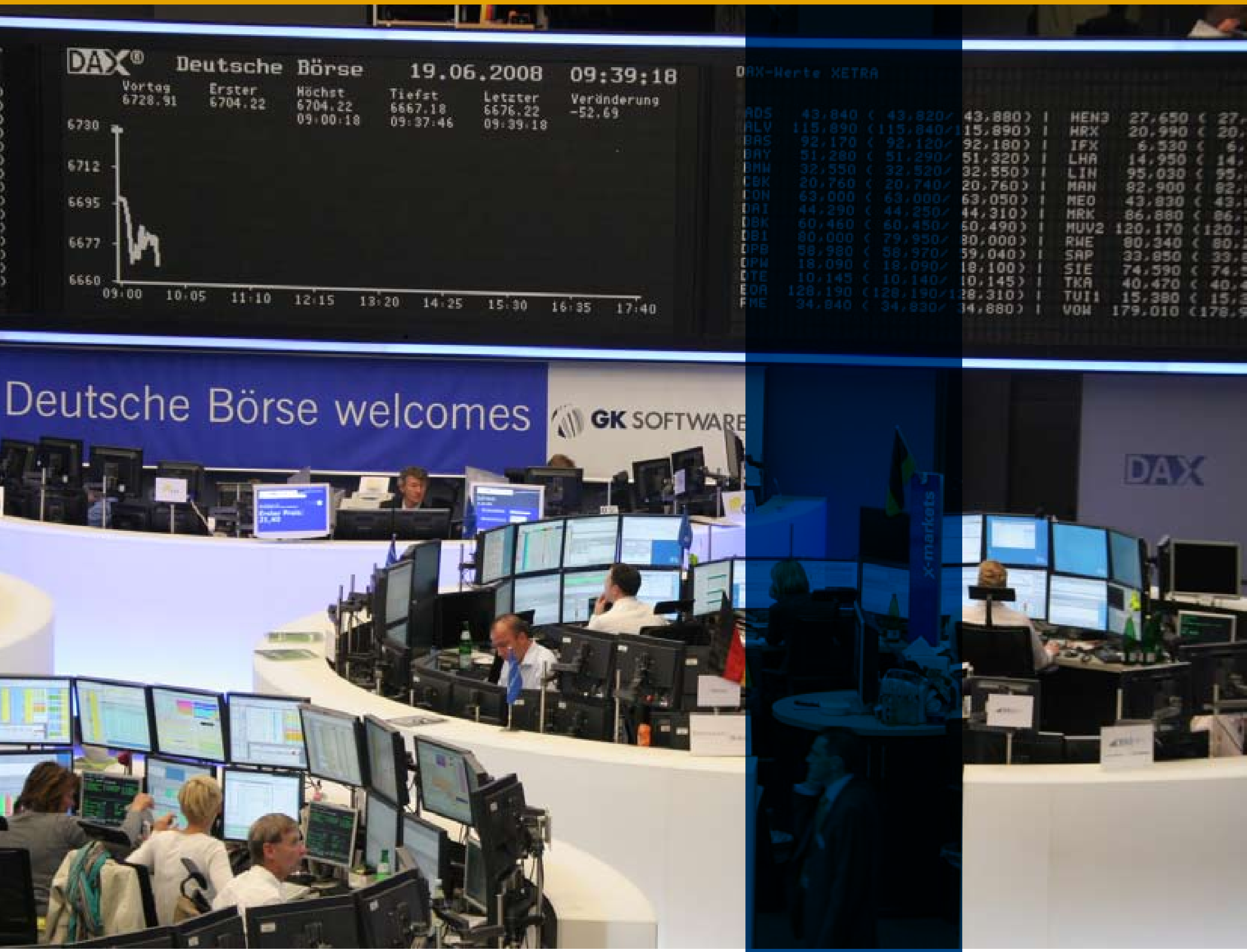
Annual Report

2008



GK SOFTWARE

Overview of KPIs

	31.12.2008	31.12.2007
Sales revenue (EUR thousand)	15,029	10,745
Total operating revenue (EUR thousand)	15,008	11,681
EBIT (EUR thousand)	2,775	2,332
EBIT margin (in terms of sales revenvue)	18.5%	21.7%
EBIT margin (in terms of total operating revenue)	18.5%	20.0%
EBT (EUR thousand)	2,864	2,217
Net income for the period (EUR thousand)	2,034	1,561
Earnings per share (weighted) (EUR) [1]	1.38	312.26
Equity ratio	60.0%	17.6 %
Net debt (EUR thousand) [2]	-7,599	-1,510

1 During the 2007 business year on average 5,000 shares were issued, whereas the figure for the 2008 business year was 1,472,240. If the results per share are calculated in relation to the 1,665,000 shares that had been issued on 31 December 2008, this provides a result per share of EUR 1.22 (EUR 0.94 in 2007).

2 Surplus from interest-bearing liabilities over cash and cash equivalents (negative value: to all intents and purposes free of debt)

Table of content

Profile of GK SOFTWARE AG

6 Projects won, e.g.:
- Coop (Switzerland)/ May
- Hornbach/ December
- JYSK/December

Appointment of André Hergert as CFO – March

IPO – June, first successful IPO in Prime Standard in 2008

Successful 2nd quarter figures showing dynamic growth

Coop (Switzerland) as first foreign customer – Q2, StoreWeaver – its first project with Coop (Switzerland) July

1ST QUARTER

2ND QUARTER

The leading technology developer and provider of **standard software for the retail sector** in Europe with an extensive range of products for stores and enterprise headquarters

Technology and innovation leader on the market as a result of its open GK/Retail Suite software solutions, which **can be used on any platform**; they are **completely programmed using Java**

Modular software opens up **significant cost savings potential** for the retail stores business as a result of

- process optimization and
- improved competitiveness thanks to a variety of possibilities for increasing customer loyalty

Surplus from interest-bearing liabilities over cash and cash equivalents (negative value: debt-free)

Roll-out for Kaufhof, Depot – completed on schedule in Q3, Roll-out for Thalia Austria finished in Q4

Start of international sales with staff in UK and activities in Russia – October

StoreWeaver branch opened in St. Ingbert – November

Coop (Switzerland) launches productive operations in first pilot store – November

3RD QUARTER

4TH QUARTER

2008

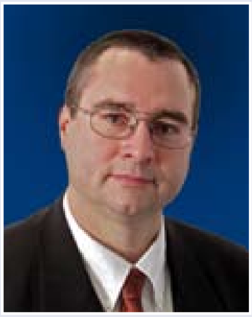
213 employees at company headquarters in Schöneck and four other locations in Berlin, St. Ingbert, Plzen (CZ) and Basel/Riehen (CH)

Well-known German and international retail customers, including Galeria Kaufhof, Parfümerie Douglas, Coop (Switzerland), EDEKA Hannover-Minden, Hornbach, JYSK Nordic (Denmark) Lidl, Netto Marken-Discount and Tchibo

The modular software suite is being used at more than **55,000 POS units** in approx. **13,000 stores** in Germany and further afield in **25 countries**

A **profitable** company showing strong growth

Rainer Gläß
CEO



Stephan Kronmüller
CTO

Ronald Scholz
COO

André Hergert
CFO

1. To our shareholders

A. Preface of the Managing Board

Dear shareholders,

We are very proud to be able to present to you our first annual report from GK SOFTWARE AG as a listed company. The 2008 business year was once again very successful for our company with double digit growth and a high degree of profitability. Sales revenues rose by almost 40% in comparison with the previous year to EUR 15.0 million. And in terms of earnings before interest and tax (EBIT), the growth rate was approx. 19% to EUR 2.8 million. This gives rise to an EBIT margin of 18.5%. In general terms, consolidated profits were EUR 2.0 million, an increase of approx. 30%. This dynamic development was the result of many new projects and the expansion of our existing customer relations.

Not only were the consolidated results outstanding – but we have also reached important milestones for ongoing corporate developments. Despite a difficult market environment, we successfully celebrated our IPO in June. We were one of just two companies that managed to enter the premium segment at the German Stock exchange, the Prime Standard. The gross yield of EUR 8.7 million forms a solid basis for our further international growth. The three members of the Management Board were joined by a new CFO, André Hergert, in March in connection with the IPO.

During 2008 we were able to acquire a number of new, trend-setting projects. In international terms, the Swiss group Coop should be mentioned here as the first foreign customer. Coop has now installed GK/Retail in the first pilot store. This means that this complex project with central architecture has reached a productive stage after just seven months. This is the first important milestone in this complex project that involves central architecture. Overall 1,400 Coop stores operating in various lines of business will be equipped with GK/Retail.

The Danish company JYSK Nordic, one of the leading European fittings and furniture trading companies, signed an agreement for a new international store solution in November. The company is planning to complete the roll-out during the next three years. JYSK Nordic currently has business operations in eleven countries and the agreement with GK SOFTWARE involves plans to expand into 21 countries, including China.

The solutions provided by GK SOFTWARE AG attracted a great deal of interest in Germany too and we were able to acquire a new customer in the shape of Hornbach, a successful retail company in the home improvement sector. This order represents a first important step towards opening up the home improvement stores retail sector for the GK/Retail standard software. The company also successfully completed roll-outs at Galeria Kaufhof GmbH, the “DEPOT” sales line at Gries Deco Company GmbH and at Austrian stores of Thalia. These are examples of important projects, which we managed to complete or make progress in 2008.

Our research and development department also met an important target: The go-ahead was given for the new major version called GK/Retail 12 in the fall. It combines a variety of innovations in both functional and technological terms and it represents a quantum leap forwards in terms of quality. The end-to-end store solution is now completely based on the new ABC technology (Advanced Business Components). This technology, which meets SOA standards, allows customer functions, new solution components and subsystems to be integrated with ease.

The 2009 business year has started well for us: We received a major order from the food retail company Lidl in February to supply our software for the complete Lidl network, which is spread over twenty European countries. Lidl has been working with our DOS-based till software since the end of the 1990s – this is now due to be completely replaced by the modern Java solution, GK/Retail.

Our subsidiary StoreWeaver GmbH is also trading very successfully in the market place. Building on the technological expertise of GK SOFTWARE AG, it expanded its range of products in 2008 and began to realize the first customer projects using its own development team. StoreWeaver opened a new competence center in the IT center of St. Ingbert in the German state of Saarland in November 2008. This location is due to operate as an innovation and conference center.

Despite the global economic crisis, we are confident that our positive corporate development will continue in 2009 too. We are expecting further growth in sales again and corresponding profitability in the new business year. We are also planning to hire more staff, particularly for StoreWeaver. The current financial crisis has not had any negative effects on our operating business so far. We are currently involved in concentrated discussions with potential customers and the progress being made with our existing customers is going according to plan. But it is difficult to make a clear forecast about the investment behavior of the retail sector as the economic consequences of the financial crisis cannot yet be fully measured. It will not be possible to make more specific forecasts about our prospects until later in the year as developments will depend on how the economy fares in Europe and how this affects the retail sector. As issues like customer loyalty, increases in customer satisfaction and optimizing store processes in the retail sector in particular become more important during any economic downturn, we remain confident that business developments at GK SOFTWARE AG will continue to be successful during 2009.

We are delighted to know that you are supporting GK SOFTWARE AG along its pathway of growth and we would like to thank you for placing your confidence in us.

The Management Board

Rainer Gläß
(CEO)

Stephan Kronmüller
(CTO)

Ronald Scholz
(COO)

André Hergert
(CFO)

B. Report from the Supervisory Board

Dear shareholders,

GK SOFTWARE AG, which has its headquarters in Schöneck, has been listed on the Frankfurt Stock Exchange in the Regulated Market segment (Prime Standard) since 19 June 2008. This means that this report is the first by the Supervisory Board since the company's IPO

Composition of the Supervisory Board

In line with the articles of incorporation, the Supervisory Board consists of three members. No committees have been formed. The following people belonged to the body during the 2008 business year:

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

Uwe Ludwig and Heinrich Sprenger have been appointed until the end of the annual shareholders' meeting in 2011. Thomas Bleier has been appointed until the end of the annual shareholders' meeting in 2009.

Composition of the Management Board

In line with a decision taken by the Supervisory Board on 28 March 2008, the Management Board, which until that time had consisted of three members, was expanded by the appointment of André Hergert, who had already been working in an advisory capacity for GK SOFTWARE AG. This coincided with the future listing on the stock exchange and the consequential additional obligations required for financial reporting.

Meetings

The Supervisory Board met for eight meetings in all during the 2008 business year – on 28 March, 15 May, 28 May, 30 May (x2), 17 June, 18 June, 15 September and 3 November– some of which were held in the form of a telephone conference. All the members of the body took part in all the meetings. They were also in regular contact with each other above and beyond the meetings and also with the Management Board, particularly through the chairman of the Supervisory Board. Decisions were taken during meetings and by circulating written memos. During its meetings the Supervisory Board was given detailed information about the company's economic and financial situation and its fundamental business policies through verbal and written reports from the Management Board. The Management Board regularly prepared interim reports about the way that business was progressing. Other meetings were held, particularly in connection with the preparations and implementation of the IPO.

The Supervisory Board set up its own rules of procedure through a decision taken on 28 May 2008.

Tasks of the Supervisory Board

The Supervisory Board at GK SOFTWARE AG performed to the letter the tasks expected of it according to the law, articles of incorporation, the German Corporate Governance Code and the Supervisory Board's internal rules of procedure and continually monitored and advised the company managers. The Supervisory Board also worked on the further development of risk management procedures. During the course of the 2008 business year, significant progress was made here – considerable progress was achieved, for example, in the field of project monitoring and this has markedly improved company management in the operational business.

The Management Board regularly, promptly and comprehensively informed the Supervisory Board about any issues of planning, business development, the risk situation, risk management, strategic measures and important business processes that were relevant to the company during the 2008 business year. The major themes at the meeting held on 28 March were the report from the auditors on the annual accounts and the authorization and approval of the 2007 annual accounts. The Supervisory Board also discussed the preparations for the IPO and the appointment of a Chief Financial Officer. One special topic at the meeting of the Supervisory Board on 15 May was the appointment of Uwe Ludwig as Supervisory Board chairman and Heinrich Sprenger as his deputy. The meeting on 28 May focused on a decision on the rules of procedure for the Supervisory Board and the approval of the IPO. The Supervisory Board approved the price range for the sales price of the ordinary shares as part of the stock exchange listing on 30 May and approved the adjusted price range during a second meeting. The change in the rules to increase the equity capital was adopted during the meeting on 17 June. The Supervisory Board gave its approval to the listing price on 18 June. The employer's pension commitments for the Management Board members Gläß and Kronmüller were adjusted during the meeting on 15 September. The Management Board informed the Supervisory Board of business developments during the meeting held on 3 November. No decisions were taken.

In order to monitor management activities, the Supervisory Board was directed by the annual budget passed for 2008 and it ensured that the Management Board prepared reports, particularly concerning business policy and corporate planning, profitability, the course of business and important individual measures adopted by the company. The Supervisory Board listened to verbal reports about the way that the company was progressing in general and about the progress in the company's operating business in detail during the meetings that it held for this purpose during the 2008 business year. The Supervisory Board was also provided with information by the Management Board beyond the official meetings of the Supervisory Board and these facts were also discussed and checked by the Supervisory Board.

Corporate Governance

The Supervisory Board and the Management Board act in the full knowledge that good corporate governance is an important basis for the success of the company and is also in the interest of shareholders and the financial markets. The Management Board and Supervisory Board issued the annual compliance statement in line with Section 161 of the German Stock Companies Act in April 2009. A copy of this document is included with this annual report. The Management Board and Supervisory Board have agreed to implement the recommendations of the German Corporate Governance Index to the appropriate degree. The members of the Supervisory Board were not involved in any conflicts of interest during the 2008 business year.

2008 Audit of the Annual Accounts

The annual accounts of GK SOFTWARE AG and the IFRS consolidated accounts presented by the Management Board in line with the rules in the German Commercial Code and the annual report for 2008 have been audited by Deloitte & Touche GmbH Wirt-schaftsprüfungsgesellschaft and have been given a qualified audit certificate. Contrary to Section 315 a, Paragraph 1 of the German Commercial Code in conjunction with Section 314, Paragraph 1, Number 6, Letter a) of the German Commercial Code and Section 285, Sentence 1, Number 9, Letter a) of the German Commercial Code, the salaries of each individual member of the Management Board have not been declared, either in the notes on the consolidated accounts or the notes on the final accounts. Having been informed of these auditing reports, the Supervisory Board checked the annual accounts made available by the Management Board, the consolidated accounts and the annual report about GK SOFTWARE AG and the group and examined the suggestion made by the Management Board on how to use the balance sheet profits. During the Supervisory Board's balance sheet review meeting held on 15 April 2009, the Management Board explained the company's annual accounts as at 31 December 2008 to the Supervisory Board and reported on the company's profitability, especially its equity

capital, and developments in business and the company's general situation.
All the Supervisory Board members received the necessary documents prior to this meeting.

The auditor of the annual accounts explained the auditing reports during the meeting and answered every question. There are no doubts about the independence of the auditor of the annual accounts. During its meeting on 15 April 2009, the Supervisory Board approved the GK SOFTWARE AG annual accounts and the consolidated accounts of GK SOFTWARE AG. The annual accounts have therefore been approved. The Supervisory Board also supported the Management Board's suggestion on how to use the balance sheet profits.

The Supervisory Board also prepared a report on relations to associated companies in line with Section 312 of the German Stock Companies Act. The auditor of the annual accounts checked this and reported on the results to the Supervisory Board in writing and the Supervisory Board verbally during its meeting on 15 April 2009. The checks made by the Supervisory Board did not give rise to any issues that might be contested. It therefore did not raise any objections to the Management Board's final statement in its report according to Section 312 of the German Stock Companies Act.

The Supervisory Board would like to thank the Management Board and all its members for the efforts that they are making at the company and the work that they have performed and congratulates them on the successes that they have achieved.

Schöneck, 15 April 2009

Uwe Ludwig
(Chairman of the Supervisory Board)

C. Corporate Governance

The Management Board and Supervisory Board issued the annual compliance statement in line with Section 161 of the German Stock Companies Act on 16 April 2009. This statement shows that GK SOFTWARE AG meets most of the recommendations and suggestions in the German Corporate Governance Code. The declaration states:

The Management Board and the Supervisory Board at GK SOFTWARE AG declare that they have satisfied the current valid recommendations of the "Government Commission of the German Corporate Governance Code" in the version dated 14 June 2007 or 6 June 2008 up to the current date, with the exception of the following discrepancies:

- **Code Number 3.8** Contrary to the ruling in the Code about the agreement on an excess amount as part of the Directors and Officers insurance, there are no provisions for any excess for insured persons in the GK SOFTWARE AG insurance scheme. GK SOFTWARE AG believes that the care and responsibility, with which the members of the Supervisory Board and the Management Board carry out their tasks, cannot be improved by any such excess amount.
- **Code 4.2.4** Contrary to the Code, the salaries of each individual member of the Management Board have not been declared in the notes on the consolidated accounts because GK SOFTWARE AG believes that this does not create any greater degree of transparency.
- **Code Number 5.1.2** There is no age limit for the members of the Supervisory Board; in the view of GK SOFTWARE AG, the professional qualifications of the members of the Supervisory Board play a greater role.
- **Code Number 5.3** Contrary to Number 5.3 of the Code, the Supervisory Board at GK SOFTWARE AG does not form any committees, as the consistent intensive level of information for all the members of the Supervisory Board can be guaranteed most efficiently in meetings where all the members of the Supervisory Board are present – on account of the size of

the body (the Supervisory Board consists of three members). Any issues can be handled and answered appropriately by the whole body. So no auditing committee (Number 5.3.2) has been set up. The same applies to the nomination committee (Number 5.3.3) and the particular specialist committees (Number 5.3.4).

- **Code Number 5.4.1** There is no provision for an obligatory age limit on the members of the Supervisory Board, as the older members of the Supervisory Board enrich the body as a result of their wide experience and their specialist qualifications are more important.
- **Code 5.4.6** Payment for the members of the Supervisory Board is made exclusively according to fixed elements. No remuneration that is dependent on the company's success is granted to the members of the Supervisory Board as the members of the Supervisory Board must be able to pursue their task as a supervisory body for the company without any possible conflicts.
- **Code 7.1.2** The consolidated accounts are not published within 90 days of the end of the business year, but after four months in line with the current guidelines published by Deutsche Börse AG. The interim reports are not made available after 45 days, but after two months in line with the current guidelines published by Deutsche Börse AG. GK SOFTWARE AG believes that the periods of time set by Deutsche Börse AG are adequate to provide shareholders with sufficient information.

Directors Dealings Information:

Rainer Gläß, CEO

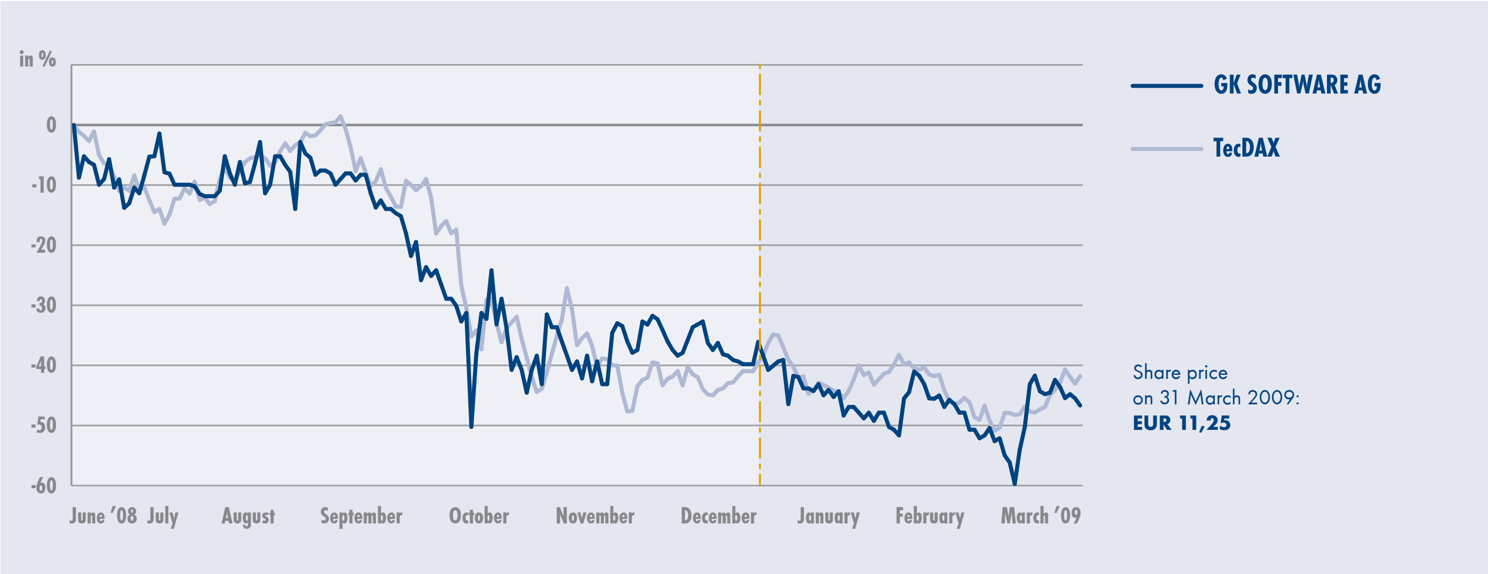
Purchase:	12.11.2008	5,000 shares	EUR 13.55
Purchase:	13.11.2008	5,000 shares	EUR 12.39

Ronald Scholz, COO

Purchase:	9.12.2008	2,500 shares	EUR 13.75
Purchase:	12.12.2008	2,500 shares	EUR 13.56
Purchase:	18.12.2008	2,300 shares	EUR 12.88

D. GK SOFTWARE AG Shares

I. Share Chart



▲ **Performance** of GK SOFTWARE AG shares compared with the TecDAX since the IPO on 19 June 2008 (in percent)

II. Summary/Chart Development

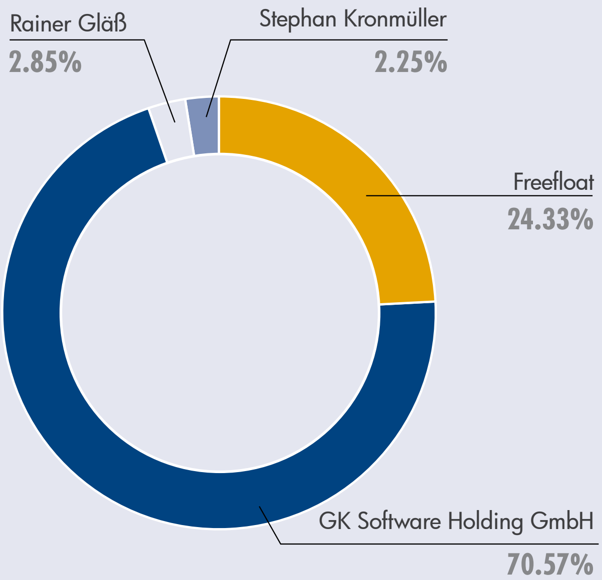
GK SOFTWARE AG stocks have been listed in the Prime Standard section of the Frankfurt Stock Exchange since 19 June 2008. The issue price for the shares at the IPO was EUR 21.00 and during initial trading the shares rose to EUR 21.40. Despite the volatile capital market environment in connection with the ongoing financial crisis, the share performance during the first few months was stable. But the bankruptcy of the US Investment Bank Lehman Brothers in the middle of September and the increasingly acute crisis on global financial markets triggered falls in the value of shares around the globe. GK SOFTWARE AG shares were not immune to this trend and traded at their lowest level since the IPO (EUR 10.00) on 28 October (Xetra, intraday basis). But the value of the shares had recovered significantly by the end of the year. As a result the value of the shares on 30 December 2008 was EUR 13.00 – and this corresponded to a market capitalization of EUR 21.7 million at the end of the year.

III. IPO and Capital Increase

The company's annual shareholders' meeting took two decision on 15 May 2008 to increase the equity capital, partly by converting the balance sheet profits and partly by converting "other retained income" amounting to EUR 0.155 million to EUR 1.25 million in the run-up to the IPO. The increase in equity capital was achieved without issuing any new shares. At the same time, it was decided to introduce a share split on a 1:250 ratio, with the result that a nominal value of EUR 1.00 in the equity capital was allotted to each par value share. The increase in share capital and the share split were both entered in the Commercial Register on 29 May 2008.

The company's equity capital then rose from EUR 1.25 million to EUR 1.665 million as a result of the IPO on 19 June 2008. In all, 415,000 par value share payable to the bearer were also listed on the capital markets with a nominal value of EUR 1.00 in the equity capital at a price of EUR 21.00. The shares are fully entitled to receive dividend from 1 January 2008. 31.36% of the IPO shares were assigned to private investors. Institutional investors from Germany and abroad snapped up the other 68.64% of shares. The gross yield from the IPO was approx. EUR 8.7 million and this will primarily be used for further investments and the international expansion of GK SOFTWARE AG.

Key facts	
German Securities Identification Number (WKN)	757142
ISIN	DE0007571424
Ticker symbol	GKS
IPO	June 19, 2008
Type of shares	No-par value bearer shares
Stock exchanges	Frankfurt and XETRA
Segment	Regulated Market (Prime Standard)
Designated Sponsor	ICF Kursmakler AG
Number of shares outstanding	1.665,000
Number of shares from capital increase	415,000
Share capital	1,665,000 EUR
Free float	24.33 %
Offering Price	EUR 21.00
Gross Issuing Volume	EUR 8.72 million
First Price (XETRA) Jun. 19, 2008	EUR 21.40



Shareholder structure at GK SOFTWARE AG on 31 December 2008

IV. Shareholder Structure

GK SOFTWARE AG has a very stable shareholder base, which allows the company to pursue sustainable, long-term growth. The company had the following shareholder structure at the reporting date on 31 December 2008: The founder and CEO Rainer Gläß directly holds 2.85% of the shares. Stephan Kronmüller, also a founder and the company's CTO, also has a direct holding of 2.25% of the shares. 70.57% of the shares are owned by GK Software Holding GmbH, which are indirectly equally shared by the company partners Rainer Gläß und Stephan Kronmüller. This means that 24.33% of the shares are in free float.

V. Investor Relations

GK SOFTWARE deliberately opted to have its shares listed in the most strictly regulated sector of the German stock exchange, the Prime Standard, for its IPO in the summer of 2008. From the outset, the highest possible levels of transparency towards its investors and all the other capital market participants were among the most important principles at the company.

The Management Board was involved in an in-depth dialogue with investors and financial journalists even before the IPO. The key task after the initial listing was to convince the shareholders about the company's successful growth and its business model. For this purpose, the Management Board held comprehensive talks with investors and analysts in Germany and abroad. The company also attended the German Equity Capital Forum in November 2008 to answer questions from interested parties.

GK SOFTWARE AG also attaches great importance to providing an ongoing flow of information for the future. Among other things, this means drawing up extensive quarterly, half-yearly and business reports in German and English, a financial calendar and the prompt publication of ad-hoc reports. Accounting, which has been adapted to meet the international accounting standards (IFRS), also meets investors' needs for information. The company is also planning to regularly attend analyst conferences and road shows both in Germany and abroad during 2009.

IV. Financial calendar

2008 annual report	Apr. 16, 2009
First quarter report for 2009	May 14, 2009
Annual General Meeting in 2009	Jun. 15, 2009
Report on the first six months of 2009	Aug. 13, 2009
Third quarter report for 2009	Nov. 12, 2009


sale

2. Consolidated Management Report

I. Business Report

A Business and Underlying Conditions for GK SOFTWARE

I. Corporate Structure and Shareholdings

GK SOFTWARE is one of the leading software partners for the retail trade. The company was set up by Stephan Kronmüller and Rainer Gläß in 1990 in Schöneck, where the company headquarters have been located since that time. Schöneck is the base for administrative services and product development, project management and third level support. The company has an office in Berlin, which manages the company's marketing, sales and partner work.

The 100 percent subsidiary EUROSOFTWARE s.r.o. based in Plzen in the Czech Republic handles software production work and research and development activities. So it is the major center for programming and further developments in technology.

GK SOFTWARE AG also owns another 100 percent subsidiary, StoreWeaver GmbH, located in Basel/Riehen in Switzerland. This company is responsible for developing and selling the StoreWeaver product group and its technology could well be used in other fields as well as the retail sector. StoreWeaver opened its first business location in Germany in November 2008 in St. Ingbert in the state of Saarland. This center is mainly used as an innovation base and it has been possible to attract experienced IT experts to the company.

The two founding members, Rainer Gläß (CEO) and Stephan Kronmüller (CTO) are members of the Management Board at GK SOFTWARE AG. The Management Board also includes

▲ **Corporate structure** at GK SOFTWARE AG

Ronald Scholz (COO) and André Hegert (CFO), who worked as an external consultant for GK SOFTWARE AG from the spring of 2007 onwards and was appointed to the Management Board as CFO from 28 March 2008.

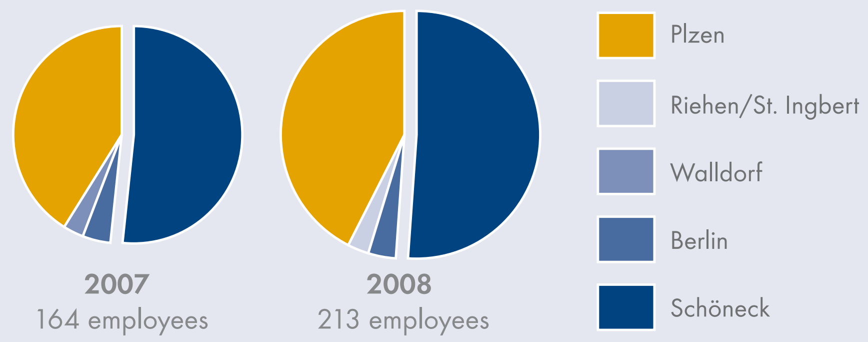
The three-man Supervisory Board at GK SOFTWARE AG is headed by Uwe Ludwig. He has been a member of the Supervisory Board since 2001. The deputy chairman, Heinrich Sprenger, has also been a member of the board since 2001. Thomas Bleier joined the Supervisory Board in 2003.

II. Human Resources

GK SOFTWARE employed 213 people at the report date of 31 December 2008 – this is an increase of 49 on the previous year's figure (164). The second management level has been reinforced and more people have been hired in the project management department. The majority of employees (109 – up from 85 a year earlier) work at company headquarters in Schöneck. The Berlin office has eight employees – they focus on sales and marketing in addition to project and partner management there.

90 people are now employed at the Czech subsidiary EUROSOFTWARE s.r.o. in Plzen (67 one year ago). The number of employees at StoreWeaver GmbH in Basel/Riehen (CH) and St. Ingbert has increased to six people. In the light of ongoing strong growth and many new projects, the company is planning to hire more staff during the next few months, particularly in the project management, sales and R&D departments.

In order to be able to control and promote corporate growth at GK SOFTWARE in terms of personnel, large amounts were invested in training and developing employees in 2008. A one-year trainee program was set up to deliberately make qualified staff available. Five young people were taking part in this program at the reporting date on 31 December 2008. The scheme is designed to be available for about five to seven participants every year



▲ **Distribution of employees** at group business locations on 31 December 2008

iii. Products and Services

The GK/Retail suite provides market-leading solutions for retail stores, the head office and end-to-end integration between stores and enterprise headquarters. All the GK/Retail solutions are fully based on Java and open standards. They provide the opportunity for companies to comprehensively map business processes all round the stores.

The official release of the new major version called GK/Retail 12, which took place in the fall of 2008, marks a significant milestone in the development of the product family. It contains a variety of innovations at functional and technological levels. The ABC technology (Advanced Business Components), which has already been used in individual solutions, now provides an integrated architecture principle for all the individual components in the standard software. Newly developed or further developed components can easily and precisely be added to the overall structure like Lego bricks. Significant improvements have been made in Version 12, particularly for customer services in stores.

Store Solutions
The GK/Retail Store Solutions range of products is particularly used in retail company stores and includes the following components:

- **GK/Retail POS** is a software solution for operating till systems. The application guarantees that all business processes are handled securely at the point of sale (POS) and it also provides extensive back office functions.
- **GK/Retail Mobile** is used on mobile terminals with standard operating systems and allows members of staff in a store to handle central business processes directly in the building, on the shelves or in a warehouse. GK/Retail Mobile covers important business tasks in stores – e.g. deliveries, inventories, write-offs and accounts for empties machines. The information required for these processes is directly available on mobile terminals for the goods. This means that members of staff have permanent access to important information like prices and the availability of goods. The devices can access background systems at high speed using wi-fi services, but can also work offline.
- **GK/Retail Workflow** optimizes communications processes by means of an automatic, simultaneous and controlled distribution of any amounts of information within a store-based enterprise. The module, which has been specially designed to meet the needs of the retail sector, allows the flow of information to be increased within stores and between stores and enterprise headquarters and prevents information from going missing.
- **GK/Retail Merchandise Management** provides merchandise management processes in stores in conjunction with a central management system (e.g. SAP). This means that stock information in stores is always available in real time. The software supports important business processes like placing orders, inventories, price labeling or stock reports

Enterprise Solutions
GK/Retail Enterprise Solutions provide innovative solutions to enable enterprise headquarters to monitor and manage complex store structures. These solutions are based on the unified architecture of GK/Retail and dovetail with the solutions conceived for use in stores or with StoreWeaver. The GK/Retail StoreWeaver Enterprise server is the central nerve center for

the store server applications. Enormous savings potential at retail companies can be made by bringing together the systems, particularly when it comes to server care and management – or simplifying the IT structure.

- The **GK/Retail Lean Store Server** allows all the back office services to be centralized. This means that stores are relieved of complex data storage, many processes and elaborate IT technology. In order to guarantee that the stores can continue working, even during a power outage, the BCM technology (GK/Retail Business Continuity Manager) has been developed. It ensures that the quality of data is consistently high when using central back office servers.
- **GK/Retail Enterprise Storemanager** is a software solution for administration and technical monitoring services for large store networks, including those that cross national frontiers. The solution allows extensive central management of basic data from stores and automatically supplies stores with this information.
- **GK/Retail Enterprise Cockpit** summarizes specialist and technical views of the complete corporation in a visualized display. This allows operators to recognize technical problems in the stores immediately and sales data (like turnover) can be monitored in real time. This solution provides transparency throughout the corporation, both in terms of the status of systems in the stores and central business management data.
- **GK/Retail Enterprise Promotions Management** is a complete solution for establishing, managing and administering sales promotions and special offers across the company. Typical applications include the management system for granting discounts in customer card systems or the acceptance of any number of coupons at tills.
- **GK/Retail Stored Value Server** guarantees the secure administration of all used gift certificates across any company. It provides a central data base for all the gift certificate information in the whole corporation and also handles all the processes linked to electronic gift cards.
- **GK/Retail Digital Content Management** is the central solution for distributing any amount of information to different output devices all over the company. As a result, photos, slide shows or videos can be distributed to the appropriate systems in the company or even simple text messages (e.g. for electronic shelf labels).

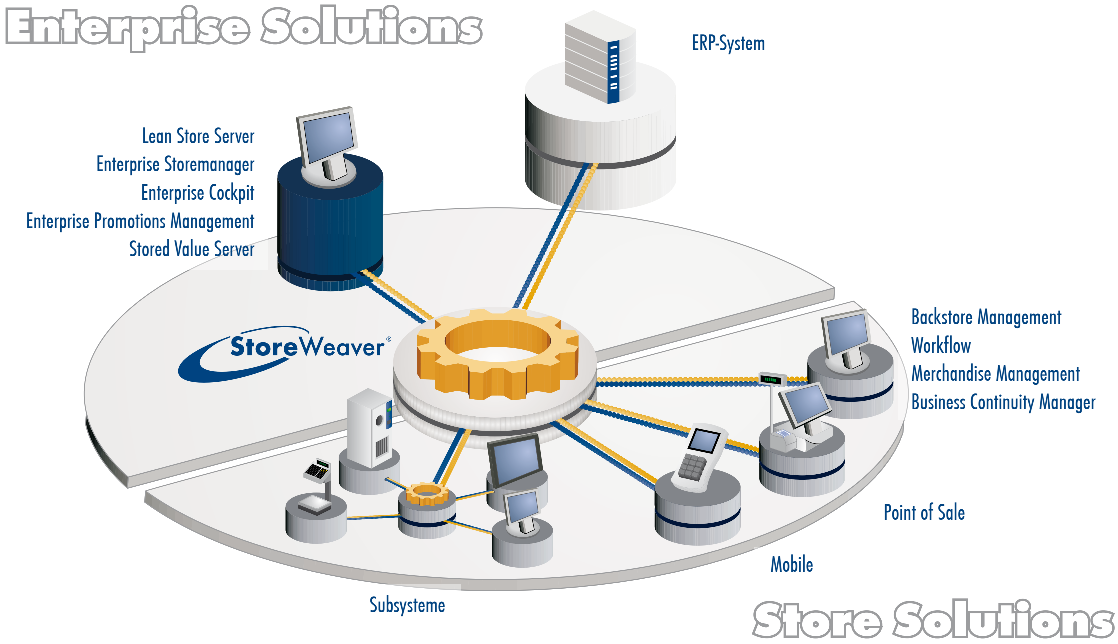
StoreWeaver

The StoreWeaver portfolio expands the GK/Retail Suite in the areas of store integration, linking up subsystems and merchandise management processes in stores. The primary task involves downloading and uploading the various stores systems on schedule (e.g. scales and tills) with current data. StoreWeaver also guarantees that data can be collected and fed on to central systems.

If StoreWeaver is used as the universal data hub and interface for ERP systems (e.g. SAP), it is possible to link up and communicate with different software and hardware systems (empties machines, scales, tills, mobile terminals etc). There is only one interface in the store itself and all communications are handled via this point. It is then impossible for complex interrelated networks to occur at all. Mechanisms like transaction security, central monitoring, authorization and configurability guarantee smooth operations at small or large store networks.

Services

GK SOFTWARE AG not only sells products, but also provides extensive services. For example, they include analysis and consultancy work when implementing new store solutions or adapting solutions already in place to the customer’s enhanced requirements – e.g. the integration of new bonus systems in the till environment. The company also handles the preparation work for documents and training for handling the software products and provides the



appropriate project management skills within the scope of projects.

New Solutions and Upgrading
GK SOFTWARE was able to introduce a number of important innovations during 2008. The most fundamental new development was the consistent availability of all the solution elements as Advanced Business Components (ABC). The consistent implementation of the ABC concept, which has been developed by GK SOFTWARE, allows customers to decide which parts of the software they would like to use centrally or locally. This provides an even higher realization speed and flexibility for current and future projects. At the same time, GK/Retail with release 12 is based on the current Java version, which opens up new opportunities for developing software and improving security concepts. The integration of Windows and Linux environments, which have been optimized for retail applications, and support for other enterprise data bases have been completed with release 12. Many detailed improvements accelerate work with the solutions and allows new business processes to be handled. For example, the integration of a mobile payment solution or the ability to link up a self-checkout feature are increasing the attractiveness of GK/Retail and demonstrate the openness of the solution when linking in outside applications. GK/Retail has also been prepared for use in a new sector where there is a huge need for investments: new functions have been developed for the drinks sector.

Two new country versions were realized by GK SOFTWARE in 2008 – Hungary and Russia. This means that there are now versions for 26 countries. Three other national versions are currently being prepared.

After successfully participating in the most important North American retail IT fair (National Retail Fair or NRF) in New York at the start of January 2009, GK SOFTWARE AG presented some more new features shortly afterwards: The new major version, GK/Retail 12, was presented to a specialist audience at the EuroCIS in Düsseldorf for the very first time – the EuroCIS is Europe's leading trade fair for information technology and security in trading. In addition, the company also used this fair to demonstrate its new digital signage solution with the GK/Retail Digital Content Management system for the first time. It can be used, for example, to automatically distribute photos, slide shows or videos to appropriate output media throughout a company. A newly developed integrated solution for digital signatures at POS units was also on display. StoreWeaver introduced the latest version of its integration platform for stores – the new label printing module and new mobile solutions.

iv. Research and Development
The further development of existing products and the development of new software solutions have always been the major focus at the company over the past few business years and they will continue to be a competitive factor in the future too. This is reflected by the continually rising number of employees in this department.

The subsidiary EUROSOFTWARE s.r.o. in Plzen is responsible for the research and development work. GK SOFTWARE employs 15 software developers alone there and they are dealing with the current trends in the software market in order to develop new trend-setting products. Additional impetus for research comes from management, sales and marketing and directly from customers of GK SOFTWARE AG.

The successful completion of the major version 12 was one particular key business activity during the 2008 business year. Extensive development work, years of research and the experience gained from many international large-scale projects have all been incorporated in GK/Retail 12. Alongside this, other new solutions were developed. The new GK/Retail version, for example, has a fully integrated digital signature feature. This allows quick processes at the point of sale (POS) without the need for any paper and provides immediate access to data stored in Backoffice and enterprise headquarters.

Development work on a solution for distributing digital information in stores (e.g. to manage advertising materials on flat screens) was completed with the introduction of the GK/Retail Digital Content Management application. In addition to this, the software solutions will be further developed to open up access to additional business sectors. The integration of a solution for mobile payment and the incorporation of self-checkout tills were also completed in 2008, so that these items are now ready for sale. The central architectures were also further developed to enable customers to distribute components in the software at will.

Another key element in our work was PCI-DSS, the standard developed by credit card institutions to provide the safe handling of card data. Retail companies are responsible for adhering to these international rules and checking them. GK/Retail is a modern application that is designed in such a way that security risks cannot arise in the first place. As the PA DSS rules have all been implemented, the current version is now being checked by external inspectors. This work will probably be complete by the summer of 2009.

GK/Retail was certified by IBM for the new Retail Integration Framework (RIF) in close conjunction with IBM at the start of 2009. Work on renewing certification for SAP has also been started and is due to be completed by the end of May.

The conceptual design of mobile and merchandise management processes at stores were the major focus for the StoreWeaver software and realization work has already begun here. Approval for new operating system options was granted in 2008. The major emphasis was on the scheduled further development along the road map and also on integrating new ideas and technologies based on information acquired from sales and marketing operations and customers themselves.

v. Customers and Projects

The customers for GK SOFTWARE products mainly come from the retail sector at the moment. Particular market segments include the food retail sector, drugstore and household goods, fashion and lifestyle or technology and cars. The company provides pre-configured solutions in the cash & carry, department store, discount/food, specialist retail and cell phone sectors. These products are tailored to the needs of these segments. The products and services are designed for companies of various sizes.

Important new projects in 2008 :

- Coop (Switzerland, 1,400 stores, various sales lines, new solution for label printing)
- Hornbach (development of a customized home improvement store version of GK/Retail, 128 stores in nine countries)
- Lidl (8,000 stores in more than 20 countries)
- JYSK Nordic (21 countries including china, many mobile processes)
- Manufactum (9 stores in Germany)
- TSG 1899 Hoffenheim (equipping the fan shops in the new stadium at Sinsheim)

All the projects are being implemented on schedule – and initial production roll-outs have already taken place at Coop and Lidl (for the newly acquired project in 2009).

vi. Market and Competitive Environment

The success of GK SOFTWARE is affected by economic developments and the willingness on the part of the retail sector to make investments.

▲ **Slection of customers** of the GK SOFTWARE AG

Sales in the retail sector in Germany rose by 1.1% to EUR 399.6 billion in 2008. But in real terms sales declined by 0.8%. As per 30 March 2009, the German Retail Association (HDE) is expecting nominal sales in the retail sector during the current year to range between zero and minus 1 percent. The HDE says that investment volumes will probably be lower than those of the previous year.[1] Developments largely depend on the situation in the jobs market.

The IT budgets at retail companies normally amount to 1% of gross sales (in a range between 0.4 and 1.3%). If the global economic crisis does not create major long-term break-downs in the real economy and specific developments in the retail sector are roughly within the expectations of the HDE, GK SOFTWARE AG believes that the general development trends enjoyed in the past can be continued. In the course of increasing expansion and the growing intensity of competition, the retail sector will have to press ahead with more investments in the near future. After all, information technology is viewed as a critical success factor at most retail companies. So the retail sector could have to make further investments in the IT area. According to a survey carried out by the EHI Retail Institute in Germany, IT equipment is on average more than six years old. About 20% of existing systems are even 10 years old or more. The most important demands on modern IT systems are that they should optimize processes and encourage customer loyalty.

In its latest study entitled "IT Investments in Trade in 2009", the EHI emphasizes that the issue of till software is the highest priority for stores. Older software systems are increasingly unable to cope with requirements, which are becoming more and more complex, and they need to be replaced. According to information provided by the EHI, fairly large proportions of the IT budget could be invested in web-based information portals for stores – and the technical requirements for this are largely in place already (broadband services etc). The EHI underlines that another major issue for those making decisions on IT investments is the introduction of new solutions for mobile data acquisition. Almost 20% of companies questioned are planning to use self-checkouts in future and 10% at least want to test them.

Many German retail companies have now also internationalized their business operations. According to a study carried out by KPMG ("Trends in Trading in 2010"), efforts to establish an international presence are one of the most crucial factors for the retail sector. New, strategically attractive target markets are, for example, the USA and Russia. According to the study, an international presence and Germany's proximity to Eastern European markets are the most important factors behind the expansion of German retail companies.

This also provides huge sales and growth opportunities for GK SOFTWARE. In addition, the issue of customer retention is playing an

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1 Source: http://www.einzelhandel.de/servlet/PB/1096030_yno/index.html;
Statement by HDE Managing Director Stefan Genth during the HDE press conference on the economic situation in Düsseldorf on 30 March 2009

increasingly important role for the retail sector. Consumers are looking even more closely for ways to make savings, particularly in a time of recession. This fact and the opportunities that GK products provide to integrate a wide variety of bonus and gift certificate systems opens up potential sales markets for GK SOFTWARE.

According to the study entitled "SITSI Verticals-Retail & Wholesale Germany" prepared by Pierre Audin Consultants (PAC), IT expenditure in the retail sector was approx. EUR 6 billion in Germany in 2007 and will rise to approx. EUR 6.5 billion by 2011. According to estimates made by PAC, the market potential for GK SOFTWARE in Germany could lie between EUR 250 and 290 million from the total IT investments that need to be made. The total number of stores in sectors targeted by GK SOFTWARE AG in the past was approx. 49,000. Taking into account the strategically planned penetration of other retail sectors, the target segment would increase by 100% to 98,000 stores. The company is aiming to benefit from this additional market potential in future.

PAC assumes that IT investments will mainly focus on two target areas in the next few years: firstly, reductions in costs and optimization and secondly, matters related to customers to a greater degree. This, it says, will particularly affect the till area with new hardware and software in order to speed up payment procedures, unify store processes and increase customer loyalty. Even if the growth in IT investments is muted in 2009 and possibly in 2010 too, sector experts still believe that there is plenty of potential for the IT market in the retail sector. Greater standardization and automation of processes and therefore of IT systems will stimulate investments both at store and enterprise headquarters levels.

Market Position

As a result of its successful IPO, the company has been able to significantly improve its market position. This is partly evident from the number of new projects like JYSK Nordic or Hornbach, and the company's good competitive position in current tendering procedures. The company's rapid implementation of projects, wide portfolio of products, solutions that are internationally compatible and the long-term reductions in operating costs are all crucial advantages that GK SOFTWARE AG enjoys over its rivals. Reductions in operating costs in particular are an important argument for acquiring news customers in Great Britain and France in the future (total cost of ownership).

GK SOFTWARE has many competitors, which vary in their corporate size, range of products and the target markets that they address. Approx. 10,400 stores in Germany were using solutions from GK SOFTWARE AG on 31 December 2008, which represents a significant market share of approx. 21% in the markets that have been targeted so far. The company has successfully squeezed out rivals and has therefore grown much faster than the market itself during the last few years. The company has been able to penetrate the market contrary to its rivals, particularly during the last few months. GK SOFTWARE AG was able to win all six of the most important jobs, for which it bid in 2008. Mention should particularly be made here of new customers in the shape of the Swiss retail group Coop, Hornbach Baumarkt AG and the Danish furniture and fittings specialist, JYSK Nordic. This means that the company has been able to demonstrate its competitive advantages and innovation leadership in the fields of technology, functionality and international capabilities on an international scale too.

The company is benefiting from its position as the leading technology provider of software solutions for the retail sector. GK SOFTWARE can be distinguished from complete providers, which offer hardware (e.g. tills, printers) and software for operations in retail stores. On the other hand, it is also different from service companies, which also focus on retail software, but have invested less in technology and do not provide any state-of-the-art software solutions. The combination of store solutions, central components, mobile merchandise management solutions for stores and an integration platform provide unique selling points – as no other rival has a comparably large range of

products that incorporate the latest technological solutions.

vii. Corporate Strategy

Since it was set up, GK SOFTWARE AG has continually pursued further developments on its own. The company's primary goal is to continue to expand its market presence on the core German market. To achieve this, the company is continually analyzing the IT infrastructure of leading German retail companies in order to recognize any possible investment needs at an early stage and be included in tender procedures for IT projects. GK SOFTWARE AG is aiming to acquire other customers like this and expand relations with existing customers. The company also wishes to open up new sectors and expand its customer basis in Germany. The company will continue to strengthen its sales and marketing organizational work in this specific direction.

One important component in the company's growth strategy involves targeting the small and medium-sized retail company market sector. This expansion of business is initially set to apply to the German market, as the company already has a strong market position here. But there are also plans to gain access to this new circle of customers using strategic partners, which, for their part, have specialized in small and medium-sized retail companies.

But the German market is not the only aim: the company also wishes to penetrate the international market to a greater degree. Strategic partnerships should also make this global expansion possible. The revenues from the IPO provide the financial basis for this international expansion process. The company wishes to focus on leading retail companies in the markets in question in order to acquire showcase projects. In a further step, the company would like to set up its own branch offices or sales subsidiaries in the countries involved, depending on how attractive the market is there. The international expansion will be backed up by deliberate marketing activities in order to increase the company's profile in the individual markets. The main geographical target markets are initially German-speaking neighboring countries and Great Britain, the USA and Russia. The company can already demonstrate initial major successes in its expansion strategy through acquiring new international customers like the Swiss retail group Coop or the Scandinavian group, JYSK Nordic.

Specific strategic acquisitions of companies or joint ventures are viewed as a tool to achieve the goal of becoming one of the world's leading international complete providers on the market for software solutions for the retail sector. Possible target companies could be foreign firms, which have an established market position and customer contacts in their region.

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

i Earnings Situation

GK SOFTWARE once again increased its growth in a strong manner in the 2008 business year. Both sales and results rose significantly. Sales revenues amounted to EUR 15.30 million, compared with EUR 10.75 million in the previous year, and this represents a growth rate of 39.9%. The annual net income rose by 30.1% from EUR 1.56 million to EUR 2.03 million. The reason for the significant improvement in sales and earnings was the wide customer base, which generated important new projects. At the same time, existing customer relations were deepened and expanded and this resulted in several follow-up orders for major projects, which had already been completed. After successfully realizing these, the company completed a number of these orders by December 2008 so that they had a positive effect on earnings – e.g. the roll-out for Galeria Kaufhof GmbH or the "Depot" project.

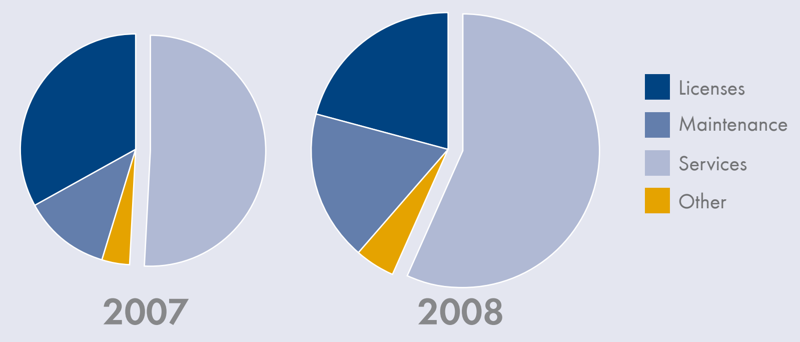
Taking into account the total sales in the 2008 business year, approx. 20.6% came from licenses (32.9% in the previous year). Services accounted for 56.9% of earnings (54.5% in the previous year), while maintenance work accounted for 17.7% (12.3%). Taking into account the change in stocks of finished goods and work in progress and own work capitalized, which were executed to the required degree in the business year that has just expired, total operating revenue increased from EUR 11.19 million in 2007 by 28.5% to EUR 15.01 million in 2008. Gross profits improved by 29.5% to EUR 14.49 million (EUR 11.68 million in the previous year). As a result of these above average figures for this sector, the company can once again underline its efficient use of resources. Expenditure on materials, which totaled EUR 0.51 million (EUR 0.49 million in the previous year), mainly included hardware costs.

Taking into account the planned ongoing growth at GK SOFTWARE, development capacities were expanded in the course of 2008 and appropriately qualified members of staff were hired to handle the growing number of major projects. As a result, human resources expenditure rose by 30.8% from EUR 6.15 million to EUR 8.05 million. This means that the human resources expenditure rate was 53.5% - 57.3% in the previous year.

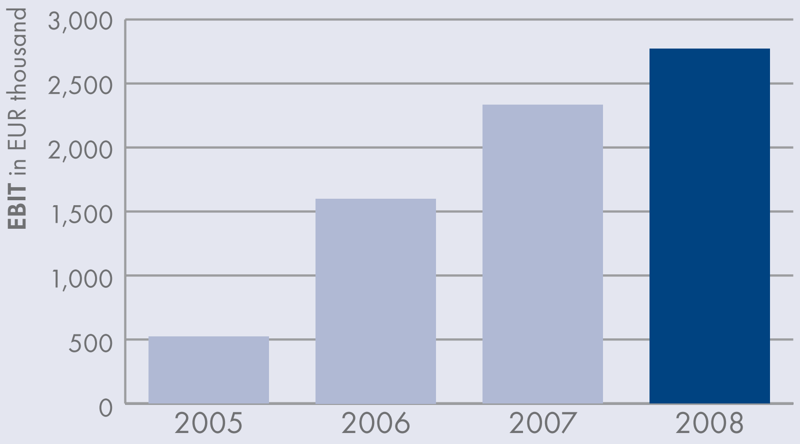
Scheduled write-downs in the company building and own work capitalized led to depreciation of EUR 0.72 million (EUR 0.53 million in the previous year). Other operating expenditure increased from EUR 2.18 million to EUR 2.95 million during the 2008 business year. This not only included expenditure on marketing, sales and administration costs, but also the expenditure for the IFRS accounts. The increasing standardization of products and processes at the company particularly increased productivity during the reporting period.

On the earnings side, GK SOFTWARE generated earnings before interest and taxes (EBIT) of EUR 2.77 million in 2008. This means that the EBIT rose by almost one fifth when compared with the previous year's figure of EUR 2.33 million. In terms of the total operating revenue, the EBIT margin amounted to 18.5%, while the figure was 20.0% in the previous year.

The financial results in 2008 were EUR 0.1 million (EUR -0.12 in the previous year). Interest payments amounting to EUR 0.14 million were largely the result of real estate funding and the costs of servicing a silent partner's interest. So the company was able to increase its earnings before taxes (EBT) by 29.2% to EUR 2.86 million (EUR



◀ **Developments in sales** compared to the previous year and a breakdown of the various sectors



▲ **Changes in EBIT** between 2005 and 2008

2.22 million in the previous year). After taxes, the consolidated annual net income amounted to EUR 2.03 million, an improvement of more than 30% over the previous year (EUR 1.56 million). Based on the outstanding number of shares (1,665,000) at the reporting date, this represents profits per share of EUR 1.22. When calculating the weighted average of issued shares (1.472.240 shares), this provides a figure of EUR 1.38 per share.

ii. Asset Situation

As a result of the IPO and the associated capital increase during the first six months, the balance sheet total for GK SOFTWARE increased significantly from EUR 11.83 million (31 December 2007) to EUR 19.63 million at the reporting date on 31 December 2008. This figure also includes a significant increase in the reported equity capital from EUR 2.08 million to EUR 11.78 million. In conjunction with the improvement in the earnings situation, the equity ratio increased to 60.0%, while the figure was only 17.6% on 31 December 2007. The IPO generated gross revenues of EUR 8.72 million. This means that GK SOFTWARE has a very stable capital structure and can sustainably fund future growth.

It was possible to reduce the non-current liabilities to EUR 2.38 million at the end of the year, whereas the figure was EUR 2.87 million on 31 December 2007. This particularly includes the funding for the company's own real estate in Schöneck. The changes resulted from agreed repayments and a repayment of the silent partner's interest into current liabilities. It was also possible to reduce the latter to EUR 5.46 million (EUR 6.88 million on 31 December 2007). They mainly contain advance payments by customers, which therefore represent an important tool for company funding. If the cash and cash equivalents are contrasted with the interest-bearing liabilities amounting to EUR 1.26 million, this results in net accounts payable of EUR -7.60 million. which means that GK SOFTWARE AG is to all intents and purposes free of debt and largely independent of any outside bank funding.

On the assets side, the long-term assets rose from EUR 3.77 million to EUR 4.22 million, which is largely the result of changes to intangible assets. They rose from EUR 1.13 million on 31 December 2007 to EUR 1.63 million on the reporting date of 31 December 2008. This development is particularly due to the capitalization of own work in the further development of the GK/Retail software suite, which the company handled according to the accounting rules. In addition, minor investments were made in outside licenses. Property, plant and equipment remained at a similar level as in 2007 – EUR 2.59 million compared with EUR 2.62 in the previous year. These figures mainly contain real estate and buildings (primarily the real estate in Schöneck) at approx. EUR 2.17 million and operating and business equipment at EUR 0.42 million.

Taking a year-on-year rate, current assets also increased. The figure rose from EUR 8.06 million (on 31 December 2007) to EUR 15.38 million on the reporting date (31 December 2008). The reason for this is primarily the increase in cash and cash equivalents as a result of the IPO from EUR 2.90 million at the end of 2007 to EUR 8.85 million at the end of 2008. On the other hand, existing inventories fell from EUR 2.00 million to EUR 0.74 million in connection with the successful acceptance of projects and particularly the completion of the major project for Galeria Kaufhof GmbH. Trade accounts receivable increased in conjunction with the company's expanded business operations on the reporting date of 31 December 2008 to EUR 3.02 million (EUR 2.26 million on the reporting date for the previous year).

The working capital therefore amounted to approx. EUR 9.92 million at the end of 2008 (EUR 1.19 million on 31 December 2007). Other accounts receivable and assets accounted for EUR 2.77 million on the balance sheet reporting date in comparison with EUR 0.90 million for the previous year. This item particularly consists of accounts receivable from the public sector as a result of investment subsidies, accounts receivable from taxes on income and revenues, accounts receivable from menbers of board and disbursed loans towards third parties. The accounts receivable from members of board and the disbursed loans towards third parties are subject to interest and are backed up by securities.

iii. Financial Situation

The operating cash flow amounted to EUR 1.43 in 2008, while it was possible to achieve an operating cash flow of EUR 1.92 for the whole of 2007. The reason for the fall is primarily the change in working capital related to the reporting date, which results from an increase in accounts receivable and a decline in advance payments received and the payment of income taxes, which were incurred in previous years.

While the increase in accounts receivable can be explained by the expansion in operating business, the decline in advance payments can be attributed to the successful completion of projects during the business year like Galeria Kaufhof or Depot. Cash flow in the narrower sense (primarily pre-tax results adjusted by depreciation that does not affect liquidity and income taxes that affect the results), however, rose to EUR 3.54 million in 2008 and this reflects the high earning capacity of GK SOFTWARE AG.

After totaling EUR -2.05 million in the 2007 business year, the cash flow from investments amounted to EUR -2.58 million. The lower payments for investments are largely due to the disbursement of loans. Investments in property, plant and equipment have returned to normal levels following the special situation where investments were made in expanding company headquarters at Schöneck. The financing of the building at the company's headquarters was the crucial factor here last year, whereas investments in 2008 were primarily made in office and business needs, particularly computer hardware and software to equip workplaces and the further development of the GK/Retail software suite.

The cash flow from funding operations amounted to EUR 7.10 million in 2008 after a figure of EUR -0.57 million in the 2007 business year. The reason for this increase is primarily the inflow of cash and cash equivalents as a result of the IPO, as a result of which GK SOFTWARE was able to achieve revenues of EUR 8.7 million before IPO costs. Thanks to the expansion of operating business and the success of the company's capital increase, it was possible to increase cash and cash equivalents significantly from EUR 2.90 million (31 December 2007) to EUR 8.85 million by the end of 2008. As a result, GK SOFTWARE has very solid current assets in order to be able to fund the planned further growth with the necessary securities.

II. Report on Key Events after the Balance Sheet Date

GK SOFTWARE AG received an order from the food retail company Lidl in February 2009 to supply the new store software for the complete network of Lidl stores in Europe. So GK SOFTWARE AG will provide software for the POS and background systems at approx. 8,000 Lidl stores in twenty countries and the software to manage the stores. Lidl has already been operating DOS-based till software from GK SOFTWARE AG in more than half its stores since the end of the 1990s. This will now be completely replaced by the modern Java software, GK/Retail.

GK SOFTWARE was also able to report at the beginning of March 2009 that Netto Marken-Discount AG & Co. KG, which is part of EDEKA, will switch all the PLUS stores that it has taken over to GK/Retail during the next few months. The approx. 2,500 stores will be equipped with the same software solutions from GK SOFTWARE AG as are already being used by Netto.

GK SOFTWARE AG is going to complete its first order as the prime contractor including the complete roll-out and support for Gebr. Heinemann KG, a leading operator of airport shops in many different countries. A start was made on the roll-out of the system in the spring of 2009, initially in approx. 130 shops at airports in Germany and Denmark. For this project, GK/Retail has been specially adapted to the specific requirements for selling items at airports and the duty-free business. The roll-out in Germany is due to be completed in 2009. At the same time, preparations will be made to switch the stores in Denmark. After this, there are plans to equip Gebr. Heinemann shops in other countries.

After the reporting date, GK SOFTWARE AG was able to acquire more customers and this will have a positive effect on sales and revenues in 2009 for the first time.

III. Report on Risks and Prospects at GK SOFTWARE

Risks

GK SOFTWARE deliberately takes entrepreneurial risks in order to be able to benefit from the opportunities presented by the market. In order to recognize, manage and minimize risks at an early stage, the initial modules of a risk management system have already been put in place. These modules include a monthly meeting by the Management Board in order to identify possible risks and initiate countermeasures. The Supervisory Board is informed of the results of these discussions. On an operating basis, the relevant project managers provide information to the appropriate member of the Management Board about possible risks during the course of current projects. GK SOFTWARE believes that the degree of customer satisfaction and the number of new customer contacts are important indicators for assessing risks. So both these factors are subject to particular monitoring and are regularly checked as part of sales controls. As a next stage, GK SOFTWARE is planning to prepare an extensive risk management manual in order to identify potential risks in good time, define who is responsible for managing risks and document countermeasures.

The business development of customers of GK SOFTWARE depends on the general consumer climate in Germany and Europe. The current global economic crisis has not yet affected the customers of GK SOFTWARE, but no definite forecast can be provided on further developments. In particular, the depth and duration of developments, which are now affecting the real economy, are unclear. The strong declines in incoming orders at German mechanical engineering companies and developments at vehicle manufacturers will have a marked effect on jobs and therefore on the customers of GK SOFTWARE – the OECD is expecting as many as five million unemployed in Germany and the numbers of people on short-time work are continuing to rise. These negative forecasts are already being confirmed by developments in the jobs markets in the USA and Great Britain and the developments in the retail sector in these countries.

It is true that the forecasts provided by associations and analysts suggest that developments will be relatively calm in the retail trade in comparison with changes in other sectors, but the psychological effects of generally negative news on the investment behavior of the GK SOFTWARE's customers is hard to predict.

In response to this general development, the Management Board is attempting to create room for maneuver by introducing flexible cost measures and using sensible cost management.

The company's business is dominated by large individual projects involving a relatively small number of customers. As a result, these business relations have a significant effect on sales and results in any business year. The Management Board assumes that this will be the case in the future too. If one business partner cancels a project or gets into difficulties with making payments, this may have financial consequences for GK SOFTWARE, but this risk is limited by the use of regular payment plans or making payments dependent on so-called project milestone payments.

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

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

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

To ensure further growth, the company needs additional highly qualified employees and we cannot rule out the possibility that members of staff in key positions will leave the firm. So it will be an ongoing challenge for the company to commit current staff to the firm and at the same time attract new, motivated specialists. As a result of the IPO, the company believes that it has created important conditions for this.

In addition to the risks already mentioned, there are other factors, which could also affect the sales and revenue situation. They include, for example, risks from current projects or warranty claims. Exchange rate risks should also be mentioned here, but they will be further reduced in future by using exchange rate hedging instruments. In particular, fluctuations in the euro/Czech crown exchange rate could have a negative effect.

There was no risk at the end of 2008, which might prove to be a threat to the very existence of GK SOFTWARE.

Opportunities

There are growth opportunities for the company both in Germany and abroad. The issues targeted by the products of GK SOFTWARE are key strategic IT projects that are high on the list of priorities at many retail companies. In order to be a success in the international market place, the company is well placed with plenty of good references from the German retail sector and a technically well-developed product. GK

SOFTWARE products are already well represented on the international market and are being used at more than 55,000 POS units in 13,000 stores in 25 countries. GK SOFTWARE also has several major partners with excellent networks in the retail sector. This should make it easier to gain access to new customers in international markets like the USA or Asia. The company can make use of the experience that it has gained with its German customers, as the solutions have already been successfully introduced in 25 countries and therefore can be quickly transferred to foreign customers.

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

The funds that have been generated by the IPO are being primarily used for international expansion. After all, the consolidation process in the software industry has already started with sector solutions for retailers. GK SOFTWARE wishes to play an active role in this process with its attractive range of products and solid financial base.

Outlook

It is difficult to make serious and reliable forecasts about the way that the new business year will develop against the background of the global economic crisis. Changes in the investment behavior of our customers are likely, depending on the depth and duration of the crisis. Our customers have not yet changed their behavior to extend projects or postpone them or even cancel them. But we cannot rule out reactions like these in the future and they would have negative consequences on the business operations at GK SOFTWARE.

However, we are certain that the basic trends, which have supported the growth of GK SOFTWARE over the past few years, will not change, but at most they may be overtaken by other considerations at times. In order to efficiently service more and more individual consumer needs in an increasingly internationalized world of stores and achieve customer loyalty by using differentiated features that go beyond prices, efficient IT structures will be needed. Exact information about business management issues within the network of stores will enable companies to manage their networks precisely and achieve positive results, even in economically troubled times – and this is only possible if companies have appropriate IT structures. Our newly acquired projects – e.g. for the complete European network of Lidl stores or the software switch of approx. 2,500 PLUS markets as a result of the takeover by Netto Marken-Discount – are clear evidence of this.

We are currently involved in in-depth negotiations with potential customers in Germany and abroad and the progress being made in projects with our existing customers is going according to plan. At the same time, we introduced important product innovations on to the market in 2008 with our release 12 and demand for this is high and this represents an important basis for our future growth.

IV. Other Information According to Section 315 of the German Commercial Code

We are therefore expecting further growth in sales during the 2009 business year with profitability to match. As we have already pointed out, it will only be possible to make this forecast more specific as the year progresses and things will depend on the way that the economy develops – particularly the retail sector. As issues like customer loyalty, increasing customer satisfaction and optimizing stores processes in the retail sector become more important, particularly during any economic downturn, we remain confident that business for GK SOFTWARE will continue to be successful in the year 2009.

Principles of the salary system at the company

The members of the company's Management Board not only receive a fixed salary, but also a component, which depends on results and is coupled to the consolidated operating results and quality target objectives. According to IFRS, the operating results are defined as the consolidated results before income tax and interest and any payments that are dependent on performance. The quality target objectives for the members of the Management Board are set by the Supervisory Board. Contrary to this definition, the gross earnings are used as the basis for the management bonus for the Chief Operating Officer, where the gross earnings are defined as the net income from project sales over and above the direct costs of the project. An annual bonus, which depends on the annual net income of GK SOFTWARE AG, has also been agreed for the Chief Operating Officer. Quality target objectives have also been agreed for the Chief Operating Officer. A fixed salary is all that has been agreed for the Chief Financial Officer.

The members of the Supervisory Board receive an annual fixed salary. No financial reward based on company performance has been agreed.

Information according to Section 315 (4)

GK SOFTWARE AG is the parent company of the GK SOFTWARE company group and is using an organized market in the sense of Section 2 Paragraph 7 of the German Securities Acquisition and Takeover Act as a result of the shares it has issued with voting rights. The company therefore has to report its results according to Section 315 Paragraph 4 of the German Commercial Code.

1. **Capital ratios.** The equity capital at GK SOFTWARE amounted to EUR 1,665,000 on 31 December 2008 and is divided up into 1,665,000 individual share certificates. Each individual share certificate represents one vote according to Section 4 of the articles of incorporation.
2. **Shareholders' rights and obligations.** The same rights and obligations are linked to each

share. Shareholders are entitled to asset and administrative rights. The asset rights include the right to share in the profits and the buying option to purchase shares in any capital increase. The shareholders' participation in the company's profits is also defined by their share in the equity capital. Their administrative rights include the right to take part in the company's annual shareholders' meeting, speak there and ask questions or make applications and exercise voting rights.

3. **Equity shareholdings.** Any direct or indirect shareholdings, which exceed 10%, are as follows:
   a. Mr. Rainer Gläß holds 635,000 shares, directly or indirectly, of which 587,500 shares are held indirectly through GK SOFTWARE Holding GmbH.
   b. Mr. Stephan Kronmüller holds 625,000 shares, directly or indirectly, of which 587,500 shares are held indirectly through GK SOFTWARE Holding GmbH.
   c. GK SOFTWARE Holding GmbH directly holds 1,175,000 individual share certificates. This company is equally owned by Mr. Rainer Gläß and Mr. Stephan Kronmüller.
4. **Appointments to the Management Board and amending the articles of incorporation.** Appointing or dismissing members of the Management Board are issues that are governed by Sections 84 and 85 of the German Stock Companies Act. Members of the Management Board are appointed for a maximum period of five years and an extension of their time in office is permissible for a maximum period of five years each time. According to the articles of incorporation, the number of members of the Management Board is determined by the Supervisory Board, but the Management Board must consist of at least two persons. The Management Board at GK SOFTWARE AG currently has four members. The articles of incorporation can only be amended by the annual shareholders' meeting according to the rules of the German Stock Companies Act. The Supervisory Board may decide the version of the articles of incorporation – i.e. only linguistic amendments to the articles of incorporation. Any decisions taken by the annual shareholder's meeting only require a simple majority of the votes cast, if the law does not specify anything different.
5. **The Management Board's powers to issue and repurchase shares.**
   Contingency capital. According to Section 4a of the articles of incorporation, the Management Board is entitled to grant purchase options on up to 37,000 individual share certificates to members of the Management Board, company managers, where GK SOFTWARE AG already has a direct or indirect shareholding ("associated companies") and managers at the company and their associated companies on one or more occasions until 14 May 2013, provided that the Supervisory Board approves these measures. The contingency capital increase shall be executed in such a way that the owners of the share options, which were issued as part of the 2008 share option program, make use of their purchase rights.
   Approved capital. According to Section 4b of the articles of incorporation, the Management Board is empowered until 14 May 2013 to increase the company's equity capital on one or more occasions by up to EUR 625,000 – by issuing up to 625,000 individual share certificates. Purchasing rights must be granted to the shareholders; the Management Board is, however, entitled, to exclude any purchasing rights for one or several capital increases as part of the approved capital in order to balance out fractional amounts, in the case of capital increases against non-cash contributions, particularly when purchasing companies, if the capital increase takes place through cash contributions and the proportion of the new shares issued according to Section 186 Paragraph 3 Sentence 4 of the German Stock Companies Act, which excludes any purchasing rights, does not exceed 10% of the equity capital.

There are no major agreements at GK SOFTWARE AG linked to a takeover offer.


2,09€
2,65€

3. Consolidated financial statements

A. Consolidated balance sheet as of December 31, 2008

Assets

EUR	Note No.	31.12.2008 (audited)	31.12.2007 (audited)
Non-current assets			
Property, plant and equipment	2.1.; 3.1.	2,593,082.45	2,620,143.27
Intangible assets	2.2.; 3.2.	1,633,248.88	1,128,348.62
Deferred taxes	2.11.; 4.9.	17,836.30	17,689.48
Total non-current assets		4,244,167.63	3,766,181.37
Current assets			
Inventories	2.3.; 3.3.	738,100.00	1,998,672.25
Accounts receivable	2.4.; 3.4.	3,023,201.58	2,262,831.52
Other receivables and assets	2.4.; 3.5.	2,765,481.55	897,872.10
Cash and cash equivalents	2.5.; 3.6.	8,854,938.53	2,904,371.54
Total current assets		15,381,721.66	8,063,747.41
Total (balance sheet)		**19,625,889.29**	**11,829,928.78**

Equity and Liabilities

EUR	Note No.	31.12.2008 (audited)	31.12.2007 (audited)
Equity capital	3.7.		
Subscribed capital		1,665,000.00	155,000.00
Share premium		7,436,970.73	0.00
Retained earnings		31,095.02	207,134.07
Balance sheet profits		2,649,347.46	1,718,753.00
Total equity capital		11,782,413.21	2,080,887.07
Non-current liabilities			
Provisions for pensions and similar commitments	2.6.; 3.8.	48,719.12	52,991.15
Non-current liabilities to banks	2.7.; 3.9.	1,140,434.50	1,251,775.46
Deferred government grants	2.8.; 3.10.	749,652.03	784,195.00
Other non-current liabilities	2.7.; 3.11.	0.00	471,214.31
Deferred taxes	2.11.; 4.9.	443,405.05	313,037.49
Total non-current liabilities		2,382,210.70	2,873,213.41
Current liabilities			
Current provisions	2.9.; 3.13.	798,640.70	523,978.32
Current liabilities to banks	2.10.	115,503.60	123,888.01
Accounts payable	2.10.; 3.14.	525,974.39	198,249.71
Advance payments received	2.10.; 3.15.	2,271,498.24	3,498,057.83
Income tax liabilities	3.16.	211,149.47	1,228,022.25
Other current liabilities	2.10.; 3.17.	1,538,498.98	1,303,632.18
Total current liabilities		5,461,265.38	6,875,828.30
Total liabilities		7,843,476.08	9,749,041.71
Total (balance sheet)		**19,625,889.29**	**11,829,928.78**

B. Consolidated income statement for the financial year until January 1 to December 31, 2008

EUR	Note No.	2008 (audited)	2007 (audited)
Continued Operations			
Sales revenues	4.1.	15,028,546.88	10,744,835.69
Changes in stocks of work in progress		-1,259,500.00	-2,100.00
Own work capitalized	4.2.	814,637.21	558,351.64
Other operating revenues	4.3.	424,386.79	379,484.93
		15,008,070.88	11,680,572.26
Material expenditure	4.4.	513,628.62	485,679.03
Personnel expenditure	4.5.	8,046,862.15	6,152,103.83
Amortization/depreciation	4.6.	718,885.63	526,595.39
Other operating expenditure	4.7.	2,954,184.02	2,183,781.75
		12,233,560.42	9,348,160.00
Operating results		2,774,510.46	2,332,412.26
Financial results	4.8.	89,729.07	-115,367.51
Results before income taxes		2,864,239.53	2,217,044.75
Income taxes	2.11; 4.9.	830,384.12	655,755.97
Net income		2,033,855.41	1,561,288.78
Profit carried forward		1,718,753.00	283,029.22
Transfers to share premium		-918,960.95	0.00
Dividend payments		-184,300.00	0.00
Expenditure from the withdrawal of shares		0.00	125,565.00
Net retained profits		2,649,347.46	1,718,753.00
Number of shares issued (average)		1,472,240	5,000
Undiluted earnings per share (in EUR/share)	4.10.	**1.38**	**312.26**

C. Consolidated cash flow statement as of December 31, 2008

EUR thousand	31.12.2008 (audited)	31.12.2007 (audited)
Cash flow from operating activities		
Net income/loss	2,034	1,561
Income taxes affecting results	830	656
Interest income/expenses affecting results	-90	115
Earnings/losses from the sale or disposal of property, plant and equipment	18	0
Reversals of deferred government grants	-36	-11
Write-downs recognized for receivables	68	12
Write-ups recognized for receivables	-8	-14
Amortization/depreciation	719	527
Expense from the withdrawal of shares	0	-126
Other non-cash income and expense	4	0
	3,539	2,720
Changes in net current assets		
Change in accounts receivable and other assets	-1,182	-1,552
Change in inventories	1,261	2
Change in accounts payable and other liabilities	116	1,441
Change in advance payments received	-1,227	-96
Change in provisions affecting results	270	-130
Influx of cash provided by operating activities	2,777	2,385
Interest received	231	45
Interest paid	-141	-160
Income tax paid	-1,440	-350
Net cash flow provided by operating activities	1,427	1,920
Cash flow from investment activities		
Payments for property, plant and equipment and non-current assets	-1,215	-2,613
Investment subsidies used	8	567
Disbursed loans to associated companies	-820	0
Disbursed loans	-552	0
Net cash used in investment activities	-2,579	-2,046
Cash flow from financing activities		
Dividend payments	-184	-800
New equity	7,852	0
Draw-down of loans	0	1,425
Repayment of credit	-120	-52
Repayment of silent partnership	-450	0
Net cash provided by financing activities	7,098	573
Net increase in cash and cash equivalents	**5,946**	**447**
Cash and cash equivalents at beginning of year	2,904	2,457
Impact of changes in exchange rates on cash and cash equivalents	5	0
Cash and cash equivalents on 31 Dec. 2008	**8,855**	**2,904**

D. Consolidated statement of changes in equity as of December 31, 2008

EUR	Subscribed capital	Reserves (share premium)	Reserves (retained earnings)	Reserves (retained earnings)	Total
Balance on 1 Jan. 2007	**150,000.00**	**0.00**	**207,134.07**	**1,083,068.47**	**1,440,202.54**
Annual net income	0.00	0.00	0.00	1,561,288.78	1,561,288.78
Capital increase	5,000.00	0.00	0.00	0.00	5,000.00
Dividend payments	0.00	0.00	0.00	-800,039.25	-800,039.25
Withdrawal of shares	0.00	0.00	0.00	-125,565.00	-125,565.00
Balance on 31 Dec. 2007	**155,000.00**	0.00	**207,134.07**	**1,718,753.00**	**2,080,887.07**
Annual net income	0.00	0.00	0.00	2,033,855.41	2,033,855.41
Dividend payments	0.00	0.00	0.00	-184,300.00	-184,300.00
Additions to retained earnings to increase capital	0.00	0.00	918,960.95	-918,960.95	0.00
Capital increase from company funds.	1,095,000.00	0.00	-1,095,000.00	0.00	0.00
Capital increase (IPO)	415,000.00	8,300,000.00	0.00	0.00	8,715,000.00
Offsetting equity procurement costs with premium share less tax effect	0.00	-863,029.27	0.00	0.00	-863,029.27
Balance on 31 Dec. 2008	**1,665,000.00**	**7,436,970.73**	**31,095.02**	**2,649,347.46**	**11,782,413.21**

E. Notes to the consolidated financial statements as of September 30, 2008

1. Reporting Principles

1.1. General Information

GK SOFTWARE AG is an Aktiengesellschaft (German stock company) located in Germany. The company's registered office is Waldstrasse 7, 08261 Schöneck. This is also its headquarters.

GK SOFTWARE AG is registered in the commercial register at Chemnitz local court under number HRB 19157.

The Group's business activities cover the development and production and selling and trading in software and hardware. Over the past few years, the company has moved from being an exclusively project-oriented company to a product-oriented company.

The Group manages its capital with the aim of maximizing income for its stakeholders by optimizing the equity/borrowing ratio. This ensures that all of the group companies can operate as going concerns.

The company's largest customers include:

- Lidl Stiftung & Co. KG, Neckarsulm,
- Edeka (MIOS Großhandel GmbH), Minden,
- Netto Michael Schels & Sohn GmbH & Co. oHG, Maxhuette-Haidhof,
- Tchibo Holding AG, Hamburg,
- dm-drogerie markt GmbH + Co. KG, Karlsruhe,
- Galeria Kaufhof GmbH, Köln,
- Parfümerie Douglas GmbH, Hagen.

1.2. Basis of Presentation

The consolidated accounts of GK SOFTWARE AG have been prepared according to the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) as they applied at the balance sheet date. Standards, which have been published, but are not yet in force, have not yet been used in the 2008 business year. The Management Board assumes that the effects of these on the annual accounts will not be substantial. The International Standards Accounting Board (ISAB) has not published any new accounting standards (IFRS), which the company had to use for the first time in the current business year.

The consolidated financial statements were prepared for the first time according to IFRS as at 31 December 2005

The consolidated accounts are presented in euros.

The balance sheet is classified according to IFRS in line with the terms of the individual balance sheet items.

The income statement has been prepared using the total cost method.

As a rule, accounts receivable and payable are shown as current items on the balance sheet. We report pension obligations as non-current liabilities in line with their character.

Deferred tax assets and liabilities are shown as non-current.

1.3. Consolidated Group

The consolidated financial statements include GK SOFTWARE AG and all the companies, in which GK SOFTWARE AG holds a majority of the shareholders' voting rights.

The consolidated group consists of the parent company and three foreign companies. EUROSOFTWARE s.r.o., Plzen/Czech Republic, StoreWeaver GmbH, Riehen/Switzerland and GK Soft GmbH Zurich/Switzerland were set up as 100% subsidiaries of GK SOFTWARE AG in 2008 and are therefore included in these consolidated accounts for the first time.

1.4. Principles of Consolidation

When capital is consolidated, the acquisition values of the participating interests are offset against the present values of the acquired assets and liabilities. Any remaining positive difference is shown as goodwill. Any remaining negative difference is shown in income after the fair values of the acquired assets and liabilities have been reviewed.

Earnings, sales, expenditure and revenues or accounts receivable and payable within the group between the consolidated companies have been eliminated.

1.5. Currency Conversion

The group companies prepare their annual accounts based on their respective functional currencies.

Foreign currency transactions for consolidated companies are converted into the functional currency using the exchange rate on the date of the transaction. Assets and liabilities are adjusted using the valid exchange rates on each balance sheet date. The resulting currency gains and losses are shown in income under other operating income or expenditure.

2. Accounting and Valuation Principles

2.1. Property, Plant and Equipment

Property, plant and equipment is shown at purchase or production costs plus incidental acquisition costs, less any scheduled depreciation. As a rule, assets are written down in line with their serviceable life using the linear method on a pro-rata basis. Any expected permanent impairment that goes beyond a loss in value caused by wear and tear is taken into account under unscheduled depreciation. If the reasons for unscheduled write downs no longer exist, the assets are written up accordingly. No major unscheduled depreciation was required.

Property is depreciated using the linear method over a serviceable life of 33 years. As a rule, moveable assets are written down using the linear method; the serviceable life for technical equipment and machinery is 3 to 20 years, and 3 to 10 years for other assets, operating and office equipment.

Fully depreciated property, plant and equipment is shown under purchase and production costs and accumulated depreciation until the assets in question are decommissioned. If assets are disposed of, the purchase and production costs and the accumulated depreciation are deducted and earnings from the disposal of assets (revenues from the disposal less the remaining write-down value) are shown in the income statement under other operating income or other operating expenditure.

2.2. Intangible Assets

2.2.1. Purchased Intangible Assets

Purchased intangible assets are shown as purchase or production costs less accumulated amortization and impairment. The amortization expense is shown under income over the anticipated serviceable life using the linear method. The anticipated serviceable life and the amortization method are reviewed at the end of each fiscal year and any changes in forecasts are taken into account in relation to the future.

2.2.2. Internally Generated Intangible Assets – Research and Development Costs

Expenditure on research activities is shown as expenditure in the period when it was incurred.

Any internally generated intangible assets, which stem from development activities (or from the development phase of an internal project), are only shown if the following evidence can be provided:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- It is intended to complete the intangible asset and use or sell it.
- It is possible to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development work and use or sell the intangible asset; and
- the ability to reliably determine the assignable expenses incurred when developing the intangible asset.

The amount, with which an internally generated intangible asset is capitalized for the first time, is the total expenditure incurred, starting on the date on which the intangible asset fulfills the above criteria. If an internally generated intangible asset cannot be capitalized, the development costs are shown as they affect the results in the period when they were incurred.

Internally generated intangible assets are measured in the same way as individually acquired intangible assets: purchase and production costs less accumulated amortization and impairment. internally generated intangible assets are measured in the same way as individually acquired intangible assets: purchase and production costs less accumulated amortization and impairment. Depreciation starts in the year of capitalization on a pro rata temporis basis

2.3. Inventories

Finished goods and services and work in progress are shown under inventories.

Finished goods and services and work in progress are shown as purchase or production costs. Costs include the directly assignable costs as well as the production-related material and production overheads, including production-related depreciation and a reasonable portion of the necessary overheads.

Borrowing costs are not capitalized as part of purchase and production costs, as there is no direct connection.

If required, inventories are shown at their lower realizable net marketable value.

2.4. Accounts Receivable and Other Receivables

Receivables and other assets are reported at their nominal values. Recognizable individual risks have been taken into account by using impairment.

2.5. Cash and Cash Equivalents

Cash and cash equivalents are shown at their nominal values.

Cash and cash equivalents comprise credit balances at banks and cash in hand.

2.6. Provisions for Pensions and Similar Commitments

Provisions for pensions are measured using the projected unit credit method. Future commitments are valued on the basis of actuarial surveys.

There are re-insurance pension plans, which are pledged to the beneficiaries. As the conditions are met in order to show them as plan assets, the assets are netted with the provision.

In this way, the calculations not only take into account the rights to old-age pensions known at the balance sheet date, but also any increases in salaries and pensions anticipated in future and the inflation rate. In line with IFRS, the discount factor is based on the interest rate on the capital market. The corridor method has been used. In other respects, biometric probability calculations have been based on Prof. Klaus Heubeck's 2005 G mortality tables.

2.7. Non-Current Liabilities

Non-current interest-bearing liabilities are shown at their repayment values.

2.8. Government Grants

Government grants are not shown until there is reasonable certainty that the group will fulfill the conditions associated with the grants and the grants are actually issued.

Government grants, for which the most important condition is the purchase, construction or other acquisition of non-current assets, are reported as deferred items on the balance sheet and the term of the appropriate asset is entered on a systematic and reasonable basis as this affects the results.

Other public subsidies are entered as income over the period that is required to allocate them to the appropriate expenditure that they are designated to cover on a systematic basis. Public grants that are collected to compensate for expenses already incurred or losses or for the purpose of immediate financial support for the group, for which there are no corresponding future costs, are shown in the period in which the claim arises as they affect the results.

2.9. Current Provisions

Provisions are formed for uncertain liabilities to third parties, if these obligations are expected to lead to a future outflow of funds. They are reported taking into account all recognizable risks at the expected amount for payment and are not offset against any recourse claims. Provisions are not reported for future expenses, which are not based on an external obligation.

2.10. Other Current Liabilities

Current liabilities are shown at their repayment or payment value.

2.11. Taxation

Income tax expenditure is the total current tax expenditure and deferred taxes.

2.11.1. Current Taxes

Current tax expenditure is based on the taxable income for the year. The taxable income differs from the annual net income from the consolidated income statement, as it excludes income and expenses that will be taxable or tax-deductible at a later stage or never. The group's liability for current taxes is based on the applicable tax rates or the tax rates that are expected to apply over the short term based on the balance sheet date.

2.11.2. Deferred Taxes

Deferred taxes are entered to cover the difference between the carrying amount of the assets and liabilities in the consolidated accounts and the corresponding amounts in the valuation when the taxable income is calculated. These are accounted for using the balance-sheet oriented liability method. As a rule, deferred tax liabilities and deferred tax assets are recorded for all taxable temporary differences, where it is probable that taxable gains will be available, where deductible temporary differences can be used. These assets and liabilities are not reported if the temporary difference results from goodwill or the initial inclusion of other assets and liabilities (with the exception of business mergers), which result from transactions that do not affect the taxable income or the annual net income for the period.

Deferred tax liabilities are formed for taxable temporary differences arising from holdings in subsidiaries, unless the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets result from temporary differences in connection with these investments and holdings, which are only recorded if it is probable that there is sufficient taxable income available to use the claims from the temporary differences and if it can be assumed that these will not reverse in the foreseeable future.

The carrying amount of the deferred taxes is reviewed each year at the balance sheet date and is reduced if it is no longer probable that there will be sufficient taxable income to regain the deferred taxes in full or in part.

Deferred tax assets and liabilities are calculated on the basis of the anticipated tax rate (and tax law), which is expected to apply on the date that the liability is discharged or the asset is gained. The valuation of deferred tax assets and liabilities reflects the tax consequences resulting from how the group believes that it will discharge the liability or gain the asset at the balance sheet date.

Deferred tax assets and liabilities are netted if there is a legally enforceable right to offset the deferred tax receivables against current tax liabilities and if they are linked to income taxes that are collected by the same tax authority and if the group intends to settle its current tax assets and tax liabilities on a net basis.

2.11.3. Current and Deferred Taxes in the Period

Current and deferred taxes are recognized as income or expenditure, unless they are connected to items that are entered directly under equity. In this case, taxes should also be entered directly under equity.

2.12. Revenue Recognition

Revenues are shown at the fair value of the counter-performance received or to be received, less anticipated customer returns, discounts or other similar deductions.

2.12.1. Sale of Goods

Revenues from the sale of goods are shown if the following conditions are met:

- The group has transferred the key risks and opportunities resulting from ownership of the goods to the purchaser.
- The group does not retain an ongoing right of disposal to the degree usually associated with ownership or effective control over the goods sold.
- The amount of sales revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the company, and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2.12.2. Provision of Services

Income from service agreements is recorded according to their degree of completion. Revenue recognition is recorded as follows::

Income from licenses:

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

Income from services (customizing):

Revenue recognition takes place the date that the agreed service is transferred to or accepted by the customer.

Income from adjustments outside the contractually agreed services (change request):

Revenue recognition takes place on the date that the agreed adjustments are transferred to or accepted by the customer.

Income from maintenance:

Income from maintenance services is settled monthly at the contractually agreed rates for the hourly work provided and any directly incurred costs. If there is no direct work performance and payments are made for maintenance over the period of a month, revenue recognition takes place on a monthly pro-rata-basis.

2.13. Estimates and Assessments by Management

In preparing the annual accounts, assumptions have to be made and estimates have to be used to a certain extent. These affect the amount and disclosure of the assets and liabilities, income and expenditure included in the accounts. The estimates and assumptions mostly relate to assessments for the impairment of intangible assets, the uniform definition of the serviceable life of property, plant and equipment and accounting for and valuing provisions. The assumptions and estimates are based on premises founded on the current knowledge that is available. In particular, the predicted future business development is based on the prevailing conditions when the accounts were prepared and a realistic assumption of the future development of the global and the industry-specific environment. Developments in the underlying conditions, which differ from the assumptions and are outside the management’s sphere of control, may mean that the actual amounts recorded differ from the original estimates. If actual developments do not match those anticipated, the assumptions and, if necessary, the carrying amounts of the affected assets and liabilities are adjusted accordingly. On the date that the annual accounts were prepared, the underlying assumptions and estimates were not subject to any major risks, with the result that, from today's perspective, no major adjustment of the carrying amounts of the assets and liabilities shown on the balance sheet will be necessary for the next fiscal year.

2.13.1. Main Sources of Estimating Uncertainty

The following section describes the key, future assumptions and the other key sources of estimating uncertainty at the balance sheet date, which might result in a substantial risk that would require a major adjustment to the assets and liabilities disclosed in the coming fiscal year.

Impairment of internally generated intangible assets

During the fiscal year, management once again reviewed internally generated assets resulting from the group's software development for any impairment. Intangible assets on the consolidated balance sheet amount to EUR 1,522,000 as at 31 December 2008.

This project has made very pleasing progress and feedback from customers has also confirmed management's estimates of anticipated income from this project. However, management continues to checks its assumptions regarding future market shares and expected profit margins for the product.

This review has convinced management that it will be possible to realize the carrying amount of the asset fully, even though revenues may possibly be lower. This situation is being monitored closely and, if required by the future situation on the market, adjustments will be made in the coming fiscal years, if this is appropriate.

3. Notes on the Consolidated Balance Sheet

3.1. Property, Plant and Equipment

EUR	Land and buildings	Technical equipment and machinery	Operating and office equipment	Payments on account and assets under construction	Total
Purchase/Production costs					
Balance on 1 Jan. 2007	0.00	177,244.42	641,562.42	27,080.44	845,887.28
Additions from mergers	888,386.51	0.00	24,285.09	0.00	912,671.60
Additions	1,617,967.10	55,621.08	333,047.36	0.00	2,006,635.54
Accounting transfers	27,080.44	0.00	0.00	-27,080.44	0.00
Disposals	0.00	18,605.43	272,390.22	0.00	290,995.65
Balance on 31 Dec. 2007	**2,533,434.05**	**214,260.07**	**726,504.65**	**0.00**	**3,474,198.77**
Accumulated depreciation					
Balance on 1 Jan. 2007	0.00	150,459.52	389,514.42	0.00	539,973.94
Additions from mergers	253,245.77	0.00	21,746.09	0.00	274,991.86
Additions	28,358.89	52,053.41	249,604.04	0.00	330,016.34
Disposals	0.00	18,605.42	272,321.22	0.00	290,926.64
Balance on 31 Dec. 2007	**281,604.66**	**183,907.51**	**388,543.33**	**0.00**	**854,055.50**
Carrying amount on 31 Dec. 2007	**2,251,829.39**	**30,352.56**	**337,961.32**	**0.00**	**2,620,143.27**
Purchase/Production Costs					
Balance on 1 Jan. 2007	2,533,434.05	214,260.07	726,504.65	0.00	3,474,198.77
Additions	6,634.15	32,111.79	260,836.46	0.00	299,582.40
Disposals	-2,288.10	0.00	20,000.00	0.00	22,288.10
Balance on 31 Dec. 2008	2,537,780.10	246,371.86	967,341.11	0.00	3,751,493.07
Accumulated depreciation					
Balance on 1 Jan. 2007	281,604.66	183,907.51	388,543.33	0.00	854,055.50
Additions	81,311.51	24,208.81	202,723.69	0.00	308,244.01
Disposals	0.00	0.00	3,888.89	0.00	3,888.89
Balance on 31 Dec. 2008	362,916.17	208,116.32	587,378.13	0.00	1,158,410.62
Carrying amount on 31 Dec. 2008	**2,174,863.93**	**38,255.54**	**379,962.98**	**0.00**	**2,593,082.45**

3.2. Intangible Assets

EUR	Capitalised development costs	Industrial property rights and similar rights and assets	Total
Purchase/Production Costs			
Balance on 1 Jan. 2007	869,830.23	86,082.08	955,912.31
Additions from mergers	0.00	1,942.92	1,942.92
Additions	558,351.64	47,362.27	605,713.91
Disposals	0.00	3.93	3.93
Balance on 31 Dec. 2007	**1,428,181.87**	**135,383.34**	**1,563,565.21**
Accumulated amortization			
Balance on 1 Jan. 2007	179,593.48	57,106.07	236,699.55
Additions from mergers	0.00	1,941.91	1,941.91
Additions	173,966.05	22,613.00	196,579.05
Disposals	0.00	3.92	3.92
Balance on 31 Dec. 2007	**353,559.53**	**81,657.06**	**435,216.59**
Carrying amounts on 31 Dec. 2008	**1,074,622.34**	**53,726.28**	**1,128,348.62**

EUR	Capitalised development costs	Industrial property rights and similar rights and assets	Total
Purchase/Production Costs			
Balance on 1 Jan. 2008	1,428,181.87	135,383.34	1,563,565.21
Additions	814,637.22	100,904.66	915,541.88
Disposals	0.00	0.00	0.00
Balance on 31 Dec. 2008	**2,242,819.09**	**236,288.00**	**2,479,107.09**
Accumulated amortization			
Balance at Jan 1, 2008	353,559.53	81,657.06	435,216.59
Additions	367,100.10	43,541.52	410,641.62
Disposals	0.00	0.00	0.00
Balance on 31 Dec. 2008	**720,659.63**	**125,198.58**	**845,858.21**
Carrying amounts on 31 Dec. 2008	**1,522,159.46**	**111,089.42**	**1,633,248.88**

Capitalized development costs are subject to scheduled linear amortization over their estimated serviceable life of five years. The amortization starts in the year after they have been capitalized with the proportionate amount for the period.

Research costs totaling EUR 413,000 were entered immediately as expenditure in the 2008 fiscal year (2007 fiscal year: EUR 273,000).

3.3. Inventories

EUR	31.12.2008	31.12.2007
Unfinished work in progress	738,100.00	1,997,600.00
Goods	0.00	1,072.25
Total	**738,100.00**	**1,998,672.25**

3.4. Accounts Receivable

Accounts receivable are due to be settled within one year.

The carrying amounts of accounts receivable match their fair values.

Write-downs totaled EUR 61,000 (2007 fiscal year: EUR 32,000). The valuation adjustment was made under other operating expenditure.

There were trade receivables in foreign currencies in CZK totaling EUR 14,000 on the balance sheet (2007 fiscal year: EUR 47,000).

3.5. Other Receivables and Assets

EUR	31.12.2008	31.12.2007
Receivables from shareholders	377,534.29	391,282.09
Tax receivables	408,986.99	398,277.38
Discharged loans to third parties	1,813,363.58	0.00
Others	141,695.48	108,312.63
Total	**2,741,580.34**	**897,872.10**

Receivables from shareholders relate to loans granted for an unlimited period amounting to EUR 277,000 (others are current) and bear interest of 5% p.a.

3.6. Cash and Cash Equivalents

Cash and cash equivalents are reported at face value. This item includes cash on hand and current bank deposits with terms of less than three months.

3.7. Equity Capital

For further information on changes in GK SOFTWARE AG's equity capital at the balance sheet date in 2008, please refer to the statement of changes in equity capital.

The company's share capital originally totaled EUR 150,000.00 and comprised 150,000 par value shares, with a nominal value of EUR 1.00. In the 2007 fiscal year, they were initially divided into 150,000 no par value shares. In order to complete the merger of Gläß & Kronmüller OHG, Schöneck, with the company, the equity capital was increased by EUR 5,000.00 to EUR 155,000.00 (divided into 155,000 no par value shares). The original 150,000 shares transferred to the company as part of the merger were then withdrawn without reducing the equity capital according to Section 237 (3) No. 3 of the Aktiengesetz (AktG – German Stock Companies Act). The reduction in assets resulting from the withdrawal is reported separately in the statement of retained earnings as "Expenditure from the withdrawal of shares". The company's share capital totaled EUR 155,000.00 and was divided into 5,000 no par value shares on 31 March 2008.

The company's share capital totaled EUR 1,665,000 divided up into 1,665,000 shares on 31 Dec. 2008. The equity capital changed in May 2008 as a result of the decision to increase capital by EUR 1,095,000 to EUR 1,250,000. A 1:250 share split was then completed. The number of issued shares increased to 1,250,000 no par value shares.

The decision to increase capital by issuing new shares totaling EUR 415,000 or 415,000 shares in a free float was taken in May 2008 and was completed on 19 July 2008 by means of a public flotation.

EUR	31.12.2008	31.12.2007
5,000 shares, fully paid		
1,250,000 shares, fully paid	0.00	155,000.00
415,000 capital increase, issue of shares	1,250,000.00	0.00
415,000 capital increase, issue of shares	415,000.00	0.00
Total	**1,665,000.00**	**155,000.00**

The company did not hold any of its own shares at the balance sheet date.

The following decisions were taken at the company's annual shareholders' meeting on 15 May 2008:

1. **Capital increase from company funds.** The company's equity capital totaling EUR 155,000 is increased from company funds by EUR 1,095,000 to EUR 1,250,000 by converting a partial amount of EUR 918,960.95 of the balance sheet profits shown as at 31 December 2007, which is to be added to the retained earnings according to the decision taken, and by converting a partial amount of EUR 179,039.05 of the "Other retained earnings" reported on the balance sheet as at 31 December 2007 into equity capital.
2. **Share split.** The above mentioned capital increase was carried out without issuing any new shares. After the capital increase, the existing 5,000 par value shares with a nominal value in the equity capital of EUR 250 per share were divided up in the ratio of 1:250. As a result, the equity capital was then divided into 1,250,000 no par value shares.
3. **Capital increase by cash contribution.** The company's share capital was increased by cash contributions from EUR 1,250,000 by as much as EUR 415,000 to EUR 1,665,000 by issuing up to 415,000 new par value shares issued to the bearer with profit participation rights from January 1, 2008. The new shares were issued at a nominal value of EUR 1.00 per par value share (issue value).
4. **Creating authorized capital.** The Management Board was authorized, with the approval of the Supervisory Board, to increase the company's equity capital in the period from March 28, 2008 to March 27, 2013 on one or several occasions by as much as EUR 625,000 by issuing up to 625,000 new no par bearer value shares for cash or non-cash contributions (authorized capital).
5. **Contingency capital.** According to Section 4a of the articles of incorporation, the Management Board is empowered to grant share options on up to 37,000 individual share certificates to members of the Management Board, managers, where GK SOFTWARE AG already has a direct or indirect majority shareholding ("associated companies") or managers at the company and their associated companies on one or more occasions until 14 May 2013, provided that the Supervisory Board approves these measures. This forms part of a share option program, which still has to be launched. The contingency capital increase shall be executed in such a way that the owners of the share options, which were issued as part of the 2008 share option program, make use of their purchase rights.

Retained earnings comprise the addition to statutory reserves and the differences arising from using IFRS for the first time.

3.8. Provisions for Pensions and Similar Commitments

Actuarial earnings and losses are amortized using the corridor method. They are not taken into account if they do not exceed 10% of the liabilities. The amount in excess of the corridor is entered on the balance sheet and is distributed over the average remaining service periods of the active workforce.

Current service costs are reported in the income statement under expenditure for retirement benefits, interest expense is reported under financial results and the earnings from pension plan re-insurance schemes are shown under other operating income. The assumptions from the 2007 fiscal year were applied in the same way at the 2008 reporting date.

Underlying assumptions:

Parameters	2008 %	2007 %	2006 %
Interest rate	5.5	5.5	5.0
Salary trend	0.0	0.0	0.0
Pension trend	1.5	1.5	1.5

In other respects, no further details about provisions for pensions are provided because of the small amount involved in line with IAS 19.120.

3.9. Non-current Liabilities to Banks

The company took out two investment loans from Commerzbank AG, Plauen in the 2007 fiscal year (original amounts: EUR 750,000 and EUR 450,000). The company also took over a loan from Gläß & Kronmüller OHG, Schöneck as part of the merger (original amount: EUR 225,000).

3.10. Deferred Government Grants

This item relates to taxable investment grants from the Free State of Saxony (issued by the Saxon Construction Bank) as part of a regional economic business development program and tax-free investment grants.

The subsidies and grants are reversed over the useful lives of the subsidized assets.

3.11. Other Non-Current Liabilities to Banks

EUR	31.12.2008	31.12.2007
Silent partnership	0.00	450,000.00
Others	0.00	21,214.31
Total	**0.00**	**471,214.31**

The agreement governing the silent partnership was terminated according to the contract on 15 Sept. 2008 with effect from 31 Dec. 2008 and was repaid on that date.

The silent partner's profit participation consists of a fixed portion, based on the capital contribution, and a fee (variable equity fee), which depends on the bearer's earnings.

3.12. Deferred Taxes

Please see note 4.9.

3.13. Current Provisions

Current provisions for personnel are mostly for vacations, bonuses and statutory accident insurance. Provisions for production are mostly for warranties and in the other areas they are mainly for outstanding purchase invoices, auditing costs, consultancy costs and interest.

The provision for warranties is based on historical expenditure on warranties and estimates with regard to future costs.

EUR	Personnel	Production	Other areas	Total
Balance on Jan 1, 2007	267,204.25	241,500.00	133,595.35	642,299.60
Taken up	267,204.25	241,500.00	133,595.35	642,299.60
Transfers	0.00	0.00	0.00	0.00
Additions	299,878.32	150,000.00	74,100.00	523,978.32
Balance on 31Dec. 2007	299,878.32	150,000.00	74,100.00	523,978.32
Balance on 1 Jan. 2008	299,878.32	150,000.00	74,100.00	523,978.32
Taken up	294,802.18	150,000.00	60,726.73	505,528.91
Transfers	5,076.14	0.00	13,373.27	18,449.41
Additions	425,236.70	279,264.00	94,140.00	798,640.70
Balance on 31 Dec. 2008	**425,236.70**	**279,264.00**	**94,140.00**	**798,640.70**

3.14. Accounts Payable

Accounts payable are due to be settled within one year.

There were liabilities in foreign currencies in CZK totaling EUR 108,000 at the balance sheet date (2007 fiscal year: EUR 78,000).

The carrying amounts of accounts payable are in line with their fair values.

3.15. Advance Payments Received

Advance payments received have a term of less than one year.

At the balance sheet date there were no advance payments received in foreign currencies.

The advance payments received are not netted with inventories.

3.16. Income Tax Liabilities

This item includes the anticipated additional payment for corporation tax, the solidarity surcharge and trade tax in Germany and the Czech Republic for the accounting year.

3.17. Other Current Liabilities

EUR	31.12.2008	31.12.2007
Liabilities from wages and salaries	350.076,80	310.260,43
Other liabilities to employees	16.366,34	0,00
Tax liabilities	1.029.476,00	800.881,59
Other	142.579,84	192.490,16
Total	**1.538.498,98**	**1.303.632,18**

There were liabilities in foreign currencies in CZK totaling EUR 154,000 at the balance sheet date (2007 fiscal year: EUR 193,000).

3.18. Secured Liabilities

Liabilities to banks are secured by registered charges on the company's property, registered in the Schöneck land register, Plauen Local Court, page 1895. In addition, in order to secure an investment loan, it was agreed to assign all current and future claims from life insurance and pension insurance agreements and the global assignment of accounts receivable for GK SOFTWARE AG from deliveries of goods and services to third-party debtors.

4. Notes on the Consolidated Income Statement

4.1. Sales Revenues

Sales revenues exclusively stem from the sale of hardware and software and the provision of services in Europe.

4.2. Own Work Capitalized

Own work capitalized covers the capitalized production costs for development work for internally-generated software. Both direct and indirect costs are included in production costs.

4.3. Other Operating Revenues

EUR	.2008	2007
Write-ups of receivables written down	8,000.00	14,863.70
Earnings from investment grants	0.00	139,107.00
Earnings from reversals of deferred public grants	36,000.00	11,501.00
Reversals of provisions	18,000.00	0.00
Expense allowances	8,000.00	54,632.44
Vehicle use	161,000.00	84,535.55
Others	193,386.79	74,845.24
Total	**424,386.79**	**379,484.93**

4.4. Material Expenditure

EUR	2008	2007
Expenditure on raw materials, consumables and supplies and goods purchased	258,665.30	230,353.70
Expenditure on purchased services	254,963.32	255,325.33
Total	**513,628.62**	**485,679.03**

4.5. Human Resources Expenditure

EUR	2008	2007
Wages and salaries	6,945,558.94	5,338,407.72
Social security contributions	1,055,826.05	804,378.54
Expenditure on retirement benefits	45,477.16	9,317.57
Total	**8,046,862.15**	**6,152,103.83**

On average, the company employed 185 members of staff during the 2008 fiscal year (2007 fiscal year: 140).

4.6. Depreciation and Amortization

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

4.7. Other Operating Expenditure

This item mostly includes legal and consultancy costs, office and operating costs and administrative and sales costs.

4.8. Financial Results

EUR	2008	2007
Interest income	230,773.46	44,475.91
Interest expenditure	-141,044.39	-159,843.42
Total	**89,729.07**	**-115,367.51**

4.9. Income Taxes

EUR	2008	2007
Current tax liabilities	345,428.76	570,940.76
Deferred tax liabilities	484,955.36	84,815.21
Total	**830,384.12**	**655,755.97**

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

Deferred tax liabilities are included in the following items:

	31.12.2008		31.12.2007	
EUR	Assets	Liabilities	Assets	Liabilities
Intangible assets	0.00	443,405.05	0.00	313,037.49
Provisions for pensions	2,426.53	0.00	2,046.67	0.00
Inventories	15,409.77	0.00	15,642.81	0.00
Tax impact of offsetting the costs of acquiring equity with the share premium	354.734,62	354.734,62	0.00	0.00
Offsetting the tax impact of the costs of acquiring equity	-354.734,62	-354.734,62	0.00	0.00
Total (balance sheet)	**17,836.30**	**443,405.05**	**17,689.48**	**313,037.49**

Deferred tax assets/liabilities result from:

	31.12.2008			31.12.2007		
EUR	Initial balance	Recognized as earnings	Final balance	Initial balance	Recognized as earnings	Final balance
Temporary differences						
Provisions for pensions	2,046.67	379.86	2.426,53	5,881.93	-3,835.26	2,046.67
Intangible assets	-313,037.49	-130,367.56	-443.405,05	-216,554.46	-96,483.03	-313,037.49
Inventories	15,642.81	-233.04	15.409,77	0.00	15,642.81	15,642.81
	-295,348.01	-130,220.74	-425.568,75	-210,672.53	-84,675.48	-295,348.01
Unused tax losses	0.00	0.00	0,00	139.73	-139.73	0.00
Total	**-295,348.01**	**-130,220.74**	**-425.568,75**	**-210,532.80**	**-84,815.21**	**-295,348.01**

Tax expense for the fiscal year can be transferred to the profits for the period as follows:

Transfer of tax expenditure/EUR	2008	2007
Pre-tax earnings	2,864,239.53	2,217,044.75
Anticipated tax expenditure 29.1% (previous year 38.0%)	833,493.68	842,477.01
Tax impact on non-deductible company spending	0.00	11,822.70
Tax impact on tax-free income	0.00	-52,860.66
Other tax effects	3,109.56	-145,683.08
Actual tax expenditure	830,384.12	655,755.97
Effective tax rate	**29.0 %**	**29.6 %**

4.10. Earnings Per Share

Earnings per share are calculated as the earnings divided by the weighted average number of shares in circulation during the fiscal year.

On average 1,472,240 shares were in circulation in the 2008 fiscal year (previous year: 5,000).

Earnings at the balance sheet date totaled EUR 2,034,000 (31 Dec. 2007: EUR 1,561,000). So the basic earnings per share were EUR 1.38 (31 Dec. 2007: EUR 312.26).

There were no shares outstanding on 31 December 2008 or on 31 December 2007, which could dilute the earnings per share.

5. Information on the Cash Flow Statement

Cash and cash equivalents are cash in hand and bank balances.

6. Segment Reporting

Segment reporting is not necessary as GK SOFTWARE AG does not have different business segments.

7. Other Information

7.1. Financial instruments

Financial instruments include primary and derivative financial instruments.

The primary financial instruments on the assets side mostly comprise receivables, other financial assets and cash and cash equivalents. On the equity and liabilities side, the primary financial instruments mostly comprise liabilities valued at their amortized purchase costs. The primary financial instruments are disclosed on the balance sheet. If any default risks can be reported as financial assets, these risks are covered by write-downs.

The company took out two investment loans with Commerzbank AG, Plauen during the 2007 fiscal year (original amounts: EUR 750,000 and EUR 450,000). The interest payments for the two investment loans are secured via an interest rate cap. This covering transaction runs until 30 June 2012 and has a cap rate of 5.2% p.a.

7.2. Contingent Liabilities

Contingent liabilities are possible liabilities, which do not actually exist until one or several uncertain future events occur, over which the company does not exercise full control. They also include liabilities that are not expected to lead to any outflow of funds. According to IAS 37, contingent liabilities are not included on the balance sheet.

There were no contingent liabilities at the balance sheet date.

7.3. Operating Leases

Operating leases are for vehicles. The payments recorded as expenses in the 2008 fiscal year totaled EUR 274,000.

7.4. Other Financial Commitments

There were financial commitments from leases totaling EUR 437,000 (of which EUR 235,000 is due within one year and another EUR 202,000 within five years).

7.5. Subsidiaries

Name of subsidiary	Registered office	Interest	Voting rights	Primary business
EUROSOFTWARE s.r.o.	Plzen/Czech Republic	100	100	Software development, Software programming
GK Soft GmbH	Zurich/Switzerland	100	100	Software development, Software programming
StoreWeaver GmbH	Riehen/Switzerland	100	100	Software development, Software programming

The companies are fully consolidated in these accounts.

7.6. Related Party Disclosures

All transactions with related parties are concluded under normal market conditions. Expenses for valuation adjustments or uncollectible receivables from related parties were not necessary or did not exist.

Transactions between GK SOFTWARE AG and its consolidated subsidiaries were eliminated during consolidation.

Parent Company

The direct parent company is GK Software Holding GmbH, Schöneck. There were no business relationships in the 2008 business year.

Management Board

The Management Board members are:

- Rainer Gläß, Schöneck, CEO (engineering graduate)
- Stephan Kronmüller, Schöneck, CTO (engineering graduate)
- Ronald Scholz, Klingenthal, COO (engineering graduate)

André Hergert, Hamburg, CFO (since March 28, 2008) (business administration graduate)

Remuneration for members of the Managing Board in the period under review totaled EUR 1,588 thousand (fiscal year 2007: EUR 1,260 thousand)..

The Management Board members directly held the following interests in GK SOFTWARE AG on 30 Dec. 2008:

Rainer Gläß	47,500 shares	2.9 %
Stephan Kronmüller	37,500 shares	2.3 %
Ronald Scholz	7,300 shares	0.5 %

Supervisory Board

The Supervisory Board members are:

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

The total remuneration for GK SOFTWARE AG's Supervisory Board in the 2007 fiscal year amounted to EUR 9,000 (EUR 10,000 in the previous year). No payments were made to the members of the Supervisory Board at the balance sheet date.

There are no agreements between the company's Supervisory Board members, which include compensation payments or other compensation for the members of the Supervisory Board when their period of office ends. There are currently no conflicts of interest between their obligations to the company and their private interests or other commitments.

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

Loans to closely associated companies and persons:

EUR thousand	31.12.2008	31.12.2007
Loans to Management Board members	277	389
Loans to closely associated companies, which are not part of the group	1,261	50
Total	**1,538**	**439**

The loans have been granted for an indefinite period and interest of 4 or 5% p.a. is being charged.

7.7. Fee for the Audit Review

The income statement for the 2008 business year includes a figure of EUR 93,000 for other auditing services connected with the IPO. The figure for auditing the annual accounts is EUR 35,000. The fee for tax advice amounted to EUR 54,000.

7.8. Compliance Statement

Companies, which are listed on the stock exchange for the first time, have to issue a first compliance statement at the latest before the expiry of one year after the start of the listing (19 June 2008) according to the IDW auditing standards, Effects of the German Corporate Governance Code on Auditing Annual Accounts (IDW PS 345), Paragraph 20.

7.9. Approval of the Financial Statements

The Management Board approved the accounts on 1 April 2008 and released them for publication.

Schöneck, April 2009

The Management Board

4. Audit Opinion

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

We have audited the consolidated accounts of GK SOFTWARE AG, Schöneck – which consist of the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes on the consolidated accounts – in addition to the consolidated annual report for the business year from 1 January until 31 December 2008. The company's Management Board is responsible for compiling the consolidated annual accounts and the consolidated annual report in line with the International Financial Reporting Standards (IFRS) to match EU practice and the additional commercial law regulations as set out in Section 315 a, Paragraph 1 of the German Commercial Code. It is our task to provide an appraisal of the consolidated accounts and the consolidated annual report when we carry out our audit.

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

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

With the exception of the following restriction, our audit did not lead to any objections. Contrary to Section 315 a, Paragraph 1 of the German Commercial Code in conjunction with Section 314, Paragraph 1, Number 6, Letter a) of the German Commercial Code, the salaries of each of the members of the Management Board were not specified in the notes on the consolidated accounts, broken down according to components that are dependent on or independent of the company's performance with long-term incentives.

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

Dresden, 1 April 2009

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Karmann)	(pp. Kahlert)
Auditor	Auditor

5. Declaration by legal representatives

To the best of our knowledge, we declare that, according to the principles of proper interim reporting applied, the interim financial statements provide a true and fair view of the company's net assets, financial position and results of operations, that the interim management report presents the company's business including the results and the company's position such as to provide a true and fair view and that the major opportunities and risks of the company's anticipated growth for the remaining financial year are described.

The Management Board

Rainer Gläß
(CEO)

Stephan Kronmüller
(CTO)

Ronald Scholz
(COO)

André Hergert
(CFO)

Imprint/Notes

Imprint

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Dipl.-Volkswirt Uwe Ludwig

Management board:
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Dipl.-Ing. Stephan Kronmüller, CTO
Dipl.-Ing. Ronald Scholz, COO
Dipl.-Kfm. André Hergert, CFO

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Notes

Note to the Annual Report

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

Note regarding the rounding of figures

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

Disclaimer

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

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