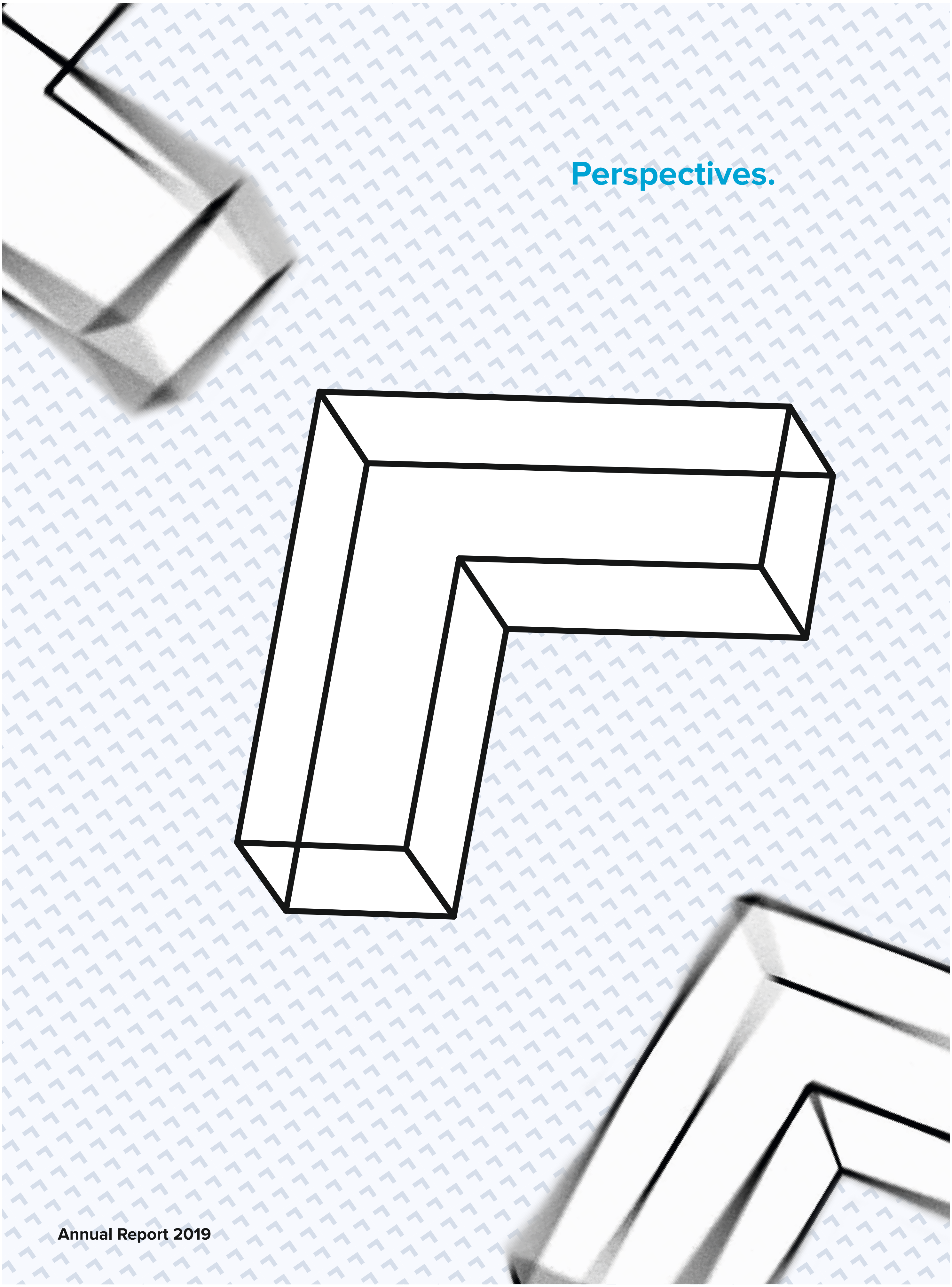
GFT

Perspectives.



Annual Report 2019

GFT Annual Report

Marika Lulay
CEO

New perspectives
Editorial

Perspective is always a question of where you're looking from. And that can be decisive. Anyone who wants to make digitisation a success must be prepared to change their point of view. This opens up completely new possibilities.

Stuttgart,
April 2020

As a technology partner, GFT helps banks, insurance companies and industrial companies shift their perspective and harness the opportunities that digital transformation can offer. More often than not the approach needed for success can vary significantly. Sometimes you need to step back to see things more clearly. Other times you need to zoom in and study the problem in great detail. Maybe you should focus on the big picture, or take a bold look into the unknown. In other words, it's all a question of perspective.

GFT has the necessary flexibility, expertise and international presence to discover new perspectives together with our clients. After all, this is what we regularly do in our everyday business – helping banks modernise their infrastructures and develop innovative products in complex projects; providing digitisation solutions based on future technologies for insurance companies; and accompanying industrial companies throughout their transformation process and making them ready for the digital future. To do so, we collaborate closely with leading platform providers and repeatedly cross both geographic and cultural boundaries.

This blend of technological know-how and sector expertise, backed by an international network of employees brimming with experience and creativity, is what makes us so strong. It gives us a firm point of view and enables us to provide our clients with the solutions and the experts they need to successfully implement digital change.

GFT was particularly successful in this respect over the course of 2019 and I am proud of our achievements. Whether it was a core banking system for a digital bank, the provision of a complete multi-cloud data centre, a fraud detection solution based on artificial intelligence, or a networked factory – all the projects we present on the following pages demonstrate the diversity of our services. And the added value for our customers.

As a strong team, we achieved a great deal together in 2019. So far in 2020 – during the preparation of this annual report – we have been forced to make a radical change of perspective, both as a company and as an IT partner for our clients. We are responding to the challenges of the Covid-19 pandemic with professionalism, commitment and as a cohesive team. At the same time, we are demonstrating the huge potential that purely digital collaboration and service delivery can offer in times of immense challenges and also beyond.

I would like to thank all GFT employees for their exceptional efforts and dedication.

Marika Lulay,
CEO, GFT Technologies SE

GFT: Best Place to Code 2019

500 experts for successful cloud migration

Vision

driving ahead with new technologies

Looking ahead

Focus on: technologies

Looking into the future, it seems obvious that the path to digital transformation will be laid by new technologies. Cloud, DLT/ blockchain, artificial intelligence (AI), DevOps and data analytics are breaking new ground and driving digitisation across all sectors. Those who master these technologies hold the key to a successful future.

In 2019, we helped banks, insurers and industrial enterprises prepare for the digital future with a host of exciting projects based on AI, blockchain, DevOps or data analytics – from identifying, assessing and integrating trends smoothly into business models to developing completely new business models. Solutions based on cloud technology also played an important role. In order to meet the strong demand for such solutions, we expanded our team of cloud experts to around 500 specialists in 2019.

Smart path to the cloud

One example of innovative cloud migration is the vendor agnostic open source initiative Tranquility Base launched by GFT, which delivers a complete datacentre written in code (Datacenter as Code – DaC). The automation of numerous complex setup tasks significantly simplifies and accelerates cloud migration (>> page 12–13). The initiative was premiered at the Google Cloud Next '19 conference.

From trend to innovation

In order to identify technology trends at an early stage, we maintain close ties with an international network of experts and research institutes. Sharing knowledge in this way enables us to create new business models for our clients.
At the GFT Digital Innovation Labs, we simulate future scenarios for the finance world and develop prototypes based on new technologies, which we then transform into future-proof solutions by employing the principle of co-innovation with our clients and partners.

We are "tech-heavy"

We are proud of the awards we received for our technology know-how in 2019: these include the Testbed Award at the IoT Solutions World Congress in Barcelona and the Best Place to Code 2019.

Staying ahead by promoting IT talent

Because the world of future technologies is changing so rapidly, it is crucial for us as an IT company to also maintain our technological expertise in the future. And we do plenty to ensure this – both within the company and in cooperation with external partners.

Throughout the company, we offer our employees a wide range of training opportunities. In 2019, we set up a number of internal tech communities and are actively involved in renowned international technology forums, such as Medium.com. We attach great importance to the promotion of IT talent, for example via our university partnerships, coding workshops and hackathons. Occasionally, we even offer entertaining taster days for schoolchildren, enabling them to gain an insight into promising careers in the IT sector. We also support initiatives with different target groups, such as the Brazilian initiative "RESTART.ME" or the Mexican initiative "DevDay4Women".

»Identifying, assessing and integrating trends smoothly into business models or developing completely new business models.«

Panoramic view

Growth market
Smart Factory

Guidewire
Innovation Award
2019

50 new clients
in 2019

From detailed view to 360° perspective

Focus on: sectors

Technological development is increasingly blurring the boundaries between individual sectors. Banks, insurers and industrial companies all require technological expertise and a perspective that extends beyond their own sector.

Complex projects often involve paying meticulous attention to detail; on the other hand, it is also important to have a complete overview of the situation. And our particular strength lies exactly in this diversity of perspective. As a cross-sector technology partner, we are constantly exploring new perspectives with our customers – up to and including a full 360° view. Our internal organisational structures enable us to react quickly to market changes and to transfer insights gained in one market to other sectors.

Digital evolution in the financial services sector

GFT has long established itself as a reliable partner for leading banks. In 2019, we acquired more than 50 new clients in the banking sector, with many in the Asian market, where we are currently implementing some highly innovative projects (>> page 16).

We have received numerous awards for our sector expertise over the years – including 2019, when GFT was honoured at the IDC FinTech Awards in the "Digital Trade & Treasury" category for its successful strategic cooperation with Deutsche Bank (>> page 16). We were also included in the global IDC ranking of the top 100 technology consultants for the financial market in 2019 – taking 42nd place. In a survey of sector experts and clients conducted by the business magazine brand eins, we were once again cited as one of Germany's best consultants for IT implementation. Serasa Experian, a Brazilian data analysis and information service provider, honoured GFT with its "Suppliers of the Year Award" in the category "Strategic Partnership".

Industry: expertise for a growing market

Our acclaimed technological expertise is also being deployed by industrial companies. In 2019, we enhanced our industrial know-how by acquiring the expertise of TRUMPF subsidiary AXOOM. As part of a development partnership with TRUMPF, we are working on machine software solutions for the growing Smart Factory market. Since 2019, we have been collaborating with the FOM University for Economics & Management on an innovation check-up tool that helps small to medium-sized companies develop their digital strategies.

Embedded banking

One example of the close ties between banks and industry is embedded banking. This involves integrating banking processes directly into the workflows of retail, production and supply chains, thus creating a new ecosystem of solutions and services.

Change in the insurance sector

Demand for digitisation solutions is also growing in the insurance sector. Customer needs are changing rapidly. Insurance companies are being called upon to offer new products and claim settlement methods. However, insurers themselves also see significant benefits in adopting technical solutions such as AI-based fraud detection (>> page 18). In 2019, we completed several innovative projects based on new technologies for insurers and set up additional centres of excellence for Guidewire implementation. Together with EY and GFT, our client Aviva Italy received the Guidewire Innovation Award 2019 for improving customer service.

»Our particular strength lies exactly in this diversity of perspective. As a cross-sector technology partner, we are constantly exploring new perspectives with our customers.«

Expanding your field of vision

with strong partners

Seeing more together

Focus on: partnerships

Technologies are developing at breathtaking speed, markets are in a state of flux. More than ever before, companies need to cooperate in order to keep track of this myriad of possibilities. And this is why we attach such importance to building a strong network – enabling us to offer our clients real added value. After all: the best results can only be achieved by collaborating with the best.

The opportunities offered by new technologies can only be fully exploited with the right partners. In the banking and insurance sectors, for example, we enjoy strategic partnerships with leading platform providers. Together, we cooperate on pioneering projects and present our solutions at the world's leading trade fairs and partner events.

Amazon Web Services

GFT has been a member of the Amazon Web Services (AWS) partner network since 2016. The cloud provides a secure basis for financial institutions to drive their digitisation projects. GFT solutions run on AWS help our clients to structure, analyse and securely store their data. In 2019, we implemented a variety of AWS projects, including the establishment of a self-contained, completely virtual bank for a leading global financial institution in Hong Kong. (>> page 16)

GFT was represented at the AWS re:Invent conference in Las Vegas and organised various events in London together with AWS on infrastructure modernisation.

Google Cloud

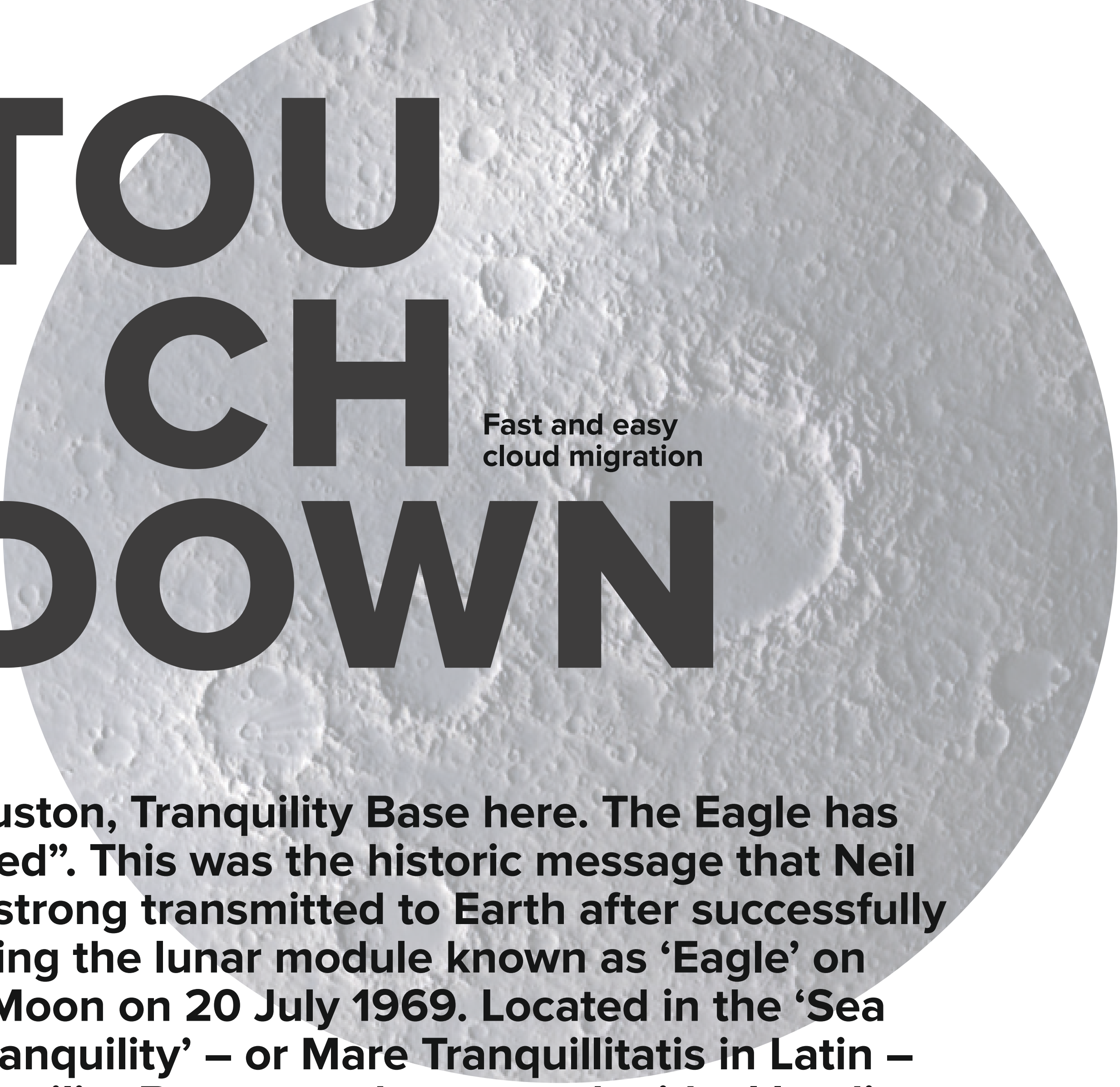
GFT has been a member of the Google Cloud network since 2016 and in recent years has become one of the fastest-growing GCP partners for Google Cloud. In 2019, we expanded our Google Cloud team by providing specialist training and recruiting certified experts. GFT is now one of the largest implementation partners for the Google Cloud platform in the financial sector, with three accredited Specialisations, for Data & Analytics, Application Development and Security. In 2019, we strengthened our collaboration with Google's Professional Services Organisation and invested in a Centre of Excellence for Artificial Intelligence and Machine Learning to foster co-creation.

At the Google Cloud Next '19 conference in San Francisco, GFT presented a software solution for car insurance (Flexible Personalized Insurance – FPI) based on the Connected Car Demo (>> page 17). Our new vendor agnostic open source initiative Tranquility Base was unveiled at the Google Cloud Next '19 conference in London, where we presented various demos and solutions.

Guidewire

As a Guidewire implementation partner, GFT has been integrating the Guidewire InsurancePlatform for insurance companies since 2014. In 2019, we added further centres of excellence for Guidewire implementations in Spain and Poland to our existing centres in Italy and Quebec, Canada. We gained our first major Guidewire Cloud customer in France and Europe in 2019 with the French company Groupe MACIF. As a member of the Guidewire PartnerConnect Consulting Alliance, GFT was chosen to drive Groupe MACIF's implementation programme forward.

»The best results can only be achieved by collaborating with the best.«



TOUCH DOWN

Fast and easy cloud migration

“Houston, Tranquility Base here. The Eagle has landed”. This was the historic message that Neil Armstrong transmitted to Earth after successfully landing the lunar module known as ‘Eagle’ on the Moon on 20 July 1969. Located in the ‘Sea of Tranquility’ – or Mare Tranquillitatis in Latin – Tranquility Base was chosen as the ideal landing site on the Moon due to its smooth and calm surface properties – as the name implies. The Apollo 11 mission has since gone down in history as one of mankind’s most outstanding achievements.

50 years later, GFT developers also completed a challenging yet successful mission and deliberately named it after the famous lunar landing site. GFT’s Tranquility Base is an open source, cloud vendor agnostic initiative which delivers a full cloud datacenter written in code which we refer to as Datacenter as Code (DaC). Like its famous namesake, Tranquility Base offers GFT clients a similarly ‘calm landing zone’ for building a virtual datacenter that can fully realise the benefits of cloud adoption and true digitalisation.

But Tranquility Base provides more than a simple landing zone – the fully formed and scripted software creates all of the initial infrastructure required to start a cloud migration effort in ‘minutes not months’. It offers security structures, policies, networks, storage, data processing programmes, access rights and pipeline management – all of the things required to manage and update a true ‘virtual datacenter’.

Whilst Tranquility Base is designed to help clients take their first “small step” it can also work for those who have an existing simple landing zone, helping them to take a “giant leap” forward as they realise the benefits of a fully formed, best practice Datacenter as Code. Tranquility Base can connect with their existing Cloud Service Provider (CSP) – irrespective of which they are using (Google, Amazon and soon Azure). As an open source code project, the code base is continually updated by the developer community, who provide best-practice and practical knowledge of what is a highly complex and challenging environment.

Tranquility Base Lead at GFT, Andrew Rossiter explains: “cloud migration is a challenging endeavour which requires specific resources to create a best practice and secure, managed environment. Many companies lack the new skills and resources to be successful; they have neither the right experts nor the right equipment, and cloud migration can soon become extremely complex and costly or stall altogether.”

Returning to our Apollo 11 analogy, many clients start their cloud mission without the correctly trained astronauts, nor the appropriate space exploration technology, which all adds up to: mission impossible!

Tranquility Base provides the solution to this dilemma. It offers clients the possibility to build a best practice datacenter, with infrastructure, processes and applications all as ‘code’ in a virtual environment, rapidly accelerating the benefits of cloud adoption.

With no physical hardware to be managed, code is used to configure the cloud-based infrastructure and applications, using a standard configuration language implemented via an automated mechanism. This means that the infrastructure no longer needs to be programmed manually, but is already coded and automatically built as ‘best practice’ within a short timeframe. This cloud migration approach employs the ‘first time right’ principle where pre-scripted and approved policies are immediately correct, deployed within minutes rather than months.

Tranquility Base uses Infrastructure-as-Code (IaC) throughout – the datacenter is virtualised and many manual IT tasks can be fully automated according to ITIL. For the user, this means considerably less programming effort and simplified integration with the major cloud service providers.

The open source code is modularised and well thought out – with no licence fees for the user. The client simply downloads Tranquility Base from the website or relevant CSP marketplace and the software builds the appropriate landing zone in minutes. Development time is therefore shorter than ever and the client is able to save cost and increase efficiency; if further support is needed, GFT can help with the implementation as required.

Previously, geographically disparate teams and departments will have used a variety of IT systems and then had to find a common denominator. Tranquility Base now offers a single unified solution, making quality shortfalls and duplicate structures a thing of the past. Using a self-service portal, development teams can quickly and easily provision applications using repeatable, immutable infrastructure in a consistent manner. These defined applications and processes are what we call ‘activators’ – that provide a combination of best practice application and technology patterns and a common CI/CD deployment platform for the required applications.

The portal is a Kubernetes-based web application that enables developers to select activators from a pre-defined and approved list for the particular organisation, maintaining consistency and control. In this way, application environments can be provisioned in minutes with full traceability.

Users are able to request application reference architectures or application designs from a pre-approved catalogue and the software datacenter automatically provides the information in minutes. The code updates the ITSM software, automates all processes and makes them reproducible and secure.

The software datacenter can also automatically scan the environment to make sure there are no policy breaches. Access rights can be restricted and different zones can be created to allow only specific technologies and data to be deployed in each.

Utilising the Tranquility Base software, GFT is able to help clients take an innovative and accelerated approach to cloud migration, with a software datacenter written in code. It could hardly be simpler or more innovative, making future cloud migration and ongoing management very much: mission possible!

Tranquility Base: the easy way to the cloud

Many companies recognise the need for cloud migration but treat cloud infrastructure like their on-premises infrastructure. In addition, larger organisations still have lengthy, multi-step approval processes for the deployment of new cloud applications – often based on the same processes they use to provision physical hardware in a physical datacenter. Many teams are involved in the process, with request tickets being handed back and forth between teams. With Tranquility Base, these companies can build and maintain a complete Datacenter as Code (DaC). Having a DaC fully automates the numerous manually intensive and complex infrastructure and application setup tasks, all delivered through a feature-rich self-service portal, thereby smoothing the client’s journey to the cloud. The key regulatory-compliant activators, based on DevOps-ready application reference architectures, can also be deployed from the developer portal – often by a single click.

PROJECTS

The right perspective for every project: ensuring sustainable solutions for satisfied clients.

A look into the future of banking

Virtual Bank in Asia

Millennials have a strong affinity for technology, are at home in the virtual world and prefer to do banking mobile-only. A leading global bank in Asia is embracing this trend and challenging the fintechs with its new licenced virtual bank. GFT is responsible for building this standalone virtual bank from scratch and develops a tailored digital platform for the financial services provider. Implementing a near real-time data catalogue on an event-driven architecture puts data lineage at the heart of the system to ensure continuous compliance and strong data governance. Bank customers will enjoy using this virtual future-proof bank with all the additional services they expect.

Cross-border innovation

EU project INFINITECH

GFT Italia is responsible for coordinating the European innovation project INFINITECH as part of the EU's Horizon 2020 programme. The international research project involving over 42 partners from 16 countries has been tasked with establishing a reference architecture. The aim is to support companies in the finance and insurance sector with their innovation processes driven by Big Data, AI and IoT. The project signals a disruptive development for this sector and will receive €16 million of EU funding.

Cooperation as equals

"IDC FinTech Real Results" Award for GFT and Deutsche Bank

What is the key to successful cooperation? We believe it is when the team collaborates by contributing their own particular expertise in a spirit of mutual respect, for the benefit of all. When it comes to introducing new and innovative IT solutions, GFT and Deutsche Bank have enjoyed a close and successful partnership for many years now.

In 2019, GFT was honoured for its strategic cooperation with Deutsche Bank in the 'Trade & Treasury' category of the IDC FinTech rankings: 'Real Results' awards, for its trade finance solution in the field of limits management and risk distribution. GFT is also ranked 42nd in the Global IDC Financial Insights FinTech 100 rankings for 2019.

Virtual assistant

Innovative approach

Spain's fourth largest bank, Bankia, attaches great importance to customer orientation and aims to achieve this via as many communication channels as possible. In order to keep pace with changing needs and market trends, the company is constantly looking for new and innovative approaches.

With GFT's support, the Innovation department at Bankia introduced a voice-controlled virtual assistant. Leveraging the Google Assistant platform, the developers succeeded in creating an interface capable of handling the most popular requests for information from Bankia's customers such as finding branches and ATMs; obtaining details of a branch opening time, address and phone number; calling the bank; connecting to mobile banking for transactional operations and directing the user to the relevant product information on Bankia's web site. The customers are highly satisfied and have awarded the assistant 4.6 out of 5 points on the Google Virtual Assistant Platform.

PRO JEC TS

Networked machines

Support for a metal systems solutions provider

Small and medium-sized companies rarely complain about a lack of orders and poor machine utilisation. However, they can only survive in the face of international competition if their production is flexible and efficient. Small batch sizes and constantly changing product lines can only be successfully managed by digitising the production process. And this is where GFT can help. From the planning and implementation stages to data generation and analysis, we provided support for a metal systems solution provider in 2019. The client is already benefiting from improved lead times and process transparency. A further advantage: by reducing inventories, productivity increased by 50%.

Smart networking

'connected car' demonstration by GFT and Google

Cars equipped with internet access can share data with other devices both inside and outside the vehicle. This can allow manufacturers to analyse the data and obtain information about vehicle performance and safety. This at least is the theory. However, manufacturers have not been able to fully exploit this potential as the data volumes involved are too large and the validation processes too extensive. Thanks to close collaboration between GFT and Google, there are now new possibilities offered by the Google Cloud platform.

Car manufacturers can use selected onboard data analytics and a flexible cloud infrastructure to handle the data flow from millions of vehicles in real-time. To enable this, GFT has created the reference architecture, the documentation and the scripts to manage the flow of data. In April 2019, GFT presented a Flexible Personalised Insurance (FPI) use-case based on a 'connected car' demonstration at Google Cloud Next in San Francisco. In this use-case, structured and unstructured data is captured, processed and analysed in real-time using AI and machine learning. IoT data is streamed in real-time and transformed into actionable information, in this example demonstrating a tailored insurance plan.

At the annual IoT Solutions 2019 World Congress in Barcelona, GFT was delighted to win the IOTSWC19 Testbed Award for this technology. This annual award honours the year's best IoT solution.

Intelligent irrigation

Efficient agriculture

As part of a wider initiative, GFT is developing a data platform for the agricultural sector based on artificial intelligence. The project partner is Progrès, a Spanish company which leads the market in the field of automated irrigation systems.

In future, the data platform will be able to forecast realistic scenarios enabling farmers to reduce their water consumption, detect anomalies in consumption and predict the harvest situation. By optimising processes, it will ultimately also increase crop yields, conserve resources and optimise production costs – all important steps on the way to creating an efficient and sustainable agricultural sector.

Digital customer proximity

Implementation of Guidewire Insurance Platform

The mutual insurer MACIF is the first European company to opt for Guidewire's Insurance Platform and has entrusted GFT with the implementation programme. The Guidewire Cloud platform will help MACIF deliver its omnichannel digital strategy by creating innovative, flexible and digital insurance solutions. The French company MACIF will thus be able to increase its responsiveness to changing market needs and react with rapid product development. The intuitively designed core system ensures straightforward and simplified employee training.

Recognising details

Uncovering fraud with artificial intelligence

Insurance fraud is a widespread phenomenon in Europe, especially in making fraudulent car claims. With the help of solutions provided by GFT, one Italian insurance company has now declared war on these online fraudsters.

Structured and unstructured data from internal and external sources are combined and analysed using artificial intelligence and link analysis. Due to the broad scope of the project, GFT developed a modular framework comprising several specialised components which help the client prevent fraud and investigate suspicious information. And although the solution is highly technical, it can be managed without involving the client's IT department or GFT specialists. After just a few months, the solution has already delivered measurable benefits: 30% more fraud cases were detected and more than 30,000 claims scored every day.

PRO
JEC
TS

Efficient production

Smart Factory concept

GFT has helped the industrial company GS Metaal achieve more efficient production. Medium-sized manufacturing and engineering enterprises currently face the challenge of producing a wide variety of products in varying quantities. This makes the process more complex and less transparent for production planning staff – often resulting in errors and downtime. GS Metaal decided to digitise its processes and sought support from the digitisation expert GFT. We developed effective solutions for production, primarily based on the software system XETICS LEAN. The result: simplified and synchronised information flows and real-time access to data. Production is now paperless and employees have a clear overview of batch sizes and product variants. Orders can be tracked from start to finish. Time-consuming, manual reworking tasks are a thing of the past. It could hardly be smarter.

Changing sides

Employees

GFT is at home in 15 countries; bringing together over 30 languages and 63 different nationalities. For many of our client projects, our teams combine staff from across national borders and time zones. Our cooperation is based on a strong and mature corporate culture. It is an expression of our corporate values and a guideline for how we deal with customers, partners and each other.

Transnational cooperation is part of everyday life at GFT and intercultural skills are highly valued and encouraged – also by means of foreign assignments. Many of our employees have taken the opportunity to “change sides” and live and work in another country for a while. There are plenty of examples:

- Oscar Albericio, Executive Director at GFT, moved with his whole family from Spain to Germany and worked there for five years. What was originally intended as a one-week project soon developed into a complex mission – and an opportunity for the whole family. Looking back at their time in Germany, Oscar believes he had “the best of both worlds”, saying they now have two homes.
- The German student Hannah Breckwoldt spent several months in Spain and gained valuable experience for her dual studies in Sant Cugat near Barcelona. Just like her two colleagues David Creer from England and Dorota Sadowska from Poland. David wanted to spend some time in Spain for personal reasons and seized the opportunity when GFT offered it to him. He moved from England to Spain for a project and decided to stay. Dorota wanted to leave Poland to gain experience of life abroad and also ended up in Spain, where she is now a valued member of our Global Employer Branding team.
- Leandro Antunes Rodrigues switched from South to North America. He is a Delivery Director at GFT with responsibility for the pre-sales processes. He moved with GFT from Brazil to the USA and has never looked back. Many former colleagues from Brazil have since joined him and are now contributing their expertise from Brazil to our projects in the USA.

"Active communication and continuous dialogue with investors and shareholders have top priority in any market environment."

Dr Jochen Ruetz,
CFO of GFT Technologies SE

GFT in the capital market

The stock market year 2019

Following a year of volatility and uncertainty in 2018, the international stock markets faced further downside risks in 2019. Investors were particularly unsettled by the trade conflict between China and the USA, the Brexit situation and elections in Italy. There were also increasing signs of an economic slowdown over the course of the year, despite robust consumer spending and excellent employment figures. These fears were allayed in the second half of the year, however, as the political risks in the UK and Italy lessened and the trade dispute between the USA and China began to subside. Buoyed by the Fed‘s interest rate cut and the ECB's continuing expansionary monetary policy, numerous stock markets reached all-time highs in the fourth quarter. By year-end, the German benchmark index DAX had risen by 26%, the SDAX by 32% and the TecDAX by 23%. The US technology exchange Nasdaq closed 35% up on the year.

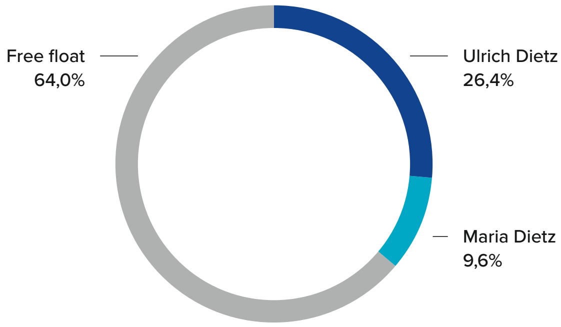
GFT share performance

In the first few months of the 2019 stock market year, the GFT share outperformed the benchmark TecDAX index. Among other things, this was due to catch-up effects from the share's weaker performance in the last few weeks of the previous year, the publication of our 2018 figures and guidance for 2019, and the announcement of an attractive dividend yield. During the summer months, however, the share price fell in below-average trading – despite a positive response to the continuation of the company's industrial strategy with the AXOOM takeover, its partnership with in-GmbH and an extensive Guidewire implementation project in France. The recovery finally began to gather pace quickly in the fourth quarter in a very positive capital market environment. Moreover, on publication of the third quarter figures shareholders were convinced by the company's first revenue growth at Group level in two years. The share closed the 2019 stock market year at €11.64 with growth of 74%. This corresponds to a market capitalisation of €306 million. The average daily trading volume in 2019 amounted to 53,779 shares and was thus down on the previous year (2018: 73,167 shares).

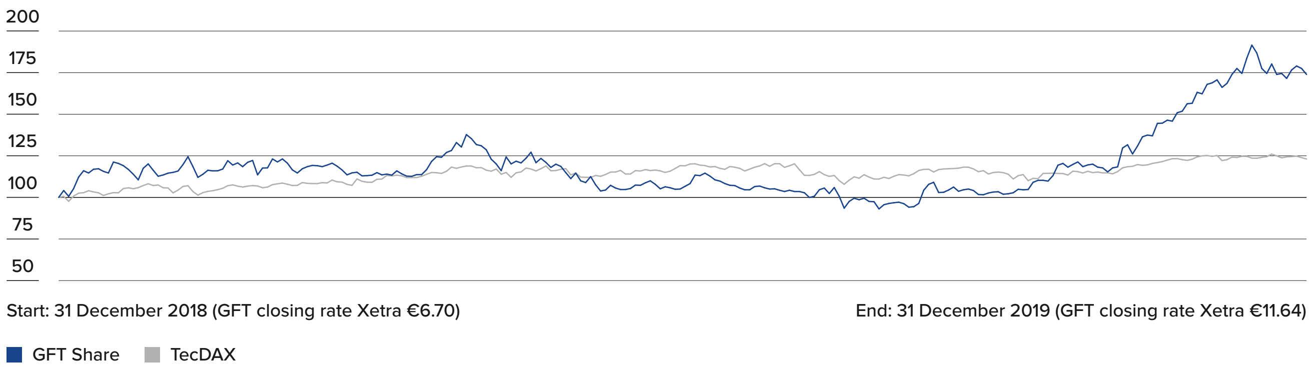
Shareholder structure

With 26.4% and 9.6% of voting rights, respectively, company founder Ulrich Dietz and Maria Dietz are long-standing shareholders of GFT Technologies SE. The free float portion (according to the Deutsche Börse definition) amounted to 64.0% at the end of the year.

Shareholder structure on 31 December 2019



Share performance indexed 2019 – GFT Technologies SE vs. TecDAX



Dividend

The dividend policy of GFT Technologies SE is based on sustainability and continuity, with the aim of distributing between 20 and 50% of net income. The Annual General Meeting approved a dividend of €0.30 per share for the financial year 2018. In view of the company's dividend policy and history, the original proposal also envisaged a dividend of €0.30 per share for the financial year 2019.

GFT attaches great importance to financial stability and flexibility. In order to preserve the company's healthy position, GFT aims to minimise the risks that may arise from the unforeseeable duration of the Covid-19 pandemic. In order to be able to take appropriate account of further developments, it was therefore decided to review the dividend proposal until the Annual General Meeting is convened, whereby the dividend is to lie within the dividend payout ratio of 20% to 50% of net income.

Annual General Meeting

The Annual General Meeting was held in Stuttgart on 4 June 2019. A total of 53.38% of the share capital with voting rights was represented. Shareholders adopted all resolutions proposed by the company's administration with large majorities.

Capital market communication

For GFT Technologies SE, capital market communication means providing timely, comprehensive and transparent information about the Group's strategy and development. The CEO, CFO and Investor Relations team are in constant dialogue with national and international investors, as well as with private shareholders, to explain the GFT Group's business model and further development. In addition, the Group participated in nine national and international conferences and roadshows in 2019. Extensive information, including quarterly and annual reports as well as presentations, is available on the Investor Relations website www.gft.com/ir.

Information on the GFT share

	FY/2019	FY/2018
Prior year-closing quotation (Xetra closing price on the last trading day)	€6.70	€13.05
Year-closing quotation (Xetra closing price on the last trading day)	€11.64	€6.70
Percentage change	74%	−49%
Year-high (daily closing prices Xetra)	€12.82 10/12/2019	€15.01 13/3/2018
Year-low (daily closing prices Xetra)	€6.23 26/8/2019	€6.50 20/12/2018
Number of shares on 31 December	26,325,946	26,325,946
Market capitalisation on 31 December	€306 million	€176 million
Average daily trading volume in shares (Xetra and Frankfurt)	53,799	73,167
Adjusted earnings per share from continued operations	€0.76	€1.09
Earnings per share from continued operations	€0.52	€0.76
Operative cash flow per share	€1.38	€1.70

Source: Factset
Initial stock market quotation: 28/6/1999
ISIN: DE0005800601
Market segment: Prime Standard

“As a dynamic technology partner, GFT stands for new ideas, drive and flexibility – qualities that help us guide our customers safely into the digital future.”

**Ulrich Dietz,
Chairman of the Administrative Board**

Administrative Board report

Dear Shareholders,

The following report describes the work of the Administrative Board in the financial year 2019:

the Administrative Board of GFT Technologies SE once again performed the duties incumbent upon it in the financial year 2019. It discussed at length all questions of strategy, major activities and individual measures, and adopted the necessary resolutions. The course of business and the development of revenue and earnings, as well as financial, investment and HR planning and the associated significant financial and non-financial risks were regularly discussed in detail and critically questioned.

Key topics on the Administrative Board's agenda during the reporting period once more included the company's strategic alignment and medium-term growth prospects. The Administrative Board dealt in particular with the product portfolio, especially with regard to cloud solutions and the development of business with industrial companies. It resolved to acquire the companies Axoom GmbH (now GFT Smart Technology Solutions GmbH) in summer 2019 and in-integrierte informationssysteme GmbH in December 2019. By making these acquisitions, the GFT Group significantly strengthened its expertise in the industrial sector and broadened its client profile.

Cooperation between the Administrative Board and the Managing Directors

The Managing Directors regularly informed the Administrative Board – in written and verbal reports – about the current state of business, the earnings trend, deviations from planned developments and major projects. All reports formed the basis for extensive discussions within the Administrative Board.

The Chairman of the Administrative Board was also in regular contact with the Managing Directors between the meetings.

All transactions and measures requiring the approval of the Administrative Board were presented to the Administrative Board, which carefully examined and discussed the transactions on the basis of the written documents and oral explanations provided before adopting the respective resolution.

The procedure described ensured that the Administrative Board was able to fulfil its duties diligently and promptly at all times.

Meetings of the Administrative Board as well as discussions held outside of meetings

The Administrative Board held five meetings in person and six meetings via conference call in the financial year 2019. All resolutions were adopted in the course of these meetings. No member of the Administrative Board attended less than half of the meetings. The average attendance rate was 95 percent. Taking into account the scheduled non-participation of the Managing Directors in meetings at which topics relating to their service agreements were discussed, the attendance rate was 100 percent.

Individualised disclosure of participation in meetings and conference calls of the Administrative Board of GFT Technologies SE in the financial year 2019:

	Attendance
Ulrich Dietz (Chairman)	11/11 (100%)
Dr Paul Lerbinger (Dep. Chairman)	11/11 (100%)
Dr-Ing Andreas Bereczky	11/11 (100%)
Maria Dietz	11/11 (100%)
Marika Lulay	9/11[1] (82%)
Dr Jochen Ruetz	9/11[1] (82%)
Prof Dr Andreas Wiedemann	11/11 (100%)

[1] The members of the Administrative Board held two conference calls in the financial year 2019 which the members of the Administrative Board who are also appointed as Managing Directors did not attend, as these were internal meetings within the meaning of the recommendation D.7 ("If necessary, the Supervisory Board shall meet without the Management Board.") of the German Corporate Governance Code in the version of 16 December 2019 (formerly section 3.6 German Corporate Governance Code in the version of 7 February 2017).

Administrative Board meetings in the financial year 2019

In a **conference** call on **26 February 2019**, the Managing Directors informed the Administrative Board about the preliminary results of the financial year 2018.

At the **balance-sheet meeting** held in Stuttgart on **21 March 2019**, the Administrative Board finally examined in detail the company's annual financial statements, the consolidated financial statements and the combined management report for GFT Technologies SE and the GFT Group, which had each received an unqualified audit opinion from KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin (KPMG). All of the aforementioned documents, as well as the proposal for allocating net income and KPMG's audit reports, were provided to the Administrative Board well in advance of its meeting. The documents were discussed thoroughly with the Managing Directors during the meeting, which was also attended by the chief auditor, after the Managing Directors had explained the documents prepared by the company. The chief auditor presented the audit results in detail – especially those in connection with the key audit matters – and went on to explain the audit procedures and answer all questions. As a result, the Administrative Board was able to satisfy itself that the audit and audit report had been executed in an orderly and proper manner. The Administrative Board had no objections to make and concluded that the audit result corresponded with the findings of its own review. It adopted a resolution to approve the annual financial statements 2018 of GFT Technologies SE and the consolidated financial statements 2018. The annual financial statements 2018 of GFT Technologies SE were thus formally adopted.

At the same meeting, the Administrative Board also examined in detail the non-financial group report. There were no objections.

In addition, the Administrative Board adopted the agenda for the Annual General Meeting 2019, including the proposal for the election of auditors. The auditors proposed for election had previously confirmed that there were no circumstances which might cast doubt on their independence.

The Administrative Board was also informed in detail about the IT system used by the GFT Group to manage client projects. Moreover, the Managing Directors reported on the planned acquisition of all shares in Axoom GmbH.

In the absence of the Managing Directors, the Administrative Board adopted a resolution regarding the personal targets for the variable compensation of the Managing Directors for the financial year 2019. The Administrative Board also adopted a resolution regarding the achievement of the variable compensation targets of the Managing Directors for the financial year 2018.

At its **meeting** in Stuttgart on **6 May 2019**, the Managing Directors presented the results for the first quarter of 2019 and the quarterly statement. In addition, the Administrative Board discussed at length the latest market trends in connection with the use of cloud technologies for clients of the GFT Group and the corresponding strategy.

At its **meeting** in Stuttgart on **3 June 2019**, the Administrative Board discussed the Annual General Meeting taking place on the following day. It also dealt once again in detail with corporate strategy and its level of implementation within the GFT Group. The Managing Directors reported on the status of the planned acquisition of all shares in Axoom GmbH.

Following detailed consultation, the Administrative Board resolved to purchase all shares in Axoom GmbH during a **conference call** on **25 June 2019**.

In the absence of the Managing Directors, the members of the Administrative Board discussed the further development of the compensation structure for the Managing Directors during a **conference call** on **30 July 2019**.

The results for the first six months of 2019 and the half-year financial report were the topic of the **conference call** held on **5 August 2019**. These were discussed in detail by the Administrative Board together with the Managing Directors and the chief auditor. In addition, the members of the Administrative Board were informed about the costs of the GFT Group's key internal IT systems.

In a **conference call** on **30 September 2019**, the Managing Directors informed the members of the Administrative Board about the current course of business and the development of earnings.

At its **meeting** in Stuttgart on **4 November 2019**, the Administrative Board discussed in detail the results for the third quarter of 2019 and the quarterly statement. The Administrative Board was also informed in detail about the IT system landscape of the GFT Group. Furthermore, the Managing Directors reported on the planned acquisition of all shares in in-integrierte informationssysteme GmbH.

At the **meeting** held in Stuttgart on **10 December 2019**, the Managing Directors reported on their budget proposal for the financial year 2020 and the company's medium-term planning, including financial, investment and personnel planning. The Administrative Board discussed the proposals in detail and subsequently adopted the Budget 2020. In addition, the Administrative Board issued the Declaration of Compliance with the German Corporate Governance Code according to section 22 (6) SEAG in conjunction with section 161 AktG and adopted a resolution to set the main audit topics for the auditing of the annual financial statements. At the same meeting, the Administrative Board also discussed the GFT Group's HR strategy. Following detailed consultation, the Administrative Board also approved the purchase of all shares in in-integrierte informationssysteme GmbH.

In the absence of the Managing Directors, the members of the Administrative Board discussed the conclusion of a new service agreement with Marika Lulay.

Following detailed consultation, and in the absence of the Managing Directors, the Administrative Board resolved to conclude a new service agreement with Marika Lulay during a **conference call** on **23 December 2019**.

Committees

The Administrative Board has set up a committee to decide on matters concerning a consultancy agreement between GFT Technologies SE and RB Capital GmbH. The sole owner and managing director of the latter company is the Chairman of the Administrative Board, Ulrich Dietz. The exclusive purpose of the committee is to exclude potential conflicts of interest from the outset when deliberating on and adopting resolutions. It consists of three independent Administrative Board members: Prof Dr Andreas Wiedemann (chair), Dr Paul Lerbinger and Dr-Ing Andreas Bereczky.

Apart from this particular case, the Administrative Board refrains from forming any committees. Due to the low number of its members, it was felt that no committees were needed to ensure the efficiency of the Administrative Board's activities. All members of the Administrative Board are fully informed and involved in all decisions.

The committee met twice in the financial year 2019, on 21 March 2019 and on 4 November 2019. All members attended both committee meetings. The committee subsequently informed the Administrative Board in detail about its work.

Corporate Governance and Declaration of Compliance

The Administrative Board regularly discusses the rules of good corporate governance and their application within the GFT Group. This was also the case in the financial year 2019. Detailed information on the corporate governance principles and their implementation within the GFT Group is presented in the Corporate Governance Statement for the GFT Group and GFT Technologies SE. This is combined together with the Corporate Governance Report and available at www.gft.com/corporate-governance-statement

At its meeting on 10 December 2019, the Administrative Board issued its declaration on the German Corporate Governance Code according to section 22 (6) SEAG in conjunction with section 161 AktG. This Declaration of Compliance was amended on 4 March 2020. Both the Declaration of Compliance and the amendment are published on the company's website www.gft.com/declaration-of-compliance and also included in the Corporate Governance Statement.

Conflicts of interest and their treatment

In order to avoid any suspicion of a conflict of interest, Administrative Board members do not participate in discussions or the adoption of resolutions on transactions between themselves and GFT Technologies SE, or companies belonging to the GFT Group. The same procedure applies if the contractual partner is not the member of the Administrative Board himself but a company for which the Administrative Board member works or in which he holds a controlling interest.

None of the members of the Administrative Board who are also appointed as Managing Directors participate in deliberations and resolutions relating to their service agreements, including the deliberations and resolutions on the new service agreement of Marika Lulay.

The Administrative Board has set up the above mentioned committee to deal with the consultancy agreement with RB Capital GmbH.

Education and training activities

The members of the Administrative Board are responsible themselves for the education and training measures required for their duties. The company provides appropriate support for the members in this respect, in particular by means of presentations on specialist topics during meetings of the Administrative Board. At the meeting on 6 May 2019, the company presented to the Administrative Board members the latest market trends in connection with the use of cloud technologies at banks, insurance companies and industrial enterprises, and informed them at the meeting on 4 November 2019 about modern IT systems as also used in the GFT Group. In addition, the chief auditor informed the Administrative Board members about the latest developments in the field of accounting during the balance sheet meeting on 21 March 2019.

Annual financial statements and consolidated financial statements 2019

The annual financial statements as at 31 December 2019 of GFT Technologies SE, the consolidated financial statements as at 31 December 2019, and the combined management report for the GFT Group and GFT Technologies SE were audited by KPMG, which awarded an unqualified audit opinion in each case. As part of the audit remit, the auditors concluded that the Administrative Board had taken appropriate steps to fulfil its tasks pursuant to section 22 (3) sentence 2 SEAG, in particular to establish a monitoring system, and concluded that this monitoring system was suitable for the early detection of developments which might jeopardise the continued existence of the company.

KPMG has been the auditing company elected for the auditing of GFT Technologies SE and the GFT Group since the financial year 2012. Arne Stratmann is primarily responsible for the audit and has signed the independent auditor's report since the financial year 2017. Andreas Gebert is the additional signing auditor for the consolidated financial statements and Andrea Wacker for the annual financial statements. Both signed the respective independent auditor's report for the first time for the financial year 2019.

Each member of the Administrative Board received in good time: the annual financial statements, the consolidated financial statements and the combined management report as at 31 December 2019, the audit reports of the auditors, the other documents to be examined – including the separate non-financial group report – and the proposal of the Managing Directors for the allocation of net income. All of the documents prepared by the company were explained in detail by the Managing Directors at the Administrative Board meeting of 7 April 2020. In particular, the Administrative Board discussed the key audit matters described in the audit certificates, as well as the audit procedures performed. The meeting was attended by representatives of the chief auditor. They reported on the priorities and the results of the audit and explained the audit reports. Moreover, they answered in detail all questions relating to the key audit matters and the audit procedures performed. They also stated that the chief auditor was convinced that there were no material weaknesses in the internal control system and risk management system in relation to the financial reporting process.

The Administrative Board examined itself all documents submitted on the annual and consolidated financial statements, including the audit reports of the auditors, and discussed any issues – especially with regard to the key audit matters – at length with the Managing Directors and the chief auditor. It is the firm belief of the Administrative Board that these documents were prepared in an orderly manner and comply with statutory requirements. The Administrative Board has no objections and, on the basis of its own review, concurs with the findings of the audit. With a corresponding resolution at its meeting on 7 April 2020, it approved the annual financial statements for 2019 of GFT Technologies SE and the consolidated financial statements of the GFT Group for 2019, as prepared by the Managing Directors. The annual financial statements of GFT Technologies SE for 2019 were thus adopted.

On 4 March 2020, the Administrative Board concurred with the proposal of the Managing Directors to pay a dividend of €0.30 per ordinary share entitled to dividends. On the basis of its own review, and in consideration of the economic situation of the company at the time, the Administrative Board believed that this proposal was reasonable and appropriate. In view of the current spread of the Covid-19 pandemic, however, the Administrative Board reviewed the dividend proposal at its meeting on 7 April 2020 and resolved to continue this review until the Annual General Meeting is convened in order to be able to take appropriate account of further developments. At its meeting on 7 April 2020, the Administrative Board already decided that a dividend payout of 20% to 50% of the GFT Group's net income is to be proposed, which is thus within the general range communicated by the company.

The Administrative Board also reviewed the separate non-financial group report and raised no objections.

The qualification, independence and efficiency of the auditors was checked by the Administrative Board, especially in connection with discussions on the annual financial statements and the half-year financial report. The chief auditor reported on additional services rendered in the financial year 2019 as well as those contractually agreed for the financial year 2020.

Challenges of the Covid-19 pandemic

Since the end of February 2020, the members of the Administrative Board have regularly discussed the impact of the Covid-19 pandemic on the business activities of the GFT Group. To this end, the Managing Directors provide information on an ongoing basis. This procedure enables the Administrative Board to take any necessary decisions – also at short notice, if required.

Thank you

The Administrative Board would like to thank all shareholders for their continued trust. It is also indebted to all employees of the GFT Group in Germany and abroad, as well as the Managing Directors, for their hard work and performance in the financial year 2019.

Stuttgart, 7 April 2020

For the Administrative Board

Ulrich Dietz
Chairman of the Administrative Board

Marika Lulay,
CEO of GFT Technologies SE

Letter to our shareholders

Dear Shareholders,

This year's annual report is devoted to the topic of perspective. With our feet planted firmly on the ground of our proven expertise, we survey a changing environment from various angles. This is how we monitor new technologies and markets, and their associated opportunities and risks. It enables us to discover a wide variety of opportunities for our customers and help them transition their business models into the digital age. At the same time, as a company we also know the importance of new ideas and a change of perspective. Especially in a volatile market environment.

A brief review: two years ago GFT realigned its strategy, in order to maintain its success. We expanded our business model and built bridges to new client groups and markets. This strategic course was continued in 2019, during which we stepped up the pace and achieved some important milestones. For the first time since 2017, we succeeded in raising total revenue. What is more, we are at the cutting edge of major, future-oriented IT trends and have firmly established ourselves as a cross-industry technology partner.

GFT increased its revenue with so-called exponential technologies from 25% in the previous year to 30% in 2019. These include new technologies such as artificial intelligence, cloud, DLT/blockchain, DevOps and data analytics, which are driving exponential growth across all sectors. Strong demand for cloud-based applications have had a particularly positive effect: we increased revenue from cloud solutions to €27 million last year – compared with €10 million in 2018; this reflects the dynamic uptake of this new technology.

Our key financial figures for the past year were as follows: at €429 million, total revenue exceeded our expectations. However, as anticipated, earnings were suppressed by expenses for capacity adjustments and under-utilisation in the first half of the year. Earnings before taxes amounted to €18.73 million and EBITDA to €44.89 million. All in all, 2019 was in line with expectations and represents an important step on our path to sustainable growth.

We successfully continued the diversification of our sector and client structures in 2019. In the banking environment, we were able to make ourselves significantly less dependent on our top-2 clients and demonstrated that we can also achieve growth in a challenging market environment. With the aid of strategic partnerships and an attractive range of services, we expanded our business relationships with existing clients while at the same time acquiring more than 60 new clients worldwide. Among other things, we succeeded in entering the important and innovative Asian market.

Following the acquisition of the Canadian IT service provider V-NEO in 2018, we expanded our activities in the insurance sector in North America and Europe. In 2019 the proportion of total revenue generated from insurance companies rose from 6% to 11%. Among other things, we succeeded in winning a major implementation contract in France – aided by our close partnership with Guidewire, the market leader and one of the fastest-growing platform providers for property and accident insurance. In order to meet the anticipated strong demand from insurance companies in Europe, we added further centres of excellence for Guidewire implementation in Poland and Spain during 2019, in addition to our existing centre in Italy. This greater client proximity enables us to quickly provide bespoke and cost-optimised IT solutions.

In the past year, we also took further important steps in our industrial strategy. By acquiring the industrial expertise of TRUMPF subsidiary AXOOM, we were able to expand our know-how in this field; at the same time, we strengthened our long-standing cooperation with TRUMPF by means of a new development partnership. The strategic partnership with in-GmbH, based in southern Germany, was also important for us in 2019. This company, which we ultimately acquired at the beginning of 2020, is an established software provider for industrial clients. The acquisition will broaden our client base in the industrial sector in the field of automotive, logistics and energy management.

An important factor in GFT's success is its cooperation with leading platform providers. These partnerships enable us to anticipate trends and completely new technologies at an early stage. And in addition, they give us access to new countries and markets. Our strategic premium partnership with Google – as one of the few IT service providers for the financial sector – was expanded in the past year. In the financial services sector, we also strengthened our cooperation with AWS (Amazon Web Services), and in the insurance business we worked closely together with Guidewire.

We optimised our internal structures in 2019 and adapted them to the needs of rapidly changing markets and global developments. In order to maintain our technological expertise – especially in the use of future technologies – we established a number of “tech communities” and play an active role as a member of various international technology forums, such as Medium.com.

The decision to expand the GFT Group Executive Board (GEB) on 1 January 2020 underlines our strong international presence. Most of our Board members come from within our own ranks – something I am very proud of. The enlarged GEB combines external knowledge with the experience of proven GFT executives. This team will create synergies in our key regions and enable us to accelerate our strategic development. I look forward to working together with my colleagues on the Board.

How will GFT position itself in future? We expect to consolidate our excellent standing in the banking sector, our core market. At the same time we will continue to expand our activities in both the insurance and industrial sectors. We aim to achieve this with an attractive service portfolio and a strong network of strategic partners. Exponential technologies will continue to be an important growth driver in 2020 and beyond. In order to remain one of the top IT service providers for the use of future technologies, we will invest consistently in the development of our own expertise.

Let us take a look at the trends in our target markets. I would like to emphasise: the financial services sector is still an attractive market and GFT remains one of the leading IT service providers for banks. In 2020, the growth drivers in the banking environment will continue to be automation and efficiency gains via new technologies, such as artificial intelligence and cloud computing. We see high demand in this field, particularly in the retail banking business outside Europe. Our entry into the Asian market gives us the unique opportunity to help shape the establishment of new digital banks.

As the digitisation of its business processes gains further momentum, the insurance market continues to promise considerable potential in 2020. GFT has already proven that it has the ability to grow rapidly in this sector.

In the industrial sector, our acquisitions will already enable us to enter completely new fields in 2020. We anticipate new client projects with mid-sized, globally operating German industrial companies. A significant transformation drive is expected in the second half of the year. The worldwide demand for IT solutions in the field of Industry 4.0 is high – as is the need for internationally experienced IT experts.

Each of these developments opens up a wide range of opportunities for us. And I can assure you: we have the expertise, creativity, strength and courage to exploit them.

In the current financial year, we will continue to pursue our strategy of further sector and client diversification. Driven by our acquisitions and the success we have already achieved, as well as our excellent and international market access, our aim is to raise the proportion of revenue generated with insurance and industrial clients to 20% of total revenue in the medium term.

Dear shareholders, due to the spread of the Covid-19 virus around the world in recent weeks, the global economy is facing what is probably its greatest challenge of the post-war period. However, by taking steps at an early stage of the crisis – from digitisation and flexible working models to cloud migration – we have been able to maintain our services in full and in the accustomed quality. As a competent and reliable IT partner, we are helping our clients through these difficult times and demonstrating the huge potential of digital solutions in times of upheaval and also beyond.

The trend towards digitisation continues unabated and may even lead to additional demand as a result of the Covid-19 pandemic. But there is no doubt that this crisis will also have an impact on our business activities. Travel and curfew restrictions will hamper our sales activities for the foreseeable future. In addition, we expect that some of our clients will postpone their IT projects planned for 2020. Due to the high volatility of global markets, we will probably not be able to achieve the significant year-on-year improvements in Group revenue and earnings we had targeted.

In this time of crisis, financial stability and flexibility are our main priorities. Moreover, we want to be prepared for business opportunities that may arise once the pandemic has abated. In order to be able to take appropriate account of further developments, we have therefore decided to review the dividend proposal until the Annual General Meeting is convened, whereby the dividend is to lie within the dividend payout ratio of 20% to 50% of net income. A dividend of €0.30 per share was previously planned.

Dear shareholders, the highly dynamic nature of the crisis calls for continuous and careful monitoring of the situation. I can assure you that we are constantly assessing developments and will take decisive action where necessary. GFT will respond to this challenge by drawing on its proven strengths.

I would like to thank you for your trust and invite you to continue to accompany us.

Best regards

Marika Lulay
CEO, GFT Technologies SE

Combined Management Report

1 Basic principles of the Group

1.1 Basis of presentation

This combined management report for the GFT Group and GFT Technologies SE was prepared in accordance with sections 289, 315 and 315a of the German Commercial Code (Handelsgesetzbuch – HGB). Unless stated otherwise, the following information applies to the GFT Group and to GFT Technologies SE.

1.2 Business model

Group structure
As the strategic management holding company, GFT Technologies SE, domiciled in Stuttgart, Germany, is responsible for the management and control of all legally independent companies of the GFT Group. In addition to defining the corporate targets and strategy, its key responsibilities include steering the Group's risk and financial management. Moreover, GFT Technologies SE provides Group-wide administrative services and manages global Corporate Communications. In addition, GFT Technologies SE acts as a separate legal entity for operating business in Germany. In accordance with its single-tier management and supervision structure, the Administrative Board of GFT Technologies SE is responsible for the management and control of the GFT Group: it sets the Group-wide strategic alignment and supervises its operational implementation by the Managing Directors.

The Administrative Board comprises seven members: Ulrich Dietz (Chairman), Dr Paul Lerbinger (Deputy Chairman), Dr-Ing Andreas Bereczky, Maria Dietz, Marika Lulay (CEO), Dr Jochen Ruetz (CFO), and Prof Dr Andreas Wiedemann. The Administrative Board appointed Marika Lulay (CEO) and Dr Jochen Ruetz (CFO) as Managing Directors.

As of 31 December 2019, GFT Technologies SE was represented by 5,242 employees in 13 countries and controlled 30 subsidiaries either directly or indirectly.

Please refer to the notes to the consolidated financial statements for a full list of subsidiaries and other investments.

Structure of the GFT Group with the most important Group companies

GFT Technologies SE

Business division *Americas, UK & APAC*

- **Brazil**
  GFT Brasil Consultoria Informática Ltda.
- **Canada**
  GFT Canada Inc.
  GFT Technologies Canada Inc.
- **Costa Rica**
  GFT Costa Rica S.A.
- **Mexico**
  GFT México S.A. de C.V.
- **UK**
  GFT Financial Limited
- **USA**
  GFT USA Inc.

Business division *Continental Europe*

- **France**
  GFT France S.A.S.
- **Germany**
  GFT Technologies SE
- **Italy**
  GFT Italia S.r.l.
- **Poland**
  GFT Poland Sp. z o. o.
- **Switzerland**
  GFT Schweiz AG
- **Spain**
  GFT IT Consulting S.L.U.

Expansion of offerings for industrial clients with acquisition of AXOOM GmbH
In July 2019, the GFT Group acquired AXOOM GmbH, based in Karlsruhe, Germany, (as of 24 July 2019: GFT Smart Technology Solutions GmbH, Karlsruhe), a subsidiary of TRUMPF GmbH & Co. KG. The company combines industry know-how with IT expertise and offers its clients strategic consulting, development and implementation of pioneering technologies in all areas of digitisation of value chains, Internet of Things (IoT), connectivity and cloud applications. The acquisition has accelerated the expansion of industrial expertise at GFT Technologies SE and strengthened the long-standing client relationship with TRUMPF. In the financial year 2019, AXOOM GmbH employed an average of 67 people and generated revenue of €1.13 million.

Business operations
GFT Technologies SE is a globally aligned technology partner for digital transformation focusing on the banking, insurance and industrial sectors. Its range of services includes consulting on the development and realisation of innovative IT strategies, the development of bespoke IT solutions, the implementation of sector-specific standard software, and the maintenance and further development of business-critical IT solutions. Its clients include leading banks and insurance companies in Europe and the Americas, as well as industrial companies, especially in Germany.

In the banking sector, growth is being driven by the ongoing digitalisation of financial services with the aim of optimising business processes, reducing operating costs and countering the competitive pressure created by new fintech providers. The main focus is on future technologies such as distributed ledger technology (DLT), artificial intelligence (AI), DevOps, data analytics and in particular cloud applications. GFT Technologies SE not only has expertise in these future technologies, but also many years of experience and extensive sector-specific knowledge. This applies in particular to application development for major banks with legacy IT infrastructures.

Due to the huge potential offered by the digital transformation of value chains, the GFT Group also targets insurance companies in the field of property, accident, life and health insurance. In order to improve their cost structures and competitive position, there is high demand in the insurance sector for flexible and efficient processes that, for example, enable integrated customer communication. In addition to strategy development and consulting, GFT Technologies SE offers the development of bespoke IT solutions and the implementation of standard software, in particular Guidewire.

In July 2019, the expansion of business with industrial clients was significantly accelerated by the acquisition of IT service provider AXOOM and the partnership with in-integrierte informationssysteme GmbH, a software supplier for the industrial sector. In January 2020, in-integrierte informationssysteme GmbH, Konstanz, Germany, was then acquired. As a result of these strategic measures, the portfolio of services in the field of industry and IoT has been considerably expanded and now includes strategic consulting, the implementation of bespoke IT solutions and a proprietary cloud-capable IoT platform. GFT's products and services enable industrial companies to optimise their processes in terms of cost, error rate and downtime.

In accordance with the internal management and reporting of GFT Technologies SE, the business activities of the GFT Group are divided into two segments. The *Americas, UK & APAC* segment targets clients in the field of investment banking and retail banking. Due to the strongly innovative approach of Asian banks, GFT expanded its activities to the Asia-Pacific region. The first reference projects for bank digitalisation were won in Hong Kong and Singapore during the reporting period. The *Continental Europe* segment is dominated by business with clients in the retail banking sector. Moreover, activities for industrial clients are focused on *Continental Europe* and especially Germany. Following the expansion from North America to the French market, both segments include activities in the insurance sector.

With the aid of its tried and trusted Global Delivery Model, GFT Technologies SE can supply its range of solutions to the core markets of Europe and the Americas, as well as Singapore and Hong Kong. The company's consultants and sales staff are in direct contact with clients (onshore) to provide advice on the development of strategies and to coordinate their projects. Services are then provided flexibly and cost-effectively at the development centres (nearshore). This model thus combines customer proximity and quality with cost benefits and easy access to IT experts in markets with a lack of skilled workers. Depending on customer preference and cost sensitivity, the onshore/nearshore model has different levels of intensity. Nearshore centres in the banking sector for *Continental Europe*, the UK and the Asia-Pacific region are located mostly in Spain and Poland. Customers in the Americas are served by nearshore centres in Brazil and Costa Rica. For the insurance sector, nearshore locations were established in Spain and Poland during the reporting period in order to complement the existing centres of excellence in Canada and Italy.

1.3 Management system

The primary strategic objective of the GFT Group is to achieve a sustainable increase in enterprise value by continuously expanding competitive advantages. As part of its strategic planning, measures to achieve this objective in the respective countries and market segments are discussed and implemented. The internal management system comprises regulations and measures for the organisational implementation of management decisions and the permanent monitoring of their effectiveness. All Group executives are involved in this management process. This includes the Administrative Board, the Managing Directors, the managing directors of the Group's subsidiaries, and the managers responsible for Group-wide administrative functions. The Managing Directors are also supported by the Group Executive Board;. its tasks include providing advice and preparing decisions.

The country organisations provide the Group Executive Board with regular reports on the course of business and the implementation of management decisions, while analysing the opportunities and risks for future development. The development of key performance indicators compared to the respective budgets is monitored via monthly reports provided by the country organisations.

Key performance measures for the GFT Group
The key performance indicators (KPIs) used to measure the success of strategy implementation in the GFT Group are **revenue**, **adjusted EBITDA** (earnings before interest, taxes, depreciation and amortisation, as well as before effects from business combinations such as acquisition-related reductions in current assets, acquisition-related compensation for employees or selling shareholders, transaction and integration expenses with an effect on earnings as well as gains/losses from the disposal of company shares) and **EBT** (earnings before taxes). Other performance measures are also used for the internal management process: these include revenue by country, market segment and sector, as well as contribution margins and account collection targets. The success of the two segments is measured using the segment performance indicators revenue and EBT, amongst others. Segment revenue and segment earnings also include transactions between the business segments. Such transactions are conducted at market prices and on an arm's-length basis.

A non-financial performance indicator for the GFT Group is the productive utilisation rate. It is based solely on the use of staff in client projects and does not include any sales activities or involvement in internal projects.

Target/actual and year-on-year comparisons of key financial performance indicators, as well as year-on-year figures for the productive utilisation rate are to be found in the Economic Report. This also includes an explanation of further key non-financial performance indicators which play an important role for the company's successful development but are not used to steer all areas of the company. These include measures for attracting and retaining skilled employees, as well as quality management during the processing of client projects.

A key component of the internal management process is the Group's systematic opportunity and risk management. This enables management to identify, assess and steer the opportunities and risks which may lead to positive or negative deviations from targets. For further information, please refer to the Risk Report and Opportunities Report sections.

Key performance measures for GFT Technologies SE
The KPIs used to measure the business success of GFT Technologies SE are revenue and **EBT**. The financial performance measure adjusted EBITDA used by the GFT Group is not among the internal KPIs used by GFT Technologies SE.

Further information
Further information on the key performance measures used in the annual report (unaudited) can be found on the GFT website at www.gft.com/performancemeasures.

1.4 Research and development

The continuous analysis and adaptation of technology trends in our target markets Banks, Insurance and Industry has top priority. In cooperation with our clients and partners, we analyse trends and develop new application solutions based on these trends at the GFT Digital Innovation Labs. These solutions provide support for GFT's clients with the digital transformation of their business models and ultimately help secure and enhance their competitive position. Reference projects facilitate sales activities and the acquisition of new projects, as well as strengthening GFT's reputation as a technology partner. For example, the market research institute Everest Group ranks the GFT Group as one of the leading companies for blockchain applications and digital services. In the reporting period, research and development activities focused on exponential technologies, especially cloud, DLT, automation (RPA), data analytics and AI.

The GFT Group continued to drive its research and development efforts in the field of DLT during the reporting period. Although there is a wide range of available technologies and methods, market maturity is steadily increasing. GFT's approach is a mix of broad-based basic research and focused client projects.

A further area of focus was cloud technologies. GFT's status as a preferred partner of Google gave its experts in Spain extended system access and enabled them to develop AI-based applications based on Google Cloud. This offers considerable added value for clients seeking to exploit the possibilities of the cloud, while avoiding the high costs of developing AI applications themselves.

AI has been successfully employed in document processing, i.e. the processing of large numbers of documents of different formats, in projects for major banks and stock exchanges. The tremendous potential for raising efficiency through the use of RPA and AI was made apparent during the optimisation of call centre processes for a major bank. An Italian insurance project for the detection of fraudulent claims served as an example of GFT's technological expertise in the field of data analytics and AI.

Compared to the previous financial year, research and development expenses were largely unchanged at €3.08 million in the reporting period (2018: €3.00 million). Personnel expenses accounted for the major share, amounting to €2.10 million or 68% of total expenses (2018: €1.98 million or 66%). Expenses for external services amounted to €0.05 million (2018: €0.18 million), corresponding to 2% (2018: 6%) of total costs.

1.5 Corporate Governance Statement

The Corporate Governance Statement (unaudited) to be submitted by GFT Technologies SE and the GFT Group pursuant to sections 289f and 315d of the German Commercial Code (Handelsgesetzbuch, HGB) is available online at www.gft.com/corporate-governance-statement.

1.6 Separate non-financial report for the Group

The separate non-financial report for the Group (unaudited) pursuant to section 315b (3) number 2b HGB is available online at www.gft.com/sustainability.

2 Economic report

2.1 General comments

The financial position and performance of the GFT Group in the financial year 2019 was influenced by the newly adopted accounting standard IFRS 16 Leases. Payment obligations from leases previously classified as operating leases are now discounted at the corresponding incremental borrowing rate and recognised as a lease liability; an opposing asset is capitalised for the right of use (right-of-use asset).

The modified retrospective method was adopted on initial application of IFRS 16 as of 1 January 2019. In accordance with these transitional provisions, prior-year figures have not been restated.

For further information on the effects from the initial adoption of IFRS 16, please refer to note 2.3 of the consolidated financial statements.

2.2 General conditions

Macro-economic conditions

According to calculations of the International Monetary Fund (IMF), the global economy grew by 2.9% in 2019. Global output and trade volumes increased, buoyed by very favourable financing conditions and lower political risks. Nevertheless, a slowdown was observed in the second half of the year, caused by flagging momentum in some of the major emerging markets as well as by domestic political conflicts.

In their assessment of 2019, the economists of the European Central Bank (ECB) divide the year into two parts: whereas growth in the manufacturing sector was dampened by political uncertainties – in particular the trade conflict between the USA and China – in the first half of the year, the trend stabilised noticeably in the second half. By contrast, both the service sector and the construction sector made good progress throughout the year. According to the ECB, eurozone growth amounted to 1.2% for 2019 as a whole.

Germany's central bank (Deutsche Bundesbank) estimates that the German economy grew by 0.6% in 2019 – a significant slowdown on the prior-year figure of 1.5%. Although healthy labour market data continued to support consumer spending and good financing conditions underpinned the boom in the construction sector, the country's export-oriented industrial sector continued its downward trend.

Sector-specific conditions

According to the US market research institute Gartner, the global IT market grew by just 0.5% in 2019, due to political uncertainties and fears of global economic recession. Within the IT market, growth rates varied: the main growth drivers were software (up 8.5%) and IT services (up 3.6%). Among the exponential technologies defined by GFT, the market for cloud developments achieved the highest percentage growth in 2019. According to Gartner, growth reached 16% while the market concentration of the major cloud providers increased. Data analytics and robotic process automation (RPA) continued to make good progress, in terms of both technology maturity and the number of application areas. AI has already been very successfully employed in specific application areas. By contrast, DLT applications (which include blockchain) are currently still lagging behind the very high expectations – the market is still in an experimental phase, looking for the best possible application areas.

According to Gartner, the world's banks invested 5.3% more in their IT systems in 2019 than in the previous year, adjusted for currency effects. The gap between investment and retail banks with regard to their respective propensity to invest continued to widen during the reporting period. While retail banks increased IT spending by 5.5%, the corresponding figure for investment banks was just 4.8%. According to a study by Deloitte, however, all banks are falling short of their self-imposed targets with regard to digital transformation – especially the application of data analytics, cloud technologies and artificial intelligence. Even though the competitive pressure in the insurance sector is less intense, the digital transformation of its value chain is unavoidable. In order to stand out from the competition, it is essential to better identify and serve customer needs with the aid of digital applications and to make processes more efficient. This is facilitated by sector-specific standard software such as Guidewire, which the market research institute Gartner ranks as the market leader. Compared to the banking and insurance sectors, the digitisation of business processes in the industrial sector (IoT) is still at an early stage, as reflected by the high level of market fragmentation with regard to products and solutions. The number of available IoT interfaces – the basis for networking machines and systems – grew strongly in the reporting period. For example, developers frequently incorporate interfaces into the product design.

The German market for information technology and telecommunications (ICT) performed better than expected. Following subdued expectations, sentiment finally brightened in the second half of 2019. According to the German digital association Bitkom, sales of products and services for IT, telecommunications and consumer electronics increased by 2.0% compared to the previous year. The biggest growth driver continues to be the digitalisation trend in all sectors. Although employment in the digital sector reached a record high, the shortage of skilled workers is still regarded as critical.

Impact on the GFT Group

The digital transformation of the banking, insurance and industrial sectors is the growth driver for GFT Technologies SE, which combines sector and IT expertise in order to seamlessly integrate new technologies into the business models of its clients. By expanding strategic partnerships, e.g. with leading cloud providers such as Google, Amazon Web Services and Microsoft or software companies such as Guidewire, the company aims to exploit the targeted market opportunities. In addition, the exponential technologies which GFT focuses on continue to display dynamic growth. On this basis, the GFT Group has expanded its market position as a technology partner in the Banking sector and is working successfully on expanding its business activities in the insurance and industrial sectors.

2.3 Development of business

Overview of business development

In the financial year 2019, the GFT Group increased revenue by 4% to €428.98 million (2018: €412.83 million). With a growth rate of 24%, the dynamic growth trend outside of the top-2 clients[1] continued to accelerate. As expected, steps taken to diversify the business are taking effect and, as a result, the share of total revenue contributed by the top-2 clients decreased further to 28% (2018: 40%). Driven in particular by the positive trend in France and Canada, business with insurance clients almost doubled to 11% of Group revenue (2018: 6%).

Adjusted EBITDA grew by 21% year on year to €47.91 million (2018: €39.68 million). This increase includes positive effects from IFRS 16 of €12.77 million. As expected, EBT was burdened by increased expenses for sales and the expansion of technology expertise, as well as by underutilisation and expenses for capacity adjustments. As a result, there was a year-on-year decline in EBT of 17% to €18.73 million (2018: €22.64 million). Nevertheless, EBT was 4% above the original guidance of €18 million – due in part to a positive, one-off IFRS 16 effect of €0.69 million. Expenses for capacity adjustments included in EBT amounted to €4.13 million for the year as a whole (2018: €1.04 million). Net income fell by 32% to €13.66 million (2018: €19.98 million).

Performance compared to guidance

KPIs in € million	Forecast FY 2019	Results FY 2019	Δ %
Revenue	420	428.98	2
Adjusted EBITDA (incl. IFRS 16 effects)	48	47.91	–
EBITDA	46	44.89	−2
EBT	18	18.73	4

[1] The GFT Group's top-2 clients (based on the financial year 2016) are defined as Deutsche Bank and Barclays.

Key figures by quarter (unaudited)

in € million	Q1/2019	Q2/2019	Q3/2019	Q4/2019	FY 2019
Revenue	105.72	105.31	104.92	113.03	428.98
Adjusted EBITDA	11.16	10.78	12.84	13.13	47.91
EBITDA	10.28	9.94	11.98	12.69	44.89
EBT	3.18	3.97	5.19	6.39	18.73

2.4 Development of revenue

Development of revenue with M&A effects

In the financial year 2019, the GFT Group generated total revenue of €428.98 million, corresponding to year-on-year growth of 4% (2018: €412.83 million). The Canadian IT service provider V-NEO, acquired in August 2018, contributed €18.95 million to total revenue in 2019. The acquisition and initial consolidation of AXOOM GmbH in July 2019 resulted in a further M&A effect on revenue of €1.13 million.

Revenue in the financial year 2019 with M&A effects

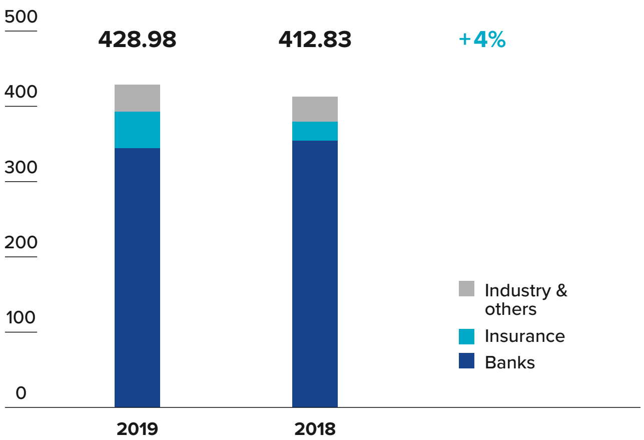
	2019		2018		Δ %
	€ million	share in %	€ million	share in %	
GFT organic	408.90	95%	404.23	98%	1%
V-NEO Canada	18.95	5%	8.60	2%	>100%
AXOOM Germany[1]	1.13	0%	0.00	0%	–
GFT Group	**428.98**	**100%**	**412.83**	**100%**	**4%**

[1] Revenue contribution as of 1 July 2019

Drive for sector diversification continued

The GFT Group continued to drive its client and sector diversification strategy in the financial year 2019. In its business with insurance clients, the acquisition of the Canadian IT service provider V-NEO in July 2018 and the subsequent expansion of business in France were largely responsible for strong growth of 89% in the reporting period. As a result, this sector's revenue share rose significantly to 11% (2018: 6%). Business with industrial clients, summarised below under Industry & others, also made extremely good progress with growth of 10% and an increased share of total revenue of 9% (2018: 8%).

Revenue by sector
in € million



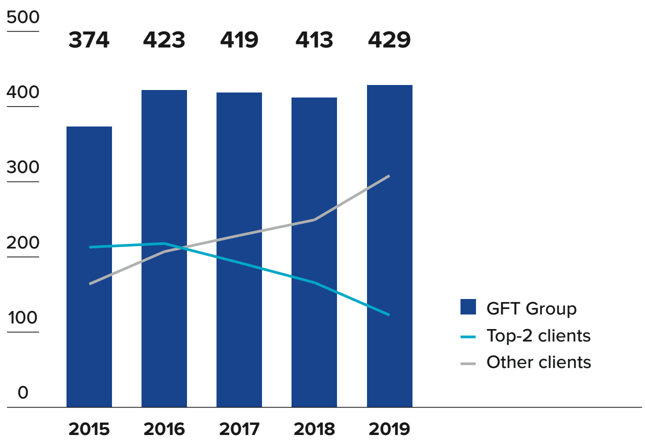
Revenue by sector 2019

	2019		2018		Δ %
	€ million	share in %	€ million	share in %	
Banks	343.79	80%	353.93	86%	−3%
Insurance	48.79	11%	25.79	6%	89%
Industry & others	36.40	9%	33.11	8%	10%
GFT Group	**428.98**		**412.83**		**4%**

Steady improvement in client diversification since 2015
The GFT Group is steadily driving its client diversification and has reduced its dependence on individual clients every year since 2015. As a result, the proportion of total revenue attributable to the top-2 clients fell from 57% in 2015 to 28% in 2019. At the same time, there has been consistently strong growth with other clients.

Revenue growth outside top-2 clients accelerated
The positive trend in business outside the top-2 clients gained further momentum during the reporting period with a 24% increase in revenue. This growth was achieved in all sectors served by GFT. In addition, 60 new clients were acquired in the reporting year, especially in the banking sector. By contrast, revenue from the top-2 clients declined as expected by 26%, corresponding to a revenue share of just 28%.

Client diversification 2015 – 2019
in € million



Revenue by client 2019

in € million		Revenue 2019	Revenue 2018	Δ %
Americas, UK & APAC	Top-2 clients	57.89	84.79	–32%
	Other clients	141.09	98.65	43%
Continental Europe	Top-2 clients	64.12	79.56	–19%
	Other clients	165.33	149.32	11%
GFT Group (without Holding)	**Top-2 clients**	**122.01**	**164.35**	**–26%**
	Other clients	**306.42**	**247.97**	**24%**
	Total	**428.43**	**412.32**	**4%**

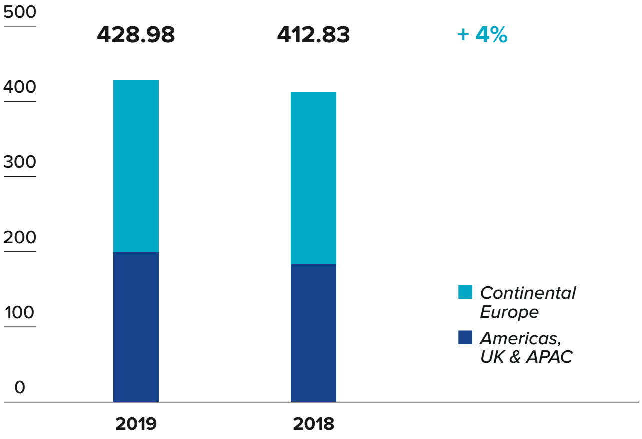
Revenue growth in both segments
Revenue in the *Americas, UK & APAC* segment was raised by 8% to €198.98 million (2018: €183.44 million). As expected, the budget restrictions of the top-2 clients in investment banking dampened the revenue trend, while growth with other clients was accelerated once again to 43% (2018: 22%). There was particularly dynamic growth in the Canadian insurance sector and in business with cloud solutions in the UK. In addition, business activities with local banks in Brazil and business with Spanish banks in Mexico achieved strong growth.

As a result of demand for digitalisation solutions, business with clients in the retail banking sector remained strong and led to a slight increase in revenue in the *Continental Europe* segment to €229.45 million (2018: €228.88 million). The 19% decline in business with the top-2 clients was offset by growth of 11% with other clients. One particular highlight was the expansion of insurance business in France due to a major order for Guidewire implementation.

Revenue by segment in the financial year 2019

	2019		2018		Δ %
	€ million	share in %	€ million	share in %	
Americas, UK & APAC	198.98	46%	183.44	44%	8%
Continental Europe	229.45	54%	228.88	56%	0%
Others	0.54	0%	0.51	0%	6%
GFT Group	**428.98**	**100%**	**412.83**	**100%**	**4%**

Revenue by segment
in € million



Revenue by country

With a 22% share of total revenue, **Spain** was the GFT Group's largest sales market in 2019. Revenue here rose by 1% to €92.97 million (2018: €91.71 million). Consistently strong demand from retail banks for digital transformation solutions has led to this positive revenue trend over the past few years. The Spanish banking sector remains one of the most advanced in the world in terms of digitalisation.

With revenue of €81.67 million (2018: €98.56 million), the **UK** was no longer the leading country for sales. This was due in particular to the budget restrictions of the top-2 clients in investment banking, which resulted in a year-on-year revenue decline of 17%. Consequently, the share of total revenue fell from 24% to 19%.

Revenue with **Italian** clients rose year on year by 11% to €63.44 million (2018: €57.11 million). This dynamic growth resulted from business with local banks and insurers. The country's 15% share of total revenue was slightly up on the previous year (2018: 14%).

Demand for digitalisation solutions also remained high in **Germany**. However, the expected fall in business with the top-2 clients led to a decline in revenue of 12% to €53.10 million (2018: €60.43 million). As a result, the country's share of total revenue fell from 15% to 12%.

The budget restrictions of the top-2 clients in investment banking also dominated the revenue trend in the **USA**. The GFT Group's revenue in this country fell by 5% to €35.40 million (2018: €37.36 million), resulting in a lower revenue share of 8% (2018: 9%).

In **Brazil**, GFT generated revenue of €33.54 million. This significant year-on-year growth of 48% (2018: €22.59 million) was due to strong demand for digitalisation solutions from local retail banks. As a result, the country's revenue share rose to 8% (2018: 5%).

Business with subsidiaries of Spanish retail banks was the main reason for the dynamic trend in **Mexico** with revenue growth of 81% to €17.00 million (2018: €9.37 million). This led to an increase in the country's revenue share to 4% (2018: 2%).

Driven by the dynamic trend in insurance business and the acquisition of V-NEO in July 2018, revenue in **Canada** more than doubled to €15.69 million (2018: €6.93 million). Its share of total revenue reached 4% (2018: 2%).

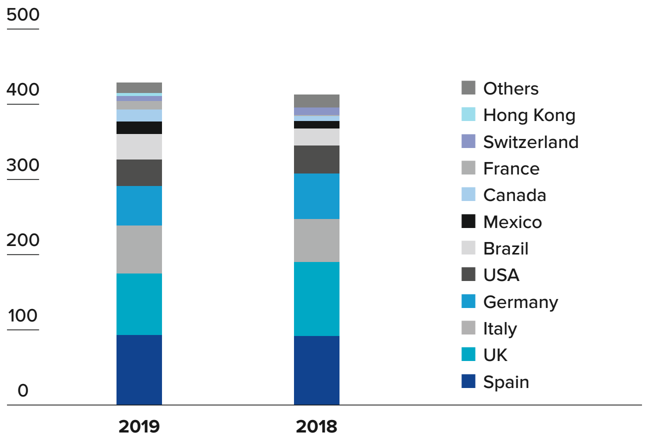
The insurance sector was similarly responsible for revenue growth in France. Due to a multi-year Guidewire implementation project for the **French** insurer Macif, revenue rose sharply to €11.31 million (2018: €1.93 million). At the same time, the country's revenue share rose to 3% (2018: 1%).

GFT posted revenue of €6.69 million (2018: €9.40 million) with clients in **Switzerland**, corresponding to a decrease of 29%. The reason was a further decline in demand for implementations of the banking software Avaloq.

Thanks to an innovative banking project, business activities were extended to **Hong Kong** in the reporting period and revenue of €3.99 million was already generated (2018: -). The project comprises the set-up of a virtual, completely cloud-based bank aimed to attract young clients with an affinity for technology.

Other countries comprises revenue from Ireland, Luxembourg and Portugal, among others. Revenue in these countries fell by 19% to €14.18 million (2018: €17.44 million).

Revenue by country
in € million



Revenue by country in the financial year 2019

	2019		2018		Δ %
	€ million	share in %	€ million	share in %	
Spain	92.97	22%	91.71	22%	1%
UK	81.67	19%	98.56	24%	–17%
Italy	63.44	15%	57.11	14%	11%
Germany	53.10	12%	60.43	15%	–12%
USA	35.40	8%	37.36	9%	–5%
Brazil	33.54	8%	22.59	5%	48%
Mexico	17.00	4%	9.37	2%	81%
Canada	15.69	4%	6.93	2%	>100%
France	11.31	3%	1.93	1%	>100%
Switzerland	6.69	1%	9.40	2%	–29%
Hong Kong	3.99	1%	–	–	–
Other countries	14.18	3%	17.44	4%	–19%
GFT Group	**428.98**	**100%**	**412.83**	**100%**	**4%**

2.5 Earnings position

Earnings position of the GFT Group

On the whole, earnings of the GFT Group developed in line with expectations in the financial year 2019. There was a strong 20% year-on-year increase in **EBITDA** to €44.89 million (2018: €37.45 million). EBITDA in the financial year 2019 was strongly influenced by a positive effect of €12.77 million from the change in lessee accounting introduced by IFRS 16 (2018: €0.00 million), while earnings were burdened by capacity adjustments to improve operating profitability of €4.13 million (2018: €1.04 million), personnel expenses in connection with the expansion of sales activities and technology expertise, and the effects of capacity underutilisation. The falling revenue share of the top-2 clients continued to have a negative impact on EBITDA.

In the reporting period, EBITDA included special items from M&A activities due to the acquisition of GFT Technologies Canada Inc. (formerly: V-NEO Inc.) in the previous year of €2.75 million (2018: €2.24 million) and from the acquisition of GFT Smart Technology Solutions GmbH (formerly: AXOOM GmbH) of €0.27 million (2018: €0.00 million). **Adjusted EBITDA** for the financial year 2019 amounted to €47.91 million (2018: €39.68 million).

There was a year-on-year decline in **EBIT** of €3.39 million to €21.33 million (2018: €24.72 million). IFRS 16 had a net positive impact on earnings before interest and taxes of €1.82 million in the financial year 2019 (2018: €0.00 million)

Due in particular to special items with a burden on earnings, **EBT** fell by 17% to €18.73 million in the reporting period (2018: €22.64 million). Pre-tax earnings benefited from positive effects of €0.69 million from changed lessee accounting under IFRS 16 (2018: €0.00 million). The operating margin fell to 4.4%, compared to 5.5% in the previous year.

In the financial year 2019, **net income** decreased by 32% to €13.66 million (2018: €19.98 million). The **tax expense** disclosed under income taxes amounted to €5.07 million (2018: €2.66 million), corresponding to an imputed tax ratio of 27% (2018: 12%). The increased tax ratio resulted mainly from deferred taxes and tax expenses relating to other periods. Moreover, the lower tax expense of the previous year was also favoured by aperiodic tax income.

As a consequence of the decrease in net income, **earnings per share** fell to €0.52 (2018: €0.76), based on 26,325,946 outstanding shares.

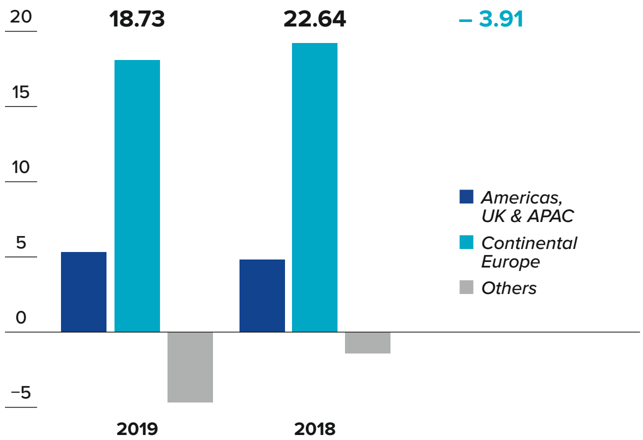
Earnings (EBT) by segment

EBT of the ***Americas, UK & APAC*** segment improved slightly by €0.50 million to €5.32 million in the financial year 2019 (2018: €4.82 million), despite the continued decline in the revenue share of the top-2 clients and increased sales expenses for other clients in the UK and USA. Moreover, the segment was burdened by special items from M&A activities as well as capacity adjustments to raise operating profitability of €0.84 million (€0.51 million). Group subsidiaries in Brazil, Mexico and Canada had a positive impact on segment earnings, due in particular to the increase in business volume. The operating margin – based on external revenue – amounted to 2.7% and was slightly up on the previous year (2018: 2.6%).

In the ***Continental Europe*** segment, EBT of €18.07 million for the financial year 2019 was €1.16 million lower than in the previous year (2018: €19.23 million). The decline was due to capacity adjustments to raise operating profitability, which burdened segment earnings by €2.69 million in the reporting period (2018: €0.32 million). The operating margin of 7.9% – based on external revenue – was below the prior-year figure (2018: 8.4%)

Earnings of the ***Others*** category deteriorated by €3.25 million to €–4.66 million in the reporting period (2018: €–1.41 million). This was primarily due to lower group allocations to the benefit of both operating segments, as well as capacity adjustments. The *Others* category – presented as a reconciliation column in segment reporting – comprises items which by definition are not included in the segments. It also includes elements of the Group headquarters which are not allocated, e.g. items or revenue relating to corporate activities only occasionally incurred or generated.

Earnings (EBT) by segment
in € million



Earnings (EBT) by segment in the financial year 2019

	2019		2018		Δ € million
	€ million	margin in %	€ million	margin in %	
Americas, UK & APAC	5.32	3%	4.82	3%	0.50
Continental Europe	18.07	8%	19.23	8%	–1.16
Others	–4.66	–	–1.41	–	–3.25
GFT Group	**18.73**	**4%**	**22.64**	**5%**	**–3.91**

Earnings (EBT) by segment in the fourth quarter of 2019

	Q4/2019		Q4/2018		Δ € million
	€ million	margin in %	€ million	margin in %	
Americas, UK & APAC	3.19	6%	0.92	2%	2.27
Continental Europe	5.55	9%	6.21	11%	–0.66
Others	–2.35	–	–1.41	–	–0.94
GFT Group	**6.39**	**6%**	**5.72**	**6%**	**0.67**

Earnings position by income and expense items
Other operating income increased by €3.50 million, or 37%, to €13.06 million (2018: €9.56 million). The rise is mainly due to government grants totalling €6.61 million (2018: €3.87 million) in Italy, Canada and the UK. Other operating income includes currency translation gains of €2.41 million (2018: €3.47 million).

The **cost of purchased services** amounted to €46.43 million and was thus €7.62 million, or 14%, below the prior-year figure (2018: €54.05 million). This item includes the purchase of external services, which in the reporting period were provided increasingly by internal staff. The ratio of cost of purchased services to revenue amounted 11% (2018: 13%).

Personnel expenses rose by 11% to €297.33 million in the reporting period (2018: €268.18 million). The key factors were the increase in average headcount and capacity adjustments to raise operating profitability of €4.13 million (2018: €1.04 million). Moreover, reduced purchasing of external services and wage increases both contributed to the rise in personnel expenses. The rise in average headcount resulted primarily from the acquisition of GFT Technologies Canada Inc. on 1 August 2018 and of GFT Smart Technology Solutions GmbH on 1 July 2019. The proportion of revenue to personnel expenses (the personnel cost ratio) rose to 69% (2018: 65%). The personnel cost ratio without capacity adjustments but including external services amounted to 79% (2018: 78%).

Depreciation and amortisation of tangible and intangible assets totalled €23.56 million (2018: €12.72 million) and includes depreciation of right-of-use assets pursuant to IFRS 16 of €10.96 million (2018: €0.00 million).

Other operating expenses decreased by €9.08 million, or 14%, to €53.55 million in the financial year 2019 (2018: €62.63 million). The main cost elements were still operating, administrative and selling expenses, which totalled €44.92 million (2018: €55.49 million). The decrease in other operating expenses during the reporting period is attributable to the change in accounting according to IFRS 16, resulting in a decline of €11.47 million in this item. Other operating expenses include currency losses of €3.56 million (2018: €4.29 million).

Due to increased interest payments, there was a slight year-on-year deterioration in the **financial result** (including earnings contributions of financial investments valued at equity) to €–2.59 million (2018: €–2.16 million).

The expense for **income taxes** increased to €5.07 million, compared to €2.66 million in the previous year. The effective tax rate amounted to 27% (2018: 12%) and was mainly influenced by aperiodic expenses and effects from the carrying of deferred tax liabilities.

2.6 Earnings according to HGB

The GFT Group's dividend policy recommends a dividend payout ratio of between 20% and 50% of consolidated net income for the financial year (previously 20% to 40%).

A detailed explanation of the annual net income of GFT Technologies SE according to HGB is provided in section 8 of the combined management report. This states that annual net income in the financial year 2019 amounted to €15.25 million. There were no transfers to revenue reserves.

In order to be able to take appropriate account of further developments in the Covid-19 pandemic, it was decided to review the dividend proposal until the Annual General Meeting is convened, whereby the dividend is to lie within the dividend payout ratio of 20% to 50% of consolidated net income.

2.7 Financial position

The GFT Group's central financial management aims to ensure the permanent liquidity of all Group companies. The Treasury division implements financial policy and risk management on the basis of the agreed guidelines and permanently monitors both existing and potential financial risks. The GFT Group uses derivative financial instruments to hedge against currency and interest rate risks as required. The GFT Group pursues a prudent investment strategy which currently focuses exclusively on short-term periods. A detailed presentation on the assessment of liquidity risks and risks from fluctuations in currencies and interest rates, including the countermeasures taken, is provided in section 3 Risk Report.

As the parent company, GFT Technologies SE has concluded a syndicated loan agreement and several promissory note agreements to secure the long-term funding of the GFT Group. The syndicated loan agreement was concluded in the financial year 2015 and has a term of seven years. The loan amount of up to €80.00 million comprises two tranches, a Facility A credit line of up to €40.00 million and a Facility B revolving credit line of up to €40.00 million. At the end of the reporting period, the full amount of Facility A and €7.00 million of Facility B had been drawn. The interest rate of the syndicated loan is variable: for both facilities it is set per calendar year depending on the GFT Group's level of debt with a fixed premium on the respective chosen Euribor rate – 1, 2, 3 or 6 months.

The promissory note agreements have terms of between one and five years. At the end of the reporting period, promissory note agreements totalling €59.50 million were drawn in full. Of this amount, €40.50 million are fixed-interest and the remaining €19.00 million variable-interest loans.

During the term of the loan agreements, the GFT Group is subject to specific financial covenants, mainly ancillary loans conditions. These mostly refer to specific financial covenants which must be met. The assumption of financial liabilities and the provision of collateral is also limited. If specific financial covenants and other rules of conduct are not met, this may lead to the immediate termination of the loan agreements. From the current perspective, there are no significant risks relating to the non-achievement of financial covenants or non-compliance with the other rules of conduct which are known to the company.

The GFT Group continues to have a sound financial structure. As of 31 December 2019, the GFT Group had unused credit lines of €52.84 million. The net liquidity of the GFT Group – calculated as the stock of disclosed cash and cash equivalents less financial liabilities – improved slightly from €–59.67 million in the previous year to €–58.80 million as of 31 December 2019.

In the financial year 2019, **cash flow from operating activities** of €36.18 million was down on the previous year (2018: €44.83 million). The year-on-year decline of €8.65 million, or 19%, was mainly due to an increase in working capital affecting liquidity. Within working capital, there was a noticeable increase in trade receivables in the fourth quarter. This is attributable in part to the positive business trend as well as to the strong year-on-year decline in payments made by major clients at the end of the financial year. Cash flow from operating activities in the reporting period was positively influenced by the change in lessee accounting under IFRS 16.

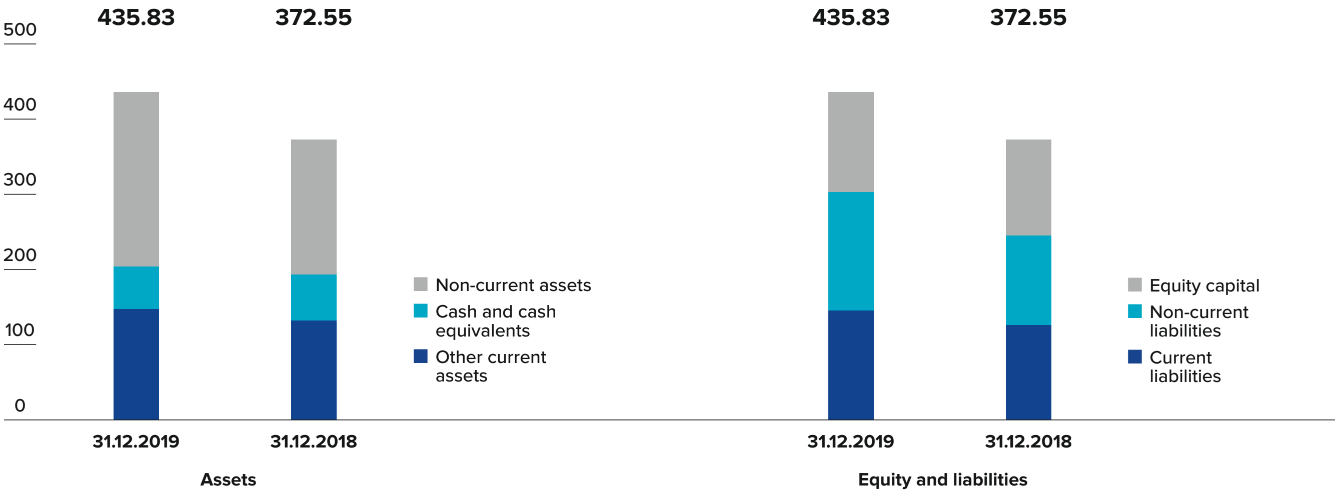
With a cash outflow of €13.89 million, **cash flow from investing activities** in the financial year 2019 was well below the prior-year level (2018: €53.73 million). The higher cash outflow in the previous year was influenced by net payments of €48.87 million for the acquisition of companies. By contrast, cash outflows for the acquisition of companies in the reporting period amounted to €7.63 million and related mostly to the acquisition of AXOOM GmbH. Cash outflows for other capital expenditure were only slightly above the prior-year figure.

Cash flow from financing activities in the financial year 2019 led to a net outflow of €27.05 million (2018: €1.56 million). The difference is mainly due to the disclosure of lease liability payments totalling €12.85 million (2018: €0.00 million) resulting from the introduction of lessee accounting under IFRS 16. Moreover, cash flow from financing activities in the financial year 2019 was dominated by the dividend payment to shareholders of €7.90 million (2018: €7.90 million). The net redemption of bank loans in the reporting period resulted in a cash outflow of €6.30 million. In the previous year, cash receipts from the net assumption of financial liabilities amounted to €9.68 million.

In the financial year 2019, the decrease in cash flows from operating activities was offset by lower capital expenditure. The resulting funds were used in particular to reduce financial debt. Including currency effects, **cash and cash equivalents** declined by €5.43 million compared to 31 December 2018 to €56.14 million as of the balance sheet date (31 December 2018: €61.57 million).

2.8 Asset position

Balance sheet structure
in € million



Assets

in € million	31/12/2019	31/12/2018
Non-current assets	232.21	179.02
Cash and cash equivalents	56.14	61.57
Other current assets	147.48	131.96
	435.83	**372.55**

Equity and liabilities

in € million	31/12/2019	31/12/2018
Equity capital	133.14	127.11
Non-current liabilities	157.08	119.61
Current liabilities	145.61	125.83
	435.83	**372.55**

Compared to 31 December 2018, the **balance sheet total** of the GFT Group grew by €63.28 million from €372.55 million to €435.83 million. The increase is mainly due to the growth in property, plant and equipment from the disclosure of right-of-use assets resulting from changed lease accounting according to IFRS 16. There was an opposing effect in particular from the decline in other assets and Group liquidity caused by working capital effects.

At €232.21 million, **non-current assets** of the GFT Group were up €53.19 million on the previous year (31 December 2018: €179.02 million). As of 31 December 2019, non-current assets accounted for 53% of the balance sheet total, compared to 48% as at the end of the previous year. Non-current assets mainly comprise **goodwill** of €118.66 million (31 December 2018: €112.99 million), other **intangible assets** of €22.13 million (31 December 2018: €26.70 million) and **property, plant and equipment** of €76.78 million (31 December 2018: €26.59 million).

The €5.67 million increase in **goodwill** as of 31 December 2019 resulted mainly from the acquisition of AXOOM GmbH as well as currency effects.

In the course of adopting lessee accounting pursuant to IFRS 16 as of 1 January 2019, right-of-use assets for land and buildings, car parks and vehicles amounting to €51.16 million as at the balance sheet date were disclosed in **property, plant and equipment**. Capital expenditure (without right-of-use assets) of €4.62 million was slightly up on the previous year (2018: €3.09 million).

As of 31 December 2019, **current assets** had increased to €203.62 million (31 December 2018: €193.53 million). This €10.09 million rise in current assets was mainly due to increased **trade receivables** of €114.02 million (31 December 2018: €95.39 million), as well as the rise in **contract assets** to €15.73 million (31 December 2018: €14.08 million) due to the growth in business volume and closing-date effects. The item contract assets recognises the GFT Group's claims for consideration resulting from services from fixed-price contracts in connection with the development of customer-specific IT solutions and the implementation of bank-specific standard software that have been rendered but not yet invoiced as of the reporting date.

In contrast to the rise in current assets, there were declines in particular in **cash and cash equivalents**, as well as in other assets. Cash and cash equivalents decreased year on year by €5.43 million to €56.14 million (31 December 2018: €61.57 million), while **other assets** fell by €5.88 million to €8.62 million (31 December 2018: €14.50 million).

Compared to 31 December 2018, the **equity capital** of the GFT Group rose by €6.03 million, or 5%, from €127.11 million to €133.14 million – adjusted for currency effects, the rise amounted to €2.05 million. Net income of €13.66 million (2018: €19.98 million) and positive currency effects of €3.98 million (2018: €–0.89 million) were offset in particular by the dividend paid to shareholders of €7.90 million (2018: €7.90 million). The initial application of IFRS 16 regulations using the modified retrospective method resulted in negative transition effects of €2.34 million. The transition effects were reported cumulatively in revenue reserves.

As a result of the 17% increase in the balance sheet total, the **equity ratio** of 31% was three percentage points below the prior-year figure (31 December 2018: 34%). Adjusted for effects from the change in accounting pursuant to IFRS 16, the equity ratio as of 31 December 2019 amounted to 35% and was thus slightly up on the previous year.

Compared to the prior-year figure, **non-current liabilities** rose to €157.08 million (31 December 2018: €119.61 million). This increase of €37.47 million was mainly due to **other financial liabilities** of €43.47 million (31 December 2018: €0.00 million). Other financial liabilities include the full amount of lease liabilities in connection with lessee accounting pursuant to IFRS 16. The main opposing effect was the €7.50 million decline in **financial liabilities** to €98.44 million (31 December 2018: €105.94 million) due to the redemption of bank loans.

Current liabilities of €145.61 million were up on the year-end figure (31 December 2018: €125.83 million). The increase in current liabilities as of 31 December 2019 was predominantly due to **other financial liabilities** of €14.07 million (31 December 2018: €3.20 million), which mainly comprise lease liabilities pursuant to IFRS 16 of €9.94 million. There were also increases in **contract liabilities** to €38.84 million (31 December 2018: €32.58 million) and in **other liabilities** to €25.81 million (31 December 2018: €21.69 million), while trade payables in particular declined to €9.50 million (31 December 2018: €13.70 million). Contract liabilities comprise unrealised revenue as well as prepayments received, especially in connection with fixed-price agreements to develop tailored IT solutions and implement sector-specific standard software, as well as service agreements for the further development of business-critical IT solutions.

As of 31 December 2019, the GFT Group's **debt ratio** increased by four percentage points to 69% (31 December 2018: 66%). Adjusted for effects from the change in accounting pursuant to IFRS 16, the debt ratio as of 31 December 2019 amounted to 65% and was thus one percentage point below the prior-year figure.

Further information on the GFT Group's assets, equity and liabilities is provided in the consolidated balance sheet, the consolidated statement of changes in equity and the respective notes to the consolidated financial statements.

2.9 Overall assessment

The financial year 2019 developed in line with expectations: while business with the top-2 clients declined as anticipated, this was more than offset by dynamic revenue growth with other clients. The diversification of the Group's revenue sources made further progress in the reporting period, resulting in an expected rise in total revenue. As forecast, EBT was burdened by higher costs for sales and the expansion of technology expertise, as well as by underutilisation and expenses for capacity adjustments. As a result, it fell below the prior-year level.

As of 31 December 2019, the equity ratio of 35% (adjusted for IFRS 16 effects) was slightly above the level at year-end 2018 (34%) and reflects the solid capital and balance sheet structure of the GFT Group.

2.10 Non-financial performance indicators

Employees

The performance, skills and motivation of our employees are the main factor driving the success of GFT as a technology partner for digital transformation. After all, our employees have a significant impact on the quality of our services and the satisfaction of our clients, and thus ultimately determine our economic success. The HR strategy of GFT Technologies SE therefore focuses on attracting, developing and retaining highly skilled and motivated employees.

The GFT Group's HR organisation is globally aligned. The Group defines standards for HR activities and adopts cross-company measures. These measures are then implemented in the respective countries by the local HR departments.

Headcount trend

As of 31 December 2019, the GFT Group employed a total of 5,242 people, and thus 8% more than in the previous year (31/12/2018: 4,875). In the *Americas, UK & APAC* segment, headcount rose by 25% to 1,768 (31/12/2018: 1,417). As a result of the dynamic business trend in Latin America with local and Spanish retail banks, headcount in Brazil rose by 30% and in Mexico by 25%. Strong demand in the insurance sector also led to a 34% increase in staffing levels in Canada. Year-end headcount in *Continental Europe* was virtually unchanged at 3,360 (31/12/2018: 3,345). Whereas weaker business with the top-2 clients was responsible for a decline in Spain, the dynamic trend in the insurance sector led to growth in France and the nearshore location Poland. The increase in headcount also resulted from the acquisition of AXOOM in GFT's industrial business in Germany.

Employees by country

	31/12/2019	31/12/2018	Δ	Δ %
Spain	1,833	1,922	–89	–5%
Brazil	953	731	222	30%
Italy	610	572	38	7%
Poland	565	536	29	5%
Germany	405	372	33	9%
Mexico	282	226	56	25%
Canada	239	179	60	34%
UK	153	142	11	8%
Costa Rica	102	100	2	2%
USA	39	39	0	0%
Switzerland	38	43	–5	–12%
France	18	7	18	>100%
Belgium	5	6	5	–17%
	5,242	**4,875**	**367**	**8%**

The holding company employed 114 people at the end of the reporting period, corresponding to a slight increase of 1% on the previous year (31/12/2018: 113).

Headcount in Germany rose by 9% to 405 employees as of 31 December 2019 (31/12/2018: 372 employees), due in particular to the acquisition of AXOOM GmbH in Karlsruhe.

The productive utilisation rate, based on the use of production staff in client projects, was unchanged at 89% in the reporting period (2018: 89%).

The headcount figures displayed here are calculated on the basis of full-time employees. Part-time staff are included on a prorated basis.

Employees by segment

	31/12/2019	31/12/2018	Δ	Δ %
Americas, UK & APAC	1,768	1,417	351	25%
Continental Europe	3,360	3,345	15	0%
Others	114	113	1	1%
GFT Group	**5,242**	**4,875**	**367**	**8%**

Retaining and developing skilled staff

The recruitment and further development of highly skilled and motivated employees is a major success factor for GFT – not just in times of a shortage of IT specialists. To this end, GFT's HR processes are constantly being refined.

In order to increase employee loyalty from the outset, the HR department developed a globally standardised onboarding process in the reporting period. The aim is to quickly familiarise new employees with the corporate culture, business model and internal processes, and to help them get to know their colleagues and superiors. The programme begins on the first day of work and supports new staff during their first 90 days in the company. The standardised concept is globally aligned and locally implemented. Following the successful implementation of initial pilot projects in Canada and the UK in the reporting period, the Group-wide roll-out will be completed in 2020 following an evaluation phase.

One further key project in the reporting period was the introduction of a software-based performance management model to optimise HR processes. This not only simplifies data collection and analysis, but also strengthens employee engagement, for example in developing their own career goals. Both the development steps and target achievement are stored in the system and can be monitored by employees at any time. In addition, there is an embedded feedback process involving colleagues and superiors. The improvements in performance assessment and personnel development initiated so far are particularly important for the promotion of international careers, for example by supporting relocations to different countries and project assignments. Following the roll-out and training phase, the project was successfully completed in 2019.

In order to attract skilled employees, GFT has collaborated closely over many years with universities in Brazil, Germany, Poland, Italy, Costa Rica and Spain. The Group is also a partner company for various dual study programmes in Germany.

Tailored career and working models
Based on the respective needs and life situation of employees, tailored solutions are developed with regard to career development and the structuring of working conditions. For example, flexible working hours and mobile work enable staff to find the right work-life balance and reconcile their professional and family commitments. In addition, staff are offered tailored part-time solutions, for example in connection with parental leave, or longer career breaks (sabbaticals).

The training options for our employees focus on GFT's core areas, such as software development, IT architecture, consulting, sales and project management. International programmes, such as the GFT Accelerated Leadership Program or Cross Cultural Management Training, promote continuous employee development. In addition, GFT provides coaching and special mentoring programmes. In the reporting period, the development of technological expertise was driven forward by means of external training and certification, especially in the field of cloud technologies. Over 500 GFT employees were skilled in cloud technologies like AWS, Google and Microsoft in the past year.

Open and direct communication
GFT cultivates open communication and uses various channels for this purpose. An international editorial team publishes articles from the company's various countries and locations in the digital staff newsletter "Newstime". In her CEO blog "Connecting the dots", Marika Lulay provides insights into company activities and the latest trends in the sector and technology. The personal exchange of views between top management and employees from the various divisions is encouraged at local events. One particular highlight are the annual Values Awards, which honour employees world-wide who particularly exemplify GFT's corporate values.

Quality management
GFT continuously develops its quality management system and applies strict standards for its software development process. The company has been using the CMMI (Capability Maturity Model Integration) reference model since 2005 – it currently has Level 3 certification. This certification level is achieved if projects are conducted according to an adapted standard process with constant Group-wide process optimisation in order to guarantee top-quality implementation. In addition to quality management, GFT also meets high standards in the field of data privacy and IT security. For example, the global Information Security Management System (ISMS) complies with the ISO/IEC 27001 standard.

3 Risk report

3.1 Principles

Aims of the risk management system
The main objective of the GFT Group's risk management system is to identify risks at an early stage that may have a negative impact on the Group's sustainable growth or a direct impact on its financial position and performance. The GFT Group defines negative deviations from its guidance or medium-term planning as risks. The focus is on avoidance of all risks that might endanger the company's continued existence. Insofar as risks cannot be avoided, the assessment of their impact on the GFT Group and the likelihood of occurrence is an integral part of the risk management system in order to evaluate risks and derive appropriate measures to minimise them, taking into account the associated opportunities. The Group Risk Committee (GRC), comprising the global risk officers, plays a key role in this matter.

Internal control and risk management organisation
The risk management system of GFT Technologies SE is embedded in the risk management organisation of the GFT Group.

As an internationally operating company, the GFT Group is continually exposed to internal and external risks which need to be monitored and limited. To this end, a Group-wide risk management system has been established in order to identify and analyse risks at an early stage and take appropriate counter-measures. The system serves to recognise potential occurrences that might lead to a lasting or significant impairment of the company's financial position and performance. The GFT Group employs suitable controlling instruments to monitor the risks.

The implemented risk management system ensures compliance with the relevant legislation as well as the effective management of risks. In order to guarantee the effectiveness of the GFT Group's global risk management system and enable the aggregation of risks and transparent reporting, a consistent, integrated approach to the management of corporate risks has been implemented.

The risk management system comprises a variety of control processes and control mechanisms and represents an essential element of the corporate decision-making process. It has therefore been implemented throughout the GFT Group as a fundamental component of the business processes. The main principles and the organisational structures, measurement and monitoring processes are defined in a risk management guideline.

The Group-wide risk management function (headed by Group Controlling) and the risk owners of the various departments are charged with updating and implementing the risk management guideline. At the same time, the risk inventory is regularly updated and risks assessed at least once a year. Within the central risk management system of the GFT Group, each employee has the opportunity to report escalations in risk categories, which are then measured by the risk category owners.

All managers of the GFT Group are involved in the Group-wide risk policy and associated reporting processes. This includes the risk owners of the various departments at a global level, the Managing Directors and the chief executives of Group subsidiaries, as well as those managers responsible for processes and projects.

Risk management system

The risk management guideline regulates the handling of risks within the GFT Group and defines a uniform methodology valid across the entire Group. The guideline is regularly reviewed and adjusted as required, but at least once a year. The effectiveness of the risk management system and ICS (internal control system) is monitored by regular audits of the Corporate Audit division. Moreover, the external auditors check every year whether the risk management system is suited to recognising existential risks at an early stage.

The GFT Group's risk management system is integrated into its business processes and decisions and thus embedded into Group-wide planning and controlling processes. Risk management and control mechanisms are precisely coordinated with each other. They ensure that relevant risks for the company are recognised and assessed as early as possible.

The identification of risks takes place at different levels of the company. This is to ensure that risk tendencies are recognised and consistent risk management is practised across all departments. Moreover, each employee is called upon to inform their superiors about foreseeable risks.

The centrally organised GRC, headed by the Chief Financial Officer (CFO), is at the heart of the standardised risk reporting process. It coordinates the various management bodies and ensures they are provided with swift and continual information. The GRC is also responsible for the continual analysis of GFT's risk profile, for initiating measures to prevent risks and for the corresponding control instruments. In addition, the GFT Group's management bodies hold regular meetings in dedicated groups (mainly Group Management Board and GRC) in order to exchange risk-relevant information between the operative and central divisions across all levels, locations and countries.

The planning and identification of internal and external risks is carried out jointly by the risk category responsibles and the business units or national companies. Depending on the estimated probability of occurrence and potential impact (such as the potential loss or damage amount), risks are classified as "high", "medium" or "low". The key risk indicators are summarised in the risk inventory.

Risks are monitored in close cooperation between the global risk owners and the department managers in the operational areas. They also jointly ensure the implementation of effective strategies to minimise risks. Risks can either be reduced by taking pro-active countermeasures or consciously accepted. The department managers are responsible for continuously monitoring the risks and the effectiveness of countermeasures. Where possible, risks are hedged against by taking out insurance cover if this is considered useful with regard to the economic benefits.

The GRC receives regular reports on the status of the risk management system and its implementation in the Group's various divisions. Moreover, it is informed about the financial outlook, risk-relevant KPIs and the current risk status of operational projects during its regular conference calls.

Description of the accounting-related internal control and risk management system acc. to sections 289 (4) and 315 (4) HGB

The internal control and risk management system for the accounting of the GFT Group and the annual financial statements of GFT Technologies SE is linked with the company-wide risk management system. It includes organisational and monitoring structures to ensure that business items are recorded, processed and analysed in accordance with statutory regulations and are subsequently incorporated into the consolidated financial statements according to IFRS and the annual financial statements of GFT Technologies SE pursuant to the German Commercial Code (Handelsgesetzbuch, HGB) in a compliant manner.

The accounting process of the GFT Group (including GFT Technologies SE) ensures that the full and correct amounts and disclosures are included in the instruments of financial reporting (accounting, components of the financial statements, the Group Management Report and Management Report) and that the relevant legal and statutory requirements are fulfilled. The respective structures and processes also comprise the risk management system and internal control measures in relation to the accounting process.

Key elements of risk management and control in the accounting process include a clear allocation of responsibilities and controls in the preparation of annual financial statements, as well as transparent regulations in the form of accounting guidelines. Further important control principles in the accounting process include the four-eye principle and a clear separation of functions.

The Group Accounting department transfers all relevant changes in the accounting and measurement policies to the Group-wide guidelines on accounting and revenue recognition. Together with the financial reporting calendar, these guidelines form the basis for the financial reporting process. The subsidiaries of GFT Technologies SE are responsible for compliance with Group-wide accounting standards in their financial statements and are supported and monitored to this end by the Group Accounting department. External service providers with the corresponding expertise are used for the valuation of pension obligations, purchase price allocations in the course of company acquisitions or other complex accounting transactions. The consolidation is performed globally by the Group Accounting department. Corporate Audit performs regular audits of the accounts prepared by the consolidated companies.

Risk assessment
As part of the risk management system, risks are classified as “high”, “medium” or “low” according to the estimated probability of occurrence and their potential impact on business targets. The scales used to measure these indicators are presented in the tables below.

Probability of occurrence	Description
1 to 33%	more unlikely
34 to 66%	likely
67 to 99%	more likely

According to this classification, the risk category responsibles define a “more unlikely” risk as one whose probability of occurrence is low, and a “more likely” risk as one whose occurrence can be expected within a given period of time.

The effects of these risks are classified in the groups “insignificant”, “moderate” or “significant”.

Effects	Description
insignificant	limited negative impact on business, financial position, earnings and cash flow
moderate	negative impact on business, financial position, earnings and cash flow
significant	considerable negative impact on business, financial position, earnings and cash flow

Risks are classified as “high”, “medium” or “low” according to the estimated probability of occurrence and their impact based on business, reputation, financial position, earnings and cash flow.

Probability of occurrence	Effects		
	insignificant	moderate	significant
likely	l	l	m
more likely	l	m	h
eher wahrscheinlich	m	h	h

l = low risk m = medium risk h = high risk

Risk factors
The risk positions listed below are those which the GFT Group identifies and monitors as part of its risk management system. The risk positions were maintained in the past financial year and are broken down into five main risk categories: economic, political and regulatory risks, strategic risks, personnel risks, operating risks and financial risks. These in turn are subdivided into further risk positions.

The common factor for all risks described in this report is that their occurrence may have a critical impact on the GFT Group’s business, financial position, earnings and cash flow. At the same time, they may increase other risks and result in a negative deviation from current revenue and earnings targets. Each risk is classified on a scale of low, medium or high.

Risk positions of the GFT Group

Economic, political and regulatory risks

- Economic and political environment
- Regulatory environment and legal requirements

Strategic risks

- Sector and market risks
- Strategic business model
- Acquisition and integration risks
- Innovation and technological know-how

Personnel risks

- International human workforce
- Attract, develop and retain employees

Operating risks

- Sales risks
- Project risks
- Guarantee and litigation risks

Financial risks

- Liquidity risks
- Exchange rate and interest rate fluctuation risks
- Accounting risks
- Tax risks

3.2 Economic, political and regulatory risks

Economic and political environment
The main macroeconomic risks of the GFT Group include the overall economic situation, the general propensity to invest and price developments on the IT market. The political and economic development of the economies in core markets has an impact on the investment behaviour of customers. In the financial year 2019, the GFT Group generated 75% (2018: 81%) of its revenue in Europe, so that in particular the European environment is still of importance.

Events such as a regional or global economic crisis, military conflicts, terrorist attacks, emerging epidemics and pandemics (such as the coronavirus Covid-19), fluctuations in national currencies or the creation of trade barriers (e.g. Brexit) can have a lasting impact on demand for solutions and services, for example due to delays in project contracts, rising credit risks of customers, changed refinancing costs or other distortions of competition.

The GFT Group prepares for the occurrence of such macroeconomic risks by taking appropriate measures such as changing its investment priorities, adjusting the portfolio of services, making organisational changes or hedging.

The GFT Group estimates the probability of these macroeconomic risks as likely. The effects on the GFT Group can range from insignificant to significant, so that in total these risks are classified as high.

Regulatory environment and legal requirements
The legal requirements to be observed by the GFT Group have intensified significantly over the past years. Even if GFT does not infringe any laws, an alleged violation of laws or an accusation brought forward can have a seriously negative impact on its reputation and thus on its share price.

The wide variety of relevant legal regulations makes it difficult to assess such legal risks. If the relevant laws are not observed or the requirements of customers (e.g. regarding data privacy and information security) are not sufficiently met, this might lead to investigations by the supervisory authorities, liability claims, fines and the loss of customers and thus affect the business and economic success of the GFT Group.

The Legal Affairs department regularly reviews new legal requirements in the business and corporate environment of the GFT Group. Based on this latest information, internal legal processes and corporate guidelines are continuously kept up to date. The GFT Group takes particular care to ensure that all employees are familiar with, and comply with, its code of conduct (Code of Ethics & Code of Conduct), the data protection rules and the regulations on information security.

The GFT Group estimates the probability of legal risks as not predominantly likely, their impact on the GFT Group may be significant however, and in total these risks are therefore classified as medium.

3.3 Strategic risks

Sector and market risks
The GFT Group has a strong focus on the financial services sector. In the financial year 2019, 92% of revenue was generated with clients in this sector. There are risks, for example, in the form of regional or global financial and economic crises, inadequate or excessive regulation of financial service providers and normal demand cycles in the markets of GFT. In addition, there are political risks, such as an increase in trade barriers around the world, which could impair economic activity in our target markets.

In order to minimise the dominant market risks, the GFT Group is diversifying both its client base and service portfolio in the area of its core competencies. The acquisition of AXOOM (Karlsruhe) and the industry experts of the TRUMPF subsidiary in the past year underpinned GFT’s investment strategy aimed at diversification and the broad-based, rapid expansion of its industrial offensive. Germany is the focus region for diversification in the industrial sector. GFT's extensive IT and industry expertise will support companies in all areas of the industrial sector with their digitalisation processes.

Further measures include the conclusion of long-term contracts, intensive customer support at the level of top management, the strengthening of strategic partnerships with platform providers (e.g. Amazon – Amazon Web Services, Google – Google Cloud Platform) and the expansion of product offerings (e.g. Tranquility Base – open source multi-cloud datacentre) with new technologies.

The GFT Group estimates the probability of the risk of focusing on the financial services sector as likely, its impact on the GFT Group is regarded as moderate. The resulting risks in total are therefore classified as medium.

Strategic business model
Risks arising from the strategic business model or from grasping strategic opportunities are integrated into the strategic planning process. Strategic risks (including risks from the client portfolio) are given priority in their analysis by top management.

As the long-term impact of strategic risks and their impact on the financial position and performance, as well as cash flow, is difficult to quantify, such qualitative factors as economic and technology trends, compliance requirements and competition are included in risk assessment as strategic factors.

The country managers and risk officers of the individual departments evaluate potential strategic risks in their areas of responsibility and regularly report identified risks at the highest management level (Managing Directors and GRC). There is a particular focus on strategic risks during the annual budget process: risks are evaluated and assessed, and corrective measures introduced if necessary in order to avoid or at least minimise the risk.

The GFT Group estimates the probability of risks from its strategic business model as more unlikely, yet their impact on the GFT Group may be significant, so that in total these risks are classified as medium.

Acquisition and integration risks

Inorganic growth is a component of the GFT Group's strategy. Targeted acquisitions minimise risks in various areas, expand the range of existing solutions, expand the customer portfolio and reduce dependence on markets. The risks in this field include false assessments regarding the integration concept, potential customers, staff qualifications, management skills, or legal and warranty risks.

The acquisition process is supported by the "Mergers & Acquisitions" team based on standardised structures, processes and templates. Experience gained from previous acquisitions is used to optimise standards. The GFT Group has made a total of nine acquisitions since 2011.

These risks are dealt with by commissioning external experts in advance of any acquisition to assess the legal and commercial risks and the quality of the customer relationships (due diligence). Moreover, a qualitative evaluation of the employees and managers of the target company is made prior to acquisition. The integration concept is also prepared in detail prior to any corporate acquisition on the basis of experience from previous takeovers.

Acquisitions help to minimise risks, for example by increasing sector diversification, entering new markets and reducing client dependence.

Various risks arise during integration into the GFT Group's existing structures and corporate philosophy. A post-merger integration (PMI) process has been established across the Group and is headed by the Chief Operating Officer (COO). It is based on a multi-level and standardised integration process that balances risk and effort and decides between various stages of integration. The COO is responsible for Group-wide compliance with standards and has a coordinating role in local PMIs.

The GFT Group estimates the probability of risks in connection with company acquisitions as likely. As a consequence, company acquisitions are examined very thoroughly and the subsequent integration process is well prepared. Their impact may be significant in certain cases. Due to the established standard processes, the impact on the GFT Group is viewed as moderate and these risks are therefore classified as medium.

Innovation and technological know-how

The demand for the IT solutions offered by GFT depends heavily on market and sector trends in the financial services sector and, in particular, on the strategic alignment of its main clients. The GFT Group safeguards its future market success as a leader in technology and innovation by identifying technological trends early on and introducing corresponding measures to quickly implement suitable technologies. The short life cycles of IT systems, technologies and software solutions are a key element of the business environment. There is a risk that major developments may not be recognised quickly enough, or underestimated and not applied or implemented. This may have a negative impact on the development of business and revenue.

The risks that can arise from changing demand for GFT's existing solutions are difficult to quantify in terms of impact and probability of occurrence. In order to minimise the risk, GFT's strategic business model is based on a wide range of services and solutions for our clients. GFT works with strategic technology partners to identify changes in demand trends as soon as possible.

GFT works with strategic technology partners to identify changes in demand trends as soon as possible. As one of the few IT service experts in the banking environment, GFT strengthened its strategic partnerships with Amazon, Google and Microsoft, three of the largest cloud providers world-wide, during the past financial year. In the insurance sector, there is a partnership and close cooperation with Guidewire (claims management software).

In addition, GFT's technology experts regularly take part in congresses and panel discussions, particularly in the field of digitalisation, blockchain, cloud, DevOps, data analytics, artificial intelligence and Industry 4.0 (IoT). Innovation enjoys a high priority at GFT, which is why we continuously invest in research and development.

New technologies are evaluated internally according to their maturity and relevance to GFT's core business. In the case of relevant technology trends, measures are taken to ensure that strategic partnerships are reviewed, adapted as necessary or expanded, and that investments are made in prototypes.

The GFT Group estimates the probability of risks in connection with innovations and technological know-how as more unlikely. The impact on the GFT Group can be significant in individual cases, so that these risks can be classified as medium in total.

3.4 Personnel risks

International human workforce
Highly qualified and motivated employees at our international development centres are a key success factor for the GFT Group. Risks arise if the employees required for the implementation of the acquired projects are not available, if the technological skills of employees do not (or no longer) satisfy market needs, or if team sizes are reduced by above-average staff turnover. The current changes in geopolitical conditions (e.g. protectionism) may limit the global mobility of our employees.

These risks may lead to inadequate utilisation of the Group's own employees and thus result in fixed costs not being covered. Staff departures may incur additional costs for personnel recruitment measures and overload the remaining employees, which may reduce quality and customer satisfaction.

The GFT Group counters these risks by positioning itself as an attractive and globally operating employer which seeks to retain its specialists and executives. The respective HR policy measures include attractive working conditions, personal space, attractive remuneration systems, tailored career models and extensive training. With the aid of targeted recruitment measures, the Group strives to attract new talent and to develop its positive presence on the job market.

Insofar as customer requirements cannot be met by our own staff, mainly due to capacity bottlenecks or a lack of specialist skills on the part of our staff, targeted external resources are used.

The GFT Group estimates the probability of risks from international HR management as likely; the impact on the Group is more moderate so that in total these risks are classified as medium.

Attract, develop and retain employees
In connection with the current shortage of specialist staff, particularly in the IT sector, the recruitment of skilled employees is hampered by the ongoing rise in demand. The same applies to the retention of existing employees. Unless the GFT Group is able to find suitable employees or to retain them, there is a risk that it will no longer be able to implement operating activities as effectively and successfully, or that it will not be able to develop the service portfolio and technological know-how as planned.

Since employees are at the heart of our business model and make an essential contribution to the company's success, GFT attaches great importance to the issue of employee retention.

For this reason, trends in the world of work are observed and appropriate measures are taken to continuously develop and increase the attractiveness of the company for employees.

These measures include a regular review of local working time and salary models, the further development of our career model, the performance assessment of employees, and the promotion of employees via internally initiated talent development programmes.

The GFT Group estimates the probability of risks in connection with attracting, developping and retaining employees as likely, while their impact on the GFT Group is more moderate so that in total these risks are classified as medium.

3.5 Operating risks

Sales risks
The core business of the GFT Group comprises consulting, the development of software solutions, and the implementation of international IT projects. Depending on the complexity of the project, the type of order or solution offered, this may involve contractual, technological and economic risks.

In order to keep these project risks at a manageable level, the GFT Group employs a standardised and computer-aided bidding process which makes the calculated margins and potential risks transparent for all employees. Offers are released by defined specialists and managers at all levels of the hierarchy depending on the economic size and risk profile of the project.

Moreover, as a further risk-reducing measure in the field of operating activities, master contracts drafted by the Group's own legal department are used as far as possible. With the exception of companies in Italy, any deviations from the standards and the clients' own contracts are checked and negotiated by the GFT Group's legal department. The companies in Italy are supported completely by external legal advisors. These measures ensure that liability risks associated with the contracts (for example, warranties or industrial property rights) are regulated in a clear and transparent way and limited to a reasonable amount. The companies belonging to the GFT division in Italy are supported by external lawyers. Contractual provisions that go beyond the general requirements of the GFT Group (such as the assumption of unlimited liability or the agreement of excessive penalties) require the express approval of the Managing Directors.

The GFT Group estimates the probability of sales risks as more unlikely. The impact on the GFT Group can be significant in individual cases, so that these risks are classified as medium in total.

Project risks
The implementation of IT projects, especially at fixed prices, is associated with technological and economic risks. Project delays, insufficient quality or lack of resources may lead to economic losses, compensation claims, lack of repeat business and damage to the Group's reputation.

Project processing includes a risk management system integrated into project management methods, which safeguards the implementation or provision of services. The internationally recognised Capability Maturity Model Integration (CMMI®) process model is used. Application of the CMMI® process has in the past enabled us to significantly reduce technical problems such as projects going over budget or deadlines not being met. Project and quality management have been optimised with the successfully certified further development of internal processes according to CMMI® Level 3. The corporate division Risk & Quality Management examines Group-wide compliance with the CMMI® model and the implementation of risk management requirements, and reports any deviations to the responsible managers and the Managing Directors.

The staff required for the completion of contracted projects are coordinated by the local staffing managers. The required manpower capacities and technological knowledge for the project are continuously planned. The resulting utilisation in the following months is defined on the basis of the in-house workforce and project utilisation. Any lack of capacity is offset by hiring new staff or purchasing external services. Foreseeable surplus capacities are counteracted by early communication to the sales department, which then steps up its sales activities.

The relevant project risks of the GFT Group are made transparent for the manager responsible by means of standardised escalations of the respective departments (Risk & Quality Management, Controlling). In the course of standardised monthly reporting, the main project risks are communicated to the Managing Directors who initiate additional countermeasures where appropriate.

The project business of the GFT Group is not possible without project risks – which are generally offset by project opportunities.

GFT estimates the probability of such project risks as likely. Their impact on the GFT Group can be significant in certain cases, and in total this risk is therefore classified as high and extensive methods and processes to manage project risks are employed.

Guarantee and litigation risks
The possible economic harm caused by the infringement of industrial property rights, and in particular third-party party rights to patents and software, may lead to considerable damage. Due to the increasingly frequent disputes between licensors and licensees, the growing relevance of patents in the field of software and the ever-increasing use of open source software, the GFT Group has established mechanisms for the preparation of bids to customers which are designed to reduce legal risks and potential damages claims in this field.

The Chief Information Security Officer of the GFT Group is currently responsible for examining any pre-existing patents. In addition, a technical and legal process has been introduced which accompanies the use of open source components during bid preparation and throughout the project activities. During the bid preparation stage, any open source components which are used are checked by the project managers with regard to licensing using a matrix system; technical alternatives are discussed – where necessary – with the project managers. On the basis of this review, the use of specific open source software is either possible, possible only to a limited extent, or not possible at all.

The GFT Group estimates the probability of operating risks as more unlikely. Their impact on the GFT Group can be significant in certain cases, so that in total these risks are classified as a medium risk.

3.6 Financial risks

Liquidity risks
The liquidity of the GFT Group ensures its ability to conduct business. Local or global turbulence among banks, customers or capital markets can result in risks for investments made and receivables due and thus adversely affect the liquidity position. Such risks may arise, for example, from delayed receipt of receivables or the partial or complete loss of receivables from customers. On the investment side, capital market turbulence, rating downgrades and bank failures may lead to write-downs on investments made with an impact on earnings.

The GFT Group has a centralised financial management system with daily financial status reporting. The most important objective is to ensure sufficient liquidity for the Group. Outstanding receivables are analysed as part of the monthly consolidated reporting process so that countermeasures can be initiated at an early stage. In the case of new customers, credit checks are carried out during the bidding process. On the investment side, the GFT Group pursues a conservative investment policy with an exclusively short-term focus at present.

In addition to a syndicated loan agreement, GFT Technologies SE has taken out several promissory note loans to secure its long-term funding. There are certain rules of conduct for the GFT Group during the term of the loan agreement. These mainly refer to specific financial covenants which must be met and the assumption of financial liabilities and the provision of collateral is limited. If specific financial covenants and other rules of conduct are not met, this may lead to the immediate termination of the syndicated loan agreement. From the current perspective, there are no significant risks relating to the non-achievement of financial covenants or non-compliance with the other rules of conduct which are known.

The GFT Group estimates the probability of these liquidity risks as more unlikely. However, their impact on the GFT Group may be significant so that in total this risk is classified as medium.

Exchange rate and interest rate fluctuation risks
As an internationally operating company which prepares its accounts in euro, the GFT Group is subject to various financial risks from fluctuations in interest and exchange rates which may have a negative impact on its financial position and performance, as well as its cash flows.

Periodic fluctuations in currencies entail considerable risks for the financial position and performance as well as expected cash flows, in particular due to the mandatory currency translation into euros. As the GFT Group conducts its business around the globe, a significant proportion of its invoicing is in foreign currencies. In the financial year 2019, transactions in foreign currencies which were then translated into the Group's reporting currency, the euro, accounted for around 41% of consolidated revenue. Exchange rate risks resulting from the appreciation or depreciation of currencies arise in the Group’s operating business primarily when revenue is generated in a currency other than that used for the related costs.

The financial structure, investments and other balance sheet items of the GFT Group are subject to interest rate fluctuations on the capital markets which may have a negative impact on earnings, and especially on the interest result and other items of the income statement subject to discounting, as well as on cash flows.

The Treasury department continuously monitors the existing and potential currency risks for revenue, earnings and balance sheet items. Where required, the GFT Group uses financial instruments to hedge against exchange rate fluctuations. In particular, the exchange rates of the Brazilian real, the US dollar, the British pound, the Canadian dollar and the Polish zloty are closely observed as they are of particular importance for the Group.

Interest rate risks are managed by the Group’s treasury management, which uses financial instruments as required. In order to limit the risk of interest rate changes for a loan with a nominal amount of €40.00 million and variable interest, an interest cap was concluded until July 2020 with an upper interest rate of 1.00%. Changes in interest rates can lead to fluctuations in the market value of the derivative financial instrument. Such market value fluctuations cannot be viewed in isolation from the hedged underlying transaction as the derivative and underlying transaction form a valuation unit with regard to their offsetting value development. At the end of the reporting period 2019, there were no further significant financial instruments used for risk management purposes. For a more detailed presentation of financial instruments, see section 9.1 of the notes to the consolidated financial statements.

The GFT Group estimates the probability of interest rate risks as more unlikely and the impact on the GFT Group as moderate so that in total these risks are classified as low. However, the probability of exchange rate risks is estimated as likely, while the impact on the GFT Group can be moderate so that in total these risks are classified as medium.

Accounting risks
The GFT Group’s accounts are prepared according to the International Financial Reporting Standards (IFRS) as applicable in the European Union (EU). Current and future pronouncements on accounting policies and other accounting standards may have a negative impact on the published financial results. Risks arise in particular from delays in adjusting current methods to the new pronouncements on accounting methods and accounting standards as well as unforeseeable changes with regard to the interpretation of standards.

Accounting in accordance with IFRS requires management to make extensive assumptions, estimates and assessments which may have an impact on the financial figures of the GFT Group. Risks may arise in such a way that facts and assumptions on which the estimates and assessments of the management are based, as well as the assessment of these facts change over the course of time. This can lead to significant changes in estimates and judgments and consequently to changes in the financial figures and negative reactions on the capital market.

The GFT Group regularly monitors compliance with the applicable and relevant accounting regulations and reviews new relevant pronouncements or drafts and their interpretation in order to identify and implement any necessary changes to the Group’s internal accounting methods at an early stage.

Risks arising from the use of estimates and judgments are countered by established control mechanisms, for example by applying the dual control principle. In addition, forecasts based on assumptions and estimates, as well as their impact on financial figures, are regularly reviewed and analysed.

The GFT Group estimates the probability of accounting risks as more unlikely, although their impact on the GFT Group can be significant. All in all, these risks are therefore classified as medium.

Tax risks
The GFT Group operates in many countries around the world and is therefore subject to numerous different tax regulations and tax audits. Any changes in legislation and jurisdiction or different legal interpretations by the tax authorities – in particular in the area of cross-border transactions – may involve considerable uncertainties. It is therefore possible that provisions formed may prove to be insufficient and thus lead to a negative impact on the Group’s net income and cash flow.

Any changes or additions by the tax authorities are continuously monitored by the Tax department and the corresponding measures are taken where necessary.

Should such risks nevertheless occur, a moderate impact on the GFT Group's business activities, financial position and performance, and cash flows cannot be excluded. The GFT Group estimates that the occurrence of tax risks is probable, so that the risks must be classified as medium.

3.7 Overall risk assessment

The overall risk assessment is the result of a consolidated examination of the material individual risks explained in this chapter.

The coronavirus pandemic (Covid-19) has a direct influence on the overall risk assessment of the GFT Group. The restrictive measures taken by many countries, such as travel restrictions and curfews, aimed at slowing the spread of the coronavirus and protecting those at risk, have resulted in a variety of risks for the GFT Group which may have a direct impact on the GFT Group‘s financial position and performance.

Appropriate measures are being taken to counter these risks. An Operational Emergency & Response Team has been formed and a risk plan is currently being implemented. All employees are informed about the status of the crisis plan and current developments via an interactive blog set up for this purpose. All GFT employees have been given the possibility to work from home in order to protect themselves and others against the coronavirus. This will ensure operational functionality so that clients can continue to receive support with their ongoing projects. It is currently very difficult to estimate the scope and duration of the coronavirus crisis and thus its impact on GFT's business development. The situation requires continuous monitoring and, if necessary, the adoption of additional measures.

The Covid-19 pandemic is likely to have a significant impact on the financial position and performance of the GFT Group in 2020. At the time of preparing this report, there are no discernible risks that might endanger the continued existence of the GFT Group. A permanent or significant impairment of the company’s financial position and performance is not expected. The early risk detection system implemented by the GFT Group is constantly being refined and reviewed by the chief auditor in accordance with statutory requirements.

4 Opportunity report

Opportunity management
The GFT Group's opportunity management systematically records possible developments and events with a positive direct impact on its financial position and performance. Employees and management identify opportunities on the basis of market and competition analyses, sector studies and customer contact. This forms the basis for the co-development of scenarios with clients and partners. Opportunities that make economic sense are then subjected to a risk analysis and investment evaluation at regular planning and strategy coordination meetings and, where necessary, the research and development department, the range of services offered, and business planning are realigned accordingly.

GFT defines opportunities as possible positive deviations from its guidance for the financial year 2020 and medium-term planning. Developments, trends or events which could have a positive impact on the financial position and performance when they occur are explained in the following sections.

Economic and political opportunities
Macroeconomic opportunities arise when political and economic developments in national economies are better than expected and can influence the investment behaviour of clients as well as price developments in the core markets. These include events such as investment facilitation, public sector investment programmes or trade facilitation. Reduced uncertainty following political decisions taken over a longer period of time (e .g. Brexit) can also have a positive impact on client investment behaviour.

Strategic opportunities
Should the strategic external conditions listed below develop more favourably than assumed, this could prompt additional demand and thus have a positive impact on business activities, the financial position and performance, and cash flow.

Sector and market opportunities
GFT Technologies SE has targeted a further diversification of its business model. This offers the opportunity to reduce dependence on individual clients, sectors and regions. As a result, economic fluctuations and revenue shortfalls with individual clients can be partially offset by revenue growth in other target markets. The acquisitions made so far have accelerated diversification into the insurance and industrial sectors, accessed new customer groups and expanded the technology portfolio.

Opportunities from acquisition and integration
Identifying and exploiting value-enhancing acquisition opportunities is part of the GFT Group's corporate strategy. Potential further acquisitions are opportunities to increase revenue and profitability in the coming years. GFT has many years of experience in integrating new companies, business models and technologies into the Group, whereby high demands are placed on the target company. With the aid of targeted company acquisitions, GFT can participate in growth and technology trends in the selected sectors.

Opportunities from innovation and technological know-how
Opportunities for the GFT Group's business activities arise both from its range of solutions based on innovation and technological expertise. If technological trends develop more strongly than expected, this can have a positive impact on revenue, earnings and cash flows.

By means of acquisition-based and organic growth, the GFT Group has steadily expanded the expertise it can offer insurers and ultimately this sector's share of total revenue. Business with the implementation of Guidewire's standard solution for property insurers is making particularly strong progress. In order to meet the increasing demand for implementation projects, expert teams have been established in Poland and Spain, so that future growth can be accompanied from nearshore locations. Opportunities may arise from stronger than expected growth of our partner Guidewire and from faster than expected capacity expansion.

The transfer of IT systems to the cloud enables customers in the financial, insurance and industrial sectors to make their IT systems more flexible and cost-effective and also to develop new applications and utilise new technologies. Thanks to its strategic partnerships with Google, Microsoft and Amazon Web Services, the GFT Group is excellently positioned to benefit from the cloud trend. It helps clients transfer their systems to the cloud and provides support for the subsequent implementation and further development of cloud applications. Should the market and the business of our partners develop better than expected, opportunities may arise for the GFT Group.

The field of Industry 4.0 offers further potential. The successful development of IoT applications requires comprehensive technological expertise in DLT, cloud engineering, data analytics and artificial intelligence – technologies that the GFT Group is proficient in and is continuously expanding. The acquisition of an IT service provider in the field of industry and IoT during the reporting period has expanded GFT's technological offerings with the addition of in-depth industry expertise. In addition, the partnership with in-integrierte informationssysteme GmbH added an innovative software solution to the portfolio during the past year. In January 2020, in-integrierte informationssysteme GmbH was subsequently acquired. Further opportunities for business in the industrial sector may arise if the targeted clients increase their IoT budgets and the number and availability of interfaces grows faster than expected.

Opportunities from research and development

The GFT Group's research and development activities are aimed at identifying or anticipating sector trends and customer needs at an early stage and using these to derive the appropriate solutions. Activities focus in particular on cloud engineering, DLT, data analytics and artificial intelligence – technologies from which exponential growth is expected. Opportunities may arise from shorter innovation cycles, faster achievement of market-ready offerings, and subsequent increased scaling.

In addition, reference projects which are completed faster than expected may considerably simplify sales activities and order acquisition.

Opportunities in HR from international development centres

With its international development centres, the GFT Group's Delivery Model combines customer proximity and quality with attractive cost benefits and the global utilisation of technological expertise. Strategy concept work and consultation are conducted in direct contact with clients (onshore). Services are provided both onshore and at our nearshore development centres. This alignment not only offers cost advantages, but also gives our customers access to specialists and technological expertise. If companies are unable to adequately cope with the shortage of skilled workers in their core markets and do not themselves have nearshore capacities as a reservoir of skilled labour, demand for such external services may increase. GFT has a proven nearshore/onshore model and can provide technological expertise and capacities for its global clients. Should the shortage of skilled employees, and the need for them, have a greater impact than expected, this could have a positive impact on GFT's business activities.

Opportunities from currency and interest rate fluctuations

Currency opportunities arise from transactions that are not conducted in the reporting currency (euro). In a similar way to the risks listed in the risk report, exchange rate trends also offer translation and transaction opportunities. Market-related fluctuations in the general level of interest rates can result in opportunities that mirror the interest rate risk. The opportunities listed here can have a positive impact on the financial position and performance.

5 Takeover-relevant information

Disclosures pursuant to section 289a (1) and section315a (1) German Commercial Code (HGB) and explanatory report of the Administrative Board acc. to section 48 (2) sentence 2 SE-Implementation Act (SEAG) in conjunction with section 176 (1) sentence 1 German Stock Corporation Act (AktG)

Structure of the share capital

At the end of the reporting period, the issued share capital of GFT Technologies SE amounted to €26,325,946.00. It is divided into 26,325,946 shares. The proportionate amount of share capital allocated to each share totals €1.00. All shares of GFT Technologies SE were issued as ordinary bearer shares without nominal value (no-par shares). The shares are fully paid up. All shares have the same rights and obligations arising from the statutory provisions. Each share grants one vote at the Annual General Meeting.

Restrictions on voting rights or the transfer of shares

Legal regulations, in particular section 136 AktG and section 44 German Securities Trading Act (WpHG), exclude voting rights for the affected shares in the respective specified cases. We are not otherwise aware of any restrictions affecting voting rights or the transfer of shares.

Shareholdings exceeding 10 percent of the voting rights

GFT Technologies SE is aware of the following shareholding that exceed 10 percent of the voting rights: as at 31 December 2019, Ulrich Dietz (Chairman of the Administrative Board of GFT Technologies SE), Germany, held 26.42% of total voting rights.

Shares with special control rights

There are no shares with special rights conferring control.

System of control over voting rights when employees own shares and their control rights are not exercised directly

We are not aware of any employees who hold shares and do not exercise their control rights.

Legal regulations and provisions in the articles of association governing the appointment and replacement of executive board members

As a company with a one-tier management and control structure, GFT Technologies SE applies the disclosure obligations of section 289a (1) number 6 HGB and section 315a (1) number 6 HGB on the appointment and dismissal of executive board members to the Managing Directors. Their appointment and dismissal is governed by article 43 SE-VO (Council Regulation (EC) number 2157/2001 on the Statute for a European Company (SE)) and section 40 SEAG. Reference is made to these regulations. Pursuant to section 16 of the articles of association of GFT Technologies SE, the Administrative Board appoints one or more Managing Directors. The Administrative Board can appoint one of these Managing Directors as Chief Executive Officer and one as Deputy Chief Executive Officer. In each case, the appointment and dismissal of Managing Directors requires a majority of two thirds of votes cast by the Administrative Board, whereby abstentions or invalid votes are deemed to be votes not cast. The articles of association of GFT Technologies SE do not contain any further regulations on the appointment and dismissal of Managing Directors. Should one of the required Managing Directors be missing, section 45 SEAG states that a court may appoint a Managing Director on application of one of the persons involved.

Rules governing amendments to the articles of association

The requirements for amendments to the articles of association are regulated in particular in article 59 SE-VO and section 51 SEAG. Reference is made to these provisions. According to section 51 SEAG, the articles of association may determine, unless binding statutory regulations state otherwise, that a simple majority of votes cast is sufficient for a resolution of the Annual General Meeting to amend the articles of association, providing that at least half of share capital is represented. The articles of association of GFT Technologies SE make use of this provision in section 23 (4). A larger majority is required for an amendment to the company's object, for a resolution on relocating the registered offices of the SE to a different EU member state, and for other legally binding cases (section 51 sentence 2 SEAG). The Annual General Meeting can assign the authority to amend the articles of association to the Administrative Board insofar as such amendments merely relate to the wording. This is permitted for GFT Technologies SE by the provisions in section 21 (1) of the articles of association. Moreover, the Administrative Board is authorised by a resolution of the Annual General Meeting to amend the wording of section 4 (1) and (7) of the articles of association in accordance with the respective use of Authorised Capital 2017 and after expiry of the utilisation and authorisation period.

Executive board authorities, particularly the issuing and buy-back of shares

As a company with a one-tier management and control structure, GFT Technologies SE applies the disclosure obligations of section 289a (1) number 7 HGB and section 315a (1) number 7 HGB to the Administrative Board.

Authorised capital

The Administrative Board is authorised until 13 June 2021 to increase the share capital of GFT Technologies SE by up to €10,000,000.00 through a one-time-only or repeated partial issuance of bearer shares (no-par shares) against cash contributions and/or contributions in kind (Authorised Capital).

The Administrative Board is authorised to exclude the legal subscription right of shareholders,

- to remove fractional amounts from subscription rights;
- in the case of capital increases for contribution in kind for the granting of shares to acquire companies, company divisions, interests in companies or other assets in connection with the aforementioned company acquisitions (even if a purchase component is paid in cash in addition to shares);
- in the case of a capital increase for cash contribution if the issue price of the new shares is not significantly lower than the stock exchange price and the total prorated amount of share capital attributable to the new shares, for which subscription rights are excluded, does not exceed 10% of share capital, neither on the effective date nor at the time of exercising this authorisation. This restriction is to be applied to those shares which are issued during the term of this authorisation by utilising an authorisation for the disposal of treasury shares valid at the time this authorisation becomes effective in accordance with section 186 (3) sentence 4 AktG. This restriction is also to be applied to shares that have been, or will be, issued for the purpose of servicing convertible bonds/warrants if these bonds are issued during the effectiveness of this authorisation in accordance with section 186 (3) sentence 4 AktG;
- in the case of a capital increase for the issue of employee shares if the total prorated amount of share capital attributable to the new shares, for which subscription rights are excluded, does not exceed 10% of share capital, neither on the effective date nor at the time of exercising this authorisation.

The Administrative Board is authorised to determine a start date for dividend rights which differs from the statutory regulations and to determine the further details of a capital increase and its implementation, in particular the issue amount and the fee to be paid for the new shares, as well as the granting of subscription rights by means of indirect subscription rights pursuant to section 186 (5) AktG.

Conditional capital

Conditional Capital 2017 (sections 192 et seq. AktG) is regulated in section 4 (7) of the articles of association of GFT Technologies SE:

A conditional increase in the company's share capital (Conditional Capital 2017) of up to €10,000,000.00 is authorised through the issue of a maximum of 10,000,000 new bearer shares. A conditional increase in share capital is only implemented if the bearers of conversion or warrant rights from convertible or warrant bonds (or a combination of these instrument), which were issued by GFT Technologies SE or a domestic or foreign company in which GFT Technologies SE directly or indirectly holds a majority of voting rights and capital, on the basis of the authorisation adopted by the Annual General Meeting of 31 May 2017 agenda item 6, exercise their conversion or warrant rights or fulfil their conversion or warrant obligations from such convertible or warrant bonds, and insofar as the conversion or warrant rights or conversion or warrant obligations are not settled via treasury shares, nor shares from authorised capital, nor by other consideration.

The new shares participate in the profit from the beginning of the financial year in which they are issued; by way of derogation, the Administrative Board may, to the extent legally permissible, stipulate that the new shares participate in the profit from the beginning of a previous financial year for which no resolution of the Annual General Meeting regarding appropriation of profit has been taken at the time of their issue. The Administrative Board is authorised to determine the further specifics in connection with the issue of shares under this contingency.

Purchase of treasury shares
With a resolution adopted by the Annual General Meeting of 23 June 2015, GFT Technologies SE is authorised to purchase treasury shares up to a total of 10% of share capital as at the time of the Annual General Meeting resolution. The authorisation may be exercised once or several times and in full or in partial amounts. However, the treasury shares purchased on the basis of this authorisation, together with those treasury shares already held by GFT Technologies SE or attributed to it pursuant to sections 71a et seq. AktG, may at no time exceed 10% of the respective share capital. The purchase of treasury shares is made via the stock exchange or as part of a public purchase offer made to all shareholders by GFT Technologies SE. The purchase price per share paid by GFT Technologies SE (exclusive of any ancillary costs) may not exceed, or fall below, the arithmetic mean price for shares of the same class and with the same rights in GFT Technologies SE in the closing auction of Xetra trading (or a comparable successor system) over the ten trading days on which a closing auction was held prior to the purchase of treasury shares or, in the case of a public offer, prior to the day on which the public offer was announced, by more than 10%. In the case of a public offer, the volume of the offer may be limited. The authorisation was granted for every legally permissible purpose, and in particular for the following purposes:

- to use the treasury shares as an acquisition currency for the acquisition of companies or company divisions by GFT Technologies SE;
- to cancel shares;
- to offer the corresponding shares for purchase to employees of GFT Technologies SE and affiliated companies of GFT Technologies SE as defined by section 15 AktG;
- to sell the shares with the exclusion of shareholder subscription rights while meeting the requirements of section 186 (3) sentence 4 AktG.

The sale of purchased treasury shares must always be made via the stock exchange or by means of a public offer made to all shareholders. GFT Technologies SE was authorised, however, to employ a different selling method, with the exclusion of shareholder subscription rights, should this be necessary in the interests of GFT Technologies SE, in order to use the shares as follows:

1. to use the treasury shares as an acquisition currency for the acquisition of companies or company divisions by GFT Technologies SE;

2. to offer the corresponding shares for purchase to employees of the company and affiliated companies of GFT Technologies SE as defined by section 15 AktG.

The Administrative Board was also authorised, with the exclusion of shareholder subscription rights, to sell the acquired treasury shares in ways other than via the stock exchange or by way of a public offer to all shareholders, provided that the shares issued with the exclusion of shareholder subscription rights pursuant to section 186 (3) sentence 4 AktG do not exceed 10% in total of share capital, neither at the time this authorisation becomes effective nor at the time when this authorisation is exercised. Those shares issued during the term of this authorisation, utilising an authorisation to issue new shares from Authorised Capital pursuant to section 186 (3) sentence 4 AktG with the exclusion of shareholder subscription rights valid at the time this authorisation became effective, are to be included in this limitation. Also to be included are those shares issued, or still to be issued, for the settlement of warrant/convertible bonds, providing such bonds were issued during the effective term of this authorisation pursuant to section 186 (3) sentence 4 AktG.

In all the above cases, the selling price of a company share (excluding transaction costs) may not be significantly lower than the arithmetic mean price for shares of the same class and with the same rights in GFT Technologies SE in the closing auction of Xetra trading (or a comparable successor system) over the ten trading days on which a closing auction was held prior to the sale of treasury shares or prior to the date on which contract for the sale of treasury shares is concluded. The authorisations to sell may be exercised separately or together, in whole or in part. If exercised in part, the authorisation may be utilised on several occasions. The authorisation applies to shares of GFT Technologies SE already held by GFT Technologies SE at the time this authorisation was granted.

The Administrative Board was also authorised to cancel treasury shares without any further resolution of the Annual General Meeting. The authorisation to cancel shares may be exercised in whole or in part. If exercised in part, the authorisation may be utilised on several occasions. The authorisation applies to shares of GFT Technologies SE already held by GFT Technologies SE at the time this authorisation was granted. Cancellation results in a capital reduction. Contrary to the aforementioned, the Administrative Board may determine that share capital is not reduced, but that the proportion of the remaining shares in the share capital is increased pursuant to section 8 (3) AktG. In this case, the Administrative Board is authorised to adjust the number of shares stated in the articles of association.

The authorisation to purchase treasury shares became effective on 23 June 2015 and is valid until 22 June 2020.

Material agreements of the parent company conditional to a change of control following a takeover bid

GFT Technologies SE has signed several promissory note agreements totalling €59.5 million which grant termination rights to the respective lender in the event that, without prior consent of the respective lender, a person or a number of people acting in unison as defined by section 2 (5) German Takeover Act (Wertpapiererwerbs und Übernahmegesetz, WpÜG), or persons acting on behalf of such persons (with the exception of those defined “Permitted Owners” defined below) directly or indirectly acquire, at any time, control of more than 50% of the voting capital of GFT Technologies SE. The term “Permitted Owners” refers to (i) Mr Ulrich Dietz, Mrs Maria Dietz and their offspring, as well as (ii) persons acting on behalf of one or more of the aforementioned persons.

A banking consortium has provided GFT Technologies SE with a syndicated, half-revolving credit line for a total amount of up to €80 million, of which €47 million had been drawn at the end of the reporting period. The consortium members were granted the right to terminate their portion if a person or a group of people who have coordinated their actions pursuant to section 2 (5) WpÜG, or persons acting on behalf of such persons (with the exception of Ulrich Dietz and/or Maria Dietz and/or their offspring) directly or indirectly acquire, at any time, control of more than 50% of the voting capital of GFT Technologies SE.

GFT Technologies SE provides services under a master agreement with Deutsche Bank AG, which also grants Deutsche Bank AG the right to terminate the master agreement and the attendant separate agreements in the case of a change of control. Under this definition, a change of control occurs if (i) a competitor of Deutsche Bank AG buys shares in GFT Technologies SE, and/or an affiliated company which has concluded one or more separate agreements under the master agreement, to the extent that the competitor is able to assume decisive positions within GFT Technologies SE or (ii) a third person who is listed in the embargo list of Deutsche Bank AG purchases half or more of the shares in GFT Technologies SE, or one of the aforementioned affiliated companies, or gains control of their business.

Up to the balance sheet date, GFT Technologies SE had granted its Managing Directors special termination rights in their service contracts in the event of a change of control. Since the balance sheet date, only one Managing Director still has this special termination right in the event of a change of control. Further details are provided in the explanations below.

Compensation agreements with executive board members and employees in the event of a change of control

As a company with a one-tier management and control structure, GFT Technologies SE exclusively applies the disclosure obligations of section 289a (1) number 9 HGB and section 315a (1) number 9 HGB, regarding compensation agreements made with executive board members for the case of a takeover offer, to its Managing Directors.

Up to the balance sheet date, all Managing Directors of GFT Technologies SE had identical, time-limited special termination rights for the event of a change of control. There were also severance pay agreements with the same wording. Since the balance sheet date, these rights only apply to one Managing Director.

A change of control exists after the purchase of a minimum of 30% of voting rights in GFT Technologies SE by a third party or by several third parties acting together. A change of control is also deemed to exist on conclusion of an affiliation agreement (as defined by section 291 AktG) by GFT Technologies SE as a dependent company, or if GFT Technologies SE merges with a non-group legal entity, or in other comparable situations. If a Managing Director should justifiably exercise his or her special termination rights, they shall have a one-off claim to severance pay. This amounts to 50% of the fixed salary which would have accrued without exercising the special termination right up to the end of the regular contract period, but at least 50% and a maximum of 100% of a full annual fixed salary.

6 Remuneration report

Principles of the compensation system
This report explains the principles of the remuneration system for the Administrative Board and the Managing Directors of GFT Technologies SE. This remuneration report provides the individual disclosures of the remuneration of the members of the Administrative Board and the Managing Directors. The Remuneration Report contains all disclosures formerly required by section 4.2.5 of the Code (in the version of 7 February 2017) with the exception, however, of the model tables. In its latest Declaration of Compliance of 10 December 2019, the Administrative Board of GFT Technologies SE declared that the company had waived the use of model tables as it believes this would not provide any further informational content to the shareholders.

Administrative Board
In accordance with section 15 of the articles of association of GFT Technologies SE, remuneration for the members of the Administrative Board is set by the Annual General Meeting. The Annual General Meeting may adopt a higher payment for the chair and deputy chair of the Administrative Board. Payment is due at the end of each financial year. Members of the Administrative Board who only served on the Administrative Board for part of the financial year, receive one-twelfth of annual remuneration for each month of their membership they commenced.

The Annual General Meeting of GFT Technologies SE on 14 June 2016 adopted a resolution that the Administrative Board members of GFT Technologies SE should receive fixed remuneration of €43,000.00, while the Chairman of the Administrative Board should receive €86,000.00 and the Deputy Chairman of the Administrative Board should receive remuneration of €64,500.00 – in each case for the respective financial year and in addition to the reimbursement of expenses and the reimbursement of any VAT due on the remuneration and expenses. Those Administrative Board members – including the Chairman and his Deputy – who have been appointed Managing Directors of the company do not receive any Administrative Board remuneration insofar as they already receive remuneration for their duties as Managing Directors. This compensation regulation applies until the Annual General Meeting decides otherwise.

Total compensation for the members of the Administrative Board in the past financial year amounted to €279,500.00 (2018: €279,500.00). In the financial year 2019, an amount of €254,168.65 (2018: €316,184.12) was incurred for consultancy services provided by RB Capital GmbH, whose sole shareholder and managing director is Ulrich Dietz. An amount of €21,750 (2018: €7,000) was incurred for consultancy services provided by Maria Dietz in the financial year 2019. There were no other benefits or payments granted to members of the Administrative Board for personally rendered services, and in particular consultancy and referral services. There are currently no stock option programmes or similar securities-oriented incentive systems in place for the Administrative Board. No Administrative Board members were granted loans by the company or any affiliated company in the reporting period.

The members of the Administrative Board received the following compensation in financial year 2019 for their work on the Administrative Board of GFT Technologies SE (in euro):

Remuneration of the Administrative Board

in €	2018	2019
Ulrich Dietz (Chairman)	86,000.00	86,000.00
Dr Paul Lerbinger (Deputy Chairman)	64,500.00	64,500.00
Dr-Ing Andreas Bereczky	43,000.00	43,000.00
Maria Dietz	43,000.00	43,000.00
Marika Lulay	0.00	0.00
Dr Jochen Ruetz	0.00	0.00
Prof Dr Andreas Wiedemann	43,000.00	43,000.00
Total	**279,500.00**	**279,500.00**

Managing Directors
Principles of the compensation system up to 31 December 2019
Compensation for the Managing Directors is set by the Administrative Board. Amongst other things, it depends on the responsibilities of the respective Managing Director.

Remuneration is composed of performance-based and non-performance-based components. The non-performance-based component is paid in monthly amounts, i. e. twelve times per financial year. The performance-based components are granted as one-off payments. Stock option programmes or similar securities-oriented incentive systems do not currently exist.

In addition, the respective remuneration includes fringe benefits, such as the benefit in kind from the provision of a company vehicle also for private use, premiums for appropriate accident insurance and subsidies for pensions and health insurance within the customary range.

The first performance-based compensation component is linked to the attainment of targets for the key earnings figure of consolidated EBT (Earning Before Taxes) as well as the attainment of personal targets for the financial year agreed individually with the Administrative Board for each Managing Director. If the agreed minimum target is not reached, no corresponding variable compensation is paid. This component is capped individually for each Managing Director.

The second performance-based compensation component (value growth bonus) is based on multi-year, future-based development, considering both positive and negative trends. The value growth bonus is linked to the multi-year development of the ratio between EBT and revenue at Group level.

All variable remuneration amounts and total remuneration are capped.

No Managing Director was granted a loan or advance by the company or any affiliated company.

No special capping of payments to the Managing Directors in the event of premature termination has been agreed. The legal regulation therefore applies. In the event of death, the non-performance-based remuneration will continue to be paid to the contractually defined surviving dependants in the month of death and in the following six months, but no longer than the end of the contract.

With reference to the contractual arrangements in the event of a change of control, reference is made to section 289a (1) HGB and section 315a (1) HGB, “Compensation agreements with executive board members in the event of a change of control (no. 9)”, (see section: Takeover-relevant information).

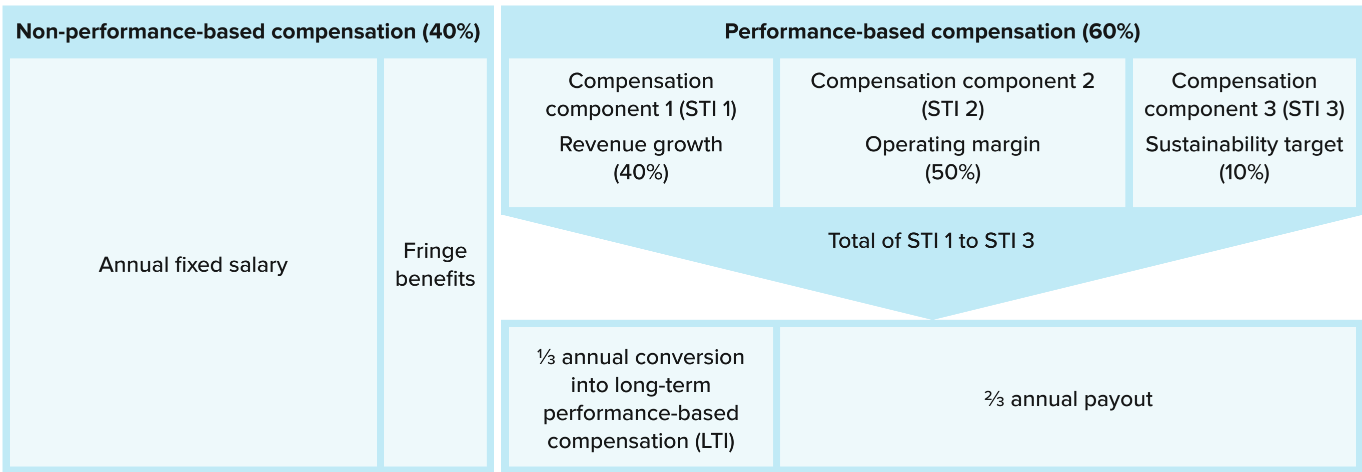
Total remuneration for the Managing Directors in the financial year 2019 amounted to €1,433,306.55 (2018: €1,509,032.37). In the reporting period, the company had two Managing Directors.

Further development of the compensation system with effect from 1 January 2020
Against the background of the further expansion of the GFT Group’s global market position as a leading technology partner for banks, insurers and industrial companies, the Administrative Board has decided to further develop the compensation system for the Managing Directors. The compensation system is aimed at the long-term and sustainable increase of enterprise value via profitable growth. At the same time, the compensation system should offer internationally competitive remuneration for the Managing Directors.

The further development of the compensation system applies to all service agreements with Managing Directors concluded on or after 1 January 2020. Old agreements are not affected. However, the Administrative Board reserves the right to reach an agreement with individual or all Managing Directors regarding an adjustment of their current contracts.

The following principles of the growth- and profit-based compensation system for the long-term increase in enterprise value apply:
Total compensation comprises non-performance-based and performance-based components.

Composition of total target compensation (on 100% target achievement)



Non-performance-based compensation
Non-performance-based compensation consists of the annual fixed salary and fringe benefits. The annual fixed salary is paid in monthly instalments, i.e. twelve times per financial year. Fringe benefits comprise the non-cash advantage of a company car which is also available for private use, premiums for an appropriate accident insurance policy, and contributions to pension and health insurance to the usual extent.

Performance-based compensation
Performance-based compensation consists of three components with a one-year assessment basis (the short-term incentives STI 1, STI 2 and STI 3) and a compensation component which is derived – in part – from this total with a multi-year assessment basis (long-term incentive/LTI).

Short-term incentive (STI)
The one-year performance-based compensation components are based on three targets:

- Growth target
- Profit target
- Sustainability target

Growth target
The growth target describes the targeted percentage increase in revenue compared to the previous financial year. Either the revenue of the GFT Group or the revenue of a subunit is agreed with each Managing Director as the basis for assessment. Depending on the degree to which the target is achieved, the resulting amount can lie between zero and a defined maximum amount.

Profit target
The profit target describes the targeted ratio of EBT (earnings before taxes) to revenue. Either the EBT and revenue of the GFT Group or of a subunit is agreed upon with each Managing Director as the basis of assessment. Depending on the degree to which the target is achieved, the resulting amount can lie between zero and a defined maximum amount.

Sustainability target
The Administrative Board agrees a sustainability target with individual Managing Directors. This describes a social or ecological target set annually by the Administrative Board. Depending on the degree to which the target is achieved, the resulting amount can lie between zero and a defined maximum amount.

Calculation of the total short-term incentive, payout or partial conversion into the long-term incentive
The amounts resulting from the degree of achievement of the growth and profit targets, as well as the sustainability target, are added together.

Two thirds of the resulting total annual amount is paid out in cash.

The remaining third of the total annual amount is converted into the respective long-term performance-based compensation component (LTI) (conversion amount). The development of the respective LTI is determined by the performance of the GFT share price.

Long-term incentive (LTI)
Every year, the Managing Director receives virtual shares for the conversion amount. The number of virtual shares is determined by dividing the conversion amount by the average share price weighted according to trading volume (Xetra) over the entire financial year prior to conversion (initial financial year).

The virtual shares are converted back after each period of three years. For this purpose, the number of virtual shares is multiplied by the average share price weighted according to trading volume (Xetra) in the entire third financial year after the initial financial year. The resulting amount is paid out to the Managing Director.

Limitation of total compensation
A maximum compensation amount is set for each Managing Director. This includes all compensation components: annual fixed salary, fringe benefits, STI 1, STI 2, STI 3 and the respective LTI.

In the case of old contracts, the performance of the virtual shares (LTI) is not limited. Consequently, total compensation is also not limited.

Benefits in the event of permanent disability or death
In the event of permanent incapacity to work, the company is entitled to terminate the service agreement with one month's notice to the end of the half-year. Permanent incapacity to work exists if the Managing Director is likely to be permanently (regularly for more than 12 months) unable to perform his/her duties for health reasons. In the event of permanent incapacity, the period of continued remuneration is to be no less than twelve months from the date on which the incapacity for work began. This means that, if necessary, the entire remuneration will continue to be paid beyond the premature termination of the employment relationship.

In the event of death, non-performance-based remuneration continues to be paid to the contractually defined surviving dependants in the month of death and in the following six months, but no longer than until the end of the contract.

Term of service agreements, age limit and benefits in the event of premature contract termination
Service agreements with the Managing Directors are limited in time. The maximum term is five years. In the case of an initial appointment as Managing Director, the term of the service agreement is usually three years.

No special limitation of payments is agreed in the event of premature termination. The statutory regulation therefore applies.

If, however, the position of Managing Director is terminated by revoking the appointment with notice served by GFT Technologies SE, and this is not for cause, and if the service agreement thereby ends before its regular term expires, the Managing Director is entitled to severance pay. This corresponds to the contractual remuneration which the Managing Director would have received from the time of the premature termination of the service agreement until its regular term expired, but for no longer than two more years.

D&O insurance for members of the Administrative Board and the Managing Directors
The company takes out D&O insurance for the members of the Administrative Board and the Managing Directors of GFT Technologies SE. It is concluded or prolonged annually. The insurance covers the personal liability risk in the event of claims for financial losses. The policy includes a deductible for the Managing Directors which complied, and continues to comply, at all times with the requirements of section 93 (2) sentence 3 AktG.

With regard to the D&O insurance, no deductible is agreed upon for those members of the Administrative Board who are also Managing Directors. The company is of the opinion that a deductible for members of the Administrative Board provides no additional incentive to carry out their activities with due diligence and in accordance with the statutory provisions.

Remuneration of the Managing Directors in the financial year 2019 acc. to HGB (benefits)
The Managing Directors received the following compensation (benefits granted acc. to HGB in euro):

Marika Lulay

in €	2018	2019	minimum	maximum
Non-performance-based compensation	380,000.04	380,000.04	380,000.04	380,000.04
Fringe benefits	34,506.05	36,891.58	36,891.58	36,891.58
Sub-total	**414,506.09**	**416,891.62**	**416,891.62**	**416,891.62**
Performance-based compensation				
Short-term	304,067.00	271,335.00	0.00	1,250,000.00
Long-term	100,000.00	85,000.00	0.00	265,000.00
Total	**818,573.09**	**773,226.62**	**416,891.62**	**1,931,891.62**

Dr Jochen Ruetz

in €	2018	2019	minimum	maximum
Non-performance-based compensation	300,000.00	316,666.68	316,666.68	316,666.68
Fringe benefits	34,209.28	35,842.42	35,842.42	35,842.42
Sub-total	**334,209.28**	**352,509.10**	**352,509.10**	**352,509.10**
Performance-based compensation				
Short-term	266,250.00	237,570.83	0.00	1,250,000.00
Long-term	90,000.00	80,000.00	0.00	250,000.00
Total	**690,459.28**	**670,079.93**	**352,509.10**	**1,852,509.10**

Allocation pursuant to the recommendations of section 4.2.5 (3) German Corporate Governance Code (in the version of 7 February 2017) for the Managing Directors in the financial year 2019 (in euro):
The following table presents the allocation of fixed compensation and fringe benefits, as well as short-term and long-term variable compensation for the financial year 2019.

in €	Marika Lulay	Dr Jochen Ruetz
Non-performance-based compensation	380,000.04	316,666.68
Fringe benefits	36,891.58	35,842.42
Sub-total	**416,891.62**	**352,509.10**
Performance-based compensation		
Short-term	271,335.00	229,237.50
Long-term	0.00	280,000.00[1]
Total	**688,226.62**	**861,746.60**

[1] Value of long-term performance-based compensation for the financial years 2016 to 2018

7 Forecast report

7.1 Macroeconomic and sector development

The assessment of the market and sector development presented in chapter 7.1. was made before the global outbreak of the Covid-19 pandemic and should be considered in this context. According to the preliminary estimates of economists, however, a sharp decline in global economic activity is anticipated.

Overall economic development remains positive

Compared to its last outlook in autumn 2019, the IMF has slightly downgraded its forecast for the global economy in 2020 and beyond. Growth of 3.3% is now forecast for 2020. The IMF economists attribute this to weaker growth in certain emerging markets, particularly India, as well as the continuing uncertainty caused by social unrest. While the downside risks emphasise US trade policy, the positive factors include favourable financing conditions, an unbroken strong propensity to consume and rising corporate capital spending.

The economists of the ECB expect the eurozone to grow by 1.1% in 2020, as it continues to benefit from historically low interest rates, expansionary fiscal policy and employment growth combined with wage increases. Although less pronounced, certain downside risks remain, such as geopolitical uncertainties, the danger of protectionism and instability in some of the emerging markets.

The Bundesbank forecasts that the German economy will slowly overcome its weak phase. Although domestic demand will lose some of its momentum, exports are expected to pick up again as fiscal policy and favourable finance terms provide a positive stimulus. The central bank's economists expect growth of 0.6% for Germany in 2020.

Sector and technology trends still intact

Against the backdrop of reduced risks from global recession, Brexit and trade barriers, the market research institute Gartner forecasts stronger growth for the IT sector in the current year. Its researchers expect a 3.4% increase in global IT spending, with above-average growth of 5.0% for IT services. Gartner has identified the cloud services business as one of the most important technology trends of the coming years, with anticipated growth of 17% in 2020. The main focus will be on the transfer of applications and data to the cloud (so-called lift & shift), as well as the development of cloud applications themselves. Concentration among cloud providers will continue to increase, resulting in just a few major players – including AWS, Google and Microsoft, which GFT covers. According to a study by Nasdaq, the combination of data analytics, RPA and AI in particular offers strong potential, even though – as the market research institute Forrester states – artificial intelligence will continue to focus on narrowly defined application areas.

As in previous years, financial institutions will continue to invest more in their IT systems, compared to other sectors. According to Gartner, global IT spending will increase by 5.2%, adjusted for currency effects. Investment banks will increase their expenditure by 5.0% while retail banks are expected to raise their IT budgets by 5.2%. Digital transformation will remains a high priority for the financial sector. Cloud technology is particular focus area: it not only enables banks to reduce their cost base by investing less in hardware maintenance, but also to analyse and better serve customer needs with new cloud-based applications. In addition, other technologies such as data analytics, RPA and AI can be used optimally and proprietary interfaces (API) can be marketed. The number of market-ready application cases for DLT is still low, as companies continue to experiment with potential application fields. According to Forrester, however, more market-ready projects are set to be implemented in 2020.

According to Gartner, insurers continue to lag behind others with regard to digital transformation. This makes it more difficult to reach and retain customers, and to differentiate the company from competitors. Forrester's experts have identified huge potential for data analytics, RPA and artificial intelligence, especially in the field of claims settlement.

With the growing number of use cases, business with industrial customers and IoT continues to gain momentum. The number of usable data interfaces is also growing rapidly, which will further promote the usability of IoT solutions.

The digital association Bitkom forecasts unbroken growth of 1.5% for the German ICT market in 2020. The digitalisation of the economy will continue to drive demand for IT consulting, IT project business and applications. The software and IT services segments in particular will benefit from this trend, with growth of 6.4% and 2.4%, respectively. Although Bitkom expects a further employment record to be set in 2020, the positive outlook is clouded by the current shortage of IT specialists, which is considered an obstacle to growth in the ICT sector.

7.2 Expected development of the GFT Group

Thanks to its technological and sector expertise, attractive portfolio of services and proven partnerships with leading platform providers, the GFT Group is very well placed to swiftly and efficiently exploit emerging business opportunities. In the banking sector, there is strong demand for IT solutions which can automate processes and raise efficiency. Growth is expected to be particularly dynamic in the field of cloud applications, and further innovative banking projects are likely to be implemented in Asia. In the insurance market, in which the digitalisation of business models is gaining further momentum, additional potential from Guidewire implementation projects is expected in 2020. Against the backdrop of these growth expectations, the GFT Group had anticipated in early March that revenue would increase to €455 million and EBT to €20 million.

Since this time, the global economy has been under considerable strain from the effects of the Covid-19 pandemic. Numerous governments have since adopted extensive measures with significant public and economic restrictions, and leading economists now expect a significant decline in the performance of major economies.

The GFT Group has introduced extensive measures to maintain in full the quality and scope of the services it provides. So far, existing orders have largely not been cancelled. The digitalisation trends described above also continue to apply. However, the significant negative effects for the economy as a whole are likely to also hamper the GFT Group's business. Sales activities are being hampered by travel and curfew restrictions, and some of the IT projects which our clients planned for 2020 may be postponed.

At the time of preparing this report, it is likely that there will be a significant impact on the business performance of the GFT Group. As a result, GFT expects that neither the previously forecast increase in revenue to €455 million and in EBT to €20 million in its financial year 2020, nor the figures of 2019, will be achieved.

Overall statement

The GFT Group is continuously assessing the development of the Covid-19 pandemic and addressing the challenges by taking comprehensive measures, which are being constantly adapted to the situation. Due to the macroeconomic consequences of the pandemic, a significant impact on business performance appears likely at the time of preparing this report.

8 Explanations on the separate financial statements of GFT Technologies SE (HGB)

8.1 General

The annual financial statements of GFT Technologies SE were prepared in accordance with the regulations of the German Commercial Code (HGB), taking into account the supplementary provisions of the German Stock Corporation Act (AktG). They are published electronically in the Federal Gazette. The annual financial statements are permanently available online at www.gft.com/financialreports.

The management report of GFT Technologies SE has been combined with the management report of the GFT Group. GFT Technologies SE and its results also include expenses for the Group's headquarters with the central functions for Corporate Development, Finance, Communications, Public Affairs, Human Resources, Legal Affairs and Compliance, as well as Data Protection and Procurement. The economic conditions of GFT Technologies SE are largely identical to those of the Group as described in detail in section 2.2 General economic and sector-specific conditions:

8.2 Research and development

GFT Technologies SE invested a total of €1.47 million (2018: €1.19 million) in research and development during the financial year 2019. Personnel expenses of €0.56 million accounted for 38% of this total (2018: €0.48 million or 40%). Expenses for external services amounted to €0.55 million (2018: €0.18 million), corresponding to 38% (2018: 15%) of total research and development costs.

8.3 Development of business

In the financial year 2019, total revenue amounted to €86.40 million and was thus €8.45 million, or 11%, above the prior-year figure of €77.95 million. Taking into account the change in work in progress and other operating income, total performance however fell year on year by €3.22 million, or 4%, in the reporting period.

EBT of GFT Technologies SE increased year on year by €5.62 million, or 58%, to €15.28 million (2018: €9.66 million) and thus significantly exceeded the forecast, which anticipated a slight decline. In the reporting period, EBT significantly benefited from investment income of €18.25 million (2018: €10.08 million) which more than offset the decrease in earnings from operating activities.

The productive utilisation rate of operating business in Germany amounted to 69% in the financial year and was well below the prior-year figure of 80%.

8.4 Development of revenue

In its financial year 2019, GFT Technologies SE generated revenue of €86.40 million (2018: €77.95 million), corresponding to a year-on-year increase of €8.45 million or 11%.

The revenue of GFT Technologies SE mainly comprises income from the provision of customer-specific IT services and from Group-wide service functions for the subsidiaries. Income from Group-wide services stem from sales-related license fees, management fees, central support services and other cost allocations.

Revenue adjusted for income from Group-wide services was up on the previous year at €61.28 million for the financial year 2019 (2018: €54.50 million). The revenue trend of GFT Technologies SE in connection with IT services depends heavily on the completion of projects and thus on closing-date effects, especially in connection with major orders.

Income from corporate services for subsidiaries included in total revenue amounted to €25.13 million in 2019 compared with €23.45 million in the previous year. The increase was mainly due to higher Group cost allocations for IT services.

With the exception of Group-wide services, GFT Technologies SE generated most of its revenue in Germany.

8.5 Earnings position

Overview of earnings position

Earnings before taxes (EBT) of GFT Technologies SE improved by €5.62 million to €15.28 million in the reporting period (2018: €9.66 million), mainly due to increased investment income of €18.25 million (2018: €10.08 million).

The productive utilisation rate of operating business (without holding activities) of GFT Technologies SE fell by eleven percentage points from 80% to 69%. The productive utilisation rate is a non-financial performance indicator. It refers solely to the use of production staff in client projects and does not include any sales activities or internal projects.

Earnings position by income and expense items

Changes in inventories of work in progress decreased by €11.63 million to €- 6.35 million in the financial year 2019 (2018: €5.28 million). The reduction in changes in inventories of work in progress was mainly due to closing-date effects for projects already completed or accepted,

At €6.77 million, **other operating income** was largely unchanged from the previous year (2018: €6.80 million).

The **cost of purchased services** decreased by 20% to €26.51 million in the financial year 2019 (2018: €33.02 million), due mainly to the slight decline in operating business. The Spanish subsidiary GFT IT Consulting S. L. is still the most important supplier. The ratio of cost of purchased services to revenue decreased to 31% (2018: 42%), as services were increasingly performed by GFT's own staff during the reporting period.

Mainly as a result of newly hired staff, **personnel expenses** increased year on year by 5% to €36.44 million in the reporting period (2018: €34.74 million). The increase in headcount was in connection with the expansion of digital service offerings for existing and industrial clients, as well as an increase in corporate functions.

In the reporting period, **other operating expenses** amounted to €25.58 million and were thus 21% higher than in the previous year (2018: €21.14 million). Other operating expenses mainly comprised expenses for services received, licence fees, legal and consulting fees, expenses in connection with external finance and travel expenses. The increase in the financial year 2019 was due in particular to higher administrative expenses for services purchased from subsidiaries.

The **financial result** improved by €8.45 million to €18.56 million in the financial year 2019 (2018: €10.11 million). The improvement resulted in particular from increased investment income of €18.25 million (2018: €10.08 million), as well as a rise in income from loans of financial assets amounting to €1.83 million (2018: €1.32 million). There was an opposing effect in particular from the decline in other interest and similar income of €0.46 million. Investment income in 2019 resulted from dividend payments of the Spanish and UK subsidiaries.

Income taxes totalled €0.02 million (2018: €0.30 million). The imputed tax ratio in the financial year 2019 was 0% (2018: 3%).

Annual net income rose by €5.89 million to €15.25 million (2018: €9.36 million).

8.6 Financial position

The financial management of GFT Technologies SE ensures the permanent liquidity of all Group companies. Please refer to section 2.7 Financial position for a more detailed description of the GFT Group's financial structure.

As of 31 December 2019, GFT Technologies SE held cash and cash equivalents amounting to €5.60 million (31 December 2018: €7.52 million). Cash outflow in the financial year 2019 resulted mainly from the financing of purchase price payments for the acquisition of AXOOM GmbH as well as increased Group financing of subsidiaries.

The net liquidity of GFT Technologies SE – a product of cash and cash equivalents disclosed in the balance sheet less bank borrowing – improved slightly from €–106.98 million in the previous year to €–102.90 million as of 31 December 2019.

8.7 Asset position

The **balance sheet total** of GFT Technologies SE fell slightly by 3% or €5.52 million to €207.03 million as of 31 December 2019. The main changes compared to the previous year are presented below.

Non-current assets increased during the year by €15.01 million to €162.78 million (31 December 2018: €147.77 million). The increase is mainly due to the addition of shares in affiliated companies amounting to €7.64 million due to the acquisition of AXOOM GmbH. The refinancing of intercompany loans also resulted in an increase in loans to affiliated companies of €6.94 million.

Inventories fell year on year in line with the decrease in work in progress by €6.35 million to €3.78 million (31 December 2018: €10.13 million).

Current assets as of 31 December 2018 decreased by €18.40 million to €41.68 million (31 December 2018: €60.08 million). This decrease is due in particular to lower **receivables from affiliated companies** in connection with the refinancing of intercompany loans, which amounted to €22.15 million as of the balance sheet date (31 December 2018: €30.95 million). At €9.25 million, **trade receivables** were slightly up on the previous year (31 December 2018: €8.39 million), while other assets declined to €0.90 million (31 December 2018: €3.09 million).

On the liabilities side, **shareholders' equity** increased by €7.35 million to €72.52 million in the reporting period (31 December 2018: €65.17 million) The increase was largely due to net income of €15.25 million (2018: €9.36 million). There was an opposing negative effect on equity from the dividend payment to shareholders of €7.90 million (2018: €7.90 million). The equity ratio at the end of the reporting period amounted to 35% and was thus four percentage points higher than in the previous year (31 December 2018: 31%).

As of 31 December 2019, **provisions** amounted to €8.92 million and were thus €2.32 million lower than in the previous year (31 December 2018: €11.24 million). The decrease was largely due to the decline in **other provisions** to €7.55 million (31 December 2018: €9.66 million), primarily in connection with lower performance-related staff remuneration.

Liabilities as of 31 December 2019 decreased by €10.98 million to €125.15 million (31 December 2018: €136.13 million), mainly due to a decrease in **bank liabilities**. In the reporting period, bank liabilities were reduced by €6.00 million and amounted to €108.50 million on the balance sheet date (31 December 2018: €114.50 million). Within liabilities, **advance payments on orders** in particular declined by €6.91 million to €4.30 million (31 December 2018: €11.21 million). This development is related to the decrease in work in progress.

Due in particular to the decrease in borrowing, the debt ratio of GFT Technologies SE fell by four percentage points to 65% as of 31 December 2019 (31 December 2018: 69%).

8.8 Overall assessment

In the financial year 2019, the earnings trend of GFT Technologies SE was dominated by dividends from foreign subsidiaries totalling €18.25 million (2018: €10.08 million), which more than offset the decline in earnings from operating activities. As a consequence, EBT increased to €15.28 million (2018: €9.66 million) – despite a year-on-year decline in total performance of 4%.

As of 31 December 2019, GFT Technologies SE had an equity ratio of 35% (2018: 31%) and thus continued to have a solid capital and balance sheet structure.

The economic position of GFT Technologies SE is still dominated by its operating activities and those of its subsidiaries. GFT Technologies SE participates in the operating results of its subsidiaries via dividend payments. As a result, the economic position of GFT Technologies SE is fundamentally the same as that of the GFT Group, as explained in section 2.9.

8.9 Risk and opportunity report

The business development of GFT Technologies SE is mainly subject to the same risks and opportunities as the GFT Group. In principle, GFT Technologies SE participates in the risks of its subsidiaries in proportion to its respective shareholding. The risks and opportunities are described in sections 3 Risk Report and 4 Opportunity Report. In addition, legal or contractual contingencies, in particular financing, charges and write-downs on shares in affiliated companies may result from relationships with the company's investments.

8.10 Forecast report

The future business trend of GFT Technologies SE is largely subject to the same influencing factors as those of the GFT Group. Detailed information on the expected macro-economic and sector developments, as well as the development of the GFT Group, and the assumptions on which Group guidance is based is provided in section 7 Forecast Report. The future earnings position of GFT Technologies SE is based on the earnings situation of the GFT Group and the decisions regarding the distribution of intra-group dividends.

For the financial year 2020, revenue and EBT of GFT Technologies SE was originally expected to be slightly below the level of 2019. The expected decline in the operating result, due mainly to increased investments in staffing for the expansion of digital service offerings for industrial clients, will only be offset in part by investment income. Due to the macroeconomic consequences of the Covid-19 pandemic, further negative effects on business and the financial position and performance of GFT Technologies SE are anticipated.

Stuttgart, 7 April 2020

GFT Technologies SE
The Managing Directors

Marika Lulay	**Dr Jochen Ruetz**
CEO	CFO

Consolidated Financial Statements (IFRS)

Consolidated Balance Sheet

as at 31 December 2019, GFT Technologies SE

Assets

in €	Note	31/12/2019	31/12/2018[1]
Non-current assets			
Goodwill	4.1	118,659,143.65	112,994,212.45
Other intangible assets	4.2	22,126,664.83	26,697,279.93
Property, plant and equipment	4.3	76,779,652.91	26,585,119.74
Other financial assets	4.4	955,531.60	754,985.33
Deferred tax assets	4.5	9,241,308.85	8,152,157.82
Income tax assets	4.5	441,085.60	1,037,926.35
Other assets	4.4	4,012,128.46	2,798,337.65
		232,215,515.90	**179,020,019.27**
Current assets			
Inventories	4.6	171,676.80	159,549.22
Trade receivables	4.7	114,020,487.58	95,390,886.70
Contract assets	4.8	15,731,940.37	14,083,478.02
Cash and cash equivalents	7	56,143,932.27	61,569,726.64
Other financial assets	4.4	1,841,853.84	1,068,826.39
Income tax assets	4.5	7,093,039.20	6,756,612.89
Other assets	4.4	8,617,329.27	14,502,998.57
		203,620,259.33	**193,532,078.43**
		435,835,775.23	**372,552,097.70**

[1] The GFT Group has initially applied IFRS 16 at 1 January 2019. Under the modified retrospective transition method chosen, comparative information is not restated.

Equity and liabilities

in €	Note	31/12/2019	31/12/2018[1]
Shareholders' equity			
Share capital	4.9	26,325,946.00	26,325,946.00
Capital reserve	4.9	42,147,782.15	42,147,782.15
Retained earnings	4.9	67,590,439.82	65,544,266.23
Other reserves	4.9	–2,922,395.55	–6,903,723.71
		133,141,772.42	**127,114,270.67**
Non-current liabilities			
Financing liabilities	4.12	98,444,626.79	105,944,626.79
Other financial liabilities	4.13	43,470,371.89	0.00
Provisions for pensions	4.10	9,494,464.32	6,952,004.11
Other provisions	4.11	1,332,487.21	1,694,524.00
Deferred tax liabilities	4.5	4,342,460.83	5,017,851.70
		157,084,411.04	**119,609,006.60**
Current liabilities			
Trade payables	4.12	9,499,521.75	13,701,878.77
Financing liabilities	4.12	16,500,000.00	15,299,216.49
Other financial liabilities	4.13	14,074,187.51	3,197,493.83
Other provisions	4.11	36,357,594.23	35,895,512.80
Income tax liabilities	4.5	4,532,531.35	3,471,409.54
Contract liabilities	4.8	38,840,153.83	32,577,950.12
Other liabilities	4.13	25,805,603.10	21,685,358.88
		145,609,591.77	**125,828,820.43**
		435,835,775.23	**372,552,097.70**

[1] The GFT Group has initially applied IFRS 16 at 1 January 2019. Under the modified retrospective transition method chosen, comparative information is not restated.

Consolidated Income Statement

for the financial year 2019, GFT Technologies SE

in €	Note	2019	2018[1]
Revenue	5.1	428,979,446.33	412,825,255.80
Own work capitalised		157,247.48	0.00
Other operating income	5.2	13,059,950.10	9,559,321.04[2]
Cost of purchased services	5.3	46,426,500.03	54,049,328.89
Personnel expenses	5.4	297,326,607.50	268,184,294.24
Other operating expenses	5.6	53,554,362.98	62,630,548.10[2]
Result from operating activities before depreciation and amortisation		**44,889,173.40**	**37,520,405.61**
Depreciation and amortisation of intangible assets and property, plant and equipment	5.5	23,563,445.64	12,723,368.77
Result from operating activities		**21,325,727.76**	**24,797,036.84**
Result of investments accounted for using the equity method	3.1	0.00	–75,000.00
Interest income		575,147.58	191,795.94
Interest expenses		3,168,550.91	2,277,259.81
Financial result	**5.8**	**–2,593,403.33**	**–2,160,463.87**
Earnings before taxes		**18,732,324.43**	**22,636,572.97**
Income taxes	5.9	5,072,210.86	2,660,988.33
Net income for the year		**13,660,113.57**	**19,975,584.64**
Earnings per share – basic	5.10	0.52	0.76

[1] The GFT Group has initially applied IFRS 16 at 1 January 2019. Under the modified retrospective transition method chosen, comparative information is not restated.

[2] Adjusted, refer to note 2.3

Consolidated Statement of Comprehensive Income

for the financial year 2019, GFT Technologies SE

in €	Note	2019	2018[1]
Net income for the year		**13,660,113.57**	**19,975,584.64**
Items that will not be reclassified to the income statement			
Remeasurement of defined benefit plans	4.10	–1,710,418.12	1,554,018.29
Income taxes on remeasurement of defined benefit plans	6	337,341.29	–342,753.60
Items that may be reclassified to the income statement			
Currency translation	6	3,981,328.16	–893,368.88
Other comprehensive income		2,608,251.33	317,895.81
Total comprehensive income		**16,268,364.90**	**20,293,480.45**

[1] The GFT Group has initially applied IFRS 16 at 1 January 2019. Under the modified retrospective transition method chosen, comparativ information is not restated.

Consolidated Statement of Changes in Equity

as at 31 December 2019, GFT Technologies SE

in €	Note	Share capital	Capital reserve
Balance at 1 January 2018[2]		**26,325,946.00**	**42,147,782.15**
Effect from adoption of IFRS 9		–	–
Balance at 1 January 2018 adjusted		**26,325,946.00**	**42,147,782.15**
Net income for the year		–	–
Other comprehensive income		–	–
Total comprehensive income		**–**	**–**
Dividends to shareholders		–	–
Dividends to non-controlling interets		–	–
Balance at 31 December 2018		**26,325,946.00**	**42,147,782.15**
Balance at 1 January 2019[3]		**26,325,946.00**	**42,147,782.15**
Effect from adoption of IFRS 16	2.3	–	–
Balance at 1 January 2019 adjusted		**26,325,946.00**	**42,147,782.15**
Net income for the year		–	–
Other comprehensive income		–	–
Total comprehensive income		**–**	**–**
Dividends to shareholders	4.9	–	–
Balance at 31 December 2019		**26,325,946.00**	**42,147,782.15**

[1] Retained earnings also include items that will not be reclassified to the Consolidated Income Statement. Actuarial gains/losses from the remeasurement of defined benefit plans amount to € –1,373,076.83 net of tax in 2019 (2018: €1,211,264.69).

[2] The GFT Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the modified retrospective transition method chosen, comparativ information is not restated.

[3] The GFT Group has initially applied IFRS 16 at 1 January 2019. Under the modified retrospective transition method chosen, comparativ information is not restated.

Retained earnings[1]	Other reserves	Total equity
	Currency translation	
52,858,848.19	**–6,010,354.83**	**115,322,221.51**
–184,049.38	–	–184,049.38
52,674,798.81	**–6,010,354.83**	**115,138,172.13**
19,975,584.64	–	19,975,584.64
1,211,264.69	–893,368.88	317,895.81
21,186,849.33	**–893,368.88**	**20,293,480.45**
–7,897,783.80	–	–7,897,783.80
–419,598.11	–	–419,598.11
65,544,266.23	**–6,903,723.71**	**127,114,270.67**
65,544,266.23	**–6,903,723.71**	**127,114,270.67**
–2,343,079.35	–	–2,343,079.35
63,201,186.88	**–6,903,723.71**	**124,771,191.32**
13,660,113.57	–	13,660,113.57
–1,373,076.83	3,981,328.16	2,608,251.33
12,287,036.74	**3,981,328.16**	**16,268,364.90**
–7,897,783.80	–	–7,897,783.80
67,590,439.82	**–2,922,395.55**	**133,141,772.42**

Consolidated Cash Flow Statement

for the financial year 2019, GFT Technologies SE

in €	Anhangangabe	2019	2018[1]
Net income for the year		13,660,113.57	19,975,584.64
Income taxes	5.9	5,072,210.86	2,660,988.33
Interest income	5.8	2,593,403.33	2,085,463.87
Interest received		37,151.47	152,888.89
Interest paid		–1,757,947.88	–1,587,050.02
Income taxes paid		–573,584.58	939,921.27
Depreciation and amortisation of intangible assets and property, plant and equipment	5.5, 9.2	23,563,445.64	12,723,368.77
Net proceeds on disposal of intangible assets and property, plant and equipment		373,598.53	128,787.55
Other non-cash expenses and income		488,881.73	–564,246.41
Change in trade receivables		–18,629,600.88	5,714,095.13
Change in contract assets		–1,648,462.35	1,651,265.62
Change in other assets		2,857,440.60	–819,412.40
Change in provisions		2,642,504.85	–6,039,538.49
Change in trade payables		–4,202,357.02	–767,739.30
Change in contract liabilities		6,262,203.71	8,296,992.52
Change in other liabilities		5,445,652.64	279,430.15
Cash flow from operating activities		**36,184,654.22**	**44,830,800.12**
Proceeds from disposal of property, plant and equipment		12,839.28	37,446.11
Capital expenditure for intangible assets	4.2	–1,657,307.24	–1,809,943.03
Capital expenditure for property, plant and equipment	4.3	–4,621,507.71	–3,086,586.71
Cash outflows for acquisitions of consolidated companies net of cash and cash equivalents acquired	3.2, 7	–7,625,123.26	–48,869,915.96
Cash flow from investing activities		**–13,891,098.93**	**–53,728,999.59**
Proceeds from borrowing	7	9,000,000.00	15,000,000.00
Cash outflows from loan repayments	7	–15,299,216.49	–5,316,610.58
Cash outflows from repayment of lease liabilities	9.2	–12,849,531.14	0.00
Dividends to shareholders	4.9	–7,897,783.80	–7,897,783.80
Dividends to non-controlling interests [2]		0.00	–3,350,591.37
Cash flow from financing activities		**–27,046,531.43**	**–1,564,985.75**
Effect of foreign exchange rate changes on cash and cash equivalents		–672,818.23	–213,313.68
Net increase in cash and cash equivalents		–5,425,794.37	–10,676,498.90
Cash and cash equivalents at beginning of period		61,569,726.64	72,246,225.54
Cash and cash equivalents at end of period	**7**	**56,143,932.27**	**61,569,726.64**

[1] The GFT Group has initially applied IFRS 16 at 1 January 2019. Under the modified retrospective transition method chosen, comparative information is not restated.
[2] Redemption of dividend liability

Notes to the consolidated financial statements

for the financial year 2019, GFT Technologies SE

1 General information

The consolidated financial statements of GFT Technologies SE and its subsidiaries for the financial year ending 31 December 2019 have been drawn up in accordance with the International Financial Reporting Standards (IFRS), as they are to be applied in the European Union (EU), and the additional requirements of German commercial law pursuant to section 315e (1) of the German Commercial Code (HGB).

GFT Technologies SE is a European public limited company (Societas Europea, SE) with headquarters in Stuttgart, Germany. The company is registered in the Commercial Register of the District Court of Stuttgart under number HRB 753709 with its registered offices at Schelmenwasenstrasse 34, 70567 Stuttgart. The GFT Technologies SE share is listed in the Prime Standard segment of the Frankfurt Stock Exchange and is publicly traded. GFT Technologies SE is the ultimate parent company of the GFT Group, an international technology partner for digital transformation in the banking, insurance and industrial sectors. Its range of services includes consulting for the development and implementation of innovative IT strategies, the development of customer-specific solutions, the implementation of sector-specific standard software and the maintenance and further development of business-critical IT solutions. The functional currency of GFT Technologies SE is the euro.

The consolidated financial statements for the year ending 31 December 2019 were approved and released for publication by the Administrative Board on 7 April 2020.

2 Accounting methods

2.1 Basis of preparation of the financial statements

The consolidated financial statements of the GFT Group were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union (EU).

The consolidated financial statements of GFT Technologies SE are prepared in euros (€). Unless stated otherwise, figures are stated in thousands of euros (€ thousand). Amounts are rounded using standard commercial methods.

With the exception of certain items, e.g. financial assets at fair value through profit or loss, derivative financial instruments or hedged items, contingent consideration from business combinations, as well as pensions and similar obligations, the consolidated financial statements have been prepared in accordance with the principle of historical cost. The valuation methods applied for the exceptions are described below.

The presentation of the consolidated balance sheet distinguishes between current and non-current assets and liabilities. Assets and liabilities are classified as current if they fall due within one year or within a longer normal business cycle. Deferred tax assets and liabilities, as well as assets and provisions for pensions and similar obligations are presented as non-current items. The consolidated income statement has been prepared using the nature of expense method.

The GFT Group has consistently applied the following accounting methods to all periods presented in these consolidated financial statements unless otherwise stated. Changes in accounting methods in these consolidated financial statements are described in note 2.3.

The consolidated financial statements contain comparative information for the previous reporting period. In addition, the GFT Group reports an additional balance sheet at the beginning of the previous reporting period if an accounting method is applied retrospectively or items in the financial statements are adjusted or reclassified retroactively.

2.2 Discretionary decisions, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions to a certain extent. These may affect the amount and presentation of assets and liabilities recognised in the balance sheet, disclosures of contingent assets and liabilities as of the balance sheet date, and disclosed income and expenses for the reporting period. Due to the uncertainty associated with these assumptions and estimates, actual results in future periods could lead to significant adjustments in the carrying amounts of the assets or liabilities concerned.

Discretionary decisions, estimates and underlying assumptions are based on experience and are reviewed by management on an ongoing basis. Revisions to estimates are recognised prospectively.

Discretionary decisions

Discretionary decisions must be taken when applying accounting methods. The following material items in the consolidated financial statements of GFT Technologies SE are affected by discretionary decisions:

- Revenue recognition: recognising revenue for fixed-price contracts in connection with the development of client-specific IT solutions and the implementation of sector-specific standard software over a period of time or on a specific date.
- Lease term: determining the term of leases with extension and termination options where the GFT Group is the lessee.

Information on discretionary decisions taken by the GFT Group with regard to the two items above can be found in note 2.6.

Estimates and assumptions

The most important future-related assumptions and other key sources of estimation uncertainty as of the balance sheet date with a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described in the accounting methods applied (see note 2.6) and in the notes to the consolidated balance sheet (see note 4) and to the income statement (see note 5).

The main application areas for estimates and assumptions when applying accounting methods in the financial statements of the GFT Group are:

- acquisition of subsidiaries: determination of the fair value of the consideration transferred (including contingent consideration) as well as the preliminary determination of the fair values of identifiable assets acquired and liabilities assumed;
- impairment test of goodwill and other intangible assets: significant underlying assumptions used to determine the recoverable amount.
- determination of the marginal borrowing rate for leases: estimating the incremental borrowing rate using observable input data (e.g. market interest rates), if available, and taking into account company-specific factors (e.g. individual credit rating of the subsidiary).
- allowance for expected credit losses on trade receivables and contract assets: key assumptions used to determine the weighted average loss rate;
- revenue recognition: estimate of the stage of completion of unfinished customer projects;
- recognition of deferred tax assets: availability of future taxable income against which deductible temporary differences and tax loss carryforwards can be utilised;
- recognition and measurement of provisions and contingent assets and liabilities: significant assumptions about the probability and extent of an inflow or outflow of economic benefits

The Group's assumptions and estimates are based on parameters available at the time the consolidated financial statements were prepared. However, these conditions and assumptions about future developments may change as a result of market movements and conditions outside the sphere of influence of the GFT Group. Such changes are only reflected in the assumptions when they occur.

2.3 Changes in accounting methods

Changes to the accounting methods in these consolidated financial statements result from the initial application of new accounting regulations resulting from new and amended IFRS standards and interpretations and with regard to the disclosure of foreign currency gains and losses.

New accounting regulations

As of 1 January 2019, the GFT Group applied IFRS 16 *Leases* for the first time. The nature and effects of the changes resulting from the initial adoption of this new accounting standard are described below.

The other new IFRS pronouncements (endorsed by the EU) to be applied for the first time as of 1 January 2019 (IFRIC 23 *Uncertainty over Income Tax Treatments*, amendments to IFRS 9 *Prepayment Features with Negative Compensation*, amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*, amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*, Annual Improvements 2015-2017 *Amendments* to IFRS 3, IFRS 11, IAS 12 and IAS 23) had no or only an insignificant impact on the financial position and performance of the GFT Group as of 31 December 2019.

The GFT Group has not prematurely applied any new or amended IFRS standards or interpretations which have been published but not yet come into force.

IFRS 16 Leases

In January 2016, the International Accounting Standards Board (IASB) issued the new standard IFRS 16 *Leases*, which supersedes IAS 17 *Leases* and the related interpretations IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*. IFRS 16 abolishes the previous classification of leases as operating and finance leases for lessees. Instead, IFRS 16 introduces a uniform accounting model under which lessees are required to recognise an asset for the right of use (right-of-use asset) and a lease liability for the outstanding rental payments in the balance sheet for all leases. As a result, previously unrecognised leases will in future have to be recognised in the balance sheet – largely in the same way as finance leases today.

IFRS 16 grants an option not to recognise right-of-use assets and lease liabilities for leases with a term of up to twelve months (short-term leases) and for leases of low-value assets (so-called small ticket leases). The GFT Group exercises these options. The lease payments associated with these leases are recognised as an expense either on a straight-line basis over the lease term or on another systematic basis.

Right-of-use assets disclosed in property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses. The cost of the right-of-use asset is measured as the present value of all future lease payments plus any lease payments made at or before the inception of the lease, contract signing costs and the estimated cost of dismantling or restoring the leased asset. All leasing incentives received are deducted. In this connection, the GFT Group exercises the option to regard payments for non-leasing components, e.g. for service, as lease payments. If the lease payments to be taken into account also include the transfer of ownership of the underlying asset at the end of the lease term, including the exercise of a purchase option, the asset is depreciated over its useful economic life. Otherwise, the right-of-use asset is depreciated over the term of the lease.

Initial recognition of lease liabilities allocated to other financial liabilities is determined as the present value of the lease payments to be made less advance payments made. In subsequent measurement, the carrying amount of the lease liability is increased by accrued interest and decreased by the lease payments made without affecting income.

Depreciation of the right-of-use asset is disclosed as depreciation on property, plant and equipment in the consolidated income statement. Interest accrued on the lease liability is disclosed as an interest expense. Expenses incurred by leases classified as operating leases were previously disclosed primarily under other operating expenses in accordance with IAS 17.

The lessor's accounting treatment remains essentially unchanged; the previous regulations pursuant to IAS 17 were adopted almost unchanged by IFRS 16.

The GFT Group applied IFRS 16 for the first time as of 1 January 2019. The modified retrospective method was adopted on initial application, whereby the cumulative effect is recognised as an adjustment to equity in the opening balance sheet. The transition effects of €2,343 thousand were reported cumulatively in retained earnings within equity. In accordance with the transitional provisions, prior-year figures have not been restated.

The GFT Group applied the following practical expedients for the lessee permitted by IFRS 16 on transition to the new standard:

- For leases previously classified as operating leases pursuant to IAS 17, the lease liability was recognised at the present value of the outstanding lease payments, discounted at the incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate was 1.83%.
- No impairment test was conducted. Temporary adjustments to right-of-use assets at the time of initial application by the amount recognised as a provision for encumbered leases as at 31 December 2018 were not necessary as they did not exist.
- Leases which expired no later than 31 December 2019 were recognised as short-term leases, irrespective of the original contract term.
- The initial direct costs were disregarded when measuring the right-of-use asset at the time of initial application.
- When determining the term of a contract with extension or termination options, current knowledge was taken into account.

As lessee, the GFT Group mainly rents land and buildings, office premises, car parks and vehicles. In the course of the transition to IFRS 16, the GFT Group recognised right-of-use assets for leased items and lease liabilities as of 1 January 2019 as well as the difference in retained earnings. The effects at the time of transition are summarised below:

Effects from initial application of IFRS 16

in € thousand	01/01/2019
Right-of-use assets – property, plant and equipment	63,696
Deferred tax assets	413
Retained earnings	−2,343
Non-current lease liabilities – other financial liabilities	56,221
Current lease liabilities – other financial liabilities	10,231

Based on the other financial obligations from rental and lease agreements as of 31 December 2018, the following reconciliation to the opening balance sheet amounts of lease liabilities as at 1 January 2019 was made.

Reconciliation to lease liabilities pursuant to IFRS 16

in € thousand	
Other financial obligations from rental and lease agreements pursuant to IAS 17 as of 31 December 2018	**67,054**
Practical expedient for short-term leases	−27
Practical expedient for leases of low-value assets	−286
Payments for non-leasing components	4,937
Obligations from operating leases (not discounted)	**71,678**
Effect from discounting	−5,226
Carrying amount of lease liabilities pursuant to IFRS 16 as of 1 January 2019	**66,452**

There were no leases which were carried as finance leases pursuant to IAS 17 until 31 December 2018.

Presentation of currency gains/losses

In these consolidated financial statements, the GFT Group has adjusted its method of presenting income and expenses from currency translation recognised in profit or loss. Effects from currency translation affecting profit or loss were previously reported at the level of the respective Group company, depending on the overhang. A positive overhang of currency translation differences per Group company was disclosed under “Other operating income” and a negative overhang under “Other operating expenses”.

The GFT Group decided to change its accounting policy for the recognition of currency gains and losses with effect from 1 January 2019. From now on, realised and unrealised gains and losses from currency translation are stated at their gross value and thus not offset at the level of the respective Group company in the consolidated income statement. The GFT Group believes that the non-netted disclosure of currency effects provides more relevant information for the reader of these financial statements and is more in line with the accounting methods of its competitors.

The GFT Group has applied this change to its accounting policy retrospectively. The corresponding comparative figures in the consolidated income statement were restated. The adjustment of comparative figures in the consolidated income statement resulted in an increase in other operating income, as well as in other operating expenses, of €3,176 thousand each.

2.4 Consolidation principles

Subsidiaries

The consolidated financial statements comprise the financial statements of GFT Technologies SE and the financial statements of all subsidiaries over which GFT Technologies SE can exercise direct or indirect control. Control exists when the parent company has decision-making power over the subsidiary based on voting rights or other rights, participates in variable positive and negative returns of the subsidiary and can influence these returns through its decision-making power.

The consolidation of a subsidiary begins on the day on which the GFT Group gains control of the subsidiary. It ends when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the reporting period are recognised in the consolidated financial statements from the date on which the Group gains control of the subsidiary until the date on which control ceases.

Changes in shares in subsidiaries that decrease or increase the shareholding of the GFT Group without a change in control are shown as transactions between equity providers with no effect on income.

If the GFT Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and all related non-controlling interests and other equity components. Any resulting gain or loss is recognised in the income statement. Any retained interest in the former subsidiary is measured at fair value as of the date on which control is lost.

The financial statements of the consolidated subsidiaries included in the consolidated financial statements are prepared as of the balance sheet date of the consolidated financial statements. The financial statements of GFT Technologies SE and its subsidiaries included in the consolidated financial statements are prepared in accordance with uniform recognition and measurement principles. All intragroup assets and liabilities, equity, income and expenses and cash flows from transactions between the companies included in the consolidated financial statements are eliminated in full on consolidation. Income tax consequences during consolidation are taken into account by recognising deferred taxes.

Non-controlling interests in equity and total comprehensive income for the period are disclosed separately from the proportion attributable to shareholders of GFT Technologies SE.

Shares in associated companies
Shares in associated companies are accounted for using the equity method. Associated companies are companies in which the GFT Group has a significant influence but not control or joint control over the financial and operating policies. As a rule, significant influence is exerted when the company holds direct or indirect voting rights of between 20% and 50%.

Investments in financial assets accounted for using the equity method are initially recognised at cost, which includes transaction costs. After initial recognition, the consolidated financial statements include the Group's share of the comprehensive income of financial assets accounted for using the equity method until the date on which significant influence or joint control ceases.

The financial statements of associated companies are prepared as of the same reporting date as the consolidated financial statements. Where necessary, adjustments are made to uniform Group accounting methods. Unrealised profits and losses from transactions between the GFT Group and associated companies are eliminated according to the share in the associated company.

2.5 Currency translation

Business transactions in foreign currency
Foreign currency transactions in the separate financial statements of Group companies are translated into the functional currency – if different from the local currency in the country of domicile – at the relevant mean spot exchange rates at the time of the transaction. Exchange rate gains or losses from the measurement of monetary items in foreign currency at the closing rate in the period up to the balance sheet date are recognised in profit or loss under other operating income or other operating expenses.

Currency differences from foreign currency loans are excluded from recognition in profit or loss if they are designated as part of a net investment in a foreign operation, i.e. if repayment is neither planned nor likely to occur in the foreseeable future. Such currency differences are recognised directly in equity under other comprehensive income and only reclassified to the income statement on a cumulative basis when the loan is redeemed or on disposal of the operating business.

Non-monetary items in a foreign currency are carried at historical exchange rates.

Group companies
The separate financial statements of foreign Group companies are translated into euros in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* using the functional currency concept. The functional currency of the operating companies is generally the respective local currency, as the foreign companies operate their business independently in financial, economic and organisational terms. Assets and liabilities are translated at the closing rate on the balance sheet date, while equity is carried at historical exchange rates. The income statements are translated into euros at the corresponding average exchange rates for the period. The resulting translation differences are recognised in other comprehensive income and reported in other reserves in equity. On disposal of a foreign subsidiary, the corresponding amount accumulated in equity up to that date is reclassified to profit or loss as part of the gain or loss on disposal. A prorated reclassification to profit or loss is also made in the event of a capital repayment without reducing the stake. The share of equity in foreign associated companies is translated in accordance with the procedure described for subsidiaries.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation and translated at the spot rate on the reporting date.

The following table shows the most important foreign exchange rates used to translate the separate financial statements in foreign currencies.

Foreign exchange rates

in €		Rate on reporting date 31/12/2019	Rate on reporting date 31/12/2018	Average rate 31/12/2019	Average rate 31/12/2018
BRL	Brazil	4.5157	4.4440	4.4103	4.2942
CAD	Canada	1.4598	1.5605	1.4855	1.5298
CHF	Switzerland	1.0854	1.1269	1.1125	1.1547
GBP	UK	0.8508	0.8945	0.8769	0.8848
MXN	Mexico	21.2224	22.4921	21.5471	22.6860
PLN	Poland	4.2568	4.3014	4.2966	4.2620
USD	USA	1.1234	1.1450	1.1193	1.1799

2.6 Significant accounting and valuation methods

Business combinations
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

In the case of put options or tender rights of non-controlling interests, the share of total comprehensive income for the period attributable to the non-controlling interests and the dividend payments to the non-controlling interests are presented during the year as a change in equity. On the balance sheet date, the non-controlling interests for which a put option or tender right exists are reclassified to financial liabilities. The financial liability is measured at the present value of the repayment amount. Differences between the carrying amount of non-controlling interests and the present value of the repayment amount are recognised directly in equity.

Goodwill
The goodwill resulting from a business combination is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed (purchase price allocation). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss. Goodwill at subsidiaries is carried in their functional currency.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not subject to scheduled amortisation, but is tested for impairment annually. A review is also performed when events or circumstances arise that indicate that the carrying amount may not be recoverable. Goodwill is tested for impairment at the level of a cash-generating unit, which is generally represented by a segment. The cash-generating unit is the lowest level at which goodwill is monitored for internal management purposes.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit that is expected to benefit from the synergies of the business combination. If the carrying amount of the cash-generating unit to which the goodwill was allocated exceeds its recoverable amount, an impairment loss is recognised for the goodwill allocated to this cash-generating unit. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the cash-generating unit. Fair value is the recoverable amount from the sale at market conditions. The value in use is determined by discounting future cash flows after taxes with a risk-adjusted discount rate (weighted average cost of capital – WACC) after taxes. Specific peer group information for beta factors, capital structure data and the cost of borrowing are used to determine the risk-adjusted interest rate for impairment test purposes. Periods not included in the planning calculations are considered by recognising a terminal value. Various sensitivity analyses are also conducted. These show that there is no need for impairment even if the assumptions for key influencing factors are less favourable than the original planning. If value in use is lower than the carrying amount, fair value less disposal costs is also to determine the recoverable amount.

The determination of the recoverable amount of a cash-generating unit to which goodwill has been allocated involves estimates by management. The earnings forecast on the basis of these estimates is influenced, for example, by the successful integration of acquired companies, volatility on the capital markets, interest rate developments, fluctuations in exchange rates or expected economic developments. The discounted cash flow valuations used to determine the recoverable amount are subject to five-year projections based on financial forecasts. The cash flow forecasts take past experience into account and are based on management's best estimate of future developments. Cash flows beyond the planning period are extrapolated using individual growth rates. The key assumptions on which the calculation of fair value less costs to sell and value in use is based include estimated growth rates and weighted average cost of capital. These estimates and the underlying methodology can have a significant impact on the respective values and ultimately on the amount of a possible impairment of goodwill.

There are no reversals of impairment losses on amortised goodwill.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Other intangible assets
Intangible assets are measured at cost less accumulated amortisation. If necessary, accumulated impairment losses are recognised.

Subsequent expenses are only capitalised if they increase the future economic benefit of the asset to which they relate.

Intangible assets with a finite useful life are amortised on a straight-line basis over their expected useful lives. The expected useful life for licenses and similar rights is generally three to five years, except for intangible assets with finite useful lives acquired in business combinations. These consist in particular of customer relationships with useful lives of between four-and-a-half and ten years for certain transactions.

Development costs for software are capitalised if the recognition criteria of IAS 38 *Intangible Assets* are met. After initial recognition, the asset is carried at cost less cumulative amortisation and cumulative impairment losses. Capitalised development costs include all directly attributable direct costs as well as prorated attributable overheads and are amortised on a straight-line basis over the planned product life (maximum five years).

The amortisation period for other intangible assets with finite useful lives is reviewed at least at the end of each financial year. Changes in the expected useful life are treated as a change in estimates.

The GFT Group reviews at each balance sheet date whether there are any indications of impairment or impairment reversal of other intangible assets. If such indications exist, the GFT Group makes an estimate of the recoverable amount of the asset. The recoverable amount is determined for each individual asset, unless the asset generates cash flows that are not largely independent of those of other assets or groups of assets (cash-generating units). Other intangible assets with indefinite useful lives are tested for impairment at least once a year at the level of the cash-generating units. If the carrying amount of an asset or cash-generating unit exceeds the recoverable amount, an impairment loss is recognised for the difference. For details on impairment testing, please see the comments in the above subsection on goodwill.

On each balance sheet date, an assessment is made as to whether an impairment loss recognised in prior periods no longer exists or may have decreased. If this is the case, the GFT Group reverses the impairment in part or in full, increasing the carrying amount to the recoverable amount. However, the increased carrying amount may not exceed the carrying amount that would have been determined (net of scheduled amortisation) had no impairment loss been recognised in prior years.

Research and non-capitalised development costs
Research and development expenses that do not have to be capitalised under IAS 38 *Intangible Assets* are recognised in the income statement at the time they are incurred.

Borrowing costs
Borrowing costs are expensed as incurred unless they are directly attributable to the acquisition or production of a qualifying asset and are therefore included in the cost of that asset.

Property, plant and equipment
Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses.

Subsequent expenditure incurred after the property, plant and equipment has been put into operation is only capitalised if it is probable that the future economic benefits associated with the expenditure will flow to the GFT Group. Maintenance and repair costs for property, plant and equipment are generally expensed in the period in which they are incurred.

The GFT Group applies the straight-line method of depreciation. Scheduled depreciation of property, plant and equipment is based on the following useful lives of assets.

Useful lives of property, plant and equipment

	Years
Buildings	40 – 50
Improvements in buildings/leasehold improvements	5 – 15
Operating and office equipment	3 – 25

The depreciation methods, useful lives and residual values of property, plant and equipment are reviewed at least at the end of each financial year and adjusted prospectively if necessary.

Property, plant and equipment are derecognised either on disposal (i.e. at the time when the recipient obtains control) or when no further economic benefit is expected from the continued use or disposal of the recognised asset. The gains or losses resulting from the derecognition of the asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and recognised in profit or loss in the period in which the asset is derecognised.

Leases
Lease agreements include all arrangements that transfer the right to use or control a specific asset for a specified period in return for a payment, even if the right to use such asset is not explicitly described in the arrangement. In order to assess whether an agreement contains the right to control an identified asset, the GFT Group uses the definition of a lease as defined by IFRS 16.

The GFT Group is a lessee in particular of real estate and vehicles and a lessor – to an insignificant extent – of real estate.

GFT Group as lessee
Until 31 December 2018, the risks and rewards incidental to ownership of a leased asset were assessed to determine whether the lessee (finance lease) or the lessor (operating lease) was the beneficial owner of the leased asset in accordance with IAS 17.

In the case of an operating lease, the lease instalments or rental payments were expensed in the income statement on a straight-line basis. There were no assets carried as finance leases.

As of 1 January 2019, the GFT Group applies a single recognition and measurement approach for all leases (with the exception of short-term leases and leases of low-value assets). It recognises lease liabilities for lease payments and right-of-use assets for the right to use the underlying assets.

The GFT Group recognises right-of-use assets at the commencement date of the lease, i.e. the date on which the underlying asset is available for use. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses. The acquisition cost of the right-of-use asset is measured as the present value of all future lease payments plus any lease payments made at or before the inception of the lease, contract signing costs and the estimated cost of restoring the leased asset. All leasing incentives received are deducted. In determining the cost of the right-of-use asset, the GFT Group has elected to consider payments for non-lease components, such as service, as lease payments.

Right-of-use assets are depreciated on a straight-line basis over the lease term. If the lease payments to be taken into account also include the transfer of ownership of the underlying asset at the end of the lease term, including the exercise of a purchase option, the asset is depreciated over its useful economic life. Right-of-use assets are continuously adjusted for impairment, where necessary, and for certain revaluations of the lease liabilities.

Initial recognition of lease liabilities is determined as the present value of the lease payments to be made over the lease term less advance payments made. Lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives to be received from the lessor,
- variable lease payments linked to an index or (interest) rate,
- amounts expected to be paid under residual value guarantees,
- the exercise price of a purchase option reasonably certain to be exercised and
- penalties for terminating the lease if the assumed lease term reflects the Group exercising the option to terminate.

Lease payments are discounted at the interest rate implicit in the lease if this can be determined. Otherwise, they are discounted at the incremental borrowing rate. The GFT Group generally applies the incremental borrowing rate. This incremental borrowing rate as a risk-adjusted interest rate is derived for specific periods on the basis of the contractual terms.

A number of lease agreements, especially for real estate, contain extension and termination options. These contractual conditions offer the GFT Group the greatest possible flexibility. When determining the lease term, all facts and circumstances are taken into account that provide an economic incentive to exercise extension options or not to exercise termination options. When determining the term of the lease, such options are only taken into account if they are sufficiently certain.

Lease liabilities are measured at amortised cost using the effective interest method. Under this method, the amount of the lease liabilities is increased to reflect the higher interest expense and decreased to reflect the lease payments made. Moreover, the carrying amount of the lease liabilities is remeasured to fair value if there are changes in the lease, changes in the term of the lease, changes in lease payments (e.g. changes in future lease payments resulting from a change in the index or interest rate used to determine these payments) or a change in the assessment of whether a purchase, extension or termination option is exercised for the underlying asset.

If lease liabilities are remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recognised in profit or loss if the carrying amount of the right-of-use asset has decreased to zero.

In the case of short-term leases (i.e. leases with a term of no more than twelve months from the inception date and with no purchase option) and leases where the underlying asset is of low value, the GFT Group exercises the option not to recognise right-of-use assets and lease liabilities. Instead, the lease payments associated with these leases are expensed on a straight-line basis over the lease term.

In the balance sheet, the GFT Group discloses right-of-use assets under property, plant and equipment and lease liabilities under other financial liabilities. Amortisation of right-of-use assets is recognised in the income statement under “Depreciation and amortisation of intangible assets and property, plant and equipment”. Interest on lease liabilities is recognised in interest expenses.

Shares in associated companies
Die Anteile des The Group’s shares in associated companies are accounted for using the equity method. Under the equity method, investments in associates are initially recognised at cost. The carrying amount of the investment is adjusted to reflect changes in the Group’s share of the associate’s net assets since the acquisition date. The cumulative changes after the acquisition date increase or decrease the carrying amount of the investment in the associate. If the losses of an associate attributable to the GFT Group correspond to or exceed the value of the share in this company, no further share of losses is recognised unless the GFT Group has entered into obligations or made payments on behalf of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or tested for impairment.

The income statement reflects the Group’s share of the associate’s profit or loss for the period. Changes in other comprehensive income of associated companies are presented as part of the Group’s other comprehensive income. In addition, changes recognised directly in the equity of the associate are recognised by the Group to the extent of its interest and, where necessary, presented in the statement of changes in equity. The Group’s total share of the profit or loss of an associate is shown on the face of the income statement operating profit and represents profit or loss after tax and after non-controlling interests in the subsidiaries of the associate.

After applying the equity method, the Group determines whether it is necessary to recognise an impairment loss for its investment in an associate. It determines at each balance sheet date whether there is objective evidence that the investment in an associate may be impaired. If such evidence exists, the amount of the impairment loss is determined as the difference between the recoverable amount of the investment in the associate and the carrying amount, and the loss is then recognised in profit or loss as ‘Result from financial assets accounted for using the equity method’.

Financial instruments
A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments recognised as financial assets or financial liabilities are generally reported separately. Financial instruments are recognised as soon as the GFT Group becomes a contracting party to the financial instrument. A normal market purchase or sale of financial assets is recognised on the trading date. With the exception of trade receivables and contract assets, financial instruments are initially recognised at fair value. Trade receivables and contract assets are initially measured at the transaction price. For subsequent measurement, financial instruments are allocated to one of the measurement categories listed in IFRS 9 Financial Instruments (financial assets at amortised cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss). Transaction costs directly attributable to the acquisition or issue are taken into account in determining the carrying amount if the financial instruments are not measured at fair value through profit or loss.

Financial assets
Financial assets primarily comprise trade receivables, contract assets, cash and cash equivalents, derivative financial assets and financial investments. The classification of financial instruments is based on the business model in which the instruments are held and the composition of their contractual cash flows.

The determination of the business model is based on management's intention and past transaction patterns. Cash flows are reviewed on the basis of the individual instruments.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss comprise financial assets whose cash flows do not consist exclusively of interest and principal payments on the nominal amount outstanding. It also includes financial assets that were neither allocated to the 'hold to collect' business model nor to the 'hold to collect and sell' business model.

Financial assets at amortised cost
Financial assets at amortised cost are non-derivative financial assets with contractual cash flows that consist exclusively of interest and principal payments on the outstanding nominal amount and are held with the objective of receiving the contractually agreed cash flows, such as trade receivables, contract assets or cash and cash equivalents.

Contract assets are claims from performance obligations already fulfilled for which the customer's consideration has not yet been received and the company's claim to consideration is still linked to a condition other than maturity. In the GFT Group, contract assets result in particular from fixed-price contracts in connection with the development of customer-specific IT solutions and the implementation of sector-specific standard software. Contract assets are disclosed as current as they occur within the usual business cycle.

Cash and cash equivalents comprise in particular cash in hand and bank balances. Cash and cash equivalents correspond to the cash fund in the consolidated cash flow statement.

After initial recognition, these financial assets are measured at amortised cost using the effective interest method less impairment. Gains and losses are recognised in net income when the loans and receivables are impaired or derecognised. Interest effects from the application of the effective interest method and effects from currency translation are also recognised in profit or loss.

Financial assets at fair value through other comprehensive income
Financial assets at fair value through other comprehensive income are non-derivative financial assets with contractual cash flows that consist solely of interest and principal payments on the nominal amount outstanding and which are held both to collect the contractually agreed cash flows and to sell, for example to achieve a defined liquidity target ('hold to collect and sell' business model). This category also includes equity instruments not held for trading for which the option to recognise changes in fair value within other comprehensive income has been applied.

After initial measurement, financial assets in this category are measured at fair value through other comprehensive income, with unrealised gains or losses being recognised in other comprehensive income. Upon disposal of debt instruments in this category, the cumulative gains and losses from fair value measurement recognised in other comprehensive income are recognised in profit or loss. Interest received on financial assets at fair value through other comprehensive income is generally recognised as interest income using the effective interest method. Changes in the fair value of equity instruments measured at fair value through other comprehensive income are not recognised in profit or loss but reclassified to retained earnings upon disposal. Dividends are recognised in the income statement when the right to payment has been established.

The GFT Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or when it transfers the rights to receive the cash flows in a transaction in which all material risks and rewards incidental to ownership of the financial asset are transferred. Derecognition also takes place if the GFT Group neither transfers nor retains all material risks and rewards of ownership and does not retain control over the transferred asset.

Impairment of financial assets
At each balance sheet date, an impairment loss is recognised for financial assets that are not measured at fair value through profit or loss, which reflects the expected credit losses on these instruments. The same method is also used to determine the allowance for irrevocable loan commitments and financial guarantees. The expected credit-loss approach uses three stages for allocating impairment losses:

Stage 1: expected credit losses within the next twelve months

Stage 1 includes all contracts with no significant increase in credit risk since initial recognition and regularly new contracts as well as those whose payments are less than 31 days overdue. The portion of the expected credit losses over the lifetime of the instrument resulting from a default within the next 12 months is recognised as an expense.

Stage 2: expected credit losses over the entire lifetime – not credit-impaired

If, after initial recognition, a financial asset experiences a significant increase in credit risk but is not yet credit-impaired, it is allocated to Stage 2. The expected credit losses, which are measured over possible payment defaults over the entire term of the financial asset, are recorded as value adjustments.

Stage 3: expected credit losses over the entire lifetime – credit-impaired

If a financial asset is credit-impaired or in default, it is allocated to Stage 3. The expected credit losses over the entire lifetime of the financial asset are recognised as a value adjustment. Objective indications of a credit-impaired financial asset include an external credit rating of C or higher for large customers and 181 days past due date for other customers, as well as other information about significant financial difficulties of the borrower.

The determination of whether a financial asset has experienced a significant increase in credit risk is based on an assessment of the probability of default, which is made at least half-yearly, incorporating external credit rating information as well as internal information on the credit quality of the financial asset. In the case of trade receivables and contract assets, a significant increase in credit risk is determined for major customers on the basis of external credit ratings and for other customers on the basis of overdue information.

A financial asset is transferred to Stage 2, if the credit risk has increased significantly compared to its credit risk at initial recognition. The credit risk is assessed on the basis of the probability of default. For trade receivables and contract assets, the simplified approach is applied under which expected credit losses are recognised over the entire term of the asset when it is initially recognised.

Expected credit losses are measured on the basis of the following factors:

1. the unbiased and probability-weighted amount;
2. the time value of money;
3. and reasonable and supportable information as of the reporting date about past events, current conditions and forecasts of future economic conditions, insofar as this is available without undue cost or time effort.

The estimation of these risk parameters incorporates all available relevant information. In addition to historical and current loss data, reasonable and supportable forward-looking information about factors is also included. The time value of money is neglected in the case of current assets without any significant underlying financing component.

The measurement of expected credit losses is of particular significance for the GFT Group with regard to trade receivables and contract assets. The concept of lifelong default is applied, which takes into account all possible default events during the expected lifetime of the financial instruments. The GFT Group has decided to apply the concept of lifelong default for trade receivables and contract assets with a significant financing component.

When measuring expected credit losses, the GFT Group distinguishes between trade receivables and contract assets due from major clients and other clients. Major clients are determined on the basis of their share of total consolidated revenue. The measurement of expected losses relating to financial assets from business transactions with major clients is based on a probability-weighted default rate. The default rate uses an average external credit rating. In order to calculate impairment, the probability-weighted default rate as a percentage is multiplied with the nominal value of the financial assets. In the case of trade receivables and contract assets due from other clients, the expected loss over the lifetime is determined as a lump-sum percentage based on the overdue period. The default rate based on the overdue period is calculated using historical data and adjusted on the closing date according to current information and expectations.

A financial instrument is derecognised when there is no reasonable expectation of full or partial recovery, e.g. before or after insolvency proceedings or court decisions and legal recovery measures are judged to be unsuccessful.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if there is currently an enforceable legal right to offset the recognised amounts against each other and the intention is either to settle on a net basis or to settle the related liability simultaneously with the realisation of the asset in question.

Financial liabilities
Financial liabilities include in particular financing liabilities, other financial liabilities, trade payables and other liabilities.

Financing liabilities relate to liabilities to banks. Other financial liabilities mainly comprise liabilities from lease agreements, payroll liabilities due to employees and conditional purchase price liabilities from company acquisitions. Other financial liabilities also include derivative financial liabilities.

Financial liabilities measured at amortised cost
After initial recognition, financial liabilities are measured at amortised cost using the effective interest method. Financial liabilities measured at amortised cost include liabilities to banks, liabilities from lease agreements and payroll liabilities due to employees.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading as well as contingent purchase price liabilities from company acquisitions. Derivatives are classified as “held for trading” (including embedded derivatives that have been separated from the host contract) if they are not included in hedge accounting as hedging instruments. Gains or losses on financial liabilities held for trading are included in consolidated net income.

The GFT Group derecognises a financial liability when the contractual obligations have been fulfilled, cancelled or expired. The GFT Group also derecognises a financial liability if its contractual terms are changed and the cash flows of the adjusted liability are significantly different. In this case, a new financial liability is recognised at fair value based on the revised terms. When a financial liability is derecognised, the difference between the carrying amount of the liability extinguished and the consideration paid (including non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Derivative financial instruments and hedge accounting
The GFT Group uses derivative financial instruments exclusively to hedge financial risks resulting from its operating business or refinancing activities. These are primarily interest rate and currency risks.

Derivative financial instruments are measured at fair value upon initial recognition and at each subsequent reporting date. The fair value corresponds to their positive or negative market value. If a market value is not available, fair value is calculated using standard financial valuation models, such as discounted cash flow models or option pricing models.

If the requirements of IFRS 9 for hedge accounting are met, the GFT Group designates and documents the hedging relationship as a fair value hedge or cash flow hedge as of this date. In a fair value hedge, the fair value of a recognised asset or liability or an unrecognised firm commitment is hedged. In a cash flow hedge, highly probable future cash flows from expected transactions or fluctuating cash flows to be paid or received in connection with a recognised asset or liability are hedged. The documentation of the hedging relationship includes the objectives and strategy of risk management, the type of hedging relationship, the hedged risk, the designation of the hedging instrument and the hedged item, as well as an assessment of the effectiveness requirements comprising the risk-mitigating economic relationship, the effects of the credit risk and the appropriate hedge ratio. The effectiveness of the hedge is assessed at the beginning of and during the hedging relationship.

Changes in the fair value of derivatives are regularly recognised in consolidated net income or in other comprehensive income, depending on whether the hedging relationships are fair value hedges or cash flow hedges. Changes in the fair value of non-designated derivatives are recognised in profit or loss. In the case of fair value hedges, changes in the fair value of derivative financial instruments and the related hedged items are recognised in the consolidated income statement. Changes in the fair value of derivative financial instruments designated as cash flow hedges are initially recognised in other comprehensive income in the amount of the hedge-effective portion after taxes.

The recognition of an individual hedging relationship must be discontinued prospectively if it no longer meets the qualifying criteria under IFRS 9. Possible reasons for the termination of hedge accounting include the discontinuation of the economic relationship between the hedged item and the hedging instrument, the sale or termination of the hedging instrument, or a change in the documented risk management objective of an individual hedging relationship.

If derivative financial instruments are not or no longer included in hedge accounting because the conditions for hedge accounting are not or are no longer met, they are classified as held for trading and measured at fair value through profit or loss.

Provisions for pensions and similar obligations
Defined benefit pension plans and other similar post-employment benefits are measured using the projected unit credit method in accordance with IAS19 Employee Benefits. The present value of the defined benefit obligations is calculated using significant actuarial assumptions, including discount rates, expected salary and pension trends and mortality rates. The discount rates applied are determined on the basis of the yields achieved at the end of the reporting period on high-grade corporate bonds with corresponding maturities and currencies. If such yields are not available, the discount rates are based on government bond yields. Due to changing market, economic and social conditions, the underlying assumptions may differ from actual developments.

Plan assets invested to cover pension commitments and other similar benefits are measured at fair value and offset against the corresponding obligations. The balance of pension commitments and other similar post-employment benefits and plan assets (net pension obligation or net pension assets) accrues interest at the discount rate used to measure the gross pension obligation. The resulting net interest expense or income is recognised in profit or loss as interest expense or interest income in the consolidated income statement. The other expenses resulting from the granting of pension commitments and other similar post-employment benefits, which mainly result from entitlements acquired in the financial year, are included in personnel expenses within the consolidated income statement.

The pension obligations and plan assets for all significant Group companies are valued annually by qualified independent actuaries.

Actuarial gains and losses arising from the regular adjustment of actuarial assumptions are recognised directly in equity or in the statement of comprehensive income in the period in which they arise, taking into account deferred taxes. Differences between the interest income from plan assets calculated at the beginning of the period on the basis of the interest rate used to discount the pension obligations and the actual return on plan assets at the end of the period are also recognised directly in equity.

Obligations for contributions to defined contribution plans are recognised as an expense in current income as soon as the related service is rendered. Prepaid contributions are recognised as an asset to the extent that a right to reimbursement or reduction of future payments arises.

Other provisions

Provisions are recognised when there is an obligation to a third party, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. The amount recognised as a provision represents the best estimate of the obligation at the reporting date. Provisions with an original term of more than one year are carried at their settlement amount discounted to the reporting date. If the recognition criteria for provisions are not met and the possibility of an outflow of resources is not unlikely, a contingent liability is disclosed (to the extent that it can be adequately measured). The amount disclosed as a contingent liability corresponds to the best estimate of the possible obligation at the reporting date. Provisions and contingent liabilities are reviewed regularly and adjusted in the event of new knowledge or changed circumstances.

Contract liabilities

A contract liability is the obligation of an entity to transfer goods or services to a customer for which the entity has received (or will receive) consideration from that customer. In the case of the GFT Group, contract liabilities arise for unrealised revenues and advance payments received in particular in connection with fixed-price contracts for the creation of customer-specific IT solutions and the implementation of sector-specific standard software, as well as service contracts for the further development of business-critical IT solutions. Contract liabilities are disclosed as current as they occur within the usual business cycle.

Revenue recognition

The GFT Group recognises revenue when control of the identifiable goods or services passes to the client, i.e. when the client has the ability to control the use of the goods or services transferred and derives substantially all the remaining benefits from them. The prerequisite for this is that a contract with enforceable rights and obligations exists and that, among other things, it is probable that the consideration will be received – taking into account the creditworthiness of the customer. Revenue corresponds to the transaction price at which the GFT Group is expected to be entitled. Variable consideration is included in the transaction price when it is highly probable that there will be no significant reversal of revenue once the uncertainty surrounding the variable consideration no longer exists. If the period between the transfer of the goods or services and the payment date exceeds twelve months and a significant benefit results from the financing for the client or the GFT Group, the consideration is adjusted by the fair value of the money. If a contract comprises several identifiable goods or services, the transaction price is allocated to the performance obligations on the basis of the relative individual sale prices. If individual sale prices are not directly observable, the GFT Group estimates these at an appropriate level. For each performance obligation, revenue is recognised either at a specific point in time or over a specific period of time.

The GFT Group retroactively grants volume discounts to certain clients as soon as the quantity of products or services purchased in the period exceeds a contractually agreed minimum purchase quantity. Discounts are offset against the amounts payable by the customer. The estimation of the variable consideration for the expected future discounts is generally based on the most probable amount method. The GFT Group then applies the rules for limiting the estimate of variable consideration and recognises a reimbursement liability for the expected future discounts.

IFRS 15 requires additional costs to initiate a contract and certain contract performance costs to be recognised as an asset if certain criteria are met. All capitalised contract costs are to be depreciated systematically using a method that follows the transfer of control of the goods or services to the client. The GFT Group recognises the cost of initiating and fulfilling contracts under other assets. Imputed cost rates are used to calculate contract fulfilment costs. Depreciation is based on the stage of completion.

The GFT Group generates revenue primarily from the development of client-specific IT solutions, consulting on the development and implementation of innovative IT strategies, the implementation of sector-specific standard software and the maintenance and further development of business-critical IT solutions. The corresponding revenue streams are mainly based on service contracts, fixed-price contracts and maintenance contracts. In the case of the GFT Group, revenue recognition according to the type of contract for the underlying service follows the principles described below. In addition to the nature and timing of performance obligations from contracts with clients, the principles also comprise the main terms of payment.

Service contracts
Service contracts exist in particular for consulting on the development and implementation of innovative IT strategies as well as the implementation of sector-specific standard software and are based on the time spent (time & material).

In the case of service contracts, the client receives the benefit of the service directly or simultaneously with the provision of the service by the GFT Group. Revenue from service contracts is generally recognised in the amount of the consideration receivable based on the time spent and invoiced. The claim for consideration is based on contractually agreed hourly rates. Invoices are issued in accordance with the terms of the contract; payment terms usually provide for payment between 30 and 60 days after invoicing.

Fixed-price contracts
Fixed-price contracts are concluded primarily for the development of client-specific IT solutions, the implementation of sector-specific standard software and occasionally for the further development of business-critical IT solutions.

Revenue from fixed-price contracts is recognised over a specified period of time according to the stage of completion (ratio of costs already incurred to estimated total costs). An expected loss on a contract is recognised immediately as an expense. Invoices are issued in accordance with the contractual terms and conditions, sometimes based on defined payment plans including advance payments. Any excess of payments or services is recognised as a contract liability or contract asset. The terms of payment for fixed-price agreements usually provide for payment between 30 and 30 days after invoicing.

In the case of revenue recognition in connection with fixed-price contracts, the assessment of the stage of completion is of particular importance; it may include estimates of the scope of supplies and services required to fulfil the contractual obligations. These significant estimates include estimated total costs, estimated total revenues, order risks – including technical, political and regulatory risks – and other significant items. The estimate of the stage of completion may increase or decrease revenues due to changes in estimates. It must also be assessed whether the most likely scenario for a contract is that it will be continued or terminated. For the purposes of that assessment, all relevant facts and circumstances are taken into account individually for each contract.

As a rule, fixed-price contracts are based on a customer-specific performance promise. The power of disposal is gained directly or simultaneously with the provision of the service, since this is generally provided on the customer's IT system. Performance obligations of the GFT Group in connection with fixed-price contracts can essentially only be considered as a whole; any partial performance does not enable the client to derive a corresponding benefit from the services provided. In the event of a premature project termination for which the GFT Group is not responsible, a claim against the client for appropriate remuneration for services already rendered is regularly contractually guaranteed.

Maintenance contracts
Services provided by the GFT Group for the maintenance and further development of business-critical IT solutions are mainly provided within the framework of maintenance contracts at fixed prices.

In the case of maintenance contracts, the client generally receives the benefit directly or simultaneously with the provision of the service by the GFT Group. Revenue from maintenance contracts is recognised on a straight-line basis over a specified period or – if the service is not provided on a straight-line basis – according to the rendering of the service, i.e. according to the stage of completion as described above. Invoices are issued in accordance with the terms of the contract; payment terms usually provide for payment between 30 and 60 days after invoicing.

Recognition of other income
Other income mainly relates to income from rental transactions that do not fall within the scope of IFRS 15, as well as interest.

Revenue from rental transactions that does not fall within the scope of IFRS 15 is recognised within revenue on a straight-line basis over the term of the contract.

Revenue from royalties, license fees and interest is recognised in other operating income on an accrual basis in accordance with the economic content of the underlying contract.

Government grants
Government grants are recognised as income at the point in time at which the entitlement to the grant has arisen with sufficient certainty or the conditions associated with the grant have been fulfilled.

Financial result
The financial result comprises interest income and expenses, as well as other income and expenses, in connection with financial investments accounted for using the equity method.

Interest income and expenses are recognised in profit or loss using the effective interest method. Interest income and interest expense includes interest income from securities investments and from cash and cash equivalents, as well as interest expenses from debt. These items also include interest and changes in market values in connection with interest rate hedges as well as income and expenses from the distribution of premiums and discounts. The interest components from pension commitments and other similar obligations, as well as from the plan assets available to cover these obligations, and interest from the discounting of other financial liabilities or other provisions are also included in this item.

Income taxes
Income taxes include both current income taxes and deferred taxes.

Current income taxes are calculated on the basis of the respective national tax results and regulations for the year. In addition, the current taxes reported in the financial year also include adjustment amounts for any tax payments or refunds for years not yet finally assessed, but excluding interest payments or interest refunds and penalties for subsequent tax payments. Due to their complexity, the tax items presented in the financial statements may be subject to different interpretations by taxpayers on the one hand and local tax authorities on the other. In the event that amounts recognised in the tax returns are unlikely to be realised (uncertain tax items), tax provisions are recognised. The amount is determined on the basis of the best possible estimate of the expected tax payment (expected value or most probable value of tax uncertainty). Tax receivables from uncertain tax items are recognised if it is predominantly probable and therefore sufficiently certain that they can be realised. No tax provision or asset is recognised for such uncertain tax positions only in the case that there is a tax loss carryforward or unused tax credit. In such cases, the deferred tax asset is adjusted for the unused tax loss carryforward and unused tax credit.

Changes in deferred tax assets and liabilities are generally reflected in the income statement under deferred taxes. An exception to this are the changes to be made in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are determined for temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet, including consolidation differences, and for unused tax loss carryforwards and tax credits. Measurement is based on the tax rates expected to apply in the period in which an asset is realised or a liability settled. This is based on the tax rates and regulations valid on the reporting date or which will apply shortly. The GFT Group assesses the recoverability of deferred tax assets on each reporting date on the basis of planned taxable income in future financial years. If the Group assumes that future tax benefits with a probability of more than 50% cannot be partially or completely realised, a valuation allowance is made on the deferred tax assets. Among other things, the planned results from operating activities, the effects on earnings of the reversal of taxable temporary differences and realisable tax strategies are taken into account. As future business developments are uncertain and in some cases cannot be controlled by the Group, the assumptions to be made in connection with the recognition of deferred tax assets are subject to considerable uncertainty.

Deferred tax liabilities on taxable temporary differences from investments in subsidiaries and associated companies are not recognised if the Group can determine the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

Earnings per share
Basic earnings per share are calculated by dividing the profit attributable to shareholders of GFT Technologies SE by the weighted average number of shares outstanding. As there were no events in 2019 and 2018 that had a dilutive effect, diluted earnings per share in these years correspond to basic earnings per share.

2.7 New accounting standards not yet applied

New and amended standards and interpretations issued up to the date of publication of these consolidated financial statements but not yet mandatory are presented below. The GFT Group intends to apply these new and amended standards and interpretations from their effective date.

IFRS pronouncements to be applied in the future (EU endorsed)
The following standards and interpretations, as well as amendments to standards and interpretations, have already been endorsed by the European Union, but their application is only mandatory for financial statements prepared after 31 December 2019.

IFRS pronouncements to be applied in the future (EU endorsed)

	IFRS pronouncement	Mandatory for financial years beginning on or after
Amendments to IAS 1 und IAS 8	Definition of Material	1 January 2020
Revision of the framework concept	Changes to the references to the framework concept	1 January 2020

These pronouncements are not expected to have any material impact on the consolidated financial statements in the reporting period in which they are first applied.

IFRS pronouncements to be applied in the future without EU endorsement
The IASB and IFRIC have issued further standards and interpretations as well as amendments to standards and interpretations which are not yet mandatory for the 2019 financial year.

IFRS pronouncements to be applied in the future (no EU endorsement yet)

	IFRS pronouncement	Mandatory for financial years beginning on or after
Amendments to IFRS 3	Definition of a Business	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7	IBOR Reform	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	indefinite

According to current assessment, the IFRS pronouncements presented in the table above will have no significant impact on the consolidated financial statements.

3 Composition of the Group

3.1 Consolidated group

The following table shows the composition of the GFT Group as of 31 December 2019.

Composition of the Group

	31/12/2019	31/12/2018
Consolidated subsidiaries	30	27
domestic	5	3
foreign	25	24
Associated companies accounted for using the equity method	1	1
domestic	1	1
	31	**28**

A detailed composition of the companies included in the consolidated financial statements and the shareholdings of the GFT Group pursuant to section 313 (2) HGB is shown in the list of shareholdings (see page 98). In the case of the fully consolidated subsidiaries, disclosures on equity and earnings are based on the IFRS figures of the local annual financial statements.

Subsidiaries
In addition to GFT Technologies SE as the parent company, the consolidated financial statements as of 31 December 2019 include the following subsidiaries (fully consolidated):

- GFT Real Estate GmbH, Stuttgart, Germany
- SW34 Gastro GmbH, Stuttgart, Germany
- GFT Experts GmbH, Stuttgart, Germany
- GFT Invest GmbH, Stuttgart, Germany
- GFT Smart Technology Solutions GmbH, Karlsruhe, Germany (formerly: AXOOM GmbH, Karlsruhe, Germany)
- GFT Switzerland AG, Zurich, Switzerland
- GFT UK Limited, London, UK
- GFT Technologies S.A.U., Madrid, Spain
- GFT Holding Italy S.r.l., Milan, Italy
- GFT Technologies (Ireland) Ltd., Dublin, Ireland
- 9380-6081 Québec Inc., Montreal, Canada
- GFT France S.A.S., Paris, France
- GFT Technologies Hong Kong Ltd., Hong Kong, China
- GFT Technologies Singapore Pte. Ltd., Singapore, Singapore
- GFT IT Consulting S.L.U., Sant Cugat del Vallès, Spain
- GFT Brasil Consultoria Informática Ltda., Barueri, Brazil
- GFT USA Inc., New York, USA
- GFT Appverse S.L.U., Sant Cugat del Vallès, Spain
- GFT Italia S.r.l., Milan, Italy
- Med-Use S.r.l., Milan, Italy
- GFT Financial Limited, London, UK
- GFT Canada Inc., Toronto, Canada
- GFT Poland Sp. z o.o, Lodz, Poland
- GFT Costa Rica S.A., Heredia, Costa Rica
- GFT México S.A. de C.V., Mexico City, Mexico
- GFT Peru S.A.C., Lima, Peru
- GFT Technologies Canada Inc., Québec, Canada (formerly: V-NEO Inc., Québec, Canada)
- GFT Technologies Toronto Inc., Québec, Canada (formerly: V-NEO Toronto Inc., Québec, Canada)
- GFT Technologies Belgique S.A., Brussels, Belgium (formerly: V-NEO Europe S.A., Brussels, Belgium)
- V-NEO USA Inc., Newark, USA

Associated companies
The GFT Group holds a 20% stake in CODE_n GmbH, Stuttgart, Germany.

The result from financial investments accounted for using the equity method amounted to €0 thousand in the reporting period (2018: € –75 thousand). Since the previous year, the acquisition costs of the investment have been fully absorbed by shares in losses.

Changes to the consolidated group
With effect from 1 July 2019, the GFT Group acquired all shares in AXOOM GmbH, Karlsruhe, Germany (as of 24 July 2019: GFT Smart Technology Solutions GmbH, Karlsruhe, Germany). Please refer to section 3.2 below for further information and the effects of the acquisition on the consolidated financial statements.

With a memorandum of association dated 26 February 2019, GFT Technologies SE founded GFT Invest GmbH, Stuttgart, Germany. The share capital amounts to €25 thousand and is fully paid.

With a shareholders' resolution of GFT Technologies SE, GFT Technologies Hong Kong Ltd., Hong Kong, China, was founded on 11 June 2019. The share capital amounts to HK$10 thousand and is fully paid.

With a shareholders' resolution, GFT Technologies SE founded GFT Technologies Singapore Pte. Ltd., Singapore, Singapore, on 24 October 2019. The share capital amounts to S$50 thousand and is fully paid.

Equity holdings according to section 313 (2) HGB

in € thousand	Share of the capital (in %)	Company equity 31/12/2019	Net income 2019
I. Direct investments			
Domestic			
GFT Real Estate GmbH, Stuttgart, Germany[1]	100	414	50
SW34 Gastro GmbH, Stuttgart, Germany[1]	100	533	0
GFT Experts GmbH, Stuttgart, Germany[1]	100	30	0
GFT Invest GmbH, Stuttgart, Germany[1]	100	25	0
GFT Smart Technology Solutions GmbH, Karlsruhe, Germany (formerly: AXOOM GmbH, Karlsruhe, Germany)	100	3,521	–1,751[2]
CODE_n GmbH, Stuttgart, Germany	20	–570	–529
Foreign			
GFT Schweiz AG, Zurich, Switzerland	100	–1,276	427
GFT UK Limited, London, UK	100	35,078	3,354
GFT Technologies S.A.U., Madrid, Spain	100	37,339	23,307
GFT Holding Italy S.r.l., Milan, Italy	100	–6,604	–444
GFT Technologies (Ireland) Ltd., Dublin, Ireland	100	0	0
9380-6081 Québec Inc., Montreal, Canada	100	6,564	–2,541
GFT France S.A.S., Paris, France	100	1,554	1,547
GFT Technologies Hong Kong Ltd., Hong Kong, China	100	0	–1
GFT Technologies Singapore Pte. Ltd., Singapore, Singapore	100	–14	–47
II. Indirect investments			
Foreign			
GFT IT Consulting, S.L.U., Sant Cugat del Vallès, Spain[3]	100	14,122	10,135
GFT Brasil Consultoria Informática Ltda., Barueri, Brazil	100	8,481	2,145
GFT USA Inc., New York, USA	100	11,269	–880
GFT Appverse S.L.U., Sant Cugat del Vallès, Spain	100	–32	–4
GFT Italia S.r.l., Milan, Italy	100	11,342	3,527
Med-Use S.r.l., Milan, Italy	100	449	22
GFT Financial Limited, London, UK	100	9,261	4,839
GFT Canada Inc., Toronto, Canada	100	601	108
GFT Poland Sp. z o.o., Łódź, Poland	100	5,433	1,853
GFT Costa Rica S.A., Heredia, Costa Rica	100	1,179	364
GFT México S.A. de C.V., Mexico City, Mexico	100	4,442	1,394
GFT Peru S.A.C., Lima, Peru	100	24	0
GFT Technologies Canada Inc., Quebec, Canada (formerly: V-NEO Inc., Quebec, Canada)	100	7,271	1,691
GFT Technologies Toronto Inc., Quebec, Canada (formerly: V-NEO Toronto Inc., Quebec, Canada)	100	603	286
GFT Technologies Belgique S.A., Brussels, Belgium (formerly: V-NEO Europe S.A., Brussels, Belgium)	100	167	45
V-NEO USA Inc., Newark, USA	100	–3	–1

[1] There is an profit and loss transfer agreement between the company (profit and loss transferring company) and GFT Technologies SE.
[2] Covers the period from 1 Juli to 31 December 2019.
[3] Adesis Netlife S.L.U., Madrid, Spain, was retroactively merged with GFT IT Consulting S.L.U., Sant Cugat del Vallès, Spain, as of 1 January 2019.

3.2 Business combinations

Company acquisition in the reporting period

On 28 June 2019, the GFT Group – via GFT Technologies SE – concluded an agreement concerning the complete takeover of shares in GFT Smart Technology Solutions GmbH (until 23 July 2019: AXOOM GmbH), a company with cross-segment IT and industry expertise based in Karlsruhe, Germany. The shares were transferred with economic effect on 1 July 2019. The acquisition represents an acceleration of the GFT Group's industry drive and an expansion of its industrial expertise. In addition to Stuttgart, the new location in Karlsruhe will also provide a further foothold with close customer proximity in the south of Germany. The long-standing cooperation with the selling company, TRUMPF GmbH + Co. KG, Ditzingen, Germany, has also been strengthened by the acquisition.

In the period from 1 July to 31 December 2019, GFT Smart Technology Solutions GmbH employed an average of 67 people and contributed revenue of €1,128 thousand and a loss of €1,794 thousand to pre-tax earnings (EBT) in the six months ending 31 December 2019. Had the acquisition taken place on 1 January 2019, management estimates that revenue would have been €1,756 thousand higher and pre-tax earnings (EBT) €8,415 thousand lower. In determining these amounts, management assumed that the preliminary fair value adjustments determined as of the acquisition date would also have applied in the case of an acquisition on 1 January 2019.

An amount of €7,429 thousand was paid in cash as final consideration for the acquisition of the shares in GFT Smart Technology Solutions GmbH. Purchase price allocation has been completed. The non-tax-deductible goodwill amounts to €2,109 thousand and represents synergy potential.

The GFT Group incurred costs of €207 thousand in connection with the business combination for legal advice and due diligence. The costs were recognised in income as other operating expenses.

The table below shows the final fair values of assets and liabilities as of the acquisition date.

Fair values on the acquisition date

in € thousand	
Other intangible assets	119
Property, plant and equipment	358
Trade receivables	610
Cash and cash equivalents	987
Other financial assets	16,953
Other assets	317
Total assets	**19,344**
Deferred tax liabilities	21
Provisions for pensions	312
Trade payables	390
Other financial liabilities	11,307
Other provisions	1,074
Other liabilities	920
Total liabilities	**14,024**
Net assets	**5,320**

Trade receivables measured at fair value include gross amounts which were estimated to be recoverable in full as of the acquisition date.

Company acquisition in the previous year

On 3 July 2018, the GFT Group signed an agreement to acquire all shares in V-NEO Inc., Québec, Canada, via its newly established subsidiary 9380-6081 Québec Inc., Montreal, Canada. The complete transfer of the shares (= closing) took place on 1 August 2018. V-NEO is an experienced provider of integrated IT solutions for the insurance industry. The acquisition strengthens the GFT Group's expertise in the insurance sector and expands its market position in North America.

Following purchase price adjustments, the consideration transferred for the acquisition of the shares amounted to Can$34,484 thousand (€22,603 thousand). Purchase price allocation has been completed. The final goodwill of Can$17,558 thousand (€11,508 thousand) is non-tax-deductible and represents synergy potential.

4 Explanations on items of the balance sheet

4.1 Goodwill

The mandatory annual impairment test pursuant to IAS 36 was performed on goodwill as of the reporting date. No event-driven impairment test was conducted during the financial year as there were no indications of impairment.

The impairment test was performed at the level of the smallest cash-generating unit (CGU) on the basis of the recoverable amount. The definition of the CGUs is based on the two business segments *Americas, UK & APAC* and *Continental Europe*. In the impairment test, the carrying amount of the CGU allocated to goodwill was compared with its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

The carrying amounts of goodwill are allocated to the two CGUs as follows:

Carrying amount of goodwill

in € thousand	31/12/2019	31/12/2018
CGU		
Americas, UK & APAC	44,109	42,586
Continental Europe	74,550	70,408
	118,659	**112,994**

The increase in goodwill as of 31 December 2019 resulted in particular from the acquisition of AXOOM GmbH (see note 3.2) and from foreign currency effects. The goodwill resulting from initial consolidation of AXOOM GmbH amounting to €2,109 thousand was allocated to the CGU *Continental Europe*.

In order to determine the value in use of the CGUs, cash flows were forecast for the next five years based on past experience, current operating results, management's best estimate of future developments and market assumptions. Revenue and EBT planning is based on the budget approved by the Administrative Board for the coming financial year, which was extrapolated for the following four years at defined growth rates. The figures for the fifth year were then further extrapolated for the future with a growth rate of 1%.

Value in use is mainly determined by the terminal value (present value of the perpetual annuity), which is particularly sensitive to changes in assumptions regarding the long-term growth rate and the discount rate. Both assumptions are determined individually for each CGU. The discount rates are based on the weighted average cost of capital (WACC) concept for the CGUs. The discount rates are determined on the basis of a risk-free interest rate and a market risk premium. In addition, the discount rates reflect the current market assessment of the specific risks of each individual CGU by taking into account beta factors, gearing and borrowing costs of the peer group to which GFT Technologies SE belongs. The parameters for determining the discount rates are based on external information sources. The peer group is subject to an annual review and is adjusted where necessary. Growth rates take into account external macroeconomic data and sector-specific trends.

The impairment test of the two CGUs is based on the key assumptions described below to determine fair value less selling costs.

The future cash flows of the CGUs *Americas, UK & APAC* and *Continental Europe* were discounted at rates of 8.81% and 8.13% respectively (31 December 2018: 9.10% and 8.75%). The pre-tax interest rates for the CGUs *Americas, UK & APAC* and *Continental Europe* are 11.64% and 10.93% respectively (31 December 2018: 11.86% and 11.78%). Based on the cash flow forecasts for the CGUs *Americas, UK & APAC* and *Continental Europe*, management assumes that business with existing and new clients will increase by an average of 7.39% and 3.62% respectively between 2021 and 2024, based on planning for the financial year 2020, and then grow at a rate of 1%. The assumptions are based on order completions, past experience and market assessments.

The impairment test as of 31 December 2019 gave no indication of any impairment of goodwill. Based on the aforementioned assumptions of sustainable sales growth for the CGUs, the recoverable amounts are higher than the carrying amounts.

The sensitivity analysis for the CGU *Americas, UK & APAC* assumed a reduction in revenue of 5% or an increase in the WACC of one percentage point. On this basis, there was no impairment need as of 31 December 2019.

4.2 Other intangible assets

The development of other intangible assets of the GFT Group is presented in annexes 1b and 1c of the notes to the consolidated financial statements.

As of 31 December 2019, other intangible assets totalled €22,127 thousand (31 December 2018: €26,697 thousand) of which an amount of €18,306 thousand (31 December 2018: €23,375 thousand) was still mainly attributable to customer relationships. The carrying amount of customer relationships has a remaining useful life of between 0.5 and 4.5 years.

Research and development costs of €2,801 thousand (2018: €3,002 thousand) were expensed as they do not meet the recognition criteria for intangible assets.

There are no other intangible assets with indefinite useful lives in the GFT Group.

4.3 Property, plant and equipment

Property, plant and equipment in the consolidated balance sheet with a carrying amount of €76,780 thousand also include right-of-use assets of €51,163 thousand in connection with lessee accounting.

The development of the GFT Group's property, plant and equipment is shown in the annexes 1b and 1c to the notes to the consolidated financial statements.

The item "Land, land rights and buildings" mainly refers to the administration building at the Group's headquarters in Stuttgart as well as leasehold improvements in rented office space. The building at the Group's headquarters is encumbered with a mortgage of €8 million.

As in the previous year, non-scheduled depreciation on property, plant and equipment (without right-of-use assets) due to impairment was not necessary.

Note "9.2 Leases" shows the composition of right-of-use assets to be carried as of 1 January 2019 and contains additional information in connection with lessee accounting.

Development of intangible assets and property, plant and equipment (excluding right-of-use assets) 2019

	Acquisition or manufacturing costs					
in € thousand	As at 01/01/2019	Currency translation	Change in consolidation scope	Additions	Disposals	As at 31/12/2019
Intangible assets						
Goodwill	114,994	2,372	3,293	0	0	120,659
Other intangible assets	64,460	1,276	119	1,657	–122	67,390
	179,454	**3,648**	**3,412**	**1,657**	**–122**	**188,049**
Property, plant and equipment						
Land, leasehold rights and buildings	16,252	188	0	632	–1,421	15,651
Equipment, factory and office equipment	37,851	199	358	3,990	–1,549	40,849
	54,103	**387**	**358**	**4,622**	**–2,970**	**56,500**
	233,557	**4,035**	**3,770**	**6,279**	**–3,092**	**244,549**

Development of intangible assets and property, plant and equipment 2018

	Acquisition or manufacturing costs						
in € thousand	As at 01/01/2018	Currency translation	Change in consolidation scope	Additions	Disposals	Reclassifications	As at 31/12/2018
Intangible assets							
Goodwill	103,709	493	10,324	468	0	0	114,994
Other intangible assets	54,190	–586	9,182	1,810	–136	0	64,460
	157,899	**–93**	**19,506**	**2,278**	**–136**	**0**	**179,454**
Property, plant and equipment							
Land, leasehold rights and buildings	16,290	0	0	5	–43	0	16,252
Equipment, factory and office equipment	35,964	0	128	3,082	–1,566	244	37,851
Prepayments and assets under construction	244	0	0	0	0	–244	0
	52,498	**0**	**128**	**3,087**	**–1,609**	**0**	**54,103**
	210,397	**–93**	**19,634**	**5,365**	**–1,745**	**0**	**233,557**

Depreciation, amortisation and impairment					Carrying amount	
As at 01/01/2019	Currency translation	Additions	Disposals	As at 31/12/2019	As at 31/12/2019	As at 31/12/2018
2,000	0	0	0	2,000	118,659	112,994
37,763	527	7,030	–57	45,263	22,127	26,697
39,763	**527**	**7,030**	**–57**	**47,263**	**140,786**	**139,691**
4,078	76	1,409	–1,059	4,504	11,147	12,174
23,439	124	4,169	–1,353	26,379	14,470	14,412
27,517	**200**	**5,578**	**–2,412**	**30,883**	**25,617**	**26,586**
67,280	**727**	**12,608**	**–2,469**	**78,146**	**166,403**	**166,277**

Depreciation, amortisation and impairment						Carrying amount	
As at 01/01/2018	Currency translation	Additions	Disposals	Reclassifications	As at 31/12/2018	As at 31/12/2018	As at 31/12/2017
2,000	0	0	0	–	2,000	112,994	101,709
30,910	6	6,984	–137	–	37,763	26,697	23,280
32,910	**6**	**6,984**	**–137**	**–**	**39,763**	**139,691**	**124,989**
2,910	0	1,178	–10	–	4,078	12,174	13,380
20,169	141	4,561	–1,432	–	23,439	14,412	15,795
0	0	0	0	–	0	0	244
23,079	**141**	**5,739**	**–1,442**	**–**	**27,517**	**26,586**	**29,419**
55,989	**147**	**12,723**	**–1,579**	**–**	**67,280**	**166,277**	**154,408**

4.4 Other assets

The composition of other financial assets and other assets disclosed in the consolidated balance sheet as of 31 December 2019 is shown in the following table.

Other financial assets and other assets

in € thousand	31/12/2019	31/12/2018
Non-current other financial assets		
Deposits	956	733
Other	0	22
Subtotal	**956**	**755**
Non-current other assets		
Government grants	4,012	2,798
Subtotal	**4,012**	**2,798**
Current other financial assets		
Government grants	1,315	0
Creditors with debit balance	259	52
Receivables from employees	158	286
Deposits	107	165
Other	3	566
Subtotal	**1,842**	**1,069**
Current other assets		
Accruals	4,807	6,606
Claims for VAT and other tax refunds	3,011	5,370
Contract costs	27	117
Government grants	0	1,775
Receivables from social insurance fund	566	551
Other	206	84
Subtotal	**8,617**	**14,503**
Total	**15,427**	**19,125**

Current other assets include contract fulfilment costs of €27 thousand (31 December 2018: €117 thousand). There were no impairment expenses with respect to the capitalised amounts.

As of the balance sheet date, there were no other receivables from associated companies (31 December 2018: €140 thousand).

4.5 Income taxes

Income tax claims disclosed in the balance sheet are composed as follows.

Income tax claims

in € thousand	31/12/2019	31/12/2018
Deferred tax assets	9,241	8,152
Long-term current income tax claims	441	1,038
Short-term current income tax claims	7,093	6,757
Total	**16,775**	**15,947**

Deferred tax assets include tax credits for research and development of €3,659 thousand (31 December 2018: €3,539 thousand).

Income tax liabilities disclosed in the balance sheet are composed as follows.

Income tax liabilities

in € thousand	31/12/2019	31/12/2018
Deferred tax liabilities	4,342	5,081
Current income tax liabilities	4,533	3,471
Total	**8,875**	**8,489**

The tax deferrals and accruals are allocated to individual balance sheet items as follows.

Deferred tax assets

in € thousand	31/12/2019	31/12/2018
Intangible assets and property, plant and equipment	859	366
Receivables and other assets	2,659	3,055
Tax loss carry-forwards and tax credits	7,730	6,627
Provisions for pensions	1,715	1,158
Other provisions	3,204	2,494
Contract liabilities and other liabilities	143	417
Subtotal	**16,310**	**14,117**
Offsetting	−7,069	−5,965
Deferred tax assets	**9,241**	**8,152**

Deferred tax assets for property, plant and equipment include for the first time deferred tax assets of €628 thousand from lease accounting pursuant to IFRS 16. In accordance with the selected retrospective transition method, prior-year figures have not been adjusted. €413 thousand of deferred tax assets result from the initial application of IFRS 16 as of 1 January 2019 (see note 2.3).

Deferred tax liabilities

in € thousand	31/12/2019	31/12/2018
Intangible assets and property, plant and equipment	6,090	6,995
Receivables and other assets	1,874	1,086
Provisions for pensions	80	52
Contract liabilities and other liabilities	3,367	2,850
Subtotal	**11,411**	**10,983**
Offsetting	−7,069	−5,965
Deferred tax liabilities	**4,342**	**5,018**

There are loss carryforwards for GFT Group companies of €10,848 thousand (31 December 2018: €10,862 thousand) for which no deferred tax assets were recognised, as recognition of the tax claim is not probable on the basis of current tax planning. Of this total, €9,097 thousand (31 December 2018: €10,862 thousand) is attributable to foreign Group companies and €1,751 thousand (31 December 2018: €0 thousand) to domestic Group companies. Loss carryforwards for which no deferred tax assets could be formed are either non-forfeitable or forfeitable within a time horizon of 10 to 20 years. In addition, there are tax claims for research and development totalling €7,150 thousand (31 December 2018: €8,426 thousand), of which an amount of €3,659 thousand (31 December 2018: €3,539 thousand) has been capitalised as a deferred tax asset.

In total, deferred tax assets carried for loss carryforwards and tax credits for research and development amounted to €7,730 thousand as of 31 December 2019 (31 December 2018: €6,627 thousand). Deferred tax assets from loss carryforwards and tax credits are recognised in the balance sheet to the extent that it is probable that future taxable profit will be available against which the Group can utilise the loss carryforwards.

Purchase price allocations due to the acquisition of GFT Smart Technology Solutions GmbH (formerly: AXOOM GmbH) resulted in deferred tax liabilities of €21 thousand, to be expensed in instalments, from the initial recognition of assets for an acquired sales right.

The total amount of temporary differences in connection with investments in affiliated and associated companies for which no deferred tax liabilities have been recognised was €4,135 thousand as of 31 December 2019 (31 December 2018: €3,211 thousand).

Deferred tax assets are offset against deferred tax liabilities if they relate to income taxes levied by the same taxation authority and there is a right to set off an actual tax refund claim against an actual tax liability. No distinction is made between current and non-current deferred tax assets and liabilities in the consolidated balance sheet. These are shown in the consolidated balance sheet as shown in the table below.

Deferred tax assets and liabilities

in € thousand	31/12/2019	31/12/2018
Deferred tax assets	9,241	8,152
Deferred tax liabilities	−4,342	−5,018
Net amount of deferred tax assets	**4,899**	**3,134**

Within the Group, there are a number of years for which there are no final tax assessments. The GFT Group believes it has made sufficient provisions for these open assessment years.

With the completion of Brexit on 31 January 2020 and the associated withdrawal agreement, the risk of the UK leaving the European Union (EU) without a deal has now been averted. The continuing uncertainty is now shifting to the negotiations on a future agreement between the UK and the EU. This may lead to a change in the UK's tax status with potential consequences for the GFT Group. The current uncertainties are still too great to assess whether, how and when there may be income tax effects for the GFT Group.

4.6 Inventories

Inventories of €172 thousand (31 December 2018: €160 thousand) include an amount of €129 thousand (31 December 2018: €120 thousand) for order backlogs from purchase price allocations and otherwise raw materials and supplies of €43 thousand (31 December 2018: €40 thousand).

4.7 Trade receivables

Trade receivables result from current business and refer to customer contracts within the scope of IFRS 15.

Trade receivables

in € thousand	31/12/2019	31/12/2018
Receivables from customer contracts (gross carrying amount)	115,924	95,897
Value adjustments	−1,904	−506
Carrying amount (net)	**114,020**	**95,391**

Trade receivables have a remaining term of up to one year.

As of 31 December 2019, there were no receivables from associated companies (31 December 2018: €0 thousand).

Volume discounts account for €1,459 thousand of value adjustments and expected credit losses for the remaining amount (€445 thousand).

The development of valuation allowances on trade receivables on the basis of expected credit losses was as follows.

Value adjustments on trade receivables

in € thousand	31/12/2019	31/12/2018
Balance as of 1 January	506	3,443
Effect of first-time adoption of IFRS 9	0	204
Balance as of 1 January	**506**	**3,647**
Net additions	247	230
Drawings	−178	−2,653
Reversals	−89	−678
Exchange rate effects and other changes	−41	−40
Balance as of 31 December	**445**	**506**

When estimating expected credit losses or the default risk, a distinction is made between trade receivables from major clients and other clients.

The expected credit losses for trade receivables from major clients are estimated using a probability-weighted default rate based on an average external credit rating. To determine the expected credit losses, the probability-weighted default rate is multiplied as a percentage by the nominal value of trade receivables.

The following tables contain information on the default risk and expected credit losses for trade receivables from major clients.

Expected credit losses major clients

in € thousand	31/12/2019			
Credit rating	Weighted average loss rate	Gross carrying amount	Value adjustment	Impaired creditworthiness
A	0.06%	3,341	−2	No
A–	0.06%	4,440	−3	No
BBB	0.16%	22,863	−37	No
BBB–	0.24%	17,473	−42	No
		48,117	**−84**	

in € thousand	31/12/2018			
Credit rating	Weighted average loss rate	Gross carrying amount	Value adjustment	Impaired creditworthiness
AA+	0.06%	3,932	−2	No
AA	0.07%	3,850	−3	No
A	0.11%	24,158	−27	No
BB	0.17%	10,580	−18	No
		42,520	**−50**	

The GFT Group uses a value adjustment matrix to measure the expected credit losses on trade receivables from other clients, which comprise a very large number of small balances. The loss ratios are calculated using the roll rate method, which is based on the probability that a receivable will progress through successive stages in payment delay.

The following tables provides information about the estimated default risk and expected credit losses on trade receivables from other clients.

Expected credit losses other clients

	31/12/2019			
in € thousand	Weighted average loss rate	Gross carrying amount	Value adjustment	Impaired creditworthiness
not overdue	0.27%	59,656	−161	No
1 to 30 days overdue	0.77%	2,745	−21	No
31 to 90 days overdue	0.91%	1,644	−15	No
91 to 180 days overdue	1.23%	1,712	−21	No
181 to 360 days overdue	22.50%	80	−18	Yes
more than 360 days overdue	24.46%	511	−125	Yes
		66,348	**−361**	

	31/12/2018			
in € thousand	Weighted average loss rate	Gross carrying amount	Value adjustment	Impaired creditworthiness
not overdue	0.05%	46,787	−23	No
1 to 90 days overdue	0.86%	4,288	−37	No
91 to 180 days overdue	0.91%	1,104	−10	No
more than 180 days overdue	3.18%	691	−22	Yes
		52,870	**−92**	

Further information on financial risks and risk types is provided in note 9.1.

4.8 Contract balances

The following table provides information on receivables, contract assets and contract liabilities arising from contracts with clients.

Contract balances

in € thousand	31/12/2019	31/12/2018
Receivables included in trade receivables	114,020	95,391
Contract assets	15,732	14,083
Contract liabilities	38,840	32,578

Contract assets mainly refer to the GFT Group's claims for consideration resulting from services from fixed-price contracts in connection with the development of customer-specific IT solutions and the implementation of sector-specific standard software that have been rendered but not yet invoiced as of the reporting date. The amount of contract assets as of 31 December 2019 is affected by an impairment of €5 thousand (31 December 2018: €5 thousand). Contract assets are reclassified as receivables when the rights become unconditional. This usually happens when the GFT Group issues an invoice to the client. The acquisition of the subsidiary GFT Smart Technology Solutions GmbH (formerly: AXOOM GmbH) had no impact on contract assets (see note 3.2).

Contract liabilities mainly relate to advance payments received from clients for construction contracts for which revenue is recognised over a specified period. Contract liabilities have a remaining term of up to one year.

The amount of €32,578 thousand disclosed under contract liabilities at the beginning of the period was recognised in full as revenue in 2019.

4.9 Shareholders' equity

Please refer to the separately presented consolidated statement of changes in equity for the development of equity during the financial years 2019 and 2018 (see annex 1.4).

Subscribed capital
As of 31 December 2019, the subscribed capital (share capital) of €26,325,946.00 consisted of 26,325,946 no-par value shares (unchanged from the previous year). The shares are bearer shares and all grant the same rights.

Authorised capital
With a resolution adopted by the Annual General Meeting of 14 June 2016, the Administrative Board was authorised until 13 June 2021 to increase the share capital of GFT Technologies SE by up to €10.00 million through a one-time-only or repeated partial issuance of bearer shares (no-par shares) against cash contributions and/or contributions in kind (Authorised Capital). The new shares are to be offered to the shareholders for subscription (also by way of indirect subscription in accordance with section 186 (5) AktG). The Administrative Board was also authorised to exclude the legal subscription right of shareholders under certain conditions and within defined limits.

Authorised capital has not been utilised so far. As of 31 December 2019, there was therefore unused authorised capital of €10.00 million (31 December 2018: €10.00 million).

Conditional capital
With a resolution adopted by the Annual General Meeting of 31 May 2017, the Administrative Board was authorised until 30 May 2022 (inclusive) to grant or issue on a one-time-only or repeated basis convertible and/or warrant bonds and/or profit participation rights with conversion and/or option rights and/or conversion or warrant obligations (or a combination of these instruments) made out to the bearer with a total nominal amount of up to €300.00 million with or without a limited term (bonds) and the creditors of bonds conversion or warrant rights and/or conversion or warrant obligations to subscribe to a total amount of up to 10,000,000 new no-par value bearer shares of the company with a proportionate amount of share capital of up to €10.00 million in accordance with the more detailed provisions of the terms and conditions of the bonds. The bonds may also have a variable interest rate, whereby the interest rate may depend in whole or in part on the amount of the annual net income, the balance sheet profit or the dividend of the company.

The bonds can be issued for cash or non-cash contributions. The respective conditions may also provide for a conversion or warrant obligation. The bonds may also be issued by domestic or foreign companies in which GFT Technologies SE directly or indirectly holds a majority of the votes and capital. The Administrative Board was also authorised to exclude the legal subscription right of shareholders to the bonds under certain conditions and within defined limits

To service the bonds issued under the above authorisation, the Annual General Meeting of 31 May 2017 resolved to conditionally increase the share capital by up to €10.00 million (Conditional Capital 2017).

The authorisation to issue bonds has not yet been exercised.

Treasury shares
With a resolution adopted by the Annual General Meeting of 23 June 2015, GFT Technologies SE was authorised to purchase treasury shares up to a total of 10% of share capital as at the time of the Annual General Meeting resolution and to use them for all legally permissible purposes. Among other things, the shares may be used, with the exclusion of shareholder subscription rights, in connection with (partial) company acquisitions or may be sold to third parties for cash at a price that is not significantly lower than the stock market price at the time of the sale. The acquired shares may also be used to issue shares to employees of GFT Technologies SE and of its affiliated companies pursuant to sections 15 et seq. AktG, or may also be cancelled.

The authorisation to purchase treasury shares was not exercised in the reporting period. As in the previous year, GFT Technologies SE held no treasury shares as of 31 December 2019.

Capital reserve
The capital reserve of €42,148 thousand is unchanged from the previous year and comprises the amount generated by the issue of shares in excess of the arithmetical value.

Retained earnings
Retained earnings comprise the earnings generated in the past by those companies included in the consolidated financial statements, insofar as they have not been distributed. Revaluations from defined benefit pension plans and deferred taxes on these plans carried directly in equity are also included in retained earnings.

Dividend
According to the German Stock Corporation Act (Aktiengesetz – AktG), the dividend is distributed from the balance sheet profit reported in the annual financial statements of GFT Technologies SE (separate financial statements). In the financial year 2019, a dividend of €0.30 per share totalling €7,898 thousand (2018: €0.30 per share, total €7,898 thousand) was distributed to the shareholders of the parent company from the balance sheet profit of the parent company for the 2018 financial year.

On 4 March 2020, the Administrative Board concurred with the proposal of the Managing Directors to distribute €7,898 thousand (€0.30 per share) to shareholders from the distributable profit of GFT Technologies SE for 2019. In view of the Covid-19 pandemic, however, the Administrative Board resolved at its meeting on 7 April 2020 to review the dividend proposal for the financial year 2019 until the Annual General Meeting is convened in order to be able to take appropriate account of further developments. In accordance with the GFT Group's dividend policy, the dividend to shareholders is to be within the payout range of 20% to 50% of Group's net income.

Other reserves
Other reserves comprise the accumulated differences from currency translations of the financial statements of consolidated foreign subsidiaries carried directly in equity.

Changes in other reserves are included in other comprehensive income and presented in the statement of comprehensive income (see annex 1.3).

Capital management

The GFT Group's capital management comprises the consolidated equity attributable to the shareholders of the parent company GFT Technologies SE, whose structure and possible uses are largely determined by the capital structure of GFT Technologies SE. As there are no shares of non-controlling interests, the equity attributable to the shareholders of GFT Technologies SE corresponds to total consolidated equity. The aim of capital management is to secure the sustainable provision of equity for the Group under consideration of appropriate dividend payments to the shareholders. GFT is subject to external minimum capital requirements due to covenants in connection with the promissory note loans and syndicated loan. The covenants were met in full. The quantitative statements as to managed capital and the changes compared to the previous year are presented in the consolidated statement of changes in equity of the GFT Group.

4.10 Provisions for pensions

Provisions for pensions of the GFT Group comprise both defined benefit and defined contribution plans and include obligations from current pensions and entitlements to pensions payable in future. For defined contribution plans, contributions are paid by the company based on legal or contractual regulations, or on a voluntary basis, to state or private pension insurance institutes. The contributions paid in the financial year 2019 for defined contribution plans to public and private pensions regulatory authority of €25,575 thousand (2018: €26,391 thousand) are included in personnel expenses.

The main domestic and foreign pension plans of the GFT Group are described below.

Defined benefit plans in Germany exist due to direct individual commitments to retirement benefits, invalidity benefits, and provisions for dependents for 23 active managers (31 December 2018: 1), 7 managers who have left the company (31 December 2018: 1), as well as for a former Managing Director of a former subsidiary (31 December 2018: 1).

Due to the acquisition of GFT Smart Technology Solutions GmbH (formerly: AXOOM GmbH), the number of defined benefit plans in Germany increased in the reporting period. All entitlements resulting from the acquisition are non-forfeitable.

The defined benefit plans in Switzerland concern provisioning according to Swiss Federal legislation on occupational old age, survivor's and disability benefit plans (BVG). These plans represent so-called 'BVG full insurance solutions'. Due to the statutory minimum interest and conversion rate guarantees, these plans represent defined benefit plans in the meaning of IAS 19. For this reason, provisions were formed in the balance sheet for these plans on 31 December 2019 and in the previous year. 'Fully insured' BVG plans refer to those plans for which all actuarial risks, including capital market risks, are borne by an insurance company, at least temporarily. The BVG provisioning of the Swiss subsidiary of GFT Technologies SE comprises 54 active insured parties as of 31 December 2019 (31 December 2018: 47 active insured parties). As in the previous year, there are no pension recipients.

Severance payments under Italian law (Trattamento di Fine Rapporto, TFR) are one-off payments due as soon as the employee leaves the company. The size of the severance payment is based on the number of monthly salaries (indexed), whereby one service year entitles the employee to one monthly salary (annual salary divided by 13.5). Under certain circumstances, for example for the purchase of a home or medical care, the employee may receive an advance of up to 70% of the claim. As of the financial year 2007, these payments are to be made to the state social security institute (Istituto Nazionale della Previdenzia Sociale, INPS) or an insurance provider nominated by the employee which is mandatory for companies with more than 50 employees. Below this threshold, transfers are voluntary and are not made by the Italian subsidiaries of GFT Technologies SE.

The obligations under Polish law also refer to severance payments which are required by law via the Polish Social Insurance Institution (Zakład Ubezpieczeń Społecznych, ZUS), whereby they become due on reaching the retirement age or with a decline in health or increased need for medical care. The sum is calculated on the basis of one monthly salary per employee and is disclosed at the discounted rate as of the beginning of employment.

The following table shows the weighted average valuation factors used to calculate the pension obligations.

Parameters for determining the actuarial values

	Germany		Switzerland		Italy		Poland	
	31/12/19	31/12/18	31/12/19	31/12/18	31/12/19	31/12/18	31/12/19	31/12/18
Probability of fluctuation	2.00%	–	BVG 2015	BVG 2015	10.00%	10.00%	16.60%	12.50%
Pensionable age	63	63	65/64	65/64	67	67	65/60	65/60
Salary increases	2.00%	N/A	2.00%	2.00%	3.00% + Inflation	3.00% + Inflation	3.50%	3.50%
Pension increases	2.00%	2.00%	0.00%	0.00%	2.63%	2.70%	–	–
Actuarial interest rate	0.59%	1.61%	0.15%	1.00%	0.77%	1.57%	2.10%	2.60%

In calculating pension obligations, life expectancy for the German pension plans as of 31 December 2019 was based on K. Heubeck's 'Richttafeln 2018 G' (2018 G mortality tables). The guideline tables take into account the latest statistics of the statutory pension insurance and the Federal Statistical Office. The effect of conversion to the Heubeck mortality tables in the previous year amounted to €17 thousand and was shown in the actuarial losses from changes in demographic assumptions. For the foreign pension plans, comparable valuation bases customary in the country are used.

The likelihood of withdrawals and the actuarial assumptions for the Swiss plans are geared to the Swiss Federal legislation on occupational old age, survivor's and disability benefit plans (BVG 2015).

The likelihood of withdrawals in Italy is assessed at 10.00%. The actuarial assumptions for mortality rates are prescribed by surveys of the Italian statistics office (Istituto Nazionale di Statistica, Istat 2004). The actuarial assumptions for disability incidence rates are based on the tables of the National Institute for Social Security (Istituto Nazionale della Previdenza Sociale, INPS).

For Poland, the likelihood of withdrawals is assessed at 16.60%. The actuarial assumptions for mortality rates are prescribed by the Main Statistical Office (Główny Urząd Statystyczny, GUS) (GUS 2017: multiplied by 60%). The actuarial assumptions for disability incidence rates are based on the table of the Polish Social Insurance Institution (ZUS 2008).

The present values of the defined benefit obligations, the fair values of the plan assets and the respective excessive and/or insufficient cover of the reporting year and the preceding year can be taken from the following table:

Net liability of pension obligations

in € thousand	31/12/2019	31/12/2018
Fair value of plan assets	–7,342	–6,953
Present value of defined benefit obligations	16,836	13,905
Underfunding (net debt)	**9,494**	**6,952**

Of the present value of the entitlements, €12,297 thousand (31 December 2018: €10,358 thousand) relates to pension plans that are financed completely or partially by plan assets and €4,539 thousand (31 December 2018: €3,547 thousand) to pension plans that are not financed by plan assets.

The present value of the pension obligations is reconciled as follows.

Present value of pension obligations

in € thousand	31/12/2019	31/12/2018
Pension obligation as of 1 January	13,905	15,068
Current service cost	684	1,054
Past service cost	0	–604
Interest expense/income	164	145
Restatements	1,619	–1,560
Contributions to pension plan	471	757
Benefits paid	–765	–1,316
Exchange rate changes and other changes[1]	758	361
Pension obligation as of 31 December	**16,836**	**13,905**

[1] Exchange rate changes and other changes comprise additions from changes in the consolidated group amounting to €312 thousand.

The fair value of the plan assets is reconciled as follows.

Fair value of plan assets

in € thousand	31/12/2019	31/12/2018
Fair value of plan assets as of 1 January	6,953	6,495
Income from plan assets (without interest income)	68	50
Premiums paid less benefits received	–340	–404
Contributions by employer	259	265
Contributions by entitled employees	259	265
Revaluations	–114	0
Exchange rate changes	257	283
Fair value of plan assets as of 31 December	**7,342**	**6,953**

Plan assets concern the BVG provisioning in Switzerland and an amount of €250 thousand in term deposits pledged to the pension recipient ('Plan Assets GFT Technologies SE'). In the following year (2020), employer contributions to the plan assets of €231 thousand and employee contributions of the same amount are expected. As in the previous year, the calculation of the obligation and the generally expected return of the plan assets in Switzerland was based on the valid insurance regulations, databases and cash flow disclosures for 2019 of the company. The expected income from plan assets of GFT Technologies SE results from interest and is insignificant.

Under IAS 19R, companies must classify the fair value of plan assets according to the nature and risks of these assets. The breakdown of plan assets is as follows:

Fair value of plan assets

in € thousand	31/12/2019	31/12/2018
Bonds	3,901	3,767
Shares	1,894	436
Property	745	985
Alternative investments	612	491
Cash and cash equivalents	190	134
Mortgages	0	1,140
Fair value of plan assets as of 31 December	**7,342**	**6,953**

The weighted average maturity of the defined benefit obligations is 11.07 years. The major part of plan assets is attributable to pension schemes in Switzerland. The plan assets in Germany amount to €250 thousand (31 December 2018: €250 thousand) and are invested as term deposits. There are no plan assets in Italy and Poland. In the next reporting period (2020), plan contributions of €569 thousand are expected throughout the Group.

In order to estimate the amount and uncertainty of future cash flows, a sensitivity analysis was conducted. An increase or decrease in the key actuarial assumptions would have the effects on the present value of the pension obligations shown in the following table. Summarised information based on weighted averages was provided for the respective plans in Switzerland.

Sensitivity analysis of the present value of pension obligations as of 31 December 2019

	Obligation in € thousand				Change in %			
	Germany	Switzerland	Italy	Poland	Germany	Switzerland	Italy	Poland
Present value of obligation	2,461	11,844	2,446	85				
Discount rate	0.59%	1.00%	0.77%	2.10%				
Increase of 0.5%	1,923	10,629	2,340	78	−6.60%	−10.26%	−4.35%	−8.74%
Decrease of 0.5%	2,210	13,276	2,512	94	7.35%	12.08%	2.69%	9.87%
Salary increase	2.00%	2.00%	1.50%	3.50%				
Increase of 0.5%	N/A	11,924	2,428	94	N/A	0.67%	0.76%	10.35%
Decrease of 0.5%	N/A	11,598	2,419	78	N/A	−0.79%	−1.10%	−9.32%
Pension increase	2.00%	0.00%	2.63%	N/A				
Increase of 0.5%	2,185	12,112	2,492	N/A	6.14%	2.26%	1.46%	N/A
Decrease of 0.5%	1,944	11,569	2,367	N/A	−5.56%	−2.32%	3.24%	N/A

In Switzerland, no pension increase was assumed as there is no mandatory adjustment for inflation. A reduction of 0.5 percentage points would imply a decrease in the pension, which is not legally possible.

As an insignificant proportion of the pension obligation in Germany is attributable to active candidates, no sensitivity analysis was conducted for the assumption of future salary increases (N/A = not applicable).

4.11 Other provisions

The development of other provisions is shown in the following table.

Other provisions

in € thousand	Personnel and social	Outstanding supplier invoices	Other	Total
Balance as of 1 January 2019	**29,491**	**4,631**	**3,468**	**37,590**
Consumption	−22,818	−1,455	−3,028	−27,301
Reversals	−2,035	−11	−440	−2,486
Additions	26,145	1,782	4,439	32,366
Exchange rate effects and other changes	−1,088	−2,831	1,440	−2,479
Balance as of 31 December 2019	**29,695**	**2,116**	**5,879**	**37,690**

Provisions for personnel and social obligations mainly include expected expenses of the GFT Group for employee commissions/bonuses, anniversaries and severance payments as well as holiday entitlements.

The provisions for outstanding supplier invoices mainly relate to freelancers and subcontractors commissioned within the framework of the operating business. The cash outflows for these provisions are mainly expected by the end of March in the following year.

Due to the maturity profile, i.e. the expected settlement date for outflows of economic benefit, other provisions are shown in the balance sheet as follows:

Maturity profile of other provisions

in € thousand	31/12/2019	31/12/2018
Non-current provisions		
Performance-based remuneration	673	545
Employee social benefits	432	455
Other	227	694
Subtotal	**1,332**	**1,694**
Current other provisions		
Performance-based remuneration	17,218	20,830
Holiday obligations	8,686	7,550
Outstanding supplier invoices	2,116	4,631
Other	8,338	2,885
Subtotal	**36,358**	**35,896**
Total	**37,690**	**37,590**

4.12 Liabilities

The following table shows the composition of liabilities by remaining term and type of collateral (values in brackets relate to the previous year).

Remaining term and collateral

in € thousand	Remaining term up to 1 year	Remaining term more than 5 years	Total amount 31/12/2019	Thereof secured through liens and similar rights	Nature and form of the collateral
Financing liabilities	16,500 (15,299)	0 (27,168)	114,945 (121,244)	8,000	Mortgage[1]
Other financial liabilities[2]	14,074 (3,197)	17,012 0	57,544 (3,197)		
Trade payables	9,500 (13,702)	0 (0)	9,500 (13,702)		
Current income tax liabilities	4,533 (3,471)	0 (0)	4,533 (3,471)		
Contract liabilities	38,840 (32,578)	0 (0)	38,840 (32,578)		
Other liabilities	25,806 (21,685)	0 (0)	25,806 (21,685)		
	109,253 **(89,932)**	**17,012** **(27,168)**	**251,168** **(195,877)**		

[1] The mortgage serves as collateral for a loan agreement expiring on 30 June 2024.
[2] The GFT Group applied IFRS 16 for the first time on 1 January 2019. Under the selected cumulative retrospective transition method, the previous year's figures were not adjusted.

Financing liabilities exclusively comprise bank liabilities.

4.13 Other liabilities

The following table shows the composition of other liabilities – divided into financial and non-financial liabilities.

Composition of other liabilities

in € thousand	31/12/2019	31/12/2018[1]
Non-current other financial liabilities		
Lease liabilities	43,470	0
Subtotal	**43,470**	**0**
Current other financial liabilities		
Lease liabilities	9,937	0
Payroll liabilities	4,091	2,889
Debtors with credit balances	46	309
Subtotal	**14,074**	**3,198**
Current other liabilities		
Wage tax, VAT and other tax liabilities	13,000	10,903
Liabilities to social security institutions	6,840	8,152
Deferred income	839	1,290
Other	5,127	1,340
Subtotal	**25,806**	**21,685**
Total	**39,880**	**24,883**

[1] The GFT Group applied IFRS 16 for the first time on 1 January 2019. Under the selected cumulative retrospective transition method, the previous year's figures were not adjusted.

As of 31 December 2019, there were no other liabilities due to associated companies (31 December 2018: €1 thousand).

5 Explanations on items of the income statement

5.1 Revenue

The revenue presented in the consolidated income statement includes both revenue from contracts with customers and other revenue not within the scope of IFRS 15.

In the following table, revenue from contracts with customers (revenue acc. to IFRS 15) is divided into the two categories: geographical region and type of contract for the provision of services or sale of goods.

Other revenue mainly includes revenue from activities in connection with the Group headquarters in Stuttgart.

Revenue

	Americas, UK & APAC		*Continental Europe*		Reconciliation		Total	
in € thousand	2019	2018	2019	2018	2019	2018	2019	2018
Geographical regions								
Brazil	33,546	22,590	0.0	0	0	0	33,546	22,590
Germany	539	97	52,564	60,329	544	504	53,647	60,930
France	10,965	1,921	343	14	0	0	11,309	1,935
UK	81,150	97,852	517	711	0	0	81,667	98,563
Italy	0	0	63,436	57,110	0	0	63,436	57,110
Canada	15,686	6,927	0	0	0	0	15,686	6,927
Mexico	16,997	9,376	0	0	0	0	16,997	9,376
Poland	1,462	1,574	135	350	0	0	1,596	1,924
Switzerland	0	0	6,688	9,395	0	0	6,688	9,395
Spain	193	0	92,780	91,707	0	0	92,973	91,707
USA	35,341	37,132	58	227	0	0	35,399	37,359
Other countries	3,106	5,974	12,929	9,035	0	0	16,035	15,009
	198,985	**183,443**	**229,450**	**228,878**	**544**	**504**	**428,979**	**412,825**
Type of contract								
Service contract	119,960	106,531	39,654	52,903	0	0	159,614	159,434
Fixed-price contract	70,124	55,168	157,605	153,165	0	0	227,729	208,333
Maintenance contract	8,901	21,744	27,652	22,810	0	0	36,553	44,554
Other	0	0	4,539	0	544	504	5,083	504
	198,985	**183,443**	**229,450**	**228,878**	**544**	**504**	**428,979**	**412,825**
Time of transfer of goods or services								
Transfer at a certain time	0	0	0	0	376	338	376	338
Transfer over a certain period	198,985	183,443	229,450	228,878	168	166	428,603	412,487
	198,985	**183,443**	**229,450**	**228,878**	**544**	**504**	**428,979**	**412,825**

Revenue under IFRS 15 includes revenue of €32,578 thousand, which were included in contract liabilities as of 1 January 2019.

As of 31 December 2019, it is expected that revenues of €47,527 thousand (31 December 2018: €46,947 thousand) from unfulfilled or partially unfulfilled performance obligations at the end of the reporting period will be realised within the next three years. These are fixed-price contracts, in particular in connection with the development of sector-specific IT solutions and the implementation of bank-specific standard software. Not included are remaining performance obligations from customer contracts with an expected original term of no more than one year.

5.2 Other operating income

The following table shows the composition of other operating income.

Other operating income

in € thousand	2019	2018
Government grants	6,612	3,867
Currency gains	2,415	3,468[1]
Reversal of value adjustments for operating receivables	89	360
Reversal of provisions	64	0
Other income relating to other periods	393	50
Other	3,487	1,814
	13,060	**9,559[1]**

[1] Adjusted, see note 2.3

Government grants relate to tax subsidies for research and development and similar activities.

5.3 Cost of purchased services

The cost of services purchased by the GFT Group amounting to €46,427 thousand (2018: €54,049 thousand) relates to external services provided by freelancers and subcontractors in connection with the core operating business.

5.4 Personnel expenses

Personnel expenses are composed as follows:

Personnel expenses

in € thousand	2019	2018
Wages, salaries and social security contributions	284,406	258,957
Expenses for pensions	4,101	4,158
Other personnel expenses	8,820	5,069
	297,327	**268,184**

5.5 Depreciation and amortisation of intangible assets and property, plant and equipment

Scheduled depreciation and amortisation of intangible assets and property, plant and equipment in the financial year 2019 amounted to €23,562 thousand (2018: €12,723 thousand). An amount of €10,955 thousand (2018: €0 thousand) relates to the amortisation of right-of-use assets according to IFRS 16 Leases. Further information on the amortisation of right-of-use assets is provided in note 9.2.

5.6 Other operating expenses

The composition of other operating expenses is as follows:

Composition of other operating expenses

in € thousand	2019	2018
Personnel-related expenses	19,323	18,097
Sales and marketing	4,228	3,002
Rent and maintenance expenses	5,093	16,256
IT and telecommunication expenses	3,535	6,475
Audit and consulting fees	4,879	6,616
Other taxes	3,923	1,469
Currency losses	3,564	4,289[1]
Other expenses relating to other periods	453	396
Expenses in connection with company acquisitions	207	383
Losses from the disposal of property, plant and equipment	374	144
Value adjustments for operating receivables	112	78
Insurance expenses	1,524	2,656
Other	6,339	2,769
	53,554	**62,630[1]**

[1] Adjusted, see note 2.3

5.7 Research and development expenses

Research and development expenses of €3,080 thousand in the reporting period were slightly up on the previous year (2018: €3,002 thousand). The GFT Group's research and development activities focused in particular on exponential technologies, especially cloud, distributed ledger technology (DLT), automation (RPA), data analytics and artificial intelligence (AI).

Of the total costs for research and development expensed in profit or loss an amount of €2,103 thousand (2018: €1,975 thousand) was attributable to personnel expenses and €977 thousand (2018: €1,027 thousand) to other operating expenses.

5.8 Interest result

The composition of the interest result is shown in the table below.

Interest result

in € thousand	2019	2018
Interest on refunds	414	0
Interest on bank balances	118	125
Other interest income	43	67
Interest income	**575**	**192**
Interest on financing liabilities	−1,775	−1,626
Compounding of lease liabilities	−1,127	0
Compounding of variable purchase price liability	0	−556
Other interest expenses	−267	−95
Interest expenses	**−3,169**	**−2,277**
Interest result	**−2,593**	**−2,085**

5.9 Income taxes

The table below presents a breakdown of the income tax expense disclosed in the consolidated income statement.

Breakdown of income taxes

in € thousand	2019	2018
Current tax expense	7,033	5,255
Deferred tax income	−1,961	−2,594
Tax expense	**5,072**	**2,661**

The current tax expense for the financial year 2019 includes income tax income relating to other periods of €100 thousand (2018: € –119 thousand).

The composition of deferred tax expense/income is shown in the following table.

Deferred income taxes

in € thousand	2019	2018
From temporary differences	−1,540	−1,033
From tax loss carryforwards and tax credits	−421	−1,561
Tax income	**−1,961**	**−2,594**

Deferred taxes recognised directly in retained earnings related to actuarial gains/losses for pension obligations pursuant to IAS 19 of € –174 thousand (2018: € –343 thousand).

With regard to deferred tax assets from tax loss carryforwards, recognition adjustments for loss carryforwards amounting to €20 thousand were made in the financial year 2019 (2018: €1,519 thousand). In addition, there were recognition adjustments for deductible temporary differences not yet recognised of € –347 thousand (2018: €1,777 thousand)

The following table shows the reconciliation from the tax expense expected in the financial year to the tax expense disclosed. In order to determine the expected tax expense, the unchanged domestic overall tax rate valid in the reporting period of 28% was multiplied with earnings before income taxes.

Reconciliation of effective tax rate

in € thousand	2019	2018
Earnings before income taxes	18,734	22,636
Expected tax expense at 28% (2018: 28%)	5,245	6,338
Other non-deductible expenses and tax-free income	1,294	1,971
Effects from permanent differences	967	2,338
Recognition of tax effects from tax loss carryforwards not yet considered	−192	−85
Losses of the current year for which no deferred tax asset was recognised	347	−1,626
Tax rate differences	−674	−3,408
Reduction of tax rate	108	34
Aperiodic effects	−379	−891
Tax rebates	−1,124	−1,677
Other tax effects	−520	−331
Effective tax expense	5,072	2,661
Effective tax rate	**27.08%**	**11.76%**

5.10 Earnings per share

Earnings per share (basic) and earnings per share (diluted) are calculated on the basis of the earnings attributable to the shareholders of GFT Technologies SE. As there are no dilutive effects, basic earnings per share therefore correspond to diluted earnings per share.

The following calculation of earnings per share is based on profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding:

Earnings per share

in €	2019	2018
Basic earnings per share	0.52	0.76
profit for the period considered	13,660,113.57	19,975,584.64
number of ordinary shares considered	26,325,946	26,325,946
Diluted earnings per share	0.52	0.76
profit for the period considered	13,660,113.57	19,975,584.64
number of ordinary shares considered	26,325,946	26,325,946

6 Explanations on items of the statement of comprehensive income

Income taxes in other comprehensive income
The taxes recognised in other comprehensive income are allocated to the individual items of the consolidated statement of comprehensive income as follows:

Income taxes on items in other comprehensive income

	2019			2018		
in € thousand	Amount before taxes	Income taxes	Amount after taxes	Amount before taxes	Income taxes	Amount after taxes
Items that will not be reclassified to the income statement Revaluation of defined benefit pension plans	−1,710	337	−1,373	1,554	−343	1,211
Currency translation of net investments in foreign operations	2,179	0	2,179	839	0	839
Gains/losses from currency translation of foreign subsidiaries	1,802	0	1,802	−1,732	0	−1,732
	2,271	**337**	**2,608**	**661**	**−343**	**318**

Result from net investments in foreign operations
The result from the classification and measurement of net investments in foreign operations recognised directly in equity amounted to €2,179 thousand in the reporting period (2018: €839 thousand) and relates entirely to currency translation effects. Net investments comprise long-term loans to the subsidiaries GFT UK Limited, GFT Brasil Consultoria Informática Ltda. and 9380-6081 Québec Inc.

Due to the partial repayment and reclassification of the remaining loan of the UK subsidiary GFT Financial Ltd., the cumulative currency gain of €643 thousand previously recognised directly in equity was reclassified to the income statement in the reporting period.

7 Explanations on items of the consolidated cash flow statement

The cash flow statement shows how the cash and cash equivalents of the GFT Group changed during the reporting period. In accordance with IAS 7, the cash flow statement classifies cash flows during the period according to operating, investing, and financing activities. Cash flow from operating activities is derived from net income using the indirect method.

Interest paid and interest received is allocated to cash flow from operating activities.

Financial liabilities, or financing liabilities, and the hedging instruments used in this connection changed as follows in the financial year:

Financial liabilities

in € thousand	As of 01/01/2019	Changes affecting cash flow	Changes not affecting cash flow			As of 31/12/2019
			Currency effects	Fair values	Reclassifications	
Non-current financial liabilities	105,945	0	0	0	–7,500	98,445
Current financial liabilities	15,299	–6,299	0	0	7,500	16,500
Assets used to hedge non-current financial liabilities	0	0	0	0	0	0
Total	**121,244**	**–6,299**	**0**	**0**	**0**	**114,945**

Cash and cash equivalents disclosed in the cash flow statement break down as follows.

Cash and cash equivalents

in € thousand	31/12/2019	31/12/2018
Short-term bank balances	56,139	61,557
Cash	5	13
Total	**56,144**	**61,570**

The net payments from the acquisition of consolidated companies are as follows.

Net payments from the acquisition of consolidated companies

in € thousand	Purchase price	Share of cash in the purchase price (in %)	Cash acquired	Other assets acquired	Liabilities assumed
Acquisition of companies	8,606	100	987	18,357	14,024
thereof					
Non-current assets				477	
Current assets				17,880	
Non-current liabilities					333
Current liabilities					13,691

See also note 3.2 for further information on business combinations.

8 Segment reporting

8.1 General information

The GFT Group has two reporting segments. As the chief operating decision-makers responsible for assessing the company's results of operations and allocating resources, the Managing Directors regularly assess the business activities of these two segments.

The *Americas, UK & APAC* segment comprises operating companies in the following countries:

- Brazil
- Canada
- Costa Rica
- Hong Kong Special Administrative Region of the People's Republic of China
- Mexico
- Singapore
- UK
- USA

The *Continental Europe* segment comprises operating companies in the following countries:

- Belgium
- France
- Germany
- Italy
- Poland
- Switzerland
- Spain

Segment reporting complies with the accounting principles set out in IFRS 8 and is based on the Group's internal controlling and reporting structures. The GFT Group measures the success of its segments on the basis of revenue and EBT. Segment revenue and earnings also include transactions between the business segments. Transactions between segments are conducted at market prices and on an arm's-length basis.

The types of services with which the reporting segments generate their income are all activities related to IT services.

The Managing Directors do not receive regular information on segment assets, segment liabilities or the capital expenditure of each segment.

Detailed information on the business segments for the financial years 2019 and 2018 is presented in the following table.

Information on Business Segments

	Americas, UK & APAC	
in € thousand	2019	2018[1]
External revenue	198,985	183,443
Intersegment revenue	5,656	2,415
Total revenue	**204,641**	**185,858**
Segment result (EBT)	**5,323**	**4,818**
thereof depreciation and amortisation	–9,372	–5,396
thereof interest income	527	174
thereof interest expenses	–1,626	–1,416

[1] The GFT Group has initially applied IFRS 16 at 1 January 2019. Under the modified retrospective transition method chosen, comparativ information is not restated.

8.2 Reconciliation

The reconciliation discloses items which per definition are not components of the segments. It also includes non-allocated items of Group HQ, e.g. from centrally managed issues, or revenue which only occasionally occurs for company activities. Business transactions between the segments are also eliminated in the reconciliation. The reconciliation of segment figures is as follows:

Reconciliation of segment figures

in € thousand	2019	2018
Total segment revenue	492,820	480,036
Elimination of inter-segment revenue	–64,385	–67,715
Occasionally occurring revenue	544	504
Group revenue	**428,979**	**412,825**
Total segment earnings (EBT)	23,395	24,045
Non-allocated expenses/income of Group HQ	–4,210	–906
Other	–453	–502
Group net income before taxes	**18,732**	**22,637**

8.3 Geographical information

The following table shows the revenue of the GFT Group as well as non-current other intangible assets and property, plant and equipment (including right-of-use assets), broken down by the company's country of domicile. This geographical information discloses segment revenue based on customer location and segment assets based on the locations of assets.

	Continental Europe		Total segments		Reconciliation		GFT Group	
	2019	2018[1]	2019	2018[1]	2019	2018[1]	2019	2018[1]
	229,450	228,878	428,435	412,321	544	504	428,979	412,825
	58,729	65,300	64,385	67,715	–64,385	–67,715	0	0
	288,179	**294,178**	**492,820**	**480,036**	**–63,841**	**–67,211**	**428,979**	**412,825**
	18,072	**19,227**	**23,395**	**24,045**	**–4,663**	**–1,408**	**18,732**	**22,637**
	–12,066	–6,502	–21,438	–11,898	–2,125	–825	–23,563	–12,723
	32	461	559	635	16	–443	575	192
	–1,320	–1,512	–2,946	–2,928	–223	651	–3,169	–2,277

Revenue and non-current intangible and tangible assets by country

	Revenue from sales to external clients[1]		Non-current intangible and tangible assets	
in € thousand	2019	2018	2019	2018
Brazil	33,546	22,590	6,486	6,412
Germany	53,103	60,426	54,467	43,897
France	11,309	1,935	112	0
UK	81,666	98,563	43,668	43,537
Italy	63,436	57,110	34,685	25,916
Canada	15,686	6,927	23,816	18,972
Mexico	16,997	9,376	1,443	678
Poland	1,596	1,923	8,936	1,045
Switzerland	6,688	9,395	530	60
Spain	92,973	91,707	33,462	19,547
USA	35,399	37,360	8,802	5,822
Other foreign countries	16,580	15,513	1,158	391
Total	**428,979**	**412,825**	**217,565**	**166,277**

[1] By client location

Revenue from sales to external clients which account for more than 10% of consolidated revenue developed as follows in the financial year 2019:

Clients accounting for over 10% of revenue

	Revenue		Segments in which this revenue is generated	
in € thousand	2019	2018	2019	2018
Client 1	120,393	157,469	*Americas, UK & APAC, Continental Europe*	*Americas, UK & APAC, Continental Europe*

As in the previous year, revenue was generated from the provision of services.

9 Other disclosures

9.1 Financial instruments

Carrying amounts and fair values of financial instruments
The table in annex 1e to the notes to the consolidated financial statements shows the carrying amounts and fair values for the respective classes of financial instruments of the GFT Group and reconciles these to the corresponding balance sheet items.

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In view of the varying influencing factors, the reported fair values can only be regarded as indicators of the prices that may actually be achieved on the market.

The fair values of financial instruments were determined on the basis of the market information available on the reporting date; the following methods and premises were applied.

Trade receivables, contract assets and cash and cash equivalents
Due to the short terms and the generally low credit risk of these financial instruments, it is assumed that their fair values correspond to the carrying amounts.

Other financial assets
Other financial assets relate to derivative financial instruments included in hedge accounting and measured at fair value through profit or loss, as well as other financial assets.

Derivative financial instruments comprise interest rate hedging contracts (e.g. interest rate caps) whose fair values are determined on the basis of discounted expected future cash flows. The market interest rates applicable for the remaining terms of the financial instruments were used.

Other financial assets are measured at amortised cost. Amortised cost is determined on the basis of the present value of future cash inflows, discounted at an interest rate prevailing at the end of the reporting period, taking into account the respective maturities of the financial assets. Due to the predominantly short terms of these financial instruments, it is assumed that their fair values correspond to the carrying amounts.

Financing liabilities
Financing liabilities refer to liabilities owed to banks. The fair values of loans or other financing liabilities are determined as the present values of expected future cash flows. Market interest rates for the appropriate terms are used for discounting.

Trade payables
Due to their short maturities, it is assumed that the fair values correspond to the carrying amounts of these financial instruments.

Other financial liabilities
Other financial liabilities comprise liabilities from leases, payroll liabilities due to employees and other liabilities.

The fair values of liabilities from leases are determined as the present value of expected cash flows, discounted using an interest rate in line with the corresponding terms.

Payroll liabilities due to employees and other financial liabilities are measured at amortised cost. Due to the predominantly short maturities of these financial instruments, it is assumed that their fair values correspond to the carrying amounts.

Measurement categories
The GFT Group uses various types of financial instruments in the normal course of business. These are classified in accordance with IFRS 9 as follows: at amortised cost (AC) or at fair value through profit or loss (FVTPL). The carrying amounts of financial instruments, broken down into measurement categories, are presented on page 124.

The table on page 124 contains the carrying amounts of derivative financial instruments included in hedge accounting.

Measurement hierarchies
The table on page 124 shows the measurement hierarchies (in accordance with IFRS13) in which financial assets and liabilities measured at fair value are classified.

Financial instruments measured at fair value in the balance sheet can be classified into the following measurement hierarchies which reflect the extent to which fair value is observable:

Level 1: Fair value measurement is based on quoted, unadjusted prices in active markets for these or identical assets and liabilities.

Level 2: Fair value measurement is based on parameters for which either directly or indirectly derived prices are available on active markets.

Level 3: Fair value measurement is based on parameters for which no observable market data are available.

The fair values of Level 2 were determined by the participating financial institutions on the basis of market data on the measurement date and using generally accepted valuation models.

There were no reclassifications between assessment hierarchies as of 31 December 2019.

Net gains or losses

The net gains or losses on financial instruments (excluding derivative financial instruments that are included in hedge accounting) recognised in the consolidated income statement are shown in the following table.

Net gains (+) or losses (–) on financial instruments

in € thousand	2019	2018
Financial assets at fair value through profit or loss	**−263**	**−335**
Impairments	−247	−1,112
Reversals of impairment losses	89	858
Exchange rate effects	41	724
Financial assets measured at (amortised) cost	**−117**	**470**
Financial liabilities measured at (amortised) cost	**0**	**0**

The net gains and losses on financial assets at fair value through profit or loss include not only the results from changes in fair value but also interest expenses and income from these financial instruments. Results from changes in market value are included in the consolidated income statement under ‘Other operating income’. Interest expenses and income from financial assets at fair value through profit or loss are recognised in the financial result.

The net gains and losses from financial assets measured at (amortised) cost are characterised by opposing effects from impairments, reversals of impairment losses and exchange rate effects and are disclosed in the consolidated income statement under other operating income and other operating expenses.

Total interest income and expenses

The following table shows the total interest income and expenses for financial assets and financial liabilities which are not measured at fair value through profit or loss.

Total interest income and expenses

in € thousand	2019	2018
Total interest income	161	192
Total interest expenses	−2,902	−1,626

Qualitative descriptions of the accounting treatment and disclosure of financial instruments (including derivative financial instruments) are contained in note 2.6.

Disclosures on derivative financial instruments

Derivative financial instruments are used by the GFT Group exclusively to hedge financial risks resulting from its operating business or refinancing activities. These mainly include currency and interest rate risks, which are defined as risk categories in accordance with IFRS 9. As of the reporting date, an interest cap was used to hedge interest rate risks. Annex 1e to the notes to the consolidated financial statements shows the fair value as of the reporting date 31 December 2019 for the transaction designated as a hedging instrument.

Information on financial instruments according to measurement categorie and measurement hierarchy

in € thousand	Measurement category acc. to IFRS 9	31/12/2019 Not measured at fair value Carrying amount	Not measured at fair value Fair value	Measured at fair value Carrying amount	Fair value Level 1[1]	Fair value Level 2[2]	Fair value Level 3[3]	Total
Financial assets								
Not measured at fair value								
Trade receivables	AC	114,020	114,020	–	–	–	–	114,020
Contract assets	AC	15,732	15,732	–	–	–	–	15,732
Cash and cash equivalents	AC	56,144	56,144	–	–	–	–	56,144
Other financial assets[4]	AC	2,797	2,797	–	–	–	–	2,797
Measured at fair value								
Interest rate cap designated as hedging instrument[4,5]	–	–	–	0	–	0	–	0
Total financial assets		**188,694**	**188,694**	**0**	**–**	**0**	**–**	**188,694**
Financial liabilities								
Not measured at fair value								
Financial liabilities	AC	114,945	119,263	–	–	–	–	114,945
Other financial liabilities[6]	AC	57,545	57,545	–	–	–	–	57,545
Trade payables	AC	9,500	9,500	–	–	–	–	9,500
Total financial liabilities		**181,989**	**186,307**	**–**	**–**	**–**	**–**	**181,989**
Thereof aggregated acc. to the measurement categories IFRS 9								
Financial assets measured at amortised costs (AC)		188,694	188,694	–	–	–	–	188,694
Financial liabilities measured at amortised cost (AC)		181,989	186,307	–	–	–	–	181,989

[1] Fair values were measured on the basis of quoted prices (unadjusted) in active markets for these or identical assets or liabilities.
[2] Fair values were measured on the basis of inputs that are observable on active markets either directly (i.e. as prices) or indirectly (i.e. derived from prices).
[3] Fair values were measured on the basis of inputs for which no observable market data is available.
[4] The financial instruments and the interest rate cap form together the total non-current and current other financial assets according to balance sheet disclosure.
[5] The interest rate cap was designated as a hedging instrument with regards to its intrinsic value within the context of hedge accounting, while its fair value is separate.
[6] The financial instruments comprise the non-current and current other financial liabilities according to balance sheet disclosure.
[7] The GFT Group has initially applied IFRS 16 at 1 January 2019. Under the modified retrospective transition method chosen, comparative information is not restated.

	31/12/2018[7]						
	Not measured at fair value		Measured at fair value				Total
	Carrying amount	Fair value	Carrying amount	Fair value			
				Level 1[1]	Level 2[2]	Level 3[3]	
	95,390	95,390	–	–	–	–	95,390
	14,083	14,083	–	–	–	–	14,083
	61,570	61,570	–	–	–	–	61,570
	1,824	1,824	–	–	–	–	1,824
	–	–	0	–	0	–	0
	172,867	**172,867**	**0**	**–**	**0**	**–**	**172,867**
	121,244	124,320	–	–	–	–	121,244
	3,197	3,197	–	–	–	–	3,197
	13,702	13,702	–	–	–	–	13,702
	138,143	**141,219**	**–**	**–**	**–**	**–**	**138,143**
	172,867	172,867	–	–	–	–	172,867
	138,143	141,219	–	–	–	–	138,143

General information on financial risks
Due to its business activities and global orientation, the GFT Group is exposed to various financial risks, in particular due to changes in exchange rates and interest rates. In addition, the GFT Group is exposed to a minor extent to credit and liquidity risks from its operating business. The individual risks are explained below and described in the risk report within the combined management report (see 3.6 Financial risks).

The GFT Group has issued internal guidelines which concern risk controlling processes and thus contain a clear separation of functions with regard to operational financial activities, their settlement, accounting and the controlling of the financial instruments. The guidelines which form the basis for the Group's risk management processes are aimed at identifying and analysing the risks on a Group-wide basis. In addition, they are aimed at the appropriate limitation and control of risks and their supervision.

The GFT Group manages and monitors these risks primarily through its operational business and financing activities and uses derivative financial instruments where necessary. These are used by the GFT Group exclusively to hedge financial risks resulting from operating business or refinancing activities. Without their use, the Group would be exposed to higher financial risks. The GFT Group regularly assesses its financial risks and takes into consideration any changes in key economic indicators and current market information.

Exchange rate risk
The global orientation of the GFT Group means that cash flows and results are exposed to risks from exchange rate fluctuations. In its operating business, exchange rate risks mainly arise when revenue is denominated in a currency other than the related costs (transaction risk). In addition, exchange rate risks arise from currency translation in connection with the preparation of the consolidated financial statements (translation risk). Financial instruments in the functional currency of the GFT Group (euros) and non-monetary items do not bear any exchange rate risk.

The GFT Group's exchange rate risk from its operating activities is classified as moderate for the following reasons:

- The GFT Group's revenue is mostly generated in euros (approx. 59% in 2019, approx. 69% in 2018), which is the functional currency of the invoicing company in each case. In addition to customers in the eurozone, this also partially affects sales with customers in Great Britain and the USA.
- Revenue generated with clients in Switzerland (accounting for approx. 2% of total revenue; 2018: 2%) is generally invoiced in Swiss francs, which is the functional currency of the Swiss national company, so that this also does not result in any exchange rate risk.
- Revenue generated with clients in the UK (accounting for approx. 19% of total revenue; 2018: 24%) is invoiced in pounds sterling (16%, 2018: 12%) and euros (7%, 2018: 14%).
- 6% (2018: 5%) of revenue generated with clients in the USA (accounting for approx. 8% of total revenue; 2018: 9%) was invoiced in US dollars, the functional currency of the operating US subsidiary, and 2% (2018: 3%) in euros, so that this results in only a marginal exchange rate risk.
- Revenue generated with clients in Brazil (accounting for approx. 8% of total revenue; 2018: 5%) is invoiced in Brazilian Real, which is the functional currency of the Brazilian subsidiary, so that this does not result in any exchange rate risk.
- Revenue generated with clients in Mexico (accounting for approx. 4% of total revenue; 2018: 2%) is invoiced in Mexican peso, which is the functional currency of the Mexican companies, which also means that there is no exchange risk.
- Revenue generated with clients in Canada (accounting for approx. 4% of total revenue; 2018: 2%) is invoiced in Canadian dollars, which is the functional currency of the Canadian companies and therefore also results in no foreign exchange risk.

The GFT Group's purchases (mainly external services, personnel) are also predominantly made in the functional currency of the company procuring.

The GFT Group's total currency exposure is reduced by natural hedges, which consist of the partial offsetting of foreign currency exposures from the operating business of individual national companies across the Group. No hedging measures are therefore required for the balanced position. In order to achieve a further, natural hedge against the remaining transaction risk, the GFT Group generally strives to increase disbursements preferably in those currencies in which there are net cash surpluses.

In order to reduce the impact of exchange rate fluctuations in its operating business (future transactions), the GFT Group continuously assesses the exchange rate risk and, if necessary, hedges a portion of this risk by using derivative financial instruments.

In the financial year 2019, exchange rate hedges between the British pound and the Polish zloty were carried out during the year using derivative instruments. Only unconditional forward exchange transactions (FX forwards) were used to hedge the exchange rates of intra-Group transactions between the UK and Polish companies. The forward exchange transactions covered 100% of the price risk of the UK subsidiary. There are framework agreements containing netting arrangements with those banks used to conclude derivative financial instruments. These are only applicable in the event of insolvency. No net disclosure for accounting purposes has therefore been made.

When preparing the consolidated financial statements, the income, expenses, assets and liabilities of subsidiaries located outside of the eurozone are translated into euros. This mainly affects subsidiaries with the currencies British pound, US dollar, Swiss franc, Brazilian real, Polish zloty, Canadian dollar and Mexican peso. Changes in exchange rates from one reporting period to another can thus lead to significant translation effects, e.g. relating to revenue, the segment result (EBT), and the assets and liabilities of the Group. Unlike the transaction risk, however, the translation risk does not necessarily affect future cash flows. The Group's equity capital reflects changes in carrying amounts caused by exchange rate effects. Currency translation effects recognised directly in equity increased positively by €3,981 thousand as of 31 December 2019. The currency translation reserve presented as part of other reserves increased by €3,982 thousand, from € –6,904 thousand to € –2,922 thousand as of the balance sheet date, mainly due to the revaluation of the British pound. As a rule, the GFT Group does not hedge against the translation risk.

Interest risk

The interest risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The GFT Group does not see any risk from changes in interest rates for trade receivables, contract assets and other financial assets, most of which are short-term and non-interest-bearing. Variable-interest primary financial liabilities without hedging amount to €28,000 thousand. An increase in the interest rate by one percentage point would lead to an increase in interest expense of €280 thousand. Derivative interest rate instruments to hedge the general risk from interest rate fluctuations have not yet been used due to their minor impact.

The interest rate risk for the non-revolving tranche of the €40,000 thousand syndicated loan concluded in the financial year 2015 was hedged by means of interest rate options in the form of an upper interest rate limit in 2015. The maximum interest rate risk compared with the current interest rate at the end of the reporting period is 1% and would lead to an increase in interest expenses of €400 thousand.

The GFT Group counters the interest rate risks of variable-interest liabilities to banks by hedging interest rates; interest rate caps of €40,000 thousand were concluded and a hedging relationship was included as a cash flow hedge. The main parameters of the derivative for interest rate hedging are shown below:

Structure of the derivative for interest rate hedging

Interest cap	€40,000 thousand
Term	5 years
Interest rate ceiling	1.00%
Reference interest rate	Euribor – 3 months

The hedged item refers to cash flows for interest payments based on the 3-month Euribor rate from a floating-rate loan of €40,000 thousand (syndicated loan). The hedged risk is designated as the negative cash flow in the form of changes in interest payments due to an increase in the 3-month Euribor interest rate beyond the strike of the interest rate cap set at 1.00%. The hedging instrument is designated as the interest rate cap in the amount of change in its intrinsic value, the change in fair value – which is equivalent to market value – of €0 thousand (2017: € –19 thousand) is not considered in the measurement of effectiveness and recognised directly through profit or loss. The market value of the interest cap at the end of the reporting period is as follows:

Market value of the interest cap

in € thousand	Nominal		Market value	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
	40,000	40,000	0	19

The valuation is carried out by the participating financial institutions on the basis of market data on the measurement date and using generally accepted valuation models.

A change in interest rates of 100 base points (bp) as of the reporting date would have increased or decreased equity and profit or loss by the following amounts:

Sensitivity of cash flows

	Through profit and loss		Through equity	
in € thousand	Increase 100 Bp	Decrease 100 Bp	Increase 100 Bp	Decrease 100 Bp
31/12/2018	17	0	0	0
31/12/2019	0	0	0	0

As of the reporting date, there is no ineffectiveness as the intrinsic value of the derivative amounts to €0 thousand, as in the previous year.

Credit risk

The credit risk describes the risk of an economic loss arising because a contracting party fails to meet its contractual payment obligations. The credit risk includes both the direct default risk and the risk of a deterioration in creditworthiness. The maximum risk positions from financial assets that are generally subject to credit risk correspond to their carrying amounts. In addition, there is a default risk from irrevocable loan commitments that have not yet been utilised and from financial guarantees. In these cases, the maximum risk position corresponds to the expected future payments.

Liquid funds

The liquid funds of the GFT Group are mainly composed of cash and cash equivalents. The Group is exposed to losses from credit risks in connection with the investment of cash and cash equivalents if banks fail to meet their obligations. When investing cash and cash equivalents, the respective banks are selected with care. The GFT Group assumes that its cash and cash equivalents have a low credit risk based on the external ratings of banks and financial institutions. As cash and cash equivalents are not subject to any material credit risk, no valuation allowance was calculated or recognised on the basis of expected future losses.

Trade receivables and contract assets
Trade receivables and contract assets result from the Group's sales activities. The credit risk includes the default risk of clients. The GFT Group manages credit risks arising from these financial assets on the basis of internal guidelines. In order to reduce the credit risk, creditworthiness checks are carried out on clients. In addition, there are ongoing monitoring processes – especially for financial assets at risk of default.

As part of the impairment model (see note 2.6), the simplified approach is applied for the recognition of impairment losses on trade receivables and contract assets, whereby expected credit losses for these financial assets are recognised over their entire term when they are initially recognised. The maximum exposure to risk from trade receivables and contract assets corresponds to the carrying amount of these assets. Contract assets and trade receivables that are neither overdue nor impaired are due from clients with very good credit ratings. At the end of the reporting period, there were no significant credit risks for overdue trade receivables and contract assets still impaired.

The following table shows the concentration of credit risk in respect of trade receivables and contract assets broken down by customer and region:

Concentration of credit risk

in € thousand	31/12/2019	31/12/2018
Carrying amount	129,752	109,474
Concentration by customer		
Financial assets due from the five largest customers	52,187	47,152
Financial assets due from the remaining customers	77,565	62,322
Concentration according to region[1]		
Germany	12,523	12,170
Europe except Germany	93,264	84,060
Rest of the world	23,965	13,244

[1] By customer location

Further information on trade receivables and contract assets, including the status of valuation allowances, can be found in notes 4.7 and 4.8, respectively.

Other financial assets
With regard to the assets included in non-current and current other financial assets of 2019 and 2018, the GFT Group is exposed to only minor credit risks. The maximum exposure to credit risk of these financial assets corresponds to their carrying amounts.

Liquidity risk
Liquidity risk describes the risk that a company cannot adequately meet its financial obligations.

The GFT Group manages its liquidity by maintaining sufficient liquid funds and credit lines with banks in addition to its cash inflows from operating activities. Its liquid funds are cash and cash equivalents available to the Group at short notice.

All Group companies are included in the liquidity management by means of a central treasury system. Liquidity surpluses and demands can thus be controlled according to the needs of the entire Group, as well as individual companies in the Group.

Liquid funds are primarily used to finance working capital, as well as corporate acquisitions and other investments. As of 31 December 2019, liquidity amounted to €56,144 thousand (31 December 2018: €61,570 thousand). In the financial year 2019, significant cash inflows of €36,185 thousand (2018: €44,831 thousand) were opposed in particular by cash outflows from financing activities of €27,047 thousand (2018: €1,565 thousand). In addition, there were cash outflows from investing activities of €13,891 thousand in the reporting period (2018: €53,729 thousand).

The maturity overview shown in the following tables illustrates how cash flows in connection with liabilities and irrevocable loan commitments and financial guarantees as of 31 December 2019 (including a comparison with the previous year) can influence the future liquidity situation of the GFT Group.

Maturity overview of financial liabilities

in € thousand	Carrying amount 31/12/2019	Cash flows				
		up to 1 month	from 1 to 3 months	from 3 months up to 1 year	from 1 to 5 years	more than 5 years
Liabilities due to banks	114,945	5,000	2,076	9,731	98,138	0
Liabilities from leases[1]	53,407	828	1,656	7,453	26,458	17,012
Trade payables	9,500	9,500	0	0	0	0
Other financial liabilities[1]	4,137	4,137	0	0	0	0
	181,989	**19,465**	**3,732**	**17,184**	**124,596**	**17,012**

in € thousand	Carrying amount 31/12/2018	Cash flows				
		up to 1 month	from 1 to 3 months	from 3 months up to 1 year	from 1 to 5 years	more than 5 years
Liabilites due to banks	121,244	7,000	8,075	225	78,776	27,168
Trade payables	13,701	13,701	0	0	0	0
Other financial liabilities	3,198	3,198	0	0	0	0
	138,143	**23,899**	**8,075**	**225**	**78,776**	**27,168**

[1] Liabilities from leases and other financial liabilities together constitute the non-current and current other financial assets disclosed in the balance sheet

The liquidity available, the credit lines and current operating cash flow give the GFT Group sufficient flexibility to cover the Group's refinancing needs. There is a concentration of risk regarding cash outflows in the period between one year and five years after the end of the reporting period. The cash outflow is mainly due to expiring bank loans. The total amount of outgoing liquidity during this period amounts to €98,138 thousand. The amount is calculated on the basis of liquidity management. At the end of the reporting period, the GFT Group's loan portfolio contains a residual amount of €7,500 thousand from the promissory note loan agreements concluded on 27 November 2013 totalling €25,000 thousand, a syndicated loan agreement concluded on 21 July 2015 totalling €80,000 thousand, several promissory note loan agreements concluded on 27 November 2017 totalling €52,000 thousand and bilateral credit lines totalling €2,000 thousand.

All credit agreements include various covenants. Non-compliance with these covenants may lead to the premature maturity of the loan. These loan covenants were met at all times. From the current perspective, there are no known significant risks with regard to the non-fulfilment of loan covenants.

9.2 Leases

Please refer to notes 2.3 and 2.6 for a presentation of the accounting policies relating to leases.

Leases as lessee

The GFT Group rents land and buildings, office premises and car parks. The lease terms are typically between five and ten years with an option to extend the lease after this period. Lease payments are sometimes renegotiated after a certain period to reflect market rents. Some lease agreements provide for additional rental payments based on changes in local price indices.

The GFT Group rents vehicles with contractual terms of between three and seven years. The agreements usually end automatically at the end of the term.

The above mentioned leases were previously classified as operating leases under IAS 17.

The GFT Group has also concluded lease agreements for other office and business equipment, which have either a term of up to twelve months or a low value. In the case of these leases, the GFT Group applies the practical expedients available for short-term leases and leases of low-value assets.

Information on leases in which the GFT Group is a lessee is presented below.

Right-of-use assets in connection with rented land and buildings, office premises, car parks and vehicles are disclosed under property, plant and equipment (see note 4.3). The carrying amounts of these right-of-use assets recognised in the balance sheet in connection with operating leases and the changes during the reporting period are shown below.

Right-of-use assets

in € thousand	Land, land rights and buildings	Plant, operating and office equipment	Total
Balance as of 1 January 2019	61,167	2,529	63,696
Additions	3,637	2,209	5,846
Disposals	7,391	33	7,424
Depreciation in the financial year	9,184	1,771	10,955
Balance as of 31 December 2019	**48,229**	**2,934**	**51,163**

In the case of land, land rights and buildings, right-of-use assets relate to land and buildings, office premises and car parks. In the case of plant, operating and office equipment, right-of-use assets comprise vehicles.

A maturity profile of lease liabilities included under other financial liabilities is presented in notes 4.12 and 9.1.

The following amounts were recognised in the consolidated income statement in connection with leases in the financial year 2019.

Effects of lease arrangements according to IFRS 16 on the consolidated income statement

in € thousand	31/12/2019
Depreciation of right-of-use assets	10,955
Interest expense for lease liabilities	1,127
Expense for short-term leases and leases of low-value assets	1,280
Total amount recognised in profit or loss	**13,362**

The GFT Group's cash outflows for leases in the financial year 2019 amounted to €12,850 thousand and are presented under cash flow from financing activities. The interest expense from discounting lease liabilities is included in cash flow from operating activities.

The GFT Group has entered into several lease agreements that include extension and termination options. Where possible, the GFT Group seeks to include extension and termination options when entering into new leases in order to ensure operational flexibility. The extension and termination options can only be exercised by the GFT Group and not by the lessor. The assessment of whether it is sufficiently certain that these extension and termination options can be exercised requires significant discretionary decisions by management (see note 2.2).

The exercise of all extension options as of the balance sheet date was deemed sufficiently certain and future lease payments are therefore fully accounted for in the measurement of lease liabilities.

Leases as lessor

There are no material leases for which the GFT Group is the lessor.

9.3 Other financial obligations

As of 31 December 2018, other financial obligations from non-cancellable rental and lease agreements of €67,054 thousand were reported in accordance with IAS 17. The GFT Group applied IFRS 16 – which among other things replaces IAS 17 – for the first time as of 1 January 2019. Based on the other financial obligations from non-cancellable rental and lease agreements as of 31 December 2018, the reconciliation to lease obligations pursuant to IFRS 16 is presented in note 2.3. Further information on lease liabilities is provided in notes 4.12. and 9.1.

The following table present the other financial obligations of the GFT Group.

Other financial obligations

in € thousand	31/12/2019	31/12/2018
Obligations from fixed-term leases		
Due within one year	372	10,000
Due between one and five years	106	25,209
Due after more than five years (excluding open-ended obligations)	2	31,845
	480	**67,054**
Annual obligations from open-ended leases	**1,699**	**1,465**

Other financial obligations are stated at their nominal value and mainly comprise obligations from unlimited licence agreements. In addition, other financial obligations include future minimum lease payments for short-term leases and leases of low-value assets.

As of 31 December, contractual obligations to acquire intangible assets amounted to €280 thousand (31 December 2018: €134 thousand) and to acquire property, plant and equipment amounted to €99 thousand (31 December 2018: €122 thousand).

9.4 Related party disclosures

Related parties are associated companies and non-consolidated subsidiaries, as well as persons exercising significant influence over the GFT Group's financial and business policy. The latter include all persons in key positions as well as their close family members. For the GFT Group, persons in key positions are the members of the Administrative Board and the Managing Directors of GFT Technologies SE.

A number of related parties conducted business with the GFT Group in the course of the year. The terms and conditions of these transactions were customary in the market.

Associated companies
In the financial year 2019, GFT Technologies SE received services totalling €298 thousand from CODE_n GmbH (2018: €513 thousand). Via GFT Real Estate GmbH, the GFT Group rendered services to CODE_n GmbH amounting to €162 thousand in the financial year 2019 (2018: €150 thousand).

As of 31 December 2019, the GFT Group's liabilities due to CODE_n GmbH amounted to €0 thousand (31 December 2018: €1 thousand).

Other related companies
RB Capital GmbH, whose sole shareholder and managing director is Ulrich Dietz, rendered consulting services to GFT Technologies SE amounting to €254 thousand (2018: €316 thousand) in the financial year 2019. As of 31 December 2019, provisions of €63 thousand (31 December 2018: €84 thousand) were recognised for outstanding purchase invoices.

Executive bodies
Ulrich Dietz, Chairman of the Administrative Board, held 26.4% (31 December 2018: 26.5%) of GFT shares as of 31 December 2019. Maria Dietz, member of the Administrative Board, held 9.6% (31 December 2018: 9.7%) of GFT shares as of 31 December 2019.

Maria Dietz, member of the Administrative Board, provided consultancy services to GFT Technologies SE amounting to €22 thousand (2018: €7 thousand) in the financial year 2019.

There are also service agreements with the Managing Directors, who are also members of the Administrative Board. There were no other business relationships with members of the executive bodies.

In 2019, no advances or loans to members of the Administrative Board of GFT Technologies SE were either granted or waived.

The compensation expensed in the income statement for members of the Administrative Board, including the remuneration of the Managing Directors, is as follows:

Remuneration of the Administrative Board including Managing Directors

in € thousand	2019	2018
Fixed compensation component	1,049	1,028
Short-term variable compensation component	509	571
Long-term variable compensation component	165	190
Total	**1,723**	**1,789**

Total compensation for the Managing Directors in the financial year 2019 amounted to €1,433 thousand (2018: €1,509 thousand).

Total compensation for the Administrative Board without the remuneration of the Managing Directors amounted to €280 thousand in the financial year 2019 (2018: €280 thousand).

Further details on the remuneration system are contained in the remuneration report of GFT Technologies SE. The remuneration report is a component of the combined management report.

9.5 Employees

The average number of employees in the financial year 2019 was 5,178 (2018: 4,872). The average number of employees (headcount) by country is as follows

Employees by country

	2019	2018
Belgium	5	0
Brazil	847	680
Costa Rica	107	104
Germany	449	397
France	19	0
UK	147	144
Italy	600	596
Canada	211	96
Mexico	294	213
Poland	540	557
Switzerland	44	48
Spain	1,880	2,006
USA	35	31
Average number of employees	**5,178**	**4,872**

The number of employees (headcount) at the end of the reporting period was 5,307 (31 December 2018: 5,070).

9.6 Auditing fees

At the Annual General Meeting of 4 June 2019, the shareholders of GFT Technologies SE elected the accounting firm KPMG AG Wirtschaftsprüfungsgesellschaft as auditors. The following table presents the fees of KPMG AG Wirtschaftsprüfungsgesellschaft for services rendered to GFT Technologies SE and its subsidiaries in the respective financial year.

Auditing fees

in € thousand	2019	2018
Auditing of financial statements	249	243
Other certification services	52	26
Tax consulting services	25	43
Other services	0	61
Total	**326**	**373**

The auditing fees include the auditing of the consolidated financial statements, the auditing of the annual financial statements of GFT Technologies SE, a review of the interim statements, and an audit review of the half-yearly financial report. Auditing fees contain an amount of €0 thousand (2018: €44 thousand) for previous years.

Other certification services relate to quality assurance during the introduction of the new ERP system SAP S/4HANA, the review of the non-financial Group report and the certification of key financial figures.

Tax consulting services mainly comprise tax advice regarding the declaration of income taxes and an assessment of individual tax items.

9.7 Use of simplified preparation and disclosure option

On inclusion in the consolidated financial statements of GFT Technologies SE, Stuttgart, the following fully consolidated affiliated German companies made use of the provisions of section 264 (3) HGB.

- GFT Real Estate GmbH, Stuttgart
- SW34 Gastro GmbH, Stuttgart
- GFT Experts GmbH, Stuttgart
- GFT Invest GmbH, Stuttgart

9.8 Issuance of Declaration of Compliance with the German Corporate Governance Code pursuant to section 161 AktG

In accordance with section 161 of the German Stock Corporation Act (AktG), the Administrative Board of GFT Technologies SE has issued its Declaration of Compliance and made it permanently accessible to shareholders on the corporate website of the GFT Group at www.gft.com/declaration-of-compliance.

9.9 Subsequent events

Acquisition of in-integrierte informationssysteme GmbH
With economic effect as of 1 January 2020, the GFT Group acquired 100% of shares in the company in-integrierte Informationssysteme GmbH (in-GmbH) via GFT Technologies SE. Based in Konstanz, Germany, in-GmbH employs around 40 people and has expertise in the field of shop floor transparency and process integration for industrial clients. By acquiring the company, GFT is accelerating its current industrial offensive, expanding its expertise and adding innovative IoT and Industry 4.0 solutions to its portfolio of products and services.

The preliminary purchase price at the time of acquisition amounted to €6,000 thousand and was paid in cash. The purchase price allocation as at the acquisition date is not yet available. It is expected that the majority of the purchase price will be allocated to other intangible assets and goodwill. The resulting other intangible assets will mainly relate to software and client relationships. Goodwill will comprise non-separable intangible assets, such as employee expertise and expected synergies.

As a result of purchase price allocations and integration costs, the company will not yet make any significant contribution to earnings in 2020. In view of the proximity of the acquisition date to the time of preparing the annual financial statements, it is not possible to provide further information on this business combination.

Covid-19 pandemic

The coronavirus (Covid-19 pandemic) has continued to spread throughout the world since January 2020. It is currently very difficult to assess its impact on the global economy. As a result of the corona outbreak, the International Monetary Fund (IMF) adjusted its forecast for the global economy in early March 2020. It now expects global economic growth below the 2.9% rate of 2019. With regard to the effects of the Covid-19 pandemic on the business activities as well as the financial position and performance of the GFT Group, please refer to the statements made in the “Risk report” and “Forecast report” chapters of the combined management report.

Stuttgart, 7 April 2020

GFT Technologies SE
The Managing Directors

Marika Lulay	**Dr. Jochen Ruetz**
CEO	CFO

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report – which is combined with the management report of GFT Technologies SE – includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Stuttgart, 7 April 2020

GFT Technologies SE
The Managing Directors

Marika Lulay
CEO

Dr. Jochen Ruetz
CFO

Independent Auditor's Report

To GFT Technologies SE, Stuttgart

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

Opinions

We have audited the consolidated financial statements of GFT Technologies SE, Stuttgart, and it subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2019, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January to 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of GFT Technologies SE for the financial year from 1 January to 31 December 2019. In accordance with German legal requirements, we have not audited the content of those components of the combined management report specified in the "Other Information" section of our auditor's report.

The combined management report contains cross-references that are not provided for by law and which are marked as unaudited. In accordance with German legal requirements, we have not audited the cross-references and the information to which the cross-references refer.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined 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 opinion on the combined management report does not cover the content of those components of the combined management report specified in the "Other Information" section of the auditor's report. The combined management report contains cross-references that are not provided for by law and which are marked as unaudited. Our audit opinion does not extend to the cross-references and the information to which the cross-references refer.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and 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 Consolidated Financial Statements and of the Combined 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)(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 evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

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

First-time application of the new financial reporting standard "IFRS 16 – Leases"

Please refer to the disclosures in the notes to the consolidated financial statements, note 2.3, Changes in accounting methods, note 2.6, Significant accounting and valuation principles, and note 9.2 Leases, for more information on the accounting policies applied.

The Financial Statement Risk

As at 31 December 2019, right-of-use assets of KEUR 51,163 as well as lease liabilities of KEUR 53,407 under other liabilities are recognised in the consolidated financial statements of GFT Technologies SE. Lease liabilities account for 12.3% of total equity and liabilities and thus have a material effect on the Company's financial position.

The first-time application of the new financial reporting standard "IFRS 16 – Leases" had a material effect on the opening statement of financial position figures for the financial year and how they were updated as at the reporting date. GFT Technologies SE applies the modified retrospective method for the new standard. The cumulative transition effect of KEUR 2,343 as at 1 January 2019, taking into account deferred taxes, was recorded in retained earnings.

The determination of the lease term, the amount of lease payments and the incremental borrowing rate used as the discount rate may require judgement and be based on estimates. Furthermore, determining the first-time application effect of IFRS 16 and the updated lease liabilities and right-of-use assets in accordance with the standard requires the recording of extensive data from the lease agreements.

There is the risk for the consolidated financial statements that the lease liabilities and right-of-use assets are not recorded in full in the consolidated statement of financial position. There is also the risk that the lease liabilities and right-of-use assets are not appropriately measured.

Our audit approach
First, we gained an understanding of the process used by GFT Technology SE to implement the new IFRS 16 accounting standard. We then analysed the functional design and the accounting instructions underlying the implementation in terms of completeness and compliance with IFRS 16.

We assessed the appropriateness, setup and effectiveness of controls established by GFT Technologies SE to ensure the full and correct determination of the data to measure the lease liabilities and right-of-use assets from leases.

For lease agreements selected based on risk criteria, we assessed whether the relevant data was correctly and fully determined. To the extent that accounting judgements were made for determining the lease term, we examined whether – in light of the prevailing market conditions and risks in the industry – the underlying assumptions are comprehensible and consistent with other assumptions made in the financial statements.

We compared the assumptions and parameters underlying the incremental borrowing rates with our own assumptions and publicly available data. We also assessed the calculation model for the interest rate in terms of appropriateness.

For the leases in the sample detailed above, we verified the computational accuracy of the carrying amount of the lease liabilities and right-of-use assets determined by GFT Technologies SE.

Our observations
GFT Technologies SE has established appropriate procedures to record leases for the purposes of IFRS 16. The assumptions and parameters used to measure the lease liabilities and right-of-use assets are appropriate overall.

Impairment testing of goodwill
Please refer to note 2.6 and 4.1 of the consolidated financial statements for more information on the accounting policies applied and the assumptions used. Disclosures on the financial performance of the business segments can be found in section 2.4 of the combined management report.

The Financial Statement Risk
As at 31 December 2019, goodwill amounted to EUR 118.7 million and, at 27.2% of total assets, accounts for a substantial share of assets.

Goodwill is tested for impairment annually at the level of the "*Americas, UK & APAC*" and "*Continental Europe*" business segments. For the impairment test, the Company primarily determines the value in use using the discounted cash flow method and compares this with the respective carrying amount of the cash generating unit. The reporting date for the impairment test is 31 December 2019.

Impairment testing of goodwill is complex and based on a range of assumptions that require judgment. These include the expected business and earnings development of the business segments for the next five years, the assumed long-term growth rates and the discount rate used.

As at 31 December 2019, GFT Technologies SE did not identify any further impairment need as a result of the impairment tests performed.

There is the risk for the consolidated financial statements that impairment existing as at the reporting date was not identified. In addition, there is the risk that the related disclosures in the notes to the consolidated financial statements – in particular the disclosures on sensitivities to a reasonably possible change of the significant assumptions underlying measurement – are not appropriate.

Our audit approach
With the involvement of our valuation experts, we assessed the appropriateness of the significant assumptions and calculation methods of the Group, among other things. For this purpose we discussed the expected business and earnings development and the assumed long-term growth rates with those responsible for planning. We also reconciled this information with the budget prepared by the managing directors and approved by the Administrative Board. Furthermore, we carried out an audit of the structure of the planning process for the following year.

We also confirmed the accuracy of the Company's previous forecasts by comparing the budgets of previous financial years with actual results and by analysing deviations. Since changes to the discount rate can have a significant impact on the results of impairment testing in the "*Americas, UK & APAC*" segment, we compared the assumptions and parameters underlying the discount rate, in particular the risk-free rate, the market risk premium and the beta coefficient, with our own assumptions and publicly available data.

To ensure the computational accuracy of the valuation model used, we verified the Company's calculations.

In order to take forecast uncertainty into account, we examined the impact of potential changes in the discount rate and/or cash flows on the value in use (sensitivity analysis) by determining the value in use for alternative scenarios and comparing these with the values stated by the Company. The risk-based focus of our analysis was on the "*Americas, UK & APAC*" segment.

Finally, we assessed whether the disclosures in the notes to the consolidated financial statements regarding the impairment of goodwill are appropriate. This also included an assessment of the appropriateness of disclosures according to IAS 36.134(f) on sensitivity in the event of a reasonably possible change in the key assumptions used for measurement.

Our observations
The calculation method used for impairment testing of goodwill is appropriate and in line with the accounting policies to be applied. The Company's assumptions and parameters used for measurement are appropriate. The related disclosures in the notes to the consolidated financial statements are appropriate.

Recognition of revenue from fixed price contracts
Please refer to note 2.6 in the notes to the consolidated financial statements for more information on the accounting policies applied.

The Financial Statement Risk
The income from fixed price contracts amounted to EUR 227.7 million in financial year 2019. Revenue from fixed price contracts as a share of total Group revenue was 53.1%.

GFT Group recognises revenue from fixed price contracts over the period by using the time of the transfer of control of assets to the customer. This involves revenue and results being recognised by reference to the stage of completion. The stage of completion is calculated in accordance with the input method in which costs already incurred are stated as a ratio of the total costs expected to render the performance obligation (cost to cost method). In the opinion of GFT Technologies SE, this method best reflects the stage of completion and the transfer of assets to the customer. If an overall loss is expected to result from the contract, this loss is recognised in full.

The recognition of revenue from fixed price contracts over time is complex and subject to judgements. Estimation uncertainties exist particularly in respect of the total project costs to be estimated for the determination of the stage of contract completion; at the GFT Group these costs mostly consist of internal staff costs. In addition, there is the risk that costs are recorded for the wrong projects.

There is the risk for the consolidated financial statements that the revenue and earnings from fixed price contracts are inaccurately allocated to the financial years.

Our audit approach
Based on our understanding of the process, we assessed the design, establishment and functionality of the identified internal controls, especially in terms of the correct allocation of costs to the individual projects. We also assessed whether costs were correctly allocated to projects for a specific sample of projects.

We examined the significant cases of judgement, such as the estimate of costs still due and the follow-up costs, and assessed their appropriateness. In addition, we discussed the fixed price contracts with the Company, inclusive of their existing risks (e.g. legal risks or warranty risks) and analysed the project costing.

Based on the knowledge already obtained, we assessed whether the respective stage of completion and the amount of revenue derived from this were properly determined, and evaluated how this was recognised in profit or loss.

Our observations
The Group's approach to the recognition of revenue and earnings from fixed price contracts is appropriate. The assumptions underlying the financial reporting are reasonable.

Other Information

Management and/or the Administrative Board are/is responsible for the other information. The other information comprises the following components of the combined management report, whose content was not audited:

- the separate non-financial report, expected to be provided to us after the date of this auditor's report, which is referred to in the combined management report,
- the corporate governance statement referred to in the combined management report, and
- information extraneous to the combined management report and marked as unaudited.

The other information also includes the remaining parts of the annual report.

The other information does not include the consolidated financial statements, the management report information audited for content and our auditor's report thereon.

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

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

- is materially inconsistent with the consolidated financial statements, with the combined management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Administrative Board for the Consolidated Financial Statements and the Combined Management Report

Management is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view assets, liabilities, financial position and financial performance of the Group. In addition, management is 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, management is 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, management is responsible for the preparation of the combined 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, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined 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 combined management report.

The Administrative Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and whether the combined 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 opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined 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 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 controls.
- 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 combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by the management and related disclosures.
- Conclude on the appropriateness of management's 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 combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the combined 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 management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management 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 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 at the annual general meeting on 4 June 2019. We were engaged by the Administrative Board on 18 February 2020. We have been the group auditor of GFT Technologies SE without interruption since financial year 2012.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Administrative Board 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 Arne Stratmann.

Stuttgart, 7 April 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft

Stratmann	**Gebert**
[German Public Auditor]	[German Public Auditor]

Members of the Administrative Board

Name	Profession	Year of birth	Member since	Appointed until[2]	Seats held on mandatory supervisory boards or comparable committees in Germany and abroad (as of: 31 December 2019)
Ulrich Dietz Chairman	Chairman of the Administrative Board of GFT Technologies SE	1958	18/08/2015	2021	Drees & Sommer SE, Stuttgart, F3 (Member of the Supervisory Board)
Dr Paul Lerbinger Deputy Chairman	Deputy Chairman of the Administrative Board of GFT Technologies SE Former CEO of HSH Nordbank AG	1955	14/01/2011[1]	2021	Minimax Management GmbH, Bad Oldesloe, Germany (Member of the Supervisory Board)
Dr Andreas Bereczky	Chairman of the Supervisory Board of Software AG Former Production Director ZDF	1953	31/05/2011[1]	2021	Software AG, Darmstadt, Germany (Chairman of the Supervisory Board)
Maria Dietz	Member of the Administrative Board of GFT Technologies SE Former Head of Purchasing for the GFT Group	1962	18/08/2015	2021	Drägerwerk AG & Co. KGaA, Lübeck, Germany (Member of the Supervisory Board) Drägerwerk Verwaltungs AG, Lübeck, Germany (Member of the Supervisory Board) Dräger Safety AG & Co. KGaA, Lübeck, Germany (Member of the Supervisory Board)
Marika Lulay	Chairwoman of the Managing Directors of GFT Technologies SE, CEO Responsible for Strategy and Business Development, Markets, Communication, Marketing, Technology and Innovation	1962	18/08/2015	2021	Wüstenrot & Württembergische AG, Stuttgart, Germany (Member of the Supervisory Board) EnBW Energie Baden-Württemberg AG, Karlsruhe, Germany (Member of the Supervisory Board), since 14 February 2019
Dr Jochen Ruetz	Managing Director of GFT Technologies SE Responsible for IT Infrastructures, Human Resources, Finance, Legal Affairs, Internal Audit, Investor Relations and Mergers & Acquisitions	1968	18/08/2015	2021	G. Elsinghorst Handelsgesellschaft mbH, Bocholt, Germany (Member of the Supervisory Board) Progress-Werk Oberkirch AG, Oberkirch, Germany (Member of the Supervisory Board)
Prof Dr Andreas Wiedemann	Lawyer and partner of the law firm Hennerkes, Kirchdörfer & Lorz	1968	18/08/2015	2021	Georg Nordmann Holding AG, Hamburg, Germany (Chairman of the Supervisory Board) Jowat SE, Detmold, Germany (Chairman of the Supervisory Board) Brose Verwaltung SE, Coburg, Germany (Member of the Supervisory Board) Brose Verwaltung SE, Bamberg, Germany (Member of the Supervisory Board) Brose Verwaltung SE, Würzburg, Germany (Member of the Supervisory Board)

[1] Member of the Supervisory Board of GFT Technologies SE until 18.08.2015; Member of the Administrative Board of GFT Technologies SE since 18 August 2015

[2] The term of office ends on expiry of the Annual General Meeting of the year stated

Annual Financial Statements of GFT Technologies SE (HGB) – Extract

The complete Annual Financial Statements of GFT Technologies SE (HGB) are available at www.gft.de/finanzberichte (German language).

Balance sheet according to HGB

as of 31 December 2019, GFT Technologies SE

Assets

in €	31/12/2019	31/12/2018
A. Fixed assets		
I. Intangible assets		
1. Purchased franchises, industrial and similar rights and assets, and licenses in such rights and assets	2,994,516.46	1,537,793.00
2. Prepayments	0.00	1,229,736.05
	2,994,516.46	**2,767,529.05**
II. Property, plant and equipment		
1. Other equipment, furniture and fixtures	4,724,712.34	4,601,521.79
2. Prepayments	77,417.00	0.00
	4,802,129.34	**4,601,521.79**
III. Financial assets		
1. Shares in affiliates	54,890,505.99	47,246,917.57
2. Loans to affiliates	99,933,367.01	92,993,396.55
3. Equity investments	157,161.42	157,161.42
	154,981,034.42	**140,397,475.54**
B. Current assets		
I. Work in process	**3,780,644.35**	**10,132,115.94**
II. Receivables and other assets		
1. Trade receivables	9,251,331.60	8,388,328.48
2. Receivables from affiliates	22,152,021.06	30,954,236.86
4. Other assets	896,490.75	3,085,323.96
	32,299,843.41	**42,427,889.30**
III. Cash on hand and bank balances	**5,599,951.45**	**7,524,535.95**
	41,680,439.21	**60,084,541.19**
C. Prepaid expenses	**2,573,826.37**	**4,701,389.60**
	207,031,945.80	**212,552,457.17**

Equity and liabilities

in €	31/12/2019	31/12/2018
A. Equity		
I. Share capital	**26,325,946.00**	**26,325,946.00**
II. Capital reserve	**2,745,042.36**	**2,745,042.36**
III. Other retained earnings	**22,149,591.97**	**22,149,591.97**
IV. Distributable profit	**21,298,694.08**	**13,946,483.79**
	72,519,274.41	**65,167,064.12**
B. Provisions		
1. Provisions for pensions	1,317,190.00	952,860.00
2. Tax provisions	52,735.00	623,774.00
3. Other provisions	7,554,198.49	9,658,828.39
	8,924,123.49	**11,235,462.39**
C. Liabilities		
1. Liabilities to banks	108,500,000.00	114,500,000.00
2. Prepayments received on account of orders	4,301,709.38	11,210,510.48
3. Trade payables	1,113,342.41	3,413,891.00
4. Liabilities to affiliates	9,746,299.55	6,262,181.64
5. Other liabilities	1,490,074.87	739,187.87
	125,151,426.21	**136,125,770.99**
D. Deferred income	**437,121.69**	**24,159.67**
	207,031,945.80	**212,552,457.17**

Income statement according to HGB

for the financial year 2019, GFT Technologies SE

in €	2019	2018
1. Revenue	86,401,915.11	77,953,663.09
2. Decrease (2018: increase) of work in process	−6,351,471.59	5,283,372.21
3. Other operating income	6,767,410.12	6,804,539.28
4. Total performance	**86,817,853.64**	**90,041,574.58**
5. Cost of purchased services	26,512,833.46	33,017,707.94
6. Personnel expenses		
a) Salaries and wages	31,314,616.93	30,242,935.82
b) Social security, pension and other benefit costs	5,126,866.77	4,501,742.56
7. Amortisation and depreciation of intangible assets and property, plant and equipment	1,562,623.94	1,587,014.91
8. Other operating expenses	25,582,548.73	21,138,016.86
9. Result from operating activities	**−3,281,636.19**	**−445,843.51**
10. Income from equity investments	18,250,000.00	10,078,360.00
11. Income from profit and loss transfer agreements	362,489.57	0.00
12. Income from loans classified as fixed financial assets	1,830,124.86	1,320,439.33
13. Other interest and similar income	139,200.73	597,291.98
14. Expenses from loss assumptions	404,401.79	438,827.01
15. Interest and similar expenses	1,616,620.96	1,447,176.62
16. Financial result	**18,560,792.41**	**10,110,087.68**
17. Earnings before taxes	**15,279,156.22**	**9,664,244.17**
18. Income taxes	20,715.80	297,847.80
19. Earnings after income taxes	**15,258,440.42**	**9,366,396.37**
20. Other taxes	8,446.33	7,257.56
21. Net income for the year	**15,249,994.09**	**9,359,138.81**
22. Profit brought forward from previous year	6,048,699.99	4,587,344.98
23. Distributable profit	**21,298,694.08**	**13,946,483.79**

Service

Further information

Write to us or call us if you have any questions. Our Investor Relations team will be happy to answer them for you. Or visit our website at www.gft.com/ir. There you can find further information on our company and the GFT Technologies SE share.

The Annual Report 2019 is also available in German. The online versions of the German and English Reports are available on www.gft.com/ir.

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Key figures (IFRS)

GFT Group

in € million	2019	2018	Δ %	Q4/2019	Q4/2018	Δ %
Income statement						
Revenue	428.98	412.83	4%	113.03	103.76	9%
EBITDA adjusted	47.91	39.68	21%	13.13	10.89	21%
EBITDA	44.89	37.45	20%	12.69	9.42	35%
EBIT	21.33	24.72	–14%	7.03	6.21	13%
EBT	18.73	22.64	–17%	6.39	5.72	12%
Net income	13.66	19.98	–32%	3.58	3.37	6%
Segments						
Revenue *Americas, UK & APAC*	198.98	183.44	8%	51.69	46.34	12%
Revenue *Continental Europe*	229.45	228.88	0%	61.21	57.34	7%
Revenue *Others*	0.54	0.51	6%	0.13	0.08	74%
EBT *Americas, UK & APAC*	5.32	4.82	10%	3.19	0.92	>100%
EBT *Continental Europe*	18.07	19.23	–6%	5.55	6.21	–11%
EBT *Others*	–4.66	–1.41		–2.35	–1.41	
Share						
Basic earnings per share	€0.52	€0.76	–32%	€0.14	€0.13	6%
Average number of shares outstanding	26,325,946	26,325,946	0%	26,325,946	26,325,946	
Balance sheet						
Non-current assets	232.21	179.02	30%			
Cash and cash equivalents	56.14	61.57	–9%			
Other current assets	147.48	131.96	12%			
Total assets	**435.83**	**372.55**	**17%**			
Non-current liabilities	157.08	119.61	31%			
Current liabilities	145.61	125.83	16%			
Shareholders' equity	133.14	127.11	5%			
Total shareholders' equity and liabilities	**435.83**	**372.55**	**17%**			
Equity ratio	31%	34%				
Cash flow statement						
Cash flow from operating activities	36.18	44.83	–19%			
Cash flow from investing activities	–13.89	–53.73	–74%			
Cash flow from financing activities	–27.05	–1.56	>100%			
Employees						
Number of employees (FTE, as of 31 December)	5,242	4,875	8%			
Weighted utilisation rate	89.4%	89.2%				

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