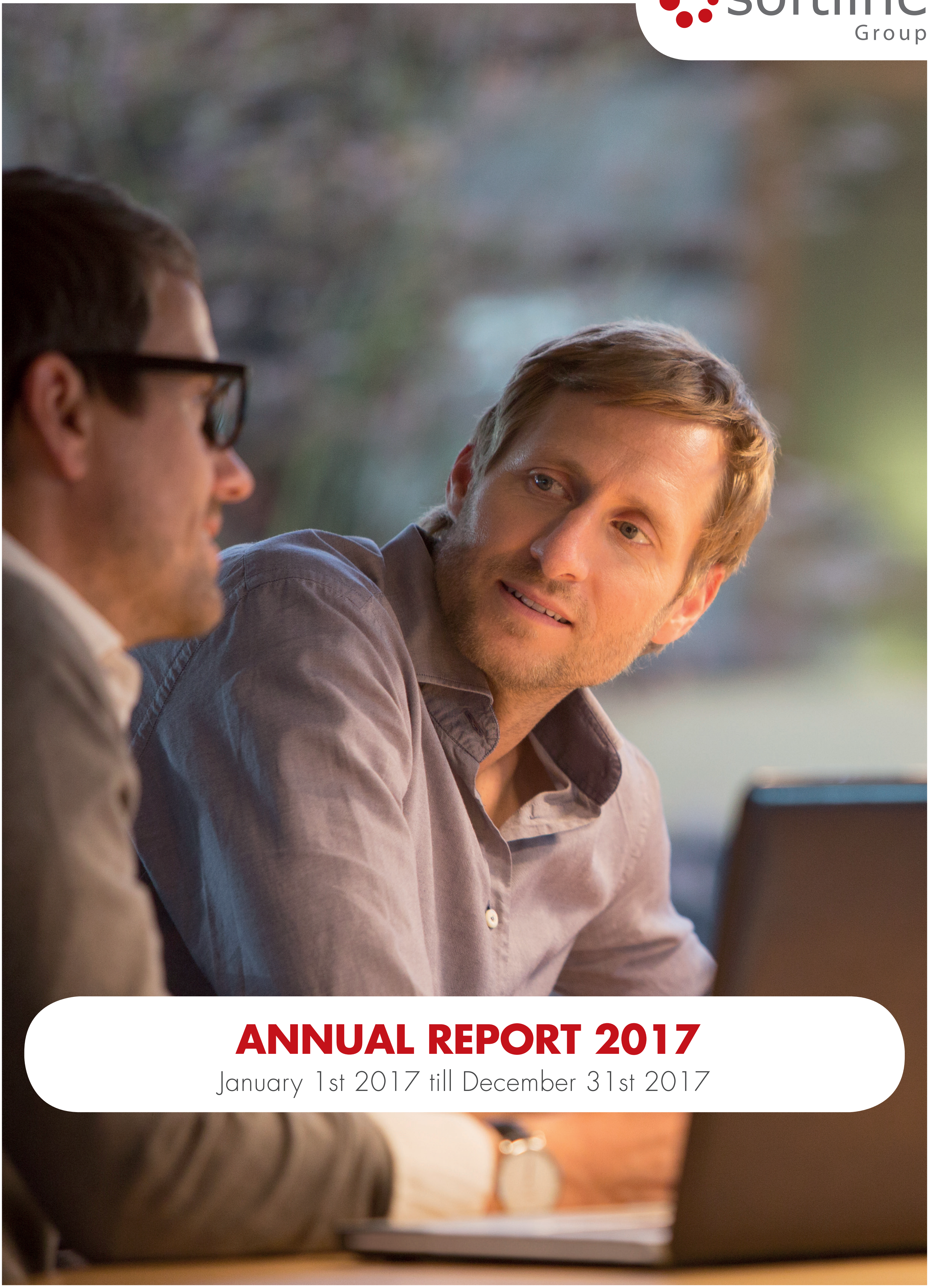
softline Group



ANNUAL REPORT 2017

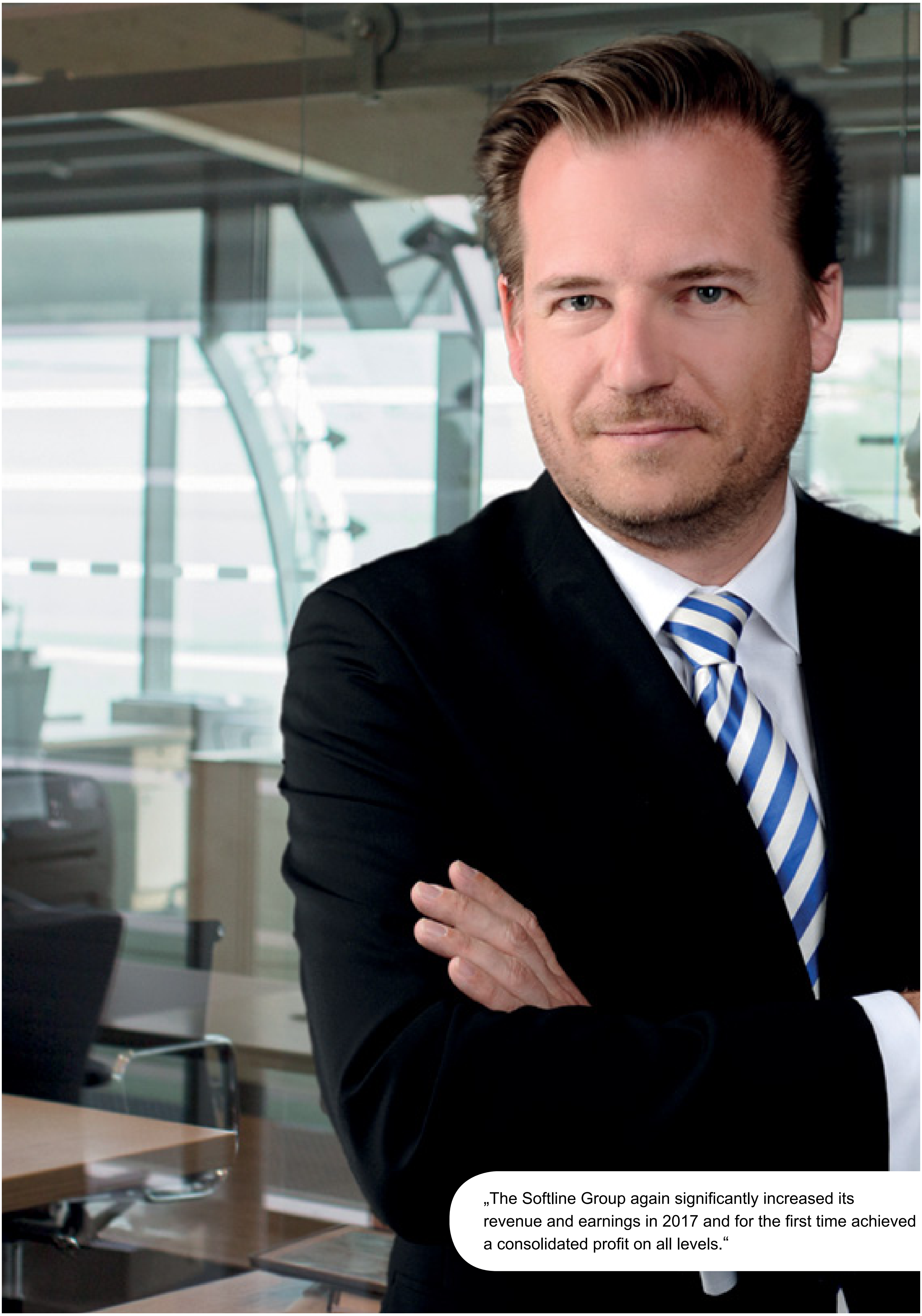
January 1st 2017 till December 31st 2017

Softline AG Key Figures (German Commercial Code)

		2017	2016
Result			
Revenues	TEUR	705	637
Operating profit (EBITDA)	TEUR	-328	-411
Operating profit (EBIT)	TEUR	-364	-420
Annual earnings before taxes (EBT)	TEUR	-240	-459
Annual result (EAT)	TEUR	-240	-459
Annual profit (EAT) per share	EUR	-0.14	-0.04
Balance sheet			
Fixed assets	TEUR	10,493	10,971
Current assets	TEUR	153	78
Equity	TEUR	9,490	6,100
Equity ratio	%	88.86	55.07
Other			
Order Backlog Softline Group (as at 31-12)	TEUR	15.6	17.7
Employees of Softline AG	Number	-	-
Employees of the Softline Group	Number	176	148

Softline AG Annual Report 2017 // Table of Contents

1 Letter to shareholders ... 3
2 Equity and investor relations ... 5
3 Situation report ... 8
3.1 Overall economic development and market development ... 8
3.2 Softline AG and Softline Group development ... 11
3.3 Assets, liabilities, financial and earning situation for Softline AG ... 17
3.3.1 Asset status ... 17
3.3.2 Financial position ... 18
3.3.3 Results ... 19
3.3.4 Overall statement on the economic situation of the Softline Group ... 20
3.4 Employees ... 20
3.5 Risk report ... 20
3.6 Opportunity report ... 22
3.7 Report on expected developments ... 24
3.8 Final Declaration of the Management Board in accordance with § 312 (3) of the Companies Act ... 26
4 Company financial statements ... 27
4.1 Income statement ... 27
4.2 Balance sheet ... 28
5 Notes to the financial statements of Softline AG ... 30
5.1 General information ... 30
5.2 Accounting and valuation methods ... 30
5.3 Notes on the Balance Sheet ... 31
5.4 Relationships with affiliated companies ... 34
5.5 Other disclosures ... 38
Significant events after the end of the financial year ... 38
Proposed appropriation of profit ... 38
6 Report of the Supervisory Board ... 39
7 Audit opinion by the statutory auditor ... 41
8 Contacts and imprint ... 42



„The Softline Group again significantly increased its revenue and earnings in 2017 and for the first time achieved a consolidated profit on all levels."

1 Letter to shareholders

Dear shareholders and readers,

With its subsidiaries, Softline AG was again able to significantly increase its revenue and earnings in financial year 2017, and achieved consolidated profit at all levels of earnings for the first time since its restart in 2010!

The demand for high-quality consulting and IT services is growing continuously. The result is a significant increase in revenue and earnings for the fourth year in a row, especially in the Consulting and Software Asset Management business units, but also increasingly in the Managed Services and Recruiting divisions.

The digital transformation and the resulting challenges are being taken seriously by our major customers and, increasingly, by our medium-sized customers. The need to invest in the modernisation of existing IT systems and internal processes as well as the complexity of this task have led to a further increase in the need for highly qualified external service partners.

As in the previous year, the companies of the Softline Group, with their highly qualified consultants and IT specialists in the portfolio areas of Software Asset Management, IT-Security, Virtualisation and Infrastructure Management, focus exactly on these tasks in adhering to the issues involved in "**Achieving Compliance Control and Cost savings for your IT**".

During financial year 2017, we continued our investments in sales and consulting, both in terms of new employees and the intensive further training of the existing team.

We will also continue our extremely successful cooperation with our existing strong partners and intensify our efforts by founding new partnerships. We are continuing to focus on regional growth in Northern, Central, Southern and Eastern Europe, as well as on our core portfolio areas of Software Asset Management, IT Security, Virtualisation and Infrastructure Management. Within these business units, we will focus our expertise and services in the current financial year on the core fields of "Software Asset Management", "Information- and IT-Security", "Cloud and Future Data Centre" and "Digital Workplace", which are very much in demand.

By permanently optimising the processes and cost structures of our company, we are creating the organisational basis for continuing the positive development of the Softline Group.

Dear shareholders,

After achieving a positive consolidated EBITDA in 2015 and 2016, we for the first time achieved clearly positive results on all measurements of earnings at the end of financial year 2017.

We started financial year 2017 with a large order backlog and high expectations for sales and earnings. We not only managed to significantly expand our order intake, but also significantly exceeded our sales and earnings targets.

Accordingly, the strategic decisions made in recent years, the expansion of our consulting and sales team, and the permanent review and optimisation of our internal processes have successfully borne fruit. However, this does not mean that we will rest on our laurels.

In the 2018 financial year, we will continue to regionally expand our business activities in the DACH region, as well as in Northern, Eastern and Southern Europe, and continue to focus strongly on expanding our service offering in the core areas of "Software Asset Management", "Information Technology and IT Security", “Cloud and Future Data Centre” and “Digital Workplace”.

We would like to thank you, dear shareholders, for your trust in our company, and your support in following the course the Group has set.

Martin Schaletzky
Chief Executive Officer

2 Equity and investor relations

Softline's share price displayed outstanding development over the course of the year, generally reflecting the positive trend in financial year 2017

The price increase over the past year on European stock exchanges continued in 2017 as well. While the German index of leading shares rose by approximately 12.8 percent in the course of 2017, technology stocks were able to show a significantly stronger development. After consolidation in 2016, the TecDAX rose 37.4 percent in 2017, and the Technology All Share achieved an increase of 34.8 percent).

Share Price Development Softline AG

Over the course of 2017, the share price of Softline AG recorded the strongest increase in six years. Following an opening price of EUR 0.58, the share price remained stable until the capital measure implemented on 9 May 2017 (capital reduction at a ratio of 1:10 and subsequent capital increase through a debt-equity swap). As from 10 May 2017, the share price rose almost steadily to reach its high of EUR 13.19 on 3 August 2017 after publication of half-year figures and the AGM for the 2016 financial year (31 July 2017). Over the subsequent course of the year, the share price slowly declined somewhat and levelled off just below the EUR 10 mark. At the end of the financial year, the price was EUR 9.30, more than 60 percent above the initial price at the beginning of the year. The trend in share price reveals how the continuing successful development of the company is perceived very positively on the capital market.

	29-12-17	02-01-17	Change in %
Softline AG	€ 9.30	5.80 € (0.58 €)[1]	60.3 %
EURO STOXX 50	3,504	3,309	5.9 %
DAX	12,918	11,598	11.4 %
TecDAX	2,529	1,841	37.4 %
Technology All Share	2,880	2,137	34.8 %

[1] As a result of the capital measure (including the capital reduction at a ratio of 1:10), the share price was adjusted from € 0.58 to € 5.80 on 2 January 2017.

Market capitalization and trading volume

Based on the closing share price on 31 December 2017, Softline AG has a market capitalisation of around 15.9 million EUR.

In the opinion of the Group's Management Board, the increase in the share price during the past year to some extent reflects the positive business development, but the closing price on 31 December 2017 does not fully show the entire development potential of the Group. The performance and development opportunities of the entire Group must be continuously demonstrated by further successes and increasing business results, and these successes need to be publicised in order to convince capital market participants about the Softline share even more strongly.

Analyst assessments

Softline AG was analysed and evaluated by the Oddo Seydler Bank AG in reporting year 2017. The analysts expressed their expectations based on the successful balance sheet restructuring and the positive business development by issuing a "Buy" recommendation. Continuous support of the Softline Group by independent analysts guarantees appropriate reporting measures within the financial industry. Potential investors receive a solid assessment of the development of the Group outside of internal publications. The dialogue with analysts will be continued in this business year. In addition to the analysis of the Oddo Seydler Bank AG, reports will also be published in a variety of financial media.

Investor contacts

In the prior 2017 financial year, Softline AG maintained contact with capital market participants by attending such investor and analyst conferences as the ODDO Seydler Small & Mid Cap Conference in Frankfurt in February or the m:access of the Munich Stock Exchange in July. Discussions were held with representatives of institutional investors, in which the current business development and expansion plans of the Softline Group were presented in order to explain the investment potential of the Softline share. The intensification of investor-relation activities initiated in 2014 will also be continued in 2018.

Investor relations

The investor-relation activities of the Softline Group endeavour to provide continuous, reliable, and public information for all capital market participants. In addition to required publications, at capital market conferences and analyst meetings we offer existing and potential shareholders, as well as financial analysts and journalists the opportunity to understand the development of the Softline Group via transparent reporting. We provide a variety of information to interested investors on our ‘Investor Relations’ web page. In addition to business reports and interim statements, this page provides access to general information on our company strategy, on our management, and on our shares. Moreover, the Softline Group regularly uses press releases or social media platforms to provide information about new customers, current projects, awards and restructuring successes.

Financial calendar for financial year 2018

Annual report 2017 (company financial statements for the AG)	May 2018
Consolidated financial statements for 2017 (unattested)	June 2018
First-quarter report 2018	June 2018
Annual shareholder's meeting for financial year 2017	28 June 2018
Half-year report 2018	August 2018
Third-quarter report 2018	November 2018

Key share

		2017	2016
Highest price	EUR	13.19	0.70
Low	EUR	0.375	0.42
Close	EUR	9.30	0.58
Number of shares	Million	1.71	10.298
Market capitalization (as of31-12)	Million EUR	15.95	5.97
PE (as of 31-12)	-	neg.	neg.

Exchange listing

Softline AG shares are listed within the exchange segment free trade on the Munich stock exchange (m:access). This listing has information and transparency requirements that the company fulfils completely. Additional trading of Softline shares takes place on the curb market in Frankfurt (Quotation Board), Berlin, Düsseldorf and Stuttgart.

Share information

ISIN	DE000A2DAN10
Abbreviation	SFD1
Trading Segment	Open Market
Place of exchange	Munich (m:access), Xetra, Frankfurt a.M., Berlin, Düsseldorf and Stuttgart
Designated Sponsor	ODDO SEYDLER BANK AG

„In 2018 we expect further growth - for this we have already set the course with the expansion of our business activities and our service offering.“

3 Situation report

3.1 Overall economic development and market development

The economic situation in Germany was characterised by strong economic growth in 2017. According to initial calculations by the Federal Statistical Office (Destatis), the price-adjusted gross domestic product (GDP) for 2017 was 2.2 percent higher than in the previous year. The German economy has thus grown for the eighth year in a row. The pace further increased in comparison with previous years. In 2016, GDP had already increased significantly by 1.9 percent and, in 2015, by 1.7 percent. A longer-term view shows that German economic growth in 2017 was almost one percentage point above the average over the last ten years of +1.3 percent.

Positive impulse for growth in 2017 came primarily from the domestic market: Price-adjusted consumer spending was 2.0 percent higher than a year earlier, while government spending rose at an above-average 1.4 percent. In particular, Gross fixed capital formation recorded an above-average increase in 2017 compared to the previous year (+3.0 percent). Building investments also increased by 2.6 percent. Price-adjusted investment in equipment − mainly machinery, hardware and vehicles − 3.5 percent more was invested than in the previous year.

Other assets, which include research and development expenses, were also up 3.5 percent from the previous year. Total gross capital formation, which includes changes in inventories in addition to Gross fixed capital formation, was +3.6 percent higher than in 2016 (adjusted for price).

German exports continued to grow at an annual average in 2017. Price-adjusted exports of goods and services were 4.7 percent higher than in the previous year. Imports increased more strongly in the same period (+5.2 percent). The resulting mathematically calculated trade balance (i.e. the difference between exports and imports) contributed 0.2 percentage points to GDP growth.

Almost all economic sectors on the production side of Gross domestic product contributed positively to the economic development in 2017. Overall, the price-adjusted gross value added increased in 2017 by 2.2 percent compared to the previous year. The information and communication service sectors posted above-average growth of 3.9 percent, while trade, transport and hospitality recorded increases of +2.9 percent. The manufacturing sector also posted strong growth of +2.5 percent, which, omitting the construction industry, accounts for a good quarter of total gross value added. The construction industry increased by 2.2 percent compared to the previous year.[2]

[2]"German economy is again growing strongly in 2017". https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2018/01/PD18_011_811.html

Market development

According to a 2017 Lünendonk study of IT service providers[3], the continuing high demand of corporate users for project support as well as the attraction of the outsourcing market have led to optimistic prospects for IT service providers in 2017 and 2018.

Similar to IT consulting firms anticipations that they will be able to replicate the high level of business development in 2016 also during 2017 and 2018, IT service companies also expected a strong upswing in their business after a positive fiscal year 2016.

The ongoing trend towards outsourcing and the migration of data centres to the cloud promise growth, especially in the SME sector. Surveyed IT service companies anticipate average revenue growth of 7.1 percent for 2017. These forecasts include new orders and inquiries recorded in the period from February to April 2017.

Due to the guarded investments of customers in recent years, IT service companies have, however, been more cautious in their planning, adopting an average of 5.6 percent. From the market perspective, average revenue growth for 2018 remaining at the 2017 level is possible.

Lünendonk expects IT service companies to increasingly benefit from the digital maturity of their customers by adopting more digital business models, such as IoT platforms (Internet of Things) or online product marketing. As a result, spending on IT operations is again increasing.

According to Lünendonk, the conditions for growth remain very good in the IT consulting and system integration market segments. The right mix of investments in the areas of "Digital Operational Excellence" and "Digital Customer Experience" is the prerequisite for a sustainable digital transformation.

The main aim of "Digital Customer Excellence" is to secure future revenue on customer interfaces and competitiveness through innovation, new collaboration and process optimisation. However, technologies such as cloud and data analytics are also helping IT-security, and the increased data protection requirements need to be taken into account early on in the digitisation projects.

Since the implementation of digital business models and process optimisation are required for a modern IT landscape with open interfaces to integrate various digital solutions (on-premise and cloud), companies continue to invest in areas such as legacy modernisation, business process automation, increasing IT-back-end integration capacity, or migration of applications to the cloud. These are the specific growth issues from 2016, which according to Lünendonk have and will continue to pre-occupy the IT services market in 2017 and 2018 and for which corporate users require a large amount of external support.

At 38 percent, significantly more customers focused their investments on the “Digital Operational Excellence” in 2017, while 26 percent of them placed greater emphasis on the “Digital Customer Experience”. Surveyed IT consulting companies expected their revenues to rise 11.5 percent in

---

[3] Lünendonk® study, “The market for IT consulting and IT services in Germany”, 2017.

2017, and every second IT consultancy planned to grow by more than 10 percent. IT consultants anticipate average growth of 11 percent in 2018.

For IT consulting companies, this investment planning means that they will have to deal very intensively with new innovative digital issues to realign business models and build up skills.

The consulting revenue industry, in total, has, according to the results of the BDU market study "Facts & Figures about the consulting market 2017/ 2018", increased by 8.5 percent in 2017 to a total of EUR 31.5 billion. At the start of 2018, German business consultants remain optimistic and forecast a further increase of +8.4 percent for 2018.

According to BDU President Ralf Strehlau, this is part of the success story in consulting, with average growth rates of 7.5 percent for the eighth year running. Even greater growth is limited only by the lack of qualified consultant talent. The eagerness to hire is running rampant in the sector, as approximately 80 percent of management consultants plan to hire additional junior consultants directly from the universities in 2018, as well as senior consultants with work experience. After all, two-thirds of all medium-sized market participants want to create new jobs for junior and senior consultants.

With the increased demand for consulting services, both the German economy and the administrative sector are reacting to manifold changes at the economic and administrative levels. The digital transformation is the clock generator in this regard. Ninety-three percent of market participants stated in the part of the market study relating to trends that consulting projects in connection with digitisation will remain a key growth component. In particular, projects with clients focusing on big data and data analysis will be further developed.

Growth forecasts for 2018 according to BDU:

Industry	Growth forecast
Professional Services	9.7 %
Health care	9.6 %
Chemical/ pharmaceutical industry	9.4 %
Consumer goods industry	9.3 %
Mechanical Engineering	9.0 %
Trade	8.9 %
Credit institutions	8.6 %
Automotive	8.5 %

The growth forecasts in the individual consulting fields underline that clients are increasingly looking for consultants to support the digital transformation. Strong demand is expected for the consulting fields concerned with change management (forecast 2018: +9.9 percent), customer relationship management/ sales (forecast 2018: +9.9 percent) and business development/ innovation (forecast 2018: +8.8 percent). Due to the General Data Protection Regulation (valid from 25 May 2018) the concerns of data protection will increase the need for consulting companies (forecast for 2018: + 9.5 percent).[4]

3.2 Softline AG and Softline Group development

As in previous years, Softline AG and its subsidiaries focused, during financial year 2017, on expanding their position as an independent trusted advisor in the areas of IT consulting and IT services. The focus on the key fields of IT Asset Management, IT-security, virtualisation and infrastructure management, as well as the expansion of existing partnerships and the establishment of new partnerships with well-known partner companies both at home and abroad have led to significant growth in revenue and income.

As in previous years, the operating activities of the subsidiaries established in Germany, Benelux and France were of crucial importance, as Softline AG primarily acts as a non-operating holding company. Within the Softline Group, Softline AG posted sales of 705 TEUR (previous year: 637 TEUR) due to the charging of Group and management fees. In addition, the company has other operating income in the amount of 376 TEUR, of which 325 TEUR was due to charges for selling and administrative expenses. On the other hand, other operating expenses amounted to 1,077 TEUR. Taking into account write-downs of 8 TEUR, EBITDA was consequently 6 TEUR (previous year: 411 TEUR).

The developments over financial year 2017 for individual subsidiaries was as follows:

[4] BDU eV 2018; Press release of 7 March 2018, "Consultants continue to fly high".

Softline Solutions GmbH, based in Leipzig, was once again able to significantly improve their revenue in 2017 as compared to the previous year. With revenue of 10.6 million EUR and its focus on the areas of Software Asset Management and IT consulting services, the company was at the end of the year approximately 1.6 million EUR above the previous year's level and approximately 2.1 million EUR above the projection. The success of our continuous investments in the expansion and training of our highly motivated employees as well as in the areas of sales and marketing is not only reflected in revenue, but also in earnings. With an EBITDA of EUR 0.9 million EUR (plan: 0.6 million EUR), the company achieved a further increase in earnings of 0.2 million EUR compared to the previous year. While the order backlog of 6.3 million EUR as at 31 December 2017 was slightly below the previous year's figure (6.8 million EUR), the company started the new financial year with an amply full pipeline and plans for another financial year of strong growth and success in 2018.

Softline Services GmbH[5] in Aschheim near Munich had revenue totalling 7.1 million EUR, exceeding the previous year's revenue (6.3 million EUR) by 0.8 million EUR. Sales in the Recruiting Services division increased from 2.0 million EUR in the previous year to 2.1 million EUR. (plan: 1.3 million EUR and revenue from Managed Field Services/ IMAC Services increased from 4.2 million EUR in the previous year to 4.8 million EUR (plan: 4.3 million EUR). This means that the company exceeded projected revenue by a total of 1.5 million EUR. In terms of operating result, EBITDA doubled from 0.1 million EUR in the previous year to 0.2 million EUR (plan: 24 TEUR).

XPERTLINK GmbH in Aschheim - a subsidiary of Softline Services GmbH - did not operate in 2017. The core business of XPERTLINK GmbH, placement of highly specialized IT personnel, had already been integrated into what was then known as Prometheus GmbH in 2014.

Softline Solutions Benelux (consisting of Softline Solutions Netherlands BV, Nieuwegein, Niederlande and Softline Solutions NV, Brussels, Belgium) headquartered in Nieuwegein, which is increasingly concentrating on the subject of IT-security in addition to the field of Software Asset Management, reported a revenue increase from the previous year's 4.0 million EUR to 4.6 million EUR. Revenue increased in the consulting and service sectors as well as license trading. Based on these revenue increases totalling 10 TEUR, EBITDA rose to 311 TEUR, thus significantly exceeding the previous year's result. The company is carrying an order backlog of 2.8 million EUR (Previous year: 4.7 million EUR) into the new financial year and plans for further significant increases in revenue and earnings in the 2018 financial year.

The French subsidiary **Softline Solutions France**, headquartered in Vélizy near Paris, obtained revenue identical to the previous year of around 3.0 million EUR in 2017, despite the overall decline in the software distribution market. EBITDA, which was -123 TEUR, exceeded the previous year's level. For 2018, the company plans for a significant increase in revenue by intensifying its sales activities and, despite investment transactions in this regard, an increase in earnings at the end of the year.

The company **Softline Solutions UK**, founded at the end of 2015 and located in London, achieved revenue of around 23 TEUR in financial year 2017 and closed with an operational loss

---

[5] Formerly "Prometheus GmbH", change of name on 16 March 2017.

of -16 TEUR. Operations in 2017 were almost income neutral, loss was composed of local administrative costs. The focus of management in 2017 was on expanding business in Benelux countries and the Northern European market. The company expects a significant increase in sales and a positive EBITDA in 2018, in particular due to the partnership with ITAMS concluded at the beginning of 2018.

Subsidiary company revenues[6]

		2017	2016
Softline Solutions GmbH // Germany	TEUR	10,550	8,908
Softline Services GmbH // Germany	TEUR	7,100	6,324
XPERTLINK GmbH // Germany	TEUR	0	0
Softline Solutions B.V. // The Netherlands	TEUR	4,510	3,853
Softline Solutions N.V. // Belgium	TEUR	136	190
Softline Solutions France // France	TEUR	2,991	3,064
Softline Solutions UK // UK	TEUR	23	21

Subsidiary company EBITDAs[7]

		2017	2016
Softline Solutions GmbH // Germany	TEUR	943	716
Softline Services GmbH // Germany	TEUR	222	104
XPERTLINK GmbH // Germany	TEUR	-26	0
Softline Solutions B.V. // The Netherlands	TEUR	267	6
Softline Solutions N.V. // Belgium	TEUR	44	4
Softline Solutions France // France	TEUR	-123	-166
Softline Solutions UK // UK	TEUR	-16	-11

[6] According to published financial statements (unattested)
[7] According to published financial statements (unattested)

The individual subsidiary companies of the Softline Group have the following business models:

Softline Solutions GmbH // Germany
Softline Solutions GmbH is a vendor-independent IT consulting company with headquarters in Leipzig. National and international customers trust the competence of IT infrastructure specialists in the key areas of Software Asset Management, Information and IT-Security, Virtualisation and Infrastructure Management.

Softline Services GmbH // Germany
Softline Services GmbH has been supporting customers, system houses and both hardware and software manufacturers for more than 15 years, offering them managed remote and onsite services as well as recruiting services to ensure the smooth operation of their IT infrastructures.

XPERTLINK GmbH // Germany
The business purpose of XPERTLINK GmbH, a wholly owned subsidiary of Softline Services GmbH, is to assist its clients in the search and selection of high-level IT specialists. The company's range of services was already integrated into Softline Services GmbH in 2014.

Softline Solutions B.V. // The Netherlands
As experts in the area of software asset management and license consulting, Softline Solutions B.V. offers their customers solutions that help them when managing installation, application, and cost of software, creating transparency.

Softline Solutions N.V. // Belgium
As with all other Softline Solutions companies, the Belgian subsidiary focuses on providing first class IT, consulting, and support services with a particular focus on Software Asset Management/License Management.

Softline Solutions France // France
For over 20 years, Softline Solutions France – originally called STR (Software Technology Resources) – has provided France with services and software, specializing in the areas of packaging, software development, and business intelligence. Softline Solutions France has been providing IT consulting and support services on the French market since mid-2014 with a focus on IT asset management / license management.

Softline Solutions Ltd. // UK
The company, founded in October 2015, is active in the area of Software Asset Management and also serves as a service company for international roll-out projects.

Other changes in Softline AG and the Softline Group

In mid-March 2017, the Softline Group was named "EMEA Partner of the Year" for the fourth year in a row by Flexera Software, the world's leading provider of software licensing, compliance, security, and installation software solutions. With this award, Flexera again recognised the outstanding performance of the Softline Group in 2017 in the area of Software Asset Management. The repeated recognition of the Softline Group as EMEA Partner of the Year further confirms the international presence and many years of expertise in Software Asset Management.

To further expand its range of services and portfolio, the Softline Group established additional partnerships with well-known manufacturers and IT service providers in the course of 2017. Through its partnerships with Snow Software, AirTrack, Voquz, Astute Licensing, and Octopus Cloud, the Softline Group has created the foundation to provide all of the customer groups and organisations with the support that they need in terms of their SAM strategy.

With the continuous further development of its portfolio and the continuous focus of the Softline Group on its strategic core competencies of IT Asset Management, IT-Security, Virtualisation and Infrastructure Management, the Group was again able to impress observers in financial year 2017. In addition to expanding its revenue from existing customers, the Softline Group was also able to acquire further extensive national and international projects involving well-known banks, insurance groups and automobile manufacturers.

The subsidiaries of Softline AG act as independent consulting and service companies to support their customers with integrated solutions and services in order to manage, control, optimise and, in particular, protect both their software and hardware IT assets.

The Softline Group continues to pursue the goal of becoming the market-leading provider of independent IT consulting and IT Asset Management in Europe. As a service provider of high-quality and integrated IT consulting services, it is also of great importance for the Softline Group to further expand strategic partnerships with market-leading IT system houses such as T-Systems, Dell and Fujitsu, as well as to consolidate long-term business relationships with medium-sized companies and international groups.

The following image shows a selection of customers and partnerships from Softline AG.

3.3 Assets, liabilities, financial and earning situation for Softline AG

The parent company, Softline AG, acts primarily as a non-operative holding company, but supports its subsidiaries in terms of administrative questions, and sets their strategies. Operational business activities are carried out wholly by the individual specialized subsidiaries in each respective country. Softline AG, as a holding company, is dependent on the economic success of its subsidiaries.

3.3.1 Asset status

The Softline AG balance sheet total as at 31 December 2017 amounted to 10.7 million EUR (previous year: 11.1 million EUR).

Softline AG's property, plant and equipment amounted to 10.5 million EUR as at the balance-sheet date. In terms of property, plant and equipment totalling 11.0 million EUR as at 31 December 2016. The value of the investment in Softline Services GmbH was written down by 0.35 million EUR, while the value of the investment in Softline Solutions GmbH was increased by 25 TEUR in terms of financial assets. Furthermore, the value of a loan from Softline Solutions GmbH was written up by 0.3 million EUR). Overall, loans to affiliated companies fell by 0.2 million EUR to 6.5 million EUR.

In addition, current assets rose from 0.1 million EUR in the previous year to 0.2 million EUR as at the balance sheet date.

On the liabilities side of the balance sheet, equity increased from 6.1 million EUR to 9.5 million EUR.

At 0.3 million EUR, provisions remain at the previous year's level.

Liabilities of 0.9 million EUR as at the balance sheet date of 31 December 2017 were significantly below the previous year's level of 4.6 million EUR due to the conversion of loans into equity, which was carried out as part of the capital increase at the beginning of 2017. This includes 0.8 million EUR in amounts owing affiliated companies. As at 31 December 2017, Softline AG therefore has amounts owing third parties of less than 0.1 million EUR.

3.3.2 Financial position

As a financial and management holding company, Softline AG relies on operating subsidiaries to have positive results and, in addition, sufficient liquidity to repay granted loans. In the year under review, loans totalling 0.3 million EUR were repaid to the parent company by the subsidiaries Softline Services GmbH, Aschheim, and Softline Solutions BV, the Netherlands.

In addition, Softline Solutions GmbH, Leipzig, amortised 0.3 million EUR from the loan of Softline AG in financial year 2017. Due to the above write-up of the loan amounting to 0.3 million EUR and 0.1 million EUR in calculated interest, the loan amount increased by 0.1 million EUR above the previous year’s amount.

Loan repayments were partially offset against receivables and liabilities between Softline AG and its subsidiaries. This resulted in total loan repayments to Softline AG of 0.5 million EUR in financial year 2017. As at December 31, 2017, the loans granted to Softline Solutions GmbH amounted to 3,696 TEUR (previous year: 3,597 TEUR), loans to Softline Services GmbH amounted to 2,399 TEUR (previous year: 2,542 TEUR), and loans to Softline Solutions Netherlands BV were 414 TEUR (previous year: 516 TEUR).

In financial year 2014, S.K. Management- und Beteiligungs GmbH, Baden-Baden, declared a debt waiver in exchange for a debtor warrant in the amount of 1,000 TEUR. Softline AG transferred these income and adjustments bonds amounting to 1,000 TEUR to the subsidiaries Softline Solutions GmbH, Leipzig, and Softline Services GmbH, Munich.

For financial year 2017, the calculated interest on the loans amounted to 142 TEUR. None of this amount was paid out during financial year 2017.

Capital structure

At the end of 2017, the subscribed capital of Softline AG amounted to 1,714 TEUR (previous year: 10,293 TEUR). The year-on-year change was due to the capital reduction resolved at the extraordinary shareholder’s meeting on 20 December 2016 to offset losses of 9,264 TEUR. Furthermore, the Extraordinary General Meeting on 20 December 2016 resolved to carry out a capital increase in exchange for a contribution in kind by issuing shares with a total value of 685 TEUR. As part of the capital increase, which was entered in the commercial register on 31 May 2017, contributions totalled 3,631 TEUR (2,875 TEUR from loans, 684 TEUR from interest and 72 TEUR from other liabilities).

The capital reserve increased from 10.9 million EUR in the previous year to 13.9 million EUR. The increase is due to the capital increase in kind. The difference between the value of the contributed capital in kind and the issue of the new no-par-value bearer shares in the amount of 3.0 million EUR was allocated to the capital reserve.

Net loss was reduced from -15.1 million EUR in the previous year to -6.1 million EUR. A capital reduction of 9.3 million EUR was implemented during the past financial year to compensate for losses. The net loss for the financial year of -0.2 million EUR is also included here.

As in previous years, we use leasing as an off-balance-sheet financial instrument.

No further loans were arranged or repaid.

Liquidity

Liquidity of Softline AG and the Softline Group in 2017 was consistently balanced due to the positive business development as well as the factoring implemented in all operating subsidiaries and the extensive overdraft facilities already granted in 2014.

As in previous years, new employees were successfully trained and deployed on the basis of the successful business models and best practices, and there was an even better utilisation of the employees, with only slightly increased sales and administration costs. The existing cooperation with our global partners such as Flexera Software, Dell and T-Systems was further strengthened, new sales markets for services were developed - and sales to existing customers expanded. The Softline Group will continue to grow organically in financial year 2018. As in the past financial year, the focus here is on expanding business activities in the DACH region (Germany, Austria and Switzerland) as well as in the Nordic region (Denmark, Finland, Great Britain, Norway and Sweden); this in particular through further investments in the areas of sales and consulting. Operating costs should remain at the level of the previous year.

According to Management Board planning, the liquidity of the Softline Groups is ensured until the end of 2020.

Investments

The Softline AG Company undertook no significant investments in financial year 2017.

3.3.3 Results

As described in section 3.3, Softline AG is mainly active as a holding company for its subsidiaries and has almost no operating business.

Softline AG generated revenues of 0.7 million EUR in financial year 2017 (previous year: 0.6 million EUR). These include, in particular, the group and management fees (0.7 million EUR).

The revenues calculated for financial years 2016 and 2017 include due to the finalisation of the new definition of BilRUG[8] no income from group allocations from intra-group cost transfers. Other expenditures, such as rent and leasing costs, are included in other operating income.

Other operating income of 376 TEUR was above the previous year's level of 335 TEUR.

---

[8] BilRUG was published in the Federal Gazette on 22 July 2015. The changes are applicable for the first time to the financial year beginning on 31 December 2015. The most important changes of the BilRUG include a redefinition of revenue as well as a specification and expansion of the explanatory notes and further regulations about consolidated accounting.

Due to the fact that Softline AG is not operating, no material costs were incurred in financial year 2017. Personnel costs rose to 331 TEUR from 79 TEUR in the previous year.

Write-downs on intangible assets and property, plant and equipment were slightly below the previous year's level, at 8 TEUR.

Other operating expenses of 1.1 million EUR are at the previous year's level. In addition to rents, this includes IT, passenger and travel costs (0.3 million EUR), the costs for business development (0.2 million EUR), legal and consulting costs (0.2 million EUR), insurance (0.1 million EUR) and the costs for the Finance Centre and management of Softline AG (about 0.1 million EUR).

Write-downs of financial assets amounted to 350 TEUR in 2017. The write-down was applied to the carrying amount of the investment in Softline Services GmbH. No income tax was payable due to a negative tax result.

In addition to revenue and contribution margin, EBITDA and EBIT are key control parameters for Softline AG and its subsidiaries. Since Softline AG does not have an operating business, no planning was made for revenue and contribution margin. Softline AG closed the year with EBITDA at -328 TEUR (previous year: -411 TEUR) due to higher other operating income. Other operating expenses, such as legal and consulting costs (-57 TEUR), travel expenses (-27 TEUR) and vehicle costs (-15 TEUR) are significantly below projected costs. In addition, more costs were passed on to the subsidiaries than projected. Softline AG's EBIT of -364 TEUR in 2017 also outperformed the previous year (-420 TEUR). EAT of -240 TEUR is considerably higher than the previous year's result of -459 TEUR.

3.3.4 Overall statement on the economic situation of the Softline Group

At the time of the preparation of the Management Report, the Management Board regarded the continued business development of the Softline Group as very positive. The severance of unprofitable subsidiaries, the past structural adjustments and the focus on profitable core areas have sustainably strengthened the Group's assets, financial position and results.

3.4 Employees

In financial year 2017, Softline AG, the parent company, had no other employees than the Management Board. The entire Softline Group employed an average of 165 employees over the same period and 176 employees as at 31 December 2017.

3.5 Risk report

Risk management and control system

The key figures required to manage the group of companies (including order intake, order backlog, revenue, contribution margin, EBITDA (earnings before interest, taxes, depreciation) and EBIT (earnings before interest and taxes) are available to the management of Softline AG after prior preparation and are constantly compared with the current and previous years' figures. Softline AG has a central reporting and control system whose continuously updated and prepared data meets the information requirements of management with regard to the early identification of risks threatening existence and corresponding to the size and clarity of the Softline Group, but is constantly being developed further.

Current topics, opportunities and risks are discussed weekly with local management staff via the central reporting and control system. Within the group, international and interregional management meetings take place monthly.

Business risks

The business risk of Softline AG primarily relates to the optimal management of the subsidiaries, which carry out the Group’s core business.

Thanks to lean management, the management and control of individual divisions and companies is much more direct.

In implementing the activities of subsidiaries, there are risks arising from their further integration, the need for restructuring and risks arising from business activities that were not previously part of the core business of the Softline Group.

In addition, large consulting businesses are difficult to predict and can lead to dependencies on individual large customers.

Market risks

Despite its international orientation, Softline AG and its subsidiaries are exposed to market risks. The IT industry in all the countries in which the Softline Group has a presence is characterised by strong dynamic changes.

General changes at manufacturers and suppliers, products and technologies, that have an influence on prices and sales, are constantly being monitored by means of intensive contact with our national and international partners, vendors and customers.

Because of vertical integration within the European Group, unification of products and services as well as the integration of solutions, products, services, and business platforms, we are able to offer a balanced service portfolio that can adapt to market fluctuations.

Financial risks

Softline AG and its subsidiaries are generally subject to liquidity, interest rate, and credit risks. As a pure holding company without significant revenue and income, Softline AG depends on liquidity inflows from subsidiaries in the form of loan repayments and group allocation.

The sufficient liquidity, which the Softline Group must ensure by means of suitable measures, constitutes one of the key financial risks for the Group as well as for Softline AG, the parent company. Realignment, restructuring and the further growth of individual subsidiaries must be secured by corresponding financial measures, cost optimisation and effective employee deployment. Measures to strengthen equity, subordinated shareholder loans, Sale-and-lease-back and factoring, along with the implementation of planning forecasts, including monitoring and rapid response options in the case of deviations, form the basis for further ensuring liquidity and the ability to make payments at all times. According to Management Board planning, the liquidity of the Softline Groups is ensured until the end of 2020.

In this connection, it should be pointed out that forward-looking statements are always subject to uncertainties and that the actual results may differ from the projected figures.

Receivables default risk or planned customer projects also lead to a potential liquidity risk, which is counteracted by intensive liquidity and cash flow management throughout all companies. Possible default risks for receivables from deliveries and services are reduced by active receivables management. Value adjustments take sufficient account of existing risks based on imminent default risks.

Softline AG and its subsidiaries are currently not exposed to interest rate risks as the Softline Group currently does not require debt financing. Similarly, factoring is defined by contractually established provisions.

A sufficient credit rating of Softline AG and thus also of the Softline Group is the essential basis for the granting of borrowed capital, in particular by shareholders, banks and suppliers, and thus also a prerequisite for the long-term existence of the company. The aim is therefore to improve the credit rating and ensure the liquidity of Softline AG and the Softline Group at all times by increasing profitability in order to reduce risks for the Group.

3.6 Opportunity report

According to the Institute for the World Economy (IfW) at Kiel University, the conditions for an upturn are growing more difficult. After a strong increase of 2.2 percent in 2017, aggregate output is expected to continue to accelerate and in the current year 2018 gross domestic product is expected to increase by 2.5 percent. An increase of another 2.3 percent is expected in the coming year.

The German economy is already drifting noticeably above normal full capacity into a boom. Especially in the construction industry, capacity bottlenecks are already noticeable, and companies there are barely able to process the incoming orders. Overall, the IfW expects that employment will continue to rise for the time being. However, this expansion of the employed workforce will lead to growing problems for companies when seeking suitable specialist personnel, while accelerating the increase in effective earnings. Due to the increasing utilisation of production capacities, the IfW expects a rise in business investment due to capacity expansions.[9]

According to the current IT SME report, for which the digital association Bitkom carried out an economic survey among small and medium-sized IT-companies with 10 to 499 employees, the growth in the IT-SME segment will continue in 2018. Eighty-five percent of companies expect revenues to increase in the first half of the year. Thirteen percent of surveyed businesses expect consistent sales and only 3 percent expect revenue reductions. “The success story continues.

---

[9] IfW, Media Information, 20 March 2018 - IfW Kiel Economic Reports: “German economy closer to the limit".

The mood in the IT SME segment is at a long-term high and stands out even within the generally positive Bitcom industry," says Bitkom Board member Dirk Röhrborn.

The confident sales forecast for the current half-year is in line with the trend of recent years. According to the IT SME Report, revenues have recently grown by 9 percent within a year to EUR 68 billion. At the same time, the number of employees subject to social security contributions in IT SMEs rose by 31,422 to 445,155. According to Röhrborn, "SMEs are in particular driving the economy with great agility and dynamism, creating new jobs and strengthening the position of Germany". The 9,852 SMEs account for 35 percent of revenue and 56 percent of employees subject to social security contributions in German IT.[10]

The signs for the Softline Group also clearly point to growth. Over the last few months, the management of the Softline Group has expanded and developed the company portfolio in line with the requirements and expectations of the market. It is concentrating on expanding the consulting and service business in the DACH region as well as in Northern, Eastern and Southern Europe with the future topics of "Software Asset Management", "Information- and IT-Security", "Cloud and Future Data Centre" and "Digital Workplace". Softline Group management recognises that, due to the entry into force of the EU Data Protection Regulation at the end of May 2018, there will be a very high level of need for consultancy in coming months and beyond, particularly in the area of "Information- and IT-Security", and is already highly qualified, having a large number of well-trained consultants.

The Softline Group is counteracting the shortage of qualified employees by arranging for the early involvement of junior employees in its own training program, internships, master's and bachelor's theses and encouraging the close cooperation with research universities and universities of applied science. Softline Solutions GmbH has been working closely as a curator with student management consultancy "CampusInform" at the University of Leipzig since the end of 2017.

The recent recognition of Flexera Software (now for the fifth time) - this time as the "EMEA Implementation Partner of the Year 2017" - not only confirms the high level of training of the Softline employees, but also the strong presence of the Softline Group subsidiaries or projects in the Benelux, Scandinavia, the UK, Switzerland and Austria (e.g. consistently very successful work and positive perception on the market).

The most important digital topics for the year, in addition to the previous year's IT-Security and Cloud-Computing issues, relate to Industrial Internet of Things (IIOT) and Industry 4.0. The associated services, hardware and software will determine demand in financial year 2018. In recent years, the Softline Group has been focusing on designing and developing consulting services for precisely these areas, thereby laying the foundations to become independent European leader in IT Asset Management as a "Trusted Advisor" aimed at "Achieving Compliance, Control and Cost Savings for your IT".

Due to the favourable business development of the subsidiaries, the liquidity of Softline AG continues to develop very positively, both through the repayment of intercompany loans and through future profit distributions of the subsidiaries in the following years. The restructuring of

[10] Bitkom press release, 26 March 2018 - "IT SMEs are optimistic".

the balance sheet by converting loans into equity, as approved in 2016 and completed in 2017, has led to a significant reduction in liabilities to third parties and a sustained strengthening of equity capital. The company will therefore have new investment financing options to fund the planned further growth of the Softline Group.

3.7 Report on expected developments

The forecast for Softline AG is based on the forecasts for business development in the subsidiaries.

Focusing on the key areas of "Software Asset Management", "Information- and IT-Security", "Cloud and Future Data Centre" and "Digital Workplace", we expect further significant increases in revenue and earnings, as in previous years. Due to an order backlog of 17.1 million EUR at group level as at 31 March 2018 (compared to 15.6 million EUR as at 31 December 2017), we plan to achieve revenue growth of 8-10 percent in 2018 with an EBITDA margin of approximately 4-6 percent. The group of companies forecasts EBIT of 1.2 million EUR in 2018 and of 1.8 million EUR in 2019.[11]

In addition to extensive, new, long-term contracts in the areas of Software Asset Management and IT-security with existing customers, we have been able to gain further consulting and service projects from new customers in all business areas over the past twelve months.

The budget and medium-term planning for a period of three years is carried out in all companies once a year and is consolidated at the group level. These plans are prepared by the managing directors and/ or managers of the individual companies based on the previous year's figures, the existing order backlog, a weighted pipeline and the overall development of the market. Each quarterly financial statement provides a new forecast for the year end and subsequent years based on the up-to-date figures.

To continue to implement the planned growth, merging and internationalisation as forecast (especially in the areas of sales and consulting), additional investment must, as in the previous year, be made in our strongest and most important asset: our employees. This is important for the development of our future market potential in Europe and to gain market share. Since additional capital is required for this further generic growth in addition to the already initiated sales and profitability measures, the Management Board and the Supervisory Board of Softline AG are pursuing further financing options for Softline AG and are in talks about their implementation.

Strategic outlook

The Softline Group has grown as a management consultancy in recent years, especially in the areas of Software Asset Management, IT-security and IT infrastructure Management and continues to pursue the goal of becoming the manufacturer-independent market leader for IT Asset Management (ITAM) in Europe. With the future strategic focus on the key fields of "Software Asset Management", "Information- and IT-Security", "Cloud and Future Data Centre"

---

[11] Before consolidation, excluding write-downs at group level.

and "Digital Workplace", the Softline Group has already adapted to the changing requirements of the market.

Business assets are increasingly moving to the cloud, becoming virtual or mobile (so-called "CVM assets"). The number of non-virtual assets will also increase massively - (I)IoT[12] and Industry 4.0 are among the most prominent trends of the coming years, as both SMEs and large companies will continue to network and automate processes through digitisation. Cloud security is another current concern. It relates to the secure access and storage of information and data in the cloud, but also provision of security from the cloud ("Security as a Service").

With its highly qualified consultants and extensive expertise and experience, the Softline Group is ideally equipped to implement the resulting digitisation, networking and automation projects among its SME and large-sized customers. It offers a single source for solution-provision, from the creation of the Digital Concept through Realisation and Implementation, Selection of Appropriate Hardware and Software and the subsequent Managed Service across all portfolio areas.

Under the leadership of the two German subsidiaries, Softline Solutions GmbH in Leipzig and Softline Services GmbH in Aschheim near Munich, we plan, in coming years, to achieve significant revenue and earnings growth in the DACH region (Germany, Austria, Switzerland). These two companies already cover the entire Softline portfolio.

Through close cooperation with and development of our subsidiaries in the Netherlands, Belgium, France and the United Kingdom, as well as our sales office in Denmark and our partnerships in the United Kingdom and Hungary, we have recently laid the foundation for international growth beyond the DACH region. Under the leadership of the Dutch subsidiary, we consequently plan to continue growing under the name "Softline Solutions Northern Europe", especially in the Benelux, UK and Nordic countries, and to significantly expand our portfolio. So far, the focus in this region has been on IT Asset Management, but we see a significant increase in demand for Consulting Services in the Cloud and Security Environments.

As "Softline Solutions Southern Europe", we are intensively involved in expanding our business activities in Southern Europe (France, Spain, Italy, Portugal). Compared to previous years, there is a significant increase in the demand for high-quality consulting services in the area of IT Asset Management, but also in the Cloud and Security Environments.

Financial outlook

Following the successful balance sheet restructuring due to the capital reduction in May 2017 followed by a capital increase due to a contribution in kind, all earnings measurements reveal that the Softline Group achieved a positive consolidated result at the end of 2017.

This balance sheet restructuring as well as the positive consolidated result allow the Softline Group to hold talks with major investors and shareholders, as well as future investors and credit

---

[12] (I)IoT = (Industrial) Internet of Things.

institutions, about further funding opportunities for the planned investments in both the existing organisation and any inorganic growth.

3.8 Final Declaration of the Management Board in accordance with § 312 (3) of the Companies Act

The Management Board hereby declares that Softline AG, Leipzig has received reasonable consideration for each legal transaction listed in the report on relations with affiliated companies under the circumstances that were known at the time that the legal transactions occurred. Reportable measures have either been taken or omitted.

Leipzig, 23 April 2018

Softline AG

Martin Schaletzky
Chief Executive Officer

4 Company financial statements

4.1 Income statement

		2017 EUR	2017 EUR	2016 EUR
1.	Revenues		704,551.20	637,310.18
2.	Other operating income		375,571.00	334,752.64
3.	Personnel costs			
	a) Wages and salaries	-307,608.55		-228,841.73
	b) Social security - of which for pensions: EUR 19,742.48 (Previous year: EUR 19,742.48)	-23,720.84		-23,590.64
			-331,329.39	252,432.37
4.	Other operating expenses		-1,077,087.78	-1,130,279.98
5.	Other taxes		0.00	1.28
6.	**Earnings before interest, taxes, depreciation and amortization of property, plant and equipment and amortization of intangible assets (EBITDA)**		**-328,294.97**	**-410,648.25**
7.	Write-downs on non-current intangible assets, property, plant and equipment		-7,776.88	-8,991.39
8.	Write-downs of investments and Income from write-ups of financial assets	-350,000.00 322,472.86		0.00 0.00
			-27,527.14	0.00
9.	**Earnings before interest and taxes (EBIT)**		**-363,598.99**	**-419,639.64**
10.	Other interest and similar income		141,555.13	140,651.66
	- Of which from affiliated companies: EUR 141,555.13 (previous year: EUR 140,642.22)			
11.	Interest and similar expenses		-18,371.40	-179,956.14
	- Of which from affiliated companies: EUR 17,929.32 (Previous year: EUR 39,292.28)			
12.	**Results from ordinary operations (EBT)**		**-240,415.26**	**-458,944.12**
13.	**Annual result (EAT)**		**-240.415.26**	**-458,944.12**
14.	Profit/loss carried forward from previous year		-15,114,701.48	-14,655,757.36

15.	Capital reduction to compensate for losses	9,263,772.00	0.00
16.	**Net loss**	**-6,091,344.74**	**-15,114,701.48**

4.2 Balance sheet

ASSETS

		EUR	EUR	EUR
		31-12-17	31-12-17	31-12-16
A.	**FIXED ASSETS**			
I.	**Intangible non-current assets**			
	Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and values		23,337.47	28,786.35
II.	**Property, plant and equipment**			
	Other equipment, operating and office equipment		2,182.31	4,510.31
III.	**Financial investments**			
1.	Shares in affiliated companies	3,956,522.99		4,281,522.99
2.	Loans to affiliated companies	6,511,295.06		6,655,767.71
			10,467,818.05	10,937,290.70
B.	**CURRENT ASSETS**			
I.	**Receivables and other assets**			
1.	Trade receivables	50,353.05		0.00
2.	Other assets	76,442.79		76,249.66
			126,795.84	76,249.66
II.	**Cash and cash equivalents**		26,033.33	1,584.33
C.	**DEFERRED INCOME**		30,107.19	28,662.69
			10,676,274.19	11,077,084.04

LIABILITIES

		EUR	EUR	EUR
		31-12-17	31-12-17	31-12-16
A.	**EQUITY**			
I.	**Subscribed capital**	1,714,389.00		10,293,084.00

II.	**Capital reserve**	13,867,093.15		10,921,240.15
III.	**Net loss**	-6,091,344.74		-15,114,701.48
			9,490,137.41	6,099,622.67
B.	**PROVISIONS**			
	Other provisions		326,421.64	348,343.03
C.	**LIABILITIES**			
1.	Trade payables	39,235.44		68,730.40
2.	Amounts owed affiliated companies	774,793.62		820,596.01
3.	Other liabilities	45,686.08		3,739,791.93
	– of which tax payables: EUR 4,495.82 (Previous year: EUR 4,479.76)		859,715.14	4,629,118.34
	– of which social security liabilities: EUR 0.00 (Previous year: EUR 0.00)			
D.	**DEFERRED INCOME**		0.00	0.00
			10,676,274.19	11,077,084.04

„We have the vision to become the independent European leader in IT asset management.“

5 Notes to the financial statements of Softline AG

5.1 General information

These financial statements of Softline AG for the financial year 2017 are drawn up in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch, hereinafter HGB) and the German Companies Act (Aktiengesetz, hereinafter AktG) in the version incorporating the Accounting Directive Implementation Act (BilRUG). There are subject to the regulations for small public limited companies under German law (Kapitalgesellschaften). The income statement has been prepared using the total cost accounting method in accordance with § 275(2) HGB.

The financial statements were prepared on the assumption of the company's continuation. Based on the submitted corporate planning, financing is always guaranteed for a three-year period following the balance-sheet date.

Softline AG is based in Leipzig and is entered in the Commercial Register of the Local Court of Leipzig under no. HRB 26381.

In financial year 2017, the previous year's figures in the income statement were adjusted in accordance with § 265(2) HGB, as cost transfers within the Group are reported under other operating income and the related expenses under other operating expenses. There was a reclassification in the previous year of 255 TEUR from revenue and/ or purchased services as other operating income and/ or other operating expenses. This ensures comparability with the form of presentation (§ 265(1) HGB) as well as the previous-year amounts (§ 265(2) HGB).

5.2 Accounting and valuation methods

The following accounting and valuation methods continued to apply to the preparation of the annual financial statements:

Intangible assets and **property, plant and equipment** are recognised at cost and, if they are subject to wear and tear, are reduced by scheduled write-downs over their useful life.

Write-downs were calculated on a straight-line basis over the probable useful life of the assets.

In the case of **financial investments**, the share rights are recognised at acquisition cost or lower fair values, and loans at nominal value or lower fair values.

Receivables and **other assets** are stated at their nominal value. Risk-adjusted positions are taken into account by the creation of value adjustments.

Cash and cash equivalents are recognised at nominal value.

Prepaid expenses include prepayments for future periods, which are accrued pro rata temporis.

Equity is carried at nominal value.

Other provisions are measured at the settlement amount required by reasonable commercial judgement and cover all discernible risks arising from uncertain liabilities to an appropriate extent. Provisions with a residual maturity of more than one year are discounted at the average market interest rate for the past seven financial years in accordance with § 253(2)(1) HGB.

Liabilities are recognized at the amount repayable.

5.3 Notes on the Balance Sheet

Financial investments

Financial investments relate to the following subsidiaries:

	Holding in %	Equity in TEUR	Result in TEUR
Domestic			
Softline Solutions GmbH, Leipzig	100.0	-3,138	770
Softline Services GmbH, Aschheim	100.0	-3,033	98
XPERTLINK GmbH, Aschheim[1)]	100.0	-412	-26
Foreign			
Softline Solutions Netherlands BV, Nieuwegein, the Netherlands	100.0	-86	177
Softline Solutions N.V., Antwerp, Belgium[2)]	100.0	-703	41
Softline Solutions France SAS, Vélizy, France	100.0	452	-110
Softline Solutions Ltd., London, United Kingdom	100.0	-3	-17

[1)] through Softline Services GmbH, Aschheim

[2)] 1.0 percent through Softline Solutions GmbH, Leipzig

Other loans relate to loans to Softline Solutions GmbH, Leipzig, of 3,696 TEUR, Softline Services GmbH, Aschheim, of 2,399 TEUR, and Softline Solutions Netherlands BV, Nieuwegein, the Netherlands, of 414 TEUR and Softline Solutions NV, Antwerp, Belgium Of 1 TEUR.

In 2017, the write-up of the carrying amount of the investment in the amount of 25 TEUR to 100 TEUR and the write-up of the loan in the amount of 297 TEUR were carried out at Softline Solutions GmbH, Leipzig, in accordance with § 253(5) HGB, as the reasons for the write-downs to fair value according to § 253(3)(5) HGB no longer exist. The carrying amount of the investment in Softline Services GmbH, Aschheim, was written down to the fair value of 350 TEUR in accordance with § 253(3)(5) HGB.

The loan granted to Softline Services GmbH, Aschheim, has been written down in the amount of 800 TEUR. The loan granted to Softline Solutions NV, Antwerp, Belgium, has been written down by a nominal value of 660 TEUR. In 2014, there were waivers of receivables based on debtor-warrant agreements amounting to 1,000 TEUR, which were already recognised as value adjustments in 2013. Waivers have been declared in the amount of 600 TEUR for Softline Services GmbH, Aschheim, and 400 TEUR for Softline Solutions GmbH, Leipzig.

Receivables and other assets

As in the previous year, receivables and other assets, trade receivables and receivables from affiliated companies have a residual term of up to one year. Receivables from affiliated companies owing to Softline Solutions GmbH, Leipzig, amount to 49 TEUR and are mainly attributable to cost transfers. Other assets include 36 TEUR with a remaining term of more than one year. This relates to deposits.

Subscribed capital

	31-12-17	31-12-16
Number of no-par-value shares (nominal value of EUR 1.00)	1,714,889	10,298,084
Equity capital (in EUR) *	1,714,889	10,298,084
Treasury shares (in EUR)	500	5,000
Subscribed capital	1,714,389	10,293,084

* Includes the equity capital of treasury shares

The Extraordinary General Meeting on 20 December 2016 implemented a share repurchase to reduce share capital by EUR 4.00 to EUR 10,298,080.00 as well as a further reduction of the share capital by EUR 9,268,272.00 to EUR 1,029,808, and resolved to amend § 4 (Share Capital) of the Articles of Association as well as to add a new § 15 a to the Articles of Association were also recorded in the commercial register. The entry in the Commercial Register took place on 21 April 2017.

In addition, the Annual General Meeting on 20 December 2016 resolved to increase the share capital by contributions in kind amounting to EUR 685,081 from EUR 1,029,808 to EUR 1,714,889 by issuing 685,081 new no-par-value bearer shares. By resolution of the same Annual General Meeting, § 4 (Share capital) the Articles of Association has been changed. Registration of the new share capital amounting to EUR 1,714,889.00 was entered in the commercial register on 31 May 2017.

Treasury shares

As at 31 December 2011, the company held 105,000 treasury shares as a result of an acquisition on 30 March 2011. These were intended for an incentive program for the managing directors of the subsidiaries. In 2012, as part of the agreement reached with former Managing Director Harry

Kloosterman, a total of 100,000 treasury shares were transferred on a gratuitous basis. The treasury shares were acquired for a total price of 277 TEUR.

As at 31 December 2017, the company retains 500 treasury shares. This corresponds to 0.03 percent of the share capital (previous year: 0.05 percent). The elimination of 4,500 shares results from the capital reduction on 21 April 2017.

Authorized capital (2015/I)

By resolution of the Annual General Meeting on 28 September 2015, the Management Board is authorised, subject to the approval of the Supervisory Board, to increase the share capital one or more times by up to EUR 5,149,042 prior to 28 September 2020 in exchange for cash and/or non-cash contributions with exclusion of any shareholder preferential rights (Authorised capital 2015/I).

Capital reserve

The capital reserve amounts to 13,867 TEUR (previous year: 10,921 TEUR). The increase is due to the capital increase in kind. The difference between the value of the contributed capital in kind and the issue of the new no-par-value bearer shares in the amount of 2,946 TEUR was allocated to the capital reserve.

Net loss

Net loss includes a loss carry forward of 5,581 TEUR. 9,264 TEUR was offset in 2017 as part of the capital reduction.

Provisions

Other provisions were mainly formed to cover costs in connection with the annual financial statements, Supervisory Board remuneration and employee obligations.

Liabilities

Other liabilities include 4 TEUR in taxes and 1 TEUR in social security contributions.

All figures in TEUR	**Total**	< 1 year	1 - 5 years	> 5 years
Liabilities Supplies & services	**39**	39	0	0
Liabilities of affil. companies	**775**	775	0	0
Liabilities, misc.	**46**	46	0	0
Total liabilities	**860**	**860**	**0**	**0**

Contingent liabilities

There is a total of 593 TEUR in contingent liabilities from guarantees (previous year: 456 TEUR in guarantees). 227 TEUR in guarantees are limited until 31 March 2018. The risk of recourse to the guarantees is considered low, as the main creditors meet their obligations.

Transactions not included in the balance sheet

As at 31 December 2017, there were rights due to debtor warrants amounting to 1,000 TEUR (previous year: 1,000 TEUR).

5.4 Relationships with affiliated companies

Softline AG, Leipzig prepares a report on the company's relationships with affiliated companies in accordance with § 312, German Stock Corporation Act. For purposes of this report, all legal transactions that the company conducted in the past financial year with the **controlling company or an affiliated company**, or at the initiative of or in the interest of these companies, are evaluated, along with all other actions that it has taken or failed to take on the initiative or in the interest of these companies in the past financial year.

As at 31 December 2017, the shares held by S. K. Management- und Beteiligungs GmbH, Baden-Baden comprise 1,005,401 shares, thus corresponding to 58.6 percent of subscribed capital, less treasury shares.

The concept of dependency according to §§ 311 et seqq., German Stock Corporation Act, is defined in accordance with § 17 (1), German Stock Corporation Act. According to this definition, a company is considered dependent if another company, referred to as the controlling company, is able to exert a controlling influence, be it directly or indirectly. The assessment of whether a controlling influence is exerted is based on actual circumstances.

1. Shareholdings and affiliated companies

The shareholdings of S. K. Management- und Beteiligungs GmbH, Baden-Baden in the share capital (less treasury shares) of Softline AG, Leipzig, were comprised of the following items on the balance sheet date as at 31 December 2017:

	Interest	
	EUR	%
S. K. Management- und Beteiligungs GmbH	**1,005,401**	**58.6**

There is a de facto relationship of control as between Softline AG, Leipzig, and S. K. Management- und Beteiligungs GmbH, Baden-Baden, since S. K. Management- und Beteiligungs GmbH, Baden-Baden holds the majority of the votes present at the Annual General Meeting.

2. Legal transactions with S. K. Management- und Beteiligungs GmbH, Baden-Baden, and with its affiliates

a) Loan and lending operations

S. K. Management- und Beteiligungs GmbH, Baden-Baden, originally granted the company a loan of EUR 3,125,000. As part of the capital increase, the loan was converted into equity as at 31 May 2017. These loans performed as follows in the year under review:

Performance	**TEUR**
As at 1 January 2017	2,675
Capital increase due to contribution in kind	-2,675
As at 31 December 2017	0

To secure the continued sustainable restructuring of the Softline Group in order to support it in the years to come, S. K. Management- und Beteiligungs GmbH, Baden-Baden, agreed in September 2014 to grant Softline AG a debt waiver in exchange for a debtor warrant amounting to 1,000 TEUR[13].

In total, the calculated interest for financial year 2017 amounted to EUR 0.00
(Previous year: EUR 138,540.24).

[13] The receivable is revived as soon as the company generates a net profit of 200 TEUR (before setting aside amounts in reserves, profit distributions and recognition of the resurgent receivable as a liability), providing over-indebtedness or insolvency do not result.

b) Product deliveries and services

In the 2017 financial year, no products were delivered and no services were supplied to S. K. Management- und Beteiligungs GmbH, Baden-Baden, or to any of its affiliated companies.

c) Emoluments and services

In the 2017 financial year, no emoluments were paid, and no services were provided by S. K. Management- und Beteiligungs GmbH, Baden-Baden, or any of its affiliated companies.

d) Other benefits

In financial year 2017, no other benefits were paid to or rendered by S. K. Management- und Beteiligungs GmbH, Baden-Baden, or any of its associated companies.

e) Contingent liabilities and other financial obligations as at 31 December 2017

There were no contingent liabilities or other financial obligations in the 2017 financial year.

f) Delivery obligations not yet fulfilled as at 31 December 2017

As at 31 December 2017, there were no as yet unfulfilled delivery obligations.

g) Unfulfilled purchase commitments as at 31 December 2017

As at 31 December 2017, there were no as yet unfulfilled purchase commitments.

3. Legal transactions with third parties

There were no legal transactions with third parties at the behest of or for the interest of S. K. Management- und Beteiligungs GmbH, Baden-Baden, or any of its affiliated companies.

4. Other measures

No other actions were undertaken or omitted at the behest of or for the interest of S. K. Management- und Beteiligungs GmbH, Baden-Baden, or any of its affiliated companies.

5. Concluding declaration

The Management Board of Softline AG, Leipzig, makes the following concluding declaration for the financial year running from 1 January to 31 December 2017:

“As concerns the legal transactions listed in the report on relationships with affiliated companies, Softline AG, Leipzig received appropriate consideration for each legal transaction, judged according to the circumstances of which we were aware at the time that the legal transactions were effected. No actions subject to reporting requirements were undertaken or omitted.”

Leipzig, 23 April 2018

Martin A. Schaletzky

Chief Executive Officer

5.5 Other disclosures

Members of the Management Board

- Dipl.-Ing. Dipl.-Oec. Martin A. Schaletzky, Augsburg, Chairman of the Management Board

Members of the Supervisory Board

- Prof. Dr. Knut Löschke - Independent Entrepreneur, Leipzig (Chairman of the Supervisory Board)
- Stefan Kiener - Solicitor, Managing Director of Rechtsanwaltsgesellschaft mbH Rainer Haas & Kollegen, Baden-Baden (Deputy Chairman of the Supervisory Board)
- Karl-Heinz Warum – Vice President CEEMEA, Sophos GmbH, Karlsruhe

Employees

The company did not have any employees in 2017.

Notices pursuant to § 20, German Stock Corporation Act

In accordance with § 20 AktG, S. K. Management- und Beteiligungs GmbH, Baden-Baden, announced that it directly owns more than half of the shares.

Group structure

In the meantime, S. K. Management- und Beteiligungs GmbH, Baden-Baden, is also considered as an affiliate of Softline AG. S. K. Management- und Beteiligungs GmbH, Baden-Baden, is exempted from preparing consolidated financial statements.

Significant events after the end of the financial year

There were no other significant events after the balance sheet date that would have led to a different presentation of the assets, financial position and results.

Proposed appropriation of profit

Softline AG generated a net loss for the year of 2017 in the amount of -240 TEUR, the accumulated loss as at 31 December 2017 amounted to -6,091 TEUR. The balance sheet loss will be carried forward.

Leipzig, 23 April 2018

Martin Schaletzky
Chief Executive Officer


„We are well prepared for the further internationalisation and consolidation of our core portfolio areas at group level.“

6 Report of the Supervisory Board

In financial year 2017, the Supervisory Board of Softline AG exercised the duties incumbent on it by law and in compliance with the Articles of Association. It regularly advised the Management Board on the management of the company and carefully monitored the latter's activities. The Supervisory Board was involved directly, and in a timely manner, in all decisions of fundamental importance to the company. The Management Board provided the Supervisory Board with regular and timely written and verbal information on the financial position, liquidity and results as well as the current and expected business situation. The Supervisory Board was informed in good time of forthcoming business, division-related and personnel measures, which were then examined by the Supervisory Board, in particular with regard to their legality and expediency. In the same way, risk management was discussed, and the strategic direction of the company agreed.

Five regular meetings of the Supervisory Board were held in 2017.

In addition to these meetings, members of the Supervisory Board were available to provide direct support and to contribute their experience at the request of the Management Board and other managers in the company, both over the phone and in person.

The Chairman of the Supervisory Board kept in regular contact with the Management Board and senior executives of the Company outside meetings of the Supervisory Board and discussed strategy, business development and special customer situations with them, as well as important business transactions and the company's risk management. In financial year 2017, monthly jour fixes were held between Supervisory and Management Board Chairpersons as well as with other company executives.

The transactions submitted by the Management Board to the Supervisory Board for approval in accordance with § 111 (4), German Stock Corporation Act, were approved.

The Supervisory Board members had no conflicts of interest in connection with their activities as members as members of the Supervisory Board of Softline AG.

Financial statements

Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, which was appointed as auditor, has audited the annual financial statements and the management report as at 31 December 2017, taking account of the accounting records and in compliance with the relevant Articles of Association. The statutory auditor's audit did not result in any objections. The statutory auditor provided the annual financial statements with its unqualified audit opinion.

These annual financial statements as well as the auditor's report were available to the Supervisory Board for consultation. They were discussed in a meeting of the Supervisory and Management Boards with the auditor on 27 April 2018. All questions of the Supervisory Board were answered in detail. The Supervisory Board noted and approved the results of the audit performed by the statutory auditor. The Supervisory Board raises no objections after conducting its own review.

The Supervisory Board unanimously approves the annual financial statements prepared by the Management Board. The annual financial statements are thus deemed to have been ratified.

Dependency report

Pursuant to § 312 AktG, the Management Board has prepared a dependency report on the relationships with affiliated companies for financial year 2017. The dependency report covered the business relationships of Softline AG, including its affiliated companies, with S. K. Management- und Beteiligungs GmbH, Baden-Baden, including its affiliated companies.

The statutory auditor has furnished the dependency report prepared by the Management Board with the following audit opinion:

“Having conducted a proper audit and appraisal, we hereby confirm that

1. the actual information disclosed in the report is correct,
2. payments for the transactions listed in the report were not unreasonably high.”

According to its own examination, the Supervisory Board has also come to the conclusion that there are no objections to the declaration of relations of the affiliated companies made by the Management Board in the report. Moreover, the Supervisory Board approves of the result of the audit of the dependency report conducted by the statutory auditor.

The Supervisory Board would like to thank and express its appreciation to the Management Board and all of the company's employees for the work they did over the past financial year.

Frankfurt, 23 April 2018

Prof. Dr. Löschke
Chairman of the Supervisory Board

7 Audit opinion by the statutory auditor

To Softline AG, Leipzig

We have audited the financial statements, comprising the balance sheet, the income statement and notes prepared by Softline AG, Leipzig, for the fiscal year from 1 January to 31 December 2017, together with the bookkeeping system and management report. The accounting records and the preparation of the annual financial statements and management report in accordance with German commercial law and the supplementary provisions of the Articles of Incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the accounting records and the management report, based on our audit.

We conducted our audit of the financial statements in accordance with § 317 of the German Commercial Code and the generally accepted standards for the audit of financial statements laid down by the German Institute of Public Auditors (IDW). Those standards require that we plan and perform the audit such that misstatements and violations materially affecting the presentation of the net asset position, financial position and earnings position in the annual financial statements, in conformity with the principles of proper accounting, and in the management report, are detected with reasonable assurance. The determination of the audit procedures took into account knowledge of the Company's business activities, its operating and legal environment, as well as expectations regarding potential errors. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the accounting records, the annual financial statements and the management report are examined primarily on a spot check basis within the framework of the audit. The audit also includes an assessment of the accounting principles used and of significant estimates made by management, as well as an evaluation of the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

It is our belief that, on the basis of the findings of the audit, the annual financial statements are in conformity with the legal requirements and the supplementary provisions of the Articles of Incorporation, and provide – having regard to the principles of proper accounting – a true and fair view of the net asset position and of the financial and earnings position of the Company. The management report is consistent with the annual financial statements, complies with German statutory requirements, and as a whole provides an accurate view of the Company's position, while also suitably presenting the opportunities and risks inherent in future business performance.

Without qualifying this opinion, we hereby refer to the comments made by the Management Board in the management report. Among other things, Section 5 (Risk Report, Financial Risks) states that the ability to ensure solvency at all times is crucially dependent on the subsidiaries' success plans and their ability to meet their loan commitments as planned.

Frankfurt am Main, 23 April 2018

Baker Tilly GmbH & Co. KG (formerly Baker Tilly GmbH)
Auditing Firm (Düsseldorf)

Christian P. Roos	Alexandra Sievers
- Auditor -	- Auditor -

8 Contacts and imprint

Address	Softline AG Gutenberg-Galerie Gutenbergplatz 1 DE-04103 Leipzig
Telephone	+49 341 24051-0
Fax	+49 341 24051-199
Email	info@softline-group.com
CEO	Martin Schaletzky
Chairman of the Supervisory Board	Prof. Dr. Knut Löschke
Entries in the commercial register	Registered office: Leipzig District Court of Leipzig Commercial Register No. 26381
VAT ID number pursuant to § 27 a of the German VAT Act	DE142585606
Contact Investor Relations	Christian Hillermann HILLERMANN CONSULTING Streit's Hof Poststraße 14−16 DE-20354 Tel.: +49 40 320 27 91-0 investors@softline-group.com
Printing and binding	IRprint GmbH Streit's Hof Poststraße 14/16 D-20354 Hamburg