



ANNUAL REPORT 2018

January 1st 2018 till December 31st 2018

Softline AG Key Figures (German Commercial Code)

		2018	2017
Result			
Revenues	TEUR	654	705
Operating profit (EBITDA)	TEUR	-59	-328
Operating profit (EBIT)	TEUR	-324	-364
Annual earnings before taxes (EBT)	TEUR	-207	-240
Annual result (EAT)	TEUR	-229	-240
Annual profit (EAT) per share	EUR	-0,13	-0.14
Balance sheet			
Fixed assets	TEUR	9,987	10,493
Current assets	TEUR	76	153
Equity	TEUR	9,261	9,490
Equity ratio	%	93,89	88.86
Other			
Order Backlog Softline Group (as at 31-12)	TEUR	23.3	15.6
Employees of Softline AG	Number	-	-
Employees of the Softline Group	Number	190	176

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The Softline Group again significantly increased its revenue in 2018 for the fifth year in a row.

1 Letter to shareholders

Dear Shareholders and Readers,

As in the previous year, Softline AG and its subsidiaries were again able to significantly increase their revenues in the 2018 financial year, and the Group once again generated a positive consolidated result at all levels of earnings, albeit slightly below the previous year's result.

The Softline Group recorded a significant increase in sales for the fifth year in a row, especially in the areas of Software Asset Management and IT Consulting, with key concentrations on information and IT security as well as consulting with regard to infrastructure and virtualisation. We also saw an increasing demand for high-quality consulting services and holistic IT services in the areas of Managed Services and Recruiting.

Digitisation is making huge strides, and the challenges facing our large and medium-sized customers as well as the public sector and administration continue to grow. The nature and manner of working, communicating and travelling is changing rapidly. Existing IT systems that require updating as well as changing internal processes are growing in complexity and will continue to increase the demand for highly skilled specialists and service providers.

Under the slogan of "**Achieving Compliance, Control and Cost Savings for your IT**", engaging the highly qualified consultants and IT specialists employed by Group Companies and raising key issues with regard to Software Asset Management (SAM), Information and IT Security, Cloud and Future Data Centre and Digital Workplace, the Softline Group focuses on precisely these concerns.

In financial year 2018, we again invested heavily in the development of new employees for the above-mentioned core areas, as well as in the further training of the existing team.

As in previous years, we will not only continue the successful cooperation with our strong partners, but continue to expand it. New challenges and new technologies also require the expansion of our portfolio of services and products, which are enlarged and/or complemented through intensive partnerships with technology and market leaders. We will continue to focus on future international growth in Northern, Southern and Eastern Europe, but we will also continue to build up our market share in our key portfolio areas of Software Asset Management (SAM), Information and IT Security, Cloud and Future Data centre and Digital Workplace with equal amounts of intensity.

We have identified the needs for improvement in various divisions and subsidiaries and are already working hard to continue the positive development of the Softline Group by optimising our processes and cost structures and by continuing to focus on our strengths.

Dear Shareholders,

As in financial year 2017, we once again generated a positive consolidated result in financial year 2018 at all levels of earnings, albeit slightly below the previous year's level.

Based on a high order backlog at the beginning of the year, we succeeded in further expanding our overall order backlog and sales, even though we did not, unfortunately, quite meet the sales

and earnings targets that we set ourselves at the beginning of the year for the various reasons that we have explained in detail in the Management Report.

Despite a flu epidemic resulting in more than 200 sick days and the strongly stagnating software business in our French subsidiary, we were able to increase Group sales to EUR 26.2 million, approx. 7.5 percent above the previous year, and the order backlog from EUR 15.6 million as at 31 December 2017 to more than EUR 23.3 million as at 31 December 2018.

In Germany alone, we have invested more than 600 days in the further education of our employees. Since the beginning of January 2019, we already have almost 200 highly motivated, well-qualified colleagues on board (190 employees as at 31 December 2018) and plan to continue growing significantly in 2019.

The strategic decisions made in recent years, the substantial investments in our employees and the ongoing optimisation of our business processes and the expansion of our service and product portfolio are all bearing fruit. But we still have a lot to do.

We will continue to expand our business activities in the D-A-CH region as well as in Northern, Eastern and Southern Europe by focusing on our core portfolio of Software Asset Management (SAM), Information and IT Security, Cloud and Future Data Centre and Digital Workplace. In addition, we will work intensively on improving margins in all business divisions and national companies in order to further increase our sales and significantly increase our earnings in the future.

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
Managing Director

2 Company share and investor relations

Softline share price went down in financial year 2018 and does not reflect the overall positive performance

The gains on European stock exchanges over the past two years did not continue in 2018. The German benchmark index fell by around 18.0 percent in the course of 2018 and the technology stocks also suffered a slight downturn. The TecDAX and Technology All Share fell 3.7% over the past year.

Share Price Development Softline AG

After the price of the Softline share experienced its strongest rise in six years in the course of 2017, the share price lost 21.5 percent of its value in financial year 2018. Following an opening price of EUR 9.05, the share price reached its high for the 2018 financial year at EUR 9.85 on 20 February 2018, just a few days after its preliminary low of EUR 7.05 on 9 February 2018. The price fell steadily in the course of the year to reach its low of EUR 6.65 on 23 July 2018. In the third quarter, the share price was able to recover to a level of EUR 9.15, then slowly declined to the closing price of EUR 7.10 at the end of the year. Softline Group management is not satisfied with the share's performance in 2018, as it does not reflect the continued positive developments at the company.

	28-12-18	02-01-18	Change in %
Softline AG	€ 7.10	€ 9.05	-21.5 %
EURO STOXX 50	2.987	3.490	-14.4 %
DAX	10.559	12.871	-18.0 %
TecDAX	2.450	2.555	-3.7 %
Technology All Share	2.802	2.909	-3.7 %

Market capitalization and trading volume

Based on the closing share price on 31 December 2018, Softline AG had market capitalisation of around EUR 12.2 million at the end of 2018.

In the opinion of the Group's Management Board, the negative share price performance over the past year does not reflect the continued positive trend in the business. The very volatile share performance over the course of the year and, in particular, the closing price on 31 December 2018 reflect neither the company's business results in recent years nor the Group's further growth potential. To better convince capital market participants of the value of the Softline share, it will be even more important to substantiate the growth opportunities of the entire Group, along with the successes and improvements in business results, and to communicate them to the outside world.

Analyst assessments

GBC AC commented on and evaluated Softline AG in reporting year 2018. Based on the successful business trend in past years and in the first half of 2018, analysts expressed their expectations by issuing a "Buy" recommendation. The continuous support of the Softline Group by independent analysts ensures 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 was continued throughout the business year. For instance, the analyses by GBC AG were also augmented by reports published in various financial media.

Investor contacts

As in previous years, Softline AG also intensively maintained contact with capital market participants by attending investor and analyst conferences in financial year 2018, such as the Equity Forum Spring Conference in May, the m:access Software / IT Conference of the Munich Stock Exchange in June, the Prior Capital Market Conference in September and the German Equity Forum in November 2018. The business development and growth plans of the Softline Group were presented in talks with institutional investors and the investment potential of the Softline share explained. We will also continue our investor relations activities in 2019, accordingly.

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. In addition, 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 2019

Annual report 2018 (company financial statements for the AG)	May 2019
Consolidated financial statements for 2018 (unattested)	June 2019
First-quarter report 2019	June 2019
AGM for financial year 2018	04 July 2019
Half-year report 2019	August 2019
Third-quarter report 2019	November 2019

Key share data

		2018	2017
Highest price	EUR	9.85	13.19
Low	EUR	6.65	0.375
Close	EUR	7.10	9.30
Number of shares	Million	1.71	1.71
Market capitalisation (as of 31-12.)	Millions EUR	12.18	15.95
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



„Digitalisation cannot be handled by companies on their own. As a strong partner, we accompany this change - opening up sales potentials for the Softline Group.“

3 Situation report

3.1 Overall economic development and market development

The German economy grew by 1.5 percent in 2018. According to initial calculations by the Federal Statistical Office (Destatis), the price-adjusted gross domestic product (GDP) for 2019 was 1.5 % higher than in the previous year. Although the German economy has grown for the ninth consecutive year, growth has lost momentum. Price-adjusted GDP rose by 2.2 per cent in the two previous years. A longer-term view shows that German economic growth in 2018 was above the average for the last ten years, which was +1.2 %.

Positive impetus for growth in 2018 came primarily from the domestic market: Both private consumption (+1.0 percent) and government consumption (+1.1 percent) were higher than in the previous year. However, the growth was much lower than in the last three years.

Price-adjusted gross capital formation increased by 4.8 percent year-on-year. Investment in equipment was 4.5 percent more than in the previous year. Construction investment increased by 3.0 percent; particularly in public civil engineering, it was significantly more than what was invested during the previous year. Other assets, which include research and development expenses, were also up 0.4 % from the previous year. In addition, inventory levels in the economy increased in 2018, which contributed to growth as well.

German exports continued to rise on average in 2018, but not as strongly as in previous years: Price-adjusted exports of goods and services were 2.4 % higher than in 2017. Imports increased more than 3.4 percent in the same period. Thus, the external contribution slightly slowed German GDP growth in purely mathematical terms (0.2 percentage points).

Almost all economic sectors on the production side of gross domestic product contributed positively to the economic development in 2018. For the first time in five years, the economic momentum in the manufacturing sector was below that in the service sector. Overall, the price-adjusted gross value added increased in 2018 by 1.5 % compared to the previous year.

The growth in information and communication was above average at +3.7 percent, as it was in the construction sector at +3.6 percent. In the trade, transport and hospitality sector, price-adjusted gross value added also rose at an above-average rate of +2.1 percent. In contrast, the manufacturing industry (excluding construction), which accounts for a good quarter of the economy as a whole, underperformed, increasing by only +1.0 percent in 2018.

The 2018 economic output in Germany was generated by an annual average of 44.8 million gainfully employed in Germany. According to initial calculations, the workforce included around 562,000 more people than a year earlier. This increase of 1.3 percent is mainly due to an increase in employment subject to social security contributions. As in previous years, higher labour force participation and immigration of foreign workers offset age-related demographic effects.

The state achieved a record surplus of EUR 59.2 billion in 2018 (2017: EUR 34.0 billion). The federal government, states, municipalities and social security funds ended the year with a

surplus for the fifth time in a row, according to interim calculations. Based on the gross domestic product in respective prices, the government will have a surplus ratio of 1.7 percent in 2018.¹

Market development

According to Lünendonk², we have arrived in the digital age and the digital transformation has meanwhile become the dominant topic in companies of all industries, sizes and regions. Classical value chains have been broken up and lastingly changed. New successful business models are based on operating models heavily involved in cloud computing, automation and artificial intelligence.

Digital services are becoming increasingly important for companies wishing to differentiate themselves on the market and to ensure their ability to survive. German industry faces the great challenge of developing new, data-based services around its core products. Logistics, trade and finance face similar challenges.

As most companies cannot handle this digital transformation on their own, they are increasingly investing in the updating and automation of their processes, new digital customer interfaces and digital services. In the course of digitisation, cooperation with strategic partners has become more important.

In the last few years, the requirements that companies impose on their service providers have changed significantly, and increasingly more companies have translated their new challenges into new requirements for cooperation with consulting and IT service providers as well as digital and internet agencies.

In order for the digital transformation to succeed, new front-end solutions, such as apps and web portals, must be networked with the IT back-end, a requirement that increases the pressure on companies to finally perform the necessary change and adaptation projects, such as legacy modernisation and cloud migration, process automation, artificial intelligence, and business models for the internet of things.

The consulting and IT service providers investigated in the Lünendonk study forecast a significant increase in their customers' demand for the development and implementation of digital business models or the digitisation of customer interfaces in 2019. The surveyed service providers expect market growth of 21.6 percent in 2019 and average revenue growth of 22.8 percent.

According to the results of the BDU Market Study "Facts & Figures about the Consulting Market 2018/2019", the total revenue in the consulting industry rose by 7.3 percent in 2018, from EUR 31.5 billion to 33.8 billion. Business consultants remained confident for the beginning of 2019, despite increasing economic uncertainties, such as global trade conflicts and the unsettled

¹ "The German economy grew by 1.5 percent in 2018".

https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2019/01/PD19_018_811.html

² Lünendonk® Market Segment Study, "The market for Customer Experience Services in Germany", 2019.

Brexit. Sixty-five percent of market participants have issued positive growth forecasts of +7.1 percent for 2019.

According to BDU President Ralf Strehlau, the demand for digitisation support is generally continuing. Face-to-face consulting remains important to the customer, and the human factor plays an important role in implementation consulting, which can only be partially replaced by artificial intelligence.

The existing optimism in the consulting industry is also reflected in the projected new hires. For example, 90 percent of the major management consultancy firms with more than EUR 10.0 million in revenue are planning to hire additional experienced consultants and junior consultants in 2019. Of the medium-sized market participants, three quarters also want to create new jobs for senior and junior consultants.

Growth forecasts for 2019 according to BDU:

Industry	Growth forecast
Consumer goods industry	8.7 %
Insurance industry	8.1 %
Public sector	7.3 %
Vehicle construction	6.4 %

As early as 2018, consulting customers sought special support in the areas of IT data protection and data security. Both the introduction of the General Data Protection Regulation and the backdrop of increased data scandals have caused the topic to grow significantly more relevant for companies, along with the awareness of prevention. As a result, business consultants are forecasting strong customer demand regarding IT security issues in 2019 (+8.8 percent). Efforts and expenditures for the expansion, as well as the adaptation of information technology in companies, shall also increase (2019 forecast for advisory services around IT applications and infrastructure: +8.4 percent). Furthermore, support for change processes is at the top of the customer agenda (+9.0 percent for the Change Management consulting field).³

Competitive situation

Growth of more than 7.0 percent (to more than EUR 36 billion) is forecast for the consulting market as a whole for 2019 and up to 9.0 percent for IT consulting. Not only the large management consultancies but also the medium-sized companies see significant growth potential in this area and also plan to hire additional employees. The biggest challenges for medium-sized consulting companies lie, in this respect, in the specialisation on selected tasks while retaining holistic approaches and acquiring additional specialists and qualified employees.

³ BDU e.V. 2019; Press release dated 14 March 2019, "Management consultants are planning a significant increase in revenue again in 2019".

While fair market remuneration is required, corporate culture, business credibility, opportunities for development and the feel-good factor are increasingly important.

3.2 Performance of Softline AG

Since Softline AG acts predominantly as a non-operating holding company, the operating activities of the subsidiaries located in Germany, Benelux and France were of crucial importance. Softline AG generated revenue of EUR 654,000 within the Group (previous year: EUR 705,000) due to the charging of Group and management fees. In addition, the company had other operating income in the amount of EUR 733,000, of which approx. EUR 453,000 was due to charges for selling and administrative expenses. On the other hand, other operating expenses amounted to EUR 1,249,000. Taking into account write-downs of EUR 8,000, EBITDA was consequently EUR -59,000 (previous year: EUR -328,000, excluding a write-up on financial assets of EUR 322,000).

3.3 Performance of individual subsidiaries and other changes in the Softline Group

Performance of subsidiaries⁴

The Softline Group, with its parent company Softline AG based in Leipzig and its national and international subsidiaries, was once again able to significantly expand its position as a manufacturer-independent market leader in the field of IT asset management in financial year 2018. In addition, revenues significantly increased in the area of IT consulting, with a focus on the key areas of Information and IT Security, Cloud and Future Data Centre and Digital Workplace. In addition to the expansion and intensive maintenance of existing partnerships, new partnerships with both technology leaders and selected IT specialists also contributed to this growth.

Softline Solutions GmbH, based in Leipzig, was once again able to significantly improve its revenue in 2018, compared to the previous year. With a focus on Software Asset Management, Information and IT Security, Cloud and Future Data Centre as well as Digital Workplace, the Company achieved total revenue of EUR 13.5 million in 2018 and thus exceeded the previous year's total by EUR 2.9 million at the end of the year, and was also approx. EUR 1.6 million above projection. Investments in the development and further education of our employees, the focus on our core business and the close cooperation with our partners have paid off and are also reflected in the increased earnings. With EBITDA of EUR 1.2 million, the company achieved an increase in earnings of EUR 300,000 compared to the previous year. The order backlog almost doubled to EUR 11.9 million compared to the previous year (EUR 6.3 million), and the company started the new financial year with a very well-filled pipeline.

Softline Services GmbH in Aschheim near Munich obtained total revenue of EUR 6.5 million in financial year 2018, which is approximately EUR 600,000 below the previous year's amount. In the area of Recruiting Services, the placement of highly qualified IT specialists increased revenue by EUR 300,000 from EUR 2.1 million in the previous year to EUR 2.4 million,

⁴ According to interim company financial statements (unattested).

thus amounting to approximately EUR 1.1 million above projection. By contrast, revenue from Managed Field Services / IMAC Services was reduced as projected from EUR 4.8 million in the previous year to EUR 3.8 million (projection: EUR 3.7 million). On the earnings side, the reduced revenue in Managed Field Services could not be offset by the increase in revenue from Recruiting, which means that EBITDA at the end of the year was EUR 100,000 (previous year: EUR 200,000).

XPERTLINK GmbH in Aschheim - a subsidiary of Softline Services GmbH - did not operate in 2018. The core business of XPERTLINK GmbH, placement of highly specialised IT personnel, had already been integrated into what was then known as Prometheus GmbH in 2014 (renamed Softline Services GmbH in 2017).

Softline Solutions Benelux (consisting of Softline Solutions Netherlands BV, Nieuwegein, the Netherlands, and Softline Solutions NV, Brussels, Belgium), headquartered in Nieuwegein and focused on IT Asset Management, IT Service Management and Managed Cloud Services, was once again able to increase sales compared to the previous year and posted sales growth from EUR 4.6 million to EUR 4.8 million. While, in particular, revenue from licenses rose from EUR 500,000 to EUR 1.2 million, income from consulting services fell from EUR 4.1 million to EUR 3.6 million. The lower overall capacity utilisation in the consulting sector along with higher personnel costs had a negative impact on earnings in the 2018 financial year. At the EBITDA level, the company generated only slight profit of EUR 17,000 at the end of the year (previous year: EUR 300,000). Process optimisation and restructuring, especially in the areas of Sales and Consulting, resulted in the company achieving an order backlog of EUR 4.3 million at the end of the financial year (previous year: EUR 2.8 million), creating a basis for a successful financial year with strong sales and earnings in 2019.

Despite the overall decline in the software distribution market, French subsidiary **Softline Solutions France**, headquartered in Vélizy near Paris, obtained revenue in 2018 comparable to the previous year of around EUR 2.5 million (previous year: EUR 3.0 million). Investments in Software Distribution, IT Asset Management and IT Service Management in France weighed heavily on earnings. With negative EBITDA of EUR -300,000, the result is approximately EUR 200,000 below the previous year's result. Further investments are planned for 2019. However, the company is projecting a significant increase in earnings at the end of the year.

Softline Solutions UK, headquartered in London, achieved revenue of EUR 17,000 in financial year 2018 and closed with an operational loss of EUR -13,000. As in the previous year, the operating business in 2018 had virtually no impact on earnings. The loss consists of local administrative expenses as well as investments in sales and marketing in the second half of 2018. A significant increase in revenue and earnings is expected in financial year 2019.

Subsidiary company revenues⁵

		2018	2017
Softline Solutions GmbH // Germany	TEUR	13,452	10,550
Softline Services GmbH // Germany	TEUR	6,488	7,100
XPERTLINK GmbH // Germany	TEUR	0	0
Softline Solutions B.V. // The Netherlands	TEUR	4,519	4,510
Softline Solutions N.V. // Belgium	TEUR	267	136
Softline Solutions France // France	TEUR	2,514	2,991
Softline Solutions UK // UK	TEUR	17	23

Subsidiary company EBITDAs⁶

		2018	2017
Softline Solutions GmbH // Germany	TEUR	1,239	943
Softline Services GmbH // Germany	TEUR	90	222
XPERTLINK GmbH // Germany	TEUR	0	-26
Softline Solutions B.V. // The Netherlands	TEUR	3	267
Softline Solutions N.V. // Belgium	TEUR	14	44
Softline Solutions France // France	TEUR	-331	-123
Softline Solutions UK // UK	TEUR	-13	-16

⁵ According to published financial statements (unattested)

⁶ 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 manufacturer-independent IT consulting company with headquarters in Leipzig. National and international customers trust the competence of IT specialists in the key areas of Software Asset Management, Information and IT Security, Cloud and Future Data Centre, as well as Digital Workplace.



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 its customers solutions that help them when managing installation, application and cost of software, thereby 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, specialising 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 2018, the Softline Group was designated "EMEA Implementation Partner of the Year for 2017" by **Flexera Software**, the world's leading provider of software licensing, compliance, security and installation software solutions. After having been named "EMEA Partner of the Year" for the past four years, this award has once again confirmed the company's great prestige as Flexera's Software Asset Management partner with the most successful implementation projects and certified SAM consultants across Europe.

In June 2018, Softline and **TechDATA**, one of the world's leading IT technology providers, announced the launch of jointly developed Software Asset Management Services. With these services, a tailor-made offering has been developed for Managed Service Providers (MSPs), which represents a significant increase in the customer base and portfolio of services for Softline.

As in the previous year, the Softline Group continued to invest heavily in developing and expanding its partner landscape in 2018. In early July 2018, **ServiceNow**, one of the "world's most innovative" SAM software manufacturers according to Forbes, named the Softline Group as one of the few Software Asset Management partners in the world to help its customers gain the most value from ServiceNow's SAM tools.

In addition, investments in the partnership with software vendor **Snow Software**, in particular intensive training and education of our employees and joint sales and marketing activities, were rewarded with the "Shooting Star" Partner Award in April 2018, and Softline was honoured with the highest level of the Snow Partner Programme, the "Platinum Partner" status, in July 2018.

In the French market, the Softline Group significantly expanded its local presence in October 2018 by partnering with the French company **Amettis**, a specialist in IT consulting on Software Asset Management and IT Service Management. While Softline brings years of experience and intensive partnerships with software tool manufacturers, Amettis has a large number of experienced employees in the French market.

As in previous years, the Softline Group has revised its portfolio and offers comprehensive solutions, consulting and managed services for **Software Asset Management, Information and IT Security, Digital Workplace** as well as **Cloud and Future Data Centre** and develops these further. In addition to expanding its revenue from existing customers, the Softline Group was, by means of this offer alone, able to acquire further extensive national and international projects involving well-known banks, insurance groups and automobile manufacturers.

The Softline Group continues to pursue the goal of becoming the market-leading and vendor-neutral provider of IT asset management and IT consulting in Europe and, as the independent consulting and services company, to manage, to monitor, to optimise and, in particular, to protect the IT assets of its customers - both software and hardware.

In addition to the strong partnership network with software equipment manufacturers, it is also of great importance for the Softline Group to further expand its 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.



3.4 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 specialised subsidiaries in each respective country. Softline AG, as a holding company, is dependent on the economic success of its subsidiaries.

3.4.1 Asset status

The Softline AG balance sheet total as at 31 December 2018 amounted to EUR 9.9 million (previous year: EUR 10.7 million).

Softline AG's property, plant and equipment amounted to EUR 9.8 million as at the balance-sheet date. Compared with fixed assets as at 31 December 2017 totalling EUR 10.5 million, a write-down on the investment book value of Softline Services GmbH in the amount of EUR 260,000 was recognised in financial assets. Overall, loans to affiliated companies fell by EUR 600,000 to EUR 5.9 million.

In addition, current assets fell from EUR 200,000 in the previous year to EUR 100,000.

On the liabilities side of the balance sheet, equity remained virtually unchanged at EUR 9.3 million.

Provisions of EUR 100,000 are approximately EUR 200,000 lower than in the previous year.

Liabilities amounted to EUR 500,000 as at the balance sheet date of 31 December 2018, less than the previous year's level of EUR 900,000, in particular due to the repayment of the approx. EUR 300,000 loan from the French company to Softline AG. This includes EUR 400,000 in amounts owing affiliated companies. As at 31 December 2018, Softline AG therefore has amounts owing third parties of less than EUR 100,000.

3.4.2 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 EUR 200,000 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 EUR 400,000 from the loan of Softline AG in financial year 2018.

Loan repayments were partially offset against receivables and liabilities between Softline AG and its subsidiaries. This resulted in total loan repayments to Softline AG prior to offsetting of EUR 600,000 in financial year 2018. As at 31 December 2018, the loans granted to Softline Solutions GmbH amounted to EUR 3,348,000 (previous year: EUR 3,696,000), loans to Softline Services GmbH amounted to EUR 2,272,000 (previous year: EUR 2,399,000), and loans to Softline Solutions Netherlands BV were EUR 281,000 (previous year: EUR 414,000).

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 EUR 1,000,000. Softline AG transferred these income and adjustments bonds amounting to EUR 1,000,000 to the subsidiaries Softline Solutions GmbH, Leipzig, and Softline Services GmbH, Munich.

For financial year 2018, the calculated interest on the loans amounted to EUR 133,000. None of this amount was paid out during financial year 2018.

Capital structure

At the end of 2018, the subscribed capital of Softline AG amounted to EUR 1,714,000, just as in the previous year. For data relating to treasury shares, please refer to the information in the appendix.

The capital reserve was EUR 13.9 million, the same as in previous year.

The accumulated loss amounted to EUR -6.3 million. The net loss for the financial year of EUR -229,000 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 2018 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, Snow Software and Dell, 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 2019. As in the past financial year, the focus here is on expanding business activities in the D-A-CH 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 Group is ensured until the end of 2021.

Investments

The Softline AG Company undertook no significant investments in financial year 2018.

3.4.3 Results

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

Softline AG generated revenue of EUR 700,000 in financial year 2018 (Previous year: EUR 700,000). It includes, in particular, group and management fees (EUR 600,000).

Revenue calculated for financial years 2017 and 2018 include, after finalisation of the new definition of BilRUG⁷, 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 amounted to EUR 733,000 and mainly includes income from other periods (EUR 133,000), income from dissolution of provisions (EUR 145,000) and recharged expenses (EUR 455,000).

Due to the fact that Softline AG is not an operating company, no material costs were incurred in financial year 2018. Personnel costs of EUR 197,000 are EUR 134,000 lower than in the previous year, mainly due to the release of bonus provisions for the Management Board.

Write-downs on intangible assets and property, plant and equipment were EUR 8,000, remaining at the same level as the previous year.

At EUR 1.2 million, other operating expenses were slightly above the previous year's level of EUR 1.1 million. In addition to rent, IT, car and travel costs (EUR 400,000), they include the costs for business development (EUR 200,000), legal and consulting costs (EUR 200,000), insurance (EUR 100,000) as well as the costs for the Finance Centre and the administration of Softline AG (approximately EUR 100,000).

⁷ 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.

Write-downs of financial assets amounted to EUR 256,000 in 2018. 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 EUR -59,000 (previous year: EUR -328,000, excluding the write-up on financial assets of EUR 322,000) due to higher other operating income. Other operating expenses, such as legal and consulting costs (EUR -77,000), travel expenses (EUR -31,000) and vehicle costs (EUR -15,000) are significantly below projected costs. In addition, more costs were passed on to the subsidiaries than projected. Softline AG's EBIT of EUR -324,000 in 2018 also outperformed the previous year (EUR -363,000). The net loss for the year of EUR -229,000 is lower than the previous year's loss of EUR -240,000.

For financial year 2019, we expect EBITDA to be at a comparable level as in the 2018 financial year.

3.4.4 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.

3.5 Employees

In financial year 2018, Softline AG, the parent company, had no other employees than the Management Board. The entire Softline Group employed an average of 184 employees over the same period and 190 employees as at 31 December 2018.

3.6 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 projected and previous year's 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 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 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 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 Group is ensured until the end of 2021.

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, the factoring at subsidiaries is defined by contractually established provisions.

Sufficient creditworthiness of Softline AG and thus also of the Softline Group is the essential basis for the granting of debt capital, especially 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.

3.7 Opportunity report

According to the Institute for the World Economy at the University of Kiel, the German economy has shifted down a gear. Temporarily down-turning factors such as the problems of car manufacturers with the new WLTP standard and the low water levels of the Rhine have helped to noticeably put a stop to production, even though economic momentum in Germany was still extremely high until the middle of last year.

The non-economic environment, which is characterised by a high level of political uncertainty, has also contributed to the poorer business outlook. This has put a strain on exports and has also clouded companies' enthusiasm for investment, despite the high level of capacity utilisation. Against this background, the IfW has significantly reduced its forecast for the gross domestic product of the current year by 0.8 percentage points to 1 percent. However, the expiration of the temporary factors at the turn of the year has led the institute to expect that the economy will catch up again, and forecasts a growth rate of 1.8 percent for 2020.⁸

According to recent analyses, digital association Bitkom has announced that the market for IT, telecommunications and consumer electronics will grow by 1.5 percent in 2019 to EUR 168.5 billion. According to Bitkom President Achim Berg, digitisation is driving the market and guaranteeing more jobs. Most jobs are created by software houses and IT service providers. Bitkom expects above-average growth of 2.3 percent to EUR 40.8 billion in the IT services market. "Digitisation is not a nice-to-have in all industries, but an absolute must-do. Accordingly, there is a great demand for IT consultants and software applications to further develop products, value networks and corporate culture, and to gear them towards the digital age", says Berg. The hardware business, on the other hand, declined slightly by 0.7 percent.⁹

The signs for the Softline Group also clearly point to further growth. In the 2018 financial year, the management of the Softline Group continued to develop the company portfolio to meet the requirements and expectations of the market. With future concentrations in "Software Asset Management", "Information and IT Security", "Cloud and Future Data Centre" and "Digital

⁸ IfW, Media Information, 12 March 2019 - IfW Kiel Economic Reports: "German economy in the spring of 2019".

⁹ Bitkom press release, 10 January 2019 - "Bitkom industry creates 40,000 additional jobs".

Workplace", we are focusing on the growth of the Softline Group by expanding the consulting and service business not only in the D-A-CH region, but especially in the regions of Northern and Southern Europe. The entry into force of the EU Data Protection Regulation at the end of May 2018 has already resulted in a significant increase in inquiries and orders in the area of information and IT security. We see a great need for advice and will therefore continue to invest intensively in personnel, training and the further development of policies, solutions and services for our customers. In addition, we see significant market growth in IT asset management outside the D-A-CH and Benelux regions and we are therefore planning intensively with our national and international partners to provide local specialists and tailor-made services.

Employee development and the acquisition of highly motivated consultants and specialists continue to be top priorities for the Softline Group. We will continue to counteract the shortage of qualified employees through the early integration of junior staff by means of our own training programme, internships, master's and bachelor's theses as well as close cooperation with universities, and also by maintaining our cooperation as trustee with student consultancy association "CampusInform" at the University of Leipzig.

Flexera Software's recognition of Softline as the "EMEA Implementation Partner of the Year 2017" as well as Snow Software's awarding of Platinum Partner status, both of which occurred in the last year, have not only confirmed the high level of training for Softline employees but also the highly effective work and positive market perception, together with the strong presence of the Softline Group with branches or projects in such regions as the Benelux, Scandinavia, UK, Switzerland and Austria.

As part of our commitment to "Achieving Compliance, Control and Cost Savings for your IT", we will, as in recent years, deal with the most important digital topics of the year. In addition to information and IT security, projects involving cloud computing, digital integration and digitisation of business processes are among the most important and challenging tasks that we like to set ourselves as a "trusted advisor" for business consulting, technical consulting and implementation, as well as a managed services provider. We support our medium-sized and large customers on their way to digitisation and, after consultation and implementation, also take over the support and operation of their IT infrastructure so that they can concentrate on their core business.

Due to the favourable business development of the subsidiaries, the liquidity of Softline AG continues to grow, both through the repayment of intercompany loans and through future profit distributions of the subsidiaries in the following years. The restructuring of the balance sheet completed in 2017 by converting loans into equity has resulted in a significant reduction in liabilities to third parties and a sustained strengthening of equity. The Company will therefore have new investment financing options to fund the planned further growth of the Softline Group.

3.8 Report on expected developments

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

In financial year 2019, we will continue to focus on the key business of "Software Asset Management", "Information and IT Security", "Cloud and Future Data Centre" and "Digital

Workplace". Based on an order backlog of EUR 23.2 million as at 31 December 2018, we expect sales growth of 10 to 12 percent in 2019 with an EBITDA margin of approx. 4 to 6 percent. In terms of EBIT-level forecasts, the group of companies is expected to generate EUR 1.1 million in 2019 and EUR 1.5 million in 2020.¹⁰

As in the previous year, we have been able to win further consulting and service projects from many new customers in all business areas over the past twelve months, in addition to multi-year projects in the areas of Software Asset Management and IT Security.

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 Group level. It is prepared by the directors or executives of each company, based on the prior-year 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 up-to-date figures.

To achieve the planned growth, the further internationalisation of the Softline Group and increasing profitability, we will continue to invest, as we have done in recent years, in our most important and strongest asset - our employees. We will continue to significantly strengthen our consulting and sales team in all operating companies in Germany and abroad, and invest as intensively in their training and further education as we have done so far. In addition, we will continue to look for potential partners to expand our solution expertise and availability. For these growth plans, we need additional capital in addition to the revenue and profitability building measures that we have already initiated. The Management and Supervisory Boards of Softline AG are therefore already involved in negotiations regarding further financing options to enable implementation of these plans.

Strategic outlook

Digitisation, information and IT security, the cloud, IoT and artificial intelligence represent key challenges for industry and SMEs during this year and the next, as well as for the civil service and administration.

With over 200 well-trained, highly-qualified and well-motivated employees, the Softline Group is excellently positioned to successfully serve many of these needs as part of its consulting and service portfolio, based on its extensive experience and strong partner network. With consulting approaches, solutions and services regarding Software Asset Management, Information and IT Security, Cloud and Future Data Centre and Digital Workplace, we are able to explicitly address the challenges facing our customers.

The complexity of these challenges is steadily increasing as digitisation progresses in all sectors and industries, and companies are no longer able to address these challenges on their own, or to build or maintain the required know-how.

With its highly qualified consultants and extensive expertise and experience, the Softline Group is well equipped to face these challenges together with the customer. With one-stop solution expertise, from creating the digitisation concept to implementing and deploying it, choosing the

¹⁰ Before consolidation, excluding write-downs at Group level.

right hardware and software, and then managing the managed portfolio across all portfolio areas, the Softline Group is able to relieve the burden on its customers, allowing them to concentrate on their core business.

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 D-A-CH region (Germany, Austria, Switzerland). In Softline DACH, we already offer the entire Softline portfolio and plan to significantly increase our market share by adding new customers as well as new services and consulting products.

Softline Solutions Northern Europe brings together the companies in the Netherlands, Belgium and the United Kingdom as well as the BENELUX, UK and Nordic regions. Under the leadership of the Dutch company, we plan to continue to grow in all regions and to significantly expand our portfolio, which has hitherto focused on IT asset management. There is a significant increase in demand, particularly in the areas of information and IT security as well as cloud services.

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 2018.

This balance sheet restructuring and positive consolidated result 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 organisation and possible inorganic growth.

3.9 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, 30 April 2019

Softline AG

A handwritten signature in blue ink, appearing to read "Martin Schaletzky".

Martin Schaletzky
Managing Director

4 Company financial statements

4.1 Income statement

	2018	2018	2017
	EUR	EUR	EUR
1. Revenue		653,757.94	704,551.20
2. Other operating income		733,233.23	375,571.00
3. Personnel costs			
a) Wages and salaries	-173,265.89		-307,608.55
b) Social security	-24,171.68		-23,720.84
- of which for pensions: EUR 19,742.48 (previous year: EUR 19,742.48)			
		-197,437.57	-331,329.39
4. Write-downs on non-current intangible assets, property, plant and equipment		-8,103.76	-7,776.88
5. Other operating expenses		-1,248,860.99	-1,077,087.78
6. Other interest and similar income		133,048.76	141,555.13
Of which from affiliated companies: EUR 132,994.35 (previous year: EUR 141,555.13)			
7. Write-downs of investments and Income from write-ups of financial assets	-256,418.00 0.00		-350,000.00 322,472.86
		-256,418.00	-27,527.14
8. Interest and similar expenses		-16,340.99	-18,371.40
- Of which from affiliated companies: EUR 13,037.99 (previous year: EUR 17,929.32)			
9. Earnings after tax		-207,121.38	-240,415.26
10. Other taxes		-21,546.99	0.00
11. Net loss		-228,668.37	-240,415.26
12. Loss carryforward from previous year		-6,091,344.74	-15,114,701.48
13. Capital reduction to compensate for losses		0.00	9,263,772.00
14. Net loss		-6,320,013.11	-6,091,344.74

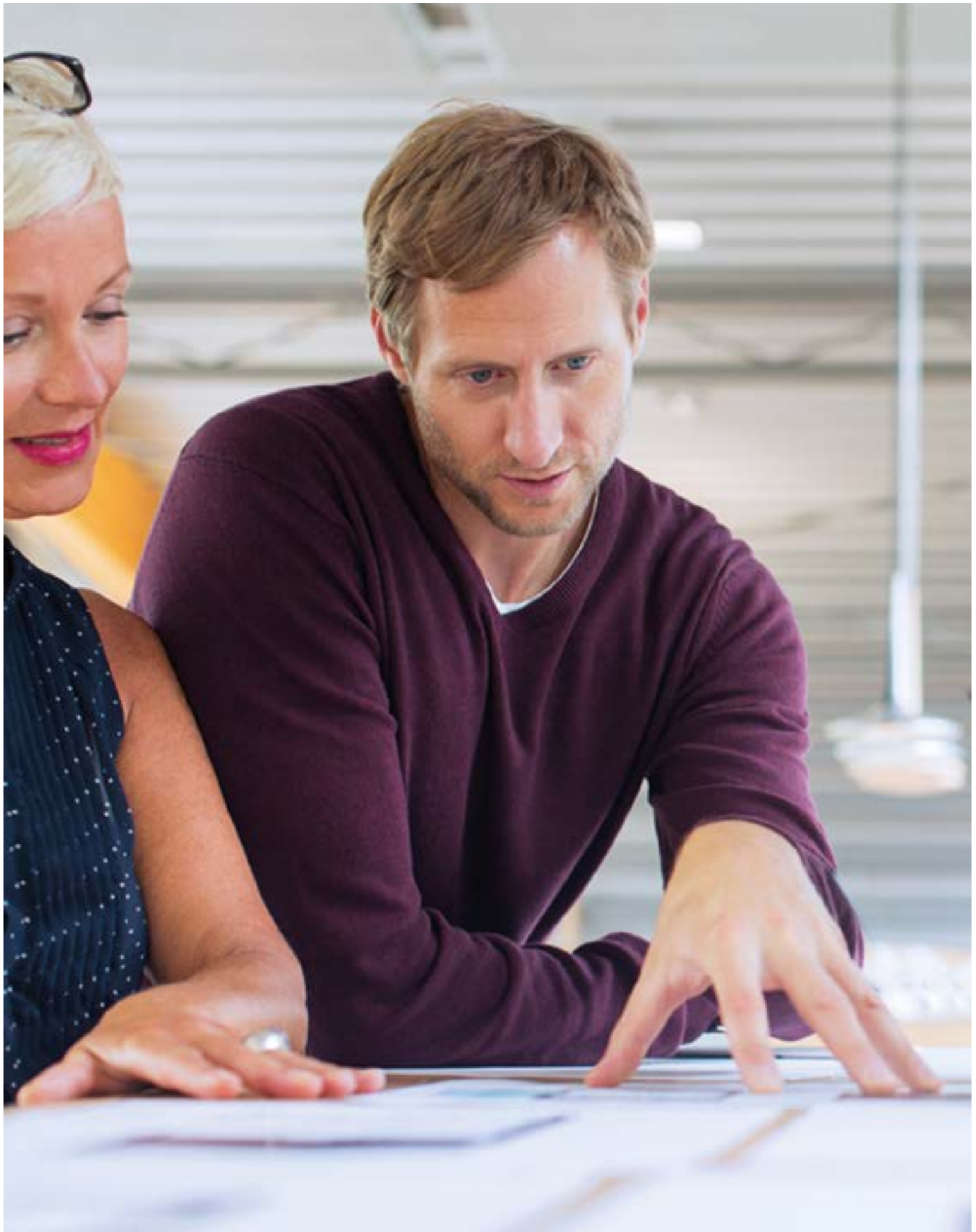
4.2 Balance sheet

ASSETS

	EUR	EUR	EUR
	31-12-18	31-12-18	31-12-17
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		26,263.66	23,337.47
II. Property, plant and equipment			
Other equipment, operating and office equipment		3,763.35	2,182.31
III. Financial investments			
1. Shares in affiliated companies	3,828,149.99		3,956,522.99
2. Loans to affiliated companies	5,902,167.80		6,511,295.06
		9,730,317.79	10,467,818.05
B. CURRENT ASSETS			
I. Receivables and other assets			
1. Receivables from affiliated companies	32,690.68		50,353.05
2. Other assets	23,697.47		76,442.79
		56,388.15	126,795.84
II. Cash and cash equivalents		13,426.56	26,033.33
C. DEFERRED INCOME		27,940.37	30,107.19
		9,858,099.88	10,676,274.19

LIABILITIES

	EUR	EUR	EUR
	31-12-18	31-12-18	31-12-17
A. EQUITY			
I. Subscribed capital	1,714,389.00		1,714,389.00
II. Capital reserve	13,867,093.15		13,867,093.15
III. Net loss	<u>-6,320,013.11</u>	9,261.469.04	<u>-6,091,344.74</u> 9,490,137.41
B. PROVISIONS			
Other provisions		86,364.04	326,421.64
C. LIABILITIES			
1. Trade payables	50,409.97		39,235.44
2. Amounts owed affiliated companies	415,071.37		774,793.62
3. Other liabilities	<u>44,785.46</u>	510,266.80	<u>45,686.08</u> 859,715.14
– of which tax payables: EUR 10,302.47 (Previous year: EUR 4,495.82)			
– of which social security liabilities: EUR 0.00 (Previous year: EUR 0.00)			
D. DEFERRED INCOME		0.00	0.00
		<u>9,858,099.88</u>	<u>10,676,274.19</u>



„As a specialised IT consulting company, we have one goal - to achieve compliance, control and cost savings for our customers' IT.“

5 Notes to the financial statements of Softline AG

5.1 General information

These financial statements of Softline AG for the financial year 2018 are drawn up in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch, hereinafter HGB) and the German Companies Act (Aktiengesetz, hereinafter AktG). They are subject to the regulations for small public limited companies under German law (Kapitalgesellschaften). The income statement has been prepared in accordance with § 275(2) HGB using the total cost method.

The financial statements were prepared on the assumption of the Company's continuation. On the basis of the presented corporate planning, financing has been secured for 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.

5.2 Accounting and valuation methods

The following accounting and valuation methods continued to apply to the preparation of the Annual Financial Statements:

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 based on 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.

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 recognised 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	-2.146	992
Softline Services GmbH, Aschheim	100.0	-3.073	-40
XPRTLINK GmbH, Aschheim ¹⁾	100.0	-412	0
Foreign			
Softline Solutions Netherlands BV, Nieuwegein, the Netherlands	100.0	-129	-43
Softline Solutions N.V., Antwerp, Belgium ²⁾	100.0	-691	12
Softline Solutions France SAS, Vélizy, France	100.0	136	-316
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 increase in shares in affiliated companies, amounting to EUR 128,000, is entirely attributable to incidental acquisition costs during the period from 2010 to 2012 that arose in connection with the purchase or creation of the company. Effective capitalisation occurred on the basis of the external tax audit that was carried out and represents a correction in current account.

Other loans relate to loans to Softline Solutions GmbH, Leipzig, of EUR 3,348,000, Softline Services GmbH, Aschheim, of EUR 2,272,000, Softline Solutions Netherlands BV, Nieuwegein, the Netherlands, of EUR 281,000 and Softline Solutions NV, Antwerp, Belgium, of EUR 1,000.

The carrying amount of the investment in Softline Services GmbH, Aschheim, was subject in the financial year to an extraordinary write-down to the fair value of EUR 256,000 in accordance with § 253(3)(5) HGB. A write-down of EUR 350 thousand was recorded in the previous year.

The loan granted to Softline Services GmbH, Aschheim, has been written down in the amount of EUR 800,000. The loan granted to Softline Solutions NV, Antwerp, Belgium, has been written

down by a nominal value of EUR 645,000. In 2014, there were waivers of receivables based on debtor-warrant agreements amounting to EUR 1,000,000, which were already recognised as value adjustments in 2013. Waivers have been declared in the amount of EUR 600,000 for Softline Services GmbH, Aschheim, and EUR 400,000 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. Other assets include EUR 18,000 with a remaining term of more than one year. This relates to deposits.

Subscribed capital

	31-12-18	31-12-17
Number of no-par-value shares (nominal value of EUR 1.00)	1,714,889	1,714,889
Equity capital (in EUR) *	1,714,889	1,714,889
Treasury shares (in EUR)	<u>500</u>	<u>500</u>
Subscribed capital	1,714,389	1,714,389

* Includes the equity capital of treasury shares

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 EUR 277,000. As at 31 December 2018, the company retains 500 treasury shares. This corresponds to 0.03% of the share capital (previous year: 0.03%).

Authorised capital (2015/I)

By resolution of the Annual General Meeting of 28 September 2015, the Management Board is, with the consent of Supervisory Board, authorised, until 28 September 2020, to increase the share capital once or several times by a total of up to EUR 5,149,042 in exchange for cash and/or non-cash contributions, while excluding shareholders' subscription rights (Authorised Capital 2015/I).

Net loss

Net loss includes a loss carryforward of EUR 6,091,000. EUR 9,264,000 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 EUR 10,000 in taxes and EUR 1,000 in social security contributions.

All figures in TEUR	Total	< 1 year	1 - 5 years	> 5 years
Liabilities Supplies & services	50	50	0	0
Liabilities of affil. companies	415	415	0	0
Liabilities, misc.	45	45	0	0
Total liabilities	510	510	0	0

Contingent liabilities

There is a total of EUR 446,000 in contingent liabilities from guarantees (previous year: EUR 593,000 in guarantees). The risk of recourse to the guarantees is considered low, as the main creditors are meeting their obligations.

Transactions not included in the balance sheet

As at 31 December 2018, there were rights due to debtor warrants amounting to EUR 1,000,000 (previous year: EUR 1,000,000).

5.4 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 - Managing Director SBC-Strategic Business Consulting

Employees

The company did not have any employees in 2018.

Notices pursuant to § 20 AktG

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

In 2018, Softline AG incurred a net loss for the year of EUR -229,000, the accumulated loss as at 31 December 2018 amounted to EUR -6,320,000. The balance sheet loss will be carried forward.

Leipzig, 30 April 2019



Martin A. Schaletzky
Managing Director

„With an order backlog of EUR 23.3 million as of 31.12.2018, we plan a revenue growth of ten to twelve percent for 2019.“



6 Report of the Supervisory Board

In financial year 2018, 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. Risk management was discussed in the same way. In financial year 2018, special attention was paid to the future orientation of issues and the economic development of the company. These matters were discussed at length in each Supervisory Board meeting, taking into account different market factors, with the involvement of other members of management.

Five regular meetings of the Supervisory Board were held in 2018.

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 of 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 2018, a meeting of the Supervisory Board Chairman with the Management Board and other company executives was held every month throughout the year.

The transactions submitted by the Management Board to the Supervisory Board for approval in accordance with § 111(4) AktG were approved.

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

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 2018, 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 by the Supervisory Board and Management Board during a meeting held on 3 May 2019 in the presence of the statutory auditor. 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 2018. 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.”

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, 30 April 2019

A handwritten signature in blue ink, appearing to be "L. Löschke".

Prof. Dr. Löschke
Chairman of the Supervisory Board

7 Audit opinion by the statutory auditors

To Softline AG, Leipzig

Audit opinions

We have audited the Annual Financial Statements of Softline AG, consisting of the balance sheet as at 31 December 2018 and the income statement for the financial year from 1 January to 31 December 2018, as well as the notes, including the presentation of the balance sheet and valuation methods. In addition, we reviewed the Management Report of Softline AG for the financial year from 1 January to 31 December 2018.

We have not examined the content of the sections in the Management Report relating to the development of the individual subsidiaries and other changes in the Softline Group and the forecast for the subsidiaries.

In our opinion based on the findings of the audit,

- the accompanying Annual Financial Statements comply in all material respects with the German commercial law applicable to corporate entities and give a true and fair view of the net assets, financial position of the company as at 31 December 2018 and its results for the financial year from 1 January through 31 December 2018 and
- the accompanying Management Report as a whole provides a suitable overview of the company's position. In all material respects, this Management Report is consistent with the Annual Financial Statements, complies with German statutory provisions and accurately presents the opportunities and risks of future development.

Pursuant to § 322(3)(1) HGB, we declare that our audit has not led to any objections concerning the regularity of the Annual Financial Statements and the Management Report.

Basis for the audit opinions

We conducted our audit of the Annual Financial Statements and the Management Report in accordance with § 317 HGB while observing the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under these rules and policies are further described in the section of our report entitled "Auditors' responsibilities for the audit of the Annual Financial Statements and Management Report". We are independent of the company in accordance with the German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. We believe that the audit evidence obtained by us is sufficient and appropriate to serve as a basis for our opinion on the Annual Financial Statements and Management Report.

Note to emphasise a fact

Please refer to the statements of the legal representatives in Section 6 of the Management Report (Risk Report, Financial Risks), which states that the company is relying on the cash inflows from the subsidiaries in the form of loan repayments or group allocations for the further safeguarding of liquidity and continued solvency. Our opinion on the Annual Financial Statements has not been modified in this regard.

Other information

The legal representatives and the Supervisory Board are responsible for the other information. Other information includes the other parts of the Annual Report with the exception of the Annual Financial Statements, the Management Report and our Auditor's Report. Other information also includes the sections of the Management Report concerning the performance of individual subsidiaries and other changes in the Softline Group (Section 3) as well as forecasts for subsidiaries (Section 8).

Our audit opinions on the Annual Financial Statements and the Management Report do not extend to the other information and, accordingly, we provide neither an opinion nor any other form of audit conclusion on this information.

In connection with our audit, we have the responsibility of reading the other information and assessing whether the other information

- possesses material inconsistencies with the Annual Financial Statements, the Management Report or our knowledge acquired during the audit; or
- otherwise appears significantly misrepresented.

Responsibility of the legal representatives and the Supervisory Board for the Annual Financial Statements and the Management Report

The legal representatives are responsible for the preparation of the Annual Financial Statements, which comply with the German commercial law applicable to corporate entities in all material respects, and that the Annual Financial Statements in accordance with German generally accepted accounting principles give a true and fair view of the consolidated net assets, financial position and results of the company. In addition, the legal representatives are responsible for the internal controls that they have determined to be necessary in accordance with German generally accepted accounting principles to enable the preparation of Annual Financial Statements that are free from material misstatement, whether intentional or unintentional.

In preparing the Annual Financial Statements, the legal representatives are responsible for assessing the ability of the company to continue operations. In addition, they have a responsibility to state matters related to the continuation of the business, as applicable. Furthermore, they are responsible for keeping the financial records for the continuing operations on the basis of accounting principles, unless contrary to factual or legal circumstances.

In addition, the legal representatives are responsible for the preparation of the Management Report, which collectively conveys an accurate overview of the position of the Company, is in all material respects consistent with the Annual Financial Statements, complies with German legal requirements and accurately reflects the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) that they considered necessary to enable the preparation of a Management Report in accordance with the applicable German statutory provisions and to provide sufficient suitable evidence for the statements in the Management Report.

The Supervisory Board is responsible for overseeing the company's accounting process for preparing the Annual Financial Statements and Management Report.

Auditor's responsibilities for the audit of the Annual Financial Statements and Management Report

Our objective is to obtain reasonable assurance that the Annual Financial Statements as a whole are free from intentional or unintentional material misstatement, that the Management Report gives a true and fair view of the company's position, that all material matters relating to the Annual Financial Statements are in line with the findings of the audit, comply with German legal requirements and accurately reflect the opportunities and risks of future development, and to issue an auditor's report that includes our audit opinions on the Annual Financial Statements and Management Report.

Sufficient security is a high degree of security but no guarantee that an audit conducted in accordance with § 317 HGB and in compliance with the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) always reveals a material misstatement. Misstatements can result from any contravention or inaccuracy and are considered material if they could reasonably be expected to individually or collectively influence the economic decisions of recipients made on the basis of these Annual Financial Statements and Management Reports.

During the audit, we have exercised due discretion and maintained a critical attitude. Furthermore,

- we have identified and assessed the risks of intentional or unintentional material misstatement in the Annual Financial Statements and Management Report, planned and performed procedures in response to such risks, and obtained audit evidence that is sufficient and appropriate to form the basis of our opinion. The risk that material misrepresentations have not been detected is higher for contraventions than for inaccuracies, as contraventions may include fraudulent interactions, counterfeiting, intentional incompleteness, misrepresentations or the overriding of internal controls.
- We have gained an understanding of the internal control system relevant to the audit of the Annual Financial Statements as well as the arrangements and measures relevant to the audit of the Management Report in order to design audit procedures that are appropriate to the circumstances, but not with the aim of expressing an opinion on its effectiveness of the company's systems.
- We have assessed the appropriateness of the accounting methods used by the legal representatives, along with the reasonableness of the estimates and related disclosures made by them.
- We have drawn conclusions about the appropriateness of the accounting policy implemented by the legal representatives in continuing operations and, on the basis of the audit evidence obtained, determined if there is any material uncertainty related to events or circumstances that could raise significant doubts about the ability of the company to continue operations. Had we concluded that any material uncertainty exists, we are required to draw attention in the auditor's report to the relevant disclosures in the Annual Financial Statements and Management Report or, in the event of undue inaccuracy, to modify our opinion. We have reached our conclusions on the basis of the audit evidence obtained up to the date of our opinion. However, future events or circumstances may result in the company becoming unable to continue its business activities.

- We have assessed the overall presentation, structure and content of the Annual Financial Statements, including the disclosures, and determined if the Annual Financial Statements present the underlying transactions and events in such a way that they give a true and fair view of the company's assets, financial position and results in accordance with German generally accepted accounting principles.
- We have assessed the consistency of the Management Report with the Annual Financial Statements, relevant legislation and the overview that it conveys of the company's position.
- We have performed audits of the forward-looking statements presented by the legal representatives in the Management Report. Based on sufficiently suitable audit evidence, we have in particular replicated the significant assumptions underlying the forward-looking statements of the legal representatives and assessed the proper derivation of the forward-looking statements from these assumptions. We are not issuing any independent opinion on the forward-looking statements and the underlying assumptions. There is a significant unavoidable risk that future events will differ materially from the forward-looking statements.

Among other things, we have discussed the planned scope and timing of the audit with the supervisory authorities as well as the significant audit findings, including any deficiencies in the internal control system, that we have identified during our audit.

Frankfurt am Main, 30 April 2019

Baker Tilly GmbH & Co. KG
Auditing company
(Düsseldorf)

Christian Roos
- Auditor -

Sebastian Schmidt
- Auditor -

8 Contacts and imprint

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