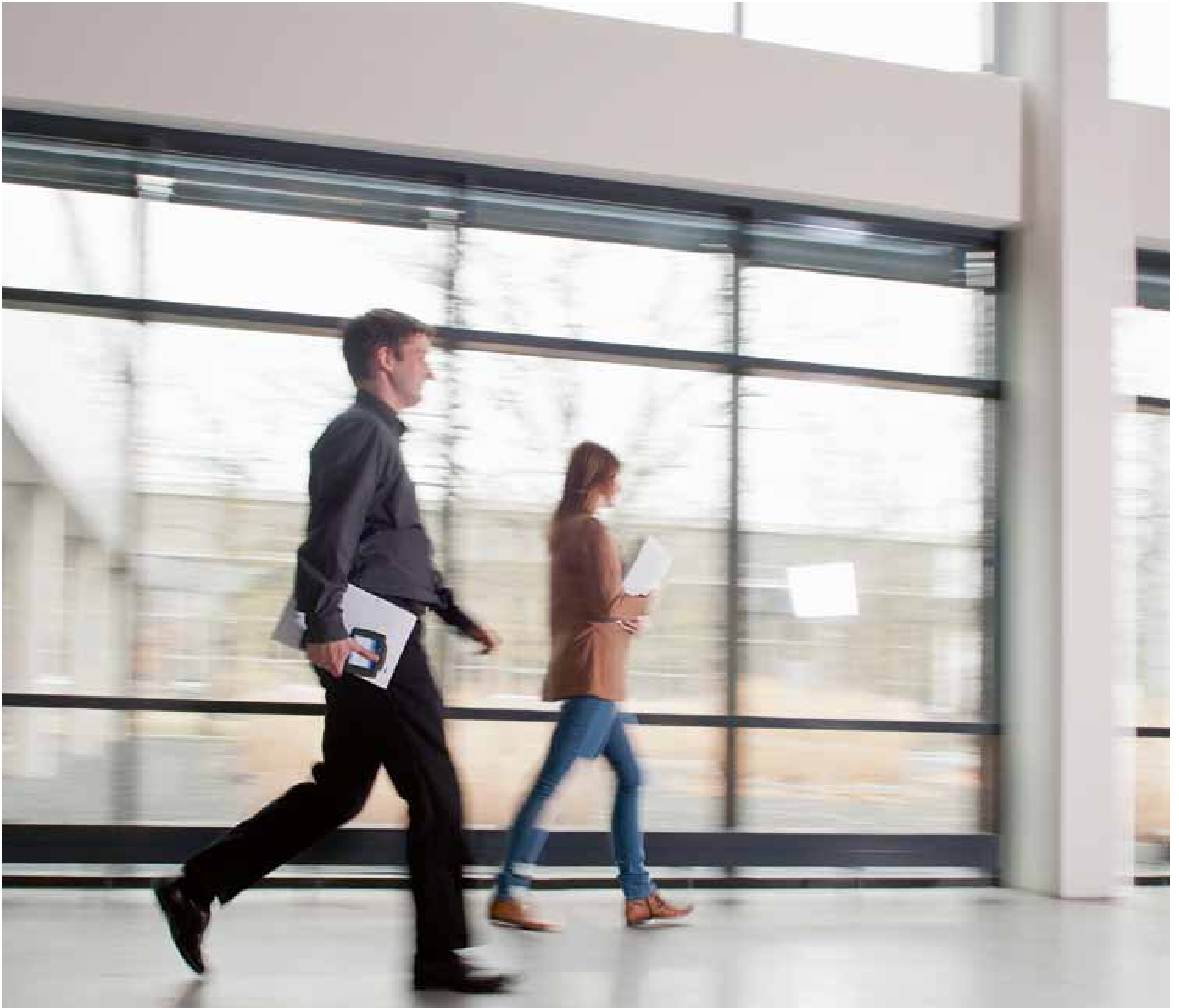
HÖFT & WESSEL



ANNUAL REPORT 2012

H&W 2.0

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	2012	2011	2010	2009	2008
Sales revenues	78,875	86,252	94,828	94,098	98,072
Operating result before depreciation and amortisation (EBITDA)	(7,801)	(4,769)	6,546	7,569	9,591
Operating result (EBIT)	(10,795)	(16,090)	1,419	3,076	(3,545)
in % of sales revenues	–	–	*1.5*	*3.3*	–
Earnings before taxes (EBT)	(13,246)	(17,194)	502	2,081	(5,023)
in % of sales revenues	–	–	*0.5*	*2.2*	–
Group earnings	(12,983)	(18,970)	1,888	1,854	(6,751)
Earnings per share (in EUR)	(1.53)	(2.23)	0.22	0.22	(0.79)
Dividend (in EUR)	–	–	0.22	0.08	–
Contribution margin (in per cent[1])	42,9	37,5	43,1	41,7	42,0
Cash flow from operating activities	(1,378)	(2)	8,654	5,933	1,456
Average number of employees	475	497	500	503	502

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

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PREFACE

Dear Readers,

In October 2013, it can be said with firm conviction that the streamlining of Höft & Wessel AG has been successfully accomplished. And we can say so even though the overall impacts of the streamlining measures have not yet fully materialised, with various elements of the streamlining still being required to be finally implemented. Within the past twelve months, both a performance-related and a financial restructuring programme have been carried out. In supplementation of these, a Strategy 2018 was defined, paving the way for a successful future for the Company. The prerequisites for this future have been created; the realisation still lies ahead of us. This phase of reorientation of the Höft & Wessel Group also extends to include the annual accounts and the auditor's certificate to the annual financial statements for 2011 and 2012, which can only be provided once the preconditions for a going concern have been met.

The massive losses that became evident in the 4th quarter of 2011 were the starting point, leading to extensive changes – also on the Board of Management of Höft & Wessel AG. In the spring of 2012, a streamlining expertise was presented to the financing institutions, confirming the Company's ability to continue trading as a going concern in certain circumstances. This expert opinion identified significant deficiencies throughout the Company and called for necessary improvements to this situation. The first solution proposals served as the basis for preparing a streamlining programme launched by the new Board of Management in July 2012.

The objective as stated in this streamlining programme was: "Restructuring and refinancing of H&W by means of a holistic multi-project H&W 2.0". While the restructuring was divided up into a restrictive and a constructive phase, as part of the refinancing the primary focus was on reducing the Company's level of debt and on procuring fresh capital. Moreover, the trust and confidence of all stakeholders was to be reinforced and rebuilt, respectively, and the foundations were to be laid for a complete strategic reorientation.

During the restrictive phase of the restructuring, the focus initially was on very short-term measures to avoid the acute threat of insolvency resulting from the very limited liquidity situation. In addition, the plan was to cut costs speedily as sales revenues had dropped by over 20 per cent compared with the year 2010 owing to the expiry of a number of large-scale projects. A cutback in the size of the workforce by 72 persons was just as unavoidable as the reduction of all key cost items.

Together with the measures implemented at short notice to cut costs during this restrictive phase, constructive elements for the streamlining programme – such as a changed structural and procedural organisation, new leadership structures as well as working capital measures and changed procurement terms and conditions – were defined as elements of the restructuring section and implemented by 30 June 2013, far beyond the target parameters originally laid down. What is worthy of particular emphasis are the firm working capital measures, which made it possible to secure the Company's liquidity. This turned out to be quite successful, seeing as we have not made use of the anticipated additional capital of EUR 3.5 million indicated in the streamlining expertise to the present day.

In addition to the sub-projects mentioned, we also had to contend with setbacks. For instance, along with those employees whose contracts had been terminated, a further 27 persons left after giving notice themselves. As a result, the Company's ability to perform was further weakened due to the loss of a total of nearly 100 employees since 30 June 2012. Following the resignation of the CEO, Mr Michael Höft, at the end of 2012, the Board of Management was downsized to only one person and the second managerial level reflected gaps in key functions, such as the Management of Research & Development as well as the Management of Sales. During the same period, there was evidence of serious project deficiencies, resulting in substantial threats of conventional penalties from customers owing to the delayed deliveries in the period from the summer of 2011 until the end of 2012. In particular, due to these problems with projects, corrections were necessary to the results for the financial years 2011 and 2012.

It was only thanks to the stringent work procedures in realising the potential inherent in Höft & Wessel AG and Metric, as identified during the realisation of the H&W 2.0 project, as well as the level of commitment and dedication of the remaining workforce (which deserves particular recognition and emphasis) as well as the understanding and cooperation of our customers in resolving all problems that we also succeeded in overcoming these additional challenges described above.

Within the scope of the Company's reorientation launched in 2013, with a core team we managed to develop a strategy 2018 and to communicate it internally within the Company. In addition to the formulation of our vision and mission statement, a key element in developing this strategy was the definition of guidelines with the objective of improving the level of customer orientation on sustainable basis. And finally, the highly sophisticated and ambitious requirement is documented externally by the customer-oriented motto "Solution Partner for your Success".

Furthermore, early in 2013 we launched a structured process to acquire an investor and provider of equity capital. In the course of this process, we succeeded in convincing a potential investor of our "convalescence potential" with our performance delivered as part of the H&W 2.0 streamlining project. Moreover, our Strategy 2018 and meanwhile newly acquired specialists and managerial

staff as well as the restructuring concept also supported jointly by the financing institutions have served to convince the investor.

What I would like to emphasise in particular in this context are the financing institutions. By closing ranks with our Company, the financers supported our going concern efforts and believed our forecasts. Against the backdrop of this progress made, the financing institutions of Höft & Wessel were willing to continue negotiations with us regarding a long-term refinancing with us and to prolong the existing lines of credit on several occasions and to agree to a moratorium on repayment of principal. The financers made it possible for us to contractually agree to the solution concerning the refinancing arrangement.

A further key partnership for Höft & Wessel AG is the arrangement with Zollner Elektronik AG, headquartered in Zandt (Bavaria). In order to further extend our competitive position, the product origination process must likewise be further improved. For this reason, the close and long-standing partnership with Zollner Elektronik AG – a company with a global reach – will be further expanded. Thanks to the broadly based and diversified industry positioning and the variety of technology solutions of this family enterprise, Höft & Wessel AG can rely on a competent partnership. Accordingly, objectives such as reduced production and delivery times as well as a further improvement in quality can be achieved on an optimum and sustainable basis.

Following the advent of the investor, we plan to significantly boost investments in research and development and to implement the initiatives defined within the scope of the Strategy 2018. In the second half of 2013, a positive operating cash flow is expected. Together with the fresh liquidity that will be available thanks to the capital measures and the investor found, it will be possible for the urgently necessary investments in new product development to be made on the one hand, and the advance financing for an existing customer project to be carried out on the other.

By means of the described path out of the crisis since it became known in 2011, there is a high probability that Höft & Wessel will return to its former strength after the financial years 2012 and 2013. The past 12 months have shown that we are also quite capable of sailing in rough seas. With our crew members that we meanwhile have on board, our plan is not to reach calmer waters but to face the challenging tasks that lie ahead of us instead. It is our firm conviction that we will overcome these as well.

The successes of the streamlining programme initiated in mid-2012 will already be reflected in the business figures for this year. Following two years of substantial losses, we assume that we will accomplish the turnaround in 2013 and expect to reach positive earnings territory. Within the Höft & Wessel Group, an earnings potential of over EUR 12 million will be realised as a full-year effect by the end of 2013, in relation to 31 December 2011.

On the financial side, the entry of the investor in combination with the financing banks' waiver of receivables has brought about a substantial improvement. The burden of borrowed funding is now sustainable on a long-term basis. There is also a significant improvement in terms of equity capital. Moreover, the new principal shareholder considers himself a proactive partner in endorsing the business operations of the Höft & Wessel Group.

After the successful restructuring, the forward-looking reorientation, the new management structure and team, the long-term refinancing and the new strategic investor, coupled with the extension of the partnership with Zollner, Höft & Wessel AG has returned to a successful track record. The Company anticipates the turnaround in business this year, followed by sustainable and successful business trends in the years to follow.

We wish to express our gratitude to our customers and suppliers, shareholders as well as all stakeholders for their assistance in a spirit of mutual partnership in the past several months.

In particular, I would like to thank the employees of Höft & Wessel for successfully mastering the many and various challenges they have faced.

Hannover, October 2013

The Board of Management

Rudolf Spiller, CEO

REPORT OF THE SUPERVISORY BOARD

In the financial year 2012, 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 Company's streamlining progress and refinancing 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 and, where necessary at short notice 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 2012, the Supervisory Board convened for seven meetings, and the financial committee for one meeting. 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:

- In 2012, the Supervisory Board dealt very intensively with the streamlining of the Company.

- 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. In the second half of the year, the information was chiefly sourced from the risk identification and evaluation system initiated by Rudolf Spiller, the newly appointed member of 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.

- The Supervisory Board dealt extensively with the management structure to secure the future of the Company. In the wake of careful discussions, it decided to downsize the Board of Management.

- 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 2012 and will be formulating its objectives accordingly.

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

- 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.
- As at 31 December 2012, the Supervisory Board terminated Mr Michael Höft's mandate as a member of the Board of Management at his own request. Since 1 January 2013, the Company has been run by one Board of Management member, Mr Rudolf Spiller.

The annual financial statements, the consolidated financial statements, the management report and consolidated management report as well as the related parties report for the year 2012 were audited by the auditor appointed 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 2012 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 2012; 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 2012.

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 15 May 2012 and will continue to do so in future, subject to the following few exceptions:

- Annual General Meeting (No. 2.3.1)
  Due to the Company's restructuring phase, including the ongoing negotiations to conclude a long-term financing arrangement, it was only possible to publish an incomplete version of the annual financial statements for 2011, which is why no Annual General Meeting was held in 2012.

- 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.

- Accounting (No.7.1.2)
  Due to the Company's restructuring phase, including ongoing negotiations on concluding a long-term refinancing arrangement, it was not possible for the consolidated financial statements for 2011 and 2012 to be finally audited; for this reason these statements were not capable of being published, like the subsequent quarterly reports.

Since the last declaration of conformity was issued in March 2012, Höft & Wessel AG has been in compliance with the Code in its version of 15 May 2012, subject to the exceptions stated in the last declaration of conformity.

Hannover, 25 April 2013

[See also http://www.hoeft-wessel.com/investor-relations/corporate-governance/entsprechenserklaerung/]

(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 2013 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) 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) 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 2012 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 2012, no securities transactions were reported to Höft & Wessel AG. On 14 February 2013, H&W Beteiligungsgesellschaft mbH, Hamburg, reported that it acquired 24.90 per cent of voting rights through the acquisition of shares. On 25 July 2013, Droege International Group AG, Düsseldorf, reported that it holds 37.12 per cent of the voting rights in Höft & Wessel AG.

The stock portfolio of members of management bodies and their family members as at 31 December 2012 was as follows:

Stock portfolio of management body members	Shares	Stock options
Supervisory board:		
– Manfred Zollner	1,500	
Board of management:		
– Michael Höft	36,527	

Anteilseigner und nahestehende Unternehmen mit maßgeblichem Einfluss	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.

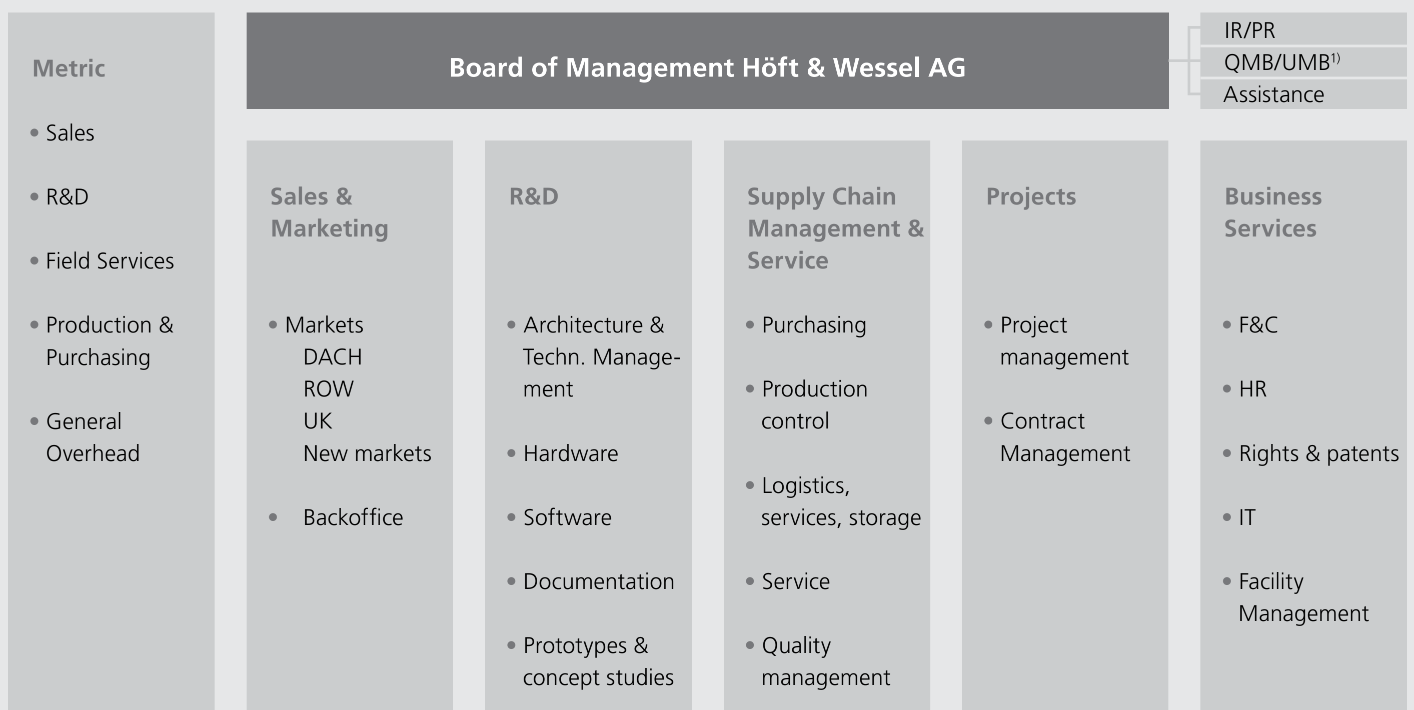
In addition, employees in managerial functions are required to implement the insider directives and to inform their designated members of staff in doing so. New employees in key positions are briefed in particular detail on the legal framework and terms when commencing employment. They too are required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

H & W 2.0 – NEW PROCESSES AND ORGANISATION

Within the scope of the reorientation of the Höft & Wessel Group, the business processes were also redefined and the organisational structure was adjusted accordingly. The core business of this technology enterprise is now handled by the three processes described as order procurement, defining solutions, executing orders as well as supporting services. By means of this optimisation of internal processes, Höft & Wessel AG has improved its orientation towards meeting customer needs even further. The new processes have made it possible to further simplify the organisational structure. In future, immediately below the Board of Management there will be a management level consisting of five Managers as well as the Managing Director of the Metric subsidiary. These assume responsibility for the operational business of the Company listed on the stock exchange.

Order acquisition process

Organisation chart



[1] Quality and Environmental Management Officers

SHARE – PERFORMANCE AND LIQUIDITY

Höft & Wessel's share price declined by 36 per cent in 2012, continuing the previous year's trend (2011: –32 per cent). During the same period, the benchmark index Technology All Share was up by 17 per cent and the German key DAX index by as much as 25 per cent. The negative share price performance reflects the corporate phase of restructuring of the public limited company under German law.

The highest Xetra closing price for Höft & Wessel shares amounted to EUR 2.91 (2011: EUR 4.23). This was achieved on 29 January 2012 with a below-average trading volume at the time. On 26 October 2012, the lowest level was reached with a Xetra closing price of EUR 1.57 (2011: EUR 2.39). The average price came to EUR 2.12 (2011: EUR 3.41).

The average volume per trading day on all stock exchanges amounted to approx. 5,430 (2011: approx. 7,700) shares. The primary trading location is Xetra, with an average of approx. 3,100 (2011: approx. 5,200) shares traded. The average trading volume in the fourth quarter came to approx. 7,200 shares, considerably higher than the average for the first nine months of the year, in the region of 4,800 shares.

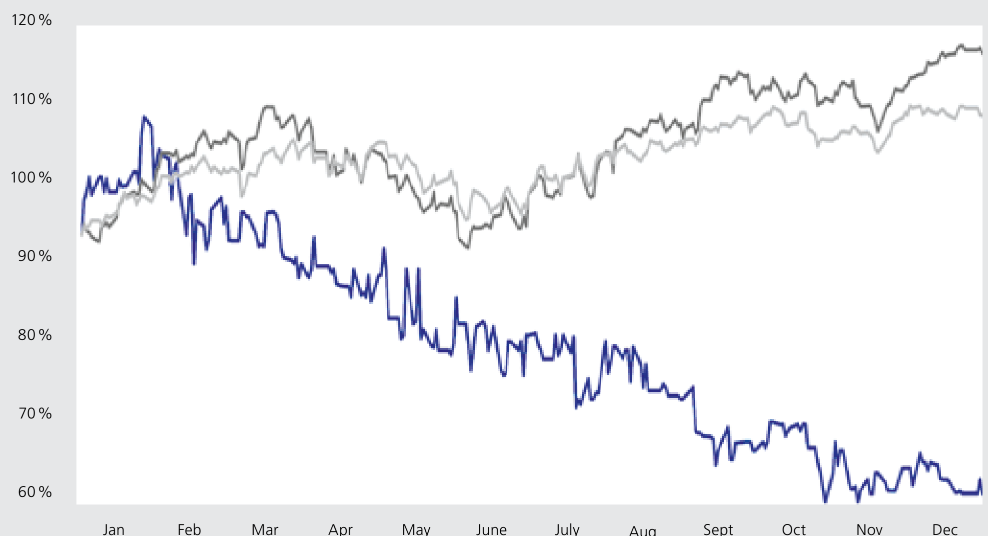
As in the past, the fluctuation bandwidth of the liquidity expressed by the number of shares traded remains very high.

The highest daily gain of Höft & Wessel shares in 2012 came to 10.2 per cent and was achieved on 11 May 2012 on below-average trading volumes. A causal link to corporate reports was not discernible. The highest trading volume across all stock market locations of approx. 67,000 shares (2011: approx. 72,000) was achieved on 11 December 2012, when the share price was down by 3 per cent. Again, no causal link with corporate reports is discernible.

On the whole, it was established that the liquidity of Höft & Wessel shares, expressed in an average trading volume of approx. 5,400 shares in 2012, declined year-on-year. The average trading volume in relation to all stock exchange locations was substantially lower by approx. 30 per cent, and on the Xetra trading platform by as much as approx. 40 per cent.

Share	Performance 2012
ISIN:	DE0006011000
Symbol:	HWS
Type of share:	Bearer shares without par-value
Stock exchange:	Frankfurt, Germany – Prime Standard
Sector:	Technology
Index:	Technologie All Share
Reuters:	HWSG.DE
Bloomberg:	HWS GR
Number of shares:	8,497,490
Market capitalisation:	EUR 13.8 million (28/12/2012)

Höft & Wessel in comparison to DAX and Technology All Share index



CONSOLIDATED MANAGEMENT REPORT ON FISCAL 2012

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 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. 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. Statement of fundamentals and business operations

2.1 General economic conditions

Figures presented by the Institute for World Economy in Kiel (IfW) indicate that global economic growth in 2012, at 3.2 per cent, turned out to be slightly weaker year-on-year. For the business activities of the Höft & Wessel Group, Europe with its two home markets of Germany and the United Kingdom is of particular significance. According to the IfW, economic growth in Europe declined by 0.6 per cent in 2012. In contrast, Gross Domestic Product in Germany rose moderately by 0.7 per cent and in the United Kingdom by 0.2 per cent.

2.2 Business trends

In 2012, the Höft & Wessel Group generated EUR 78.9 million in sales revenues. Compared with the previous year, sales revenues declined by 9 per cent owing to the ongoing restructuring and reorientation (2011: EUR 86.3 million).

With the delivery of an EMV contactless ticketing system (Europay/ Mastercard/Visa) for buses as part of a large-scale order to the FirstGroup and the leading position of the Metric (Parking) segment in the market for car park terminals, the share of sales revenues contributed by the United Kingdom rose significantly. Europe's share of sales revenues likewise rose thanks to the supply agreement for ticketing terminals with the Belgian state railway SNCB. In Germany, as in the previous years the development of business was dominated both by services to regular customers in the Almex (Ticketing) segment, such as to Deutsche Bahn and Hamburger Hochbahn and in the Skeye (Mobile Solutions) segment such as the delivery of mobile data capture devices to retail grocery store organisations like Edeka and Rewe.

According to a revenue breakdown, Germany remained the key sales market at 38 per cent, followed closely by the United Kingdom at 32 per cent. 16 per cent was accounted for by the remaining EU countries, and Switzerland, the USA and other countries generated 14 per cent.

The operating result (EBIT) again was clearly in negative territory in 2012, at –EUR 10.8 million (2011: –EUR 16.1 million). The operating result for 2012 includes EUR 4.0 million in expenditure on severance pay and consultancy in connection with the restructuring.

Despite the negative annual results in the years 2011 and 2012, the existing lines of credit were sufficient to cover the liquidity requirements of the Höft & Wessel Group in 2012. The operating cash flow turned out negative for the year 2012 as a whole, at –EUR 1.4 million; in contrast, reduced investments had an impact on the cash flow from investment activities, which changed from –EUR 4.3 million to –EUR 2.3 million.

The positive order intake trend also continued in the fourth quarter. In 2012, new orders with a total volume of EUR 75.8 million were added to the books (2011: EUR 70.5 million).

The largest orders received, with a total volume in excess of EUR 10 million, were placed in 2012 for stationary ticket vending machines by the Belgian State Railway SNCB, from a Polish partner for the industrial region of Upper Silesia and from the Danish State Railway. In France, the Company succeeded in being awarded its first contract by Aérolis/Les Cars Air France. On the buses of the Keolis subsidiary, on-board ticket vending terminals with ticket printers are being installed. Two cities in the U.S. opted for car park terminals from the British subsidiary Metric. In the retail sector in Germany, Edeka, Rossmann and Rewe ordered additional mobile data capture terminals. The Company managed to sign up Fressnapf, a specialist pet food chain, as a new customer.

At the end of the year 2012, the order portfolio amounted to EUR 40.0 million (31 December 2011: EUR 43.2 million). Germany accounted for 28 per cent of these orders, the UK for 25 per cent, the remaining EU countries for 20 per cent, with 27 per cent being contributed by countries like Switzerland, the U.S., and others.

Breakdown of sales revenues in EUR million	2012	2011
Germany	30.0	36.7
Great Britain	25.3	19.7
Rest of the EU	12.9	10.6
Switzerland, the US and other countries	10.7	19.3
Total	**78.9**	**86.3**

2.2.1 Segment Almex – Ticketing

With its Almex product brand portfolio, Höft & Wessel is a well-known provider of ticketing systems in Europe. In 2012, sales revenues of EUR 36.0 million were generated with these products. Compared with the same period a year earlier, this represents a decline by 16 per cent (2011: EUR 43.0 million).

As expected, the operating result in this segment, at –EUR 7.0 million, turned out substantially negative, also on account of restructuring expenses of EUR 0.7 million (2011: –EUR 3.5 million).

Last year, the Belgian State Railway SNCB ordered 282 ticket vending machines. These will gradually replace the existing terminals. The range of items ordered also extends to include a background system, the application on the ticketing terminals and seamless integration into the SNCB system world. In the process, an e-Ticketing application with the contactless MOBIB card is also being integrated. By securing a contract award in Poland, business in Eastern Europe was further extended. In 2012, about half of the total of 109 ticket vending machines was delivered to the municipal transit association of the industrial region of Upper Silesia headquartered in the city of Katowice, Poland. The new generation of terminals will be set up at bus and tram stops in combination with the introduction of a smart card featuring RFID technology, the so-called Skup card. Additional ticket vending machines went to the Danish State Railway and the transit authorities in the Swiss city of Geneva. Lufthansa received additional check-in terminals. The delivery of on-board computers with ticket printers and reading devices for e-Tickets and credit cards with an EMV contactless application to the FirstGroup in the United Kingdom continued. The total order volume comprised over 3,500 units. In addition, the first mobile e-Ticket readers of a completely newly developed generation of devices were delivered to the Danish state railways. A new mobile communications system based on GSM Rail is being developed for shunters and railway construction workers of the Swiss Federal Railways SBB.

The order intake for ticketing solutions also saw promising development in 2012, accounting for almost half the total portfolio of incoming orders of the Höft & Wessel Group. In France, Höft & Wessel managed to enter the market with a first contract award. The bus company Les Cars Air France operated by Aérolis, a joint subsidiary of Keolis and Air France, ordered an innovative e-Ticketing system for its buses in service between the airports of Paris Charles-de-Gaulles and/or Paris Orly and the inner city of Paris. The First Group in the United Kingdom ordered additional on-board systems featuring the future technology EMV contactless. The Belgian State Railway (SNCB) and the Danish State Railway placed additional orders for stationary ticket vending terminals. Follow-up orders for on-board computers for buses were received from a partner in South Africa.

2.2.2 The Metric segment – Parking

The Metric segment represents the subsidiary of the same name. The manufacturer of car park terminals and service provider headquartered in Swindon (to the west of London) and its subsidiary in the US, in 2012 generates sales revenues of EUR 20.4 million, down by 5 per cent year-on-year (2011: EUR 21.4 million).

The operating result, at –EUR 0.33 million, turned out slightly negative (2011: EUR 0.55 million).

In its home market in the United Kingdom, Metric entered into two key strategic partnerships at the end of 2012. The subsidiary of Höft & Wessel AG took over Amano's British parking business along with all customers and has been the sole provider of pay-on-foot systems from this manufacturer since early 2013. Thanks to its collaboration with one of the world's biggest provider of parking solutions, Metric is consolidating its leading position on the British market. Metric also cooperates with a leading partner in this field on a solution to enable automatic plate number recognition (APNR) for cars. The product portfolio is being extended by including this special solution.

Business trends in the United Kingdom were stable in 2012, by and large. In particular, on that market it was possible largely to compensate for the planned reduction of service operations with London Bus by means of other orders placed.

In the US, another key regional focus of business, Metric is represented by a subsidiary of its own in Mt. Laurel, New Jersey, and entered into a strategic partnership in 2012 with Amano McGann, the US branch of the Amano Group headquartered in Yokohama, Japan. While Metric's US subsidiary has only been able to take care of the eastern region of the US to date, Amano McGann will now begin marketing Metric car park terminals throughout the United States. This will open up additional potential to Metric. In the U.S., in 2012 orders were received from the cities of Seaside Heights, New Jersey, and Port Jefferson, New York.

2.2.3 The Skeye segment – Mobile Solutions

With its portfolio of the product brand Skeye in the segment of the same name, Höft & Wessel is a leading manufacturer of mobile data capture terminals in Europe. In 2012, sales revenues came to EUR 22.5 million, up by EUR 0.6 million year-on-year (2011: EUR 21.9 million).

The operating result, at –EUR 0.3 million, turned out negative on account of restructuring expenses of EUR 0.5 million (2011: –EUR 11.6 million). The operating result for 2011 was heavily impacted by the ongoing high pressure on margins as well as by an impairment test in accordance with IAS 36 with a volume of EUR 4.0 million as well as impending losses and the depreciation of inventories of EUR 2.5 million.

In the financial year 2012, as part of one of the largest IT projects in the German retail sector Höft & Wessel delivered over 2,500 mobile terminals to the retail grocery chain EDEKA. About 1,000 data capture devices went to Rewe, the second biggest German food retailer. A further 1,000 units including the relevant software applications were delivered to another retailer, Rossmann. In the process, Höft & Wessel consolidated its leading position as a supplier of mobile data capture devices to the retail sector in Germany. Moreover, Lekkerland, the US restaurant chain Outback Steakhouse, the Swiss Post Office and other retailers in Europe were supplied with lower numbers of units.

The partner network was further extended, and small-scale orders for handhelds were received from existing partners like Warok, Primelco, Prometheus and Lomosoft. In the United Kingdom, the first major customer was acquired via the partner Hands Free Company, namely the forwarding agency Abbey Road. Some 200 mobile terminals featuring the Android operating system were delivered and installed on board trucks in 2012.

The radio module business remains very stable. For instance, last year 8,500 radio modules were delivered to Sirona Dental Systems, a key component of this customer's systems.

A contribution to the order intake was made e.g. by an order placed by Fressnapf, a new customer, for 1,500 data capture devices. Alongside Edeka, this is the second customer with whom Höft & Wessel cooperates with SAP and GK software. The delivery is largely scheduled for 2013. New orders from portfolio customers were received from Fegro-Selgros for over 1,500 mobile terminals as well as smaller-scale orders from Rewe and Edeka.

2.2.4 Corporate Services

The costs of administration and the stock exchange listing amounted to EUR 3.2 million in 2012 (previous year: EUR 1.5 million). Taking account of the restructuring and consultancy expenses remaining after apportionment, amounting to EUR 1.5 million, general administrative expenses remained at the same level as the previous year.

2.3 Workforce

In 2012, the Höft & Wessel Group employed an average of 475 persons (previous year: 514) including trainees. In the financial year 2012, as part of its restructuring the Company was resized in accordance with its expected sales revenues, and its workforce was accordingly reduced to only 428 employees by the end of the year.

2.4 Production and procurement

External manufacture of its products, predominantly by German suppliers, represents a key element of the business model of Höft & Wessel AG. The entire development work, all the way through to preparing the parts lists, remains with Höft & Wessel. Moreover, the company is closely involved in external production activities and performs detailed quality control. The British subsidiary Metric has its own final assembly operation for car park terminals.

2.5 Research and development

Roughly one third of the workforce of the Höft & Wessel Group is engaged in research and development. The IT specialists and engineers located in Hannover and Swindon develop new hardware and software solutions, adapt products and software to customers' requirements and write complex application programs. In 2012, the development of software modules and further product enhancements continued.

Predominantly on account of the difficult business situation and the Company's concentration on critical large-scale projects, expenses on research and development declined by EUR 3.0 million in the year under review, from EUR 10.6 million to EUR 7.6 million. In this context, the share accounted for by the Metric segment remained constant at EUR 1.9 million. The share of Group sales revenues accounted for by expenditure on research and development declined from 12.3 per cent in 2011 to 9.6 per cent in 2012.

2.6 Service

With a contribution to Group sales revenues amounting to roughly 37 per cent, services remain a key, reliable mainstay of basic business. In 2011, the share of sales revenues derived from services was in the region of 39.0 per cent. The absolute volume of sales from services amounted to EUR 29.1 million in the year under review, down by EUR 4.6 million year-on-year (2011: EUR 33.7 million). The Metric segment managed to nearly match its previous year's service revenues at EUR 11.7 million (2011: EUR 11.9 million).

2.7 Investments

Investments 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. In the financial year 2012, additions to fixed assets amounted to EUR 2.3 million (previous year: EUR 4.3 million). Of this sum, EUR 1.5 million (2011: EUR 3.3 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 1.1 million. This decrease is chiefly attributable to the scheduled depreciation of fixed assets which, at EUR 3.0 million in the year under review, exceeded investments of EUR 2.3 million by EUR 0.7 million. Only a low level of depreciation of fixed assets, namely EUR 91 k, was recorded in the financial year (previous year: EUR 5.0 million).

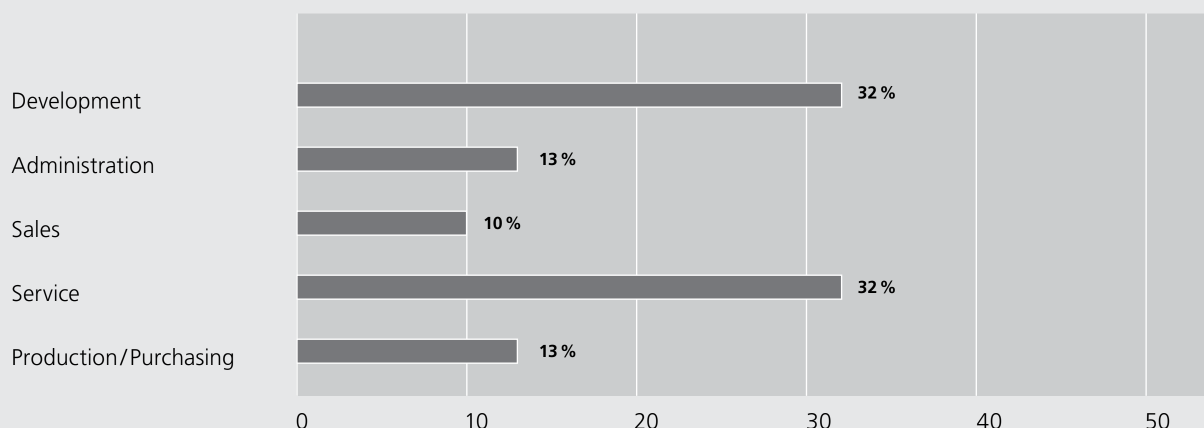
In the preceding year, in particular the Company had depreciated capitalised development costs (EUR 4.0 million). A further EUR 1.0 million was accounted for by injection moulding tools and other office and business equipment in 2011.

Within the scope of the restructuring programme H&W 2.0, it was possible to reduce the volume of inventory assets within the Group by means of numerous defined measures by a total of EUR 5.4 million, from EUR 21.9 million to EUR 16.5 million. Of this sum, Metric accounted for EUR 444 k. This trend effectively contributed towards securing the Company's liquidity.

The volume of receivables was likewise reduced by EUR 3.4 million, from EUR 18.0 million to EUR 14.6 million. The contribution by the Metric segment came to about EUR 0.7 million. In the Almex segment, the volume of receivables declined by EUR 5.0 million. For the Skeye segment, the Company recorded a slight increase in receivables of EUR 2.0 million thanks to comparatively higher December sales revenues.

The reduction of equity by EUR 11.7 million, from EUR 7.4 million to –EUR 4.3 million, was largely the result of the negative earnings for the period.

Structur of Personnel of Höft & Wessel Group



Status as at 31/12/2012

Against the backdrop of the agreements entered into with the financers, all bank and leasing liabilities were reported as current in nature. Specifically, reference is made to the explanatory notes in Section 1.4. As a result, short-term liabilities to banks increased by EUR 2.7 million to EUR 23.6 million. In total long-term liabilities decreased in fiscal year by EUR 0.4 from EUR 3.0 to EUR 2.6 million. After deduction of cash in hand, the net financial liabilities amount to EUR 22.7 million after EUR 17.7 million as at 31/12/2011.

The restructuring measures carried out as well as the planned recapitalisation also had a negative impact on the supplier side. Lines of merchandise credit insurers that were cancelled or substantially reduced prompted suppliers to reduce their terms for payment or to insist on advance payment, either wholly or in part. As a direct consequence of this trend, liabilities to suppliers as at 31 December 2012 only amounted to EUR 2.9 million (previous year: EUR 9.8 million). The level of advance payments from customers increased by EUR 2.3 million in the fourth quarter due to various project advances made.

In total, current liabilities decreased by EUR 1.3 million in the year under review. Total non-current and current liabilities decreased by EUR 1.7 million, from EUR 48.1 million to EUR 46.4 million.

3.2 Financial position

Against the backdrop of the Group's difficult business development in the last two financial years and an increasingly scarce volume of cash and cash equivalents, finance management essentially focused on maintaining business operations as efficiently as possible with the existing credit lines.

The cash flow from current operating activities amounts to –EUR 1.4 million (previous year: –EUR 2 k). Significant outflows of funds resulted from a decline in trade payables and other debts. A positive impact was derived in particular from the reduction of inventories and of customer receivables by a total of EUR 8.8 million. Both developments were core targets laid down as part of the restructuring programme H&W 2.0. As in the previous year, the limit for factoring operations amounted to EUR 5 million and had been utilised to an extent of EUR 0.9 million (previous year: EUR 3.1 million) as at the balance sheet date.

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	2012	2011
Asset intensity [fixed assets (EUR 8.6 million) / total assets (EUR 42.1 million)]	20 %	18 %
Inventory intensity (inventory assets (EUR 16.5 million) / total assets (EUR 42.1 million)]	39 %	39 %
Receivables intensity [trade receivables (EUR 14.6 million) / total assets (EUR 42.1 million)]	35 %	32 %

Equity ratio	2012	2011
[Equity capital (-EUR 4.3 milion) / total assets (EUR 42.1 million)]	(10) %	13 %

Cash flow in EUR thousand	2012	2011
Cash flow from current operating activities	(1,378)	(2)
Cash flow from investment activities	(2,269)	(4,257)
Cash flow from financing activities	1,365	2,874
Changes to financial funds impacting on payments	(2,282)	(1,385)

from factoring transactions and is intended to cover possible payments and credit notes not capable of being duly assigned or classified (financial year: EUR 121 k; previous 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.

With slightly reduced investments in the field of property, plant and equipment, investments in capitalised product developments declined comparatively sharply, by EUR 1.7 million, from EUR 3.2 million to EUR 1.5 million. The negative cash flow from investment activities in 2012 thus amounted to –EUR 2.3 million following –EUR 4.3 million in the previous-year period.

The funding requirements described above were covered by increased utilisation of current bank loans and repayment of the volume of cash holdings. This led to a positive cash flow from financing activities of EUR 1.4 million. The decrease with an impact on payments in the fund of financial assets before currency influences on bank inventories thus amounts to –EUR 2.3 million. No non-current lines of credit were available to the Company as at the balance sheet date. The free credit lines as part of the existing standstill agreement amounted to EUR 1.5 million as at the balance sheet date (previous year: EUR 4.4 million).

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

- EUR 16.4 million in uncollateralised, partly mixed current account and guarantee lines (previous year: EUR 16.4 million). Interest rates 2012: 1.61 % – 9.38 % (previous year: 2.12 % – 9.38 %).

- EUR 4.8 million loan with a term to maturity until 2017 (previous year: EUR 5.0 million). Interest rate 2012: 3.85 % (previous year: 3.85 %). For this loan, ownership of an inventory at Head Office amounting to EUR 7,019 k was assigned by way of collateral security.

- EUR 4.0 million in uncollateralised loans with final maturities in December 2013 (previous year: EUR 4 million). Interest rates 2012: 1.61 % – 5.85 % (previous year: 2.30 % – 5.85 %).

- EUR 4.3 million in pure guarantee lines (previous year: EUR 10.5 million).

- EUR 5 million factoring line (no change in relation to previous year). Interest rates 2012: 2.21 % – 3.12 % (previous year: 2.88 % – 3.53 %).

The agreements contain no financial covenants.

Key data from the consolidated income statement **in EUR thousands**	**2012**	**2011**
Sales revenues	78,875	86,252
Earnings before taxes and interest (EBIT)	(10,795)	(16,090)
Earnings before taxes (EBT)	(13,246)	(17,194)
EBT margin in % of sales revenues	(16.8)	(19.9)
Consolidated earnings after taxes	(12,983)	(18,970)

Contribution margin 1 **in EUR thousands**	**2012**	**2011**
Sales revenues	78,875	86,252
Cost of materials incl. inventory changes	45,009	53,920
Contribution margin 1 in % of sales revenues	42.9	37.5

3.3 Earnings position

Sales revenues of the Höft & Wessel Group saw a year-on-year decline by roughly 8.6 per cent, from EUR 86.3 million to EUR 78.9 million. The Almex segment in particular had to contend with a significant sales revenue decline of 16.3 per cent and only invoiced approx. EUR 36.0 million (previous year: EUR 43.0 million). While this segment managed to register a slightly higher order intake of EUR 36.2 million (previous year: EUR 33.7 million), capacity bottlenecks and delays involved in individual large-scale projects led to substantial postponements in planned project deliveries along with the relevant sales revenues realised. Substantial declines in sales were also recorded in the Metric business division. Revenues generated by Metric were down 4.7 per cent, to EUR 20.4 million (previous year: EUR 21.4 million). Adjusted for currency effects, the decline in sales revenues was as high as 11.0 per cent. Only in the Skeye segment was it possible to boost sales slightly, by 2.7 per cent, to reach EUR 22.5 million. In 2012, the Company recorded an order intake of EUR 75.8 million across all segments, up by 7.5 per cent compared with 2011.

In the year under review, the percentage-based contribution margin (sales revenues minus cost of materials, including portfolio changes) rose by 5.4 percentage points, to 42.9 per cent, returning to the level reached in the financial year 2010. In 2011, the depreciation of Skeye inventories amounting to approx. EUR 2.5 million, resulted in an unusually low level for this key ratio of only 37.5 per cent.

The increase in personnel costs in the Group by nearly EUR 2.4 million, to EUR 27.8 million, is essentially attributable to the social plan (redundancy programme) at the Höft & Wessel AG, imposing a burden of EUR 1.5 million on personnel costs in 2012. At Metric, the costs of pension provisions booked through profit and loss were up by roughly EUR 0.4 million compared with 2011. Furthermore, in 2012 a provision was set up for a former member of the board of management of the Company (EUR 0.3 million).

Other operating expenses were up by EUR 1.8 million in the year under review, to EUR 17.6 million. Legal and consultancy costs in connection with the restructuring and refinancing of the Company amounted to approx. EUR 2.2 million. This was offset by early successes in achieving cost reductions as part of the restructuring programme H&W 2.0.

Depreciation and amortisation in the year under review came to EUR 3.0 million (previous year: EUR 11.3 million). In 2011, additional expenses had been incurred in the wake of impairment tests carried out according to IAS 36. Moreover, depreciation and amortisation are lower due to reduced investment activities.

As a result of the developments referred to above, the operating result (EBIT) in the Group came to –EUR 10.8 million (previous year: –EUR 16.1 million).

The negative net financing income deteriorated substantially in 2012 by –EUR 1.3 million, to –EUR 2.5 million. This is due on the one hand to higher utilisation of credit lines throughout the year compared with the previous year (–EUR 0.4 million). In addition, an existing hedge accounting relationship for bank liabilities subject favorable intrest rates was terminated. This had an effect on profit and loss amounting to –EUR 0.9 million.

Earnings before taxes therefore came to –EUR 13.2 million (previous year: –EUR 17.2 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 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

Following the close of the financial year 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 quar-terly 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 2012, no stock options were issued to the Board of Management. For a former member of the Board of Management, the Company set up an additional provision for severance pay amounting to EUR 321 k. In the current year, no provisions were set up for bonus payments (previous year: EUR 68 k).

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.

Remuneration Board of Management	**Non-performance related**		**Performance-related**		**Total emoluments**	
in EUR thousands	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Rudolf Spiller	141	–	–	–	141	–
Michael Höft	264	16	–	–	264	16
Thomas Wolf	96	223	–	40	96	263
Hansjoachim Oehmen	18	528	–	79	18	607
Peter Claussen	–	117	–	71	–	188
Total	**519**	**884**	–	**190**	**519**	**1,074**

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 the Company 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 2012, 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 in EUR thousands	Remuneration 2012	 2011
Prof. Dr. Dr.-Ing. Dr. h.c. Klaus E. Goehrmann	20	20
Dr. Peter Versteegen	15	15
Michael Höft	–	10
Dr. Martin Künnemann	10	10
Rolf Wessel	10	10
Manfred Zollner	10	10
Hinrich Peters	8	–
Total	**73**	**75**

IFRS Consolidated Financial Statement as of 31/12/2012
Consolidated Balance Sheet as of 31/12/2012

ASSETS in EUR thousands	Note	31/12/2012	31/12/2011
Non-current assets			
Intangible assets	(5)	5,071	5,641
Property, plant and equipment	(6)	1,986	2,055
Deferred tax assets	(7)	1,566	2,062
Total non-current assets		**8,623**	**9,758**
Current assets			
Inventories	(8)	16,472	21,889
Trade receivables	(9)	14,574	17,994
Cash and cash equivalents	(10)	829	3,103
Other assets	(11)	848	1,533
Other non-financial assets		744	1,249
Total current assets		**33,467**	**45,768**
Total assets		**42,090**	**55,526**

EQUITY AND LIABILITIES in EUR thousands	Note	31/12/2012	31/12/2011
Equity			
Subscribed capital	(12)	8,497	8,497
Capital reserves	(12)	20,180	20,176
Accumulated retained earnings	(12)	(28,832)	(15,849)
Other comprehensive income		(4,135)	(5,429)
Total equity		**(4,290)**	**7,395**
Non-current liabilities			
Personnel related provisions	(17)	933	841
Financial leasing liabilities	(14)	0	17
Deffered tax liabilities	(7)	837	1,127
Other liabilities	(21)	857	1,057
Total non-current liabilities		**2,627**	**3,042**
Current liabilities			
Provisions	(18)	5,502	4,396
Current income tax liabilities		50	440
Financial leasing liabilities	(14)	17	29
Financial liabilities to banks	(14)	23,567	20,827
Trade payables	(19)	2,871	9,753
Advance payments received		4,922	2,656
Personnel-related accrued/deferred liabilities	(17)	1,513	964
Other financial liabilities	(21)	3,528	3,743
Other non-financial liabilities	(20)	1,783	2,281
Total current liabilities		**43,753**	**45,089**
Total equity and liabilities		**42,090**	**55,526**

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 2012

Sales revenues	(24)	**78,875**	**86,252**
Inventory changes relating to finished goods and work-in-progress		(4,400)	(2,462)
Other company-produced additions to plant and equipment		1,348	2,250
Aggregate output		**75,823**	**86,040**
Other income	(26)	2,367	1,851
Cost of materials and services procured		(40,609)	(51,458)
Personnel expenses	(25)	(27,789)	(25,421)
Other expenses	(27)	(17,593)	(15,781)
Operating result before depreciation and amortisation (EBITDA)		**(7,801)**	**(4,769)**
Depreciation and amortisation of property, plant, and equipment and intangible assets		(2,994)	(11,321)
Operating result (EBIT)		**(10,795)**	**(16,090)**
Financial income		1	1
Financial expenses	(28)	(2,452)	(1,105)
Net financial income	(28)	(2,451)	**(1,104)**
Earnings before taxes (EBT)		**(13,246)**	**(17,194)**
Tax position		263	(1,776)
Group earnings	(29)	**(12,983)**	**(18,970)**
Reconcilation to comprehensive income			
Difference arising from currency translation		266	386
Cash flow hedges		1,502	8
Deferred taxes on cash flow hedges		(474)	(3)
Cumulative other equity		**1,294**	391
Total earnings for the period		**(11,689)**	**(18,579)**
Earnings per share in EUR (basic)	(13)	(1.53)	(2.23)
Earnings per share in EUR (diluted)	(13)	(1.53)	(2.18)

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 2012

	in EUR thousands	2012	2011
	Group earnings	(12,983)	(18,970)
−/+	Tax position	(263)	1,776
+	Financial results	2,451	1,104
+	Depreciation of fixed assets	2,994	11,217
+	Losses from reduction of assets	0	8
+	Increase in provisions	1,198	1,351
+/−	Rate effects with no impact on payments	419	(530)
+	Losses from impairments on receivables	118	17
+	Losses from Impairments on inventories	353	3,648
+	Other effects with no impact on payments	265	634
+/−	Decrease/increase in inventories	5,064	(306)
+	Decrease in trade receivables	3,711	593
+	Decrease in other assets	1,057	2,567
-	Decrease in trade payables	(6,896)	(2,875)
+/−	Increase/decrease in payments received	2,265	(2,570)
−/+	Decrease/increase in other liabilties	(931)	2,618
−	Decrease in other long-term liabilties	(200)	0
−	Payouts for income tax	0	(254)
	Cash flow from current operating activities	**(1,378)**	**(2)**
−	Disbursements for investments in intangible assets	(2,269)	(4,257)
	Cash flow from investment activities	**(2,269)**	**(4,257)**
+	Deposits from taking out financial credit facilities	2,740	4,882
−	Disbursement for finance leasing	(29)	(72)
+	Interest revenues	1	1
−	Interest expenditures	(1,347)	(1,088)
−	Disbursements for dividend payments		(849)
	Cash flow from financing activities	**1,365**	**2,874**
	Decrease / increase in liquid funds	**(2,282)**	**(1,385)**
	Cash and cash equivalents at the beginning of the period	**3,103**	**4,495**
−	Changes in exchange-rate compensation item	8	(7)
	Cash and cash equivalents at the end of the period	**829**	**3,103**

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 2012

Status as of 31/12/2010 as reported	**8,497**	**20,167**	**5,469**	**(1,033)**	**(4,787)**	**(5,820)**	**28,313**
Error correction according to IAS 8			(1,499)			0	(1,499)
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**
Currency differences from translation of entities abroad (including taxes)					266	266	266
Effective portion of time changes of cash flow hedges (including taxes)				1,028		1,028	1,028
Other earnings	0	0	0	1,028	266	**1,294**	1,294
Earnings for period			(12,983)				(12,983)
Total consolidated earnings	0	0	(12,983)	1,028	266	**1,294**	(11,689)
Issue of stock options		4				0	4
Dividend payments			0			0	0
Withdrawal from capital reserve		0	0			0	0
Status as of 31/12/2012	**8,497**	**20,180**	**(28,832)**	**0**	**(4,135)**	**(4,135)**	**(4,290)**

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

Consolidated Notes for Fiscal 2012

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 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 on-going 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):

- Amendments to IFRS 7 – Disclosures – Transfers of Financial Assets
  The amendments to IFRS 7 relate to extended duties of disclosure 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.

- IAS 8.30 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.

- 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 finally 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.

- 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.

- 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. These amendments have no impacts on the consolidated financial statements of Höft & Wessel AG.

- 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:

- 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.

- 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 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.

- 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 changes 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.

Shareholdings	Shares[1]
a) Direct holdings	
Höft & Wessel Traffic Computer Systems GmbH, Hannover (non operating)	100 %
Skeye Partner Support Center GmbH (change of name in Metric	100 %
Group Holdings Ltd. (MGHL), Swindon (Great Britain)	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 comparision to the previous year.

(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.

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 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.

Spot transactions of financial assets are accounted for on the day of performance.

Non-derivative financial liabilities such 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.

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 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.

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 happen to 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 with reference to the key assumptions made. 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.

Accured/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 provisions 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 comprehensive income are also reported under other comprehensive income. Höft & Wessel offsets 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 simultaneously 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.

01/01 – 31/12 in EUR thousands	Almex		Metric		Skeye		Corporate Services		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Germany	13,991	20,264	0	10	16,049	15,121	0	0	30,040	35,395
Great Britain	7,809	2,477	18,025	17,281	105	72	0	0	25,939	19,830
Rest of EU	9,598	6,626	436	559	2,926	3,413	0	0	12,960	10,598
Outside EU	4,551	13,885	2,556	3,690	3,639	3,386	0	0	10,746	20,961
Intragroup	(11)	(280)	(598)	(142)	(201)	(110)	0	0	(810)	(532)
Total sales revenues	**35,938**	**42,972**	**20,419**	**21,398**	**22,518**	**21,882**	**0**	**0**	**78,875**	**86,252**
Inventory change	(2,046)	713	(338)	597	(1,997)	(3,771)	(19)	(1)	(4,400)	(2,462)
Cost of materials and services procured	(20,986)	(27,599)	(7,280)	(9,351)	(12,251)	(14,536)	(92)	28	(40,609)	(51,458)
Contribution margin 1	**12,906**	**16,086**	**12,801**	**12,644**	**8,270**	**3,575**	**(111)**	**27**	**33,866**	**32,332**
Company-produced additions to plant and equipment	472	301	876	991	0	958	0	0	1,348	2,250
Personnel expenses	(10,074)	(9,326)	(8,337)	(6,666)	(4,923)	(4,747)	(4,455)	(4,682)	(27,789)	(25,421)
Contribution margin 2	**3,304**	**7,061**	**5,340**	**6,969**	**3,347**	**(214)**	**(4,566)**	**(4,655)**	**7,425**	**9,161**
Other expenses and income	(8,785)	(8,208)	(4,367)	(4,971)	(3,651)	(4,087)	1,577	3,336	(15,226)	(13,930)
EBITDA	**(5,480)**	**(1,147)**	**972**	**1,998**	**(304)**	**(4,301)**	**(2,989)**	**(1,319)**	**(7,801)**	**(4,769)**
Depreciation and amortisation	(1,401)	(1,817)	(1,297)	(1,447)	(16)	(3,334)	(189)	(208)	(2,903)	(6,806)
Impairment	(91)	(552)	0	0	0	(3,963)	0	0	(91)	(4,515)
Operating result (EBIT)[1]	**(6,972)**	**(3,516)**	**(325)**	**551**	**(320)**	**(11,598)**	**(3,178)**	**(1,527)**	**(10,795)**	**(16,090)**
Financial income									(2,452)	(1,105)
Financial expenses									1	1
EBT									**(13,246)**	**(17,194)**
Tax position									263	(1,776)
Group earnings									**(12,983)**	**(18,970)**

[1] The EBIT adjusted for temporary currency effects for Almex was at EUR 624 k (previous year: EUR 6,923 k), for Skeye at –EUR 8,004 k (previous year: –EUR 2,976 k). The results of Metric and Corporate Services are without adjustment effects.

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.

Further segment information 01/01 – 31/12	Almex		Metric		Skeye		Corporate Services		Total	
in EUR thousands	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Segment assets										
Assets allocated	18,282	27,795	14,126	15,986	8,044	7,852	622	626	41,074	52,259
Assets not allocated (cash and cash equivalents, deferred tax assets)									1,016	3,267
Segment liabilities										
Liabilities allocated	12,678	14,931	8,422	8,445	2,565	4,329	2,898	2,515	26,563	30,220
Liabilities not allocated (loans, deferred tax liabilities)									19,817	17,911
Further information										
Additions to fixed assets	718	1,402	1,227	1,317	124	1,145	201	393	2,270	4,257
Other essential items with no impact on cash flow:										
Impairments on fixed assets and intangible asstes	(91)	(552)	0	0	0	(3,963)	0	0	(91)	(4,515)
Value corrections on inventory	(336)	203	(217)	(173)	(270)	(2,747)	0	0	(823)	(2,717)

Segment assets in EUR thousand	2012	2011
Germany	3,687	4,342
Great Britain	3,371	3,354
Total	**7,058**	**7,696**

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.

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 6.3 million (previous year: EUR 1.4 million).

Property, plant and equipment in EUR thousands	**Goodwill**	**Software**	**Development activities**	**Total**
Status as of 1 January 2011				
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	753
Depreciation and amortisation	–	101	4,264	4,365
Impairments	–	–	4,515	4,515
Transfers	–	9	–	9
Currency differences	0[1]	–	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
Net development 2012				
Book value	0	74	5,567	5,641
Additions from internal development activities	–	–	1,230	1,230
Additions from separate acquisitions	–	152	254	406
Depreciation and amortisation	–	46	2,144	2,190
Impairments	–	–	91	91
Transfers	–	13	–	13
Currency differences[1]	–	–	62	62
Book value	0	193	4,878	5,071
Status as of 31 December 2012				
Acquisition/manufacturing cost	24,644	1,657	37,368	63,669
Accumulated depreciation	24,644	1,464	32,490	58,598
Book value	0	193	4,878	5,071

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

5 Intangible assets

Development activities

Development costs amounting to EUR 5,125 k euros (previous year: EUR 5,657 k) were recognised directly as expenditure. Expenses on research amounted to EUR 24 k in the fiscal year (previous year: EUR 67 k). Depreciation and amortisation include EUR 91 k (previous year: EUR 4,515 k) in impairment charges. Impairments in 2011, amounting to EUR 3,963 k, were due to necessary impairment charges following the impairment test of the Skeye division, and EUR 552 k were attributable to impairments of individual assets of the Almex division. The share of borrowing costs to be capitalised amounts to EUR 20 k (previous year: EUR 70 k). The financing cost rate used in determining third-party borrowing costs capable of being capitalised amounts to 6.0 per cent (previous year: 3.0 -3.7 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 on-going difficult market conditions were interpreted as 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 2011 produced a required impairment charge amounting to EUR 3,963 million. The test was carried out by calculating the cash value of accountable cash flows by the on-going use of the asset on the basis of corporate planning.

The lower amount recoverable corresponds to fair value less costs of sale. The discount interest rate applied amounted to 12.7 per cent in the previous year. 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.

In 2012, a further impairment test was necessary for Metric as a cash-generating unit ("triggering event" for carrying out an impairment test as contemplated by IAS 36). The test carried out at the end of the financial year produced no necessity for an impairment charge. 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 discount interest rate applied amounts to 12.0 per cent. A change to the assumption of future contribution margins by one percentage point across the entire planning period would have an influence of EUR 2.1 million on the impairment test, and a change to the WACC by one percentage point would have an impact of EUR 1.8 million.

Tax assets/liabilities	**Defered tax assets**		**Tax liabilities**	
in EUR thousands	**2012**	**2011**	**2012**	**2011**
Development activities	–	–	(1,422)	(1,602)
Property, plant & equipment	94	105	(5)	(7)
Receivables and other assets	4	22	(22)	(113)
Provisions	645	502	–	–
Liabilities	5	428	–	(3)
Benefits from tax loss carry-forwards	1,430	1,603	–	–
	2,178	**2,660**	**(1,449)**	**(1,725)**
Balance	(612)	(598)	612	598
Net tax assets/ liabilities	**1,566**	**2,062**	**(837)**	**(1,127)**

Inventories in EUR thousands	**2012**	**2011**
Raw materials, supplies and trading stock	6,136	7,153
Work and services in progress	2,973	3,707
Finished goods and trading stock	7,363	11,029
Total	**16,472**	**21,889**

6 Tangible assets

Leased furniture and fixtures

The Group leases fixed assets within the scope of financial lease agreements. Their net carrying amount as at 31 December 2012 came to EUR 17 k (previous year: EUR 45 k).

Impairment testing

The impairment test for the Skeye division (also see Note 5) in the field of property, plant and equipment did not lead to any necessary impairment (previous year: EUR 1,028 k).

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 24.5 per cent (previous year: 26.5 per cent).

Taking account of tax planning statements, deferred tax assets amounting to EUR 14,161 k (previous year: EUR 10,606 k) from tax losses carried forward, amounting to EUR 45,735 k (previous year: EUR 34,291 k) were not taken into consideration.

Tangible assets in EUR thousands	Land and buildings	Other assets, furniture and fixtures	Assets under construction	Total
Status as of 1 January 2011				
Acquisition/manufacturing cost	896	17,942	124	18,962
Accumulated depreciation	688	14,754	–	15,442
Book value	208	3,188	124	3,520
Net development 2011				
Book value	208	3,188	124	3,520
Additions	–	964	13	977
Depreciation and amortisation	44	1,367	–	1,411
Disposals	52	976	–	1,028
Transfers	–	10	–	10
Currency differences	–	115	(124)	(9)
Book value	3	13	–	16
	115	1,927	13	2,055
Status as of 31 December 2011				
Acquisition/manufacturing cost				
Accumulated depreciation	922	16,993	13	17,928
Book value	807	15,066	–	15,873
	115	1,927	13	2,055
Net development 20112				
Book value				
Additions	115	1,927	13	2,055
Depreciation and amortisation	0	484	149	633
Impairments	53	660	–	713
Disposals	–	1	–	1
Transfers	–	–	(13)	(13)
Currency differences	3	22	–	25
Book value	65	1,772	149	1,986
Status as of 31 December 2012				
Acquisition/manufacturing cost	942	17,288	149	18,379
Accumulated depreciation	877	15,516	–	16,393
Book value	65	1,772	149	1,986

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. No deferred taxes on amounts recognised under other comprehensive income predominantly owing to hedge transactions were recorded in the financial year under review (previous year: EUR 474 k).

8 Inventories

The total amount of deductions came to EUR 7,457 k (previous year: EUR 7,319 k). For the financial year, value deductions amounting to EUR 824 k (previous year: EUR 2,717 k) were recognised under expenditure. The cost of materials to be allocated to sales revenues totalled EUR 41,982 k (previous year: EUR 51,509 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 117 k (previous year: EUR 119 k) were reversed. Moreover, valuation adjustments amounting to EUR 396 k (previous year: EUR 303 k) were added. No other value deductions or increases were effected. The volume of specific valuation adjustments increased by EUR 118 k during the financial year, thus amounting to EUR 649 k (previous year: EUR 531 k). At the reference date, receivables in a total amount of EUR 967 k were sold within the scope of a factoring arrangement (previous year: EUR 3,925 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 8,222 k were recorded (previous year: EUR 9,085 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 18,801 k (previous year: EUR 10,578 k). The advance payments for these projects amounted to EUR 15,523 k (previous year: EUR 9,815 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 4,132 k as at the balance sheet date (previous year: EUR 1,869 k). These are reported under the item: Projects (credit balance) under trade receivables. Projects with a credit balance amounted to –EUR 854 k as at the balance sheet date (previous year: –EUR 1,106 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 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 possible risk of loss arising from factoring transactions (financial year: EUR 104 k.; previous year: EUR 196 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 and cash in hand amount to EUR 829 k (previous year: EUR 3,103 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

See table on page 48.

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 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 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 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 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 non-par-value 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

Other financial assets
in EUR thousands

	2012	2011
Cash collateral for foreign guarantees	322	321
Receivables from factoring companies	121	788
Other	405	424
Total	**848**	**1,533**

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 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 increased by EUR 4 k year-on-year (previous year: reduction by EUR 11,130 k). Of this sum, EUR 4 k (previous year: EUR 9 k) relates to the equivalent in value of the stock options issued in previous years, included in personnel expenditure. Moreover, in the previous financial year a withdrawal was made pursuant to Section 150 (4) No. 1 of the German Companies Act (AktG) to settle the negative profit of Höft & Wessel AG 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 losses increased by EUR 12,983 k year-on-year (previous year: change by EUR 8,680 k). This refers to the loss for the year of –EUR 12,983 k carried over to the new accounts. In order to settle the loss for the year, in the course of preparing the financial statements a withdrawal amounting to EUR 11,139 k was made in accordance with Section 150 (4) No. 1 of the German Companies Act (AktG).

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 12,983 k (previous year: –EUR 6,751 k) 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. During the financial year 2012, 10,000 stock options expired when an employee left the Company; as a result the diluted number of shares amounts to 200,000 such shares. In the previous year, 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 ramifications of the Group's interest-bearing and non-interest-bearing financial liabilities. With regard to the risks arising from fluctuations in interest and exchange rates, and in the default in payment, reference is made to Note (21).

The following credit lines are available to the Group:

- EUR 16.4 million in uncollateralised, partly mixed current account and guarantee lines (previous year: EUR 16.4 million). Interest rates 2012: 2.37 % – 9.38 % (previous year: 2.12 % – 9.38 %).
- EUR 4.8 million loan with a term to maturity until 2017 (previous year: EUR 5.0 million). Interest rate 2012: 3.85 % (previous year: 3.85 %). For this loan, ownership of an inventory at Head Office amounting to EUR 7,019 k was assigned by way of collateral security.
- EUR 4.0 million in uncollateralised loans with final maturities in December 2013 (previous year: EUR 4 million). Interest rates 2012: 1.61 % – 5.85 % (previous year: 2.30 % – 5.85 %).
- EUR 3.9 million in pure guarantee lines (previous year: EUR 10.5 million).
- EUR 5 million factoring line (no change in relation to previous year). Interest rates 2012: 2.21 % – 3.12 % (previous year: 2.88 % – 3.53 %).

The agreements contain no 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 after 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 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 2012. The utilisation of credit lines made available differs substantially in the course of a year. The free credit lines amounted to at least EUR 2.2 million in the course of the financial year (previous EUR 0.9 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.

Other current financial liabilities in EUR thousands	2012	2011
Carried as liabilities in accordance with IAS 11	854	1,106
Liabilities arising from derivative financial instruments (current)	393	607
Other provisions	504	618
Provisions for outstanding invoices	941	1,064
Other	836	348
Total	**3,528**	**3,743**

Earnings per share in EUR thousands	Basic		Diluted	
	2012	2011	2012	2011
Weighted average number of shares issued	8,497	8,497	8,697	8,707
Profit/loss for period assignable to shareholders	(12,983)	(18,970)	(12,983)	(18,970)
Earnings per share (in EUR)	**(1.53)**	**(2.23)**	**(1.49)**	**(2.18)**

Specifications/repayment overview of financial liabilities in EUR thousands	Maturity	Book value 2012	Book value 2011
Collateralised bank loans	2013	4,777	5,000
Unsecured bank credit lines	2013	18,790	15,827
Financial leasing liabilities	2013–2015	17	46
Liabilities from trade receivables	2013	2,871	9,753
Personnel differentiated liabilities	2013	1,114	351
Other financial liabilities	2013–2018	4,385	4,800

15 Other financial liabilities

See table on page 50 below.

16 Share-based remuneration

Within the scope of the stock option programme 2005, a member of 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 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

Non-current interest-bearing financial liabilities in EUR thousands	2012	2011
Financial leasing liabilities	–	17
Total	**–**	**17**

Current interest-bearing financial liabilities in EUR thousands	2012	2011
Unsecured bank liabilities	18,790	15,827
Secured bank liabilities	4,777	5,000
Current share of financial leasing liabilities	17	29
Total	**23,584**	**20,856**

Overview of repayment commitments arising from finance lease liabilities in EUR thousands	Minimum leasing payments 2012	Interest 2012	Portion amortised 2012	Minimum leasing payments 2011	Interest 2011	Portion amortised 2011
Earlier than in one year	22	5	17	33	4	29
Between one and five years	–	–	–	22	5	17
In more than five years	–	–	–	–	–	–
Total	**22**	**5**	**17**	**55**	**9**	**46**

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. However, 10,000 stock options were forfeited due to an employee leaving the Company. Of the options outstanding, none was eligible for exercise due to the exercise hurdle not being reached.

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 4 k (previous year: EUR 9 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 1.39 per cent (previous year: 2.69 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 1,186 k euros in the financial year (previous year: EUR 1,265 k). Contribution payments of a similar extent are planned to be made for fiscal 2013.

Pension reserves for direct commitments

The present value of future benefits under a defined benefits direct commitment was calculated using the projected unit credit

Terms to maturity of financial liabilities
As at 31 December 2012
in EUR thousands

	Book value	Up to 6 months	6 to 12 momths	12 to 24 months	More than 24 months
Non-derivative financial instruments	4,777	4,777			
Collateralised bank loans	18,790	18,790	–	–	–
Unsecured bank credit lines	17	8	–	–	–
Financial leasing liabilities	2,871	2,871	9	–	–
Liabilties from trade receivables	1,114	1,114	–	–	–
Personnel related liabilities	3,135	3,135	–	–	–
Other financial liabilities	**30,704**	**30,695**	–	–	–
Total			**9**	**–**	**–**
Derivative financial instruments	1,109	126			
Payer swap for long-term interest hedges	141	–	126	252	605
FX-forwards	**1,250**	**126**	141	–	–
Total			**267**	**252**	**605**

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					
Collateralised bank loans	5,000	5,000	–	–	–
Unsecured bank credit lines	15,827	15,827	–	–	–
Financial leasing liabilities	46	14	15	17	–
Liabilties from trade receivables	9,753	9,753	–	–	–
Personnel related 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**

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. The defined benefit plan is fully financed via a fund.

The present value of future benefits under the defined benefits pension plan was calculated using the projected unit credit method subject to application of a market-oriented discount factor. The fund-linked assets of the pension plan were valued at fair market 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.

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.

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 539 k (previous year: EUR 383 k). Contribution payments of a similar extent are planned to be made for fiscal 2013. For the defined benefits plan, the maximum claim is 2/3 of the last salary paid.

Further particulars on the Stock Option Plan 2005	Board of Management		Managing staff member	
	2012	2011	2012	2011
Options outstanding at beginning of period (in units)	200,000	200,000	10,000	10,000
Options granted (in units)	–	–	–	–
Options expired (in units)	–	–	–	–
Options forfeited (in units)	–	–	10,000	–
Options outstanding at end of period (in units)	**200,000**	**200,000**	**0**	**10,000**
Minimum share price to reach the exercise threshold on 30 December				
for 1/3 of the issue from 2006: 20.000 options			6.49	6.12
for 1/3 of the issue from 2007: 20.000 options			7.47	7.02
for 1/3 of the issue from 2008: 26.666 options			6.86	6.42
Weighted average of residual contractual term (in years)			3.68	4.81
Average strike price of options outstanding at the beginning of the period			4.22	4.23
Average strike price of options outstanding at the end of the period			4.24	4.22
Average strike price of options forfeited			3.78	–

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.

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 6 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 2 k (previous year: EUR 1 k).

19 Trade payables

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

Non-current personnel-related provisions in EUR thousands	**Status 01/01/2012**	**Consumption**	**Write-backs**	**Additions**	**Status 31/12/2012**
Provisions for pensions	554	(581)	–	723	696
Provisions for partial retirements	287	(50)	–	–	237
Total	**841**	**(631)**	**–**	**723**	**933**

Provisions for pensions in EUR thousands	**2012**	**2011**
Pension reserves based on direct commitments	315	340
Pension reserves for old-age retirement plans	381	214
Total	**696**	**554**

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	2012	2011
Barwert der leistungsorientierten Verpflichtung	404	377
Noch nicht angesetzte versicherungsmathematische Gewinne/Verluste	(89)	(37)
Bilanzierte Schuld	**315**	**340**

Amounts recognised with an impact on profit and loss in accordance with IAS 19.120A (g) in EUR thousands	2012	2011
Interest expenditure (item in results for period: interest expense)	16	17
Actuarial loss (personnel expenditure)	3	30
Sum total of amounts recognised in period with an impact on profit and loss	**19**	**47**

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	2012	2011
Opening balance of present value of defined benefit obligation	377	392
Interest expense	16	17
Benefits paid	(40)	(41)
Actuarial loss	51	9
Closing balance of present value of defined benefit obligation	**404**	**377**

Actuarial assumptions in accordance with IAS 19.120A (n)	2012	2011
Discount rate	3,0 %	4,5 %
Pension increases	1,0 %	1,0 %
Inflation rate	1,0 %	1,0 %

Multi-year comparison in accordance with IAS 19.120A (p) in EUR thousands	2012	2011	2010	2009	2008
Present value of defined benefit obligation	404	377	392	391	384
Excess liability of the plan	404	377	392	391	384
Experience-based adjustments to the liabilities of the plan	10	9	8	7	10

20 Other non-financial liabilities

Other non-financial liabilities essentially comprise EUR 740 k in liabilities relating to value added taxes (previous year: EUR 1,651 k) and EUR 295 k in payroll taxes (previous year: EUR 208 k) as well as EUR 584 k in advance payments for subsidised projects (previous year: EUR 218 k).

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 cor-

Provisions for pensions in UKK

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	2012	2011
Present value of defined benefit obligation	16,525	16,024
Fair value of plan assets	(8,484)	(9,150)
	8,041	6,874
Actuarial losses not recognised as yet	(7,660)	(6,660)
Liability accounted for	**381**	**214**

Amounts recognised with an impact on profit and loss in accordance with IAS 19.120A (g) in EUR thousands	2012	2011
Interest expenditure (item in results for period: interest expense)	745	657
Expected return on plan assets (personnel expenditure)	(560)	(573)
Actuarial loss (personnel expenditure)	520	152
Sum total of amounts recognised in period with an impact on profit and loss	**705**	**236**

Reconciliation of opening and closing balances of the present value of the defined benefit obligation in accordance with IAS 19.120A (c) in EUR Tsd.	2012	2011
Opening balance of present value of defined benefit obligation	16,024	13,360
Interest expense	745	657
Benefits paid	(2,005)	(1,298)
(Actuarial loss	1,397	3,225
Currency translation differences	363	(80)
Closing balance of present value of defined benefit obligation	**16,525**	**16,024**

Reconciliation of opening and closing balances of the fair value of plan assets in accordance with IAS 19.120A (e) in EUR Tsd.	2012	2011
Opening balance of fair value of plan assets	(9,150)	(9,732)
Expected return on plan assets	(560)	(573)
Employer contributions to plan	(539)	(383)
Benefits paid	2,005	1,298
Actuarial gains / (losses)	(28)	559
Currency translation differences	(212)	(319)
Closing balance, fair value of plan assets	**(8,484**)	**(9,150)**

respond 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 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.

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	2012	2011
Corporate equity interests	68	70
Government bonds	5	4
Corporate bonds	12	12
Real estate / land and buildings	14	12
Cash	1	2
Total	**100**	**100**

Foundations for determining the expected return on the assets in accordance with IAS 19.120A (l)	2012	2011
Expected return on plan assets	7.2 %	7.2 %

Actuarial assumptions in accordance with IAS 19.120A (n)	2012	2011
Discount rate	4.5 %	4.8 %
Expected return on plan assets	7.2 %	7.2 %
Pension increases	3.0 %	3.0 %
Inflation rate	2.2 %	2.2 %

Multi-year comparison in accordance with IAS 19.120A (p) in EUR Tsd.	2012	2011	2010	2009	2008
Present value of defined benefit obligation	16,525	16,024	13,360	12,525	10,666
Fair value of plan assets	(8,484)	(9,150)	(9,732)	(8,918)	(6,380)
Excess liability of the plan	8,041	6,874	3,628	3,607	4,286
Experience-based adjustments to the liabilities of the plan	1,397	3,225	660	732	(652)
Experience-based adjustment to plan assets	28	(559)	529	1,762	(2,067)

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 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.

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 31/12/2012
Assets			
Cash and cash equivalents	LaR	–	829
Trade receivables	LaR	–	14,574
Other assets	LaR	–	848
Derivatives without hedge relationship	FAHfT	2	–
Derivatives with hedge relationship	n.a.	2	–
Liabilities			
Trade payables	FLAC	–	2,871
Liabilities to banks	FLAC	–	23,567
Liabilities arising from finance lease	n.a.	–	17
Other financial liabilities	FLAC	–	3,136
Derivative financial liabilities		–	–
Derivatives without hedge relationship	FLHfT	2	1,250
Derivatives with hedge relationship	n.a.	2	–
Aggregated according to valuation categories in accordance with IAS 39:	(LaR)	–	16,251
Loans and receivables (LaR)	(FAHfT)	–	–
Financial Liabilities Measured at Amortised Cost (FLAC)	(FLAC)	–	29,574
Financial Liabilities Held for Trading (FLHfT)	(FLHfT)	–	1,250

Net results from valuation categories (IFRS 7.20 (a)) in EUR thousands	from interests	from subsequent valuation: to Fair Value	Currency translation	Valuation adjustment	2012	2011
Loans and Receivables (LaR)	(70)	–	(22)	(118)	(210)	(69)
Financial Liabilities Measured at Amortised Cost (FLAC)	(1,459)	–	(15)	–	(1,474)	(893)
Financial Instruments Held for Trading (FLHfT)	–	78	–	–	78	770
Total	**(1,529)**	**78**	**(37)**	**(118)**	**(1,606)**	**(192)**

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.

Recognition in balance sheet according to IAS 39			Recognition in balance sheet according to	Fair value 31/12/2012	Book value 31/12/2011	Fair value 31/12/2011
Amortised cost of acquisition	Fair value with no impact on profit or loss	Fair value with impact on profit or loss				
829	–	–	–	829	3,103	3,103
14,574	–	–	–	14,574	17,994	17,994
848	–	–	–	848	1,533	1,533
–	–	–	–	–	121	121
–	–	–	–	–	3	3
2,871	–	–	–	2,871	9,753	9,753
23,567	–	–	–	23,567	20,827	20,827
–	–	–	17	22	46	55
3,136	–	–	–	3,136	3,136	3,136
–	–	–	–	–	–	–
–	–	1,250	–	1,250	338	338
–	–	–	–	–	1,326	1,326
16,251	–	–	–	16,251	22,630	22,630
–	–	–	–	–	121	121
29,574	–	–	–	29,574	33,716	33,716
–	–	1,250	–	1,250	338	338

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. The objective of these hedge measures is to eliminate the exchange rate induced risk. 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 transactions. In the financial year 2011, the change to the fair value of currency derivatives resulted in losses amounting to EUR 590 k, which were recorded in other comprehensive income. There was no hedge accounting at all in the financial year 2012.

As at the balance sheet date, no forward exchange transactions were designated as hedge instruments within the framework of cash flow hedges (previous year: EUR 14,282 k).

There were no underlying transactions arising from currency hedges during the financial year (previous year: EUR 13,872 k). In the financial year, the Company had a residual forward exchange transaction with a fair value of EUR 828 k, which no longer has an underlying transaction, however.

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.

Volume of foreign currency positions at nominal value in EUR thousands	31/12/2012			31/12/2011		
	USD	**CHF**	**GBP**	**USD**	**CHF**	**GBP**
Receivables from retail customers	152	203	400	137	262	2,934
Advance payments received	–	(15,381)	(520)	–	(14,587)	(449)
Liabilities to suppliers	(95)	(65)	(252)	(837)	(321)	(228)
Balance sheet exposure	**57**	**15,243**	**(372)**	**(700)**	**(14,646)**	**2,257**
Expected sales revenues	500	27,668	2,753	2,134	34,172	8,796
Expected purchases	(5,300)	(150)	(752)	(6,000)	(150)	(1,440)
Expected exposure	**(4,800)**	**27,518**	**2,001**	**(3,866)**	**34,022**	**7,356**
Forward exchange transactions	–	(1,000)	–	3,000	(15,868)	(4,250)
Net exposure	**(4,743)**	**11,275**	**1,629**	**(1,566)**	**3,508**	**5,363**

Financial derivatives in EUR thousands	**Fair Value 31/12/2012**	**Fair Value 31/12/2011**
Assets		
Forward exchange transactions/currency swaps		
– without hedge relationship	–	
– with hedge relationship	–	121
		3
Liabilities		
Interest rate swaps		
– without cash flow hedges	(1,109)	–
– in connection with cash flow hedges	–	(912)
Forward exchange transactions/currency swaps		
– without hedge relationship	(141)	(338)
– in connection with cash flow hedges	–	(410)

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 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.

Provisions in EUR thousands	**Status 01/01/2012**	**Consumption**	**Write-backs**	**Additions**	**Status 31/12/2012**
Warranties	2,228	(910)	(5)	898	2,211
Subsequent costs and penalty	1,418	(199)	(289)	2,102	3,032
Contingent loss provisions	750	(665)	(25)	199	259
Total	**4,396**	**(1,774)**	**(319)**	**3,199**	**5,502**

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 nominal value of underlaying transaction	2012	–	–	–
	2011	13,872	–	–
Disbursement from interest hedge underlaying transactions	2012	–	–	–
	2011	241	241	1,085

Currency translation rates	**Average exchange rate**		**Rate of reference date**	
	2012	**2011**	**2012**	**2011**
Equivalent of 1 GBP	0.81092	0.86787	0.81610	0.83530
Equivalent of 1 USD	1.28495	1.39215	1.31940	1.29390
Equivalent of 1 CHF	1.20520	1.23273	1.20720	1.21560

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 9.4 million (previous year: EUR 4.1 million) as well as in GDP of EUR 2.2 million (previous year: EUR 6.7 million).

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 72 per cent (previous year: 45 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 7.8 million as at the balance sheet date, were based on interest agreements at fixed interest rates (previous year: EUR 8 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 1,109 k as at the balance sheet date (previous year: –EUR 912 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 2012 had turned out 100 basis points higher/lower, this would have resulted in a higher/lower expense of EUR 158 k (previous year: EUR 128 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 15,794 k (previous year: EUR 12,827 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	2012	2011
from GBP	(44)	144
from USD	5	(11)
from CHF	(1,169)	(928)

Risk concentration

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

Liquidity risks

Cf. disclosures in Note (14)

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 consists of 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 was deposited for a guarantee line to be utilised by beneficiaries domiciled in countries outside Europe for a total of EUR 525 million (previous year: EUR 321 k). 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 essentially 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 7,636 k (previous year: EUR 10,220 k). 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 10 per cent of the receivables portfolio (previous year: 21 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 16,250 k (previous year: EUR 22,630 k).

Equity effect sensitivities from foreign currency effects effects in EUR thousands	2012	2011
from CHF	–	832
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 Hannover 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 3,526 k (previous year: EUR 3,240 k) were recognised under other operating expenses.

23 Group's contingent liabilities

No payment bonds were deposited in the financial year as part of contractual performance guarantees (Table page 66).

24 Sales revenues

Of total income generated on the performance of services, the UK subgroup earned a share of EUR 11,690 k (previous year: EUR 11,904 k euros). 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.

25 Personnel expenses

The Group's average workforce size was 475 employees (previous year: 497). Of these, 106 (previous year: 111) were classified as commercial wage earners and 369 (previous year: 386) as employees.

Reconciliation re: valuation adjustment account

in EUR thousands	2012	2011
Status of valuation adjustments on 1 January	**531**	**514**
Additions (= expenditure on valuation adjustments)	396	303
Consumption	(161)	(167)
Reversals (= income from valuation adjustments not required)	(117)	(119)
Status of valuation adjustments on 31 December	**649**	**531**

Terms to maturity of receivables as at the balance sheet date in EUR thousands	Receivables 2012	Valuation adjustments 2012	Receivables 2011	Valuation adjustments 2011
Not due	10,453	0	13,306	0
Overdue by 1 to 30 days	3,157	0	2,602	0
Overdue by 31 to 180 days	964	0	1,910	0
Overdue by 181 to 360 days	165	(165)	39	(39)
Overdue for more than one year	484	(484)	668	(492)
Total	**15,223**	**(649)**	**18,525**	**(531)**

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.

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 551 k (previous year: EUR 241 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".

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	2012	2011
Almex division (Bus and rail corporations, airlines)	8,364	13,332
Skeye division (retail and distribution enterprises)	3,205	1,268
Metric division (cities and municipalities, parking space management)	3,005	3,394
Total	**14,574**	**17,994**

Non-terminable operating leases payable

in EUR thousands	2012	2011
Within the following year	2,716	3,544
Between one and five years	7,166	7,672
In more than five years	5,130	6,572
Total	**15,012**	**17,788**

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

Group’s contingent liabilities **in EUR thousands**	**2012**	**2011**
Contractual performance bonds	1,850	3,547
Advance payment bonds	916	3,307
Payment bonds	336	340
Warranty bonds	1,393	1,907
Bid bonds	–	23
Total	**4,495**	**9,124**

Sales revenues **in EUR thousands**	**2012**	**2011**
Merchandise sales	50,579	49,112
Services rendered	28,296	37,140
Total	**78,875**	**86,252**

Personnel expenses **in EUR thousands**	**2012**	**2011**
Wages and salaries	(22,358)	(20,959)
Statutory social expenditure	(4,863)	(4,080)
Contributions to defined benefit pension plan	(539)	(383)
Contributions and actuarial expenses arising from direct commitments	(25)	10
Share–based remuneration components	(4)	(9)
Total	**(27,789)**	**(25,421)**

Other income **in EUR thousands**	**2012**	**2011**
Currency translation gain	683	1,067
Income from valuation adjustments regarding receivables	117	119
Public–sector allowances and subsidies	165	285
Other	1,402	380
Total	**2,367**	**1,851**

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.

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.

Other expenses in EUR thousands	2012	2011
Expenses for premises	(2,848)	(2,789)
Services	(1,937)	(1,944)
Motor vehicle expenses	(2,003)	(2,032)
Currency translation expenses	(1,401)	(1,394)
Travel expenses	(1,066)	(1,248)
Postage/courier services	(1,144)	(1,237)
Legal and consultancy fees	(3,215)	(840)
Telecommunications	(657)	(803)
Advertising/trade fairs	(566)	(487)
Valuation adjustments to receivables	(396)	(303)
Insurance policies	(199)	(271)
Other	(2,161)	(2,433)
Total	**(17,593)**	**(15,781)**

Net financial income in EUR thousands	2012	2011
Interest income on bank balances	1	1
Interest income on tax refunds	0	0
Financial income	**1**	**1**
Interest expenses on liabilities to banks	(1,057)	(715)
Other interest expenses	(1,395)	(390)
Financial expenses	**(2,452)**	**(1,105)**
Net financial income	**(2,451)**	**(1,104)**

Interest earnings and interest paid from not income statement–related financial instruments with subsequent valuation in EUR thousands	2012	2011
Interest earnings	–	–
Interest paid	(18)	(41)
Total	**(18)**	**(41)**

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. 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. In the financial year 2012, no performance-related remuneration was provided for the Board of Management.

No stock options were issued to the Board of Management in the financial year 2012 either. 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 26 in the consolidated mangement report. In fiscal 2012 paid total remunerations amount to EUR 519 k (Previous year: 1,074 k)

Tax position in EUR thousands	2012	2011
Tax income (expense) for current reporting period	(10)	(50)
Tax income/(expense) previous years	55	344
Current tax income/(expenses)	**45**	**294**
Deferred taxes	**218**	**(2,070)**
Tax position	**263**	**(1,776)**

Effect of deferred taxes on profit and loss in EUR thousands	2012	2011
Deferred tax assets		
from losses carried forward	(173)	(3,461)
from temporary differences	115	(311)
Deferred tax liabilities		
from development benefits	180	1,788
from temorary differences	96	(86)
Total	**218**	**(2,070)**

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 26 in the consolidated mangement report. In fiscal 2012 paid total remunerations amount to EUR 73 k (Previous year: 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	2012	2011
Group earnings after taxes	(12,983)	(18,970)
(Income)/expenses from tax	(263)	1,776
Consolidated earnings before taxes (EBT)	(13,246)	(17,194)
Calculated tax expense/ (tax income)	**(4,186)**	**(5,433)**
Tax impacts		
Effects arising from change in use of loss carried forward	3,801	7,714
Aperiodic effects	(45)	(741)
Operating expenses not deductible for tax purposes	83	74
Other	84	162
Tax (income)/expense reported	**(263)**	**1,776**

Remuneration of auditors in EUR thousands	2012	2011
Audit of annual financial statements	280	200
Tax consultancy services	29	19
Other certification services	–	–
Total	**309**	**219**

Gratification to manager in key positions in EUR thousands	2012	2011
Short-dated payable benefits to members of the Management Board and Supervisory Board	592	1,149
Share based remunerations	–	–
Total	**592**	1,149

Members of the Board of Management

Rudolf Spiller
(since 17 July 2012 as CRO, since 1 January 2013
as Member [CEO])
Sales & Marketing, Research & Development, Supply Chain,
Project management, Administration
Metric Group Holdings Ltd., Swindon
(Managing Director)

Michael Höft
(up to 31 December 2012)
CEO
Finance & Administration, Production, Service
Business departments Metric and Skeye
Metric Group Holdings Ltd., Swindon
(Managing Director; since 16 January 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, since 31 May 2011)

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)

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)

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
(up to 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

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 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 2012. 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

Glossary / Imprint

Glossary

Almex Product brand name for ticketing systems and telematics solutions of the Höft & Wessel Group. The name dates back to a company established in Sweden in 1946 that manufactured ticket printers for buses and developed into one of the most well known producers of ticketing systems. In 1992 it became part of the British Metric Group and, following the acquisition of Metric in 1999, Almex was taken over by Höft & Wessel, where it has since featured as the brand in the ticketing division

AGM Annual General Meeting (for shareholders)

Android Operating system for mobile devices

Auto-ID Automatic Identification and Data Capture

GDP Gross Domestic Product Bruttoinlandsprodukt

Calypso An eTicketing standard that defines and ensures secure dialogue between cards and devices

Cashflow Capital flow/period-based surplus of cash and cash equivalents. It is an economic benchmark that shows the net inflow of cash and cash equivalents derived from sales and other current activities during a given period

Chip and PIN British debit cards are equipped with an EMV chip and can be used in terminals by entering only the personal identification number

Compliance This term describes the observation of laws and directives, but also voluntary codes, within companies

Corporate Governance In principle, this can be defined as the sum total of organisational and content-related rules and regulations for management and monitoring within companies

Customizing The term used for adjusting a product or software to the specific needs of a customer

EBIT Earnings before interest and taxes/Operating result

DACH Germany (D), Austria (A), Switzerland (CH)

EBIT Earnings before interest and taxes

EBITDA Earnings before interest, taxes, depreciation and amortisation/Operating result before writedowns

EBT Earnings before taxes

EMV Specification for payment cards with a proc-essor chip with which chip card devices like POS terminals and cash dispensers can be operated. The letters EMV stand for the three companies that developed this standard: Europay International (today: MasterCard Europe), MasterCard, and VISA

GPRS General Packet Radio Service – radio technology

GSM-R Digital wireless communications adjusted to railway transportation

IFRS International Financial Reporting Standards

ITSO Integrated Transport Smartcard Organisation – Organisation responsibel for the e-ticketing standard in the United Kingdom

Metric Name of the British subsidiary of the Höft & Wessel Group that manufactures parking terminals and systems and renders comprehensive services in the United Kingdom

NFC Near Field Communication, transmission standard for exchanging data across short distances

Pay & Display A term used for a ticketing terminal system which requires motorists to “display” the ticket behind the windscreen of their cars

Pay by space A term for parking systems in the U.S. and increasing other countries, where the designation of the parking space and the license number is entered when paying, without the ticket having to be put on display in the car

Pay on foot A term for parking systems with entrance and exit gates

payWave™ The VISA Company and its payWave card make it possible to carry out contactless payments directly via Near Field Communication (NFC) by holding up the card at a secure point-of-sale system

PDA Personal Digital Assistant

POS Point-of-Sale

RFID Radio Frequency Identification/Identification with the aid of electro-magnetic waves

SALB Sale-and-Lease-Back

Skeye Product brand name for mobile terminals and POS solutions of the Höft & Wessel Group; the name was derived from a company for telematics solutions acquired in 1999

Tablet A flat panel used for writing purposes. Used in connection with mobile terminals

Value-added Reseller (VAR) A reseller who gives a product an added value like software

VDV-KA E-ticketing standard of the Association of German Transport Corporations (Verband Deutscher Verkehrsunternehmen e.V. (VDV): "VDV core application"

Windows CE Operating system for PDA's

Windows Embedded Handheld Operating system combined with applications for mobile devices

WLAN Wireless Local Area Network

Imprint

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CALENDAR

Nine-Month Report 2013	05/11/2013

HÖFT & WESSEL

FINANCIAL STATEMENT 2012

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Imprint

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MANAGEMENT REPORT FOR FISCAL 2012

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 equity of –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 AG 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

Figures presented by the Institute for World Economy in Kiel (IfW) indicate that global economic growth in 2012, at 3.2 per cent, turned out to be slightly weaker year-on-year. For the business activities of the Höft & Wessel Group, Europe with its home market of Germany is of particular significance. According to the IfW, economic growth in Europe declined by 0.6 per cent in 2012. In contrast, Gross Domestic Product in Germany rose moderately by 0.7 per cent.

2.2 Business trends

In 2012, the Höft & Wessel AG generated EUR 50.2 million in sales revenues. Compared with the previous year, sales revenues declined by 6 per cent owing to the ongoing restructuring and reorientation (2011: EUR 53.3 million). With the delivery of an EMV contactless ticketing system (Europay/ Mastercard/Visa) for buses as part of a large-scale order to the FirstGroup the share of sales revenues contributed by the United Kingdom rose significantly from 5 per cent in 2011 to 16 per cent in 2012. According to a revenue breakdown, Germany remained the key sales market at 57 per cent, 27 per cent was accounted for by the remaining markets.

The operating result (EBIT) again was clearly in negative territory in 2012, at –EUR 8.8 million (2011: –EUR 12.2 million). The operating result for 2012 includes EUR 4.0 million in expenditure on severance pay and consultancy in connection with the restructuring.

Despite the negative annual results in the years 2011 and 2012, the existing lines of credit were sufficient to cover the liquidity requirements of the Höft & Wessel AG in 2012. The operating cash flow turned out negative for the year 2012 as a whole, at –EUR 4.0 million; in contrast, reduced investments had an impact on the cash flow from investment activities, which changed from –EUR 0.7 million to –EUR 0.4 million.

The positive order intake trend also continued in the fourth quarter. In 2012, new orders with a total volume of EUR 56.7 million were added to the books (2011: EUR 51.6 million).

The largest orders received, with a total volume in excess of EUR 10 million, were placed in 2012 for stationary ticket vending machines by the Belgian State Railway SNCB, from a Polish partner for the industrial region of Upper Silesia and from the Danish State Railway. In France, the Company succeeded in being awarded its first contract by Aérolis / Les Cars Air France. On the buses of the Keolis subsidiary, on-board ticket vending terminals with ticket printers are being installed. In the retail sector in Germany, Edeka, Rossmann and Rewe ordered additional mobile data capture terminals. The Company managed to sign up Fressnapf, a specialist pet food chain, as a new customer. At the end of the year 2012, the order portfolio amounted to EUR 31.5 million (31 December 2011: EUR 33.4 million). Germany accounted for 36 per cent of these orders, the UK for 6 per cent and the remaining countries for 58 per cent, which is mainly attribute to large scale orders in Belgian and Switzerland.

2.2.1 Segment Almex – Ticketing

With its Almex product brand portfolio, Höft & Wessel is a well-known provider of ticketing systems in Europe. In 2012, sales revenues of EUR 27.7 million were generated with these products. Compared with the same period a year earlier, this represents a decline by 12.3 per cent (2011: EUR 31.6 million).

Last year, the Belgian State Railway SNCB ordered 282 ticket vending machines. These will gradually replace the existing terminals. The range of items ordered also extends to include a background system, the application on the ticketing terminals and seamless integration into the SNCB system world. In the process, an e-Ticketing application with the contactless MOBIB card is also of being integrated. By securing a contract award in Poland, business in Eastern Europe was further extended. In 2012, about half of the total of 109 ticket vending

Breakdown of sales revenues in EUR million	2012	2011
Germany	28.5	34.6
Great Britain	7.9	2.5
Other countries	13.8	16.2
Total	**50.2**	**53.3**

machines was delivered to the municipal transit association of the industrial region of Upper Silesia headquartered in the city of Katowice, Poland. The new generation of terminals will be set up at bus and tram stops in combination with the introduction of a smart card featuring RFID technology, the so-called Skup card. Additional ticket vending machines went to the Danish State Railway and the transit authorities in the Swiss city of Geneva. Lufthansa received additional check-in terminals. The delivery of on-board computers with ticket printers and reading devices for e-Tickets and credit cards with an EMV contactless application to the FirstGroup in the United Kingdom continued. The total order volume comprised over 3,500 units. In addition, the first mobile e-Ticket readers of a completely newly developed generation of devices were delivered to the Danish state railways. A new mobile communications system based on GSM Rail is being developed for shunters and railway construction workers of the Swiss Federal Railways SBB.

The order intake for ticketing solutions also saw promising development in 2012, accounting for almost half the total portfolio of incoming orders of the Höft & Wessel Group. In France, Höft & Wessel managed to enter the market with a first contract award. The bus company Les Cars Air France operated by Aérolis, a joint subsidiary of Keolis and Air France, ordered an innovative e-Ticketing system for its buses in service between the airports of Paris Charles-de-Gaulles and/or Paris Orly and the inner city of Paris. The First Group in the United Kingdom ordered additional on-board systems featuring the future technology EMV contactless. The Belgian State Railway (SNCB) and the Danish State Railway placed additional orders for stationary ticket vending terminals. Follow-up orders for on-board computers for buses were received from the partner in South Africa.

2.2.3 The Skeye segment – Mobile Solutions

With its portfolio of the product brand Skeye in the segment of the same name, Höft & Wessel is a leading manufacturer of mobile data capture terminals in Europe. In 2012, sales revenues came to EUR 22.5 million, up by EUR 0.8 million year-on-year (2011: EUR 21.7 million).

In the financial year 2012, as part of one of the largest IT projects in the German retail sector Höft & Wessel delivered over 2,500 mobile terminals to the retail grocery chain EDEKA. About 1,000 data capture devices went to Rewe, the second biggest German food retailer. A further 1,000 units including the relevant software applications were delivered to another retailer, Rossmann. In the process, Höft & Wessel consolidated its leading position as a supplier of mobile data capture devices to the retail sector in Germany. Moreover, Lekkerland, the US restaurant chain Outback Steakhouse, the Swiss Post Office and other retailers in Europe were supplied with lower numbers of units.

The partner network was further extended, and small-scale orders for handhelds were received from existing partners like Warok, Primelco, Prometheus and Lomosoft. In the United Kingdom, the first major customer was acquired via the partner Hands Free Company, namely the forwarding agency Abbey Road. Some 200 mobile terminals featuring the Android operating system were delivered and installed on board trucks in 2012.

The radio module business remains very stable. For instance, last year 8,500 radio modules were delivered to Sirona Dental Systems, a key component of this customer's systems.

A contribution to the order intake was made e.g. by an order placed by Fressnapf, a new customer, for 1,500 data capture devices. Alongside Edeka, this is the second customer with whom Höft & Wessel cooperates with SAP and GK software. The delivery is largely scheduled for 2013. New orders from portfolio customers were received from Fegro-Selgros for over 1,500 mobile terminals as well as smaller-scale orders from Rewe and Edeka.

2.3 Workforce

In 2012, the Höft & Wessel Group employed an average of 302 persons (previous year: 335) including trainees. In the financial year 2012, as part of its restructuring the Company was resized in accordance with its expected sales revenues, and its workforce was accordingly reduced to only 257 employees by the end of the year (Previous year: 338).

2.4 Production and procurement

External manufacture of its products, predominantly by German suppliers, represents a key element of the business model of Höft & Wessel AG. The entire development work, all the way through to preparing the parts lists, remains with Höft & Wessel. Moreover, the company is closely involved in external production activities and performs detailed quality control.

2.5 Research and development

Roughly one third of the workforce of the Höft & Wessel Group is engaged in research and development. The IT specialists and engineers located in Hannover and Swindon develop new hardware and software solutions, adapt products and software to customers' requirements and write complex application programs. In 2012, the development of software modules and further product enhancements continued.

2.6 Service

Services remain a key, reliable mainstay of basic business.

2.7 Investments

In the financial year 2012, additions to fixed assets amounted to EUR 0.4 million (previous year: EUR 0.7 million).

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

3.1 Asset position

Fixed assets declined by a total of EUR 34 k. This decline is solely attributable to scheduled depreciation of fixed assets which, at EUR 0.5 million, were slightly higher than the investments made in the year under review.

In connection with the adverse business development of the Skeye division, a write-down was also made on inventory assets in the previous year. As a result, inventories in the amount of EUR 2.5 million were subjected to non-scheduled depreciation. Since the business division affected managed to realise increasing sales revenues in the reporting year once again, the Company did not carry out any further depreciation. Inventories at Höft & Wessel AG increased by a total of EUR 3.4 million in the year under review as services rendered as part of a number of current large-scale projects could not yet be realised as sales revenues as at the balance sheet date.

Current assets are down by a total of EUR 5.4 million year-on-year. In the Almex segment, the volume of receivables declined by EUR 5.0 million. This is partly due to slightly lower sales revenues particularly at the end of the year, but also to the concentration on a more consistent receivables management system within the scope of the H&W 2.0 restructuring programme. The decline in equity by EUR 10.9 million corresponds to the negative period result during the last financial year. Owing to the negative business trend in 2011, no dividend payment was made in the financial year (previous year: EUR 849 k). With total assets down by EUR 2.7 million, as at the balance sheet date the Company reported a shortfall of -EUR 2.8 million on the face of the balance sheet. In contrast, the level of equity as at the balance sheet date in 2011 still amounted to EUR 8.1 million. Provisions of Höft & Wessel AG increased substantially in the year under review, by EUR 2.3 million, to a total of EUR 9.8 million, which was chiefly due to risks identified in the course of on-going large-scale projects.

In the category of liabilities, which increased by a total of EUR 3.1 million in 2012, to EUR 42.1 million, liabilities to banks were up by EUR 2.7 million, to EUR 18.9 million. The Company also recorded a significant increase in advance payments made on orders placed, up by EUR 7.8 million, to reach EUR 19.6 million. This development is due to the above-mentioned large-scale projects that had not yet been concluded as at the balance sheet date, for which the Company collected progress payments in the course of the relevant milestones reached. The permanent uncertainty with regard to

corporate finance also had a substantial adverse impact on the Company's supplier situation. Lines of merchandise credit insurers that were cancelled or substantially reduced prompted suppliers to reduce their terms for payment significantly or to insist on advance payment, either wholly or in part.

As a direct consequence of this trend, liabilities to suppliers as at 31 December 2012 only amounted to EUR 2.2 million (previous year: EUR 9.8 million), which the Company largely managed to offset on the financing side only through strict working capital management as part of the H&W 2.0 streamlining project.

2.2 Financial position

Cash flow from current operating activities amounts to –EUR 4,022 k (previous year: –EUR 4,736 k). The fact that this value turned out to be relatively moderate compared with the shortfall of the financial year, amounting to –EUR 10,.867 k, is largely attributableto the above-mentioned increase in provisions (EUR 2,292 k) and to the reduction of working capital (EUR 4,089 k).

Investments were made in the year under review in property, plant & equipment (EUR 276 k) as well as in intangible assets (EUR 153 k). The negative cash flow from investment activities thus amounts to –EUR 429 k following –EUR 734 k in the previous year period.

The funding requirements described above were covered by increased utilisation of current bank loans and repayment of the volume of cash holdings. This led to a positive cash flow from financing activities of EUR 2,698 k. No non-current lines of credit were available to the Company as at the balance sheet date. The free credit lines as part of the existing standstill agreement amounted to EUR 1.5 million as at the balance sheet date (previous year: EUR 4.4 million).

2.3 Earnings position

Sales revenues of Höft & Wessel AG saw a year-on-year decline by roughly 5.8 per cent, from EUR 53.3 million to EUR 50.2 million. The Almex segment in particular had to contend with a significant sales revenue decline of 12.3 per cent in the current financial year and only invoiced approx. EUR 27.7 million (previous year: EUR 31.6 million). Capacity bottlenecks and delays in the course of specific large-scale projects led to substantial postponements of planned project acceptances and of concomitant sales revenues realised. In contrast, in the Skeye segment was it possible to boost sales slightly, by 3.7 per cent, to reach EUR 22.5 million.

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) was up by 9.9 percentage points, to 41.7 per cent. 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) was up by 9.9 percentage points, to 41.7 per cent. The increase in personnel costs by EUR 0.8 million is essentially due to the "social plan" (or redundancy programme) at the AG, which placed a EUR 1.5 million burden on personnel costs for 2012.

The increase in personnel costs by EUR 0.8 million is essentially due to the "social plan" (or redundancy programme) at the AG, which placed a EUR 1.5 million burden on personnel costs for 2012.

Depreciation and amortisation decreased substantially year-on-year, from EUR 2.0 million to EUR 0.5 million. The main reasons for this are non-recurring effects due to non-scheduled depreciation and amortisation in the previous year as well as lower current depreciation occasioned by reduced investment activity.

Other operating expenses were up by EUR 2.1 million in the year under review, to EUR 12.7 million. Legal and consultancy costs in connection with the restructuring and refinancing of the Company amounted to approx. EUR 2.1 million; provisions for warranties also rose significantly, by approx. EUR 1.6 million, to approx. EUR 5.2 million (previous year: EUR 3.6 million). This trend was offset by early successes in achieving cost reductions as part of the H&W 2.0 programme.

By virtue of shareholder resolutions of 28 September 2012, during the last financial year Hoeft und Wessel AG booked income from participations from Skeye Partner Support Center GmbH (EUR 500 k) as well as from Höft & Wessel Traffic Computer Systems GmbH (EUR 50 k), i.e. a total of EUR 550 k.

As a result of the developments referred to above, the operating result (EBIT) at the AG came to –EUR 8.8 million (previous year: –EUR 12.2 million).

Net financial income deteriorated substantially in 2012 by –EUR 1.2 million, to –EUR 2.1 million. On the one hand, this is due to the higher utilisation of credit lines throughout the year compared with 2011 (–EUR 0.3 million); on the other, the lion's share of this development, namely –EUR 1.1 million, is due to an interest rate swap recognised through profit and loss. Earnings before taxes therefore came to –EUR 10.9 million (previous year: –EUR 13.2 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

Asset intensities	2012	2011
Asset intensity [fixed assets (EUR 10.1 Mio.)/ Total assets (52.0 Mio.))	19 %	19 %
Inventory intensity (inventory assets (EUR 30.0 Mio.)/ Total assets (52.0 Mio.))	58 %	49 %
Receivables intensity [trade receivables (EUR 7.4 Mio.) / Total assets (52.0 Mio.))	14 %	23 %

Equity ratio	2012	2011
[Equity capital (EUR 12.5 Mio.) / Total assets (EUR 52.0 Mio.)]	–	15 %

Cash flow in EUR thousand	2012	2011
Cash flow from current operating activities	(4,022)	(4,736)
Cash flow from investment activities	(429)	(734)
Cash flow from financing activities	2,698	3,419
Changes to financial funds impacting on payments	(1,753)	(2,051)

Key data from the consolidated income statement in EUR thousands	2012	2011
Sales revenues	50.2	53.3
Aggregate Output	54.3	60.1
Earnings before taxes and interest (EBIT)	(8.8)	(12.2)
Earnings before taxes (EBT)	(10.9)	(13.2)
EBT margin in % of sales revenues	(21.7)	(24.8)
Consolidated earnings after taxes	(10.9)	(13.0)

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

Following the close of the financial year 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 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.

In the financial year 2012, no stock options were issued to the Board of Management. For a former member of the Board of Management, the Company set up an additional provision for severance pay amounting to EUR 321 k. In the current year, no provisions were set up for bonus payments (previous year: EUR 68 k).

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.

Remuneration Board of Management in EUR thousands	Non-performance related		Performance-related		Total emoluments	
	2012	2011	2012	2011	2012	2011
Rudolf Spiller	141	–	–	–	141	–
Michael Höft	264	16	–	–	264	16
Thomas Wolf	96	223	–	40	96	263
Hansjoachim Oehmen	18	528	–	79	18	607
Peter Claussen	–	117	–	71	–	188

Remuneration Supervisory Board in EUR thousands	Remuneration	
	2012	2011
Prof. Dr. Dr.-Ing. Dr. h.c. Klaus E. Goehrmann	20	20
Dr. Peter Versteegen	15	15
Michael Höft	–	10
Dr. Martin Künnemann	10	10
Rolf Wessel	10	10
Manfred Zollner	10	10
Hinrich Peters	8	–

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 2012, 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 2012

ASSETS in Euro	31/12/2012	31/12/2011
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	192,531.79	74,336.45
II. Tangible assets		
1. Other equipment, fixtures and fittings	768,953.15	1,058,171.39
2. Advanced payments made and assets under construction	149,199.98	12,624.50
III. Financial assets		
Shares in affilities	9,025,157.28	9,025,157.28
	10,135,842.20	**10,170,289.62**
B. Current assets		
I. Inventories		
1. Raw materials and supplies and trading stock	3,707,355.63	4,538,303.24
2. Work and services in progress	20,866,474.93	13,263,324.43
3. Finished goods and trading stock	5,236,182.83	8,758,364.99
4. Advanced payments made	170,660.84	34,886.93
	29,980,674.23	**26,594,879.59**
II. Accounts recervable and other assets		
1. Trade receivables	7,437,300.13	12,704,637.47
2. Receivables from affiliated companies	672,525.21	1,623,961.53
3. Other assets	851,542.30	1,627,939.32
	8,961,367.64	**15,956,538.32**
III. Cash in hand, cash at federal bank, cash balances with banks	101,671.97	1,854,371.65
	39,043,713.84	**44,405,789.56**
C. Accruals / Deferrals	**47,143.57**	**144,226.91**
D. Shortfall not covered by equity	**2,785,867.75**	**0.00**
therof accumulated loss EUR 2,785,867.75 (Previous year: EUR 0.00)		
Total ASSETS	**52,012,567.36**	**54,720,306.09**

EQUITY AND LIABILITIES in Euro	31/12/2012	31/12/2011
A. Equity		
I. Subscribed capital	8,497,490.00	8,497,490.00
II. Capital reserves	849,749.00	849,749.00
III. Accumulated loss	(9,347,239.00)	(1,265,671.45)
– Accumulated loss total EUR 12,133,106.75 (Previous year: EUR 1,265,671.45)		
– Accumulated loss insofar as not covered by equity EUR 2,785,867.75 (Previous year: EUR 0.00)		
	0.00	**8,081,567.55**
B. Provisions		
1. Pension reserves and similiar obligations	349,015.00	376,979.00
2. Tax provisions	50,000.00	50,000.00
3. Other provisions	9,370,906.04	7,050,462.62
	9,769,921.04	**7,477,441.62**
C. Liabilities		
1. Liabilities due to banks	18,930,600.47	16,232,181.87
2. Advance payments for orders	19,624,651.91	11,781,467.17
3. Trade payables	2,150,806.32	8,023,926.01
4. Liabilities to affiliated companies	230,569.53	708,288.95
5. Other liabilities	1,142,018.09	2,210,432.92
– 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)		
	42,078,646.32	**38,956,296.92**
C. Accruals / Deferrals	**164,000.00**	**205,000.00**
Total EQUITY AND LIABILITIES	**52,012,567.36**	**54,720,306.09**

Profit and Loss Account
for the Period from 1 January to 31 December 2012

in Euro	2012	2011
1. Sales revenues	50,229,887.03	53,348,005.48
2. Increase or (decrease) 0f inventories relating to finished goods and work-in-progress	4,080,968.34	6,766,845.01
Aggregate output	**54,310,855.37**	**60,114,850.49**
3. Other income	2,036,769.15	1,805,617.81
4. Cost of materials and services procured		
a) Costs of raw materials and supplies and trading stock	(27,766,181.30)	(36,381,667.15)
b) Costs of received services	(5,611,576.95)	(6,750,960.88)
	(33,377,758.25)	**(43,132,628.03)**
5. Personnel expenses		
a) Wages and salaries	(16,712,058.35)	(15,736,399.57)
b) Social securit contributions and expenses of pension benefits and support – thereof, for pension benefits EUR 40,826.08 (Previous year: EUR 156,144.41)	(2,519,327.74)	(2,725,830.89)
	(19,231,386.09)	**(18,462,230.46)**
6. Depreciation and amortisation of intangible assets and property, plant and equipment	(462,172.85)	(2,031,091.34)
7. Other operating expenses	(12,663,769.42)	(10,537,052.15)
8. Earnings from holdings – thereof from affialiated entities: EUR 550,000.00 (Previous year: 0)	550,00.,00	0.00
Earnings before interest and taxes (EBIT)	**(8,837,462.09)**	**(12,242,533.68)**
9. Other interests and similiar earnings – thereof from affiliated entities: EUR 141,848.72 (Previous year: EUR 38,919.02)	142,550.98	39,503.72
10. Interests and similiar disbursements – thereof to affiliated entities: EUR 34,200.26 (Previous year: EUR 15,150.07)	(2,202,447.22)	(1,044,841.60)
Net financial income	**(1,509,896.24)**	**(1,005,337.88)**
11. Earnings before taxes (EBT)	**(10,897,358.33)**	**(13,247,871.56)**
12. Income taxes	37,202.68	271,668.36
13. Other taxes	(7,279.65)	(8,379.65)
14. Loss for the year	**(10,867,435.30)**	**(12,984,582.85)**
15. Loss / Profit carried forward from previous year	(1,265,671.45)	579,475.29
16. Withdrawal from capital reserves	0.00	11,139,436.11
17. Accumulated loss	**(12,133,106.75)**	**(1,265,671.45)**

NOTES FOR FISCAL 2012

I. GENERAL

The annual financial statements of Höft & Wessel AG, Hannover, 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 cap 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 31.12.12 amounts to 5.04 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 are reported according to the net method. The value added tax paid on advances received is thus reported under Other liabilities.

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 underlying transactions, 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. In the previous year, 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, last year 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 581 k (previous year: EUR 295 k), are due within a period of one year. Receivables from affiliates, amounting to EUR 673 k (previous year: EUR 1,624 k) comprise trade receivables (EUR 130 k; previous year: EUR 0 k), loan receivables (EUR 980 k; previous year: EUR 1,920 k), trade liabilities (EUR 437 k; previous year: EUR 176 k). In the previous year, there were other liabilities amounting to EUR 120 k. Other assets, amounting to EUR 852 k (previous year: EUR 1,628 k) chiefly comprise customer payments to the factoring company (EUR 367 k; previous year: EUR 896 k), items of collateral deposited (EUR 300 k; previous year: EUR 300 k), tenant loans (EUR 59 k; previous year: EUR 6 k) as well as creditors with debit balances (EUR 58 k; previous year: EUR 66 k) and receivables from the revenue office (EUR 6 k; previous year: EUR 218 k). In addition, in the previous year there was also a receivable from the Swiss customs directorate amounting to EUR 52 k.

3. Equity

Shortfall not covered by equity
Owing to the earnings performance of the past financial years, the equity capital of Höft & Wessel AG was fully depleted as at 31 December 2012. As at the balance sheet date, Höft & Wessel AG reported a shortfall not covered by equity amounting to EUR 2,786 k.

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.

Authorised capital
As at 31 December 2012, 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

Statement of changes in shareholders’ equity **In EUR thousands**	**Capital stock**	**Capital reserve**	**Balance sheet loss**	**Equity Total**
Status: 1 January 2012	8,497	850	(1,265)	8,081
Loss for the year 2012	–	–	(10,867)	(10,867)
Status: 31 December 2012	**8,497**	**850**	**(12,132)**	**(2,784)**

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 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 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 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.

Maturity structure of liabilities as at 31/12/2012 In EUR thousands	Total	of which, residual term		
		Up to 1 year	1 to 5 years	more than 5 years
Liabilities due to banks	18,931	18,931	–	–
Advance payments for orders	19,624	19,624	–	–
Trade payables	2,151	2,151	–	–
Intra-group accounts payable	231	231	–	–
Other liabilities	1,142	1,142	–	–
	42,079	**42,079**	–	–

Maturity structure of liabilities as at 31/12/2012 In EUR thousands	Total	of which, residual term		
		Up to 1 year	1 to 5 years	more than 5 years
Liabilities due to banks	16,232	16,232	–	–
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	**38,956**	–	–

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. As the persons entitled to subscription rights in the past left the Company during the financial year, there are currently no obligations on Höft & Wessel AG from 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.

Balance sheet loss

A loss of EUR 10,867 k is reported for the financial year. 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).

4. Provisions

Other provisions, amounting to EUR 9,371 k, primarily consist of warranty provisions (EUR 5,159 k), impending losses (EUR 1,509), personnel (EUR 1,734 k), and outstanding invoices received (EUR 465 k).

Of provisions for impending losses, an amount of EUR 1,250 k essentially relates to the negative recognition of market values at imparity of financial derivatives (currency hedging and interest rate swaps).

5. Liabilities

The breakdown and maturities of liabilities are listed in the table "Maturity structure of liabilities". Owing to the existing standstill agreement with the banks (Commerzbank, Postbank, KBC, Sparkasse, Deutsche Bank, Nord LB), all liabilities are reported as current in nature.

Breakdown of sales revenues In EUR thousands	**Domestic**	**EU**	**Others**	**Total**
New equipment and spare parts	17,864	12,603	3,198	33,665
Maintenance, repairs and other services	10,085	5,667	106	15,858
Software	908	173	161	1,242
Subtotal	**28,857**	**18,443**	**3,465**	**50,765**
Reductions in revenues	(402)	(103)	(31)	(536)
Total	**28,455**	**18,340**	**3,434**	**50,229**

Hedge transactions without valuation units In EUR thousands	**Term**	**Nominal value of hedge transactions**	**Present value**
Forward exchange transaction with negative market values	2013	828	141
Hedge transaction with negative market values	2018	5,000	1,109

6. Sales revenues

The table “Breakdown of sales revenues” reflects the geographical distribution of the various types of sales revenues.

7. Other operating income and expenses

Other operating income amounted to EUR 2,037 k (previous year: EUR 1,806 k).

This essentially includes currency translation gains amounting to EUR 752 k (previous year: EUR 956 k). In addition, other operating income comprises earnings from other periods totalling EUR 806 k (previous year: EUR 313 k), of which EUR 656 k essentially results from the reversal of provisions set up.

Other operating expenses amounted to EUR 12,664 k (previous year: EUR 10,537 k).

These essentially comprise legal and consultancy costs (EUR 2,984 k; previous year: EUR 617 k), warranty expenses (EUR 1,590 k; previous year: EUR 1,340 k), costs of buildings (EUR 1,978 k; previous year: EUR 1,997 k) and currency translation losses amounting to EUR 1,029 k (previous year: EUR 1,182 k).

As in the previous year, other operating expenses do not include any expenses in connection with other periods.

8. Interest expenses and income

During the financial year, expenses resulting from the accrual of provisions amounting to EUR 46 k were recorded under interest expenses (previous year: EUR 21 k). The Company registered gains resulting from the discounting of provisions amounting to EUR 50 k reported as interest income (previous year: EUR 0 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.

Interest rate risks

The Company is exposed to risks of interest rate fluctuations in the field of short-term financing of working capital. In the previous year, 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. During the financial year, no new non-current loans were taken out owing to the ongoing refinancing negotiations with the lenders. The Company also reported this loan under current bank liabilities in the financial year.

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. The long-term expectations of minimum

Deferred taxes (In EUR thousands)	assets	liabilities
Loss carry-forwards	–	–
Provisions	526	–
Effects resulting from foreign currency valuation	–	22
Other temporary differences	–	–
Total	**526**	**22**

Contingent liabilities (In EUR thousands)	2012	2011
Liabilities due to guarantees	4,353	9,032
– thereof: intra-group accounts payable	–	–
Liabilities arising from warranties	5,000	5,000
– thereof: intra-group accounts payable	5,000	5,000

utilisation of credit lines with variable interest rates are hedged in the previous year 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. As this hedge transaction proved to be ineffective within the scope of the effectivity measurement as at the balance sheet date, Höft & Wessel AG recognised the negative market value of the derivative as a liability, leading to EUR 1,109 k in interest expenditure (previous year: EUR 0 k).

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 recognised.

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 are 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 37 k (previous year: EUR 272 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 289 persons employed (previous year: 319).

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, telephone equipment, purchase commitments, car leases, payments to provident funds and the leasing of an equipment pool amounted to EUR 10,660 k as at 31.12.12 (previous year: EUR 12,733 k). Of this sum, an amount of EUR 1,429 k euros is due within one year (previous year: EUR 2,300 k), 4,714 k euros in one to five years (previous year: 4,787 k euros) and EUR 4,517 k in over five years (previous year: EUR 5,646 k).

Shareholdings In EUR thousands	Shares	Equity 31/12/2012	Net income/ (-loss) 2012
a) Shares held directly			
Höft & Wessel Traffic Computer Systems GmbH, Hannover	100 %	45	12
Skeye Partner Support Center GmbH	100 %	260	10
Metric Group Holdings Ltd., (MGHL), Swindon (United Kingdom)	100 %	3,160[1]	(572)[1)]
b) Shares held indirectly (via MGHL)			
Metric Group Ltd. (MGL), Swindon (United Kingdom)	100 %	10,174[1)]	909[1)]
c) Shares held indirectly (via MGHL):			
Metric Group Inc., New Jersey (USA)	100 %	(1,069)[1)]	(1,079)[1)]

1) Shareholders’ equity or net income in the individual annual financial statements presented according to national GAAP in GBP and USD, respectively, was translated at the exchange rate on the balance sheet date or at the average annual exchange rate: GBP: 0.81610; 0.81092, USD: 1.31940; 1.28495.

4. Off-balance sheet liabilities

In addition to leasing obligations listed under other financial liabilities with regard to assets sold and subsequently released within the scope of a sale and lease-back agreement (buildings and equipment hire pool), there are other off-balance sheet liabilities on the books. As at the balance sheet date, trade receivables totalling EUR 967 k were sold within the scope of a genuine, silent factoring arrangement (previous year: EUR 3,925 k).

5. Shareholdings

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

6. Collateral

For a loan with an original term to maturity until 2017 in the amount of EUR 4.8 million, ownership of the inventory equivalent to a sum of EUR 7,019 k was transferred by way of collateral security.

7. Management bodies

Members of the Board of Management

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

Michael Höft
(resigned on 31 December 2012)
Chairman of the Board of Management
Finance & Administration, Production, Service
Business Divisions: Metric and 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; from 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 Skeye
Metric 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)

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, Hannover (Deputy Chairman)
Internationale Schule Hannover Region GmbH, Hannover
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)

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. 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. In the financial year 2012, no performance-related remuneration was provided for the Board of Management.

No stock options were issued to the Board of Management in the financial year 2012 either. 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 14 in the consolidated mangement report. In fiscal 2012 paid total remunerations amount to EUR 73 k for the Supervisory Board and 519 k for the Management Board.

Hannover, 7 October 2013

The Board of Management

Appendix 1

Composition and development of fixed assets in euros	Acquisition costs				
	Status 01/01/2012	Additions	Disposals	Transfers	Status 31/12/2012
I. Intangible assets Concessions, industrial property rights and similar rights and assets, including licences to such rights and assets	3,025,653.03	152,124.66	–	12,624.50	3,190,402.19
II. Tangible assets					
1. Other equipment, fixtures and fittings	10,823,645.83	127,008.65	321,098.36	–	10,629,556.12
2. Advance payments on assets under construction	12,624.50	149,199.98	–	(12,624.50)	149,199.98
	10,836,270.33	**276,208.63**	**321,098.36**	**0.00**	**10,778,756.10**
III. Financial assets Shares in affiliates	32,077,460.81	–	–	–	32,077,460.81
Total	**45,939,384.17**	**428,333.29**	**321,098.36**	**0.00**	**46,046,619.10**

	Accumulated depreciation				Residual book values	
	Status 01/01/2012	Additions	Disposals	Status 31/12/2012	Status 31/12/2012	Status 31/12/2011
	2,951,316.58	46,553.82	–	2,997,870.40	192,531.79	74,336.45
	9,765,474.44	415,619.03	320,490.50	9,860,602.97	768,953.15	1,058,171.39
	0.00	–	–	0.00	149,199.98	12,624.50
	9,765,474.44	**415,619.03**	**320,490.50**	**9,860,602.97**	**918,153.13**	**1,070,795.89**
	23,052,303.53	–	–	23,052,303.53	9,025,157.28	9,025,157.28
	35,769,094.55	**462,172.85**	**320,490.50**	**35,910,776.90**	**10,135,842.20**	**10,170,289.62**

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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