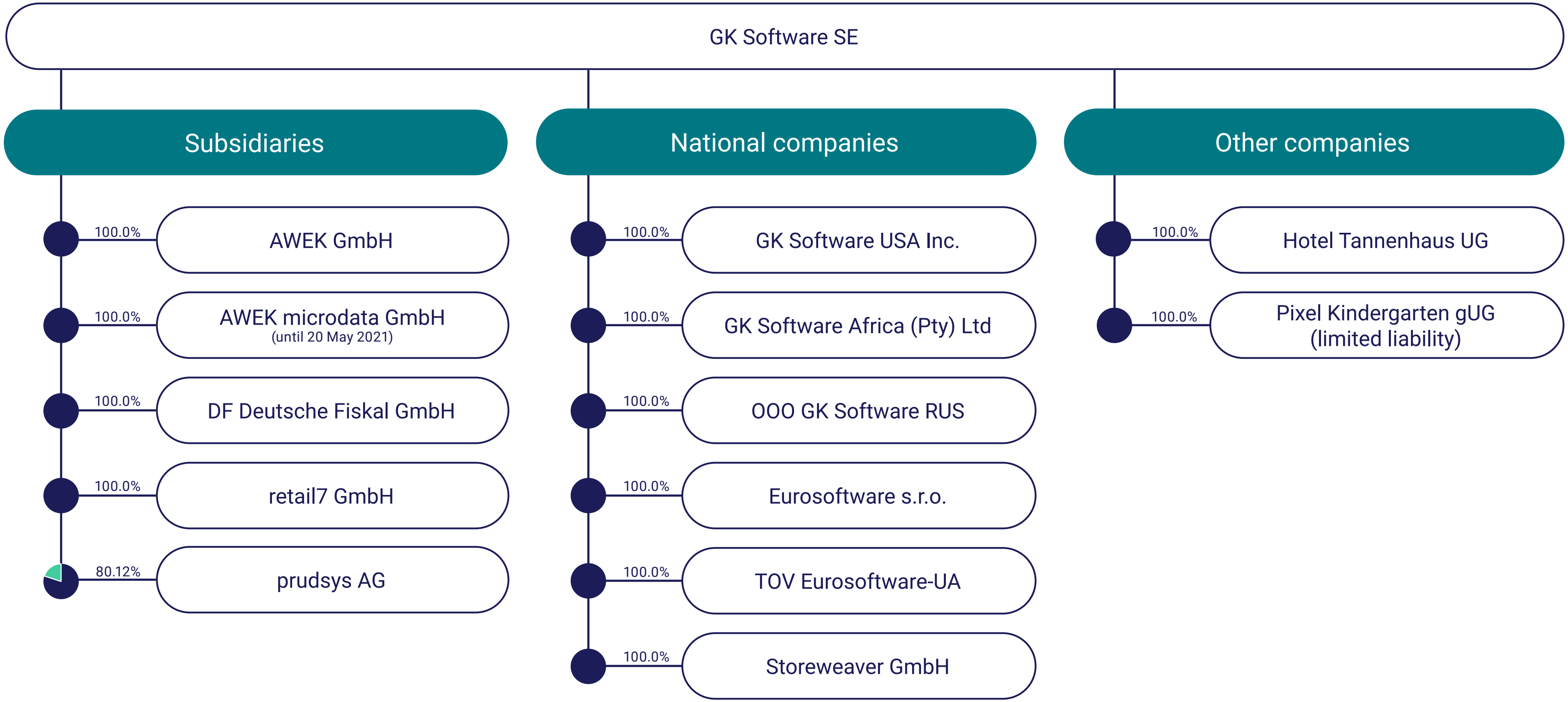
In most cases, the name of the customer is to be kept secret until the roll-out is completed. The 15 new customers acquired in 2021 come from the food-retail (3), fashion (5), specialist-trade (4), consumer-electronics (1), DIY (1) and department-store (1) sectors. A pre-project has been agreed with a customer in the fuel-station sector. Without this project, the deals finalised in 2021 alone represent up to 44,665 installations in 6120 stores in the coming years. This shows that the reporting year was also extremely successful in terms of sales.

Besides the new projects, revenue was generated in most of the ongoing projects through the platform or smart extensions or through the sale of other solutions.

Consolidated Management Report

“2021 was characterised not only by further growth in turnover, but above all by a considerable increase in profitability.”

André Hergert,
Chief Financial Officer


GK Software SE
Subsidiaries
100.0%
AWEK GmbH
100.0%
AWEK microdata GmbH
(until 20 May 2021)
100.0%
DF Deutsche Fiskal GmbH
100.0%
retail7 GmbH
80.12%
prudsys AG
National companies
100.0%
GK Software USA Inc.
100.0%
GK Software Africa (Pty) Ltd
100.0%
OOO GK Software RUS
100.0%
Eurosoftware s.r.o.
100.0%
TOV Eurosoftware-UA
100.0%
Storeweaver GmbH
Other companies
100.0%
Hotel Tannenhaus UG
100.0%
Pixel Kindergarten gUG
(limited liability)

Consolidated Management Report

The Company's Business Model

Subject matter and purpose

GK Software SE[1] is one of the world's leading technology companies for retail sector software with a special focus on solutions for large and very large retail companies with many local stores. GK Software SE and its predecessor company, G&K Datensysteme GmbH, which was founded in 1990 by Rainer Gläss and Stephan Kronmüller and changed its name to GK Software AG in 2001, have been successfully operating in the marketplace for over 30 years. The Company's flotation took place in the Prime Standard segment of the Frankfurt Stock Exchange in 2008. GK Software AG was transformed into GK Software SE on 19 January 2018.

Group structure and holdings

In principle, the Group companies can be divided into three groups. On one hand, national companies provide sales services and support customers in the further development of the standard software platforms used in various international regions. On the other hand, there are subsidiaries responsible for the development and distribution of special product components of the overall product range of the GK Software Group, as well as those that take care of development work within the Group without having relationships with external customers. All subsidiaries are wholly owned by GK Software SE. The sole exception is prudsys AG, in which GK Software SE holds more than 80 percent of the shares. A third group comprises other companies that provide services for the company that are not related to the Group's range of solutions.

The core solution of GK Software is our CLOUD4RETAIL platform, which is now marketed outside the European Union by six companies.

The Group's headquarters have been located in **Schöneck/Vogtl.** since it was founded. Alongside its administration department, the product development department, project management and third-level support facilities are all based at this site. GK Software SE also has a business site in **Berlin** which is primarily responsible for the marketing, sales and partner activities; parts of the software development work are also based there. The branch in **Jena** started operating in 2018 so that the Company can benefit from the excellent opportunities for gaining personnel in this high-tech region in the state of Thuringia. There are also other sites located in St. Ingbert, Cologne, Hamburg and Chemnitz.

The core solution of GK Software is our CLOUD4RETAIL platform, which is now marketed outside the European Union by six companies. The largest of these companies is **GK Software USA, Inc.**, founded in December 2013, which takes charge of CLOUD4RETAIL sales in North and South America and at the same time is responsible for specific solutions for the US market such as our Payment solution or the US version for the standard supplementary solution GK Drive. **GK Software Africa (Pty) Ltd**. in South Africa has been performing these activities for CLOUD4RETAIL since 2015. There is also a corresponding company in Russia, namely **OOO GK Software RUS**. GK Software SE has another wholly owned subsidiary in **Dübendorf** in Switzerland called **StoreWeaver GmbH**, which takes care of the Group's Swiss-based clients. The Company has a further German branch at **St. Ingbert** in Saarland. This branch

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

is primarily concerned with product development and the implementation of customer requirements. In the reporting year, GK Software SE (France) was launched as another (legally independent) foreign company. Additionally, two further national companies were founded: GK Software Asia Pte. Ltd. in Singapore and GK Software Australia Pty. Ltd. in Melbourne. The latter two companies are still in the process of being established and their purpose is both to further develop sales in the respective countries and their environments, and to build up local project organisations.[1] Supplementary solutions (so-called "power apps") to CLOUD4RETAIL are developed by **prudsys AG**, Chemnitz, and **DF Deutsche Fiskal GmbH**, Berlin. **Prudsys AG**, in which GK Software SE holds more than 80 percent of the shares, develops the Group's solutions, which are based on the application of artificial intelligence methods and are connected via the platform concept AIR (Artificial Intelligence for Retail), a so-called "power app", according to customer requirements. With the Fiskal Cloud, **DF Deutsche Fiskal GmbH** offers a cloud-based core solution to automatically satisfy the requirements of the legislation on so-called "German fiscalisation".

The subsidiaries that take care of software development and research and development exclusively on behalf of the Group form an essential part of the corporate Group. **Plzen**, Czech Republic, for example, has been the Group's second-largest location for more than 20 years. The subsidiary company **Eurosoftware s.r.o.**, which is located there, carries out the essential parts of the CLOUD4RETAIL product development, as well as research and development work. This is complemented by the development of enhancements to the platform (so-called extensions) for the Group's customers. Since the beginning of 2016, **TOV Eurosoftware-UA** in **Lviv** has also been working on developing platform extensions.

AWEK GmbH, which focuses on providing services, is also a wholly owned subsidiary. It has its headquarters in **Hamburg**. **AWEK microdata GmbH** in Hamburg, which was also wholly owned until 21 May and has a location in Bielefeld, focuses on the further development of the euroSUITE cash-register software for small and medium-sized enterprises. This company was sold, and the business of AWEK GmbH, which is focused on field services, is currently being phased out.

Berlin is also home to the subsidiary retail7 GmbH, founded in 2020, which develops and sells a cloud solution for small retailers in a wide range of industries, the marketing of which began in 2021.

The Management Board of GK Software SE consists of the company founder Rainer Gläss (CEO, Strategy, Marketing & Sales) and André Hergert (Finances).

The Management Board is supported by a Group Management Board, which consisted of the following members in 2021: Michael Jaszczyk (CEO of GK Software USA, who is responsible for North and South America), Harald Göbel (Senior Vice-President at GK Software SE, who is responsible for Europe, the Middle East and Africa) and Michael Scheibner (Chief Strategy Officer).

Since 24 March 2020, the three-membered Supervisory Board at GK Software SE is led by Dr Philip Reimann. The 2020 Annual General Meeting confirmed Dr Reimann in this position until the annual shareholders' meeting in 2024. Thomas Bleier was elected to the Supervisory Board in 2003. His period in office was confirmed until the annual shareholders' meeting in 2022 at the annual shareholders' meeting in 2018. Herbert Zinn was first elected to the Supervisory Board at the annual shareholders' meeting in 2011. His current period in office ends with the annual shareholders' meeting in 2023.

Control parameters for the Group

Management of the Group is largely determined by two control parameters: turnover and revenue; two main elements are largely used to determine the latter: earnings before interest and taxes (EBIT) and earnings before interest taxes depreciation and amortisation

1 GK Software Asia Pte. Ltd., with headquarters in Singapore, was registered on 26 November 2021 and started work with a first employee in January 2022. As of 2 April 2022, GK Software Australia Pty. Ltd. in Melbourne was registered as a new wholly owned subsidiary of GK Software SE. Preparations for starting work are currently in progress.

(EBITDA), as well as the relationship between these two revenue factors and turnover (operating performance).

Alongside these two group control parameters, we continue to use the margin of gross profits on turnover. We view gross profits as the surplus achieved by turnover for services purchased from third parties, semi-finished products and goods, which are used to directly provide this turnover, in order to be able to view the effect and degree of outside services on the turnover that is achieved.

This system of key performance indicators, which is geared towards earnings capacity, is accompanied by KPIs, which deal with the funding for the group. The issue here is the ability of the Group to be able to service its financial obligations at any time, both in the long and short term. The key performance indicators used here concern the equity ratio and the capitalisation ratio in different variants as a measure of matching the maturities of assets and the capital used to fund them. Another major aspect concerns the Group's ability to be able to make use of investment opportunities that arise at very short notice. A central KPI here is the surplus of cash and cash equivalents over interest-bearing liabilities. Depending on the goal of the approach, there are variants for this KPI too.

These key indicators are regularly monitored and are the subject to reporting to the management and the Supervisory Board, and any deviations from the set targets trigger the introduction of countermeasures.

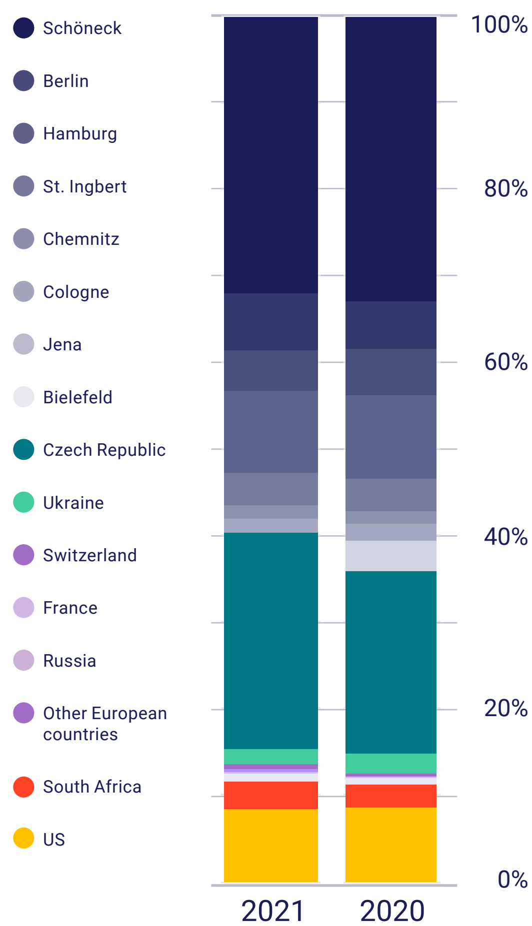
1,096

Employees

Human resources

1,096 people in all were employed within the Group on the reporting date of 31 December 2021 (excluding members of the Management Board and trainees). This means that 66 fewer people were employed than on the previous year's reporting date (1,162) and 2 fewer than at the end of the first half of 2021. A large number of the Group's employees, 353, (383 in the previous year), continue to work at the business site in Schöneck. The Berlin branch of GK Software SE currently has 67 employees working in the sales & marketing, project and partner management and development fields (the figure was 66 in the previous year). The number of people employed at the Czech subsidiary Eurosoftware s.r.o in Plzen increased to 273 (as against 244 in the previous year). 51 Group employees were employed in Hamburg

Personnel structure of GK Software by location as of 31 December 2021



at the end of the year (previous year: 77). Due to the sale and deconsolidation of AWEK microdata GmbH, there are 0 employees in Bielefeld compared to 41 in the previous year, most of whom worked in software development. 104 people were working at the business site in St. Ingbert at the end of the year (previous year: 111). 5 people were working in Dübendorf at this time, one more than twelve months ago.

The number of employees working at the branch in Cologne on the reporting date was 17, as against 16 at the end of the 2020 fiscal year. Ninety people were working for GK Software in the US (2020: 97). The South African subsidiary employed 35 people on the reporting date (31 in 2020). The number of people employed at TOV Eurosoftware UA in Lviv has decreased from 28 to 21 since the end of 2020. The branch in France, which opened in 2021, had four employees as of the reporting date.

Prudsys AG in Chemnitz employed 35 people on the reporting date compared with 42 at the same time in the previous year. The Group pools its expertise in the field of artificial intelligence at this business site.

Huge investments have been made in training and developing employees for years in order to be able to provide a foundation for and boost growth in turnover at GK Software from a human resources point of view too. Most of our employees for example attended training courses at the GK Academy in 2021 (some of them on more than one occasion). New employees undergo extensive and standardised introductory courses, while a permanently adapted training programme is made available to all employees too. The range of online training courses has also been extended, and this increases the potential number of those attending them. The Group is also actively involved in training new or future employees. They include trainees on apprenticeship courses, students from universities of cooperative education or students on sandwich courses. These different measures are already providing the first success stories in attracting new employees and the aim is to further intensify them in future.

T.04 Change in employee structure

	31.12.2021	31.12.2020	Change in %
Schöneck	353	383	(7.8)
Berlin	72	66	9.1
Hamburg	51	62	(17.7)
St. Ingbert	104	111	(6.3)
Chemnitz	41	45	(8.9)
Cologne	17	16	6.3
Jena	18	23	(21.7)
Bielefeld	0	41	(100.0)
Czech Republic	273	244	11.9
Ukraine	21	28	(25.0)
Switzerland	5	4	25.0
France	4	0	—
Russia	2	2	0.0
Other European countries	10	9	11.1
South Africa	35	31	12.9
US	90	97	(7.2)
Total	**1,096**	**1,162**	**(5.7)**

The GK Software Business Model

GK Software essentially sells software and services to retail companies. The range of solutions is grouped around the CLOUD4RETAIL core business. Following the structure of this software platform, this can be further differentiated into the central process control (GK/Retail solution world – including all processes for controlling the branch processes of a retailer as well as their integration with the eCommerce activities) and the Power Apps, which serve to automate and optimise the process landscape of both downstream processes and central tasks, such as the pricing of the goods on offer. These two blocks are complemented by a product that enables retailers to enter into direct contact with their customers – the end consumers – and allows the latter to influence the initiation, the process and the conclusion of trade transactions (Mobile Consumer Cloud).

CLOUD4RETAIL

In the CLOUD4RETAIL sector, sales are generated primarily by the transfer of use of standard software platforms, the special development of software enhancements at the customer's request (so-called “extensions”) and services related to the introduction of the software platforms and their operation.

The solution is completely designed for operation in the cloud, but can be operated in a private, hybrid or public cloud at the customer's choice.

Revenue from software arises either from the collection of fees from the granting of licences for an unlimited period of time (so-called “perpetual licences”) or from subscription agreements that limit the granting of use to a certain period of time. The fees for perpetual licences are paid in one lump sum. For the subscriptions, payments are usually agreed in equal amounts over the period of use, with a minimum payment agreed for the period following the introduction of the application. Where GK Software also takes over the operation of the applications, the entire solution is made available as software as a service (SaaS) and remunerated through a correspondingly increased subscription price.

CLOUD4RETAIL is a platform[1] consisting of various solution components that customers select according to their needs and priorities. At the core of this platform, which is geared towards the needs of medium and large retailers, is an application suite that brings together the retailer's processes. Examples of this platform core – the GK/Retail portfolio of solutions – are the processes for cash registers, scales, store merchandise management including the associated infrastructure, and the management and monitoring functions. Also part of the CLOUD4RETAIL sector is the Mobile Consumer Assistant (MCA) range of solutions, which enables direct communication between the customer and the retailer, but also offers the customer the possibility, as required, to initiate (Click & Collect), continue and also complete (e.g., through products such as Scan & Co) the retail processes that are offered in the GK/RETAIL portfolio of solutions. Implementation takes place with apps branded to the retailer, which end consumers keep available on their mobile devices.

1 For components of the CLOUD4RETAIL platform see the Products and Services section above.

To accommodate the retailers’ many ideas, CLOUD4RETAIL is designed as a standard platform that can be quickly adapted to new situations. This is all the more relevant when applications like CLOUD4RETAIL are used over longer periods of time. CLOUD4RETAIL has therefore been especially designed with this need in mind and allows for a quick enhancement of the solutions through extensions. It is necessary to distinguish between extensions that are relevant for the customer on a permanent basis, which as platform extensions are linked with maintenance contracts that guarantee the release capability of the extension even over long release cycles, and smart extensions that are only of temporary importance for the customer. In the past, we have observed that the sales for these services maintain a very constant level and represent a reliable foundation for sales expectations in the coming years.

CLOUD4RETAIL contracts based on perpetual licences also generate a permanent revenue stream through maintenance services. These maintenance services result as a fraction of the remuneration for the right of use and are payable for the duration of the use of the respective platform. These maintenance services are included in the subscription payments in the SaaS contracts.

Because of the customary project size, implementation support is always necessary when implementing the project, thereby generating consulting turnover. The normal course of the project therefore usually consists of an initial project, after the successful completion of which the customer can roll out the solution. Even during the initial project, but especially afterwards, additional or new requirements (smart or platform extensions) arise to extend the solution.

These main groups are complemented by the power apps. By these means, further process steps that do not belong to the immediate core of the branch processes can be presented, or main processes can be automated or optimised. The **Deutsche Fiskal** solutions constitute one block of these power apps. Deutsche Fiskal offers its services exclusively as software as a service. The Fiskal Cloud range of solutions based on the CLOUD4RETAIL platform offers as a service the generation and storage of the legally required electronic signature as well as the associated storage of various receipt-related transactions. Other management and monitoring functions are also available to the customers. Fiskal Cloud Archiv is likewise a pure SaaS offering, enabling the storage and provision of the data required by the tax authorities in the prescribed format. The “Email-Bon” solution for the digital implementation of the legal receipt obligation also belongs in this context. CLOUD4RETAIL provides AI solutions for the automation and optimisation of the main trading processes. These are developed by **prudsys AG** and are offered to brick-and-mortar retailers under the AIR (Artificial Intelligence for Retail) brand as part of the CLOUD4RETAIL platform. The prudsys brand continues to be used for pure e-commerce. The solutions from the AIR platform are also mostly positioned as SaaS offerings and flanked by advisory and introductory offers.

Transaction+

GK Software USA offers the Transaction+ solution exclusively in the USA. Up to now, this has been sold in the classic licensing business, for which maintenance is incurred accordingly. On top of this comes regular extension business that also requires maintenance as an extension of the licence. The US organisation is currently converting the solution so that it can be offered as software as a service and thus be integrated into CLOUD4RETAIL as a power app.

retail7

retail7 GmbH has developed a completely new solution for small and micro retailers, which had its market launch in 2021. It will primarily generate SaaS revenue only, since as few as possible individual changes to the solution are planned for individual customers. retail7 GmbH has also developed the eReceipt solution (emailbon.de), which is also sold by GK Software.

GK Academy

GK Academy generates sales through the sale of training and the provision of certification.

AWEK – IT Services

AWEK GmbH offers services for the trade sector primarily in the area of hardware and on-site maintenance. This business has been in decline for several years now and no new clients are being sought as this service is being discontinued. For this reason, the previous segment reporting has also been changed. As a result, AWEK was no longer presented as a separate segment.

Sales via partners

The most important partner generating sales for GK Software is SAP, which sells a considerable part of the CLOUD4RETAIL platform under its own brand. A corresponding agreement on the sharing of licence and maintenance revenues exists in this connection. In addition, there are implementation partners who

18.38
Million euro
R&D expenses

purchase services from GK Software that they cannot provide themselves.

Research and development

GK Software has always focused on the ongoing development of existing products and the development of new software solutions during the past financial years and they will be strategic competitive factors in the future too. This is also reflected in the significant number of employees working in this field.

GK Software is continually investing in research and development in order to maintain its leading technological position in the long term too. A distinction needs to be made here between applied research, which is handled by its own innovation and research teams, and application-oriented product development. The expenditure for research amounted to € 0.96 million in 2021. The research teams are based at several of the Group's business sites. Application-related "product development work" is primarily conducted in Germany and the Czech Republic. Overall, about € 17.42 million was spent on this work during the past year.

Overall, GK Software spent € 18.38 million on research-and-development work during the 2021 fiscal year, corresponding to about 14% of the Group's sales.

Economic report

General economic and industry-related conditions

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

With GK Software's business expansion into more and more economic areas, it goes without saying that the number of factors affecting its business have increased, as the situation in some individual markets may move in different directions in spite of global economic trends. However, this provides at least a partial detachment in the Company's general operations from the developments in its original core markets – primarily in Central Europe – without these markets losing their significance for GK Software. The Company is now in a position to be able to routinely compensate for low revenue or a total lack of revenue from licence agreements in Germany, Austria and Switzerland with revenue from other regions.

Like the previous year, 2021 was still marked by the global pandemic. Nevertheless, despite continuing restrictions, the establishment of a new normality was noted. Furthermore, the large share of customers from the food and DIY sectors proved to be an anchor of stability. At the same time, GK Software was able to expand further into new geographical markets in the past fiscal year. As a result, dependencies on the original home market in the region of Germany, Austria, and Switzerland have been further reduced.

Global economic output increased by 5.5% in 2021. According to the IMF, the emerging and developing countries were able to show a stronger increase in their economic performance (6.3%) than the industrialised countries (4.3%). There were also still considerable differences between the respective countries. The US economy grew by 5.1% in 2021, while the euro area economy grew by 4.2%. In Germany, economic output increased by 3.5% in 2021.[1] Because of the current Ukraine war, the Institute for the World Economy forecasts a halving of global economic growth to 2.1% for 2022.[2]

In parallel with the basic economic trends in the markets served directly or through sales partners, the general trends in the retail sector are also an extremely important factor influencing the Company's business. The issue of omni-channel retailing continues to be a major area of focus, because it is exerting a huge influence on retailers' strategic decisions in all markets. Beyond this, the introduction of genuine cloud services based on enterprise POS solutions is becoming increasingly important for all sizes of retailers. For example, there are already markets such as North America, where demand is almost exclusively for subscription products (SaaS). Long-term issues like demographic developments, new ways of establishing customer loyalty or internationalisation also remain important driving forces and are becoming more and more connected to the mega-trend of omni-channel retailing. GK Software responded to these priorities in the retail sector at an early stage and made significant preparations for the future through OmniPOS. The CLOUD4RETAIL cloud platform and the Mobile Customer Cloud customer-loyalty solution are further strengthening the Company's competitive position. We expect the same effect from the market launch of new solutions such as GK GO and GK SPOT.

Even though the licensing business in 2021 was again strongly powered by customers from outside the German-speaking countries, the developments in Germany, Austria and Switzerland continue to remain very significant for the direct business of GK Software, as this is an internationally leading market in the sector and many existing customers have their headquarters there. The German retail trade, Europe's largest single market, experienced very varied trends in 2021

1 https://www.imf.org/-/media/Files/Publications/WEO/2021/Update/January/English/text.ashx
2 https://www.handelsblatt.com/politik/konjunktur/nachrichten/konjunktur-heftiger-gegenwind-institut-fuer-weltwirtschaft-halbiert-wachstumsprognose/28171910.html

depending on the sector. Overall, the retail sector (excluding motor vehicles, fuels stations, fuels and pharmacies) turned over around € 588.0 billion in 2021, an increase of 1.8%.[1] While it was a good year for areas such as online retailing and food, and furniture and DIY stores did better than expected, sales in other fields, such as clothing, shoes, textiles, and leather goods, decreased. This will most likely also have an impact on the readiness to invest of these parts of the retail sector. In a scenario for 2022 published before the Ukraine war and the rise in inflation initiated by it, the trade association assumed an increase in turnover of around 3% for the entire retail sector.[2] This figure may be too high in the context of recent developments.

After a downturn for the entire European retail sector in 2020, an upward trend was identified in 2021 in the overall perspective.[3] In the UK, however, sales continued to rise despite the weakness of the pound in connection with Brexit. In 2021, retail sales here reached £ 463.7 billion[4]. Similarly, the US has seen a steady upward trend in retail sales in recent years, creating more movement in the world's largest retail market[5]. At $ 4.4 trillion, retail sales there surpassed the previous year's high of $ 3.9 trillion[6].

1 https://einzelhandel.de/images/presse/Pressekonferenz/2022/Charts_3.pdf
2 https://einzelhandel.de/images/presse/Pressekonferenz/2022/Charts_3.pdf
3 http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=sts_trtu_a&lang=en
4 https://www.ons.gov.uk/businessindustryandtrade/retailindustry/datasets/poundsdatatotalretailsales
5 http://ycharts.com/indicators/retail_sales
6 https://nrf.com/media-center/press-releases/retail-sales-now-exceed-444-trillion-2021-nrf-revises-annual-forecast l

E-commerce is also continuing its lively development. This division again increased its sales by 19.0% to around € 99.1 billion.[7] This trend is even clearer in other important, leading retail markets like the United Kingdom. However, it is not yet observable to the same degree everywhere. While the share of online retail trade amounts to 15.3% of total retail sales in the US[8], the figure was only 9.2% in Italy, for example.[9]It is generally assumed, however, that online retail sales will continue to grow in all developed retail markets.[10]

The omni-channel retailers continued with disproportionately high growth in 2021, increasing their sales by 16.7% to around € 15.0 billion. This means that brick-and-mortar retailers, who have also mastered their e-commerce business, are increasingly able to leverage the advantages of combining a branch and web shop.[11] GK Software has been preparing its solutions for this development by moving in the direction of successful omni-channel retailing for years and therefore believes that it is in an excellent position to meet the relevant demands. These unabated developments are triggering huge challenges for the in-store retail sector and the challenges are also being driven by other innovations.

7 https://www.bevh.org/presse/pressemitteilungen/details/e-commerce-ist-das-neue-normal-branchenumsatz-waechst-2021-auf-mehr-als-100-mrd-euro.html
8 https://www.emarketer.com/content/us-ecommerce-forecast-2021
9 https://www.retailresearch.org/online-retail.html
10 https://www.statista.com/statistics/379046/worldwide-retail-e-commerce-sales/
11 https://www.bevh.org/fileadmin/content/05_presse/Auszuege_Studien_Interaktiver_Handel/Interaktiver_Handel_in_Deutschland_2021.pdf

General assessment of the course of business

For the 2021 fiscal year, the Management Board had forecast a slight increase in revenue from turnover and a further slight improvement in EBIT as part of the medium-term forecast until 2023. This outlook was subject to the continued uncertainty of the development of the COVID-19 pandemic. Such impairments have not been reflected in the business figures – despite the further hampered sales activities. The earnings of the 2021 fiscal year are thus fully in line with the forecast.

+11.3%

Revenue growth

As forecast, the 2021 fiscal year recorded stronger revenue growth than the previous year (2020 = 1.8% or € 2.11 million) at 11.3% or € 13.3 million, and earnings before financial result and taxes on income (EBIT) of €17.31 million (after € 10.54 million in the previous year). Excluding the one-off effects resulting from the sale of AWEK microdata GmbH, the EBIT margin on turnover increased from 9.0% to just under 11.0%.

With 15 new customers around the globe, the undiminished attractiveness of our solution portfolio was once again proven. Long-term SaaS contracts were concluded with almost one third of the new customers. At the same time, Deutsche Fiskal was able to fulfil the expectations placed in it and contribute considerably to growth. The positive development of our activities also continued on the American continent. Here, turnover increased only slightly from € 20.9 million to € 22.0 million compared with the previous year; however, the net contribution margin generated by the region was increased from € 0.7 million to € 5.4 million and now makes a reliable positive contribution to the group result.

Earnings before interests, taxes, depreciation, and amortisation (EBITDA) amounted to € 26.79 million, compared to € 19.08 million in the previous year, and were thus 40.4% higher year on year. The EBIT (earnings before interest and income taxes) reached the value of € 17.31 million and was € 6.77 million above the previous year's figure of € 10.54 million and thus, even including the aforementioned one-time effects, was significantly increased.

To sum up: the targets for 2021 were achieved.

Developments in new and existing business

GK Software's customers come from almost all areas of the retail sector and are distributed around the globe. The important market sectors, where the Company is active, are primarily the food retail sector, pharmacy & household goods, fashion & lifestyle. DIY & furniture markets or technology & cars. The products and services are mainly geared towards large and medium-sized enterprises and are particularly suitable for customers with many stores in several countries. In total, GK Software supports several hundred customers of various sizes who either use or are preparing the use of solutions from the different sectors of the Group.

In the reporting period, the Group was also able to acquire 15 new customers for the core solutions in the CLOUD4Retail area, as well as others for the prudsys AI solutions. A new feature in 2020 and 2021 was the acquisition of numerous customers for Deutsche Fiskal solutions. However, most of these made visible contributions to turnover only from 2021 onwards. In this area, only SaaS contracts were concluded. Seven new SaaS contracts were concluded in the CLOUD4RETAIL sector in 2021. Deutsche Fiskal was able to win well over 200 customers and got a six-figure number of cash-register and recording systems up and running in 2021.

In the area of existing customers, 2021 was also characterised by extensive new orders, pilot starts and rollouts in several projects and an intensive extensions business. Our core solutions were successfully rolled out to additional customers from different trading segments and successfully went live in new countries.

SAP and GK Software further intensified their partnership again in 2021, and some of the new customers in the CLOUD4RETAIL sector are joint customers with SAP.

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

GK Software was also able to expand its business in 2021. With sales of € 130.85 million, the previous year's figure of € 117.56 million was exceeded, and the forecast was fully met.

In anticipation of the discontinuation of the business operations of the IT Services segment in 2022, we have decided to adjust the segment reporting to these circumstances and will report according to the responsibilities for the sales regions "Americas" and "EMEA and Rest of the World" (hereinafter always referred as just "EMEA" for short). This means that our portfolio now only includes cloud solutions that are suitable for software-as-a-service offerings.

Looking at sales by these market regions, EMEA accounted for sales of € 108.11 million (an increase of € 11.32 million or just over 12% over the previous year), whilst the Americas region grew less markedly to sales of now € 22.09 million (by € 1.33 million or 6.4%).

The old IT Services business segment declined as planned and still achieved revenues of € 2.84 million in 2021. The "euroSUITE" solution for small and medium-sized retailers, which we sold to the Zuccetti Group on 21 May, contributed to these earnings with sales of € 1.40 million.

The balance of the development of sales and operating costs (i.e., costs excluding depreciation and amortisation) of € 7.71 million led to an increase in EBITDA from € 19.08 million to € 26.79 million. At € 17.31 million, EBIT was € 6.77 million higher than in 2020. With the financial result remaining negative (–€ 0.85 million after –€ 1.44 million), earnings before taxes (EBT) were € 16.45 million (previous year € 9.09 million). Against this come tax expenses totalling € 3.16 million, resulting in annual net income of € 13.30 million.

17.31
Million euro
EBIT

T.05 Total operating revenue

	31.12.2021		31.12.2020		Change	
	EUR K	in %	EUR K	in %	EUR K	in %
Sales	130,847	93.7	117,560	95.8	13,287	11.3
Operating revenues	130,847	93.7	118,391	96.5	12,456	10.5
Other operating earnings	8,742	6.3	4,297	3.5	4,444	103.4
Total operating revenue	**139,589**	**100.0**	**122,688**	**100.0**	**16,901**	**13.8**

Earnings situation

- **Sales at 130.85 million euros**
- **EBITDA at 26.79 million euros**

Total Group sales rose by around 11.3% from € 117.56 million to € 130.85 million. These sales include € 0.99 million in revenue from other periods.

With this annual report, as mentioned above, segment reporting is being carried out according to a new system. The reason for this is that, according to the old system, 97.8% of the sales would have been generated in only one of the two segments and that, after the sale of AWEK microdata GmbH and the phasing out of the remaining AWEK maintenance business, no more revenues could be expected for the IT Services segment in the future.

We have therefore decided to switch to a geographical system by concentrating on our core business area CLOUD4RETAIL. The new EMEA (Europe, Middle East and Africa) segment therefore reports all sales from this region plus those from the APAC (Asia and the Pacific) region. The integration of APAC into this segment is due to the fact that the turnover generated here is currently still too low to justify a separate reporting segment. The second new segment – Americas – comprises all sales generated on the American continents. In addition, there is a third segment that is not based on a regional affiliation but rather records turnover from other business activities that cannot be allocated to the core business. With this new system, we are now able to show more precisely both the geographical distribution of our turnover and the allocation to recurring and repeatable turnover.

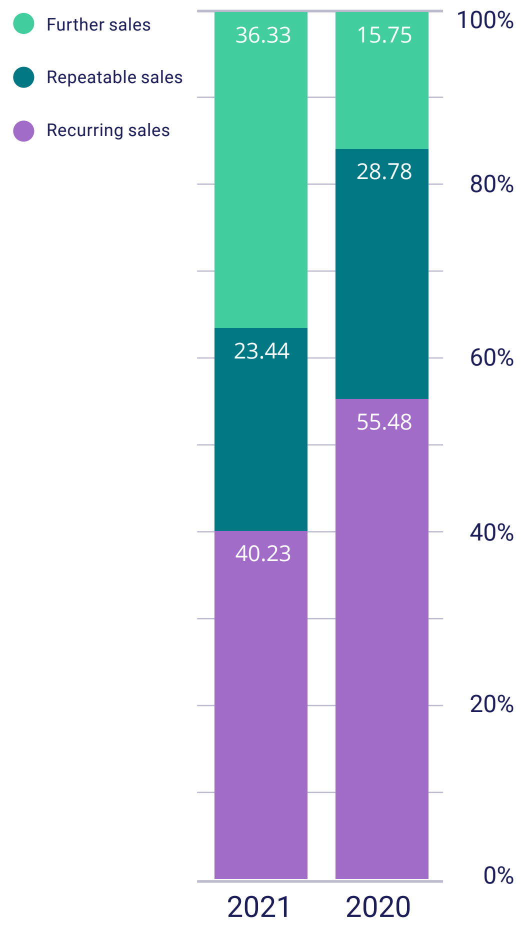
The regional segments EMEA and Americas comprise the previous "CLOUD4RETAIL" segment. The complementary segment "IT Services" will finally be discontinued in April 2022 for the reasons explained in previous reports. The "euroSuite" business included in this was sold to third parties, and amicable solutions were found with the employees for the remaining IT field-services subsegment. For the purposes of this year's reporting, the business in this former segment will be subsumed under the EMEA region for 2020 and 2021. It includes revenues of € 7.02 million in 2020 (€ 3.89 million for "Eurosuite" and € 3.14 million for IT (field) services) and € 3.74 million for the 2021 fiscal year (€ 1.38 million for Eurosuite until the sale of the associated company and € 2.36 million for the IT (field) services business)

In the past fiscal year, the EMEA segment achieved sales of € 108.11 million (previous year: € 96.79 million); of this, € 9.21 million were accounted for by platform licences. Sales in the Americas segment amounted to € 22.09 million (previous year € 20.77 million), including € 2.29 million in platform licences. However, when assessing this development, it should be borne in mind that most of the new deals in the Americas were SaaS deals, whereas the EMEA sales successes were characterised by a rather large perpetual licence deal. Such deals usually result in immediate one-off remuneration for the granting of the licence.

Compared to the previous year, the "Other business activities" segment includes additional revenue in the

Most of the new deals in the Americas were for SaaS.

Percentage comparison of sales by sales type 2020–2021



amount of € 0.64 million from the Tannenhaus UG hotel business, which was acquired in 2021.

Looking at the sales composition, GK Software achieved total software-related sales of € 60.41 million (previous year: € 75.96 million) of which € 46.47 million (previous year: € 63.20 million) were attributable to the EMEA region and € 13.94 million (previous year: € 12.77 million) to the Americas.

Encouragingly, € 20.04 million of this in EMEA was from standard platform licensing, and € 10.83 million was from licence-subscription revenue. In the previous year, 8.08 million was accrued for licence revenues from standard revenues; the increase of 147% is thus more than double the value. Of this, € 4.84 million was for the German legal fiscal system solution and € 2.53 million for Artificial Intelligence for Retail (AIR) solutions. These contracts will result in a total Annual Recurring Run Rate (ARR) of € 12.48 million from 2023.

In the Americas, revenues totalling € 2.71 million (after € 2.31 million in the previous year) were collected in 2021 for this reason. Of the € 2.71 million, € 0.42 million were from subscriptions.

Because of deliberate capacity management, sales from customised extensions to our standard platforms were lower than in the previous year. At € 26.44 million (down from € 55.11 million in the previous year) for EMEA and € 11.23 million (€ 10.46 million in 2020) in the Americas, both areas fell short of the previous year's figures; however, this movement was negligible in the Americas. In the EMEA region, the reason for this is the coincidence of two expansion projects by two major customers in 2020, as well as the conscious decision to provide new customers acquired in the course of 2019 and 2020 with rapid access to the software products they have purchased. The development in the Americas in particular shows that the order situation surrounding the expansion of the standard software platforms is highly stable and justifies our classification of this revenue block as "reliably repeatable business".

The capacities not used for the customised expansion of our standard platforms were therefore used for the go-live of the new customers of the last two years or the support of existing customers in the operation of the platforms of GK Software. Accordingly, there was an increase in retail consulting revenues. In total, the EMEA region recorded retail consulting revenues of € 39.40 million (up from € 12.99 million in the previous year), while the Americas market organisation reported sales of this type totalling € 4.55 million (up from € 2.87 million in 2020). In EMEA, € 11.53 million was from support for or the operational management of our standard platforms. In the Americas, a turnover of € 0.14 million was received for such services. This difference in level shows the different maturity we have reached since our respective market entries into these major regions. As a new entrant into the American markets, we are still obviously at the beginning of a development that we have already supported for EMEA. However, it is precisely this difference that also shows the as-yet unrealised potential of the American market for GK Software.

In the area of maintenance, € 22.89 million were collected. Because of the large number of projects already rolled out, EMEA accounted for € 19.35 million and the Americas for € 3.54 million. Because of the discontinuation of the AWEK business, maintenance income decreased by –€ 0.19 million overall. A considerable part of the reduced AWEK turnover was compensated by the CLOUD4RETAIL business.

22.89
Million euro
Maintenance

Other turnover of € 3.59 million (previous year: € 2.65 million) was generated in the "Other" segment (€ 0.64 million) and predominantly in EMEA

(€ 2.89 million). A larger portion can be attributed to revenue from the supply of hardware as part of the placement of our hybrid solution for the German legal fiscal system. This is because we offer customers who cannot (or can only at disproportionately high cost) incorporate parts of their electronic recording systems to be secured (within the meaning of the German cash register regulation) into a network environment a certified hardware solution, which can be administered via the management components of our solution.
In total, this results in recurring (contractually fixed) or repeatable (not contractually agreed but – based on experience – highly likely to recur) sales of € 65.82 million compared to € 81.64 million in the previous year. This corresponds to a 60.9% proportion of the total sales of all segments (previous year: 84.3%). The main reason for this is the strong increase in turnover in Retail Consulting. It should be noted in particular that the turnover associated with the cloud business (subscription and cloud operational support) more than quadrupled from € 5.34 million to € 22.91 million.

T.06 Turnover according to segments

EUR K	EMEA FY 2021	EMEA FY 2020	Americas FY 2021	Americas FY 2020	Other business activities[1] FY 2021	Other business activities[1] FY 2020	Consolidations FY 2021	Consolidations FY 2020	Group FY 2021	Group FY 2020
Sales with third parties	108,114	96,792	22,092	20,767	640	–	–	–	130,847	117,559
Licences and software[2]	46,473	63,195	13,938	12,769	–	–	–	–	60,411	75,964
Licence Platform	9,212	8,081	2,292	2,313	–	–	–	–	11,504	10,394
Licence Platform Extension	7,546	19,218	374	4,219	–	–	–	–	7,920	23,437
Licence Platform from subscription agreements	10,826	–	418	–	–	–	–	–	11,244	–
Smart Extension	18,889	35,896	10,853	6,237	–	–	–	–	29,743	42,133
Maintenance	19,351	18,446	3,544	4,639	–	–	–	–	22,895	23,085
Software Maintenance	19,351	18,446	3,544	4,639	–	–	–	–	22,895	23,085
Retail Consulting	39,402	12,994	4,554	2,867	–	–	–	–	43,956	15,861
Retail Consulting	27,877	8,626	4,411	1,894	–	–	–	–	32,288	10,520
(Cloud) Operations Support	11,526	4,368	142	973	–	–	–	–	11,668	5,341
Others	2,888	2,157	57	492	640		–	–	3,586	2,649
Turnover with other segments	2,568	2,684	–	511	149	–	2,717	3,195	–	–
Depreciations	7,688	6,862	1,051	1,101	744	580	–	–	9,484	8,543
of which impairment in accordance with IAS 36	1,642	–	–	–	376	312	–		2,018	312
Segment EBIT	14,718	11,085	2,862	(514)	(261)	(44)	(14)	7	17,305	10,534
Assets	128,428	96,443	22,801	20,509	8,170	6,770	(15,218)	(13,046)	144,181	110,676
thereof long term[3]	33,242	37,487	12,315	12,341	7,693	6,765	(74)	(74)	53,176	56,520
Debts	45,766	48,503	20,247	19,678	9,683	6,770	(15,144)	(12,972)	60,553	61,979
Cash and cash equivalents	42,430	6,572	4,508	2,854	7	–	–	–	46,945	9,425

1 The “Others” segment contains “real estate held as a financial investment” as well as the Tannenhaus complex.
2 Beginning with the 2020 fiscal year, further subdivisions into Licence Platform, Licence Platform Extension and Smart Extension were introduced.
3 Non-current assets, apart from financial instruments and deferred tax assets

After completion of the essential development work for Deutsche Fiskal, in contrast to the previous year, no more own work was capitalised. In the 2020 fiscal year, € 0.83 million were registered here.

At € 8.74 million, other operating earnings were considerably higher than in the previous year (€ 4.30 million). Because of the sale of AWEK microdata GmbH, income from the disposal of fixed assets in the amount of € 2.75 million and tax credits of € 0.71 million; these were recognised as other operating income. These items have no equivalent in the previous year. In addition, income from currency differences was € 1.40 million higher than in the previous year.

This results in a total operating revenue of € 139.59 million for the fiscal year (after € 122.69 million in the previous year).

The costs of consumables and supplies and for goods and services acquired increased in the 2021 fiscal year compared to 2020. Consumption of goods increased by € 0.25 million, from € 1.16 million in 2020 to € 1.40 million. This is due to the significant increase in the acquisition of licenses from third parties. The use of purchased services also increased, growing by € 4.49 million compared with the previous year (€ 8.28 million) and amounting to € 12.77 million in the reporting year. The reason is largely to be found in the performance of the cryptography partner of Deutsche Fiskal.

Human resources expenditure now amounted to € 78.74 million after € 75.64 million in the previous year and was thus € 3.10 million higher than in the previous year. Despite a reduced number of employees (as of 31 December 2020, the Group had an annual average of 1,140 employees, whereas on 31 December 2021 there were 1,086 remaining), this is mainly due to the completion of the planned expansion of specialists in various areas, as well as one-off special effects in 2021 (special payments of COVID-19 premiums, increased payment in kind due to the issue of share options for employees and increased variable salaries).

At € 19.89 million, other operating expenses were up € 1.36 million on the previous year's figure of € 18.54 million. The development was promoted by the increase in legal and consulting costs by € 1.07 million to € 4.13 million due to the capital increase, the development of the new corporate brand, the company sale of AWEK microdata GmbH and the efforts to further digitalise internal processes. Sales expenditures, which were € 0.49 million higher than the previous year and used for the participation in trade fairs and similar events (which were once again possible) also had a cost-increasing effect, so that €1.66 million was used for such purposes. The successful business performance of GK Software was also reflected in the increased costs of staff recruitment. These costs were increased by € 0.25 million and now amount to € 0.91 million. Software costs were also increased by € 0.73 million to € 3.08 million. Here, the increased demand for cloud infrastructures is particularly evident. A final increasing item is the ancillary costs of the office space due to higher energy prices. The amount spent on this exceeded the previous year's amount of € 1.14 million by € 0.17 million.

26.79
Million euro
EBITDA

These increasing factors were offset by a number of cost-reducing trends. The most important are the considerably reduced need for allowances for receivables, which were lower by € 0.98 million, and the once again lower travel expenses, which were € 0.61 million lower than in the previous year (€ 3.37 million).

In summary, these developments led to EBITDA of € 26.79 million, following a figure of € 19.08 million in the previous year. Depreciation and amortisation increased slightly by € 0.94 million from € 8.54 million to € 9.48 million. In total, this results in an EBIT of € 17.31 million, after € 10.54 million in the previous year.

The financial result was again negative in the 2021 fiscal year with surplus expenses of € 0.85 million. However, this was € 0.59 million lower than in the previous year (€ 1.44 million). The reasons for this are mainly to be found in the lower expenditure on interest, which was € 0.36 million down on the previous year because of the reduced interest-bearing liabilities. In fact, interest of € 0.75 million was paid in the fiscal year.

This results in earnings before income taxes (EBT) of € 16.45 million, after € 9.09 million in the previous year.

T.07 Earnings figures

	31.12.2021		31.12.2020		Change	
	EUR K	in %[1]	EUR K	in %	EUR K	in %
EBITDA	26,790	20.5	19,078	16.2	7,712	40.4
EBIT	17,306	13.2	10,535	9.0	6,771	64.3
EBT	16,454	12.6	9,090	7.7	7,363	81.0
Group result	13,298	10.2	6,266	5.3	7,032	112.2

Income taxes of € 3.16 million (previous year € 2.82 million) were recorded for this pre-tax result. This results in an annual result of € 13.30 million.

Assets situation

The assets situation is also characterised by the favourable business development and the simultaneous measures to improve the financing of the corporate group. The balance-sheet total amounted to € 144.18 million as of the reporting date, and was thus € 33.51 million higher than the previous year's figure of € 110.68 million.

The development was particularly pronounced on the capital side and here again in equity. This received € 18.50 million because of the capital increase carried out in March 2021 and € 13.30 million because of positive business development. Because of the reduced remaining maturity of the promissory note to less than one year, also the long-term debts decreased by the outstanding debt of the promissory note, and short-term debts increased by the same amount. On the assets side, these correlations were expressed primarily in a considerable increase in liquid assets amounting to € 37.52 million.

In detail, the major blocks of the balance sheet changed as follows: Non-current assets amounted to € 53.18 million and were thus € 3.34 million lower than the value on the reporting date of the previous fiscal year. Current assets, excluding liquid funds, were up by € 0.67 million compared with the previous year's figure, and now amount to € 44.06 million. At the same time, cash and cash equivalents increased by € 37.52 million to € 46.95 million.

The Group's equity amounted to € 83.63 million as of the reporting date; this represents an increase of € 34.93 million year on year. Long-term debts amounted to € 15.81 million and were thus € 16.62 million lower than in the previous year. At the same time, current liabilities increased by € 15.20 million to € 44.74 million.

This resulted in an equity ratio of 58.0% (44.0% in the previous year).

1 Margin on turnover

T.08 Assets situation

	31.12.2021		31.12.2020		Change	
	EUR K	in %	EUR K	in %	EUR K	in %
Non-current assets	53,176	36.9	56,520	51.1	(3,344)	(5.9)
Current assets without cash and cash equivalents	44,060	30.6	44,730	40.4	(670)	(1.5)
Cash and cash equivalents	46,945	32.6	9,425	8.5	37,520	>250
Assets	**144,181**	**100.0**	**110,676**	**100.0**	**33,505**	**30.3**
Equity	83,628	58.0	48,696	44.0	34,932	71.7
Long-term liabilities	15,814	11.0	32,438	29.3	(16,624)	(51.3)
Current liabilities	44,739	31.0	29,541	26.7	15,197	51.4
Liabilities	**144,181**	**100.0**	**110,676**	**100.0**	**33,505**	**30.3**

Non-current assets decreased by € 3.34 million because of scheduled depreciations in these assets in the amount of € 7.47 million. There was a one-off depreciation of € 2.02 million on real estate held as a financial investment (IAS40) and on the goodwill of Tannenhaus UG, the operating company for the hotel and restaurant business acquired in June for its sales impact and on property, plant and equipment. The property in question was originally acquired and repaired for the company's own purposes, but was no longer used for the company's own purposes because of the trend in the number of employees at the location. We have therefore rented it out to third parties for their use.

A major reason for this was the increase of € 6.41 million in property, plant and equipment. Because of the discrepancy between ownership of the operating company and the real estate, this real estate held as a financial investment had to be reported separately according to IAS40. The transfer of ownership of the operating company to GK Software SE led to the reclassification of € 7.86 million to property, plant and equipment.

Under current assets, contract-generated current assets decreased by € 1.44 million to a present € 12.15 million. At € 24.30 million, receivables from deliveries and services were € 0.92 million higher than the previous year's figure. This is where the further-improved processes of receivables management have an effect. In addition, December 2021 once again did not stand out above the other months of a fiscal year to the same extent as in the years up to 2019.

Cash and cash equivalents amount to € 46.95 million, which is € 37.52 million above the previous year's reporting date figure of € 9.43 million. We would refer you to the explanations on the development of the financial situation.

Long-term debts fell by € 16.62 million compared with the reporting date of the previous year, to € 15.81 million. The main reason for this was the reclassification of the convertible bond to short-term debts. The long-term leasing and rental liabilities to be reported according to IFRS 16 amount to € 5.33 million and are thus € 1.40 million below the previous year's figure. Provisions for pensions, reported at € 1.88 million, are also down at € 0.85 million less than the previous year's figure, which is attributable to the deconsolidation of AWEK microdata and the development of plan assets. The long-term bank liabilities were reduced by € 0.93 million with the scheduled repayment of those components reported as current liabilities, and still amount to € 3.51 million. Deferred tax liabilities increased by € 0.82 million to € 4.37 million. This development results mainly from GK Software SE and is due to the realisation of income from project business

46.95
Million euro
Cash and cash equivalents

and the resulting balance-sheet changes, which was earlier than in the tax balance sheet.

The development of short-term debts is characterised mainly by the reclassification of the convertible bond to other current liabilities. This will be repaid or converted by October 2022. This increase is counteracted by the decrease in short-term bank liabilities, which are characterised by the repayment of current-account credit lines used and the scheduled repayment of loans in the amount of € 4.22 million to now € 1.00 million. On the other hand, contractual liabilities ended up € 2.04 million higher than in the previous year due to advance payments being made in the project business. At the end of the reporting year, contractual liabilities of € 5.63 million were still on the books. Trade accounts payable increased by EUR 1.57 million from EUR 3.59 million to EUR 5.16 on account of the balance sheet date.

Financial situation

Cash and cash equivalents in the Group amounted to € 46.95 million on 31 December 2021, € 37.52 million higher than on the previous year's reporting date.

These considerable changes stem from the trend in cash flow in the narrower sense (i.e., without the change in working capital [net current assets], which increased by € 1.83 million to € 22.41 million compared with the previous year) and the reduced need due to the trend in net current assets. This change was € 2.96 million and the inflows from financing activities, which led to outflows of € 11.29 million in the previous year and inflows of € 15.49 million this year.

In the narrow sense, the increase in cash flow is essentially due to the considerable improvement in the annual result of the Group, which alone contributed € 7.03 million to the change in this item.

In the reporting year, this cash flow is relieved by the change in working capital of € 1.72 million. In the previous year, on the other hand, a burden of € -1.24 million arose here. Receivables from deliveries and services, other receivables and inventories increased by € 2.36 million (in the previous year there was a decrease of € 0.09 million). This drop in incoming funds was offset by the increase in contractual liabilities by € 2.04 million, in liabilities from deliveries and services by € 1,91 million and in provisions by € 0.14 million. In contrast, the change in liabilities/provisions in the previous year had a negative impact on cash flow of € –1.33 million.

Taking into account payments for interest and income taxes, the net cash inflow from operating activities amounted to € 23.22 million, € 5.50 million higher than in the previous year (€ 17.71 million). The special effect of the sale of AWEK microdata in the amount of € 2.75 million should be noted.

Investing activities led to inflows of € 2.43 million because of the sale of the shares in AWEK microdata GmbH. In the previous year, there was an outflow of € 2.97 million. These changes are due mainly to the inflow of € 4.54 million for the payment in the context of a company acquisition. Investments in tangible assets were up by € 0.67 million compared with the previous year.

Financing activities generated cash inflows of € 15.49 million. This was mainly due to the successful capital increase on 26 March 2021 in which the company received € 19.04 million as well as the loan repayments made in the previous year. The repayments made in the current year led to a reduction in liabilities to banks by € 5.15 million. This resulted from the repayments for bank loans in accordance with the cash-flow statement (€ 1.54 million) and the reduction of utilised current-account credit lines (cash and cash equivalents) in the amount of € 3.61 million. The repayment of leasing liabilities amounts to € 2.67 million. There were also inflows from the exercise of share options in the amount of € 2.34 million and the capital increase carried out in March 2021 in the amount of € 18.50 million (net costs and tax effects). In contrast to the previous year, the outflows from dividend payments to minority shareholders of the subsidiary prudsys AG amounted to € 0.00 million (previous year: € 0.40 million). Interest paid to lenders and for the granting of credit facilities totalled € 0.75 million.

Overall, cash and cash equivalents increased by € 37.52 million to € 46.95 million during the financial year. Cash and cash equivalents (balance of cash and cash equivalents and utilisation of current-account credit lines) increased by € 41.19 million to € 46.88 million. With current account and credit card lines of € 0.06 million being used, the Group had unused credit lines of € 30.00 million available on the balance sheet reporting date.

The Group's financial managers are seeking to meet the goal of guaranteeing that the company is able to service its loans and debts at all times and have adequate liquidity to secure investment projects; it therefore places the highest priority on maintaining capital.

€ 44.74 million in current liabilities will have to be serviced during 2022. These liabilities are offset by cash and cash equivalents of € 46.95 million and current liquid assets of another € 44.06 million.

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

The continued special situation resulting from the COVID pandemic did not have any threatening effects on the business of GK Software in 2020 or in the reporting year. The Management Board believes that it has created the most stable framework possible for the Group. This will prove to be as far as humanly possible sufficient even under the additionally aggravated conditions in the wake of the war in Ukraine.

The Management Board believes that the efficiency programme launched in 2019 has created a stable basis for the Group to cope with the situation. The simultaneous improvement of the controlling and budgeting processes should also have created a level of cost flexibility beyond the usual scope, enabling a fast and adequate response even to deep cuts. In the opinion of the Board of Directors, the past business years have proven this. Combined with the opportunities for GK Software arising from the crisis that lie in the digitalisation of retail-store operations, which is increasingly being regarded as more of a necessity than an option, and in the transcendence of sales channels in terms of omni-channel retailing, the Management Board remains confident that GK Software is in a position to overcome this general crisis and to be able to defy the currently once again tightened conditions.

Despite this, commercial prudence is required to determine all the possible ways of achieving secure funding, even in the crisis, and, if possible, adopting these courses. The Management Board is therefore continuing to work on restructuring the capital side of the balance sheet in order to continue to be able to react appropriately to these situations. It already did so on 8 December 2021 by concluding a syndicated loan totalling € 45 million for a term of three years with an option for an additional year.

Financial and non-financial performance indicators

Financial performance indicators. It should be noted that the key indicators, on which the financial data is based, are very much connected to each other. As a result, the development of these figures largely depends on the development of two key indicators. These are

45
Million euro
Syndicated loan

turnover and earnings. In order to normalise tax effects, GK Software uses earnings before income taxes and the financial result (EBIT) and the margin on operating performance derived from this and figures derived from these like earnings before interest taxes, depreciation and amortisation (EBITDA).

T.09 Financial performance indicators

		31.12.2021	31.12.2020
Gross earnings margin on turnover	%	95.9	96.3
Personnel ratio	%	60.2	64.3
EBITDA margin on operating performance	%	20.5	16.2
EBIT margin on operating performance	%	13.2	9.0
Equity ratio	%	58.0	44.0
Investment ratio I	%	36.9	51.1
Net debt	EUR K	(42,431)	243

The net debt (excess of interest-bearing liabilities over liquid assets) only refers to those liabilities that can be unequivocally assigned to debts. The convertible bond is only entered in the balance sheet at the carrying amount of the statement of debt, taking into account the equity character of the conversion option. The key performance indicators listed above help to analyse developments and discrepancies from plans. For example, the personnel ratio is an important figure for analysing the development of the earnings situation. On the other hand, this largely depends on the “turnover” key performance indicator and any deterioration in its value may express both wrongly established production apparatus and missing the target figure for the “turnover” key performance indicator. However, this can be directly deduced. In this sense, these key indicators are important aids in analysing developments, but are not control parameters in themselves.

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

Report on the Risks and Opportunities for the GK Software Group

Opportunities

As in previous years, there are still growth opportunities for the Group both in Germany and abroad. The topics addressed by GK Software's products are on many retailers' agendas for strategic IT projects. To ensure its success at the international level, the Group has references with leading retailers worldwide and is represented with a technically mature product on the market. GK Software has a number of major partners with good networks in the retail sector. In particular, its partnership with SAP is set to facilitate access to new customers in international markets such as the US and Africa. This cooperation is complemented by partnerships with Microsoft and IBM, which further increase the sales reach of GK Software. In addition, partnerships with other hyperscalers such as Amazon AWS, as well as with innovation partners such as Abacus, mySize, and others, ensure that the attractiveness of GK solutions is further increased. For further international expansion, the group can draw on the experience gained with its German and international customers due to the fact that the solutions have already been successfully implemented in more than 60 countries and can thus be quickly transferred to other foreign customers.

Domestic prospects for growth are still far from being exhausted as well. In addition to gaining further market share in all developed retail markets worldwide, the Group's focus will continue to be on new areas. In addition, small and medium-sized chains that have not been addressed as a matter of primary importance also offer great potential, particularly through the sale of standardised solutions. With the development of GK SPOT, GK Software is currently making preparations for a cloud-based big data platform that is designed to open up new sales potential. The internationalisation of the activities of Deutsche Fiskal and the market entry of retail7 could also create new or expanded opportunities for acquiring customers.

With the development of GK SPOT, GK Software is currently making preparations for a cloud-based big data platform that is designed to open up new sales potential.

Over the coming years, a key focal point of the retail trade will continue to be the integration of the stationary business with other channels, such as online shops or mobile apps in cloud environments. In addition, current trends such as Go-style shopping, scan and go, home delivery, mobile payment and social networks are to be integrated into a single platform. Other long-term topics such as integrated and automated processes for inventory optimisation, scheduling and efficient customer management systems will continue to play a key role when it comes to reducing costs and enhancing customer loyalty. For these reasons, the retail trade is likely to step up its investments in solutions that integrate all business processes based on modern cloud technology. Moreover, retailers will face greater pressure on their margins unless they standardise and simplify their processes. The homogenisation of store solutions and the centralisation of data streams therefore remain of high strategic importance for the retail sector. In general, new methods and procedures (e.g., from artificial intelligence) will lead to new approaches and a further-intensified use of information technology.

We have seen that the still-ongoing COVID-19 crisis has already accelerated these trends. GK Software will thus continue to benefit from this retail investment behaviour. Solutions from GK Software – automation and optimisation through digitalisation and the use of artificial intelligence – offer traditional retailers the opportunity to control their branch networks in a centralised manner. This can be in the supply of data for increased consumer self-service, as well as the automation of the handling of goods and money, thereby making it contactless. The solutions create a truly seamless transition to retail processes that are initiated, handled and concluded from the consumer's viewpoint. With its omni-channel possibilities, the open CLOUD4RETAIL platform offers an excellent basis. This is opening up numerous opportunities for GK Software.

The consolidation process in the software industry with industry solutions for the retail sector already began a number of years ago and is continuing to progress apace. Based on its attractive range of products and sound financial basis, GK Software is aiming to play an active role in this process.

Risks

Risk management system

The risk management system focuses on recognising risks at an early stage.

For this purpose, GK Software regularly takes stock of the risks and classifies them according to their type and probability of occurrence, as well as the presumed consequences arising from them. Each of the risks identified is assigned to a defined risk owner in the Group.

The process and methods of risk identification, evaluation and assessment are documented in a risk manual. This is regularly reviewed and developed.

The process initially involves recording all possible negative deviations from the specified company targets. In a further step, these deviations identified as risks are analysed in terms of their possible damage and probability that they will occur. The possible damage is determined by its negative impact on the company's development, assets, equity and liquidity. The effects of the risks are quantified as far as possible. However, risks that cannot be reasonably quantified are also considered. The risks are grouped into risk areas.

The risks are categorised as follows:

T.10 Risk assessment

	Probability of occurrence	Amount of damage	
	in %	EUR K	
Very high	>80	>5,000	High
High	50-80	2,000-5,000	Considerable
Medium	10-50	500-2,000	Limited
Low	<10	<500	Negligible

The risk matrix derived from this results in the classification into risks that pose a threat to the company's existence, significant risks and irrelevant risks. Depending on this, the possibilities of countermeasures to reduce the amount of damage and/or the probability of occurrence or the bearing of risk are derived.

The Management Board has appointed a risk manager who is responsible for regularly updating the risk inventory on a quarterly basis and reporting the results to the Management Board. Firstly, the risk manager obtains the necessary information from the risk owners as part of a formalised process. Secondly, they conduct informal discussions and evaluate other documents (including internal and external reports and minutes).

In the event of significant risks and, in particular, risks that pose a threat to the company's existence, the risk owners and all management employees are obliged to inform the risk manager immediately and comprehensively. Flat hierarchies, short communication channels and an open communication culture ensure that important risk information also reaches the Management Board immediately. The Supervisory Board is informed by the Management Board at least once a quarter, but usually more frequently, about important developments in the company.

Risks are recorded across the Group and therefore include all subsidiaries. Specific individual risks and general business risks are recorded and considered. Individual risks can together lead to cumulative risks. Changes to the measured values of accumulation risks are indicators of change to individual risks.

The risk management scheme and early risk recognition do not consider positive opportunities separately. On the one hand, opportunities represent positive deviations from identified risks; on the other hand, opportunities are the subject of strategic corporate management.

Strategic risks

As a software vendor, GK Software operates in a **highly dynamic market** that is subject to ongoing as well as abrupt changes, for example, because of technological advances, changes in companies' IT landscapes, the consolidation of suppliers and buyers, new competitors, new strategies and patterns of behaviour on the part of players on the market. Given this situation, the Group is faced with various strategic risks; the potential for damage from all of these risks together is high.

Management reporting focuses on significant risks and those that could pose a threat to the company's existence.

Of the risks presented below, the most serious is the risk of **damage to the Group's reputation** due to a single project with a negative outcome. The risks affecting customer behaviour, such as the impact on demand-related behaviour because of **business performance that is perceived as inadequate**or **slowdowns in investments as a result of new market conditions** or **regulatory influences**, are of secondary importance. There is certainly a possibility that feedback effects could develop between the two types of risks mentioned here: Changes in market conditions or regulatory requirements could make projects more complex and thus increase the likelihood of negative project outcomes.

GK Software tries to quantify the impact of the risks on the ongoing fiscal year to the greatest possible extent according to the amount of damage and likelihood of their occurring. In principle, the risks can also be classified in the context of the sequence of risks described above. Nonetheless, the immediate damage is typically comparatively inconsequential (amounting to several tens of thousands of euros) particularly in the case of the risks that could result in damage to the Group's reputation. However, they could cause indirect damage that is almost impossible to quantify and manage (e.g., negative market sentiment towards GK Software) and that cannot be assigned to a single case of risk that occurred. For this reason, the Group focuses a great deal of attention on adverse project developments of this type in order to keep the risks within a manageable scope. This analysis applies equally to all business segments at GK Software in principle.

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

The first risks to be summarised are those that could result from perceived performance or changes in requirements on the part of those interested in the products and services provided by the company group **(product risks)**. On the one hand, customers might be of the opinion that changes in market requirements are not adequately represented in the portfolio of services offered by the company group. Alternatively, the **products might not correspond to the performance requirements of the target market, or might no longer do so**. In either case, this situation could result in lower demand for the products and services offered by GK Software. As things currently stand, we believe there is a low probability that this risk will materialise based on reviews conducted by external technical analysts; likewise, the analyses on customer satisfaction that we have carried out in-house, as well as the rating of our solutions by external analysts, point to a rather lower probability of this risk materialising.

However, changes in requirements could lead to longer sales cycles given that the requirements are generally increasing because of the trends towards high integration, digitalisation and automation of business processes. These aspects mean that the investment decisions made by customers are of greater relevance, and that they lead to more intensive and potentially longer decision-making processes and thus to extended sales cycles, which results in a reduced number of sales opportunities that can be realised in a given period **(sales market risks).** Experience shows that the investment cycles in the retail industry are stable in the long term, and investments not made are generally always made at a later date when investment backlogs have been cleared. Therefore the probability of the risk materialising is extremely low, particularly when considered over longer periods.

At the same time, the increased requirements that can actually be identified lead to greater project complexity, which increases the probability that project plans will be met with failure **(production risks).** GK Software counters this risk through the approach it applies when developing, employing, managing and retaining project capacities. In a tight job market **(human resources and procurement risks)**, developing and retaining employee capacities are particularly important aspects, which we seek to accommodate by creating an attractive working environment with competitive compensation and general measures aimed at retaining staff. However, it should be noted that the general and probably permanent shifts between the use of traditional office workplaces and mobile/home-office working associated with the pandemic have made the situation more challenging in the area of recruitment. As the proximity of the place of residence to the place of work becomes less important, the competitive pressure in the search for qualified workers continues to increase. At the same time, regional differences in the salaries demanded are levelling out because companies in regions with low costs of living and wages increasingly have to compete with those where these are considerably higher. In addition, there has been a considerable increase in inflation; this can also lead to a higher than usual increase in salary adjustments at the request of employees. Another capacity risk for the company could result from the continuation of the war in Ukraine, because GK employs more than 20 qualified IT specialists in Lviv (western Ukraine), and it is not foreseeable how developments will unfold there.

The probability of the aforementioned risks materialising was rather low, as the experience of the last few years has shown. However, the topic of personnel risks is treated with special attention by the Management Board, because there is a possibility that the probability of occurrence will increase here.

One significant secondary risk consists of maintaining the functionality that is necessary to meet the complex requirements. These systems comprise all IT systems that can be grouped together as a dedicated risk group (**IT risks**). These risks increase the prospect that damage to the Group's reputation could occur because the potential scarcity of sales opportunities means that individual projects are of greater significance for GK Software's reputation as a whole. The Group is making significant efforts in the area of IT-related risks, therefore the probability of these risks materialising is, so far, rather low.

A further group of risks involves **environmental risks**, such as the development of the economy as a whole, trends towards concentration in customer and competitive environments and the development of regulatory conditions **(legal and compliance risks).** These risks cannot be controlled by the Group and, in some cases, play a role in increasing the risks in the first group. That is why it is not possible to estimate the probability of the risk materialising in this segment either.

A significant risk – and one which cannot be influenced by the company – is how the businesses of GK Software's customers grow as a result of the development of the general economic situation and consumer sentiment **(customer and market-related risks).**

Until the outbreak of the war in Ukraine, development was dominated by the global pandemic and the associated uncertainties for the future. Before it became clear whether, to what extent and for how long the COVID-19 crisis would have an impact on overall social and economic trends, it was overshadowed by the Ukraine war. The longer this lasts, the greater its effect is likely to be – not only on trends in Europe, but also in the world as a whole. This can be justified above all by the fact that sanctions and counter-sanctions influence the globally interconnected world everywhere. At present, the effects of the overlapping pandemic and the consequences of the war are far from fully assessable. However, it is already clear that the Russian business of international retailers will come to a standstill – at least temporarily. The same can be expected for the company's new business in Russia, most of which was initiated through SAP. The way in which these situations actually develop, as well as their attendant uncertainties, could have an influence on the growth of our customers' businesses that is impossible to determine at this point. The Company has absolutely no control over these risks and therefore it is not possible to estimate the probability of these materialising.

Given this climate of general uncertainty, the Management Board is striving to maintain its scope for action by structuring costs as flexibly as possible and only incurring costs where intended.

Moreover, the continuing consolidation of the retail market can result in a reduction in the number of branch networks over the long term, which would mean that the retail sector would have greater purchase power. In general, the retail sector in Germany is subject to strong price competition. For this reason, retail companies are seeking to pass the price pressure caused by this situation on to their suppliers and contractual partners. This also carries over to investments in IT and can have an impact on manufacturers of retail software. However, because GK Software provides strategically important solutions for retail groups and is globally positioned, these risks are also not considered to be a threat to the company, and their probability of occurrence is classified as low.

The consolidation that is occurring on the customer side is continuing to progress in the same manner, including among competitors. This concentration is characterized by the acquisition of direct competitors of GK Software by globally significant manufacturers of hardware, which thus become universal suppliers for the retail market. This combination could prompt potential customers to obtain all the services they require from these competitors. While the Management Board believes that the previous trend on the market towards procuring hardware and software separately is set to continue, a reversal of this trend and consequent adverse effects on GK Software's sales opportunities cannot be ruled out. As things currently stand, however, there is no sign of any such trend so that the probability of any ensuing risks materialising is low.

The Group's planned expansion likewise involves certain financial risks. The company group primarily forms these relationships on the basis of preliminary work aimed at customer acquisition. This risk increases as a result of the extended sales cycles mentioned above. One of the factors in this is the increase in sales applications that is linked with longer sales cycles. One aspect of particular significance, however, is the need to maintain delivery capabilities when contracts are concluded. This can lead to considerable costs as a result of idle capacity. In addition to these general risks resulting from events on the market, there are also internal organisational risks that arise in relation to the aspect of internationalisation as a result of the operation of the Group's national and international subsidiaries. Adverse developments or threats to the existence of the Group's subsidiaries have direct (contracts to balance results) or indirect (evaluation of finance assets, recoverability of receivables, loss of business activities by the subsidiary) negative impacts on the development of the Group. The Group counters this risk by continually developing its investment controlling measures. In order to reduce the danger from such risks, the efficiency programme initiated by the Company in 2019 provided the basis for ensuring that the probability of such risks occurring is significantly reduced and now at a low level.

In the course of the ongoing expansion, the project business must also be scaled to an increasing extent, which is to be accomplished through the involvement of partners. Nonetheless, there are other risks – and particularly quality risks – that arise because of the limited ability to control work in conjunction with partners. To this end, GK Software operates a partner programme with the certification of integration partners. This programme aims to guarantee the quality of project management and is developed on an ongoing basis.

Customer projects at home and abroad, which were described in the analysis of the market and competitive environment and are becoming increasing complex, also present risks to the further development of GK Software that could lead to higher warranty and goodwill provisions – not just for individual projects, but for all projects. This aspect is also important in view of the ever increasing number of SaaS contracts, which also include the operation of the customer's systems, because the company takes on the risk for the smooth operation of the customer's business. However, the Management Board is confident that we have taken the development of the software in a direction that guarantees existing quality standards can be maintained in general. This quality risk in relation to individual projects is managed by means of regular reporting by the responsible project managers to the relevant members of the Group Management Board. A summarised report of the known risks is presented to the Management Board in its meetings, which are typically held monthly. To date, the results of the organisational measures adopted here show that there are only minor risks for the Company in this segment.

GK Software will also continue to expand its products and sales base through activities including targeted acquisitions of companies in view of its planned expansion of its business activities in the coming years. In doing so, the company group will prepare for and examine acquisitions with the utmost possible diligence. Nonetheless, the risk that an acquisition could have negative impacts on the earnings of GK Software cannot be ruled out.

On the whole, GK Software assesses these risks as strategic risks that could have significant impacts on the company's financial and earnings situation over the long term. At the moment, however, we are not seeing any or only weak indicators that suggest these risks could materialise.

Operational and financial risks

Third parties could accuse GK Software of **infringements against intellectual property rights,** such as patents or copyrights, and make claims for damages or seek to limit the sale of GK Software solutions. This is seen as a significant risk. In order to limit this risk, GK Software reviews whether third-party licensing terms are complied with, starting in the development process.

Given the **structure of its customer base** and that of its target market, the Group's business is continually characterised by large individual projects with a relatively small number of customers, which means that these business relationships make considerable contributions to our turnover and earnings within the course of a given fiscal year. The Management Board foresees that this will continue to be the case in future as well. If a business partner cancels a project or experiences financial difficulties, this can also have financial impacts for GK Software. However, this risk can be limited by regular payment plans or by agreeing on payments after so-called "project milestones". Therefore, the probability of risks materialising in this segment is low.

Specialised and standardised contracts are given preference for the sale of GK Software products. As a rule, these contract templates are deviated from at the request of customers and on the basis of the respective individual circumstances. In these cases, there is a risk that the contractual arrangement is to the disadvantage of GK Software (contract risk). This risk is seen as a significant one that is addressed through legal examination on the part of our in-house legal experts.

Receivables from deliveries and services are owed by **customers** of the Group. The maximum credit risk corresponds to the carrying amount of the receivables from deliveries and services. All of the Group's customers are companies. GK Software has set up a receivables-management system in order to address the risk of customers defaulting on payments. Customers' payment behaviour is monitored at short intervals. If there is reason to assume that individual customers' economic situations have changed, further measures are taken in coordination with Management in order to limit any potential loss. A general allowance is made for all pending receivables in order to determine the general risk of defaults for receivables from deliveries and services.

GK Software manages the general **liquidity risk** (cumulative risk from other individual upstream risks) by maintaining appropriate liquid assets and credit lines as well as a rolling weekly liquidity forecast along with assessing forecast and actual payment flows.

We refer to the separate section of the report with respect to the risks involved in the use of financial instruments.

On the whole, GK Software assesses these financial risks as operational risks that could have considerable impacts on the Group's financial and earnings situation. At the moment, however, we are not seeing any or only weak indicators that suggest these risks could materialise.

Overall risk position

The overall risk position means all individual risks to which GK Software is exposed in its entirety. There are no discernible risks that could pose a threat to the company's existence. The Group's overall risk position has continued to improve – and now considerably – over the course of the 2021 fiscal year in keeping with the trend since the second half of 2019.

The Group's overall risk position has continued to improve over the course of the 2021 fiscal year in keeping with the trend since the second half of 2019.

Ukraine war

So far, the impact of the war on the company has been limited. However, it should be noted that the situation is stressful and uncertain for the workers concerned in Lviv, Ukraine. The political situation means that the further development of the site needs to be reassessed. As things look at the moment, the site will not be developed further, and alternative options will be reviewed. Events are permanently monitored and evaluated by a specially created task force at the company headquarters. If the site were to become non-operational, this would naturally result in a restriction of the company's development resources. For customers and potential customers of the company who were or are active in Russia, the war and its consequences will also result in burdens, the effects of which currently cannot be assessed. There are no impacts on finances or earnings worthy of mention to be expected as a result of sanctions imposed on or by Russia. It is already certain that the direct and indirect economic consequences of the war, as well as the sanctions and counter-sanctions, will lead to a serious disruption of the world economy for the unforeseeable future.

A complete closure of the Russian market would have only minor direct consequences for the company, but would close off access to a not inconsiderable market in the longer term and thus jeopardise the sales investments made in recent years.

COVID-19

The renewed review of the recorded risks did not result in any significant changes to the risk structure for the "normal" circumstances of the forecast report. The exceptional circumstances caused by the COVID-19 pandemic, which, contrary to expectations, has now lasted for more than two years, remain essentially unchanged since the Group's last forecast report. It remains difficult to assess the impacts of these circumstances. We continue to expect that the affected economies and companies will experience significant "downstream damage", which will be correspondingly higher the longer the current situation persists.

The issue raised by this concerns the effects of this crisis on GK Software's general business environment and particularly its financial situation.

The crisis is having effects on the operating business of our customers, and therefore on their investment and demand behaviour, as well as their assets, financial and earnings situation. It is also having effects on various company departments at GK Software. We are trying to meet the risks that result from these by adopting very different sets of measures. Hygiene measures have been intensified to protect our employees and work from home has been almost exclusively introduced on a temporary basis. At the same time, control and budgeting processes for turnover, costs and liquidity have been adapted to the situation.

To secure our financial situation, we carried out a capital increase in March 2021, among other things, and successfully placed our debt financing on a more long-term basis in March 2022.

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

The internal monitoring system of the GK Software SE and of the entire corporate Group comprises the principles, procedures and measures introduced by the Management Board for the organizational implementation of its decisions to ensure the effectiveness, efficiency and correctness of the accounting as well as the compliance with the legal provisions relevant for the company. GK Software SE (as well as the Group) is structured according to the responsibilities of the Management Board, whose different departments report to the responsible Management Board. The departments are subdivided into different cost centres, which each have a responsible head of department. The heads of department are either responsible for turnover and costs or only for costs.

The business release rules (requirement requests, purchase orders, invoice release, labour law agreements, submission of offers, customer contracts) are regulated by signature authorisations with value limits, which are regularly checked and adjusted as required. In addition to the release rules, GK Software SE has other guidelines for different areas of application (travel policy, anti-corruption guideline, procurement directive, company car guideline), which are also regularly checked and adjusted if necessary. Appropriate local regulations have been established in the Group companies.

The Group accounts and the accounts of the individual companies are organised and handled in-house, as is the financial accounting of GK Software and all the individual companies. GK Software completes the accounts for the German subsidiaries or branches of subsidiaries as part of agency agreements, with the exception of AWEK GmbH, AWEK Microdata GmbH and prudsys AG. The foreign Group companies each have their own accounting departments, which are responsible for the local accounts of the companies. The wage and salary administration for the German companies is carried out by GK Software as part of agency agreements.

The financial accounting of GK Software SE and some of its subsidiaries is carried out directly in the accounting software Microsoft Dynamics NAV (NAV). The individual accounts according to the local accounting standards of the other subsidiaries are imported in detail into NAV. The information necessary to consolidate or prepare a complete Annual Report is provided by the local units on the basis of instructions issued by the Group. During the preparation of both the individual accounts and consolidated accounts, internal checks are in place under the "four eyes" principle to ensure the reliability of the individual and consolidated accounts.

The Controlling department, which is centrally located in Schöneck but has a Group-wide focus, prepares detailed monthly evaluations to show the development of the Group and the cost centres. The reports are made available to the cost centre managers with specific inquiries about conspicuous developments. The Management Board receives an overall report.

Risk reporting in relation to the use of financial instruments

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

Exchange rate risks arise from the Group's exposure to Czech crowns, Swiss francs, Russian roubles, South African rand, US dollars as well as Canadian dollars and Ukrainian hryvnia. The Group therefore accepts payment obligations arising from work, renting and leasing contracts in all these currencies. GK Software with its Groups therefore not only issued invoices for sales and services in euros on the balance sheet reporting date, but also in Swiss francs, US dollars, Canadian dollars and South African rand. In order to be able to handle the Group's currency risks in a standard manner, GK Software SE tries to combine the currency risks internally. The Group carried out a sensitivity analysis to determine its risk of exposure to foreign currencies.

We normally handle business transactions in the operational currency of the Group firm concerned. Operational business transactions are not handled in the operational currency in individual cases so that there is a currency risk for monetary financial instruments. As of 31 December 2021, the Group had foreign-currency receivables of approximately € 616,000 that differed from local currencies. Currency rate fluctuations in conjunction with our original monetary financial instruments do not have any major effects on our profits. The Group's exchange-rate risk sensitivity mainly increased because of the increased business activities in the US dollar region and in South Africa.

In the view of the Management Board, the sensitivity analysis, however, only reflects one part of the exchange rate risk, as the risk at the end of the reporting period only reflects the risk during the year to a certain extent. Risks exist in possible changes to exchange rates for services, which the Group companies provide to the parent company to settle in local currencies every month. In the first half of 2021, services totalling € 17.89 million were purchased in a currency other than euros. These service invoices were settled mainly by Group companies in Czech crowns, Russian roubles, Ukrainian hryvnia, Swiss francs or US dollars.

Interest risks result from taking out interest-bearing borrowings and from balance sheet items that contain an interest component.

When borrowing, the cash outflow resulting from the interest payments becomes the object of possible hedging measures. The risk is controlled by the Group by maintaining an appropriate ratio because it takes out a mixture of fixed and variable interest rates on funds. As a rule, long-term borrowings are made at fixed interest rates, while short-term borrowings are subject to variable interest rates or fixed interest rates with short fixed-interest periods.

The currency and interest rate risk is presented in the Notes on the Consolidated Accounts.

Forecast report

Market environment

Looking at the retail sector as a whole, after the record turnover of € 587.8 billion[1] in 2021, the German Retail Association (Handelsverband Deutschland, HDE) also expected an increase in turnover of 3% for 2022 (with this being divided into 1.2% in over-the-counter retail and 13.5% in online retail).[2] However, this assessment was made before the outbreak of the war in Ukraine. Events so far have shown that the markets have reacted strongly to this. It can be assumed that this will increasingly be the case the longer the war lasts. Moreover, the disruption of international cooperation and supply chains, as well as the monetary imbalances, can be expected to have a prolonged aftermath even after the (hopefully soon) end of the war. Even before the war, market-research company GfK saw an increase in consumers' economic expectations for 2022, with rising private consumption playing an important role here. However, the supply-chain problems and the sharply rising prices in the energy sector have already had a negative impact on these forecasts.[3]Forecasts of economic development within the European Union also fluctuate between hopes of an upswing based on successes in the fight against the pandemic and, on the other hand, assessing the rise in inflation due to rising energy prices and continuing disruptions in supply chains as risky for the economy as a whole.[4] The assessment of the EHI Retail Institute is therefore not surprising: "In particular, AI-based decision-making in procurement, range management and pricing will continue to become more important".[5] As a direct consequence of the COVID-19 pandemic, the EHI assumes that the importance of omni-channel strategies will increase, and that the digitalisation of consumer behaviour will gain more importance in stationary retail.[6] Overall, as the study "IT Trends in Retail 2021" shows, the retail sector's need for investment was assessed as high even before the outbreak of the pandemic. 41% of those questioned believe that analytics/AI and 39% believe that connected retail will be the most important IT projects during the next two years.[7] The respondents see customer centricity and self-checkout/scanning as further key trends.[8] In the light of the months-long lockdown and the closure of many shops in Germany, we will have to wait and see what this means for the retail sector's readiness to invest, as in-store turnover will collapse significantly in some sectors, whilst other fields, particularly the food or pharmacy retailers, will experience an exceptional boom.[9]

The IT departments of the retail trade are focusing on topics relating to new technologies, solutions and processes, for which GK is excellently positioned with the OmniPOS solution.

Cloud and dynamic pricing are other areas that are predicted to grow significantly. The white paper "Sustainable Smart Stores" by EHI and Microsoft shows that cloud-based applications for electronic price labelling are in use at 79% of the grocery retailers surveyed; the remaining 21% are planning to implement this in the near future.[10] The RIS News "Store Experience Study 2022" predicts that retail IT spending will increase by 5.6% in 2022; around half of respondents stated that they would like to improve CRM.[11] When it comes to

1 cf. https://einzelhandel.de/images/presse/Pressekonferenz/2022/Charts_3.pdf; p. 4
2 cf. https://einzelhandel.de/hdepk and https://einzelhandel.de/images/presse/Pressekonferenz/2022/PM_JahresPK.pdf
3 cf. https://www.gfk.com/de/presse/konsumklima-februar2022-zwischen-kurzfristigen-einbussen-und-mittelfristigen-erholungsaussichten
4 cf. https://ec.europa.eu/commission/presscorner/detail/en/ip_22_926
5 https://www.ehi.org/de/technologie-trends-on-stage/
6 https://www.ehi.org/de/technologie-trends-on-stage/
7 EHI Retail Institute, Technologie-Trends im Handel (Technology Trends in Retail) 2021, p17
8 Ibid. p14
9 Ibid. p39
10 cf. https://www.ehi.org/de/pressemitteilungen/digitalisierung-pusht-nachhaltigkeit/
11 cf. https://risnews.com/store-experience-study-2022

home delivery, Germany still has some catching up to do even two years into the pandemic. In 2020, the HDE showed a rapid increase in the importance of online retail in the entire grocery market.[1] According to figures from IFH Cologne, this also continued in 2021.[2] However, the thesis paper of the IFH also shows that there is potential above all in the increasing dovetailing of digital and analogue shopping experiences.[3] These positive market trends have also been significantly reflected in the discussions that GK Software is holding with existing customers and potential interested parties. The IT departments of the retail trade are focusing on topics relating to new technologies, solutions and processes, for which GK is excellently positioned with the OmniPOS solution.

1 HDE: Handelsreport Lebensmittel 2020, p. 14
2 cf. https://www.ifhkoeln.de/trotz-onlineshift-stationaerer-handel-hat-grosses-zukunftspotenzial/
3 cf. https://www.ifhkoeln.de/trotz-onlineshift-stationaerer-handel-hat-grosses-zukunftspotenzial/

Company outlook

Despite the ongoing global pandemic, the company was able to grow more strongly in 2021 than in the previous year and to further improve the earnings. Further progress in the Americas and the full utilisation of Deutsche Fiskal since April 2021 contributed to this – as did the new customers acquired in the previous fiscal year in the area of core solutions. **The first few months of 2022 suggest that positive trends are continuing to consolidate and the trend in financial indicators is likewise positive.**

In view of the fact that, contrary to assumptions, the Corona pandemic is apparently still lasting much longer than expected, and that the war in Ukraine has created massive new uncertainties, all longer-term forecasts are subject to stronger reservations than they were a year ago. Nevertheless, with reference to these incalculables, the Management Board sees itself in a position to fully maintain the medium-term forecast made last year until the end of the 2023 fiscal year. We expect turnover to continue to grow considerably, ranging between € 160 million and € 175 million by the end of the forecast period for 2023. We expect this growth to primarily occur on the basis of the solutions and products we are currently offering on the market. Further potential could develop as a result of new solutions or the geographical expansion of our sales regions. This forecast is based on organic growth and could be enhanced by inorganic growth, although a more detailed plan for this is not available at present.

We are expecting annual gains for the SaaS business for CLOUD4RETAIL (without Deutsche Fiskal) to reach the level seen in 2021, with the share of subscriptions growing continuously but not at a rapid rate. In the area of Deutsche Fiskal, we will be able to achieve sales for the full 12 months for the first time in 2022. Because the initial distribution to the market has largely taken place, we are initially assuming a steady but slower growth here. Further potential could arise if fiscal legislation is extended to other sectors, or if branches originally equipped with hardware are switched to software solutions. An expansion to other geographical markets is plausible as well.

In the area of EBIT, we are sticking to the target of 15% of turnover in the medium-term forecast until 2023.

In the area of EBIT, we are sticking to the target of 15% of turnover in the medium-term forecast until 2023. This target is subject to the proviso that the pandemic in the developed markets has been overcome and that the war in Ukraine and the resulting increased risk of inflation do not have a massive effect on purchasing power and thus retail sales. It remains our goal to maintain and stabilise EBIT at this level after reaching this mark.

We expect the GK Software Group to achieve an increase in revenue from turnover similar to that in the 2021 fiscal year and a further slight improvement in EBIT towards achieving the medium-term target for 2023.

This forecast is based on our existing customer relations, the current position our solutions occupy on the market as well as planned and current demand for these solutions. GK Software is currently in an excellent position in many ongoing tender procedures in different regions of the world and has important advantages over its competitors with its innovative, broad portfolio of products, the internationality of its solutions and its proven ability to introduce projects quickly. This makes us optimistic about increasing the number of customer contacts in the following business year. We are also expecting to see positive effects from partnership agreements with hyperscalers[1] such as Microsoft, IBM, and AWS, who are hopeful that large numbers of terminals and transactions in the retail sector will yield potential for their cloud offers.

On the whole, we believe that we are in a good position to continue to keep the Company and its Group on a growth trajectory in the coming years while also tapping into new opportunities alongside those currently available to us. One helpful factor is that we have only felt the impacts of the existing pandemic slowdown to a minor extent and primarily in relation to our new business. However, we expect to see catch-up effects in the coming years as a result of delayed investments if the pandemic can be largely overcome this year.

1 Hyperscalers are large cloud providers. In some cases, this term is used to refer exclusively to the three largest providers (Amazon, Microsoft and Google). However, it is used somewhat more broadly here in reference to the retail sector.

General statement for 2022

Based on the assumptions and influencing factors described, we expect the GK Software Group to achieve an increase in revenue from turnover similar to that in the 2021 fiscal year and a further slight improvement in EBIT towards achieving the medium-term target for 2023 (15 percent EBIT margin on turnover).

These statements (like those of the medium-term forecast) are therefore still subject to the considerable reservation of the difficulty of assessing the further course of the COVID-19 crisis and its consequences in the various regional markets in which the group of companies is active, as well as the global impact of the war in Ukraine. Actual developments may thus still deviate considerably from this assessment.

Takeover-relevant information in accordance with Section 315a German Commercial Code (HBG)

Information in accordance with Section 315a German Commercial Code (HBG)

1. **Capital structure.** The nominal share capital of GK Software SE as of 31 December 2021 was € 2,258,425.00 and is broken down into 2,258,425 no-par ordinary bearer shares with a pro-rated share in the share capital of € 1.00 each. Each individual share entitles the holder to one vote in accordance with Section 4 of the articles of association. Because of the issue of employee shares from the conditional capital, the number of shares increased to 27,325 shares in the course of 2021. As part of the capital increase from authorised capital, the number of shares increased by 180,000 shares during 2021.
2. **Shareholders' rights and duties.** The same rights and duties are attached to each share, with the shareholder entitled to property and administration rights. The property rights include the right to a share in profits as well as the right to subscribe to shares in the event of capital increases. Shareholders' proportionate share in the Group's profits is determined by their proportionate share in the share capital. The administration rights include the right to participate in the annual shareholders' meeting of the Group, to speak at the meeting, pose questions and make proposals, as well as exercise the right to vote.
3. **Capital investments.** As of the reporting date, the following direct or indirect shareholdings in excess of 10% are known:

   a. As of 31 December 2021, Mr Rainer Gläss held 532,292 shares (23.57%) either directly or indirectly, of which 464,500 shares were held indirectly via Gläss Vermögensverwaltung GmbH & Co KG.

   b. Mr Stephan Kronmüller held 412,949 shares (18.28%) either directly or indirectly, of which 376,200 shares were held indirectly via Kronmüller Vermögensverwaltung GmbH & Co KG.
4. **Composition of the Management Board and modification of the articles of association**. The appointment and dismissal of members of the Management Board are regulated in Sections 84 and 85 Aktiengesetz [German Stock Corporation Act]. Members of the Management Board are appointed by the Supervisory Board for a term of five years at most, and extensions of five years each are permitted – potentially multiple times. According to the articles of association, the number of members on the Management Board is determined by the Supervisory Board; however, the Management Board must have at least two members. The Management Board of GK Software SE currently has two members. The articles of association can only be modified by the annual shareholders' meeting in accordance with the provisions of the Aktiengesetz. Amendments to the articles of association – that is, linguistic changes to the articles of association only – can be determined by the Supervisory Board in accordance with Section 10(8) of the articles of association. Resolutions of the annual shareholders' meeting require a simple majority of votes cast in accordance with Section 15(2) of the articles of association, unless otherwise stipulated by law.
5. **Powers of the Management Board to issue and repurchase shares. Share repurchase programme.** There is conditional capital (Conditional Capital IV € 250,000; Conditional Capital V € 83,500; Conditional Capital VI € 75,000). Conditional capitals II and III have expired because of the passage of time; remaining options can no longer be exercised. These contingent increases in capital are only performed if the owners or creditors of convertible bonds or share options make use of their conversion or subscription rights. According to Section 4a Para. 1, 3 and 6 of the articles of association, the Management Board was entitled to grant subscription rights to individual share certificates as part of the share option programme on one or more occasions, provided that the Supervisory Board approves these measures. The share options are exclusively for subscription by members of the GK Software SE Management Board, selected managers and other senior employees at GK Software SE and for subscription by members of the management team and selected managers and other leading employees in companies, which are independently associated firms in a relationship with GK Software SE in the sense of Sections 15 and 17 of the German Stock Corporation Act. The

decisions taken at the annual shareholders' meeting on 28 June 2012 (conditional capital II), 29 June 2015 (conditional capital III) and 29 June 2018 (conditional capital V) empowered the Management Board to issue subscription rights to GK Software SE shares with a term of up to five years, with the proviso that each share option grants the right to subscribe to one GK Software SE share. The annual shareholders' meeting of 16 June 2016 empowered the Management Board (with the consent of the Supervisory Board) to issue bearer or registered warrant and/or convertible bonds, profit-participation rights or profit-participating bonds, or a combination of these instruments, and to exclude subscription rights to these instruments or a combination thereof on one or more occasions until 15 June 2021 (conditional capital IV).

For a summary of the individual share option programmes, please refer to the following overview:

T.11 Share options

Date of issue	Issue options	of which forfeited	of which lapsed	of which redeemed	Options remaining	Exercise price	Exercise period	End of exercise period
	Number	Number	Number		Number	EUR	Years	
20.6.2017	8,500	1,250	1,150	6,100	0	92.10	4 1/4	21.6.2021
Conditional capital II					**0**			
29.8.2016	32,025	1,600	7,050	23,375	0	45.98	4 1/4	29.8.2020
4.12.2017	16,500	0	4,000	6,500	6,000	116.69	4 1/4	3.12.2021
Conditional capital III					**6,000**			
26.11.2018	37,000	8,950	0	0	28,050	75.16	4 1/4	28.11.2022
3.8.2020	20,525	2,000	0	0	18,525	68.00	4 1/4	3.8.2024
5.10.2021	23,725	0	0	0	23,725	154.40	5	5.10.2025
Conditional capital V					**70,300**			
Total amount					**76,300**			

6. **Share repurchase programme.** The 2018 annual shareholders' meeting on 21 June 2018 empowered the Management Board to acquire its own shares in the Group until 20 June 2023 up to 10% of the Group's share capital existing at the point at which the resolution was passed in the amount of € 1,919,875.00, provided that the Supervisory Board agrees. Together with other own shares that are the property of the Group or can be allocated to the Group in accordance with Sections 71a et seq. AktG [German Stock Corporation Act], the acquired shares may not amount to more than 10% of the share capital at any given time. The authorisation may not be given for the purpose of trading in the Group's own shares. The Management Board may use the shares acquired within the scope of the authorisation for any legal purpose, provided that the Supervisory Board agrees.
7. **Compensation agreements.** There are no compensation agreements for the case of a takeover offer.
8. **Shares with special rights.** There are no owners of shares with special rights that grant controlling powers, as this type of share class does not exist at GK Software SE. Likewise, there is no control of voting rights for shares held by employees for which the employees do not exercise their rights of control directly.
9. **Change-of-control clause:** The "Software License and Reseller Agreement" between SAP and GK Software can be terminated by SAP for an important reason, if the majority of shares in GK Software are sold to an entity that is a close competitor of SAP. Members of the Management Board are granted a special right of termination in the event of a fundamental change to the composition of the shareholder structure of GK Software SE.

Corporate Governance Report

Information on separate non-financial report

Non-financial report

The non-financial report is submitted separately and, after being reviewed by the Supervisory Board, will be published on the Group's website at: https://investor.gk-software.com/de/veroeffentlichungen/csr-bericht.

Information on female quota and diversity concept

The Management Board of GK Software SE consists of two members, including one of the founders. The Supervisory Board consists of three members. The quota for both boards was set at 0% and should be achieved by 2025. GK Software employs staff from more than 50 countries. It welcomes all qualified job applicants, regardless of gender, nationality or skin colour, and also fills its management positions within the company according to this overarching principle.

Corporate governance statement (Section 289f, Section 315d German Commercial Code [HBG])

Explanation in accordance with Section 161 AktG [German Stock Corporation Act]

The annual German Corporate Governance code Statement in line with Section 161 AktG [German Stock Corporation Act] was submitted by the Management Board and Supervisory Board and has been published on the Company's homepage at

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

Relevant information regarding corporate governance practices

The Group does not have any relevant corporate government practices extending beyond the legal requirements and the requirements we comply with in the German Corporate Governance Code.

Description of the working methods of the Management Board and Supervisory Board

A regular Supervisory Board meeting is held at least once every quarter. However, the members of the Supervisory Board also maintain close contact with one another outside of the meetings and stay informed about the Group's development and events that could influence this development. In addition to the official, mandatory provision of information to the Supervisory Board, the Supervisory Board and Management Board also take part in informal meetings between their members. The Management Board takes care of the Group's business on a cooperative basis; however, the members of the Management Board are assigned dedicated business areas. The members of the Management Board report on developments in their business areas at the Management Board meetings, which are typically held monthly. In addition to the meetings, the members of the Management Board maintain ongoing contact with one another.

Because of their size, neither of the boards forms any committees. All matters are dealt with jointly.

The Management Board

Rainer Gläss
Chief Executive Officer

André Hergert
Chief Financial Officer

Consolidated Accounts

Consolidated Balance Sheet

on 31 December 2021

T.14 Assets

EUR K	Notes on the Consolidated Accounts No.	31.12.2021	31.12.2020
Property, plant and equipment	2.1.; 3.1.	21,087	14,675
Right of use assets IFRS16	2.3.; 4.2.2.	7,665	9,246
Property held as a financial investment	4.2.3.	224	6,765
Intangible assets	2.4.; 3.2.; 4.2.4.	23,999	25,412
Financial assets	2.8.; 4.1.	6	6
Active deferred taxes	2.12.2.; 4.2.7.	193	416
Total non-current assets		**53,176**	**56,520**
Goods	2.6.; 4.2.5.; 5.3.	70	6
Auxiliary materials and supplies	2.6.; 4.2.5.; 5.3.	0	167
Initial payments made	2.6.; 4.2.5.; 5.3.	1	4
Trade accounts receivable	2.8.; 2.13.6.; 4.1.1.	24,298	23,382
Trade accounts receivable from ongoing work	2.13.6.; 3.6.	12,152	13,587
Income tax claims	4.1.2.	997	941
Other accounts receivable and assets	4.1.2.	6,542	6,643
Cash and cash equivalents	2.5.; 6.	46,945	9,425
Total current assets		**91,005**	**54,156**
Balance sheet total		**144,181**	**110,676**

T.13 Liabilities

EUR K	Notes on the Consolidated Accounts No.	31.12.2021	31.12.2020
Subscribed capital	2.7.; 4.3.	2,258	2,051
Capital reserves	2.7.; 4.3.	49,302	28,667
Retained earnings	2.7.; 4.3.	31	31
Other reserves	2.7.; 4.3.	(1,742)	(2,534)
Profit brought forward	5.	19,755	13,545
Shortfall for period minorities interests	5.	13,157	6,210
Equity attributable to GK Software SE stockholders		82,761	47,971
Equity attributable to non-controlling interest		867	726
Total equity		**83,628**	**48,696**
Provisions for pensions	2.11.1.; 4.2.8.	1,881	2,730
Non-current bank liabilities	4.1.3.	3,512	4,446
Non-current leasehold liabilities	2.3.; 4.1.4.; 4.2.2.	5,328	6,731
Convertible bond	4.1.5.	0	14,222
Deferred public-sector subsidies	2.10.; 4.2.9.	723	764
Deferred tax liabilities	2.12.2.; 4.2.7.	4,370	3,546
Total non-current liabilities		**15,814**	**32,438**
Current provisions	2.11.; 4.2.10.	546	750
Current bank liabilities	2.	1,002	5,223
Current leasehold liabilities	2.3.; 4.1.4.; 4.2.2.	2,457	2,580
Liabilities from trade payables	2.8.; 4.1.6.	5,162	3,591
Initial payments received	2.13.6.	5,626	3,589
Income tax liabilities	4.1.9.	2,041	784
Other current liabilities	4.1.8.	13,265	13,025
Convertible bond	4.1.5.	14,639	0
Total current liabilities		**44,739**	**29,541**
Balance sheet total		**144,181**	**110,676**

Consolidated statement of income and accumulated earnings

for the financial year from 1 January to 31 December 2021

T.14 Consolidated statement of income and accumulated earnings

EUR K	Notes on the Consolidated Accounts No.	FY 2021	FY 2020
Ongoing business operations			
Turnover revenues	2.13.; 5.1.	130,847	117,560
Own work capitalised	3.4.	0	831
Other operating revenues	5.2.	8,742	4,297
Turnover and other revenues		**139,589**	**122,688**
Materials expenditure	5.3.	(14,168)	(9,436)
Personnel expenditure	5.4.	(78,740)	(75,640)
Depreciation and amortisation on non-financial assets	5.5.	(9,484)	(8,543)
Losses from derecognition of financial assets	3.11.	(153)	(612)
Other expenditure	5.6.	(19,739)	(17,923)
Total operating expenses		**(122,283)**	**(112,153)**
Operating results		**17,306**	**10,535**
Financial income	5.7.	575	192
Negative interest on bank balances/deposit rates		(148)	0
Financial expenditure	5.7.	(1,279)	(1,637)
Financial results		**(852)**	**(1,445)**
Income tax results		**16,454**	**9,090**
Income taxes	2.12.; 5.8.	(3,156)	(2,824)
Consolidated surplus for the period		**13,298**	**6,266**
of which attributable to non-controlling interest		141	55
of which attributable to GK Software SE stockholders		13,157	6,210

T.15 Other results after income taxes

EUR K	Notes on the Consolidated Accounts No.	FY 2021	FY 2020
Items, which will be reclassified in the consolidated profit and loss statement in future under certain conditions			
Differences in exchange rates from recalculating foreign business operations	1.5. 1.5.	48	(546)
Deferred taxes from differences in the conversion rates for foreign business operations1		(45)	(258)
Items, which will not be reclassified in the consolidated profit and loss statement in future			
Actuarial gains/ losses from defined benefit pension plans	2.11.; 4.2.7. 2.10.; 4.2.7.	648	(35)
Deferred taxes on actuarial gains/losses from defined benefit pension plans[2]		141	(25)
Overall results		**14,090**	**5,402**
of which attributable to non-controlling interest		141	55
of which attributable to GK Software SE stockholders		13,949	5,347
Earnings per share (EUR/share) from consolidated surplus for the period – undiluted	8.2.	**5.98**	**3.04**
Earnings per share (EUR/share) from consolidated surplus for the period – diluted	8.2.	**5.66**	**3.00**

1 Deferred taxes in accordance with IAS 21 shown separately, adjusted for previous year.
2 Deferred taxes in accordance with IAS 19 shown separately, adjusted for previous year.

Consolidated statement of changes in equity

for the financial year from 1 January to 31 December 2021

T.16 Consolidated Statement of Changes in Equity

EUR K	Notes on the Consolidated Accounts No.	Subscribed capital	Capital reserves	Retained earnings	Other reserves	Earnings attributable to GK Software SE stockholders	Equity attributable to GK Software SE stockholders	Equity attributable to non-controlling interest	Total
Figures on 1 January 2020		**2,023**	**27,332**	**31**	**(1,670)**	**13,545**	**41,260**	**1,068**	**42,328**
Share option scheme	4.3.; 8.1.1.	28	1,336	0	0	0	1,364	0	**1,364**
Allocation based on IAS 19	2.11.1.; 4.2.8.	0	0	0	(59)	0	(59)	0	**(59)**
Allocation based on IAS 21	1.5.	0	0	0	(804)	0	(804)	0	**(804)**
Distribution of profits to non-controlling interests		0	0	0	0	0	0	(398)	**(398)**
Consolidated surplus for the period	**5.**	0	0	0	0	6,210	6,210	55	**6,266**
Figures on 31 December 2020		**2,051**	**28,667**	**31**	**(2,534)**	**19,755**	**47,971**	**726**	**48,696**
Share option scheme	4.3.; 8.1.1.	27	2,315	0	0	0	2,342	0	**2,342**
Convertible bond		180	18,320	0	0	0	18,500	0	**18,500**
Allocation based on IAS 19	2.11.1.; 4.2.8.	0	0	0	789	0	789	0	**789**
Allocation based on IAS 21	1.5.	0	0	0	3	0	3	0	**3**
Distribution of profits to non-controlling interests		0	0	0	0	0	0	0	**0**
Consolidated surplus for the period	5.	0	0	0	0	13,157	13,157	141	**13,298**
Figures on 31 December 2021		**2,258**	**49,302**	**31**	**(1,742)**	**32,912**	**82,761**	**867**	**83,628**

The book value of the item “Allocation based on IAS 19” is entered on 31.12.2021 as EUR -718 K (31.12.2020: EUR -1,508 K; 1.1.2020: EUR -1,448 K) and the item “Allocation based on IAS 21” as EUR -1,023 K (31.12.2020: EUR -1,026 K; 1.1.2020: EUR -222 K).

For further details, we would refer you to Section 4.3 ‘Equity’.

Consolidated Cash Flow Statement

for the financial year from 1 January to 31 December 2021

T.17 Cash flows from operating business

EUR K	Notes on the Consolidated Accounts No.	FY 2021	FY 2020
Cash flows from operating business			
Surplus for period		13,298	6,266
Share option scheme (non-cash expenditure)		384	389
Income taxes affecting results	5.8.	3,156	2,824
Interest expenditure affecting results		1,279	1,637
Interest income/expenses affecting results		(575)	(192)
Profit/ loss from the sale or disposal of property, plant and equipment		(87)	(23)
Reversals of deferred public sector subsidies		(40)	(49)
Write-downs recognised for receivables (including losses from receivables)		121	1,715
Write-ups recognised for receivables		(92)	(564)
Impact on earnings from deconsolidation		(3,458)	–
Depreciation and amortisation	4.2.	9,484	8,543
Net profits from financial tools assessed at their fair value		66	77
Other non-cash revenues and expenditure		(1,127)	(47)
Cash flow from operating business before the change in working capital		**22,408**	**20,575**
Changes in net current assets			
Changes in trade accounts receivable and other receivables		(2,469)	(157)
Changes in inventories		106	247
Changes in trade accounts payable and other liabilities		1,906	(705)
Changes in initial payments received		2,037	43
Changes in provisions		138	(671)
Income taxes paid		(908)	(1,618)
Cash flow from operating business		**23,218**	**17,714**

T.18 Cash flows from investment and financing activities, loans and cash and cash equivalents

EUR K	Notes on the Consolidated Accounts No.	FY 2021	FY 2020
Cash flow from operating business		**23,218**	**17,714**
Cash flow from investment activities			
Payments for property, plant and equipment and non-current assets		(2,517)	(1,850)
Proceeds from disposals of fixed assets		87	23
Payments for software development costs	3.4.	–	(831)
Proceeds from the sale of subsidiaries		4,544	–
Disbursement as part of a company acquisition		171	(357)
Interest payments received		139	41
Net inflow/outflow of cash and cash equivalents from investment activities		**2,425**	**(2,973)**
Cash flow from financing activities			
Distribution to non-controlling interests		–	(398)
Taking out equity	4.3.	20,457	974
Taking out loans		–	–
Interest paid		(755)	(868)
Repayment of loans		(1,541)	(8,209)
Issue of convertible bond	2.3.	(2,672)	(2,786)
Net inflow/outflow of cash and cash equivalents from financing activities		**15,490**	**(11,286)**
Net cash inflow		**41,134**	**3,454**
Cash at the beginning of the financial year		5,696	2,291
Cash at the end of the financial year		46,884	5,696
Impact of changes in exchange rates on cash		54	(49)

T.19 Summary of cash and cash equivalents

EUR K	Notes on the Consolidated Accounts No.	FY 2021	FY 2020
Cash and cash equivalents		46,945	9,425
Utilisation of current account credit / credit card and exchange rate effects	4.1.3.	(61)	(3,729)
Cash at the end of the financial year		**46,884**	**5,696**

Notes on the Consolidated Accounts

for the 2021 financial year

1. Principles of Reporting

1.1. General information

GK Software SE is a European public limited company based in Schöneck, Germany. The address of the registered headquarters and head office for business operations is Waldstrasse 7, 08261 Schöneck.

GK Software SE is registered in the Commercial Register at Chemnitz Local Court under reference number HRB 31501.

The promised change in legal form for GK Software from a public limited company (AG) to a European share company (Societas Europaea/SE) was formally completed through the entry in the Commercial Register on 19 January 2018. The annual shareholders' meeting had adopted this change on 22 June 2017 in line with a draft resolution suggested by the Management Board and the Supervisory Board.

The Group's business involves developing, manufacturing, selling and trading software and hardware for POS solutions.

1.2. Compliance with IFRS

The consolidated accounts for GK Software on 31 December 2021 were prepared in line with the accounting standards of the International Accounting Standards Board (IASB) – the International Financial Reporting Standards (IFRS) – to the extent that these have been adopted by the European Union, and the provisions to be applied in line with Section 315e(1) HGB [German Commercial Code]. The Company's consolidated accounts were also prepared, taking into account the Interpretations (IFRIC, SIC) of the International Financial Reporting Standards Interpretations Committee (IFRS IC).

The reporting procedures for the 2021 financial year took place exclusively in line with the standards and interpretations that have to be applied and they provide a picture of the Group's assets, financial and earnings situation, which matches the actual circumstances.

The following accounting standards and interpretations were obligatory for the first time for the 2021 financial year:

T.20 Newly applied IFRS standards

IFRS	Amendment	Amendment for the financial year from
IFRS 9, IFRS 7, IAS 39, IFRS 16, IFRS 4	Amendments to IFRS 9, IFRS 7, IAS 39, IFRS 16 and IFRS 4: Reform of reference interest rates (phase 2)	1.1.2021
IFRS 4	Amendments to IFRS 4	1.1.2021
IFRS 16	Amendments to IFRS 16: COVID-19-related rental concessions	1.1.2021

The changes listed above had no effect on the amounts entered for earlier periods, nor did they have any significant influence on the current period nor are they likely to have any influence on future periods.

The International Accounting Standards Board (IASB) has also issued the following standards, interpretations and amendments to existing standards; it is not yet compulsory to apply these on 31 December 2021, nor has their adoption into European law yet been fully completed by the European Union. These standards have not been used in advance and no premature usage is planned in future either. The Group believes that the effects of these new rules on the current or future reporting periods or on foreseeable future transactions will not be significant.

T.21 IFRS standards not applied

IFRS	Amendment	Amendment for the financial year from
Annual improvements in IFRS 3, IFRS 16, IFRS 37(2018-2020)	Improvement in IFRS 3, IAS 16, IAS 37	1.1.2022
Annual IFRS improvements (2018–2020)	Improvements to IFRS 9, IFRS 16, IFRS 1, IFRS 41	1.1.2022
IAS 1	Amendment to IAS 1: Classification of liabilities as current or non-current	1.1.2023
IAS 8	Amendments to IAS 8: Definition of assessment uncertainties	1.1.2023
IFRS 17	Insurance Contracts	1.1.2023

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

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

1.3. Consolidated companies and consolidation principles

1.3.1. Consolidated companies

The consolidated companies not only include the parent company, but also 7 German companies and 6 foreign firms.

T.22 Subsidiaries of GK Software SE

Name and headquarters of a subsidiary	Capital share	Equity[1]	Annual results[2]
	%	EUR K	EUR K
Eurosoftware s.r.o. Plzen/Czech Republic	100.0	4,742	1,384
Storeweaver GmbH Dübendorf/ Switzerland	100.0	350	74
DF Deutsche Fiskal GmbH Berlin	100.0	(122)	57
OOO GK Software RUS Moscow/Russian Federation	100.0	145	23
AWEK GmbH Hamburg	100.0	1,666	(7)
Tannenhaus UG Schöneck	100.0	(1,513)	(284)
GK Software USA Inc. Raleigh/USA	100.0	2,035	1,008
GK Software Africa (Pty) Ltd Bryanston / South Africa Bryanston / South Africa	100.0	2,858	1,334
TOV Eurosoftware-UA Lviv/Ukraine	100.0	313	64
prudsys AG Chemnitz	80.12	3,029	1,034
R7MA Beteiligungs-GmbH Schöneck	100.0	21	(2)
retail7 GmbH Berlin	100.0	152	124
PIXEL Kindertagesstätte gUG (limited liability) Schöneck/Vogtland	100.0	1	0

1 Equity on 31 December 2021, converted at exchange rates that applied on the reporting date
2 Annual results of the individual companies according to local accounting regulations for the 2021 financial year, converted at average annual exchange rates

With the exception of the company-owned kindergarten PIXEL gUG (limited liability), all of the above-mentioned companies are fully consolidated in these consolidated accounts. Tannenhaus UG will be included in the consolidated companies at 6 months. AWEK microdata GmbH was deconsolidated at the time of the sale on 21 May 2021. The result of the deconsolidation at the time of the final consolidation amounted to EUR 3,458,000.

GK Software SE also has a 50 percent holding in Unified Experience UG (limited liability), Lindlar. The entry is made under "Non-current financial assets". The company does not engage in any business operations.

The company's own kindergarten, PIXEL gUG (limited liability), was part of the scope of consolidation, but also entered under the non-current financial assets and not fully consolidated because of its negligible effect on the consolidated accounts.

R7MA Beteiligungs- GmbH was founded back on 20 January 2020 as a shelf company. It was then entered in the commercial register with the commencement of business operations on 21 April 2021.

The consolidated accounts include the accounts of the parent company and the companies that it controls. The subsidiaries included are controlled by GK Software SE because it owns the majority of voting rights.

GK Software SE can influence the amount of profits at the subsidiaries because of its power of control and is subject to fluctuating profits from its holdings.

A subsidiary is fully consolidated in the consolidated financial statements from the time at which the Company gains control of the subsidiary to the time at which the Company's control ends or until its liquidation, unless it is only of minor importance for providing a view that represents the actual circumstances in terms of the assets, financial and earnings situation.

1.3.2. Accruals through corporate mergers
Capital consolidation for acquired companies takes place at the time of acquisition according to the purchase method. The acquired assets and liabilities are recognised at their fair value. Any remaining positive balance from the purchase price and determined fair values is capitalised as goodwill. A negative balance is immediately entered to affect the results. Ancillary purchase costs are entered as expenditure.

During following consolidation, the hidden reserves and hidden liabilities disclosed during initial consolidation are continued, amortised or cancelled in line with the way that the corresponding assets are treated. The goodwill is checked at least once a year to determine its intrinsic value during the following periods and if any impairment of value has taken place, it is amortised to the lower achievable figure outside the normal schedule.

Expenditure and earnings as well as accounts receivable and debits between consolidated companies are eliminated.

1.4. Segment reporting

The past fiscal year, the switch from the secondary to the primary reporting structure was completed. Whereas previously the annual report was subdivided by business segments, in future the reporting will be divided into regions and responsibilities of the sales regions according to the decision-making basis of the Management Board. This is because the Company decided to discontinue the business operations of the IT segment in 2022, whereafter the segment reporting would have only one remaining category and other business activities, and this would not constitute any further information content. At the end of the day, the portfolio now only includes cloud solutions that are suitable for software-as-a-service offerings.

The “property held as financial investments” is shown as “Other business activities” and does not represent an independent segment needing to be reported.
No special reporting was passed on to the decision committee in this matter. For information on rental and leasing income, we refer you to Section 4.2.3. “Property held as a financial investment”.

The key components needing to be checked include the segment sales with third parties and the total operating performance of a segment and its earning power, which is determined on the basis of earnings before income taxes (EBIT).

The Group sells its products in the CLOUD4RETAIL[1] segment in the form of licences and provides introductory and adjustment services in this regard as well as services related to the maintenance of these products. In terms of regions, a distinction is made between the “Americas” (North, Central and South America) and “EMEA” (Europe, Middle East, Africa and Asia). The Group also sells hardware for store IT solutions to a limited degree, but this is manufactured by third parties. The subdivision of turnover according to fields of work is part of the reporting process.

The distribution of turnover according to products and business activity areas can be summarised as follows:

1 Until the 2019 annual report, this segment was known as GK/Retail. It was renamed CLOUD4RETAIL in the course of the reorganisation of the cloud solution.

T.23 Turnover according to segments

	EMEA		Americas		Other business activities		Consolidations		Group	
EUR K	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020
Sales with third parties	**108,114**	**96,792**	**22,092**	**20,767**	**640**	**–**	**–**	**–**	**130,847**	**117,559**
Licences and software	**46,473**	**63,195**	**13,938**	**12,769**	**–**	**–**	**–**	**–**	**60,411**	**75,964**
Licence Platform	9,212	8,081	2,292	2,313	–	–	–	–	11,504	10,394
Licence Platform Extension	7,546	19,218	374	4,219	–	–	–	–	7,920	23,437
Licence Platform from subscription agreements	10,826	–	418	–	–	–	–	–	11,244	–
Smart Extension	18,889	35,896	10,853	6,237	–	–	–	–	29,743	42,133
Maintenance	**19,351**	**18,446**	**3,544**	**4,639**	**–**	**–**	**–**	**–**	**22,895**	**23,085**
Software Maintenance	19,351	18,446	3,544	4,639	–	–	–	–	22,895	23,085
Retail Consulting	**39,402**	**12,994**	**4,554**	**2,867**	**–**	**–**	**–**	**–**	**43,956**	**15,861**
Retail Consulting	27,877	8,626	4,411	1,894	–	–	–	–	32,288	10,520
(Cloud) Operations Support	11,526	4,368	142	973	–	–	–	–	11,668	5,341
Others	**2,888**	**2,157**	**57**	**492**	**640**		**–**	**–**	**3,586**	**2,649**
Turnover with other segments	**2,568**	**2,684**	**–**	**511**	**149**	**–**	**2,717**	**3,195**	**–**	**–**
Depreciations	**7,688**	**6,862**	**1,051**	**1,101**	**744**	**580**	**–**	**–**	**9,484**	**8,543**
of which impairment in accordance with IAS 36	1,642	–	–	–	376	312	–		2,018	312
Segment EBIT	**14,718**	**11,085**	**2,862**	**(514)**	**(261)**	**(44)**	**(14)**	**7**	**17,305**	**10,534**
Assets	**128,428**	**96,443**	**22,801**	**20,509**	**8,170**	**6,770**	**(15,218)**	**(13,046)**	**144,181**	**110,676**
thereof long term[1]	33,242	37,487	12,315	12,341	7,693	6,765	(74)	(74)	53,176	56,520
Debts	**45,766**	**48,503**	**20,247**	**19,678**	**9,683**	**6,770**	**(15,144)**	**(12,972)**	**60,553**	**61,979**
Cash and cash equivalents	**42,430**	**6,572**	**4,508**	**2,854**	**7**	**–**	**–**	**–**	**46,945**	**9,425**

Reconciliation (consolidations) eliminates turnover with other segments.

1 Non-current assets, apart from financial instruments, deferred tax claims, benefits after the end of the working relationship and rights arising from insurance contracts

The accounting principles for the figures specified in the segment information correspond to those that are used for the consolidated accounts.

The consolidation of the assets and liabilities largely complies with the accounts receivable and payable arising from internal Group funding.

A differentiation of non-current assets by German (EUR 39,252 K) and non-German (EUR 13,923 K).

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

Revenue amounting to EUR 62,848 K (previous year: EUR 58,033 K) was generated with customers that are not part of the Group and have their decision-making headquarters located abroad (not in Germany). On the other hand, a revenue of EUR 68,000 K (previous year: EUR 38,759 K) was recorded with customers who have their decision-making headquarters. Significant revenue with third countries amounted to EUR 48,102 K (previous year: EUR 41,603 K)

Revenue with one customer that accounts for more than 10 percent of turnover amounted to EUR 12,259 K in the previous year (10.4 percent). In 2021, the proportion of turnover was less than 10 percent.

1.5. Currency conversions

When preparing the local accounts of each individual consolidated company, any business transactions, which are made in other currencies than the Group's functional currency (foreign currencies), were converted using the exchange rates valid on the day of the transaction. Monetary items in a foreign currency are converted using the valid exchange rate on the reporting date for the accounts. The currency conversion differences were entered to affect the results. Non-monetary items were converted using the exchange rate at the time when they were first entered on the balance sheet.

The subsidiaries' functional currency is the local currency in the country where the subsidiary is based. As the subsidiaries perform their business independently from a financial, economic and organisational point of view, the functional currency is identical with the national currency in the firm's country. The functional currency for GK Software SE is the euro.

Converting the accounts of subsidiaries located outside the euro zone, which have been prepared in a foreign currency, takes place according to the modified exchange rate method on the reporting date. The assets and liabilities are converted using the exchange rate on the reporting date, but the revenues and expenditure by means of the average annual exchange rate. The conversion difference, which results from this currency conversion, is entered so as not to affect the results and is shown under "Other reserves" as a separate item in equity (as accumulated exchange rate differences according to IAS 21). At the time when a subsidiary is removed from the consolidated companies, the conversion differences are reversed to affect the results.

2. Accounting Methods

The consolidated accounts have been prepared on the basis of historical purchase and production costs:

wherever IFRS prescribes different assessment concepts, they are used. Special reference is made to them in the following statements on the accounting methods.

Historical purchasing or production costs are generally based on the fair value of the equivalent paid in exchange for the asset. The fair value also represents an upper value limit for any valuation adjustments needing to be made, if regular intrinsic value tests have to be made or they are made because of the points mentioned above.

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

We would refer you to Section 3 regarding the assessment uncertainties when determining fair value. Significant Assessment Uncertainties and Discretionary Decisions

The main balance sheet and assessment principles are explained below in relation to individual items in the financial statements.

2.1. Property, plant and equipment

Property, plant and equipment is assessed at its historical purchase costs or production costs, reduced by the accumulated scheduled depreciation and accumulated impairment in value, taking into account any possible appreciation in value (if there was any previous impairment in value), These assets are depreciated in a linear and pro rata fashion in line with their economic serviceable life.

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

The estimated periods of use, the carrying amounts and the depreciation methods are checked on each balance sheet date and, if necessary, the effect of possible changes to the means of assessment is entered prospectively. GK Software also assesses on each reporting date whether there are any indications suggesting that the value of an asset could be impaired.

The “Tannenhaus” hotel complex was reclassified under tangible assets. Tannenhaus UG has been included in the consolidated companies since 1.7.2021. The acquisition costs amount to EUR 6,998 K and amortisation to EUR 858 K.

Fully depreciated property, plant and equipment assets are shown with historical purchasing and production costs and accumulated depreciation until the assets in question are removed from operation. In cases of disposals of assets, the acquisition and manufacturing costs as well as the cumulated depreciation are written off. Earnings from the disposal of assets (proceeds from disposal less residual carrying amounts are reported in the profit-and-loss statement under “Other revenues” or “Other expenditure” as applicable.

On the basis of the intrinsic-value test, write-downs were made for land (EUR 82 K) and buildings (EUR 207 K).

2.2. Property held as a financial investment

Property held as a financial investment was entered on the balance sheet at ongoing purchase costs according to the purchase cost method, in a manner similar to tangible fixed assets.

Property held as financial investments was entered on the balance sheet according to the rules for the purchase cost model. For the fiscal year, write-downs in the amount of EUR 376 K (previous year: EUR 312 K) were required.

GK Software generated lease revenue from the property taken into account and for this reason had to enter this as “property held as a financial investment” according to IAS 40. Income of EUR 207 K from operating leasing was collected for the fiscal year.

2.3. Leases

2.3.1. GK as the lessee

The Group rents various office buildings and premises as well as vehicles to a significant extent. The rental contracts normally involve set periods of three to five years, but may also contain extension options.

IFRS 16 replaces the previous differentiation of operating and financial leases by a unified lessee balancing model, according to which lessees are obliged to report all leases on the balance sheet in the form of usage rights and a corresponding leasing liability. Assets and debts from leases are entered at their cash value on the first occasion when they are used. Leasing payments are subject to interest at the implicit interest rate that forms the basis for the lease, if this can be determined. Otherwise, discounting takes place using the lessee’s incremental borrowing rate. An incremental average borrowing rate of 1.20% was used to discount leasing payments for rented office premises and a rate of 2.20% for leased vehicles.

The weighted average incremental borrowing rate, which the lessee would have to pay if it had to provide funds, in order to acquire an asset in a comparable economic setting with a comparable value for a comparable term with comparable security in comparable conditions. In order to determine this interest rate, GK Software had relevant quotations sent by banks.

The **leasing liabilities** include the cash value of the lease payments, exclusively as set payments.

When valuing the leasing liability, leasing payments must also be considered to ensure that any use of extension options is sufficiently certain.

The usage rights are amortised in a linear fashion along the shorter of the two periods consisting of the usage time and term of the underlying leasing contract. If exercising a purchase option is sufficiently certain from the Group’s point of view, the amortisation takes place along the usage period of the underlying asset.

2.3.2. GK as the lessor

Income from operating leases for the leased properties that are held as financial investments (see Section 2.2. “Real estate held as a financial investment”) are recorded in a linear fashion over the term of the leasing contract in accordance with the contractually agreed payment. The expenditure attributed to these buildings was entered in the profit and loss statement during the period when it was incurred.

2.4. Intangible assets

2.4.1. Intangible assets acquired in return for payment

Intangible assets that have been acquired in return for payment are entered with their ongoing purchasing costs, i.e., minus any accumulated amortisation and impairment of value. The scheduled amortisation expenditure is entered as expenditure in a linear fashion to cover the expected useful serviceable life of between three and seven years.

2.4.2. Capitalised development costs
Costs for research activities are entered as expenditure during the period, in which they are incurred.

An intangible asset that has been developed in-house, which is the result of development work (or the development phase of an internal project), is capitalised if the following evidence can be provided accumulatively:
- The technical feasibility of the completion of the intangible asset exists in order to make it available for use or for sale
- The company intends to complete the intangible asset and use it or sell it
- There is a capability for using or selling the intangible asset
- The method by which the intangible asset is expected to achieve some economic benefits in future is known. GK Software may be able to provide evidence of the existence of a market for the intangible asset products or the intangible asset in itself or, if it is to be used internally, the usage of the intangible asset.
- Adequate technical, financial or other resources are available to complete the development and be able to use or sell the intangible asset.
- It is possible to reliably determine the expenditure that can be allocated within the framework of developing the intangible asset.

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

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

Intangible assets that have been created in-house are entered with their ongoing production costs, i.e., minus any accumulated amortisation and impairment of value. Scheduled amortisation starts in the year of capitalisation with the pro rata amount and it uses the linear method over a period of five years as a matter of principle.

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

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

Customer base
Customer bases were identified and entered in each case in association with the acquisition of AWEK GmbH, DBS, and prudsys AG.

The amortisation is entered according to schedule as expenditure in a linear fashion for the expected period of use.

We normally estimated the period of use of existing customer relationships at between 7 and 10 years. The estimate is derived from the average period of use of the solutions sold by the Group – i.e., 7–15 years, the introductory expenditure for these systems and their flexible extension, but considerable expertise is required to use them. The high reputation of the unit taken over also allows customer relations to be serviced for a longer period, particularly as the employees permanently work with the requests for expansion and changes from these existing customers.

Technology
The acquisition of prudsys AG also involved the purchase of technology, which primarily consists of the in-house developed software. This has been assigned to stocks of industrial property rights and similar rights and is subject to amortisation related to the period of use.

2.5. Cash and cash equivalents

Cash and cash equivalents comprise cash and deposits with financial institutions that can be withdrawn at short notice if they have a maturity of up to three months from the date of acquisition and are repayable within 24 hours upon notice without loss of interest.

2.6. Stocks

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

The assets include stock at the “Tannenhaus” hotel complex.

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

2.7. Equity

The subscribed capital includes the nominal number of ordinary shares issued and made out to the holder (without any nominal amount with a proportional amount of EUR 1 each in the share capital). The firm has not issued any other types of shares.

Any additional costs incurred, which are directly attributable to the issue of new shares or share options, are entered on the balance sheet under equity as a deduction in the issue proceeds, minus taxes.

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

The capital reserves contain the expenditure arising from share options from previous years, the equity share of the convertible bond that was issued in 2017 and the amounts generated beyond the nominal value when issuing shares, minus the transaction costs for capital increases.

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

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

2.8. Financial liabilities and financial assets

Financial liabilities and financial assets are entered if a Group company becomes a contract party to a financial instrument.

The classification and assessment of the financial liabilities and assets is determined using the business model already used and the structure of the cash flows. A financial liability/financial asset is classified as an “ongoing purchase cost” the first time when it is used, as “fair value with a neutral entry on changes in value under other earnings” or as “fair value with an entry of changes in value on the profit and loss statement”.

GK Software did not hold any financial instruments on the balance sheet reporting date, which are classified at their fair value according to IFRS 9 with a neutral entry under changes in value in “Other income”.

Financial assets valued as ongoing purchase costs, trade accounts receivable, cash and cash equivalents and other assets all existed at GK Software at this time. Liabilities towards banks existed as interest-bearing bank loans, trade accounts payable, leasing liabilities and other current liabilities all existed as ongoing purchase costs. The convertible bond that was issued was assessed at ongoing purchase costs according to the effective interest method. This is a method for calculating the ongoing purchase costs of financial instruments and allocating the interest expenditure/earnings to the relevant periods. The effective interest method is the rate of interest, with which the estimated future outgoing/incoming payments – including all the fees and paid or received charges, which are an integral part of the effective interest rate, transactions and premiums or discounts – are discounted from the net carrying amount of their initial entry over the expected term of the financial instrument or over a shorter period.

Financial assets, with the exception of financial assets assessed at their fair value and affecting the results, are checked to see whether they have any possible write-down indications on the balance sheet date. Non-current due dates (longer than 1 year) were taken into account using normal market discount rates.

Consideration is given to any recognisable default risks by making an appropriate devaluation. We would refer you to Section 3.1 ‘Impairment of value for assets’.

Regarding contract-generated current asset, please refer to the notes in Section 3.6. “Intrinsic value of contract assets”.

The Group removes a financial liabilities and financial assets from the accounts if the relevant obligation has been settled, cancelled or has lapsed, or the inflow of cash and cash equivalents meets the account receivable, or cannot be recovered.

2.9. Loan capital

General and specific loan capital costs, which accrue directly in conjunction with the acquisition, construction or production of a qualified asset, are capitalised during the period that is necessary to make the asset and prepare for its intended usage or sale. Qualified assets are assets, for which a considerable period of necessary until they have been made for their intended usage or sale.

Earnings generated from the temporary formation of specially received loan capital until its expenditure for qualified assets are deducted from the loan capital costs that could be capitalised.

No loan capital costs were capitalised in 2021. The non-capitalised loan capital costs were entered as interest expenditure during the period, in which they were incurred.

2.10. Public sector subsidies

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

Public sector subsidies must be entered as expenditure according to schedule in the Group's profit and loss statement, particularly during the course of the periods when the Group values the corresponding expenditure, which the public sector subsidies are supposed to compensate for. Public sector subsidies, the most important condition for which is the sale, construction or other kind of purchase of non-current assets, are entered on the balance sheet as accruals and deferrals and are entered on a systematic and reasonable basis so that they affect the results over the term of the relevant asset.

Public sector subsidies, which are granted in order to compensate expenditure or losses that have already been incurred or for the purpose of providing immediate financial support to the Group, for which there will not be any corresponding costs in the future, are entered to affect the net income during the period in which the claim for their entitlement arose.

2.11. Provisions

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

On the other hand, no provisions are made for items that are in principle sufficiently secure and have only insignificant residual uncertainties due to the amount or timing. These are reported under current liabilities.

Largely secure liabilities of GK Software SE against services already provided by employees in the past, such as employees' untaken leave or working-time credits, are presented as deferred and likewise reported under current liabilities.

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

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

2.11.1. Provisions for pensions

The costs for providing benefits in the case of defined benefit pension plans are determined using the projected unit credit method, where an actuarial assessment is conducted on each balance sheet date. Any new assessments, consisting of actuarial gains and losses, changes, which are the result of the use of the upper asset threshold and the revenues from the plan assets (without any interest on the net debt), are entered directly under “Other income” and directly as “Other reserves” in equity (accumulated actuarial gains and losses in accordance with IAS 19 “Employee benefits”). They are no longer reclassified in the profit and loss statement. Any past service costs are entered as expenditure when the change of plan comes into effect.

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

– Past service costs (including current service costs, past service costs to be calculated subsequently and

any gains or losses from the change to or reduction of the plan),
– Net interest expenditure or revenues on the net debt or the net asset value,
– A new assessment of the net debt or the net asset value.

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

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

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

2.11.2. Onerous contracts

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

2.11.3. Warranties

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

2.11.4. Provisions in the financial sector

Provisions in the financial sector are entered as soon as a payment obligation with adequate arises from the underlying event and the amount can already be reliably assessed.

2.12. Income taxes

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

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

2.12.1. Current taxes

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

2.12.2. Deferred taxes

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

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

The carrying amount of the deferred tax claims is checked every year on the balance sheet date and is reduced, if it is no longer probable that sufficient taxable income will be available in order to realise the claim completely or in part. A deferred tax asset is entered for the amount of unused tax losses and unused tax credits, which have been carried forward, if it is probable that a future taxable profit will be available, which can be used against the tax losses and the unused tax credits not yet used.

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

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

2.13. Revenue from contracts with customers

2.13.1. Recognising turnover

Turnover revenue is recognised if the power of disposition over definable goods and services passes to the customer, that is to say, if the customer has the ability to largely make use of the benefits arising from the transferred goods or services.

The condition for this is that a contract exists with enforceable rights and obligations and, among other things, the receipt of the counter-performance is probable – taking into consideration the customer’s creditworthiness.

The turnover revenue corresponds to the transaction price, which is likely to attribute to GK Software.

If the period between the transfer of the goods or services and the payment time exceeds twelve months and significant benefits have resulted for the customer or for GK Software from the funding, the counter-performance is adjusted by the current value of the money.

If individual sales prices cannot be directly observed, GK Software assesses them appropriately.

Turnover revenue is recognised for each performance obligations, either at a particular time or over a particular period.

2.13.2. Revenue from licences

Turnover recognition takes place at the time the licence is transferred, i.e., at the time the licence is issued, if the promised licence grants the customer the right to use the intellectual property. This takes place at the time when a functioning software solution is handed over to a customer.

The payment of the transaction price is normally due within 30 days. In rare cases, postponed payments may be agreed, but they may not exceed 12 months. No significant funding component is therefore taken into consideration in the transaction price.

2.13.3. Earnings from SaaS contracts
For earnings from ongoing service provision (so-called "continuous obligations") by GK Software arising from software-as-a-service contracts with customers, the revenue is recognised on a pro-rata basis over the term of the subscription. The invoicing for this takes place annually, quarterly or monthly. In some cases, invoices are issued with advance payments (contractual liabilities in accordance with IFRS 15). For example, in the case of an annual contract, 1/12 of the total transaction price is effectively recognised as revenue for each month. In any case, a period-appropriate deferral is guaranteed.

The payment period for services arising from SaaS contracts as well as for other invoices is generally 30 days.

2.13.4. Providing software services
The software service agreements contain both earnings from licence agreements, which are calculated according to time and the consumption of materials, and earnings from contracts, where an agreed item of work is due (fixed price contracts).

The turnover recognition always takes place at the time when the power of disposition passes to the customers. This is normally the time when the agreed service is handed over or when the agreed service is accepted by the customer (confirmation of the working hours provided or acceptance of the item of work).

If the contract contains a fixed hourly rate (calculation according to time and consumption of materials, turnover realised at a specific time), the amount of revenue was entered to reflect the claim that GK Software SE has arising from the service that has been provided. Invoices are generated every month and the payment in return is normally due for settlement 30 days after the receipt of the invoice.

In the case of fixed price contracts, the revenue is entered over a particularly period according to the percentage of completion method based on the actual work that has been performed at the end of the reporting period in relation to the work that needs to be provided overall. This takes place on the basis of the actual working hours in relation to the total number of expected hours.

Estimates about the revenue, costs or the progress made in the order are corrected if the circumstances change. Any increases or reductions in the estimated revenue or costs arising from this are entered under profits or losses in the period when the company managers learnt about the circumstances that provided the reason for the correction (cf. Section 3.6. "Intrinsic value of contract assets").

In the case of fixed price contracts, the customer pays a set amount according to a payment plan. If the services provided by GK Software exceed the payment amount, a contract-generated current asset is entered. If the payments are higher than the services provided, a contract liability is entered.

2.13.5. Revenue from maintenance work
Revenue from maintenance work is charged at the contractually agreed rates or the number of hours that have been agreed in the contract and any costs that have been directly incurred on a monthly basis. The flat-rate amounts are either invoiced monthly or deferred for advance payments (contractual liabilities in accordance with IFRS 15) and are recognised monthly over the appropriate period.

Invoices are issued monthly and are normally due for settlement 30 days after the receipt of the invoice.

2.13.6. Contract assets, contract liabilities and trade accounts receivable

If one of the parties to the contract meets its contract obligations with customers, regardless of the relationship between the performance of the work by GK Software and the customer's payment, a contract asset, a contract liability or an account receivable is entered. Trade accounts receivable are entered if the claim for receipt of the counter-performance is no longer subject to any condition.

If the order costs related to an order and incurred by the reporting date plus published gains and minus published losses exceed the partial payments, the excess is entered as a manufacturing order with a credit balance due from the customer (contract asset). In the case of contracts in which the milestone invoices exceed the order costs incurred plus accrued gains and less recognised losses, the excess is entered as a manufacturing order with a debit balance (contract liabilities) in relation to the customer.

Amounts received before the work has been performed are entered as debts in the contract liabilities on the consolidated balance sheet.

With regard to the adjustments to valuations of contract-generated current assets and receivables, please refer to the information in Appendix 3.1. "Impairment of value for assets" and 4.1.10. "Further details on financial assets and financial liabilities".

3. Significant Assessment Uncertainties and Discretionary Decisions

Assumptions have to be made to a certain degree when preparing the consolidated accounts and estimates are made, which have an effect on the amount and entry of the assets and liabilities on the balance sheet and the earnings and expenditure. The assumptions and estimations largely relate to an assessment of the intrinsic value of intangible assets (including goodwill), the standard definition of the economic serviceable life of property, plant and equipment and intangible assets, the valuation of inventories and accounts receivable related to the intrinsic value of capitalised deferred taxes and the balance sheet entries and assessment of provisions. The assumptions and estimations are based on premises, which in turn are founded on the level of awareness that is available at the current time. Particularly with regard to the expected future development of business, the circumstances, which exist at the time when the net income for the period is prepared, and a realistic assessment of the future development of the global and sector-based business environment form the basis of the estimations. The amounts that have been entered may deviate from the originally expected estimated values as a result of developments in these general conditions, which differ from the assumptions and lie beyond the sphere of influence of management. If actual developments differ from those that are expected, the premises and, if necessary, the carrying amounts of the assets and liabilities that are affected are adjusted accordingly. At the time when the consolidated annual statements were prepared, the assumptions and estimations, on which they were based, were not subject to any major risks; so that it is assumed that no major adjustments of the carrying amounts of the assets and liabilities indicated on the balance sheet will be necessary in the following financial year from a current point of view. In consideration of the business model and customer structure of GK Software, this assessment continues to apply, even taking into account the effects of the coronavirus pandemic.

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

The use of the Group's accounting methods is also subject to various discretionary decisions by management. Significant discretionary decisions are exercised when entering leases on the balance sheet and when impairing the value of financial assets. More detailed information about discretionary decisions can be found in the following paragraphs in the notes on the accounts.

3.1. Impairment of value for assets

On each reporting date, the Group checks the carrying amounts for property, plant and equipment, property held as a financial investment, usage rights, and intangible assets in order to determine whether there are any indications of the need to write down these assets. If these indications can be recognised, the achievable value of the asset is assessed in order to determine the scope of any possible write-down expenditure.

The achievable amount is the higher amount arising from the fair value minus any sales costs and the value in use of an asset. The amount involving the fair value minus any sales costs describes what could have been generated by selling an asset in a transaction at market conditions between parties willing to reach agreement. When determining the value in use, the estimated future flows of cash are discounted by a normal market interest rate. If it is not possible to estimate the achievable amount for an individual asset, the assets are combined into cash-generating units.

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

If the circumstances that led to the impairment of value disappear completely or partly, the carrying amount of the asset (or unit generating cash and cash equivalents) is increased to the latest estimate of the recoverable amount. The increase in the carrying amount is restricted to the value, which would have occurred if no write-down expenditure had been entered for the asset (unit generating cash and cash equivalents) in previous years. Any write-up is directly entered in the accounts to affect net income.

Consideration is given to any recognisable default risks in accounts receivable and other assets by making an appropriate devaluation. Individual value corrections are formed, if the incoming payment for individual accounts receivable items is in doubt. In the case of trade accounts receivable, which are not examined individually, value corrections are formed to a different extent, depending how old the account receivable is. When setting these percentage figures, GK Software takes into account its experience with collecting funds in the past and the current tendencies in the economy (cf. also Section 4.1.10. “Further details on financial assets and financial liabilities”).

Cash and cash equivalents are also subject to the impairment requirements of IFRS 9; however, the impairment loss identified was insignificant and was not recognised.

3.2. Intrinsic value of goodwill

The goodwill amounts are checked for their intrinsic value at least once a year or if there are specific reasons for impairment in their value. Checking the intrinsic value of goodwill amounts is conducted at the level of the units generating cash and cash equivalents, to which the goodwill figures are attributed.

The carrying amount of the unit generating cash and cash equivalents is compared with the achievable amount in the first step on the balance sheet reporting date. The achievable amount is defined as the higher amount of the usage value and (if it can be determined reliably) the sale value minus the selling costs. If this amount falls below the carrying amount of the unit, including the assigned goodwill, impairment expenditure for the goodwill is determined in a second step.

When determining the usage value, cash values of the estimated future incoming funds on the basis of a discount interest rate after tax (WACC) are calculated as the pre-tax WACC cannot be directly determined or observed. The pre-tax WACC is derived iteratively from the WACC after tax. The estimates take place within the planning horizon for Group planning for three years in detail and for the subsequent years 4 and 5 in the form of a trend projection and consideration of known specific individual circumstances. As the use of goodwill beyond planning year 5 appears possible and probable, the subsequent period is taken into account in the form of a perpetual annuity when determining the value. For this purpose, uniform growth rates oriented to inflation developments in the relevant currency areas are applied. Planned balance sheets and planned profit and loss statements are prepared for the individual unit generating the cash and cash equivalents and cash flow plans are derived from them.

The series of payments determined in this way are discounted with an interest rate that represents the weighted capital costs before income taxes. Capital market data from a group of comparable companies is used in order to determine the weighted capital costs. Key assumptions for determining the series of payments are the assumptions contained in the corporate planning for the development of turnover revenues and the necessary expenditure. These consist mainly of assumptions for the planned license revenues, product life cycles, growth rates and the target margin on the EBITDA for the revenue side. On the expense side, assumptions about personnel expenses and financing costs are priority applied. Because of the specific business model for the respective unit generating the cash and cash equivalents, specific parameters were used for this unit, which are based on the experience and the analysis of the actual development of the unit generating the cash and cash equivalents in the past. The planning conventions always include planning the balance sheet and the profit and loss statement and, derived from these, planning for the expected flows of cash and cash equivalents.

Any write-down expenditure is directly entered in the profit and loss statement and may not be reversed in the following reporting periods. Regular checks are made on 31 December each year.

With regard to the individual details on the balance sheet on 31 December 2021, please refer to Section 4.2.4. “Intangible assets”.

3.3. Intrinsic value of customer bases

GK Software acquired customer bases as part of the purchase price allocation when acquiring various subsidiaries. With regard to the individual details on values, please refer to Section 4.2.4. “Intangible assets”.

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

The expected period of use (7 or 10 years) and the amortisation method are checked on each reporting date and all the changes to estimates are taken into consideration prospectively. As soon as there are some signs that the carrying amount of the customer base exceeds the expected influx of funds, the customer base is revalued with this lower figure. Impairment charges, if any, are entered under the item “Depreciation and amortisation”. The achievable amount is the higher amount of the fair value minus any sales costs 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.

3.4. Intrinsic value of software and capitalised development costs

Software that is acquired is amortised in a linear fashion over a period of 3 to 7 years. The software acquired through the purchased holdings (prudsys AG and valuephone GmbH) is being amortised in a linear fashion over a period of 7 years. There was no suggestion of any impairment of value.

The capitalised development costs are amortised in a linear fashion over a period of 5 years. Based on the business planning, there were no suggestion of any impairment of value on the reporting date.

3.5. Intrinsic value of property held as a financial investment

No specific market price could be determined for property held as a financial investment and no comparable transactions on the property market could be observed either. The recoverable amount is therefore estimated on the basis of the value in use, i.e., as a capitalisation of the lease revenue.

A reassessment of the cash flow on the balance sheet date determined the need for a write-down on 31 December 2021.

3.6. Intrinsic value of contract assets

The intrinsic value of the assets entered on the balance sheet are checked by ongoing project monitoring.

If the outcome of a manufacturing order can be reliably assessed, the revenues and the order costs, which arise in connection with this manufacturing order, are entered according to the percentage of completion of work on the balance sheet date and are shown as a contract asset. The contract asset is determined on the basis of the work actually performed at the end of the reporting period in relation to the total contract asset. This takes place on the basis of the actual working hours in relation to the total number of expected hours. Changes in the contracted work, claims and performance bonuses are included to the extent that their amount can be reliably determined and it is deemed that they will probably be received.

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

Estimates about the costs of the progress made in the order are corrected if the circumstances change. If it is likely that the total costs for orders will exceed the total revenues from orders, the expected loss is immediately entered as expenditure.

3.7. Uncertainty regarding the income tax items

The estimation and assessment of deferred taxes assets from any losses carried forward assumes that the Group companies concerned will in future once again generate profits which allow for the utilisation of the tax losses carried forward. This is done by planning the economic development of the individual companies in the Group. This decision takes into consideration the increased requirements for substantial information about the recognisability of these deferred tax assets with a loss history in the relevant individual accounts.

The tax audit for GK Software SE started for the period 2015 - 2017 during the reporting year and had not been completed during the auditing period. The back taxes that are more likely than not due as a result of the audit have been taken into account in these accounts.

3.8. Recognition and measurement of provisions

By its very nature, the recognition and measurement of provisions involves assessment uncertainties. With regard to the special estimation risks associated with provisions for pensions, please refer to the summary information in Section 4.2.8. “Provisions for pensions”.

3.9. Assessments of fair value and assessment procedures

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

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

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

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

3.10. Other assessment uncertainties

Other sources of uncertainty regarding estimates exist with regard to the useful serviceable life of assets, the assessment of the intrinsic value of trade accounts receivable, the valuation of stocks and entering leases according to IFRS 16. A term of 5 years is assumed for all the unlimited contracts for rented property in the sense of IFRS 16. This corresponds to the experience that rented buildings are used on a long-term basis. As no interest rates were communicated by the lessor for the lease contracts, the incremental borrowing rate was determined by comparing outside examples. It was assumed for this purpose that the two investment classes (vehicles and property) could be entirely funded by loans from our local bank.

We also assume that options from the share option programmes will be exercised when the conditions have been met.

3.11. Balance sheet reclassifications in the consolidated accounts

Losses from the derecognition of financial assets are shown separately in the statement of income and accumulated earnings. The change in the way these figures are shown provides the reader with much more information and has no major effect on the assets, financial and earnings situation.

4. Notes on the Consolidated Balance Sheet

4.1. Financial assets and financial liabilities

The financial instruments include original and derivative financial instruments.

The original financial instruments largely comprise trade accounts receivable on the assets side, other financial assets as well as other liabilities. On the liabilities side, the original financial instruments largely comprise the convertible bond, bank liabilities, trade accounts payable as well as other liabilities. The portfolio of original financial instruments is shown on the balance sheet. The Company is subject to a possible default risk, mainly with trade accounts receivable.

Firstly, please find below general information about the financial assets and financial liabilities and then more details about the resulting risk items according to IFRS 9.

4.1.1. Trade accounts receivable

The trade accounts receivable have a term of less than one year. Because of the short term involved and the low interest level at the moment, it is assumed that the fair value in each case will match the carrying amount.

The trade accounts receivable are all due for payment within one year.

4.1.2. Other accounts receivable and assets

T.24 Other accounts receivable, assets and income tax claims

EUR K	31.12.2021	31.12.2020
Financial assets		
Accounts receivable with associated firms	589	2,247
Suppliers with debit balances	112	74
Loans paid to third parties	112	138
Accounts receivable from derivatives	727	398
Accounts receivable from members of the Management Board	39	37
Others	822	119
Intermediate total	**2,401**	**3,012**
Non-financial assets		
Accounts from asset deferrals	3,536	2,823
Accounts from value-added tax	605	480
Receivables from income-tax claims	997	328
Intermediate total	**5,138**	**3,631**
Total	**7,539**	**6,643**

With regard to receivables from related companies, please refer to Section 8.4. “Details of Related Parties and Companies”.

The receivables from income-tax claims (non-financial assets) in the amount of EUR 997 K (previous year: EUR 941 K) mainly consisted of receivables from corporation tax, plus the solidarity surcharge and business tax advance payments.

4.1.3. Non-current and current bank liabilities

The non-current and current bank liabilities involved all the loans exclusively taken out by GK Software SE.

T.25 Loans

EUR K	31.12.2021 Balance	31.12.2021 Thereof short term	31.12.2020 Balance	31.12.2020 Thereof short term
Loan Commerzbank	2,075	300	2,375	300
Loan Sparkasse	2,183	508	2,799	616
Loan IKB	188	125	813	625
Current account credit and credit card	69	69	3,682	3,682
Account balance	**4,514**	**1,002**	**9,669**	**5,223**

The debts existing on the balance-sheet reporting date have been divided into current and non-current debts in the consolidated accounts (cf. T.33 “Schedule of liabilities” in Section 4.1.10. “Further details on financial assets and financial liabilities”). The current shares therefore match the repayments that are due within one year.

Repayment shares of up to one year for non-current bank liabilities were entered under current bank liabilities.

In addition to this, the current bank liabilities also include utilised credit card limits amounting to EUR 69 K (previous year: EUR 1 K) and a current account credit lines that were used. Details on the latter are made available in the Table T.25 ‘Loans’.

Of the loans cited here, EUR 3,937 K (previous year: EUR 4,424 K) have been secured by real-estate liens. The current account lines are secured by a collateral trust agreement, which is subject to a blanket assignment.

4.1.4. Liabilities arising from leases
With regard to further information on leases, please refer to the summary in Section 4.2.2. “Usage rights and expenditure on leases”.

4.1.5. Convertible bond
With the agreement of the Supervisory Board, the Management Board at GK Software SE decided on 18 October 2017 to issue secondary, unsecured convertible bonds with a total nominal value of up to EUR 15,000,000 and with a term that runs until 26 October 2022. Due to its maturing within one year, the convertible bond is shown under Section 4.1.8. “Other current liabilities”.

The convertible bonds have a term of 5 years and were issued at 100 percent of their nominal value of EUR 1,000,000 per convertible bond. If they were not converted into ordinary shares by a decision of the holder in advance or repurchased by GK Software SE and retracted, they will be repaid at the nominal amount when they are finally due.

The bonds accrue interest of 3 p.a. on the nominal amount. The interest must be paid annually in arrears on the relevant interest payment date. The initial fair value of the outside capital share of the bond was determined with a market interest rate for a bond of the same value without any conversion option on the issue date. The liability is then entered on the basis of the depreciated purchase costs until it has lapsed by the conversion or the due date of the convertible bond. The remaining revenues are assigned to the conversion option and entered under “Equity” and then not reassessed at a later date.

4.1.6. Liabilities from trade payables
Trade accounts payable are still due for settlement within one year.

4.1.7. Initial payments received
Contract liabilities include liabilities from advance payments on manufacturing contracts (advance payments received) of EUR 907 K (previous year: EUR 1,489 K) and advance payments on revenues to be received periodically at later periods (deferred revenue) of EUR 4,720 K (previous year: EUR 2,100 K).

The transaction price that was attributed to performance obligations from manufacturing orders on 31 December 2021 amounted to EUR 5,684 K on the reporting date (previous year: EUR 5,436 K). Management expects that EUR 5,052 K (previous year: EUR 4,568 K) of the transaction price that was attributed to service obligations, which had not been provided on 31 December 2021, will be entered as revenue in the next reporting period. The remaining EUR 632 K (previous year: EUR 869 K) will be recognised in later financial years. The amount entered above did not contain any variable service in return that is restricted.

The remaining terms of the deferred liabilities are essentially less than one year.

4.1.8. Other current liabilities

The tax liabilities cover outstanding income tax and value-added tax payments.

T.26 Other current liabilities

EUR K	31.12.2021	31.12.2020
Financial liabilities		
Liabilities from wages and salaries	9,066	8,539
Outstanding invoices	2,026	933
Other liabilities towards members of staff	81	8
of which an overpayment by customers	24	25
Others	2,068	1,600
Intermediate total	**13,265**	**11,104**
Non-financial liabilities		
Liabilities from other taxes	2,041	1,921
Intermediate total	**2,041**	**1,921**
Total	**15,306**	**13,025**

4.1.9. Income tax liabilities

T.27 Income tax liabilities

EUR K	31.12.2021	31.12.2020
Income tax liabilities	2,041	784
thereof in Germany	1,733	591
thereof in Czech Republic	95	119
thereof in Switzerland	7	13
thereof in USA	0	38
thereof in South Africa	200	12
thereof in Ukraine	6	11
thereof in Russia	0	0

4.1.10. Further details on financial assets and financial liabilities

T.28 Carrying amounts and the fair value of financial instruments

EUR K	Recognised at amortised cost	Recognised at fair value: On the basis of publicly listed market prices (stage 1) – FVTPL category	Recognised at fair value: On the basis of observable market data (stage 2) – FVTPL category	Recognised at fair value: On the basis of non-observable input factors (stage 3) – FVTPL category	Non-financial assets/ liabilities	Carrying amount	Fair value
31 December 2021	**(IFRS 9)**	**(IFRS 9)**	**(IFRS 9)**	**(IFRS 9)**			
Trade accounts receivable	24,298	—	0	0	—	**24,298**	**—**
Other financial assets	1,674	—	727	—	4,141	**6,541**	**6,541**
Cash and cash equivalents	46,945	—	0	0	—	**46,945**	**—**
Total financial assets	72,917	—	727	—	4,141	**77,785**	**6,541**
Convertible bond	0	—	0	0	—	**0**	**0**
Bank liabilities	4,514	—	0	0	—	**4,514**	**4,514**
Leasehold liabilities	—	0	0	—	7,784	**7,784**	**7,784**
Trade accounts payable	5,162	—	0	0	—	**5,162**	**—**
Other financial liabilities	14,721	2,042	—	—	11,142	**27,904**	**—**
Total financial liabilities	**24,397**	**—**	**—**	**—**	**18,926**	**45,366**	**12,299**
31 December 2020	**(IFRS 9)**	**(IFRS 9)**	**(IFRS 9)**	**(IFRS 9)**			
Accounts receivable	23,382	—	0	0	—	**23,382**	**—**
Other financial assets	2,614	—	398	—	3,631	**6,643**	**6,643**
Liquid assets	9,425	—	0	0	—	**9,425**	**—**
Total financial assets	35,422	—	398	—	3,631	**39,450**	**6,643**
Convertible bond	14,222	—	0	0	—	**14,222**	**14,222**
Bank liabilities	9,669	—	0	0	—	**9,669**	**9,669**
Leasehold liabilities	—	0	0	—	9,310	**9,310**	**9,310**
Trade accounts payable	3,591	—	0	0	—	**3,591**	**—**
Other financial liabilities	2,565	—	0	—	10,460	**13,025**	**—**
Total financial liabilities	**30,047**	**—**	**—**	**—**	**19,770**	**49,817**	**33,201**

No regrouping between the categories took place during the year under review.

Due to its maturing within one year, the convertible bond is shown under “Other financial liabilities”.

As the financial assets are normally not covered by securities, the maximum default risk corresponds to their gross carrying amount minus value adjustments, therefore leaving the net carrying amount that is shown. Thus, the circumstances at GK Software are consistent with the general case assumed by the IASB. Securities and other risk-mitigating agreements are therefore generally not to be taken into account at this point.

The cap premiums were reported under “Other assets” with figures of EUR 0 K (previous year: EUR 4 K) and were reversed on a pro rata basis and entered as interest expenditure. For this reason, these cap premiums were not classified under the “Financial assets assessed at their fair value in terms of affecting the net income” category. The market value of these interest capping mechanisms on a nominal volume of EUR 123 K (derived from the mid-market price through bank assessments) amounted to a total figure of EUR 0 K on the balance sheet date (previous year: EUR 0 K).

Currency option transactions amounting to a total nominal value of CZK 300,000 K were reported on 31 December 2021. The purpose of these transactions is to secure payment obligations within the Group until 31 December 2022. No valuation unit was formed. The fair value according to the bank valuation is EUR 727 K and is shown under “Other financial assets”.

The Group still has only financial instruments that are valued at amortised cost. The other financial assets of EUR 1,674 K (previous year: EUR 2,614 K) are subject to the general impairment approach of IFRS 9 and are to be classified fully as 12-month credit losses. There were no impairments made because the financial assets are not overdue and there is also no other indication of impairment in value. The credit risk did not increase significantly compared to the previous year.

A simplified approach using industry-specific risks was used to value the accounts receivables. In addition to default rates calculated for the individual maturity bands based on historical experience, forward looking elements based on country-specific default rates (credit default swaps) are also used. The value adjustments relate exclusively to trade accounts receivable and, in addition to the expected loss ratios determined according to IFRS 9, also include value adjustments on individual items within the due dates, which are based on individualised valuation information. If there was no longer any expectation that they could be realised, the financial asset was removed from the accounts.

T.29 Default risk for trade accounts receivable and contract assets

		Not overdue	1 to 30 days overdue	31 to 60 days overdue	61 to 90 days overdue	More than 90 days overdue	Total
31 December 2021							
Expected loss ratio	%	0.3	1.0	2.2	3.2	5.1	
Trade accounts receivable	EUR K	19,182	3,850	922	263	459	**24,676**
Trade accounts receivable from ongoing work	EUR K	12,152	–	–	–	–	**12,152**
Value adjustments	EUR K	71	37	24	8	237	**378**
31 December 2020							
Expected loss ratio	%	0.2	0.9	1.5	2.2	3.0	
Trade accounts receivable	EUR K	21,868	1,291	95	37	572	**23,864**
Trade accounts receivable from ongoing work	EUR K	13,587	–	–	–	–	**13,587**
Value adjustments	EUR K	234	–	10	37	200	**482**

The value adjustments developed as follows during 2021:

T.30 Changes in impairments on trade accounts receivable

EUR K	2021	2020
Situation at the start of the year	482	712
Value adjustments on accounts receivable	122	59
Liquidation	(205)	(289)
Situation at the end of the year	**399**	**482**

Value adjustments amounting to EUR 399 K, which relate in total to trade receivables, were made at the end of the year.

T.31 Net profits and losses per category of financial instrument

EUR K	Interest revenues (-expenditure / + earnings)		gains (+) / losses (-) from derecognition		others gains / losses		Total	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Financial assets recognised at amortised cost	192	161	(153)	(612)	–	–	39	(452)
Fair value through profit and loss (FVPL)	–	–	–	–	–	–	–	–
Financial liabilities recognised at amortised cost	(1,605)	(1,610)	–	–	–	–	(1,605)	(1,610)
Total	**(1,413)**	**(1,449)**	**(153)**	**(612)**	**–**	**–**	**(1,566)**	**(2,062)**

Impairments/appreciations in value on financial assets are no longer part of the net income and are shown separately in the total income statement.

Market risks: The Group is exposed to risks associated with exchange and interest rates as a result of its business activities. The exchange rate risks result from the business sites maintained in different currency areas and increasingly from customer relations that go beyond the euro zone. The interest rates are the result of selected types of funding to enhance the Group's financial latitude. The Group typically accepts additional conditions (so-called "covenants") in addition to the general loan conditions when funding projects with loans that are provided by banks and they relate to general financial figures or other conditions. Failure to meet these additional conditions normally entitles the bank concerned to make the loans in question due for payment in full immediately, regardless of whether the main loan contract obligations are being met and probably can continue to be met or not. The Group handles this risk by monitoring the covenants and communicating with the banks concerned in an appropriate manner. Among other things, a quarterly list of assignments was sent to the credit institutions, and at no point did this trigger an immediate maturity of the loans.

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

Exchange rate risks: We normally handle business transactions in the operational currency of the Group firm concerned. Operational business transactions are not handled in the operational currency in individual cases so that there is a currency risk for monetary financial instruments. There are also internal service relationships within the Group and currency risks from the resulting cash flows.

The following accounts receivable existed with exchange rate risks on 31 December 2021:

T.32 Accounts receivable with exchange rate risks

EUR K	31.12.2021	31.12.2020
CHF	421	751
GBP	41	143
CAD	18	609
AUD	229	384

Currency rate fluctuations in conjunction with our original monetary financial instruments did not have any major effects on our annual profits.

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

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

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

The maximum credit risk corresponds to the carrying amount of the trade accounts receivable and other accounts receivable. The default risk regarding trade accounts receivable is limited by the fact that the Company has a broadly spread customer structure. The Company does not generally demand any collateral security for its accounts receivable. Close monitoring takes place by observing the customer's payment behaviour, the market environment and drawing on external sources such as reports from the relevant specialist press. When assessing financial assets subject to the general approach, it is generally assumed that there is no significant increase in credit risk if they are less than 30 days overdue. If this monitoring process gives rise to an assumption that the general economic situation for individual customers (with individual circumstances) has changed, further measures are adopted in agreement with the management team in order to restrict any possible losses. Value adjustments may also occur if customers believe that work has not been completed or is inadequate. In these cases, the Group basically carries out individual value adjustments for precautionary reasons, if there is some expectation that settlements on a goodwill basis – without any recognition of legal grounds – might be necessary. Consideration is given to the general default risk by making an appropriate general value adjustment (cf. Section 3.1. "Impairment of value for assets").

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

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

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

The following table shows the remaining contract terms for the Group's financial liabilities. The tables are founded on non-discounted cash flows for financial liabilities (interest and repayments) based on the earliest date on which the Group can be obligated to make payment.

T.33 Schedule of liabilities

EUR K	Weighted average interest rate	Less than 1 month	1 to 5 years	More than 5 years	Total
31.12.2021					
Interest-free	0	18,496	0	0	**18,496**
Variable interest rate	2.66	192	1,910	0	**2,102**
Fixed interest rate	2.42	18,274	8,075	0	**26,349**
31.12.2020					
Interest-free	0	16,617	0	0	**16,617**
Variable interest rate	2.66	1,918	2,123	0	**4,041**
Fixed interest rate	2.36	6,073	26,448	0	**32,521**

We also refer you to the explanations on leasing liabilities in Section 4.2.2. Usage rights and expenditure on leases.

In the year under review, GK Software took out a syndicated loan in the amount of EUR 45 million. This replaces the previous current-account credit lines. The agreement for this was concluded on 08.12.2021 between the Company and UniCredit Bank AG as agent. Of this, EUR 15 million were allocated directly towards redeeming a convertible bond and EUR 30 million was agreed to secure operating resources, which has not yet been used.

In greater detail, this involves the following:

T.34 Credit lines

EUR K	31.12.2021	31.12.2020
Non-collateralised current account lines	30,000	–
of which: taken up	–	–
of which: not taken up	–	–
Collateralised current account lines	–	17,600
of which: taken up	–	3,681
of which: not taken up	–	13,919

4.2. Non-financial assets and liabilities

4.2.1. Property, plant and equipment

T.35 Property, plant and equipment in 2021

EUR K	Real estate and buildings	Operating and business equipment	facilities under construction	Technical equipment and machines	Total
Purchasing or production costs					
Figures on 1 January 2021	13,629	15,842	183	0	**29,653**
Accruals	853	1,453	627	0	**2,933**
Changes caused by exchange rates		(3)	0	0	**(3)**
Accruals through corporate mergers	0	88	0	0	**88**
Transfers	633	3	(442)	0	**194**
Reclassifications	5,994	237	501	0	**6,731**
Disposals	0	(2,591)	(8)	0	**(2,598)**
As of 31 December 2021	**21,109**	**15,029**	**860**	**0**	**36,998**
Accumulated depreciation					
Figures on 1 January 2021	2,756	12,222	0	0	**14,979**
Accruals	672	1,635	0	0	**2,307**
Accruals through corporate mergers	0	31	0	0	**31**
Transfers	0	0	0	0	**0**
Reclassifications	769	58	0	0	**827**
Disposals	0	(2,421)	0	0	**(2,421)**
Impairment of value in accordance with IAS 36	189	0	0	0	**189**
As of 31 December 2021	4,386	11,525	0	0	**15,911**
Carrying amounts on 31 December 2021	**16,723**	**3,504**	**860**	**0**	**21,087**

T.36 Property, plant and equipment in 2020

EUR K	Real estate and buildings	Operating and business equipment	facilities under construction	Technical equipment and machines	Total
Purchasing or production costs					
Figures on 1 January 2020	14,063	17,019	146	0	**31,229**
Accruals	191	684	52	0	**927**
Changes caused by exchange rates	0	1	0	0	**1**
Transfers	(626)	(24)	(15)	0	**(664)**
Disposals	0	(1,839)	0	0	**(1,839)**
Figures on 31 December 2020	**13,629**	**15,842**	**183**	**0**	**29,653**
Accumulated depreciation					
Figures on 1 January 2020	2,291	11,950	0	0	**14,241**
Accruals	485	2,065	0	0	**2,549**
Accruals through corporate mergers	0	0	0	0	**0**
Transfers	(19)	(6)	0	0	**(25)**
Disposals	0	(1,786)	0	0	**(1,786)**
Figures on 31 December 2020	**2,756**	**12,222**	**0**	**0**	**14,979**
Carrying amounts on 31 December 2020	**10,873**	**3,620**	**183**	**0**	**14,675**

Some of the plots of land serve as security for liabilities through real-estate liens; for more details, see Section 4.1.3. “Non-current and current bank liabilities”.

4.2.2. Usage rights and expenditure on leases

This following information on leases refer to transactions where the Group is the lessee. Information about leases, where the Group is the lessor, is explained in Section 4.2.3. 'Property held as a financial investment'.

T.37 Usage rights in the sense of IFRS 16 in 2021

EUR K	Real estate and buildings	Operating and business equipment	Total
Purchasing or production costs			
Figures on 1 January 2021	10,721	4,400	**15,121**
Accruals	171	1,094	**1,265**
Changes caused by exchange rates	179	9	**188**
Disposals	(334)	(90)	**(423)**
Figures on 31 December 2021	**10,736**	**5,414**	**16,150**
Accumulated depreciation			
Figures on 1 January 2021	3,291	2,584	**5,875**
Accruals	1,654	1,161	**2,816**
Disposals	(143)	(63)	**(206)**
Figures on 31 December 2021	**4,802**	**3,683**	**8,485**
Carrying amounts on 31 December 2021	**5,934**	**1,731**	**7,665**

T.38 Usage rights in accordance with IFRS 16 in 2020

EUR K	Real estate and buildings	Operating and business equipment	Total
Purchasing or production costs			
Figures on 1 January 2020	8,465	3,429	**11,895**
Accruals	2,207	992	**3,199**
Changes caused by exchange rates	(112)	(6)	**(118)**
Disposals	160	(15)	**146**
Figures on 31 December 2020	**10,721**	**4,400**	**15,121**
Accumulated depreciation			
Figures on 1 January 2020	1,654	1,327	**2,981**
Accruals	1,637	1,269	**2,906**
Disposals	0	(12)	**(12)**
Figures on 31 December 2020	**3,291**	**2,584**	**5,875**
Carrying amounts on 31 December 2020	**7,430**	**1,816**	**9,246**

T.39 Expenditure on leases

EUR K	31.12.2021	31.12.2020
Depreciation and amortisation	2,762	2,906
Thereof buildings	1,600	1,637
Thereof vehicles	1,161	1,269
Interest expenditures	119	117
Expenditures for short term and low value contracts not entered on the balance sheet	74	76
Total payments	**2,955**	**3,100**

Financial debts arising from leases amounting to EUR 2,672 K (previous year: EUR 2,786 K) were repaid during the financial year and EUR 119 K (previous year: EUR 117 K) in interest was paid for leasing.

Payments for leasing liabilities on 31 December 2021 amounting to EUR 2,457 K (previous year: EUR 2,580 K) are expected within one year. For the rest of the liabilities of EUR 5,328 K (previous year: EUR 6,731 K), future payments amounting to EUR 10,394 K (previous year: EUR 10,878 K) with due dates of up to 5 years are expected with a declining trend.

During the financial year, the residual terms for the buildings entered in the balance sheet in accordance with IFRS 16 were reviewed. As the intention to continue using these buildings remains unchanged, usage rights and the corresponding expenditure were again assigned a full residual term of 5 years. This did not apply to contracts for longer periods of use.

4.2.3. Property held as a financial investment

Up until 31 December 2020, the property held as a financial investment related primarily to the "Tannenhaus" hotel complex. Tannenhaus UG has belonged to the Group since 1.7.2021. This explains the reclassification of the property from acquisition costs to tangible assets in the amount of EUR 6,998 K and amortisation in the amount of EUR 858 K.

Further property belonging to the GK Software SE portfolio also continued to be rented in 2021. These properties are also being rented to a different associated company by means of a rental contract. Please also refer to 8.4.3. "Associated firms". Any developments resulting from this relating to the "property held as a financial investment" can be seen in the summary of fixed assets. The assessment methods remain unchanged. Amortisation takes place in a linear fashion over the assumed usage period. The assumed usage period of the building is 33 years and 7–15 years have been assumed for the fittings.

T.40 Property held as a financial investment in 2021

EUR K	Real estate and buildings
Purchasing or production costs	
Figures on 1 January 2021	7,662
Accruals	0
Reclassifications	(6,998)
Figures on 31 December 2021	**665**
Accumulated depreciation	
Figures on 1 January 2021	897
Accruals	25
Reclassifications	(858)
Impairment of value in accordance with IAS 36	376
Figures on 31 December 2021	**440**
Carrying amounts on 31 December 2021	**224**

T.41 Property held as a financial investment in 2020

EUR K	Real estate and buildings
Purchasing or production costs	
Figures on 1 January 2020	6,652
Accruals	346
Transfers	664
Disposals	0
Figures on 31 December 2020	**7,662**
Accumulated depreciation	
Figures on 1 January 2020	302
Accruals	257
Transfers	25
Disposals	0
Impairment of value in accordance with IAS 36	312
Figures on 31 December 2020	**897**
Carrying amounts on 31 December 2020	**6,765**

Payments from rental and leasing income amounting to EUR 19 K (previous year: EUR 199 K) are expected within one year. Payments in the amount of EUR 28 K (previous year EUR 208 K) are expected within the next 18 months after the balance-sheet date.

In the profit and loss statement, rental and leasing income as well as charges passed on from agency services amounting to EUR 214 K (previous year: EUR 394 K) and direct operating expenses amounting to EUR 588 K (previous year: EUR 839 K) including amortisation are attributable to these properties. The annually agreed lease and rental payments from operating leasing amount to EUR 207 K in fixed monthly payments. Please also refer to 8.4.3. "Associated firms".

The reclassification concerns the "Tannenhaus" hotel property in Schöneck. Due to the complete takeover of the Tannenhaus UG hotel-operating company, this is no longer "real estate held as a financial investment".

The value adjustment of EUR 376 K relates to the remaining properties leased to third parties and results from a separate valuation of the properties in accordance with the income-value method.

4.2.4. Intangible assets

T.42 Intangible assets in 2021

EUR K	Capitalised develop-ment costs	Industrial property rights and similar rights and values	Goodwill	Customer base	Orders on hand	Total
Purchasing or production costs						
Figures on 1 January 2021	8,819	11,043	18,097	9,048	0	**47,007**
Accruals	0	222	1,453	0	0	**1,675**
Changes caused by exchange rates	0	11	726	147	0	**885**
Transfers	0	(194)	0	0	0	**(194)**
Reclassifications	0	267	0	0	0	**267**
Disposals	0	(824)	(244)	0	0	**(1,069)**
As of 31 December 2021	**8,819**	**10,525**	**20,032**	**9,195**	**0**	**48,572**
Accumulated depreciation						
Figures on 1 January 2021	7,988	7,911	870	4,826	0	**21,595**
Accruals	166	1,224	0	928	0	**2,318**
Accruals through corporate mergers	0	30	0	0	0	**30**
Disposals	0	(824)	0	0	0	**(824)**
Impairment of value in accordance with IAS 36	0	0	1,453	0	0	**1,453**
As of 31 December 2021	**8,155**	**8,341**	**2,323**	**5,754**	**0**	**24,572**
Carrying amounts on 31 December 2021	**665**	**2,185**	**17,709**	**3,441**	**0**	**23,999**

T.43 Intangible assets in 2020

EUR K	Capitalised develop-ment costs	Industrial property rights and similar rights and values	Goodwill	Customer base	Orders on hand	Total
Purchasing or production costs						
Figures on 1 January 2020	7,988	10,555	18,900	9,645	0	**47,089**
Accruals	831	514	0	0	0	**1,346**
Changes caused by exchange rates	0	(26)	(804)	(194)	0	**(1,024)**
Transfers	0	0	0	0	0	**0**
Disposals	0	0	0	(403)	0	**(403)**
Figures on 31 December 2020	**8,819**	**11,043**	**18,097**	**9,048**	**0**	**47,007**
Accumulated depreciation						
Figures on 1 January 2020	7,912	6,417	870	4,283	0	**19,481**
Accruals	76	1,494	0	946	0	**2,517**
Disposals	0	0	0	(403)	0	**(403)**
Figures on 31 December 2020	7,988	7,911	870	4,826	0	**21,595**
Carrying amounts on 31 December 2020	**831**	**3,132**	**17,227**	**4,222**	**0**	**25,412**

The capitalised development costs (preliminary versions of GK/Retail software) are amortised according to schedule in a linear fashion over an estimated serviceable life of five years.

The following goodwill was entered on the balance sheet in the consolidated accounts of GK Software:

T.44 Goodwill

Company	Year of acquisition	Segment allocation	Initial recognition value	Interest rate (after and before tax)	Growth rate	31.12.2021	31.12.2020
			EUR K	in %	in %	EUR K	EUR K
Solquest GmbH / SQ IT-Services GmbH	2009	EMEA	6,403	8.04/10.62	1	5,533	5,533
IT Services (AWEK GmbH)	2012	EMEA	244	8.04/10.62	1	0	244
TransAction+ Products and Services / DBS	2015	Americas	9,838	8.24/10.49	2	9,432	8,706
prudsys AG	2017	EMEA	122	8.04/10.62	1	122	122
valuephone GmbH (MCA)	2018	EMEA	2,622	8.04/10.62	1	2,622	2,622
Tannenhaus	2021	Other business activities	1,453	7.72/8.22	1	0	0
Total			**20,682**			**17,709**	**17,227**

The goodwill for Solquest GmbH / SQ IT-Services GmbH results from the acquisition of the operating company of Solquest GmbH by SQ IT-Services GmbH. The accrual of EUR 6,403 K took place in the 2009 fiscal year and the value was adjusted to EUR 5,533 K in the 2013 fiscal year.

The goodwill 'TransAction+ Products and Services' from the takeover of the business segment from DBS Data Business Systems Inc. by GK Software USA is balanced in the individual accounts of GK Software USA. Currency-related changes in value have an effect on its valuation on the balance sheet date. The intrinsic value test is performed in the functional currency of the unit generating the cash and cash equivalents, in USD.

The debts acquired exceeded the identified assets by EUR 2,662 K in association with the acquisition of valuephone, so that goodwill amounting to this sum was entered on the balance sheet on 31 December 2018 for the first time.

The acquisition of the Tannenhaus UG hotel-operating company in the year under review resulted in goodwill in the amount of EUR 1,453 K. The review of its intrinsic value as at 31 December 2021 revealed a complete impairment requirement.

The goodwill for Solquest GmbH / SQ IT-Services GmbH and valuephone GmbH relate to the same “CLOUD4RETAIL” cash-generating unit (previously GKRetail) and are tested in a consolidated manner.

The assumptions on which the planning is based (see 3.2. “Intrinsic value of goodwill”) are, by their very nature, subject to risk. For the goodwill SOLQUEST/SQ-IT/Valuephone, an increase to the discount interest rate by one percentage point or a reduction in the cash flow by up to 30% would not have any effects on the results of the tests. For the goodwill TAPS, an increase to the pre-tax discount interest rate by one percentage point or a reduction in the cash flow by up to 50% compared to plans would not have any effects on the results of the tests. Realistic changes to the parameters would not result in an impairment.

The following customer bases were identified and capitalised as part of the takeovers of companies or parts of firms and within the purchase price allocations that took place:

T.45 Customer bases

Company	Year acquisition	Service life	Book value 31.12.2020	Depreciation	Currency conversions	Book value 31.12.2021
		Years	EUR K	EUR K	EUR K	EUR K
AWEK GmbH	2012	10	88	(46)	–	42
DBS Data Business Systems Inc.	2015	10	2,026	(494)	147	1,678
prudsys AG	2017	10	1,122	(164)	–	958
valuephone GmbH	2018	7	986	(223)	–	763
Total			4,222	(928)	147	3,441

The business unit at DBS Data Business Systems was acquired by GK Software USA and is being continued there under the heading of TAPS (Transaction Payment Systems). valuephone GmbH was merged with GK Software SE on 1 January 2019.

4.2.5. Stocks

T.46 Stocks

EUR K	31.12.2021	31.12.2020
Goods	70	6
Auxiliary materials and supplies	0	167
Advance payments on inventories	1	4
Total	71	177

With regard to the expenditure that was incurred in 2021, please refer to Section 5.3. Materials expenditure

4.2.6. Other accounts receivable, assets and income tax claims

We refer you to Section 4.1.2. Other accounts receivable and assets

4.2.7. Deferred taxes

We refer you to Section 5.8. Income taxes

4.2.8. Provisions for pensions

GK Software and the subsidiary AWEK GmbH issued pension benefit plans for members of the Management Board and managing directors in the form of performance-related plans.

The pension benefit plans have been organised so that they form a life-long, fixed retirement pension, which is to be paid once employees reach the age of 65 or 68 or 67. As this involves fixed pension sums, no adjustments are made in line with the final salary paid or the preceding salaries or the length of services or revenues in the fund. No fixed pension adjustment has been agreed. There are also individual entitlements in case somebody suffers invalidity or a widow's pension is necessary if somebody dies.

The Group is exposed to the following risks through its commitments to pension payments:

Investment risks. The cash value of the defined benefit obligation in the plan is determined by using a discount rate. This is determined on the basis of the profits of high-grade corporate loans with a fixed interest rate. The Group is allocating funds to the different plan assets to cover future payment obligations. As soon as the yields from the plan asset fall below this interest rate, this creates a shortfall in the cash value of the obligation created by the plan.

Risks associated with changes in interest rates. A reduction in the loan interest rate will lead to an increase in the plan liability.

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

The cash value of the defined benefit obligation and the associated current service costs are determined using the projected unit credit method.

The calculations are based on the following assumptions:

T.47 Assumptions for calculating cash values

		FY 2021	FY 2020
Pensionable age (m/f)		65-68	65-68
Discount factor(s) on 1 January	% p.a.	1.00	1.00
Discount factor(s) on 31 December	% p.a.	1.31	1.00
Rate of pension increase	% p.a.	1.50	1.50

The calculations are based on the "2018G Guideline Tables" by Klaus Heubeck.

The assets of the associated plan assets are pension-fund special assets amounting to EUR 2,080 K (previous year: EUR 1,702 K), as well as asset values from contributions to provident funds amounting to EUR 2,309 K (previous year: EUR 1,525 K) and reinsurances of EUR 140 K (previous year: EUR 512 K). In this respect, it is not possible to provide any other information on investment categories.

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

T.48 Reconciliation account to determine the cash values

EUR K	FY 2021	FY 2020
Figures on 1 January:	6,469	5,741
+ Interest expenditure	57	57
+ Working period costs	782	788
+ Working period costs to be additionally calculated	318	(53)
– Benefits paid out	(7)	(61)
+ Actuarial losses (+)/ gains (-)	(395)	(3)
of which adjustments based on experience	—	(3)
of which changes in financial assumptions	—	—
- disposal and deconsolidation of AWEK microdata GmbH	(815)	—
Figures on 31 December	**6,409**	**6,469**

The development of the plan assets is shown as follows:

T.49 Development of the plan assets

EUR K	FY 2021	FY 2020
Figures on 1 January	3,739	2,976
- disposal and deconsolidation of AWEK microdata GmbH	(396)	—
+ Expected yields from plan assets	383	31
+ Contributions by employer	880	873
– Benefits paid out	0	(54)
– Effect of the asset ceiling	(78)	(86)
Figures on 31 December	**4,528**	**3,739**

This therefore gave rise to a plan deficit of EUR 1,881 K (previous year: EUR 2,730 K), which was entered as a pensions provision.

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

T.50 Impact on earnings from pension payment obligations

EUR K	2021	2020
Current service costs	782	788
Past service costs	318	(53)
Net interest expenditure	(326)	26
Liquidation	—	—
Components of the defined benefit costs entered in the profit and loss statement	**774**	**761**
Reassessment of net debt from the defined benefit plan		
Gains from plan assets (with the exception of the amounts contained in the net interest)	—	—
Actuarial gains and losses from the change in financial assumptions	(395)	(3)
of which adjustments based on experience	0	(3)
of which changes in financial assumptions	(395)	—
Effect of the asset ceiling	(78)	(86)
Components in the defined benefit costs entered under "Other income"	**(473)**	**(89)**
Total	**301**	**672**

In terms of the ongoing annual expenditure amounting to EUR 774 K (previous year: EUR 761 K), interest revenues amounting to EUR 383 K (previous year: EUR 63 K) and interest expenditure amounting to EUR 57 K (previous year: EUR 90 K) were entered under "Interest results" and the remaining expenditure amounting to EUR 1.100 K (previous year: EUR 735 K) was entered as "Expenditure for old-age pensions".

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

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

T.51 Development of the cash values of defined benefit obligations and plan assets

EUR K	Cash value of the defined benefit obligation	Fair value of the plan assets	Shortfall (−) surplus (+)
FY 2021	6,409	4,528	(1,881)
FY 2020	6,469	3,739	(2,730)

T.52 Development of the plan liabilities and plan assets based on past experience

EUR K	Liabilities in the plan	Assets in the plan
FY 2021	10	(11)
FY 2020	20	(23)
FY 2019	29	(404)
FY 2018	16	16
FY 2017	(199)	0
FY 2016	273	(12)

We are assuming that contributions amounting to EUR 957 K (previous year: EUR 782 K) will be paid into the plan during 2022.

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

– If the actuarial interest rate increases [falls] by 0.5 percent, the defined benefit obligation would be increased by EUR 596 K [reduced by EUR 680 K] (previous year: increased by EUR 705 K [reduced by EUR 849 K]).
– If the pension trend increases [falls] by 0.5 percent, the defined benefit obligation would be reduced by EUR 473 K [increased by EUR 428 K]) (previous year: reduced by EUR 554 K [increased by EUR 423 K]).

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

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

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

T.53 Benefits from the plan in the following years

EUR K	Value	Amount Previous year
Fiscal year 1	7	62
Fiscal year 2	8	63
Fiscal year 3	92	64
Fiscal year 4	129	146
Fiscal year 5	130	182
Fiscal year 6-10	1,499	1,535

The average weighted term (duration) of the performance-related payment obligation is between 18.2 years and 29.45 years (previous year: 19.54 to 30.71).

4.2.9. Deferred public-sector subsidies

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

The reversal 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.

4.2.10. Provisions

T.54 Provisions

EUR K	Production department	Financial department	Total
As of 1 January	73	473	**546**
Amounts used	4	330	**334**
Liquidation	2	66	**67**
Additional funds	0	401	**401**
As of 31 December	**67**	**479**	**546**

The provisions in the production department exclusively cover warranties for individual items. The individual risks were analysed and a provision was formed on the basis of this individual analysis. The figures for human resources have been shown under “deferred liability” since 2021. The balance from the financial department includes EUR 380 K from auditor costs for the annual accounts and EUR 42 K from archiving costs. With the exception of the warranty provision and the archiving costs, a complete outflow of funds is expected in 2022.

We refer you to Section 3.10. “Other assessment uncertainties” with regard to the assessment uncertainty.

4.3. Equity

We would refer you to the ‘Statement of changes in the Group’s equity’ if you wish to gain information on changes to the equity at GK Software until the 2021 balance sheet reporting date.

The Company’s share capital amounted to EUR 2,258,425.00 on 31 December 2021 (2,051,100.00 on 31 December 2020) and was divided into 2,258,425 par value, individual share certificates each worth EUR 1. All the shares issued had been fully paid for by the reporting date. The amendment of EUR 207,325.00 resulted from a capital increase of EUR 180 K and EUR 27 K from exercising the share option scheme.

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

Authorised capital. On 17 June 2021, the annual shareholders’ meeting passed a resolution authorising the Management Board to increase the Company’s share capital, with the Supervisory Board’s approval, against cash contributions or assets in kind by up to a total of EUR 1,115,550.00 on one or more occasions until 16 June 2026, whereby shareholders’ subscription rights can be excluded.

Contingent capital. Conditional capital (conditional capital II EUR 50,000; conditional capital III EUR 75,000; conditional capital IV EUR 250,000; conditional capital V EUR EUR 83,500; contingent capital VI 75,000) exists. The options issued under contingent capital I, II and III have either lapsed, been fully redeemed or can no longer be redeemed. These contingent increases in capital are only performed if the owners or creditors of convertible bonds or share options make use of their conversion or subscription rights.

With regard to the issue of share options and the amount of contingent capital, we refer you to Section 8.1.1. “Share-option scheme” in the notes on the consolidated accounts.

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

Extra charges arising from the issue of shares minus the additional costs for the capital increase are shown in the capital reserves.

Accumulated other earnings from currency exchange differences arising from the conversion of foreign business operations and the actuarial profits/losses from defined benefit schemes are entered under “Other reserves”.

5. Notes on the Consolidated Profit and Loss Statement

5.1. Turnover revenues

The turnover revenues are exclusively the result of the sale of hardware and software and the provision of services for international and national customers. With regard to the breakdown of revenue from turnover, please refer to Section 1.4. “Segment reporting”

Contract assets amounted to EUR 12,152 K (previous year: EUR 13,587 K) on the balance sheet reporting date.

In the year under review, EUR 3,589 K reported as contractual liabilities as of 31 December 2020 were included in revenue from turnover. In the previous year, EUR 3,547 K reported as contractual liabilities as of 31 December 2019 were recorded as revenue.

5.2. Other operating revenues

T.55 Other operating revenues

EUR K	FY 2021	FY 2020
Offset benefits in kind	1,345	1,461
Deferred public-sector subsidies	737	817
Rent/leases with associated firms	207	360
Earnings from currency differences	2,024	623
Reductions in valuation adjustments	10	228
Other onward charges with associated firms	80	134
Revenue from other periods and insurance policies	284	124
Revenue from deconsolidation	3,458	–
Others	596	323
Total	**8,742**	**4,070**

Revenue from deconsolidation relates to the discontinued business operations of AWEK microdata GmbH.

The “Reductions in valuation adjustments” refers to the reversal of individual valuation adjustments that are no longer required and the revaluation of derivatives.

5.3. Materials expenditure

T.56 Materials expenditure

EUR K	FY 2021	FY 2020
Cost of auxiliary materials and supplies	1,402	1,156
Expenditure on purchased services	12,766	8,279
Total	**14,168**	**9,436**

5.4. Personnel expenditure

T.57 Personnel expenditure

EUR K	FY 2021	FY 2020
Wages and salaries	65,230	62,897
Social security contributions	13,509	12,742
of which expenditure on retirement benefits	1,596	1,211
Total	**78,740**	**75,640**

On average, 1,086 people were employed during the 2021 financial year (1,140 in the previous year). On the reporting date of 31 December 2021, 1,096 people, not including the Management Board, were employed (1,162 in the previous year).

With 608 staff members (previous year: 644), a large proportion of the Group’s employees were employed at GK Software SE on the reporting date of 31 December 2021. The number of people employed at Eurosoftware s.r.o. in Plzen increased to 273 (previous year: 244). 22

employees were employed at AWEK GmbH (previous year: 29). Due to the sale of AWEK microdata GmbH, 0 employees were employed (previous year: 41). 2 people were employed at OOO GK Software RUS (2 in the previous year). 90 people were employed at GK Software USA Inc. (previous year: 97). GK Software Africa Ltd had 35 employees (previous year: 31). TOV Eurosoftware-UA employed 21 people (previous year: 28). 5 people were employed at the Swiss subsidiary, StoreWeaver GmbH (previous year: 4). There were 35 people employed at prudsys AG (previous year: 42). DF Deutsche Fiskal GmbH has 5 employees (previous year: 0).

5.5. Depreciations

Apart from the scheduled depreciation of property, plant and equipment, and amortisation of usage rights from leasing contracts and intangible assets, this item also includes a write-down resulting from an intrinsic value test carried out for a building (EUR 107 K) and a plot of land (EUR 82 thousand). With regard to the assessment method used, we refer you to Section 3.1. “Impairment of value for assets”

5.6. Other expenditure

T.58 Other operating expenditure

EUR K	FY 2021	FY 2020
Travel expenses	3,370	3,977
Legal and consultancy costs	4,134	3,065
Other operating requirements	1,202	1,252
Impairment of value on derivatives	250	263
Value adjustment on receivables	122	1,103
Sales expenditure	1,657	1,164
Maintenance costs for software	3,079	2,348
Attracting and tying employees	906	654
Ancillary costs for business premises	1,310	1,138
Data traffic	588	688
Voluntary social benefits	311	373
Insurance policies and fees	731	631
Currency losses	740	816
Rent for business premises	96	96
Special expenditure for projects	141	205
Others	1,101	148
Total	**19,739**	**17,923**

The lower travel expenses continue to result from the decrease in business trips due to the pandemic.

5.7. Financial results

T.59 Financial results

EUR K	FY 2021	FY 2020
Financial income	575	192
Negative interest on bank balances/deposit rates	(148)	–
Financial expenditure	(1,279)	(1,637)
Balance	**(852)**	**(1,445)**

5.8. Income taxes

T.60 Income taxes

EUR K	FY 2021	FY 2020
Current tax liabilities	2,317	1,569
Deferred tax expenditure	839	1,255
Balance	**3,156**	**2,824**

Deferred taxes on existing losses carried forward (provided that they cannot be balanced out with existing deferred tax assets) were not entered because of the uncertainty regarding the use of these losses carried forward in the next five years. All losses carried forward were taken into account in the calculation of deferred taxes. The losses carried forward have an indefinite term.

T.61 Income tax rates

Percent	31.12.2021	31.12.2020
Group tax rate (parent company)	29.4	29.8

The change in the Group tax rate compared with the previous year results from the weighted trade-tax collection rate.
The deferred taxes are included in the following balance sheet items:

T.62 Deferred taxes

	31.12.2021		31.12.2020	
EUR K	Assets	Liabilities	Assets	Liabilities
Intangible assets	–	3,817	104	3,798
Other assets	37	17	37	130
Usage rights in the sense of IFRS 16	–	2,106	–	2,571
Trade accounts receivable from ongoing work	–	1,208	–	1,883
Receivables and other assets	332	1,159	929	–
Pension provisions	1,886	181	1,084	181
Changes in exchange rates	298	10	283	6
Provisions	16	–	12	–
Liabilities	63	4,103	185	3,196
Leasing liabilities in the sense of IFRS 16	2,139	–	2,590	–
Losses carried forward	3,654	–	3,411	–
Balancing	(8,231)	(8,231)	(8,220)	(8,220)
Total according to the balance sheet	**193**	**4,370**	**416**	**3,546**

Deferred tax claims/liabilities developed as follows:

T.63 Deferred tax claims/liabilities

EUR K	Initial balance 31.12.2021	Changes related to the income statement	Deconsoli-dation	Changes not related to the income statement	Final balance	Initial balance 31.12.2020	Changes related to the income statement	Changes not related to the income statement	Final balance
Intangible assets	(3,694)	(18)	(104)	0	**(3,817)**	(3,794)	100	0	**(3,694)**
other assets	(94)	113		0	**19**	8	(102)	0	**(94)**
Right of use assets IFRS16	(2,571)	429	35	0	**(2,106)**	(2,325)	(246)	0	**(2,571)**
Trade accounts receivable from ongoing work	(1,883)	625	50	0	**(1,208)**	(2,398)	515	0	**(1,883)**
Receivables and other assets	929	(1,786)	(4)	34	**(827)**	494	465	(29)	**929**
Pension provisions	903	995	(52)	(141)	**1,705**	1,298	(419)	25	**903**
Changes in exchange rates IAS 21	277	0		11	**288**	(10)	0	287	**277**
Provisions	12	4		0	**16**	0	12	0	**12**
Leasing liabilities in the sense of IFRS 16	2,590	(415)	(36)	0	**2,139**	2,352	238	0	**2,590**
Liabilities	(3,011)	(1,029)		0	**(4,040)**	66	(3,077)	0	**(3,011)**
Losses carried forward	3,411	243		0	**3,654**	2,151	1,260	0	**3,411**
Total	**(3,131)**	**(839)**	**(112)**	**(96)**	**(4,177)**	**(2,159)**	**(1,255)**	**283**	**(3,131)**

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

T.64 Transfer of tax expenditure

EUR K	2021	2,020
Pre-tax earnings	16,454	9,090
Anticipated tax expenditure 29.4% (previous year: 29.825%)	4,837	2,711
Tax-rate deviations	(61)	(72)
Tax impact on non-deductible company spending	532	415
Tax impact on tax-free income	(1,160)	(1)
Tax impact on trade tax additions	84	85
Tax impact on trade tax reductions	(28)	-7
Impairment on deferred tax assets from losses carried forward	–	–
Not entered losses carried forward	150	63
Use of losses carried forward for which no deferred taxes were previously recognised.	(1,752)	(488)
Tax effects from other periods	55	1,407
Permanent differences	–	(1,260)
Other tax effects	498	(28)
Actual tax expenditure	**3,156**	**2,824**

Due to the temporary differences between the assets for the subsidiaries entered on the consolidated accounts and the tax balance figure for the shares held by the parent company in the subsidiaries, no deferred taxes were entered on the balance sheet as no reversal of these temporary differences (e.g. through the sale of these shares) is expected in the foreseeable future. The temporary differences subject to taxation for which no deferred taxes were entered on the balance sheet amount to EUR 455 K.

5.9. Expenditure and earnings from currency conversions

Profits and losses from currency differences were present in the following items in the profit and loss statement:

T.65 Currency conversions

EUR K	2021	2020
Other expenses	740	816
Other operating revenues	(2,024)	(623)
Balance	**(1,283)**	**194**

6. Notes on the Cash Flow Statement

We recognise all paid taxes in the cash flow from operating activities. Any interest received is shown in the cash flow from investment activities. Any dividends and interest paid are considered in the cash flow from financial activities.

Other non-cash earnings and expenditure main involved writing off other liabilities to affect the income.

The change on the balance sheet to liabilities arising from funding activities resulted from the following circumstances, which affected both cash and non-cash items:

T.66 Explanation of cash and non-cash changes in 2021

	1.1.2021	Changes to cash			Changes related to non-cash	31.12.2021
EUR K		Repayments	Taking out funds	Others		
Non-current liabilities with banks	4,446	(551)	–	(383)	–	**3,512**
Non-current leasehold liabilities	6,731	–	–	–	(1,403)	**5,328**
Convertible bond	14,222	–	–	–	(14,222)	**–**
Total	**25,398**	**(551)**	**–**	**(383)**	**(15,625)**	**8,840**
Current liabilities with banks	5,223	(236)	–	(372)	(3,614)	**1,002**
Current leasehold liabilities	2,580	–	–	–	(123)	**2,457**
Total	**7,803**	**(236)**	**–**	**(372)**	**(3,737)**	**3,459**
Liabilities from funding activities	**33,201**	**(786)**	**–**	**(755)**	**(19,361)**	**12,299**

T.67 Explanation of cash and non-cash changes in 2020

	1.1.2020	Changes to cash			Changes related to non-cash	31.12.2020
EUR K		Repayments	Taking out funds	Others		
Non-current liabilities with banks	6,132	(1,508)	–	(178)	–	**4,446**
Non-current leasehold liabilities	6,279	–	–	–	452	**6,731**
Convertible bond	13,826	–		–	395	**14,222**
Total	**26,238**	**(1,508)**	**–**	**(178)**	**847**	**25,398**
Current liabilities with banks	13,861	(5,832)	–	(690)	(2,116)	**5,223**
Current leasehold liabilities	2,735	(2,786)	–	–	2,630	**2,580**
Total	**16,596**	**(8,618)**	**–**	**(690)**	**514**	**7,803**
Liabilities from funding activities	**42,834**	**(10,127)**	**–**	**(868)**	**1,361**	**33,201**

7. Items Not Entered

7.1. Contingent liabilities

Contingent liabilities cover possible obligations, but their existence is only confirmed if one or several uncertain future events actually take place and there is no possibility of exercising complete control over these factors. However, this term also covers existing obligations, which will probably create no outflow of assets. According to IAS 37, contingent liabilities are not entered on the balance sheet. Guarantee loans amounting to EUR 232 K (previous year:

EUR 207 K) existed for contingent liabilities and they were granted by Volksbank Vogtland e.G. (EUR 23 K), Commerzbank (EUR 176 K) and the DZ Bank (EUR 8 K). The securities act as normal coverage for renting the business premises in Berlin, Cologne and St. Ingbert. The rental guarantee from the Volksbank is secured by pledging bank credit balances amounting to EUR 11 K (previous year: EUR 11 K). The Management Board does not expect it to be necessary to make use of the guarantee.

7.2. Financial obligations

GK Software SE and its Group companies did not enter any relevant purchase obligations during the year ending 31 December 2021. The obligations arising from leases and rental contracts were recognised on the balance sheet in line with IFRS 16.

7.3. Results after the reporting period

With GK Software Asia Pte. Ltd. in Singapore and GK Software Australia Pty. Ltd. in Melbourne, 2022 saw the establishment of two further national companies.

The outbreak of the war in Ukraine in February 2022 represents an event after the balance-sheet of currently inestimable extent, duration and negative consequences for the economy as a whole. GK Software SE principally acquires development services from its Ukrainian subsidiary. Due to the countermeasures taken, no significant burdens on the assets, financial and earnings situation of the Company are expected for the 2022 fiscal year.

8. Other Information

8.1. Share-based remuneration

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

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

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

8.1.1. Share option scheme

Share option programmes were introduced to supplement the normal remuneration to improve the loyalty and motivation of leading employees and those who provide special services.

According to Section 4a Para. 1, 3 and 6 of the articles of association, the Management Board was entitled to grant subscription rights to individual share certificates as part of the share option programme on one or more occasions, provided that the Supervisory Board approves these measures. The share options are exclusively for subscription by members of the GK Software SE Management Board, selected managers and other senior employees at GK Software SE and for subscription by members of the management team and selected managers and other leading employees in companies, which are independently associated firms in a relationship with GK Software SE in the sense of Sections 15 and 17 of the German Companies Act. The decisions taken at the annual shareholders' meeting on 28 June 2012 (contingent capital II), 29 June 2015 (contingent capital III), 29 June 2018 (contingent capital V) and 17 June 2021 (contingent capital VI) empowered the Management Board to issue subscription rights to GK Software SE shares with a term of up to five years provided that each share option grants the right to subscribe to one GK Software SE share. The time limits for contingent capital II and III have expired. Remaining options from contingent capital III can no longer be exercised.

A decision taken at the annual shareholders' meeting on 16 June 2016 empowered the Management Board to issue on one or several occasions option and/or convertible bonds, profit participation certificates or participating bonds made out to the holder or name or a combination of these financial instruments and exclude the subscription rights to these instruments or their combination until 15 June 2021, provided that the Supervisory Board agrees.

The individual conditions are recorded in the following tables.

The options exercised during the reporting period involved an average share price of EUR 130 (previous year: EUR 66.86).

T.68 Development of outstanding options that have been exercised and lapsed or forfeited

	Number of options
Options outstanding on 1 January 2020	112,250
Options granted during the course of the 2020 financial year	20,525
Options lost during the reporting period	(3,875)
Options redeemed during the reporting period	(27,800)
Options expiring during the reporting period	(4,500)
Options outstanding on 31 December 2020	**96,600**
Exercisable options on 31 December 2020	**21,650**
Options outstanding on 1 January 2021	96,600
Options granted during the course of the 2021 financial year	23,725
Options lost during the reporting period	(4,500)
Options redeemed during the reporting period	(27,325)
Options expiring during the reporting period	(12,200)
Options outstanding on 31 December 2021	**76,300**
Exercisable options on 31 December 2021	**6,000**
Weighted average of options exercised in 2021	129.94

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

T.69 Options granted and obstacles to exercising them

Date of issue	Issue options	of which forfeited	of which lapsed	of which redeemed	Options remaining	Exercise price	Exercise period	End of exercise period
	Number	Number	Number		Number	EUR	Years	
20.6.2017	8,500	1,250	1,150	6,100	0	92.10	4 1/4	21.6.2021
Conditional capital II					**0**			
29.8.2016	32,025	1,600	7,050	23,375	0	45.98	4 1/4	29.8.2020
4.12.2017	16,500	0	4,000	6,500	6,000[1]	116.69	4 1/4	3.12.2021
Conditional capital III					**6,000**			
26.11.2018	37,000	8,950	0	0	28,050	75.16	4 1/4	28.11.2022
3.8.2020	20,525	2,000	0	0	18,525	68.00	4 1/4	3.8.2024
5.10.2021	23,725	0	0	0	23,725	154.40	5	5.10.2025
Conditional capital V					**70,300**			
Total amount					**76,300**			

1 The remaining options can no longer be exercised

T.70 Currency rates, interest rates and volatility

Date of issue	Term from issue date	Stock exchange price on assessment date	Retention period	Risk-free interest rate	Volatility	Shares for Management Board	Total value
	Years	EUR	Years	%	%	Number	EUR K
20.6.2017	4 1/2	93.00	4	(0.52)	31.97	—	195
29.8.2016	5	44.20	4	(0.60)	31.64	10,000	294
4.12.2017	4 1/2	116.30	4	(0.47)	32.01	10,000	468
26.11.2018	4 1/2	76.20	4	(0.36)	29.08	10,000	633
3.8.2020	4 1/2	70.00	4	(0.73)	34.71	10,000	363
5.10.2021	5	151.50	4	(0.70)	36.25	10,000	663

The non-risk interest rate for the SOP programme released on 05.10.2020 was calculated using the average cost method.

T.71 Distribution of expenditure entered

Date of issue	Fair value/ option	Probable average exercise period on the balance sheet reporting date	Assumed annual dividend per share	Expenditure entered	of which Management Board
	EUR	Months	EUR	EUR K	EUR K
20.6.2017	22.934	0	0.50	39	—
4.12.2017	28.370	4	0.50	86	52
26.11.2018	17.100	10	0.50	131	35
3.8.2020	19.170	31	0.50	88	43
5.10.2021	42.600	45	0.50	40	17
Total amount				**384**	**147**

The process of determining the fair values per option took place on the basis of 10,000,000 simulations using the Monte Carlo procedure. The total value per share option scheme was determined by taking into account each option. This figure must be entered as personnel expenditure on a pro-rata basis for the elapsed qualifying period and assigned to the capital reserves. The exercise price, the exercise hurdle and the exercise period were taken into consideration in the underlying observation.

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

The average weighted residual term for the options is 1.29 years.

8.2. Earnings per share

The earnings per share are determined as a quotient of the total results and the weighted average of the number of shares in circulation during the financial year. The consolidated annual surplus for 2021 amounts to EUR 13,298 K (previous year: EUR 6,266 K) As a result, the earnings per share in 2021 amounted to EUR 5.66 diluted and EUR 5.98 undiluted (previous year: EUR 3.00 diluted and EUR 3.04 undiluted).

T.72 Reconciliation of the results used to determine the earnings per share.

EUR K	FY 2021	FY 2020
Annual results	13,298	6,266
Less the proportion of non-controlling shares	(141)	(55)
Group result (numerator for the undiluted earnings per share)	**13,157**	6,210
Annual results	13,298	6,266
Plus interest saved on convertible bonds	450	450
Less the tax drawback due to conversion	(131)	(131)
Less the proportion of non-controlling shares	(141)	(55)
Adjusted Group result (numerator for the diluted earnings per share)	**13,476**	**6,529**

T.73 Weighted average of shares used as denominator

Number	FY 2021	FY 2020
Weighted average of shares used as the denominator to determine the undiluted earnings per share	2,201,490	2,040,376
Options	52,575	73,725
Convertible bond	96,774	96,774
Adjustment by fictitious bonus shares due to exchange rate differences	30,174	(32,101)
Weighted average of the shares and potential shares used as the denominator to determine the diluted earnings per share	**2,381,013**	**2,178,774**

When calculating the diluted earnings per share, the total number of shares, the number of existing and possible new shares from the share option schemes and the convertible bond were all taken into consideration.

The earnings from the period were also increased by the interest-rate advantage from the convertible bond and reduced by the resulting tax effect.

8.3. Details of capital management

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

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

8.4. Details of associated persons and firms

There was no need for any expenditure on valuation adjustments or irrecoverable accounts receivable with associated persons or these items did not exist at all.

Any business transactions between GK Software and its consolidated subsidiaries were illuminated as part of the consolidation process.

8.4.1. Management Board

The following people are members of the Management Board:

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

The members of the Management Board at GK Software SE receive not only a fixed salary, but also a salary component that is dependent on results and is linked to qualitative targets and mainly relates to the development of the business. These qualitative targets are set by the Supervisory Board for the members of the Management Board each year.

The members of the Management Board are granted benefits in kind in addition to fixed remuneration. This includes the provision of company cars, also for private use. In addition, the members of the Management Board are reimbursed for the costs of maintaining residences at the company's various locations. The members of the Management Board are granted pension packages according to their level of seniority.

The overall remuneration (without LTI[1]) of the Management Board for their work in the 2021 financial year was EUR 2,181 K (2020: EUR 1,426 K), of which EUR 1,206 K (2020: EUR 1,006 K) was for fixed salary and EUR 975 K (2020: EUR 420 K) was for the variable components.

In addition, payments of EUR 739 K (previous year: EUR 628 K) for active members of the Management Board and EUR 205 K (previous year: EUR 205 K) for two former members of the Management Board were made to retirement pension institutions. These were a reinsured provident fund, a pension fund and a direct insurance.

Forfeitable share provisions (share options) are granted as long-term share-based remuneration. If they are exercised, the options are serviced by the issue of new non-par value company shares made out to the holder with a calculated share in the nominal capital of EUR 1 from the authorised capital without any additional payment. In terms of the organisation of the stock awards, the same general conditions apply to the Management Board as to leading members of staff, please refer to Section 8.1.1. "Share-option scheme".

As of 31 December 2021, 50,000 share options were held by the members of the Management Board and 2,000 by two former members of the same body. In the year under review, the members of the Management Board were each granted 5,000 shares. The expenditure from the share-based remuneration for the members of the Management Board entered on the basis of the assessment was EUR 147 K (previous year: EUR 159 K).

1 LTI: Long-term incentive

T.74 Pension provisions for members of the Management Board

EUR K	31.12.2021	31.12.2020
Provisions for pensions	**1,881**	**2,730**
thereof for board members	1,572	1,891
thereof for former board members	309	839
Settlement amount of the provision	**6,409**	**6,469**
thereof for board members	5,065	4,404
thereof for former board members	1,344	2,065
Fair value of net contribution margin	**4,528**	**3,739**
thereof for board members	3,493	2,514
thereof for former board members	1,035	1,226
Working period costs	**782**	**788**
thereof for board members	542	548
thereof for former board members	240	241

Regarding the form of the pension commitments, please refer to Section 4.2.8. "Provisions for pensions".

Those who are or were members of the Company's Management Board or Supervisory Board during the 2021 financial year, directly held the following shareholdings in GK Software on 31 December 2021:

T.75 Shareholdings held by members of the Management Board and the Supervisory Board

Name	Number of shares	in %
Rainer Gläss	67,792	3.00
Herbert Zinn	2,000	0.09
André Hergert	14,198	0.63

Mr Gläss indirectly held a further 464,500 shares through Gläss Vermögenverwaltungs GmbH & Co KG on 31 December 2021.

Other accounts receivable with members of the Management Board amounting to EUR 39 K involved various advance payments for purchases, travel expenses and similar items and they were therefore not subject to any interest. These accounts receivable can be recovered at any time.

8.4.2. Supervisory Board

The Company's Supervisory Board consists of three members.

- Dr Philip Reimann — Hamburg, until 30.09.2021 partner, solicitor, tax consultant, solicitor specialising in tax law, Dierkes & Partner Partnergesellschaft mbB, since 1.10.2021 managing director, solicitor, tax consultant, solicitor specialising in tax law, LPJ Bantelmann & Reimann Rechtsanwaltsgesellschaft mbH, Chair
- Mr Herbert Zinn — Ebersburg, managing partner at SÜBET RHEIN-MAIN Handels- und Beteiligungsgesellschaft mbH und Co.KG and managing partner at HBZ Immobilien-Verwaltungs-GmbH
- Mr Thomas Bleier — Oelsnitz, business economist (Sparkasse), Deputy Chair

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

There were no agreements with the Company regarding pensions for the members of the Supervisory Board.

For the 2021 financial year, the members of the Supervisory Board are entitled to a fixed remuneration of EUR 120 K (2020: EUR 83 K) according to the articles of association. This is entered under the current liabilities. There was no entitlement to any performance-related remuneration in 2021 or 2020 and there are no provisions for such in the articles of association.

8.4.3. Associated firms

Accounts receivable with associated firms are those that are not included in the consolidated companies. All the business transactions with associated firms involved other related companies in line with the categorisation in IAS 24.19.

T.76 Accounts receivable with associated firms

EUR K	31.12.2021	31.12.2020
Suppliers with debit balances	79	79
Other claims	628	2,168
Trade accounts receivable	228	220
Total receivables	**935**	**2,466**
Accounts payables	69	20
Total liabilities	**69**	**20**

The balance of creditors with a debit account resulted from credits issued after the balance sheet reporting date in conjunction with purchased services from associated firms.

The other accounts receivable involved advanced payments made on the contingent purchase price arising from the acquisition of valuephone GmbH, Schöneck, of EUR 579 K.

The trade accounts receivable largely consisted of service relationships with ‘Mountain View Transport GmbH’, Schöneck. These relate to transport services and expenses.

T.77 Expenditure and earnings with associated firms and persons

EUR K	31.12.2021	31.12.2020
Expenses with related companies	**1,271**	**1,641**
thereof other services received	586	881
thereof transport services	633	707
thereof rents/leases	53	53
Earnings with related companies	**289**	**495**
thereof provided cars and services	66	82
thereof rents/leases	207	376
thereof internal charging	16	35
thereof from loan interest	0	3

The other services received are maintenance and canteen services and the transport services are travel services.

8.5. Auditor's fees

The auditor and companies attributable to it received the following fees in 2021:

T.78 Auditor's fees

EUR K	GK Software SE	GK Software Africa	prudsys AG
Auditing the annual accounts	443	27	8
Other services	10	0	0
Total	**453**	**27**	**8**

8.6. Statement of compliance

The German corporate governance code statement in line with section 161 of the Public Limited Companies Act was submitted and has been published on the homepage of GK Software SE in the "Corporate Governance" section at https://investor.gk-software.com.

8.7. Details of Group affiliation

GK Software SE, and therefore the GK Software Group (the smallest and largest consolidated companies), are subject to the direct control of GK Software Holding GmbH (HRB 24111 Chemnitz), which has its headquarters in Schöneck and is the senior parent company.

8.8. Day when the accounts were approved for publication

The Management Board cleared these consolidated accounts to be forwarded to the Supervisory Board on 27 April 2022. The Supervisory Board has the job of checking the consolidated accounts and stating whether it endorses them or not.

Guarantee by the Legal Representatives

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

Schöneck, 27 April 2022

The Management Board

Rainer Gläss
Chief Executive Officer

André Hergert
Chief Financial Officer

The auditor's report reproduced below also includes a "Report on the Audit of Electronic Reproductions of the Consolidated Financial Statements and of the Management Report Prepared for the Purpose of Disclosure Pursuant to Section 317, Paragraph 3b HGB" (ESEF report). The subject matter of the ESEF report (the ESEF documents to be audited) is not attached. The audited ESEF documents can be viewed in or retrieved from the Federal Gazette.

Independent Auditor’s Report

To GK Software SE, Schöneck / Vogtland

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

Audit Opinions

We have audited the consolidated financial statements of GK Software SE (formerly GK Software AG), Schöneck / Vogtland, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2021, the total income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from January 1 to December 31, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of GK Software SE for the financial year from January 1 to December 31, 2021.

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

– the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e, Paragraph 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2021, and of its financial performance for the financial year from January 1 to December 31, 2021, and
– the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322, Paragraph 3, Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

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

In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

1 Recoverability of goodwill

2 Revenue recognition and allocation of revenue to correct periods

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

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matters:

1 Recoverability of goodwill

1 Goodwill amounting in total to EUR 17.709 K (representing 12 % of total assets and 21 % of equity) is reported under the "Intangible assets" balance sheet item in GK Software SE (formerly GK Software AG)'s consolidated financial statements. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. Impairment testing is carried out at the level of the cash-generating units to which the relevant goodwill has been allocated. The carrying amount of the cash-generating unit, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The calculation of the recoverable amount generally employs the value in use. The present value of the future cash flows from the cash-generating unit normally serves as the basis of valuation. The present values are calculated using discounted cash flow models. For this purpose, the medium-term business plan adopted by the Group forms the starting point for future projections. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital for the cash-generating unit. The impairment test determined that no write-downs were necessary. The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the cash-generating unit, the discount rate used, and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

2 As part of our audit, we reviewed the methodology employed for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the medium-term

business plan adopted by the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated using this method, we focused our testing on the parameters used to determine the discount rate applied, and verified the calculation procedure. We reproduced the sensitivity analyses performed by the Company, in order to reflect the uncertainty inherent in the projections. Taking into account the information available, we determined that the carrying amount of the cash-generating unit, including the allocated goodwill, were adequately covered by the discounted future net cash inflows. Overall, the measurement inputs and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

3 The Company's disclosures regarding the impairment test and the balance sheet item “Intangible Assets” are included in the sections “3.2 Goodwill Impairment" and “4.2.4 Intangible Assets” in the notes to the consolidated financial statements.

2 Revenue recognition and allocation of revenue to correct periods

1 Revenue amounting to EUR 130,847 K is reported in the Consolidated Profit and Loss Statement of GK Software SE. The company recognizes revenue from the sale and temporary granting of licenses, the provision of installation services and advice, maintenance and other services. The recognition of revenue from the sale of licenses depends on the existence of a binding contractual arrangement, the transfer of material rights to the buyer and the ability to reliably determine the consideration paid. Proceeds from services are realized as at the date the services are rendered, while maintenance revenue and proceeds from the temporary granting of licenses is realized over the performance period. These various services rendered by the company can be the object of agreements with customers, either individually or in various constellations. In this connection, the company must also identify contracts relating to multiple components and account for agreed individual services individually. In light of the complexity of the customer agreements underpinning revenue recognition, these significant items are subject to particular risk. Against this background, the correct application and deferral of revenues under the Group-wide application of the accounting standard IFRS 15 is considered to be complex and is based in some respects on estimates, assumptions and discretion used by the executive directors, with the result that this matter was of particular importance for our audit.

2 As part of our audit, we assessed, among other things, the correct presentation of revenue in the consolidated financial statements on the basis of the accounting policies applied by GK Software SE (formerly GK Software AG) in relation to the recognition of software revenue in accordance with the relevant IFRSs, in particular IFRS 15. To do so, we particularly first identified the material controls implemented by the Group to ensure the correct identification of contracts and performance obligations and the subsequent recognition of revenue, assessed their appropriateness and tested their effectiveness in preventing and detecting errors. In addition, we particularly have performed detailed revenue recognition reviews of individual significant transactions and other transactions on a test basis, including, inter alia, reviewing customer contracts, identifying performance obligations and assessing whether these services were rendered over a specified period or at a specified time and what transaction prices were received. Based on our audit procedures, we satisfied ourselves that the estimates and assumptions relating to revenue recognition made by the executive directors were adequately documented and justified.

3 The Company's disclosures on revenue recognition are contained in sections "Accounting and measurement methods" and "2.13 Income from contracts with customers" of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information.

The other information comprises

- the statement on corporate governance pursuant to Section 289f HGB and Section 315d HGB.
- the separate non-financial report pursuant to Section 289b, Paragraph 3 HGB and Section 315b, Paragraph 3 HGB.
- all other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report as well as our auditor's report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Legal and Regulatory Requirements

Report on the Audit of Electronic Reproductions of the Consolidated Financial Statements and of the Group Management Report Prepared for the Purpose of Disclosure Pursuant to Section 317, Paragraph 3a HGB

Audit Opinion

Pursuant to Section 317, Paragraph 3a HGB, we have performed an audit with reasonable assurance to determine whether the reproductions of the consolidated financial statements and the group management report (hereinafter also referred to as the "ESEF documents") contained in the file GK Software_SE_KA+KLB_ESEF-2021-12-31.zip and prepared for the purpose of disclosure comply in all material respects with the requirements of Section 328, Paragraph 1 HGB regarding the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this audit only covers the conversion of the information in the consolidated financial statements and the group management report into the ESEF format and therefore covers neither the information contained in these reproductions nor any other information contained in the aforementioned file.

In our opinion, the reproductions of the consolidated financial statements and the group management report contained in the aforementioned file and prepared for the purpose of disclosure comply in all material respects with the requirements of Section 328, Paragraph 1 HGB regarding the electronic reporting format. Beyond this audit opinion and our audit opinions on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2021 contained in the preceding "Report on the Audit of the Consolidated Financial Statements and of the Group Management Report", we do not express any audit opinion on the information contained in these reproductions or on the other information contained in the aforementioned file.

Basis for the Audit Opinion

We conducted our audit of the reproductions of the consolidated financial statements and the group management report contained in the aforementioned file in accordance with Section 317, Paragraph 3a HGB, taking into account the IDW Auditing Standard: The audit of electronic reproductions of financial statements and management reports prepared for the purpose of disclosure was carried out pursuant to Section 317, Paragraph 3a HGB (IDW PS 410 (10.2021)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibilities thereafter are further described in the "Group Auditor's Responsibility for the Audit of the ESEF Documents" section. Our auditing practice has applied the quality assurance system requirements of the IDW Quality Assurance Standard: Requirements for Quality Assurance in the Auditing Practice (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the company are responsible for the preparation of the ESEF documents with the electronic reproductions of the consolidated financial statements and the group management report in accordance with Section 328, Paragraph 1, Sentence 4, No. 1 HGB and for the mark-up of the consolidated financial statements in accordance with Section 328, Paragraph 1, Sentence 4, No. 2 HGB.

In addition, the company's executive directors are responsible for the internal controls as they deem necessary to enable the preparation of the ESEF documents that are free from material non-compliance, whether due to fraud or error, with the electronic reporting format requirements of Section 328, Paragraph 1 HGB.

The supervisory board is responsible for overseeing the preparation processes of the ESEF documents as part of the financial reporting process.

Group Auditor's Responsibilities for the Audit of the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance, whether due to fraud or error, with the requirements of Section 328, Paragraph 1 HGB. We exercise professional judgment and maintain professional scepticism during the audit. We also:

– Identify and assess the risks of material non-compliance with the requirements of Section 328, Paragraph 1 HGB, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.

– Obtain an understanding of internal controls relevant to the audit of the ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of those controls.

- Assess the technical validity of the ESEF documents, i.e. whether the file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, as amended at the reporting date, for the technical specification for that file.

- Assess whether the ESEF documents provide a consistent XHTML reproduction of the audited consolidated financial statements and the audited group management report.

- Assess whether the mark-up of the ESEF documents with inline XBRL technology (iXBRL) in accordance with Articles 4 and 6 of Delegated Regulation (EU) 2019/815, as applicable at the reporting date, provides an adequate and complete machine-readable XBRL copy of the XHTML rendering.

Further Information pursuant to Article 10 of the EU Audit Regulation
We were elected as group auditor by the annual general meeting on June 17, 2021. We were engaged by the supervisory board on October 27, 2021. We have been the group auditor of GK Software SE (formerly GK Software AG), Schöneck / Vogtland, without interruption since financial year 2017.

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

Reference to Any Other Matters - Use of the Auditor's Report

Our auditor's report should always be read in conjunction with the audited consolidated financial statements and the audited group management report as well as the audited ESEF documents. The consolidated financial statements and the group management report converted into the ESEF format - including the versions to be published in the Federal Gazette - are merely electronic reproductions of the audited consolidated financial statements and the audited group management report and do not replace them. In particular, the "Report on the Audit of Electronic Reproductions of the Consolidated Financial Statements and of the Group Management Report Prepared for the Purpose of Disclosure Pursuant to Section 317, Paragraph 3a HGB" and our audit opinion contained therein can only be used in conjunction with the audited ESEF documents provided in electronic form.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Carl Erik Daum.

Leipzig, 27 April 2022

PricewaterhouseCoopers GmbH Auditing company

Carl Erik Daum
Auditor

ppa. Marcus Engelmann
Auditor

Financial Calendar

15 June 2022
Annual Shareholders' Meeting 2022

26 August 2022
Interim Report as of 30 June 2022

28 – 30 November 2022
Equity Quality Forum in Frankfurt/M.

28 November 2022
Quarterly Report as of 30 September 2022

24 April 2023
Annual Report as of 31 December 2022

25 May 2023
Quarterly Report as of 31 March 2023

15 June 2023
Annual Shareholders' Meeting 2023

29 August 2023
Interim Report as of 30 June 2023

November 2023
Equity Quality Forum in Frankfurt/M.

28 November 2023
Quarterly Report as of 30 September 2023

Legal Notice

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Notes

Note on the Annual Report
The Annual Report is also available as a translation into English. In the event of deviations, the German version shall apply. The Annual Report is available for download in both languages on the Internet at https://investor.gk-software.com.

Note on Rounding
When using rounded amounts and percentages, minor deviations may occur due to commercial rounding.

Forward-Looking Statements
This Annual Report contains forward-looking statements that are subject to risks and uncertainties. They are estimates of the Executive Board of GK Software SE and reflect its current views with respect to future events. Such forward-looking statements can be identified by terms such as "expect", "estimate", "intend", "may", "will" and similar expressions with reference to the company. Factors that may cause or influence a deviation include, without claim to completeness: the development of the retail and IT markets, competitive influences, including price changes, regulatory measures, risks in the integration of newly acquired companies and participations. If these or other risks and uncertainties materialise, or if the assumptions underlying any of the statements prove incorrect, GK Software SE's actual results may be materially different from those expressed or implied by such statements. The company assumes no obligation to update such forward-looking statements.