

Steinhoff Europe AG,

Brunn am Gebirge

Long-form Audit Report
on the Financial Statements as of

September 30, 2016

(Translation)

We draw attention to the fact that the English translation of this long-form audit report according to Section 273 of the Austrian Company Code (UGB) is presented for the convenience of the reader only and that the German wording is the only legally binding version.

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To the
Members of Management and the Supervisory Board of
Steinhoff Europe AG,
Brunn am Gebirge

We have completed the audit of the financial statements as of September 30, 2016 of

Steinhoff Europe AG,
Brunn am Gebirge,

(referred to as "the Company")

and report on the result of our audit as follows:

1. Audit contract and performance of the engagement

At the ordinary general meeting dated March 30, 2017 of Steinhoff Europe AG, Brunn am Gebirge, we were elected and appointed as auditor for the short fiscal period from July 1, 2016 to September 30, 2016. The Company, represented by the supervisory board concluded an audit contract with us to audit the financial statements as of September 30, 2016, including the accounting system and the management report pursuant to Sections 269 et seqq. Austrian Company Code UGB.

The Company is a large corporation pursuant to Section 221 Austrian Company Code UGB.

The audit included assessing whether the statutory requirements and additional provisions of the Company's articles of association were adhered to concerning the preparation of the financial statements. The management report is to be assessed whether it is consistent with the financial statements and whether it was prepared in accordance with the applicable legal regulations.

We conducted our audit in accordance with the legal requirements and generally accepted standards on auditing as applied in Austria. These standards require that we comply with International Standards on Auditing. An auditor conducting an audit obtains reasonable assurance about whether the financial statements are free from material misstatement. Absolute assurance is not attainable due to the inherent limitations of any accounting and internal control system and due to the sample-based test nature of an audit, there is an unavoidable risk that material misstatements in the financial statements remain undetected. Areas which are generally covered in special engagements were not included in our scope of work.

We performed the audit, with interruptions, from October 2016 to June 2017. The audit was substantially completed at the date of this report.

Auditor responsible for the proper performance of the engagement is Mr. Dkfm. Erich von Tüllenburg, Austrian Certified Public Accountant.

Our audit is based on the audit contract concluded with the Company. The "General Conditions of Contract for Audits of Financial Statements " issued by the Austrian Chamber of Public Accountants and Tax Advisors (refer to Appendix V) form an integral part of the audit contract. These conditions of contract do not only apply to the Company and the auditor, but also to third parties. Section 275 Austrian Company Code UGB applies with regard to our responsibility and liability as auditors towards the Company and towards third parties.

2. Breakdown and description of significant items in the financial statements

The breakdown and description of all significant financial statement items are included in the notes to the financial statements and in the management report. Therefore, we refer to the respective disclosures made by the management/the management board in the notes to the financial statements and in the management report.

3. Summary of audit findings

3.1. Compliance of the accounting system and the financial statements and of the management report

During our audit, we obtained evidence that the statutory requirements and generally accepted accounting principles in Austria have been complied with.

In line with our risk and controls based audit approach and to the extent we considered necessary for the purpose of expressing an opinion, we considered internal controls related to sub processes of the financial reporting process as part of our audit.

With regard to the compliance of the financial statements and of the management report with all applicable statutory requirements we refer to the auditor's report.

3.2. Information provided

The Company's legal representatives provided all evidence and explanations requested by us. We obtained a representation letter signed by the legal representatives which we included in our working papers.

3.3. Reporting in accordance with Section 273 (2) and (3) Austrian Company Code UGB (exercising the duty to report)

During our audit we did not note any facts which indicate there could be substantial doubt about the Company's ability to continue as a going concern, or which indicate a material deterioration of the Company's performance or a material offence of the Company's legal representative/s or its employees against Austrian law or the Company's articles of association. We did not note any material weaknesses in the internal controls over the financial reporting process. The financial statements do not meet the requirements for the assumed need of reorganization in accordance with Section 22 Paragraph 1 Subsection 1 URG (Austrian Corporate Restructuring Act).

4. Auditor's Report

Report on the Financial Statements

We have audited the financial statements of

Steinhoff Europe AG,
Brunn am Gebirge.

These financial statements comprise the statement of financial position as of September 30, 2016, the income statement for the fiscal year then ended and the notes.

Responsibilities of the legal representatives for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements, for them to present a true and fair view of the assets, the financial position and the financial performance of the Company and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing. Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

Based on our audit the accompanying financial statements were prepared in accordance with the legal regulations and present fairly, in all material respects, the assets and the financial position of the Company as of September 30, 2016 and its financial performance for the short fiscal year from July 1, 2016 to September 30, 2016 in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements.

Comments on the Management Report for the Company

Pursuant to Austrian Generally Accepted Accounting Principles, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the management report was prepared in accordance with the applicable legal regulations.

Management is responsible for the preparation of the management report in accordance with Austrian Generally Accepted Accounting Principles.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report.

Opinion

In our opinion, the management report for the Company was prepared in accordance with the valid legal requirements and is consistent with the financial statements.

Statement

Based on the findings during the audit of the financial statements and due to the thus obtained understanding concerning the Company and its circumstances no material misstatements in the management report came to our attention.

Vienna, June 28, 2017

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

ppa. Mag. Philipp Rath
Wirtschaftsprüfer

ppa. Dkfm. Erich von Tüllenbug
Wirtschaftsprüfer

This report is a translation of the original report in German, which is solely valid.

Publication or sharing with third parties of the financial statements together with our auditor's opinion is only allowed if the financial statements and the management report are identical with the German audited version. This audit opinion is only applicable to the German and complete financial statements with the management report. Section 281 paragraph 2 UGB (Austrian Company Code) applies to alternated versions.

Translation of the Long-form Audit Report

on the Financial Statements as of

September 30, 2016

Steinhoff Europe AG

2345 Brunn am Gebirge, Rennweg 77

*) This English version of our report is a courtesy translation for information purposes only. In case of doubt only the data and information provided in the original German report are valid.

Legal form:	Stock corporation
Commercial court:	Regional court Wiener Neustadt
Comm. court nr.:	38031d
Tax office:	Tax office for district 1 and 23 of Vienna
Tax account:	018/0241

Steinhoff Europe AG

Balance sheet as of September 30, 2016

ASSETS	30.09.2016 EUR	30.06.2016 TEUR
A. Non-Current Assets		
I. Intangible assets		
1. Concessions, patents, licences, trade marks and similar rights and assets	688,00	1
	688,00	1
II. Tangible assets		
1. Other fixed assets, equipment and furnishings	21.702,00	16
	21.702,00	16
III. Financial assets		
1. Shares in affiliated companies	4.305.504.538,81	4.305.505
2. Loans to affiliated companies	600.000.000,00	600.000
3. Shares in associated companies	3.540.000,00	3.540
4. Investments held as fixed assets	51.452.000,00	51.452
	4.960.496.538,81	4.960.497
	4.960.518.928,81	4.960.514
B. Current Assets		
I. Accounts receivables and other assets		
1. Receivables due from affiliated companies <i>of which with a remaining maturity of up to one year: EUR 0,00 (PY: TEUR 0)</i>	5.388.312.143,24	5.240.368
2. Other receivables and other assets <i>of which with a remaining maturity of up to one year: EUR 0,00 (PY: TEUR 0)</i>	291.121.366,14	289.024
	5.679.433.509,38	5.529.392
II. Securities and shares		
1. Other securities and shares	0,00	153.931
	0,00	153.931
III. Cash in hand and at bank		
	63.371.301,10	10.237
	5.742.804.810,48	5.693.559
C. Deferred charges		
	56.610,00	75
	10.703.380.349,29	10.654.148

Steinhoff Europe AG

Balance sheet as of September 30, 2016

Stockholders equity and liabilities

	30.09.2016 EUR	30.06.2016 TEUR
A. Equity		
I. Capital paid in		
1. Nominal capital	2.500.000,00	2.500
	2.500.000,00	2.500
II. Capital reserves		
1. unbound	2.129.017.812,32	2.129.018
	2.129.017.812,32	2.129.018
III. Revenue reserves		
1. Statutory reserves	250.000,00	250
	250.000,00	250
IV. Retained earnings	1.315.254.073,24	1.271.465
<i>thereof Profit brought forward EUR 1.271.464.509,00 (PY: TEUR 1.133.255)</i>		
	3.447.021.885,56	3.403.232
B. Provisions		
1. Provisions for severance payments	142.576,99	139
2. Other provisions	12.073.313,78	14.953
	12.215.890,77	15.092
C. Liabilities		
1. Bond loans	858.812.065,09	858.812
<i>of which with a remaining maturity of up to one year: EUR 0,00 (PY: TEUR 0)</i>		
<i>of which with a remaining maturity of more than one year: EUR 858.812.065,09 (PY: TEUR 858.812)</i>		
2. Amounts due to banks	759.698.423,90	990.285
<i>of which with a remaining maturity of up to one year: EUR 200.199.105,53 (PY: TEUR 190.285)</i>		
<i>of which with a remaining maturity of more than one year: EUR 559.499.318,37 (PY: TEUR 800.000)</i>		
3. Amounts due to trade	32.708.350,42	31.762
<i>of which with a remaining maturity of up to one year: EUR 32.708.350,42 (PY: TEUR 31.762)</i>		
<i>of which with a remaining maturity of more than one year: EUR 0,00 (PY: TEUR 0)</i>		
4. Amounts payable to affiliated companies	5.541.965.399,66	5.334.359
<i>of which with a remaining maturity of up to one year: EUR 5.541.965.399,66 (PY: TEUR 5.334.359)</i>		
<i>of which with a remaining maturity of more than one year: EUR 0,00 (PY: TEUR 0)</i>		
5. Other liabilities	10.612.274,11	20.606
<i>of which with a remaining maturity of up to one year: EUR 10.612.274,11 (PY: TEUR 20.606)</i>		
<i>of which with a remaining maturity of more than one year: EUR 0,00 (PY: TEUR 0)</i>		
<i>thereof taxes EUR 12.900,13 (PY: TEUR 15)</i>		
<i>thereof social security EUR 8.788,90 (PY: TEUR 19)</i>		
	7.203.796.513,18	7.235.824
<i>of which with a remaining maturity of up to one year: EUR 5.785.485.129,72 (PY: TEUR 5.577.012)</i>		
<i>of which with a remaining maturity of more than one year: EUR 1.418.311.383,46 (PY: TEUR 1.658.812)</i>		
D. Deferred income	40.346.059,78	0
	10.703.380.349,29	10.654.148
Contingent liabilities	59.636.862,06	39.185

Steinhoff Europe AG

Income statement for the short fiscal year of July 1, 2016 to September 30, 2016

	1.7.-30.9.2016	2015/2016
	EUR	TEUR
1. Sales	72.423.439,75	92.728
2. Other operating income		
a) <i>Gains from reversal of provisions</i>	0,00	40
b) <i>Other</i>	1.962.940,20	108.508
	1.962.940,20	108.548
3. Expenses for material and services		
a) <i>Cost of purchased services</i>	(970,00)	(4)
	(970,00)	(4)
4. Personnel expenses		
a) <i>Salaries</i>	(101.465,42)	(434)
b) <i>Expenses for severance payments</i>	(23.034,39)	(127)
<i>thereof company pension: EUR 0,00 (PY: TEUR 0)</i>		
<i>thereof social security contributions: EUR -4.216,66 (PY: TEUR -14)</i>		
<i>thereof pay-related levies and compulsory contributions: EUR -18.716,77 (PY: TEUR -113)</i>		
	(124.499,81)	(561)
5. Depreciation		
a) <i>of intangible and tangible fixed assets</i>	(1.816,32)	(8)
	(1.816,32)	(8)
6. Other operating expenses		
a) <i>Taxes other than those included under income tax</i>	(1.066,31)	0
a) <i>Other</i>	(19.143.732,93)	(114.713)
	(19.144.799,24)	(114.713)
7. Subtotal (operating income)	55.114.294,58	85.990
8. Income from investments	0,00	3.249
<i>thereof from affiliated companies EUR 0,00 PY: TEUR 3.249</i>		
9. Other interest and similar income	26.527.086,16	107.619
<i>thereof from affiliated companies EUR 24.454.989,53 PY: TEUR 75.223</i>		
10. Income from sale of and addition to financial assets and investments held as current assets	20.524.338,86	66.180
11. Interest and similar expenses	(40.030.534,09)	(73.513)
<i>thereof concerning affiliated companies EUR -7.887.925,46 PY: TEUR -16.736</i>		
12. Subtotal (income from financial operations)	7.020.890,93	103.535
13. Earnings before taxes	62.135.185,51	189.525
14. Taxes on income	(18.345.621,27)	(51.315)
15. Earnings after taxes	43.789.564,24	138.210
16. Net profit/loss for the year (before changes in reserves)	43.789.564,24	138.210
17. Net profit/loss of the year	43.789.564,24	138.210
18. Profit brought forward	1.271.464.509,00	1.133.255
19. Retained earnings	1.315.254.073,24	1.271.465

Steinhoff Europe AG

2345 Brunn am Gebirge, Rennweg 77
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**for the abbreviated financial year
from 1 July 2016 to 30 September 2016**

Unless otherwise indicated, all amounts are stated in EUR.

I. Accounting and valuation methods**GENERAL**

The individual items of the financial statements were accounted for, valued and disclosed according to the provisions of the applicable version of the Austrian Commercial Code (UGB).

The annual financial statements were prepared in accordance with the principles of proper accounting and the general rule of presenting the Company's net assets, financial position and results of operations as fairly as possible.

When preparing the financial statements, the principle of completeness and non-arbitrariness was observed.

For valuation purposes, it was assumed that the Company would continue to operate as a going concern.

In the case of assets and liabilities, the principle of individual valuation was applied.

The prudence principle was observed to the effect that only the profits realised on the balance sheet date were disclosed. All identifiable risks and impending losses arisen in the financial year ended or in the previous financial year were considered.

The previously applied accounting and valuation methods continued to be applied except where changes were required due to the first-time application of the Austrian Accounting Amendment Act 2014.

This especially includes changes to the presentation of the balance sheet, income statement and the notes to financial statements as well as the determination of size classes as per § 221 UGB.

As for the comparability of prior-year figures of the income statement, it should be noted that the financial year ended is an abbreviated financial year from 1 July 2016 to 30 September 2016 and the prior-year figures cover a period from 1 July 2015 to 30 June 2016.

FIXED ASSETS

Fixed assets were valued at acquisition cost less depreciation/amortisation and impairment write-downs.

Depreciation rates are generally determined based on the straight-line method.

Low-value assets were written off in the year of acquisition and expensed.

Write-downs and write-ups were made according to the statutory provisions.

CURRENT ASSETS**Receivables and other assets**

As per §§ 206 et seq. UGB, receivables and other assets were valued at cost less impairment write-downs. The valuation of receivables took into account identifiable risks in form of write-downs.

Cash in hand and at bank

Cash at bank denominated in foreign currencies was translated at the following exchange rates:

Currency	Currency exchange rate
GBP	1,16
AUD	0,68
CHF	0,92
USD	0,89

PREPAID EXPENSES

Prepaid expenses comprise expenses recognised in the reporting period but referring to the subsequent periods.

PROVISIONS**Provisions for future pensions and severance payments**

Provisions for severance payments were determined according to principles of mathematical finance. Thus, the Company sufficiently satisfied the requirement arising from company law.

An actuarial interest rate of 2.5% was applied for this purpose.

Other provisions

Other provisions were created to account for contingent liabilities and impending losses from pending transactions in cases where the obligation or event of loss is probable or certain, but its amount or repayment date is unknown as of the balance sheet date. If they are not utilised or the reason for their creation ceases to exist, provisions from previous years are reversed through other operating income.

LIABILITIES

Liabilities are recognised at an amount that is necessary for repaying the liability (repayment amount).

Foreign currency liabilities were translated at the following exchange rates:

Currency	Currency exchange rate
GBP	1,16
AUD	0,68
CHF	0,92
USD	0,89

II. Explanations to the balance sheet

FIXED ASSETS

For the development of the asset items and the breakdown of annual depreciation/amortisation, please see the schedule of fixed assets.

Financial assets

Information on significant shares in related parties as per § 238 (1) No. 4 UGB is presented in the table below (in EUR thousand):

Company	Participating interest	Registered office	Profit/loss of the previous financial year	Equity	Previous financial year
Steinhoff Germany GmbH	100%	Westerstede	781	97.639	09/2016
Steinhoff Europe Group Services GmbH	100%	Westerstede	-45.586	27.106	09/2016
Steinhoff Europe AG	100%	Baar	88.670	1.570.328	09/2016
Steinhoff International	100%	Hong Kong	4.828	8.151	09/2016
Steinhoff Digital GmbH	100%	Munich	-7	161	09/2016
Genesis Investment	100,0%	Brunn/Gebirge	-2.485	2.156.931	12/2015

CURRENT ASSETS

As of the balance sheet date, the Company reported Del credere risks in the following amounts:

	30/09/2016	30/06/2016
Individual value adjustment write-downs in EUR	5.009.789,02	45.355.848,80

Receivables from related parties

Receivables from related parties falling under multiple items are classified as follows:

	30/09/2016	30/06/2016
Trade receivables	98.105.921,09	38.226.119,34
Other receivables	5.290.206.222,15	5.202.141.692,83
	<u>5.388.312.143,24</u>	<u>5.240.367.812,17</u>

Prepaid expenses

Prepaid expenses comprise expenses recognised in the reporting period but paid in relation to future periods.

EQUITY

Share capital	Share capital	including paid in
1,000 no-par value shares with a face value of	2.500.000,00	2.500.000,00
Total	2.500.000,00	2.500.000,00

Capital reserves

Unappropriated capital reserves arise from non-repayable grants already awarded to the Company in the previous years.

PROVISIONS

The development of provisions is presented in the schedule of provisions:

	30/06/2016	Utilised	Reversed	Created	30/09/2016
Provisions for severance payments	139.292,11	0,00	0,00	3.284,88	142.576,99
Other provisions	14.952.921,74	8.559.343,06	0,00	5.679.735,10	12.073.313,78
Total	15.092.213,85	8.559.343,06	0,00	5.683.019,98	12.215.890,77

Other provisions comprise provisions for jubilee payments, consulting fees, outstanding purchase invoices and provisions for interest accrued under the existing financing.

LIABILITIES

Total liabilities with a remaining term of over 5 years:

	30/09/2016	30/06/2016
	274.193.502,38	324.193.502,38

Liabilities to related parties

Liabilities to related parties falling under multiple items are classified as follows:

	30/09/2016	30/06/2016
Trade liabilities	109.348.255,34	62.535.879,83
Other liabilities	5.432.617.144,32	5.271.822.938,68
	<u>5.541.965.399,66</u>	<u>5.334.358.818,51</u>

Deferred income

Deferred income comprises a write-up reserve created as per § 906 (32) UGB in conjunction with § 124b No. 270 EStG.

III. Explanations to the income statement

The income statement is prepared using the nature of expense method. It does not include the aggregate disclosures as per § 223 (6) UGB which require adding an explanation.

The sales revenues split by areas of activity are structured as follows:

	2016	2015/2016
Sales commissions	78.000,00	216.422,13
Cost allocations	22.345.439,75	65.067.364,58
Sundry revenues	50.000.000,00	27.444.338,30
Total	<u>72.423.439,75</u>	<u>92.728.125,01</u>

Personnel costs

Expenses on severance payments and occupational pension schemes are as follows:

	2016	2015/2016
Severance payments and changes in provisions	3.284,88	10.117,48
Contributions to a pension scheme	931,78	3.962,41
	<u>4.216,66</u>	<u>14.079,89</u>

The Company was not required to disclose information on the fee for the auditor otherwise required under § 238 (1) No. 18, because the fee has already been disclosed in the consolidated financial statements.

IV. Other information

Breakdown of contingent liabilities as per § 199 UGB:

Contingent liabilities	Amount
Guarantees to banks	59.568.849,87
Letters of comfort issued	68.012,19
Total contingent liabilities	<u>59.636.862,06</u>

The Company has the following obligations arising from the use of property, plant and equipment not disclosed in the balance sheet, with the property, plant and equipment being used based on long-term rental or lease agreements:

Other financial obligations:	The following financial year	The following 5 financial years	Total
Rental and lease agreements	57.000,00	228.000,00	285.000,00
<i>Previous year</i>	<i>57.500,00</i>	<i>230.000,00</i>	<i>287.500,00</i>

Two lawsuits were filed against the Company.

In one lawsuit, the plaintiff claims that Steinhoff Europe AG should exercise its rights as a shareholder in Steinhoff Holding Beta GmbH to the effect that –as a result of an increase in the share capital of AIH Investment Holding AG– the plaintiff should be granted 50% of shares in the said company. Steinhoff Holding Beta GmbH is the sole shareholder in AIH Investment Holding AG. The plaintiff invokes a conversion loan agreement and a framework agreement which allegedly justify the claim.

In another lawsuit filed against the Company, another plaintiff claims that Steinhoff Europe AG should repay EUR 300 million granted to AIH Investment Holding AG, incl. interest, default interest and financing costs.

In the case of both lawsuits, the Company filed a response in a timely manner and denied all claims asserted by the plaintiffs. As of the date of preparing the annual financial statements, the court proceedings were not settled yet. The picture of the legal disputes is thus drawn based on the current estimation of the status of the proceedings. Steinhoff Europe AG assumes that the lawsuit will be dismissed and thus does not expect that any payments will have to be made (in addition to the granted amount, the plaintiff seeks EUR 137 million in interest, default interest and financing costs).

Financial derivatives

Debt securities offered for sale under private placement, with a face amount of (originally) USD 284.5 million, were hedged with a currency hedge of EUR 220,542,635.38 as of the subscription date. After repayment of a portion of these debt securities the hedge transactions will continue in effect. For USD-denominated senior notes issued in the 2011/2012 financial year, currency hedging contracts were concluded covering the period until maturity dates of the respective tranches. No provision for any obligations under the existing currency hedging contracts had to be made.

In addition, forward exchange transactions were concluded for group companies, whereas future cash outflows are offset by appropriate future cash inflows of the group companies of the same amount so no provisions for open forwards had to be created as of the balance sheet date.

Personnel

The average number of employees during the financial year was as follows (§ 239 (1) No. 1 UGB):

	2016	2015/2016
White-collar workers	5,0	5,0

Management board remuneration is paid to only one member of the management board, therefore recourse was taken to the protective clause under § 242 (4) UGB.

The members of the Management Board or the Supervisory Board were not granted any advance payments or loans.

Group relationships

Steinhoff International Holdings N.V., Netherlands, compiles the consolidated financial statements for the largest and smallest group of companies. The consolidated financial statements are published by the Company and are available from the commercial court competent for the registered office of the Company.

Information on related parties

Related-party transactions comprise mainly cost allocations, transactions under a group-wide cash pool, and awards of loans. In the financial year ended, such transactions were effected on arm's length conditions.

Information on group agreements

In 2016, an application for the recognition of a status of a corporate group under § 9 (8) KStG 1988 was filed in order to fall under group taxation rules starting from 1 July 2016. A tax allocation agreement was signed in order to apply the method of the apportionment of the tax burden. The Company is a member of the group, with Steinhoff Finance Holding GmbH acting as the parent of the group.

Size features

Taking into account the legal regulations under the Austrian Accounting Amendment Act 2014, the Company is a large joint stock company as per § 221 UGB.

Significant post-balance sheet events

As part of the proceedings concerning the legal dispute, the Company paid out EUR 147 million to the plaintiff in December 2016. Thus, from the Company's point of view, the liability was settled in its entirety.

There were no other events that would be significant to the Company or that would result in a different assessment of the annual financial statements.

Management Board

In the financial year, the composition of the Management Board was as follows:

Dirk Schreiber, has represented the Company independently since 23 November 2011

Markus Johannes Jooste, has represented the Company independently since 19 July 2011

Stephanus Johannes Grobler, has represented the Company independently since 24 July 2009

Supervisory Board

In the financial year, the composition of the Supervisory Board was as follows:

Bruno Steinhoff, Chairman

Fredrik Johannes Nel, Deputy Chairman

Hein Odendaal, Member

Profit (loss) appropriation proposal

The Management Board proposed carrying forward the disclosed balance sheet profit onto a new account.

Brunn am Gebirge, 28 June 2017

Steinhoff Europe AG, Brunn am Gebirge

asset analysis September 30, 2016

	acquisition costs			as of 30.09.2016	development of depreciation				as of 30.09.2016	book value	
	as of 01.07.2016	acquisitions	disposals		as of 01.07.2016	depreciation of fiscal year	appreciation of fiscal year	disposals		as of 30.09.2016	as of 30.06.2016
I. Intangible assets											
1. Concessions, patents, licences, trade marks and similar rights and assets	17.774,88	0,00	0,00	17.774,88	16.913,88	173,00	0,00	0,00	17.086,88	688,00	861,00
Total	17.774,88	0,00	0,00	17.774,88	16.913,88	173,00	0,00	0,00	17.086,88	688,00	861,00
II. Tangible assets											
1. Other fixed assets, equipment and furnishings	34.512,52	7.110,32	1.027,62	40.595,22	18.194,52	1.643,32	944,62		18.893,22	21.702,00	16.318,00
Total	34.512,52	7.110,32	1.027,62	40.595,22	18.194,52	1.643,32	944,62	0,00	18.893,22	21.702,00	16.318,00
III. Financial assets											
1. Shares in affiliated companies	4.305.504.538,81	0,00	0,00	4.305.504.538,81	0,00	0,00	0,00	0,00	0,00	4.305.504.538,81	4.305.504.538,81
2. Loans to affiliated companies	600.000.000,00	0,00	0,00	600.000.000,00	0,00	0,00	0,00	0,00	0,00	600.000.000,00	600.000.000,00
3. Shares in associated companies	3.540.000,00	0,00	0,00	3.540.000,00	0,00	0,00	0,00	0,00	0,00	3.540.000,00	3.540.000,00
4. Investments held as fixed assets	51.452.000,00	0,00	0,00	51.452.000,00	0,00	0,00	0,00	0,00	0,00	51.452.000,00	51.452.000,00
Total	4.960.496.538,81	0,00	0,00	4.960.496.538,81	0,00	0,00	0,00	0,00	0,00	4.960.496.538,81	4.960.496.538,81
Total non-current assets	4.960.548.826,21	7.110,32	1.027,62	4.960.554.908,91	35.108,40	1.816,32	944,62	0,00	35.980,10	4.960.518.928,81	4.960.513.717,81

ad) Financial assets

Breakdown of shares in affiliated companies

Steinhoff Europe AG, CH	53.223.244,29	0,00	0,00	53.223.244,29	0,00	0,00	0,00	0,00	0,00	53.223.244,29	53.223.244,29
Steinhoff Germany GmbH	34.568.735,49	0,00	0,00	34.568.735,49	0,00	0,00	0,00	0,00	0,00	34.568.735,49	34.568.735,49
Steinhoff Europe Group Services GmbH	25.564,59	0,00	0,00	25.564,59	0,00	0,00	0,00	0,00	0,00	25.564,59	25.564,59
Steinhoff Möbel Holding GmbH	585.000,00	0,00	0,00	585.000,00	0,00	0,00	0,00	0,00	0,00	585.000,00	585.000,00
Steinhoff International Sourcing	1.548.418,05	0,00	0,00	1.548.418,05	0,00	0,00	0,00	0,00	0,00	1.548.418,05	1.548.418,05
Genesis Investment Holding GmbH	4.148.319.952,88	0,00	0,00	4.148.319.952,88	0,00	0,00	0,00	0,00	0,00	4.148.319.952,88	4.148.319.952,88
Steinhoff Digital GmbH	229.000,00	0,00	0,00	229.000,00	0,00	0,00	0,00	0,00	0,00	229.000,00	229.000,00
MAMAF Investissement SASU	67.001.000,00	0,00	0,00	67.001.000,00	0,00	0,00	0,00	0,00	0,00	67.001.000,00	67.001.000,00
Conforama Investissement 2 SAS	1.000,00	0,00	0,00	1.000,00	0,00	0,00	0,00	0,00	0,00	1.000,00	1.000,00
other shares < 1%	2.623,51	0,00	0,00	2.623,51	0,00	0,00	0,00	0,00	0,00	2.623,51	
Total	4.305.504.538,81	0,00	0,00	4.305.504.538,81	0,00	0,00	0,00	0,00	0,00	4.305.504.538,81	4.305.501.915,30

Steinhoff Europe AG

MANAGEMENT REPORT

to

Annual financial statements as of 30 September 2016

A. Report on the Company's development and economic situation

1. Company development

In Austria, the Company continues to sell furniture supplied directly from [low-cost] production countries for service- and cost-related reasons. Already in the previous years, the Company expanded its activities to include services for the Steinhoff group companies.

In Europe, the developments in the area of sales of furniture continue to be influenced by economic trends.

2. Report on branch offices

Apart from the Company's headquarters in Austria, the Company has no other branch offices.

3. Financial and non-financial performance indicators

Financial performance indicators

As for the comparability of prior-year figures of the income statement, it should be noted that the financial year ended is an abbreviated financial year from 1 July 2016 to 30 September 2016 and the prior-year figures cover a period from 1 July 2015 to 30 June 2016. Furthermore, based on the Austrian Accounting Amendment Act 2014, reclassifications were performed in the income statement, as a result of which especially the composition and presentation of sales revenues changed; at the same time, the prior-year figures were also appropriately adjusted.

In the financial year 2016, which covers only a period of 3 months, the sales revenues amounted to EUR 72 million and were thus lower compared to the financial year 2015/2016 (2015/2016: approx. EUR 92 million). The majority of the sales revenues arose from cost allocations.

Other operating income was attributable mainly to realised currency gains of EUR 1.9 million (2015/2016: approx. EUR 12.1 million). In the previous year, other operating income included also income from the reversal of individual value adjustment write-downs of approx. EUR 96.4 million.

In the area of personnel costs, the Company implemented cost saving measures already in the financial year 2015/2016, while depreciation of property, plant and equipment was of secondary importance as in the previous year. As for other operating expenses, intra-group settlements and currency losses were again the most significant expense items.

Due to the positive interest balance, the Company once again achieved a positive financial result. Earnings before taxes were approx. EUR 62.1 million (2015/2016: approx. EUR 189.5 million). Taxes on income arose mainly from the recharging of the tax burden by the group parent.

Until 30 September 2016, equity thus increased from EUR 3,403 million to EUR 3,447 million.

In the reporting period ended, the existing and new credit facilities from banks were exhausted and credit lines granted by the banks were restructured so the Company's liabilities to banks declined from about EUR 990 million to about EUR 760 million. In the financial year ended and in the previous years, investments were financed mainly from the issuance of bonds and through bank loans. In addition, the Company set up a cash pool and thus secured the financing of the ongoing operations and investments. In the long term, the Company intends to repay external financing from realised gains of its associated companies and from income from dividends.

Overall, the development of the individual cash flows led to a decrease in liquid funds as of 30 September 2016.

Short summary of the cash flow statement		
	1/7/16-30/09/16 (in EUR thousand)	2015/2016 (in EUR thousand)
Net cash flow from operating activities	45,064	36,203
Net cash flow from investing activities	77,863	-3,200,383
Net cash flow from financing activities	-69,792	3,122,109
Change in liquid funds	53,134	-42,072

An overview of other financial ratios is presented below:

	Financial year	
	1/7/16-30/09/16	2015/2016
	(amounts are stated in EUR thousand)	
Return on sales	60.46%	149.05%
Return on equity	1.27%	4.06%
Return on total assets	0.41%	1.30%
Equity ratio	32.20%	31.94%

Non-financial performance indicators

On an annual average, no [new] employees were hired so the average number of the Company's employees was invariably 5 (2015/2016: 5). As for group-wide handling, appropriate costs are recharged to the Company.

Due to the nature of the Company's business activities, there are no substantial circumstances or factors relating to environmental protection or employee matters which would be of significance to the understanding of the Company's development or situation.

B. Report on the Company's anticipated development

1. Anticipated development of the Company

For the financial year commenced on 1 October 2016, the Company strives to achieve positive results of operations again. The level of revenues from the sale of furniture should be maintained. Further development of our existing associated companies is and will continue to be our primary objective.

2. Significant risks and contingencies

As a result of the proceedings concerning the legal dispute described in the notes to the financial statements, the Company paid out EUR 147 million to the plaintiff in December 2016. Thus, from the Company's point of view, the liability was settled in its entirety.

Based on a detailed assessment of risk profiles of the transactions and investments made in the financial year ended and in the previous years, no provisions for impending losses and damage claims had to be created.

On-going monitoring of operational processes and the group-wide deployment of reliable software, as well as the recruitment and training of our qualified staff members enable us as the Management Board to identify possible risks and budget deviations and to implement appropriate counter-measures.

On the assets side, the disclosed amounts represent at the same time the maximum level of creditworthiness and the maximum level of default risk. As a rule, investments are made after a detailed analysis of risks and opportunities involved in an investment project.

As part of their Europe-wide activities, our associated companies are exposed to a large number of risks which conducting business activities inseparably involves. As part of risk management, the risks and their potential

impact are captured, analysed and countered based on the defined risk policy. From today's perspective, no risks are identifiable which might jeopardise the Company's ability to continue as a going concern.

Market risks arise from the economic developments in the European economies that are significant to our business. The market segments that are crucial for our Company and our associated companies include production and sales, as well as marketing and distribution of furniture manufactured in-house.

In an effort to avoid fluctuations in the achieved results as best as possible, we pursue a strategy of geographical diversification while focusing on the core business at the same time. Our activities are exposed to typical local market risks. The position the Company has achieved in various markets must be continuously defended against other competitors.

Thanks to the diversification strategy, we did not identify any procurement and production risks, and the risk diversification as well as the selection of our production sites enabled us to develop high turnaround efficiency.

Incorrect business decisions of managing directors of associated companies and thus the risk of complete failure of individual investment projects cannot be entirely ruled out. By introducing intra-group monitoring and control measures, the Company set up an early warning system to identify any possible adverse developments and to be able to introduce necessary adjustments.

Due to the granting and taking out of loans denominated in various currencies and on various interest rate conditions, the Company is basically exposed to currency and interest rate risks. In the case of intra-group loans, these risks are minimised by setting consistent conditions across the Group. For the USD-denominated bond, the Company concluded a Cross-Currency Interest Rate SWAP which uses a variable EUR interest rate to hedge the fixed US\$ interest rate determined as of the signing date and thus minimises currency and interest rate risk. For the FX tranches of the issued senior notes, the Company also concluded medium- to long-term currency hedge contracts. The Company does not conclude any contracts for derivatives held for trading or for trading for speculative purposes.

To diversify the risk, the Company took intensive measures in the past to diversify its investment portfolio, which enabled the Company and the Group to sell furniture products covering a broad spectrum of segments of the furniture industry. Thus, bottlenecks were eliminated to the largest extent possible.

For group companies, the Company concluded currency hedge contracts involving opportunities and risks all of which are borne by the group companies.

The default risk in the area of receivables is addressed by having an appropriate receivables management system in place. In addition, individual value adjustment write-downs are considered in the financial statements in line with the prudence principle.

C. R&D report

The Company incurs R&D expenses in the scope customary for the sector of industry.

D. Report on the existence, acquisition and sale of treasury shares

In the financial year ended, there were no reportable matters relating to the existence of treasury shares which were acquired or accepted as a pledge by the Company itself or any of its related parties, or by another party acting on behalf of the Company or any of its related parties.

Brunn am Gebirge, 28 June 2017

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General Conditions of Contract for Audits of Annual Accounts (AAB 2011)

Laid down by the Working Group for Fees and Conditions of Contract of the Chamber of Public Accountants and Tax Advisors, recommended for use by the Board of the Chamber of Public Accountants and Tax Advisors in its decision of March 8, 2000, and revised by the Working Group for Fees and Conditions of Contract on May 23, 2002, on October 21, 2004, on December 18, 2006, on August 31, 2007, on February 26, 2008, on June 30, 2009, on March 22, 2010, as well as on February 21, 2011

Preamble and General Points

(1) The General Conditions of Contract for the professions in the field of public accounting are divided into four sections: Section I deals with contracts for services, excluding contracts concerning bookkeeping, payroll accounting and administration and assessment of payroll-related taxes and contributions; Section II deals with contracts for rendering services in the field of bookkeeping, payroll accounting and administration and assessment of taxes and contributions; Section III covers contracts not regarded as contracts for the rendering of services, while Section IV is devoted to consumer business covered by the Austrian Consumer Act.

(2) In the event that individual provisions of these General Conditions of Contract are void, this shall not affect the validity of the remaining provisions. The invalid provision shall be replaced by a valid provision that is as close as possible to the desired objective.

(3) The person entitled to exercise profession in the field of public accounting shall be obliged to render the services negotiated in accordance with the principles of due professional care and conduct. He/she shall have the right to engage suitable staff for the execution of the contract. This shall apply to all sections of The General Conditions of Contract.

(4) Finally, foreign law shall only be taken into account by the person entitled to exercise the profession, if this has been explicitly agreed upon in writing. This shall apply to all sections of the General Conditions of Contract.

(5) The work prepared in the offices of the person entitled to exercise the profession may, at the discretion of the person entitled to exercise the profession, be carried out with or without using electronic data processing. In case electronic data processing is used, the client – not the person entitled to exercise the profession – is obliged to effect the registrations or notifications required under the relevant provisions of the Data Protection Act.

(6) The client undertakes not to employ staff of the person entitled to exercise the profession during and within one year after termination of the contractual relationship, either in his/her company or in an associated company, failing which he/she shall be obliged to pay the person entitled to exercise the profession the amount of the annual salary of the employee taken over.

SECTION I

1. Scope

(1) The General Conditions of Contract in Section I shall apply to contracts concerning (statutory and voluntary) audits with or without auditor's certificate, expert opinions, court expert opinions, preparation of annual financial statements and other financial statements, tax consultancy and other services to be rendered within the framework of a contract for the rendering of services, excluding bookkeeping, payroll accounting and the administration and assessment of payroll-related taxes and contributions.

(2) The General Conditions of Contract shall apply, if their use has been explicitly or tacitly agreed upon. Furthermore, in the absence of another agreement, they shall be used for reference to facilitate interpretation.

(3) Point 8 shall also apply to third parties whose services, in certain cases, may be enlisted by the contractor for the execution of the contract.

2. Scope and Execution of Contract

(1) Reference shall be made to Items 3 and 4 of the Preamble.

(2) Should the legal situation change subsequent to delivering a final professional statement passed on by the client orally or in writing, the person entitled to exercise the profession shall not be obliged to inform the client of changes or of the consequences thereof. This shall also apply to the completed parts of a contract.

(3) An application submitted by the person entitled to exercise the profession to an authority (e.g. tax office, social security institution) by electronic means, shall be regarded as neither signed by the person entitled to exercise the profession nor by the person authorized to submit such an application.

3. Client's Obligation to Provide Information and Submit Complete Set of Documents

(1) The client shall make sure that all documents required for the execution of the contract be placed in good time and without special request at the disposal of the person entitled to exercise the profession and that he/she be informed of all events and circumstances which may be of significance for the execution of the contract. This shall also apply to documents, events and circumstances which become known only after the person entitled to exercise the profession has commenced his/her work.

(2) The client shall confirm in writing that all documents submitted, all information provided and explanations given in the context of audits, expert opinions and expert services are complete. This statement may be made on the forms specifically designed for this purpose.

(3) If the client fails to disclose considerable risks in connection with the preparation of annual financial statements and other statements, the contractor shall not be obliged to render any compensation in this respect.

4. Maintenance of Independence

(1) The client shall be obliged to take all measures to make sure that the independence of the employees of the person entitled to exercise the profession be maintained and shall refrain from jeopardizing their independence in any way. In particular, this shall apply to offers of employment and to offers to accept contracts on their own account.

(2) The client consents that their personal details, meaning their name and the type and scope of the services, including the performance period, agreed between the professional practitioner and the client (both audit and non-audit services), shall be handled within the information network (network), to which the professional practitioner belongs, and for this purpose transferred to the other members of the information network (network) including abroad (a list of all recipients of communications shall be sent to the client at their request by the commissioned professional practitioner) for the purpose of examination of the existence of grounds of bias or grounds for exclusion within the meaning of Sections 271 et seq. of the Company Code (Commercial Code, UGB). For this purpose the client expressly releases the professional practitioner in accordance with the Data Protection Act and in accordance with Section 91 Subsection 4 Clause 2 of the Auditing, Tax Advising and Related Professions Act (WTBG) from their obligation to maintain secrecy. Moreover, the client acknowledges in this regard that in states which are not EU members a lower level of data protection than in the EU may prevail. The client can revoke this consent at any time in writing to the professional practitioner.

5. Reporting Requirements

- (1) In the absence of an agreement to the contrary, a written report shall be drawn up in the case of audits and expert opinions.
- (2) All information and opinions of the person entitled to exercise the profession and his employees shall only be binding provided they are set down or confirmed in writing. Written opinions shall only be those on which there is a company signature. Written opinions shall in no circumstances be information sent electronically, specifically not via e-mail.
- (3) Transmission errors cannot be excluded when information and data is transmitted electronically. The person entitled to exercise the profession and his employees shall not be liable for losses which arise as a result of electronic transmission. Electronic transmission shall be exclusively at the client's risk. The client is aware that confidentiality is not guaranteed when the Internet is used. Furthermore, amendments or supplements to documents transmitted shall only be permissible subject to explicit approval.
- (4) Receipt and forwarding of information to the person entitled to exercise the profession and his employees are not always guaranteed when the telephone is used, in particular in conjunction with automatic telephone answering systems, fax, e-mail and other electronic means of communication. As a result, instructions and important information shall only be deemed to have been received by the person entitled to exercise the profession provided they are also received in writing, unless explicit confirmation of receipt is provided in individual instances. Automatic confirmation that items have been transmitted and read shall not as such constitute explicit confirmations of receipt. This shall apply in particular to the transmission of decisions and other information relating to deadlines. As a result, critical and important notifications must be sent to the person entitled to exercise the profession by post or courier. Delivery of documents to employees outside the firm's offices shall not count as delivery.
- (5) The client agrees to being sent recurrent general tax law and general commercial law information by the person entitled to exercise the profession via electronic means. This shall not apply to unsolicited information in accordance with § 107 of the Austrian Telecommunications Act (TKG).

6. Protection of Intellectual Property of the Person Entitled to Exercise the Profession

- (1) The client shall be obliged to ensure that reports, expert opinions, organizational plans, drafts, drawings, calculations and the like, issued by the person entitled to exercise the profession, be used only for the purpose specified in the contract (e.g. pursuant to Section 44 Para. 3 Austrian Income Tax Act 1988). Furthermore, professional statements passed on by the client orally or in writing made by the person entitled to exercise the profession may be passed on to a third party for use only with the written consent of the person entitled to exercise the profession.
- (2) The use of professional statements passed on by the client orally or in writing made by the person entitled to exercise the profession for promotional purposes shall not be permitted; a violation of this provision shall give the person entitled to exercise the profession the right to terminate without notice to the client all contracts not yet executed.
- (3) The person entitled to exercise the profession shall retain the copyright on his/her work. Permission to use the work shall be subject to the written consent by the person entitled to exercise the profession.

7. Correction of Errors

- (1) The person entitled to exercise the profession shall have the right and shall be obliged to correct all errors and inaccuracies in his/her professional statement passed on by the client orally or in writing which subsequently come to light and shall be obliged to inform the client thereof without delay. He/she shall also have the right to inform a third party acquainted with the original statement of the change.
- (2) The client has the right to have all errors corrected free of charge, if the contractor can be held responsible for them; this right will expire six months after completion of the services rendered by the person entitled to exercise the profession and/or – in cases where a written statement has not been delivered – six months after the person entitled to exercise the profession has completed the work that gives cause to complaint.
- (3) If the contractor fails to correct errors which have come to light, the client shall have the right to demand a reduction in price. The extent to which additional claims for damages can be asserted is stipulated under Point 8.

8. Liability

- (1) The person entitled to exercise the profession shall only be liable for violating intentionally or by gross negligence the contractual duties and obligations entered into.
- (2) In cases of gross negligence, the maximum liability for damages due from the appointed person entitled to exercise the profession is tenfold the minimum insurance sum of the professional liability insurance according to Section 11 of the Act on Professions in the Field of Public Accounting (WTBG) in the currently valid version.
- (3) Any action for damages may only be brought within six months after those entitled to assert a claim have gained knowledge of the damage, but not later than three years after the occurrence of the (primary) loss following the incident upon which the claim is based, unless other statutory limitation periods are laid down in other legal provisions.
- (4) Should Section 275 of the Company Code (Commercial Code, UGB) be mandatorily applicable, the liability provisions pursuant to Section 275 shall apply where these represent mandatory law, even in cases where several persons have participated in the execution of the contract or where several activities requiring compensation have taken place, irrespective of whether other participants have acted with intent.
- (5) In cases where a formal audit certificate is issued, the applicable limitation period shall commence at the latest at the time of issue of said audit certificate.
- (6) If activities are carried out by enlisting the services of a third party, e.g. a data-processing company, and the client is informed thereof, any warranty claims and claims for damages which arise against the third party according to law and in accordance with the conditions of the third party, shall be deemed as having been passed on to the client. The person entitled to exercise the profession shall only be liable for fault in choosing the third party.
- (7) The person entitled to exercise the profession shall not be liable to a third party, if his/her professional statements are passed on by the client orally or in writing without the approval or knowledge of the person entitled to exercise the profession.
- (8) The above provisions shall apply not only vis-à-vis the client but also vis-à-vis third parties, if the person entitled to exercise the profession, in exceptional cases, should be liable for his/her work. In any case, a third party cannot raise any claims that go beyond any claim raised by the client. The maximum sum of liability shall be valid only once for all parties injured, including the compensation claims of the client, even if several persons (the client and a third party or several third parties) have been wronged; the claims of the aggrieved parties shall be satisfied in the order in which the claims have been raised.

9. Secrecy, Data Protection

- (1) According to Section 91 WTBG the person entitled to exercise the profession shall be obliged to maintain secrecy in all matters that become known to him/her in connection with his work for the client, unless the client releases him/her from this duty or he/she is bound by law to deliver a statement.
- (2) The person entitled to exercise the profession shall be permitted to hand on reports, expert opinions and other written statements pertaining to the results of his/her services to third parties only with the permission of the client, unless he/she is required to do so by law.
- (3) The person entitled to exercise the profession is authorized to process personal data entrusted to him/her within the framework of the purpose of the contract or to have them processed by a third party according to Point 8 Item 5. The person entitled to exercise the profession shall guarantee that according to Section 15 of the Data Protection Act secrecy be maintained. According to Section 11 of the Data Protection Act the material made available to the person entitled to exercise the profession (data carrier, data, control numbers, analyses and programs) as well as all results obtained as a result of the work provided shall be returned to the client, unless the client has requested in writing that the material and/or results be transferred to a third party. The person entitled to exercise the profession shall be obliged to take measures to ensure that the client can meet his/her obligation to provide information according to Section 26 of the Data Protection Act. The client's instructions required for this purpose shall be given in writing to the person entitled to exercise the profession. Unless a fee has been negotiated for providing such information, the client shall be charged only the actual efforts undertaken. The client shall meet his/her obligation to provide information to those concerned and/or to register in the data processing register, unless the contrary has been explicitly agreed in writing.

10. Termination

(1) Unless otherwise agreed in writing or stipulated by force of law, either contractual partner shall have the right to terminate the contract at any time with immediate effect. The fee shall be calculated according to Point 12.

(2) However, a continuing agreement (even with a flat fee) – always to be presumed in case of doubt – may, without good reason (cf. Section 88 Item 4 WTBG), only be terminated at the end of the calendar month by observing a period of notice of three months, unless otherwise agreed in writing.

(3) Except for cases listed in Item 5, in case of termination of a continuing agreement only those tasks shall be part of the list of jobs to be completed and finished that can be completed fully or to the largest part within the period of notice, with financial statements and annual income tax returns being deemed to be subject to successful completion within two months calculated from the balance sheet date. In this case the above-mentioned jobs actually have to be completed within a reasonable period of time, if all documents and records required are provided without delay and if no good reason within the meaning of Section 88 Paragraph 4 WTBG is cited.

(4) In case of a termination according to Item 2 the client shall be informed in writing within one month which assignments at the time of termination are considered to be part of the work to be completed.

(5) If the client is not informed within this period about the assignments still to be carried out, the continuing agreement shall be deemed terminated upon completion of the tasks under way at the date when the notice of termination is served.

(6) Should it happen that in case of a continuing agreement as defined under Items 2 and 3 – for whatever reason – more than two similar jobs which are usually completed only once a year (e.g. financial statements or annual tax returns etc.) are to be completed, any such jobs exceeding this number shall be regarded as assignments to be completed only with the client's explicit consent. If applicable, the client shall be informed of this explicitly in the statement pursuant to Item 4.

11. Default in Acceptance and Failure to Cooperate on the part of the Client

If the client defaults on acceptance of the services rendered by the person entitled to exercise the profession or fails to carry out a task incumbent on him/her either according to Point 3 or imposed on him/her in another way, the person entitled to exercise the profession shall have the right to terminate the contract without prior notice. His/her fees shall be calculated according to Point 12. Default in acceptance or failure to cooperate on the part of the client shall also justify a claim for compensation made by the person entitled to exercise the profession for the extra time and labor hereby expended as well as for the damage caused, if the person entitled to exercise the profession does not invoke his/her right to terminate the contract.

12. Entitlement to Fee

(1) If the contract fails to be executed (e.g. due to termination), the person entitled to exercise the profession shall be entitled to the negotiated fee, provided he/she was prepared to render the services and was prevented from so doing by circumstances caused by the client (Section 1168 of the Civil Code (ABGB)); in this case the person entitled to exercise the profession need not deduct the amount he/she obtained or could have obtained through alternative use of his/her own professional services or those of his/her employees.

(2) If the client fails to cooperate and the assignment cannot be carried out because of lack of cooperation, person entitled to exercise the profession shall also have the right to set a reasonable grace period on the understanding that, if this grace period expires without results, the contract shall be deemed cancelled and the consequences indicated in Item 1) shall apply.

(3) If the person entitled to exercise the profession terminates the contract without good reason and at an inopportune moment, he/she shall compensate the client for the damage caused according to Point 8.

(4) If the client – having been made aware of the legal situation – agrees that the person entitled to exercise the profession duly completes the task, the work shall be completed accordingly.

13. Fee

(1) Unless the parties agreed that the services would be rendered free of charge or unless explicitly stipulated otherwise, an appropriate remuneration in accordance with Sections 1004 and 1152 of the Austrian Civil Code (ABGB) is due. Unless a different agreement has demonstrably been reached, payments by the client shall in all cases be credited against the oldest debt. The claim for remuneration by the person entitled to exercise the profession is based upon an agreement concluded between him/her and the principal involved.

(2) Proper understanding between the person entitled to exercise the profession and their principals is most effectively achieved by clearly expressed remuneration agreements.

(3) The smallest service unit which may be charged is a quarter of an hour.

(4) Travel time to the extent required is also charged in most cases.

(5) Study of documents which, in terms of their nature and extent, may prove necessary for preparation of the person entitled to exercise the profession in his/her own office may also be charged as a special item

(6) Should a remuneration already agreed upon prove inadequate as a result of the subsequent occurrence of special circumstances or special requirements of the principal, additional negotiations for the agreement of a more suitable remuneration are usual. This also usually applies where inadequate fixed sum remunerations are concerned.

(7) Persons entitled to exercise the profession also include charges for supplementary costs and value-added (turnover) tax in addition to the above.

(8) Supplementary costs also include documented or flatrate cash expenses, travelling expenses (first class for train journeys, sleeping car (wagon lits) if necessary, dietary requirements, mileage allowance, photocopy costs and similar supplementary costs.

(9) Should particular third party liabilities be involved, the necessary insurance premiums also count as supplementary costs.

(10) Personnel and material expenses for the preparation of reports, expertises and similar documents are also viewed as supplementary costs.

(11) For the execution of a commission wherein mutual conclusion involves several persons entitled to exercise the profession, each of the latter will charge his/her own remuneration.

(12) Remunerations and advance payments required are due immediately after receipt of their written claim should no other agreements exist. Where payments of remuneration are made later than 14 days after the due date, default interest may be charged. Where mutual business transactions are concerned, a default interest rate of 8% above the base rate is agreed upon (Cf. Section 352 of the Company Code (Commercial Code, UGB)).

(13) Time limitation is in accordance with Section 1486 of the Austrian Civil Code (ABGB), starting at the time of conclusion of the service involved or a later rendering of accounts after an appropriate time-limit.

(14) An objection may be raised in writing against bills presented by the appointed trustee up to 4 weeks after the date of presentation. Otherwise the bill is considered as accepted. Filing of a bill in the accounting system of the recipient is also considered as acceptance.

(15) Application of § 934 ABGB (Austrian Civil Code) within the meaning of § 351 Company Code (Commercial Code, UGB), i.e. rescission for *laesio enormis* (lesion beyond moiety) among entrepreneurs, is hereby renounced.

14. Other Provisions

(1) In addition to the reasonable rate or fee charged, the person entitled to exercise the profession shall have the right to claim reimbursement of expenses. He/she can ask for advance payments and can make delivery of the results of his/her (continued) work dependent on satisfactory fulfillment of his/her demands. In this context reference shall be made to the legal right of retention (Section 471 of the Civil Code (ABGB), Section 369 of the Company Code (Commercial Code, UGB)). If the right of retention is wrongfully exercised, the person entitled to exercise the profession shall be liable only in case of gross negligence up to the outstanding amount of his/her fee. As regards standing orders, the provision of further services may be denied until payment of previous services has been effected. This shall analogously apply if services are rendered in installments and fee installments are outstanding.

(2) After all the data to be archived, which has been prepared by the public accountant and tax advisor, has been delivered to the client or to the succeeding public accountant and tax advisor, the person entitled to exercise the profession shall be entitled to delete the data in question.

(3) With the exception of obvious essential errors, a complaint concerning the work of the person entitled to exercise the profession shall not justify the retention of remuneration owed in accordance with Item 1.

(4) Offsetting the remuneration claims made by the person entitled to exercise the profession in accordance with Item 1 shall only be permitted, if the demands are uncontested and legally valid.

(5) At the request and expense of the client, the person entitled to exercise the profession shall hand over all documents received from the client within the scope of his/her activities. However, this shall not apply to correspondence between the person entitled to exercise the profession and his/her client, to original documents in his/her possession or to documents which have to be kept in accordance with the directive on money laundering. The person entitled to exercise the profession may make or retain copies or duplicates of the documents to be returned to the client. The client shall be obliged to bear these expenses in so far as these copies or duplicates may be required as a proof of the orderly execution of all professional duties by the person entitled to exercise the profession.

(6) In the event of termination of the contract, the contractor shall be entitled to charge an appropriate fee for further queries after termination of the contract and for granting access to the relevant information about the audited company.

(7) The client shall fetch the documents handed over to the person entitled to exercise the profession within three months after the work has been completed. If the client fails to do so, the person entitled to exercise the profession shall have the right to return them to the client at the cost of the client or to charge safe custody charges, if the person entitled to exercise the profession can prove that he/she has asked the client twice to pick up the documents handed over.

(8) The person entitled to exercise the profession shall have the right to compensation of any fees that are due by use of any available deposited funds, clearing balances, trust funds or other liquid resources at his/her disposal even if these funds are explicitly intended for safe keeping, if the client had to reckon with a counterclaim of the person entitled to exercise the profession.

(9) To safeguard an existing or future fee payable, the person entitled to exercise the profession shall have the right to transfer a balance held by the client with the tax office or another balance held by the client in connection with charges and contributions, to a trust account. In this case the client shall be informed about the transfer. Subsequently, the amount secured may be collected either after agreement has been reached with the client or after enforceability by execution has been declared.

15. Applicable Law, Place of Performance, Jurisdiction

(1) The contract, its execution and the claims resulting from it shall be exclusively governed by Austrian law.

(2) The place of performance shall be the place of business of the person entitled to exercise the profession.

(3) In case of disputes, the court of the place of performance shall be the competent court.

16. Supplementary Provisions for Audits

(1) For statutory audits of financial statements which are carried out in order to issue a formal audit certificate (e.g. Section 268 and the following sections of the Company Code (Commercial Code, UGB)), the purpose of the contract, unless otherwise agreed to in writing, shall not be to investigate whether regulations concerning tax laws or specific regulations, e.g. price fixing, restriction of competition and foreign exchange regulations have been adhered to. Neither shall the purpose of the statutory audit of financial statements be to investigate whether the business is run in an economical, efficient and expedient manner. Within the framework of a statutory audit of a financial statement there shall be no obligation to detect the falsification of accounts or other irregularities.

(2) When a qualified or unqualified audit certificate is issued within the scope of a statutory audit of the annual financial statement, the audit certificate issued shall be appropriate for the respective type of business organization.

(3) If financial statements are published together with the audit certificate, they shall only be published in the form confirmed or explicitly permitted by the auditor.

(4) If the auditor revokes his/her audit certificate, the further use thereof shall no longer be permitted. If the financial statements have been published with the audit certificate, the revocation thereof shall also be published.

(5) For other statutory and voluntary audits of financial statements as well as for other audits, the above principles shall apply accordingly.

