HÖFT & WESSEL

ANNUAL REPORT 2011

HÖFT & WESSEL

THE COMPANY

The Höft & Wessel Group is a leading IT, hardware and software technology specialist for ticketing, parking and mobile solutions in Germany and the United Kingdom. Established in 1978 by the two entrepreneurs who gave the company its name, the enterprise has grown from a start-up into a medium sized company with sales revenues of approx. EUR 80 million and a workforce of over 400 employees. The Company's main locations are Hannover, Germany, and Swindon, England, west of London.

In Europe, in the field of research and development Höft & Wessel is one of the leading enterprises according to the EU Industrial R&D Investment Scoreboard and a well-known producer of ticketing systems for public transport and mobile terminals for data capture in the retail and logistics sector. The British subsidiary Metric is one of the largest providers of car park terminals on an international scale.

KEY FINANCIALS

in EUR thousands	2011	2010	2009	2008	2007
Sales revenues	86.252	94.828	94.098	98.072	99.704
Operating result before depreciation and amortisation (EBITDA)	(4.769)	6.546	7.569	9.591	11.294
Operating result (EBIT)	(16.090)	1.419	3.076	(3.545)	6.249
in % of sales revenues	–	*1,5*	*3,3*	–	*6,3*
Earnings before taxes (EBT)	(17.194)	502	2.081	(5.023)	4.727
in % of sales revenues	–	*0,5*	*2,2*	–	*4,7*
Group earnings	(18.970)	1.888	1.854	(6.751)	4.401
Earnings per share (in EUR)	(2,23)	0,22	0,22	(0,79)	0,51
Dividend (in EUR)	–	0,22	0,08	–	–
Contribution margin (in per cent[1])	37,5	43,1	41,7	42,0	44,3
Cash flow from operating activities	(2)	8.654	5.933	1.456	12.180
Average number of employees	497	500	503	502	513

[1] Turnover +/– inventory changes – cost of materials in relation to turnover

NOTE

The annual report for the year 2011 was initially published in incomplete form on 19 July 2012 excluding the report of the Supervisory Board and without the audit certificate of the auditors. Now that the continued existence of the Höft & Wessel Group has been secured in October 2013 thanks to successful streamlining measures, the auditor has issued the audit certificates for the annual financial statements for 2011. Due to the revaluation of larger-scale projects, the entire annual report has been revised. Accordingly, it has changed completely compared with the report published in July 2012. The general descriptions on the Company's situation correspond to the present status and are largely identical to those contained in the annual report for the financial year 2012 published at the same time.

Hannover, October 2013

CONTENT

4 REPORT OF THE SUPERVISORY BOARD
6 STATEMENT ON CORORATE GOVERNANCE
CORPORATE GOVERNANCE REPORT

10 CONSOLIDATED MANAGEMENT REPORT ON FISCAL 2011
12 PRESENTATION OF FUNDAMENTALS AND BUSINESS
16 STATEMENT ON COMPANY'S ASSET, FINANCIAL AND EARNINGS POSITION
21 OUTLOOK

24 IFRS CONSOLDATED FINANCIAL STATEMENT AS OF 31/12/2011
24 CONSOLIDATED BALANCE SHEET
25 CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
26 CONSOLIDATED CASH FLOW STATEMENT
27 PERFORMANCE OF SHAREHOLDERS' EQIUTY
28 CONSOLIDATED NOTES

67 AUDITOR'S CERTIFICATE
67 BALANCE SHEET OATH

68 IMPRINT

REPORT OF THE SUPERVISORY BOARD

In the financial year 2011, the Supervisory Board of Höft & Wessel Aktiengesellschaft intensively monitored the activities of the Company's Board of Management. In doing so, it dealt with corporate strategy and policy, the current market, competition and earnings situation, with the expansion abroad as well as with the financing of the company's activities. The relevant statutory rules and regulations, the Company's articles of association and its rules of procedure were consistently complied with. In addition, self-imposed obligations were voluntarily adopted within the scope of the corporate governance code in place for some years now.

The Supervisory Board ordered regular monthly briefings by the Board of Management by way of written reports and in the form of detailed discussions during Supervisory Board meetings. All the documentation supplied and requested was subjected to extensive inspection and audits. The Supervisory Board participated to a substantial degree in decisions of fundamental importance to the company. With regard to transactions and measures of the Board of Management that required decisions on the part of the Supervisory Board in accordance with statute law, the company's articles of association or the relevant rules of procedure, the Supervisory Board adopted resolutions during the course of its meetings, duly documenting the adoption thereof in the process. The Supervisory Board formed a financial committee. During fiscal 2011, the Supervisory Board convened for five meetings, and the financial committee for two meetings. In addition, the financial committee held telephone conferences in each of the periods leading up to the quarterly financial statements. The auditors attended the Supervisory Board meeting at which the annual financial statements were confirmed.

Beyond the institutionalised cooperation between the Supervisory Board and the Board of Management, the Chairman of the Supervisory Board and its members met on a regular basis with the Board of Management for talks to exchange information or for consultation purposes.

Besides consultancy and monitoring-related points of emphasis on the Company's corporate development, the Supervisory Board in particular devoted its attention to the following tasks:

- At the end of 2011, the Supervisory Board dealt very intensively with the adverse financial developments and the consequences to be drawn in the process.

- The Supervisory Board regularly addressed the development of the individual companies and business divisions forming part of the Group.

- In key corporate policy situations, the Supervisory Board discussed the issues in question with the Board of Management at length and approved the relevant decisions adopted by the Board of Management following in-depth discussions or arranged for supplementary measures to be adopted; in each case to the extent that he was able to do so on the basis of the information made available by the Board of Management.

- The Supervisory Board dealt with the same parameters, with the current assessment relating to the risks arising from general market and competition trends, changes in legislation and demand, as well as risks in the context of the risk management policy. Based on the infromation provided by the Board of Management the Supervisory Board was able to do so.

- The Supervisory Board dealt extensively with same reamars as before with the management structure to secure the future of the Company. Following detailed discussions, it resolved to appoint a Board of Management consisting of two persons.

- The Supervisory Board consistently followed and endorsed the permanent process to optimise the Company's core operations along with operational finance, personnel and materials planning, as well as the realisation thereof.

- The Supervisory Board dealt with the Company's finance and liquidity situation on a regular basis and discussed the measures to be adopted by the Board of Management at length and gave its approval.

- The Supervisory Board addressed the following topics pertaining to the Company's own corporate governance: corporate compliance, the corporate governance report and the compliance declaration of the Company. In addition, the Supervisory Board again carried out self-evaluations based on a structured process and, in so doing, it also subjected itself to an efficiency check of its activities. The Supervisory Board also dealt with the amendments regarding the composition of the Supervisory Board adopted by the "German Government's Commission on the German Corporate Governance Code" in May 2010 and will be formulating its objectives accordingly.

  Moreover, the Supervisory Board dealt with the following personnel-related matters concerning the Board of Management:

- Member of the Board of Management Peter Claussen left the Company at the end of his contract on 8 June 2011 in order to take on new responsibilities.

- Mr Michael Höft was appointed a member of the Board of Management for a period of three years at the Supervisory Board meeting of 8 December 2011, having previously resigned from the Supervisory Board.
- Mr Hansjoachim Oehmen left the Company with effect as of 16 January 2012. Mr Höft was appointed to the position of Chairman of the Board of Management with effect on the same date.
- Owing to the adverse financial developments revealed in November 2011, the Supervisory Board filed an action against the former Chairman of the Board of Management.
- Mr Thomas Wolf resigned from his mandate as a member of the Board of Management on 23 May 2012.
- Mr Rudolf Spiller was appointed a member of the Board of Management on 17 July 2012.

The annual financial statements, the consolidated annual financial statements, the management report and consolidated management report as well as the related parties report for the year 2011 were audited by the auditor elected at the General Shareholders' Meeting and commissioned by the Supervisory Board, KPMG AG Wirtschaftsprüfungsgesellschaft, and given an unqualified auditor's certificate.

The auditing company issued a statement of independence of the auditors to the Supervisory Board in accordance with No. 7.2.1 of the German Corporate Governance Code; the Supervisory Board has no doubts regarding their independence.

The auditor could not confirm for the year 2011 that the Board of Management adopted the measures required in terms of § 91 of the German Companies Act (Aktiengesetz) and that the early risk detection system in place at Höft & Wessel is suitable in principle to identify trends that might endanger the company's status as a going concern at an early stage. After a risk stock-taking and assessment had been carried out in the financial year 2012 by the Chief Restructuring Officer with the support of an external business consultancy firm, these processes are to be continued by the Company itself without external support on conclusion of the restructuring programme in 2013.

Following careful preliminary checks by its individual members and by the finance committee, the Supervisory Board discussed the annual financial statements, the consolidated financial statements along with the management report and Group management report as well as the related parties report in detail. In doing so, the Supervisory Board dealt intensively with issues relating to accounting and risk management, independence of the auditors, their commissioning, the determination of key issues of the audit and the agreed remuneration payable.

The Supervisory Board agreed with the findings of the auditors' examination, having itself determined that there were no grounds for objections. The Supervisory Board approved the annual financial statements, the management report, the consolidated annual financial statements, the consolidated management report as well as the related parties report for the year 2011; as a result, the annual financial statements were adopted.

The Supervisory Board wishes to thank the members of the Board of Management, all executives and all employees for their dedication in the year 2011.

Hannover, 7 October 2013

The Supervisory Board

Prof. Dr. Dr.-Ing. Dr. h.c. Klaus E. Goehrmann
Chairman

STATEMENT ON CORPORATE GOVERNANCE
CORPORATE GOVERNANCE REPORT (PART OF CONSOLIDATED MANAGEMENT REPORT)

The principles of responsible and good corporate governance represent the framework for action on the part of the management and control bodies of the Höft & Wessel Group. In this declaration – pursuant to § 289a HGB (1) – the Board of Management reports, also on behalf of the Supervisory Board, on corporate governance and, as incorporated in accordance with par. 2 therein, submits (1) the declaration in conformity with § 161 of the German Companies Act (AktG), (2) information on corporate governance practices beyond those subject to statutory requirements and (3) a description of the working methods of the Board of Management and the Supervisory Board and pursuant to No. 3.10 of the German Corporate Governance Code.

Effective corporate governance enjoys high priority within the Höft & Wessel Group. Through its corporate governance, Höft & Wessel ensures responsible management and control of the Company, geared to creating added value. The essential foundations are the German Companies Act (AktG), the German Securities Trading Act (WpHG) and the German Corporate Governance Code.

(1) Statement by the Board of Management and Supervisory Board in accordance with §§ 161 of AktG, 15 EC AktG on the Corporate Governance Code

Höft & Wessel AG complies with the recommendations of the German Corporate Governance Code in the version of 26 May 2010 and will continue to do so in future, subject to the following few exceptions:

- Nomination Committee (No. 5.3.3)
  In view of the Supervisory Board's size, the tasks of the Nomination Committee are exercised by the Supervisory Board as a whole.

- Composition of the Supervisory Board (No. 5.4.1)
  According to No. 5.4.1, the Supervisory Board shall designate specific targets for its composition which take into account the international activities of the enterprise, potential conflicts of interest, an age limit for Supervisory Board members which is yet to be determined, and diversity, giving due consideration to the Company's specific situation. In particular, these specific targets are to include an appropriate level of representation of women. However, the Supervisory Board intends to comply with the recommendations in No. 5.4.1 in future in that it will set targets for the composition of the Supervisory Board.

- Performance-oriented remuneration and taking account of committee work as part of remuneration for Supervisory Board members (No. 5.4.7)
  The German Corporate Governance Code recommends performance-oriented remuneration of the Supervisory Board, with membership of Supervisory Board committees to be taken into account in the remuneration paid to members of the Supervisory Board. Höft & Wessel AG is not of the opinion that separate remuneration of committee work or performance-oriented remuneration could improve the sense of commitment of the Supervisory Board members any further.

Since the last declaration of conformity was issued in March 2011, Höft & Wessel AG has been in compliance with the Code in its version of 26 May 2010, subject to the exceptions stated in the last declaration of conformity.

Hannover, 27 March 2012

(Also see http://www.hoeft-wessel.com/investor-relations/corporate-governance)

(2) Höft & Wessel AG has formulated company guidelines on corporate governance practices that exceed the statutory requirements; these are published on the Company's website at www.hoeft-wessel.com

(3) Description of working methods of the Board of Management and Supervisory Board

Shareholders and the Annual General Meeting

The shareholders of Höft & Wessel AG exercise their rights of co-determination and control at the Annual General Meeting held once a year. At this meeting, resolutions are adopted on all matters stipulated by law, with a final and binding effect on all shareholders and the Company. Every shareholder is entitled to attend the Annual General Meeting if registered to do so in time. Moreover, the shareholders are entitled to have their voting rights exercised by a proxy, an association of shareholders or by the proxies stipulated by Höft & Wessel AG, who are bound by the company's instructions.

The date for the 2012 Annual General Meeting will be announced in time. The invitation to the Annual General Meeting and the reports and information required for resolutions to be adopted are published in accordance with the rules and regulations of the German Companies Act and made available for download from the Höft & Wessel AG website.

Supervisory Board

The Supervisory Board of Höft & Wessel AG consists of four (as at 28/01/2013 five, as at 21/12/2012 six, as at 31/12/2011 five) members. The Supervisory Board elects its Chairman from its own ranks. The Supervisory Board was elected for five years at the 2008 Annual General Meeting and formed a financial committee.

The Supervisory Board appoints the members of the Board of Management. It advises and supervises the Board of Management in managing the Company and is engaged in all issues of fundamental importance to the Company. Resolutions of material importance are subject to the approval of the Supervisory Board.

The Board of Management informs the Supervisory Board comprehensively and on a timely basis in writing and at the regular meetings convened on the Company's planning activities, business trends and situation of the group of companies, including risk management and compliance matters.

Board of Management

In accordance with the Company's articles of association the Board of Management of Höft & Wessel AG consists of one (as at 31/12/2012 two members, from 23/05/2012 to 17/07/2012 one, as at 31/12/2011 three members) member. Being a managerial body, they are in charge of the Company's business operations with the objective of creating sustainable value on their own responsibility and in the Company's interests. The Board of Management briefs the Supervisory Board regularly, comprehensively and on a timely basis on all questions of relevance to business developments, planning, financing and the Company's business situation.

Accounting and Audits

The Höft & Wessel Group prepares its consolidated financial statements as well as the interim consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applicable in the European Union. The annual financial statements of Höft & Wessel AG are prepared according to German GAAP (Commercial Code – HGB). The consolidated annual financial statements are prepared by the Board of Management and reviewed by the auditor and the Supervisory Board. Prior to publication, the interim reports are discussed with the Board of Management by the financial committee.

The consolidated financial statements of the Höft & Wessel Group and the annual financial statements of Höft & Wessel AG were audited by the auditing company KPMG AG Wirtschaftsprüfungsgesellschaft, of Hannover, elected at the Annual General Meeting of 2011. The audits were carried out in accordance with German auditing rules and regulations, subject to the generally accepted accounting principles established by the German Institute of Auditors (Institut der Wirtschaftsprüfer – IDW). The audits also comprised risk management to the extent prescribed by law. Moreover, it was contractually agreed with the auditor that he would notify the Supervisory Board without delay of any possible reasons for exclusion or a conflict of interests as well as of material findings and events during the course of the audit.

Transparency
Höft & Wessel notifies capital market participants and the interested public without delay, regularly and simultaneously about the business situation of the group of companies and any new developments as they unfold. The annual report and interim quarterly reports are published, if possible, in the periods defined to that end. Press releases and, where appropriate, ad-hoc reports are published to provide information on current events and new developments. All information is made available at the same time in German and English and is published in print as well as via suitable electronic media such as e-mail and the Internet. Moreover, the website www.hoeft-wessel.com provides extensive information on the Höft & Wessel Group and Höft & Wessel's share price. In the Company calendar, the planned dates of key recurring events are announced, such as the Annual General Meeting or the publication of the annual and interim reports. The Company calendar is also published on the www.hoeft-wessel.com website, with adequate advance notice.

Remuneration of the Board of Management and Supervisory Board
Höft & Wessel AG complies with the recommendations of the German Corporate Governance Code, which provide for the remuneration of the Board of Management and Supervisory Board to be disclosed on an individualised basis. The fundamentals of the remuneration systems and the remuneration itself are presented in the Remuneration Report as part of the Company's Management Report.

Risk management
Dealing responsibly with business risks is part of the fundamentals of good corporate governance. The Board of Management of the Höft & Wessel Group has comprehensive reporting and control systems in place across the Group and for specific businesses, which facilitate the recording, assessment and control of the risks in question. The systems are continually further developed, adjusted to changing fundamentals and reviewed by the auditors to the extent prescribed by law. The Board of Management informs the Supervisory Board on a regular basis concerning existing risks and their development.

Details on risk management in the Höft & Wessel Group are shown in the report on risks and opportunities as part of the Group Management Report in the 2011 Annual Report. This includes the report required in accordance with the German Accounting Law Modernisation Act (BilMoG) on the accounting-related internal control and risk management systems.

Directors' dealings – trading of shares by Board members
§ 15a of WpHG contains a rule applicable to all members of management bodies that is required to be complied with for certain securities transactions. Specifically, the purchase and sale of shares whose total value in relation to the total number of transactions entered into by the person required to report and that person's closely related parties exceeds 5,000 euros within a calendar year are required to be reported. Should this negligibility threshold be exceeded, then the members of the management bodies and/or their family members are obliged to file a report in writing within five days of contracting both to the issuer and to the German Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin). Höft & Wessel AG will publish these reports throughout Europe without delay and forward a record thereof to BaFin.

During fiscal 2011, no securities transactions were reported to Höft & Wessel AG.

The stock portfolio of members of management bodies and their family members as at 31 December 2011 was as follows:

Stock portfolio of managment body members	Shares	Stock options
Supervisory Board:		
– Rolf Wessel	49,350	
– Manfred Zollner	1,500	
Board of Management:		
– Michael Höft	36,527	
– Hansjoachim Oehmen	24,000	200,000

Shareholders and related enterprises with a decisice influence	Shares
H&W Holding GmbH	3,450,000
Zollner Elektronik AG	891,103

Compliance

Höft & Wessel AG is required to comply with legislation, ordinances, directives, contractual and self-imposed obligations. Accordingly, the Board of Management is required to ensure that the Company's employees obey the law, i.e. compliance. To this end, Höft & Wessel has set up an appropriate compliance organisation.

Höft & Wessel AG perceives its need to act in a sustainable economic, ecological and social manner as a key element of its corporate culture.

Insider trading rules

Companies and their employees with access to insider information are required to comply with certain rules of conduct. It must be ensured that the information lead, referred to as "insider knowledge" is not used for private benefits or passed on to any third parties. The objective in this regard is to ensure that the same information is made available to all investors at the same time in order to achieve maximum transparency on the stock market. In order to achieve this level of transparency in the market, various instruments have been enacted by the legislature, and Höft & Wessel AG is committed to observing and complying with these. § 13 WpHG contains a definition of the term "insider information" that directly affects the issuer itself. In accordance with § 15b WpHG, issuers must record the names of all persons with authorised access to insider information in an insider register and constantly update the latter. Höft & Wessel AG has implemented this requirement.

Employees of Höft & Wessel are informed of new regulations enacted in good time before the relevant statutory amendments actually enter into force. Employees are given access to all information with regard to internal company insider directives and the prevailing legal situation via the internal corporate Intranet. In the event of any changes, employees are informed accordingly. Persons with special tasks and employees possibly dealing with sensitive information in performing these activities receive a separate information letter, the content and acknowledgment of which they confirm and undertake to comply with accordingly.

In addition, employees in managerial functions are required to implement the insider directives and to inform their designated members of staff in doing so. New employees in key positions are briefed in particular detail on the legal framework and terms when commencing employment. They too are required to acknowledge the insider trading rules of Höft & Wessel AG and to commit themselves to compliance with these.

CONSOLIDATED MANAGEMENT REPORT ON FISCAL 2011

A. Business trends and risks

1. Restructuring needs of the Company

1.1 Operational and earnings crisis

The asset, financial and earnings position of the Höft & Wessel Group saw a massive deterioration owing to continual declines in sales revenues in the financial years 2011 and 2012 compared with the financial year 2010, along with a simultaneous decline in gross earnings as well as excessive personnel costs and other operating expenses. In particular, Höft & Wessel has not succeeded in fully compensating for the shortfall in sales due to the expiry of large-scale projects with the acquisition of small projects, especially since the large number and complexity of the small projects had an adverse impact on the Company's cost structure. The most recent similar decline in business operations of Metric Group Holdings Ltd., a subsidiary based in the United Kingdom, likewise impaired the results recorded by the Höft & Wessel Group.

Consequently, in the financial year 2011 the Höft & Wessel Group generated a consolidated operating result (EBIT) of –EUR 16.1 million on consolidated sales revenues of EUR 86.3 million. In the financial year 2012, the Group achieved an operating result of –EUR 10.8 million on sales revenues of EUR 78.9 million. The Company's liabilities to banks amounted to EUR 23.6 million at the end of 2012 (previous year: EUR 20.8 million). In the financial year 2011, the Group's equity capital declined from roughly EUR 26.8 million to EUR 7.4 million, amounting to as little as approx. –EUR 4.3 million at the end of 2012. At the end of the year 2012, Höft & Wessel AG was over-indebted on the face of the balance sheet and still is at this time.

1.2 Liquidity crisis

It has been possible chiefly through massive cost-cutting measures and intensive working capital management (and, above all, the postponement of urgent capex investments to maintain the technological excellence of the Group) to avoid a shortfall in liquidity in the past that was originally expected as early as autumn of 2012. At the extraordinary general meeting held on 18 July 2013, the shareholders adopted a resolution with a large majority for a comprehensive streamlining concept to be implemented in the coming weeks. Amongst other measures, the Group will receive fresh capital of up to EUR 8.5 million by way of a capital increase. The measures are specifically explained in Section 1.4 of the Management Report.

1.3 Restructuring through added liquidity and waiver of receivables

Accordingly, in order to enable the Höft & Wessel Group to continue to trade as a going concern, according to the Board of Management and the Supervisory Board, key shareholders as well as the financing banks, apart from the operational streamlining introduced within the scope of the "H&W 2.0" programme initiated, a far-reaching financial restructuring will be necessary, providing for the Company to receive fresh funding of the order ofup to EUR 8.5 million and for the Company to simultaneously be relieved on a massive scale from liabilities to banks. Amongst other factors, added liquidity will be indispensable to make the investments necessary to maintain the Company's technological expertise and to perform advance services required within the scope of various large-scale projects necessary for the Company to make progress. Moreover, liquidity is necessary to enable loans to be repaid at short notice, since some credit institutions are not prepared to continue maintaining their exposures. The simultaneous relief from additional liabilities is urgently necessary to enable the Company to perform its debt service in respect of the remaining liabilities without its urgently needed liquidity – also for investments and advance services in projects as well as in research and development – being depleted.

The measures described above will be implemented in the coming weeks, and the Höft & Wessel Group will be provided with fresh liquidity by way of an increase in cash capital, amounting to up to EUR 8.5 million.

1.4 Concept for a financial and operational restructuring programme

Based on this analysis, in autumn of 2012 the Höft & Wessel Group began to systematically and comprehensively prepare the streamlining concept already mentioned, comprising both the restructuring and the refinancing programme. The streamlining programme "H&W 2.0" comprises service-related and financial business measures for Höft & Wessel AG with the objective of accomplishing an increase in operating earnings with a full-year effect until end-2014 of more than EUR 11 million in relation to 31 December 2011. The cost reduction measures planned relate to the optimisation of processes and organisational workflows as well as reductions in material costs and working capital. By mid-2013, these had been implemented in full. An appropriate restructuring programme was also prepared for the Metric subsidiary. This resulted in an improvement potential of EUR 1.3 million by mid-2013. A total improvement potential of over EUR 12 million is to be realised in the Höft & Wessel Group by end-2014 thanks to targeted restructuring measures. Within the scope of the restructuring, the size of the workforce was already reduced in 2012 by 85 employees, to more than 400 persons.

In order to implement the refinancing concept developed by the Höft & Wessel Group, the measures adopted by resolution at the Annual General Meeting on 18 July 2013 included the following (referred to collectively as the "GM Measures"):

- Capital reduction of the current share capital amounting to EUR 8,497.490.00, divided up into 8,497,490 no-par-value bearer shares (no-par-value shares) with a prorated amount of the share capital of EUR 1.00 per share in a ratio of 5 : 1 by EUR 6,797,992.00 to EUR 1,699,498.00, divided up into 1,699,498 no-par-value bearer shares;

- a subsequent cash capital increase of the Company's share capital reduced to EUR 1,699,498.00 in a ratio of 1 : 5 by up to EUR 8,497,490.00 by issuing up to 8,497,490 new no-par-value bearer shares (no-par-value shares) with a prorated amount of the share capital of EUR 1.00 per no-par-value share to up to EUR 10,196,988.00 at an issue price of EUR 1.00 per share and granting the shareholders' subscription rights.

The GM Measures represent components of a uniform restructuring concept, with the implementation of all components thereof being of crucial importance. If the GM Measures are not implemented as adopted by resolution, the financial restructuring and rescue of the Company would fail. There is no alternative restructuring scenario, which means that the Company's continued existence as a going concern – as outlined above – would be in acute danger. In contrast, by means of the GM Measures (which represent the basis for implementation of the further restructuring measures), the Board of Management is convinced that the long-term continued existence of the Company as a going concern can be guaranteed. Thanks to the improved equity capital base, in combination with the operational restructuring programme described above, the Company's competitiveness will be restored and a sustainable on-going corporate governance of the Company will be enabled.

The Board of Management has also dealt intensively with alternatives to the proposed restructuring concept of the Company. The alternatives considered included the following:

- a refinancing of the Company subject to the participation of the current creditor banks or a new banking syndicate;

- the sale of the Group member company Metric Group Holdings Ltd., Swindon/UK and/or other assets of the Company;

- the execution of an insolvency plan procedure over the assets of the Company as a going concern settlement, with operations continuing.

However, none of the alternatives has proved to be capable of implementation or promising in nature.

In view of the high debt quota of the Company and owing to a lack of adequate items of collateral, neither the current lenders nor any other possible banks were prepared to make additional outside funding available. Besides, in the medium term the Company would not be in a position to cope with an even higher level of debt than that at present at any rate. Yet the banks, in turn, make the necessary waiver of receivables contingent upon substantial volumes of equity being made available in support. In the banks' assessment, this is also necessary to make the Company capable of competing again in operational terms and thus protecting the value of the remaining receivables on the part of the banks.

A sale of the Group member company Metric Group Holdings Ltd. and/or other assets of the Company would not have been a solution. Metric itself was subjected to a restructuring process in recent months.

The execution of an insolvency plan procedure as a kind of going concern settlement would most probably have had negative effects on the Company's operations and would have impaired the Company's status on the market in an unacceptable fashion. In addition, it is likely that the current shareholders would have largely forfeited their shares in full if such a going concern plan procedure had been implemented.

In the opinion of the Board of Management and the Supervisory Board, which is shared by the external consultants of the Company, there was no expedient and meaningful alternative to the proposed streamlining and restructuring concept.

2. Presentation of fundamentals and business operations

2.1 Economic environment

According to the Kiel-based Institute for the World Economy (Institut für Weltwirtschaft, IfW) the growth of the global economy was with 3.8 per cent in 2011 lower than in previous year. For the business activities of Höft & Wessel, Europe with the two home markets of Germany and the United Kingdom is of particular significance. According to the IfW, Europe's economy also slowed down, with growth in the euro zone at 1.5 per cent for 2011. The same applies to Germany, where Gross Domestic Product grew by around 3.0 per cent in 2011. In the United Kingdom, the government's austerity programme led to a lower level of public-sector investment in 2011. Accordingly, the UK's Gross Domestic Product only grew by 0.7 per cent in 2011.

2.2 Business trends

In 2011, the Höft & Wessel Group generated EUR 86.3 million in sales revenues. Projects being delayed to the following year and the completion of a major contract led to a reduction of 9 per cent compared to the previous year (2010: EUR 94.8 million).

With a contribution of 43 per cent to total sales revenues, Germany remained the most of important business region. The United Kingdom accounted for 23 per cent, the remaining EU countries 12 per cent, and countries such as Switzerland, the United States and others for 22 per cent.

Lower sales revenues and higher project costs led to a reduction in the operating result before write-downs (EBITDA) in the year 2011, to –EUR 4.8 million (2010: EUR 6.5 million).

Budget planning for the Skeye business division was adjusted accordingly. The plan adjustments led to impairment and depreciation charges amounting to EUR 7.5 million. As part of the impairment test, at EUR 4.0 million these essentially relate to intangible assets (capitalised Company-produced additions) and tangible fixed assets with EUR 1.0 million. Moreover inventories equivalent to EUR 2.5 million were depreciated.

The operating result (EBIT) thus amounted to –EUR 16.1 million (2010: EUR 1.4 million). EBIT adjusted for aforementioned impairments came to –EUR 8.6 million and therefore EUR 10.0 million below previous year.

In fiscal 2011, the liquidity of the Höft & Wessel Group was adequate, notwithstanding the substantially negative operating result. Operating cash flow was at –EUR 2 k nearly balanced, even though it did not reach the high value of the previous year (2010: EUR 7.8 million). Cash flow from investment activities of –EUR 4.3 million was down year-on-year of about EUR 0,9 million (2010: –EUR 5.2 million).

New orders with a total volume of EUR 70.5 million were added to the books in 2011 (2010: EUR 83.0 million). A large order from the British-based FirstGroup allowed Höft & Wessel to consolidate its leading position in the UK as a provider of ticketing systems, and also to introduce a completely new and pioneering e-Ticketing system featuring NFC technology (Near Field Communication), which is attracting a great deal of attention throughout Europe.

The order portfolio as at 31 December 2011 stood at EUR 43.2 million (2010: EUR 61.9 million). Germany accounted for 42 per cent of these orders, the UK for 36 per cent, the remaining EU countries for 11 per cent, with 11 per cent contributed by countries including Switzerland, the U.S. and others.

Breakdown of sales revenues

in EUR million	2011	2010
Germany	36.7	48.8
Great Britain	19.7	20.0
Other in the EU	10.6	8.8
Switzerland, U.S. and other countries	19.3	17.2
Total	**86.3**	**94.8**

2.2.1 Almex Division – Ticketing

Through its Almex business division, Höft & Wessel AG is one of Europe's best-known solution providers of ticketing systems. In fiscal 2011, sales revenues in this segment declined by 13 per cent, to EUR 43.0 million (previous year: EUR 49.4 million) due to project delays, among other things.

Increased project costs and the decline in revenue combined to produce a significantly negative operating result of –EUR 3.5 million than in the previous year (2010: EUR 4.9 million).

2.2.2 Metric Division – Parking

The business division Metric with the subsidiary of zhe same name, headquartered at Swindon, west of London, has grown into a manufacturer of parking terminals with an international reputation. The subsidiary also offers a comprehensive range of services in the United Kingdom. Using their expertise in this field, Metric took over the service and distribution of money handling systems of the brand Glory in the UK in fiscal 2011. Revenues generated by Metric declined by just over 8 per cent in 2011, to EUR 21.4 million (previous year: EUR 23.4 million), mainly due to lower revenue from the United States.

In line with the drop in sales, the operating result for fiscal 2011 shrank significantly, to EUR 0.6 million (previous year: EUR 1.4 million).

2.2.3 Skeye Division – Mobile Solutions

Through its Skeye business division, Höft & Wessel is one of Europe's leading suppliers of mobile terminals. Revenue generated during the period under review broadly matched the level of the previous year at EUR 21.9 million (2010: EUR 22.1 million).

The operating result before depreciation and amortisation (EBITDA) of –EUR 4.3 million fell well short of the previous year (2010: –EUR 1.4 million). An adverse impact continues to be exerted by undiminished pressure on margins. At the beginning of 2012, the assumptions used for planning purposes at the time were reviewed. Due to the recently lower order portfolio, expectations of sales were then substantially reduced. As already explained, the plan adjustments led to write-downs and valuation adjustments amounting to EUR 7.5 million.

2.2.4 Corporate Services

The costs of the holding functions and the stock exchange listing summarised in this segment amounted to –EUR 1.5 million in fiscal 2011, matching the previous year's level (2010: –EUR 1.5 million).

2.3 Workforce

On average over the course of the year, the Höft & Wessel Group employed 514 persons in 2011 including trainees (previous year: 500). About 300 persons are employed in Hannover, and further 200 work in Swindon and in the other international locations.

2.4 Production and procurement

External manufacture of its products represents a key element of the business model of Höft & Wessel AG. The two business divisions Almex and Skeye mostly rely on production from German suppliers. At Höft & Wessel, the Production and Procurement departments ensure a high level of quality by providing the manufacturers with detailed specifications and process-oriented workflows.

Höft & Wessel is responsible for development in its entirety, the production of samples, the preparation of parts lists, the development of test systems and, ultimately, final quality control. The entire development process, right up to the preparation of the parts lists, is largely handled by Höft & Wessel in-house. Moreover, the company is closely involved in external production activities and performs detailed quality control.

External manufacture guarantees high flexibility and the timely completion of orders. Another benefit is that this enables the group of companies to successfully handle large-scale orders as well.

External manufacturing is a principal characteristic of the special business model of Höft & Wessel AG, since it allows the Company to focus primarily on development and service, as well as on comprehensive customer support provided by highly qualified direct and partner distribution staff.

Whereas Almex and Skeye outsource their manufacturing, the Metric subsidiary acquired in 1999 continues to handle the procurement of parts and components for its parking space management systems as well as final product assembly in-house.

2.5 Research and development

Research and development is the largest and most important division of the Höft & Wessel Group. This is where made-to-measure systems are developed for transport, retail and logistics and solutions are created that are individually tailored to customers' requirements.

In this way, research and development makes a key contribution to the success of the enterprise. IT specialists, engineers, design and construction specialists – more than one third of the total workforce in Hannover and Swindon – develop new hardware and software solutions, adapt products and software to customers' specifications or create completely new solutions for customers.

The group of companies invests around ten per cent of its sales revenues in research and development each year. According to the EU Industrial R&D Investment Scoreboard, Höft & Wessel AG is one of Europe's leading enterprises in research and development. Developers cooperate closely with distribution so as to be able to respond to market requirements and customers at an early stage. Participation in customer talks facilitate speedy and targeted strategies for finding suitable solutions.

In fiscal 2011, the focus was on Android, with a great deal of effort going into the porting of this operating system to mobile terminals. As a result, Höft & Wessel was the first manufacturer to introduce a handheld running Android for use in the retail sector. The new Elite parking terminals, which offer the full range of payment options for the first time, is the product of an intensive development project. 2011 also saw the continuation of the development of a mobile communications solutions on a GSM rail basis for the Swiss Federal Railways. The technology of the mobile terminal in PDA format was developed further, and the successful business line version of the on-board computer with ticket printer was adapted to produce a left-hand drive model. Addition, several new types of mobile terminals are currently being developed. External development capacities will be drawn on as required.

2.6 Service

The share of total sales revenues of the Höft & Wessel Group generated by service operations already accounts for around 40 per cent and represents a mainstay of the three divisions' basic business.

Service is a key business segment with strong growth margins, and not just for the Company itself. In business-to-business operations, this service is in demand as an integral element of systems solutions. Contracting partners expect individually tailored and reliable service solutions that guarantee continual operation of systems and, therefore, a high level of investment protection.

Höft & Wessel assigned a high degree of priority to this type of service from the outset. Accordingly, comprehensive and speedy service is offered and provided. Even today, a number of first generation scanners and terminals are being maintained and can be adapted to new system requirements. The ticketing terminals set up ten years ago at London Bus stops are in good condition, not least due to regular maintenance. In this context, Höft & Wessel operates under a service level agreement stipulating a 7/24 response time of one hour.

2.7 Capital expenditure

Capital expoenditures by the Höft & Wessel Group predominantly relate to the field of research and development. This is where new IT solutions, products and systems are developed and configured in line with customers' specifications. During fiscal 2011, additions to fixed assets amounted to EUR 4.3 million (previous year: EUR 5.2 million). Of this sum, EUR 3.3 million (2010: EUR 3.9 million) was accounted for by capitalised development activities.

3. Statement of the Company's asset, financial and earnings position

3.1 Asset position

The volume of non-current assets declined by a total of EUR 7.9 million, to EUR 9.8 million. EUR 5.0 million of this decline is chiefly attributable to impairment charges on fixed assets of the Skeye division.

In connection with the critical business development of the Skeye division, a write-down was made on inventory assets. As a result, inventories in the amount of EUR 2.5 million were depreciated. In operational terms, it was possible to achieve an inventory reduction by approx. EUR 0.8 million, lowering the volume of inventory assets by a total of EUR 3.3 million, from EUR 25.2 million to EUR 21.9 million.

Despite lower sales revenues, the volume of receivables as at the balance sheet date amounted to EUR 18.0 million, only down slightly year-on-year (previous year: EUR 19.0 million).

The reduction of equity by EUR 19.4 million, from EUR 26.8 million to EUR 7.4 million, was predominantly the result of the negative earnings for the period. With total assets down by EUR 16.1 million, the equity ratio now amounts to 13 per cent (previous year: 37 per cent).

Against the backdrop of the agreements entered into with the financing institutions, all bank liabilities were reported as current in the balance sheet for 2011. In relation to the year 2010, current bank liabilities thus rose by EUR 8.9 million, from EUR 11.9 million to EUR 20.8 million, while total liabilities to banks only increased by EUR 4.9 million, from EUR 15.9 million to EUR 20.8 million.

3.2 Financial position

The cash flow from current operating activities amounts to –EUR 2 k (previous year: –EUR 8,654 k) and was thus almost even in spite of the significant deficit for the year. The fact that the decline of this key figure did not turn out considerably higher in 2011 is due to the already presented non-scheduled impairment charges and valuation adjustments with no impact on liquidity.

Cash flow from investment activities amounted to –EUR 4.3 million following –EUR 5.2 million in the previous-year period.

These investments were financed by drawing on existing lines of credit. Cash flow from financing activities in the year under review amounted to EUR 2.9 million (previous year: EUR –1.6 million).

Trade receivables sold to a financial service provider within the scope of factoring arrangements are cancelled if the opportunities and risks involved were essentially transferred to the financial service provider. These transactions are so-called transfers, in the course of which they are taken off the books completely. At Höft & Wessel AG, a contractually agreed security lien of ten per cent is applicable (previous year: five per cent). In this connection, this security lien reflects the maximum possible risk of loss arising

Asset intensities	2011	2010*
Investment intensity [Fixed assets (EUR 9.8 million)/ Total assets (EUR 55.5 million)]	18 %	25 %
Inventory intensity [Inventories (EUR 21.9 million)/ Total assets (EUR 55.5 million)]	39 %	35 %
Receivables intensity [trade receivables (EUR 18.0 million)/ Total assets (EUR 55.5 million)]	32 %	27 %

Equity ratio	2011	2010*
[Equity (EUR 7.4 million)/Total asstes (EUR 55.5 million)]	13 %	37 %

Cash flow in EUR thousands	2011	2010*
Cash flow from current operating activities	(2)	8,654
Cash flow from investment activities	(4,257)	(5,186)
Cash flow from financing activities	2,874	(1,619)
Reduction and liquid funds	(1,385)	1,849

from factoring transactions and is intended to cover possible payments and credit notes not capable of being duly assigned or classified (financial year: EUR 788 k). The receivables from customers sold to the factoring companies are subject to strict requirements (for example, the exclusion of certain EU countries, no purchase of project receivables, no purchase of past due receivables or advance payments, etc.). The costs of this type of advance financing are included in the Company's net interest income as interest expenditure. In addition, bank charges are payable.

The following credit lines are available to the Group as at the balance sheet date:

- EUR 16.4 million in unsecured, partly mixed current account and guarantee lines (previous year: EUR 18.1 million). Interest rates 2011: 2.12 % – 9.38 % (previous year: 1,88 % – 8,75 %).
- EUR 5.0 million loan with a term to maturity until 2017 (previous year: none). Interest rate 2011: 3.85 % (previous year: -). For this loan, ownership of an inventory at Head Office amounting to EUR 7,942 k was assigned by way of collateral security.
- EUR 4.0 million in uncollateralised loans with final maturities in September 2012 and December 2013 (previous year: EUR 4 million). Interest rates 2011: 2.30 % – 5.85 % (previous year: 5.85 %).
- EUR 10.5 million in pure guarantee lines (previous year: EUR 19.1 million). In the previous year, lines for EUR 8.0 million were included for foreign guarantees collateralised in cash. Interest rates 2011: 0.75 % – 1.32 % (previous year: 0.75 % – 1.32 %).
- EUR 5 million factoring line (no change in relation to previous year). Interest rates 2011: 2.88 % – 3.53 % (previous year: 2,50 % – 3,35 %).

The agreements contain no financial covenants.

3.3 Earnings position

Sales revenues of the Höft & Wessel Group saw a year-on-year decline by 9 per cent, from EUR 94.8 million to EUR 86.3 million. After a very good year 2010, the Almex division generated EUR 43.0 million in revenues in fiscal 2011. Declines in sales were also recorded in the Metric business division. The very good previous year's values, positively impacted by a large-scale order from the U.S., amongst other factors, remained out of reach in 2011. Sales revenues were down by 8 per cent, to EUR 21.4 million, to a minor extent also due to currency factors. In the Skeye business division, sales came to EUR 21.9 million, remaining at the previous year's level. On the other hand, higher revenues had originally been expected in the fourth quarter, particularly in business with partners.

In the year under review, the percentage-based contribution margin decreased by 5.6 percentage points, to 37.5 per cent. A substantial share of this effect is attributable to the exceptionally strong performance of the Almex business division in the previous year, which could not be matched in 2011. In addition, it was not possible to fully pass on the increased procurement costs and adjust the cost structures in line with decreased sales revenues at short notice. Capitalised company-produced additions to property, plant & equipment were down by EUR 1.2 million year-on-year. Personnel expenditure was up slightly at EUR 25.4 million, exceeding the previous year's level by EUR 0.3 million. Write-downs, at EUR 11.3 million in the year under review, were up by EUR 6.2 million year-on-year. Write-downs in the Skeye division were the main reason for this.

The fundamental structure of other expenses and income basically remained unchanged. Cost increases were recorded in particular in the fields of dispatch, automobile and warranty costs. Savings were made in services and marketing. The effects of exchange rate factors on the statement of overall results amount to a total of +EUR 0.3 million (previous year: -EUR 1.2 million).

Key data from the consolidated income statement in EUR thousands	**2011**	**2010***
Aggregate output	86,040	97,845
Sales revenues	86,252	94,828
Earnings before taxes and interest (EBIT)	(16,090)	1,419
Earnings before taxes (EBT)	(17,194)	502
EBT margin in % of sales revenues	(19,9)	0,5
Consolidated earnings after taxes	(18,970)	1,888

Contribution margin 1 in EUR thousands	**2011**	**2010***
Sales revenues	86,252	94,828
Cost of materials incl. inventory changes	53,920	53,945
Contribution margin 1 in % of sales revenues	37.5	43.1

***NOTE: Figures regarding previous year 2010 have been adjusted, please refer to note 2.**

Due to higher interest rates and increased utilisation of credit lines compared with the previous year, negative net financing income was up by 20 per cent, to reach -EUR 1.1 million.

3.4 Capital measures

The Board of Management had invited the shareholders of Höft & Wessel Aktiengesellschaft to an extraordinary general meeting scheduled for 18 July 2013. In particular, the agenda of the extraordinary general meeting provides for disclosure by the Board of Management of the loss of half of the Company's capital stock pursuant to Section 92 (1) of the German Companies Act (AktG), the adoption of a resolution on the reduction of the capital stock and a resolution on increasing the capital stock against cash contributions with subscription rights.

The capital measures are part of a comprehensive refinancing concept prepared by the Board of Management in recent months. For implementation purposes, the Board of Management had searched for potential equity capital providers and negotiated with seriously eligible investors on the financing concepts involved. As a result of these efforts, on 18 July 2013 a comprehensive streamlining arrangement was entered into, namely between the Company, the long-term oriented investor Droege Group International AG, and the creditor banks.

In accordance with this Agreement, the investor Droege committed itself to provide the Company with fresh equity capital by way of a capital increase, a maximum amount of just under EUR 8.5 million. Of the EUR 8.5 million, EUR 3.3 million will be paid to the banks in partial compensation for their waiver of receivables amounting to EUR 16.8 million. The execution of this transaction will be carried out via a subsidiary which will be provide with a liquidity of a minimum of EUR 3.3 million. Accordingly, EUR 5.2 million in fresh capital will remain within the group of companies. At the same time, on average the banks are to waive about half of their volume of receivables.

The obligation of the investor Droege is subject in particular to the terms and conditions that the resolutions on the capital reduction and capital increase are listed in the Commercial Register, that the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) has issued an exemption from the mandatory offer rule, the clearances by the cartel authorities have been given. The precondition of the investor of a stake according to the completed streamlining arrangement has been met.

The banks' obligation is also fulfilled, because all new shares have been subscribed to and paid up in full. The agreements still to be concluded are subject to the suspensive condition that they will become invalid if the investor or one of the banks effectively rescinds the streamlining agreement and if an arrangement is not reached between the banks, in terms of which one bank named in the streamlining agreement will be appointed as trustee.

In addition, in the case of two credit institutions the Group has guarantee lines totalling EUR 5.25 million, which will only implemented after the capital increase enter into force.

3.5 General statement by the Board of Management

According to the Board of Management, the Company's asset, financial and earnings position is inadequate. To achieve a sustainable improvement, the Board of Management has prepared a uniform restructuring concept, of which all components are to be implemented if it is to be successful.

The Board of Management complied with its obligations under the German Companies Act and convened an extraordinary general meeting for 18 July 2013, at which further steps were adopted towards a streamlining and reorientation of the Company. Specifically, reference is made to the explanatory notes in Section 3.4 Capital measures.

The Company's continued existence as a going concern will be secured only if it succeeds in placing the shares created due to the capital increase against a cash contribution and if the operational streamlining efforts actually produce the expected results. In addition, it is necessary for the projects identified as critical by the Board of Management early in 2013 to be successfully concluded. The capital measures, in combination with the planned programme for the Company's operational streamlining, will lay the foundations for a substantial improvement in the Company's asset, financial and earnings position. The Board of Management has taken all steps necessary in order to implement the streamlining concept as a whole. The Board of Management is convinced of the terms and conditions stated in Section 3.4 being met and of the successful implementation of the streamlining measures and therefore firmly assumes that the Company will continue to trade as a going concern. The Board of Management anticipates the turnaround in business this year, followed by sustainable and successful business trends in the years to follow.

If the capital measures described in the previous section 3.4 are not carried out, or if project risks result in unforeseen liquidity outflows, and if the operational streamlining measures adopted do not yield the expected results, the Company will become insolvent and lose its status as a going concern.

4. Events after the balance-sheet date

After the close of the financial year 2011, on 17 January 2012 Michael Höft was appointed Chairman of the Board of Managing Directors, taking over all tasks of the previous CEO, who left the Company. Thomas Wolf resigned as member of the Board of Management on 23 May 2012. On 17 July 2012 Rudolf Spiller was appointed to the Board of Management in the function as Chief Restructuring Officer. After Michael Höft has resigned from the Board of Management by the end of fiscal 2012, since 1 January 2013 Rudolf Spiller has been responsible as sole Board of Management member and CEO. On 18 July 2013, a comprehensive streamlining agreement was entered into, namely between the Company, the long-term oriented investor Droege, key individual shareholders, and the creditor banks. Specifically, reference is made to the explanatory notes in Sections 3.4 and 3.5.

5. Risk and opportunity report

With regard to the risks endangering the Company as a going concern, reference is made to the explanatory notes in Section 3.4 Capital measures and 3.5 General Statement by the Board of Management.

Entrepreneurial action means taking risks. With its international business relationships and multiple locations, the Höft & Wessel Group is subject to rapidly changing general conditions in its sales markets and is therefore exposed to risks. In order to avoid these risks threatening the Group's existence as a going concern, the legislature has called for implementation of an early risk detection system. This system had been introduced at Höft & Wessel AG years ago and was an integral element in the planning and implementation of the corporate strategy.

In 2012, due to the substantial losses and the restructuring initiated for this reason, the Board of Management decided to commission an external business consultancy firm to carry out an identification and assessment of the Company's risk profile. This continual screening made a substantial contribution towards identifying risks, subsequently mitigating them and, therefore, to a stabilisation of the Company's business trends.

In addition, new processes were introduced. Weekly liquidity planning at a regular so-called order flow meeting creates adequate transparency in order to carry out liquidity management successfully. Moreover, business processes are being better managed, for instance by setting up a steering committee and in the course of core team meetings.

The restructuring measures carried out in the financial year 2012 call for an adjustment of the early risk detection system to the newly created structures. After finalisation of the restructuring phase in 2013, the new processes and methods will be reconciled with the early risk detection system in place at Höft & Wessel AG and will then once again continue to be handled internally in full by the Finance & Controlling department.

The various sets of measures forming part of the early risk detection system of Höft & Wessel AG are described in detail below. Early risk detection management distinguishes between external, operational and financial risks. In the external risk category, a further distinction is made between changes in market demand, political changes and economic developments.

Operational risks that are monitored continuously include business transactions with major customers, planning for large-scale projects, as well as project management, quality, external manufacture, storage and contractual risks, human resources, communications and IT security.

Höft & Wessel deals with market and sales revenue risks by endeavouring to establish long-term contractual relations with customers wherever possible. The risk of declining order receipts on account of the general economic situation is countered by

continual market monitoring. Changing customer requirements and impending technological changes are monitored closely and coordinated with staff working on projects currently at the development stage. Broadening the customer base in the individual business divisions and developing new sales markets and regions helps reduce the level of dependency on individual customers, industry segments or countries. Until the restructuring measures have been successfully completed, the performance and efficiency of the Company might receive negative ratings from purchasers and suppliers, which might impair its market opportunities and supply prices and conditions.

Regular monitoring of projects and orders by the heads of the business divisions and deployment of the overarching ERP system serve to identify internal risks on a timely basis and to counter them effectively in future. In the field of financial risks, a distinction is drawn between such factors as liquidity, interest rates, receivables in default, foreign transactions, currencies and financial markets. Risks resulting from any of these areas are monitored and assessed continually.

The risks arising from the reorientation are being taken into account in particular with a substantially improved early risk detection system in the current financial year, which also extends to include more effective liquidity management. This will create the prerequisites to be able to take counteractive steps speedily and in a targeted manner if required.

In order to ensure liquidity at all times, the Company's free cash & cash equivalents are continually monitored with the aid of short-term liquidity planning and medium-term demand projections. There is a liquidity risk if there should be substantial delays in implementing the capital increase. This applies in particular because there is a direct link between implementation of the capital increase and the revival of the guarantee lines that the Company urgently needs to collateralise advance payments by customers.

An increase in the level of interest rates, a downgrading of the Company's ratings or changes in lending terms may entail the risk of increasing interest expenditure. The risk of market-related interest rate fluctuations is partially taken into account by means of interest rate hedges and, additionally, by taking out loans with multiple-year terms to maturity. The specific measures on interest rate hedges are described in Note 21. The risk of default in trade receivables is countered by deploying merchandise credit insurance and a debtor management system that continually undergoes further development. Currency risks arising from exchange rate fluctuations are hedged in accordance with the parameters laid down by the Board of Management for the Company's hedge strategy. The measures relating to currency hedges are explained in Note 21.

The Group's Management perceives technological risks to lie in the fact that too little could be spent on research and development as well as in vocational and advanced training of employees in the past two years. Know-how losses due to employees resigning of their own accord compounded this development, which will need to be effectively countered in future. Catching up and closing the technology gap is a critical success factor for the Company's future ability to survive since the demand for integrated holistic solutions is increasing, in turn raising the requirements regarding convergence with IT systems further.

Project risks of varying intensity continue to exist with a number of large-scale projects. These range from considerable margin losses due to unplanned expenditure necessary on external staff, impending losses arising and all the way through to significant conventional penalties because of project delays. These risks were duly taken into account in the annual financial statements for 2012. Nearly all large-scale projects were critically analysed early in 2013, project capacities were considerably improved and the project management teams were extended or completely replaced. Progress has been made across the board.

The Company's future development will depend heavily on whether it will be possible to deal with the critical projects as contractually agreed. If not, as described above, projects will be in danger of liquidation and/or conventional penalties might be payable. In addition, the shifting of services alone represents a sizeable liquidity risk for the Company. In order to ensure liquidity at all times, the Company's free cash & cash equivalents are continually monitored with the aid of short-term liquidity planning and medium-term demand projections. The postponement of incoming payments may have an impact on the Company's existence owing to the difficult financing situation.

Höft & Wessel AG is certified according to the international quality standard DIN EN ISO 9001:2008 and thus delivered proof of a functioning quality management system (QMS) in the course of an independent audit. The mandatory QMS rules in place for all employees and divisions are recorded in the Quality Management Manual (QMM). The increased transparency of competences and procedures achieved through this minimises the risk of incorrect interpretations and assessments.

The Höft & Wessel Group was certified in accordance with the environmental management standard ISO 14001. Moreover, the Metric subsidiary successfully met the requirements for information security laid down in ISO 27001.

6. Outlook

The Kiel-based Institute for the World Economy (Institut für Weltwirtschaft – IfW) assumes that economic activity will be revitalised in 2013. Accordingly, the global economy will grow by 3.4 per cent, a slightly higher increase in Gross Domestic Product than in the previous year. For Europe, the key region for the Höft & Wessel Group's business, a slight decline in aggregate economic output by 0.2 per cent is anticipated. In the two key markets for the Company, namely Germany and the United Kingdom, Gross Domestic Product is to rise by 0.6 and 0.5 per cent, respectively, in 2013.

As a result, the overall economic environment of the Höft & Wessel Group will be slightly better in the current financial year than in the previous year. Even though business trends of the group of companies on the whole generally appeared to be largely unaffected by cyclical influences, changed framework conditions in individual segments may result in a lower level of public-sector spending, for instance. For this reason, the industry sectors of key importance to the Company's business trends, namely public passenger transport, parking as well as the retail and logistics segment, are carefully monitored and the resultant opportunities and risks are weighted accordingly and taken into account in terms of market processing. Mega-trends and public policy measures such as a deregulation of public transport or even public-sector debt may acquire a certain relevance.

The comprehensive restructuring programme initiated in 2012 as a streamlining element was concluded according to schedule in mid-2013. After an extensive programme consisting of over 700 individual measures had initially been imposed on Höft & Wessel AG at the Hannover location, at the end of 2012 a similar programme followed for the British subsidiary, Metric. Over EUR 12 million in improvements in EBIT are generated, constituting a major lever for a definite improvement in earnings overall. After two financial years of considerably negative results, for the financial year 2013 the Company expects to generate Group earnings before interest and taxes (EBIT) of over EUR 1.0 million on sales revenues of about EUR 82 million. As at 30 June 2013 the group of companies achieved sales revenues of EUR 36.9 million with an operating result before restructuring expenses of –EUR 0.9 million. Further particulars can be found in the quarterly reports which are also published.

For 2014, Höft & Wessel Group expects a further improvement in the operating result and higher sales revenues.

With the advent of the strategic investor Droege International Group AG, the medium-term refinancing, which is also an element of the streamlining process, will be ensured at prices and terms in conformity with the market and an adequate capital endowment will once again be achieved. Moreover, the new majority shareholder will enable investments to be made in research & development and in the speedy development of new products.

As a result of a comprehensive strategy package created, the Höft & Wessel Group expects more than EUR 100 million in sales revenues to be achieved by 2018. This is equivalent to a compound average annual growth rate (CAGR) of about 4 per cent. In the next few years, the Company perceives increasing demand for management, planning, guidance, information and ticketing systems, with growth rates of about 15 per cent per annum. Contributory factors in this respect are current trends like urbanisation, growing environmental awareness, ever scarcer energy supplies but also the deregulation of the public transport system, resulting in a convergence with private motorised transport and rising mobility needs. As a result of this trend, an increasing political willingness to promote public transport is identifiable. This leads to a global establishment and extension as well as modernisation of public commuter transit systems. In the course of this development, differences are evident in tandem with the expansion of public transport. While the development in Europe tends to be rather subdued, public transport in Russia, South America and Asia is undergoing robust growth. Höft & Wessel plans to develop in these markets as a central European niche specialist for individual customer solutions for ticketing and parking as well as mobile data recording systems for the retail sector and logistics.

Yet business development in the Metric segment will in future also be influenced by the strategic partnership with Amano. This is expected to result in higher sales revenues on Metric car park terminals in the US and a consolidation of sales revenues in Metric's home market, England, by taking over the Amano products. On the other hand, the strategic partnership may also entail some risks.

In future, Höft & Wessel AG will also focus on its core operations, namely Ticketing, Mobile Solutions and, increasingly, Vehicle Systems, and intensify the expansion of its service business. The concentration will lie on handling critical large-scale projects step by step in order to regain customer trust and confidence in this way and thus lay the foundations for attractive follow-up business.

On the whole, the Company anticipates increasing mechanisation and an increasing convergence with IT systems. Once the overall financial situation in Europe and across the globe has returned to normal, in the course of consolidation tendencies new competitors are also expected to emerge. This will then lead to further cost pressure on public-sector principals, along with outsourcing of services and a growing number of cooperative ventures, also against the backdrop of increasing calls for integrated, holistic solutions. All this will be accompanied by a further internationalisation of business. Höft & Wessel will benefit from this in the next several years, especially through its expertise in the field of contactless payments.

This management report contains forward-looking statements and information. Such forward-looking statements are based on current expectations of the Company and on certain assumptions. Accordingly, they give rise to a number of risks and uncertainties. Business trends of the Höft & Wessel Group are affected by a large number of factors that are beyond the sphere of control of the Company. These factors can cause the actual results, successes and performance of the Group to differ substantially from the information on results, successes and performance expressly or implicitly contained in these forward-looking statements.

B. Further disclosures

1. Remuneration Report

In addition to fixed remuneration, the Board of Management of Höft & Wessel AG receives regular, variable remuneration based on the pre-tax earnings of the Höft & Wessel Group. The non-performance-related share of remuneration is defined by the Supervisory Board in specific individual cases, taking account of professional experience, qualifications and performance. The fixing of remuneration for the members of the Board of Management is based on the economic and financial situation of the Company, as well as the extent and structure of remuneration paid to management boards of comparable enterprises. In addition, the tasks and contribution of each relevant member of the Board of Management are taken into account.

Non-performance-related remuneration comprises basic remuneration, benefits in kind and perquisites (company car, healthcare and insurance policies). The basic remuneration is disbursed monthly in the form of a salary payment. Benefits in kind essentially consist of the value of using a company car in accordance with tax regulations and allowances paid towards insurance premiums.

Half of the performance-based remuneration is paid on reaching the Group's sales and pre-tax earnings target. The maximum amount is capped in case targets are exceeded. In the event of a shortfall by more than 10 per cent, this remuneration component will be dispensed with.

In the financial year 2011, no stock options were issued to the Board of Management. In the current year, provisions of EUR 68 k were set up for bonus payments (previous year: none).

No pension commitments have been made to the members of the Board of Management. No benefits from third parties were approved to the members of the Board of Management with regard to their activities as members thereof. If a member of the Board of Management dies during the contractual term, three monthly salaries will be paid by way of benefits to surviving dependants. In the event of illness, continued salary payment for the members of the Board of Management has been agreed for three months.

Remuneration Board of Management	Erfolgsunabhängig Non-performance related		Erfolgsbezogen Performance-related		Gesamtbezüge Total emoluments	
in EUR thousands	2011	2010	2011	2010	2011	2010
Michael Höft	16	–	–	–	16	–
Thomas Wolf	223	182	40	53	263	235
Hansjoachim Oehmen	528	528	79	96	607	624
Peter Claussen	117	264	71	96	188	360
Total	**884**	**974**	**190**	**245**	**1,074**	**1,219**

The remuneration of the Supervisory Board is governed by the articles of association and is exclusively payable in the form of a fixed salary. The Chair in this regard receives double the remuneration paid to a member of the Supervisory Board. The Deputy Chairman receives 1.5 times the remuneration paid to a member of the Supervisory Board. No payments were made to earlier Supervisory Board members. There are no commitments on the part of the Company to do so.

2. Share-related disclosures

The total nominal value of the Company's capital stock is denominated in 8,497,490 no-par-value bearer shares, with each such share representing an entitlement to exercise one vote.

H&W Holding GmbH, Burgdorf, notified us that it had a direct equity interest of 40.6 per cent in the Company's capital stock as at the balance sheet date. In the current fiscal year the H&W Holding has sold their stake in Höft & Wessel AG. After a capital increase, Droege International Group AG has a significant equity interest in the company.

Zollner Elektronik AG, Zandt, notified us that it has a direct equity interest of 10.5 per cent in the Company's capital stock as at balance sheet date. In the current financial year this stake has decreased to less than 3 per cent.

In accordance with the articles of association, the Board of Management consists of one or several persons. Deputy members of the Board may be appointed. In addition, the statutory regulations and provisions apply to the appointment and dismissal of members of the Board of Management (§§ 84, 85 AktG) and to any amendments to the articles of association (§§ 133, 179 AktG). At the Annual General Meeting held on 17 June 2010, the Company was authorised to acquire treasury shares up to a maximum amount of 10 per cent of the capital stock. This arrangement applies until 16 June 2015. The Board of Management was also authorised to redeem own shares with the consent of the Supervisory Board, without a further resolution of the Annual Shareholders' Meeting being necessary in this regard. Beyond the disclosures in the Remuneration Report, no material agreements were entered into by the Company with the members of the Board of Management or the employees concerning the terms and conditions of a change of control following a takeover bid or any compensation arrangements in the event of such a takeover bid being made.

C. Statement on Corporate Governance

The statement on corporate governance is reproduced in the Corporate Governance Report within this Annual Report as well as on the Company's website at http://www.hoeft-wessel.com/investor-relations/corporate-governance/.

D. Related parties report

In the financial year 2011, Höft & Wessel AG was an enterprise that was dependent on H&W Holding GmbH as contemplated by § 312 of the German Companies Act. For this reason, in accordance with § 312 (1) of the German Companies Act, the Board of Management of Höft & Wessel AG prepared a related parties report, which contains the following final statement: "The Board of Management declares that the Company – according to the facts and circumstances of which the Board of Management was aware at the time at which legal transactions were entered into or the measures were taken or omitted – received reasonable consideration in the course of each such transaction or that the performance of the Company was not unduly high and that the Company was thus not adversely affected by the measures taken or omitted. Finally, the Board of Management declares that no legal transactions or measures were carried out at the behest of any affiliated entities."

Hannover, 7 October 2013

The Board of Management

Remuneration Supervisory Board	**Remuneration**	
in EUR thousands	**2011**	**2010**
Prof. Dr. Dr.-Ing. Dr. h.c. Klaus E. Goehrmann	20	20
Dr. Peter Versteegen	15	15
Michael Höft	10	10
Dr. Martin Künnemann	10	10
Rolf Wessel	10	10
Manfred Zollner	10	10
Total	**75**	**75**

IFRS Consolidated Financial Statement as of 31/12/2011
Consolidated Balance Sheet as of 31/12/2011

ASSETS in EUR thousands	Erläuterung Nr.	31/12/2011	31/12/2010*
Non-current assets			
Intangible assets	(5)	5,641	11,200
Property, plant and equipment	(6)	2,055	3,520
Deferred tax assets	(7)	2,062	2,958
Total non-current assets		**9,758**	**17,678**
Current assets			
Inventories	(8)	21,889	25,230
Trade receivables	(9)	17,994	19,049
Cash and cash equivalents	(10)	3,103	4,495
Other assets	(19)	1,533	2,893
Other non-financial assets		1,249	2,319
Total current assets		**45,768**	**53,986**
Total assets		**55,526**	**71,664**

EQUITY AND LIABILITIES in EUR thousands	Erläuterung Nr.	31/12/2011	31/12/2010*
Equity			
Subscribed capital	(12)	8,497	8,497
Capital reserves	(12)	20,176	20,167
Accumulated retained earnings	(12)	(15,849)	3,970
Other comprehensive income		(5,429)	(5,820)
Total equity		**7,395**	**26,814**
Non-current liabilities			
Personnel related provisions	(17)	841	939
Financial leasing liabilities	(14)	17	45
Financial liabilities to banks	(14)	0	4,000
Deffered tax liabilities	(7)	1,127	0
Other liabilities	(21)	1,057	1,128
Total non-current liabilities		**3,042**	**6,112**
Current liabilities			
Provisions	(18)	4,396	3,045
Current income tax liabilities		440	730
Financial leasing liabilities	(14)	29	73
Financial liabilities to banks	(14)	20,827	11,945
Trade payables	(19)	9,753	12,679
Advance payments received		2,656	5,227
Personnel-related accrued/deferred liabilities	(17)	964	982
Other financial liabilities	(21)	3,743	3,061
Other non-financial liabilities	(20)	2,281	996
Total current liabilities		**45,089**	**38,738**
Total equity and liabilities		**55,526**	**71,664**

The following consolidated notes are an integral element of the consolidated financial statements.

Consolidated Statement of Income and Comprehensive Income for the Period from 1 January to 31 December 2011

in EUR thousands	Note	2011	2010*
Sales revenues	(24)	**86,252**	**94,828**
Inventory changes relating to finished goods and work-in-progress		(2,462)	(397)
Other company-produced additions to plant and equipment		2,250	3,414
Aggregate output		**86,040**	**97,845**
Other income	(26)	1,851	1,126
Cost of materials and services procured	(8)	(51,458)	(53,548)
Personnel expenses	(25)	(25,421)	(25,129)
Other expenses	(27)	(15,781)	(13,748)
Operating result before depreciation and amortisation (EBITDA)		**(4,769)**	**6,546**
Depreciation and amortisation of property, plant, and equipment and intangible assets		(11,321)	(5,127)
Operating result (EBIT)		**(16,090)**	**1,419**
Financial income		1	2
Financial expenses		(1,105)	(919)
Net financial income	(26)	**(1,104)**	**(917)**
Earnings before taxes (EBT)		**(17,194)**	**502**
Tax position	(26)	(1,776)	1,386
Group earnings		**(18,970)**	**1,888**
Reconcilation to comprehensive income			
Difference arising from currency translation		386	688
Cash flow hedges		8	(928)
Deferred taxes on cash flow hedges		(3)	292
Cumulative other equity		391	52
Total earnings for the period		**(18,579)**	**1,940**
Earnings per share in EUR (basic)	(13)	(2.23)	0.22
Earnings per share in EUR (diluted)	(13)	(2.18)	0.22

***NOTE: Figures regarding previous year 2010 have been adjusted, please refer to note 2.**

The following consolidated notes are an integral element of the consolidated financial statements.

Consolidated Cash Flow Statement for the Period from 1 January to 31 December 2011

	in EUR thousands	2011	2010*
	Group earnings	(18,970)	1,888
−/+	Tax position	1,776	(1,386)
+	Financial results	0	1,488
+	Depreciation	1,104	917
	of fixed assets	0	(90)
+	Losses from reduction of assets		
+	Increase in provisions	11,321	5,127
+/−	Rate effects with no impact on payments	8	0
+	Losses from impairments on receivables	1,217	(741)
+	Losses from Impairments	(530)	705
	on inventories	17	(68)
+	Other effects with no impact on payments	3,648	454
+/−	Decrease/increase in inventories	634	91
+	Decrease in trade receivables	(306)	395
+	Decrease in other assets	593	(1,633)
		2,567	775
-	Decrease in trade payables		
+/−	Increase/decrease in payments received	(2,875)	4,332
−/+	Decrease/increase in other liabilties	(2,570)	(3,788)
−	Decrease in other long-term liabilties	2,618	86
−	Payouts for income tax	(254)	102
Cash flow from current operating activities		**(2)**	**8,654**
−	Disbursements for investments in intangible assets	(4,257)	(5,186)
Cash flow from investment activities		**(4,257)**	**(5,186)**
+	Deposits from taking out financial credit facilities	4,882	(13)
−	Disbursement for finance leasing	(72)	(99)
+	Interest revenues	1	2
−	Interest expenditures	(1,088)	(829)
−	Disbursements for dividend payments	(849)	(680)
Cash flow from financing activities		**2,874**	**(1,619)**
Decrease / increase in liquid funds		**(1,385)**	**1,849**
Cash and cash equivalents at the beginning of the period		**4,495**	**2,652**
−	Changes in exchange-rate compensation item	(7)	(6)
Cash and cash equivalents at the end of the period		**3,103**	**4,495**

The following consolidated notes are an integral element of the consolidated financial statements.

Performance of Shareholders' Equity for the Period from 1 January to 31 December 2011

in EUR thousands	Subscribed capital	Capital reserves	Accumulated retained earnings	Other comprehensive income			Total
				Hedging activities	Currency reserves	Sum	
Status as of 01/01/2010	**8,497**	**20,136**	**2,762**	**(398)**	**(5,475)**	**(5,873)**	**25,522**
Currency differences from translation of entities abroad (including taxes)					688	688	688
Effective portion of time changes of cash flow hedges (including taxes)				(635)		(635)	(635)
Other earnings	0	0	0	(635)	688	53	53
Earnings for period			3,387			0	3,387
Error correction according to IAS 8			(1,499)			0	(1,499)
Total consolidated earnings	0	0	1,888	(635)	688	53	1,941
Issue of stock options		31					31
Dividend payments			(680)				(680)
Adjusted Status as of 01/01/2011	**8,497**	**20,167**	**3,970**	**(1,033)**	**(4,787)**	**(5,820)**	**26,814**
Currency differences from translation of entities abroad (including taxes)					386	386	386
Effective portion of time changes of cash flow hedges (including taxes)				5		5	5
Other earnings	0	0	0	5	386	391	391
Earnings for period			(18,970)			0	(18,970)
Total consolidated earnings	0	0	(18,970)	5	386	391	(18,579)
Issue of stock options		9				0	9
Dividend payments			(849)			0	(849)
Status as of 31/12/2011	**8,497**	**20,176**	**(15,849)**	**(1,028)**	**(4,401)**	**(5,429)**	**7,395**

***NOTE: Figures regarding previous year 2010 have been adjusted, please refer to note 2.**

The following consolidated notes are an integral element of the consolidated financial statements.

Consolidated Notes for Fiscal 2011

1 Reporting entity

Höft & Wessel AG (also referred to hereinafter as: "the Company", Höft & Wessel" or collectively as "the Group" including its subsidiaries) is a company domiciled in Germany. The Company is headquartered in Hannover, Rotenburger Strasse 20. The consolidated financial statements include all German and foreign subsidiaries in which Höft & Wessel AG holds the majority of voting rights. Höft & Wessel AG and its subsidiaries develop, manufacture and distribute hardware and software products in the following business segments:

- Almex: ticketing and telematics for the public transport sector,
- Metric: parking space management systems and services rendered within the scope of full-service agreements, and
- Skeye: mobile terminals and POS systems.

Authorised capital is classified as equity. The company is listed in the "Prime Standard" segment of the Frankfurt Securities Exchange. Its shares are traded under ISIN (International Security Identification Number) DE0006011000.

The unaudited annual report already published on the Company's website is replaced by this annual report. As regards the changes, reference is made to the corrections to the previous year's financial statements described in Section 2 and elsewhere in the report.

The Board of Management assumes that the planned injections of equity capital, the additional financing and the positive business trend unfolding for the Company and its subsidiaries in the financial years 2013 and 2014 will ensure the Company's status as a going concern on a sustainable basis.

In this context, we refer in particular to the explanatory notes in the management report under Nos. 3.4 and 3.5 as well as to the concept for financial and operational streamlining of Höft & Wessel AG referred to in the invitation to the extraordinary general meeting of 18 July 2013.

Accordingly, the following core items represent the key prerequisites for sustainable corporate governance as a going concern:

- A successful implementation of the planned "H&W 2.0" restructuring measures,
- Placement of the newly issued shares against a cash contribution,
- A debt waiver of the banks equivalent to approx. 50 per cent,
- A participation quota by the investor amounting to over 75 per cent,
- The revival of the guarantee lines amounting to EUR 5.25 million.

The measures initiated and planned are in the interests of ongoing corporate governance and to ensure an appropriate equity capital base so as to ultimately regain the confidence of investors, the markets, business partners and employees alike.

Against this backdrop, the accounting and valuation within the scope of the consolidated annual financial statements took place under the assumption that the Company will continue to exist as a going concern.

2 Principles of preparing the financial statements

Disclosures on compliance

The Consolidated Financial Statements as at 31 December 2012 were prepared in conformity with the International Financial Reporting Standards (IFRSs) adopted by the European Union by way of the endorsement process and released for publication by resolution of the Supervisory Board on 22 August 2013.

Standards applied for the first time in the year under review (Disclosure requirement regarding IAS 8.28):

- Improvements to IFRS 2010
  Within the scope of the annual improvement project, eleven amendments were made to six standards and to one interpretation. By adjusting the formulations in specific IFRSs, a clarification of the existing rules and regulations is to be achieved. In addition, there are amendments with an impact on accounting, on recognition or valuation. The standards IAS 1, IAS 27 (read in conjunction with IAS 21, 28 and 31), IAS 34, IFRS 1, IFRS 3, IFRS 7 and the interpretation IFRIC 13 are affected.
  These amendments have no material impacts on the consolidated financial statements of Höft & Wessel AG.

- IAS 24 – Related Party Disclosures (revised 2009)
  The amended IAS 24 has introduced an optional exemption from the disclosure of transactions with certain related entities. This optional choice concerns all transactions with public entities that have control, joint control or significant influence over the reporting entity, as well as transactions with companies under control, joint control or significant influence of the same public entity. Due to this amendment, detailed disclosures only need to be made on specific, material transactions. For specific transactions not of a material nature on their own but collectively so, only quantitative or qualitative indications need to be made on their impacts.

  Moreover, the amendment to IAS 24 has resulted in the definition of a related entity or a related person to be changed in the sense that symmetry has now been achieved: two entities deemed to be related to one another from the perspective of one entity now are also related to one another from the perspective of the other entity. The Höft & Wessel Group is not affected by the new optional choice.
  These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

- Amendments to IAS 32 – Classification of Rights Issues
  The amendment to IAS 32 deals with the accounting treatment of subscription rights, options or warrants offered pro rata to all current owners of the same class of non-derivative equity instruments and which qualify for the acquisition or receipt of a fixed number of equity instruments in exchange for cash and cash equivalents in any currency. Accordingly, in line with IAS 32.11(b)(ii) and IAS 32.16(b)(ii), subject to the prerequisites specified no distinction is necessary any longer as to whether the exercise takes place in some currency other than the functional currency or not. Until this amendment, subscription rights in some currency other than the functional currency had to be reported and valued as a financial liability, whereas they are now to be disclosed in equity.
  Höft & Wessel will apply the amendment to IAS 32 to the issue of subscription rights in future. No subscription rights were issued in the year under review.

- Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement
  This announcement modifies IFRIC 14: IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction. IFRIC 14 contains rules to be applied in accounting for defined benefit plans in those cases in which existing plan assets exceed the pension liability. The amendment is relevant in those cases in which an entity is subject to minimum funding requirements and makes the premium payments in advance in order to meet these minimum funding requirements. This amendment now allows an economic benefit from advance payments on minimum funding requirements to be taken into consideration in accounting terms.
  Höft & Wessel is not affected by this since the value of the plan assets is lower than the pension liability.

- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments
  IFRIC 19 explains the accounting for partial or full repayment of a financial liability by issuing shares or other equity instruments. This interpretation clarifies that the equity capital instruments issued to repay a financial liability to a creditor are part of the "consideration paid" as contemplated by IAS 39.41. The relevant equity capital instruments are to be measured at fair value on principle. If this cannot be reliably determined, then the equity instruments are to be measured at the fair value of the liability repaid. The difference between the carrying amount of the financial liability to be reversed and the first-time recognition of the equity instruments issued is to be recognised in profit or loss. These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

- IAS 8 contributions required to be disclosed
  The Höft & Wessel Group does not plan to apply any of the following new or amended standards and interpretations at an early stage that will only become mandatory in later financial years. Unless otherwise indicated, the effects on the consolidated financial statements are in the process of being reviewed.

EU endorsement has already been given:

- Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income
  This amendment changes the presentation of other comprehensive income in the statement of overall results. The items of other comprehensive income reclassified later in the income statement ("recycling") will in future be presented separately from items of other comprehensive income that are never reclassified. If the items are reported gross, i.e. without being netted with effects relating to deferred taxes, the deferred taxes are now no longer to be reported in one lump sum but allocated to both groups of items. The amendment is to be applied to financial years beginning on or after 1 July 2012.
  These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

- Amendments to IAS 12 – Recovery of underlying assets
  In the case of real estate held as financial investments, it is frequently difficult to assess whether existing temporary tax differences will be reversed within the scope of continued use or in the wake of a sale. Following the amendment to IAS 12, it has now been clarified that the valuation of deferred taxes is to be made on the basis of the rebuttable presumption that a reversal will be effected by sale.
  These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

- IAS 19 – Employee Benefits (revised 2011)
  In addition to more extensive mandatory disclosures on employee benefits, in particular the following changes will result from the revised standard: at present, there is an optional right as to how unexpected fluctuations in pension liabilities, referred to as actuarial profits and losses, can be presented in the financial statements. These may either be recognised (a) in the income statement through profit or loss, (b) in other comprehensive income (OCI) or (c) subject to a time delay in accordance with the so-called corridor method. With the new version of IAS 19, this optional right has been abandoned in favour or a more transparent and comparable presentation, which means that in future such items can only be directly recognised in full as part of other comprehensive income. In addition, past service costs are now to be recognised directly through profit or loss in the year in which they arose.

  Moreover, at present the expected gains of plan assets at the beginning of the accounting period are determined by means of the subjective expectations of management on the performance of the investment portfolio. Following the application of IAS 19 (revised in 2011), only typical interest earned on plan assets is permissible, amounting to the discount rate applicable to the pension liabilities at the beginning of the accounting period.

  The expected amount of administration costs for plan assets has been taken into account in net interest income in the past. As a result of the amendments, administration costs for plan assets are to be recognised as part of the revaluation component in

other comprehensive income, while other administration costs are to be assigned to operating profit at the time they are incurred.

The revised standard is expected to have a substantial impact on future consolidated financial statements of Höft & Wessel AG. Owing to the new regulations, a decline in equity of EUR 7.7 million and a corresponding increase in pension reserves are anticipated. Fluctuations in terms of actuarial assumptions, particularly of the interest rate, will lead to higher volatility in equity in future. The changed definition of benefits at the end of an employment relationship referred to as termination benefits will impact on accounting for the increased amounts approved within the scope of agreements relating to pre-retirement part-time work. In the past, the increased amounts were classified as benefits relating to termination of employment and, accordingly, provisions were made for these in their full amount at the time of the agreement concerning pre-retirement part-time work. Owing to the changed definition of benefits on termination of employment, in accordance with IAS 19 (revised 2011) the increased amount no longer meets the requirements for benefits arising on termination of employment. Instead, in principle these are other non-current benefits due to employees, which are to be accumulated in instalments across the period of service of the employees in question. Owing to the changed definition for benefits due to termination of employment, the increased amounts approved within the scope of agreements for pre-retirement part-time work now represent other non-current benefits due to employees. On account of the prorated accumulation of increased amounts across the relevant years of active service of employees benefiting from pre-retirement part-time work, no changes to provisions were made as at 31 December 2012 since the employees in question are already in the release phase of their retirement plans. The amendment is to be applied to financial years beginning on or after 1 January 2013.

- Amendments to IAS 27 – Separate Financial Statements
  As part of the adoption of IFRS 10 Consolidated Financial Statements, the rules relating to the control principle and the requirements concerning the preparation of consolidated financial statements were removed from IAS 27 and subsequently dealt with in IFRS 10 (see explanatory notes on IFRS 10). As a result, in future IAS 27 will only contain the accounting rules for subsidiaries, joint ventures and associated companies in individual financial statements according to IFRS. The amendment is to be applied to financial years beginning on or after 1 January 2014. These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

- Amendments to IAS 28 – Investments in Associates and Joint Ventures
  Within the scope of the adoption of IFRS 11 Joint Arrangements, adjustments were also made to IAS 28. IAS 28 – as in the past – governs the application of the equity method. On the other hand, the scope of application has been substantially extended through the adoption of IFRS 11 since in future not only interests in associates but also joint ventures (see IFRS 11) will need to be measured according to the equity method. As a result, the application of the quota-based consolidation for joint ventures will be dispensed with.

  In future, potential voting rights and other derivative financial instruments will be decisive in assessing whether an entity has a decisive influence or in determining the investor's share of the company's assets. A further amendment concerns accounting according to IFRS 5 if only one part of the share in an associated company or a joint venture is intended for sale. IFRS 5 is to be partially applied if only a share or part of a share in an associated entity (or a joint venture) meets the "held for sale" criterion.
  The amendment is to be applied to financial years beginning on or after 1 January 2014. These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

- Amendments to IAS 32 und IFRS 7 – Offsetting Financial Assets and Financial Liabilities
  This amendment to IAS 32 established the requirements applicable to the offsetting of financial instruments. In the addendum, the meaning of the current legal entitlement to offsetting is explained along with the methods for gross as net offsetting as contemplated by the standard. In conjunction with these clarifications, the rules on notes disclosures were also extended in IFRS 7. The amendment to IAS 32 is to be applied to financial years beginning on or after 1 January 2014. The amendment to IAS 7 is to be applied to financial years beginning on or after 1 January 2013. These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

- Improvements to IFRS 2009–2011
  Within the scope of the annual improvement project, amendments were made to five standards. By adjusting the wording in specific IFRSs, a clarification of the existing rules and regulations is to be achieved. In addition, there are amendments with an impact on accounting, on recognition, valuation as well as disclosures in the notes. The following standards are affected: IAS 1, IAS 16, IAS 32, IAS 34, and IFRS 1. The amendments – subject to adoption in EU law still outstanding at this point – are to be applied in financial years beginning on or after 1 January 2013. These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

- Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
  By means of this amendment to IFRS 1, the references in use to 1 January 2004 as a fixed point in time for adoption have been replaced by [the wording] "date of transition to IFRS". In addition, rules have now been incorporated in IFRS 1 for those cases in which an enterprise was unable to meet the IFRS regulations for some time because its functional currency was subject to hyperinflation. These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

- Amendments to IFRS 1 - Government Loans
  This amendment relates to accounting for a government loan at an interest rate below the market rate by an IFRS first-time adopter. For government loans in existence at the time of the transfer, the valuation can be retained in accordance with to preceding accounting principles. The valuation rules in accordance with IAS 20.10A read in conjunction with IAS 39 therefore only apply to such government loans that are entered into after the point in time of the transfer. The amendments – subject to adoption in EU law still outstanding at this point – are to be applied in financial years beginning on or after 1 January 2013. These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

- Amendments to IFRS 7 – Disclosures – Transfers of Financial Assets
  The amendments to IFRS 7 relate to extended duties of disclo sure when transferring financial assets. As a result, relations between the financial assets transferred that are not to be fully reversed and the corresponding financial liabilities are to be rendered more transparent. Moreover, this is to ensure that the type and, in particular, risks of continuing involvement can be better assessed in the case of financial assets that have been written off. With these amendments, additional disclosures are required if a disproportionately large number of transfers with continuing involvement occur around the end of a reporting period, for example. These amendments have no material impacts on the consolidated financial statements of Höft & Wessel AG.

- IFRS 10 – Consolidated Financial Statements
  In this standard, the term "control" is newly and comprehensively defined. If an entity controls some other entity, then the parent company is required to consolidate the subsidiary. According to the new concept, control applies if the potential parent company has decision-making powers over the potential subsidiary on account of voting or other rights, if it participates in positive or negative variable return flows from the subsidiary and if it can exercise an influence on such return flows by means of its decision-making powers. This new standard may have consequences for the scope of consolidation, such as for special purpose vehicles, for instance. The new standard is to be applied to financial years beginning on or after 1 January 2014. If, for an investment, differences are determined in the qualification as a subsidiary between IAS 27/SIC-12 and IFRS 10, then IFRS is to be applied with retrospective effect. Early application is permissible only if this occurs simultaneously with IFRS 11 and IFRS 12 as well as with IAS 27 and IAS 28 amended in 2011.

- IFRS 11 – Joint Arrangements
  IFRS 11 lays down new rules for accounting relating to joint arrangements. According to the new concept, it must be decided whether a business arrangement is to be classified as a joint operation or as a joint venture. A joint operation applies where the parties jointly in control have immediate rights to the assets and obligations for the liabilities. The individual rights and obligations are accounted for pro rata in the consolidated financial statements. In contrast, in a joint venture the parties in joint control have rights to the net asset surplus. This right is reflected by applying the equity method to the consolidated financial statements; the option to select quota-based inclusion in the consolidated financial statements thus is cancelled.
  The new standard is to be applied to financial years beginning on or after 1 January 2014. Specific transitional regulations apply to the transition e.g. from quota consolidation to the equity method. Early application is permissible only if this occurs simultaneously with IFRS 10 and IFRS 12 as well as with IAS 27 and IAS 28 amended in 2011. These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

- IFRS 12 – Disclosure of Interests in Other Entities
  This standard deals with mandatory disclosures with reference to interests in other entities. The necessary disclosures are considerably more extensive in relation to the disclosures previously required to be made under IAS 27, IAS 28 and IAS 31. The new standard is to be applied to financial years beginning on or after 1 January 2014. These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

- IFRS 13 – Fair Value Measurement
  This standard deals with the fair valuation measurement in IFRS financial statements in a uniform manner. All fair value measurements required according to other standards must follow the uniform, standardised parameters of IFRS 13 in future; specific rules will only continue to exist for IAS 17 and IFRS 2.
  The fair value according to IFRS 13 is defined as the exit price, i.e. the price that would be achieved by the sale of an asset or as the price that would need to be paid to transfer a liability. As is known from the fair value measurement of financial assets, a 3-stage hierarchy system is to be introduced, which is graduated in line with the dependence on observable market prices. The new fair value measurement may lead to different values in relation to past regulations used. The new standard is to be applied to financial years beginning on or after 1 January 2013. These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

- IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine
  This interpretation is intended to standardise the accounting for stripping costs of a surface mine. If income is generated from the further use of stripping, as expected, then the stripping costs assignable are to be accounted for as inventory in accordance with IAS 2. In addition, there is an intangible asset which must be capitalised along with the asset of surface mining if access to further deposits is improved and the prerequisites defined in the interpretation have been met. This asset is to be depreciated across its expected useful life. IFRIC 20 is to be applied to financial years beginning on or after 1 January 2013. These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

EU endorsement is still outstanding:

- IFRS 9 – Financial Instruments
  IAS 39 will supersede the accounting and valuation principles applicable to financial instruments in accordance with IFRS 9. In future, financial assets will only be classified and measured in two groups, namely at amortised cost and at fair value. The group of financial assets at amortised cost consist of such financial assets that only provide for a claim to interest and redemption payments at specified points in time and which, in addition, are held within the scope of a business model, the aim of which is to hold assets. All other financial assets comprise the group measured at fair value. In certain circumstances, for financial assets of the first category – as in the past – a designation to the category at fair value ("fair value option") can be made. Changes in the value of financial assets of the fair value category are to be recognised through profit or loss as a matter of principle. For certain equity capital instruments, however, the optional right may be exercised to recognise change in value under other comprehensive income; dividend claims arising from these assets must be recognised through profit of loss, however.

  The regulations for financial liabilities are assumed from IAS 39 on principle. The most significant difference refers to the recognition of change in value of financial liabilities measured at fair value. In future, these are to be subdivided as follows: the share accounted for by the entity's own credit risk is to be recognised under other comprehensive income and the residual portion of the change in value through profit or loss. IFRS 9 – subject to adoption in EU law still outstanding at this point – is to be applied for the first time in financial years beginning on or after 1 January 2015. These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

- Amendments to IFRS 9 and IFRS 7 – Mandatory Effective Date and Transition Disclosures
  The amendments enable adjusted previous year figures to be dispensed with on first adoption of IFRS 9. Originally, this relief was only possible in cases of early application of IFRS 9 prior to 1 January 2012.
  This relief entails additional disclosures in the notes according to IFRS 7 at the time of the transfer. In line with the regulations in IFRS 9, these amendments – subject to adoption in EU law still outstanding at this point – are to be applied in financial years beginning on or after 1 January 2015. These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities
  These amendments contain a definition of investment entities and exclude such entities from the scope of application of IFRS 10 Consolidated Financial Statements.

  Accordingly, investment entities do not consolidate the companies controlled by them in their IFRS consolidated financial statements; in the process, this exception from the general principles must not be understood to be an optional right. Instead of full consolidation, they measure shares held for investment at fair value and recognise periodic fluctuations in value through profit or loss. The amendments have no impacts on consolidated financial statements comprising investment entities unless the parent company itself is an investment entity. The amendments – subject to adoption in EU law still outstanding at this point – are to be applied in financial years beginning on or after 1 January 2014. These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

- Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition Guidance
  The amendments comprise a clarification along with additional relief in transition to IFRS 10, IFRS 11, and IFRS 12. For instance, adjusted comparative information is only required for the preceding comparative period. Moreover, in connection with disclosures in the notes on non-consolidated structured entities, the obligation to provide comparative information for periods prior to first adoption of IFRS 12 has been dispensed with. The amendments to IFRS 10, IFRS 11 und IFRS 12 – subject to adoption in EU law still outstanding at this point – are to be applied in financial years beginning on or after 1 January 2014. These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

Foundations for valuation purposes

The consolidated financial statements were prepared in principle on the basis of historical costs of acquisition. To the extent that the achievable amount is lower, amortisation and depreciation (impairment charges) are made. Financial instruments available for sale and financial derivatives are measured at market value.

Reporting currency
The consolidated financial statements have been prepared in euros. Amounts are shown in EUR 000s in order to improve the transparency and clarity of the consolidated financial statements.

Exercising discretion and uncertainties in making estimates
The preparation of the financial statements in conformity with the IFRSs commits Management to make certain estimates and discretionary decisions that may relate to the value recognition of assets, liabilities, revenues and expenses. Actual circumstances may differ from these assumptions. Estimates and their underlying assumptions are reviewed on a regular basis. In particular, the following information was affected by discretionary decisions:

(a) Deferred tax assets on losses carried forward
The existing uncertainties concerning the application of losses carried forward in the course of time were taken in account in the sense that corporate planning was used as a basis for determining the losses carried forward capable of being utilised.

(b) Trade receivables
In the context of specific valuation adjustments, the probability of payments being received was estimated.

(c) Share-based remuneration
The yield volatilities of Höft & Wessel shares and of the Prime All Share Index used in assessing the weighted averages of fair values of stock options as well as the correlation between the two yields have been determined over a period of five years since the publication of the Prime All Share Index in March 2003 and the time of issue of the subscription rights. The volatility is defined as the standard deviation of yields in the period indicated. Specifically, reference is made to the information stated in Note (16).

(d) Personnel-related provisions
In the field of pension reserves, various assumptions were made with regard to the expected residual lifetime and future market trends in the context of interest rates, pensions and capital formation on the stock markets. Specifically, reference is made to the information stated in Note (17).

(e) Impairment tests of assets
Where there is occasion to do so, the smallest cash-generating units reported are subjected to an impairment test. In the process, the discounted cash flows expected are compared with the carrying amounts accounted for by the entity to be tested. In determining the discounted cash flows, assumptions are made about the peer group providing the reference interest rate as well as of the expected sales and earnings trend of the relevant entity. Specifically, reference is made to the information stated in Note (5).

(f) Capitalised development activities
In determining the values recognised for capitalised company-produced additions to property, plant and equipment, assumptions are made regarding the future realisation of product units to which the development activities were contributed. Specifically, reference is made to the information stated in Note (5).

(g) Anticipated losses from projects
In order to ensure that threatening losses from projects will be captured immediately under expenditure, the costs still to be incurred need to be estimated until such time as the project has been concluded. This estimate is subject to uncertainty.

(h) Lawsuits arising liability relationships
The assessment as to whether the Company will be taken to court owing to liability relationships is based on assumptions of the probability of such steps being taken.

Corrections to the previous year's financial statements
Project business is reported in accordance with the accounting and valuation principles specified under 3. Project business is now reported in accordance with the rules described below under No. 3 Realisation of proceeds c) Project business. One error correction was made with retrospective effect as of 31 December 2010 in accordance with the provisions of IAS 8. The comparative figures presented in these financial statements for the preceding year were adjusted accordingly. In addition, advance payments made for inventories were reclassified from balance sheet item Inventories to the balance sheet item Other non-financial assets. Moreover, other assets were broken down into other financial and other non-financial assets. Furthermore, value added tax on advance payments received is reported under other non-financial liabilities. The effects of this error correction for the preceding year are summarised in the overview on the next page. The impacts of the adjustment in the year 2010 to basic and diluted earnings per share are described under No. 13 "Earnings per share".

3 Accounting and valuation principles

Common principles
The following accounting principles were consistently applied throughout the preceding periods and applied in the same ways and means to all group member companies.

Consolidation principles
The consolidated financial statements are based on company balance sheets and income statements of Group member companies prepared in accordance with uniform accounting policies and measurement methods as well as in accordance with the provisions of the IFRS required to be applied in the EU. The companies consolidated within the Group comprise the subsidiaries listed in the table "Shareholdings", all of which have been included in the consolidated financial statements according to the principles of full consolidation.

Foreign currency translation

Currency translation of transactions

Transactions in foreign currencies are translated into the functional currency of the group member companies at the time of the transaction; currency translation differences are recognised through profit or loss. Assets and liabilities in foreign currencies at the balance sheet date are valued at the rate applicable on the reference date. Advance payments made and received do not count as monetary items and, in accordance with IAS 21.23b, are also to be translated in subsequent valuations at the exchange rate prevailing on the transaction date. Spot transactions are recognised as at the date of performance. Income and expenses are translated at the transaction rate.

Currency translation of foreign operations

The balance sheets of foreign subsidiaries whose functional currency is not the euro are translated at the modified closing rate method. Translation differences are recognised under other equity. The functional currency of the subsidiaries is the national currency of the countries in which they are located.

Financial instruments

Financial assets and financial liabilities are recognised in the balance sheet for the first time when a company becomes a contracting party to a financial instrument. Non-derivative financial instruments relate to trade receivables, other receivables, cash and cash equivalents, financial liabilities from lease relationships and to banks, trade payables as well as other liabilities.

Financial assets are valued at the reference date and analysed for possible impairments. An impairment will prevail where there is objective proof of one or several reasons for negative impacts on future payments received on the asset in question. If a receivable is considered as probably uncollectible, appropriate valuation adjustments are made to take this into account. Cash and cash equivalents including cash accounts and current deposits with credit institutions have a residual lifetime of up to three months at the time of recognition and are valued at amortised cost of acquisition.Trade receivables as well as other non-current receivables are measured at fair value at the time of receipt, plus possible transaction costs involved. Upon first recognition, receivables are measured at amortised cost, applying the effective interest rate, less impairments. Impairment charges in the form of specific valuation adjustments as well as lump-sum specific valuation adjustments adequately take account of the expected risks of default. When determining specific valuation adjustments, financial assets with the same risk of default properties are grouped and tested together for impairment; if necessary, specific valuation adjustments are made. Specific defaults and interest effects arising from the application of the effective interest method are taken off the books through profit or loss.

Höft & Wessel made no use of the option of designating financial assets at fair value through profit or loss on first-time adoption. Spot transactions of financial assets are accounted for on the day of performance.

Non-derivative financial liabilities as well as trade payables as well as other liabilities are measured using the effective interest method on principle at amortised cost of acquisition. First-time recognition is made at fair value less transaction costs.

Group balance sheet in EUR thousands	**2010 as reported**	**2010 adjusted**	**Effect**
Unfinished goods	4,901	4,142	759
Advanced payments made	768	0	768
Trade receivables	19,460	19,049	411
Other assets	4,444	0	4,444
Other financial assets	0	2,893	(2,893)
Other non-financial assets	0	2,319	(2,319)
Other financial liabilities (current)			
Other non-financial liabilities (current)	3,230	3,061	169
	499	996	(497)
Group statement of income			
Sales revenues	95,567	94,828	(739)
Invntory changes	250	(397)	(647)
Other earnings	1,127	1,126	**(1)**
Cost of materials and services procured	(53,436)	(53,548)	**(112)**
Effects on previous year (Earnings and equity capital decrease)			**(1,499)**

Höft & Wessel classifies non-derivative financial assets in the following categories:

a) financial instruments measured at fair value through profit and loss,
b) loans and receivables
c) financial assets available for sale

A financial asset is measured at fair value through profit and loss if held for trading or if determined accordingly on first recognition.

Loans and receivables represent financial assets with fixed or determinable payments that are not listed on an active market. Such assets are measured at fair value on first recognition plus directly attributable transaction costs. In the course of subsequent measurement, loans and receivables are measured at amortised cost, using the effective interest method less any impairment charges.

Cash and cash equivalents comprise cash in hand and sight deposits immediately available with a maturity of less than three months.

Financial assets available for sale are non-derivative financial assets determined to be available for sale or which are not assigned to one of the other categories mentioned. Financial assets available for sale are initially measured at fair value plus directly attributable transaction costs. In the course of subsequent measurement, financial assets available for sale are measured at fair value.

The Company uses financial derivatives to hedge interest and currency risks resulting from operations or financial transactions. None of the financial derivatives is held or negotiated for speculation purposes. Financial derivatives are measured at fair value on first-time recognition and in the course of subsequent measurement dates.

For financial derivatives, fair value corresponds to the amount Höft & Wessel would have received or would have had to pay on termination of the financial instrument at the closing date. In the case of interest-bearing financial derivatives (interest rate swaps), a distinction is drawn between the "clean price" and the "dirty price". Unlike the "clean price", the "dirty price" includes the interest accrued. The fair value corresponds to the actual "full fair value" and, therefore, to the "dirty price". For the purpose of measuring fluctuations in fair value – recognition through profit or loss in the consolidated income statement or with no impact on profit and loss under residual equity – the key criterion is whether the financial derivative is embedded in an effective hedge relationship in accordance with IAS 39. If, as contemplated by IFRS, no effective hedge accounting transactions apply in accordance with IAS 39, these are required to be classified as "held for trading" and to be measured at fair value through profit or loss. This classification therefore does not mean that the hedge transactions are actually held for trading purposes.

As already explained above, Höft & Wessel uses hedge transactions solely to hedge underlying transactions. If the fair values are positive, this will lead to recognition of financial assets; if they are negative, this will produce financial liabilities. At the time of realisation of the underlying transactions hedged, the reversal of the hedge transactions is assigned to the item of the statement of overall results in which the underlying transaction is recognised.

The Höft & Wessel Group applies the provisions relating to hedge accounting to a non-current interest rate swap in order to hedge the risk of interest rate fluctuations of future interest payments. These provisions are also applied to selected, newly concluded forward exchange transactions in order to hedge payment flows in foreign currency. In order to hedge the currency risk of a firm obligation with no impact on the balance sheet, Höft & Wessel accounts for this as a cash flow hedge. The cash flow hedge is measured in accordance with the cash value method. In the case of a cash flow hedge, the effective portion of the change in value of the hedge instrument is recognised in other comprehensive income with no impact on profit or loss until recognition of the result of the underlying transaction hedged (hedge transactions in residual equity); the ineffective portion is to be recognised through profit or loss. The ineffective portion from hedge accounting as well as foreign currency hedges that do not meet the requirements of hedge accounting are recognised in other operating income or other operating expenditure, as applicable.

IAS 39 imposes strict requirements on the application of hedge accounting. These are implemented by Höft & Wessel as follows: at the beginning of a hedge measure, both the relationship between the financial instrument deployed as a hedge and the underlying transaction are documented both as the objective and strategy of the hedge. This includes both the specific allocation of hedge instruments to the relevant future transactions firmly agreed/expected and the assessment of the degree of effectiveness of the hedge instruments deployed. Existing hedge measures are continually monitored with regard to their effectiveness.

Share holdings in EUR thousands	Shares[1]
a) Direct holdings	
Höft & Wessel Traffic Computer Systems GmbH, Hannover (non operating)	100 %
Skeye Partner Support Center GmbH (change of name in previous year, before: Höft, Wessel & Dreßler GmbH, leipzig	100 %
Metric Group Holdings Ltd. (MGHL), Swindon (England)	100 %
b) Indirect holdings (via MGHL):	
Metric Group Ltd., Swindon (Great Britain)	100 %
c) Indirect holdings (via MGL):	
Metric Group Inc., New Jersey (USA)	100 %

[1] No changes occured in comparison to the previous year.

Höft & Wessel also carries out hedge measures that do not meet the strict requirements of IAS 39 relating to the application of hedge accounting but effectively contribute towards hedging the financial risk in accordance with the principles of risk management. Accordingly, the changes in the fair value of such derivatives are recognised through profit or loss.

Intangible assets as well as property, plant & equipment

(a) Recognition and valuation

Fixed assets are recognised at cost of acquisition and/or manufacture less accumulated depreciation and impairment charges. Borrowing costs are recognised in principle as effective expenditure unless the prerequisites of IAS 23 do not apply.

(b) Depreciation and amortisation

Depreciation and amortisation are scheduled and calculated on intangible assets as well as property, plant and equipment in accordance with their anticipated useful life. If required, impairment charges are made on the achievable amount in question. The anticipated useful lives for current and future periods are as follows:

Intangible assets: 3 – 5 years
Tangible assets: 3 – 10 years

The economic useful life of capitalised development costs is generally assumed to be three years for mobile devices and five years for stationary terminals. A shorter or longer useful life may be applied if this appears necessary in view of the economic and technical environment of the development project. Straight-line depreciation commences once the development results are utilised in economic terms. Methods of depreciation and amortisation, useful lives and residual book values are reviewed at each balance sheet date.

(c) Research and development

Expenses on research with the aim of acquiring or refining scientific or technical know-how are included under expenditure.

In contrast, development costs in the context of new product development, a significant cost reduction or material product improvement are capitalised. However, such capitalisation applies only

- to the extent that the costs can be determined with certainty,
- the development is capable of being realised in technical and commercial terms and the achievement of a future economic benefit is probable,
- adequate resources are available and
- expenditure attributable is measureable and
- the product is intended to be completed and marketed.

Capitalised costs include the manufacturing and specific material costs recorded on the basis of project-related documentation as well as directly attributable common and borrowing costs.

(d) Impairment testing of fixed assets

Höft & Wessel AG reviews the value of intangible assets and property, plant and equipment with a limited useful life as soon as any information is received on required impairment charges ("triggering event"). This impairment test is carried out for the smallest cash-generating unit (CGU). At Höft & Wessel, the Almex, Metric and Skeye business segments correspond to the definition of CGUs. In the process, the costs of the Corporate Services division are apportioned to the CGUs. The value is assessed by comparing the carrying amount with the amount capable of being realised. The amount capable of being realised corresponds to the higher of fair value less cost of sales and the present value of the apportionable cash flow due to the continued use of the asset. If the carrying amount exceeds the amount capable of being realised, the asset is subjected to a write-down to the extent of the difference.

The Board of Management of the Company considers it possible that the assumptions believed to be material on the future development of the contribution margin of the units and on the underlying weighted average costs of capital (WACC) may change. Owing to the associated uncertainty on the extent of the cash flows capable of being generated, sensitivities are calculated.

If the reasons for a write-down made in previous years no longer apply, then a write-up is carried out. The latter does not apply to goodwill that has been amortised. Assets not ready for use are subjected to annual impairment tests.

(e) Subsequent acquisition costs

Subsequent acquisition costs are only taken into account if they lead to an improvement that will enhance future benefits. All other expenses, including those incurred for self-generated goodwill or brands, are included under expenditure.

(f) Fixed assets financed by leasing agreements

Leasing agreements providing for the material opportunities and risks to be assigned to the company are treated as financing leases. The capitalisation of the assets at the beginning of the respective lease agreement is effected to the extent of the lower of fair value and the cash value of the respective minimum leasing payments made. Depreciation is effected across the shorter period of the term of the lease and the useful life. Finance lease liabilities are accounted for as such to the same extent. All other leasing agreements are treated as operating leases. These assets are not recorded in the balance sheet.

Payments within the scope of financial leases are divided up. The interest portion is recognised under net financial income, while the portion redeemed is netted against liabilities at the time of capitalisation. The assets capitalised in the case of financial leases are depreciated over their general useful life or over a shorter lease period.

Inventories

Inventories or supplies are valued at the lower of cost of acquisition or manufacture and their net value on sale. The net sales

proceeds are determined from the expected sales revenues less costs still incurred. The valuation of materials at their cost of acquisition is performed in accordance with IAS 2.21 on a simplified basis at their average cost of acquisition, excluding financing costs. Work in progress and finished goods are measured at cost of manufacture plus indirectly apportionable labour costs. Costs of borrowing are not taken into account in this regard.

Project operations

Projects not concluded are measured at their order costs incurred to date. Anticipated losses are immediately recognised as expenses. Cf. explanatory notes under item 3 Realisation of proceeds c) project operations.

Pension obligations

(a) Defined contribution pension plan

A contribution-related pension plan is a form of remuneration paid out as a pension benefit when an employee leaves the company. There is no obligation to make any further payments beyond these defined benefits. Current remuneration payments are reported under personnel expenditure.

(b) Defined benefit pension plan

Defined benefit pension commitments and other similar pension benefits are measured in line with the "Projected Unit Credit Method" according to IAS 19. Any departures between assumptions made and developments that have actually occurred as well as changes to the assumptions for the valuation of defined benefit pension plans and similar obligations give rise to actuarial gains and losses.

Actuarial gains and losses are recognised using the corridor method. Under these provisions, it is only necessary to report deficits outside a corridor of 10 per cent (relative to the value of the pension commitment or fund's assets, whichever is higher) in the annual financial statements, and they can be spread over the probable remaining period of service of the eligible recipients. This remaining period of service was assumed to be 15 years. The assumption of the expected return on assets was calculated by approximation, as a weighted average of the expected returns on each asset class. In the process, the distribution of non-current assets in the plan was taken into account.

Remuneration to members of management bodies

With regard to the disclosures required in accordance with Section 314 (1) No. 6a of HGB, reference is made to Note 32 in this document.

Share-based remuneration

Share-based remuneration comprises equity based remuneration plans settled by means of equity capital instruments. The measurement of the fair value of equity-based remuneration plans is generally effected by means of a Monte Carlo simulation at the time of the respective grants. The market value of stock options is recognised under personnel expenditure. The corresponding offsetting item is an appropriate increase in the level of capital reserves. In the process, total expenses are distributed across the blocked period for exercising the options.

Provisions

Provisions are set up whenever there is an obligation to third parties as at the current reference date that is based on an event in the past, where the extent of the obligation can be reliably estimated and if a future outflow of funds is probable. Provisions with an original term of more than one year are recognised at their performance amount discounted as at the balance sheet date.

Deferred liabilities

Accrued/deferred liabilities for personnel expenses, outstanding invoices received and other liabilities which, on account of their comparatively higher degree of certainty concerning the timing and/or amount of the expenses anticipated, are to be qualified as "accrued/deferred liabilities", are reported under the item "Current liabilities".

Liabilities in connection with income taxes are reported under the item "Current income tax liabilities".

Realisation of proceeds

(a) Merchandise delivered

The realisation of proceeds from merchandise deliveries is made at the time of transfer of the decisive risks and opportunities to the buyer if the extent of the expenses incurred in connection with the sale and the proceeds thereof can be reliably determined and receipt of the economic benefit is probable. The time of transfer of risks and hazards is stipulated in the contractually agreed terms and conditions of acceptance and delivery. Discounts, bonuses and rebates are negotiated individually and deducted from the proceeds.

(b) Services

The realisation of proceeds derived from services rendered which are not ancillary elements of the primary performance of a merchandise delivery takes place at the time of contractually agreed performance or part thereof.

(c) Project operations

Within the scope of project operations, the subject matter of performance to be rendered frequently comprises a whole array of services. The proceeds of orders comprise the amount originally agreed in the contract plus all payments for deviations from the total body of services, claims and incentives if it is probable that these will lead to earnings and their value can be reliably measured.

Since the project results cannot be estimated reliably, sales revenues are merely recorded to the extent of the order costs incurred ("zero profit method") that are likely to be recoverable. Profit is realised only once the project result or outcome can be reliably estimated or on acceptance of the service owed. Order costs are recognised as they are incurred. An expected loss is recognised immediately through profit and loss.

Leasing
Payments within the scope of operating lease agreements are recorded under expenditure on a straight-line basis across the contractual duration.

Financial income and financial expenses
Interest income from fixed term deposits are recognised in the consolidated statement of overall results under net financial income with matching periods. Interest expenditure arising from the utilisation of credit facilities with banks, financial leases, interest hedging transactions, discounting of provisions as well as other interest expenses are likewise reported under net financial income. The interest expenses recorded are measured using the effective interest method.

Foreign currency translation
Income and expenses from foreign currency translation items are reported under other income or other expenses, as applicable.

Income taxes
Income taxes are calculated in accordance with the tax pro-visions of the countries where the Group companies are headquartered.

Deferred taxes arising from temporary differences are set up to cover those arising from the application of different accounting policies under IFRS and local tax laws. Temporary differences and deferred taxes from losses carried forward are valued at local rates of taxation in the amount of their probable future benefit and reviewed at each future balance sheet date. Deferred taxes on transactions recognised in other compre-hensive income are also reported under other comprehensive income. Höft & Wessel off-sets tax assets and tax liabilities if there is a legal entitlement to set off or net the amounts recorded and if the company intends either to arrange settlement on a net basis or to repay the associated liability simul-taneously with the realisation of the asset in question.

Public-sector grants
Höft & Wessel distinguishes as follows between grants-in-aid for assets and earnings-related grants: if grants are made for assets required to be capitalised, then these are deducted in the balance sheet from the acquisition costs of the asset in question. Earnings-related grants are recognised as earnings through profit or loss in the period in which the expenditure is recorded as such. Such earnings are contingently repayable in the event that the projects for which grants were made are not executed.

Earnings per share
The Company reports basic and diluted earnings per share (EPS) in respect of its common stock issued. EPS is measured using the profit/loss for the period, divided by the number of the weighted average of shares issued in the period. Diluted EPS takes account of possible dilutions due to stock options issued to employees.

Capital flow account
The capital flow account based on cash flow from operations was determined using the indirect method. Cash flows from investment and financing activities were measured using the direct method. Interest expenditure with a debt-discharging effect are assigned to the cash flow from financing activities.

Segment reporting
A segment is a clearly delineated unit of the Group that develops and markets related product groups. The subdivision is based on internal reporting structures and is carried out according to customers and their fields of activity. The internal reporting is carried out on the basis of the IFRS. The segments are controlled taking account of EBIT.

Segment earnings, assets and liabilities include items that can be directly allocated and those that were allocated by means of an appropriate ratio formula or scheme. Items that cannot be directly apportioned are, in particular, credit balances with banks, bank liabilities, other receivables as well as other income and expenses. Transactions between segments are billed at terms and prices in conformity with those prevailing on the market.

Market price measurements
Some accounting rules of the Group call for definitions on the use of market prices:

(a) Trade receivables
The market price of trade receivables is assumed to be the present value of future payment inflows and is therefore discounted for interest where necessary.

(b) Share-based remuneration
When granting stock options, the market price is measured by means of a Monte Carlo simulation within the scope of an externally commissioned expert valuation. In the interests of a long-term procedure according to objective criteria, historical values are used as volatilities and correlations.

To the extent that any other specific stipulations were made, these are described in the relevant notes.

4 Segment reporting

The Group is engaged in the following business segments:

- Almex: ticketing and telematics for the public transport sector
- Metric: systems for parking space management and services rendered within the scope of full-service agreements
- Skeye: mobile terminals and POS systems

Moreover, the costs of the holding function and the stock exchange listing are reported under Corporate Services.

Group sales revenues are not subject to any particular seasonal or cyclical influences but may fluctuate more strongly from one quarter to another, depending on the projects under way. The results of the strategic units are reported to the Board of Management within the scope of the monthly internal reporting. Segment results are reported before income tax, after consolidation. Deliveries between the segments are netted with an appropriate surcharge on the cost of goods if such deliveries are made between legally independent entities.

01/01 – 31/12	Almex		Metric		Skeye		Corporate Services		Total	
in EUR thousands	2011	2010*	2011	2010	2011	2010	2011	2010	2011	2010*
Germany	20,264	35,829	10	154	15,121	13,787	0	0	35,395	49,770
Great Britain	2,477	3,536	17,281	16,063	72	381	0	0	19,830	19,980
Rest of EU	6,626	4,476	559	217	3,413	4,104	0	0	10,598	8,797
Outside EU	13,885	6,344	3,690	7,066	3,386	3,850	0	0	20,961	17,260
Intragroup	(280)	(781)	(142)	(147)	(110)	(51)	0	0	(532)	(979)
Total sales revenues	**42,972**	**49,404**	**21,398**	**23,353**	**21,882**	**22,071**	**0**	**0**	**86,252**	**94,828**
Inventory change	713	(99)	597	(2,322)	(3,771)	2,337	(1)	(313)	(2,462)	(397)
Cost of materials and services procured	(27,599)	(28,913)	(9,351)	(7,356)	(14,536)	(17,579)	28	300	(51,458)	(53,548)
Contribution margin 1	**16,086**	**20,392**	**12,644**	**13,675**	**3,575**	**6,829**	**27**	**(13)**	**32,332**	**40,883**
Company-produced additions to plant and equipment	301	1,290	991	837	958	1,287	0	0	2,250	3,414
Personnel expenses	(9,326)	(8,418)	(6,666)	(7,004)	(4,747)	(5,139)	(4,682)	(4,568)	(25,421)	(25,129)
Contribution margin 2	**7,061**	**13,264**	**6,969**	**7,508**	**(214)**	**2,977**	**(4,655)**	**(4,581)**	**9,161**	**19,168**
Other expenses and income	(8,208)	(6,872)	(4,971)	(4,648)	(4,087)	(4,381)	3,336	3,279	(13,930)	(12,622)
EBITDA	**(1,147)**	**6,392**	**1,998**	**2,860**	**(4,301)**	**(1,404)**	**(1,319)**	**(1,302)**	**(4,769)**	**6,546**
Depreciation and amortisation	(1,817)	(1,475)	(1,447)	(1,505)	(3,334)	(1,852)	(208)	(214)	(6,806)	(5,046)
Impairment	(552)	0	0	0	(3,963)	(81)	0	0	(4,515)	(81)
Operating result (EBIT)[1)]	**(3,516)**	**4,917**	**551**	**1,355**	**(11,598)**	**(3,337)**	**(1,527)**	**(1,516)**	**(16,090)**	**1,419**
Financial income									(1,105)	(919)
Financial expenses									1	2
EBT									**(17,194)**	**502**
Tax position									(1,776)	1,386
Group earnings									**(18,970)**	**1,888**

***NOTE: Figures regarding previous year 2010 have been adjusted, please refer to note 2.**

Geographical segments

All business segments are engaged worldwide, with the primary focus of activities being on Germany, the United Kingdom and the rest of Europe. The breakdown of sales revenue by geographical segments is based on the headquarters of the respective contracting partner (see preceding page). The assets, liabilities and investments of the business divisions Almex, Skeye, and Corporate Services were allocated to the parent company and, therefore, to Germany, while those of Metric were assigned to the United Kingdom. Segment assets and segment liabilities are broken down according to the regions indicated. Beyond these, neither assets nor liabilities exist in any other regions.

Other segment disclosures

Sales revenues with a significant customer in the Almex segment amounted to EUR 9.9 million (previous year: EUR 17.6 million).

Further segment information 01/01 – 31/12	Almex		Metric		Skeye		Corporate Services		Total	
in EUR thousands	2011	2010*	2011	2010	2011	2010	2011	2010	2011	2010*
Segment assets										
Assets allocated	27,795	30,660	15,986	15,454	7,852	19,972	626	835	52,259	66,921
Assets not allocated (cash and cash equivalents, deferred tax assets)									3,267	4,743
Segment liabilities										
Liabilities allocated	14,931	16,184	8,445	7,537	4,329	5,611	2,515	1,669	30,220	31,001
Liabilities not allocated (loans, deferred tax liabilities)									17,911	13,849
Further information										
Additions to fixed assets	1,402	1,792	1,317	1,058	1,145	2,148	393	187	4,257	5,185
Other essential items with no impact on cash flow:										
Impairments on fixed assets and intangible asstes	(552)	0	0	0	(3,963)	(81)	0	0	(4,515)	(81)
Value corrections on inventory	203	0	(173)	0	(2,747)	0	0	0	(2,717)	0

Segment assets in EUR thousand	2011	2010
Germany	4,342	11,282
Great Britain	3,354	3,438
Total	**7,696**	**14,720**

***NOTE: Figures regarding previous year 2010 have been adjusted, please refer to note 2.**

5 Intangible assets

Development activities

Development costs amounting to EUR 5,657 k (previous year: EUR 4,114 k) were comprised in expenses. Expenses on R&D amounted to EUR 67 k in the fiscal year (previous year: EUR 51 k). Depreciation and amortisation include EUR 4,515 k (previous year: EUR 81 k) in impairment charges. Impairments are due to the results of impairment tests on the Skeye business division with an amount of EUR 3,963 k (Previous year: EUR 81 k) and impairments of the business division Almex with EUR 552 k (Previous year: 0).

The rate of borrowing costs required to be capitalised in the year under review amounts to EUR 70 k after EUR 44 k in previous year. The financing cost rate used in determining third-party borrowing costs capable of being capitalised amounts to 3.0 – 3.7 per cent (previous year: 2.7 – 3.0 per cent).

Impairment testing

In 2011, the revised strategic reorientation of the Skeye business division was continued. The unsatisfactory earnings trend since fiscal 2009, the further substantial departure from budget figures and the ongoing difficult market conditions were interpreted as

Intangible assets in EUR thousands	Goodwill	Software	Development activities	Total
Status as of 1 January 2010				
Acquisition/manufacturing cost	23,648	2,120	38,668	64,436
Accumulated depreciation	23,648	1,922	27,878	53,448
Book value	0	198	10,790	10,988
Net development 2010				
Book value	0	198	10,790	10,988
Additions from internal development activities	–	–	3,444	3,444
Additions from separate acquisitions	–	31	434	465
Depreciation and amortisation	–	108	3,596	3,704
Impairments	–	–	81	81
Currency differences	–	–	88	88
Book value	0	121	11,079	11,200
Status as of 31 December 2010				
Acquisition/manufacturing cost	24,007	2,150	35,881	62,038
Accumulated depreciation	24,007	2,029	24,802	50,838
Book value	0	121	11,079	11,200
Net development 2011				
Book value	0	121	11,079	11,200
Additions from internal development activities	–	–	2,482	2,482
Additions from separate acquisitions	–	45	753	798
Depreciation and amortisation	–	101	4,264	4,365
Impairments	–	–	4,515	4,515
Transfers	–	9	–	9
Currency differences	–	–	32	32
Book value	0	74	5,567	5,641
Status as of 31 December 2011				
Acquisition/manufacturing cost	24,362	1,492	36,121	61,975
Accumulated depreciation	24,362	1,418	30,554	56,334
Book value	0	74	5,567	5,641

[1] The foreign currency difference has the same impact on cumulative costs of acquisition and cumulative depreciation, resulting in this effect amounting to EUR 0 in total

an event calling for the Skeye Division as a cash-generating unit to be subjected to impairment testing (a "triggering event" as contemplated by IAS 36). The test conducted at the end of the financial year produced a required impairment charge of less than EUR 3,963 k (previous year: no impairment required in connection with impairment testing). The test was carried out by calculating the cash value of accountable cash flows by the ongoing use of the asset on the basis of corporate planning.

The lower amount recoverable corresponds to fair value less costs of sale. The discount rate applied amounts to 12.7 per cent (previous year: 8.5 per cent). The necessary impairment was spread across the volume of non-current assets. Development costs were affected along with injection moulding tools (cf. No. (6) of the Notes) of the Skeye business segment. A change in the assumption of the future change in the contribution margin by one per cent would have an impact amounting to EUR 0.6 million on the impairment test, and by one percentage point of EUR 0.1 million on the WACC.

6 Property, plant and equipment

Leased furniture and fixtures

The Group leases fixed assets within the scope of financial lease agreements. Their net carrying amount as at 31 December 2011 amounted to EUR 45 k (previous year: EUR 118 k) and is alloted to other current assts in full.

Impairment testing

The impairment test for the Skeye division (also see Note 5) in the field of property, plant and equipment led to a necessary impairment of EUR 1,028 k (previous year: no impairment required).

Property, plant and equipment in EUR thousands	Land and buildings	Other assets, furniture and fixtures	Assets under construction	Total
Status as of 1 January 2010		16,461	228	
Acquisition/manufacturing cost	870	13,392	–	17,559
Accumulated depreciation	619	3,069	228	14,011
Book value	251			3,548
Net development 2010		3,069	228	
Book value	251	1,161	115	3,548
Additions	–	1,292	–	1,276
Depreciation and amortisation	49	219	(219)	1,341
Transfers	–	31	–	0
Currency differences	6	3,188	124	37
Book value	208			3,520
Status as of 31 December 2010		17,942	124	
Acquisition/manufacturing cost	896	14,754	–	18,962
Accumulated depreciation	688	3,188	124	15,442
Book value	208			3,520
Net development 2011		3,188	124	
Book value	208	964	13	3,520
Additions	–	1,367	–	977
Depreciation and amortisation	44	976	–	1,411
Impairments	52	10	–	1,028
Disposals	–	115	(124)	10
Transfers	–	13	-	(9)
Currency differences	3	1,927	13	16
Book value	115			2,055
Status as of 31 December 2011		16,993	13	
Acquisition/manufacturing cost	922	15,066	–	17,928
Accumulated depreciation	807	1,927	13	15,873
Book value	115			2,055

Collateral
At the balance-sheet date, no assets had been deposited as collateral for bank loans.

7 Deferred tax assets and tax liabilities

The anticipated future benefit from deferred tax assets was determined unchanged at a tax rate of 31.6 per cent for the German Group member companies and 35.0 per cent for the US Group member companies. For the British Group member companies, the tax rate amounts to 26.5 per cent (previous year: 27.0 per cent).

Taking account of tax planning statements, deferred tax assets amounting to EUR 10,606 k (previous year: EUR 5,074 k) from tax losses carried forward, amounting to EUR 34,291 k (previous year: EUR 17,358 k) were not taken into consideration.

The deferred tax asset relating to tax losses carried forward applies in full to the British subsidiary. In Germany, as in the previous year no deferred tax assets from tax losses carried forward were taken into account on the basis of planning statements.

The effects on profit and loss of the change in tax assets and liabilities were fully taken into account in the consolidated profit and loss statement. Deferred taxes of EUR 474 k (previous year: EUR 477 k) were recorded on amounts recorded in other comprehensive income, predominantly based on hedge accounting.

Tax assets/liabilities	Deferred tax assets		Tax liabilities	
in EUR thousands	2011	2010	2011	2010
Development activities	–	–	(1,602)	(3,390)
Property, plant & equipment	105	43	(7)	(15)
Receivables and other assets	22	108	(113)	(45)
Provisions	502	791	–	–
Liabilities	428	402	(3)	–
Benefits from tax loss carry-forwards	1,603	5,064	–	–
	2,660	**6,408**	**(1,725)**	**(3,450)**
Balance	(598)	(3,450)	598	3,450
Net tax assets/ liabilities	**2,062**	**2,958**	**(1,127)**	**0**

Inventories in EUR thousands	2011	2010 *
Raw materials, supplies and trading stock	7,153	8,032
Work and services in progress	3,707	4,142
Finished goods and trading stock	11,029	13,056
Total	**21,889**	**25,230**

Other financial assets in EUR thousands	2011	2010
Cash collateral for foreign guarantees	321	320
Receivables from factoring companies	788	2,243
Other	424	330
Total	**1,533**	**2,893**

***NOTE: Figures regarding previous year 2010 have been adjusted, please refer to note 2.**

8 Inventories

The total amount of deductions came to EUR 7,319 k (previous year: EUR 3,456 k). For the financial year, value deductions amounting to EUR 2,717 k (previous year: EUR 1,466 k) were recognised under expenditure. The cost of materials to be allocated to sales revenues totalled EUR 51,509 k (previous year: EUR 47,443 k).

9 Trade receivables

The carrying amount of trade receivables is commensurate with their fair value, taking customer-specific valuation adjustments into account.

Impairment charges on doubtful debts essentially comprise assessments and appraisals of specific receivables based on the credit status of the respective customers, current economic trends and the analysis of historic default cases. The creditworthiness of a customer is assessed according to his or her payment behaviour and ability to repay debts.

Specific valuation adjustments are made if a customer is in substantial financial difficulties or there is an increased likelihood of insolvency. Expenses of this kind are booked to a valuation adjustment account. In the event of indications of a debt being uncollectible, the receivable in question is taken off the books.

During the financial year, valuation adjustments to receivables amounting to EUR 119 k (previous year: EUR 93 k) were reversed. Moreover, valuation adjustments amounting to EUR 303 k (previous year: EUR 301 k) were added. No other value deductions or increases were effected. The volume of specific valuation adjustments increased by EUR 17 k during the financial year, thus amounting to EUR 531 k (previous year: EUR 514 k). At the reference date, receivables in a total amount of EUR 3,925 k were sold within the scope of a factoring arrangement (previous year: EUR 5,602 k). The Group's sum total of credit and currency risks is explained in Note (21).

During the financial year, order revenues amounting to EUR 9,085 k were recorded (previous year: EUR 1,493 k). Revenue bookings were made to the extent of the order costs incurred during the financial year according to the "zero profit method" in accordance with IAS 11.32. In total, the order costs capitalised according to the "zero profit method" for projects not yet finalised as at the balance sheet date amounted to EUR 10,578 k (EUR 1,493 k). The advance payments for these projects amounted to EUR 9,815 k (previous year: EUR 1,822 k).

Projects not finalised as at the balance sheet date, where the capitalised order costs exceed the advance payments received (credit balance), as well as those where the advance payments received exceed the order costs (debit balance).

Projects with a credit balance amounted to EUR 1,869 k as at the balance sheet date (previous year: EUR 0 k). These are reported under the item: Projects (credit balance) under trade receivables. Projects with a credit balance amounted to –EUR 1,106 k as at the balance sheet date (previous year: –EUR 328 k). These are reported under other liabilities under the item: Projects (debit balance).

Trade receivables sold to a financial service provider within the scope of factoring arrangements are cancelled if the opportunities and risks involved were essentially transferred to the financial service provider. These transactions are so-called transfers, in the

Earnings per share in EUR thousands	Basic			Diluted		
	2011	2010 Reported	2010 Corrected	2011	2010 Reported	2010 Corrected
Weighted average number of shares issued	8,497	8,497	8,497	8,707	8,707	8,707
Profit/loss for period assignable to shareholders	(18,970)	3,387	1,888	(18,970)	3,387	1,888
Earnings per share (in EUR)	**(2.23)**	**0.40**	**0.22**	**(2.18)**	**0.39**	**0.22**

Specificatins/repayment overview of financial liabilities in EUR thousands	Maturity	Book value 2011	Book value 2010*
Collateralised bank loans	2012 – 2017	5,000	–
Unsecured bank credit lines	2012 – 2013	15,827	15,945
Financial leasing liabilities	2012 – 2015	46	118
Liabilities from trade receivables	2012	9,753	12,679
Personnel differentiated liabilities	2012	351	596
Other financial liabilities	2012 – 2018	4,800	3,061

***NOTE: Figures regarding previous year 2010 have been adjusted, please refer to note 2.**

course of which they are taken off the books completely. At Höft & Wessel AG, a contractually agreed security lien of ten per cent is applicable (previous year: five per cent). In this context, this reflects the maximum possibe risk of loss arising from factoring transactions (financial year: EUR 196 k.; previous year: EUR 560 k).

The receivables from customers sold to the factoring companies are subject to strict requirements (for example, the exclusion of certain EU countries, no purchase of project receivables, no purchase of past due receivables or advance payments, etc.). The costs of this type of advance financing are included in the Company's net interest income as interest expenditure. In addition, bank charges are still payable.

10 Cash and cash equivalents

Bank balances amount to EUR 3,103 k (previous year: EUR 4,495 k). These are current in nature and arise in the course of everyday business. The risks arising from interest rate changes and corresponding sensitivity analyses are described in Note (21).

11 Other financial assets finanzielle Vermögenswerte

See table on page 43.

12 Equity

The total nominal value of the Company's capital stock is denominated in 8,497,490 no-par-value bearer shares, with each such share representing an entitlement to exercise one vote. The capital stock is fully paid up. Capital reserves as well as accumulated retained earnings may be appropriated in accordance with the provisions of Section 150 of the German Companies Act (AktG) to the extent that these relate to Höft & Wessel AG.

Capital management

Höft & Wessel pursues the objective of securing its equity capital base sustainably and of generating an appropriate return on the capital employed. At the end of the financial year, the equity ratio amounted to –10 per cent (31 December 2011: 13 per cent). The Company did not pay out a dividend in the financial year. In the previous year, the dividend came to EUR 849 k, or EUR 0.10 per share.

Authorised capital

As at 31 December 2012, the Company's authorised capital totalled EUR 4,248,745.00 in nominal terms. The following authorisations exist for the purpose of increasing the capital stock:

By way of a resolution adopted at the Annual General Meeting of 17 June 2010, the Board of Management was authorised with the approval of the Supervisory Board to increase the Company's capital stock to a maximum of EUR 4,248,745.00 by issuing new no-par-value bearer shares by 16 June 2015. In certain circum-

Non-current financial liabilities

in EUR thousands	2011	2010
Unsecured bank liabilities	0	4,000
Financial leasing liabilities	17	45
Total	**17**	**4,045**

Current financial liabilities

in EUR thousands	2011	2010
Unsecured bank liabilities	15,827	11,945
Secured bank liabilities	5,000	–
Current share of financial leasing liabilities	29	73
Total	**20,856**	**12,018**

Overview of repayment commitments arising from finance lease liabilities

in EUR thousands	Minimum leasing payments 2011	Interest portion 2011	Portion amortised 2011	Minimum leasing payments 2010	Interest portion 2010	Portion amortised 2010
Earlier than in one year	33	4	29	83	10	73
Between one and five years	22	5	17	54	9	45
In more than five years	–	–	–	–	–	–
Total	55	**9**	**46**	**137**	**19**	**118**

stances, the shareholders' subscription rights may be excluded. This will be the case, for instance, where employee shares are issued in an amount of up to EUR 350,000. In addition, the shareholders' subscription rights will be excluded up to an amount of EUR 849,749.00 if the issue amount of the new shares is not substantially lower than the price of the shares subject to the same terms and conditions at the time of issue. Finally, the Board of Management is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights once or repeatedly up to a maximum total of EUR 4,248,745.00 when the new shares are issued against non-cash contributions. No shares forming part of authorised capital were subscribed to during the financial year.

Contingent capital

As at 31 December 2012, the Company had contingent capital at its disposal totalling EUR 2,543,000.00 in nominal terms, or up to 2,100,000 shares.

The following authorisations exist:

The Company's capital stock has been raised on a contingent basis to EUR 210,000.00. The contingent capital increase will be carried out only to the extent that bearers of convertible bonds issued by the Company on the basis of the authorisation adopted at the Annual General Meeting of 11 June 1998 exercise their rights to convert bonds into new shares. The new shares carry dividend

Terms to maturity of financial liabilities As at 31 December 2011 in EUR thousands	Book value	Up to 6 months	6 to 12 months	12 to 24 months	More than 24 months
Non-derivative financial instruments					
Collateralised bank loans	5,000	5,000	–	–	–
Unsecured bank credit lines	15,827	15,827	–	–	–
Financial leasing liabilities	46	14	15	17	–
Liabilties frim trade receivables	9,753	9,753	–	–	–
Personnel differentiated liabilities	351	351	–	–	–
Other financial liabilities	3,136	3,136	–	–	–
Total	**34,113**	**34,081**	**15**	**17**	**–**
Derivative financial instruments					
Payer swap for long-term interest hedges	912	70	70	140	632
FX-forwards	752	307	300	145	–
Total	**1,664**	**377**	**370**	**285**	**632**

Terms to maturity of financial liabilities As at 31 December 2010 in EUR thousands	Book value	Up to 6 months	6 to 12 months	12 to 24 months	More than 24 months
Non-derivative financial instruments					
Unsecured bank credit lines	15,945	11,945	-	-	4,000
Financial leasing liabilities	118	37	24	12	45
Liabilties frim trade receivables	12,679	12,679	-	-	-
Personnel differentiated liabilities	596	596	-	-	-
Other financial liabilities	2,002	880	1,122	-	-
Total	**31,340**	**26,137**	**1,146**	**12**	**4,045**
Derivative financial instruments					
Payer swap for long-term interest hedges	675	45	45	90	495
FX-forwards	1,512	401	658	322	131
Total	**2,187**	**446**	**703**	**412**	**626**

Other current financial liabilities in EUR thousands	2011	2010*
Carried as liabilities in accordance with IAS 11	1,106	328
Liabilities arising from derivative financial instruments (current)	607	1,059
Other provisions	618	733
Provisions for outstanding invoices	1,064	645
Other	348	296
Total	**3,743**	**3,061**

rights starting in the fiscal year in which they are created as a result of the exercise of conversion rights. The Board of Management is authorised to stipulate further details of the contingent capital increase and execution thereof with the approval of the Supervisory Board. The Supervisory Board is authorised to amend Article 3 of the articles of association in accordance with the respective utilisation of the contingent capital.

The Company's capital stock is raised on a contingent basis by up to EUR 233,000.00. The contingent capital increase is carried out only to the extent that holders of subscription rights issued under the year 2000 stock-option plan on the basis of the authorisation adopted on 9 August 2000 exercise their subscription rights. The new shares carry dividend rights starting in the fiscal year in which they are created as a result of the exercise of subscription rights. The Board of Management is authorised to stipulate further details of the contingent capital increase and execution thereof with the approval of the Supervisory Board.

The capital stock is increased on a contingent basis by up to EUR 600,000.00 by the issue of up to 600,000 no-par-value bearer shares. The contingent capital increase is carried out only to the extent that holders of subscription rights granted to persons entitled to subscription rights on the basis of the authorisation adopted at the Annual General Meeting of 17 June 2005 exercise their subscription rights. The new shares carry dividend rights

Further particulars on the Stock Option Plan 2005	**Board of Managemnett**		**Managing staff members**	
	2011	**2010**	**2011**	**2010**
Options outstanding at beginning of period (in units)	200,000	200,000	10,000	–
Options granted (in units)	–	–	–	10,000
Options expired (in units)	–	–	–	–
Options forfeited (in units)	–	–	–	–
Options outstanding at end of period (in units)	**200,000**	**200,000**	**10,000**	**10,000**
Minimum share price to reach the exercise threshold on 30 December				
for 1/3 of the issue from 2006: 20.000 options			6.12	5.75
for 1/3 of the issue from 2007: 20.000 options			7.02	6.57
for 1/3 of the issue from 2008: 26.666 options			6.42	5.98
Weighted average of residual contractual term (in years)			4.81	5.81
Average strike price of options outstanding at the beginning of the period			4.23	4.24
Average strike price of options outstanding at the end of the period			4.22	4.23
Average strike price of options forfeited			–	–

Non-current Personnel-related provisions in EUR thousands	**Status 01/01/2011**	**Consump-tion**	**Write-backs**	**Additions**	**Status 31/12/2011**
Provisions for pensions	672	(413)	–	295	554
Provisions for partial retirements	267	–	–	20	287
Total	**939**	**(413)**	**–**	**315**	**841**

Provisions for pensions in EUR thousands	**2011**	**2010**
Pension reserves based on direct commitments	340	330
Pension reserves for old-age retirement plans	214	342
Total	**554**	**672**

***NOTE: Figures regarding previous year 2010 have been adjusted, please refer to note 2.**

starting in the fiscal year in which they are created as a result of the exercise of subscription rights. The Supervisory Board is authorised to amend Art. 3 of the articles of association in accordance with the respective utilisation of the contingent capital.

The capital stock is increased on a contingent basis by up to EUR 1.5 million by issuing up to 1.5 million bearer shares (contingent capital). The contingent capital increase is carried out only to the extent that the holders of convertible bonds issued and/or guaranteed on the basis of the authorisation of the Board of Management in terms of a resolution passed at the Annual General Meeting of 17 June 2005 exercise their conversion rights or, like the holders obliged to convert their bonds, comply with their conversion obligation. The new shares carry dividend rights starting in the fiscal year in which they are created as a result of the exercise of conversion rights or compliance with conversion obligations. The Board of Management is authorised to stipulate further details of the contingent capital increase and execution thereof with

Provisions for pensions in UK

Reconciliation of the present value of the defined benefit obligation and the fair value of the plan assets in relation to the liability accounted for in accordance with IAS 19.120A (f) in EUR thousands	2011	2010
Present value of defined benefit obligation	16,024	13,360
Fair value of plan assets	(9,150)	(9,732)
	6,874	3,628
Actuarial losses not recognised as yet	(6,660)	(3,286)
Liability accounted for	**214**	**342**

Amounts recognised with an impact on profit and loss in accordance with IAS 19.120A (g) in EUR thousands	2011	2010
Interest expenditure (item in results for period: interest expense)	657	712
Expected return on plan assets (personnel expenditure)	(573)	(563)
Actuarial loss (personnel expenditure)	152	207
Sum total of amounts recognised in period with an impact on profit and loss	**236**	**356**

Reconciliation of opening and closing balances of the present value of the defined benefit obligation in accordance with IAS 19.120A (c) in EUR thousands	2011	2010
Opening balance of present value of defined benefit obligation	13,360	12,525
Interest expense	657	712
Benefits paid	(1,298)	(927)
(Actuarial loss	3,225	660
Currency translation differences	80	390
Closing balance of present value of defined benefit obligation	**16,024**	**13,360**

Reconciliation of opening and closing balances of the fair value of plan assets in accordance with IAS 19.120A (e) in EUR thousands	2011	2010
Opening balance of fair value of plan assets	(9,732)	(8,918)
Expected return on plan assets	(573)	(563)
Employer contributions to plan	(383)	(372)
Benefits paid	1,298	927
Actuarial gains / (losses)	559	(529)
Currency translation differences	(319)	(277)
Closing balance, fair value of plan assets	**(9,150)**	**(9,732)**

the approval of the Supervisory Board. The Supervisory Board is authorised to amend the wording of the articles of association in accordance with the respective size of the capital increase from contingent capital.

No shares forming part of contingent capital were subscribed to during the financial year.

Issue of subscription rights

No further subscription rights were issued during the financial year as part of the stock option plan 2005. For further particulars, reference is made to Note (16).

Acquisition of own shares

Furthermore, at the General Shareholders' Meeting of 17 June 2010 the Company was authorised, upon meeting certain conditions, to acquire own or treasury shares equivalent to no more

Percentage of fair value of entire plan assets for each principal category of the plan assets in accordance with IAS 19.120A (j) in per cent	2011	2010
Corporate equity interests	70 %	70 %
Government bonds	4 %	3 %
Corporate bonds	12 %	12 %
Real estate / land and buildings	12 %	11 %
Cash	2 %	4 %
Total	**100 %**	**100 %**

Foundations for determining the expected return on the assets in accordance with IAS 19.120A (l)	2011	2010
Expected return on plan assets	7.2 %	7.2 %

Actuarial assumptions in accordance with IAS 19.120A (n)	2011	2010
Discount rate	4.8 %	5.4 %
Expected return on plan assets	7.2 %	7.2 %
Pension increases	3.0 %	3.0 %
Inflation rate	2.2 %	3.7 %

Multi-year comparison in accordance with IAS 19.120A (p) in EUR thousands	2011	2010	2009	2008	2007
Present value of defined benefit obligation	16,024	13,360	12,525	10,666	15,210
Fair value of plan assets	(9,150)	(9,732)	(8,918)	(6,380)	(11,013)
Excess liability of the plan	6,874	3,628	3,607	4,286	4,197
Experience-based adjustments to the liabilities of the plan	3,225	660	732	(652)	(237)
Experience-based adjustment to plan assets	(559)	529	1,762	(2,067)	(770)

than ten per cent of its capital stock by 16 June 2015. The Board of Management was authorised, subject to compliance with certain conditions and with the consent of the Supervisory Board without a further resolution required to be adopted at the Annual General Meeting, to sell these treasury shares at market prices in some manner other than via the stock exchange, or to use or collect them as consideration for the acquisition of other entities.

Capital reserves

Capital reserves declined by EUR 11,130 k year-on-year (previous year: increase by EUR 31 k). Of this sum, EUR 9 k (previous year: EUR 31 k) relates to the equivalent in value of the stock options issued in previous years, included in personnel expenditure. Moreover, in the financial year a withdrawal was made pursuant to § 150 (4) No. 1 of the German Companies Act (AktG) to settle the negative profit for the year amounting to EUR 11,139 k. There were no transactions with shareholders who acted in their capacity as such.

Accumulated retained earnings/losses

Accumulated retained earnings decreased by EUR 8,680 k year-on-year (previous year: after adjustment at 01/01/2011 increase by EUR 1,209 k). This represents the profit for the year carried over to the new accounts, amounting to -EUR 18,970 k less the dividend paid in the financial year, amounting to EUR 849 k.

Provisions for pensions in Germany

Reconciliation of the present value of the defined benefit obligation and the fair value of the plan assets in relation to the liability accounted for in accordance with IAS 19.120A (f) in EUR thousands	2011	2010
Present value of defined benefit obligation	377	392
Actuarial losses not recognised as yet	(37)	(69)
Liability accounted for	**340**	**323**

Ergebniswirksam erfasste Beträge gemäß IAS 19.120A (g) in EUR Tsd.	2011	2010
Zinsaufwand (Posten im Periodenergebnis: Zinsaufwand)	17	19
Versicherungsmathematischer Verlust (Personalaufwand)	30	26
Summe der in der Periode ergebniswirksam erfassten Beträge	**47**	**45**

Reconciliation of opening and closing balances of the present value of the defined benefit obligation in accordance with IAS 19.120A (c) in EUR thousands	2011	2010
Opening balance of present value of defined benefit obligation	392	391
Interest expense	17	19
Benefits paid	(41)	(41)
Actuarial loss	9	22
Closing balance of present value of defined benefit obligation	**377**	**391**

13 Earnings per share

The calculation of basic earnings per share is based on the profit/loss for the period assignable to the common shareholders, amounting to -EUR 18,970 k (previous year: EUR 3,387 k reported resp. EUR 1,888 k corrected) as well as the weighted average number of common shares issued (8,497,490). To calculate diluted earnings per share, this number was increased by the weighted average of the number of potentially dilutive shares arising from stock options. In fiscal 2011 the dilutive number of shares came to 210,000 shares; as a result, the total number of shares amounted to 8,707,490.

14 Financial liabilities

This note provides an overview of the contractual arrangements of the Group's interest-bearing liabilities. With regard to the risks arising from fluctuations in interest and exchange rates, and in liquidity, reference is made to Note (19).

The following credit lines are available to the Group:
- EUR 16.4 million in unsecured current, partial mixed, account and guarantee lines (previous year: EUR 18.1 million). Interest rates 2011: 2.12 – 9.38% (previous year: 1.88 – 8.75%).
- EUR 5.0 million loan for a term to maturity until 2017 (previous year: none). Interest rate 2011: 3.85% (previous year: –). For this loan, ownership of an inventory at Head Office amounting to EUR 7,942 k was assigned by way of collateral security.
- EUR 4.0 million in uncollateralised loans with final maturities in September 2012 and December 2013 (previous year: EUR 4 million). Interest rates 2011: 2.37 – 5.85% (previous year: 5.85%).
- EUR 10.5 million in pure guarantee lines (previous year: EUR 19.1 million). In the previous year, lines for EUR 8.0 million were included for foreign guarantees collateralised in cash. Interest rates 2011: 0.75 – 1.32% (previous year: 0.75 – 1.32%):
- EUR 5 million factoring line (unchanged to previous year). Interest rates 2011: 2.88 – 3.53% (previous year: 2.50 – 3.35%).

These lines are granted without financial covenants.

In the wake of the restructuring of the Höft & Wessel Group, the lending banks will waive roughly half their receivables. The following lines of credit will be available to the Group following a successful capital measure:
- EUR 8.5 million in credit lines (thereof: EUR 4.8 million collateralised)
- EUR 5.25 million in guarantee lines
- EUR 2.0 million factoring line subject to unchanged terms and conditions

Specifically, reference is made to item 3.4 in the Management Report.

Liquidity management

Liquidity risks arise when the Group might not be in a position to honour existing financial commitments when due. Accordingly, the Company will take measures to be able to service all obligations when due without having to contend with unacceptable losses in doing so. This is performed within the scope of appropriate short-, medium- and long-term liquidity statements that are prepared.

The Group monitors incoming and outgoing payments on a daily basis. The Group responds to liquidity bottlenecks by intensifying reminders for incoming payments, delaying outgoing payments as well as intensified expenditure control. In addition the Group has lines of credit that have been approved to it.

The Group uses activity-based cost accounting to calculate its product costs and services. This makes it possible to monitor the need for cash & cash equivalents and to optimise the inflows on the capital deployed. The Group strives towards maintaining the extent of cash & cash equivalents at a level that exceeds the expected cash outflows arising from financial liabilities.

Future payment flows of contingent consideration and from derivative instruments may differ from the amounts presented in the following tables since interest rates, exchange rates or the relevant

Actuarial assumptions in accordance with IAS 19.120A (n)	2011	2010
Discount rate	4,5 %	4,5 %
Pension increases	1,0 %	1,0 %
Inflation rate	1,0 %	1,0 %

	2011	2010	2009	2008	2007
Present value of defined benefit obligation	377	392	391	384	381
Excess liability of the plan	377	392	391	384	381
Experience-based adjustments to the liabilities of the plan	9	8	7	10	8

terms and conditions are subject to possible future changes. Other than for these financial liabilities, there are no expectations of a payment stream included in the analysis of maturities falling due considerably earlier or leading to a substantially different amount.

The tables "Maturities of financial liabilities" show the contractual terms to maturity of financial liabilities, including expected interest payments. Amounts in foreign currency were translated at the exchange rate prevailing at the end of the accounting period. Financial liabilities repayable at any time are always assigned to the earliest timeframe. Variable interest payments on financial instruments were determined on the basis of the interest rates last fixed prior to 31 December 2011. The utilisation of credit lines made available differs substantially in the course of a year. The free credit lines amounted to at least EUR 0.9 million in the course of the financial year (previous EUR 4.6 million).

Risk concentration

As a result of the substantially deteriorated asset, financial and earnings position in 2012, the financing banks are entitled to a right to special termination, which they have waived for the time being within the scope of standstill arrangements. The maintenance of such standstill arrangements until the measures described in Note 1 have been concluded is a prerequisite for continuing the Company's business operations.

15 Other financial liabilities

See table on page 46.

16 Share-based remuneration

Within the scope of the stock option programme 2005, the Board of Management was granted a total of 200,000 options in the years 2006, 2007, and 2008. One managerial staff member was granted a total of 10,000 options under the programme in the year 2010.

The options may be exercised at the earliest after two years have expired, starting from the date of issue (hereinafter referred to as the "holding period"). Each option, if exercised, entitles the holder to the acquisition of one share in the Company. After seven years have expired following the end of the holding period, all options that have not been exercised will expire. In each calendar year, a maximum of one third of the options granted and still outstanding can be exercised.

The options may be exercised only if the following success targets have been simultaneously achieved:

1. The average closing price of the Company's ordinary share during the reference period (hereinafter referred to as the "reference price") exceeds the basic price by at least the minimum increase rate. The minimum increase rate in the third year after the date of issue amounts to 35 % and will increase by ten percentage points in each case at the beginning of a further year after the issue date.
2. The reference price amounts to at least 90 % of the average closing price of the Company's common stock on the Frankfurt Securities Exchange on the 30 days of trading on the day exactly one year prior to the day of commencement of the relevant exercise period.

The strike prices are variable in accordance with the arrangements under the stock option programme 2005, based on an index derived from a change in value of the Prime All Shares Index of the Frankfurt Securities Exchange. Moreover, the option holders are granted four points in time to exercise the options each year, depending on the publication dates of the annual and quarterly financial statements.

The average strike prices listed in the table on page 47 were calculated as follows:
Strike price of the tranches calculated for the years 2006 to 2008 and 2010, based on the last exercise period before the respective balance sheet date, weighted by the respective number of options outstanding from the tranches of 2006 to 2008 and the year 2010.

The bandwidth of strike prices for the options outstanding at the end of the reporting period ranged between EUR 3.71 for the options granted in 2006 and EUR 4.53 for the options granted in 2007.

During the period under review, stock options were neither granted nor exercised, nor did any stock options expire. Of the options outstanding, none was eligible for exercise due to the exercise hurdle not being reached.

Provisions in EUR thousands	Status 01/01/2011	Consumption	Write-backs	Additions	Status 31/12/2011
Warranties	1,625	(1.019)	(62)	1,684	2,228
Subsequent costs and penalty	490	(163)	(45)	1,136	1,418
Contingent loss provisions	930	(305)		125	750
Total	**3,045**	**(1,487)**	**(107)**	**2,945**	**4,396**

The member of the Board of Management to whom the stock options were granted has meanwhile left the Company.

During the financial year, the total expenditure on share-based remuneration came to EUR 9 k (previous year: EUR 32 k). This is attributable in full to remuneration paid in the form of equity instruments.

17 Personnel-related provisions

Staff-related provisions exclusively comprise benefits to employees. During the year under review, an addition to provisions for early retirement part-time work agreements was made. The discount rate applied amounts to 2.69 per cent (previous year: 3.83 per cent). An appropriate guarantee was deposited for insolvency protection relating to working time credits earned as part of the block model. Employer contributions to pension insurance in the German subgroup, classified as a defined contribution pension plan, amounted to EUR 1,265 k euros in the financial year (previous year: EUR 1,360 k). Contribution payments of a similar extent are planned to be made for fiscal 2012 (see page 51).

Pension reserves for direct commitments

The present value of future benefits under a defined benefits direct commitment was calculated using the projected unit cost method subject to application of a market-oriented discount factor. In the process, the defined benefit pension obligation is measured according to the present value of vested pension entitlements of active and inactive employees and recipients of benefits as at the valuation date. The calculations are based on the basic biometric values (probabilities of death and invalidity cases) RT 2005 G by Prof. Dr Klaus Heubeck. The extent of old-age pension after 30 full years' employment amounts to 65 % of the last monthly fixed salary drawn. A reduction of 2 % is made for each year of service short of the 30 full years.

Pension reserves for old-age retirement plans

Pension reserves relate to the difference between the market value assessment of Metric's defined pension plans and the present value of the pension obligations determined by actuarial principles both on a defined contribution and on a defined benefits basis. This defined benefit plan is fully financed via a fund. The date of commencement has been uniformly fixed at 65 years of age. Benefits under the contribution-related pension plan are paid on the basis of the fund's assets, which are provided out of employer and employee contributions. The contribution payments amounted to EUR 383 k (previous year: EUR 372 k). For fiscal 2012, contribution payments of a similar extent are planned to be made. For the defined benefits plan, the maximum claim is 2/3 of the most recent salary paid. The present value of future benefits under the defined benefits pension plan was calculated using the projected unit cost method subject to application of a market-oriented discount factor. The fund-based assets of the pension plan were valued at fair value. The employer contributions to the fund are paid in accordance with the actuary's projections and are intended to result in long-term coverage of the pension commitments determined using actuarial methods.

Actuarial gains and losses are recognised using the "corridor method". Under these provisions, it is only necessary to report deficits outside a corridor of 10 per cent (relative to the value of the pension commitment or fund's assets, whichever is higher) in the annual financial statements, and they can be spread over the probable remaining period of service of the eligible recipients.

In determining the expected return for each asset class, the following factors were taken into consideration:

- Interest-bearing securities and liquid funds: In the case of assets in the form of securities and liquid funds, the expected non-current return rate was assumed that prevailed for such assets as at the balance sheet date.

- Shares: A higher long-term rate of return is expected on shares than in the case of interest-bearing securities. The extent to which higher returns will be expected here in future than on interest-bearing securities is based on higher returns generated in the past as well as market conditions prevailing on the balance sheet date.

18 Provisions

Provisions for warranties are set up for goods and services supplied during the financial year. Their extent is based on assumptions made concerning historical product warranty costs. This provision is expected to be eliminated over the following three years. The risk of claims being made on warranty obligations is estimated at 1.5 per cent of sales revenues, as in the previous year.

Provisions for subsequent costs are set up if it turns out after projects have been finalised that a volume of extra work is necessary beyond the extent of normal warranty-related activities.
The effect of the discounting of provisions – only warranty provisions are impacted – amounts to -EUR 1 k (previous year: -EUR 1 k). The impact of the change in discount rates in relation to the previous year likewise affects only the warranty provision and amounts to EUR 1 k (previous year: -EUR 1 k).

19 Trade payables

The Group's sum total of liquidity and currency risks is explained in Note (21).

20 Other non-financial liabilities

Other non-financial liabilities essentially comprise EUR 1,651 k in liabilities relating to value added taxes (previous year: EUR 287 k) and EUR 208 k in payroll taxes (previous year: EUR 212 k) as well as EUR 218 k in advance payment for subsidised projects (previous year: 0).

21 Financial instruments

I. General notes on financial instruments

Disclosure of methods for fair value measurement

Cash and cash equivalents, trade receivables as well as other assets have current residual terms to maturity. Accordingly, their carrying amounts as at the reporting date approximately reflect their fair value. Trade payables and other financial liabilities likewise generally have current residual terms to maturity. Again, the amounts carried on the balance sheet approximately correspond to the relevant fair values. The fair value of financial liabilities to banks and financial liabilities incurred in leasing are measured as cash values of the payments associated with the liabilities in question. Financial derivatives without a hedge

Carrying amounts, valuation approaches and fair values according to valuation categories in EUR thousands	Valuation category to IAS 39	Fair Value Hierarchy stage IAS 7.27b	Book value 31/12/2011
Assets			
Cash and cash equivalents	LaR	–	3,103
Trade receivables	LaR	–	17,994
Other assets	LaR	–	1,533
Derivatives without hedge relationship	FAHfT	2	121
Derivatives with hedge relationship	n.a.	2	3
Liabilities			
Trade payables	FLAC	–	9,753
Liabilities to banks	FLAC	–	20,827
Liabilities arising from finance lease	n.a.	–	46
Other financial liabilities	FLAC	–	3,136
Derivative financial liabilities			
Derivatives without hedge relationship	FLHfT	2	338
Derivatives with hedge relationship	n.a.	2	1,326
Aggregated according to valuation categories			
in accordance with IAS 39:	(LaR)	–	22,630
Loans and receivables (LaR)	(FAHfT)	–	121
Financial Liabilities Measured at Amortised Cost (FLAC)	(FLAC)	–	33,716
Financial Liabilities Held for Trading (FLHfT)	(FLHfT)	–	338

Net results from valuation categories (IFRS 7.20 (a))	from intreest	from subsequent valuation			2011	2010
in EUR thousands		to Fair Value	Currency translation	Valuation adjustment		
Loans and Receivables (LaR)	(156)	0	104	(17)	(69)	(371)
Financial Liabilities Measured at Amortised Cost (FLAC)	(920)	0	27	0	(893)	(839)
Financial Instruments Held for Trading (FLHfT)	0	770	0	0	770	(1,462)
Total	**(1,076)**	**770**	**131**	**(17)**	**(192)**	**(2,672)**

relationship are recognised at fair value through profit and loss.

The fair value hierarchy of the valuation classes shown in the Table "Carrying amounts, values recognised and fair value by valuation categories" in accordance with IFRS 7.27 are to be fully assigned to Level 2 (valuation model).

II. Risk management of financial instruments

Principles of risk management

This section contains information on the extent of the risks to which the Group is exposed arising from the use of financial instruments. In addition, quantitative valuations are made of the risks involved. The Board of Management bears the responsibility for setting up and monitoring risk management.

In terms of its assets, liabilities and planned transactions, Höft & Wessel is subject in particular to risks arising from fluctuations in exchange and interest rates. The objective of financial risk management is to mitigate these market risks by means of current operational and financially oriented activities. To this end, hedge instruments are deployed, depending on the risk assessed. In principle, only risks are hedged that have an impact on the Group's cash flow. Derivatives are deployed solely for hedge purposes. Their deployment for trading or speculation purposes is ruled out. The fundamentals of financial policy are defined by the Board of Management. The Board of Management is briefed on a regular basis about the Company's exposure to risk and the value of hedge transactions already concluded. Hedge transactions are concluded on the instructions of the Board of Management. Swap transactions at a later date of payments on the date of the hedge

Recognition in balance sheet according to IAS 39			Recognition in balance sheet according to IAS 17	Fair value 31/12/2011	Book value 31/12/2010*	Fair value 31/12/2010 *
Amortised cost of acquisition	Fair value with no impact on profit or loss	Fair value with impact on profit or loss				
3,103	–	–	–	3,103	4,495	4.495
17,994	–	–	–	17,994	19,049	19,049
1,533	–	–	–	1,533	2,893	2,893
–	–	121	–	121	–	–
–	3	–	–	3	–	–
9,753	–	–	–	9,753	12,679	12,679
20,827	–	–	–	20,827	15,945	15,945
–	–	–	46	55	118	137
3,136	–	–	–	3,136	2,001	2,001
–	–	338	–	338	960	960
–	1,326	–	–	1,326	1,228	1,228
22,630	–	–	–	22,630	26,437	26,437
–	–	121	–	121	–	–
33,716	–	–	–	33,716	30,625	30,625
–	–	338	–	338	960	960

***NOTE: Figures regarding previous year 2010 have been adjusted, please refer to note 2.**

are implemented independently by the Finance Department in accordance with the hedge guidelines. Correct and complete implementation is monitored by the Board of Management. For further particulars, please refer to the opportunities and risk report in the consolidated management report.

Foreign currency risks

Strategy

The Group is exposed to currency risks arising from sales, purchases and loans. The decisive risks exist in the currencies USD (chiefly purchases), CHF (sales predominating by far) and GBP (purchases, sales, loans, and consolidated subsidiaries). Firmly contracted agreements are included in the currency exposure along with planned payments to be classified as having a high probability of occurring. Foreign currency risks with no influence on consolidated cash flows are not hedged on principle. For instance, these are risks resulting from the translation of assets and liabilities from financial statements of consolidated foreign subsidiaries. Foreign currency risks in the field of financing result from financial liabilities and loans in foreign currency used to finance Group member companies. These transactions are not hedged as a matter of principle. The effects of currency fluctuations are recognised in the currency compensation item.

Hedge measures

The implementation of strategy in the field of currency management is effected by means of current and non-current forward exchange transactions and/or simple currency options. In fiscal 2010, to hedge the payment amount translated into euros for contractually stipulated payments denominated in Swiss francs, the Company designated forward exchange transactions ("future purchase EUR/future sale CHF") as well as swap transactions resulting in the process as cash flow hedges ("Hedge Accounting") for the first time. This applies to hedges of unrecognised firm commitments against currency risks on account of spot rate changes. Highly probable foreign currency payments under supply agreements were designated as underlying transactions. The objective of these hedge measures is to eliminate the exchange rate induced risk arising from CHF amounts paid in. Amounts received or not yet received prior to the due date are prolonged until the next hedge deadline or to the following probable date of receipt of payment by means of swap trans-actions.

Volume of foreign currency positions at nominal value in EUR thousands	31/12/2011			31/12/2010		
	USD	**CHF**	**GBP**	**USD**	**CHF**	**GBP**
Receivables from retail customers	137	262	2,934	87	1,543	2,258
Advance payments received	–	(14,587)	(449)	–	(5,564)	(36)
Liabilities to suppliers	(837)	(321)	(228)	(2,942)	(186)	(103)
Balance sheet exposure	**(700)**	**(14,646)**	**2,257**	**(2,855)**	**(4,207)**	**2,119**
Expected sales revenues	2,134	34,172	8,796	3,062	31,711	3,722
Expected purchases	(6,000)	(150)	(1,440)	(5,812)	(1,001)	(1,440)
Expected exposure	**(3,866)**	**34,022**	**7,356**	**(2,750)**	**30,710**	**2,282**
Forward exchange transactions	3,000	(15,868)	(4,250)	2,200	(17,391)	(1,100)
Net exposure	**(1,566)**	**3,508**	**5,363**	**(3,405)**	**9,112**	**3,301**

Financial derivatives in EUR thousands	**Fair Value 31/12/2011**	**Fair Value 31/12/2010**
Assets		
Forward exchange transactions/currency swaps		
– without hedge relationship	121	4
– with hedge relationship	3	–
Liabilities		
Interest rate swaps		
– without cash flow hedges	(912)	(675)
– in connection with cash flow hedges		
	(338)	(960)
Forward exchange transactions/currency swaps	(410)	(552)
– without hedge relationship		
– in connection with cash flow hedges		

The effectiveness of the hedge relationship is determined prospectively using the "critical terms match method" (IAS 39.AG 108). The effectiveness test is applied retrospectively according to the cumulative dollar offset method. To this end, in the case of the underlying and the hedge transaction the change in value on account of spot rate fluctuations are determined and brought into perspective with one another. If the quotient ranges between 80 per cent and 125 per cent, the hedge relationship is considered to be effective. In the year 2011, the losses incurred due to the change in fair values of currency derivatives, totalling EUR 590 k, were recognised under other profit or loss (previous year: EUR 836 k). These fluctuations in value represent the effective portion of the hedge. As at the balance sheet date, forward exchange transactions amounting to EUR 14,282 k (previous year: EUR 10,553 k) were designated as hedge instruments within the scope of cash flow hedges. The future underlying transactions expected from currency hedges amount to EUR 13,872 k (previous year: EUR 8,261 k). The nominal likewise amounts to EUR 13,872 k (previous year: EUR 8,261 k).

Financial derivatives

The fair values recognised for the various financial derivatives are shown in the Table "Derivative financial instruments". In the process, a distinction is drawn as to whether or not these are embedded into an effective hedge relationship in accordance with IAS 39.

Foreign currency exposure

The volume of the Group's foreign currency items at their nominal value is shown in the Table "Volume of foreign currency items at nominal value".

Sensitivity analysis

IFRS 7 requires sensitivity analyses to be carried out to take account of market risks. These show what consequences hypothetical changes to relevant risk variables can have on earnings and equity. The periodic effects are determined by comparing the hypothetical changes to risk variables with the portfolio of financial instruments as at the balance sheet date. In the process, it is assumed that the portfolio as at the balance sheet date is

Expected effectiveness of underlying transactions (IFRS 7.22-24) **by 31 December in EUR thousands**	**Year**	**Up to 12 months**	**12 to 24 months**	**More than 24 months**
Secured nomnal value of underlaying transaction		13,872		–
		4,132		–
Disbursement from interest hedge underlaying transactions		241		1,085
		241		1,326

Currency translation rates	**Vergae exchange rate 2011**	**2010**	**Rate of reference date 2011**	**2010**
Equivalent of 1 GBP	0,86787	0,85796	0,83530	0,86075
Equivalent of 1 USD	1,39215	1,32598	1,29390	1,33620
Equivalent of 1 CHF	1,23273	1,38047	1,21560	1,25040

indicative for the year as a whole and that all other variables, especially interest rates, remain constant.

A depreciation of the currencies shown by 10 per cent against the euro as at 31 December would have reduced/increased the capital and profit/loss for the period by the amounts reflected in the Tables “Equity capital effect of sensitivities from foreign currency effects” and “Earnings effect of sensitivities from foreign currency effects”. An appreciation of the relevant currencies by 10 per cent would have had the same effect, with the preceding plus and minus signs being reversed.

Risk concentration

In the field of foreign currency risks, there is a particular risk concentration as far as the Swiss franc is concerned. The Company’s order portfolio as at the balance sheet date comprised order volumes denominated in CHF with a total volume of EUR 4,1 million (previous year: EUR 14.6 million) as well as in GDP of EUR 6.7 million (previous year: EUR 0.7 million). There were no significanr currency risks for the company.

Interest rate risks

Strategy

The Group is exposed to risks of interest rate fluctuations in the field of short-term financing of working capital. Interest rate risks essentially exist in the euro zone. The minimum utilisation of credit lines expected in the long run is hedged against risks of interest rate fluctuations by means of the existing interest rate swap.

The Board of Management decides on the desired combination of financial liabilities subject to fixed and variable interest rates. Based on the relevant credit agreements and derivative hedge operations, in the financial year an average of 45 per cent (previous year: 59 per cent) of net financial liabilities denominated in euros were subject to fixed interest rates. The financial liabilities financed on a variable basis as part of a factoring arrangement as well as financial liabilities at fixed interest rates derived from leasing finance are not included in this context.

Interest profile

Interest-bearing financial liabilities of the Group excluding finance leasing and factoring, amounting to EUR 8 million as at the balance sheet date, were based on interest agreements at fixed interest rates (previous year: EUR 3 million). The other financial liabilities are based on interest agreements subject to variable interest rates.

Hedge measures

In order to hedge the risk of payment flows of financial liabilities subject to variable interest rates, the Group had entered into a payer interest swap (payment fixed – receipt variable) for the volume of non-current credit utilisations amounting to EUR 5 million. A single valuation unit was formed between this interest rate swap and the continually utilised current loan utilisations as a designated underlying transaction. The changes in payment flows of the underlying transactions based on changes to the 1-month Euribor rate were offset by the changes in payment flows of the interest rate swap. This happened to be a cash flow hedge. The hedge was made with the objective of transforming utilisations at variable interest rates into financial liabilities at fixed interest rates and thus to hedge and render the payment flow from financial liabilities capable of being planned. No new hedges were transacted during the financial year. The effectiveness of the hedge relationship is prospectively and retrospectively reviewed using an effectiveness test at each balance sheet date. The hedge transaction described above turned out to be fully ineffective as at the balance sheet date. Accordingly, the valuation effects as at the balance sheet date were recognised in net interest income by the Company. The hedged interest rate originally amounted to 4.83 per cent p.a. The fair value effectively taken off the books in the financial year through profit and loss amounted to –EUR 912 k as at the balance sheet date (previous year: –EUR 675 k).

Sensitivity analysis

Risks of interest rate fluctuations are presented by means of sensitivity analyses in accordance with IFRS 7. These represent the effects of changes to market interest rates on interest payments. If the level of interest rates prevailing on the market as at 31 December 2011 had turned out 100 basis points higher/lower, this would have resulted in a higher/lower expense of EUR 128 k (previous year: EUR 79 k) on the financial liabilities existing as at the balance sheet date). The volume of underlying liabilities subject to variable interest rates amounts to EUR 12,827 k (previous year: EUR 8,945 k). There are no interest-bearing trade receivables. Moreover, no holdings available for sale are kept in the portfolio. Accordingly, for these classes of financial assets no calculation is carried out with regard to interest sensitivity.

Earning effects sensitivities from foreign currency effects

effects in EUR thousands	2011	2010 *)
from GBP	144	232
from USD	(11)	(211)
from CHF	(928)	2

*) adjusted

Risk concentration
There is no concentration of risks as far as interest is concerned.

Liquidity risks
Cf. disclosures in Note (13)

Risks of default
Within the scope of its operations, the Company is exposed to the risk of default associated with receivables (credit risk). The risk of default is the risk of the Group sustaining financial losses owing to contractual obligations being violated by customers. Risk essentially arises in connection with trade receivables, cash and cash equivalents, other assets, as well as items of collateral provided. Cash collateral amounting to EUR 321 k (previous year: EUR 320 k) was deposited for a guarantee line to be utilised by beneficiaries domiciled in countries outside Europe for a total of EUR 1 million. In addition, a payment guarantee was deposited in the amount of 2.0 million euros as for a contractual performance bond to a customer located in the USA.

The Group's risk of default is essentially influenced by the individual circumstances arising from customer relations. Risks of default arising from trade receivables are covered by a merchandise credit risk insurance policy. Processes of credit management are handled using via debtor management system. In principle, no merchandise is supplied to customers without securing the risk of default beforehand. No material defaults in receivables were recorded in the past.

The credit rating of potential customers is checked prior to accepting an order placed. In addition, active receivables management is in place, including genuine factoring as well as credit insurance policies. Moreover, in export business confirmed and unconfirmed letters of credit as well as suretyship agreements, guarantees and cover commitments are also deployed from export credit agencies such as Euler Hermes. Apart from local monitoring by the respective subsidiary, the Höft & Wessel Group also monitors major risks of default at Group management level in order to be able to better control a possible accumulation of risks.

Since trade receivables are owed by a large number of customers from different industry segments and regions, from the Company's point of view there is no concentration or cluster formation of risks. Specific risks of default are taken account of by means of valuation adjustments.

Valuation adjustments
Risks of default are taken into account by means of specific valuation adjustments and lump-sum specific valuation adjustments. To the extent that receivables are insured, the valuation adjustment is merely effected to the extent of the excess payable under the merchandise credit insurance taken out. The nominal amount of insured receivables totals EUR 10,220 k (previous year: EUR 14,331 k).

In order to determine any impairment charges necessary, the Group has introduced a process that enables an estimate to be made of losses from trade receivables that have already occurred. Its key components consist of a specific section for individually identified risks and a collective section for risks arising from groups of comparable assets in which losses have already occurred but which have not been capable of identification to date. General impairment charges are made on the basis of historic data of payment statistics for comparable financial assets.

With regard to financial assets which are neither overdue nor impaired, there were no indications of a potential value impairment as at the balance sheet date. With regard to the development of valuation adjustments, reference is made to Note (9).

Risk concentration
Within the scope of credit management, risks of credit default are monitored and proactively controlled. A certain cluster risk arises in connection with project settlement of a large-scale customer in Germany, accounting for a volume of 21 per cent of the receivables portfolio (previous year: 26 per cent). Furthermore, there is no concentration of geographical risks.

The maximum risk of default of financial assets is confined to their carrying amount.

Credit risk exposure
The carrying amount of financial assets represents the maximum credit volume of the Group. The maximum credit risk amounts to EUR 22,630 k (previous year: EUR 26,437 k).

Equity effect sensitivities from foreign currency effects

effects in EUR thousands	2011	2010
from CHF	832	(28)
from GBP	463	–

22 Operating leases as lessee

The Group has rented or leased buildings, vehicles and IT equipment. The leasing payments in respect of the building of Höft & Wessel AG in Habnover are based on a leasing agreement entered into in 1998. The fixed basic term of the lease is 22.5 years. There is no option to buy or to extend the lease.

For the administration and production building occupied in 2005 by Metric in Swindon, a lease entered into with a term until October 2019 was renewed. In addition, future lease payments are payable for a factory building of Metric in Huntingdon, United Kingdom. This building is not being used by the tenants themselves but has been sublet. The lease and sublease are absolutely identical as regards their contractual terms and conditions, and each has a lifetime until December 2014. In connection with various lease transactions relating to products of Höft & Wessel AG, equipment was sold and subsequently leased back to a leasing company. This is to ensure that payment inflows and outflows occur at the same points in time within the scope of long-term lease transactions. In the financial year, lease payments amounting to EUR 3,240 k (previous year: EUR 2,463 k) were recognised under other operating expenses.

23 Group's contingent liabilities

As in the previous year, contractual performance bonds include a warranty to a U.S. customer in the amount of USD 10.5 million (EUR 7.9 million). By way of collateral for this contractual performance bond, a payment bond amounting to EUR 2.0 million was deposited.

24 Sales revenues

Of total income generated on the performance of services, the UK subgroup earned a share of EUR 11.904 k (previous year: EUR 10,936 k). Essentially, this comprises services rendered within the scope of a full-service agreement with London Bus as well as repair and maintenance work on car park ticketing terminals.

23 Personnel expenses

The Group's average workforce came to 497 employees as at the reference date (previous year: 500). Of these, 111 (previous year: 114) were classified as commercial wage earners and 386 (Previous year: same) as employees.

26 Other income

Höft & Wessel AG reports public-sector grants and subsidies according to the gross method and recognises these under other operating income. Amongst other things, the Company receives the EU grants for developing ticket vending terminals suitable for disabled persons.

Reconciliation re: valuation adjustment account

in EUR thousands	2011	2010
Status of valuation adjustments on 1 January	**514**	**306**
Additions (= expenditure on valuation adjustments)	303	301
Consumption	(167)	–
Reversals (= income from valuation adjustments not required)	(119)	(93)
Status of valuation adjustments on 31 December	**531**	**514**

Terms to maturity of receivables as at the balance sheet date in EUR thousands	Receivables 2011	Valuation adjustments 2011	Receivables 2010*	Valuation adjustments 2010
Not due	13,306	–	14,162	–
Overdue by 1 to 30 days	2,602	–	3,014	–
Overdue by 31 to 180 days	1,910	–	588	–
Overdue by 181 to 360 days	39	(39)	859	(161)
Overdue for more than one year	668	(492)	940	(353)
Total	**18,525**	**(531)**	**19,563**	**(514)**

27 Other expenses

The remaining other expenses relate to, in particular, general administration and distribution services. Expenses arising from currency translation include expenses from the valuation of forward exchange transactions totalling EUR 241 k (previous year: EUR 1,147 k).

28 Net financial income

Net financial income includes income and expenses arising from bank interest, interest to other lenders as well as interest effects of accrued and discounted interest.

29 Pre-tax earnings

The table “Tax reconciliation statement” on page 69 shows the reconciliation of the notional tax expense determined by applying a uniform consolidated tax rate of 31.6 per cent to consolidated earnings before taxes and the tax expense reported.

30 Additional mandatory disclosures under Germany commercial law

Information on remuneration paid to the auditors

The fees paid to the auditors and required to be stated as an expense item in accordance with Section 314 (1) No. 9 of HGB in the financial year are reported in the table “Auditors’ fees” on page 65.

Declaration of conformity with the German Corporate Governance Code

The Board of Management and Supervisory Board of Höft & Wessel AG have submitted the mandatory declaration in accordance with Section 161 of the German Companies Act, stating that recommendations of the “German Government’s Commission on the German Corporate Governance Code” have been and will be complied with and have made this declaration available to the Company’s shareholders on the Company’s website www.hoeft-wessel.com.

Maximum credit risk arising from trade receivables according to customer groups

in EUR thousands	2011	2010*
Almex division (Bus and rail corporations, airlines)	13,332	13,310
Skeye division (retail and distribution enterprises)	1,268	2,996
Metric division (cities and municipalities, parking space management)	3,394	2,743
Total	**17,994**	**19,049**

Maximum credit risk arising from trade receivables according to customer groups

in EUR thousands	2011	2010
Almex division (Bus and rail corporations, airlines)	3,554	3,106
Skeye division (retail and distribution enterprises)	7,672	7,713
Metric division (cities and municipalities, parking space management)	6,572	8,308
Total	**17,798**	**19,127**

***NOTE: Figures regarding previous year 2010 have been adjusted, please refer to note 2.**

31 Events after the balance sheet date

The recording and reporting of events after the balance sheet date within the scope of accounting is governed by IFRS, namely by IAS 10 (“Events after the Reporting Period”).

The following events of note occurred by 05 September 2013, the date of submission of the consolidated financial statements as at 31 December 2012 by the Board of Management to the Supervisory Board:

The Board of Management of Höft & Wessel AG had issued an invitation for 18 July 2013 to attend an extraordinary General Meeting in order to disclose a loss of half the Company’s capital stock in the financial statements under German GAAP (HGB; Commercial Code) pursuant to Section 92 (1) of the German Companies Act (AktG) without delay, and to adopt a resolution on a reduction of the capital stock and a further resolution on an increase in the capital stock against cash deposits subject to subscription rights. The loss was attributable to charges on earnings

Group’s contingent liabilities in EUR thousands	2011	2010
Contractual performance bonds	3,547	9,801
Advance payment bonds	3,307	4,892
Payment bonds	340	3,498
Warranty bonds	1,907	774
Bid bonds	23	15
Total	**9,124**	**18,980**

Sales revenues in EUR thousands	2011	2010*
Merchandise sales	49,112	65,636
Services rendered	37,140	29,192
Total	**86,252**	**94,828**

Personnel expenses in EUR thousands	2011	2010
Wages and salaries	20,959	20,722
Statutory social expenditure	4,080	4,008
Contributions to defined benefit pension plan	383	372
Contributions and actuarial expenses arising from direct commitments	(10)	(4)
Share–based remuneration components	9	31
Total	**25,421**	**25,129**

Other income in EUR thousands	2011	2010
Currency translation gain	1,067	122
Income from valuation adjustments regarding receivables	119	93
Public–sector allowances and subsidies	285	27
Income from conventional penalties	–	395
Other	380	489
Total	**1,851**	**1,126**

***NOTE: Figures regarding previous year 2010 have been adjusted, please refer to note 2.**

with no impact on liquidity in connection with business developments in 2012.

Within the scope of this extraordinary General Meeting, Höft & Wessel AG succeeded in entering into a streamlining arrangement with a long-term investor, key individual shareholders as well as the participating creditor banks, which will ensure the Company's continued existence as a going concern on a sustainable basis. With regard to the events after the balance sheet date, we additionally wish to refer to the "Report on events after the balance sheet date" in the Management Report as well as to the explanatory notes provided there under items 3.4 and 3.5 on the capital measures initiated within the scope of the extraordinary General Meeting of 18 June 2013.

No other reportable events after the balance sheet date occurred beyond those specified above.

Other expenses in EUR thousands	2011	2010
Expenses for premises	2,789	2,712
Services	1,944	1,987
Motor vehicle expenses	2,032	1,905
Currency translation expenses	1,394	1,300
Travel expenses	1,248	1,237
Postage/courier services	1,237	924
Legal and consultancy fees	840	723
Telecommunications	803	731
Advertising/trade fairs	487	536
Valuation adjustments to receivables	303	301
Insurance policies	271	215
Other	2,433	1,177
Total	**15,781**	**13,748**

Net financial income in EUR thousands	2011	2010
Interest income on bank balances	1	1
Interest income on tax refunds	0	1
Financial income	**1**	**2**
Interest expenses on liabilities to banks	(715)	(482)
Other interest expenses	(390)	(437)
Financial expenses	**(1,105)**	**(919)**
Net financial income	**(1,104)**	**(917)**

Interest earnings and interest paid from not income statement–related financial instruments with subsequent valuation in EUR thousands	2011	2010
Interest earnings	–	–
Interest paid	41	55
Total	**41**	**55**

32 Disclosures regarding related entities and persons

Shareholders with a significant influence

At the balance sheet date, as in the previous year H&W Holding GmbH, Burgdorf, held 3,450,000 (40.6 per cent) of the shares in Höft & Wessel AG. No dividend payout was made in the financial year. The share of H&W Holding GmbH in the dividend paid for the financial year 2010 amounted to EUR 345 k. No business relations existed beyond the actual shareholding outlined above.

Transactions with members of the Board of Management and Supervisory Board

a) Remuneration report for the Board of Management

The disclosures required in accordance with Section 314 (1) No. 6a sentences 1–5 of the German Commercial Code (HGB) are now included in the following remuneration report:

In addition to fixed remuneration, the Board of Management of Höft & Wessel AG receives regular, variable remuneration based on the pre-tax earnings of the Höft & Wessel Group. The non-performance-related share of remuneration is defined by the Supervisory Board in specific individual cases, taking account of professional experience, qualifications and performance.

The fixing of remuneration for the members of the Board of Management is based on the economic and financial situation of the Company, as well as the extent and structure of remuneration paid to management boards of comparable enterprises. In addition, the tasks and contribution of each relevant member of the Board of Management are taken into account. Non-performance-related remuneration comprises basic remuneration, benefits in kind and perquisites (company car, healthcare and insurance policies). The basic remuneration is disbursed monthly in the form of a salary payment. Benefits in kind essentially consist of the value of using a company car in accordance with tax regulations and of allowances paid towards insurance premiums. In fiscal 2011, the following bonus-related remuneration was deferred for the members of the Board of Management: Michael Höft EUR 0 (previous year: EUR 0), Thomas Wolf EUR 0 (previous year: EUR 54 k), Hans-joachim Oehmen EUR 0 (previous year: EUR 108 k), Peter Claussen EUR 68 k (previous year: EUR 97 k).

Half of the performance-based remuneration is paid on reaching the Group's sales and pre-tax earnings target. The maximum amount is capped in case targets are exceeded. In the event of a substantial shortfall, this remuneration component will be dispensed with. No stock options were issued to the Board of Management in the financial year 2011 either.

Tax position in EUR thousands	2011	2010
Tax income (expense) for current reporting period	(50)	(168)
Tax income/(expense) previous years	344	66
Current tax income/(expenses)	**294**	**(102)**
Deferred taxes	**(2,070)**	**1,488**
Tax position	**(1,776)**	**1,386**

Effect of deferred taxes on profit and loss in EUR thousands	2011	2010
Deferred tax assets		
from losses carried forward	(3,461)	1,281
from temporary differences	(311)	673
Deferred tax liabilities		
from development benefits	1,788	75
from temorary differences	(86)	(541)
Total	**(2,070)**	**1,488**

No pension commitments have been made to the members of the Board of Management. No benefits from third parties were approved to the members of the Board of Management with regard to their activities as members thereof. If a member of the Board of Management dies during the contractual term, three monthly salaries will be paid by way of benefits to surviving dependants. In the event of illness, continued salary payment for the members of the Board of Management has been agreed for three months. A table with the individual remuneration of the board of management ist located on page 22 in the consolidated mangement report. In fiscal 2012 paid total remunerations amount to EUR 1,074 k).

b) Remuneration report for the Supervisory Board

The remuneration of the Supervisory Board is governed by the articles of association and is exclusively payable in the form of a fixed salary. The Chair in this regard receives double the remuneration paid to a member of the Supervisory Board. The Deputy Chairman receives 1.5 times the remuneration paid to a member of the Supervisory Board. No payments were made to former members of the Board of Management or to former members of the Supervisory Board. There are no commitments on the part of the Company to do so. A table with the individual remuneration of the Supervisory Board ist located on page 22 in the consolidated mangement report. In fiscal 2011 paid total remunerations amount to EUR 75 k.

Transactions with related persons

No transactions with related persons were carried out during the financial year.

Transactions with related entities

No transactions with related entities were carried out during the financial year.

Reconciliation of the calculatory tax expense **in EUR thousands**	**2011**	**2010 adjusted**
Group earnings after taxes	(18,970)	1,888
(Income)/expenses from tax	1,776	(1,386)
Consolidated earnings before taxes (EBT)	(17,194)	502
Calculated tax expense/ (tax income)	**(5,433)**	**159**
Tax impacts		
Effects arising from change in use of loss carried forward	7,714	(1,822)
Aperiodic effects	(741)	473
Operating expenses not deductible for tax purposes	74	49
Other	162	(245)
Tax (income)/expense reported	**1,776**	**(1,386)**

Remuneration auditors **in EUR thousands**	**2011**
Audit of annual financial statements	200
Tax consultancy services	19
Total	**219**

Gratification to manager in keypositions **in EUR thousands**	**2011**	**2010**
Benefits to members of the Management Board and Supervisory Bord	1.149	1.294

Members of the Board of Management

Rudolf Spiller
(since 17 July 2012)
Member and CEO)
Sales & Marketing, Research & Development, Supply Chain,
Project management, Administration
Metric Group Holdings Ltd., Swindon
(Managing Director, since 24 September 2012)

Michael Höft
(from 9 December to 31 December 2012)
CEO
Finance & Administration, Production, Service
Business departments Metric and Skeye
Metric Group Holdings Ltd., Swindon
(Managing Director; from 16 January 2012 to 31 December 2012)

Dipl.-Ing. Thomas Wolf
(up to 23 May 2012)
Member
Sales, Purchase, Marketing
Business departments Almex and Skeye
Metric Group Holdings Ltd., Swindon
(Board of Directors, since 8 June 2011)
Skeye Partner Support Center GmbH, Leipzig
(General manager, from 31 May 2011 to 18 Mrch 2013)

Dipl.-Kfm. Hansjoachim Oehmen
(resigned on 16 January 2012)
CEO
Finance & Administration, Production, Service
Business departments Metric and Skeye
Metric Group Ltd., Swindon
(Managing Director, up to 16 January 2012)
Metric Group Holdings Ltd., Swindon
(Board of Directors, up to 16 January 2012)
Metric Inc., New Jersey (USA)
(Board of Directors, up to 16 January 2012)

Dipl.-Inform. MBA Peter Claussen
(resigned on 8 June 2011)
Deputy CEO
Marketing, Sales, Service, Production
Business department Skeye, Metric Group
Holdings Ltd., Swindon
(Board of Directors, bis zum 8. Juni 2012)
Skeye Partner Support Center GmbH, Leipzig
(General Manager, up to 31 May 2011)

Members of the Supervisory Board

Prof. Dr. Dr.-Ing. Dr. h.c. Klaus E. Goehrmann
Chairman
Chairman of the Board of the International
Neurobionics Foundation, Hannover
Other Supervisory Board seats:
MAN Truck & Bus AG, Munich
Internationale Schule Hannover Region GmbH, Hannover
VHV Vereinigte Hannoversche Versicherungen
(Chairman of the Executive Board)

Dr. Peter Versteegen
Deputy Chairman
Lawyer
(Partner in Freshfields Bruckhaus Deringer LLP)

Michael Höft
(resigned on 8 December 2011)
Businessman

Dr. Martin Künnemann
Auditor
(Partner in Deloitte & Touche GmbH)

Hinrich Peters
(Appointment on 20 March 2012)
Tax consultant

Rolf Wessel
(resigned on 20 December 2012)
Businessman

Manfred Zollner
(resigned on 28 January 2013)
Businessman
Other Supervisory Board seats:
Zollner Elektronik AG, Zandt (Chairman)
PA Power Automation AG, Pleidelsheim

Hannover, 7 October 2013

The Board of Management

Auditor's Certificate

"We have audited the consolidated annual financial statements of Höft & Wessel AG, Hanover, – consisting of the consolidated profit and loss (income) statement, the consolidated balance sheet, consolidated cash flow statement, movements in consolidated equity and the consolidated notes – as well as the consolidated management report for the financial year from 1 January to 31 December 2011. The Board of Management of the Company is responsible for preparing the consolidated annual financial statements and the consolidated management report in accordance with IFRS, as applicable in the EU, and in supplementation thereof, according to § 315a (1) of the German Commercial Code (HGB). Our task is to make an assessment of the consolidated annual financial statements and the consolidated management report on the basis of the findings of our audit.

We carried out our audit of the consolidated annual financial statements in accordance with § 317 of HGB subject to compliance with the German generally accepted accounting principles established by the German Institute of Auditors (Institut der Wirtschaftsprüfer – IDW). Accordingly, the audit is to be planned and carried out in such a manner as to ensure that any misstatements and violations that might have a substantial impact on the presentation of the consolidated annual financial statements and on the overall impression conveyed by the consolidated management report as regards the Company's asset, financial and earnings position, taking account of the applicable accounting regulations, can be identified with an adequate degree of certainty. In determining the audit steps, knowledge of the business activities and of the Group's business and legal environment is taken into account along with expectations of possible errors and omissions. Within the scope of the audit, the effectiveness of the accounting-related internal control system as well as evidence to support the information contained in the consolidated annual financial statements and consolidated management report are assessed predominantly on the basis of random samples. The audit comprises an assessment of the individual annual financial statements for the companies included in the consolidated annual financial statements, the delineation of the consolidation perimeter, the accounting and consolidation principles applied and the material assessments by the Board of Management, and taking account of the overall presentation of the consolidated annual financial statements and consolidated management report. We are of the opinion that our audit constitutes an adequately secure basis for our assessment.

Our audit gave rise to no objections.

According to our assessment based on the findings of our audit, the consolidated annual financial statements are in conformity with the IFRS, as applicable in the EU, and with the supplementary regulations of German commercial in accordance with § 315a (1) of HGB and, taking account of these regulations, conveys a true and fair view of the actual asset, financial and earnings situation of the Group. The consolidated management report is in conformity with the consolidated annual financial statements and, as a whole, conveys a true and fair view of the Group's situation and of the opportunities and risks relating to future developments.

Without expressing any limitations on this assessment, we refer to the statements made by the Board of Management in the consolidated management report. In its report, in Section "3.5 General Statement by the Board of Management", the latter explained that in case the capital measures described are not carried out as planned, or in the event of unforeseen liquidity outflows owing to project risks, or if the operational streamlining measures adopted do not yield the expected results, Höft & Wessel Aktiengesellschaft will be insolvent and lose its status as a going concern."

Hannover, 7 October 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Thiele	Frahm
Auditor	Auditor

Balance Sheet Oath

Balance sheet oath in relation to the consolidated annual financial statements in accordance with §§ 297 (2) sentence 4 and 315 (1) sentence 6 HGB:

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group."

Hannover, 7 October 2013

The Board of Management

HÖFT & WESSEL
SOLUTION PARTNER FOR YOUR SUCCESS

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HÖFT & WESSEL

FINANCIAL STATEMENT 2011

CONTENT

3 Management report for fiscal 2011
14 Annual report as of 31/12/2011
14 Balance sheet
18 Profit and loss account
19 Notes
28 Auditor's certificate
29 Balance sheet oath

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MANAGEMENT REPORT FOR FISCAL 2011

A. Business development and risks

1. Restructuring needs of the Company

1.1 Operational and earnings crisis

The asset, financial and earnings position of the Höft & Wessel AG saw a massive deterioration owing to continual declines in sales revenues in the financial years 2011 and 2012 compared with the financial year 2010, along with a simultaneous decline in gross earnings as well as excessive personnel costs and other operating expenses. In particular, Höft & Wessel has not succeeded in fully compensating for the shortfall in sales due to the expiry of large-scale projects with the acquisition of small projects, especially since the large number and complexity of the small projects had an adverse impact on the Company's cost structure. The most recent similar decline in business operations of Metric Group Holdings Ltd., a subsidiary based in the United Kingdom, likewise impaired the results recorded by the Höft & Wessel Group.

Consequently, in the financial year 2011 the Höft & Wessel AG generated a consolidated operating result (EBIT) of –EUR 12.2 million on consolidated sales revenues of EUR 50.2 million. In the financial year 2012, Höft & Wessel AG achieved an operating result of –EUR 8.8 million on sales revenues of EUR 50.2 million. The Company's liabilities to banks amounted to EUR 18.9 million at the end of 2012 (previous year: EUR 16.2 million). In the financial year 2011, the Group's equity capital declined from roughly EUR 21.9 million to EUR 8.1 million. At the end of the year 2012, a shortfall not covered by equityof -EUR 2.8 million was disclosed. At the end of 2012 Höft & Wessel AG was over-indebted on the face of the balance sheet and still is at this time.

1.2 Liquidity crisis

It has been possible chiefly through massive cost-cutting measures and intensive working capital management (and, above all, the postponement of urgent capex investments to maintain the technological excellence of the Group) to avoid a shortfall in liquidity in the past that was originally expected as early as autumn of 2012. At the extraordinary general meeting held on 18 July 2013, the shareholders adopted a resolution with a large majority for a comprehensive streamlining concept to be implemented in the coming weeks. Amongst other measures, the Group will receive fresh capital of up to EUR 8.5 million by way of a capital increase. The measures are specifically explained in Section 1.4 of the Management Report.

1.3 Restructuring through added liquidity and waiver of receivables

Accordingly, in order to enable the Höft & Wessel Group to continue to trade as a going concern, according to the Board of Management and the Supervisory Board, key shareholders as well as the financing banks, apart from the operational streamlining introduced within the scope of the "H&W 2.0" programme initiated, a far-reaching financial restructuring will be necessary, providing for the Company to receive fresh funding of the order of up to EUR 8.5 million and for the Company to simultaneously be relieved on a massive scale from liabilities to banks. Amongst other factors, added liquidity will be indispensable to make the investments necessary to maintain the Company's technological expertise and to perform advance services required within the scope of various large-scale projects necessary for the Company to make progress. Moreover, liquidity is necessary to enable loans to be repaid at short notice, since some credit institutions are not prepared to continue maintaining their exposures. The simultaneous relief from additional liabilities is urgently necessary to enable the Company to perform its debt service in respect of the remaining liabilities without its urgently needed liquidity – also for investments and advance services in projects as well as in research and development – being depleted.

The measures described above will be implemented in the coming weeks, and the Höft & Wessel Group will be provided with fresh liquidity by way of an increase in cash capital, amounting to up to EUR 8.5 million.

1.4 Concept for a financial and operational restructuring programme

Based on this analysis, in autumn of 2012 the Höft & Wessel Group began to systematically and comprehensively prepare the streamlining concept already mentioned, comprising both the restructuring and the refinancing programme. The streamlining programme "H&W 2.0" comprises service-related and financial business measures for Höft & Wessel AG with the objective of accomplishing an increase in operating earnings with a full-year effect until end-2014 of more than EUR 11 million in relation to 31 December 2011. The cost reduction measures planned relate to the optimisation of processes and organisational workflows as well as reductions in material costs and working capital. By mid-2013, these had been implemented in full. Within the scope of the restructuring, the size of the workforce was already reduced in 2012 by 81 employees, to 257 persons.

In order to implement the refinancing concept developed by the Höft & Wessel Group, the measures adopted by resolution at the Annual General Meeting on 18 July 2013 included the following (referred to collectively as the "GM Measures"):

- Capital reduction of the current share capital amounting to EUR 8,497.490.00, divided up into 8,497,490 no-par-value bearer shares (no-par-value shares) with a prorated amount of the share capital of EUR 1.00 per share in a ratio of 5 : 1 by EUR 6,797,992.00 to EUR 1,699,498.00, divided up into 1,699,498 no-par-value bearer shares;

- a subsequent cash capital increase of the Company's share capital reduced to EUR 1,699,498.00 in a ratio of 1 : 5 by up to EUR 8,497,490.00 by issuing up to 8,497,490 new no-par-value bearer shares (no-par-value shares) with a prorated amount of the share capital of EUR 1.00 per no-par-value share to up to EUR 10,196,988.00 at an issue price of EUR 1.00 per share and granting the shareholders' subscription rights.

The GM Measures represent components of a uniform restructuring concept, with the implementation of all components thereof being of crucial importance. If the GM Measures are not implemented as adopted by resolution, the financial restructuring and rescue of the Company would fail. There is no alternative restructuring scenario, which means that the Company's continued existence as a going concern – as outlined above – would be in acute danger. In contrast, by means of the GM Measures (which represent the basis for implementation of the further restructuring measures), the Board of Management is convinced that the long-term continued existence of the Company as a going concern can be guaranteed. Thanks to the improved equity capital base, in combination with the operational restructuring programme described above, the Company's competitiveness will be restored and a sustainable on-going corporate governance of the Company will be enabled.

The Board of Management has also dealt intensively with alternatives to the proposed restructuring concept of the Company. The alternatives considered included the following:

- a refinancing of the Company subject to the participation of the current creditor banks or a new banking syndicate;

- the sale of the Group member company Metric Group Holdings Ltd., Swindon/UK and/or other assets of the Company;

- the execution of an insolvency plan procedure over the assets of the Company as a going concern settlement, with operations continuing.

However, none of the alternatives has proved to be capable of implementation or promising in nature.

In view of the high debt quota of the Company and owing to a lack of adequate items of collateral, neither the current lenders nor any other possible banks were prepared to make additional outside funding available. Besides, in the medium term the Company would not be in a position to cope with an even higher level of debt than that at present at any rate. Yet the banks, in turn, make the necessary waiver of receivables contingent upon substantial volumes of equity being made available in support. In the banks' assessment, this is also necessary to make the Company capable of competing again in operational terms and thus protecting the value of the remaining receivables on the part of the banks.

A sale of the Group member company Metric Group Holdings Ltd. and/or other assets of the Company would not have been a solution. Metric itself was subjected to a restructuring process in recent months.

The execution of an insolvency plan procedure as a kind of going concern settlement would most probably have had negative effects on the Company's operations and would have impaired the Company's status on the market in an unacceptable fashion. In addition, it is likely that the current shareholders would have largely forfeited their shares in full if such a going concern plan procedure had been implemented.

In the opinion of the Board of Management and the Supervisory Board, which is shared by the external consultants of the Company, there was no expedient and meaningful alternative to the proposed streamlining and restructuring concept.

2. Presentation of fundamentals and business

2.1 Economic environment

According to the Kiel-based Institute for the World Economy (Institut für Weltwirtschaft, IfW) the growth of the global economy was with 3.8 per cent in 2011 lower than in previous year. According to the IfW, the economy of the home market of Germany slowed down, that why in Germany the Gross Domestic Product grew by around 3.0 per cent in 2011.

2.2 Business trends

In 2011, the Höft & Wessel AG generated EUR 53.3 million in sales revenues. Projects being delayed to the following year and the completion of a major contract led to a reduction of 26 per cent compared to the previous year (2010: EUR 71.9 million). With a contribution of 65 per cent to total sales revenues, Germany remained the most Important business region, followed by the remaining EU countries contributed 24 per cent, and other countries couted for 11 per cent.

Lower sales revenues and higher project costs led to a reduction in the operating result (EBIT) thus amounted to -EUR 12.2 million (2010: EUR 1.9 million).

New orders with a total volume of EUR 51.6 million were added to the books in 2011 (2010: EUR 63.2 million).

The order portfolio as at 31 December 2011 stood at EUR 33.4 million (2010: EUR 49.5 million). Germany accounted for 54 per cent of these orders, the remaining EU countries for 19 per cent, with 27 per cent contributed by other countries.

Breakdown of sales revenues in EUR million	2011	2010
Germany	34.6	48.5
Great Britain	2.5	3.9
Other countries	16.2	19.5
Total	**53.3**	**71.9**

2.2.1 Almex Division – Ticketing

Through its Almex business division, Höft & Wessel AG is one of Europe's best-known solution providers of ticketing systems. In fiscal 2011, sales revenues in this segment declined by 37 per cent, to EUR 31.6 million (previous year: EUR 50.1 million) due to project delays, among other things.

2.2.2 Skeye Division – Mobile Solutions

Through its Skeye business division, Höft & Wessel is one of Europe's leading suppliers of mobile terminals. Revenue generated during the period under review broadly matched the level of the previous year at EUR 21.7 million (2010: EUR 21.8 million).

2.3 Workforce

In 2011, the Höft & Wessel Group employed an average of 335 persons (previous year: 317) including trainees

2.4 Production and procurement

External manufacture of its products represents a key element of the business model of Höft & Wessel AG. The two business divisions Almex and Skeye mostly rely on production from German suppliers. At Höft & Wessel, the Production and Procurement departments ensure a high level of quality by providing the manufacturers with detailed specifications and process-oriented workflows.

Höft & Wessel is responsible for development in its entirety, the production of samples, the preparation of parts lists, the development of test systems and, ultimately, final quality control. The entire development process, right up to the preparation of the parts lists, is largely handled by Höft & Wessel in-house. Moreover, the company is closely involved in external production activities and performs detailed quality control.

2.5 Research and development

Research and development is the largest and most important division of the Höft & Wessel Group. This is where made to-measure systems are developed for transport, retail and logistics and solutions are created that are individually tailored to customers' requirements.

In fiscal 2011, the focus was on Android, with a great deal of effort going into the porting of this operating system to mobile terminals. As a result, Höft & Wessel was the first manufacturer to introduce a handheld running Android for use in the retail sector. 2011 also saw the continuation of the development of a mobile communications solutions on a GSM rail basis for the Swiss Federal Railways. The technology of the mobile terminal in PDA format was developed further, and the successful business line version of the on-board computer with ticket printer was adapted to produce a left-hand drive model. Addition, several new types of mobile terminals are currently being developed. External development capacities will be drawn on as required.

2.6 Service

Service is a key business segment with strong growth margins, and not just for the Company itself. In business-to-business operations, this service is in demand as an integral element of systems solutions. Contracting partners expect individually tailored and reliable service solutions that guarantee continual operation of systems and, therefore, a high level of investment protection.

2.7 Capital expenditure

Capital expoenditures by the Höft & Wessel AG predominantly relate to the field of research and development. This is where new IT solutions, products and systems are developed and configured in line with customers' specifications. During fiscal 2011, additions to fixed assets amounted to EUR 0.7 million (previous year: EUR 1.1 million).

3. Statement of the Company's asset, financial and earnings position

3.1 Asset position

Fixed assets declined by a total of EUR 1.3 million, from EUR 11.5 million in the year 2010 to EUR 10.2 million in 2011. Of this decrease, a sum of EUR 0.9 million is chiefly attributable to non-scheduled depreciation of injection moulding tools.

The level of inventories increased significantly in the year under review, from EUR 21.3 million to EUR 26.6 million, which was due in particular to the reporting item "work and services in progress". This item includes services rendered for large-scale projects which could not be invoiced due to a lack of acceptances as at the balance sheet date.

The volume of receivables is below the previous year's level by a substantial EUR 4.0 million. On the one hand, this is attributable to the large-scale projects already mentioned, for which no invoices had been issued; on the other, it is also due to the sharp decline in total sales revenues in the year under review. The volume of receivables sold to a factoring institution declined by EUR 1.7 million. The total volume of debts outstanding receivables pre-financed by factoring and deducted from receivables accounted for amounted to EUR 3.9 million on the balance sheet date.

The reduction of equity by EUR 13.8 million to approx. EUR 8.1 million was predominantly the result of the negative earnings for the period. In addition, there was a dividend payment of EUR 0.8 million in the year under review. Since the volume of total assets declined by EUR 3.9 million, to EUR 54.7 million, in the same period, the equity ratio at the end of the financial year 2011 amounted to approx. 15 per cent.

The volume of trade payables had increased considerably as at 31 December 2010. Part of these liabilities was repaid again during the financial year. As at 31 December 2011 they amounted to EUR 8.0 million. Against the backdrop of outstanding project acceptances and orders still to be invoiced, the level of advance payments received simultaneously saw a surge by EUR 7.0 million, to EUR 11.8 million as at the balance sheet date in 2011.

Liabilities to banks increased by EUR 4.3 million, to reach EUR 16.2 million. After deduction of cash holdings, net financial liabilities amounted to EUR 14.4 million, after EUR 8.1 million had been recorded as at 31 December 2010.

3.2 Financial position

Cash flow from current operating activities amounts to –EUR 4.7 million (previous year: –EUR 1.8 million). Significant outflows of funds resulted from a decline in trade payables and an increase in inventory assets. Positive effects resulted in particular from the increase in advance payments and other assets as well as the build-up of provisions along with other debts. The credit line for sales of receivables was drawn on to an extent of EUR 3.1 million as at the balance sheet date (previous year: EUR 4.9 million).

The negative cash flow from investment activities amounts to EUR 0.7 million following –EUR 1.1 million in the previous-year period. The funding requirements described above were covered by the higher utilisation of the available credit limit. Cash flow from financing activities in 2011 amounted to EUR 3.4 million (previous year: EUR 0.5 million).

3.3 Earnings position

Sales revenues of Höft & Wessel AG declined by 26 per cent year-on-year, from EUR 71.9 million to EUR 53.3 million. After a very good year 2010, the Almex division generated EUR 31.6 million in revenues in fiscal 2011 (previous year: EUR 50.1 million), a decline by 37 per cent. In the Skeye business division, sales came to EUR 21.7 million, remaining at the previous year's level. In the partner business in particular, hopes had been high for robust growth rates in the fourth quarter, but these remained out of reach.

In the period under review, the percentage-based contribution margin (sales revenues less cost of materials (including inventory changes) in per cent of sales revenues) declined by 7.0 percentage points, to 31.8 per cent. A substantial share of this effect is attributable to the exceptionally strong performance of the Almex business division in the previous year, which could not

Asset intensities	**2011**	**2010**
Asset intensity [fixed assets (EUR 10.1 Mio.)/ Total assets (54.7 Mio.))	19 %	20 %
Inventory intensity (inventory assets (EUR 25.6 Mio.)/ Total assets (54.7 Mio.))	49 %	36 %
Receivables intensity [trade receivables (EUR 12.7 Mio.) / Total assets (54.7 Mio.))	23 %	28 %

Equity ratio	**2011**	**2010**
[Equity capital (EUR 8.1 Mio.) / Total assets (EUR 54.7 Mio.)]	15 %	37 %

Cash flow **in EUR thousand**	**2011**	**2010**
Cash flow from current operating activities	(4,736)	1,833
Cash flow from investment activities	(734)	(1,083)
Cash flow from financing activities	3,419	539
Changes to financial funds impacting on payments	(2,051)	1,289

Key data from the consolidated income statement **in EUR thousands**	**2011**	**2010**
Sales revenues	53.3	71.9
Aggregate Output	60.1	74.5
Earnings before taxes and interest (EBIT)	(12.2)	1.9
Earnings before taxes (EBT)	(13.2)	1.2
EBT margin in % of sales revenues	(24.8)	1.7
Consolidated earnings after taxes	(13.0)	1.2

be matched in the current year. Moreover, it was not possible to pass on increased procurement costs to the full extent. Non-scheduled depreciation and amortisation of inventory assets, as these could not be realised, amounting to EUR 2.5 million, lowered the contribution margin additionally. Personnel expenditure was up slightly at EUR 18.5 million, exceeding the previous year's level by EUR 0.6 million.

Depreciation and amortisation decreased substantially year-on-year, from EUR 1.1 million to EUR 2.0 million. The reason for this, in particular can be found in non-recurring effects due to non-scheduled depreciation of tools.

The fundamental structure of other expenses and income basically remained unchanged. Savings were made in services and marketing. Cost increases were recorded in particular in the fields of dispatch, automobile and warranty costs. The effects of exchange rate factors amount to a total of –EUR 0.2 million (previous year: –EUR 1.4 million).

Due to increased utilisation of credit lines and higher interest rates compared with the previous year, negative net financing income was up by 33 per cent, to reach –EUR 1.0 million.

3.4 Capital measures

The Board of Management had invited the shareholders of Höft & Wessel Aktiengesellschaft to an extraordinary general meeting scheduled for 18 July 2013. In particular, the agenda of the extraordinary general meeting provides for disclosure by the Board of Management of the loss of half of the Company's capital stock pursuant to Section 92 (1) of the German Companies Act (AktG), the adoption of a resolution on the reduction of the capital stock and a resolution on increasing the capital stock against cash contributions with subscription rights.

The capital measures are part of a comprehensive refinancing concept prepared by the Board of Management in recent months. For implementation purposes, the Board of Management had searched for potential equity capital providers and negotiated with seriously eligible investors on the financing concepts involved. As a result of these efforts, on 18 July 2013 a comprehensive streamlining arrangement was entered into, namely between the Company, the long-term oriented investor Droege Group International AG, and the creditor banks.

In accordance with this Agreement, the investor Droege committed itself to provide the Company with fresh equity capital by way of a capital increase, a maximum amount of just under EUR 8.5 million. Of the EUR 8.5 million, EUR 3.3 million will be paid to the banks in partial compensation for their waiver of receivables amounting to EUR 16.8 million. The execution of this transaction will be carried out via a subsidiary which will be provided with a liquidity of a minimum of EUR 3.3 million. Accordingly, EUR 5.2 million in fresh capital will remain within the group of companies. At the same time, on average the banks are to waive about half of their volume of receivables.

The obligation of the investor Droege is subject in particular to the terms and conditions that the resolutions on the capital reduction and capital increase are listed in the Commercial Register, that the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) has issued an exemption from the mandatory offer rule, the clearances by the cartel authorities have been given. The precondition of the investor of a stake according to the completed treamlining arrangement has been met.

The banks' obligation is also fulfilled, because all new shares have been subscribed to and paid up in full. The agreements still to be concluded are subject to the suspensive condition that they will become invalid if the investor or one of the banks effectively rescinds the streamlining agreement and if an arrangement is not reached between the banks, in terms of which one bank named in the streamlining agreement will be appointed as trustee.

In addition, in the case of two credit institutions the Group has guarantee lines totalling EUR 5.25 million, which will only implemented after the capital increase enter into force.

3.5 General statement by the Board of Management

According to the Board of Management, the Company's asset, financial and earnings position is inadequate. To achieve a sustainable improvement, the Board of Management has prepared a uniform restructuring concept, of which all components are to be implemented if it is to be successful.

The Board of Management complied with its obligations under the German Companies Act and convened an extraordinary general meeting for 18 July 2013, at which further steps were adopted towards a streamlining and reorientation of the Company. Specifically, reference is made to the explanatory notes in Section 3.4 Capital measures.

The Company's continued existence as a going concern will be secured only if it succeeds in placing the shares created due to the capital increase against a cash contribution and if the operational streamlining efforts actually produce the expected results. In addition, it is necessary for the projects identified as critical by the Board of Management early in 2013 to be successfully concluded. The capital measures, in combination with the planned programme for the Company's operational streamlining, will lay the foundations for a substantial improvement in the Company's asset, financial and earnings position. The Board of Management has taken all steps necessary in order to implement the streamlining concept as a whole. The Board of Management is convinced of the terms and conditions stated in Section 3.4 being met and of the successful implementation of the streamlining measures and therefore firmly assumes that the Company will continue to trade as a going concern. The Board of Management anticipates the turnaround in business this year, followed by sustainable and successful business trends in the years to follow.

If the capital measures described in the previous section 3.4 are not carried out, or if project risks result in unforeseen liquidity outflows, and if the operational streamlining measures adopted do not yield the expected results, the Company will become insolvent and lose its status as a going concern.

4. Events after the balance-sheet date

After the close of the financial year 2011, on 17 January 2012 Michael Höft was appointed Chairman of the Board of Managing Directors, taking over all tasks of the previous CEO, who left the Company. Thomas Wolf resigned as member of the Board of Management on 23 May 2012. On 17 July 2012 Rudolf Spiller was appointed to the Board of Management in the function as Chief Restructuring Officer. After Michael Höft has resigned from the Board of Management by end of 2012, Rudolf Spiller has been responsible as sole Board of Management member and CEO. Specifically, reference is made to the explanatory notes in Sections 3.4 and 3.5.

5. Risk and opportunity report

With regard to the risks endangering the Company as a going concern, reference is made to the explanatory notes in Section 3.4 Capital measures and 3.5 General Statement by the Board of Management.

Entrepreneurial action means taking risks. With its international business relationships and multiple locations, the Höft & Wessel Group is subject to rapidly changing general conditions in its sales markets and is therefore exposed to risks. In order to avoid these risks threatening the Group's existence as a going concern, the legislature has called for implementation of an early risk detection system. This system had been introduced at Höft & Wessel AG years ago and was an integral element in the planning and implementation of the corporate strategy.

In 2012, due to the substantial losses and the restructuring initiated for this reason, the Board of Management decided to commission an external business consultancy firm to carry out an identification and assessment of the Company's risk profile. This continual screening made a substantial contribution towards identifying risks, subsequently mitigating them and, therefore, to a stabilisation of the Company's business trends.

In addition, new processes were introduced. Weekly liquidity planning at a regular so-called order flow meeting creates adequate transparency in order to carry out liquidity management successfully. Moreover, business processes are being better managed, for instance by setting up a steering committee and in the course of core team meetings.

The restructuring measures carried out in the financial year 2012 call for an adjustment of the early risk detection system to the newly created structures. After finalisation of the restructuring phase in 2013, the new processes and methods will be reconciled with the early risk detection system in place at Höft & Wessel AG and will then once again continue to be handled internally in full by the Finance & Controlling department.

The various sets of measures forming part of the early risk detection system of Höft & Wessel AG are described in detail below. Early risk detection management distinguishes between external, operational and financial risks. In the external risk category, a further distinction is made between changes in market demand, political changes and economic developments.

Operational risks that are monitored continuously include business transactions with major customers, planning for large-scale projects, as well as project management,

quality, external manufacture, storage and contractual risks, human resources, communications and IT security.

Höft & Wessel deals with market and sales revenue risks by endeavouring to establish long-term contractual relations with customers wherever possible. The risk of declining order receipts on account of the general economic situation is countered by continual market monitoring. Changing customer requirements and impending technological changes are monitored closely and coordinated with staff working on projects currently at the development stage. Broadening the customer base in the individual business divisions and developing new sales markets and regions helps reduce the level of dependency on individual customers, industry segments or countries. Until the restructuring measures have been successfully completed, the performance and efficiency of the Company might receive negative ratings from purchasers and suppliers, which might impair its market opportunities and supply prices and conditions.

Regular monitoring of projects and orders by the heads of the business divisions and deployment of the over-arching ERP system serve to identify internal risks on a timely basis and to counter them effectively in future. In the field of financial risks, a distinction is drawn between such factors as liquidity, interest rates, receivables in default, foreign transactions, currencies and financial markets. Risks resulting from any of these areas are monitored and assessed continually.

The risks arising from the reorientation are being taken into account in particular with a substantially improved early risk detection system in the current financial year, which also extends to include more effective liquidity management. This will create the prerequisites to be able to take counteractive steps speedily and in a targeted manner if required.

In order to ensure liquidity at all times, the Company's free cash & cash equivalents are continually monitored with the aid of short-term liquidity planning and medium-term demand projections. There is a liquidity risk if there should be substantial delays in implementing the capital increase. This applies in particular because there is a direct link between implementation of the capital increase and the revival of the guarantee lines that the Company urgently needs to collateralise advance payments by customers.

An increase in the level of interest rates, a downgrading of the Company's ratings or changes in lending terms may entail the risk of increasing interest expenditure. The risk of market-related interest rate fluctuations is partially taken into account by means of interest rate hedges and, additionally, by taking out loans with multiple-year terms to maturity. The specific measures on interest rate hedges are described in Note 9. The risk of default in trade receivables is countered by deploying merchandise credit insurance and a debtor management system that continually undergoes further development. Currency risks arising from exchange rate fluctuations are hedged in accordance with the parameters laid down by the Board of Management for the Company's hedge strategy. The measures relating to currency hedges are explained in Note 9.

The Group's Management perceives technological risks to lie in the fact that too little could be spent on research and development as well as in vocational and advanced training of employees in the past two years. Know-how losses due to employees resigning of their own accord compounded this development, which will need to be effectively countered in future. Catching up and closing the technology gap is a critical success factor for the Company's future ability to survive since the demand for integrated holistic solutions is increasing, in turn raising the requirements regarding convergence with IT systems further.

Project risks of varying intensity continue to exist with a number of large-scale projects. These range from considerable margin losses due to unplanned expenditure necessary on external staff, impending losses arising and all the way through to significant conventional penalties because of project delays. These risks were duly taken into account in the annual financial statements for 2012. Nearly all large-scale projects were critically analysed early in 2013, project capacities were considerably improved and the project management teams were extended or completely replaced. Progress has been made across the board.

The Company's future development will depend heavily on whether it will be possible to deal with the critical projects as contractually agreed. If not, as described above, projects will be in danger of liquidation and/or conventional penalties might be payable. In addition, the shifting of services alone represents a sizeable liquidity risk for the Company. In order to ensure liquidity at all times, the Company's free cash & cash equivalents are continually monitored with the aid of short-term liquidity planning and medium-term demand projections. The postponement of incoming payments may have an impact on the Company's existence owing to the difficult financing situation.

Höft & Wessel AG is certified according to the international quality standard DIN EN ISO 9001:2008 and thus delivered proof of a functioning quality management system (QMS) in the course of an independent audit. The mandatory QMS rules in place for all employees and divisions are recorded in the Quality Management Manual (QMM). The increased transparency of competences and procedures achieved through this minimises the risk of incorrect interpretations and assessments.

The Höft & Wessel Group was certified in accordance with the environmental management standard ISO 14001. Moreover, the Metric subsidiary successfully met the requirements for information security laid down in ISO 27001.

6. Outlook

The Kiel-based Institute for the World Economy (Institut für Weltwirtschaft – IfW) assumes that economic activity will be revitalised in 2013. Accordingly, the global economy will grow by 3.4 per cent, a slightly higher increase in Gross Domestic Product than in the previous year. For Europe, the key region for the Höft & Wessel Group's business, a slight decline in aggregate economic output by 0.2 per cent is anticipated. In the key market for the Company, namely Germany, Gross Domestic Product is to rise by 0.6, respectively, in 2013.

As a result, the overall economic environment of the Höft & Wessel AG will be slightly better in the current financial year than in the previous year. Even though business trends of the group of companies on the whole generally appeared to be largely unaffected by cyclical influences, changed framework conditions in individual segments may result in a lower level of public-sector spending, for instance. For this reason, the industry sectors of key importance to the Company's business trends, namely public passenger transport, parking as well as the retail and logistics segment, are carefully monitored and the resultant opportunities and risks are weighted accordingly and taken into account in terms of market processing. Mega-trends and public policy measures such as a deregulation of public transport or even public-sector debt may acquire a certain relevance.

The comprehensive restructuring programme initiated in 2012 as a streamlining element was concluded according to schedule in mid-2013. Mid-2012 Höft & Wessel imposed an extensive programme consisting of over 700 individual measures. Over EUR 11 million in improvements in EBIT are generated, constituting a major lever for a definite improvement in earnings overall.

After two financial years of considerably negative results, for the financial year 2013 the Company expects to generate positive earnings before interest and taxes (EBIT). Sales revenues are expected of about EUR 62 million. For 2014, Höft & Wessel expects a further improvement in the operating result and higher sales revenues.

With the advent of the strategic investor Droege International Group AG, the medium-term refinancing, which is also an element of the streamlining process, will be ensured at prices and terms in conformity with the market and an adequate capital endowment will once again be achieved. Moreover, the new majority shareholder will enable investments to be made in research & development and in the speedy development of new products.

As a result of a comprehensive strategy package created, the Höft & Wessel AG expects more than EUR 75 million in sales revenues to be achieved by 2018. This is equivalent to a compound average annual growth rate (CAGR) of about 4 per cent. In the next few years, the Company perceives increasing demand for management, planning, guidance, information and ticketing systems, with growth rates of about 15 per cent per annum. Contributory factors in this respect are current trends like urbanisation, growing environmental awareness, ever scarcer energy supplies but also the deregulation of the public transport system, resulting in a convergence with private motorised transport and rising mobility needs. As a result of this trend, an increasing political willingness to promote public transport is identifiable.

This leads to a global establishment and extension as well as modernisation of public commuter transit systems. In the course of this development, differences are evident in tandem with the expansion of public transport. While the development in Europe tends to be rather subdued, public transport in Russia, South America and Asia is undergoing robust growth. Höft & Wessel plans to develop in these markets as a central European niche specialist for individual customer solutions for ticketing and parking as well as mobile data recording systems for the retail sector and logistics.

In future, Höft & Wessel AG will also focus on its core operations, namely Ticketing, Mobile Solutions and, increasingly, Vehicle Systems, and intensify the expansion of its service business. The concentration will lie on handling critical large-scale projects step by step in order to regain customer trust and confidence in this way and thus lay the foundations for attractive follow-up business.

On the whole, the Company anticipates increasing mechanisation and an increasing convergence with IT systems. Once the overall financial situation in Europe and across the globe has returned to normal, in the course of consolidation tendencies new competitors are also expected to emerge. This will then lead to further cost pressure on public-sector principals, along with outsourcing of services and a growing number of cooperative ventures, also against the backdrop of increasing calls for integrated, holistic solutions. All this will be accompanied by a further internationalisation of business. Höft & Wessel will benefit from this in the next several years, especially through its expertise in the field of contactless payments.

This management report contains forward-looking statements and information. Such forward-looking statements are based on current expectations of the Company and on certain assumptions. Accordingly, they give rise to a number of risks and uncertainties. Business trends of the Höft & Wessel Group are affected by a large number of factors that are beyond the sphere of control of the Company. These factors can cause the actual results, successes and performance of the Group to differ substantially from the information on results, successes and performance expressly or implicitly contained in these forward-looking statements.

B. Further disclosures

1. Remuneration Report

In addition to fixed remuneration, the Board of Management of Höft & Wessel AG receives regular, variable remuneration based on the pre-tax earnings of the Höft & Wessel Group. The non-performance-related share of remuneration is defined by the Supervisory Board in specific individual cases, taking account of professional experience, qualifications and performance. The fixing of remuneration for the members of the Board of Management is based on the economic and financial situation of the Company, as well as the extent and structure of remuneration paid to management boards of comparable enterprises. In addition, the tasks and contribution of each relevant member of the Board of Management are taken into account.

Non-performance-related remuneration comprises basic remuneration, benefits in kind and perquisites (company car, healthcare and insurance policies). The basic remuneration is disbursed monthly in the form of a salary payment. Benefits in kind essentially consist of the value of using a company car in accordance with tax regulations and allowances paid towards insurance premiums.

Half of the performance-based remuneration is paid on reaching the Group's sales and pre-tax earnings target. The maximum amount is capped in case targets are exceeded. In the event of a shortfall by more than 10 per cent, this remuneration component will be dispensed with.

Remuneration Board of Mangement in EUR thousands	Non-performance related		Performance-related		Total emoluments	
	2011	2010	2011	2010	2011	2010
Michael Höft	16	–	–	–	16	–
Thomas Wolf	223	182	40	53	263	235
Hansjoachim Oehmen	528	528	79	96	607	624
Peter Claussen	117	264	71	56	188	360

Remuneration Suporvisory Board in EUR thousands	Remuneration	
	2011	2010
Prof. Dr. Dr.-Ing. Dr. h.c. Klaus E. Goehrmann	20	20
Dr. Peter Versteegen	15	15
Michael Höft	10	10
Dr. Martin Künnemann	10	10
Rolf Wessel	10	10
Manfred Zollner	10	10

In the financial year 2011, no stock options were issued to the Board of Management. In the current year, provisions of EUR 68 k were set up for bonus payments (previous year: none).

No pension commitments have been made to the members of the Board of Management. No benefits from third parties were approved to the members of the Board of Management with regard to their activities as members thereof. If a member of the Board of Management dies during the contractual term, three monthly salaries will be paid by way of benefits to surviving dependants. In the event of illness, continued salary payment for the members of the Board of Management has been agreed for three months.

The remuneration of the Supervisory Board is governed by the articles of association and is exclusively payable in the form of a fixed salary. The Chair in this regard receives double the remuneration paid to a member of the Supervisory Board. The Deputy Chairman receives 1.5 times the remuneration paid to a member of the Supervisory Board. No payments were made to earlier Supervisory Board members. There are no commitments on the part of the Company to do so.

2. Share-related disclosures

The total nominal value of the Company's capital stock is denominated in 8,497,490 no-par-value bearer shares, with each such share representing an entitlement to exercise one vote.

H&W Holding GmbH, Burgdorf, notified us that it had a direct equity interest of 40.6 per cent in the Company's capital stock as at the balance sheet date. In the current fiscal year the H&W Holding has sold their stake in Höft & Wessel AG. After a capital increase, Droege International Group AG has a significant equity interest in the company.

Zollner Elektronik AG, Zandt, notified us that it has a direct equity interest of 10.5 per cent in the Company's capital stock as at balance sheet date. In the current financial year this stake has decreased to less than 3 per cent.

In accordance with the articles of association, the Board of Management consists of one or several persons. Deputy members of the Board may be appointed. In addition, the statutory regulations and provisions apply to the appointment and dismissal of members of the Board of Management (§§ 84, 85 AktG) and to any amendments to the articles of association (§§ 133, 179 AktG). At the Annual General Meeting held on 17 June 2010, the Company was authorised to acquire treasury shares up to a maximum amount of 10 per cent of the capital stock. This arrangement applies until 16 June 2015. The Board of Management was also authorised to redeem own shares with the consent of the Supervisory Board, without a further resolution of the Annual Shareholders' Meeting being necessary in this regard. Beyond the disclosures in the Remuneration Report, no material agreements were entered into by the Company with the members of the Board of Management or the employees concerning the terms and conditions of a change of control following a takeover bid or any compensation arrangements in the event of such a takeover bid being made.

C. Statement on Corporate Governance

The statement on corporate governance is reproduced in the Corporate Governance Report within this Annual Report as well as on the Company's website at http://www.hoeft-wessel.com/investor-relations/corporate-governance/.

D. Related parties report

In the financial year 2011, Höft & Wessel AG was an enterprise that was dependent on H&W Holding GmbH as contemplated by § 312 of the German Companies Act. For this reason, in accordance with § 312 (1) of the German Companies Act, the Board of Management of Höft & Wessel AG prepared a related parties report, which contains the following final statement: "The Board of Management declares that the Company – according to the facts and circumstances of which the Board of Management was aware at the time at which legal transactions were entered into or the measures were taken or omitted – received reasonable consideration in the course of each such transaction or that the performance of the Company was not unduly high and that the Company was thus not adversely affected by the measures taken or omitted. Finally, the Board of Management declares that no legal transactions or measures were carried out at the behest of any affiliated entities."

Hannover, 7 October 2013

The Board of Management

Balance Sheet as of 31 December 2011

ASSETS in Euro	31/1/2011	31.12.2010
A. Fixed assets		
I. Intangible assets		
1. Against payment purchased concessions, industrial property rights and similiar rights and assets as well as licences to such rights and assets	74,336.45	121,380.73
II. Tangible assets		
1. Other equipment, fixtures and fittings	1,058,171.39	2,204,043.17
2. Advanced payments made and assets under construction	12,624.50	124,587.50
III. Financial assets		
Shares in affilities	9,025,157.28	9,025,157.28
	10,170,289.62	**11,475,168.68**
B. Current assets		
I. Inventories		
1. Raw materials and supplies and trading stock	4,538,303.24	5,287,159.24
2. Work and services in progress	13,263,324.43	4,096,497.95
3. Finished goods and trading stock	8,758,364.99	11,158,346.46
4. Advanced payments made	34,886.93	767,652,85
	26,594,879.59	**21,309,656.50**
II. Accounts recervable and other assets		
1. Trade receivables	12,704,637.47	16,673,460.71
2. Receivables from affiliated companies	1,623,961.53	1,682,160,73
3. Other assets	1,627,939.32	3,279,601.50
	15,956,538.32	**21,635,222.94**
III. Cash in hand, cash at federal bank, cash balances with banks	1,854,371.65	3,905,470.55
	44,405,789.56	**46,850,349.99**
C. Accruals / Deferrals	**144,226.91**	**324,858.22**
Total ASSETS	**54,720,306.09**	**58,650,376.89**

EQUITY AND LIABILITIES in Euro	31/12/2011	31. 12. 2010
A. Equity		
I. Subscribed capital	8,497,490.00	8,497,490.00
II. Capital reserves	849,749.00	11,989,185.11
III. Accumulated loss	(1,265,671.45)	1,429,224.29
	8,081,56.,55	**21,915,899.40**
B. Provisions		
1. Pension reserves and similiar obligations	376,979.00	373,271.00
2. Tax provisions	50,000.00	730,093.56
3. Other provisions	7,050,462.62	5,982,688.03
	7,477,441.62	**7,086,052.59**
C. Liabilities		
1. Liabilities due to banks	16,232,181.87	11,963,607.64
2. Advance payments for orders	11,781,467.17	4,735,440.93
3. Trade payables	8,023,926.01	11,462,279.72
4. Liabilities to affiliated companies	708,288.95	673,807.35
5. Other liabilities	2,210,432.92	813,289.26
- thereof, arising from taxes: EUR 1,798,543.13 (Previous year: EUR 973,967.78)		
- thereof in the context of social security EUR 14,309.00 (previous year: EUR 4,209.19)		
	38,956,296.92	**29,648,424.90**
C. Accruals / Deferrals	**205,000.00**	**0.00**
Total EQUITY AND LIABILITIES	**54,720,306.09**	**58,650,376.89**

Profit and Loss Account
for the Period from 1 January to 31 December 2011

in Euro	2011	2010
1. Sales revenues	53,348,005.48	71,894,805.93
2. Increase or (decrease) of inventories relating to finished goods and work-in-progress	6,766,845.01	2,565,740.57
Aggregate output	**60,114,850.49**	**74,460,546.50**
3. Other income	1,805,617.81	1,300,009.01
4. Cost of materials and services procured		
a) Costs of raw materials and supplies and trading stock	(36,381,667.15)	(41,395,974.76)
b) Costs of received services	(6,750,960.88)	(5,183,375.63)
	(43,132,628.03)	**(46,579,350.39)**
5. Personnel expenses		
a) Wages and salaries	(15,736,399.57)	(15,255,436.28)
b) Social securit contributions and expenses of pension benefits and support – thereof, for pension benefits EUR 156,144.41 (Previous year: EUR 147,987.19)	(2,725,830.89)	(2,603,642.89)
	(18,462,230.46)	**(17,859,079.17)**
6. Depreciation and amortisation of intangible assets and property, plant and equipment	(2,031,091.34)	(1,068,202.25)
7. Other operating expenses	(10,537,052.15)	(9,196,888.79)
8. Earnings from holdings – thereof from affialiated entities: 0 (Previous year: EUR 888,888.89)	0.00	888,888.89
Earnings before interest and taxes (EBIT)	**(12,242,533.68)**	**1,945,923.80**
9. Other interests and similiar earnings – thereof from affiliated entities: EUR 38,919.02 (Previous year: EUR 38,304.19)	39,503.72	38,916.64
10. Interests and similiar disbursements – thereof to affiliated entities: EUR 15,150.07 (Previous year: EUR 18,719.88)	(1,044,841.60)	(797,057.37)
Net financial income	(1,005,337.88)	(758,140.73)
11. Earnings before taxes (EBT)	**(13,247,871.56)**	**1,187,783.07**
12. Extraordinary earnings	0.00	219,899.92
13. Extraordinary expenses	0.00	(44,133.00)
14. Extraordinary Profit/(Loss) for the year	**0.00**	**175,766.92**
15. Income taxes	271,668.36	(104,712.06)
16. Other taxes	(8,379.65)	(9,160.65)
17. Loss/Profit for the year	**(12,984,582.85)**	**1,249,677.28**
18. Profit carried forward from previous year	579,475.29	179,547.01
19 Withdrawal from capital reserves	11,139,436.11	0.00
20. Accumulated loss/profits	**(1,265,671.45)**	**1,429,224.29**

NOTES FOR FISCAL 2011

I. GENERAL

The annual financial statements of Höft & Wessel AG, Hanover were prepared in conformity with the provisions of the German Commercial Code (Handelsgesetzbuch / HGB) and Germany's Joint Stock Companies Act applicable to a large corporation. The Profit and Loss Statement is prepared in accordance with the total cost method pursuant to § 275 (2) of HGB. The Company is a large corporation as contemplated by § 267 of HGB. Its shares are traded on the Prime Standard of the Frankfurt Stock Exchange under ISIN (International Securities Identification Number) DE0006011000. The annual financial statements of Höft & Wessel AG were prepared in accordance with § 252 (1) No. 2 of HGB under the premise of continued trading as a going concern. In this context, we refer to our explanatory notes in the Management Report.

II. ACCOUNTING AND VALUATION PRINCIPLES

1.Correction, previous year

During the financial year, a reappraisal was made of a project that had already been partly settled in the preceding year. Owing to the contractual clauses, partial settlement of the services already rendered was not possible. The relevant correction postings were made on current account of the financial year 2011. This correction resulted in expenditure relating to other periods amounting to EUR 1,498 k, comprising a reduction of sales revenues by EUR 2,332 k and a compensatory increase in inventories of EUR 834 k. The deposits already collected for this project, amounting to EUR 1,822 k, were transferred to advance payments received.

2. Fixed assets

Intangible assets are valued at cost of acquisition, less scheduled depreciation or amortisation, to the extent that no extraordinary write-downs are necessary in cases where a permanent impairment of value is expected. A useful life of three to six years is generally applied as a basis. Fixed assets are shown at acquisition or manufacturing cost, less scheduled depreciation or amortisation. Depletable assets are written off over their expected useful life. Depreciation charges are taken on a straight-line basis. Assets with acquisition costs of up to EUR 1,000 are written off on a flat basis over a period of five years. Financial assets are shown at their cost of acquisition or the lower applicable value.

3. Current assets

Inventories are shown at acquisition or manufacturing cost and valued at the lower of cost or market. Raw materials and supplies and trading stock are shown at their cost of acquisition. Cost of services and goods are determined as part of material and manufacturing unit cost and incorporate an appropriate share of overheads but do not include interest on borrowed funds. Valuation decreases to the lower applicable value are performed on the basis of lump-sum obsolescence allowances, including inventory items with limited usability. Discounts of unfinished and finished goods are valued according to the principle of loss-free valuation.

Trade receivables are generally stated at their nominal value. Specific valuation adjustments are made for discernible individual risks. Receivables from affiliated companies as well as other assets are stated at their nominal value. Receivables denominated in foreign currency with a residual term of over one year are valued at amortised cost or at the lower value as at the balance sheet date. If the term to maturity of the receivable is below one year, the receivables are valued at the middle forex spot rate.

4. Provisions

Pension provisions are valued at the "Projected Unit Credit" (PUC) method, taking account of the "2005 G Tables" of Prof. Dr. Klaus Heubeck. In the process, a guaranteed, dynamic pension increase of one per cent was assumed. This provision is discounted at the average interest rate published by Deutsche Bundesbank for the past seven years, for a term to maturity of 15 years. The discount rate as at 31 December 2011 amounts to 5.14 per cent. The remaining long-term provisions are also discounted in line with their residual term to maturity at the interest rates stipulated by Deutsche Bundesbank. Based on prudent commercial judgement, other provisions are set up for impending losses, discernible risks and doubtful accounts.

5. Liabilities

Liabilities are shown at their performance value. Receivables denominated in foreign currency with a residual term of over one year are valued at their transaction price or at the higher value on the balance sheet date. Liabilities in foreign currency with a term to maturity of less than one year are valued at the middle spot forex rate. Advance payments received have been reported according to the net method since the year 2010. The value added tax paid on advances received is thus reported under Other liabilities. The still existing amounts on the balance sheet date relating to payments prior to 1 January 2010 are recorded according to the gross method under prepayments and accrued income.

6.Financial derivatives

The Company deploys forward exchange transactions, forex options and interest rate swaps (generally also referred to collectively as "derivatives") to hedge any interest and exchange rate risks. None of the derivatives is held or negotiated for speculation purposes. At the time of their first recognition and measurements at later dates, it must be established whether the requirements of § 254 of the German Commercial Code (HGB) for the formation of valuation units have been complied with. In setting up valuation units, changes in value or payment flows from underlying and hedge transactions are compared, and only a negative surplus from the ineffective portion of market value change is recorded as a provision.

Unrealised profits and losses from the effective share are fully offset and are neither recorded in balance sheet terms nor through profit and loss. Hoeft & Wessel also carries out hedge measures that do not meet these strict requirements but effectively contribute towards hedging the financial risk in accordance with the principles of risk management. The valuation of these financial derivatives, for which no valuation units were set up with an underlying transaction, is made in accordance with the imparity principle. This means that provisioning is made for negative market values, and positive market values that exceed the cost of acquisition are not recognised.

III. DISCLOSURES ON SPECIFIC ITEMS OF THE ANNUAL FINANCIAL STATEMENTS

1.Fixed assets

The breakdown of fixed assets and changes therein recognised in the balance sheet are shown in Annex 1 of the Notes. Owing to the negative performance of the Skeye Division, the fixed assets allocated to this division were subjected to a special impairment test. On account of an anticipated non-current impairment, a non-scheduled impairment of EUR 797 k was made on tools in stock. Furthermore, owing to the foreseeably long-term depreciation, the Company wrote off additional office equipment, furniture & fixtures amounting to EUR 136 k.

2.Accounts receivable and other assets

Trade receivables as well as other receivables and other assets, except for a sum of EUR 295 k (previous year: EUR 38 k), are due within a period of one year. Receivables from affiliates, amounting to EUR 1,624 k (previous year: EUR 1,682 k) comprise trade receivables (EUR 0 k; previous year: EUR 5 k), loan receivables (EUR 1,920 k; previous year: EUR 1,863 k), trade liabilities (EUR 176 k; previous year: EUR 84 k) and other liabilities (EUR 120 k; previous year: EUR 102 k). Other assets, amounting to EUR 1,628 k (previous year: EUR 3,280 k) chiefly comprise customer payments to the factoring company (EUR 896 k; previous year: EUR 2,243 k), items of collateral deposited (EUR 300 k; previous year: EUR 300 k), tenant loans (EUR 6 k; previous year: EUR 6 k) as well as creditors with debit balances (EUR 66 k; previous year: EUR 107 k) and receivables from the revenue office (EUR 218 k; previous year: EUR 100 k). Moreover, in the financial year there was also a receivable from the Swiss customs directorate amounting to EUR 52 k (previous year: EUR 36 k).

3. Equity

Subscribed capital

The total nominal value of the Company's capital stock is denominated in 8,497,490 no-par-value bearer shares, with each such share representing one vote.

Statement of changes in shareholders' equity **In EUR thousands**	**Capital stock**	**Capital reserve**	**Balance-sheet profit/loss**	**Equity in total**
Status: 1 January 2011	8,497	11,989	1,429	21,915
Dividend	–	–	(849)	(849)
Loss for the year 2011	–	–	(12,984)	(12,984)
Withdrawal from capital reserves	–	(11,139)	11,139	0
Status: 31 December 2011	**8,497**	**850**	**(1,265)**	**8,082**

Authorised capital

As at 31 December 2011, the Company's authorised capital totalled EUR 4,248,745.00 in nominal terms.

The following authorisations are in place to increase the Company's capital stock: by way of a resolution adopted at the Annual General Meeting of 17 June 2010, the Board of Management was authorised, with the consent of the Supervisory Board, to increase the Company's capital stock to a maximum of 4,248,745.00 euros by issuing new no-par-value bearer shares by 16 June 2015.

In certain circumstances, the shareholders' subscription rights may be excluded. This will be the case, for instance, where employee shares are issued in an amount of up to EUR 350,000. In addition, the shareholders' subscription rights will be excluded up to an amount of EUR 849,749.00 if the issue amount of the new shares is not substantially lower than the price of the shares subject to the same terms and conditions at the time of issue. Finally, the Board of Management is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights once or repeatedly up to a maximum total of EUR 4,248,745.00 when the new shares are issued against non-cash contributions. No shares forming part of authorised capital were subscribed to during the financial year.

Contingent capital

As at 31 December 2011, the Company had contingent capital at its disposal totalling EUR 2,543,000.00 in nominal terms, or up to 2,100,000 shares.

The following authorisations exist:

The Company's share has been raised on a contingent basis by EUR 210,000.00. The contingent capital increase will be carried out only to the extent that bearers of convertible bonds issued by the Company on the basis of the authorisation adopted at the Annual General Meeting of 11 June 1998 exercise their rights to convert bonds into new shares. The

Maturity structure of liabilities as at 31/12/2011	**Total**	**of which, residual term**		
In EUR thousands		**Up to 1 year**	**1 to 5 years**	**more than 5 years**
Liabilities due to banks	16,232	11,126	4,659	447
Advance payments for orders	11,782	11,782	–	–
Trade payables	8,024	8,024	–	–
Intra-group accounts payable	708	708	–	–
Other liabilities	2,210	2,210	–	–
	38,956	**33,850**	**4,659**	**447**

Maturity structure of liabilities as at 31/12/2010	**Total**	**of which, residual term**		
In EUR thousands		**Up to 1 year**	**1 to 5 years**	**more than 5 years**
Liabilities due to banks	11,964	7,964	4,000	–
Advance payments for orders	4,735	4,735	–	–
Trade payables	11,462	11,462	–	–
Intra-group accounts payable	674	674	–	–
Other liabilities	813	813	–	–
	29,648	**25,648**	**4,000**	**0**

Breakdown of sales **In EUR thousands**	**Domestic**	**EU**	**Others**	**Total**
New equipment and spare parts	22,114	9,903	5,374	37,391
Maintenance, repairs and other services	10,322	2,200	503	13,025
Software	2,686	492	357	3,535
Subtotal	**35,122**	**12,595**	**6,234**	**53,951**
Reductions in revenues	(533)	(44)	(26)	(603)
Total	**34,589**	**12,551**	**6,208**	**53,348**

new shares carry dividend rights starting in the fiscal year in which they are created as a result of the exercise of conversion rights. The Board of Management is authorised to stipulate further details of the contingent capital increase and execution thereof with the approval of the Supervisory Board. The Supervisory Board is authorised to amend § 3 of the articles of association in accordance with the respective utilisation of the contingent capital.

The Company's capital stock is raised on a contingent basis by up to EUR 233,000.00. The contingent capital increase is carried out only to the extent that holders of subscription rights issued under the year 2000 stock-option plan on the basis of the authorisation adopted on 9 August 2000 exercise their subscription rights. The new shares carry dividend rights starting in the fiscal year in which they are created as a result of the exercise of subscription rights. The Board of Management is authorised to stipulate further details of the contingent capital increase and execution thereof with the approval of the Supervisory Board.

The capital stock is increased on a contingent basis by up to EUR 600,000.00 by the issue of up to 600,000 no-par-value bearer shares. The contingent capital increase is carried out only to the extent that holders of subscription rights granted to persons entitled to subscription rights on the basis of the authorisation adopted at the Annual General Meeting of 17 June 2005 exercise their subscription rights. The new shares carry dividend rights starting in the fiscal year in which they are created as a result of the exercise of subscription rights. The Supervisory Board is authorised to amend § 3 of the articles of association in accordance with the respective utilisation of the contingent capital.

The capital stock is increased on a contingent basis by up to EUR 1.5 million by issuing up to 1.5 million bearer shares (contingent capital). The contingent capital increase is carried out only to the extent that the holders of convertible bonds issued and/or guaranteed on the basis of the authorisation of the Board of Management in terms of a resolution passed at the Annual General Meeting of 17 June 2005 exercise their conversion rights or, like the holders obliged to convert their bonds, comply with their conversion obligation. The new shares carry dividend rights starting in the fiscal year in which they are created as a result of the exercise of conversion rights or compliance with conversion obligations. The Board of Management is authorised to stipulate further details of the contingent capital increase and execution thereof with the approval of the Supervisory Board. The Supervisory Board is authorised to amend the wording of the articles of association in accordance with the respective size of the capital increase from contingent capital.

No shares forming part of contingent capital were subscribed to during the financial year.

Issue of subscription rights

No further subscription rights were issued during the financial year as part of the stock option plan 2005.

Acquisition of own shares

Furthermore, at the General Shareholders' Meeting of 17 June 2010 the Company was authorised, upon meeting certain conditions, to acquire own or treasury shares equivalent to no more than ten per cent of its capital stock by 16 June 2015. The Board of Management was authorised, subject to compliance with certain conditions and with the consent of the Supervisory Board without a further resolution required to be adopted at the Annual General Meeting, to sell these treasury shares at market prices in some manner other than via the stock exchange, or to use or collect them as consideration for the acquisition of other entities. This authorisation has not been exercised as yet to date.

Breakdown of financial derivatives in accordance with § 254 HGB In EUR thousands	**Term**	**Nominal value of underlying transactions**	**Recorded off balance sheet**
Devisentermingeschäfte im Rahmen von Bewertungseinheiten	2012	13,872	(410)
Zinsswap	2018	5,000	(912)
		18,872	**(1,322)**

Forward exchange transactions without valuation units In EUR thousands	**Term**	**Nominal value of hedge transactions**	**Present value**
With positive market values	2012	2,087	120
With negative market values	2012-2013	4,205	338

Balance sheet profit / (loss)

Following a resolution adopted at the Annual General Meeting of 15 June 2011, the balance sheet profit for the year 2012 was appropriated as proposed. A dividend of EUR 849 k was paid out to the shareholders. For the financial year 2011, a loss for the year of EUR 12,984 k is reported. For reconciliation purposes regarding this loss, the income statement was augmented to include the breakdown pursuant to § 158 (1) of the German Companies Act (AktG). As the annual financial statements have not been adopted as yet, it has not been possible for a decision to be reached at the Annual General Meeting regarding the appropriation of profits for the financial year.

4. Provisions

Other provisions, amounting to EUR 7,050 k, primarily consist of warranty provisions (EUR 3,596 k), impending losses (EUR 1,088), personnel (EUR 1,238 k), and outstanding invoices received (EUR 510 k). Of provisions for impending losses, an amount of EUR 333 k refers to the negative recognition of market values at imparity of financial derivatives (currency hedging).

5. Liabilities

The breakdown and maturities of liabilities are listed in the table "Maturity structure of liabilities".

6. Sales

The geographical distribution of the various types of sales revenues is shown in the table "Breakdown of sales".

7. Other operating income and expenses

Other operating income includes a total of EUR 313 k (previous year: EUR 651 k) relating to other periods. As in the previous year, other operating expenses do not include any expenses in connection with other periods. In addition, other operating income includes currency translation gains amounting to EUR 956 k (previous year: EUR 326 k). Other operating expenses include EUR 1,182 k from currency translations (previous year: EUR 1,692 k).

8. Interest expenses and income

In the financial year, expenses resulting from the accrual of provisions amounting to EUR 21 k were recorded in net profit / loss (previous year: EUR 71 k).

9. Financial derivatives

Foreign currency risks

The Company is exposed to currency risks arising from sales, purchases and loans. The decisive risks exist in the currencies USD (chiefly purchases), CHF (sales predominating by far) and GBP (purchases, sales, loans, and subsidiaries). In addition to receivables and liabilities in foreign currency, fixed contracts and planned deposits and disbursements classified as having a high probability of occurring are included in currency exposure. Foreign currency risks in the field of financing are the result of financial liabilities as well as loans denominated in GBP for the funding of subsidiaries. These foreign currency loans are long-term in nature and are not collateralised on principle.

Deferred taxes In EUR thousands	assets	liabilities
Loss carry-forwards	–	–
Provisions	384	–
Effects resulting from foreign currency valuation	–	72
Other temporary differences	–	3
Total	**384**	**75**

Contingent liabilities In EUR thousands	2011	2010
Liabilities due to guarantees	9,032	18,890
– thereof: intra-group accounts payable	–	1,162
Liabilities arising from warranties	5,000	4,000
– thereof: intra-group accounts payable	5,000	4,000

Interest risks

The Company is exposed to risks of interest rate fluctuations in the field of short-term financing of working capital. In the financial year under review, a loan agreement was entered into, taken into account to an extent of 50% in existing credit arrangements, with a volume of EUR 5 million, a 6-year term and a fixed interest rate.

Hedge measures

The implementation of strategy in the field of currency management is effected by means of current and non-current forward exchange transactions and/or simple currency options. Generally, the Company determines the effectiveness of the hedge relationship prospectively using the "critical terms match method". The effectiveness test is applied retrospectively according to the cumulative dollar offset method. To this end, in the case of the underlying and the hedge transaction the change in value on account of spot rate fluctuations are determined and brought into perspective with one another. The probability of the future transactions is classified as very high since hedges are entered into only for underlying transactions subject to fixed contracts. The counteractive payment flows eventuate within the forthcoming 24 months. The long-term expectations of minimum utilisation of credit lines with variable interest rates are hedged against the risk of interest rate fluctuations via an existing payer interest swap (pay fixed, receive variable) in the amount of EUR 5 million and a for a term until 2018. A single valuation unit was formed between this interest rate swap and the continually utilised current loan utilisations as a designated underlying trans-action. The changes in payment flows of the underlying transactions based on changes to the 1-month Euribor rate are offset by the changes in payment flows of the interest rate swap.

The effectiveness of the hedge relationship is prospectively and retrospectively reviewed using an effectiveness test at each balance sheet date. The probability of the hedged volume being utilised is considered as very high. The hedge transaction proved to be effective at the balance sheet date.

The nominal values as well as the valuation effects of financial derivatives are shown in the table "Breakdown of financial derivatives".

A breakdown of financial derivatives for which no valuation unit was set up is shown in the table below. Accordingly, a contingent loss provision was set up for financial derivatives with a negative market value. Financial derivatives with a positive market value were not booked in the accounts.

10. Deferred taxes

As regards the positive surplus of deferred tax assets over deferred tax liabilities, the option was exercised not to apply these (cf. table "Deferred taxes"). Deferred taxes were calculated at a tax rate of 31.6 %. The Company's loss carry-forwards area not included in the calculation of deferred taxes since no netting of losses is to be expected for the following five financial years.

11. Income taxes

Income taxes amounted to EUR 272 k (previous year: EUR 104 k) had a positive impact on net profit or loss from ordinary activities.

IV. OTHER MANDATORY DISCLOSURES

1. Information on employees

Determined in accordance with Sect. 267 (5) of the German Commercial Code (HGB), the workforce averaged 303 persons employed (previous year: 298).

Shareholdings In EUR thousands	Shares	Equity 31/12/2011	Net income/ (-loss) 2011
a) Shares held directly			
Höft & Wessel Traffic Computer Systems GmbH, Hanover	100 %	83	1
Skeye Partner Support Center GmbH 2)	100 %	750	(58)
Metric Group Holdings Ltd., (MGHL), Swindon (United Kingdom)	100 %	3,642[1]	(270)[1]
b) Shares held indirectly (via MGHL)			
Metric Group Ltd. (MGL), Swindon (United Kingdom)	100 %	13,703[1]	2,204[1]
c) Shares held indirectly (via MGHL):			
Metric Group Inc., New Jersey (USA)	100 %	139[1]	(377)[1]

[1] Shareholders' equity and net income in the individual annual financial statements presented according to national GAAP in GBP and USD was translated at the exchange rate on the balance sheet date and at the average annual exchange rate, respectively. GBP: 0.83530; 0.86787, USD: 1.29390; 1.39215.
[2] Renamed in the previous year, previously trading as Höft, Wessel & Dr. Dreßler GmbH, Leipzig.

2. Contingent liabilities

The contingent liability relationships are listed in the table below. At the time the financial statements were prepared, there were no indications that any claims could be made on the Company on account of these contingent liabilities. In the past, a claim was made only in extremely rare cases. The guarantees essentially are performance guarantees, warranties and advance payment guarantees to customers of Höft & Wessel AG. In addition, Höft & Wessel AG has undertaken to assume joint liability for the credit lines utilised by the subsidiary Metric Group Limited.

3. Other financial obligations

The total amount of other financial obligations for office rent, furniture and fixtures, software, purchase commitments, car leases, payments to provident funds and the leasing of an equipment pool amounted to EUR 12,733 k as at 31.12.11 (previous year: EUR 15,088 k). Of this sum, an amount of EUR 2,300 k is due within one year (previous year: EUR 2,418 k), EUR 4,787 k in one to five years (previous year: EUR 5,895 k) and EUR 5,646 k in over five years (previous year: EUR 6,775 k).

4. Off-balance sheet liabilities

In addition to leasing obligations listed under other financial liabilities with regard to assets sold and subsequently re-leased within the scope of a sale and lease-back agreement (buildings and equipment hire pool) and liabilities arising from derivatives (forward exchange transactions and interest rate swaps), there are other off-balance sheet liabilities on the books.

Thus, as at the balance sheet date, trade receivables totalling EUR 3,925 k were sold within the scope of a genuine, silent factoring arrangement (previous year: EUR 5,602 k). Moreover, during the financial year an amount of EUR 100 k was paid into a provident fund, as in the previous year. This concerns an old-age pension commitment. As an indirect obligation arising from a commitment to a vested entitlement to a pension, these amounts are recognised as personnel expenses in the year of their payment.

5. Shareholdings

An overview of directly and indirectly held shares is presented in the table "Shareholdings".

6. Collateral

For a loan with a term to maturity until 2017 in the amount of EUR 5 million, ownership of the inventory equivalent to a sum of EUR 7,942 k was transferred as collateral security.

7. Management bodies

Members of the Management Board

Rudolf Spiller
(since 17 July 2012)
CEO
Sales & Marketing, Research & Development,
Supply Chain, Projekt Management, Administration
Metric Group Holdings Ltd., Swindon
(Managing Director; since 24 September 2012)

Michael Höft
(from 9 December 2011 to 31 December 2012)
Chairman of the Board of Management
Finance & Administration, Produktion, Service
Business Divisions: Metric und Skeye
Metric Group Holdings Ltd., Swindon
(Managing Director; from 16 January 2012 to
31 December 2012)

Dipl.-Ing. Thomas Wolf
(until 23 May 2012)
Board of Management
Sales, Procurement, Marketing
Business Divisions: Almex and Skeye
Metric Group Holdings Ltd., Swindon
(Board of Directors; since 8 June 2011 to 18 March 2013)
Skeye Partner Support Center GmbH, Leipzig
(Managing Director; from 31 May 2011 to 18 March 2013)

Dipl.-Kfm. Hansjoachim Oehmen
(resigned on 16 January 2012)
Chairman of the Board of Management
Finance & Administration, Production, Service
Business Divisions: Metric and SkeyeMetric Group Ltd.,
Swindon
(Managing Director; until 16 January 2012)
Metric Group Holdings Ltd., Swindon
(Board of Directors; until 16 January 2012)
Metric Inc., New Jersey (USA)
(Board of Directors; until 16 January 2012)

Dipl.-Inform. MBA Peter Claussen
(resigned on 8 June 2011)
Deputy Chairman of the Board of Management
Marketing, Sales, Service, Production
Business Division: Skeye
Metric Group Holdings Ltd., Swindon
(Board of Directors; until 8 June 2012)
Skeye Partner Support Center GmbH, Leipzig
(Managing Director; until 31 May 2011)

Members of the Supervisory Board

Prof. Dr Dr-Ing. Dr. h.c. Klaus E. Goehrmann
Supervisory Board Chairman
Chairman of the Board of the International Neurobionics Foundation, Hannover
Other Supervisory Board seats:
VSM Vereinigte Schmirgel- und Maschinenfabriken AG, Hannover
MAN Truck & Bus AG, Munich
HMTG Hannover Marketing und Tourismus GmbH, Hannover (Chairman)
AB Inbev Holding Deutschland GmbH, Bremen
BauWo Grundstücks AG, Hanover (Deputy Chairman)
Internationale Schule Hannover Region GmbH, Hanover
VHV Vereinigte Hannoversche Versicherungen
(Chairman of the Executive Board)

Dr. Peter Versteegen
Deputy Supervisory Board Chairman
Lawyer (partner in law firm Freshfields Bruckhaus Deringer LLP)

Michael Höft
(resigned on 8 December 2011)
Businessman
Dr Martin Künnemann
Auditor (Partner Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft)

Hinrich Peters
(appointed on 27 March 2012)
Tax consultant

Rolf Wessel
(resigned on 20 December 2012)
Businessman

Manfred Zollner
(resigned on 28 January 2013)
Businessman
Other Supervisory Board seats:
Zollner Elektronik AG, Zandt (Chairman)
PA Power Automation AG, Pleidelsheim

8. Corporate Governance
The statement of conformity with the German Corporate Governance Code was issued by the Board of Management and Supervisory Board and made available permanently to the shareholders on the Company's website.

9. Disclosures relating to the Consolidated Financial Statements
Höft & Wessel AG is the parent company of the affiliates and subsidiaries listed in the section "Shareholdings" and required to prepare consolidated financial statements in accordance with § 290 HGB. Being an enterprise listed on the stock markets, in addition it is required by Ordinance (EC) No. 1606/2002 of the European Parliament and Council of 19 July 2002 relating to the application of international accounting standards (known as the "IAS Ordinance") to prepare its consolidated financial statements according to the International Financial Reporting Standards (IFRS). Pursuant to § 315a of HGB, Höft & Wessel AG is exempted from having to prepare additional consolidated annual financial statements in accordance with German commercial law (German GAAP). However, in addition to IFRS, the Company is required to continue complying with certain HGB provisions, such as the need to prepare a consolidated management report. The IFRS Consolidated Financial Statements are published in the Federal Gazette (Bundesanzeiger) and thus filed in the Electronic Commercial Register.

10. Disclosures concerning the auditor

The need for disclosure pursuant to § 285 Sentence 1 No. 17 of HGB was dispensed with since the Company is included in consolidated financial statements, in which the relevant disclosure is made.

11. Disclosures relating to equity interests in accordance with § 160 of the German Companies Act *(Aktiengesetz)*
H & W Holding GmbH, Burgdorf, notified us in accordance with § 20 (1) of AktG that it had a direct equity interest of 40.6 per cent in the Company's capital stock as at the balance sheet date. In current fiscal year the H&W Holding has sold their stake in Höft & Wessel AG. After a capital increase, Droege International Group AG has a significant equity interest in the company.

Zollner Elektronik AG, Zandt, notified us in accordance with § 21 (1) of WpHG that it has a direct equity interest of 10.5 per cent in the Company's capital stock as at balance sheet date. In current financial year this stake has decreased to less than 3 per cent.

12. Remuneration Report

In addition to fixed remuneration, the Board of Management of Höft & Wessel AG receives regular, variable remuneration based on the pre-tax earnings of the Höft & Wessel Group. The non-performance-related share of remuneration is defined by the Supervisory Board in specific individual cases, taking account of professional experience, qualifications and performance. The fixing of remuneration for the members of the Board of Management is based on the economic and financial situation of the Company, as well as the extent and structure of remuneration paid to management boards of comparable enterprises. In addition, the tasks and contribution of each relevant member of the Board of Management are taken into account. Non-performance-related remuneration comprises basic remuneration, benefits in kind and perquisites (company car, healthcare and other insurance policies). The basic remuneration is disbursed monthly in the form of a salary payment. Benefits in kind essentially consist of the value of using a company car in accordance with tax regulations and of allowances paid towards insurance premiums. In the financial year 2011, the following bonus-related remuneration was deferred for the members of the Board of Management: Michael Höft EUR 0 (previous year: EUR 0), Thomas Wolf EUR 0 (previous year: EUR 54 k), Hansjoachim Oehmen EUR 0 (previous year: EUR 108 k), Peter Claussen EUR 68 k (previous year: EUR 97 k). Half of the performance-based remuneration is paid on reaching the Group's sales and pre-tax earnings target. The maximum amount is capped in case targets are exceeded. In the event of a substantial shortfall, this remuneration component will be dispensed with. No stock options were issued to the Board of Management in the financial year 2011. No pension commitments have been made to the members of the Board of Management. No benefits from third parties were approved to the members of the Board of Management with regard to their activities as members thereof. If a member of the Board of Management dies during the contractual term, three monthly salaries will be paid by way of benefits to surviving dependants. In the event of illness, continued salary payment for the members of the Board of Management has been agreed for three months. The remuneration of the Supervisory Board is governed by the articles of association and is exclusively payable in the form of a fixed salary. The Chair in this regard receives double the remuneration paid to a member of the Supervisory Board. The Deputy Chairman receives 1.5 times the remuneration paid to a member of the Supervisory Board. No payments were made to former members of the Board of Management or to former members of the Supervisory Board. There are no commitments on the part of the Company to do so.

A table with the individualised remuneration of the Board of Management and the Supevisory Board is located on page 12 in the consolidated mangement report. In fiscal 2011 paid total remunerations amount to EUR 75 k for the Supervisory Board and EUR 1.07 million for the Management Board.

13. Changeover to implement the “BilMoG” in the year 2010; extraordinary profit/loss in previous year

Since 1 January 2010, application of the changes within the scope of the Accounting Law Modernisation Act (BilMoG) has been mandatory. The effects on profit and loss arising from the valuation changes were identified as at 1 January 2010 and reported under extraordinary profit/loss.

Hannover, 7 October 2013

The Board of Management

Annex 1

Composition and development of fixed assets in Euro	Acquisition costs Status 01/01/2011	Additions	Disposals	Transfers	Status 31/12/2011
I. Intangible assets					
Concessions, industrial property rights and similiar rights and assets, including licences to such rights and assets	3,476,586.35	45,165.53	505,473.85	9,375.00	3,025,653.03
II. Tangible fixed assets					
1. Other equipment, fixtures and fittings	11,962,055.96	676,255.12	1,929,877.75	115,212.50	10,823,645.83
2. Advance payments on assets under construction	124,587.50	12,624.50	–	(124,587.50)	12,624.50
	12,086,643.46	**688,879.62**	**1,929,877.75**	**(9,375.00)**	**10,836,270.33**
III. Financial assets					
Shares of affiliates	32,077,460.81	–	–	–	32,077,460.81
Total	**47,640,690.62**	**734,045.15**	**2,435,351.60**	**0.00**	**45,939,384.17**

	Accumulated depreciations				Rest book value	
	Statis 01/01/2011	Additions	Disposals	Status 31/12/2011	Status 31/12/2011	Status 31/12/2010
	3,355,205.62	101,584.81	505,473.85	2,951,316.58	74,336.45	121,380.73
	9,758,012.79	1,929,506.53	1,922,044.88	9,765,474.44	1,058,171.39	2,204,043.17
	–	–	–	–	12,624.50	124,587.50
	9,758,012.79	**1,929,506.53**	**1,922,044.88**	**9,765,474.44**	**1,406,310.01**	**2,328,630.67**
	23,052,303.53	–	–	23,052,303.53	9,025,157.28	9,025,157.28
	36,165,521.94	**2,031,091.34**	**2,427,518.73**	**35,769,094.55**	**10,170,289.62**	**11,475,168.68**

Auditor's Certificate

Provided the annual financial statements as at 31 December 2011 are adopted in the version on which these annual financial statements are based, we have issued an unqualified audit certificate as follows:

"We have audited the annual financial statements - consisting of the balance sheet, income statement, and the notes – including the accounting and management report of Höft & Wessel Aktiengesellschaft, Hannover, for the financial year from 1 January to 31 December 2012. The Board of Management of the Company is responsible for the accounting and for preparing the annual financial statements and management report in accordance with the German Commercial Code (HGB). Our task is to make an assessment of the annual financial statements, including the accounting and management report, on the basis of the findings of our audit.

We carried out our audit of the annual financial statements in accordance with Section 317 HGB subject to compliance with the German generally accepted accounting principles established by the German Institute of Auditors (Institut der Wirtschaftsprüfer - IDW). Accordingly, the audit is to be planned and carried out in such a manner as to ensure that any misstatements and violations that might have a substantial impact on the presentation of the annual financial statements and on the overall impression conveyed by the management report as regards the Company's asset, financial and earnings position, taking account of the applicable German GAAP accounting regulations, can be identified with an adequate degree of certainty. In determining the audit steps, knowledge of the business activities and of the Company's business and legal environment is taken into account along with expectations of possible errors and omissions. Within the scope of the audit, the effectiveness of the accounting-related internal control system as well as evidence to support the information contained in the accounting records, the annual financial statements and management report are assessed predominantly on the basis of random samples. The audit comprises an assessment of the accounting principles applied and key assessments of the Board of Management as well as considering the overall presentation of the annual financial statements and management report. We are of the opinion that our audit constitutes an adequately secure basis for our assessment.

Our audit gave rise to no objections.

According to our assessment based on the findings of our audit, the annual financial statements are in conformity with the statutory requirements and convey a true and fair view, taking account of the principles of the German Commercial Code, of the asset, financial and earnings position of Höft & Wessel Aktiengesellschaft. The management report is in conformity with the annual financial statements and, as a whole, conveys a true and fair view of the Company's situation and of the opportunities and risks relating to future developments.

Without expressing any limitations on this assessment, we refer to the statements made by the Board of Management in the management report. In its report, in Section "3.5 General Statement by the Board of Management", the latter explained that in case the capital measures described are not carried out or in the event of unforeseen liquidity outflows owing to project risks or if the operational streamlining measures adopted do not yield the expected results, the Company will be insolvent and lose its status as a going concern."

Hannover, 7 October 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Thiele	Frahm
Auditor	Auditor

BALANCE SHEET OATH

Responsibility Statement ("Bilanzeid") in relation to the annual financial statements in accordance with § 37 y No. 1 of WpHG, read in conjunction with § 297 (2) sentence 3 of the German Commercial Code – HGB:

"To the best of our knowledge, and in accordance with the applicable reporting principles, the single-entity financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company."

Hannover, 7 October 2013

The Board of Management

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