

Report by the Supervisory Board

Dear
shareholders,

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



Composition of the Supervisory Board

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

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

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

Meetings

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

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

Functions of the Supervisory Board

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

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

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

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

processes, which were used for the first time for the annual planning work in 2015. It was also possible to continue refining them.

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

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

Corporate governance

The Supervisory Board and Management Board act in the full knowledge that good corporate governance forms an important basis for the Company's success and is therefore in the best interests of shareholders and equity markets. The Management Board and Supervisory Board issued their annual declaration of compliance according to Section 161 of the German Companies Act in April 2017. The wording of this is printed in this business report as part of the Corporate Governance report. The Management Board and the Supervisory Board have pledged to follow the recommendations of the German Corporate Governance Code as far as possible. A decision concerning GK was made on the legal stipulation to have equal representation of women and men in management positions on 31 August 2015 and this continues to apply. No conflicts arose in 2016 as regards conflicts of interest in the members of the Supervisory Board.

2016 annual audit

The GK Software AG annual accounts compiled by the Management Board in line with the guidelines set by the German Commercial Code and the IFRS Consolidated Accounts and the respective management report were audited by the auditing company, Deloitte & Touche GmbH, and were given an unqualified audit certificate. Tak-

ing into account these audit reports, the Supervisory Board examined the annual accounts compiled by the Management Board, the consolidated accounts, the dependency report, the management report for GK Software AG and for the Group and the suggestion for using the profits from the Management Board for 2016. During its meeting on 24 April 2017, the Supervisory Board asked the Management Board to explain the 2016 annual and consolidated accounts with their overall positive figures and report on profitability, the Company's equity, the interim course of business and the Company's ongoing situation. All the Supervisory Board members received the necessary documents prior to this meeting.

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

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

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

Schöneck, 27 April 2017



Uwe Ludwig
Chairman of the Supervisory Board