GK SOFTWARE

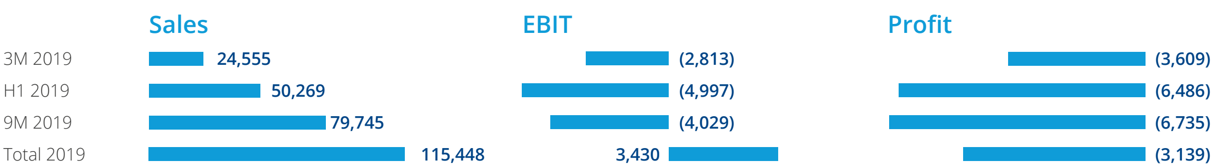
Annual Report 2019

Simply Retail.

Summary of Consolidated Results

		31.12.2019	31.12.2018	31.12.2017	Change (2018/2019)
Sales	EUR K	**115,448**	106,151	90,452	8.8 %
Operating performance	EUR K	**115,448**	106,151	90,452	8.8 %
Total operating revenue	EUR K	**119,285**	109,768	95,649	8.7 %
EBIT	EUR K	**3,430**	1,595	4,993	115.0 %
EBIT margin (on sales)	%	**3.0**	1.5	5.5	—
EBIT margin (on total operating revenue)	%	**2.9**	1.5	5.2	—
EBITDA	EUR K	**12,256**	6,833	8,773	79.4 %
EBT	EUR K	**1,233**	171	4,340	
Net profit / loss for the year	EUR K	**(3,139)**	923	3,884	<(250) %
Earnings per share (weighted)	EUR	**(1.60)**	0.48	2.05	—
Earnings per share (diluted)	EUR	**(1.60)**	0.48	2.00	—
Equity ratio	%	**37.1**	36.2	36.3	—
Net debt	EUR K	**11,907**	9,611	(11,305)	23.9 %
Employees		**1,247**	1,147	1,011	8.7 %

Development by quarter (EUR K)



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To the Shareholders

Letter from the Management Board

Dear shareholders,

We would like to take this opportunity of presenting you with the annual report for GK Software[1]. We are delighted to be able to tell you that we were able to achieve the goals communicated in our forecast for the financial year and therefore continue our growth course, despite a challenging first half of the year. Turnover rose by almost 9 percent to a figure of EUR 115.45 million and therefore exceeded the results for the previous year by EUR 9.30 million. This growth was again sustained by our core business segment, GK/Retail, which increased by more than 11 percent when compared to the previous year. Our efficiency programme bore fruit earlier than expected in the 4th quarter and ensured, together with turnover that we had already generated for work in previous periods, that we were able to almost dou-

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

ble our EBITDA at EUR 12.96 million (2018: EUR 6.83 million). Earnings before interest and taxes (EBIT) amounted to EUR 3.43 million (2018: EUR 1.60 million) and was therefore within our target range. The consolidated annual net profits amounted to EUR (3.14) million (2018: EUR +0.92 million) because of income taxes amounting to EUR 4.37 million. The reason behind the amount of income tax is that due to a three-year loss history in the individual accounts for GK Software SE under commercial law (German Commercial Code), the deferred tax claim from the tax losses could no longer be capitalised in the year under review. As a result, deferred taxes amounting to EUR 3.00 million had a negative impact on the annual deficit without any corresponding outflow of funds. These losses carried forward still exist and can be offset against expected gains in the coming years. The real tax expenditure was EUR 1.37 million, meaning that the annual deficit would have been EUR 0.14 million without the impact on the deferred taxes.

One important event during the past year was the ongoing enhancement of our long-standing relationship with SAP. The partnership, which has proved successful in more than 70 joint projects around the world, is being further extended by the development of a joint Center of Excellence for Retail. The joint goal here is to supply natively integrated, specific sector solutions for the retail trade and gear the world's leading joint range of solutions extensively to SAP's Customer Experience strategy. We will continue our close and successful cooperation with SAP on this basis and work to expand the joint portfolio for the retail sector. This is also evident by the fact that we have gained approval from SAP for a first product based on the use of artificial intelligence, SAP Dynamic Pricing by GK. In addition, new, special cloud editions were prepared for several GK solutions within the SAP portfolio and they are now being offered to the market.

As far as selling products to new customers was concerned, 2019 was a successful year, even if we were unable to meet all our targets in this field. Seven new customers opted for GK/Retail products, for example, while three existing customers will switch to current GK products in new projects and three other existing customers made use of greater subsequent licencing services. What was particularly important for our future growth was the fact that we were able to attract four new customers from various sectors in the USA. We were able to gain a customer in Colombia for the first time in 2019 and have already handed over the operation system to them. Overall, we will be equipping significantly more than 4,000 stores in all the new OmniPOS projects and in the enhancements of existing projects. It was also gratifying that we were able to gain three more new customers for our SME solution, euroSUITE.

New, independent market studies also highlighted our ongoing growth in the international market again in 2019. The “rbr” study entitled “Global POS Software 2019”,[1] for example, discovered that GK Software was able to roll out more new POS installations around the world in its target market (retailers with more than 1,000 systems, excluding fuel stations and hospitality) between June 2018 and June 2019 than any other provider in the market. Even when considering all the segments (including fuel stations and hospitality), GK Software was the world's number 2 in terms of new installations during this period. At the same time, GK Software has now moved up to position 6 in the area of global POS installations worldwide. Across Europe, GK Software was also responsible for more new installations than any other competitor; its share amounted to 30 percent overall. As far as over-

1 – rbr: Global POS Software 2019

all installations are concerned, our firm is the clear market leader in Central and Eastern Europe and the no. 2 for the whole of Europe. Other studies like the sector study known as “Forrester Wave: Point of Service, Q3 2018”[1] or the IHL study known as “Retail POS/MPOS Market” (November 2018) also underline the competitiveness of our software.

Because of this, it was important for the continuation of our sales work that the leading trade fairs in New York and Düsseldorf were able to take place at the start of 2020 before the halting of any events caused by the coronavirus pandemic. We were able to present the new cloud4retail platform there for the first time, which combines our existing services for various types of applications in the retail industry as an overriding cloud platform. We were able to show our customers and interested parties exciting solutions on numerous topics like popup stores, an app enablement hackathon, frictionless checkouts or AI. Both trade fairs attracted many visitors and this provided an outstanding start to sales in the 2020 financial year, even if we now have to wait and see when the retail trade can launch normal operations again.

Our research and development work continued to be dominated by the expansion of our cloud services during the 2019 financial year; we have reorganised them as the cloud4retail platform. Our new sector solution for fuel stations and convenience, which we have positioned using the GK Drive brand, is now ready for its market launch and has been handed over to the first two US customers. We have developed the dynamic pricing module so that it can be launched in the market within our AIR programme (Artificial Intelligence for Retail) and it is already being tested at the first in-store retailers. Highlights of the developments in the OmniPOS field included the handover of the cloud options of OmniPOS and Mobile Customer Assistant for partner sales, the completion of the Frictionless Checkout solution, which is currently undergoing its final market readiness tests, and the new scale solution known as OmniScale, which is fully handled by the latest platform.

We were able to expand our installation base by about another 22,000 units during the reporting period, so that 319,000 systems (tills, mobile devices, servers) are now in productive use in 63 countries. The installations of our TransAction+ payment platform in the USA and the AI solution known as the Realtime Decisioning Engine for product recommendations are not included in the figures, as these products are distributed in a different manner technically. Our mobile customer app, Mobile Customer Assistant, attracted 5 million downloads for the various platforms. Downloads from southern Africa were important for the first time; the app has been available there since 2018. As in previous years, we were able to enhance our business relations with almost all our existing customers. These relationships are a reliable component in business developments for GK Software, as our customers are permanently adapting to new requirements in their business by expanding into new countries, developing new sales concepts or introducing omni-channel standards.

A well-founded outlook for the 2020 financial year is barely possible in the current situation because it is dominated by the Covid-19 crisis. Without this crisis, we would certainly have emphasised at this point that we are maintaining our medium-term forecast until the end of the 2020 financial year without any restrictions. We would have done so both in the light of the initial results from the first quarter, the already

1 – The Forrester Wave™: Point Of Service, Q3 2018, https://reprints.forrester.com/#/assets/2/781/RES140771/reports

visible results of our efficiency enhancement programme and the sales pipeline that existed at the beginning of the year - and on the basis of the fact that various factors, which hindered profits during the last few years, have now been eliminated. They include the now consistent positive developments in America, the introduction of a new focus in product development and the completed personnel capacity adjustment in the IT Services segment. All these factors were, in our opinion, sufficient conditions for achieving our medium-term forecast and they make us confident that we will be able to cope with the current situation.

It will be important in terms of the ongoing course of business during the year to see how long the lockdown continues in the most important markets for GK Software and what the consequences are for the retail trade. If some normalisation has occurred again by the end of spring, it may be possible to make up for the effects on the second quarter and possibly the third quarter by the end of the year, taking an overall annual view, or at least significantly mitigate them. We are naturally continuing our sales work in the current difficult situation and are holding in-depth discussions with potential customers from Germany and abroad. However, it remains to be seen whether current tender procedures are concluded because of the crisis situation or whether further growth momentum comes from our business with existing customers, as in the past, or whether processes might be delayed for longer.

As long as there is no clarity about the global disruption of the overall economy, we believe that it is too early to issue a new medium-term forecast beyond 2020. If a clearer picture emerges by the end of the first half of the year, we will issue a new medium-term forecast at that time.

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

4 June 2020

The Management Board

Rainer Gläss
Chief Executive Officer

André Hergert
Chief Financial Officer

Dr. Philip Reimann

Chairman of the Supervisory Board

Report by the Supervisory Board

Dear shareholders,

We would like to take this opportunity of presenting you with the report from the Supervisory Board for the GK Software SE for the 2019 financial year. Among other things, the year was dominated by the implementation of the efficiency programme, which was accompanied by the Supervisory Board. The results of the financial year confirmed to the Supervisory Board that the course, which was adopted by the Company, was the correct one.

Composition of the Supervisory Board

In accordance with the articles of association, the Supervisory Board consists of three members. During the 2019 financial year, they were:

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

The Chemnitz Local Court decided on 27 March 2020 that Dr Philip Reimann, a solicitor and tax accountant, should be appointed as a new member of the Supervisory Board and the Chairman of the Supervisory Board at GK Software SE, in line with an application made by the Management Board at GK Software SE on 24 March 2020. His appointment will last to no longer than the end of the Company's annual shareholders' meeting in 2020, which will then make a decision about adding personnel to the Supervisory Board. The application for the court appointment of Dr Philip Reimann took place because the former member of the Supervisory Board, its chairman, Uwe Ludwig, had to resign from his position for health reasons with effect from the end of 11 March 2020 and the Supervisory Board had not been properly manned since then.

Meetings

The Supervisory Board held its ordinary meetings on 19 February, 24 April, 21 June, 4 July, 28 August, 21 October and 2 November 2019, which the members attended in person. Three Supervisory Board meetings were held as telephone conferences during 2019 too. They took place on 19 August, 20 August and 24 September 2019. The supervisory body also held separate preliminary meetings before each meeting of the Supervisory Board for the purposes of coordinating matters internally and met on the sidelines of the annual shareholders' meeting on 20 June 2019.

All the members of the committee were present for all the ordinary meetings and conferences. It is customary practice at GK Software that the representatives of the Management Board are always involved in the meetings. Beyond these meetings, the members of the Supervisory Board were also regularly in contact with each other - and the Chairman of the Supervisory Board was particularly in contact with the Management Board and the members of the Group Management Board too. Decisions were made during meetings or by a circulation procedure. During its meetings, the Supervisory Board was briefed in detail about the company's economic and financial situation and the fundamental corporate policy by means of verbal and written reports from the Management Board. The Management Board also provided the Supervisory Board with interim reports on the latest course of business and earnings at regular intervals between the meetings at the request of the Supervisory Board and forwarded the minutes of the Group Management Board meetings promptly on each occasion.

Functions of the Supervisory Board

During the 2019 financial year, the Supervisory Board at GK Software SE fulfilled the tasks incumbent upon it according to the law, the articles of association, the recommendations of the government's "German Corporate Governance Code" commission and the Supervisory Board's latest rules of procedure and it continually and carefully monitored the company's managers.

The Supervisory Board particularly focused on preparing and implementing the efficiency programme during the 2019 financial year; it played a key role in initiating and supporting this tool. It had reports drawn up at regular intervals about the status of the analysis and the implementation of the programme. It also supported the Group Management Board in defining and implementing the targets for the financial year and beyond.

The Supervisory Board also urgently followed the ongoing development and adaptation of the risk management systems during 2019. As a result, the Supervisory Board called for reports on the progress of the implementation of the security concept, which is being continually expanded, and on the ongoing establishment of formalised administrative processes, revised procedures in the controlling department and the work of the data protection officer. The Supervisory Board welcomed the progress achieved in these fields and the implementation of the initial steps to establish a compliance management system within the GK Group, which is set to become a firm element in the Company's procedures as it makes further progress and is finally established.

The Supervisory Board also fully focused on the appropriateness of the remuneration for members of the Management Board as part of the necessary changes to the existing contracts of employment and pensions agreements. As in previous years, we focused our attention on the relationship between the remuneration payments and the Company's economic situation and on the conditions prevalent at comparable companies, the soundness of the overall structure of remuneration within GK Software and the composition of fixed and variable salary elements. The Supervisory Board welcomed the Management Board's decision to forego the agreed variable payments for achieving short-term goals during 2019.

In order to monitor the management team, the Supervisory Board was guided by the annual budget passed for 2019 and had reports prepared by the Management Board because of the significant discrepancies, which were already visible after the first half of the year, particularly regarding the ongoing development of costs, profitability, special elements in business policy, the background to corporate planning in all the business segments, the ongoing course of business and important individual measures adopted by the Company. The Supervisory Board also called for and received a number of additional reports on the development of business throughout the whole financial year and particularly during the second half of the year. The Management Board supplied the Supervisory Board with information throughout the year, both during and outside the latter's meetings, and the Supervisory Board discussed these reports and checked them with a critical eye.

Corporate governance

The Supervisory Board and Management Board act in the full knowledge that good corporate governance forms an important basis for the company's success and is therefore in the best interests of shareholders and equity markets. The Management Board and Supervisory Board issued their annual declaration of compliance according to Section 161 of the German Companies Act in April 2020. The wording of this is printed in this business report as part of the Corporate Governance Report. The Management Board and the Supervisory Board have pledged to follow the recommendations of the German Corporate Governance Code as far as possible. A decision was made on the legal stipulation to have equal representation of women and men in management positions on 31 August 2015 and this continues to apply. No conflicts arose in terms of conflicts of interest for the members of the Supervisory Board in 2019.

Sustainability reporting

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

Audit of the annual accounts in 2019

The GK Software SE annual accounts compiled by the Management Board in line with the guidelines set by the German Commercial Code and the IFRS consolidated accounts and the respective management report were audited by the auditing company, PriceWaterhouseCoopers GmbH, Erfurt and were given an unqualified audit certificate. Taking into account these audit reports, the Supervisory Board examined the annual accounts compiled by the Management Board, the consolidated accounts, the dependency report, the management report for GK Software SE and for the Group and the suggestion for using the profits from the Management Board for 2019. During its meeting on 3 June 2020, the Supervisory Board asked the Management Board to explain the 2019 annual and consolidated accounts and report on profitability, the Company's equity, the ongoing course of business and the Company's broader situation. All the Supervisory Board members received the necessary paperwork and documents prior to this meeting.

During the meeting, the auditors commented on the Management Board's presentation, explained the audit findings using the audit reports and answered all the questions on these reports. The auditors were able to satisfactorily answer all the issues that were raised during the meeting. There are no doubts about the auditors' independence. The Supervisory Board therefore approved the annual accounts for GK Software SE at its meeting on 3 June 2020 and endorsed the consolidated accounts for GK Software. The annual accounts have therefore been approved.

The Supervisory Board held a meeting on 22 April 2020 at which the annual accounts and the consolidated annual accounts were discussed. After the Management Board had reported on the 2019 financial year, the auditor commented on these statements and explained the course and findings of the audit to date. However, circumstances identified in the following week made planned decisions on the annual accounts and consolidated accounts impossible. The Supervisory Board was kept constantly informed of the ongoing changes, so that a decision on the annual accounts and consolidated accounts for 2020 could be taken at a new meeting with the participation of the auditor when the audit reports were available. After consultation with the auditor, the Supervisory Board approved the annual accounts for GK Software SE for 2019 and endorsed the consolidated annual accounts for 2019.

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 gave a verbal report on the results of their audit during the meeting on 22 April 2020. 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 confirmed this by voting in favour during its meeting on 22 April 2020.

The Supervisory Board would like to thank the Management Board, the complete management team and all the employees for the work that they performed in 2019.

Schöneck, 3 June 2020

Dr Philip Reimann
Chairman of the Supervisory Board

Corporate Governance Report

according to Section 289a of the German Commercial Code

GK Software views responsible and transparent behaviour as absolutely essential for its long-term economic value creation. Both the Management and Supervisory Boards have therefore issued the statutory declaration of compliance according to Section 161 of the German Companies Act. Monitoring compliance with the declaration is therefore viewed as an important task for the Management Board and the Supervisory Board. The declaration is issued every year and is available to the public on the internet at https://investor.gk-software.com in the "Corporate Governance" section.

Cooperation between the Management Board and the Supervisory Board

The Management Board and the Supervisory Board have been working together based on a relationship of trust for many years. The Management Board provides regular reports to the Supervisory Board about profitability and Group strategies and their implementation, but also about existing or possible risks. This is done during the scheduled Supervisory Board meetings, ten of which were held during the past financial year, and also directly through regular monthly meetings with the Chairman of the Supervisory Board. Further information on this can be found in the Report by the Supervisory Board. Because it has just three members, the Supervisory Board did not form any committees. All the issues are discussed and decided upon by the full body. The Chairman of the Supervisory Board is solely authorised to conduct negotiations for human resources decisions related to the Management Board, but these negotiations must be approved by the whole body. There were no conflicts of interest among members of the Management and Supervisory Boards.

Transparency

GK Software chose to have its company flotation listed on the most stringently controlled segment of the German Stock Exchange, the Prime Standard section, in the summer of 2008. The highest possible degree of transparency towards its investors and all the other participants in the capital markets has been one of the most important Company principles from the outset.

The Company will also appoint a voting proxy at the 2020 annual shareholders' meeting and this will allow shareholders to exercise their voting rights, even if they cannot attend the annual shareholders' meeting in person. All the public information such as compulsory notifications and press releases, the financial statements or the reports on the annual shareholders' meeting will be made available on the Company's website at any time.

Risk management

The risk management system established by the Company is geared towards the needs of its business. It is designed to help identify risks at an early stage and appropriately prevent or restrict any risks that occur. Please refer to the Group management report for further details.

Declaration of compliance

On 20 April 2020, the Management and Supervisory Boards at GK Software SE declared that, since issuing the last annual declaration of compliance in April 2019, the recommendations of the "Government Commission on German Corporate Governance Code" had been met, apart from the exceptions noted in the declaration published in April 2019, and continue to be met with the following exceptions.

A. Management and supervision

I. The Management Board’s business management tasks

Principle 3, Recommendation A.1 The Management Board will mainly select candidates for management positions on the basis of their personal skills and abilities in the interests of the Company. Only after this will other objective background issues in the candidates like their age, origin or gender be taken into account in order to not generally restrict the interests of the Company. In setting the target rate for the proportion of women at top management level below the Management Board, the Management Board will take into account the fact that this only involves three persons.

Principle 5, Recommendation A.2 The work to fully complete the compliance system is being prepared. The Management Board is planning to disclose its main features once it has been completed. Opportunities for employees and outside parties to provide information about any legal infringements without the content being published already exist.

III. The function of the annual shareholders’ meeting

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

B. Appointments to the Management Board

Principle 9, Recommendation B.1 The Supervisory Board will mainly take into account personal suitability, which results from the individual skills and specialist expertise in candidates, when filling vacant positions on the Management Board so as to not generally restrict the interests of the firm. Other criteria will only be taken into consideration after this. The Supervisory Board will particularly take into account the fact that the Management Board only consists of two members when setting the target size for the share of women on the Management Board.

Principle 9, Recommendation B.2 The Supervisory Board and the Management Board will jointly ensure long-term planning with regard to successors. This method will be adapted to the relevant requirements in the specific situation in each individual case and will be described in the declaration on corporate management for the year 2020.

Principle 9, Recommendation B.5 There is no age limit for members of the Management Board; GK Software SE believes that the professional qualifications of the members of the Management Board play a more important role.

C. Composition of the Supervisory Board

I. Composition of the Supervisory Board

Principle 11, Recommendation C.1 The composition of the Supervisory Board at GK Software SE is not decided by the Supervisory Board, but by the Company’s annual shareholders’ meeting. The Supervisory Board seeks to engage in successful cooperation between its members and constructive cooperation with the Management Board. The nominations for candidates submitted by the Supervisory Board to the annual shareholders’ meeting will take into account the geographical distribution and the degree of complexity of the business activities at GK Software. Criteria such as the age, background or gender of the candidates are not primary factors in considerations. The Supervisory Board will particularly take into account the fact that the Supervisory Board only consists of three members when setting the target size for the share of women on the Supervisory Board.

Principle 11, Recommendation C.2 There is no provision for an obligatory age limit for the members of the Supervisory Board, as the older members of the Supervisory Board particularly enrich the board as a result of their wide experience and their specialist qualifications are more important.

II. Independence of the members of the Supervisory Board

Principle 12, Recommendation C.7 In special situations, for example, in the case of suggestions for necessary appointments to supervisory boards by a court, the Management Board will also suggest candidates who do not match the criteria in the Code regarding independence, for the benefit of the Company. The Company does not see any restrictions in independence in the members of the Supervisory Board either, even if membership of this body has continued for twelve years.

Principle 12, Recommendation C.10 In special situations, for example, in the case of suggestions for necessary appointments to supervisory boards by a court, the Management Board will suggest candidates who do not match all the criteria in the Code regarding independence, for the benefit of the Company.

D. How the Supervisory Board operates

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

II. Cooperation on the Supervisory Board and with the Management Board
Principle 14, Recommendation D.2 The Supervisory Board at GK Software SE does not form any committees due to the size of the body (the Supervisory Board only consists of three members), as the provision of consistent and extensive information for all members of the Supervisory Board can be guaranteed most efficiently at meetings where all the members of the Supervisory Board are present. Any issues can be handled and answered appropriately by the whole body.

Principle 14, Recommendation D.3 See the reasons for deviating from recommendation D.2.

Principle 14, Recommendation D.4 See the reasons for deviating from recommendation D.2.

Principle 14, Recommendation D.5 See the reasons for deviating from recommendation D.2.

Recommendation D.7 The Supervisory Board normally meets together with the members of the Management Board, as both committees believe that the flow of information and discussions about topics affecting the Company can be best handled in this way.

Recommendation D.11 See the reasons for deviating from recommendation D.2.

F. Transparency and outside reporting

Recommendation F.2 The consolidated accounts are not published within 90 days of the end of the financial year, but after four months in line with the current guidelines published by Deutsche Börse AG. The interim reports are not made available after 45 days, but after two months according to the current guidelines published by Deutsche Börse AG. GK Software SE believes that the periods of time set by Deutsche Börse AG are sufficient to provide shareholders with detailed information.

G. Remuneration for the Management Board and the Supervisory Board

I. Remuneration for the Management Board
Principle 23 The annual shareholders' meeting on 29 June 2015 decided in line with Sections 286 Para. 5 and Section 314 Para. 2 Sentence 2 of the German Commercial Code that any individual disclosure of the earnings of the Management Board for the financial years 2015 to 2019 should not take place before 28 June 2020. There will therefore not be an item on the agenda to decide the remuneration system and the specific remuneration of the individual members of the Management Board at the Company's annual shareholders' meeting, which will decide on the accounts from the 2019 financial year.

Recommendation G.1

- It is not possible to precisely determine which relative proportion of the fixed earnings, on the one hand, and the short-term and the long-term variable elements of remuneration, on the other hand, have in terms of the overall target remuneration. While the ratio of fixed earnings and maximum short-term variable earnings has been defined, the long-term variable remuneration takes place exclusively in the form of share options, the value of which at the time when they are exercised cannot be determined when they are issued.
- The remuneration system stipulates which connection exists between achieving the previously agreed performance criteria and the variable remuneration. However, the Supervisory Board

still retains the right to consider the Company's overall situation when assessing the goals that have actually been reached.

Recommendation G.6

- The variable remuneration, which results from achieving long-term goals, does not generally exceed the share arising from short-term goals. However, it is deliberately assumed that there is a value lever, which cannot be precisely determined, for the instruments when providing remuneration for the long-term goals (share options) if growth has been recorded, as the Company presents it - and this can and should create a situation where the remuneration of the long-term goals should significantly exceed that of the short-term goals.

Recommendation G.10

- The members of the Management Board are not expected to mainly invest the variable amounts of the remuneration that is granted to them in Company shares, because the long-term remuneration is already exclusively granted in share options.

Recommendation G.11

- The Supervisory Board at GK Software does not have the opportunity to withhold or reclaim any variable remuneration that has been earned, even in justified cases. In these cases, mutual agreement is sought with the members of the Management Board.

Recommendation G.13

- The Supervisory Board will consider in future contracts that payments to a member of the Management Board will not exceed the value of two annual salaries if his or her work on the Management Board ends prematurely.

Recommendation G.14

- The Supervisory Board will consider in future contracts that promises for services are not agreed if the employment contract is ended prematurely by the member of the Management Board due to a change of control. As the members of the Management Board were both appointed to their positions more than a decade ago, the practice adopted for years has been used in one of the current contracts.

Recommendation G.15

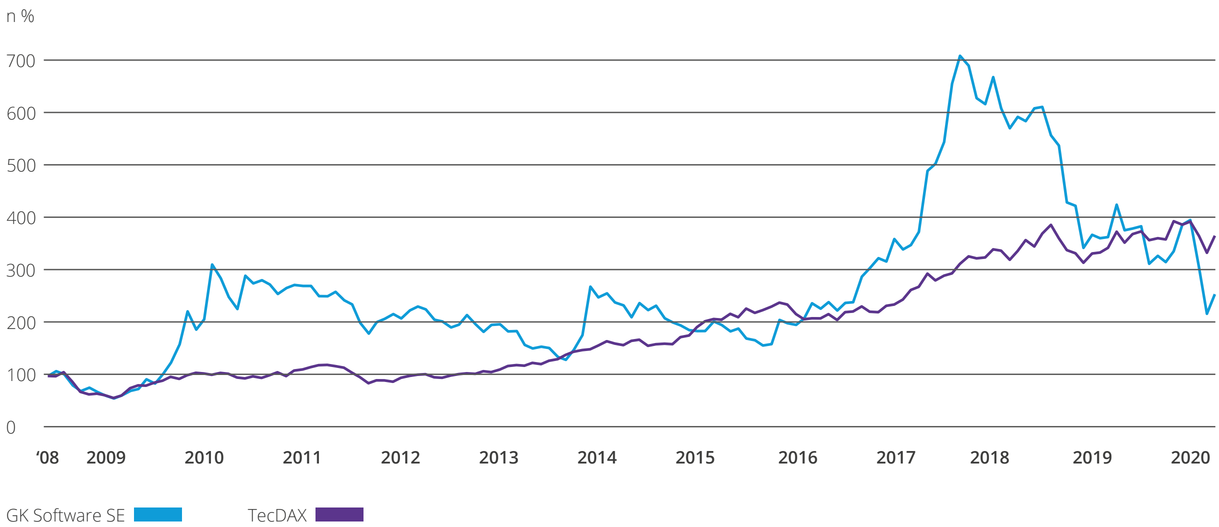
- In the case of members of the Management Board. who hold supervisory board positions within the Group, the remuneration is not currently included in their normal salary, as the decisions were made before the corresponding rules of the Code were adopted and the additional responsibility associated with this is rewarded. The Supervisory Board is planning to consider that remuneration for supervisory board positions with the Group will be included in their salary when making future decisions.

GK Software SE Shares

Basic data

Share price development (indexed)

F.01



Basic data

T.01

Securities Identification Number (WKN)	757142
ISIN	DE0007571424
Trading symbol	GKS
GK Software AG IPO	19 June 2008
Type of shares	Ordinary stock in the name of the holder without any nominal value (individual share certificates)
Trading markets	Frankfurt and XETRA
Market segment	Regulated Market (Prime Standard)
Designated sponsor	ICF Bank AG
Number of shares	2,023,300
Share capital	EUR 2,023,300
Free float	44.40 %
Highest price in 2019	EUR 86.60 (8 May 2019)
Lowest price in 2019	EUR 54.20 (4 September 2019)

Summary/share performance

The GK Software shares listed on the Prime Standard section of the Frankfurt Stock Exchange registered a downward trend during the last financial year too, with the exception of a temporary rally in May. The shares were worth EUR 68.60 at the start of the year, but had reached EUR 72.00 at the end of the reporting period. This corresponded to market capitalisation of EUR 146 million at the end of 2019.

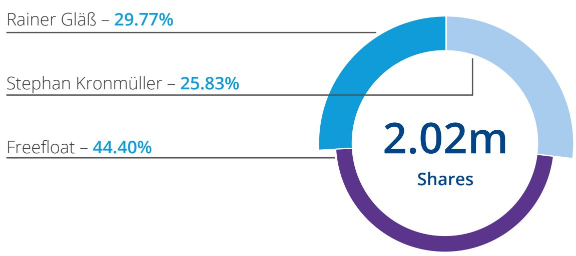
Number of shares issued

The Company reported on 31 December 2019 that the total number of voting rights was 2,023,300 shares at the end of the reporting period.

The Company reported on 31 March 2020 that the total number of voting rights was 2,029,000 shares.

Shareholder structure on 31 December 2019

F.02



Shareholder structure

GK Software SE has an extremely stable shareholder base, which is enabling the Company to achieve long-term and sustained development. The shareholder structure was as follows on the reporting date of 31 December 2019: Rainer Gläss, the founder and CEO, directly held 3.35 percent and indirectly 26.42 percent of the shares through Rainer Gläß Vermögensverwaltungs GmbH & Co. KG. Stephan Kronmüller, also a Company founder and the former Management Board member for Technology and Development, directly held 2.28 percent of the shares and 24.08 percent of the shares through Stephan Kronmüller Vermögensverwaltungs GmbH & Co. KG. This created a free float of 44.40 percent on 31 December 2019.

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

Amounts exceeding the threshold value

T.02

Correct on	Shareholder	Proportion in %
17.3.2016 [1]	Scherzer & Co. AG, Cologne	6.36
22.9.2016	Wilhelm K. T. Zours (of which Deutsche Balaton Aktiengesellschaft, Heidelberg with 3.18%)	6.55

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

Directors dealings in 2019

Directors dealings

T.03

Date	Person acting	Position	Activity	Volu-me EUR	Number
4.6.2019	André Hergert	Management Board	Purchase	113,310.00	3,000
12.6.2019	André Hergert	Management Board	Sale	46,745.90	670
2.10.2019	Rainer Gläss	Management Board	Purchase	5,719,000.00	100,000

Investor relations

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

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

GK Software SE also attaches particular importance to providing an ongoing flow of information for the future. Among other things, this involves the completion of quarterly reports and extensive half-yearly and annual reports in German and English, a finance calendar, as well as compulsory announcements, which have to be published immediately, and corporate news. The accounting system has been adapted to the international IFRS accounting standards and also meets investors' requirements for information. As in previous years, GK Software will hold its analysts' conference during the Frankfurt Equity Capital Forum in 2020 again. Investor and press roadshows also take place at regular intervals so that the Company remains in permanent contact with the capital markets.

The Management Board also prepared a report on relations with associated firms in line with Section 312 of the German Companies Act. The auditor checked this and verbally communicated the results of his audit to the meeting on 22 April 2019. The review by the Supervisory Board did not give rise to any reasons for objections to be raised. It did not raise any objections to the Management Board's final declaration in its report in line with Section 312 of the German Companies Act.

The Supervisory Board wishes to thanks the Management Board and all staff members for their commitment and the work they have performed and also wishes them all continued success.

B

Group management report

André Hergert
Chief Financial Officer

Group Management Report

Company business model

Object and purpose

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

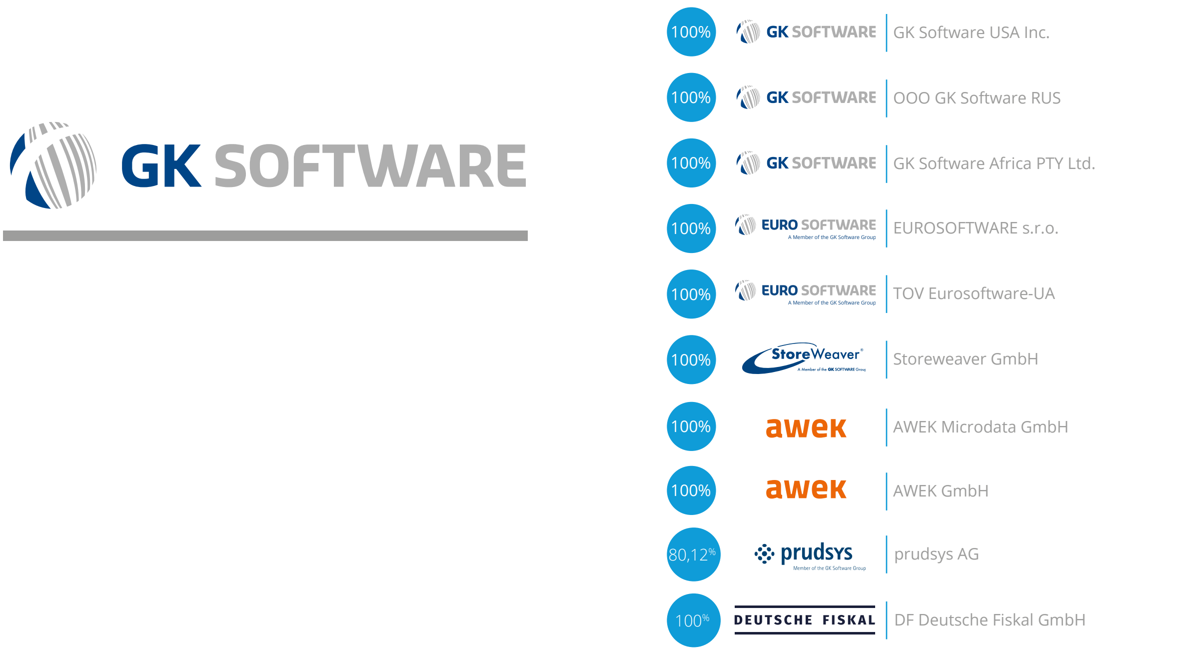
1 – The expression GK Software always refers to the corporate Group in the following text. "The Group" or "corporate Group" are also used as synonyms for this. When GK Software SE or "the Company" is used, it exclusively refers to the individual company.

Corporate structure and holdings

The Group's headquarters have been located in Schöneck/Vogtl. since it was founded. Alongside its administration department, the product development department, project management and third-level support facilities are all based at this site. GK Software SE has two business sites in Ber-

Group structure of GK Software

F.03



lin and they are primarily responsible for the marketing, sales and partner activities; parts of the software development work are also based there. The branch in Jena started operating in 2018 so that the Company can benefit from the excellent opportunities for gaining personnel in this high-tech region in the state of Thuringia.

The Group's second largest business location has been situated in Plzen in the Czech Republic for more than 20 years. Software production and research & development are the main activities pursued by the wholly-owned subsidiary, Eurosoftware s.r.o. Major work on programming and further technological developments for the solutions provided by GK Software take place at the Plzen site. TOV Eurosoftware UA in Lviv has been an additional wholly-owned subsidiary of GK Software SE and a site for customised software development since the beginning of 2016.

GK Software SE has another wholly owned subsidiary in Dübendorf in Switzerland called StoreWeaver GmbH. StoreWeaver GmbH has a German branch in St. Ingbert in the German state of Saarland. The teams in St. Ingbert are primarily responsible for implementing customer projects and they also look after the customers of our SQRS solution (Solquest Retail Solutions).

AWEK GmbH, which focuses on providing services, is also a wholly owned subsidiary. It has its headquarters in Hamburg. AWEK Microdata GmbH, which is also a wholly-owned subsidiary and is based in Hamburg and has a business site in Bielefeld, specialises in the ongoing development of the euroSUITE checkout software for small and medium-sized enterprises and it looks after the installations where this software is in use. AWEK GmbH and AWEK microdata GmbH together form the IT Services division within the Group.

DF Deutsche Fiskal GmbH, Berlin (previously 1. Waldstraße GmbH, Schöneck; company with no operational business operations, renamed and registered office relocated in 2019) will be marketing a solution based on cloud technology from 2020 onwards in order to meet fiscal requirements under the heading "German fiscalisation".

GK Software SE has its own sales organisation in Russia in the form of OOO GK Software RUS. GK Software USA Inc. was founded in the USA in December 2013 in order to support the expected expansion of our North American business locally through an organisation of our own in the region. GK Software Africa (Pty) Ltd was set up in South Africa at the beginning of 2015 for the same reason to serve African customers.

prudsys AG is based in Chemnitz. prudsys AG, in which GK Software SE has an eighty percent holding, develops the Group's solutions based on the use of artificial intelligence methods and they are linked to the core solutions from the Group via the AIR platform concept (Artificial Intelligence for Retail) in line with customers' requirements. valuephone GmbH, which was fully acquired in the summer of 2018, was merged with GK Software SE with effect from 1 January 2019. GK Software had already been marketing the mobile customer solutions that it develops since 2017.

The Management Board of GK Software SE consists of Company founder Rainer Gläss (CEO, Strategy, Marketing & Sales) and André Hergert (Finances). The Management Board is supported by a Group Management Board, which consisted of the following members in 2019: Michael Jaszczyk (CEO of GK Software USA, who is responsible for North and South America), Harald Göbel (Senior Vice President GK Software SE, who is responsible for Europe, the Middle East and Africa) and Michael Scheibner (Chief Strategy Officer). The latter joined the Group Management Board during the course of the financial year.

The three-man Supervisory Board at GK Software SE was led by the Chairman Uwe Ludwig during the financial year. He had been a member of the Supervisory Board since 2001 and was re-elected to the committee until 2021 at the annual shareholders' meeting in 2016. Thomas Bleier was elected to the Supervisory Board in 2003. His period in office was confirmed until 2022 at the annual shareholders' meeting in 2018. Herbert Zinn was first elected to the Supervisory Board at the annual shareholders' meeting in 2011. This current period in office ends with the annual shareholders' meeting in 2023. Uwe Ludwig resigned from his position with effect from 11 March 2020 for health reasons. Chemnitz Local Court appointed Dr Philip Reimann as a member of the Supervisory Board and also Chairperson of the Supervisory Board on 24 March in response to an application by the Management Board. His appointment will last to no longer than the end of the Company's annual shareholders' meeting in 2020, which will then make a decision about adding personnel to the Supervisory Board.

Management factors of the Group

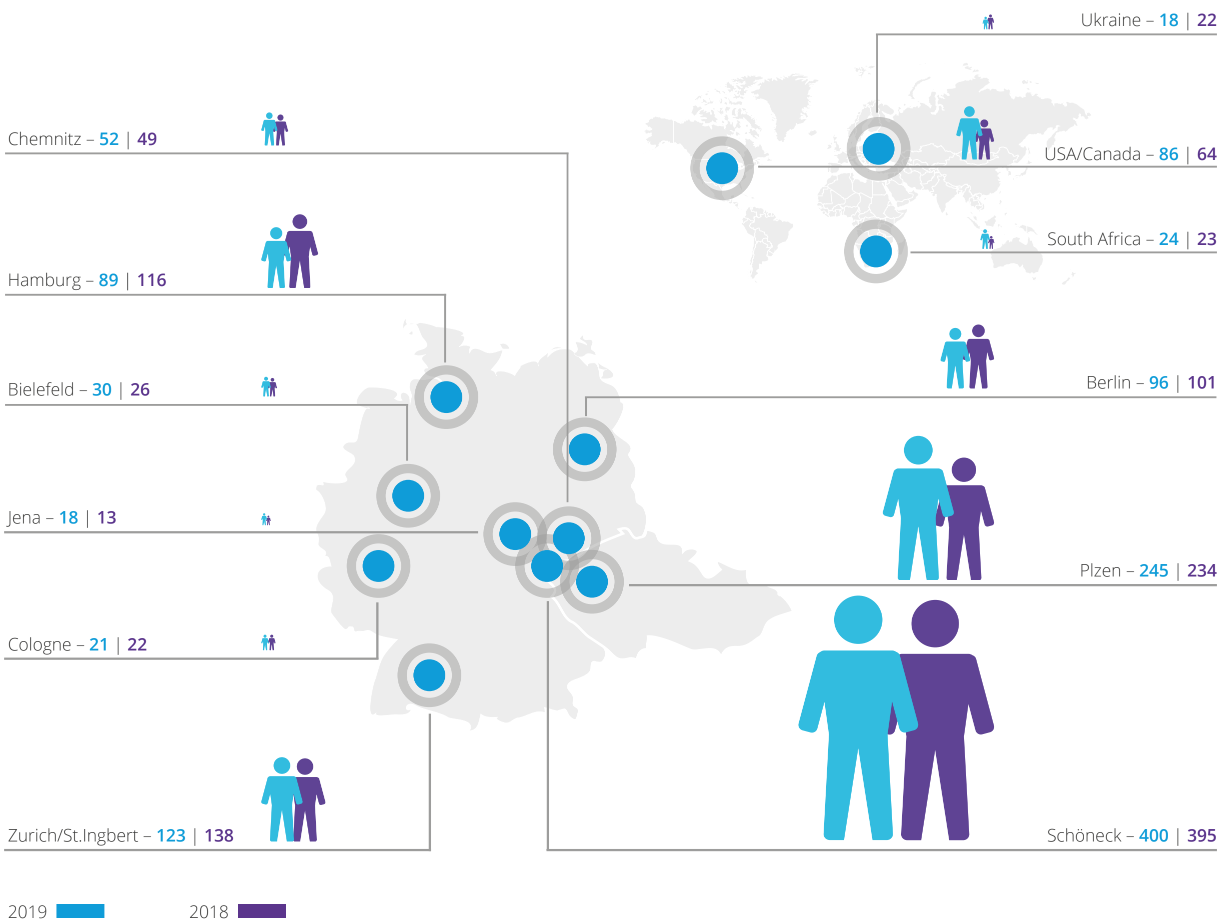
The management of the Group is largely determined by two key management factors - turnover and earnings - although, for the latter, earnings before interest and taxes (EBIT) and earnings before interest, taxes, depreciation and amortisation (EBITDA) are mainly used as well as the relationship between these earnings factors and turnover (operating performance).

In addition to these two key management factors, we still use the margin of gross profits on turnover for tax purposes. We understand gross profits to be the excess of turnover over and above services purchased from third parties, semi-finished products and goods that were directly used to achieve this turnover revenue in order to be able to observe the influence and extent of outside services in the turnover that is generated.

This is accompanied by a key performance indicator system of KPIs geared towards earning capacity, which concern the Group's funding. The issue here is the ability of the Group to be able to service its financial obligations at any time, both in the long and short term. The key performance indicators used here concern the equity ratio and the capitalisation ratio in different variants as a measure of matching the maturities of assets and the capital used to fund them. Another important aspect concerns the Group's ability to be able to use any investment opportunities, which arise, at very short notice. A key performance indicator here is the excess in cash and cash equivalents over interest-bearing liabilities. There are different variants of this key performance indicator too, depending on the goal that is being observed.

Distribution of employees at group business locations (from 5 employees) on 31 December 2019

F.04



Personnel

A total of 1,168 people were employed by the Group on the reporting date of 31 December 2019 (excluding members of the Management Board and trainees). This means 37 employees fewer than on the reporting date in the previous year (1,205) and 79 fewer than at the time of the half-yearly report in 2019. With 400 staff members (previous year: 395), a large proportion of the Group's employees were employed at the Schöneck business site. The Berlin branch of GK Software SE had 96 employees working in the sales & marketing, project & partner management and development departments, following a figure of 101 in the previous year. The number of employees increased to 245 (previous year: 234) at the Czech subsidiary, Eurosoftware s.r.o., in Plzen. There were 80 employees within the corporate Group in Hamburg (previous year: 100) at the end of the year. It was necessary to reduce capacity in the field service business there, for which there were no longer any orders. 30 employees were employed at AWEK's business site in Bielefeld (previous year: 26); most of them were working on software development. 117 people were working at the St. Ingbert business site at the end of the year (previous year: 133). Five people were working in Dübendorf (Switzerland) at this time (previous year: 5).

The branch in Cologne had 21 members of staff at the end of the reporting period, in comparison with 22 at the end of the 2018 financial year. 86 people were working for GK Software in the USA (2018: 64). The South African subsidiary employed 24 people on the reporting date (2018: 23). The number of people employed at the headquarters of the Ukrainian subsidiary, TOV Eurosoftware UA, in Lviv increased from 22 to 18 since the end of 2018.

52 people were employed in Chemnitz, the headquarters of prudsys AG, on the reporting date (2018: 49). The Group pools its expertise for the range of topics covered by artificial intelligence at this business site.

Huge investments have been made in training and developing employees for years in order to be able to provide a foundation for and boost growth in turnover at GK Software from a human resources point of view too. The majority of our employees attended training courses (some of them on several occasions) at the GK Academy during 2019, for example. New employees undergo extensive and standardised introductory courses, while a permanently adapted training programme is made available to all employees too. The online training courses were also expanded and this increased the potential number of participants. The Group is also actively involved in training new or future employees. They include trainees on apprenticeship courses, students from universities of cooperative education or students on sandwich courses. These different measures are already providing success in attracting new employees and the aim is to actively pursue them in future.

Products and services

The cloud4retail platform

GK Software is convinced that only innovative, market-driven retail companies with optimised logistics in the omni-channel world, which is already a powerful driving force, will be able to survive. Retail companies are therefore increasingly becoming technology-oriented companies, which have to be capable of mapping all their consumers' needs on one modern technological platform. At the same time, it will be necessary to ensure that the increasing degree of complexity is not handled by more and more solutions that are running in parallel alongside each other. The main task therefore involves reducing the complexity through a suitable platform solution again and creating solutions that remain operable and manageable for the users despite growing demands, particularly from consumers. The Company's current slogan "Simply Retail" takes this into account. The modern platform, where the different services for keeping shopping baskets, finding prices, promotions, mobile customer loyalty or artificial intelligence all dock, is the cloud4retail platform. Customers can combine services, if necessary, and have them hosted in a private, hybrid or public cloud.

In line with this aspiration, GK Software is following the idea of creating a unified and end-to-end technological platform, which, in the end, pursues the goal of enabling a consistent and personalised consumer experience through all the so-called customer touch points. It must also be possible within this standard platform to create special expansion opportunities for each of the Company's customers in order to map the individual excellence and the creativity of each retail firm. After all, the latter forms the basis for the specific competitive benefits and unique characteristics of any retailer and ensures that it is perceived as a separate brand within the large number of providers in the retail sector.

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

This is why the Company has made such significant investments during the last few years in order to enable the process of digital transformation with specific solutions. This has meant that significant parts of the range of solutions have been newly developed in order to safeguard the future viability of the GK range of solutions for years to come and not just rely on the status quo. The results of this fundamental management decision are not as clearly evident at first glance as the switch from DOS to Java was, for example. However, if we view the effect resulting from this, the expenditure associated with it and the dimension of this change in general terms, this step taken in the field of software development is at least as great as the former one.

OmniPOS - POS functions at any place, at any time and on any device

The new solution platform known as OmniPOS (POS = Point of Sale), which emerged from these investments, starting in 2015, was initially brought on to the market at selected customers in a ramp-up phase. This solution platform is far more than the preceding solution, GK/Retail POS (version 12), which is in use at most customers. The fundamental architecture idea of OmniPOS is being able to use nearly all the functions in a modular and allotted manner as well as with or without user interfaces. Each function must be usable as a central service, but also as a local instance and be secure across network boundaries. At the same time, the central services must be able to handle the simultaneous operation of very many clients at a data centre or in a (private) cloud. This is the only way to make it possible to guarantee operations at thousands of checkouts, calculate prices at a web shop or safeguard communications with a huge number of customer devices, all at the same time.

GK Software has managed to make available the first professional enterprise POS solution that operates fully in a cloud in the form of OmniPOS as part of the cloud4retail platform. GK Software can handle the full operations through this, including maintenance and offering complete services. One special feature is that OmniPOS can be used in the cloud either in the standard version or with customised adaptations. Retailers can therefore lower their long-term costs and gain greater flexibility and speed when introducing new business processes.

The various GK Software products are brought together in the cloud4retail platform with their specific features for the market. The Mobile Customer Assistant solution is part of the platform that is used in the projects in a modular way, depending on what the customer wants. The Fiskal Cloud fiscalisation solution and the AI modules have also been developed as cloud services and therefore follow the guiding principles of even more flexible and efficient architectures realised with cloud4retail. All the solution components are fully based on the same infrastructure, the same programming paradigms, Java and other modern programming languages as well as open standards. This means that they do not depend on any particular hardware or operating system.

SAP is also selling almost the entire portfolio related to the cloud4retail platform with identical features using the SAP Omnichannel Point-of-Sale by GK, SAP Mobile Consumer Assistant by GK, SAP Store Inventory Management by GK, SAP Dynamic Pricing by GK, SAP Frictionless Checkout by GK product names.

AIR - Artificial Intelligence for Retail

An important feature of the cloud4retail platform of solutions is the use of artificial intelligence to optimise decision processes involving large amounts of data. As part of this, machine learning-supported personalisation allows customers to be addressed at all the touch points in a precise and targeted manner - whether in a store, on a mobile device or at a web store. Using AIR (Artificial Intelligence for Retail), GK Software has developed the first specifically retail-oriented services based on artificial intelligence to optimise retail processes. Retailers can automatically make automate many processes by using AIR - ranging from dynamic pricing to personalisation and even fraud detection - on the basis of machine learning and other AI methods. AIR is an AI platform that focuses on precisely tailored processes covering special challenges in the retail sector in its specific forms.

Suitable for any sector
The cloud4retail platform is not geared to any individual retail segment, but is equally suitable for all the formats and segments in the retail sector - ranging from small shops to department stores, from food retailers to fashion and even specialist retail operations.

Suitable for any device
The architecture of the cloud4retail platform has been designed so that it is not just possible to use it with a particular type of device or class of device. The underlying open client concept ensures that nearly all standard devices can be used on the basis of the same cloud-enabled services. They include mobile and stationary checkouts consisting of a wide variety of types of hardware, scales, self-checkouts, self-scanning devices, mobile data logging devices for employees, tablets or, not least, the wide variety of consumer smartphones.

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

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

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

Central services for all the channels
One of the basic concepts of cloud4retail is that information for different channels and types of devices is made available centrally and can be requested by various data users. Price calculations (Central Pricing Engine), managing promotions (Central Promotions Engine) or storing and making available points or virtual credits (Stored Value Server) are crucially important in an omni-channel world. These solution components are core services in OmniPOS and are available for all the retailer's channels with the same quality.

Ongoing product development
Considerable investments were made in the expansion of the cloud4retail cloud platform and the associated services like OmniPOS, Store Inventory Management, Mobile Customer Assistant and the AI-based solutions during the whole of 2019. All the solutions once again successfully underwent SAP's Premium Qualification process during the reporting year. New products and functions are checked by SAP as part of this kind of product test and in each case the current version was approved for sale.

Other solutions in the portfolio

Deutsche Fiskal
GK Software SE has been developing a solution to meet the new tax requirements that can be summarised under the heading of "German fiscalisation of till systems" since the end of March 2019 and is positioning this solution in the market through its subsidiary DF Deutsche Fiskal GmbH. On 1 April 2020, the solution was made available to customers in a fully functional form for test purposes. The background to this is that the German law requires digital certification of each receipt from 1 January 2020 onwards in order to initially prevent value-added tax evasion. GK Software is not only providing a cloud solution for customers of the corporate group, but for all operators of till systems through Deutsche Fiskal. As the requirements in Germany in terms of cryptography and the security architecture are more complex than in any other EU member state, an exclusive partnership has been established with Bundesdruck-

erei (the Federal Printing Office). The cooperation arrangement means that Deutsche Fiskal is developing the cloud solution, while Bundesdruckerei (the Federal Printing Office) is making available the certified technical security facilities and is hosting them at its high-security data centre. GK Software has pooled its activities related to German fiscalisation in its subsidiary known as "DF Deutsche Fiskal GmbH". Because of the tight timetable and pressure from affected companies, an order was published, which instructs the tax authorities not to query any infringements against the law regarding fiscalisation before 30 September 2020. The possible window for sales with the solution from Deutsche Fiskal in the 2020 financial year has been significantly shortened as a result.

Payment services

In the field of payment services, GK Software offers, in our opinion, a market-leading solution for handling payments in the USA in the form of TransAction+ and it is able to integrate a large number of point of sale systems and a large range of payment authorisation providers. It meets high data protection standards and supports credit and debit cards and gift vouchers, "electronic benefits" and handles cheque authorisation and accounting for payment providers in the USA. The software manages customer-oriented payment devices at the highest level.

The SQRS software package

When acquiring the assets of the former company known as Solquest GmbH, its range of solutions known as Solquest Retail Solutions (SQRS) was also taken over and they are still in use at three customers. The particular high-performance features of the software were in the areas of SAP integration and mobile solutions. The SQRS solutions were no longer marketed after the takeover of Solquest in order to keep the Group's portfolio of products slim. However, minor adjustments are still being made as part of existing customer relations and they are handled by StoreWeaver GmbH. Alongside this, a migration path has been developed in order to provide a long-term perspective for the customers of the former Solquest GmbH company.

The euroSUITE solution from AWEK

For medium-sized retailers, GK Software develops and distributes a solution called euroSUITE via its subsidiary AWEK microdata GmbH that is for customers in German-speaking countries and which complements the offer of GK Software.

Developing and adapting software

In addition to its products, GK Software also provides comprehensive software services. The most important component in this context involves customising and adapting software developments during the introduction projects and subsequently introducing change requests, which are a permanent feature of most projects. They include, for example, adapting software that is already in productive use to broader customer requirements, such as integrating new bonus systems in the checkout environment. Classic issues like consulting, project management or training courses come under the heading of developing and adapting software too.

Maintenance and services

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

Partner training

The GK Academy is responsible for providing qualifications for the implementation partners, customers' employees and training GK Software workers. The Group continued to train implementation partners in 2019, which can then handle the introduction of GK/Retail themselves.

Research and development

The ongoing development of existing products and the development of new software solutions have always been the major focus at GK Software during the past few financial years and they will continue to be strategic competitive factors in future too.

This is also reflected in the continued growth in the number of employees in this department.

GK Software is continually making investments in research and development in order to maintain its technologically-leading position in the long term too. A distinction must be made between applied research, which is operated by the Futurelab and corporate innovation and research teams, and application-oriented product development. Expenditure in the research division amounted to EUR 1.24 million in 2019. The research teams are based at several of the Group's business sites. The application-related product development work is primarily performed in Germany and in the Czech Republic. Expenditure in this department amounted to a total figure of approx. EUR 17 million during the past year.

Overall, GK Software spent over EUR 18 million on research & development work during the 2019 financial year; this corresponded to approx. 16 percent of Group turnover.

Economic report

General economic and industry-related conditions

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

With GK Software's business expansion into more and more economic areas, it goes without saying that the number of factors affecting its business have increased, as the situation in some individual markets may move in different directions in spite of global economic trends. However, this provides some detachment in the Company's general operations from the developments in its original core markets – primarily in Central Europe – without these markets losing their significance for GK Software in the foreseeable future. The year 2019 also demonstrated in an impressive manner that GK Software can now very easily move into different geographical markets if no major orders or only a few are placed for projects in its traditional home markets.

The global economy grew overall by 2.9% in 2019, despite slowing down in the second half of the year. According to the IMF, developing nations were the engines powering growth and they increased their economic performance by 3.7% during the past year. Growth in industrial nations was also significant at 1.7%. The US economy grew by 2.3% in 2019, while the economy in the eurozone expanded by 1.2%. Economic growth was 0.5% in Germany.[1]

Alongside the basic economic trends in the markets processed directly or through partners, the general trends in the retail sector are also an enormously important factor for the Company's business. The issue of omni-channel retailing continues to be a major area of focus, as it is exerting a huge influence on retailers' strategic decisions

1 – https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020 (preliminary estimates)

in all markets. Beyond this, the introduction of genuine cloud services based on enterprise POS solutions is becoming increasingly important for all sizes of retailers. Long-term issues like demographic developments, new ways of establishing customer loyalty or internationalisation also remain important driving forces and are becoming more and more connected to the mega-trend of omni-channel retailing. GK Software responded to these priorities in the retail sector at an early stage and made significant preparations for the future through OmniPOS. The cloud4retail cloud platform and the Mobile Customer Assistant customer loyalty solution are further strengthening the competitive position of OmniPOS. We are also expecting the same effect from integrating solutions on the basis of artificial intelligence. We are also addressing the fuel station and smaller retailer market segments with our new solutions known as GK Drive and retail7.

Even if the licensing business was again powered by customers from outside the German-speaking world in 2019, the developments in Germany, Austria and Switzerland continued to remain very significant for the direct business of GK Software, as this is an internationally leading market in the sector and many existing customers have their headquarters there. The German retail sector, Europe's largest retail market, had a very successful year again in 2019. After recent years were characterised by continuous growth, turnover actually rose by a nominal 3.3 percent according to preliminary estimates of the German Federal Statistical Office, which is 2.7 percent in real terms, having been adjusted for inflation.[1] Overall, turnover in the retail sector (excluding vehicles, fuel stations, fuels and pharmacies) amounted to approx. EUR 537.4 billion in 2019[2]. The retail turnover therefore grew significantly more strongly than gross domestic product (GDP), which rose in real terms by 0.6 percent.[3] The retail trade therefore contributed 16.2 percent to GDP overall in 2019 and remained a leading sector in the general economy in Germany.[4]

The overall prospects for the European retail sector indicated an ongoing upward trend in 2019.[5] Turnover also rose in the United Kingdom, despite the weakness of sterling in connection with the preparations for Brexit, after it had tended to stagnate until 2015. Turnover in the retail sector there reached a figure of GBP 393 billion in 2019, which signified an increase of 3.4 percent over the previous year.[6] There has also been a continual upward trend in retail sales in the USA during the last few years and this has ensured greater activity in the world's largest retail market.[7] At USD 3.8 trillion, sales in the retail sector there exceeded the record high in the previous year of USD 3.7 trillion.[8]

Developments in interactive retailing, i.e. mainly e-commerce and the mail order business without any services, continue to be dynamic. This business was able to increase its turnover once again by 11.6 percent to a figure of approx. EUR 72.6 billion.[9] This growth was mainly attributable to the e-commerce sector, which increased by 8.5 percent to a figure of EUR 57.8 billion[10]. This trend is expected to continue in 2020 too. According to initial estimates, online turnover in the current year is expected to be approx. EUR 63.0 billion[11]. This trend is even clearer in other important, leading retail markets like the United Kingdom. However, it is not yet observable to the same degree everywhere. While the share of the online retail trade amounts to more than 10.7 percent of the total retail sector in the USA[12], the figure was only 3.7

1 – https://www.destatis.de/DE/Presse/Pressemitteilungen/2020/01/PD20_034_45212.html

2 – https://einzelhandel.de/images/presse/Pressekonferenz/2019/Fruehjahrs-PK/PK_Charts.pdf - preliminary estimate

3 – https://www.destatis.de/DE/Methoden/WISTA-Wirtschaft-und-Statistik/2020/01/bruttoinlandsprodukt-2019-012020.pdf?__blob=publicationFile

4 – https://www.destatis.de/DE/Presse/Pressekonferenzen/2020/BIP2019/pressebroschuere-bip.pdf?__blob=publicationFile, p.11

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

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

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

8 – https://nrf.com/media-center/press-releases/nrf-says-consumers-continue-drive-economy-forecasts-retail-sales-will

9 – https://www.bevh.org/presse/pressemitteilungen/details/vielbesteller-treiben-e-commerce-umsatz-in-2019-auf-neuen-hoechststand.html

10 – https://einzelhandel.de/images/presse/Pressekonferenz/2019/Fruehjahrs-PK/PK_Charts.pdf

11 – https://einzelhandel.de/images/Arbeitgeber-Handel/Charts_Konjunkur_PK.pdf

12 – https://www.emarketer.com/content/us-ecommerce-2019

percent in Italy or 5.4 percent in Spain, for example[1]. It is generally assumed, however, that online retail sales will continue to grow in all developed retail markets.[2]

Omni-channel retailers continued to grow disproportionately in 2019 and increased their turnover by 13.3 percent to a figure of approx. EUR 25.7 billion; while the classic, purely online market places only grew by about 10.8 percent to a figure of EUR 33.9 billion. This means that in-store retailers, which also successfully operate an online business, have been increasingly in a position to make use of their advantages arising from the combination of stores and web shops.[3] This is clear from the subdivision: Omni-channel purchasers were responsible for 75 percent of expenditure, although they only represented 58 percent of purchasers in terms of numbers.[4] GK Software has been preparing its solutions for this development by moving in the direction of successful omni-channel retailing for years and therefore believes that it is in an excellent position to meet the relevant demands. These unabated developments are triggering huge challenges for the in-store retail sector and the challenges are also being driven by other innovations.

1 – https://www.retailresearch.org/online-retail.html(estimated in 2019; details on Germany fluctuate depending on the source)

2 – https://www.statista.com/statistics/379046/worldwide-retail-e-commerce-sales/

3 – https://www.bevh.org/fileadmin/content/05_presse/Pressemitteilungen_2020/200121_-_Pra__sentaion_fu__r_PK_FINAL.pdf

4 – https://einzelhandel.de/images/presse/Pressekonferenz/2019/Fruehjahrs-PK/PK_Charts.pdf

General assessment of the course of business

The Management Board had published a forecast that turnover in the 2019 financial year would significantly grow again compared to 2018 and EBIT would improve over 2018 - along the way to achieving the medium-term forecast in 2020, which envisaged an increase in turnover of 50 percent with an EBIT margin on turnover of 15 percent in its core business compared to 2017.

The 2019 financial year is one for which the Group will continue to grow with improved earnings. Group turnover in the consolidated accounts increased by 8.8 percent or EUR 9.3 million, while turnover in the core business segment of GK/Retail at Group level even increased by a good 11 percent or EUR 10.7 million. The undiminished attractiveness of our solution portfolio was once again demonstrated by new customers who are based all around the world. It was also gratifying to report that the positive development in our American activities, which has been happening since 2018, has stabilised. This region was able to make a positive contribution to results in our Group business for the first time in 2019.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR 12.26 million, following a figure of EUR 6.83 million in the previous year and were therefore approx. 80 percent higher than the previous year's figure. Earnings before interest and taxes (EBIT) reached a figure of EUR 3.43 million and were higher than the previous year's figure of EUR 1.60 million by EUR 1.83 million. When assessing the development of EBITDA, it should be noted that the introduction of IFRS 16 has led to a shift in expenditure. While leasing, renting and similar payments were directly entered as other operating expenditure in previous periods, similar amounts are now entered as amortisation of usage rights. The shift caused by this amounted to EUR 3.00 million overall. The earnings situation in 2019 will also be characterised by out-of-period turnover revenues of EUR 6.73 million from the release of liabilities from customer projects accrued in previous years.

Summarising matters, it can be said that the goals for 2019 were reached. However, it must be emphasised that the development experienced by the Group during the first half of the year was extremely unsatisfactory and required energetic countermeasures. The efficiency programme, which was launched for the whole corporate Group in July in combination with classic measures, led to significant reductions in costs, some of which will not take effect until 2020. The positive development in 2019 was also characterised by out-of-period turnover revenues of EUR 6.73 million from the release of liabilities from customer projects accrued in previous years. In summary, however, it must be noted that the development of earnings in particular does not meet the expectations that the Management Board has set for 2019.

Customers

GK Software's customers come from almost all areas of the retail sector and are distributed around the globe. The important market sectors, where the Company is active, are primarily the food retail sector, drugstores & household goods, fashion & lifestyle. DIY & furniture markets or technology & cars. The products and services are mainly geared towards large and medium-sized enterprises and are particularly suitable for customers with many stores in several countries. Of the TOP 50 retailers, GK Software counts 10 among its customers. GK Software has a total of 290 customers of varying sizes.

The Group gained 7 new customers for GK/Retail, 4 new customers for prudsys and 3 new customers for the euroSUITE solution during the reporting period. In terms of existing projects, 2019 too was dominated by extensive new orders, starts to pilot operations and rollouts in several projects as well as intensive change request business. OmniPOS was successfully rolled out at numerous customers in a wide variety of retail segments and was successfully put into service for the first time in Australia, Egypt and eight Asian countries, among other places. Several existing customers are currently considering whether to switch to OmniPOS. Some customers, which have been using GK/Retail for a long time, have already decided to introduce it and some of them have already put the solution into productive use in several countries. We handed over and rolled out more country-specific versions in several ongoing projects. One customer decided to use our Store Device Control solution. We have also been able to sign further contracts with existing customers and they cover, for example, extensions to licencing agreements or developing and adapting software or other services.

SAP and GK Software continued to deepen their partnership in 2019 and developed joint solutions that are tailored to the SAP Customer Experience strategy. GK Software has 130 customers through the SAP Reseller agreement.

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

2019 witnessed further expansion of business at GK Software. With turnover amounting to EUR 115.45 million, it was possible to again exceed the previous year's figure of EUR 106.15 million. Our core business segment, GK/Retail, contributed to this with an increase amounting to EUR 10.70 million (or 11.1 percent), rising to a figure of EUR 107.08 million. This includes the aforementioned effect from out-of-period revenues amounting to EUR 6.73 million.

The IT Services business unit declined in line with plans, but still generated turnover of EUR 8.37 million in 2019, a decline of EUR 1.41 million over the previous year. It is gratifying to note that turnover for our solution for SME retailers, "Eurosuite", generated turnover of EUR 4.03 million, matching the figure for the previous year. The balance for the development of turnover and operating costs (i.e. costs without any depreciation and amortisation) of EUR 5.42 million created an increase in EBITDA from EUR 6.83 million to EUR 12.26 million. EUR 3.00 million of this increase was due to shifts caused by using IFRS 16 for the first time. EBIT at EUR 3.43 million were EUR 1.83 million higher than the figure in 2018. Because of the continuing negative financial results (EUR (2.20) million, following EUR (1.42) million), the earnings before taxes (EBT) amounted to EUR 1.23 million (previous year: EUR 0.17 million). This was countered by tax expenditure amounting to EUR 4.37 million because deferred taxes were capitalised significantly less and this led to an annual deficit of EUR (3.14) million.

Total operating revenue

T.04

	31.12.2019		31.12.2018		Change	
	EUR K	in %	EUR K	in %	EUR K	in %
Sales	115,448	96.8	106,151	96.7	9,297	8.8
Operating revenues	**115,448**	**96.8**	**106,151**	**96.7**	**9,297**	**8.8**
Other operating revenues	3,837	3.2	3,617	3.3	221	6.1
Total operating revenues	**119,285**	**100.0**	**109,768**	**100.0**	**9,517**	**8.7**

Earnings situation

- **Turnover: EUR 115.45 million**
- **EBITDA: EUR 12.26 million**

The Group's total turnover rose by almost 9 percent from EUR 106.15 million to EUR 115.45 million. This includes the aforementioned effect from out-of-period revenues amounting to EUR 6.73 million.

The GK/Retail core segment provided an increase of more than 11 percent and its turnover amounted to EUR 107.08 million. This turnover also includes sales for work performed in previous periods.

The expected reduction in turnover in the field of hardware services occurred in the IT Services business segment as a result of our efforts to no longer actively pursue this line of business. Turnover declined here from EUR 9.78 million to EUR 8.37 million. This fall was exclusively due to the hardware services. Our Eurosuite software solution, which is operated in this segment, was able to maintain its turnover at a total figure of EUR 4.03 million compared to the previous year.

This development therefore caused a further shift in the relative importance of the two segments. Almost 93 percent of the Group's turnover is now generated by the GK/Retail core segment; the remaining 7 percent is therefore attributed to IT Services.

Turnover by segments

T.05

EUR K	GK/Retail FY 2019	GK/Retail FY 2018	IT Services FY 2019	IT Services FY 2018	Others FY 2019	Others FY 2018	Elimintations FY 2019	Elimintations FY 2018	Group FY 2019	Group FY 2018
Turnover with third parties	107,075	96,373	8,373	9,778	0	0	0	0	115,448	106,151
Product licences	10,232	16,621	849	738	0	0	0	0	11,081	17,359
Individual customer software[2] [2]	9,946	6,224	0	0	0	0	0	0	9,946	6,224
Licence revenues overall	20,178	22,845	849	738	0	0	0	0	21,027	23,583
Maintenance	25,652	22,019	5,297	6,195	0	0	0	0	30,949	28,214
Services	59,584	51,415	1,918	1,595	0	0	0	0	61,502	53,009
GK Academy	186	238	0	0	0	0	0	0	186	238
Other business	1,521	(115)	530	1,288	0	0	0	0	2,051	1,174
Revenue reductions	(46)	(29)	(221)	(38)	0	0	0	0	(267)	(67)
Turnover with other segments	**0**	**0**	**2,219**	**879**	**0**	**0**	**(2,219)**	**(879)**	**0**	**0**
Depreciation	**(8,071)**	**(4,945)**	**(542)**	**(202)**	**(213)**	**(90)**	**0**	**0**	**(8,826)**	**(5,237)**
EBIT segment	**4,413**	**1,503**	**(1,054)**	**754**	**72**	**(363)**	**(1)**	**(299)**	**3,430**	**1,595**
Assets	**104,996**	**113,499**	**8,144**	**5,656**	**7,187**	**6,125**	**(6,138)**	**(14,100)**	**114,189**	**111,181**
thereof long term[3]	52,222	47,477	2,383	575	6,349	5,810	(1,097)	(1,097)	59,857	52,765
Debts	**65,303**	**76,198**	**4,742**	**620**	**7,187**	**6,125**	**(5,370)**	**(12,017)**	**71,862**	**70,926**
Cash and cash equivalents	**8,064**	**11,765**	**22**	**24**	**0**	**0**	**0**	**0**	**8,086**	**11,789**

1 – The segment “Other items” includes the “Property held as a financial investment”

2 – Individual customer software includes customised program developments that increase the base amount for future maintenance revenues

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

Turnover amounting to EUR 20.18 million (previous year: EUR 22.85 million) was generated by software licences in the GK/Retail business segment, which marked a decline of EUR 2.67 million. In this field, the development of licences issued for customised developments as part of individualised adjustments to the GK/Retail range of solutions was gratifying. This work was then included in the maintenance programme and therefore creates maintenance revenue at a later stage. Revenues worth EUR 9.95 million in all were generated for these kinds of services in 2019, following a figure of EUR 6.22 million in the previous year.

The maintenance revenues in the GK/Retail segment also developed in a positive manner. Turnover here rose from EUR 3.63 million (16.5 percent) to EUR 25.65 million. This increase was partly due to turnover generated in previous periods (in total, this was EUR 1.71 million). The new agreements signed in 2018 and the increase in the base for issued licences for software developed for individual customers had an effect here too.

It was therefore possible to increase the turnover related to software (sum of licence and maintenance turnovers) by EUR 1.01 million to a figure of EUR 45.87 million in the GK/Retail segment.

The project services for the initial introduction (implementation) and later adaptation or extension of the GK/Retail products (so-called “Professional Services”) made a considerable contribution to the growth of the business segment and generated EUR 59.54 million which equates to an increase of EUR 8.13 million. Alongside ongoing introduction projects from 2018 and 2019 and an increase in the need for extension work, the increase compared to the previous year of EUR 5.02 million was also due to work from previous periods.

The remaining turnover involved customer training courses, hardware that was purchased for customers, expenditure refunded by customers and similar issues and amounted to EUR 2.05 million in all (exclusively the GK Retail segment).

The IT Services segment was able to record gratifying licence revenues of EUR 0.85 million (previous year: EUR 0.74 million) for its Eurosuite product. In other respects, the segment was marked by the decline in revenues in the hardware services business.

Other operating revenues (EUR 3.84 million) only differed from those of the previous year (EUR 3.62 million) marginally and did not change much in their makeup compared to the previous year either. This gave rise to total operating revenue of EUR 119.29 million (following EUR 109.77 million in the previous year).

The expenditure for semi-finished products, goods and purchased services declined in the 2019 financial year compared to 2018. The consumption of semi-finished goods declined by EUR 0.95 million from a figure of EUR 1.45 million in 2018 by almost one third to EUR 0.49 million. The cause of this was in the planned decline in the business development of hardware services in the IT Services segment. The use of purchased services also declined. The figure here was EUR 0.55 million lower than in the previous year (EUR 6.29 million) and amounted to EUR 5.73 million during the reporting year. Measures introduced as part of the efficiency programme had an effect here.

Expenditure on personnel amounted to EUR 78.13 million, after a figure of EUR 68.79 million had been recorded in the previous year; it therefore exceeded the figure for the previous year by EUR 9.34 million. The rise was primarily due to the accelerated increase in personnel capacity during the first half of the year. The increase already amounted to EUR 6.18 million during the first half of the year, so that we arrive at an increase of EUR 12.37 million by simply projecting the figures for the whole year. If we consider the time and expenditure necessary to adjust personnel capacity, it is clear that the increase in costs was almost entirely based on what happened during the first half of 2019. This was also expressed in the way that the number of employees developed. 1,247 people were employed by the Group on 30 June 2019, but the figure had fallen to 1,168 by 31 December 2019 (1,205 in the previous year).

Other operating expenditure at EUR 22.67 million was EUR 3.75 million lower than the previous year's figure of EUR 26.41 million. It is possible to already identify the initial effects of the cost-saving component in the efficiency programme here. The main changes resulted from the reduction of travel expenses by EUR 1.83 million and the reduction of rental costs for business premises by EUR 1.60 million, which is due to the aforementioned change in IFRS 16. The use of IFRS 16 generally reduces this cost item and, in return, increases depreciation/amortisation. Further reductions in expenses mainly related to ancillary building costs (minus EUR 0.69 million), costs for employee recruitment and retention (minus EUR 0.55 million), legal and consultancy costs (minus EUR 0.55 million) and sales expenditure (minus EUR 0.23 million). Value adjustments for accounts receivable and losses from accounts receivable increased by EUR 1.17 million.

Overall, this development led to EBITDA of EUR 12.25 million, following a figure of EUR 6.83 million in the previous year.

The figure for depreciation/amortisation rose by EUR 3.59 million from EUR 5.24 million to EUR 8.83 million. The main driving force behind this development was the initial use of IFRS 16 for treating leases, rental agreements and similar transfer of property arrangements. The amounts emerging from the appropriate contracts must now be capitalised and written off over their period of use; the liabilities from these contracts must be carried as liabilities accordingly. The amortisation of these kinds of contracts, which are covered by IFRS 16, amounted to EUR 3.00 million.

This therefore led to EBIT overall of EUR 3.43 million, following a figure of EUR 1.60 million in the previous year.

The financial results contributed a deficit of EUR 2.20 million during the 2019 financial year. This deficit amounted to EUR 1.42 million in the previous year, which was EUR 0.77 million lower. This was caused by increases in interest expenditure, which was EUR 0.71 million higher than in the previous year. Interest amounting to EUR 1.14 million was actually paid during the financial year.

This gave rise to earnings before taxes (EBT) of EUR 1.23 million, following a figure of EUR 0.17 million in the previous year.

Earnings figures

T.06

	31.12.2019		31.12.2018		Change	
	EUR K	in % [1]	EUR K	in % [1]	EUR K	in %
EBITDA	12,256	10.6	6,833	6.4	5,423	79.4
EBIT	3,430	3.0	1,595	1.5	1,835	115.0
EBT	1,233	1.1	171	0.2	1,063	>250
Group result	(3,139)	(2.7)	923	0.9	(4,062)	<(250)

1 - Margin on turnover

Income tax amounting to EUR 4.37 million was entered in these pre-tax results (a credit sum of EUR (0.75) million was entered in the previous year). Of this figure, EUR 3.00 million involved deferred taxes. The value adjustment affects deferred tax assets on losses carried forward by EUR 3.12 million. This led to an annual deficit of EUR (3.14) million.

Assets situation

The balance sheet total amounted to EUR 114.19 million on the reporting date and therefore increased by EUR 3.08 million compared to the previous year's figure of EUR 111.18 million.

The non-current assets amounted to EUR 60.62 million and were therefore EUR 3.79 million higher than on the reporting date in the previous year. Current assets without cash and cash equivalents exceeded the previous year's figure by EUR 2.92 million and amounted to EUR 45.48 million. At the same time, the cash and cash equivalents declined by EUR 3.70 million to a figure of EUR 8.09 million.

The Group's equity amounted to EUR 42.33 million on the reporting date and was therefore EUR 2.07 million higher than in the previous year. The non-current debts amounted to EUR 32.69 million and were therefore EUR 4.34 million higher than in the previous year. At the same time, the current debts declined by EUR 3.40 million to a figure of EUR 39.17 million.

This gave rise to an equity ratio of 37.1 percent (previous year: 36.2 percent).

Assets situation

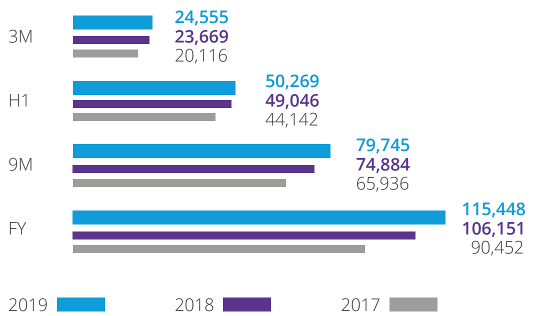
T.07

	31.12.2019		31.12.2018		Change	
	EUR K	in %	EUR K	in %	EUR K	in %
Non-current assets	60,621	53.1	56,832	51.1	3,789	6.7
Current assets without cash and cash equivalents	45,482	39.8	42,559	38.3	2,923	6.9
Cash and cash equivalents	8,086	7.1	11,790	10.6	(3,704)	(31.4)
Assets	**114,190**	**100.0**	**111,182**	**100.0**	**3,008**	**2.7**
Equity	42,328	37.1	40,256	36.2	2,072	5.1
Non-current liabilities	32,688	28.6	28,348	25.5	4,340	15.3
Current liabilities	39,174	34.3	42,577	38.3	(3,404)	(8.0)
Liabilities	**114,190**	**100.0**	**111,182**	**100.0**	**3,008**	**2.7**

The development of the balance sheet was partly dominated by the initial use of IFRS 16 for handling leases, rental agreements and similar contracts. The rule envisages that an asset is entered along the usage right of the matter or right transferred and this then has to be amortised over the period of its contractual usage. The incoming payment obligations from the contract must be entered as debts. The total usage rights amounted to EUR 8.91 million on the reporting date; the corresponding debts were entered as non-current with a value of EUR 6.28 and current debts with a value of EUR 2.74 million. If we correct the balance sheet to account for these items, there was a formal bal-

Quartaly sales development compared to previous years in EUR K

F.05



ance sheet total of approx. EUR 105 million and an equity ratio of 40 percent compared to 36 percent on 31 December 2018.

Non-current assets increased by EUR 3.79 million, including the accrual of EUR 8.91 million due to the change in accounting rules for leases. Property, plant and equipment (minus EUR 0.21 million) and intangible assets (minus EUR 2.15 million) decreased mainly due to scheduled depreciation and amortization exceeding the accruals. The reduction in deferred tax assets by EUR 3.32 million is mainly due to the lower recognition of deferred tax assets on losses carried forward.

One piece of property, which is rented to a hotel and restaurant business, was entered as “property held as a financial investment according to IAS 40” for the first time in 2019. This business is primarily used to accommodate and cater for international and national customers and other guests of GK Software, which is why this property is entered on the balance sheet as amortised costs. The carrying amount of this property, which was still entered under property, plant and equipment in 2018, increased by EUR 0.54 million during the financial year because of further investments in this property.

With regard to current assets, the further increase in contract assets by EUR 3.99 million to now EUR 14.28 million is striking. This is mainly due to a major long-term customer project, the final billing of which is scheduled for 2022. Secondly, trade accounts receivable at EUR 23.98 million were EUR 2.05 million below the figure for the previous year. This was partly due to improvements in the procedures for accounts receivable management and partly because the month of December 2019 did not stand out to the same degree as in previous years in terms of its importance compared to the remaining months.

Cash and cash equivalents amounted to EUR 8.09 million and were therefore EUR 3.70 million lower than the figure of EUR 11.79 million on the reporting date in the previous year. We would refer you to the explanations on the development of the financial situation.

In contrast, the non-current debts rose by EUR 4.34 million to a figure of EUR 32.69 million, when compared to the reporting date in the previous year. The non-current leasing and renting liabilities needing to be entered on the basis of IFRS 16 amounted to EUR 6.28 million. Without this item, the remaining items would have declined by EUR 1.94 million. This development is due to the pension provisions which were increased by EUR 1.21 million and the decline in non-current bank liabilities which dropped by EUR 3.01 million due to the scheduled reallocation of its components, which were due for repayment within one year. Deferred tax assets and liabilities also reduced by EUR 0.50 million.

The initial use of IFRS 16 was also an important item for current debts. Current leasing liabilities amounted to EUR 2.74 million. Other liabilities declined significantly by EUR 10.23 million to a figure of EUR 14.7 million and contract liabilities increased by EUR 1.51 million to a figure of EUR 3.55 million. These changes reflect the writing off liabilities from customer overpayments amounting to EUR 6.73 million and the reclassification of deferred turnover revenue amounting to EUR 2.44 million from other current liabilities in the contract liabilities.

Financial situation

Stocks of liquid funds within the corporate Group amounted to EUR 8.09 million on 31 December 2019 and were therefore EUR 3.70 million lower than on the reporting date in the previous year.

This resulted from the following developments. The cash flow in the narrower sense – i.e. without any change to net current assets – was only slightly lower at EUR 6.49 million; this was EUR 0.51 million less than in the previous year.

This cash flow was negatively affected by the change in net current assets at EUR 6.70 million in the year under review. This negative figure was still EUR 11.74 million in the previous year. The difference can be explained by the lower increase in turnover in December 2019, which led to a further increase in assets and trade accounts receivable by a total figure of EUR 4.18 million, while it still amounted to EUR 13.74 million in the previous year. Overall, this created a net outflow of funds from operating activities of EUR 0.21 million, taking into account the payments of interest and income taxes; this was EUR 4.52 million lower than in the previous year: EUR (4.74) million.

Investments made led to outgoing payments of EUR 3.64 million, which were countered by interest revenues of EUR 0.06 million. The outflow of funds from investment activities was therefore EUR 12.14 million lower than in the previous year. The reason for this was that most of the investments (campus and Tannenhaus hotel complex) at the business site in Schöneck had been completed.

Funding activities were dominated by performing an increase in capital from the authorised capital and increases in capital from the exercise of options as part of GK Software SE's share option programme. Once the costs of capital measures were deducted, funds amounting to EUR 5.55 million accrued for the Company. New loans amounting to EUR 1.50 million were taken out, while scheduled repayment obligations amounting to EUR 3.12 million were also met. EUR 2.91 million were also spent on the repayment of leasing liabilities. After interest payments, a cash outflow of EUR 0.1 million remains from financing activities.

In total, stocks of cash and cash equivalents therefore fell by EUR 3.70 million to a figure of EUR 8.09 million during the financial year. The financial resources funds (balance of cash and cash equivalents and utilization of current account lines) decreased by EUR 3.92 million to EUR 2.29 million. With current account lines/credit card lines of EUR 5.80 million being used, the Group had unused credit lines of EUR 6.83 million available on the balance sheet reporting date.

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

Current liabilities amounting to EUR 39.17 million will have to be serviced during 2020. Liquid assets amounting to EUR 8.09 and current liquid assets amounting to EUR 45.48 million are available for these liabilities.

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

The dominant issue since the spring of 2020 has been the effects of the Covid-19 crisis on the corporate Group's general environment and particularly its financial situation. The Management Board believes that it has created a stable basis for the Group to cope with the situation through the efficiency programme that it launched last year. The improvement in the managing and budgeting processes at the same time should also have created cost flexibility within a framework that goes beyond normal levels so that it is possible to respond to deep cuts quickly and appropriately. If we combine this with the opportunities for GK Software emerging from the crisis, which lie in the increasing digitalisation of store processes and the transcendence of sales channels in the sense of omni-channel retailing - these are not only viewed as options, but as necessities now - the Management Board is perhaps not optimistic, but confident that GK Software will cope with this general crisis.

Despite this, commercial prudence is required to determine all the possible ways of achieving secure funding, even in the crisis, and, if possible, adopting these courses. The major uncertainty is primarily the unknown length of the current situation. The funding programmes provided by the federal states, where the Group has business sites, are therefore being examined.

Financial and non-financial performance indicators

Financial performance indicators. It should be noted that the key indicators, on which the financial data is based, are very much connected to each other. As a result, the development of these figures largely depends on the development of two key indicators. These are turnover and earnings. In order to normalise tax effects, GK Software uses earnings before income taxes and the financial results (EBIT) and the margin on operating performance derived from this and figures derived from these like earnings before interest taxes, depreciation and amortisation (EBITDA).

Financial performance indicators

T.08

		31.12.2019	31.12.2018
Gross earnings margin on turnover	%	97.9	96.1
Personnel ratio	%	67.7	64.8
EBITDA margin on operating performance	%	10.6	6.4
EBIT margin on operating performance	%	3.0	1.5
Equity ratio	%	37.1	36.2
Investment ratio I	%	53.1	51.1
Excess in cash and cash equivalents over interest-bearing liabilities	EUR K	(11,907)	(9,611)

The key performance indicators listed above help to analyse developments and discrepancies from plans. For example, the personnel ratio is an important figure for analysing the development of the earnings situation. On the other hand, this largely depends on the “turnover” key performance indicator and any deterioration in its value may express both wrongly established production apparatus and missing the target figure for the “turnover” key performance indicator. However, this can be directly deduced. In this sense, these key indicators are important aids in analysing developments, but are not control parameters in themselves.

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

Report on the Risks and Opportunities for the GK Software Group

Opportunities

There are growth opportunities for the Group both in Germany and abroad; this situation has not changed from previous years. The issues targeted by the products of GK Software are key strategic IT projects that are high on the list of priorities at many retail companies. In order to be successful in the international market, the Group is represented on the market with references from leading retailers and a technically well-developed product. GK Software has several major partners with excellent networks in the retail sector. The partnership with SAP in particular should make it easier to gain access to new customers in international markets like the USA and Africa. The Group can make use of the experience that it has gained with its German and international customers, as the solutions have already been successfully introduced in 60 countries and can therefore be quickly transferred to other foreign customers.

The growth prospects in Germany have not yet been exhausted by a long way either. The focus of the Group will primarily be on new areas in future. Fairly small and medium-sized chain stores, which have not been a prime target in the past, provide further huge potential, particularly if standardised solutions are sold.

One of the major issues for retailers during the next few years will be to integrate their in-store business with other channels like web stores or mobile apps. Then there are the latest trends like home delivery, mobile payments or social networks, which need to be integrated on one platform. Other long-term issues like integrated and automated processes for optimising stocks, scheduling and efficient customer management systems will continue to play an important role in reducing costs and increasing customer loyalty. As a result, the retail trade will almost certainly invest in solutions that integrate all the business processes. Without standardisation and the simplification of processes, retail companies' margins will come under even greater pressure. Homogenised checkout systems and centralised data flows will therefore be very important for retailers in future. New methods and processes like using procedures with artificial intelligence will generally lead to new approaches and more intensive use of information technology.

We believe that the current Corona/Covid-19 crisis will strengthen these trends, so that GK Software can benefit from this investment behaviour by the retail sector. The range of solutions at GK Software - automation through digitalisation - offers the classic retail trade the opportunity to manage its networks of stores centrally, supply them e.g. with data for increasing consumers' self-service activities, automate the handling of goods and money and make it contact-free, i.e. a really smooth transfer of the retail trade process from consumers' point of view, which the omni-channel possibilities in the GK/Retail product range really uses. This opens up real opportunities for GK Software.

The consolidation process in the software industry with sector solutions for the retail trade has already started and is continuing. GK Software plans to play an active role in this process with its attractive range of products and solid financial basis.

Risks

Strategic risks

GK Software operates as a software provider in a very dynamic market that is subject to continuous and also abrupt changes, such as technological progress, changes in the IT landscape of companies, the consolidation of suppliers and customers, new competitors, new strategies or behaviour patterns of players. This situation confronts the Group with various strategic risks.

The focus of the management report is on significant risks that could pose a threat to the company's existence.

The most serious risk among the following ones is the risk of damage to the company's reputation if an individual project should go wrong. The risks that influence customer behaviour, such as the effects on demand because of a perception that the company has performed inadequately or delays in investments because of new market conditions or regulatory measures, follow this in terms of their significance. There may well be connections between the two types of risks mentioned: changes in market conditions or regulatory requirements may increase the complexity of projects, making it more likely that problems will arise during them.

GK Software is trying to quantify the risks and their effect on the current financial year as far as possible according to the amount of damage and the probability of whether they might occur or not. The risk classification scheme can be basically derived as part of the risk sequence described above. However, particularly regarding the risks that could lead to damage in terms of reputation, direct damage that is normally comparatively insignificant (damage of a few thousand euros) can cause indirect damage, which is difficult to quantify and manage (e.g. negative market sentiment towards GK Software) and this cannot be attributed to an individual risk that has occurred. The Group therefore devotes a great deal of attention to any project courses that have been affected in order to keep the risks manageable. This analysis fundamentally applies to all the business segments at GK Software in the same way.

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

It is first necessary to summarise those risks, which result from the perceived operational performance or changes to the requirements among parties that could be interested in the Group's products and services (product risks). It is possible that either the changes in market requirements in the view of customers are not adequately represented in the corporate Group's portfolio of services. Or the products may not (or no longer) meet the performance requirements of the target market. In both cases, this could lead to a reduction in demand for GK Software's products and services. At the moment, we believe that this risk is unlikely to occur based on investigations performed by outside technical analysts; the surveys of customer satisfaction, which we perform, also indicate that this risk is not very likely to occur.

Changes in demands could, however, lead to an extension of sales cycles, as the requirements based on the development tendencies already described lead to greater integration, digitalisation and the automation of business processes. As a result, investment decisions by customers become even more relevant and lead to more intensive and possibly longer decision-making processes and, as a result, extended sales cycles and therefore a reduction in the number of realisable sales opportunities during a period (sales market risks).

At the same time, the increase in requirements, which are actually identifiable, lead to greater complexity in projects and increase the risk that project plans might fail (production risks). GK Software is meeting this risk by its approach to set up, keep busy, manage and tie its project capabilities. In a tight jobs market (personnel and procurement risks), the most important thing is to set up and retain employee capacities, which we try to address by creating an attractive working environment with competitive remuneration and general retention measures. A fairly important partial risk consists in maintaining the functionality of production systems, which is necessary for the complex requirements. These systems are all IT systems, which are summarised as a separate risk group (IT risks) because of their importance. These risks increase the risk of damage to the Group's reputation because the possible shortage of sales opportunities raises the significance of each individual project for the overall reputation of GK Software.

Another risk group is related to external risks, such as macroeconomic developments, the consolidation movements in the customer and competitor environment and the development of regulatory framework conditions (legal and compliance risks). These risks cannot be controlled by the Group and can in part have the effect of enhancing the risks in the first group.

One major risk that cannot be influenced by the Group involves the business developments of GK Software's customers due to the development of the general economy and consumer sentiments (customer and market-related risks). The actual developments in 2019 and previous years and also the prospects for 2020 and thereafter suggested generally steady and constant growth prospects in the economic and political situation in many parts of the world up to now. However, due to the coronavirus crisis, most of the forecasts related to economic developments have become outdated and at least are questionable, as it must be assumed that a negative impact on the overall economy and therefore on the retail sector too, even if it only lasts a few months, will have short-term and medium-term consequences. They may reduce the willingness to invest on the part of parts of GK Software's typical customers in the long term. Regardless of this, the direct and indirect effects of crises, which have already broken out or are smouldering, on the specific markets where GK Software is active, are still difficult to assess. They include agreement and the completion of the specific rules governing the United Kingdom's exit from the European Union, the aggravated situation caused by the current circumstances in Spain, Italy and France and its negative consequences on the stability of the entire eurozone, the ongoing development of the situation in the civil war regions in the Middle East and North Africa, which is currently taking a back seat in public discussions, and the refugee crisis - all of them with the potential to grow because of mutual effects. The actual ongoing developments in these situations and the associated uncertainties could exert an influence on the economic developments of our customers, but it is impossible to quantify them at the moment.

In the light of this general uncertainty, the Management Board continues to make every effort to provide itself with room to manoeuvre by keeping costs as flexible as possible and only deliberately incurring them. The programme to increase efficiency within the firm, which continues to be in force, serves this goal too.

One major argument for the successful sales of GK Software solutions and the long-standing customer relationships in many cases is the consistently successful completion of customer projects in the past. The main tool for preventing objective errors and undesirable developments in the project business, and the resulting risks for the reputation of the GK Software, has been the increasing use of general project approaches during the past few years, which are designed to ensure that all the major general conditions are established in conjunction with each customer and are then taken into consideration accordingly in the project work. However, as objective factors are not the only criteria in assessing the quality of project work, GK Software also makes use of subjective factors. GK Software views the degree of customer satisfaction and the number of new customer contacts as an important indicator for assessing risks of this kind. These two factors are therefore subject to particular monitoring and are regularly checked as part of the sales controlling processes.

Success in projects largely depends on having adequate, qualified personnel resources to handle these projects. A major task therefore involves attracting and tying suitable employees to the firm. Tying employees, particularly in key positions, is therefore very important for GK Software. The Group is making efforts to be an interesting employer for its existing employees and become one in the jobs market by providing a combination of interesting tasks, international fields of operation and innovative products. The flotation and the Company's reputation as an innovative IT corporation have made the Company considerably more attractive in the jobs market. The aim is to further increase the existing attractiveness by completing the introduction of share option schemes for managers and senior employees in the Company. In addition to competence management, which aims to further increase the skills and abilities of employees in line with their tasks, we have initiated other measures as part of our "Active Balance" programme. This covers a variety of joint activities by employees including minor services designed to make everyday life easier; this aims to increase the attractiveness of the Company as an employer. We wish to reinforce this development even more by planning and organising our corporate campus at the Company's headquarters in Schöneck.

Qualified employees also naturally need a working environment that functions and is efficient without any gaps. The Group provides this through its internal IT operations. The increasing complexity of services and products, already described here, is expressed in adequate requirements placed on the efficiency of the IT production environment at GK Software. At the same time, the need for increased IT security and data protection is rising because of the extension of the range of services. The Company guarantees this by closely coordinating matters with its data protection officer and measures to increase IT security by means of technical and organisational means; they are being permanently checked.

On the basis of its customer structure and the structure of its target market, the corporate Group business is repeatedly dominated by individual major projects with a relatively small number of customers, with the result that these business relations provide significant contributions to turnover and results within any financial year. The Management Board anticipates that this will continue to be the case in future too. If one business partner breaks off a project or drifts into payment difficulties, this can have financial consequences for GK Software too. However, this risk is restricted by regular payment plans or agreements for payments according to so-called project milestones.

Another new risk arises from the development of omni-channel approaches in the retail sector. This fundamentally new way of thinking and the opportunity of introducing it can extend the sales cycles in comparison to current periods, as customers view these developments as strategic and have to introduce an appropriate process to achieve the full potential. This can extend the times required for making decisions with the corresponding effects on sales opportunities for GK Software.

The ongoing consolidation of the retail sector market may lead to a reduction in the number of store networks in the long term, which could lead to an increase in buying power in the retail sector. The retail sector in Germany is generally dominated by strong competition in terms of prices. Retail companies therefore seek to pass on the resulting pressure on prices to their suppliers and contractual partners. This process is also felt in the field of investments in IT equipment and may have an effect on manufacturers of software for the retail sector. However, as GK Software makes available strategically significant solutions to retail groups, these risks are not classified as a threat to the company's existence.

The process of consolidation taking place on the customer side is continuing, similar to that encountered at rival companies. This concentration is marked by the acquisition of direct competitors of GK Software by major global manufacturers of hardware, which are therefore becoming universal providers for the retail sector. This combination could persuade possible customers to purchase all their services from these rival firms. Although the Management Board assumes that the market development seen in the past will continue and hardware and software will be purchased separately, it is impossible to fully exclude a reversal in this trend and therefore an adverse effect on the sales opportunities at GK Software.

The planned expansion is also associated with certain financial risks. These mainly arise from preliminary payments for acquiring the customer for the corporate Group. This risk is increased by the extensions in sales cycles already mentioned above. The increase in sales expenditure associated with longer sales cycles plays a role in part. However, the need to maintain the ability to deliver products when agreements are signed is of special importance. This can lead to idle capacity costs of a significant magnitude. In addition to these general risks emerging from market operations, internal organisational risks also occur based on the internationalisation aspect arising from actions by the domestic and international subsidiaries. Development impairments or threats to the continued existence of the subsidiaries have a direct (result balancing agreements) or indirect (valuation of financial assets, intrinsic value of receivables, discontinuation of the subsidiary's business activities) negative impact on the Group's business development. As a countermeasure, the Group is continuing to develop its controlling operations for holdings.

The project business also needs to be increasingly scaled as part of any further expansion and this take places by involving partners. There are, however, other risks here, in particular quality risks, due to a lower level of control over partners. GK Software has therefore set up a partner programme to certify integration partners and so-called project coaches. This is designed to guarantee the quality of project operations and the firm will continue to develop this process.

Customer projects in Germany and abroad, which are increasingly becoming more complex, as described in the analysis of the market and competitive environment, also contain risks for the ongoing development of GK Software and could lead to higher provisions for warranties and fair dealing gestures, not only for individual projects, but for all of them. The Management Board is, however, confident that it has steered the development work for software in a direction that generally guarantees the quality standards achieved in the past. This quality risk in individual projects is managed by regular reporting by the responsible project managers to the responsible Group Management Board Members. A summary report of recognised risks is communicated to the Management Board at the standard monthly Board meetings.

GK Software cannot exclude the possibility that it will expand its product and sales base by the deliberate acquisition of companies with a view to expanding its business activities during the next few years. The corporate Group will exercise the maximum possible degree of prudence when preparing for and checking acquisitions. However, it is impossible to fully exclude the risk that an acquisition may have negative effects on the results at GK Software.

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

Operational and financial risks

Third parties could accuse GK Software of violating intellectual property rights, such as patents or copyrights, and assert claims for damages or try to restrict the distribution of GK Software solutions. The risk is considered significant. To limit the risks, GK Software checks the compliance with the licence terms of third parties in the development process.

On the basis of its customer structure and the structure of its target market, the corporate Group business is repeatedly dominated by individual major projects with a relatively small number of customers, with the result that these business relations provide significant contributions to turnover and results within any financial year. The Management Board anticipates that this will continue to be the case in future too. If one business partner breaks off a project or drifts into payment difficulties, this can have financial consequences for GK Software too. However, this risk is restricted by regular payment plans or agreements for payments according to so-called project milestones.

For the distribution of GK Software products, specialised and standardised contracts are preferred. As a rule, however, these contract templates are deviated from at the customer's request and on the basis of the individual situation in each case. In such cases, there is a risk that the contractual regulation is to the disadvantage of GK Software (contract risk). The risk is considered significant and is addressed through legal examination by in-house lawyers.

Trade accounts receivable exist with the corporate Group's customers. The maximum credit risk corresponds to the carrying amount of the trade accounts receivable. All customers of the Company are companies. In order to address the default risk, GK Software has established an accounts receivable management system. The payment behaviour of customers is monitored at short intervals. If there is an assumption that the general economic situation for individual customers has changed, further measures are adopted in agreement with the management team in order to restrict any possible losses. In order to record the general default risk for trade accounts receivable, a lump-sum value adjustment is made to the entire open accounts receivable item.

GK Software manages the general liquidity risk (risk of accumulation from other upstream individual risks) by maintaining adequate liquid funds and credit lines as well as a rolling weekly liquidity forecast and the evaluation of forecast and actual cash flows.

When taking out loans from banks, the Company accepts additional conditions (so-called “covenants”) relating to the observance of certain financial figures. Failure to meet these additional conditions normally entitles the bank concerned to make the loans in question due for payment in full immediately. The Company handles this risk by monitoring the agreed financial figures and communicating with the banks in an appropriate manner.

With regard to the risks arising from the use of financial instruments, we would refer you to the separate section of the report.

Overall, GK Software assesses these financial risks as operational risks that could have significant effects on the corporate Group’s financial and earnings situation. However, no indicators or only weak ones, which could point to these risks occurring, can be seen at the moment.

Overall risk position

The overall risk position means all individual risks to which GK Software is exposed in its entirety. There are no discernible risks that could pose a threat to the company’s existence. The Group’s overall risk position improved again in the course of the 2019 financial year following a deterioration during the year.

Covid-19

The renewed review of the recorded risks did not result in any significant changes to the risk structure for the “normal” circumstances of the forecast report. With the emergence of the new variant of coronavirus, however, a set of risks has been added, whose effects are difficult to assess. It is becoming increasingly clear that for the national economies, especially in those countries taking severe defensive measures, there will be a largely indefinite but significant lag effect.

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

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

The Management Board believes that it has created a stable basis for the Group to cope with the current situation and future risks through its current, normal cost flexibility and its efficiency programme that it launched last year.

The various programmes for coping with the crisis and supporting companies in the federal states, where the Group has business sites, are being carefully examined.

However, it also seems necessary to refer to the opportunities GK Software has during the crisis.

Risk management system

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

GK Software has performed a stocktake on the risks and classified them according to their type, the probability that they will occur and the consequences arising from them. Risk owners are assigned to the identified risks.

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

The process initially involves recording all possible negative deviations from the specified company targets. In a further step, these deviations identified as risks are analysed in terms of their possible damage and probability that they will occur. The possible damage is determined by its negative impact on the company's development, assets, equity and liquidity. The effects of the risks are quantified as far as possible. The risks are grouped into risk areas.

The risks are categorised as follows:

	Probability of occurrence	Amount of damage
High	> 60%	> EUR 500 K
Medium	20% - 60%	EUR 100 K – EUR 500 K
Low	< 20%	< EUR 100 K

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

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

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

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

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

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

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

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

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

The financial accounting of GK Software SE and some of its subsidiaries is carried out directly in the accounting software Microsoft Dynamics NAV (NAV). The individual accounts according to the local accounting standards of the other subsidiaries are imported in detail into NAV. The adjustment of the local accounts to the uniform Group accounting and valuation methods and the reconciliation to IFRS accounting are carried out centrally by the parent company's financial accounting department at the headquarters in Schöneck. The individual accounts are also consolidated centrally in Schöneck and in NAV. During the preparation of both the individual accounts and consolidated accounts, internal checks are in place under the "four eyes" principle to ensure the reliability of the individual and consolidated accounts.

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

Risk reporting in relation to the use of financial instruments

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

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

We normally handle business transactions in the operational currency of the Group firm concerned. Operational business transactions are not handled in the operational currency in individual cases so that there is a currency risk for monetary financial instruments. As of 31 December 2019, the Group had foreign currency receivables that differed from local currencies amounting to approx. EUR 700 K on the balance sheet. Currency rate fluctuations in conjunction with our original monetary financial instruments do not have any major effects on our profits. The Group's exchange rate risk sensitivity mainly increased due to the increased business activities in the US dollar region and in South Africa.

In the view of the Management Board, the sensitivity analysis, however, only reflects one part of the exchange rate risk, as the risk at the end of the reporting period only reflects the risk during the year to a certain extent. Risks exist in possible changes to exchange rates for services, which the Group companies provide to the parent company to settle in local currencies every month. Services with a total value of EUR 15.40 million were provided in 2019, which were paid for in a currency other than the euro. These service invoices were settled mainly by Group companies in Czech crowns, Russian roubles, Ukrainian hryvnia, Swiss francs or US dollars.

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

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

There is a description of the exchange rate and interest risk in the notes on the consolidated accounts.

Forecast report

Market environment

The German Retail Federation (HDE: Handelsverband Deutschland) is expecting nominal growth of 2.5 percent to EUR 557.2 billion for the entire retail sector in 2020.[1] However, all these forecasts have become obsolete as a result of the developments related to the spread of the new coronavirus. Some parts of the retail sector will suffer huge losses in turnover due to the closure of their shops for weeks, while the food industry might well experience an exceptional boom. It is therefore hardly possible to provide a serious forecast for upcoming developments in the in-store retail business. However, experts expect e-commerce to experience a further boost.

The market research company, GfK, also had positive expectations about consumer confidence before the coronavirus crisis. This was supposed to remain stable in line with the studies that are available at this time. Overall, the GfK was expecting an increase in consumer expenditure in Germany of about 1.0 percent[2]. An increase in private consumption of 1.2 percent was also expected for the whole of the European Union.[3] "Digitalisation" is and remains a top issue for the retail sector. "The firms are investing heavily in appropriate applications and processes, both in the B2C and B2B sector," said the Deputy Director of the HDE, Stephan Tromp, commenting on the fact that 70 percent of retail companies in Germany are planning digitalisation projects during the next two years[4]. This statement is supported by the EHI Study entitled "Till Systems 2020" from the EHI Retail Institute that the fundamental digital structure in the retail sector needs to be expanded. In line with this, 58 percent of those questioned indicated that they wished to renew their POS software by 2020.[5] There are therefore expectations that the Covid-19 crisis will ensure a further boost, but it is impossible to reliably forecast its magnitude at the moment.

Overall, the need for investments by the retail trade was believed to be high before the outbreak of the pandemic, as the study published by the EHI Retail Institute entitled "IT Trends in the Retail Sector in 2019" indicates. 64 percent of those questioned believe that the renewal of their infrastructure (cloud and networks) and 39 percent believe that introducing omni-channel projects will be the most important IT projects during the next two years.[6] In the light of the lockout that is lasting for weeks and the closure of many shops in Germany, we will have to wait and see what this means for the retail sector's readiness to invest, as in-store turnover will collapse significantly in some sectors, while others, particularly the food or drugstore retailers, will experience an exceptional boom.

Another area predicted to become increasingly important is the topic of artificial intelligence. The "Smart Stores" white paper published by the EHI and Microsoft also shows that artificial intelligence (AI) is already being used at 69 percent of retailers or there are plans to introduce it.[7] The RIS News "Store Experience Study 2020" shows that the retailers questioned want to increase their IT expenditure by 4.2 percent annually on average in order to, for example, personalise the customer experience, make stocks more visible or strengthen store employees in order to improve customers' experiences in stores.[8] There is much ground to be made up in Germany in fields like home delivery, for example. The market share of online retailing in the whole food market is

1 – https://einzelhandel.de/presse/aktuellemeldungen/12529-innenstaedte-als-handelsstandort-unter-druck-hde-prognose-fuer-2020-umsatzplus-von-2-5

2 – https://www.gfk.com/de/insights/press-release/konsumoptimismus-kehrt-zurueck/

3 – https://ec.europa.eu/commission/presscorner/detail/en/ip_20_232

4 – https://einzelhandel.de/index.php?option=com_content&view=article&id=12357

5 – EHI Retail Institute, POS Systems 2020, p.20

6 – https://www.ehi.org/de/pressemitteilungen/handel-investiert-in-infrastruktur/

7 – https://www.ehi.org/de/pressemitteilungen/ki-wichtigster-zukunftstrend-im-handel/

8 – https://risnews.com/rebirth-resilient-store-2020-store-experience-study

only 3.8 percent in Germany[1]. Different concepts are increasingly being tested in Germany at the moment like store-based deliveries, click-and-collect or central warehouse-based deliveries. These positive market trends have also been significantly reflected in the discussions that GK Software is holding with existing customers and potential interested parties. The IT departments at retailers are also focusing on other issues related to technologies and processes, for which GK Software is in an ideal position with its new GK/Retail OmniPOS solution.

Company outlook

The efficiency improvement programme launched in the first half of 2019 due to the unsatisfactory development is being continued in the current year, 2020. The stabilisation of business success in both Americas (North and South America) also allows us to expect further progress in these regions and this will make further positive results probable, particularly with a view to the complete use of personnel capacity. The first months of 2020 have been developing positively in comparison to the previous year and the financial indicators recorded significant positive growth compared to the admittedly unsatisfactory results during the same period in the previous year.

In light of this, the prerequisites for the business development of GK Software were clearly positive until the beginning of the Covid-19 crisis, meaning that the Management Board still considered the forecast for 2020 as a goal that could still be achieved in February 2020 and even saw further potential for improvement. This was supported by the fact that GK Software was assuming that it would be able to continue expanding its potential customer base internationally after the latest project successes in North and South America or in the Middle East. Based on the current course of the financial year, at least a slight improvement in revenue is expected compared with the figure for 2019.

Even if the first three months have gone well in our opinion and there are good signs for the second quarter, it is impossible to make any forecasts for the complete year, as there are fears that the economy will be significantly disrupted for months by the effects of Covid-19, and this will have a negative effect on economic activities for an indefinite period.

GK Software is currently in an excellent position in many ongoing tender procedures in different regions of the world and has important advantages over its competitors with its innovative, broad portfolio of products, the internationality of its solutions and its proven ability to introduce projects quickly. This makes us optimistic about increasing the number of customer contacts in the following business year.

In light of the high level of customer satisfaction achieved compared with the reference year of our medium-term forecast in 2017, we expect a further improvement in the values measured here. The growing direct presence in market regions in which the Group companies are already active will significantly promote this development. We also believe that this positive development will not be affected by the Coronavirus/Covid-19 crisis.

General statement for 2020

Based on the described assumptions and influencing factors, we expect a slight increase in turnover revenues and a significant improvement of the EBIT for the GK Software Group.

These statements are made with the considerable reservation that it is difficult to estimate the duration and impact of the Corona crisis and its consequences in the various regional markets in which the Group operates, meaning that actual developments may differ substantially from this assessment.

1 – HDE: Handelsreport Lebensmittel Online 2017, p. 8

Other information according to Section 315a of the German Commercial Code

Principles of the remuneration system at GK Software SE

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

The Management Board is granted benefits in kind in addition to fixed remuneration. This includes the provision of company cars, which are also available for private use. In addition to this, the Management Board members are reimbursed for the costs of maintaining residences at the different corporate business locations. The members of the Management Board are also provided with pension packages according to their level of seniority.

Furthermore, pension commitments have been made to both members of the Management Board and to two former members of the Management Board. The members of the Management Board are entitled to participate in the Company's share option programme according to the general rules stipulated for these programmes. The allocation of share options to members of the Management Board is made by the Supervisory Board and depends on the degree to which the members of the Management Board have met their business targets.

No share options were granted to the members of the Management Board during 2019. Overall, the members of the Management Board were able to hold more than 35,000 options on the balance sheet reporting date. The following applies to the whole Management Board if the targets that are set are fully met: their total earnings are divided up into a 65 percent share for the fixed part and a 35 percent share for variable earnings. Fixed earnings of 75 percent and earnings of 25 percent determined in a variable manner (reference base 2018) were paid out during the course of 2019. It is possible to grant severance payments to members of the Management Board who leave the Company if they have performed any extraordinary work. The Supervisory Board determines whether any benefits are granted or not.

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

Details according to Section 315a of the German Commercial Code

1. **Capital ratios.** The share capital at GK Software SE amounted to a nominal figure of EUR 2,023,300.00 on 31 December 2019 and was divided up into 2,023,300 no-par ordinary shares with a calculated share in the share capital of EUR 1.00 each. Each no-par value share grants one vote, in accordance with Section 4 of the articles of association. The number of shares in circulation during the course of 2019 increased by a total figure of 16,825 shares through the issue of employee shares from the contingent capital and by the increase in capital by a further 80,000 shares on 20 August 2019.

2. **Shareholders' rights and obligations.** The same rights and obligations are associated with each share. Shareholders are entitled to asset and administrative rights. The asset rights include the right to share in the profits and the buying option to purchase shares in any increase in share capital. The shareholders' participation in the Company's profits is also defined by their share in the equity capital. Their administrative rights include the right to take part in the company's annual shareholders' meeting, speak

there and ask questions or make applications and exercise voting rights.

3. **Equity shareholdings.** The following direct or indirect shareholdings that exceed 10 percent were known on the balance sheet date:

   a. Mr Rainer Gläss directly or indirectly had 602,292 shares (29.77 percent) on 31 December 2019, 534,500 shares of which were indirectly held by Gläß Vermögensverwaltung GmbH & Co KG.

   b. Mr Stephan Kronmüller directly or indirectly had 522,700 shares (25.83 percent), 487,200 shares of which were indirectly held by Kronmüller Vermögensverwaltung GmbH & Co KG.

4. **Appointments to the Management Board and changes to the articles of association.** Appointing and dismissing members of the Management Board are issues that are governed by Sections 84 and 85 of the German Companies Act. Members of the Management Board are appointed by the Supervisory Board for a maximum period of five years and an extension of their time in office is permissible for a maximum period of five years each time. According to the articles of association, the number of members on the Management Board is determined by the Supervisory Board, but the Management Board must comprise at least two persons. The Management Board at GK Software AG currently has two members. The articles of association can only be amended by the annual shareholders' meeting according to the rules of the German Companies Act. The Supervisory Board may decide on the wording of the articles of association – i.e. simply make linguistic amendments to the articles of association - according to Section 10 Para. 8 of the articles of association.
   Any decisions taken at the annual shareholders' meeting require the simple majority of votes cast according to Section 15 Paragraph 2 of the articles of association, if the law does not prescribe anything different.

5. **The Management Board's powers to issue and repurchase shares.**
   Share buy-back scheme. Contingent capital (contingent capital II EUR 50,000; contingent capital III EUR 75,000; contingent capital IV EUR 250,000; contingent capital V EUR 37,000) exists. These contingent increases in capital are only performed if the owners or creditors of convertible bonds or share options make use of their conversion or subscription rights.
   According to Section 4a Para. 1, 3 and 6 of the articles of association, the Management Board was entitled to grant subscription rights to individual share certificates as part of the share option programme on one or more occasions, provided that the Supervisory Board approves these measures. The share options are exclusively for subscription by members of the GK Software SE Management Board, selected managers and other senior employees at GK Software SE and for subscription by members of the management team and selected managers and other leading employees in companies, which are independently associated firms in a relationship with GK Software SE in the sense of Sections 15 and 17 of the German Companies Act. The decisions taken at the annual shareholders' meeting on 28 June 2012 (contingent capital II), 29 June 2015 (contingent capital III) and 29 June 2018 (contingent capital V) empowered the Management Board to issue subscription rights to GK Software SE shares with a term of up to five years provided that each share option grants the right to subscribe to one GK Software SE share.
   A decision taken at the annual shareholders' meeting on 16 June 2016 empowered the Management Board to issue on one or several occasions option and/or convertible bonds, profit participation certificates or participating bonds made out to the holder or name or a combination of these financial instruments and exclude the subscription rights to these instruments or their combination until 15 June 2021, provided that the Supervisory Board agrees.
   We would refer you to the following summary to provide an overview of the individual share option programmes.

Issue date	Issue options	of which forfeited	of which lapsed	of which redeemed	Options remaining	Exercise price	Exercise period	End of exercise period
	Number	Number	Number		Number	EUR	Years	
28.8.2014	3,500	1,500	400	1,600	0	41.78	4 1/4	28.8.2018
1.12.2014	21,825	4,000	3,500	14,325	0	37.77	4 1/4	1.12.2018
20.6.2017	8,500	600	0	0	7,900	92.10	4 1/4	21.6.2021
Contingency capital II					**7,900**			
1.11.2015	5,000	2,500	0	2,500	0	28.62	4 1/4	1.11.2019
30.11.2015	25,625	1,975	0	0	23,650	33.98	4 1/4	30.11.2019
29.8.2016	31,900	1,225	0	0	30,675	45.98	4 1/4	29.8.2020
4.12.2017	16,500	0	0	0	16,500	116.69	4 1/4	3.12.2021
Contingency capital III					**70,825**			
19.10.2017	96,774	0	0	0	96,774	155.00		19.10.2022
Contingency capital IV					**96,774**			
26.11.2018	37,000	3,600	0	0	33,400	75.16	4 1/4	28.11.2022
Contingency capital V					**33,400**			
		Total ammount			208,899			

Share buy-back scheme. The 2018 annual shareholders' meeting on 21 June 2018 authorised the Management Board to acquire the Company's own shares up to a total of 10 percent of the Company's equity capital of EUR 1,919,875.00 existing at the time that the decision was made by 20 June 2023, provided that the Supervisory Board agrees to this. Together with the other shares owned by the Company or attributed to it according to Sections 71a et seq. of the German Companies Act, the acquired shares may not exceed 10 percent of the nominal capital at any time. The authorisation may not be exercised for the purpose of trading with the Company's shares. The Management Board may use the shares acquired as part of the authorisation for any legal purposes, provided that the Supervisory Board approves.

6. Compensation agreements. No compensation agreements have been agreed if a takeover offer is made.

7. Shares with special rights. Holders of shares with special rights, which grant control authorisation, do not exist, as this class of share is not available at GK Software SE. There is no control of voting rights for shares held by employees either, where the employees do not directly exercise the control rights.

8. **Change of Control clause:** The "Software LICENSE AND RESELLER AGREEMENT" between SAP and GK Software can be terminated by SAP on important grounds if the majority of shares in GK Software are sold to someone who is in close competition with SAP. A member of the Management Board has a special right of termination in the event of a fundamental change to the composition of the shareholder structure of GK Software SE.

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

Explanation according to Section 161 of the German Companies Act

The annual declaration on the German Corporate Governance Code according to Section 161 of the German Companies Act has been submitted by the Management Board and the Supervisory Board and has been published on the Company's home page at

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

Relevant specifications about management practices

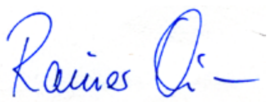
The Company does not have any relevant corporate management practices, which go beyond the statutory requirements or the requirements complying with the German Corporate Governance Code.

Description of the way that the Management Board and the Supervisory Board work

A regular meeting of the Supervisory Board takes place once a quarter. The members of the Supervisory Board, however, remain in close contact beyond these meetings and obtain information about the Company's development or events, which could affect the Company's development. Informal meetings between members of the Supervisory Board and members of the Management Board also take place alongside the official, mandatory information provided to the Supervisory Board. The Management Board completes the Company's business in a cooperative manner, but different business areas are assigned to the members of the Management Board. The members of the Management Board report on developments in their business areas at meetings of the Management Board, which normally take place every month. In addition to these meetings, the members of the Management Board remain in mutual contact at all times.

No committees have been formed on either body because of their size. The bodies speak with one mind on all issues.

The Management Board



Rainer Glaess
Chief Executive Officer

André Hergert
Chief Financial Officer

C

Consolidated Financial Report

Consolidated Balance Sheet

on 31 December 2019

Assets

T.09

EUR K	Notes No.	31.12.2019	31.12.2018
Property, plant and equipment [1]	2.1.; 3.1.; 3.11.	16,988	17,194
Right of use assets IFRS16	2.3.; 4.2.2.	8,914	—
Real estate held as a financial investment +) [1]	3.11.; 4.2.3.	6,350	5,810
Intangible assets [1]	2.4.; 3.2.; 3.11.; 4.2.4.	27,607	29,761
Financial assets	2.7.; 4.1.	49	34
Active deferred taxes	2.11.2.; 4.2.6	713	4,034
Total non-current assets		**60,621**	**56,833**
Goods	2.5.; 4.2.5.; 5.3.	35	387
Unfinished goods and services	2.5.; 4.2.5.; 5.3.	381	—
Auxiliary materials and supplies	2.5.; 4.2.5.; 5.3.	—	99
Initial payments made	2.5.; 4.2.5.; 5.3.	8	35
Trade accounts receivable	2.7.; 2.12.5; 4.1.1	23,982	26,030
Trade accounts receivable from ongoing work	2.12.5.; 3.6.	14,278	10,289
Income tax claims	4.1.2.	820	1,045
Other accounts receivable and assets	4.1.2.	5,978	4,674
Cash	6.	8,086	11,790
Total current assets		**53,568**	**54,349**
Balance sheet total		**114,189**	**111,182**

1 – Reclassification of the previous year’s figures; We would refer you to Section 3.11 ‘Balance sheet reclassifications and correction of errors in these consolidated accounts’

Liabilities

T.10

EUR K	Notes No.	31.12.2019	31.12.2018
Subscribed capital	2.6.; 4.3.	2,023	1,926
Capital reserves	2.6.; 4.3.	27,332	21,429
Retained earnings	2.6.; 4.3.	31	31
Other reserves	2.6.; 4.3.	(1,670)	(881)
Profit brought forward	5.	16,682	15,758
Shortfall for period minorities interests	5.	(3,137)	924
Equity attributable to GK Software SE stockholders		41,261	39,187
Equity attributable to noncontrolling interest		1,068	1,069
Total equity		**42,329**	**40,256**
Provisions for pensions	2.10.1.; 4.2.7.	2,765	1,558
Non-current bank liabilities	4.1.3.	6,133	9,141
Non-current leasehold liabilities	2.3.; 4.1.4.; 4.2.2.	6,279	—
Convertible bond	4.1.5.	13,826	13,418
Deferred government grants	2.9.; 4.2.8.	812	861
Deferred tax liabilities	2.11.2.; 4.2.6	2,872	3,370
Total non-current liabilities		**32,687**	**28,348**
Current provisions	2.10.; 4.2.9.	1,418	1,231
Current bank liabilities	2.; 3.11.	13,861	12,260
Current leasehold liabilities	2.3.; 4.1.4.; 4.2.2.	2,735	—
Liabilities from trade payables	2.7.; 4.1.6.	2,484	2,365
Initial payments received [1]	2.12.5.; 3.11.	3,547	3,903
Income tax liabilities	4.1.9.	428	283
Other current liabilities [1]	3.11.; 4.1.8.	14,700	22,536
Total current liabilities		**39,173**	**42,578**
Balance sheet total		**114,189**	**111,182**

1 – Reclassification of the previous year's figures; We would refer you to Section 3.11 'Balance sheet reclassifications and correction of errors in these consolidated accounts'

Consolidated Statement of Income and Accumulated Earnings

for the financial year from 1 January to 31 December 2019

Consolidated statement of income and accumulated earnings

T.11

EUR K	Notes No.	FY 2019	FY 2018
Ongoing business operations			
Turnover revenues	2.12.; 5.1.	115,448	106,151
Other operating revenues	5.2.	**3,837**	**3,617**
Turnover and other revenues		119,285	109,768
Materials expenditure	5.3.	(6,229)	(7,733)
Personnel expenditure	5.4.	(78,134)	(68,791)
Depreciation and amortisation	5.5.	(8,826)	(5,237)
Other operating expenditure	5.6.	(22,666)	(26,411)
Total operating expenses		**(115,855)**	**(108,172)**
Operating results		**3,430**	**1,596**
Financial income	5.7.	74	138
Financial expenditure	5.7.	(2,271)	(1,563)
Financial results		**(2,197)**	**(1,425)**
Income tax results		**1,233**	**171**
Income taxes	2.11.; 5.8.	(4,372)	752
Consolidated shortfall / surplus for the period		**(3,139)**	**923**
of which attributable to noncontrolling interest		(2)	(2)
of which attributable to GK Software SE stockholders		(3,137)	925
Other results after income taxes			
Items, which will be reclassified in the consolidated profit and loss statement in future under certain conditions			
Differences in exchange rates from recalculating foreign business operations	1.5.	90	(124)
Items, which will not be reclassified in the consolidated profit and loss statement in future			
Actuarial gains/ losses from defined benefit pension plans	2.10.1; 4.2.7.	(879)	(53)
Overall results		**(3,928)**	**746**
of which attributable to noncontrolling interest		(2)	(2)
of which attributable to GK Software SE stockholders		(3,926)	748
Earnings per share (EUR/ share) from the consolidated surplus/ shortfall - undiluted	8.2.	**(1.60)**	**0.48**
Earnings per share (EUR/ share) from the consolidated surplus/ shortfall - diluted	8.2.	**(1.60)**	**0.48**

Consolidated Statement of Changes in Equity

for the financial year from 1 January to 31 December 2019

Consolidated statement of changes in equity

T.12

EUR K	Notes No.	Subscribed capital	Capital reserves	Retained earnings	Other reserves	Earnings attributable to GK Software SE stockholders	Equity attributable to GK Software SE stockholders	Equity attributable to non-controlling interest	Total
Figures on 31 December 2017		**1,903**	**20,489**	**31**	**(705)**	**15,880**	**37,598**	**1,071**	**38,669**
Share option scheme		23	940	0	0	0	963	0	**963**
Corporate mergers		0	0	0	0	(122)	(122)	0	**(122)**
Allocation based on IAS 19		0	0	0	(53)	0	(53)	0	**(53)**
Allocation based on IAS 21		0	0	0	(123)	0	(123)	0	**(123)**
Consolidated profit/ loss for the period		0	0	0	0	924	924	(2)	**922**
Figures on 31 December 2018		**1,926**	**21,429**	**31**	**(881)**	**16,682**	**39,187**	**1,069**	**40,256**
Share option scheme		17	1,042	0	0	0	1,059	0	**1,059**
Capital increase		80	4,861	0	0	0	4,941	0	**4,941**
Allocation based on IAS 19		0	0	0	(879)	0	(879)	0	**(879)**
Allocation based on IAS 21		0	0	0	90	0	90	0	**90**
Consolidated surplus/ shortfall for the period		0	0	0	0	(3,137)	(3,137)	(1)	**(3,138)**
Figures on 31 December 2019		**2,023**	**27,332**	**31**	**(1,670)**	**13,545**	**41,261**	**1,068**	**42,329**

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

Consolidated Cash Flow Statement

for the financial year from 1 January to 31 December 2019

Cash flows from operating business

T.13

EUR K	Notes No.	FY 2019	FY 2018
Cash flows from operating business			
Surplus/ shortfall for period		(3,139)	923
Share option scheme (non-cash expenditure)		446	352
Income taxes affecting results	5.8.	4,372	(752)
Interest expenditure affecting results		2,271	1,562
Interest income/ expenses affecting results		(75)	(138)
Profit/ loss from the sale or disposal of property, plant and equipment		6	(89)
Reversals of deferred public sector subsidies		(49)	(49)
Write-downs recognised for receivables		1,043	395
Write-ups recognised for receivables		(392)	(67)
Depreciation and amortisation	4.2.	8,826	5,237
Net profits from financial tools assessed at their fair value		251	463
Other non-cash revenues and expenditure		(7,068)	(835)
Cash flow from operating business		6,492	7,002
Changes in net current assets			
Changes in trade accounts receivable and other receivables		**(4,177)**	**(13,739)**
Changes in inventories		97	523
Changes in trade accounts payable and other liabilities		(4,268)	1,769
Changes in initial payments received		2,038	651
Changes in provisions		591	(464)
Income taxes paid		(987)	(480)
Net inflow of funds from operating activities Amount carried forward		**(214)**	**(4,738)**

Cash flows from investment and financing activities, loans and cash and cash equivalents

T.14

EUR K	Notes No.	FY 2019	FY 2018
Amount carried forward			
Net inflow of funds from operating activities		**(214)**	**(4,738)**
Cash flow from investment activities			
Payments for property, plant and equipment and non-current assets		(3,643)	(11,978)
Proceeds from disposals of fixed assets		(6)	89
Incoming payments as part of the company acquisition		—	294
Disbursement as part of a company acquisition		—	(4,243)
Interest payments received		58	106
Net cash outflow for investment activities		(3,591)	(15,732)
Cash flow from financing activities			
Taking out equity	4.3.	5,553	612
Taking out loans		1,500	3,358
Interest paid		(1,143)	(932)
Repayment of loans		(3,120)	(4,264)
Issue of convertible bond	2.3.	(2,908)	—
Net inflow (previous year: net outflow) in cash from financing activities		**(118)**	**(1,226)**
Net outflow of cash		**(3,923)**	**(21,696)**
Cash at the beginning of the financial year		6,151	27,944
Cash at the end of the financial year		2,291	6,151
Impact of changes in exchange rates on cash		63	(97)

Composition of the financial resources funds

T.15

EUR K	Notes No.	FY 2019	FY 2018
Liquid assets		8,086	11,790
Utilisation of current account credit/ credit card/ exchange rate	4.1.3.	(5,795)	(5,639)
Cash and cash equivalents at the end of the financial year		**2,291**	**6,151**

Notes on the Consolidated Accounts

for the 2019 financial year

1. Principles of Reporting

1.1. General information

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

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

The change in the legal form of GK Software that was announced from a public limited company (AG) to a European public limited company (Societas Europaea/SE) was formally completed with the entry into the Commercial Register on 19 January 2018. The annual shareholders' meeting on 22 June 2017 had opted for the change in line with the suggested ruling by the Management Board and the Supervisory Board.

The Group's business involves the development, production as well as the sale and trade in software and hardware for till software.

1.2. Compliance with IFRS

The consolidated accounts for GK Software SE on 31 December 2019 were prepared in line with the accounting standards of the International Accounting Standards Board (IASB) - the International Financial Reporting Standards (IFRS) - if they have been adopted by the European Union, and the provisions needing to be applied in line with Section 315e Para. 1 of the German Commercial Code (HGB). The Company's consolidated accounts were also prepared, taking into account the Interpretations (IFRIC, SIC) of the International Financial Reporting Standards Interpretations Committee (IFRS IC).

The reporting procedures for the 2019 financial year took place exclusively in line with the standards and interpretations that have to be applied and they provide a picture of the Group's assets, financial and earnings situation, which matches the actual circumstances.

The following accounting standards and interpretations were obligatory for the first time for the 2019 financial year:

Newly applied IFRS standards

T.16

IFRS	Amendment	Amendment for the financial year from
IFRS 16	Leases	1.1.2019
IFRS 9	Amendments to IFRS 9: Prepayment Features with Negative Compensation	1.1.2019
IFRIC 23	Uncertainty over Income Tax Treatments	1.1.2019
IAS 28	Amendments to IAS 28: Investments in Associates and Joint Ventures	1.1.2019
Improvements	Improvements to IFRSs 2015-2017: Amendments to IFRS 3, IFRS 11, IAS 12, IAS 23	1.1.2019
IAS 19	Amendments to IAS 19: Employee Benefits	1.1.2019

The Group has had to change its accounting methods due to the introduction of IFRS 16. The effects of the initial use of IFRS 16 on the consolidated results are explained in Section 2.3 'Leases'.

The changes listed above did not have any effect on the amounts entered for earlier periods and do not have any significant influence on the current periods and most probably not on future periods either.

The International Accounting Standards Board (IASB) has also issued the following standards, interpretations and amendments to existing standards, but it is not compulsory to use them or their adoption into European law has not yet been fully completed by the European Union. These standards have not been used in advance and no premature usage is planned in future either. The Group believes that the effects of these new rules on the current or future reporting periods or on foreseeable future transactions will not be significant.

IFRS standards not used

T.17

IFRS	Amendment	Amendment for the financial year from
IFRS 9, IFRS 17. IAS 39	Changes to IFRS 9, IFRS 7 and IAS 39 with regard to the effects of the IBOR reform on replacing different reference interest rates	1.1.2020
IFRS 17	Insurance Contracts	1.1.2023
IAS 1 / IAS 8	Definition of Materiality	1.1.2020
IFRS 3	Amendments to IFRS 3: Corporate Mergers	1.1.2020
IFRS Conceptual Framework	Revised Conceptual Framework for IFRS	1.1.2020
IAS 28	Amendments to IAS 28: Investments in Associates and Joint Ventures	N/A
IFRS 10	Amendments to IFRS 10: Consolidated Financial Statements	N/A

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

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

1.3. Consolidated companies and principles of consolidation

1.3.1. Consolidated companies

The consolidated companies not only include the parent company, but also 4 German companies and 6 foreign firms.

Subsidiaries of GK Software SE

T.18

Name and headquarters of a subsidiary	Capital share	Equity[1]	Annual results[2]
	in %	EUR K	EUR K
Eurosoftware s.r.o. Plzen/ Czech Republic	100.0	3,276	800
Storeweaver GmbH Dübendorf/Switzerland	100.0	3,341	360
DF Deutsche Fiskal GmbH (previously 1. Waldstraße GmbH Schöneck)	100.0	29	(30)
OOO GK Software RUS Moscow/Russian Federation	100.0	93	40
AWEK GmbH Hamburg	100.0	1,121	(40)
AWEK microdata GmbH Hamburg (subsidiary of AWEK GmbH)	100.0	1,840	1,030
GK Software USA Inc. Raleigh/ USA Raleigh/USA	100.0	828	672
GK Software Africa (Pty) Ltd Bryanston/South Africa	100.0	492	272
TOV Eurosoftware-UA Lviv/ Ukraine	100.0	154	28
prudsys AG Chemnitz	80.12	3,374	347
valuephone GmbH (merged with GK Software SE on 1.1.2019) Berlin	100.0	N/A	N/A

1 Equity on 31 December 2019, converted at exchange rates that applied on the reporting date

2 Annual results for the individual companies according to local accounting regulations in the 2019 financial year, converted at average annual exchange rates

All the companies named here are fully consolidated in these consolidated accounts. valuephone GmbH was included for seven months in 2018 and merged with GK Software SE on 1 January 2019.

GK Software SE also has a 50 percent holding in Unified Experience UG (limited liability), Lindlar. GK Software SE does not exercise any control here, which is why it has not been included in the consolidated companies. The entry is made under “Non-current financial assets”. The company does not engage in any business operations. Fuel Retail GmbH was not included in the consolidation process because it has not started operating as a business. This firm was wound up in 2019. The firm's own nursery school, PIXEL gUG, was also entered under the "Non-current financial assets" because of its negligible effect on the consolidated accounts.

The consolidated accounts include the accounts of the parent company and the companies that it controls. The subsidiaries included are controlled by GK Software SE because it owns the majority of voting rights. GK Software SE can influence the amount of profits at the subsidiaries because of its power of control and is subject to fluctuating profits from its holdings.

A subsidiary is included in the consolidated accounts from the time that the Company obtains control over the subsidiary until the time when control by the Company ends or it is wound up.

1.3.2. Corporate mergers

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

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

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

1.4. Segment reporting

There were no changes to the organisational structure of the composition of the segments that have to report during the past financial year.

The "property held as financial investments" was entered under "Others" and did not represent an independent segment needing to be reported. No special reporting was passed on to the decision committee in this matter. We would refer you to Section 4.2.3 'Property held as a financial investment' for information on rental and leasing income.

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

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

The IT Services segment offers services for operating IT systems at store-based retailers. The software services include user support and monitoring and maintaining hardware and software.

A subdivision of turnover in terms of products and fields of work provides the following general overview:

Turnover by segments

T.19

EUR K	GK/Retail FY 2019	GK/Retail FY 2018	IT Services FY 2019	IT Services FY 2018	Others FY 2019	Others FY 2018	Elimintations FY 2019	Elimintations FY 2018	Group FY 2019	Group FY 2018
Turnover with third parties	107,075	96,373	8,373	9,778	0	0	0	0	115,448	106,151
Product licences	10,232	16,621	849	738	0	0	0	0	11,081	17,359
Individual customer software[2] [2]	9,946	6,224	0	0	0	0	0	0	9,946	6,224
Licence revenues overall	20,178	22,845	849	738	0	0	0	0	21,027	23,583
Maintenance	25,652	22,019	5,297	6,195	0	0	0	0	30,949	28,214
Services	59,584	51,415	1,918	1,595	0	0	0	0	61,502	53,009
GK Academy	186	238	0	0	0	0	0	0	186	238
Other business	1,521	(115)	530	1,288	0	0	0	0	2,051	1,174
Revenue reductions	(46)	(29)	(221)	(38)	0	0	0	0	(267)	(67)
Turnover with other segments	**0**	**0**	**2,219**	**879**	**0**	**0**	**(2,219)**	**(879)**	**0**	**0**
Depreciation	**(8,071)**	**(4,945)**	**(542)**	**(202)**	**(213)**	**(90)**	**0**	**0**	**(8,826)**	**(5,237)**
EBIT segment	**4,413**	**1,503**	**(1,054)**	**754**	**72**	**(363)**	**(1)**	**(299)**	**3,430**	**1,595**
Assets	**104,996**	**113,499**	**8,144**	**5,656**	**7,187**	**6,125**	**(6,138)**	**(14,100)**	**114,189**	**111,181**
thereof long term[3]	52,222	47,477	2,383	575	6,349	5,810	(1,097)	(1,097)	59,857	52,765
Debts	**65,303**	**76,198**	**4,742**	**620**	**7,187**	**6,125**	**(5,370)**	**(12,017)**	**71,862**	**70,926**
Cash and cash equivalents	**8,064**	**11,765**	**22**	**24**	**0**	**0**	**0**	**0**	**8,086**	**11,789**

1 – Reclassification of the previous year's figures; We would refer you to Section 3.11 'Balance sheet reclassifications and correction of errors in these consolidated accounts'

2 – Individual customer software includes customised program developments that increase the base amount for future maintenance revenues

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

The transition (eliminations) represents the earnings and expenditure or the assets, which cannot be directly attributed to the segments.

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

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

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

Turnover amounting to EUR 55,146 K (previous year: EUR 50,220 K) was generated with customers that have their administrative headquarters located outside Germany. This only occurred in the GK/Retail business segment. EUR 51,929 K (previous year: EUR 46,153 K) was the figure for turnover revenue in Germany.

Turnover amounting to approx. EUR 19,300 K (previous year: EUR 33,400 K) or 16.7 percent (previous year: 31.5 percent) of total turnover was generated in 2019 with a customer that has a share of turnover of more than 10 percent.

1.5. Currency conversions

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

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

Converting the accounts of subsidiaries located outside the eurozone, which have been prepared in a foreign currency 4.1.8 , takes place according to the modified exchange rate method on the reporting date. The assets and liabilities are converted using the exchange rate on the reporting date, but the revenues and expenditure by means of the average annual exchange rate. The conversion difference, which results from this currency conversion, is entered so as not to affect the results and is shown under "Other reserves" as a separate item in equity (as accumulated exchange rate differences according to IAS 21). At the time when a subsidiary is removed from the consolidated companies, the conversion differences are reversed to affect the results.

2. Accounting Methods

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

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

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

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

We would refer you to Section 3 regarding the assessment uncertainties when determining fair value. 'Major assessment uncertainties and decisions'

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

2.1. Property, plant and equipment

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

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

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

Fully depreciated property, plant and equipment assets are shown with historical purchasing and production costs and accumulated depreciation until the assets in question are removed from operation. The purchase and production costs as well as the cumulated depreciation is removed from the accounts in the case of asset disposals and the results from the asset disposals (disposal revenues minus the remaining carrying amount) are entered on the profit and loss statement under “Other revenues” or “Other expenditure”.

2.2. Property held as a financial investment

Property held as a financial investment was entered on the balance sheet at ongoing purchase costs according to the purchase cost method, in a manner similar to tangible fixed assets. We would refer you to Section 3.11 ‘Balance sheet reclassifications and correction of errors in these consolidated accounts’ with regard to the reclassification.

Property held as financial investments was entered on the balance sheet according to the rules for the purchase cost model.

GK Software generated lease revenue from the property taken into account and for this reason had to enter this as “property held as a financial investment” according to IAS 40.

GK Software determined the fair value of the properties as the cash value of future lease payments for the reporting dates of 31 December 2018 and 31 December 2019, as there is no functioning market for these properties. Capitalisation interest rates between 4.5% and 5.0% were applied in a variant calculation.

2.3. Leases

2.3.1. GK as the lessee

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

The Company made use of the modified, retrospective, transitional method when using IFRS 16 for the first time, where it is possible to forego a new assessment of the leasing contracts in the sense of IFRS 16, if they already existed before 1 January 2019. The comparative figures from the previous periods were therefore not adjusted.

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

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

GK made use of the following relief for its initial use of IFRS 16.

- The balance sheet accounting of leases, which had a residual term of less than 12 months on 1 January 2019, i.e. current leases.

- Leases covering assets with a low value and current leases were entered on the balance sheet according to IFRS 16.6 and continued to be entered as expenditure on the profit and loss statement.
- Using a single discounting rate for a portfolio of leases with similar characteristics.
- Taking over earlier assessments on whether a lease weighs on the figures as an alternative to conducting value impairment tests — there were no such contracts on 1 January 2019.
- Not taking into consideration direct costs at the beginning when assessing the usage rights at the time of first use.
- The retrospective setting of the term of leases in the case of contracts with extension or termination options.

The Group decided to make use of the simplification rules with regard to maintaining the definition of a lease at the changeover. This means that the Group will use IFRS 16 for all the contracts that were concluded before 1 January 2019 and have been identified as leases according to IAS 17 and IFRIC 4.

After the first use, the following relief was used with regard to entering the leases on the balance sheet:

- Leases covering assets with a low value and current leases were entered on the balance sheet according to IFRS 16.6 and continued to be entered as expenditure on the profit and loss statement.
- Using a single discounting rate for a portfolio of leases with similar characteristics.

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

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

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

The transition to the leasing liabilities according to IFRS 16 on 1 January 2019 is presented below:

Transitional accounting	In EUR K
Specified obligations from operating leases on 31 December 2018	3,850
Current and low-value leases	(52)
Adjustments because of different assessments of contract terms	7,009
Effects of discounting	(255)
Leasing liabilities entered on the balance sheet on 1 January 2019	10,552
Proportion of current leasing liabilities	2,684
Proportion of non-current leasing liabilities	7,868

The initial use of IFRS 16 on 1 January 2019 created the following effects:

An increase in non-current assets on 1 January 2019 by EUR 10,552 K, of which EUR 8,446 K was for rented office premises and EUR 2,106 K for leased vehicles.

An increase in liabilities by entering leasing liabilities of the same amount by EUR 10,552 K, of which EUR 8,446 K was for rented office premises and EUR 2,106 K for leased vehicles.

Based on the change to the presentation of lease expenditure arising from leases, a sum amounting to EUR 2,908 K was shifted from the cash flow for funding activities to the cash flow from operating activities, as the lease payments no longer weigh on the operating cash flow, but are shown with their repayment share in the cash flow, if they are not payments arising from current or low-value leases. Interest payments continued to be shown under the cash flow for operating activities.

2.3.2. GK as the lessor

The revenue from operating leases for the rented property that is held as financial investments (see Section 2.2 'Property held as a financial investment') is entered after contractual payment in a linear fashion in line with the term of the leasing contract. The expenditure attributed to these buildings was entered in the profit and loss statement during the period when it was incurred.

2.4. Intangible assets

2.4.1. Intangible assets acquired in return for payment

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

2.4.2. Intangible assets created in-house

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

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

- The technical feasibility of the completion of the intangible asset exists in order to make it available for use or for sale
- The company intends to complete the intangible asset and use it or sell it
- There is a capability for using or selling the intangible asset
- If there is evidence of how the intangible asset will probably achieve some economic benefits in future. GK Software may be able to provide evidence of the existence of a market for the intangible asset products or the intangible asset in itself or, if it is to be used internally, the usage of the intangible asset.
- Adequate technical, financial or other resources are available to complete the development and be able to use or sell the intangible asset and
- It is possible to reliably determine the expenditure that can be allocated within the framework of developing the intangible asset.

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

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

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

2.4.3. Intangible assets acquired as part of a corporate merger

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

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

Customer base

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

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

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

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

2.5. Stocks

The following assets are entered as assets, if they are:

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

The ancillary and working materials comprise installation items and other components for checkout systems.

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

2.6. Equity

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

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

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

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

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

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

2.7. Financial liabilities and financial assets

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

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

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

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

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

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

We would refer you to the explanations in Section 3.6 'Intrinsic value of contract assets' with regard to the contract assets.

The interest and currency swap (we would refer you to Section 4.1.10 'Further details on financial assets and financial liabilities') was entered at its fair value with an effect on the changes in value in the profit and loss statement. All the profits or losses resulting from the assessment are credited to net income here. The net profits entered in the Group's profit and loss statement included the interest paid/received for the financial liability and were entered under "Other earnings/other expenditure".

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

2.8. Loan capital costs

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

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

No loan capital costs were capitalised in 2019. The non-capitalised loan capital costs were entered as interest expenditure during the period, in which they were incurred.

2.9. Public sector subsidies

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

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

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

2.10. Provisions

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

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

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

2.10.1. Statutory provisions for pensions

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

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

- Past service costs (including current service costs, past service costs to be calculated subsequently and any gains or losses from the change to or reduction of the plan),
- Net interest expenditure or revenues on the net debt or the net asset value,
- A new assessment of the net debt or the net asset value.

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

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

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

2.10.2. Legal disputes

Provisions for legal disputes are entered, as soon as the event forming the basis for the dispute creates a payment obligation with adequate certainty and the amount can already be reliably assessed.

2.10.3. Onerous contracts

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

2.10.4. Warranties

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

2.10.5. Severance payments

A debt for benefits arising from the ending of an employment relationship shall be entered if the Group can no longer withdraw the offer of these kinds of benefits or, if earlier, the Group has entered associated costs for restructuring in the sense of IAS 37.10.

2.11. Income taxes

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

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

2.11.1. Current taxes

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

2.11.2. Deferred taxes

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

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

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

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

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

2.12. Revenue from contracts with customers

2.12.1. Recognising turnover

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

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

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

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

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

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

2.12.2. Revenue from licences

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

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

2.12.3. Providing software services

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

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

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

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

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

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

2.12.4. Revenue from maintenance work:

Revenue from maintenance work is charged at the contractually agreed rates or the number of hours that have been agreed in the contract and any costs that have been directly incurred on a monthly basis. The agreed rates are either charged monthly or charged to subsequent periods in the case of advanced payments (contract liabilities according to IFRS 15) and are recognised monthly along the appropriate period.

2.12.5. Contract assets, contract liabilities and trade accounts receivable

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

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

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

We would refer you to the information in the notes on the consolidated account, Section 3.1 'Impairment of value for assets' and Section 4.1.10 'Further details on financial assets and financial liabilities'.

3. Significant Assessment Uncertainties, Discretionary Decisions and Error Corrections

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

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

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

3.1. Impairment of value for assets

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

The achievable amount is the higher amount arising from the fair value minus any sales costs and the value in use of an asset. The amount involving the fair value minus any sales costs describes what could have been generated by selling an asset in a transaction at market conditions between parties willing to reach agreement. When determining the value in use, the estimated future flows of cash are discounted by a normal market interest rate.

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

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

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

3.2. Intrinsic value of goodwill

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

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

When determining the usage value, cash values of the estimated future incoming funds on the basis of a discount interest rate after tax (WACC) are calculated as the pre-tax WACC cannot be directly determined or observed. The pre-tax WACC is derived iteratively from the WACC after tax. The estimates take place within the planning horizon for Group planning for two years in detail and for the subsequent years 3 to 5 in the form of a trend projection and consideration of known specific individual circumstances. As the use of goodwill beyond planning year 5 appears possible and probable, the subsequent period is taken into account in the form of a perpetual annuity when determining the value. For this purpose, uniform growth rates oriented to inflation developments in the relevant currency areas are applied. Planned balance sheets and planned profit and loss statements are prepared for the individual unit generating the cash and cash equivalents and cash flow plans are derived from them.

The series of payments determined in this way are discounted with an interest rate that represents the weighted capital costs before income taxes. Capital market data from a group of comparable companies is used in order to determine the weighted capital costs. Key assumptions for determining the series of payments are the assumptions contained in the corporate planning for the development of turnover revenues and the necessary expenditure, mainly personnel expenditure. Because of the specific business model for the respective unit generating the cash and cash equivalents, specific parameters were used for this unit, which are based on the experience and the analysis of the actual development of the unit generating the cash and cash equivalents in the past. The planning conventions always include planning the balance sheet and the profit and loss statement and, derived from these, planning for the expected flows of cash and cash equivalents.

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

We would refer you to Section 4.2.4 'Intangible assets' regarding the individual details on the balance sheet on 31 December 2019.

3.3. Intrinsic value of customer bases

GK Software acquired customer bases as part of the purchase price allocation when acquiring various subsidiaries. We would refer you to Section 4.2.4 'Intangible assets' with regard to the individual details on values.

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

The expected period of use (7 or 10 years) and the amortisation method are checked on each reporting date and all the changes to estimates are taken into consideration prospectively. As soon as there are some signs that the carrying amount of the customer base exceeds the expected influx of funds, the customer base is revalued with this lower figure. Any impairment charges are entered under the item “Extraordinary amortization”. The expected influx of funds is the lower of the two values from the fair value minus any sales expenditure and the value in use. The value in use is the cash flow reduced to its cash value minus any interest for the unit, which could generate cash and cash equivalents and to which the customer base is assigned.

3.4. Intrinsic value of software

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

3.5. Intrinsic value of property held as a financial investment

No specific market price could be determined for property held as a financial investment and no comparable transactions on the property market could be observed either. The estimate of the fair value therefore took place as a capitalisation of the lease revenue by the operator (Hotel Tannenhaus UG, Schöneck) within a particular range. The range resulted from using different capitalisation interest rates (5.00%, 4.75% and 4.50%). The initial lease revenue amounted to EUR 360 K and will increase by 5% after 5 years.

Any correction of the value by a discount, which takes into consideration the effects of the corona crisis, has not been made, as this must be viewed as a value-adjusting effect in 2020.

3.6. Intrinsic value of contract assets

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

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

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

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

3.7. Uncertainty regarding the income tax items

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

The tax audit for GK Software SE started for the period 2015-2017 during the reporting year and had not been completed during the auditing period. There were no indications of any relevant tax risks.

3.8. Recognition and measurement of provisions

The recognition and measurement of provisions in conjunction with pending legal disputes or other outstanding claims subject to settlement, mediation, arbitration or government regulation are linked to estimates by the Group to a considerable extent. In this way, the assessment of the probability that pending legal proceedings will be successful or lead to a liability or the quantification of the possible amount of payment obligations is based on the assessment of the respective individual circumstances. In addition, the determination of provisions for legal risks is linked to substantial estimates. These estimates can change on the basis of new information. When collecting new information, the Group primarily uses the services of internal experts and external advisers such as actuaries or legal consultants.

We would refer you to the summarised details in Section 4.2.7 'Statutory provisions for pensions' with regard to estimate risks for pension provisions.

3.9. Assessments of fair value and assessment procedures

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

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

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

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

3.10. Other assessment uncertainties

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

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

3.11. Balance sheet reclassifications and correction of errors in these consolidated accounts

The investments in particular property must be entered as “Property held as a financial investment”. We would refer you to Section 4.2.3 ‘Property held as a financial investment’.

They were still entered as property, plant and equipment (amounting to EUR 5,810 K) in the financial accounts for 31 December 2018. The reclassification was done by adapting all the involved balance sheet items in these accounts (facilities under construction EUR 170 K, buildings EUR 5,208 K, intangible assets EUR 258 K and operating and office equipment EUR 174 K).

When preparing the consolidated accounts for 31 December 2019, the balancing of plan asset values entered on the balance sheet with the values confirmed by an expert for the plan assets entered for 31 December 2018 resulted in a value difference of EUR 314 K. As of 31 December 2018, EUR 2,402 K was balanced out with the pension payment obligations of EUR 3,960 K and a balanced pension provision of EUR 1,558 K was entered. The adjustment of the value of the plan assets is carried out in these consolidated accounts to affect the results in the current accounts (financial expenditure). Cf. Table T.35 ‘Development of the plan assets’ in Section 4.2.7 ‘Statutory provisions for pensions’.

Deferred turnover revenues amounting to EUR 2,394 K was entered under Other current liabilities as of 31 December 2018. These are advance payments on periodic turnover revenues (usually software maintenance). They are recognised as income by releasing the deferred amounts in instalments over the agreed term. These are contractual liabilities as defined by IFRS 15. For this reason, they are entered under the corresponding balance sheet item with simultaneous adjustment of the previous year’s figures.

The reclassification and error correction did not have any major effects on the assets, financial and earnings situation. There were no major effects on significant performance indicators in the Company’s management system and it is assumed that this will not have any significant relevance for the circumstances.

4. Notes on the Consolidated Balance Sheet

4.1. Financial assets and financial liabilities

The financial instruments include original and derivative financial instruments.

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

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

4.1.1. Trade accounts receivable

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

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

4.1.2. Other accounts receivable, assets and income tax claims

T.20 Other accounts receivable, assets and income tax claims

EUR K	31.12.2019	31.12.2018
Income tax claims	820	1,045
Intermediate total	**820**	**1,045**
Accounts from asset deferrals	2,289	2,133
Accounts receivable with associated firms	1,524	**843**
Suppliers with debit balances	834	–
Accounts from value-added tax	608	686
Loans paid to third parties	254	57
Accounts from interest/currency hedging business	142	393
Accounts receivable from members of the Management Board	42	37
Others	285	525
Intermediate total	5,978	4,674
Total	**6,798**	**5,719**

In the case of accounts receivable from associated firms and persons, we would refer you to Section 8.4 'Details of Associated Persons and Corporations'.

Valuation adjustments amounting to EUR 53 K (previous year: EUR 53 K) were made on loans paid to third parties because it is assumed that they will not be recovered.

The receivables from income tax claims largely contained receivables from corporation tax, plus the solidarity surcharge and business tax advance payments.

4.1.3. Non-current and current bank liabilities

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

Loans

T.21

EUR K	31.12.2019 Balance	31.12.2019 Thereof short term	31.12.2018 Balance	31.12.2018 Thereof short term
Loan Commerzbank	2,844	323	3,167	323
Loan Sparkasse	3,415	616	4,030	616
Loan IKB	2,938	2,125	5,000	2,125
Loan DZ-Bank (variable)	5,000	5,000	3,570	3,570
Other loans	—	—	26	18
Current account credit and credit card	5,797	5,797	5,608	5,608
Account balance	**19,994**	**13,861**	**21,401**	**12,260**

The debts existing on the balance sheet reporting date has been divided into current and non-current debts in the consolidated accounts (cf. T.20 'Schedule of liabilities' in Section 4.1.10 'Further details on financial assets and financial liabilities'. The current shares therefore match the repayments that are due within one year.

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

In addition to this, the current bank liabilities also include utilised credit card limits amounting to EUR 25 K (previous year: EUR 149 K) and a current account credit lines that were used. Details on the latter are made available in the Table T.21.

Of the loans cited here, EUR 5,079 K have been secured by real property liens. The current account lines are secured by a collateral trust agreement, which is subject to a blanket assignment.

4.1.4. Liabilities arising from leases

Due to the first use of IFRS 16 on 1 January 2019, additional liabilities arising from leases were entered (cf. Section 2.3 'Leases').

We would refer you to the summary in Section 4.2.2 'Usage rights and expenditure on leases' with regard to the ongoing details about leases.

4.1.5. Convertible bond

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

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

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

4.1.6. Trade accounts payable

Trade accounts payable are still due for settlement within one year.

4.1.7. Contract liabilities

Contract liabilities include liabilities from advance payments on manufacturing contracts (advance payments received) of EUR 1,096 K (previous year: EUR 1,509 K) and advance payments on revenues to be received periodically at later periods (deferred revenue) of EUR 2,451 K (previous year: EUR 2,394 K).

The transaction price that was attributed to performance obligations from manufacturing orders on 31 December 2019 amounted to EUR 7,894 K on the reporting date (previous year: EUR 14,900 K). Management expects that EUR 7,383 K (previous year: EUR 9,100 K) of the transaction price that was attributed to service obligations, which had not been provided on 31 December 2019, will be entered as revenue in the next reporting period. The remaining EUR 511 K (previous year: EUR 5,800 K) will be recognised in later financial years. The amount entered above did not contain any variable service in return that is restricted.

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

4.1.8. Other current liabilities

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

Other current liabilities

T.22

EUR K	31.12.2019	31.12.2018
Liabilities from wages and salaries	7,715	8,636
Liabilities from other taxes	3,434	2,101
Outstanding invoices	1,296	2,051
Other liabilities towards members of staff	471	27
of which an overpayment by customers	412	8,323
Others	1,372	1,398
Total [1]	**14,700**	**22,536**

1 – Adjustment of the previous year's figures; We would refer you to Section 3.11 'Balance sheet reclassifications and correction of errors in these consolidated accounts'

As far as overpayments by customers are concerned, we would refer you to Section 5.1 'Turnover revenues'.

4.1.9. Income tax liabilities

Income tax liabilities

T.23

EUR K	31.12.2019	31.12.2018
Income tax liabilities	428	282
thereof in Germany	343	224
thereof in Czech Republic	75	—
thereof in Switzerland	—	25
thereof in USA	—	18
thereof in South Africa	—	—
thereof in Ukraine	10	4
thereof in Russia	—	11

4.1.10. Further details on financial assets and financial liabilities

Carrying amounts and the fair value of financial instruments

T.24

EUR K	Recognised as ongoing purchase costs	Recognised at their fair value on the basis of publicly listed market prices (stage 1)	Recognised at their fair value: on the basis of observable market data (stage 2)	Recognised at their fair value: on the basis of non-observable input factors (stage 3)	Non-financial assets/ liabilities	Carrying amount
31 December 2019	**(IFRS 9)**	**(IFRS 9)**	**(IFRS 9)**	**(IFRS 9)**		
Trade accounts receivable	23,982	—	—	—	—	**23,982**
Other financial assets	5,228	—	142	—	608	**5,978**
Cash and cash equivalents	8,086	—	—	—	—	**8,086**
Total financial assets	37,296	—	142	—	608	**38,046**
Convertible bond	13,826	—	—	—	—	**13,826**
Bank liabilities	19,994	—	—	—	—	**19,994**
Leasehold liabilities	9,015	—	—	—	—	
Trade accounts payable	2,484	—	—	—	—	**2,484**
Other financial liabilities	4,869	—	—	—	9,831	**14,700**
Total financial liabilities	**50,188**	**—**	**—**	**—**	**9,831**	**60,019**
31 December 2018	**(IFRS 9)**	**(IFRS 9)**	**(IFRS 9)**	**(IFRS 9)**		
Trade accounts receivable	26,030	—	—	—	—	**26,030**
Other financial assets	3,595	—	393	—	686	**4,674**
Cash	11,790	—	—	—	—	**11,790**
Total financial assets	41,415	—	393	—	686	**42,494**
Convertible bond	13,418	—	—	—	—	**13,418**
Bank liabilities	21,401	—	—	—	—	**21,401**
Trade accounts payable	2,365	—	—	—	—	**2,365**
Other financial liabilities [1]	11,800	—	—	—	10,736	**22,536**
Total financial liabilities	**48,984**	**—**	**—**	**—**	**10,736**	**59,720**

1 – Adjustment of the previous year's figures; We would refer you to Section 3.11 'Balance sheet reclassifications and correction of errors in these consolidated accounts'

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

As the financial assets are normally not covered by securities, the maximum default risk corresponds to their gross carrying amount minus value adjustments, therefore leaving the net carrying amount that is shown. As a result, the circumstances at GK Software correspond to securities that the IASB assumes to be the normal case (IFRS 7.B9) and other risk-minimising arrangements do not normally need to be taken into account at this point.

In the case of a loan from the Commerzbank (originally EUR 450 K), a hedging mechanism in the form of a maximum rate agreement (cap) was agreed with a term until 30 June 2027 and with a cap rate of 0.0 percent p.a. The cap premiums were reported under "Other assets" with figures of EUR 8 K (previous year: EUR 9 K) and were reversed on a pro rata basis and entered as interest expenditure. For this reason, these cap premiums were not classified under the "Financial assets assessed at their fair value in terms of affecting the net income" category. The market value of these interest capping mechanisms on a nominal volume of EUR 214 K (derived from the mid-market price through bank assessments) amounted to a total figure of EUR 0 K on the balance sheet date (previous year: EUR 0 K).

An interest exchange rate swap was taken out to secure the cash flow arising from the acquisition of the Retail & Programming division of DBS Inc. in the USA for repaying the investment loan at IKB. The interest and currency swap started on

31 December 2015 and ends on 31 March 2021. Quarterly repayments plus interest amounting to USD 529 K have had to be paid to IKB from the first half of 2016 onwards. Bank assessments were used to determine the fair value on the balance sheet reporting date. The market value of this interest and currency swap covering a nominal volume of USD 10,595 K (EUR 10,000 K) at the time of the acquisition and amounting to EUR 2,648 K on the balance sheet reporting date afterwards amounted to EUR 142 K in all (previous year EUR 393 K) on the balance sheet reporting date - derived from the mid-market price. This amount was entered on the balance sheet under “Other liabilities” (“Other assets” in the previous year). No valuation unit was formed. A loss was entered in the total income statement, as a result.

The Group only has (with the exception of the interest rate caps and the interest and currency swap – for an explanation, see above) financial instruments that are valued at their ongoing purchase costs.

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

Default risk for trade accounts receivable and contract assets

T.25

EUR K		Not overdue	1 to 30 days overdue	31 to 60 days overdue	61 to 90 days overdue	More than 90 days overdue	Total
31.12.2019							
Expected loss ratio	%	0.6	1.3	1.7	2.6	4.2	
Trade accounts receivable	EUR K	22,343	1,563	457	77	254	**24,694**
Trade accounts receivable from ongoing work	EUR K	14,278	—	—	—	—	**14,278**
Value adjustments	EUR K	132	18	233	75	254	**712**
31.12.2018							
Expected loss ratio	%	0.7	2.0	3.3	3.8	4.9	
Trade accounts receivable	EUR K	24,314	1,898	288	(118)	278	**26,660**
Trade accounts receivable from ongoing work	EUR K	10,289	—	—	—	—	**10,289**
Value adjustments	EUR K	69	113	156	14	278	**630**

The value adjustments developed as follows during 2019:

Changes in impairments on trade accounts receivable

T.26

EUR K	2019	2018
Situation at the start of the year	630	318
Value adjustments on accounts receivable	511	336
Liquidation	(429)	(24)
Situation at the end of the year	**712**	**630**

Value adjustments amounting to EUR 712 K were formed at the end of the year, which affected nothing but trade accounts receivable.

Market risks: The Group is exposed to risks associated with exchange and interest rates as a result of its business activities. The exchange rate risks result from the business sites maintained in different currency areas and increasingly from customer relations that go beyond the eurozone. The interest rates are the result of selected types of funding to enhance the Group's financial latitude. The Group typically accepts additional conditions (so-called "covenants") in addition to the general loan conditions when funding projects with loans that are provided by banks and they relate to general financial figures or other conditions. Failure to meet these additional conditions normally entitles the bank concerned to make the loans in question due for payment in full immediately, regardless of whether the main loan contract obligations are being met and probably can continue to be met or not. The Group handles this risk by monitoring the covenants and communicating with the banks concerned in an appropriate manner.

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

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

The following accounts receivable existed with exchange rate risks on 31 December 2019:

Accounts receivable with exchange rate risks

T.27

in K	31.12.2019	31.12.2018
CHF	561	532
GBP	118	134
NOK	—	528
CAD	2	1,140
AUD	4	—

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

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

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

The interest risks are the result of interest payments agreed within the loan contracts. There is no link with the exchange rate risk here, because all the loans are nominated in euros or the interest rates and exchange rates were agreed at a fixed rate for the term of the loans. During the current year, interest payments of EUR 647 K were made and interest expenditure of EUR 2,063 K was recognised on the income statement. The interest rate on the loan with the DZ Bank is fixed for the complete term, so that no interest risks arise from this contract. The same applies to the loan of EUR 10,000 K with the IKB denominated in euros; the interest rate was fixed for the complete term for this. The interest rate is set quarterly at a rate of 1.5 percentage points above the 3-month EURIBOR rate in the case of the investment loan of EUR 450 K taken out with the Commerzbank. The interest risk has been restricted by an interest rate cap of 0.0 percent p.a. If there were an extreme change in the three-month EURIBOR rate by one percentage point, this would have triggered a change in the interest expenses amounting to EUR 81 K during 2019 (determined using the actual interest expenses during 2019 with a changed interest rate). Other interest risks affecting the results would result from the interest effects related to pension provisions. There are no risks related to interest on deposits because of the current low interest rates for deposits. Despite this, the company is keeping a close eye on the development of interest on deposits. The investment strategy can be quickly adapted because only short-term investments are used.

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

The maximum credit risk corresponds to the carrying amount of the trade accounts receivable and other accounts receivable. The default risk regarding trade accounts receivable is limited by the fact that the Company has a broadly spread customer structure. The Company does not generally demand any collateral security for its accounts receivable. Close monitoring takes place by observing the customer's payment behaviour, the market environment and drawing on external sources such as reports from the relevant specialist press. If this monitoring process gives rise to an assumption that the general economic situation for individual customers has changed, further measures are adopted in agreement with the management team in order to restrict any possible losses. Value adjustments may also occur if customers believe that work has not been completed or is inadequate. In these cases, the Group basically carries out individual value adjustments for precautionary reasons, if there is some expectation that settlements on a goodwill basis – without any recognition of legal grounds – might be necessary. Consideration is given to the general default risk by making an appropriate general value adjustment (cf. Section 3.1 'Impairment of value for assets').

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

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

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

The following table shows the remaining contract terms for the Group's financial liabilities. The tables are founded on non-discounted cash flows for financial liabilities based on the earliest date when the Group may be obliged to make payments.

T.28 Schedule of liabilities

EUR K	Weighted average interest rate	Less than 1 month	1 to 5 years	More than 5 years	Total
31 December 2018					
Interest-free [1]	—	25,043.00	283.00	—	**25,326.00**
Variable interest rate	1.56	5,653.00	838.00	1,566.00	**8,057.00**
Fixed interest rate	2.56	6,397.00	18,277.00	1,663.00	**26,337.00**
31 December 2019					
Interest-free	—	17,209.00	—	—	**17,209.00**
Variable interest rate	1.56	5,982.00	838.00	1,357.00	**8,177.00**
Fixed interest rate	1.97	10,589.00	22,868.00	1,175.00	**34,632.00**

1 – Adjustment of the previous year's figures; We would refer you to Section 3.11 'Balance sheet reclassifications and correction of errors in these consolidated accounts'

The Group safeguards part of its variable interest obligations by interest rate caps. This business relates precisely to the financial instrument that is being secured in each case.

The Group can make use of credit lines amounting to EUR 17,600 K. In greater detail, this involves the following:

T.29 Credit lines

EUR K	31.12.2019	31.12.2018
Non-collateralised current account lines	**—**	**4,000**
of which: taken up	—	4,018
of which: not taken up	—	(18)
Collateralised current account lines	**17,600**	**5,000**
of which: taken up	10,772	1,411
of which: not taken up	6,828	3,589

4.2. Non-financial assets and liabilities

4.2.1. Property, plant and equipment

Property, plant and equipment in 2018

T.30

EUR K	Real estate and buildings	Operating and business equipment	facilities under construction	Technical equipment and machines	Total
Purchasing or production costs					
Figures on 1 January 2018	**8,737**	**11,282**	**3,273**	**6**	**23,298**
Accruals	984	4,042	662	0	**5,688**
Accruals through corporate mergers	0	0	0	0	**0**
Disposals	0	(244)	0	(6)	**(250)**
Figures on 31 December 2018	**9,721**	**15,080**	**3,935**	**0**	**28,736**
Accumulated depreciation					
Figures on 1 January 2018	**1,607**	**7,509**	**0**	**0**	**9,116**
Accruals	283	2,368	0	0	**2,651**
Accruals through corporate mergers	0	0	0	0	**0**
Disposals	0	(225)	0	0	**(225)**
Figures on 31 December 2018	**1,890**	**9,652**	**0**	**0**	**11,542**
Carrying amounts on 31 December 2018	**7,831**	**5,428**	**3,935**	**0**	**17,194**

Property, plant and equipment in 2019

T.31

EUR K	Real estate and buildings	Operating and business equipment	facilities under construction	Technical equipment and machines	Total
Purchasing or production costs					
Figures on 1 January 2019	9,721	15,080	3,935	0	**28,736**
Accruals	912	1,661	163	0	**2,736**
Accruals through corporate mergers	0	0	0	0	**0**
Transfers					
Disposals	0	(345)	(25)	0	**(370)**
Figures on 31 December 2019	**14,063**	**16,893**	**146**	0	**31,102**
Accumulated depreciation					
Figures on 1 January	1,890	9,652	0	0	**11,542**
Accruals	401	2,505	0	0	**2,906**
Accruals through corporate mergers	0	0	0	0	**0**
Transfers					
Disposals	0	(334)	0	0	**(334)**
Figures on 31 December 2019	**2,291**	**11,823**	**0**	**0**	**14,114**
Carrying amounts on 31 December 2019	**11,772**	**5,070**	**146**	**0**	**16,988**

Some of the plots of land serve as security for liabilities through real property liens; for more details, we refer you to Section 'Usage rights and expenditure on leases'.

4.2.2. Usage rights and expenditure on leases

This part of the notes provides information about leases where the Group is the lessee. Information about leases, where the Group is the lessor, is explained in Section 4.2.3. 'Property held as a financial investment'.

T.32 Usage rights in the sense of IFRS 16 in 2019

EUR K	Real estate and buildings	Operating and business equipment	Total
Purchasing or production costs			
Figures on 1 January 2019	**2,106**	**8,446**	**10,552**
Accruals	1,372	0	**1,372**
Changes caused by exchange rates	0	19	**19**
Disposals	(49)	0	**(49)**
Figures on 31 December 2019	**3,429**	**8,465**	**11,894**
Accumulated depreciation			
Figures on 1 January	**—**	**—**	**—**
Accruals	1,355	1,654	**3,009**
Disposals	(29)	0	**(29)**
Figures on 31 December 2019	**1,326**	**1,654**	**2,980**
Carrying amounts on 31 December 2019	**2,103**	**6,811**	**8,914**

T.33 Expenditure on leases

EUR K	31.12.2019	31.12.2018
Depreciation and amortisation	3,009	—
Thereof buildings	1,654	—
Thereof vehicles	1,355	—
Interest expenditures	136	—
Expenditures for short term and low value contracts not entered on the balance sheet	54	3,426
Total payments	**3,199**	**3,426**

Financial debts arising from leases amounting to EUR K 2,908 were repaid during the financial year and EUR 136 K in interest was paid for leasing.

Payments amounting to EUR 2,735 K were expected within one year for leasing liabilities on 31 December 2019. The remaining liabilities (EUR 6,279 K) had a residual term of up to 5 years with a declining trend.

4.2.3. Property held as a financial investment

The property held as a financial investment involves the "Tannenhaus" hotel complex. The land on which the hotel properties are located has been made available to GK Software SE for 25 years through a leasehold agreement. The leaseholder is the Chief Executive Officer of GK Software SE. The leasehold was paid in a lump sum payment at the beginning of the contractual relationship (discounted cash value) and capitalised as an intangible asset. Upon expiration of the leasehold agreement, the contract provides for a compensation claim of GK Software SE against the property owner.

The property is handed over to the operator of the hotel as property that is leased. The hotel is operated by another associated firm (see Section 8.4.3 'Associated firms'). Under the existing allotment agreement, GK Software SE will be provided with approximately 50% of the hotel's capacity for use for operational purposes. The development of property held as a financial investment is evident from the assets analysis. The property has been valued at its ongoing purchase costs. Amortisation takes place in a linear fashion over the assumed usage period. The assumed usage period of the building is 33 years and 7 - 15 years have been assumed for the fittings. We would refer you to Section 8.4.3 'Associated firms'.

T.34 Property held as a financial investment in 2018

EUR K	Real estate and buildings
Purchasing or production costs	
Figures on 1 January 2018	223
	7,439
Accruals	5,677
Figures on 31 December 2018	5,900
Accumulated depreciation	
Figures on 1 January 2018	0
Accruals	90
Figures on 31 December 2018	**90**
Carrying amounts on 31 December 2018	**5,810**

T.35 Property held as a financial investment in 2019

EUR K	Real estate and buildings
Purchasing or production costs	
Figures on 1 January 2019	5,900
Accruals	752
Figures on 31 December 2019	**6,652**
Accumulated depreciation	
Figures on 1 January	90
Accruals	212
Figures on 31 December 2019	**302**
Carrying amounts on 31 December 2019	**6,350**

Rental and leasing income as well as charges passed on from agency services amounting to EUR 520 K has been allocated to this property in the profit and loss statement (previous year: EUR 323 K) as well as direct operating expenditure amounting to EUR 456 K (previous year: EUR 686 K) including depreciation. The annually agreed lease payments amount to EUR 360 K. We would refer you to Section 8.4.3 'Associated firms'.

The calculated fair value of the property (average value in the range) amounted to EUR 6,043 K on 31 December 2019 (EUR 5,945 K on 31 December 2018). The lower fair value is not viewed as a sign of permanent impairment of value, as the ongoing purchase costs will converge with this fair value in the course of time. We would refer you to Section 3.5 'Intrinsic value of property held as a financial investment' with regard to the method of determination.

4.2.4. Intangible assets

Intangible assets in 2018

T.36

EUR K	Capitalised development costs	Industrial property rights and similar rights and values	Goodwill	Customer base	Orders in hand	Total
Purchasing or production costs						
Figures on 1 January 2018	**7,988**	**7,952**	**15,677**	**7,867**	**1,585**	**41,069**
Accruals	0	640	0	0	0	**640**
Accruals through corporate mergers	0	1,636	2,622	1,562	0	**5,820**
Changes caused by exchange rates	0	86	422	153	0	**661**
Disposals	0	(14)	0	0	0	**(14)**
Figures on 31 December 2018	**7,988**	**10,300**	**18,721**	**9,582**	**1,585**	**48,176**
Accumulated depreciation						
Figures on 1 January 2018	**7,438**	**3,526**	**870**	**2,502**	**1,585**	**15,921**
Accruals	283	1,262	0	707	0	2,252
Accruals through corporate mergers	0	139	0	130	0	**269**
Disposals	0	(14)	0	(12)	0	**(26)**
Figures on 31 December 2018	7,721	**4,913**	870	3,327	1,585	**18,416**
Carrying amounts on 31 December 2018	**267**	**5,387**	**17,851**	**6,255**	**0**	**29,760**

Intangible assets in 2019

T.37

EUR K	Capitalised development costs	Industrial property rights and similar rights and values	Goodwill	Customer base	Orders in hand	Total
Purchasing or production costs						
Figures on 1 January 2019	**7,988**	**10,300**	**18,721**	**9,582**	**1,585**	**48,176**
Accruals	0	303	0	0	0	**303**
Accruals through corporate mergers	0	0	0	0	0	**0**
Changes caused by exchange rates	0	(29)	179	63	0	**213**
Transfers	0	0	0	0	0	
Disposals	0	(20)	0	0	(1,585)	**(1,605)**
Figures on 31 December 2019	**7,988**	**10,554**	**18,900**	**9,645**	**0**	**47,087**
Accumulated depreciation						
Figures on 1 January 2019	**7,721**	**4,913**	**870**	**3,327**	**1,585**	**18,416**
Accruals	190	1,552	0	955	0	**2,697**
Accruals through corporate mergers	0	0	0	0	0	**0**
Disposals	0	(48)	0	0	(1,585)	**(1,633)**
Figures on 31 December 2019	**7,911**	**6,417**	**870**	**4,282**	**0**	**19,480**
Carrying amounts on 31 December 2019	**77**	**4,137**	**18,030**	**5,363**	**0**	**27,607**

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

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

Goodwill

T.38

EUR K	Year of acquisition	Segment allocation	Initial recognition value	Interest rate (before and after tax)	Growth rate	31.12.2019	31.12.2018
Solquest GmbH / SQ IT-Services GmbH	2009	GK Retail	6,403	9.18% / 6.32%	1%	5,533	5,533
IT Services (AWEK GmbH)	2012	IT Services	244	9.18% / 6.32%	1%	244	244
TransAction+ Products and Services / DBS	2015	GK Retail	9,838	9.59% / 7.07%	2%	9,510	9,330
prudsys AG	2017	GK Retail	122	9.18% / 6.32%	1%	122	122
valuephone GmbH (MCA)	2018	GK Retail	2,622	9.18% / 6.32%	1%	2,622	2,622
Total			**19,229**			**18,030**	**17,851**

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

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

In the year under review, the legal entity valuephone GmbH was merged with the parent company GK Software SE and the valuephone business segment was fully integrated into the unit generating cash and cash equivalents, GK Retail. In future, the intrinsic value test will be based exclusively on the incoming funds of this unit. The last intrinsic value test carried out on 31 December 2019 for the unit generating cash and cash equivalents, 'Valuephone', did not reveal any need for impairment.

The assumptions on which the planning is based are naturally subject to risk. A change in the parameters for significant goodwill would not have any effects on the results of the test. For the goodwill SOLQUEST/SQ-IT, an increase to the discount interest rate by one percentage point or a reduction in the cash flow by up to 50% would not have any effects on the results of the tests. For the goodwill TAPS, an increase to the pre-tax discount interest rate by one percentage point or a reduction in the cash flow by up to 30% compared to plans would not have any effects on the results of the tests.

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

Customer bases

T.39

	Year acquisition	Service life	Book value 31.12.2018	Depreciation	Changes caused by exchange rates	Book value 31.12.2019
		Years	EUR K	EUR K	EUR K	EUR K
AWEK GmbH	2012	10	179	(46)	—	133
DBS Data Business Systems Inc.	2015	10	3,193	(522)	63	2,734
Prudsys AG	2017	10	1,451	(164)	—	1,287
Valuephone GmbH	2018	7	1,432	(223)	—	1,209
Total			**6,255**	**(955)**	**63**	**5,363**

The business unit at DBS Data Business Systems was acquired by GK USA and is being continued there under the heading of TAPS (Transaction Payment Systems). valuephone GmbH was merged with GK Software SE on 1 January 2020.

4.2.5. Stocks

Stocks

T.40

EUR K	31.12.2019	31.12.2018
Goods	35	387
Unfinshed goods and services	—	—
Auxiliary materials and supplies	381	99
Advance payments on inventories	8	35
Total	**424**	**521**

We would refer you to Section 5.3 Material expenditure with regard to the expenditure that was incurred in 2019.

4.2.6. Deferred taxes

We refer you to Section 5.8 'Income taxes'.

4.2.7. Statutory provisions for pensions

GK Software and the subsidiaries, AWEK GmbH and AWEK microdata GmbH, have issued pensions benefit plans in the form of defined benefit plans.

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

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

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

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

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

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

The calculations are based on the following assumptions:

T.41 Assumptions for calculating cash values

	FY 2019	FY 2018
Pensionable age (m/f)	65-68	65-68
Discount factor(s) on 1 January	2.05% p.a.	1.95% p.a.
Discount factor(s) on 31 December	1.00% p.a.	2.05% p.a.
Rate of pension increase	1.50% p.a.	1.50% p.a.

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

The assets of the associated plan assets in question here are pension fund special assets and asset values arising from contributions to provident funds. In this respect, it is not possible to provide any other information on investment categories.

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

T.42 Reconciliation account to determine the cash values

EUR K	FY 2019	FY 2018
Figures on 1 January:	3,960	3,523
+ Interest expenditure	84	68
+ Working period costs	634	446
+ Working period costs to be additionally calculated	442	—
− Benefits paid out	(60)	(93)
+ Actuarial losses (+)/ gains (-)	1,009	16
of which adjustments based on experience	29	16
of which changes in financial assumptions	980	—
- Liquidation	(327)	—
Figures on 31 December	**5,742**	**3,960**

The development of the plan assets is shown as follows:

T.43 Development of the plan assets

EUR K	FY 2019	FY 2018
Figures on 1 January	2,402	1,643
- Remeasurement	(314)	0
+ Expected yields from plan assets	159	53
+ Contributions by employer	782	758
− Benefits paid out	(53)	(52)
Figures on 31 December	**2,976**	**2,402**

We would refer you to Section 3.11 ‘Balance sheet reclassifications and correction of errors in these consolidated accounts’ with regard to the adjustment of the value carried forward. The adjustment of the values carried forward and the expected yields from plan assets are entered together with the interest expenditure from pension payment obligations balanced out under financial expenditure.

This therefore gave rise to a plan deficit of EUR 2,765 K (previous year: EUR 1,558 K), which was entered as a pensions provision.

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

T.44 Impact on earnings from pension payment obligations

EUR K	2019	2018
Current service costs	634	446
Past service costs	442	—
Net interest expenditure	239	15
Components of the defined benefit costs entered in the profit and loss statement	988	461
Reassessment of net debt from the defined benefit plan		
Gains from plan assets (with the exception of the amounts contained in the net interest)	—	—
Actuarial gains and losses from the change in financial assumptions	1,009	16
of which adjustments based on experience	29	16
of which changes in financial assumptions	980	—
Components in the defined benefit costs entered under “Other income”	1,009	16
Total	**1,997**	**477**

In terms of the ongoing annual expenditure amounting to EUR 988 K (previous year: EUR 461 K), interest revenues amounting to EUR 9 K (previous year: EUR 53 K) and interest expenditure amounting to EUR 249 K (previous year: EUR 68 K) were entered under "Interest results" and the remaining expenditure amounting to EUR 749 K (previous year: EUR 446 K) was entered as "Expenditure for old-age pensions".

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

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

Development of the cash values of defined benefit obligations and plan assets

T.45

EUR K	Cash value of the defined benefit obligation	Fair value of the plan assets	Shortfall (−) surplus (+)
FY 2019	**5,742**	**2,976**	**(2,766)**
FY 2018	3,960	2,402	(1,558)
FY 2017	3,523	1,643	(1,880)
FY 2016	3,698	1,931	(1,767)
FY 2015	3,232	1,772	(1,460)

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

Development of the plan liabilities and plan assets based on past experience

T.46

EUR K	Liabilities in the plan	Assets in the plan
FY 2019	**29**	**(404)**
FY 2018	16	16
FY 2017	(199)	0
FY 2016	273	(12)
FY 2015	(65)	(5)

We assume that contributions amounting to EUR 760 K (previous year: EUR 744 K) will be paid into the plan during 2020.

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

- If the actuarial interest rate increases [falls] by 1 percent, the defined benefit obligation would be reduced by EUR 1,013 K [increased by EUR 1,333 K] (2018: reduced by EUR 331 K [increased by EUR 422 K]).
- If the pension trend increases [falls] by 1%, the defined benefit obligation would be increased by EUR 881 K [reduced by EUR 650 K]) (2018: increased by EUR 275 K [reduced by EUR 229 K]).

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

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

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

Benefits from the plan in the following years

T.47

EUR K	Value	Value p.y.
Fiscal year 1	61	93
Fiscal year 2	64	93
Fiscal year 3	65	92
Fiscal year 4	67	92
Fiscal year 5	147	91
Fiscal year 6-10	1,372	433

On the reporting date, the average weighted term (duration) of the defined benefit payment obligation was between 20.77 years and 32.25 years (previous year: 24.42 and 31.71) at GK Software or

4.5 years (previous year: 4.92) at AWEK GmbH and 9.29 years (previous year: 8.81) at AWEK Microdata GmbH.

4.2.8. Deferred public sector grants

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

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

4.2.9. Provisions

Provisions

T.48

EUR K	Personnel department	Production department	Other departments	Total
Situation on 1 January 2019	271	700	260	**1,231**
Amounts used	249	685	208	**1,142**
Liquidation	22	8	3	**33**
Additional funds	283	683	396	**1,362**
Figures on 31 December 2019	**283**	**690**	**445**	**1,418**

The provisions in the production area exclusively cover warranties. The balance from the other areas involved EUR 104 K of interest from the company audit, EUR 291 K from the auditor costs for the annual accounts and EUR 50 K from archiving costs. With the exception of the warranty provision and the archiving costs, a complete outflow of funds is expected in 2020.

We would refer you to Section 3.5 with regard to this matter.

4.3. Equity

We would refer you to the 'Statement of changes in the Group's equity' if you wish to gain information on changes to the equity at GK Software until the 2019 balance sheet reporting date.

The Company's share capital amounted to EUR 2,023,300 on 31 December 2019 (1,926,475 on 31 December 2018) and was divided into 2,023,300 par value, individual share certificates each worth EUR 1. All the shares issued had been fully paid for by the reporting date. The changes resulted from the exercising of the share option programme.

In addition to increasing the share capital caused by the exercising of options amounting to EUR 16,825.00, a capital increase took place in the year under review in the form of EUR 80,000.00 paid in cash (EUR 64.00 per share); subscription rights for old shareholders were ruled out.

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

Authorised capital. On 28 August 2014, the annual shareholders' meeting passed a resolution authorising the Management Board to increase the ordinary shares of the Company by issuing new, no-par value shares made out to the holder (individual share certificates) in exchange for cash contributions and/or assets in kind by up to a total of EUR 945,000 on one or more occasions until 27 August 2019, provided that the Supervisory Board approves (authorised capital in 2014). The authorised capital was partially used for an increase in capital in 2019 and this expired on 27 August 2019.

Contingent capital Contingent capital (contingent capital II EUR 50,000; contingent capital III EUR 75,000; contingent capital IV EUR 250,000; contingent capital V EUR 37,000) exists. These contingent increases in capital are only performed if the owners or creditors of convertible bonds or share options make use of their conversion or subscription rights.

We would refer you to Section Intrinsic value of property held as a financial investment 'Share option programme' in the notes on the consolidated accounts with regard to the issue of share options and the amount of contingent capital.

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

Extra charges arising from the issue of shares are shown in the capital reserves.

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

5. Notes on the Consolidated Profit and Loss Statement

5.1. Turnover revenues

The turnover revenues are exclusively the result of the sale of hardware and software and the provision of services for international and national customers. We would refer you to Section 1.4 'Segment reporting.

Contract assets amounted to EUR 14,278 K (previous year: EUR 10,289 K) on the balance sheet reporting date.

Revenue from performance obligations, which were entered as revenue during the reporting period after having been entered as contract liabilities up to 31 December 2018, amounted to EUR 8,005 K in the year under review. A further EUR 6,733 K involved revenue from earlier periods, which was not entered under Contract liabilities. These liabilities were entered as other liabilities on 31 December 2018.

5.2. Other revenues

Other revenues

T.49

EUR K	FY 2019	FY 2018
Reversal of provisions / special items	699	790
Rent/leases with associated firms	360	150
Earnings from currency differences	218	305
Reductions in valuation adjustments	162	67
Other Onward charges with associated firms	115	260
Revenue from other periods and insurance policies	95	61
Others	645	672
Total	**3,837**	**3,617**

The "Reductions in valuation adjustments" refers to the reversal of individual valuation adjustments that are no longer required.

5.3. Expenditure on materials

T.50 Expenditure on materials

EUR K	FY 2019	FY 2018
Cost of auxiliary materials and supplies	495	1,447
Expenditure on purchased services	5,734	6,286
Total	**6,229**	**7,733**

5.4. Expenditure on personnel

T.51 Expenditure on personnel

EUR K	FY 2019	FY 2018
Wages and salaries	65,175	58,274
Social security contributions	12,959	10,517
of which expenditure on retirement benefits	1,479	444
Total	**78,134**	**68,791**

On average, 1,205 people were employed during the 2019 financial year (1,129 in the previous year). 1,168 people were employed on the reporting date of 31 December 2019 (1,205 in the previous year).

With 628 staff members (previous year: 680), a large proportion of the Group's employees were employed at GK Software SE on the reporting date of 31 December 2019. The number of employees at the Czech subsidiary, Eurosoftware s.r.o., in Plzen increased to 245 (previous year: 234). 80 employees were employed at AWEK GmbH (previous year: 101). AWEK microdata GmbH employed 30 people (previous year: 26). 1 person was employed at OOO GK Software RUS (1 in the previous year). 86 people were employed at GK Software USA Inc. (previous year: 64). GK Software Africa Ltd had 24 employees (previous year: 23). TOV Eurosoftware-UA employed 18 people (previous year: 22). 5 people were employed at the Swiss subsidiary, StoreWeaver GmbH (previous year: 5). There were 51 people employed at prudsys AG (previous year: 49).

5.5. Depreciation and amortisation

As in the previous year, this item exclusively covers scheduled depreciation of property, plant and equipment, property held as financial investments and the amortisation of usage rights from leases and intangible assets.

5.6. Other expenditure

T.52 Other operating expenditure

EUR K	FY 2019	FY 2018
Travel expenses	7,009	8,840
Legal and consultancy costs	2,579	3,130
Other operating requirements	2,385	2,330
Value adjustments for accounts receivable (including losses from accounts receivable)	1,878	705
Sales expenditure	1,853	2,087
Maintenance costs for software	1,544	1,249
Attracting and tying employees	1,262	1,815
Ancillary costs for business premises	1,182	1,874
Data traffic	919	1,005
Voluntary social benefits	643	737
Insurance policies and fees	543	503
Currency losses	96	219
Rent for business premises	81	1,685
Others	692	232
Total	**22,666**	**26,411**

The reduced travel expenses and rent for business premises largely resulted from the change in balance sheet procedures for leases (cf. 3.6 'Leases').

5.7. Financial results

T.53 Financial results

EUR K	FY 2019	FY 2018
Interest income	74	138
Interest expenditure	(2,271)	(1,563)
Account balance	**(2,197)**	**(1,425)**

5.8. Income taxes

T.54 Income taxes

EUR K	FY 2019	FY 2018
Current tax liabilities	1,370	533
Deferred tax expenditure	3,002	(1,285)
Account balance	**4,372**	**(752)**

The deferred tax expenditure largely results from the value adjustment of deferred tax assets. Deferred taxes on existing losses carried forward (provided that they cannot be balanced out with existing deferred tax assets) were not entered because of the uncertainty regarding the use of these losses carried forward in the next five years. Losses carried forward amounting to EUR 14,339 K (corporation tax) and EUR 11,482 K (trade tax) were not included in the calculation of deferred taxes. The losses carried forward have an indefinite term.

Income tax rates

T.55

Percent	31.12.2019	31.12.2018
Group tax rate (parent company)	29.1	29.1
thereof in Germany	28.4 - 31.6	28.4 - 31.6
thereof in Czech Republic	19.0	19.0
thereof in Switzerland	25.8	25.8
thereof in USA	25.0	39.0
thereof in South Africa	28.0	28.0
thereof in Ukraine	18.0	18.0
thereof in Russia	20.0	20.0

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

Deferred taxes

T.56

	31.12.2019		**31.12.2018**	
EUR K	Assets	Liabilities	Assets	Liabilities
Losses carried forward	1,835	—	4,957	—
Intangible assets	381	3,859	353	4,075
Usage rights in the sense of IFRS 16	—	2,325	—	—
Other assets	44	36	47	5
Provisions for warranties	—	—	11	—
Pension provisions	1,478	223	971	200
Changes in exchange rates	180	191	167	157
Assets	—	2,397	—	1,642
Trade accounts receivable	442	—	228	18
Interest and currency swaps	82	31	90	85
Leasing liabilities in the sense of IFRS 16	2,352	—	—	—
Liabilities (previous year other provisions)	109	—	22	—
Balancing	(6,190)	(6,190)	(2,812)	(2,812)
Total according to the balance sheet	**713**	**2,872**	**4,034**	**3,370**

Deferred tax claims/liabilities developed as follows:

Deferred tax claims/liabilities

T.57

EUR K	Initial balance	Changes related to the income statement	Changes not related to the income statement	Final balance 31.12.2019
Interest and currency swap	6	53	(8)	**51**
Provisions for pensions	771	319	208	**1,298**
Changes in exchange rates	9	0	(20)	**(11)**
Other fixed assets	42	(33)	0	**9**
Provisions for guarantees	11	(11)	0	**0**
Intangible assets – in-house developed software	(83)	(241)	0	**(324)**
Intangible assets – in-house developed software (development expenses at AWEK)	0	0	0	**0**
Acquired intangible assets as part of the corporate acquisition (acquired technologies)	(93)	71	0	**(22)**
Acquired intangible assets as part of the corporate acquisition (customer relations)	(2,013)	442	0	**(1,571)**
Intangible assets acquired as part of the purchase of the company (orders on hand)	0	0	0	**0**
Intangible assets acquired through the Solquest purchase (customer relations)	90	(19)	0	**71**
Usage rights in the sense of IFRS 16 [1]	(2,753)	428	0	**(2,325)**
Goodwill	(1,622)	(325)	0	**(1,947)**
Aaccounts receivable from ongoing work	(1,642)	(757)	0	**(2,399)**
General value adjustments (general value adjustments in previous year)	200	243	0	**443**
Leasing liabilities in the sense of IFRS 16 [1]	2,753	(401)	0	**2,352**
Payables (other provisions in previous year)	29	37	0	**66**
Loss carried forward (other assets in previous year)	4,959	(2,808)	0	**2,151**
Total	**664**	**(3,002)**	**180**	**(2,158)**

1 – Adjustment of initial balances due to accruals as of 1 January 2019; We would refer you to Section 2.3.1 'GK as the lessee'

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

Transfer of tax expenditure

T.58

EUR K	2019	2018
Pre-tax earnings	1,233	171
		0
Anticipated average tax expenditure of 26.1% (prev. year: 26.3%)	322	45
Tax impact on non-deductible company spending	109	35
Tax impact on tax-free income	(324)	(52)
Tax impact on trade tax additions	68	—
Tax impact on trade tax reductions	(8)	—
Impairment on deferred tax assets from losses carried forward	3,012	—
Not entered losses carried forward	1,027	—
Other tax effects	488	(735)
Actual tax expenditure (previous year: tax revenue)	4,372	(752)
		0
Effective tax ratio	n/a	n/a

	31.12.2018			
Initial balance	Changes related to the income statement	Changes not related to the income statement	Final balance	
12	73	(79)	**6**	Interest and currency swap
251	563	(43)	**771**	Provisions for pensions
(140)	0	149	**9**	Changes in exchange rates
73	(31)	0	**42**	Other fixed assets
9	2	0	**11**	Provisions for guarantees
(161)	78	0	**(83)**	Intangible assets – in-house developed software
(40)	40	0	**0**	Intangible assets – in-house developed software (development expenses at AWEK)
(240)	147	0	**(93)**	Acquired intangible assets as part of the corporate acquisition (acquired technologies)
(1,111)	(902)	0	**(2,013)**	Acquired intangible assets as part of the corporate acquisition (customer relations)
0	0	0	**0**	Intangible assets acquired as part of the purchase of the company (orders on hand)
103	(13)	0	**90**	Intangible assets acquired through the Solquest purchase (customer relations)
0	0	0	**0**	Usage rights in the sense of IFRS 16 [1]
(1,220)	(402)	0	**(1,622)**	Goodwill
(907)	(735)	0	**(1,642)**	Aaccounts receivable from ongoing work
(168)	368	0	**200**	General value adjustments (general value adjustments in previous year)
0	0	0	**0**	Leasing liabilities in the sense of IFRS 16 [1]
460	(431)	0	**29**	Payables (other provisions in previous year)
3,376	1,583	0	**4,959**	Loss carried forward (other assets in previous year)
297	**340**	**27**	**664**	**Total**

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

5.9. Expenditure and earnings from currency conversions

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

Currency conversions

T.59

EUR K	2019	2018
Other expenses	96	219
Other income	(218)	(305)
Balance	**(122)**	**(86)**

6. Notes on the Cash Flow Statement

We have entered any interest and taxes that have been paid in the cash flow from operating business. Any interest received has been entered under the cash flow from investment activities. Any dividends paid are taken into account in the cash flow from financing activities.

Because of entering leases on the balance sheet in line with IFRS 16, operating lease payments during the financial year, which were entered under operating cash flow in the past, are now shown as repayments within the funding activities. Due to the repayment of lease liabilities during the financial year, the cash flow was eased to the tune of EUR 2,908 K from operating business activities, but this had a corresponding negative effect on the cash flow from funding activities.

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

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

7. Items Not Entered

7.1. Contingent liabilities

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

Guarantee loans amounting to EUR 232 K (previous year: EUR 232 K) existed for contingent liabilities and they were granted by Volksbank Vogtland e.G. (EUR 23 K), Commerzbank (EUR 190 K) and the DZ Bank (EUR 8 K). The securities act as normal coverage for renting the business premises in Berlin, Cologne and St. Ingbert. The rental guarantee from the Volksbank is secured by pledging bank credit balances amounting to EUR 11 K (previous year: EUR 11 K). The Management Board does not expect it to be necessary to make use of the guarantee.

Explanation of cash and non-cash changes

T.60

EUR K	**1.1.2019**	**Changes to cash** Repayments	Taking out funds	**Changes related to non-cash**	**31.12.2019**
Non-current liabilities with banks	9,141	—	—	(3,008)	6,133
Non-current leasing liabilities	7,868	—	—	(1,589)	6,279
Convertible bond	13,418	—	—	408	13,826
Total	30,427	—	—	(4,189)	26,238
Current liabilities with banks	12,260	(3,276)	1,869	3,008	13,861
Current leasing liabilities	2,684	(2,908)	—	2,960	2,736
Total	14,944	(6,184)	1,869	5,968	16,597
Liabilities from funding activities	**45,371**	**(6,184)**	**1,869**	**1,779**	**42,835**

7.2. Financial obligations

GK Software SE and its Group companies did not enter any relevant purchase obligations during the year ending 31 December 2019. The obligations arising from leases and rental contracts were entered according to IFRS 16 from the year under review onwards.

7.3. Results after the reporting period

Following the premature resignation of the former Chairman of the Supervisory Board, Uwe Ludwig, on 13 March 2020, Dr Philip Reimann was appointed as a new member of the Supervisory Board and Chairman of the Supervisory Board by the Chemnitz Local Court on 24 March 2020 at the suggestion of the Management Board. Further information can be found under the item “Members of the Supervisory Board”.

Since February 2020, coronavirus has also been spreading throughout Germany. The spread must be viewed as a value-adjusting effect in the new financial year, which is why this has no effect on the accounting methods in 2019. The extent to which current developments will affect the assets, financial and earnings situation cannot be reliably estimated at present. However, due to the business model and customer structure, no significant effects are currently expected. The Company will provide further details in the management report.

By making use of contingent capital, the total number of voting rights at GK Software SE amounted to 2,029,000 on 31 March 2020.

8. Other Information

8.1. Share-based remuneration

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

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

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

8.1.1. Share option programme

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

According to Section 4a Para. 1, 3 and 6 of the articles of association, the Management Board was entitled to grant subscription rights to individual share certificates as part of the share option programme on one or more occasions, provided that the Supervisory Board approves these measures. The share options are exclusively for subscription by members of the GK Software SE Management Board, selected managers and other senior employees at GK Software SE and for subscription by members of the management team and selected managers and other leading employees in companies, which are independently associated firms in a relationship with GK Software SE in the sense of Sections 15 and 17 of the German Companies Act. The decisions taken at the annual shareholders' meeting on 28 June 2012 (contingent capital II), 29 June 2015 (contingent capital III) and 29 June 2018 (contingent capital V) empowered the Management Board to issue subscription rights to GK Software SE shares with a term of up to five years provided that each share option grants the right to subscribe to one GK Software SE share.

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

The individual conditions are recorded in the following tables.

The options exercised during the reporting period involved an average share price of EUR 71.62 (previous year: EUR 113.36).

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

T.61

	Number of options
Options outstanding on 1 January 2018	102,825
Options granted during the course of the 2018 financial year	37,000
Options lost during the reporting period	0
Options redeemed during the reporting period	(1,600)
Options expiring during the reporting period	(400)
Options outstanding on 31 December 2018	137,825
Exercisable options on 31 December 2018	0
Options outstanding on 1 January 2019	137,825
Options granted during the course of the 2019 financial year	0
Options lost during the reporting period	(5,375)
Options redeemed during the reporting period	(16,825)
Options expiring during the reporting period	(3,500)
Options outstanding on 31 December 2019	112,125
Exercisable options on 31 December 2019	23,650

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

Options granted and obstacles to exercising them

T.62

Issue date	Issue options	of which forfeited	of which lapsed	of which redeemed	Options remaining	Exercise price	Exercise period	End of exercise period
	Number	Number	Number		Number	EUR	Years	
28.8.2014	3,500	1,500	400	1,600	0	41.78	4 1/4	28.8.2018
1.12.2014	21,825	4,000	3,500	14,325	0	37.77	4 1/4	1.12.2018
20.6.2017	8,500	600	0	0	7,900	92.10	4 1/4	21.6.2021
Contingency capital II					**7,900**			
1.11.2015	5,000	2,500	0	2,500	0	28.62	4 1/4	1.11.2019
30.11.2015	25,625	1,975	0	0	23,650	33.98	4 1/4	30.11.2019
29.8.2016	31,900	1,225	0	0	30,675	45.98	4 1/4	29.8.2020
4.12.2017	16,500	0	0	0	16,500	116.69	4 1/4	3.12.2021
Contingency capital III					**70,825**			
19.10.2017	96,774	0	0	0	96,774	155.00		19.10.2022
Contingency capital IV					**96,774**			
26.11.2018	37,000	3,600	0	0	33,400	75.16	4 1/4	28.11.2022
Contingency capital V					**33,400**			
Total ammount					**208,899**			

Currency rates, interest rates and volatility

T.63

Issue date	Term from issue date	Stock exchange price on assessment date	Retention S period	Risk-free interest rate	Volatility	Shares for Management Board	Total value
	Years	EUR	Years	%	%	Number	EUR K
28.8.2014	4 1/2	43.99	4	0.10	30.01	—	18
1.12.2014	4 1/2	35.80	4	0.02	29.50	6,000	116
20.6.2017	4 1/2	93.00	4	(0.52)	31.97	—	195
1.11.2015	4 1/2	30.50	4	(0.17)	29.37	—	16
30.11.2015	4 1/2	37.80	4	(0.29)	27.70	5,000	203
29.8.2016	5	44.20	4	(0.60)	31.64	10,000	294
4.12.2017	4 1/2	116.30	4	(0.47)	32.01	10,000	468
26.11.2018	4 1/2	76.20	4	(0.36)	29.08	8,000	633

Distribution of expenditure entered

T.64

Issue date	Fair value/ option	Probable average exercise period on the balance sheet reporting date	Assumed annual dividend per share	Distribution of expenditure entered	of which Management Board
	EUR	Months	EUR	EUR K	EURK
28.8.2014	9.179	0	0.50	–	–
1.12.2014	6.420	0	0.50	–	–
20.6.2017	22.934	17	0.50	46	–
1.11.2015	6.533	0	0.50	4	–
30.11.2015	8.302	0	0.50	50	7
29.8.2016	9.202	7	0.50	71	23
4.12.2017	28.370	23	0.50	119	72
26.11.2018	17.100	34	0.50	156	37
Total ammount				**446**	**139**

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

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

The average weighted terms for the options amounted to 1 ¾ years.

8.2. Earnings per share

The earnings per share are determined as a quotient of the total results and the weighted average of the number of shares in circulation during the financial year. The average number of shares in circulation during the 2019 financial year was 1,962,214 (previous year: 1,920,685). The Group's annual losses amounted to EUR 3,139 K in 2019 (Group's profits in the previous year: EUR 923 K). As a result, earnings per share (diluted and undiluted) amounted to EUR (1.60) in 2019 (previous year: EUR 0.48).

When calculating the diluted results per share, the total number of shares, the number of existing and possible new shares from the share option programmes and the convertible bond were all taken into consideration. The earnings from the period were also increased by the interest-rate advantage from the convertible bond and reduced by the resulting tax effect.

8.3. Details of capital management

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

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

8.4. Details of associated persons and firms

There was no need for any expenditure on value adjustments or irrecoverable debts with related persons or these items did not exist.

Business transactions between GK Software and its consolidated subsidiaries have been eliminated as part of the consolidation process.

8.4.1. Management Board

The following people are members of the Management Board:

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

The annual shareholders' meeting on 29 June 2015 decided in line with Sections 286 Paragraph 5 and 314 Paragraph 2 Sentence 2 of the German Commercial Code to forego the disclosure of the individual salaries according to Sections 285 No. 9 Letter a) Sentences 5 – 8 and 314 Paragraph 1 No. 6 Letter a) Sentences 5 – 8 of the German Commercial Code for the financial years 2015 to 2019. As a result, no detailed information is made available here.

Their current due benefits amounted to EUR 1,420 K in all. This included EUR 880 K in fixed earnings, EUR 350 K in variable earnings and monetary benefits amounting to EUR 167 K as well as EUR 23 K in social security benefits. The cash value benefits relate to the company cars provided and subsidies for housing costs. A further EUR 121 K is entered as benefits in kind arising from share options. In addition, EUR 215 K was paid to active members of the Management Board and EUR 218 K to a former member of the Management Board as part of a pension scheme.

Forfeitable share provisions (share options) are granted as long-term share-based remuneration. If they are exercised, the options are serviced by the issue of new non-par value company shares made out to the holder with a calculated share in the nominal capital of EUR 1 from the authorised capital without any additional payment. In terms of the organisation of the stock awards, the same general conditions apply to the Management Board as to leading members of staff. We would refer you to Section 8.1.1 entitled 'Share option scheme'. Of the cash value benefits in the year under review, EUR 121 K represented benefits in kind arising from share options.

As of 31 December 2019, 35,000 share options were held by the members of the Management Board and 8,500 by two former members of the same body.

Pension provisions for members of the Management Board

T.65

EUR K	31.12.2019	31.12.2018
Provisions for pensions	2,564	1,574
thereof for board members	2,010	1,131
thereof for former board members	554	443
Settlement amount of the provision	4,828	2,686
thereof for board members	3,810	2,016
thereof for former board members	1,018	670
Fair value of net contribution margin	2,264	1,112
thereof for board members	1,800	885
thereof for former board members	464	227
Working period costs	634	446
thereof for board members	435	335
thereof for former board members	199	111

We would refer you to Segment reporting for the form of the pension commitments.

Those who are or were members of the Company's Management Board or Supervisory Board during the 2019 financial year, directly held the following shareholdings in GK Software on 31 December 2019:

Shareholdings held by members of the Management Board and the Supervisory Board

T.66

Name	Number of shares	in %
Rainer Gläss	52,792	2.76
Herbert Zinn	1,000	0.05
André Hergert	500	0.03

Mr Gläss indirectly held a further 534,500 shares through Gläß Vermögenverwaltungs GmbH & Co KG on 31 December 2019.

Other accounts receivable with members of the Management Board amounting to EUR 42 K involved various advance payments for purchases, travel expenses and similar items and they were therefore not subject to any interest. These accounts receivable can be recovered at any time.

8.4.2. The Supervisory Board

The following people are members of the Supervisory Board:

- Mr Uwe Ludwig, Neumorschen, management consultant, Chairman of the Supervisory Board (until 13 March 2020)
- Dr Philip Reimann, Hamburg, solicitor and tax advisor, Chairman of the Supervisory Board (since 27 March 2020)
- Mr Herbert Zinn, Ebersburg, business administrator
- Mr Thomas Bleier, Oelsnitz, savings bank economist

The total earnings of the Supervisory Board of GK Software SE for the 2019 financial year amounted to EUR 80 K (previous year: EUR 80 K), which represents current due benefits.

There was a consulting agreement with the Chairman of the Supervisory Board for EUR 3 K per month (compliance consulting).

No other claims for remuneration existed.

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

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

8.4.3. Associated firms

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

T.67 Accounts receivable with associated firms

EUR K	31.12.2019	31.12.2018
Suppliers with debit balances	603	–
Other claims	1,061	843
Accounts receivable	975	706
Total receivables	**2,639**	**1,549**
Accounts payables	8	–
Total liabilities	**8**	**0**

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

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

The trade accounts receivable largely consisted of service relationships with 'Hotel Tannenhaus UG', Schöneck. They involved outstanding lease payments and charges passed on from payments already incurred (cf. Section '4.3').

T.68 Expenditure and earnings with associated firms and persons

EUR K	31.12.2019	31.12.2018
Expenses with related companies	**1,506**	**906**
thereof external services	1,458	858
thereof rents/leases	48	48
Earnings with related companies	**641**	**463**
thereof provided cars and services	98	53
thereof rents/leases	360	150
thereof internal charging	183	260

The other purchased services were largely travel and hotel services, as well as caretaker and canteen services.

8.5. Auditor’s fees

The auditor and companies attributable to it received the following fees in 2019:

Auditor’s fees

T.69

EUR K	GK Software SE	GK Software Africa
Auditing the annual accounts	320	22
Other services	45	—
Total	**365**	**22**

8.6. Declaration of compliance

The declaration on the German Corporate Governance Code according to Section 161 of the German Companies Act has been submitted and has been published on GK Software SE’s home page at https://investor.gk-software.com in the “Corporate Governance” section.

8.7. Details of Group affiliation

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

8.8. Date when the accounts were approved for publication

The Management Board approved these consolidated accounts on 2 June 2020 so that they could be forwarded to the Supervisory Board. The Supervisory Board has the job of checking the consolidated accounts and stating whether it endorses them or not.

Guarantee by the Legal Representatives

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

Schöneck, 2 June 2020

The Management Board

Rainer Gläss
Chief Executive Officer

André Hergert
Chief Financial Officer

Independent Auditor's Report

To GK Software SE, Schöneck / Vogtland

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

Audit Opinions

We have audited the consolidated financial statements of GK Software SE (formerly GK Software AG), Schöneck / Vogtland, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of GK Software SE for the financial year from January 1 to December 31, 2019. We have not audited the Corporate Governance Statement according to § 289a HGB and § 315d HGB in accordance with the German legal requirements.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to [§ [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code]] § 315e Abs. 1 HGB, and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover to the content of the above-mentioned corporate governance statement.

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

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

1 **Recoverability of goodwill**

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

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

1 Matter and issue

2 Audit approach and findings

3 Reference to further information

Hereinafter we present the key audit matters:

1 Recoverability of goodwill

1 Goodwill amounting in total to EUR 18.030 K (representing 16 % of total assets and 43 % of equity) is reported under the „Intangible assets“ balance sheet item in GK Software SE (formerly GK Software AG)'s consolidated financial statements. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. Impairment testing is carried out at the level of the cash-generating unit to which the relevant goodwill has been allocated. The carrying amount of the cash-generating unit, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The calculation of the recoverable amount generally employs the value in use. The present value of the future cash flows from the cash-generating unit normally serves as the basis of valuation. The present values are calculated using discounted cash flow models. For this purpose, the medium-term business plan adopted by the Group forms the starting point for future projections. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital for the cash-generating unit. The impairment test determined that no write-downs were necessary. The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the cash-generating unit, the discount rate used, and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

2 As part of our audit, we reviewed the methodology employed for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the medium-term business plan adopted by the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated using this method, we focused our testing in particular on the parameters used to determine the discount rate applied, and verified the calculation procedure. We reproduced the sensitivity analyses performed by the Company, in order to reflect the uncertainty inherent in the projections. Taking into account the information available, we determined that the carrying amount of the cash-generating unit, including the allocated goodwill, were adequately covered by the discounted future net cash inflows. Overall, the

measurement inputs and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

3 The Company's disclosures regarding the impairment test and the balance sheet item "Intangible Assets" are included in the sections "Goodwill Impairment" and 4.2.4 "Intangible Assets" in the notes to the consolidated financial statements.

2 Revenue recognition and allocation of revenue to correct periods

1 Revenue amounting to EUR 115,448 K is reported in the Consolidated Profit and Loss Statement of GK Software SE. These also include revenues from earlier customer projects (T€ 6,733). The company recognizes revenue from the sale and temporary granting of licenses, the provision of installation services and advice, maintenance and other services.

The recognition of revenue from the sale of licenses depends on the existence of a binding contractual arrangement, the transfer of material rights to the buyer and the ability to reliably determine the consideration paid. Proceeds from services are realized as at the date the services are rendered, while maintenance revenue and proceeds from the temporary granting of licenses is realized over the performance period. These various services rendered by the company can be the object of agreements with customers, either individually or in various constellations. In this connection, the company must also identify contracts relating to multiple components and account for agreed individual services individually.

In light of the complexity of the customer agreements underpinning revenue recognition, these significant items are subject to particular risk. Against this background, the correct application and deferral of revenues under the Group-wide application of the new accounting standard IFRS 15 is considered to be complex and is based in some respects on estimates, assumptions and discretion used by the executive directors, with the result that this matter was of particular importance for our audit.

Against this background, the correct recognition and deferral of revenues under the Group-wide application of the new accounting standard IFRS 15 is to be regarded as complex.

2 As part of our audit, we assessed, among other things, the correct presentation of revenue in the consolidated financial statements on the basis of the accounting policies applied by GK Software SE (formerly GK Software AG) in relation to the recognition of software revenue in accordance with the relevant IFRSs, in particular IFRS 15.

To do so, we particularly first identified the material controls implemented by the Group to ensure the correct identification of contracts and performance obligations and the subsequent recognition of revenue, assessed their appropriateness and tested their effectiveness in preventing and detecting errors.

In addition, we particularly have performed detailed revenue recognition reviews of individual significant transactions and other transactions on a test basis, including, inter alia, reviewing customer contracts, identifying performance obligations and assessing whether these services were rendered over a specified period or at a specified time and what transaction prices were received.

Based on our audit procedures, we satisfied ourselves that the estimates and assumptions relating to revenue recognition made by the executive directors were adequately documented and justified.

3 The Company's disclosures on revenue recognition are contained in sections "Accounting and measurement methods" and "2.12 Income from contracts with customers" of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the the statement on corporate governance pursuant to § 315d HGB and § 315d HGB.

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report as well as our auditor's report and the separate non-financial report pursuant to § 289b (3) HGB and § 315b (3) HGB.

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

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

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on June 20, 2019. We were engaged by the supervisory board on December 3, 2019. We have been the group auditor of GK Software SE (formerly GK Software AG), Schöneck / Vogtland, without interruption since financial year 2017.

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

German Public Auditor Responsible for the Engagement

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

Erfurt, June 3, 2020

PricewaterhouseCoopers GmbH
Auditing company

Andreas Kremser
Auditor

ppa. Marc us Engelmann
Auditor

Financial Calendar

30 June 2020
Annual shareholders' meeting 2020 in Schöneck/V.

27 August 2020
Interim report as of 30 June 2020

16 – 18 November 2020
Analyst conference in Frankfurt/M.

26 November 2020
Interim statement as of 30 September 2020

28 April 2021
Annual report as of 31 December 2020

27 May 2021
Interim statement as of 31 March 2021

17 June 2021
Annual shareholders' meeting 2021 in Schöneck/V.

26 August 2021
Interim report as of 30 June 2021

November 2021
Analyst conference in Frankfurt/M.

25 November 2021
Interim statement as of 30 September 2021

Imprint/Notes

Imprint

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Dipl.-Kfm. André Hergert, CFO

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Notes

Note to the Report

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

Note regarding the rounding of figures

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

Disclaimer

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