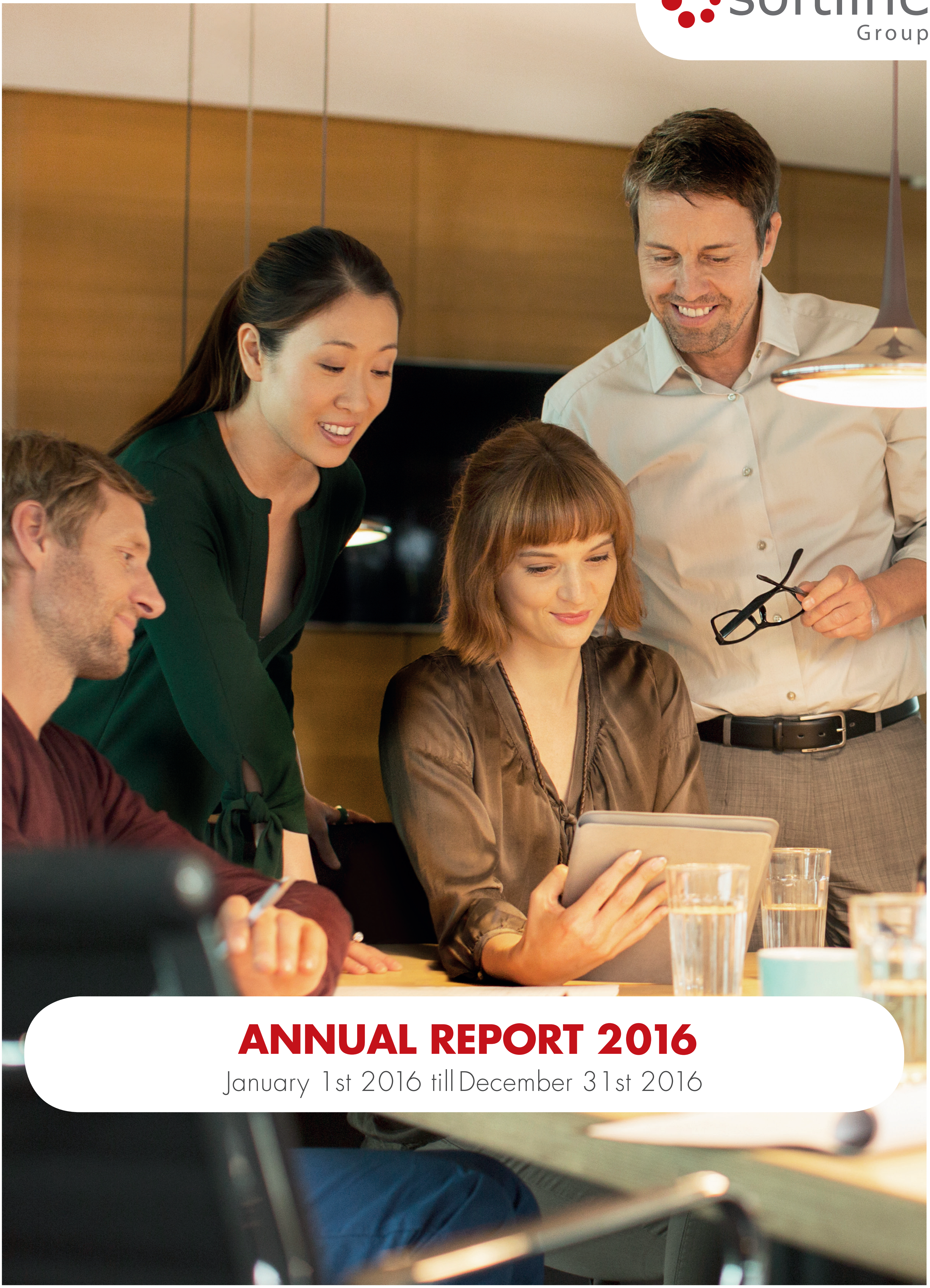
softline Group



ANNUAL REPORT 2016

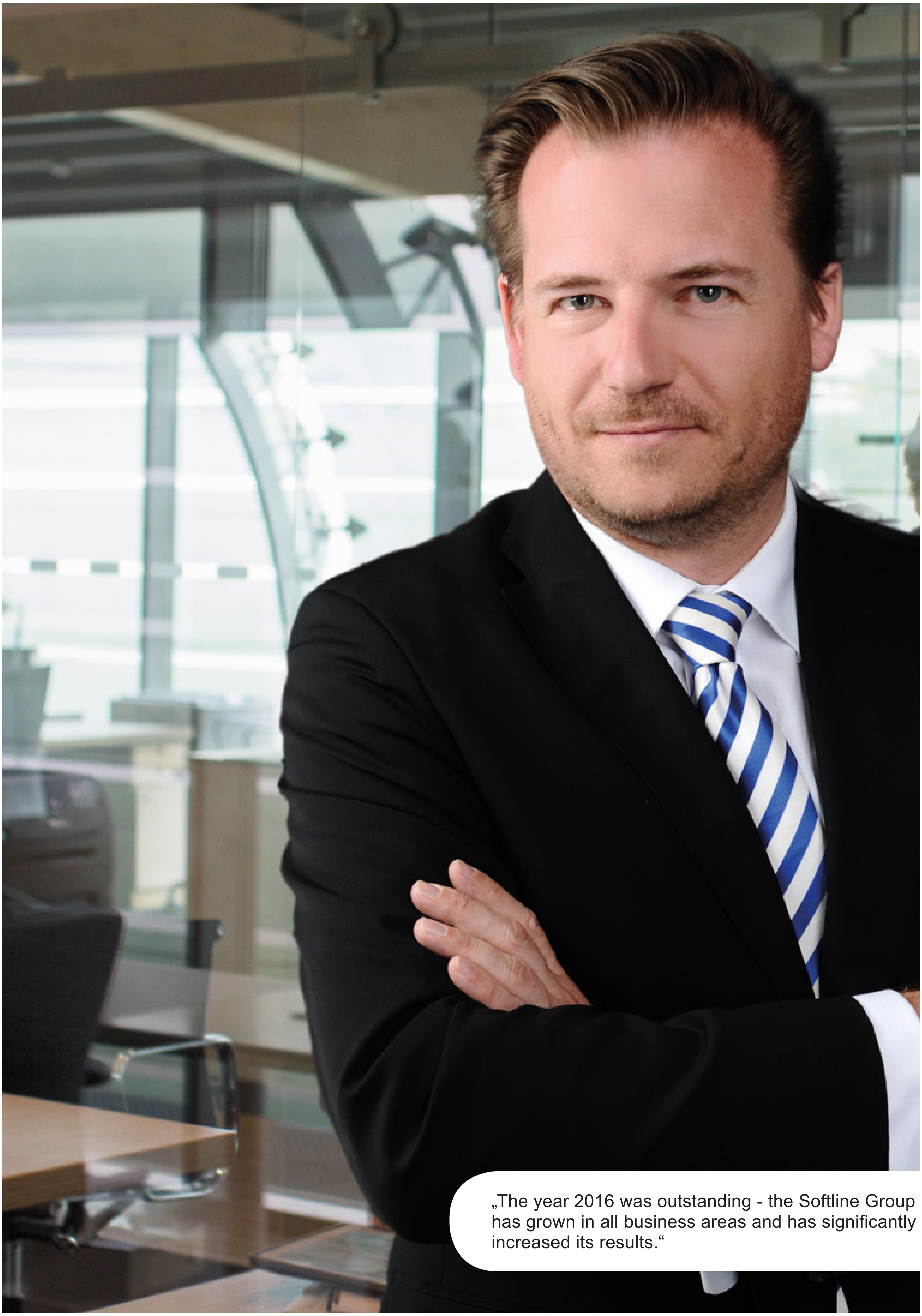
January 1st 2016 till December 31st 2016

Softline AG Key Figures (German Commercial Code)

		2016	2015
Result			
Revenues	TEUR	892	730
Operating profit (EBITDA)	TEUR	-411	-211
Operating profit (EBIT)	TEUR	-420	-1,020
Annual profit before taxes (EBT) not including one-off effects	TEUR	-459	-220
Annual profit before taxes (EBT) including one-off effects	TEUR	-459	-1,020
Annual profit (EAT) not including one-off effects	TEUR	-459	-220
Annual profit (EAT) including one-off effects	TEUR	-459	-1,020
Annual profit (EAT) per share	EUR	-0,04	-0,10
Balance sheet			
Fixed assets	TEUR	10,971	10,420
Current assets	TEUR	78	166
Equity capital	TEUR	6,100	6,559
Equity ratio	%	55.07	61.81
Other			
Order Backlog (as of 31.12.)	TEUR	0	0
Employees (Softline AG)	Number	0	0

softline Group

Softline AG Final Report 2016 // Table of Contents



„The year 2016 was outstanding - the Softline Group has grown in all business areas and has significantly increased its results.“

1 Letter to shareholders

Dear Shareholders and Readers,

the year 2016 was an excellent year for Softline AG and its subsidiaries.

As with the previous year, we were able to record an increase in the demand for both high quality consulting services and high quality IT services. The result was significant increases in revenues and profits, both in the business areas of Consulting and Software Asset Management, as well as in the Managed Services and Recruiting areas.

Both our mid-sized and larger customers are on the offensive when it comes to digital transformation, and are therefore investing more and more in the modernization of their existing IT systems. To make this happen, a much larger number of qualified external service providers is needed for the implementation and operation of their digitalization concepts.

Under the motto "**Achieving Compliance, Control and Cost Savings for your IT"**, Softline Group companies concentrate on exactly these goals, using only the best qualified consultants and IT specialists in the portfolio areas of Software Asset Management, IT security, virtualization, and infrastructure management.

As with last year, in 2016 we invested specifically in the sales and consulting areas, broadening the foundation for further growth. By opening a sales office in Austria and setting up a close partnership in Hungary, we have expanded our consultation and service business in both the DACH region and in Eastern Europe.

In the future, we will continue to work together and more closely within our strong partnerships. The focus in this case is on regional growth, in Northern, Southern, and Eastern Europe, as well as within our own business areas SAM, IT security, virtualization, and infrastructure management.

In parallel, we will continue to optimize the processes and cost structures of our company in order to continue to support positive developments within the Softline Group.

Dear Shareholders,

in 2015, we were already able to reach a balanced result by the end of the year. We brought this momentum into the new year 2016 with us, grew across all business areas, and once again significantly improved the Group results.

With a clear positive operational result at the end of the year, as well as a well-developed volume of orders for the following year, we were able to prove that we set the right course over the previous years, and that we are continuing on the right path.

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.

In 2017 we are once again expecting further significant increases in revenue and profits, both through growth of our regional activities in the DACH region, as well as Northern and Eastern Europe, and through continued growth in our business areas of IT security, virtualization, and infrastructure management.

Martin Schaletzky
Chief Executive Officer

2 Equity & Investor Relations

Softline share price remains stable throughout the year, with a slight upward tendency, but does not, however, reflect the overall positive development in the 2016 business year

The price rise on the European stock markets in 2015 continued in 2016 for the main values. The German leading index, DAX, rose by around 11.6 percent over the year. The development of the TecDAX, however, with a rise of only around 1.0 percent, is significantly weaker, and reflected the consolidation of the technology market.

Share Price Development Softline AG

Over the course of 2016, notwithstanding small variations, the share price rose steadily. After an opening price of 0.47 EUR, the price of Softline shares rose to over 0.60 EUR by the end of the second quarter, reaching yearly high of 0.70 EUR on 31.08.2016, after the publishing of the semi-annual report and the annual general meeting for the business year 2015. At the end of the third quarter, the share price once again sank to under 0.50 EUR, to rise once again towards the end of year price of 0.58 EUR after the publication of the excellent 9 month figures. Softline AG was able to follow the generally positive development on the capital market. The price development clearly shows, however, that capital market participants reacted very moderately to the overall positive developments in the 2016 business year.

	30.12.2016	04.01.2016	Change in %
Softline AG	0.58 €	0.47 €	23.4%
EURO STOXX 50	3,291	3,165	4.0%
DAX	11,481	10,283	11.6%
TecDAX	1,812	1,794	1.0%
Technology All Share	2,103	2,087	0.8%
Entry All Share	2,129	1,830	16.3%

Market capitalization and trading volume

Based on the close from 31. December 2016, Softline AG has a market capitalization of around 5.97 Million EUR. The Executive Board of the Corporate Group believes that the moderate price development is a limited reflection of the company development, and that the close from 31 December 2016 does not demonstrate the entire development potential of the Group. In order to make Softline shares attractive to capital market participants, it will be necessary to continue to demonstrate the performance capabilities and development potential of the entire Corporate Group through business results success, and to communicate these successes externally.

Analyst assessments

Softline AG was analysed and evaluated in the reporting year 2016 by the Oddo Seydler Bank AG. The analysts expressed their expectations for future development with a recommendation of 'Neutral'. 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 previous business year 2016, Softline AG maintained contact with capital market participants through a presence at investor and analyst conferences, such as the SCC Small Cap Conference in Frankfurt in February, or in December at the 22nd MKK Münchner Kapitalmarkt Konferenz in Munich. The company held conversations with representatives from institutional investors, presenting all planned and completed restructuring measures, as well as development plans for the Softline Group, to properly outline the investment potential in Softline shares. Expansion of investor relations, which was already intensified in 2014, will continue in 2017.

Investor relations

The Softline Group's investor relations activities aim 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. On top of all that, the Softline Group regularly provides, via press release or social media platforms, information on new customers, current projects, awards, and successful restructuring.

Financial calendar for the 2017 fiscal year

Business report 2016 (AG individual financial statement)	May 2017
Consolidated financial statement 2016 (unattested)	June 2017
2017 three month report	July 2017
Annual shareholder’s meeting for fiscal year 2016	31 July 2017
Semi-annual report 2017	August 2017
2017 nine month report	November 2017

Key share

		2016	**2015**
Highest price	EUR	0.70	1.04
Low	EUR	0.42	0.47
Close	EUR	0.58	0.50
Number of shares	Million	10.298	10.298
Market capitalization (as of 31.12.)	Millions EUR	5.97	5.15
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	DE000A1CSBR6
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

„With a focus on IT-Asset Management, we will also expand our business in Austria, Switzerland as well as Northern and Eastern Europe.“

3 Situation report

3.1 Overall macroeconomic performance and market performance

The economic situation in Germany was also characterized by solid and steady economic growth in 2016. Based on initial calculations by the Federal Statistical Office, the PPP-adjusted gross domestic product (GDP) was on average 1.9% higher in 2016 than in the previous year. The GDP grew similarly in the two previous years: 1.7% in 2015 and 1.6% in 2014. A longer-term analysis shows that economic growth in 2016 was half a percentage point above the average for the last ten years of +1.4%.

National use was decisive for the positive development of the German economy in 2016: Private consumer spending was, adjusted for price, 2.0% higher than the previous year. Public spending rose even more, with +4.2%. This sharp increase can, among other things, be traced to the large numbers of people seeking asylum, and the associated costs. In total, spending rose by 2.5% and was the largest, however not the only pillar of German economic growth in 2016. Investments also did their part: Construction investments, adjusted for price, rose sharply by 3.1% in 2016, which was reflected in particular in greater investments in residential buildings. +1.7% more was also invested in equipment in comparison to the previous year - that is largely machines and devices as well as vehicles. GDP growth in 2016 was slowed by inventory reduction (-0.4 percentage points). The net exports, that is the difference between exports and imports, also, on balance, had a small negative effect on the GDP growth (-0.1 percentage points). Price adjusted exports of goods and services were 2.5% higher than in the previous year; imports rose more sharply within the same time period (+3.4%).

On the output side of the gross domestic product, all economic areas contributed to the economic growth in 2016. In total, the gross value added, adjusted for price, rose by 1.8% in comparison to the previous year. Construction had above average growth, with a price adjusted increase of 2.8% over the previous year. Economic performance also increased in the manufacturing industry, which, excluding construction, accounts for almost a quarter of the total gross value added. The increase was much more moderate, however, at +1.6%. There were, however, significant increases in most service provision areas.[1]

[1] "German Economy Continues to Grow in 2016"
https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2017/01/PD17_010_811.html

Market development

The digital transformation has begun. Companies, organizations, and administrations in Germany are undergoing a fundamental digital transformation, and are increasingly seeking support from consulting firms, in order to be successful when carrying out necessary adjustments in terms of strategy, processes, and IT.

A study by the company Lünendonk, which analysed IT consulting and system integration companies, predicted an increase in revenue of 10.6%. For 2017, IT consulting companies are predicting that they will be able to increase their revenue by an incredible 13.0%; in comparison, the total market is expecting a much smaller growth of 4.8%. The IT consulting and system integration companies surveyed by Lünendonk see great business potential on the one hand, and on the other find that they are in such a good position that the majority of them are ready to win new market segments by growing significantly faster than the market.

In the IT service provider segment, the assessment of the companies investigated was not quite so optimistic. For 2017, the IT service companies surveyed are planning an average of 4.9% revenue growth. In comparison, they see the market growth in their segment for the same time period at 3.3% growth. This means that the majority trusts, in comparison to last year, that they will grow faster than the total market, even if on a much lower scale than the IT consulting and systems integration companies.[2]

The consulting revenue industry, in total, has, according to the results of the BDU market study “Facts & Figures on the consulting market 2016/ 2017” risen in 2016 by 7.4 percent to 29.0 billion EUR. Not only that, in 2016 around 6,000 additional jobs were created in consulting companies, 5,000 of those on the consulting level. For the year 2017, which has already begun, consultation companies remain optimistic and expect an increase in sales of 8.3 percent.

According to a statement from the BDU president Ralf Strehlau, the information and purchase decision making process is changing drastically with digitalization, which means that classic consulting and IT subjects, as well as communicative tasks, have to interact more than ever. Consulting firms are reacting, among other measures, by specifically purchasing tech companies as well as digital and marketing agencies, or cooperating intensively with relevant partners. Particularly large consulting firms have caused a lot of market activity with takeovers in 2016 and the beginning of 2017.

While three quarters of the market participants overall have given a positive growth prediction for 2017, an overwhelming 90 percent of the largest consulting companies assume that 2017 will be a successful fiscal year. The BDU is predicting the following growth for 2017:

---

[2] Lünendonk® study 2016, “The market for IT consulting and IT service in Germany”

Industry	Growth forecast
Consumer goods industry	10.3 %
Trade	10.0 %
Chemistry /pharmaceuticals	9.6 %
Vehicle construction	8.0 %
Financial services industry	8.4 %

The last two groups alone constituted a third of the industry revenue in 2016.

Due to comprehensive and fundamental transformation requirements, consulting companies are expecting a particularly high plus in the consulting fields of change management (+9.9 percent), Business Development & Innovation (+9.8 percent) and CRM and sales (+9.7 percent).[3]

As in 2016, the top issues from IT managers surveyed by Lünendonk are IT security, mobile enterprise, business analytics and virtualization. Data security is extremely important anywhere that company-wide cooperation is increasing, and, for example, machines, factories, and vehicles have their own IP addresses and are therefore communicating continuously with the internet. This is particularly the case for the technology concepts “Industry 4.0” and “Internet of Things”. Mobile enterprise, the breaking down of strict process structures and distribution of business applications to mobile devices, is one of the drivers for IT security. Business analytics comprises the use of analytic tools, particularly in business processes such as production, logistics, and marketing/sales, as well as corporate management.

‘Very high’ or ‘high’ investments were expected to be made in further virtualization of their IT systems by 44 percent of the decision makers surveyed. These plans are closely connected to the increasing use of cloud services and big data, which require more and more memory and agility. Virtualization tools are an important foundation for the success of digital business models.[4]

3.2 Softline AG and Softline Group development

As with last year, the Softline AG, together with their subsidiaries, was focused in 2016 on the expansion of their position as a trusted advisor in the areas of IT corporate consulting and IT services. Concentrating on the consulting and service areas software asset management, IT security, virtualization and infrastructure management, as well as continuing close cooperation with notable partner companies, led to significant growth for both sales and profits.

The operative services of established subsidiary companies in Germany, Benelux, and France were, as in the previous year, essential, as Softline AG acts primarily as a non-operative holding. By passing on operational and administrative costs within the Softline Group, Softline AG was able to reach revenues of 892 TEUR (previous year: 730 TEUR). In contrast are expenses for

[3] BDU e.V. 2017; Press release from 08 March 2017, “Business Consultants drive digital transformation in Germany”
[4] Lünendonk® study 2016, “The market for IT consulting and IT service in Germany”

services used, personnel costs, and other operative expenses to the amount of 1,383 TEUR. Taking into account 80 TEUR from other operational profits, the result is an EBITDA of -411 TEUR (plan: -340 TEUR). (Due to the new definition for revenues in accordance with BilRUG (German Accounting Standards Implementation Act) for fiscal years beginning after 31 December 2015, the reported revenues for the fiscal years 2015 and 2016 also include profits from intragroup fees for internal group services.)[5]

The developments over the fiscal year 2016 for individual subsidiaries was as follows:

Softline Solutions GmbH, based in Leipzig, was once again able to significantly improve their revenue in comparison to the previous year. In the areas of software asset management and consulting services, the revenue at the end of the year was 9.0 million EUR, approximately 2.5 million EUR above the plan, and therefore 2.6 million EUR higher than the previous year. Focusing on expanding high quality consulting services, addition of highly motivated and well trained personnel, as well as investments in sales and marketing paid off. With an EBITDA of 0.7 million EUR (plan: 0.3 million EUR) the company was able to reach a profit increase of around 73 percent as compared to the previous year (0.4 million EUR). Due to the high quality of the consulting services offered, as well as existing partnerships with notable manufacturers and system houses, the company began the fiscal year 2017 with a volume of orders of around 6.8 million EUR as of 31 December 2016. Based on this, we are expecting strong growth and a successful fiscal year in 2017.

Softline Services GmbH in Aschheim near Munich (previously Prometheus GmbH[6]), also experienced very positive developments in the 2016 fiscal year. While revenue increases of 11 percent, from 1.8 million EUR to 2.0 million EUR were noted in recruiting, the revenue in the managed field/ IMAC services increased by 26 percent, from 3.4 million EUR in the previous year to 4.2 million EUR. The company thus exceeded the planned revenue (5.8 million EUR) by a total of 0.5 million EUR[7]. Due to revenue increases in both areas, a positive operative result of 0.1 million EUR on the EBITDA level and an increase from the previous year (-0.2 million EUR) was possible.

XPERTLINK GmbH in Aschheim – a subsidiary of Softline Services GmbH – was not operational in 2016. 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 the companies Softline Solutions BV, Nieuwegein, The Netherlands, and Softline Solutions NV, Brussels, Belgium), with headquarters in Nieuwegein, which concentrates on the subject of software asset management reported in 2016 a small decline in sales, despite a continuously high volume of orders, from around 4.2 million EUR to 4.0 million EUR (plan: 4.0 million EUR). While the revenue for services dropped by around 0.2 million EUR in comparison to the previous year, due to project delays caused by

---

5 The BilRUG (German Accounting Standards Implementation Act) was announced in the Federal Law Gazette on 22 July 2015. Changes therefore only apply to fiscal years beginning on 31 December 2015. The most important changes in the BilRUG include a new definition of revenue, and well as concretion and expansion of appendix definitions, and concretion in the area of Group reporting.

6 Change of name from Prometheus GmbH to Softline Services GmbH on 16 March 2017

7 including 0.1 million EUR internal cost allocation

customers, the revenue from license sales rose by around 0.1 million EUR. Despite a significant sales and profits increase in the fourth quarter of 2016, the missing margin in the service area could not be compensated for by the increased software sales. With an operative result of 65 TEUR on the EBITDA level, Softline Benelux was unable to build on to the previous years results of 239 TEUR. Due to the positive sales and profit development in the fourth quarter, as well as an order backlog of 4.7 million EUR as of 31 December 2016, we expect a significant increase in revenue for the current fiscal year of 2017, with a positive EBITDA by the end of the year.

The French subsidiary **Softline Solutions France**, located in Vélizy near Paris, was able, after a decline in sales in the previous years, to reach a revenue increase from 2.7 million EUR in the previous year to 3.1 million EUR in 2016. After the decline in sales in 2015, activities in the area of software asset management were reduced again at the beginning of 2016, and focus was put on the area of software sales. Unfortunately, the planned operative profit was not made, due to the overall lower margin in software sales. The company closed with an EBITDA of -141 TEUR.

The company **Softline Solutions UK**, founded at the end of 2015 and located in London, made revenue of around 21 TEUR in the fiscal year 2016 and closed with operational losses of -11 TEUR. In 2017, the company is expecting a significant increase in revenue with a positive EBITDA.

Subsidiary company revenues[8]

		2016	2015
Softline Solutions GmbH // Germany	TEUR	8,956	6,354
Softline Services GmbH // Germany	TEUR	6,324	5,169
XPERTLINK GmbH // Germany	TEUR	0	0
Softline Solutions B.V. // The Netherlands	TEUR	3,853	3,969
Softline Solutions N.V. // Belgium	TEUR	190	250
Softline Solutions France // France	TEUR	3,064	2,738
Softline Solutions UK // UK	TEUR	21	0

Subsidiary company EBITDAs[9]

		2016	2015
Softline Solutions GmbH // Germany	TEUR	716	414
Softline Services GmbH // Germany	TEUR	104	-233
XPERTLINK GmbH // Germany	TEUR	0	-3
Softline Solutions B.V. // The Netherlands	TEUR	61	291
Softline Solutions N.V. // Belgium	TEUR	4	-52
Softline Solutions France // France	TEUR	-141	-66
Softline Solutions UK // UK	TEUR	-11	0

8 According to published financial statements (unattested)

9 According to published financial statements (unattested) the close for Softline Services GmbH, Softline Solutions B.V. and Softline Solutions France were corrected once the close was complete for Softline AG, due to internal Group transfers. The EBITDA of Softline Services GmbH improved from 58 TEUR to 104 TEUR, the EBITDA of Softline Solutions B.V. improved from 6 TEUR to 61 TEUR, and the EBITDA of Softline Solutions France improved from -166 TEUR to -141 TEUR.

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

Softline Solutions GmbH // Germany
Softline Solutions GmbH is a manufacturer-independent IT consulting company with headquarters in Leipzig. National and international customers trust the competence of the IT infrastructure specialists in the core business areas of software asset management (SAM)/ license management, IT security, virtualization and infrastructure management.

Softline Services GmbH // Germany
From their founding in 2001, Softline Services GmbH (previously Prometheus GmbH) is one of the leading 'service provider for service providers' for system houses, hardware and software manufacturers, and other ICT service providers. Core competencies of Softline Services GmbH include mastery of intensive IT projects as well as recruiting and placement of competent IT specialists.

XPERTLINK GmbH // Germany
XPERTLINK GmbH, a 100% subsidiary of Softline Services GmbH, provides quick and competent support to customers when searching for and selecting top ranked IT specialists in the SAP area. XPERTLINK also uses an automated survey process for placing qualified ICT experts (both freelancers and employees). In 2014, the service range of this company was integrated with Softline Services GmbH.

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. As of mid-2014, Softline Solutions France offers IT consulting and support services on the French market, with a focus on software asset management/license management.

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

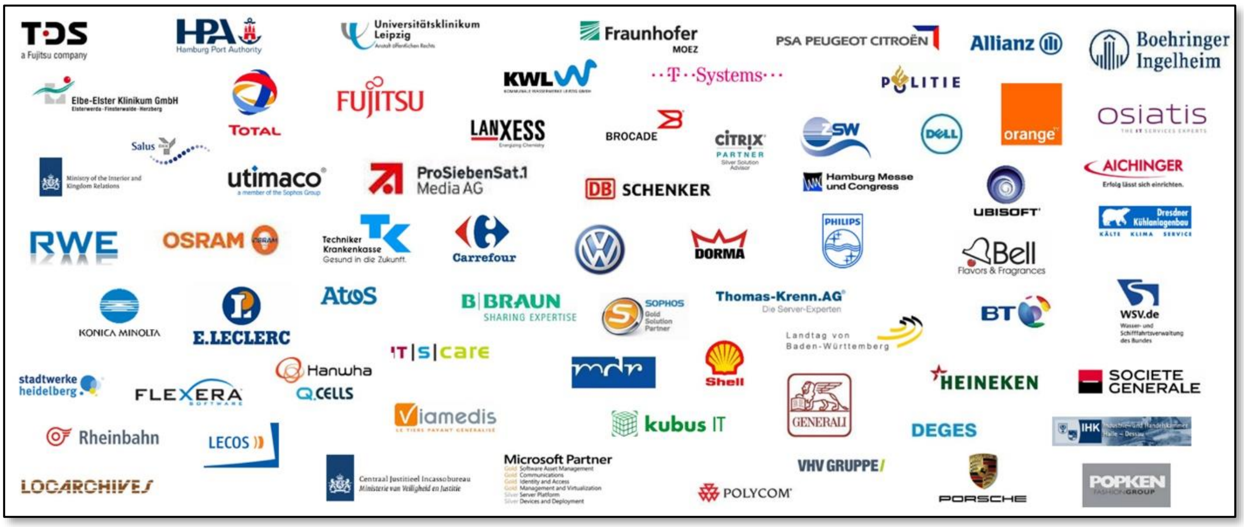
Other changes at Softline AG & the Softline Group

For the third time in a row, in the middle of March 2016, the Softline Group was named “EMEA Partner of the year” by Flexera Software, the leading global provider of software solutions for software licensing, compliance, security and installation. With this award, Flexera Software once again recognizes the excellent performance of the Softline Group in the area of software asset management in 2016. The fact that the Softline Group was named EMEA Partner of the year confirms without a doubt their international presence and many years of expertise in the software asset management sector.

Softline also had an overall excellent performance in 2016 with their strategic core competencies software asset management, IT security, virtualization, and infrastructure management. Both directly and via their partners, the Softline Group was able to win large national and international projects with well-known banks, insurance groups, and auto manufacturers.

Using integrated solutions and services, Softline AG subsidiaries support their customers as they manage, monitor, control, protect and optimize their IT assets. The Softline Group’s goal is to become the market leading provider of independent IT consulting and IT asset management in Europe. As a service provider for high quality and holistic IT consulting services, it is very important for the Softline Group to build strategic partnerships with leading market IT system houses, such as T-Systems, Dell, and Fujitsu, and to consolidate long-term business relationships with mid-sized companies and international corporations.

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 sum, as of 31 December 2016, had a volume of 11.1 million EUR (previous year: 10.6 million EUR).

Softline AG's fixed assets on the reporting date amounted to 11.0 million EUR. Loans to affiliated companies increased by EUR 0.6 million to EUR 6.7 million in relation to noncurrent assets totalling EUR 10.4 million as at 31 December 2015.

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

On the liabilities side of the balance sheet, equity decreased by a total of EUR 0.5 million from the previous EUR 6.6 million on the balance sheet date of the previous year to EUR 6.1 million due to an increase in the loss carried forward by EUR 1.0 million and a reduction of the net loss for the year by EUR 0.5 million.

Reserves increased by TEUR 50 to TEUR 350 as a result of the formation of provisions for employees and the Extraordinary Shareholders' Meeting in December 2016.

At EUR 4.6 million as at the balance sheet date of 31 December 2016, liabilities increased by EUR 0.9 million above the previous year's level (EUR 3.8 million) due to increased loan liabilities to main shareholders.

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 reporting year, the subsidiaries Softline Solutions GmbH, Leipzig, Softline Services GmbH, Aschheim, and Softline Solutions BV, the Netherlands repaid total loans in the amount of EUR 0.9 million to the parent company.

Due to the transfer of a loan granted by Management and Beteiligungs GmbH, Baden-Baden from Softline Services GmbH to Softline AG (principal of TEUR 550 and interest of TEUR 104), the loan provided by Softline AG to Softline Services GmbH, Aschheim has again increased in financial year 2016, this time by EUR 0.7 million. In addition, Softline AG increased the loan to the company by a further EUR 0.1 million in the course of 2016 due to the business developments at Softline Services GmbH.

Loan repayments were partially offset against receivables and liabilities between Softline AG and its subsidiaries. This resulted in loan repayments to Softline AG of EUR 0.5 million in financial year 2016. As at December 31, 2016, the loans granted to Softline Solutions GmbH amounted to TEUR 3,597 (previous year: TEUR 3,728), loans to Softline Services GmbH amounted to TEUR 2,542 (previous year: TEUR 1,791), and loans to Softline Solutions Netherlands B.V. were TEUR 516 (previous year: TEUR 592).

S.K. Management and Beteiligungs GmbH, Baden-Baden granted waivers of payment in exchange for income and adjustment bonds in the amount of TEUR 1,000. Softline AG transferred these income and adjustments bonds amounting to TEUR 1,000 to the subsidiaries Softline Solutions GmbH, Leipzig, and Softline Services GmbH, Munich. For financial year 2016, the calculated interest on the loans amounted to TEUR 139. None of this amount was paid out during the year 2016. Interest from the previous year in the amount of TEUR 540 was also not paid out.

Capital structure

As at year end 2016, the subscribed capital of Softline AG was EUR 10,283,084. No further loans were arranged or repaid.

Loans amounting to TEUR 2,925 were due on 31 March 2014; the remaining loans totalling TEUR 400 were due for repayment on 31 December 2014 and 31 December 2016, respectively. Subordination agreements were concluded with majority shareholder S.K. Management- und Beteiligungs GmbH, Baden-Baden regarding shareholder loans so that no liquidity charges resulting from the loan repayments will arise in 2015 and 2016. As in the previous year, there are no off-balance-sheet commitments.

Investments

The Softline AG Company undertook no significant investments in financial year 2016.

Liquidity

Due to the positive development of the business and the factoring implemented in all the operating subsidiaries, as well as the extensive number of current account lines already established in 2014, the liquidity of Softline AG and the Softline Group was constantly in balance throughout 2016.

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 2017. The focus will be on the expansion of business activities in the German-speaking region (Germany, Austria and Switzerland) as well as in the Nordic region (Denmark, Finland, UK, Norway and Sweden), this in particular by means of investments in the sales and consulting activities. Operating costs should remain at the level of the previous year.

According to Management Board planning, the liquidity of the Softline Group is ensured until the end of 2018 and beyond.

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.

In financial year 2016, Softline AG generated revenues of EUR 0.9 million (previous year: EUR 0.7 million). This includes, in particular, the group allocation (EUR 0.6 million), as well as the further calculation of expenses, e.g. for rent and leasing costs (EUR 0.3 million). As already explained, the reported revenue for financial years 2015 and 2016 also included income from group allocation due to intercompany services as a result of the redefinition of revenue for financial years subsequent to 31 December 2015 in the Accounting Directive Implementation Act (Bilanzrichtlinien-Umsetzungsgesetz, hereinafter BilRUG).[10]

Other operating income remains at TEUR 80, the same as the previous year's level. This includes, in particular, transfers from provisions amounting to TEUR 78.

Given that Softline AG is not operationally active, material costs consisting of purchases services were TEUR 255 (previous year: TEUR 138). Personnel costs rose to TEUR 252 from TEUR 72 in the previous year.

Write-downs on intangible assets and property, plant and equipment were TEUR 9, remaining at the same level as the previous year.

Other operating expenses were EUR 0.9 million, rising slightly from the previous year (EUR 0.7 million). In addition to rent, IT, car and travel costs (EUR 0.1 million), these expenses included costs for the Finance Centre and management of Softline AG (approx. EUR 0.1 million), legal and consulting costs (EUR 0.2 million) and insurance (EUR 0.1 million). The increase from the previous year is due to such factors as costs for the Extraordinary Shareholders' Meeting of 20 December 2016 (approx. EUR 0.1 million) and the costs for Business Development (EUR 0.2 million).

No write-downs of financial assets occurred in financial year 2016. No income tax was payable due to a negative tax result.

EBITDA and EBIT are key control parameters for Softline AG and its subsidiaries, in addition to revenue and contribution margin. Since Softline AG does not have an operating business, no planning was made for revenue and contribution margin. In terms of EBITDA, Softline AG registered TEUR -411 and thus lower than the result from previous year (TEUR -211) due to the one-off costs for tax and legal advice in connection with the Extraordinary Shareholders' Meeting in December 2016. Softline AG recorded EBIT of TEUR -420, which is a significantly better result that in the previous year (TEUR -1,020), as a write-down of financial assets in the amount of TEUR -800 adversely affected the result of the previous year.

---

[10] 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.

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 2016, Softline AG, the parent company, had no other employees than the CEO. The entire Softline Group employed an average of 146 employees over the same period and 147 employees as at 31 December 2016.

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 possesses a central reporting and control system, whose continuously prepared and processed data is a sufficient basis for meeting the information requirements of management regarding the early detection of risks that could threaten the company's existence appropriate to the size and comprehensible organisation of the Softline Group, but must be constantly 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.

Due to streamlined management, the management and control of the individual divisions and companies is significantly 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 strongly 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 and 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 that 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 2018.

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.

The default risk for receivables or planned customer projects also leads to a possible liquidity risk, which is countered by intensive liquidity and cash flow management across 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 subject to interest rate risks, since the debt financing of the Softline Group is essentially covered by shareholder loans with defined interest rates. 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 economic forecast published by the Institute for the World Economy (IfW) at the University of Kiel on 9 March 2017, the German economy is in its fifth year of growth. Various early indicators clearly point upward, the order books of industry are full. The annual growth rate of the gross domestic product (GDP) in 2017 should remain below the previous year's level, with a value of 1.7 percent due to the many holidays that fall on work days. GDP should grow slightly by 2.0 per cent in 2018. According to the IfW, the driving force is no longer just consumption, which is losing momentum, but also exports and investments. Inflation should rise to 1.8 percent this year.

In the Eurozone, the economic recovery remains generally moderate but stable, although there are initial indications of further revival. As a consequence, researchers expect an increase in GDP of 1.8 percent (2017) and 1.7 percent (2018).[11]

According to the economic survey of IT companies conducted by Bitkom-Research and issued on 25 January 2017, optimism is prevalent in the Bitkom industry. 80 percent of companies expect that revenue will increase in the first half-year of 2017, compared to the same period in the previous year. Revenue from sales of IT products and services in Germany will increase by 1.7 percent over the previous year to EUR 160.5 billion. For 2017, companies expect 1.2 percent growth to EUR 162.4 billion. According to Bitkom's Chief Executive Officer Dr. Bernhard Rohleder, the signs in the digital sector continue to point to growth and, above all, new jobs. For example, eight out of ten software companies (85 percent) and IT services (83 percent) expect growing sales, while only 5 percent and 9 percent respectively expect a decline.

While two-thirds (65 percent) of the Bitkom sector are planning to create additional jobs this year, eight percent anticipate a reduction in the work force. This positive development has nevertheless a dark side: a growing shortage in well-qualified personnel. Two-thirds of the Bitkom industry (65 per cent) are hampered by the workforce situation. The political conditions (33 per cent) and the financing conditions (11 per cent) are considered as additional negative factors.

Respecting CeBIT 2017, Bitkom welcomes the fact that the "economy" is once again becoming the main focus of the conference, since, according to Rohleder, digital transformation is both an opportunity and a challenge for the German economy.[12]

With a clear strategy on expanding the consulting and service business in the German-speaking region, as well as in Eastern and Northern Europe, emphasising the core activities of IT asset management, IT security, virtualisation, and infrastructure management, the Softline group is also showing signs of growth. Softline AG and its subsidiaries are coping with the lack of qualified employees by obtaining early commitment of junior employees by, for example, internships, involvement in master's or bachelor's theses, and providing training for IT specialists.

---

[11] IfW, Media Information, 09 March 2017 – Economic Outlook of the IfW: Broad economic upswing in Germany
[12] Bitkom Press Release of January 25, 2017 "Before the CeBIT: Bitkom industry on course for growth"

The continued acknowledgement as EMEA partner of the Year by Flexera Software (now for the fourth time in a row) as well as the already strong presence of the Softline Group, by means of offices or projects, in the Benelux countries, Scandinavia, Switzerland, Austria, and other regions provide confirmation of successful work and a positive market perception.

As in the previous year, IT security, cloud computing, and virtualisation are the most important digital topics of 2017. The Softline Group has, in recent years, been concentrating on development and expansion in precisely these areas. In this way, it has created a basis, as a "trusted advisor", for becoming the independent European market leader in IT Asset Management under the motto of "Managing Compliance, Control and Cost Savings for your IT".

Due to the successful business development of Softline AG subsidiaries, the liquidity of Softline AG continues to develop very positively due to both the repayment of intercompany loans and future profit allocations by subsidiaries. The restructuring of the balance sheet by conversion of loans into equity, which was adopted in 2016 and approved by the Shareholders' Meeting, also results in a significant reduction in liabilities to third parties and a sustained increase in equity. 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.

As in the previous year, we expect significant revenue and earnings growth in 2017, particularly in the core business areas of software asset management, consulting services (IT security, virtualisation, infrastructure management) and managed services. Based on an order backlog of about EUR 17.6 million at group level as at 31 March 2017 (compared to EUR 13.8 million as at 31 December 2015), we expect sales growth of 10 to 15 percent in 2017 with an EBITDA margin of approx. 4 to 5 percent. In terms of EBITDA, the group of companies is expected to generate EUR 0.8 million in 2017 and EUR 1.5 million in 2018.[13]

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

---

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

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

As in the previous year, the Softline Group is pursuing the goal of becoming the manufacturer-independent European market leader for IT asset management. With integrated services ranging from strategic design to implementation and including the care-free operation of technologies and processes, we will help our customers achieve compliance (both legally and in terms of IT security), control, protection and optimisation of their IT assets. Focusing on IT asset management, we will continue the internationalisation of our business activities, particularly in the regions of Germany, Austria, Switzerland, Northern and Eastern Europe.

In addition, we will continue to develop solutions, products, services and business platforms, and to expand our collaboration with our long-standing global partners in software asset management, vulnerability management, IT security and IT services.

According to Gartner, the ITAM world is going to change, as increasingly more of these assets will be in the cloud, virtual or mobile (so-called "CVM assets"). 73 per cent of large companies already use the cloud or plan to use it, and 88 per cent have a "cloud first" strategy. Given this change and the increasing number of assets, the requirements for software asset management are also increasing. The "When, Where, How, and Why" in Software Asset Management will change and hence the challenges of identifying, analysing, validating, verifying, testing and implementing professional tools and processes.

The Softline Group is the independent corporate consultancy that focuses precisely on these tasks and challenges. Possessing highly qualified consultants in both IT asset management and IT consulting, the companies of the Softline Group implement solutions tailored to their partners and customers. The Softline Group is responding to the increasing demand for high-quality services in all portfolio elements offered by the Softline Group by expanding the organisation in the Managed Services segment. After successful implementation of customised solutions, the Softline Group is, as a result, able to operate them for or on-site at the customer’s location in collaboration with the customer's service team.

Financial outlook

After the successful restructuring of the Softline Group over the last few years in terms of organisation, revenue and earnings, it was still necessary to implement sustained restructuring of the balance sheet in order to significantly reduce liabilities and the resulting interest burden. The capital reduction implemented at an Extraordinary Shareholder's Meeting at the end of 2016 and subsequent capital increase through incorporation of loans as a contribution in kind made it possible for Softline AG to reduce liabilities to third parties from approx. EUR 4.6 million to approx. EUR 1.0 million.[14] Registration of the proposed capital reduction in the Commercial Register occurred on 21 April 2017. The capital reduction was completed on 12 May 2017 and notification of the implementation of the capital reduction terminated on 29 May 2017. Incorporation of the capital increase through the conversion of loans into equity terminated on 30 May 2017. With registration of the capital increase in the Commercial Register, the annual charge for loans decreased from TEUR 171 in the previous year to approx. TEUR 94 in 2017.

This balance sheet restructuring made it possible for the Softline Group to supplement talks with key investors and shareholders by engaging in serious discussions with future investors and credit institutions regarding further financing options for the planned investments both in the existing organization and possible 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 May 2017

Softline AG

Martin Schaletzky
CEO

[14] There is a debt waiver for the loan of EUR 1 million. The receivable shall be resumed as soon as the company generates an annual surplus of EUR 200,000 (before adjustment of provisions, distributions of profits and recognition of the resurgent receivable as a liability) and without causing any over-indebtedness or insolvency.

4 Company financial statements

4.1 Income statement

			2016 EUR	2016 EUR	2015 EUR
1.	Revenue			891,929.28	730,486.79
2.	Other operating income			80,133.54	83,234.51
3.	Material costs				
	a)	Expenditures for materials and suppliers, and for purchased goods	0.00		-46,707.27
	b)	Expenditures for purchased services	-254,619.08		-138,216.14
				-254,619.08	-184,923.41
4.	Personnel costs				
	a)	Wages and salaries	-228,841.73		-160,875.19
	b)	Social security	-23,590.64		-19,839.27
				-252,432.37	-180,714.46
5.	Write-downs on non-current intangible assets, property, plant and equipment			-8,991.39	-8,625.16
6.	Other operating expenses			-875,660.90	-659,512.99
7.	Income from equity investments			0.00	0.00
	-	Of which from affiliated companies: EUR 0.00 (Previous year: EUR 0.00)			
8.	Write-downs of financial investments and securities in current assets			0.00	-800,000.00
9.	**Operating result (EBIT)**			**-419,640.92**	**-1,020,054.72**
10.	Other interest and similar income			140,651.66	174,417.77
	-	Of which from affiliated companies: EUR 140,642.22 (Previous year: EUR 166,958.33)			
11.	Interest and similar expenses			-179,956.14	-173,955.20
	-	Of which from affiliated companies: EUR 39,292.28 (Previous year: EUR 52,115.75)			
12.	**Results from ordinary operations (EBT)**			**-458,945.40**	**-1,019,592.15**
13.	Other taxes			1.28	0.00
14.	**Annual result (EAT)**			**-458,944.12**	**-1,019,592.15**
15.	Profit/loss carried forward from previous year			-14,655,757.36	-13,636,165.21
16.	Balance sheet result			-15,114,701.48	-14,655,757.36

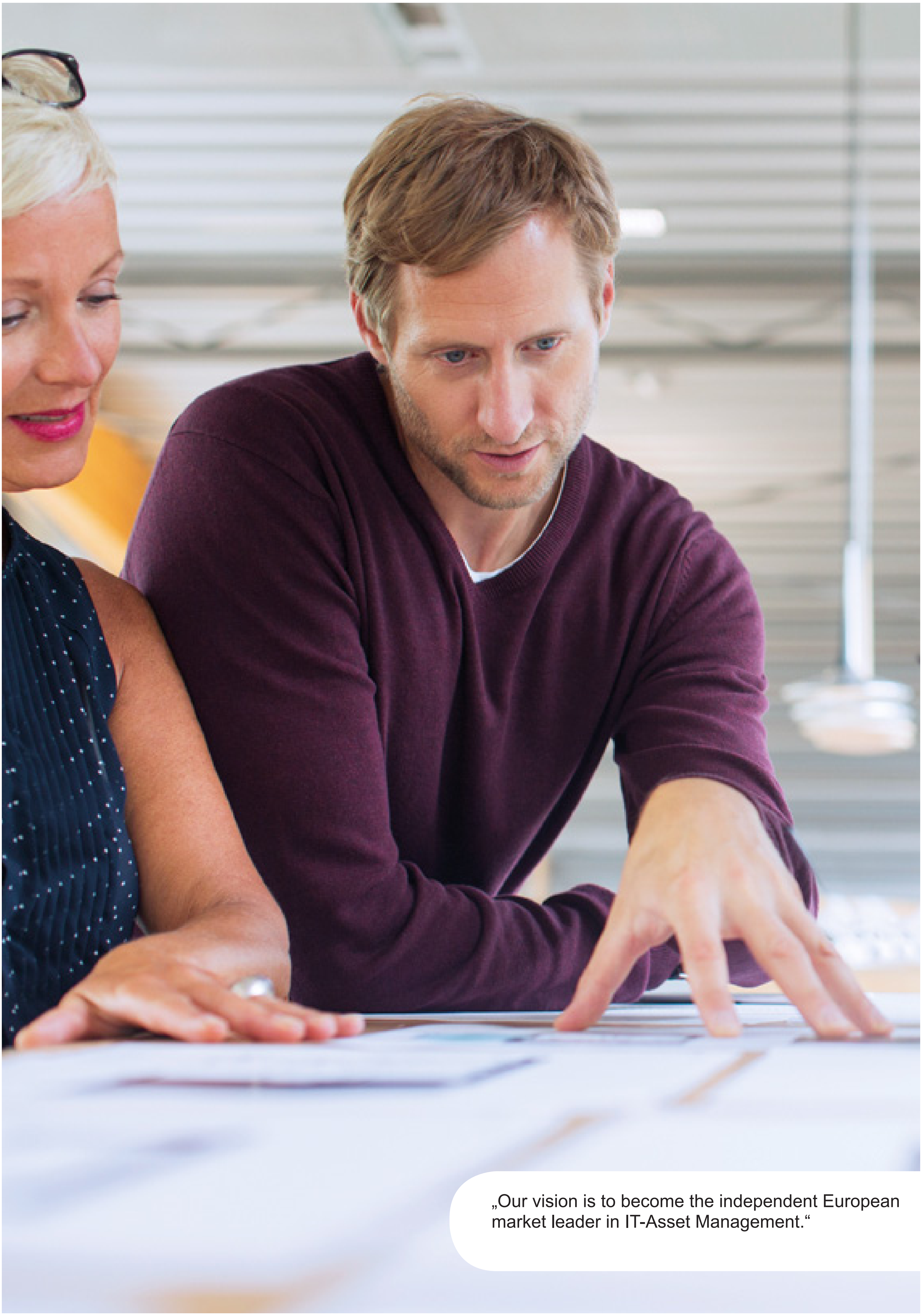
4.2 Balance sheet

ASSETS

		EUR	EUR	EUR
		31.12.2016	31.12.2016	31.12.2015
A.	**NONCURRENT ASSETS**			
I.	**Intangible non-current assets**			
1.	Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and values	28,786.35		22,024.60
2.	Prepaid expenses	0.00		0.00
			28,786.35	22,024.60
II.	**Property, plant and equipment**			
	Other equipment, operating and office equipment		4,510.31	4,541.73
III.	**Financial investments**			
1.	Shares in affiliated companies	4,281,522.99		4,281,522.99
2.	Loans to affiliated companies	6,655,767.71		6,111,734.24
			10,937,290.70	10,393,257.23
B.	**CURRENT ASSETS**			
I.	**Receivables and other assets**			
1.	Trade receivables	0.00		0.00
2.	Receivables from affiliated companies	0.00		116,295.13
3.	Other assets	76,249.66		50,000.75
			76,249.66	166,295.88
II.	**Cash and cash equivalents**		1,584.33	689.67
C.	**DEFERRED INCOME**		28,662.69	23,821.22
			11,077,084.04	10,610,630.33

LIABILITIES

		EUR	EUR	EUR
		31.12.2016	31.12.2016	31.12.2015
A.	**EQUITY**			
I.	**Subscribed capital**	10,293,084.00		10,293,084.00
II.	**Capital reserve**	10,921,240.15		10,921,240.15
III.	**Balance sheet loss**	-15,114,701.48		-14,655,757.36
			6,099,622.67	6,558,566.79
B.	**PROVISIONS**			
	Other provisions		348,343.03	298,790.23
C.	**LIABILITIES**			
1.	Amounts owed banks	0.00		19,397.69
2.	Trade payables	68,730.40		21,298.70
3.	Amounts owed affiliated companies	820,596.01		844,739.62
4.	Other liabilities	3,739,791.93		2,867,837.30
	– of which tax payables: EUR 4,479.76 (Previous year: EUR 5,300.16)		4,629,118.34	3,753,273.31
	– of which social security liabilities: EUR 0.00 (Previous year: EUR 0.00)			
D.	**DEFERRED INCOME**		0.00	0.00
			11,077,084.04	10,610,630.33



„Our vision is to become the independent European market 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 2016 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. This assessment is based on the decision of the Extraordinary Shareholders’ Meeting of 20 December 2016 on the increase of the equity capital of Softline AG by EUR 685,081 by the issue of 685,081 new bearer shares with a calculated share in the equity capital of EUR 1.00 each. Subsequently, various liabilities totalling EUR 3,630,930 were incorporated in the form of a contribution in kind to the exclusion of subscription rights of shareholders in Softline AG. Based on the company planning submitted for this purpose, financing is ensured at all times over a three-year period from 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.

Transition to the Accounting Directive Implement Act (BilRUG) took place in 2016. The previous-year figures for the first-time adoption of the German Commercial Code (HGB) incorporating BilRUG have been adjusted in accordance with § 75(2)(1) of the Introductory Act to the German Commercial Code (Einführungsgesetz zum HGB). This ensures comparability of the form of presentation (§ 265(1) HGB) as well as the previous-year amounts (§ 265(2) HGB).

5.2 Accounting and evaluation methods

The following were unchanged for the preparation of the annual financial statements Accounting and valuation methods

Intangible noncurrent assets and **property, plant and equipment** are stated at cost and, if they are subject to wear and tear, are written down according to their economic useful lives according to scheduled depreciation / amortization.

Write-downs were calculated on a straight-line basis of the expected useful lives 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.

Other provisions are based on the necessary amount of the necessary repayable according to reasonable commercial judgement and cover all identifiable risks arising from uncertain liabilities as well as any imminent losses from pending transactions. Provisions with a residual term of more than one year are discounted at their average market interest rate over the past seven financial years applied to their remaining term, as stipulated in § 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	-3,908	561
Softline Services GmbH, Aschheim	100.0	-3,131	9
XPERTLINK GmbH, Aschheim [1)]	100.0	-386	0
Foreign			
Softline Solutions Netherlands BV, Nieuwegein, the Netherlands	100.0	-263	-46
Softline Solutions NV, Antwerp, Belgium [2)]	100.0	-744	0
Softline Solutions France SAS, Vélizy, France	100.0	562	-170
Softline Solutions Ltd., London, United Kingdom	100.0	16	-13

[1)] through Softline Services GmbH, Aschheim

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

The shareholding in Softline Solutions GmbH, Leipzig, with a book value of TEUR 100 has been adjusted by TEUR 25 from previous years.

Other loans relate to loans to Softline Solutions GmbH, Leipzig, of TEUR 3,597, Softline Services GmbH, Aschheim, of TEUR 2,542, and Softline Solutions Netherlands BV, Nieuwegein, the Netherlands, of TEUR 516 and Softline Solutions NV, Antwerp, Belgium Of TEUR 1.

The loan granted to Softline Services GmbH is adjusted to TEUR 800.

In 2014, waivers of payment were granted in exchange for income and adjustment bonds in the amount of TEUR 1,000, which were already recognised in 2013 as value adjustments. The waivers were recognised in the amount of TEUR 600 for Softline Solutions GmbH, Leipzig, and TEUR 400 for Softline Services GmbH, Aschheim.

The loan granted to Softline Services NV, Antwerp, Belgium is adjusted to the nominal value of TEUR 660.

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. Other assets include TEUR 36 with a residual term of more than one year. This relates to deposits.

Subscribed capital

	31.12.2016	31.12.2015
Number of shares (nominal value EUR 1.00)	10,298,084	10,298,084
Equity capital (in EUR) *	10,298,084	10,298,084
Treasury shares (in EUR)	5,000	5,000
Subscribed capital	10,293,084	10,293,084

* Includes the equity capital of treasury shares

Extraordinary Shareholders' Meeting of 20 December 2016

The following capital measures were adopted at the Extraordinary Shareholders' Meeting on 20 December 2016 but were not yet fully entered in the Commercial Register when preparation of the annual financial statements was completed. No consideration was given in these financial statements as at 31 December 2016, since the entries in the Commercial Register did not or will not take place until 2017:

1. Resolution on the reduction of the equity capital of Softline AG by withdrawing shares by means of the simplified recovery procedure

   a. The equity capital of Softline AG amounting to EUR 10,298,084, divided into 10,298,084 bearer shares with a calculated share in the equity capital of EUR 1.00 each, shall be decreased by EUR 4.00 for the purpose of rounding to EUR 10,298,080.00 in order to achieve an equity capital which can be divided by ten (10) and to enable execution of agenda item 3. The reduction shall be effected by the cancellation of four (4) bearer shares, which Softline AG received from shareholder Martin Schaletzky, Thomastr. 12, 86179 Augsburg, Germany, free of charge in simplified form pursuant to § 237(3)(1) AktG for the purpose of the elimination of these membership rights. The amount of the share capital (EUR 4.00) removed by the capital reduction, shall be included in the capital reserve pursuant to § 237(5) AktG.

   b. The Management Board is authorised, subject to the approval of the Supervisory Board, to determine the further details of the reduction of equity capital and its implementation.

2. Resolution on the reduction of equity capital of Softline AG by means of an ordinary capital reduction through merging shares pursuant to § 222 ff AktG.

    a. The equity capital of Softline AG, which after the capital reduction by way of the simplified recovery procedure amounts to EUR 10,298,080 according to agenda item 2 and in 10,298,080 bearer shares with a calculated share in the share capital of EUR 1.00 each, shall be reduced by EUR 9,268,272 to EUR 1,029,808. The capital reduction shall be carried out in accordance with the provisions on ordinary capital reductions (§ 222 ff AktG). The capital reduction shall be undertaken in such a way that the shares of Softline AG will be aggregated in the ratio 10:1, i.e. ten bearer shares shall be merged into one bearer share with a calculated share in the equity capital of EUR 1.00. The capital reduction must be carried out without delay after registration of the capital reduction resolution in the Commercial Register.

    b. The capital reduction serves to offset losses; a repayment of the equity capital shall not take place. The Management Board is instructed to offset the amount of the equity capital freed by the capital reduction with the net loss reported on the balance sheet as at 31 December 2015.

    c. The Management Board is hereby authorized, subject to the approval of the Supervisory Board, to determine the further details of the reduction of share capital and the implementation thereof, in particular the regulation of fractional interests (fractional shares).

    d. § 4 (1) of the Articles of Incorporation shall be amended as follows: The company's share capital is EUR 1,029,808.00 (in words: one million twenty-nine thousand eight hundred eight euros) and is divided into 1,029,808 shares.

3. Resolution on the increase of the share capital of Softline AG by EUR 685,081.00 through the issuance of 685,081 new bearer shares with a notional fraction of the share capital of EUR 1.00 each in exchange for contribution in kind (contribution of various debts receivable in a total value of EUR 3,630,930.00), to the exclusion of any preemptive shareholder subscription rights.

    a) The share capital of Softline AG, reduced pursuant to the resolution under agenda items 2 and 3, shall be increased by EUR 685,081.00, from EUR 1,029,808.00 to EUR 1,714,889.00. The capital increase shall be effected through the issuance of 685,081 new bearer shares with a notional fraction of the share capital of EUR 1.00 per share, at a face value of EUR 1.00 per share ("face value"), thus resulting in a total issue amount of EUR 685,081,00. The difference between the total face value of the new shares and the value of the contribution in kind is allocated to the capital reserve pursuant to § 272 (2) No. 1, German Commercial Code. The new shares are entitled to a share in profits for the first time for the fiscal year ended 31 December 2016.

    b) The contribution in kind comprises receivables from Softline AG in a total amount of EUR 3,630,930.00.

On 21 April 2017, resolutions 1 and 2 were recorded in the commercial register, as a result of which the share capital comprises EUR 1,029,808.00. The amendment to § 4 (Share Capital) of the Articles of Incorporation as well as the addition of a new § 15 a to the Articles of Incorporation were also recorded in the commercial register.

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 shares were intended for use as part of an incentive program for the managing directors of the subsidiaries. In 2012, as part of the agreement reached with former Director Harry Kloosterman, a total of 100,000 treasury shares were transferred on a gratuitous basis. The treasury shares were acquired at a price of TEUR 277.

As at 31 December 2016, the company retains 5000 treasury shares. This corresponds to a fraction of 0.05% of the share capital (previous year: 0.05 per cent).

Authorized capital (2015/I)

The Annual General Meeting of 28 September 2015 resolved to amend § 4.3 (Authorized Capital) of the Articles of Incorporation. The authorized capital of 31 January 2013 (Authorized Capital 2013/I) was revoked. The Management Board has been authorized, by a resolution passed by the Annual Shareholder’s Conference on 28 September 2015, to increase the share capital either once or multiple times up to EUR 5.149.042,00, in each case subject to the consent of the Supervisory Board, until 28 September 2020 against cash contributions and/or contributions in kind; it shall be possible to exclude the shareholders' preemptive subscription rights (Authorized Capital 2015/I).

Capital reserve

The capital reserve remains EUR 10,921,240.15.

Net loss

The net loss includes a loss carry forward of TEUR 14,656.

Reserves

Other provisions essentially relate to costs incurred in connection with the annual financial statements (annual report, Annual Shareholder’s Conference, audit of the annual financial statements), Supervisory Board remunerations as well as personnel-related obligations and the Extraordinary Shareholder’s Conference.

Liabilities

Other liabilities include EUR 4 thousand from taxes and EUR 1 thousand from social contributions.

All figures in EUR thousand	**Total**	< 1 year	1 - 5 years	> 5 years
Liabilities Supplies & services	**69**	69	0	0
Liabilities of affil. companies	**820**	820	0	0
Liabilities, misc.	**3,740**	83	1,615	2,042
Total liabilities	**4,629**	**972**	**1,615**	**2,042**

Of other liabilities with a residual maturity of more than one year, TEUR 3,631 is used for purposes of the non-cash capital increase.

Contingent liabilities

There are a total of TEUR 456 in contingent liabilities from guarantees (assumption of debt of TEUR 1,006). 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 2016, there are rights from debtor warrants in the amount of TEUR 1,000 (previous year: TEUR 1,000).

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 2016, the shares held by S. K. Management- und Beteiligungs GmbH, Baden-Baden comprise 3,300,000 shares, thus corresponding to 32.0% 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 2016:

	Interest	
	EUR	%
S. K. Management- und Beteiligungs GmbH	**3,300,000**	**32.0**

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 – in spite of its not having a majority interest in the subscribed capital (32.0 per cent) – generally holds the majority of the votes present at the Annual General Meeting due to low attendance (de facto control).

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, granted the company loans in the amount of EUR 3.125.000,00, which currently carry 5.0 per cent interest. These loans performed as follows in the year under review:

Performance	**TEUR**
Loan waiver with debtor warrant (2014)	1,000
As at 1 January 2016	2,125
Repayments	0
Additions	550
As at 31 December 2016	2,675

There are loan agreements in place between S. K. Management- und Beteiligungs GmbH, Baden-Baden, and Softline AG, Leipzig, for all the loans granted. The interest rate on the loans is 5.0 per cent.

Loans in the amount of TEUR 2,925 were due for repayment on 31 March 2014; the remaining loans in the amount of TEUR 200 were due on 31 December 2014. All loans are furnished with a subordination agreement.

To secure the continued sustainable restructuring of the Softline Group in order to support it in the years to come, in September 2014 S. K. Management- und Beteiligungs GmbH, Baden-

Baden, agreed to grant Softline AG a debt waiver in exchange for a debtor warrant in a total amount of TEUR 1,000.[15]

By agreement dated 31 October 2016, a loan that was originally granted to Softline Services GmbH (formerly Prometheus GmbH), Aschheim/ Dornach, by S. K. Management- und Beteiligungs GmbH, Baden-Baden, pursuant to the loan agreement of 15 March 2012, was assumed by Softline AG. At the time of the assignment, the loan, including interest payments, amounted to TEUR 674.

In total, the interest calculated for the 2016 financial year amounted to EUR 138,540.24 (with Softline Services GmbH accounting for EUR 20,643.84). Of this amount, EUR 0.00 was paid off. Interest from previous years that has not yet been paid off amounts to EUR 539,222.21 (with Softline Services accounting for EUR 103,645.84). As at 31 December 2016, accrued interest liabilities amount to a total of EUR 677,762.45 (with Softline Services GmbH accounting for EUR 124,289.68).

b) Product deliveries and services

In the 2016 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 2016 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 2016, 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 2016

There were no contingent liabilities or other financial obligations in the 2016 financial year.

f) Delivery obligations not yet fulfilled as at 31 December 2016

As at 31 December 2016, there were no as yet unfulfilled delivery obligations.

---

15 The claim that was written off under the debt waiver shall be revived as soon as the company generates a net income of EUR 200,000 (before allocation to reserves, profit distributions and recognition of the revived receivable as a liability), without thereby leading to over-indebtedness or insolvency.

g) Unfulfilled purchase commitments as at 31 December 2016

As at 31 December 2016, 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 2016:

“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 May 2017

Martin A. Schaletzky

CEO

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 employ any employees in 2016.

Notices pursuant to § 20, German Stock Corporation Act

As required under § 20 of the German Stock Corporation Act, S. K. Management- und Beteiligungs GmbH, Baden-Baden notified that it owns more than a quarter of the shares.

Group structure

The Group voluntarily prepares consolidated financial statements as at 31 December 2016 in accordance with §§ 290 et seqq., German Commercial Code.

Significant events after the end of the financial year

At the beginning of January 2017, Softline AG agreed to enter into a partnership with the Hungarian consulting company IPR-Insights; this was done in order to respond to international demand. In view of the continuing growth of the Softline Group's international customer base, this partnership with the Budapest-based IT consultancy offers both access to the Eastern European market and access to a substantial resource pool in order to increase the Softline Group's flexibility.

As described in section C. 'Notes on the balance sheet' in "Extraordinary General Meeting of 20 December 2016", several corporate actions were resolved on. On 21 April 2017, resolutions 1 and 2 were recorded in the commercial register, as a result of which the share capital comprises EUR 1,029,808.00. The amendment to § 4 (Share Capital) of the Articles of Incorporation as well as the addition of a new § 15 a to the Articles of Incorporation were also recorded in the commercial register. The recording of resolution 3 (capital increase by EUR 685,081.00 to EUR 1,714,889.00, against contributions in kind) is still pending.

In addition to the foregoing, after the balance sheet date no further events of especial importance that would have led to a divergent presentation of the company's assets, financial and earnings position have occurred.

Proposed appropriation of profit

In 2016, Softline AG generated a net loss for the year in the amount of TEUR -459, whereas the balance sheet loss as at 31 December 2016 amounts to TEUR -15,115. The balance sheet loss will be carried forward.

In accordance with the resolutions regarding the capital reduction that have been passed and recorded, the reduction in the amount of TEUR 9,268 is to be offset against the balance sheet loss as of December 31, 2015 in the amount of TEUR 14,656. The loss carryforward as at 31 December 2017, including the net loss for 2016, amounts to TEUR -5,847.

Leipzig, 23 May 2017

Martin Schaletzky
CEO

„By focussing on our core portfolio and the opening up of new markets, we also expect a significant increase in revenue and results in 2017.“

6 Report of the Supervisory Board

In the 2016 financial year, the Supervisory Board of Softline AG exercised the duties incumbent on it by law and according to the Articles of Incorporation. It has regularly advised the Management Board and the entire management team regarding the management of the company, and has closely monitored and controlled their 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 information, both in writing and verbally, regarding the financial and earnings position, regarding liquidity, the respective business outlooks for the subsidiaries, and regarding matters of business policy and strategy. The Supervisory Board was informed in detail regarding planned and imminent actions. In particular, these were examined with regard to their lawfulness and expediency, and were discussed with the Management Board. Business transactions and the company's risk management were discussed in the same way, as was the company's strategic orientation.

During financial year 2016, five regular meetings of the Supervisory Board were held.

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.

Outside of the Supervisory Board meetings, the Chairman of the Supervisory Board maintained regular contact with the Management Board and the company's senior executives, discussing with them the company's strategy, business performance, liquidity situation, important business transactions and the company's risk management. In the 2016 financial year, the Chairmen of the Supervisory Board and the Management Board held recurring monthly meetings; such meetings were also held with other executives in the company.

The transactions submitted by the Management Board to the Supervisory Board for approval in accordance with § 111 (3), 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 Wirtschaftsprüfungsgesellschaft, which was elected to serve as statutory auditor, has examined the annual financial statements and management report as at 31 December 2016; in this process it consulted the accounting records and took the relevant statutory requirements into account. 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 during a meeting held on 23 May 2017 by the Supervisory Board and Management Board, in the presence of the statutory auditor. All of the questions put by 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 approves the annual financial statements prepared by Management Board. The annual financial statements are therefore deemed to have been adopted.

Dependency report

Pursuant to § 312, German Stock Corporation Act, the Management Board has prepared a dependency report regarding relationships with affiliated companies for the 2016 financial year. 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 disclosures contained in the report are correct,

2. payments by the company in connection with transactions referred to in the report were not unduly high.”

Following its own review, the Supervisory Board also comes to the final conclusion that there are no objections to be raised against the declaration made by the Management Board at the end of the report with regard to the relationships of the affiliated companies. 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 May 2017

Prof. Dr. Löschke
Chairman of the Supervisory Board

7 Audit opinion by the statutory auditor

To Softline AG, Leipzig

We audited the annual financial statements – composed of the Balance Sheet, Profit and Loss Statement and the Annex – including the accounting records and the management report of Softline AG, Leipzig, for the fiscal year from January 1, 2016 to December 31, 2016. 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. Section 6 of that report (Risk Report, Financial Risks) includes statements to the effect, among other things, that safeguarding the Company’s ability to meet its obligations at all times is critically dependent on the success of its subsidiaries' performance planning and on the ability to uphold and avail debt financing facilities.

Frankfurt am Main, 23 May 2017

Baker Tilly AG

Auditing company

Verena von Tresckow-Bronke	Alexandra Sievers
- Auditor -	- Auditor -

8 Contact & 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
Management Board	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 & Binding	IRprint GmbH Streit's Hof Poststraße 14/16 D-20354 Hamburg

softline Group