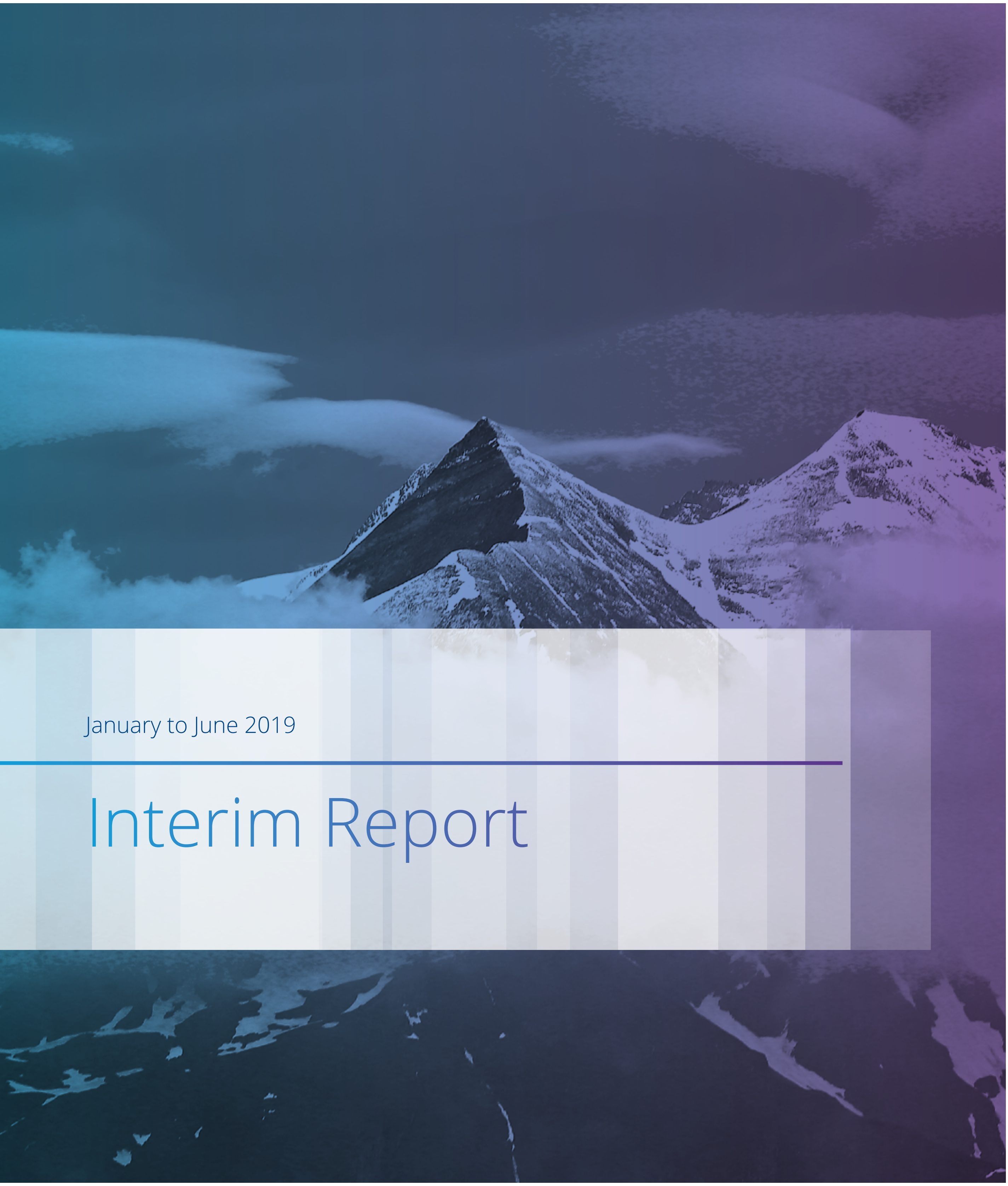
GK SOFTWARE



January to June 2019

Interim Report

Simply Retail.

Summary of Consolidated Results

		30.6.2019	30.6.2018	31.12.2018	Change (2018/2019)
Sales	EUR K	**50,269**	49,046	106,151	2.5 %
Operating performance	EUR K	**50,269**	49,046	106,151	2.5 %
Total operating revenue	EUR K	**51,449**	51,246	109,768	0.4 %
EBIT	EUR K	**(4,997)**	72	1,595	<(250) %
EBIT margin (on sales)	%	**(9.9)**	0.1	1.5	—
EBIT margin (on total operating revenue)	%	**(9.7)**	0.1	1.5	—
EBITDA	EUR K	**(586)**	2,392	6,833	(124.5) %
EBT	EUR K	**(5,805)**	(519)	171	
Net loss for the period	EUR K	**(6,486)**	(172)	923	<(250) %
Earnings per share (weighted)	EUR	**(3.37)**	(0.06)	0.48	—
Earnings per share (diluted)	EUR	**(3.37)**	—	0.48	—
Equity ratio	%	**30.1**	35.6	36.2	—
Net debt	EUR K	**14,798**	(5,159)	9,611	—
Employees		**1,247**	1,147	1,205	8.7 %

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To the shareholders

Letter from the Management Board

Dear shareholders,

We would like to take this opportunity of presenting you with the report for the GK Software Group[1] for the first half of 2019. We are delighted to be able to report that we have been able to continue the Company's growth process. We gained nine new customers, four of them in the USA, during the first six months of the year. The continuing success stories of the last eighteen months prove that our focus on the world's largest retail market has been the right decision. The other five new customers come from South America and Europe etc. This business includes a cloud project in Colombia that has been sold on a subscription basis. Overall, we will be able to roll out about 6,000 new installations at 1,800 stores thanks to the new OmniPOS projects during the next few years. Based on the current pipeline, we are also expecting

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further sales successes during the second half of the year. To accommodate this, we have reorganised our direct sales operations, among other things, in order to be able to look after both interested parties and existing customers to a greater degree. And beyond the new OmniPOS projects, we have again been able to successfully introduce our Pricing Engine to more customers.

Our new solutions based on artificial intelligence and for German fiscalisation will be highly significant for the near future; we have continued to develop them during the first half of 2019 too. The Dynamic Pricing solution based on the AIR platform (Artificial Intelligence for Retail) has been on SAP's price list since the end of April and it has already been possible to introduce it to several interested parties. We are observing a growing demand for solutions related to this topic and are already active in several specific sales situations. German fiscalisation is another topic that we are expecting to have a major effect from 2020 onwards. We have launched a wholly-owned subsidiary, DF Deutsche Fiskal GmbH, for this purpose and it is developing a cloud solution for introducing the new statutory requirements together with Bundesdruckerei (the Federal Printing Office). This SaaS solution has attracted huge interest in the market place, as it has significant benefits compared to hardware-based concepts. In addition, the extremely complex German requirements ensure that only a few providers will be in a position to make available a certified solution by the starting date.

We will invest in research and development too in future to continue enhancing our market position. In addition to completing the fiscalisation solution, we are focusing on three areas. We have created a service known as cloud4retail in order to implement OmniPOS as a cloud solution. In order to be able to provide improved technical integration for this with our other cloud services in the fields of AIR, mobile applications and Deutsche Fiskal, as well as with the SMB-POS solution, which is at an advanced stage, we are working on a unified cloud technology platform. This will involve placing all our solutions on the same cloud technologies - and this will make our development work faster and will mean that our resources can be used more comprehensively and universally. The second major development area involves our solution for filling stations. After having focused on the filling stations that are directly operated by retailers at their market sites in the past, we are now planning to expand the solution for the major oil companies that operate their own filling station networks. The third major development area is in the field of artificial intelligence. We have created the basis for introducing tailor-made AI processes for the retail sector in modular form with our AIR platform. The first module, our Dynamic Pricing solution, is already being actively sold. We are planning to develop further retail-specific modules here - e.g. for personalisation or fraud detection - and they will enable retailers to quickly introduce specific projects.

We are delighted to be able to inform you that we were in a position to introduce a small increase in capital from the authorised capital on 19/20 August 2019. The Company has gained access to gross revenue amounting to EUR 5.12 million from issuing 80,000 no-par individual share certificates. These funds will primarily be used for the planned establishment of a Retail Excellence Centre with SAP, the ongoing development of Deutsche Fiskal, the enhancement of the AIR platform and extending the focus of our filling station solution to include the oil company business as a new sector for GK Software.

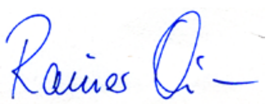
On this basis, we have been able to achieve the following results during the first six months of the financial year. The Group's turnover grew by 2.5 percent compared to the same reporting period in the previous year and amounted to EUR 50.27 million. Turnover in our GK/Retail core business increased even more strongly by 5.8

percent and once again offset the declines in the IT Services division. This means that we exceeded the EUR 50 million barrier in terms of half-yearly turnover for the first time in the Company's history. The EBITDA figure amounted to EUR (0.59) million (H1 2018: EUR 2.39 million). This is the equivalent of an EBITDA margin of -1.1 percent. This provided results for the period of EUR (6.49) million (H1 2018: EUR (0.17) million) and undiluted losses per share of EUR (3.37).

The number of units installed and operating various versions of our store solutions continued to grow to a current figure of 304,000 during the reporting period. In addition, there are the installations for the other solutions that are made available by our corporate Group. The apps available in the Mobile Customer Assistant field have been downloaded by more than 4 million consumers in all, for example. The TransAction+ solution manages the electronic payment transactions on about 100,000 terminals in the USA and the Real-Time Decision Engine developed by prudsys AG and based on artificial intelligence is being used by about 100 customers. As in previous years, we were able to enhance our business relations with almost all our existing GK/Retail customers, as our customers are permanently adapting their solutions to new requirements. Rollouts in current projects, in other countries as well as the launch of pilot schemes all contributed to the growth in the number of installations. Special mention should be made here of the conclusion of a major rollout in almost 1,400 stores for a customer in Great Britain, for example, or more than 1,000 new installations at a major customer in Switzerland.

To improve the earnings situation and with a view to meeting the medium-term forecast, the Supervisory Board and the Management Board have launched the internal programme known as Pro FIT. This has enabled checks to be made on efficiency reserves and savings potential in all departments. We are expecting visible results to emerge from this as early as the end of the year. In the light of the existing sales opportunities and the results that are expected from the Pro FIT programme, the Management Board is continuing to stand by its forecast for the 2019 financial year and its medium-term forecast, as was published in the last financial statement, without making any changes. We are also maintaining our provisos, as in the past, that expenditure for tapping into new markets, the postponement of fairly large customer projects or a deterioration in the overall economic situation could impair the fulfilment of this goal.

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



Rainer Gläss
Chief Executive Officer

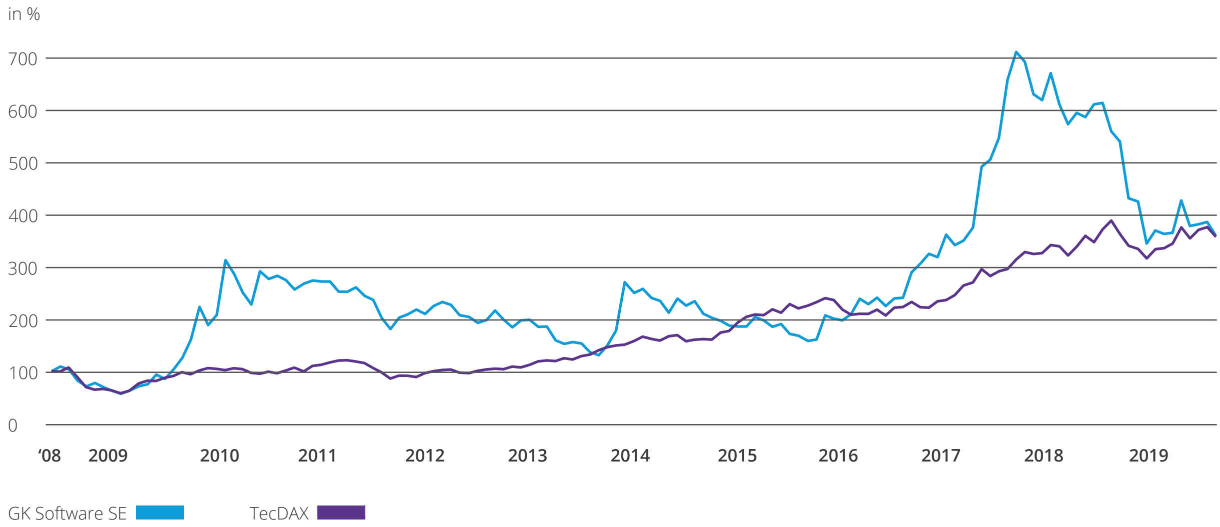
André Hergert
Chief Financial Officer

GK Software SE Shares

Basic data

Share price development (indexed)

F.02



Basic data on 30 June 2019

T.01

Securities Identification Number (WKN)	757142
ISIN	DE0007571424
Trading symbol	GKS
GK Software AG flotation	19 June 2008
Type of shares	Ordinary no-par shares without any nominal value (individual share certificates)
Trading markets	Frankfurt and XETRA
Market segment	Regulated Market (Prime Standard)
Designated sponsor	ICF Bank AG
Number of shares	1,940,800
Share capital	EUR 1,940,800
Free float	51.31%
Highest price in 2019	EUR 86.00 (8 May 2019)
Lowest price in 2019	EUR 66.00 (20 February 2019)

Summary/share performance

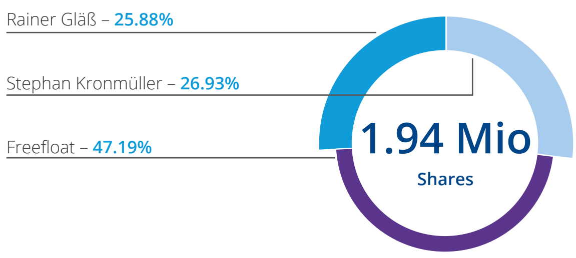
GK Software SE shares, which are listed on the Prime Standard section of the Frankfurt Stock Exchange, were subject to a fairly stable development at about EUR 70 during the first half of 2019; this was briefly interrupted by a surge in May. The shares were worth EUR 70.20 at the end of the reporting period. This corresponded to market capitalisation of EUR 136.24 million at the end of the first half of 2019.

Shareholder structure

GK Software SE has an extremely stable shareholder base and this is enabling the Company to achieve long-term and sustained development.

Shareholder structure on 30 June 2019

F.01



The shareholder structure on the reporting date (30 June 2018) was as follows, according to the information made available to us:

Rainer Gläss, a company founder and the CEO, directly and indirectly held 25.88 percent of the shares. Stephan Kronmüller, also a company founder and the former Head of Technology and Development, directly and indirectly held 26.93 percent of shares. This meant that 47.19 percent of the shares were in free float on 30 June 2019.

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

Amounts exceeding the threshold value

T.02

Correct on	Shareholder	Proportion in %
17.3.2016 [1]	Scherzer & Co. AG, Cologne	6.36
22.9.2016	Wilhelm K. T. Zours (of which Deutsche Balaton Aktiengesellschaft, Heidelberg with 3.18%)	6.55
27.12.2013	SAP SE, Walldorf	5.29

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

Directors dealings in 2019

Directors dealings

T.03

Date	Person acting	Position	Activity	Volume EUR	Market price EUR
6.6.2019	André Hergert	Management Board	Purchase	113,310.00	37.77
13.6.2019	André Hergert	Management Board	Sale	46,745.90	69.77

Investor relations

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

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

GK Software also attaches great importance to providing an ongoing flow of information for the future. Among other things, this involves the completion of quarterly reports and extensive half-yearly and annual reports in German and English, a finance calendar, compulsory announcements, which have to be published immediately, and corporate news items. The accounting system has been adapted to the international IFRS accounting standards and also meets investors' requirements for information. As in previous years, GK Software will hold its analysts' conference during the Frankfurt Equity Capital Forum in 2019 again. Investor and press roadshows also take place at regular intervals so that the Company remains in permanent contact with the capital markets.

B

Interim group management report

Business Report

Business and general conditions at GK Software

Corporate structure and holdings

- **Fourteen business sites in Europe, the USA and South Africa**
- **Both company founders are actively involved in the Company**

GK Software SE[1] is one of the world's leading technology companies for retail sector software with a special focus on solutions for large and very large retail companies with many local stores. GK Software SE and its predecessor company, G&K Datensysteme GmbH, which was founded by Rainer Gläss and Stephan Kronmüller and changed its name to GK Software AG in 2001, have been successfully operating in the market place for 29 years. The Company's flotation took place in the Prime Standard segment of the Frankfurt Stock Exchange in 2008. GK Software AG was transformed into GK Software SE on 19 January 2018.

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Group structure of GK Software SE

F.03

GK SOFTWARE

100%	GK SOFTWARE	GK Software USA Inc.
100%	GK SOFTWARE	OOO GK Software RUS
100%	GK SOFTWARE	GK Software Africa PTY Ltd.
100%	EURO SOFTWARE	EUROSOFTWARE s.r.o.
100%	EURO SOFTWARE	TOV Eurosoftware-UA
100%	StoreWeaver	Storeweaver GmbH
100%	awek	AWEK Microdata GmbH
100%	awek	AWEK GmbH
80,12%	prudsys	prudsys AG
100%	DEUTSCHE FISKAL	DF Deutsche Fiskal GmbH

The Group's headquarters have been located in Schöneck/Vogtl. since it was founded. Alongside its administration department, the product development department, project management and third-level support facilities are all based at this site. 1. Waldstraße GmbH was a wholly-owned subsidiary of GK Software SE at this site and its name has been changed to DF Deutsche Fiskal GmbH; it has its headquarters in Berlin. This company is also a wholly-owned subsidiary of GK Software SE and it has started its business operations. GK Software SE has two business sites in Berlin and they are primarily responsible for the marketing, sales and partner activities; parts of the software development work are also based there. The branch in Jena started operating in 2018 so that the Company can benefit from the excellent opportunities for gaining personnel in this high-tech region in the state of Thuringia.

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

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

AWEK GmbH, which focuses on providing services, is also a wholly owned subsidiary. It has its headquarters in Hamburg. Mobile technicians for field services are managed from there and cover the whole of Germany. AWEK Microdata GmbH, which is also a wholly-owned subsidiary and is based in Hamburg and has a business site in Bielefeld, specialises in the ongoing development of the euro-

SUITE checkout software for small and medium-sized enterprises and it looks after the installations where this software is in use. AWEK GmbH and AWEK microdata GmbH together form the IT Services division within the Group.

GK Software SE has its own sales organisation in Russia in the form of OOO GK Software RUS. GK Software USA Inc. was founded in the USA in December 2013 in order to support the expected expansion of our North American business locally through an organisation of our own. The retail segment of DBS Data Business Systems Inc., which was taken over in March 2015, has been incorporated into GK Software USA Inc. GK Software Africa (Pty) Ltd was set up in South Africa at the beginning of 2015.

GK Software SE took over the majority of shares in prudsys AG in Chemnitz on 1 November 2017. prudsys AG develops and sells a solution that focuses on personalisation and dynamic pricing and this is based on artificial intelligence methods. GK Software completely acquired valuephone GmbH, which has its headquarters in Berlin, in June 2018. The company has developed mobile consumer solutions for the retail sector and they have already been sold by GK Software since 2017. With effect from 1 January 2019 (merger date), valuephone GmbH was transferred to GK Software SE in the form of a merger by absorption (Section 2 No. 1 of the German Reorganisation Act).

The Management Board of GK Software SE consists of Company founder Rainer Gläss (CEO, Strategy, Marketing & Sales) and André Hergert (Finances). The Management Board is supported by a Group Management Board, which consists of the following members: Stephan Kronmüller, Michael Jaszczyk (CEO USA), Dobromir Karamelski (CTO) and Harald Göbel (Customer Solutions & Services).

The three-man Supervisory Board at GK Software SE is led by the Chairman Uwe Ludwig. He has been a member of the Supervisory Board since 2001. Uwe Ludwig's period in office ends at the conclusion of the annual shareholders' meeting in 2021. Thomas Bleier was elected to the Supervisory Board in 2003. His period in office was confirmed until the annual shareholders' meeting in 2022 at the annual shareholders' meeting in 2018. Herbert Zinn was first elected to the Supervisory Board at the annual shareholders' meeting in 2011. His current period in office ends with the annual shareholders' meeting in 2023.

Personnel

- **Further growth at almost all the business sites**
- **Trainee and further training programmes for members of staff**

1,247 people in all were employed within the Group on the reporting date of 30 June 2019 (excluding members of the Management Board and trainees). This means that there are 100 more employees than on the same reporting date in the previous year (944).

A large number of the Group's employees, 399, (345 in H1 2018) continue to work at the business site in Schöneck. The Berlin branch currently has 106 employees working in the development, sales & marketing, project and partner management fields (the figure was 86 at the end of the first half of 2018).

The number of people employed at the Czech subsidiary Eurosoftware s.r.o in Plzen was 243, 20 more than at the same time in the previous year (H1 2018: 223).

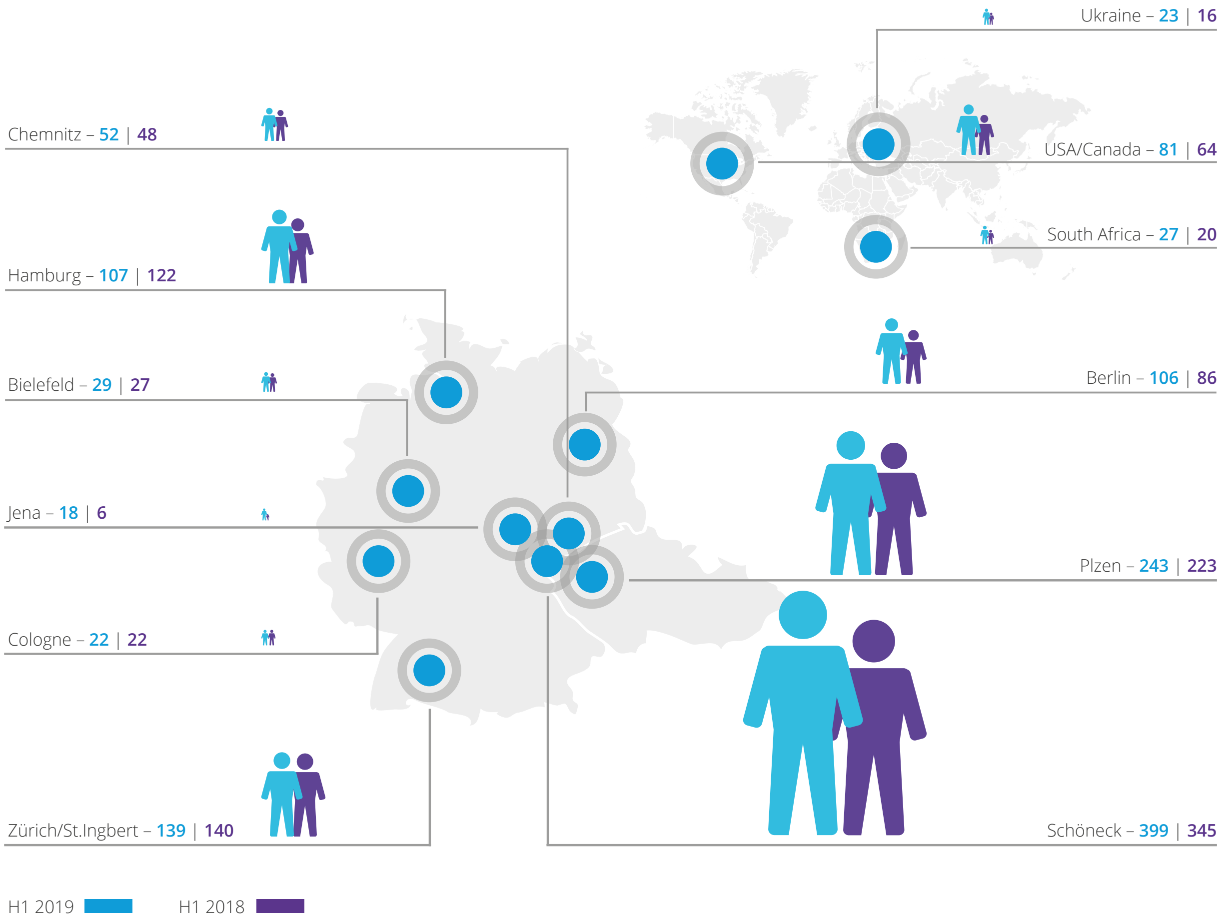
107 people were employed in the IT Services division in Hamburg at the end of the first half of the year (H1 2018: 122), including mobile service technicians who are spread across Germany. 29 people were employed at the second IT Services site in Bielefeld on 30 June 2019; they mainly work on software development (H1 2018: 27). Overall, the IT Services division has 123 employees (H1 2018: 149).

134 people were working at the business site in St. Ingbert at the end of the reporting period (H1 2018: 135). 5 people were working in Dübendorf, the same number as twelve months ago.

The number of employees working at the branch in Cologne remained at 22 on the reporting date - no change from the number on 30 June 2018.

Distribution of employees at group business locations (from 5 employees) on 30 June 2019

F.04



18 people were employed at the business site in Jena (H1 2018: 6). At this time, one person was employed at the Russian branch (H1 2018: 1). 81 people were working for GK Software in the USA (H1 2018: 64). The South African subsidiary employed 27 people on the reporting date (20: H1 2018). 23 people were employed at the business site of the Ukrainian subsidiary in Lviv (H1 2018: 16). prudsys AG in Chemnitz employed 52 people compared to 48 in the same period in the previous year.

The Management Board expects the growth in employee numbers to slow down significantly in future.

Huge investments have been made in training and developing employees for years in order to be able to provide a foundation for and boost growth in turnover at GK Software from a human resources point of view too. 859 employees attended training courses at the GK Academy during the first half of 2019, for example. New employees undergo extensive and standardised introductory courses, while a permanently adapted training programme is made available to all employees too. The Company is also actively involved in training new or future employees. They include trainees on apprenticeship courses, students from universities of cooperative education or students on sandwich courses. 13 trainees and 16 students (from a university of cooperative education or pursuing a sandwich course) are currently employed at GK Software SE. 19 student trainees are also working at the company, 20 students are completing a voluntary or compulsory placement and seven of them are writing degree dissertations that are being supported by GK Software. At least 29 school pupils from the region were also given the opportunity of getting to know the firm first-hand in the form of pupil placements or holiday jobs during the first half of 2019. These different measures are already providing the first success stories in attracting new employees and the aim is to further intensify them in future.

The GK Software solution portfolio

- **GK Software — Simply Retail**
- **An extensive portfolio of omni-channel solutions**

The OmniPOS platform

GK Software is convinced that only innovative, market-driven retail companies with optimised logistics in the omni-channel world, which is already a powerful driving force, will be able to survive. Retail companies are therefore increasingly becoming technology-oriented companies, which have to be capable of mapping all their consumers' needs on one modern technological platform. At the same time, it will be necessary to ensure that the increasing degree of complexity is not handled by more and more solutions that are running in parallel alongside each other. The main task therefore involves reducing the complexity through a suitable platform solution again and creating solutions that remain operable and manageable for the users despite growing demands, particularly from consumers. The Company's current slogan "Simply Retail" takes this into account.

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

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

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

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

The various GK Software products are brought together in the OmniPOS platform with their specific features for the market. The Mobile Customer Assistant solution is part of the OmniPOS platform that is used in the projects in a modular way, depending on what the customer wants. All the solution components are fully based on the same infrastructure, the same programming paradigms, Java and other modern programming languages as well as open standards. This means that they do not depend on any particular hardware or operating system.

OmniPOS was officially launched at the beginning of 2016. The company is continuing to maintain version 12 of the GK/Retail Business Suite, which was sold previously, and adapt it to special customer wishes. However, OmniPOS has been exclusively used in new projects since 2016.

SAP is also selling almost the entire portfolio related to the OmniPOS platform with identical features using the SAP Omnichannel Point-of-Sale by GK and SAP hybris Mobile Customer Assistant by GK product names.

cloud4retail

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

AIR - Artificial Intelligence for Retail

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

Suitable for any sector

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

Suitable for any device

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

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

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

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

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

Ongoing product development
Investments were made in the ongoing development of the OmniPOS cloud solution and the Mobile Customer Assistant consumer platform and AI-based solutions during the first half of 2019. The first two solutions again successfully passed SAP's premium qualification process during July. New products and functions are checked by SAP as part of this kind of product test and in each case the current version was approved for sale. The AI solution known as Dynamic Pricing was already successfully tested in April and it expands the service offered by the portfolio of solutions sold by SAP by providing an essential new component.

Other solutions in the portfolio

Deutsche Fiskal
GK Software has been developing and arranging a solution to meet the new tax requirements that can be summarised under the heading of "German fiscalisation of till systems" since the end of March 2019. The background to this is that the German law requires digital certification of each receipt from 1 January 2020 onwards in order to initially prevent value-added tax evasion. GK Software is not only providing a cloud solution for customers of the corporate group, but for all operators of till systems through Deutsche Fiskal. According to estimates performed by sector associations, about 2 million systems are affected by this in Germany. As the requirements in Germany in terms of cryptography and the security architecture are more complex than in any other EU member state, an exclusive partnership has been established with Bundesdruckerei (the Federal Printing Office). The cooperation arrangement means that Deutsche Fiskal is developing the cloud solution, while Bundesdruckerei is making available the certified technical security facilities and is hosting them at its high-security data centre. GK Software has pooled its activities related to German fiscalisation in its subsidiary known as "DF Deutsche Fiskal GmbH".

Payment services
In the field of payment services, GK Software offers a market-leading solution for handling payments in the USA in the form of TransAction+ and it is able to integrate a large number of point of sale systems and a large range of payment authorisation providers. It meets high data protection standards and supports credit and debit cards and gift vouchers, "electronic benefits" as well as handling cheque authorisation and accounting for

more than 40 payment providers in the USA. The software manages customer-oriented payment devices at the highest level and is certified for the latest EMV transactions (chip and PIN).

The SQRS software package
When acquiring the assets of the former company known as Solquest GmbH, its range of solutions known as Solquest Retail Solutions (SQRS) was also taken over and they are still in use at eight customers with approx. 4,670 installations. The particular high-performance features of the software were in the areas of SAP integration and mobile solutions. The SQRS solutions were no longer marketed after the takeover of Solquest in order to keep the Group's portfolio of products slim. However, minor adjustments are still being made as part of existing customer relations and they are handled by Store-Weaver GmbH. Alongside this, a migration path has been developed in order to provide a long-term perspective for the customers of the former Solquest GmbH company.

The euroSUITE solution from AWEK
AWEK develops and markets software for medium-sized companies known as euroSUITE and it complements the GK Software range; it is primarily geared towards the medium-sized retail sector and the company provides support for an earlier version of this software used by several customers in German-speaking countries.

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

Maintenance and services
In addition to software maintenance that is subject to charges, where the aim is to eliminate errors and faults, GK Software offers other services to the retail trade. A customer care management department has been established as part of the Company's software service portfolio; it supports existing customers in a wide variety of tasks related to operating and adapting the solutions that they use. A special services department has also been made available to customers to help them continually optimise their productive applications and the way that they interact. A decision was made in 2018 to no longer continue selling services involving the maintenance of hardware, but just servicing existing customer contracts until they expire.

Partner training

The GK Academy continued its partner training work during the first six months of the year. 40 employees from 5 partners and customers were trained in this period alone so that they are able to introduce or adapt GK solutions. Alongside this, hardware from three manufacturers was tested and certified for use with GK Software solutions or the certification process was in the preparation stage.

Customers and projects

- **Gaining more major new international projects**
- **Sales successes in the USA continue**

Most of GK Software's customers continue to come from the retail sector. The market sectors for the Company are primarily the food retail sector, drugstores & household goods, fashion & lifestyle, DIY & furniture markets or technology & cars. The products and services are mainly geared towards large and medium-sized enterprises and are particularly suitable for customers with many stores in several countries.

GK Software currently has more than 270 customers. This figure includes about 100 customers at prudsys AG, which was taken over in 2017, more than 40 customers from the retail segment of DBS Data Business Inc., which was taken over in 2015, and 20 customers of the AWEK Group, which was taken over in 2012. The Company maintains business relationships with 11 customers that are numbered among the 50 largest retailers in the world (GlobalTOP50). The Company has productive installations operating in 58 countries.

New customer projects in 2019:

- The second-largest food discounter in Colombia (more than 800 stores)
- A food retailer (180 stores in the USA)
- A food retailer (150 stores in the USA)
- A leading paint manufacturer and retailer in the south-west of the USA (approx. 140 outlets in the USA)
- A leading chocolate manufacturer and retailer (more than 400 outlets around the globe)
- A state liquor retailer (more than 370 stores in the USA)
- A non-food department store (15 branches in northern Germany) for AWEK

In terms of existing projects, the first half of 2019 was dominated by successful pilot operations in several projects, rollouts and intensive change request business. OmniPOS was successfully rolled out at numerous customers in a wide variety of retail segments. Several existing customers are already testing a switch to OmniPOS at the moment. Three existing customers have already decided to introduce it and some of them have already rolled out the solution in several countries. We handed over and rolled out more country-specific versions in several ongoing projects. This is creating the conditions for ensuring that we have been able to continue consolidating our relations with our customers, which have existed for many years. We have also been able to sign further contracts with existing customers and they cover, for example, extensions to licencing agreements or developments to software or other services.

The fact that there are now more than 70 joint customer projects, where SAP has sold GK solutions, is evidence of the active partnership with SAP. The strategic relationship between both companies in the store sector was also reflected in their joint activities at the NRF in New York, the EuroCIS in Düsseldorf or the Retail Week in Paris, as well as numerous other coordinated activities.

Market and competitive environment

- **A positive first half of the year**
- **Growth of approx. 2.0 percent expected in 2019**
- **Investment needs for retail IT remain high**

Business developments at GK Software are significantly affected by the economic situation in the retail sector in Europe, the USA and other developed markets. Apart from the general need for investments in the retail sector and other factors, this forms an important basis for the forecasts covering the Company's ongoing opportunities. Following the successful year in 2018, the first six months of 2019 were positive for the retail sector in Germany too. Turnover in the German retail sector grew by 4.8% in nominal terms and 4.0% (adjusted for prices) during the first half of 2019 in comparison with the same period in the previous year.[1] Forecasts envisage growth of 2.0 percent for the year 2019.[2] The general economic conditions in GK Software's home market therefore continue to be positive. A glimpse at neighbouring countries reveals differing trends. Turnover in the first five months in Austria, for example, rose between 0.7 and 2.9 percent, compared to the previous year. Developments in Switzerland were much weaker; turnover in the retail sector there varied between -1.6 and -0.1 percent during different months in the first half of the year.[3]

The overall prospects for the European retail sector indicate an ongoing upward trend. Turnover adjusted for inflation rose, for example, by between 1.3 and 3.2 percent on average in the months between January and May, in comparison with the figures from the previous year.[4] This

1 – Press review no. 251 dated 2 July 2019, https://www.destatis.de/DE/Presse/Pressemitteilungen/2019/07/PD19_251_45212.html

2 – Developments in turnover in the retail sector, correct in April 2019, https://einzelhandel.de/?option=com_content&view=article&id=1892

3 – Eurostat, Turnover in the Retail Sector Overall, http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=de&pcode=teiis200&plugin=0 (annual comparison)

4 – Eurostatistics Data for Short-Term Economic Analysis, Issue Number 07/2018, p. 24 (Retail trade deflated turnover)

development could also be observed in the crisis-ridden countries in southern Europe.[1]

There has been a continual upward trend in retail sales in the USA since the middle of 2012 and this has ensured greater IT investments in the world's largest retail market.[2]

However, it is not possible to draw any linear conclusions from all these developments in terms of the readiness of retailers to invest, as they do not necessarily lead to higher IT budgets, as previous years have shown in Germany. However, they do form a basis, at least in the medium term, for making investments and no longer postponing them.

The ifo business climate index for the retail sector reached figures between 1.4 and 12.0 in the first and second quarters.[3] This means that the majority of the approx. 9,000 retail companies questioned about their business situation responded in a positive manner at this time. On the consumer side, the data in Germany continued to be stable in May 2019 and at a high level, according to the GfK consumer climate index.[4]

Prospects continue to be very positive in the e-commerce sector; global turnover will continue to rise in 2019 and the HDE in Germany is expecting sales of EUR 58.5 billion.[5] The challenges associated with this for the retail sector also affect the solutions provided by GK Software, as the Company's customers have to face them when remodelling and introducing new elements in their IT landscapes. Other new issues like cloud services and artificial intelligence are acting as further driving forces. The EHI Retail Institute Study: "IT Trends in the Retail Sector 2019" shows that 82 percent of those questioned felt that cloud services are important for the retail sector now and will grow significantly in future[6] and 68 percent are already using artificial intelligence or are planning to do so[7]. The RIS News "Store Experience Study 2019" also proves that artificial intelligence and machine learning are the second most important issue for retailers in terms of developing technologies and using new features like Cloud-POS are some of the most significant strategic priorities.[8] Omni-channel retailing continues to be highly significant. There is much ground to be made up in Germany in fields like home delivery, for example. The market share of online retailing in the whole food market is only 3.8 percent in Germany[9], for example, while it is already more than 35 percent in Great Britain[10]. Different concepts are increasingly being tested in Germany at the moment like store-based deliveries, click-and-collect or central warehouse-based deliveries. About 35 percent of German omni-channel retailers already offer two services like in-store returns or click-and-collect.[11] It is also clearly evident that omni-channel retailers can keep pace with the growth of pure online providers. Pure online market places grew, for example, by 13.0 percent during the second quarter and therefore accounted for more than half of the online business. Omni-channel retailers with their origins in the store-based business even grew by 11.0 percent. Their turnover accounted for about one third of the pure online retailers.[12] This shows clearly that in-store retailers, which also manage their business online, have been increasingly in a position to make use of their advantages arising from the combination of stores and web shops. GK Software has been preparing its solutions for this development by moving in the direction of omni-channel retailers for years and therefore believes that it is in an excellent position to meet the relevant demands. New and replacement investments continue to be generally subject to

http://ec.europa.eu/eurostat/documents/3217494/8110550/KS-BJ-17-007-EN-N.pdf

1 – http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=de&pcode=teiis200&plugin=0

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

3 – Bottom lines in the ifo business climate for the retail sector in Germany (seasonally adjusted) from July 2018 until July 2019, https://de.statista.com/statistik/daten/studie/155602/umfrage/ifo-geschaeftsklima-fuer-den-einzelhandel/

4 – https://www.gfk.com/de/insights/news/consumer-index-juni-2018/

5 – https://einzelhandel.de/images/presse/Pressekonferenz/2019/Jahres-PK/Charts_Konjunkur_Jahres-PK.pdf,, slide 8

6 – EHI Retail Institute, Study: IT Trends in the Retail Sector in 2019, p. 30

7 – Ibid., p. 21

8 – RIS News, Study: Store Experience Study 2019, p. 4

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

10 – https://www.forbes.com/sites/ninaangelovska/2019/04/27/who-are-the-top-online-grocery-shoppers-in-europe/#5a7b8b725b46

11 – EHI Study: Omni-Channel Commerce 2019, p. 30

12 – https://www.bevh.org/presse/pressemitteilungen/details/e-commerce-plus-von-113-prozent-im-1-halbjahr-2019-deutsche-nutzen-e-commerce-immer-mehr-fuer-den.html

the proviso that they must equip firms for these future issues.

The need for investments by the retail trade remains high, as the study published by the EHI Retail Institute entitled "IT Trends in the Retail Sector in 2019" indicates. 97 percent of those companies questioned by the EHI at least expected their IT budget to remain constant, if not increase.[1] The RIS News "Store Experience Study 2019" show that the retailers questioned want to increase their IT expenditure by 5.2 percent annually on average[2] in order to, for example, personalise the customer experience, used artificial intelligence and machine learning or introduce smart shelves.[3] These positive market trends are also an important element in the discussions that GK Software is holding with existing customers and potential interested parties. The IT departments at retailers are also focusing on other issues related to technologies and processes, for which GK Software is in an ideal position to cater with its new GK/Retail OmniPOS solution. Overall, the conditions for the course of business at GK Software remain positive for the second half of 2019 – and all the more so, because the base of potential customers has been further expanded in the international arena through the partnership with SAP. But these trends are subject to the proviso that the global economy is not hugely disrupted by political or economic factors, which would have a negative effect on economic developments.

GK Software continues to assume that the necessary investments in new systems needed in the short and medium term and the introduction of new issues within the retail sector will continue to offer sales potential in Germany and in the other markets that are being actively processed. There is also an expectation that the partnership with SAP in particular will create further success stories in the international marketplace and reinforce the company's potential in the long term.

GK Software is currently in a very good position in several current tender procedures around the globe, both in direct sales and its partner business, and has significant advantages over its rivals through its broad portfolio of products, the internationality of its solutions and its proven ability to handle projects quickly.

1 – EHI Retail Institute, Study: IT Trends in the Retail Sector in 2019, p. 41

2 – RIS News, Study: Store Experience Study 2019, p. 5

3 – Ibid., p.

Explanations on the target/ performance comparison

The Management Board had issued the following forecast for the financial performance indicators for the corporate Group combined under the umbrella of GK Software SE for the 2019 financial year.

> *"If we follow the estimates outlined at the beginning about the development of the overall economy and the retail sector, it is probable that GK/Retail's turnover will continue to grow considerably again in 2019. On our way to the profitability goal that we are seeking for the year 2020, we are assuming that we will be able to take an intermediate step and significantly exceed the figures for the past year. As in previous years, the expenditure for tapping into new geographical markets could impair this development. Even short-term delays in existing customer projects can have a considerable impact on the Company's earnings situation. It is precisely the uncertainty about achieving individual sales prospects, which, in conjunction with the size of the Company, creates a forecast for the EBIT that is fraught with considerable uncertainties, as individual large-scale sales opportunities can involve a significant share of turnover revenues with particularly high profit margins.*
>
> **The Management Board at GK Software is continuing to stand by its medium-term forecast published in the 2017 annual accounts for the 2020 financial year; according to this, turnover should achieve fifty percent growth by 2020 (compared to 2017) and the earnings rate in the core segment should reach about 15 percent again (EBIT margin on operating performance)."**

Developments during the first half of 2019 lead us to expect that the expectations formulated by the Management Board are realistic. It is true that the Group was able to increase its turnover by 2.5

percent from EUR 49.05 million to EUR 50.27 million compared to the previous year, but the development in the GK/Retail business segment was much more dynamic with an increase in turnover of 5.8 percent. Based on the development of sales opportunities, the Management Board believes that it will be possible to achieve the "not inconsiderable expansion in turnover in the GK/Retail segment" that has been proposed so that even the profits-related forecasts are achievable, despite results that are currently unsatisfactory.

The increased readiness on the part of possible customers, which was already registered in the previous year, has continued into this reporting period and is expressed in the huge level of interest in our OmniPOS cloud solution. It is true that interest has significantly increased because of the good reports about initial experiences with the OmniPOS solutions, which are now in productive use, but possible users still need to be convinced that the ranges of solutions provided by GK Software will support them in future too.

The market access in North America and Africa has continued to improve significantly. Now that the GK Software organization has been established in Africa, the situation in North America has improved considerably as a result of the initiated measures and is approaching our targets. Nevertheless, we are continuing our efforts to improve the results of our business unit in North America.

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

Earnings situation

- **Turnover: EUR 50.27 million; EBITDA: EUR (0.59) million.**

The Group's total turnover rose moderately by 2.5 percent from EUR 49.05 million to EUR 50.27 million in comparison to the same reporting period in the previous year. The Group's core segment, GK/Retail, continued to develop at a rate that was much faster: Turnover here rose by 5.8 percent from EUR 43.79 million to EUR 46.32 million. However, turnover declined in the IT Services division by 24.5 percent, as expected, (EUR 3.95 million, following a figure of EUR 5.24 million in the first half of 2018).

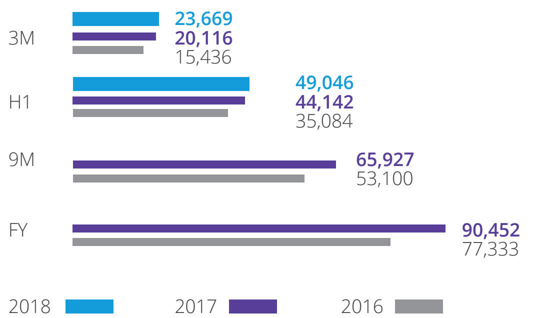
Because of these developments, the share of total turnover generated by the GK/Retail segment rose to 92.1 percent (89.3 percent in the previous year), while the shares for IT Services and SQRS only amounted to 7.9 percent (10.7 percent). The turnover generated by SQRS is no longer presented separately because of the low amounts involved and this has now been included in the GK/Retail sector.

If we view the development of turnover according to types of services, software development revenues developed most strongly. This turnover, which is the result of introductory and adaptation services in customer projects, was 11.9 percent higher than in the previous year at EUR 25.57 million (2018: EUR 22.86 million).

Licensing revenues, which amounted to EUR 9.84 million, were EUR 0.80 million lower than in the previous year (EUR 10.64 million). This decline was primarily due to lower revenue for product licences in the GK/Retail segment (by EUR 1.51 million) and lower turnover of EUR 0.37 million in the IT Services division. The positive development in the issue of licences for customised solutions in the GK/Retail segment - the increase in this type of revenue was EUR 0.71 million compared to the previous year - but it was only able to partially compensate for this. In our view, the declines are not due to general economic influences that

Quartaly sales development compared to previous years in EUR K

F.05



would, for example, cause our potential customers to postpone investment decisions.

It was possible to generate almost the same turnover as in the comparative period in the previous year in the maintenance sector; the figure amounted to EUR 13.90 million during the first half of 2019. This increase by EUR 0.80 million or 7.7 percent n the GK/Retail segment almost completely compensated for the decline in turnover arising from maintenance for hardware in the IT Services division, which fell by EUR 0.88 million.

The Group's other turnover revenue declined by EUR 1.25 million to a figure of EUR 0.91 million. This development was also due to the decline in turnover in the IT Services division by EUR 0.46 million because of the change in the order situation in this segment compared to the previous year.

Investments were made in improving and expanding the products at GK Software during the first half of 2019 - as announced. However, we assume that this work will no longer meet the conditions for capitalisation, so that we will not enter any revenues from capitalising own work in future.

As a result, operating performance matched the turnover and amounting to EUR 50.27 million, following a figure of EUR 49.05 million during the same period in the previous year (+2.5 percent). Other operating revenues at EUR 1.18 million were lower than the previous year's figure of EUR 2.20 million because of reversing accrued expenditure that was no longer required. Total operating revenues at EUR 51.45 were therefore almost exactly the same as the previous year's figure.

Total operating revenue

T.04

	30.6.2019		30.6.2018		Change	
	EUR K	in %	EUR K	in %	EUR K	in %
Sales	50,269	97.7	49,046	95.7	1,223	2.5
Operating revenues	**50,269**	**97.7**	**49,046**	**95.7**	**1,223**	**2.5**
Other operating revenues	1,180	2.3	2,199	4.3	(1,019)	(46.3)
Total operating revenues	**51,449**	**100.0**	**51,246**	**100.0**	**204**	**0.4**

Expenditure on unfinished and finished goods and purchased services rose by EUR 1.55 million to EUR 2.38 million in all. The use of semi-finished and finished goods and services declined by EUR 0.58 million - this was largely due to the reduced need for goods in the IT Services division. Expenditure on project-related services also declined by EUR 0.97 million to a figure of EUR 2.13 million.

Human resources expenditure rose by 18.4 percent to a figure of EUR 39.34 million compared to the same period in the previous year; this was due to the increase in personnel during the second half of 2018. The capacity increased from 1,093 full-time equivalents (FTE) to 1,122 FTEs at the end of the first half of 2019 (without apprentices and trainees). The personnel ratio was therefore 11.8 percentage points higher than the previous year's figure at 76.5 percent.

Other operating expenditure fell by EUR 1.46 million to EUR 10.31 million. The main reasons for this were in the lower expenditure for offices, which was EUR 0.82 million less than the previous year's figure. Expenditure for sales operations (EUR -0.22 million) and for tying and gaining employees (EUR -0.21 million) was also lower.

Turnover by segments

T.05

	H1 2019		H1 2018		Change		FY 2018	
	EUR K	in %	EUR K	in %	EUR K	in %	EUR K	in %
Turnover with								
GK Retail	46,315	92.1	43,806	89.3	2,509	5.7	96,373	90.8
IT-Services	3,954	7.9	5,240	10.7	(1,286)	(24.5)	9,778	9.2
Total	**50,269**	**100.0**	**49,046**	**100.0**	**1,223**	**2.5**	**106,151**	**100.0**
Licenses	**5,092**	**10.1**	**6,605**	**13.5**	**(1,513)**	**(22.9)**	**17,359**	**16.4**
GK/Retail	5,054	10.1	6,202	12.6	(1,148)	(18.5)	16,621	15.7
IT Services	38	0.1	403	0.8	(365)	(90.6)	738	0.7
Licenses	**4,746**	**9.4**	**4,035**	**8.2**	**711**	**17.6**	**5,665**	**5.3**
GK/Retail	4,746	9.4	4,035	8.2	711	17.6	5,575	5.3
IT Services	—	—	—	—	—	—	90	0.1
Maintenance	**13,895**	**27.6**	**13,975**	**28.5**	**(80)**	**(0.6)**	**28,214**	**26.6**
GK/Retail	11,211	22.3	10,408	21.2	803	7.7	22,019	20.7
IT Services	2,684	5.3	3,567	7.3	(883)	(24.8)	6,195	5.8
Services	**25,574**	**50.9**	**22,859**	**46.6**	**2,715**	**11.9**	**53,009**	**49.9**
GK/Retail	24,573	48.9	22,278	45.4	2,295	10.3	51,415	48.4
IT Services	1,001	2.0	581	1.2	420	72.3	1,595	1.5
Other Business	**906**	**1.8**	**1,250**	**2.5**	**(344)**	**(27.5)**	**1,107**	**1.0**
GK/Retail	675	1.3	582	1.2	93	15.9	(144)	(0.1)
IT Services	231	0.5	689	1.4	(458)	(66.5)	1,250	1.2
GK Academy	**56**	**0.1**	**301**	**0.6**	**(245)**	**(81.4)**	**238**	**0.2**
GK/Retail	56	0.1	301	0.6	(245)	(81.4)	238	0.2
IT Services	—	—	—	—	—	—	—	—

Overall, this development led to EBITDA of EUR (0.59) million, following a figure of EUR 2.39 million in the previous year.

Depreciation and amortisation amounted to EUR 4.41 million during the reporting period, following a figure of EUR 2.32 million in the previous year. The increase was mainly due to the first use of IFRS 16 in relation to leased and rented items. Another part of the increase arose from the buildings that have been completed for the campus in Schöneck; this is being amortised according to schedule.

As a result, GK Software achieved an EBIT figure of EUR (5.00) million, following a figure of EUR 0.07 million in the previous year.

The financial results were negative again at EUR (0.81) million, following a figure of EUR (0.59) million in the previous year. Interest revenues amounting to EUR 0.06 million (EUR 0.10 million in the previous year) were countered by interest-bearing liabilities of EUR 0.87 million (EUR 0.69 million in the previous year). The tax expenditure entered covers the income taxes paid and the expected taxes for the companies, which show a positive result. Capitalisation of presumed tax credits for the consolidated companies, which provided negative results during the first half of the year, did not yet take place.

Earnings figures

T.06

	30.6.2019		30.6.2018		Change	
	EUR K	in % [1]	EUR K	in % [1]	EUR K	in %
EBITDA	(586)	(1.2)	2,392	4.9	(2,978)	(124.5)
EBIT	(4,997)	(9.9)	72	0.1	(5,069)	<(250)
EBT	(5,805)	(11.5)	(519)	(1.1)	(5,286)	<(250)
Group result	(6,486)	(12.9)	(172)	(0.4)	(6,314)	<(250)

1 - on turnover

Overall, this led to consolidated net results of EUR (6.49) million for the period, following a figure of EUR (0.17) million in the previous year. This amounted to undiluted earnings per share of EUR (3.37) and diluted earnings per share of EUR (3.37) during the first half of 2019. These figures were EUR (0.06) (undiluted) and EUR 0.00 (diluted) per share in the previous year.

Assets situation

The consolidated balance sheet total amounted to EUR 113.59 million on the reporting date and was therefore EUR 2.41 million higher than the figure of EUR 111.18 million on 31 December 2018.

The development of capital appropriation can be summarised as follows: Non-current assets rose by EUR 9.25 million overall compared to the balance sheet total on the reporting date of 31 December 2018, while current assets, excluding cash and cash equivalents, declined by EUR -0.62 million. Stocks of cash and cash equivalents, however, amounted to EUR 5.56 million and fell by EUR 6.24 million compared to the figure for 31 December 2018 (EUR 11.80 million).

On the funding side of the balance sheet, it should be noted that equity declined by EUR 6.09 million to EUR 34.17 million. The equity ratio therefore amounted to 30.1 percent, after it had stood at 36.2 percent on 31 December 2018.

GK Software's debts rose by EUR 8.49 million compared to the balance sheet reporting date in the previous year - while non-current liabilities rose by EUR 6.04 million to a figure of EUR 34.39 million and current liabilities increased by EUR 2.46 million to EUR 45.03 million.

T.07 Assets situation

	30.6.2019		31.12.2018		Change	
	EUR K	in %	EUR K	in %	EUR K	in %
Non-current assets	66,084	58.2	56,832	51.1	9,251	16.3
Current assets without cash and cash equivalents	41,942	36.9	42,559	38.3	(617)	(1.5)
Cash and cash equivalents	5,563	4.9	11,790	10.6	(6,227)	(52.8)
Assets	**113,588**	**100.0**	**111,182**	**100.0**	**2,407**	**2.2**
Equity	34,169	30.1	40,256	36.2	(6,087)	(15.1)
Non-current liabilities	34,387	30.3	28,348	25.5	6,039	21.3
Current liabilities	45,032	39.6	42,577	38.3	2,455	5.8
Liabilities	**113,588**	**100.0**	**111,182**	**100.0**	**2,407**	**2.2**

The development of non-current assets was the result of the increase in the usage rights in the sense of IFRS 16 by EUR 9.83 million (entered for the first time) and in property, plant and equipment by EUR 0.74 million, while intangible assets declined by EUR 1.13 million because of scheduled amortisation.

Current assets without cash and cash equivalents declined by EUR 0.62 million. This was primarily the result of two contrary developments: while other accounts receivable and assets fell by EUR 1.13 overall, other assets and accounts receivable rose by EUR 1.24 million.

Stocks of liquid funds (cash and cash equivalents) amounting to EUR 5.56 million were below the value at the end of the 2018 financial year by EUR 6.23 million; for further details on this development, see the statements on the financial situation.

Non-current debts rose by EUR 6.04 million in comparison with the balance sheet reporting date in 2018 and this was mainly due to non-current leasing liabilities amounting to EUR 7.19 million (entered for the first time according to IFRS 16) and the decline in deferred taxes by EUR 0.42 million. Deferred tax liabilities, on the other hand, declined by EUR 1.45 million to a figure of EUR 7.69 million.

The main driving force behind the increase in current debts by EUR 2.46 million was the need to enter current leasing liabilities amounting to EUR 2.70 million for the first time (according to IFRS 16). Without this effect, current debts would have declined slightly and non-current debts would have largely remained constant.

Financial situation

The cash flow from operating activities amounted to EUR (1.94) million during the first half of the year, following an influx of EUR 0.22 million during the same period in the previous year. The cash flow from operating activities in the narrower sense during the first half of 2019 amounted to EUR (0.55) million (while the figure had been positive, EUR +2.00 million, in the same period in the previous year). The change in the net current assets by EUR (1.22) million weighed on the cash flow, as in the previous year (H1 2018: EUR (1.19) million). The cash flow from operating activities was also negatively affected to the tune of EUR (0.31) million by the negative balance in interest received and interest paid (EUR (0.16) million), while the income taxes paid (EUR 0.15 million) were a positive effect on the figure. The net outflow of cash and cash equivalents from operating activities therefore amounted to EUR (1.94) million.

Investment activities weighed on the Group's cash flow at EUR (2.44) million to a much less degree than in the same period in the previous year, when payments for investments were made amounting to EUR (6.91) million.

The funding activities led to outflows of EUR (0.82) million, which were the result of repayments of loans (EUR 1.50 million) and leasing liabilities (EUR 1.36 million), but this figure was countered by inflows arising from the issue of new shares from the contingent capital as part of the share option programmes amounting to EUR 0.54 million and taking out loans amounting to EUR 1.50 million.

Overall, stocks of cash and cash equivalents at EUR 5.56 million were lower than the figure of EUR 11.79 million on 31 January 2018.

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

T.08 Financial performance indicators

		30.6.2019	30.6.2018
Gross earnings margin on turnover	%	97.6	96.5
Personnel ratio	%	78.3	67.6
EBITDA margin on operating performance	%	(1.2)	4.9
EBIT margin on operating performance	%	(9.9)	0.1
Equity ratio	%	30.1	36.2
Investment ratio I	%	58.2	51.1
Excess in cash and cash equivalents over interest-bearing liabilities	EUR K	(14,798)	(9,611)

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

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

Report on Key Events

after the end of the first half of the year

The Management Board of GK Software SE took the decision on 19 August 2019 to introduce an increase in capital, which was implemented by means of accelerated bookbuilding, with the agreement of the Supervisory Board. Investors took up 80,000 new shares at an offer price of EUR 64.00 per share in the form of an increase in capital. This corresponded to gross proceeds from the issue of EUR 5,120,000.00.

Report on the Risks, Prospects and Outlook for the GK Software Group

During its recent examination of the current risks and opportunities, the Management Board did not discover any notable change to the statements made in previous years. The risk and opportunities report therefore matches the estimates provided in the financial statements for the year 2018.

Risks

Risk management system

The risk management system focuses on recognising risks. It attempts to pick up any possible risks that might pose a threat to the company's existence and those that might not. The risk management scheme does not register any positive opportunities.

Due to the nature of the risk management system, the focus is on early recognition and reporting of any emerging risks. For this purpose, deliberately informal discussions between the members of the Group Management Board and employees, who are responsible for the risk classes described below, are encouraged in order to eliminate any avoidance strategies in communications as far as possible. This is because the management team is aware that the early recognition of risks requires open communications between top managers and those responsible, but at the same time, people tend to avoid communicating unpleasant news and managing risks by monitoring key figures alone is not possible. Nevertheless, the risk management system is being further developed with a view to the expansion of economic key figures in particular, in order to facilitate the verification of informal information.

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

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

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

Risks firstly need to be summarised, which result from changes in the requirements of potential customers for the Group's products and services. These lead to extended sales cycles and therefore to a reduction in the number of realisable sales opportunities. At the same time, new requirements increase the complexity of projects and increase the risk that project plans might fail. These risks increase the risk of damage to the Group's reputation because the lack of sales opportunities, above all caused by extended sales cycles, raises the significance of each individual project for the overall reputation of GK Software. Another risk group is related to external risks, such as macroeconomic developments, the development of regulatory framework conditions and shifting focuses in the customer and competitive environments. These risks cannot be controlled by the Group and can in part have the effect of enhancing the risks in the first group. A third group of risks relates to the development, usage and management of project capacities. The solution to the employment risk lies in increasing the flexibility of capacities; increased risks for project quality may result from this flexibility because it may only be possible to access this flexible capacity indirectly. Further risks are individual risks that are the result of major individual measures such as company acquisitions and their integration. Alongside these aforementioned operational risks, there are financial risks, but their impact on forecasts is not believed to be very significant at the moment.

We are summarising the individual case risks, which result from the acquisition of other companies, for example, in our own risk category, which is not subject to any general assessment sequence.

There is also a separate risk category related to the issue of tying employees to the company and gaining new ones.

GK Software deliberately takes entrepreneurial risks in order to benefit from the opportunities presented by the market in the relevant manner. A risk management system has been introduced during the past few years to recognise, manage and minimise risks at an early stage. Among other things, the Management Board meets once a month to discuss possible identified risks and introduce countermeasures. In order to give all the business units the opportunity to outline their concerns, a Group Management Board was formed where the business units can continually report on their development and any risks and opportunities that arise. The Supervisory Board is informed of the results of these discussions. The documentation for the risk management system is being continually updated.

Risks and overall picture of the risk situation

Customer and market-related risks: One major risk that cannot be influenced by the Group involves the business developments of GK Software's customers due to the development of the general economy and consumer sentiments. The actual developments in 2019 and previous years and also the prospects for 2020 and thereafter suggest generally steady and constant growth prospects in the economic and political situation in many parts of the world. The direct and indirect effects of the crises, which have already broken out or are smouldering, on the specific markets where GK Software is active, are still unclear. They include the upcoming Brexit, the situation in Italy, the unresolved Ukraine/Russia conflict and the effects of latent terrorism risks in Germany and Europe, the ongoing development of the situation in the civil war regions in the Middle East and North Africa and the refugee crisis - all of them with the potential for mutual effects to increase. Then there are the political uncertainties about the political course in the USA in almost every respect. The actual ongoing developments in this situation and the associated uncertainties could exert an influence on economic developments in Europe, but it is impossible to specify any details at the moment.

It is true that the forecasts presented by associations and analysts tend to suggest that the retail sector will enjoy relatively steady development in a very calm overall economic environment again, but the psychological effects of any contradictory news situations on the investment behaviour of customers of GK Software can only be guessed in an environment that is hard to assess - as was the case last year.

In the light of this general uncertainty, the Management Board continues to make every effort to provide itself with room to manoeuvre by keeping costs as flexible as possible and only deliberately incurring them if they are necessary.

One major argument for the successful sales of GK Software solutions and the long-standing customer relationships in many cases is the consistently successful completion of customer projects in the past. However, any failures in the project business could do long-term damage to this positive reputation and even lead to a reversal of this positive sentiment towards GK Software. This kind of situation could pose a threat to the company's long-term existence. As a result, the relevant project managers inform the responsible members of the Group Management Board about any possible risks during the course of ongoing projects in order to enable an appropriate and timely response to these kinds of risks. The main tool for preventing objective errors and undesirable developments has been the increasing use of general project approaches during the past few years, which are designed to ensure that all the major general conditions are established in conjunction with each customer and are then taken into account accordingly in the project work. However, as objective factors are not the only criteria in assessing the quality of project work, GK Software also makes use of subjective factors. GK Software views the degree of customer satisfaction and the number of new customer contacts as an important indicator for assessing risks of this kind. These two factors are therefore subject to particular monitoring and are regularly checked as part of the sales controlling processes.

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

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

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

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

The planned expansion is also associated with certain financial risks. These mainly arise from preliminary payments for acquiring the customer for the Group. This risk is increased by the extensions in sales cycles already mentioned above. The increase in sales expenditure associated with longer sales cycles plays a role in part. However, the need to maintain the ability to deliver products when agreements are signed is of special importance. This can lead to idle capacity costs of a significant magnitude. In addition to these general risks emerging from market operations, internal organisational risks occur based on the internationalisation aspect and they concern protecting the parent company from possible risks arising from actions by the domestic and international subsidiaries or recognising those risks that pose a threat to the existence of the subsidiaries at an early stage and introducing suitable countermeasures. The Group is continuing to develop its controlling operations for holdings for this purpose.

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

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

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

To ensure further growth, the Company needs to attract additional, highly qualified employees. At the same time, it is impossible to rule out the possibility that members of staff in key positions will leave the Company. For this reason, it will be an ongoing challenge for the Company to retain current staff in the firm and attract new, motivated specialists at the same time. The Company is making efforts to be an interesting employer for its existing employees and become one in the jobs market by providing a combination of interesting tasks, international fields of operation and innovative products. The flotation and the Company's reputation as an innovative IT corporation have made the Company considerably more attractive in the jobs market. The aim is to further increase the existing attractiveness by completing the introduction of share option schemes for managers and senior employees in the Company. In addition to competence management, which aims to further increase the skills and abilities of employees in line with their tasks, we have initiated other measures as part of our "Active Balance" programme. This covers a variety of joint activities by employees including minor services designed to make everyday life easier; this aims to increase the attractiveness of the Company as an employer. We wish to reinforce this development even more by planning and organising our corporate campus at the Company's headquarters in Schöneck.

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

In the light of the fact that the Group manages its capital with the aim of guaranteeing that it will be able to service its loans and debts at all times and have adequate liquidity available to secure investment projects and therefore places the highest priority on maintaining capital, it is important to state the following risks to business developments within the Group too.

The **financial risks** not only involve credit default risks and liquidity risks, but also market risks. We understand a credit default risk to be the risk of a loss for the Group if one contractual party does not meet its contractual obligations. In principle, the Group only maintains business relations with those contractual parties where any deviation from the contractual obligations does not appear to be probable.

Trade receivables exist with the Group's customers. The maximum credit risk corresponds to the carrying amount of the trade accounts receivable.

All the Group's customers are companies with an outstanding position in their respective markets. The probability of any default on account of the impossibility of meeting the obligations agreed with the Group is therefore slight. This situation is monitored closely by observing the customer's payment behaviour, the market environment and drawing on external sources such as reports from the relevant specialist press. If this monitoring process gives rise to an assumption that the general economic situation for individual customers has changed, further measures are adopted in agreement with the management team in order to restrict any possible losses. Valuation adjustments may also occur if customers believe that work has not been completed or is inadequate. In these cases, the Group basically carries out individual valuation adjustments for precautionary reasons to the degree that there is some expectation that settlements on a goodwill basis - without any recognition of legal grounds - might be made. Interest revenues have not been entered from these depreciated financial assets.

The default risk with regard to cash and cash equivalents is slight, as the banks holding the accounts are all members of the German deposit protection scheme or they have an outstanding reputation with a corresponding credit rating.

The Group is also exposed to credit risks that are the result of financial guarantees granted to banks. The maximum default risk for the Group in this regard corresponds to the maximum sum, which the Group would have to pay if a claim was made against a guarantee.

The Group controls the liquidity risks by having appropriate cash and cash equivalents, credit lines and similar credit facilities available and by monitoring the deviations between forecasts and actual cash flows. The maturity dates of financial obligations are monitored, as is the Group's fundamental ability to generate adequate finances from its operating business in order to be able to meet these obligations at any time. The Group typically accepts so-called "covenants" in addition to the general loan conditions when funding projects with loans that are provided by banks and they relate to general financial performance figures or other constraints. Failure to meet these additional conditions normally entitles the bank concerned to make the loans in question due for payment in full immediately, regardless of whether the main loan contract obligations are being met and probably can continue to be met or not. The Group handles this risk by monitoring the covenants and communicating with the banks concerned in an appropriate manner.

Based on the current structure of liabilities and the actual liquidity situation, the Management Board has not identified any liquidity risks.

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

The situation in 2019 only changed slightly in comparison with the risk situation in 2018. In particular, the major operational risks have not increased to a great degree. It is true that the complexity of projects is increasing, but the Group is also learning how to better cope with these risks. At the end of the first half of 2019, the Management Board believed that there were no risks that could prove to be a threat to the existence of GK Software.

Risk reporting in relation to the use of financial instruments

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

In order to guard against these market risks, the Group is making increasing use of derivative financial tools like interest-capping arrangements or currency hedging tools to provide safeguards against rising interest on debit balances and a possible devaluation of the euro. This hedging business is always closely related to the Company's actual fundamental business and is exclusively used to maintain, as far as possible, the fundamentals for calculations used for this business.

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

The Company normally handles business transactions in the operational currency of the Group firm concerned. Operational business transactions are not handled in the operational currency in individual cases so that there is a currency risk for monetary financial instruments. There were accounts receivable amounting to CAD 55 K on 30 June 2019 (previous year: CAD 579 K). Currency rate fluctuations in conjunction with our original monetary financial instruments do not have any major effects on our profits. The Group's exchange rate risk sensitivity mainly increased due to the change in its exposure to US dollars in mathematical terms. However, the following description does not include the interest and currency swap taken out to safeguard the financial risks. After taking this effect into account, the currency risk did not increase significantly in comparison with the previous year.

An interest and currency swap was taken out to safeguard the cash flow arising from the acquisition of the Retail & Programming division of DBS Inc. in the USA in order to repay the investment loan at IKB. The interest and currency swap started on 31 December 2015 and ends on 31 March 2021. Quarterly repayments amounting to USD 529 K and approx. USD 100 K in interest have had to be paid to IKB from the first half of 2016 onwards. Bank assessments were used to determine the fair value on the balance sheet reporting date. The market value of this interest and currency swap covering a nominal volume of EUR 4,000 K (USD 4,238 K) amounted to a total figure of EUR 275 K on the balance sheet reporting date - derived from the mid-market price. This amount was entered on the balance sheet under "Other liabilities". No valuation unit was formed.

The Group is exposed to interest risks, as it takes out financial resources with fixed and variable interest rates. The risk is managed by maintaining an appropriate ratio of fixed and variable interest rates on funds. This takes place by using interest rate caps. The interest risks are the result of interest payments agreed within the loan contracts. There is no link with the exchange rate risk here, because all the loans are nominated in euros. Interest payments amounting to EUR 869 K were made during the reporting year and affected the income statement. The interest rate on the loan with the DZ Bank is fixed for the complete term, so that no interest risks arise from this contract. A fixed interest rate also exists for the complete term of the loan taken out with IKB Industriebank AG to fund the acquisition of the Retail & Programming division of DBS Inc. The interest rate is set quarterly at a rate of 1.5 percentage points above the 3-month EURIBOR rate for the investment loan worth EUR 450 K taken out with the Commerzbank (value on reporting date: EUR 180 K). The interest risk has been restricted by an interest rate cap of 1.5 percent p.a. The loan of EUR 180 K from the Commerzbank in Plauen (value on the reporting date: EUR 5 K) also attracts an interest rate that is set quarterly at 1.6 percentage points above the three-month EURIBOR rate. Once the existing interest rate cap has expired, no further interest rate hedging will be used because of the low loan debt. There are no risks related to interest on deposits because of the current low interest rates for deposits. Despite this, the company is keeping a close eye on the development of interest on deposits. The investment strategy can be quickly adapted because only short-term investments are used.

There are no other risk categories, because of the type of financial instruments used.

In the view of the Management Board, there were no risks, which could prove to be a threat to the existence of GK Software and its Group at the end of the first half of 2019 or on the publication date of 30 August 2019.

Opportunities

There are growth opportunities for the Group both in Germany and abroad. The issues targeted by the products of GK Software are key strategic IT projects that are high on the list of priorities at many retail companies. In order to be successful in the international market, the Group is well placed with references, not only from the German retail sector, but from having a technically well-developed product. GK Software is already very well represented internationally with more than 304,000 installations in over 56,000 stores in 58 different countries. GK Software also has several major partners with excellent networks in the retail sector. The partnership with SAP in particular should make it easier to gain access to new customers in international markets like the USA and Africa. The Group can make use of the experience that it has gained with its German and international customers, as the solutions have already been successfully introduced in more than 50 countries and can therefore be quickly transferred to other foreign customers.

The Company has expanded its services for the retail sector by including innovative products - developing the AIR platform and placing the first AI-based Dynamic Pricing solution on the SAP price list. They could lead to further sales opportunities and cross-selling potential, if the solutions meet the expectations of the market.

Further turnover potential is also available through the fiscalisation process in Germany for 2020 and the time beyond this. If the subsidiary DF Deutsche Fiskal GmbH manages to prove convincing to retailers and providers of tills and other solutions, which are subject to fiscalisation, there will be an opportunity to generate cloud turnover in the longer term.

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

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

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

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

The instruments related to accounting for the internal checking system and risk management pursue the goals of completing accounting tasks according to the statutory provisions and recognising potential risks in the economic development of the Group in good time. The focus not only particularly relates to the internal checking system for accounting, but also on complying with the relevant stipulations in accounting law.

The internal checking system is being continually developed by the Management Board and monitored by the Supervisory Board. The Management Board dictates the design and scope of the requirements placed on the internal checking system. It must be noted that any internal checking system related to accounting procedures - regardless of its scope and type - cannot provide any absolute certainty, but has to be designed in such a way that any major incorrect statements about the Company's or Group's earnings, asset and financial situation can be prevented.

This task is the responsibility of the finance department at GK Software, which is constantly developing the existing tools, stringently taking into account the development of the Company's business operations and the legal and accounting standards. The tools cover general instructions and individual rules, which are designed to guarantee that accounting processes are handled properly. The members of staff in the finance department are being continually trained on how to comply with internal rules and legal stipulations.

The constant increase in the speed of amendments to European international accounting laws and additions - which often contradict and compete with national law and standards - is proving to be an additional burden on any presentation of accounts and involves a number of risks with a view to conforming to standards; this goes far beyond what was normal in the past. In order to keep this conformity in terms of appropriate expenditure for the Company in proportion to the information benefits for those who will read the balance sheet, the Company is not only trying to train employees who are familiar with accounting practices by consulting external service providers, as described, but also obtain the necessary information about adjustments to accounting law in good time and include this in the accounting processes in the appropriate manner.

Compliance with instructions and individual rules is supported by unified notification processes and IT-supported reporting procedures and the ongoing further integration of accounting processes within standardised IT systems. Defined, internal checks are embedded in the accounting process and they include measures like manual balancing, separating functions and the principle that four eyes are better than two.

The Group accounts and the accounts of the individual companies are organised and handled in-house, as are the accounts of GK Software and all the individual companies. GK Software SE completes the accounts for the German subsidiaries or branches of subsidiaries as a service, with the exception of prudsys AG, AWEK GmbH and AWEK Microdata GmbH. The independent accounting procedures for the German companies mentioned here are (or are being) closely integrated in the central accounting structures at GK Software SE. The accounting procedures for the foreign Group companies are handled locally. The increasing importance of the subsidiaries - particularly the companies overseas - made it necessary to set up a holding management department in the past and this is designed to guarantee, by means of information obligations placed on the holding companies, that the parent company receives all the necessary information about the earnings, asset and financial situation promptly, but also about the companies' major non-financial indicators. The holding management department is being continually developed.

The accounts for GK Software SE are handled with IT support and displayed on Microsoft Navision. The technical equipment and the provision of personnel for the department have been selected in such a way that all the tasks associated with a company of this size can be handled appropriately.

Outlook

Developments at GK Software on the half-yearly reporting date were in line with expectations for this period. Management therefore believes that it will reach the targets that it has set for 2019. In this sense, there is no change to the forecast for the ongoing course of business in 2020 compared to the forecast made in the financial statement for 2017.

We are confident that we will be able to continue our growth in turnover during the next three years and have again set the goal of increasing our turnover compared to the figure in 2017 (EUR 90 million) by about fifty percent by 2020.

If we follow the estimates outlined at the beginning about the development of the economy in general and the retail sector, it is probable that GK/Retail's turnover will continue to grow considerably again in 2019. On our way to the profitability goal of 15 percent that we are seeking in our core business for the year 2020, we are assuming that we will be able to take an intermediate step and significantly exceed the figures for the past year. As explained in previous years, the expenditure for tapping into new geographical markets could impair this development. Even short-term delays in existing customer projects can have a considerable impact on the Company's earnings situation. It is essential to note that precisely the uncertainty about achieving individual sales prospects, which, in conjunction with the size of the Company, creates a forecast for the EBIT that is fraught with considerable uncertainties, as individual large-scale sales opportunities may involve a significant share of turnover revenues with particularly high profit margins.

As regards the non-financial performance indicators in the area of customer satisfaction compared to the reference year of our medium-term forecast, 2017, we are expecting a further steady improvement during the next few years; this will be based on the ongoing development of solutions and gaining local employees at the project-customer interfaces. However, our experience shows that expansion into new geographical markets may cause friction based on cultural differences, which could temporarily prevent us from reaching this target. The number of customer contacts will probably increase due to our deeper penetration of the new regions reached during the last two years and our entry into other markets. We are also expecting that the deeper knowledge of markets gained by our organisation will help us be better qualified for the opportunities that arise and enable us to serve them adequately.

Based on the information available so far, the Management Board is expecting the Group's financial and earnings situation to improve again as a result of the ongoing expansion of business in 2019 and it does not expect any developments in its financial situation, which could pose a threat to its existence. This estimate is naturally subject to the impact of developments, which the Company cannot influence and which might have a significant effect on this and the medium-term forecast, whether they are expected or come as a surprise.

We continue to believe that our strategy to increase the extent of our geographical range by tapping into and further developing other geographical markets represents the right course for our business. We are continuing to pursue an important goal of covering operational expenditure completely or almost through revenues from project services, software maintenance and retail services in order to uncouple the revenue situation from fluctuations experienced in the past.

We would explicitly repeat here once again that these estimates are only realistic if no external political or economic shock situations take place, particularly in the light of the growing number of political or economic uncertainty factors around the globe. These kinds of problems, which affect the whole economy, could lead to a curb on the readiness of the retail sector to make investments around the world or in individual geographical regions; and this could also have a negative effect on the turnover and earnings potential at GK Software.

The Management Board

Rainer Glaess
Chief Executive Officer

André Hergert
Chief Financial Officer

C

Consolidated accounts

Consolidated Balance Sheet

on 30 June 2019

Assets

T.09

EUR K	Notes No.	30.6.2019	31.12.2018
Property, plant and equipment	2.; 3.1.	23,485	22,746
		9,829	—
Intangible assets	2.; 3.2.	28,891	30,019
Financial assets	2.	9	34
Active deferred taxes	2.; 3.14.	3,870	4,034
Total non-current assets		**66,084**	**56,833**
Goods	2.; 3.3.	277	387
Auxiliary materials and supplies	2.; 3.3.	229	99
Initial payments made	3.3.	21	35
Trade accounts receivable	2.; 3.4.	25,291	26,030
Trade accounts receivable from ongoing work	2.; 3.5.	9,653	10,289
Income tax claims	2.; 3.7.	554	1,045
Other accounts receivable and assets	2.; 3.7.	5,916	4,674
Cash and cash equivalents	2.; 3.8.	5,563	11,790
Total current assets		**47,504**	**54,349**
Balance sheet total		**113,588**	**111,182**

Liabilities

T.10

EUR K	Notes No.	30.6.2019	31.12.2018
Subscribed capital	3.9.	1,941	1,926
Capital reserves	2.; 3.9.	22,177	21,429
Retained earnings	3.9.	31	31
Other reserves (OCI from introducing IAS 19 2011, IAS 21)	3.9.	(1,245)	(881)
Profit brought forward		16,682	15,758
Result for period minorities interests		(6,494)	924
Equity attributable to GK Software SE stockholders		33,092	39,187
Equity attributable to noncontrolling interest		1,077	1,069
Total equity		**34,169**	**40,256**
Provisions for pensions	2.; 3.10.	2,078	1,558
Non-current bank liabilities	2.; 3.11.	7,689	9,141
Non-current leasehold liabilities		7,193	—
Convertible bond	3.12.	13,637	13,418
Deferred government grants	2.; 3.13.	837	861
Deferred tax liabilities	2.; 3.14.	2,952	3,370
Total non-current liabilities		**34,386**	**28,348**
Current provisions	2.; 3.15.	1,023	1,231
Current bank liabilities	2.; 3.11.	12,672	12,260
Current leasehold liabilities		2,701	—
Liabilities from trade payables	2.; 3.16.	1,294	2,365
Initial payments received	2.; 3.17.	1,288	1,509
Income tax liabilities	2.; 3.18.	192	283
Other current liabilities	2.; 3.19.	25,863	24,930
Total current liabilities		**45,033**	**42,578**
Balance sheet total		**113,588**	**111,182**

Consolidated Statement of Income and Accumulated Earnings

for the financial year from 1 January until 30 June 2019

Consolidated statement of income and accumulated earnings

T.11

EUR K	Notes No.	H1 2019	H1 2018	FY 2018
Ongoing business operations				
Turnover revenues	2.; 4.1.	50,269	49,047	106,151
Other operating revenues	4.2.	1,180	2,199	3,617
Turnover and other revenues		**51,449**	**51,246**	**109,768**
Materials expenditure	4.3.	(2,381)	(3,927)	(7,733)
Personnel expenditure	4.4.	(39,342)	(33,158)	(68,791)
Depreciation and amortisation	3.1.; 3.2.; 4.5.	(4,411)	(2,321)	(5,237)
Other operating expenditure	4.6.	(10,312)	(11,768)	(26,411)
Total operating expenses		**(56,446)**	**(51,174)**	**(108,172)**
Operating results		**(4,997)**	**72**	**1,596**
Financial income	4.7.	61	99	138
Financial expenditure	4.7.	(869)	(690)	(1,563)
Financial results		**(808)**	**(591)**	**(1,425)**
Income tax results		**(5,805)**	**(519)**	**171**
Income taxes	2.; 4.8.	(681)	347	752
Consolidated surplus/ shortfall for the period		**(6,486)**	**(172)**	**923**
of which attributable to noncontrolling interest		7	(51)	(2)
of which attributable to GK Software SE stockholders		(6,493)	(121)	925
Other results after income taxes				
Items, which will be reclassified in the consolidated profit and loss statement in future under certain conditions				
Differences in exchange rates from recalculating foreign business operations	1.5.	(130)	(530)	(124)
Items, which will not be reclassified in the consolidated profit and loss statement in future				
Actuarial gains/ losses from defined benefit pension plans	3.10.	(232)	24	(53)
Overall results		**(6,848)**	**(678)**	**746**
of which attributable to noncontrolling interest		7	(51)	(2)
of which attributable to GK Software SE stockholders		(6,855)	(627)	748
Earnings per share (EUR/ share) from the consolidated surplus/ shortfall - undiluted	4.9.	**(3.37)**	**(0.06)**	**0.48**
Earnings per share (EUR/ share) from the consolidated surplus/ shortfall - diluted	4.9.	**(3.37)**	**0.00**	**0.48**

Consolidated Statement of Changes in Equity

for the financial year from 1 January until 30 June 2019

Consolidated statement of changes in equity

T.12

EUR K	Subscribed capital	Capital reserves	Retained earnings	Other reserves	Earnings attributable to GK Software SE stockholders	Equity attributable to GK Software SE stockholders	Equity attributable to non- controlling interest	Total
Figures on 30 June 2019	**1,903**	**20,489**	**31**	**(705)**	**15,880**	**37,598**	**1,071**	**38,669**
Share option scheme	22	694	0	0	0	716	0	**716**
Allocation based on IAS 19	0	0	0	24	0	24	0	**24**
Allocation based on IAS 21	0	0	0	(530)	0	(530)	0	**(530)**
Consolidated profit/ loss for the period	0	0	0	0	(121)	(121)	(51)	**(172)**
Figures on 30 June 2018	**1,925**	**21,183**	**31**	**(1,211)**	**15,759**	**37,687**	**1,020**	**38,707**
Share option scheme	1	246	0	0	0	247	0	**247**
Corporate mergers	0	0	0	0	(122)	(122)	0	**(122)**
Allocation based on IAS 19	0	0	0	(77)	0	(77)	0	**(77)**
Allocation based on IAS 21	0	0	0	407	0	407	0	**407**
Consolidated profit/ loss for the period	0	0	0	0	1,045	1,045	49	**1,094**
Figures on 31 December 2018	**1,926**	**21,429**	**31**	**(881)**	**16,682**	**39,187**	**1,069**	**40,256**
Share option scheme	15	748	0	0	0	763	0	**763**
Allocation based on IAS 19	0	0	0	(233)	0	(233)	0	**(233)**
Allocation based on IAS 21	0	0	0	(131)	0	(131)	0	**(131)**
Consolidated surplus/ shortfall for the period	0	0	0	0	(6,494)	(6,494)	8	**(6,486)**
Figures on 30 June 2019	**1,941**	**22,177**	**31**	**(1,245)**	**10,188**	**33,092**	**1,077**	**34,169**

Consolidated Cash Flow Statement

for the financial year from 1 January until 30 June 2019

Cash flows from operating business

T.13

EUR K	Notes No.	H1 2019	H1 2018
Cash flows from operating business			
Surplus/ shortfall for period		(6,486)	(172)
Share option scheme (non-cash expenditure)		221	171
Income taxes affecting results		682	(347)
Interest expenditure affecting results		869	866
Interest income/ expenses affecting results		(61)	(100)
Profit/ loss from the sale or disposal of property, plant and equipment		(3)	(4)
Reversals of deferred public sector subsidies		(24)	(24)
Write-downs recognised for receivables		289	—
Write-ups recognised for receivables		(29)	—
Depreciation and amortisation		4,412	2,321
Actuarial gains/ losses		(233)	24
Net foreign currency losses /gains		(175)	(978)
Net profits/losses from financial tools assessed at their fair value		(11)	248
Other non-cash revenues and expenditure		(2)	(1)
Cash flow from operating business		**(551)**	**2,004**
Changes in net current assets			
Changes in trade accounts receivable and other receivables		(146)	205
Changes in inventories		(7)	185
Changes in trade accounts payable and other liabilities		(1,192)	(952)
Changes in initial payments received		(221)	(280)
Changes in provisions		344	(349)
Interest paid	5.	(311)	(157)
Income taxes paid	5.	148	(434)
Net inflow of funds from operating activities Amount carried forward		**(1,936)**	**222**

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

T.14

EUR K	Notes No.	H1 2019	H1 2018
Amount carried forward **Net inflow of funds from operating activities**		**(1,936)**	**222**
Cash flow from investment activities			
Payments for property, plant and equipment and non-current assets		(2,461)	(6,998)
Proceeds from disposals of fixed assets		3	4
Interest payments received	5.	23	81
Net cash outflow for investment activities		**(2,435)**	**(6,913)**
Cash flow from financing activities			
Taking out equity		541	545
Taking out loans		1,500	520
Repayment of loans		(1,501)	(2,853)
Issue of convertible bond		(1,357)	—
Net inflow (previous year: net outflow) in cash from financing activities		**(817)**	**(1,788)**
Net outflow of cash and cash equivalents		**(5,188)**	**(8,479)**
Cash and cash equivalents at the beginning of the financial year	3.8.	6,144	27,958
Cash and cash equivalents at the end of the financial year	3.8.	1,014	19,397
Impact of changes in exchange rates on cash and cash equivalents		58	(82)

Summary of cash and cash equivalents

T.15

EUR K	Notes No.	H1 2019	H1 2018
Liquid assets		5,563	22,896
Utilisation of current account credit/ credit card/ exchange rate	2.6.	(4,549)	(3,499)
Cash and cash equivalents at the end of the financial year		**1,014**	**19,397**

Notes on the Consolidated Accounts

for the first half of the 2019 financial year

1. Principles of Reporting

1.1. General information

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

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

The Group's business involves the development and production of software and hardware and sales and trade in this field.

1.2. Principles of presentation

The consolidated accounts for GK Software SE on 30 June 2019 were prepared in line with the accounting standards of the International Accounting Standards Board (IASB) - the International Financial Reporting Standards (IFRS) - if they have been adopted by the European Union, and the provisions needing to be applied in line with Section 315e Para. 1 of the German Commercial Code (HGB). The Company's consolidated accounts were also prepared, taking into account the Interpretations (IFRIC, SIC) of the International Financial Reporting Standards Interpretations Committee (IFRS IC).

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

Newly applied IFRS standards

T.16

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

IFRS 16 replaces the previous differentiation of operating and financial leases by a unified lessee balancing model, according to which lessees are obliged to report all leases on the balance sheet in the form of usage rights and a corresponding leasing liability. Assets and debts from leases are entered at their cash value on the first occasion when they are used. The only exceptions here involve current (12 months or less) or low-value leases. Leasing payments are subject to interest at the implicit interest rate that forms the basis for the lease, if this can be determined. Otherwise, discounting takes place using the lessee's incremental borrowing rate. This creates a situation where leases, which have not been entered on the balance sheet in the past - in a manner largely comparable to the current accounting of financial leases - must be entered on the balance sheet. GK Software SE is making use of the standard in a binding manner from 1 January 2019 onwards, taking into consideration the modified retrospective method. In the past, the Company only had operating leases, which largely involved rented office premises and leased vehicles. GK Software SE has primarily identified an accounting procedure for the usage rights on rented office premises and leased vehicles as well as the corresponding liability. An incremental borrowing rate for the "Properties and Buildings" category (related to all the rented office accommodation) was used to discount the leasing payments and amounted to 1.2% and this figure was 2.2% for the “Operating and Business Equipment” category (relates to all the leased vehicles). The amounts entered as initial figures on 1 January 2019 completely match the discounted leasing obligations on 31 December 2018 (simplification according to IFRS 16 C 8b ii).

No adjustment has been made to previous periods in line with the transitional method in IFRS 16, which we have selected. As a result, there are changes to profits, assets, liabilities and the cash flow in 2019 when making comparisons with the previous year.

The change in the accounting and assessment methods created the following transitional effects on 1 January 2019:

- As a result of capitalising usage rights, the fixed assets increased by EUR 10,458 K on 1 January 2019. This change can be seen in Table T.11. The fair value amounted to EUR 9,829 K on the reporting date.
- The liabilities increased by leasing liabilities amounting to EUR 10,458 K on 1 January 2019 as a result of this. The fair value for the current proportion amounted to EUR 2,701 K and amounted to EUR 7,193 K for the non-current proportion on the reporting date.
- In our Group’s statement of income and accumulated earnings, we entered EUR 1,494 K in expenditure for the amortisation of usage rights and EUR 70 K for interest expenditure on leasing liabilities for the first half of 2019.
- This also had an effect on the Group’s cash flow statement. This resulted in a shift between the cash flow from operating activities and the cash flow from financing activities amounting to EUR 1,357 K.

The other amended standards that are mentioned here did not have any major effects on the Company’s consolidated accounts.

1.3. Consolidated companies

The consolidated accounts include GK Software SE and all the companies where GK Software SE has majority voting rights, either directly or indirectly, or has the opportunity to gain control.

The consolidated companies not only include the parent company, but also 4 German companies and 6 foreign firms. A detailed list can be found in paragraph 7.3.

1.4. Principles of consolidation

The consolidated accounts are prepared on the basis of the standard balance sheet and assessment methods used within the Group.

Internal profits and losses within the Group, sales, expenditure and earnings or the accounts receivable and payable, which exist between the consolidated companies, have been eliminated. The effects of taxes on profits have been taken into account in the consolidation procedures that affect the results and deferred taxes have been included in the calculations, if necessary.

1.5. Currency conversions

When preparing the accounts of each individual consolidated company, any business transactions, which are made in other currencies than the Group’s functional currency (foreign currencies), will be converted using the exchange rates valid on the day of the transaction. Monetary items in a foreign currency are converted using the valid exchange rate on the reporting date for the accounts. Non-monetary items in foreign currencies, which are assessed at their fair value, are converted using the exchange rates, which applied at the time when the fair value was determined. Non-monetary items assessed at their procurement or production costs are converted using the exchange rate at the time when they are first entered on the balance sheet.

- In order to prepare the consolidated accounts, the assets and debts from the foreign business operations within the Group are converted into euros (EUR) and the valid exchange rates on the reporting date for the accounts are used. Revenues and expenditure are converted at the average exchange rate during the period, unless the conversion rates were subject to major fluctuations during the period. In this case, the conversion rates are used at the time of the transaction. Conversion differences from the conversion of foreign business operations into the Group's currency are entered under "Other results" and accumulated under equity.

2. Balance Sheet and Assessment Principles

The same balance sheet and assessment principles were used as in the consolidated accounts on 31 December 2018. We would refer you here to chapter 2, "Balance sheet and assessment principles" in the notes on the consolidated accounts in the 2018 financial statement (2018 Financial Statement, pages 78ff).

3. Notes on the Consolidated Balance Sheet

3.1. Property, plant and equipment

Property, plant and equipment in 2018

T.17

EUR K	Real estate and buildings	Operating and business equipment	Initial payments made and facilities under construction	Technical equipment and machines	Total
Purchasing or production costs					
Figures on 1 January 2018	8,737	11,282	3,273	6	**23,298**
Accruals	6,264	4,224	832	0	**11,320**
Disposals	0	244	0	6	**250**
Figures on 30 June 2018	**15,001**	**15,262**	**4,105**	**0**	**34,368**
Accumulated depreciation					
Figures on 1 January 2018	1,606	7,509	0	0	**9,115**
Accruals	356	2,377	0	0	**2,733**
Disposals	0	226	0	0	**226**
Figures on 30 June 2018	**1,962**	**9,660**	**0**	**0**	**11,622**
Carrying amounts on 30 June 2018	**13,039**	**5,602**	**4,105**	**0**	**22,746**

Property, plant and equipment in 2019

T.18

EUR K	Real estate and buildings	Operating and business equipment	Initial payments made and facilities under construction	Technical equipment and machines	Total
Purchasing or production costs					
Figures on 1 January 2019	15,001	15,262	4,105	0	**34,368**
Accruals	475	1,823	10	0	**2,308**
Reclassifications	3,704	0	(3,704)	0	**0**
Disposals	0	157	17	0	**174**
Figures on 30 June 2019	**19,180**	**16,928**	**394**	**0**	**36,502**
Accumulated depreciation					
Figures on 1 January	1,962	9,660	0	0	**9,115**
Accruals	253	1,294	0	0	**1,547**
Disposals	0	152	0	0	**152**
Figures on 30 June 2019	**2,215**	**10,802**	**0**	**0**	**13,017**
Carrying amounts on 30 June 2019	**16,965**	**6,126**	**394**	**0**	**23,485**

Some of the plots of land serve as security for liabilities through real property liens; for more details, we refer you to paragraph 3.19 in the 2018 financial statement (2018 Financial Statement, page 107).

3.2. Usage rights in the sense of IFRS 16

T.19 Usage rights in the sense of IFRS 16 in 2019

EUR K	Real estate and buildings	Operating and business equipment	Total
Purchasing or production costs			
Figures on 1 January 2019	8,446	2,012	**10,458**
Accruals	0	864	**864**
Changes caused by exchange rates	5	0	**5**
Disposals	0	9	**9**
Figures on 30 June 2019	**8,451**	**2,867**	**11,318**
Accumulated depreciation			
Figures on 1 January	0	0	**0**
Accruals	825	669	**1,494**
Disposals	0	5	**5**
Figures on 30 June 2019	**825**	**664**	**1,489**
Carrying amounts on 30 June 2019	**7,626**	**2,203**	**9,829**

Further explanations on the first entry of usage rights on the balance sheet in the sense of IFRS 16 can be found in paragraph 1.2 Principles of presentation.

3.3. Intangible assets

T.20 Intangible assets in 2018

EUR K	Capitalised development costs	Industrial property rights and similar rights and values	Goodwill	Customer base	Orders in hand	Total
Purchasing or production costs						
Figures on 1 January 2018	7,988	8,175	15,677	7,867	1,585	**41,292**
Accruals	0	685	0	0	0	**685**
Accruals through corporate mergers	0	1,636	2,622	1,562	0	**5,820**
Changes caused by exchange rates	0	86	422	153	0	**661**
Disposals	0	(14)	0	0	0	**(14)**
Figures on 31 December 2018	**7,988**	**10,568**	**18,721**	**9,582**	**1,585**	**48,444**
Accumulated depreciation						
Figures on 1 January 2018	7,438	3,538	870	2,502	1,585	**15,933**
Accruals	283	1,259	0	707	0	**2,249**
Accruals through corporate mergers	0	139	0	130	0	**269**
Disposals	0	(14)	0	(12)	0	**(26)**
Figures on 31 December 2018	**7,721**	**4,922**	**870**	**3,327**	**1,585**	**18,425**
Carrying amounts on 31 December 2018	**267**	**5,646**	**17,851**	**6,255**	**0**	**30,019**

Intangible assets in 2019

T.21

EUR K	Capitalised development costs	Industrial property rights and similar rights and values	Goodwill	Customer base	Orders in hand	Total
Purchasing or production costs						
Figures on 1 January 2019	7,988	10,568	18,721	9,582	1,585	**48,444**
Accruals	0	204	0	0	0	**204**
Changes caused by exchange rates	0	(39)	57	21	0	**39**
Disposals	0	0	0	0	(1,585)	**(1,585)**
Figures on 30 June 2019	**7,988**	**10,733**	**18,778**	**9,603**	**0**	**47,102**
Accumulated depreciation						
Figures on 1 January 2019	7,721	4,922	870	3,327	1,585	**18,425**
Accruals	100	796	0	475	0	**1,371**
Disposals	0	0	0	0	(1,585)	**(1,585)**
Figures on 30 June 2019	**7,821**	**5,718**	**870**	**3,802**	**0**	**18,211**
Carrying amounts on 30 June 2019	**167**	**5,015**	**17,908**	**5,801**	**0**	**28,891**

3.4. Stocks

Stocks

T.22

EUR K	30.6.2019	31.12.2018
Goods	277	387
Auxiliary materials and supplies	229	99
Advance payments on inventories	21	35
Total	**527**	**521**

3.5. Trade accounts receivable

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

The number of valuation adjustments completed during the first half of the financial year amounted to EUR 175 K in total (previous year: EUR 0 K). The valuation adjustments were entered under “Other expenditure”. Revenue from the reversal of valuation adjustments in previous years was entered under “Other operating revenues” and amounted to EUR 28 K (previous year: EUR 33 K). EUR 553 K of valuation adjustments were used on 31 December 2018 without any effect on income. Valuation adjustments amounting to EUR 224 K in all were formed on the reporting date (previous year: EUR 630 K).

Trade accounts receivable

T.23

EUR K	30.6.2019	31.12.2018
from CZK	1	—
from USD	4,264	2,633
from ZAR	796	721
from RUB	—	31
from UAH	1	1
Balance	**5,062**	**3,386**

3.6. Assets

Customer orders, for which turnover revenues were realised, must be entered as assets. This item amounted to EUR 9,653 K (previous year: EUR 10,289 K) on the balance sheet reporting date.

3.7. Other accounts receivable, assets and income tax assets

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

EUR K	30.6.2019	31.12.2018
Income tax claims	554	1,045
Intermediate total	**554**	**1,045**
Loans paid to third parties	91	57
Accounts receivable from members of the Management Board	841	880
Accounts from value-added tax	565	686
Accounts from asset deferrals	1,929	2,133
Accounts from interest/currency hedging business	275	393
Other passing on of charges	525	–
Suppliers with debit balances	955	–
Others	735	525
Intermediate total	**5,916**	**4,674**
Total	**6,470**	**5,719**

Valuation adjustments amounting to EUR 53 K (previous year: EUR 53 K) were made on loans paid to third parties.

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

GK Software took over accounts receivable with former shareholders in conjunction with the acquisition of valuephone. Of this amount, EUR 800 K was allotted to current Management Board members. The remaining accounts receivable largely concerned payments in advance for travel expenses, which are granted free of interest.

T.25 Other accounts receivable in foreign currencies

EUR K	30.6.2019	31.12.2018
from CZK	120	158
from USD	466	268
from ZAR	5	5
from CHF	4	4
from RUB	6	3
from UAH	4	3
Balance	**605**	**441**

3.8. Cash and cash equivalents (liquid funds)

Cash and cash equivalents are assessed at their nominal value. The item contains cash holdings and current bank deposits with terms of less than three months.

3.9. Equity

For more information on the change to GK Software's equity up to 30 June 2019, we refer you to the Group equity change calculations.

The Company's share capital amounted to EUR 1,940,800.00 on 30 June 2019 and was divided into 1,940,800 no-par value, individual share certificates each worth EUR 1. All the shares issued had been fully paid for by the reporting date. The changes resulted from the exercising of the share option programme.

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

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

In principle, the subscription right must be granted to shareholders. However, the Management Board is entitled to exclude the subscription right to one or several increases in capital as part of authorised capital in order to balance out fractional amounts or in the case of increases in capital in return for assets in kind, particularly when acquiring companies, if the increase in capital takes place in exchange for cash deposits and the issue price does not fall far below the stock exchange price for shares that have already been issued and the ratio of new shares issued and excluded from the subscription right does not exceed 10 percent of the nominal capital according to Section 186 Paragraph 3 Sentence 4 of the German Companies Act and if the new shares have been offered for sale to persons, who have a working relationship with the Company, or have been transferred to them.

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

We would refer to Section 2.8.3 of the notes on the consolidated accounts for 2018 with regard to the issue of share options and the amount of contingent capital (2018 Financial Statement, pages 84ff).

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

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

Currency exchange differences arising from the conversion of foreign business operations and the actuarial profits/losses from defined benefit schemes are entered under "Other income".

Statutory provisions for pensions

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

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

The plans in Germany mean that the Group is normally exposed to the following actuarial risks:

Investment risks. The cash value of the defined benefit obligation in the plan is determined by using a discount rate. This is determined on the basis of the profits of high-grade corporate loans with a fixed interest rate. As soon as the yields from the plan asset fall below this interest rate, this creates a shortfall in cover for the plan. The plan currently has a relatively balanced investment portfolio of equity instruments, debt instruments and property. Because of the long-term nature of the plan liabilities, the administration board of the pension fund believes that it is advisable to invest an appropriate part of the plan asset in equity instruments and property in order to increase the chances of increasing profits.

Risks associated with changes in interest rates. A reduction in the loan interest rate will lead to an increase in the plan liability, but this is partially offset by an increased yield from the plan asset investment in debt instruments with fixed interest rates.

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

The cash value of the defined benefit obligation and the associated current service costs are determined using the current single premium method.

The calculations are based on the following assumptions:

Assumptions for calculating cash values

T.26

	H1 2019	FY 2018
Pensionable age (m/f)	60-68/60-68	60-68/60-68
Discount factor(s) on 1 January	2.05% p.a.	1.95% p.a.
Discount factor(s) on 30 June	1.50% p.a.	2.05% p.a.
Rate of pension increase	1.50% p.a.	1.50% p.a.

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

The assets of the associated plan assets in question here are pension fund special assets. In this respect, it is not possible to provide any other information on investment categories. The cover funds in the pension fund were generated during the year under review.

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

T.27 Reconciliation account to determine the cash values

EUR K	H1 2019	FY 2018
Figures on 1 January:	3,960	3,523
+ Interest expenditure	36	68
+ Working period costs	290	446
– Benefits paid out	(46)	(93)
+ Actuarial profits (losses in the previous year)	385	16
of which adjustments based on experience	23	16
of which changes in financial assumptions	362	0
Figures on 30 June	**4,625**	**3,960**

The development of the plan assets is shown as follows:

T.28 Development of the plan assets

EUR K	H1 2019	FY 2018
Figures on 1 January	2,402	1,643
+ Expected yields from plan assets	68	53
+ Contributions	120	758
– Benefits paid out	(43)	(52)
Figures on 31 December	**2,547**	**2,402**

This therefore gave rise to a plan deficit of EUR 2,078 K (previous year: EUR 1,558 K), which was entered as a pensions provision.

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

T.29 Statutory provisions for pensions

EUR K	H1 2019	FY 2018
Current service costs	290	446
Net interest expenditure	(32)	15
Components of the defined benefit costs entered in the profit and loss statement	258	461
Reassessment of net debt from the defined benefit plan		
Actuarial gains and losses from the change in financial assumptions	385	16
of which adjustments based on experience	23	16
of which changes in financial assumptions	362	0
Components in the defined benefit costs entered under “Other income”	385	16
Total	**643**	**477**

Of the current half-yearly expenditure amounting to EUR 258 K (previous year: EUR 461 K), interest revenues amounting to EUR 68 K (previous year: EUR 53 K) and interest expenditure amounting to EUR 36 K (previous year: EUR 68 K) were entered under “Interest results” and the remaining expenditure amounting to EUR 290 K (previous year: EUR 446 K) was entered as “Expenditure for old-age pensions”.

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

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

T.30 Development of the cash values of defined benefit obligations and plan assets

EUR K	Cash value of the defined benefit obligation	Fair value of the plan assets	Shortfall (–) surplus (+)
HJ 2019	**4,625**	**2,547**	**(2,078)**
FY 2018	3,960	2,402	(1,558)
FY 2017	3,523	1,643	(1,880)
FY 2016	3,698	1,931	(1,767)
FY 2015	3,232	1,772	(1,460)

3.10. Non-current and current bank liabilities

The non-current and current bank liabilities involved all the loans taken out by the Company. There is a summarised list in Table T.36 (7.1 Financial instruments).

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

In addition to this, the current bank liabilities also include utilised credit card limits amounting to EUR 11 K (previous year: EUR 149 K) and a current account credit lines that were used.

3.11. Convertible bond

The change in the balance sheet item was due to interest effects.

3.12. Deferred public sector grants

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

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

3.13. Deferred taxes

Please refer to Section 4.8.

3.14. Provisions

Provisions

T.31

EUR K	Personnel department	Production department	Other departments	Total
Situation on 1 January 2019	271	700	260	**1,231**
Amounts used	268	685	202	**1,155**
Liquidation	2	0	0	**2**
Additional funds	146	665	138	**949**
Figures on 30 June 2019	**147**	**680**	**196**	**1,023**

The provisions in the production area exclusively cover warranties.

The calculations for warranty provisions are based on warranty costs in the past and estimates regarding future costs.

3.15. Trade accounts payable

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

Trade accounts payable in foreign currencies

T.32

EUR K	30.6.2019	31.12.2018
from CZK	26	57
from USD	179	653
from ZAR	180	12
from CHF	3	—
from UAH	1	1
Balance	**389**	**723**

3.16. Contractual liabilities

As in the previous year, the contractual liabilities had a term of up to one year. Contractual liabilities in foreign currencies amounting to USD 851 K existed on the balance sheet reporting date (previous year: USD 215 K).

3.17. Income tax liabilities

Income tax liabilities

T.33

EUR K	30.6.2019	31.12.2018
Income tax liabilities	192	282
thereof in Germany	155	224
thereof in Switzerland	25	25
thereof in USA	0	18
thereof in Ukraine	12	4
thereof in Russia	0	11

3.18. Other current liabilities

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

Other current liabilities

T.34

EUR K	30.6.2019	31.12.2018
Tax liabilities	1,835	2,101
Liabilities from wages and salaries	7,210	8,636
Other liabilities towards members of staff	0	27
Others	16,818	14,166
of which an overpayment by customers	8,932	8,323
of which from deferrals	4,382	2,394
Total	**25,863**	**24,930**

Other liabilities in foreign currencies

T.35

EUR K	30.6.2019	31.12.2018
from CZK	771	754
from USD	2,320	2,755
from ZAR	238	104
from CHF	146	219
from RUB	12	5
from UAH	10	8
Balance	**3,497**	**3,845**

4. Notes on the Consolidated Profit and Loss Statement

4.1. Turnover revenues

The turnover revenues are exclusively the result of the sale of hardware and software and the provision of services for international and national customers.

Deferred turnover revenue from contractual assets amounting to EUR 6,805 K (EUR 4,600 K in the previous year), which was determined according to IAS 15, was entered during the financial half year.

Overall, all the customer orders had an assets-side balance and were entered with a figure under "Contractual assets" (cf. 3.6). Contractual liabilities from customers amounting to EUR 5,167 K were entered on the balance sheet.

As regards the make-up of the significant categories of revenues, we would refer to section 6 entitled "Segment Reporting". The warranty provisions formed during the first half of the financial year for these revenues have been entered in Table T.43 under the Production area.

4.2. Other revenues

Other revenues

T.36

EUR K	H1 2019	H1 2018
Reversals of other uncertain liabilities and provisions	2	699
Vehicle benefits in kind	789	605
Earnings from reversals of deferred public grants	18	18
Reductions in value adjustments	204	35
Market value of interest and currency swap	10	—
revenues from currency differences	128	—
Others	29	842
Total	**1,180**	**2,199**

4.3. Expenditure on materials

T.37 Expenditure on materials

EUR K	H1 2019	H1 2018
Cost of auxiliary materials and supplies	254	832
Expenditure on purchased services	2,127	3,095
Total	**2,381**	**3,927**

4.4. Expenditure on personnel

T.38 Expenditure on personnel

EUR K	H1 2019	H1 2018
Wages and salaries	33,105	27,955
Social security contributions	6,237	5,203
of which expenditure on retirement benefits	496	367
Total	**39,342**	**33,158**

On average, 1,223 people were employed during the first half of 2019 (1,073 in the previous year). 1,247 people were employed on the reporting date of 30 June 2019 (previous year: 1,147).

4.5. Depreciation and amortisation

This item exclusively covers scheduled depreciation on property, plant and equipment (T.18), usage rights (T.19) and the amortisation of intangible assets(T.21).

4.6. Other expenditure

T.39 Other operating expenditure

EUR K	H1 2019	H1 2018
Legal and consulting fees	1,175	1,004
Advertising and travel costs	3,275	3,316
Room and operating costs	1,573	1,691
Vehicle costs	2,312	1,507
IT costs	1,089	1,027
Administrative and distribution costs	727	1,294
Others	161	1,929
Total	**10,312**	**11,768**

4.7. Financial results

T.40 Financial results

EUR K	H1 2019	H1 2018
Interest income	61	99
Interest expenditure	(869)	(690)
Account balance	**(808)**	**(591)**

4.8. Income taxes

T.41 Income taxes

EUR K	H1 2019	H1 2018
Current tax liabilities	766	342
Deferred tax expenditure	(85)	(689)
Account balance	**681**	**(347)**

The losses in the first half of the year were not considered in conjunction with deferred tax assets.

T.42 Income tax rates

Prozent	30.6.2019	31.12.2018
Konzernsteuersatz (Muttergesellschaft)	**29,1**	**29,1**
davon in Deutschland	28,4 - 31,6	28,4 - 31,6
davon in Tschechien	19,0	19,0
davon in der Schweiz	25,8	25,8
davon in den USA	25,0	25,0
davon in Südafrika	28,0	28,0
davon in der Ukraine	18,0	18,0
davon in Russland	20,0	20,0

4.9. Earnings per share

The earnings per share are determined as a quotient of the total results and the weighted average of the number of shares in circulation during the six months of the financial year. The average number of shares in circulation during the first six months of the 2019 financial year was 1,929,552 (previous year: 1,915,876). The consolidated shortfall for the first half of 2019 amounted to EUR (6,486 K) (previous year: EUR (172 K)). As a result, earnings per share amounted to EUR (3.37) for the first half of 2019 (previous year: (0.06).

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

The diluted earnings per share amounted to EUR (3.37) (previous year: EUR (0.06)).

5. Notes on the Cash Flow Statement

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

6. Segment Reporting

The SQRS product line joined the main software solution marketed by the Group – GK/Retail – when the operating business of Solquest GmbH was taken over in 2009; dedicated resources ensure that the former product is available in the market place.

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

The Group sells its GK/Retail and Solquest Retail Solutions (SQRS) products within a licensing framework and provides introductory and adjustment services as well as services related to maintaining these products. The Group also sells hardware for store IT solutions to a limited degree, but this is manufactured by third parties. The subdivision of turnover according to fields of work is part of the reporting process.

The share of turnover attributed to SQRS has constantly fallen during the last few years. This is no longer a segment worthy of separate reporting and is therefore not presented as a separate item in internal reports. This business activity was totally absorbed within the GK Retail segment in 2018.

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

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

Turnover by segments

T.43

EUR K	GK/Retail H1 2019	GK/Retail H1 2018	GK/Retail FY 2018	IT-Services H1 2019	IT-Services H1 2018	IT-Services FY 2018	Elimintations H1 2019	Elimintations H1 2018	Elimintations FY 2018	Group H1 2019	Group H1 2018	Group FY 2018
Turnover with third parties	**46,315**	**43,806**	**96,373**	**3,954**	**5,240**	**9,778**	**—**	**—**	**—**	**50,269**	**49,046**	**106,151**
Product licences	5,054	6,202	16,621	38	403	738	—	—	—	5,092	6,605	17,359
Customer individual development	4,746	4,035	6,224	—	—	—	—	—	—	4,746	4,035	6,224
Sum of licences	**9,800**	**10,237**	**22,845**	**38**	**403**	**738**	**—**	**—**	**—**	**9,838**	10,640	23,583
Maintenance	11,211	10,408	22,019	2,684	3,567	6,195	—	—	—	13,895	13,975	28,214
Services	24,573	22,278	51,415	1,001	581	1,595	—	—	—	25,574	22,859	53,009
GK Academy	56	301	238	—	—	—	—	—	—	56	301	238
Other business	710	596	(115)	270	713	1,288	—	—	—	980	1,309	1,174
Revenue reductions	(35)	(14)	(29)	(39)	(24)	(38)	—	—	—	(74)	(38)	(67)
Turnover with other segments	**—**	**21**	**—**	**432**	**314**	**879**	**(432)**	**(335)**	**(879)**	**—**	**0**	**—**
Depreciation	**4,141**	**2,216**	**5,035**	**271**	**105**	**202**	**—**	**—**	**—**	**4,412**	**2,321**	**5,237**
EBIT segment	**(4,805)**	**361**	**1,140**	**(225)**	**(47)**	**754**	**31**	**(243)**	**(299)**	**(4,999)**	**71**	**1,595**
Assets	**108,921**	**118,641**	**119,624**	**6,888**	**11,642**	**5,657**	**(2,221)**	**(21,679)**	**(14,100)**	**113,588**	**108,604**	**111,182**
Debts	**78,581**	**82,273**	**82,323**	**2,306**	**7,068**	**620**	**(1,468)**	**(19,442)**	**(12,017)**	**79,419**	**69,899**	**70,926**
Cash and cash equivalents	**5,541**	**18,410**	**11,765**	**22**	**4,486**	**24**	**—**	**—**	**—**	**5,563**	**22,896**	**11,789**

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

Turnover amounting to EUR 25,559 K (previous year: EUR 22,133 K) was generated with customers that have their administration headquarters located outside Germany. The share of turnover generated by the IT Services division amounted to EUR 3,956 K (previous year: EUR 77 K). In addition, there were sales with customers, which have their headquarters in Germany, but which asked the Company to render accounts to the relevant national firms receiving the services. This turnover amounted to EUR 1,883 K (previous year: EUR 574 K), but was valued as domestic turnover because of the contractual basis and was fully assigned to the GK/Retail business segment.

Turnover with customers, which each have a share of sales that is greater than 10 percent, amounted to approximately EUR 5.1 million (previous year: EUR 5.6 million) or 15.0 percent in 2019 (previous year: 11.7 percent) of total turnover.

7. Other Information

7.1. Financial instruments

The financial instruments include original and derivative financial instruments.

As regards assets and liabilities and the transactions that are performed, GK Software is subject to certain risks, particularly loan, currency and creditworthiness risks. The Company's risk management system is explained in greater detail in the management report. The Company manages its capital structure with the aim of achieving its corporate goals through financial flexibility.

The original financial instruments largely comprise trade accounts receivable on the assets side, other financial assets as well as other liabilities. On the liabilities side, the original financial instruments largely comprise the convertible bond, bank liabilities, trade accounts payable as well as other liabilities. The portfolio of original financial instruments is shown on the balance sheet. The Company is subject to a possible default risk, mainly with trade accounts receivable. GK Software uses the simplified approach according to IFRS 9 in order to measure the expected credit losses; as a result, the credit losses expected over the term are used for all trade accounts receivable. In order to measure the expected credit losses, trade accounts receivable have been summarised on the basis of common credit risk features and overdue dates. If any default risks are recognisable within the financial assets, these risks are entered by means of valuation adjustments. Apart from valuation adjustments, no balancing of financial assets or financial liabilities takes place.

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

The Group's financial assets were subject to impairment amounting to EUR 203 K on 30 June 2019 (previous year: EUR 285 K). EUR 203 K (previous year: EUR 285 K) of this figure was due to individual valuation adjustments of accounts receivable.

A hedging mechanism in the form of a maximum rate agreement (cap) was agreed for a loan from the Commerzbank (EUR 450 K) with a term until 30 June 2017 and with a cap rate of 0.0 percent p.a. The derivative financial instruments (interest rate caps) were not assessed at their fair value for material points of view. The cap premiums were reported under "Other assets" with figures of EUR 8 K (previous year: EUR 9 K) and were reversed on a pro rata basis and entered as interest expenditure. For this reason, this figure was not classified under the "Financial assets assessed at their fair value in terms of affecting the net income" category. The market value of these interest capping mechanisms on a nominal volume of EUR 214 K (derived from the mid-market price through bank assessments) amounted to a total figure of EUR 0 K on the balance sheet date (previous year: EUR 0 K).

An interest exchange rate swap was taken out to secure the cash flow arising from the acquisition of the Retail & Programming division of DBS Inc. in the USA for repaying the investment loan at IKB. The interest and currency swap started on 31 December 2015 and ends on 31 March 2021. Quarterly repayments amounting to USD 529 K and approx. USD 100 K in interest must be paid to IKB from the first half of 2016 onwards. Bank assessments were used to determine the fair value on the balance sheet reporting date. The market value of this interest and currency swap covering a nominal volume of USD 10,595 K (EUR 10,000 K) amounted to EUR 275 K (previous year EUR 608 K) on the balance sheet reporting date - derived from the mid-market price. This amount was entered on the balance sheet under "Other liabilities" ("Other assets" in the previous year). No valuation unit was formed.

The Group only has (with the exception of the interest rate caps – for an explanation, see above) the financial tools of loans and accounts receivable and financial liabilities, which are valued at amortised costs.

The due dates for financial liabilities, which need to be shown, concern the loans taken out by the GK Software. The remaining financial liabilities (mainly accounts payable and payments to employees) have very short remaining terms of less than 3 months – in line with normal practice.

The parent company had taken out the following loans on 30 June 2019:

Loans

T.44

EUR K	30.6.2019 Balance	30.6.2019 Thereof short term	31.12.2018 Balance	31.12.2018 Thereof short term
Loan Commerzbank	3,034	327	3,167	323
Loan Sparkasse	3,722	615	4,030	616
Loan IKB	4,000	2,125	5,000	2,125
Loan DZ-Bank (variable)	5,046	5,046	3,570	3,570
Other loans	10	10	26	18
Current account credit and credit card	4,549	4,549	5,608	5,608
Account balance	**20,361**	**12,672**	**21,401**	**12,260**

The debts existing on the balance sheet reporting date has been divided into current and non-current debts in the consolidated accounts. The current shares therefore match the repayments that are due within one year.

The Group can resort to credit lines amounting to EUR 9,000 K. It has made use of EUR 4.549 K of this figure.

1.1.1. Assessments at fair value

We explain below how the Group determines the fair values of various financial assets and debts.

The Group has an asset in the form of the interest and currency swap taken out and worth USD 10,595 K, which needed to be entered on the balance sheet for the first time on 31 December 2015. This asset was valued at USD 4,238 K on the balance sheet reporting date. The item was entered under “Other liabilities” with a fair value of EUR 275 K (previous year: EUR 608 K) on the basis of the bank assessment at hand in 2019. Earnings have been entered in the statement of income and accumulated earnings.

The interest and currency swap described was repeatedly valued by the liaising bank using observable market prices (mark-to-market, input facts in stage 1). No regrouping into assessment stage 2 took place.

The Group does not have any other financial assets or debts that can be assessed regularly at their fair value apart from these.

In the case of financial assets, which cannot be regularly assessed at their fair value, but where the fair value must be specified, we view the carrying amounts entered on the balance sheet as a good approximation of the fair values.

7.2. Contingent liabilities and financial obligations

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

Guarantee loans amounting to EUR 232 K (previous year: EUR 60 K) existed for contingent liabilities and they were granted by Volksbank Vogtland e.G. (EUR 23 K), Commerzbank (EUR 190 K) and DZ-Bank (EUR 8 K). The securities act as normal coverage for renting the business premises in Berlin, Cologne and St. Ingbert. The rental guarantee from the Volksbank is secured by pledging bank credit balances amounting to EUR 11 K (previous year: EUR 11 K). The Management Board does not expect it to be necessary to make use of the guarantee.

Procurement obligations for office and business equipment amounted to EUR 319 K (previous year: EUR 987 K).

7.3. Subsidiaries

Subsidiaries of GK Software SE

T.45

Name of the subsidiary	Headquarters	Capital share in %	Share of voting rights in %	Initial consolidation	Main business	Results for the period EUR K
Eurosoftware s.r.o.	Plzen/Czech Republic	100.0	100.0	2008	Software development, software programming	515
StoreWeaver GmbH	Dübendorf/Switzerland	100.0	100.0	2008	Software development, software programming	34
DF Deutsche Fiskal GmbH (previously 1. Waldstraße GmbH)	Berlin	100.0	100.0	2009	Software development, software programming	(3)
OOO GK Software RUS	Moscow, Russia	100.0	100.0	2011	Software development, software programming	32
AWEK GmbH	Hamburg	100.0	100.0	2015	IT Services	(629)
AWEK microdata GmbH	Hamburg	100.0	100.0	2015	Software development, software programming	222
GK Software USA Inc.	Raleigh/USA	100.0	100.0	2013	Software development, software programming	(248)
GK Software Africa (Pty) Ltd	Bryanston/South Africa	100.0	100.0	2015	Software development, software programming	(9)
TOV Eurosoftware-UA	Lviv, Ukraine	100.0	100.0	2016	Software development, software programming	40
prudsys AG	Chemnitz	80.12	80.12	2017	Software development, software programming	(216)

valuephone GmbH was merged with GK Software SE retrospectively from 1 January 2019 through the agreement dated 4 June 2019. It is therefore not listed among the consolidated companies.

7.4. Details of associated persons and firms

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

1.1.2. Parent company

The direct parent company of GK Software SE is GK Software Holding GmbH, Schöneck. Commercial relationships existed as part of an agency agreement during 2019. Revenue of EUR 1 K from this was included under “Other income”.

1.1.3. Management Board

The following people are members of the Management Board:

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

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

Their current due benefits amounted to EUR 839 K in all. This included EUR 440 K in fixed earnings, EUR 350 K in variable earnings and monetary benefits amounting to EUR 49 K. The variable earnings relate to the degree to which targets were met in the financial year and the previous year.

Forfeitable share provisions (share options) are granted as long-term share-based remuneration. If they are exercised, the options are serviced by the issue of new non-par value company shares made out to the holder with a calculated share in the nominal capital of EUR 1 from the authorised capital without any additional payment. In terms of organising the share awards, the same general conditions apply to the Management Board as to senior members of staff. Reference is made to this in section 2.8.3 “Share option scheme” in the 2018 financial statement (2018 Financial Statement, pages 84ff). The Management Board held a total of 35,000 options on 30 June 2019. Therefore, the total remuneration for the Management Board amounted to EUR 910 K, including options.

8,500 options are held by two former members of the Management Board.

T.46 Pension provisions for members of the Management Board

EUR K	30.6.2019	30.6.2018
Provisions for pensions	**2,127**	**1,303**
thereof for board members	1,576	899
thereof for former board members	551	404
Settlement amount of the provision	**3,281**	**2,436**
thereof for board members	2,445	1,709
thereof for former board members	836	727
Fair value of net contribution margin	**1,154**	**1,132**
thereof for board members	869	810
thereof for former board members	285	322
Working period costs	**290**	**400**
thereof for board members	193	300
thereof for former board members	97	100

We would refer you to Section 3.10 for the form of the pension commitments.

People, who were or are members of the company's Management Board or Supervisory Board during the 2019 financial year, held the following direct shareholdings in GK Software on 30 June 2019:

T.47 Shareholdings held by members of the Management Board and the Supervisory Board

Name	Number	**Proportion of shares** in %
Rainer Gläss	52,792	2.61
Herbert Zinn	2,000	0.10
André Hergert	5,681	0.29

Mr Gläss indirectly held a further 449,500 shares through Gläß Vermögenverwaltungs GmbH & Co KG on 30 June 2019.

1.1.4. Supervisory Board

The following people are members of the Supervisory Board:

- Mr Uwe Ludwig, Neumorschen, management consultant, Chairman of the Supervisory Board
- Mr Herbert Zinn, Ebersburg, business administrator
- Mr Thomas Bleier, Oelsnitz, savings bank economist

The total earnings of the Supervisory Board at GK Software SE amounted to EUR 40 K during the first half of the 2019 financial year (previous year: EUR 40 K). They represent current due benefits.

No other claims for remuneration exist.

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

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

T.48 Accounts receivable from associated firms and persons

EUR K	30.6.2019	31.12.2018
Other claims from members of the management team in key positions (Management Board members)	841	880
Accounts receivable from associated firms, which are not part of the consolidated group	553	706
Total	**1,394**	**1,586**

One loan to a closely associated firm was granted for an indefinite period with a current account credit line of up to EUR 20 K and is subject to an interest rate of 6%. The current balance amounts to EUR 0 K (previous year: EUR 0 K).

The other accounts receivable with members of the Management Board covered various advance payments for purchases, travel expenses and similar items and they were therefore not subject to interest. These accounts receivable can be recovered at any time.

The trade accounts receivable largely consist of service relationships with Hotel Tannenhaus UG.

T.49

Expenditure and earnings with associated firms and persons

EUR K	30.6.2019	30.6.2018
Expenses with related companies	**778**	**434**
thereof external services	754	184
thereof project services	0	224
thereof rents/leases	24	26
Earnings with related companies	**229**	**467**
thereof provided cars and services	0	51
thereof rents/leases	150	—
thereof internal charging	79	52
thereof social benefits	0	364

The other purchased services were largely travel and hotel services.

All the business transactions with closely related firms involved other related companies in line with the categorisation in IAS 24.19.

7.5. Information after the annual accounts reporting date

Any information about circumstances, which was already available on the accounts reporting date, was taken into account, provided that the Management Board knew about it by 28 August 2019.

The Management Board of GK Software SE took the decision on 19 August 2019 to introduce an increase in capital, which was implemented by means of accelerated bookbuilding, with the agreement of the Supervisory Board. Investors took up 80,000 new shares at an offer price of EUR 64.00 per share in the form of an increase in capital. This corresponded to gross proceeds from the issue of EUR 5,120,000.00.

7.6. Details of Group affiliation

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

7.7. Date when the accounts were approved for publication

The Management Board cleared these consolidated accounts to be forwarded to the Supervisory Board on 28 August 2019. The Supervisory Board has the job of checking the consolidated accounts and stating whether it endorses them or not.

Schöneck, 28 August 2019

The Management Board

Guarantee by the Legal Representatives

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

Schöneck, 28 August 2019

The Management Board

Rainer Gläss
Chief Executive Officer

André Hergert
Chief Financial Officer

Financial Calendar

25 – 27 November 2019
Analyst conference in Frankfurt/M.

26 November 2019
Interim statement as of 30 September 2019

29 April 2020
Annual report as of 31 December 2019

28 May 2020
Interim statement as of 31 March 2020

18 June 2020
Annual shareholders‘ meeting 2020 in Schöneck/V.

27 August 2020
Interim report as of 30 June 2020

November 2020
Analyst conference in Frankfurt/M.

26 November 2020
Interim statement as of 30 September 2020

Imprint/Notes

Imprint

Publisher:
GK Software SE
Waldstraße 7
08261 Schöneck

P: +49 37464 84-0
F: +49 37464 84-15

www.gk-software.com
investorrelations@gk-software.com

Chairman of the Supervisory Board:
Dipl.-Volkswirt Uwe Ludwig

Management board:
Dipl.-Ing. Rainer Gläß, CEO
Dipl.-Kfm. André Hergert, CFO

Commercial Register Chemnitz HRB 31501

USt.-ID. DE 141 093 347

Photos:
Image archive GK Software SE,
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Contact Investor Relations

GK Software SE
Dr. René Schiller
Friedrichstr. 204
10117 Berlin

P: +49 37464 84-264
F: +49 37464 84-15

rschiller@gk-software.com

Notes

Note to the Interim Report

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

Note regarding the rounding of figures

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

Disclaimer

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