HÖFT & WESSEL
SOLUTION PARTNER FOR YOUR SUCCESS

Annual Report 2013

SOLUTIONS FOR RECORDING, VALIDATING AND PROCESSING DATA

Content

Höft & Wessel in the world

International // In Europe, its two home markets of Germany and the United Kingdom represent the base of operations for Höft & Wessel. The company has most of its customers in this region. However, systems solutions from Höft & Wessel can also be found in the US, South Africa and other countries across the globe.

MEGATREND MOBILITY

The Höft & Wessel Group is a leading solution and service partner in the field of systems for recording, validating and processing data. As a member of the Droege Group, the technology company automates processes and ensures enhanced efficiency of transporting passengers, goods and services in the sectors of trade & logistics, railway & cargo and parking & public transport. In doing so, Höft & Wessel focuses on the global megatrend of mobility. The company has its headquarters in Hannover/Germany with a further head office in Swindon, west of London.

In the field of research and development, the EU Industrial R & D Investment Scoreboard rates Höft & Wessel as one of the leading European enterprises. The company is a well-known manufacturer of ticketing systems, mobile data capture systems, and car park terminals. During its corporate history extending over more than 35 years, Höft & Wessel has developed into an international SME employing a workforce of over 400.

CALENDER

Quarterly Report 2014		06/05/2014
Annual General Meeting	Hannover	22/05/2014
Half-Year Report 2014		05/08/2014
Nine-Month Report 2014		04/11/2014
Analyst conference (intended)	German Equity Forum, Frankfurt	calendar week 48

KEY FINANCIALS

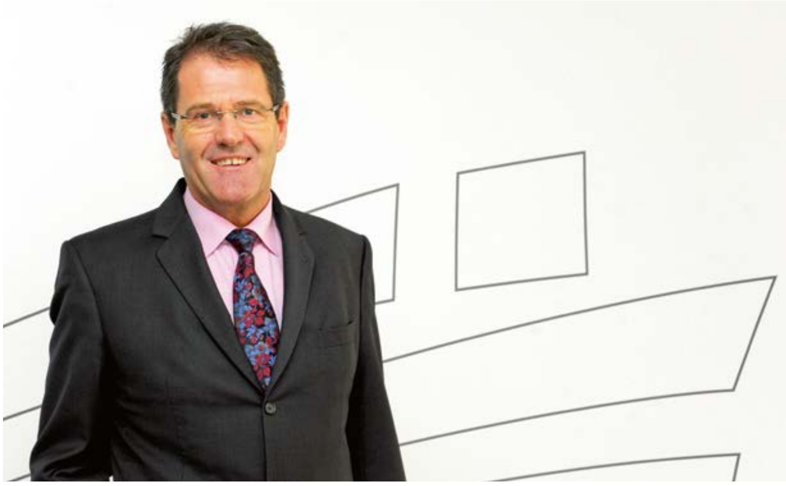
in EUR thousands	**2013**	**2012**	**2011**	**2010**	**2009**
Sales revenues	79,819	78,875	86,252	94,828	94,098
Operating result before depreciation and amortisation (EBITDA)	2,427	(7,281)	(4,769)	6,546	7,569
Operating result (EBIT)	(314)	(10,275)	(16,090)	1,419	3,076
in % of sales revenues	–	–	–	*1,5*	*3,3*
Earnings before taxes (EBT)	12,034	(12,868)	(17,194)	502	2,081
in % of sales revenues	*15,1*	–	–	*0,5*	*2,2*
Group earnings	7,541	(12,698)	(18,970)	1,888	1,854
Earnings per share (in EUR)	0.81	(1.49)	(2.23)	0.22	0.22
Dividend (in EUR)	–	–	–	0.22	0.08
Contribution margin (in per cent*)	40.3	42.9	37.5	43.1	41.7
Cash flow from operating activities	185	(1,378)	(2)	8,654	5,933
Average number of employees	422	475	497	500	503

** Turnover – cost of materials +/– inventory changes in relation to turnover*


“Höft & Wessel achieves operating result
close to break-even point“
“Investments in R & D“

CONTENT

Foreword



Rudolf Spiller //
CEO
Höft & Wessel AG

Dear Reader,

The Höft & Wessel Group accomplished a turnaround in the financial year 2013. Following two years of a substantially negative performance, an operating result close to break-even point was achieved in 2013. The fact that it was possible to generate an operating result of – EUR 0.3 million after a loss of – EUR 10.3 million (FY 2012) and – EUR 16.1 million (FY 2011) bears impressive testimony to the immense effort made by the Company. Even if the ratings for this performance cannot really be any higher, we will nevertheless have to meet further challenges. The name of the game will be to ensure continual further improvement in future. And in the year 2013, we laid the foundations for this to succeed.

Since October 2013, we have had a new majority shareholder, the Droege Group. By subscribing to a further capital increase in February this year, Droege delivered proof of its commitment to the Höft & Wessel Group. Today, we are delighted to be part of the Droege Group and the international network of this family enterprise based in Düsseldorf.

Since the ordinary Annual General Meeting at which the election of the Supervisory Board is always on the agenda, in addition high-calibre personalities of note from the business community have assisted us with their proven expertise and experience.

A great deal has also changed within the Company itself. Numerous new employees and managerial staff joined the ranks of our regular team. In the financial year 2013, we also began to revise the corporate organisation and to initiate process optimisation measures. The first success story in this regard is the recent inauguration of our new Logistics & Service Performance Centre at our main headquarters in Hannover, attended by customers and partners alike. With our optimised supply chain management, a first milestone within the scope of our process optimisations went live. Our customers will

// Our increasingly mobile world call for a large number of devices such as ticketing or mobile terminals for merchandise and data capture; instead, back office services will feature as the centre of attraction to control the flows of passengers, merchandise and services in the future.

Rudolf Spiller

benefit from an improvement in service and logistics processes, bringing about a substantial reduction in turnaround times for repairs and spare part supplies. Moreover, the processes are now being made more transparent for our customers. Status requests and tracking capabilities are possible via a special online portal. This will enable us to offer our customers a higher quality of service levels in future.

Our order execution process will be improved to a marked degree with the optimised supply chain, meeting the growing requirements of our customers. The newly created Logistics & Service Performance Centre that works according to the pull principle is a key component of our comprehensive internal reorientation with the objective of giving our customers a first-hand experience of the impact of our improvements. As part of a continual improvement process, a dedicated, continual improvement programme known as Act for Performance (A4P) was implemented, which will continually boost the Company's efficiency by redefining our processes.

With these changes, the Höft & Wessel Group has laid the foundations for a successful growth track and initiated a complete repositioning process. We will continue to further develop our business model as part of ongoing, strategic considerations. In doing so, we will rely for guidance on a market structure that is defined in three customer segments, namely Trade & Logistics, Railway & Cargo as well as Parking & Public Transport. In doing so, we will also be making use of internal synergies to do justice to how we address our customers.

The Höft & Wessel Group today is one of the leading solutions and service partners for data capture, validation and processing systems. As a technology enterprise, we optimise processes and thus ensure efficiency enhancements in the transportation of passengers, merchandise and in providing services. In doing so, we are banking on mobility as the global megatrend and have worded our slogan accordingly: "Mobility as a Service". We plan to continue developing away from a supplier in the direction of a service provider for systems solutions. In the present Annual Report, we devote attention to this particular topic.

We wish to thank all stakeholders for endorsing and accompanying our comprehensive process of change in 2013 in a spirit of mutual partnership. A word of special thanks is owed to the funding institutions for the successful refinancing, and to our staff for the successful operational restructuring measure.

As a member of the Droege Group and following the changes that have been initiated, the Höft & Wessel Group now has all the best prerequisites for a highly promising and rewarding future.

We will definitely make use of this opportunity.

Hannover, March 2014

The Board of Management

Report of the Supervisory Board

Johannes Feldmayer //
Chief representative HEITEC AG // Erlangen
Dirk Ulrich Hindrichs //
Chairman //
Managing shareholder
D.U.H. GmbH & Co. KG // Bielefeld
Christoph Hartmann //
Deputy chairman //
Chief representative Droege
International Group AG // Düsseldorf
(from left to right)

Dear Shareholder,
Dear Reader,

During the financial year 2013, in the wake of the operational and financial restructuring measure for the Höft & Wessel Group, the stage was set for the Company's future development. The majority holding of this technology enterprise is now in the hands of the family-owned Droege Group, and it pursues a growth strategy as part of its reorientation. Building on the expertise of the Company established as early as 1978, interesting prospects have emerged for its operations.

As the newly elected members of the Supervisory Board, we will proactively endorse and follow the Company's reorientation and further development. The high approval ratings for our election at the ordinary Annual General Meeting early in December 2013 represent a duty to us and inspiration alike.

In the financial year 2013, the Supervisory Board intensively monitored the activities of the Board of Management, dealing in particular with the progress made with the Company's operational and financial restructuring as well as its business strategy and policy, and with the current market, competitive and earnings situation. 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.

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. The Supervisory Board requested regular 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 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. Until the new election of the Supervisory Board at the Annual General Meeting of 6 December 2013, the Supervisory Board had set up a financial committee. Following the downsizing of this control body to three members, the Supervisory Board has not set up any committees since and now exercises its tasks jointly. During the financial year 2013, ten Supervisory Board meetings took place, and one meeting of the financial committee was convened. In addition, the financial committee held telephone conferences in each of the periods leading up to the quarterly financial statements.

Besides consultancy and monitoring-related points of emphasis on the Company's corporate development, in 2013 the Supervisory Board devoted its attention to the following tasks in particular:

» The operational and financial restructuring of the Company was intensively followed.
» The development of the individual companies belonging to the group as a whole was a regular topic.
» Key situations in business policy terms were the subject of extensive discussions with the Board of Management. Resolutions adopted by the Board of Management were approved only after detailed discussions and/or follow-up activities had taken place.
» Risks arising from the general development of the market and competition, from changes in legislation and demand as well as risks within the scope of the risk management system were discussed at length.

// As the newly elected members of the Supervisory Board, we will proactively endorse and follow the Company's reorientation and further development. The high approval ratings for our election at the ordinary Annual General Meeting early in December 2013 represent a duty to us and inspiration alike.

- The permanent process to optimise the Company's core operations was consistently followed along with operational finance, personnel and materials planning, as well as the realisation thereof.
- The Company's financing and liquidity situation was a continual topic, with detailed discussions taking place on the measures to be taken by the Board of Management prior to approval.
- As part of the organisation's own corporate governance, subjects like corporate compliance, the corporate governance report and the Company's compliance statement were discussed. Using a structured process, a self-evaluation once again took place, resulting in an efficiency verification of the activities carried out. Another subject was item 5.4 of the German Corporate Governance Code. Accordingly, the Supervisory Board will define corresponding objectives for itself.
- The lawsuit of the former Chairman of the Board of Management and the progress reports of the law firm commissioned were discussed in detail.

The auditors attended the Supervisory Board meeting at which the annual financial statements were confirmed. 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 2013 were audited by the auditor appointed and commissioned by the Supervisory Board, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, and issued with 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 2013 that the Board of Management adopted the measures required in terms of Section 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. However, the auditor identified good progress made in the second half of the year, laying the foundations for a suitable early risk detection system at this point.

Following careful preliminary checks by its individual members, 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 Company management report, the consolidated financial statements and the Group management report as well as the related parties report for the year 2013; as a result, the annual financial statements were adopted.

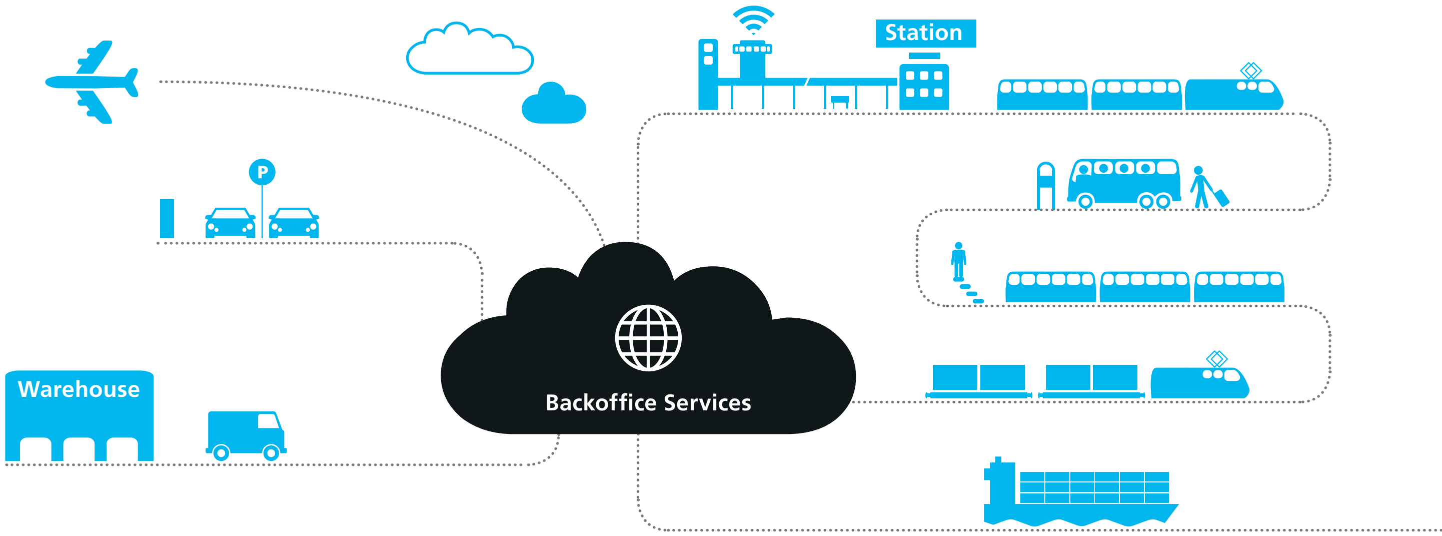
The Supervisory Board wishes to thank the Board of Management, the Company's managerial staff and its employees for the successful restructuring and for their commitment and dedication during the year 2013.

Hannover, 20 March 2014

The Supervisory Board

Company Vision: Mobility as a Service

THE WORLD IS CHANGING; SO IS HÖFT & WESSEL. GLOBAL TRENDS SUCH AS DEMOGRAPHY, URBANISATION, AND DIGITALISATION, CALL FOR NEW SOLUTIONS FOR TRADE & LOGISTICS, RAILWAY & CARGO AS WELL AS PARKING & PUBLIC TRANSPORT. HÖFT & WESSEL IS PREPARED WITH INNOVATIVE PRODUCTS AND INNOVATIVE IDEAS AND NOW IS POISED TO TAKE A STEP FURTHER. THE VISION: MOBILITY AS A SERVICE. THE COMPANY PLANS TO DEVELOP FROM A SUPPLIER OF HARDWARE AND SOFTWARE INTO AN OPERATOR OF SYSTEM SOLUTIONS IN FUTURE.



THE MOBILITY MEGATREND

The planet is moving. In the past 70 years, the global population has more than doubled, reaching 7.2 billion; for the year 2070, demographic experts expect as many as ten billion people on earth. For years now, people have been flocking into conurbation centres: since 2007, for the first time ever, more people have been living in urban than in rural areas. Small, picturesque locations are growing into cities of millions in only a few years, and cities of millions into huge urban agglomerations. For a long time now, the world's megacities have had more inhabitants than many a nation state: With a population of just over eleven million, São Paulo meanwhile has more inhabitants than Portugal, Brazil's "mother country". This trend is set to continue, especially in Asia and above all in Africa.

The task of supplying these conurbations and agglomerations with goods and transporting people and commuters in the cities from A to B is an immense challenge. And an opportunity: For Höft & Wessel, this means enormous growth potential – especially since the international markets have become more open and accessible. The Hannover-based technology enterprise has already managed to establish a foothold in the first of these growing markets: In South Africa, the company has equipped Durban, a metropolis of millions of inhabitants at the Indian Ocean, with a modern e-Ticketing system. New markets could follow in the near future.

Another emerging trend is that traffic and merchandise flows are becoming increasingly global in nature, and mobility is becoming modular. In passenger traffic, people are combining air travel, train and bus services quite naturally to get from A to B. The supply chains in the field of logistics consist of transportation by air, ship, train or truck. In order to manage these global passenger, merchandise and trade flows efficiently, integrated solutions are required across all stages.

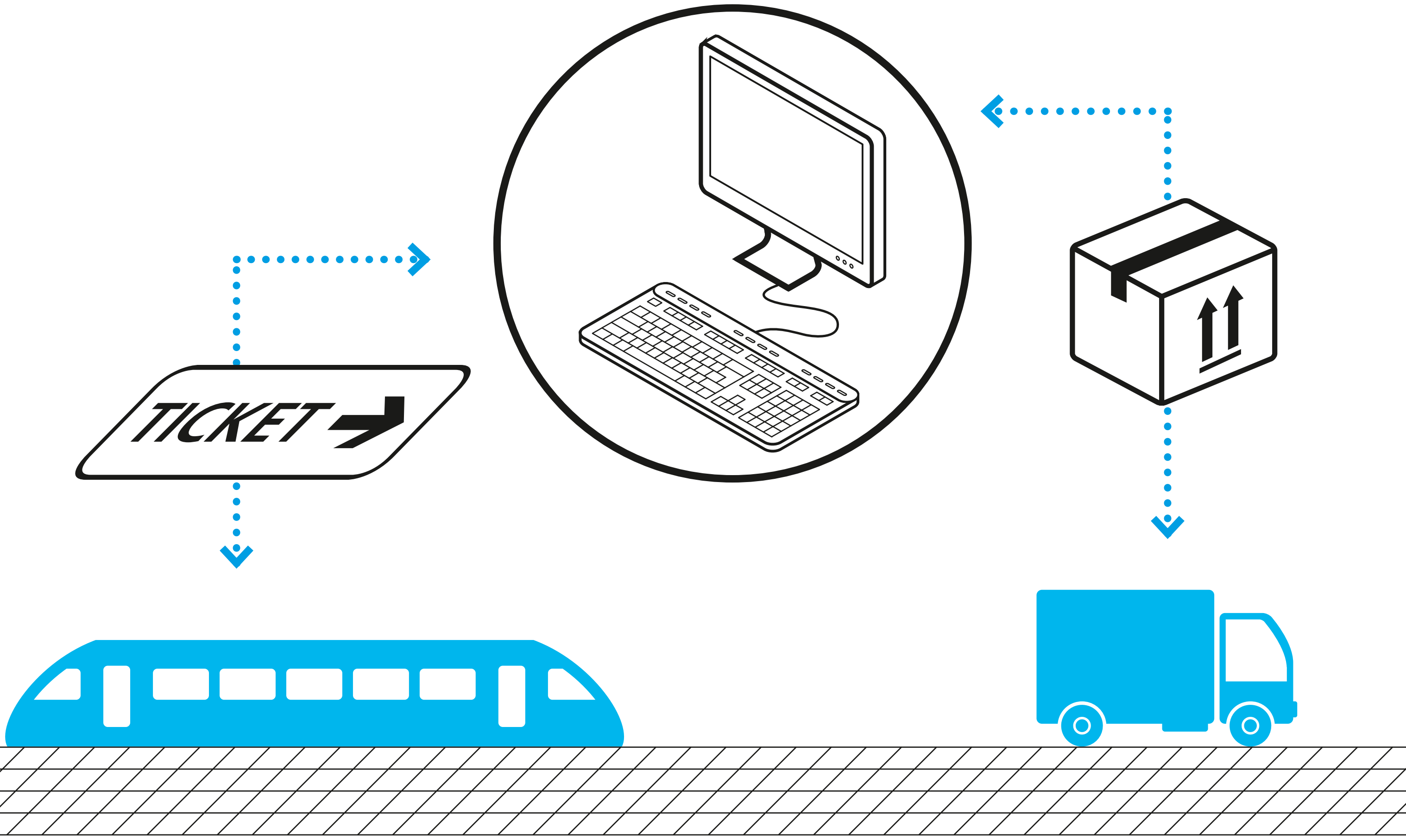
Further progress is also being made with digitalisation and global networking. For example, today over 77 per cent of the people use the Internet; 15 years ago, it was only just 15 per cent. These trends naturally also extend to include the traffic segment, public commuter transport, logistics and the wholesale and retail sector. Today, the route of a piece of merchandise from A to B can be seamlessly tracked via RFID and the Internet, using telematics solutions trucks and buses can be efficiently controlled, and in many regions the good old fare tickets have already been in electronic format for some time.

All this plays into the hands of Höft & Wessel: in the past 20 years, the company has delivered proof, time and again, of its ability to set technological trends. Through automation, the systems from Höft & Wessel have made a lasting contribution towards enabling customer processes to be continually made more efficient. Thanks to the know-how of its highly qualified engineers and IT specialists, Höft & Wessel is ideally prepared to be able to supply innovative solutions to deal with the challenges on the mobility markets of the future too.

FROM SUPPLIER TO SERVICE PROVIDER

The next step is to follow now: Höft & Wessel plans to further develop from a pure hardware and software supplier into a genuine service provider. In other words, the company will be taking care of data capture, validation and processing in the field of passenger, merchandise and service flows on behalf of its customers. And this will involve networked solutions and an integrated management system across all systems.

What will this look like specifically? Here is an example: in future, a public commuter transport corporation will no longer procure ticketing terminals and software but will commission a service provider with the entire ticketing services. Höft & Wessel will therefore make the necessary technical infrastructure available, such as ticketing terminals and a back office system, will issue the tickets, scan them when passengers enter buses and trains and establish whether they are valid or not. Finally, Höft & Wessel will take care of the settlement and evaluation of the data in background systems as well as the settlement of transport services with partners in the transport utility. In doing so, Höft & Wessel has access to its many years' experience with large-scale European transport enterprises.



// We will proactively endorse the transformation.

Walter P. J. Droege, member of the Board of Management and founder of the new majority shareholder Droege Group

Moreover, as a service provider Höft & Wessel will guarantee reliable operation and ensure that the systems are always absolutely state-of-the-art. In public commuter transport, this will mean increasing digitalisation – be it in the form of electronic value cards or barcodes on mobile phones, which are verified via NFC (Near Field Communication) or EMV contactless.

In return for this package of services that can be performed subject to various service levels, Höft & Wessel receives continual remuneration. The benefit for customers is that they do not need to concern themselves with anything and can focus on their core business, namely efficient transportation of passengers from A to B. Furthermore, their investments are distributed across the entire period of use. This results in relief for balance sheets and ensures improved financial planning capabilities.

Yet "Mobility as a Service" does not only work in the fields of public transport and railways; the principle can be transferred just as easily to trade & logistics. Data capture is rendered as a service, with settlement being based on the number of successfully executed transactions, taking account of the relevant service level.

The three market segments of Trade & Logistics, Railway & Cargo as well as Parking & Public Transport are the focal points of the new concept. Höft & Wessel is convinced that "Mobility as a Service" is the ideal solution for the increasing requirements in the world of mobility. And thanks to its highly qualified workforce and widespread customer base, the Company is well prepared to turn the vision into reality.

THE TECHNOLOGY OF THE FUTURE

INNOVATIVE SOLUTIONS FROM HÖFT & WESSEL

1994
Mobile ticket sales

- Mobile ticket vending device
- Payment by card possible on trains for the very first time

1995
e-Ticketing by cash card

- First e-Ticketing solution with cash cards
- System installed with over 500 terminals

2000
Tablet solution in B2B segment

- B2B predecessor of a popular tablet today
- "Innovation trigger" for mobile ticket vending devices
- CeBIT Award

Daniel Wohnrade // Business System Analyst
Daniel Frels // Product Manager
Olaf Bödecker // Project Manager
Martin Oesterle // Solutions Architect
(from left to right)

Innovations are a matter that calls for teamwork at Höft & Wessel. A discussion about the latest trends with Daniel Wohnrade (Business System Analyst), Martin Oesterle (Solutions Architect), Daniel Frels (Product Manager) and Olaf Bödecker (Project Manager).

What are the key trends?
Frels: Expectations of end customers in the public commuter transport system and in private motorised traffic have risen: to them, it is a matter of course to be able to use various payment methods, whether cash, credit cards and, in future, also mobile payments. The customer wants to be able to retrieve comprehensive information at any time and any place, such as on train delays or the length of time left on the parking meter.

What's the consequence of this?
Frels: The systems are becoming intelligent and networked. Our customers expect all-in package solutions.

What does a networking system of this kind look like in practice?
Oesterle: Let's take intermodular travel, for instance: passengers combine travel by train and bus for a particular trip, and for the last couple of metres to their destination they can also hire an e-Bike. And of course, they want to be able to book and pay for the lot in one go. Or take park & ride systems:

FOR RECORDING, VALIDATING AND PROCESSING DATA

2006
CiCo e-Ticketing implementation

- First check-in/check-out e-Ticketing system compliant with VDV-KA
- The most innovative system in Germany at the time

2011
NFC high speed e-Ticketing

- Innovative e-Ticketing system with NFC credit card
- "High speed boarding"

2013
Smartphone solutions

- Since 2002 "m-Ticketing"-enabled concepts
- Acceptance and market maturity needs to grow

In future
Mobility as a Service

- Services

wouldn't it be great if I could buy my underground ticket at the same time as I pay my parking fee – with a quick look at the display to see when the next train is coming? Exactly for this, you need integrated, networked systems.
Bödecker: In France, we're already taking a further step ahead in the direction of cloud ticketing.

What's behind this system?
Bödecker: Well, we're installing an innovative, cloud-based ticketing system for Aerolis. Aerolis is a joint venture between Air France and Keolis. Aerolis offers bus connections from the Paris airports into the city and back.
Oesterle: Our customer wants to issue fare tickets on various media: on the air fare ticket, and on the employee ID card. In addition, travellers can buy electronic tickets in Web shops. On top of this, hotels are given the opportunity to buy vouchers for their guests on the internet that end up as a barcode on a greeting card.

What does this solution look like?
Oesterle: There is no conventional ticket any longer. All you have is an identification number (ID) in the cloud, which is scanned when you board a bus, for instance. It's absolutely immaterial on what medium the ID is issued, whether on paper, as a barcode or on a mobile phone.

Bödecker: A further benefit is that you can install these quite easily in new products or top up the old ID and continue to use the same barcode. This model is also conceivable in the field of parking: all you need to do is deposit a slip of paper with a barcode behind the windscreen. The parking ticket can then be charged by any number of means – for instance, using a smartphone.

What progress has been made with mobile payment systems so far?
Wohnrade: Well, there are two global trends: in Asia, payment via mobile phones is quite widespread; all you need to do is enter a PIN, and settlement will be made via the telephone bill. The second trend points in the direction of contactless payment systems for very small amounts of money. These can be RFID chips on smartcards or key fobs or contactless pre-paid credit cards featuring the EMV technology. The pioneers in this field are the emerging market countries.

Why is that the case?
Oesterle: In the past, such countries did not have modern ticketing systems. When you're introducing something that's completely new, it certainly makes sense to skip one or two generations.
Wohnrade: In these countries, many people don't have bank accounts. This is why pre-paid credit cards that are capable »

of being topped up are much more attractive than in Europe. Besides, completely cashless systems provide protection against crime.
Bödecker: In Durban, we installed a system of this kind with the Muvo Card – a contactless pre-paid credit card.

And what about Europe?
Wohnrade: Cash still remains very popular, but there already are isolated pilot projects under way. Many of our customers are still uncertain because no ideal solution with regard to payment systems has emerged so far.
Oesterle: In Europe, end consumers pay a great deal of attention to security; however, a payment method also needs to be fast and uncomplicated. This is a compromise you need to achieve. In the final analysis, it is the end customer who decides.

And how does Höft & Wessel support its customers in this context?
Wohnrade: Our devices are already prepared for the new technologies today – and for e-Ticketing, even if such systems are not being used in many areas as yet.

Who needs ticketing and car park terminals if everything is going to be handled in digital format in future?
Frels: In the medium term there will be fewer of these terminals. But they certainly won't die out.
Wohnrade: As long as there is cash, there are also going to be terminals.
Frels: The function will change, however: the devices will be transformed into an information centre and various transport utilities will be combined, making it possible to hire a bicycle or a taxi at the terminal.

And what about mobile terminals for data capture? Will we still need those? After all, everyone has a smartphone these days.
Frels: Smartphones can be a favourable solution for smaller transport utilities. However, their range of possible deployment scenarios is limited. Smartphones have a life cycle of two to three years. In commercial fields like logistics and the wholesale and retail sector, devices are to be able to be used for eight, nine years. This brings us to the issue of data security, which has a higher status with our devices than in the consumer segment. Besides, there are clear requirements in terms of hardware specifications, you need printers, card readers and pin pads, and the batteries must be long-life. And the devices in question will need to be extremely robust. If you drop a smartphone on the floor, it just breaks.

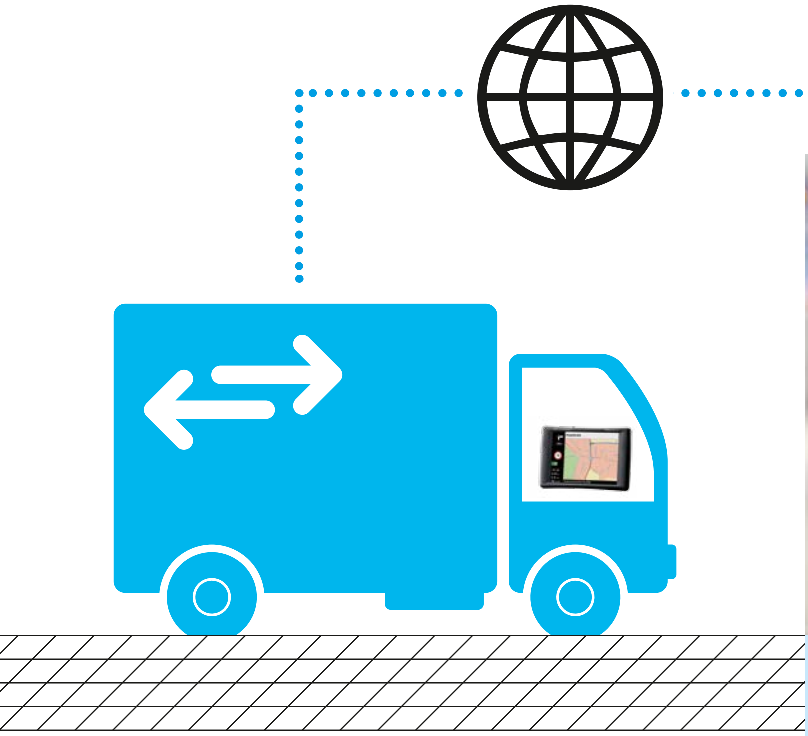
Wohnrade: Another point is ergonomics. Our handhelds were specifically designed to enable users to hold them in their hands for a long time, to scan barcodes, for instance.

Höft & Wessel is banking on Mobility as a Service. What does this mean as far as your work is concerned?
Oesterle: People are aware of such buzzwords as infrastructure as a service, or software as a service. What you do is take over the infrastructure or software for the customer, but the business process remains in the company. In the case of service as a service, or mobility as a service, we take a step further and take over the entire process. We already took this approach in various stages in the past.

When was that?
Oesterle: In the mid-1990s we almost took over nearly the complete operational management for the mobile terminals of Deutsche Bahn (German Rail). Later, Deutsche Bahn carried out the project itself. Today, the trend is returning again – also in the fields of wholesale, retail and logistics – to outsource everything that doesn't belong to the core business because specialists can offer these services more cheaply thanks to economies of scale.

How far has Höft & Wessel progressed in this area?
Frels: We're currently adapting our products and solutions in line with this trend.
Oesterle: As a first step, we need to understand the business processes of our customers. If not, we won't be able to do justice to offering Mobility as a Service as an optimised proposition. Besides, we need to understand the cloud technologies. With Aerolis, we are on our way in that direction. And then we also have the big subject of data security. If the processes land up in the cloud, we need to ensure that the information is not accessible to unauthorised third parties or can be manipulated by them. These are the basic technologies that will enable us to bring our vision into reality. «

The solutions provider for recording, validating and processing data



TRADE & LOGISTICS

Höft & Wessel supplies numerous enterprises in the field of trade and logistics with solutions for data capture, validation and evaluation. The Company belongs to the most well-known manufacturers particularly in the German retail trade and its mobile devices for automatic data capture (Auto-ID). In the retail food trade, Höft & Wessel even is the market leader. The Company plans to defend this position and will also penetrate the market for logistics more intensively in future. Höft & Wessel is also being perceived as a key player in this market segment on an international scale. This is documented by analyses of international market research institutes. By the way: the Auto-ID market is growing. Studies across the globe predict a growth rate in the single digit percentage range.

In the field of data capture systems, Höft & Wessel's product portfolio ranges from devices such as simple scanners all the way through to tablets and large-format printers. The product range of mobile terminals is suitable for applications in the field of merchandise management, shipment tracking, transport and storage logistics as well as field service activities. With these devices, complex information is simply and speedily captured,

EDEKA / ROSSMANN

Edeka is the number one grocery retailer in Germany. The group's supermarkets have been customers of Höft & Wessel from the very beginning and have already deployed mobile devices from Höft & Wessel for merchandise data entry (MDE) since the 1980s. In recent years, the company gradually migrated to the new series of skeye.allegro devices. Mobile terminals from Höft & Wessel are an integral element of the merchandise management system as terminal devices for data capture and need to be perfectly adjusted and matched to the complex system environment.

Rossmann, ranking in second position amongst German drugstore chains, has already been a long-standing customer; since 2001, the company based in Grossburgwedel near Hannover has relied on mobile solutions from Höft & Wessel to scan its merchandise. In Germany, the branch outlets were recently also equipped with new mobile terminals with which the individual product data are recorded for merchandise management purposes at the outlets in question. In view of the extensive range of brands and many small-scale articles, this is a key task. These handhelds feature WLAN connectivity and can also be connected to a back office system. An extensive service package for repairs of defective devices is also part of the range of services offered to Rossmann.

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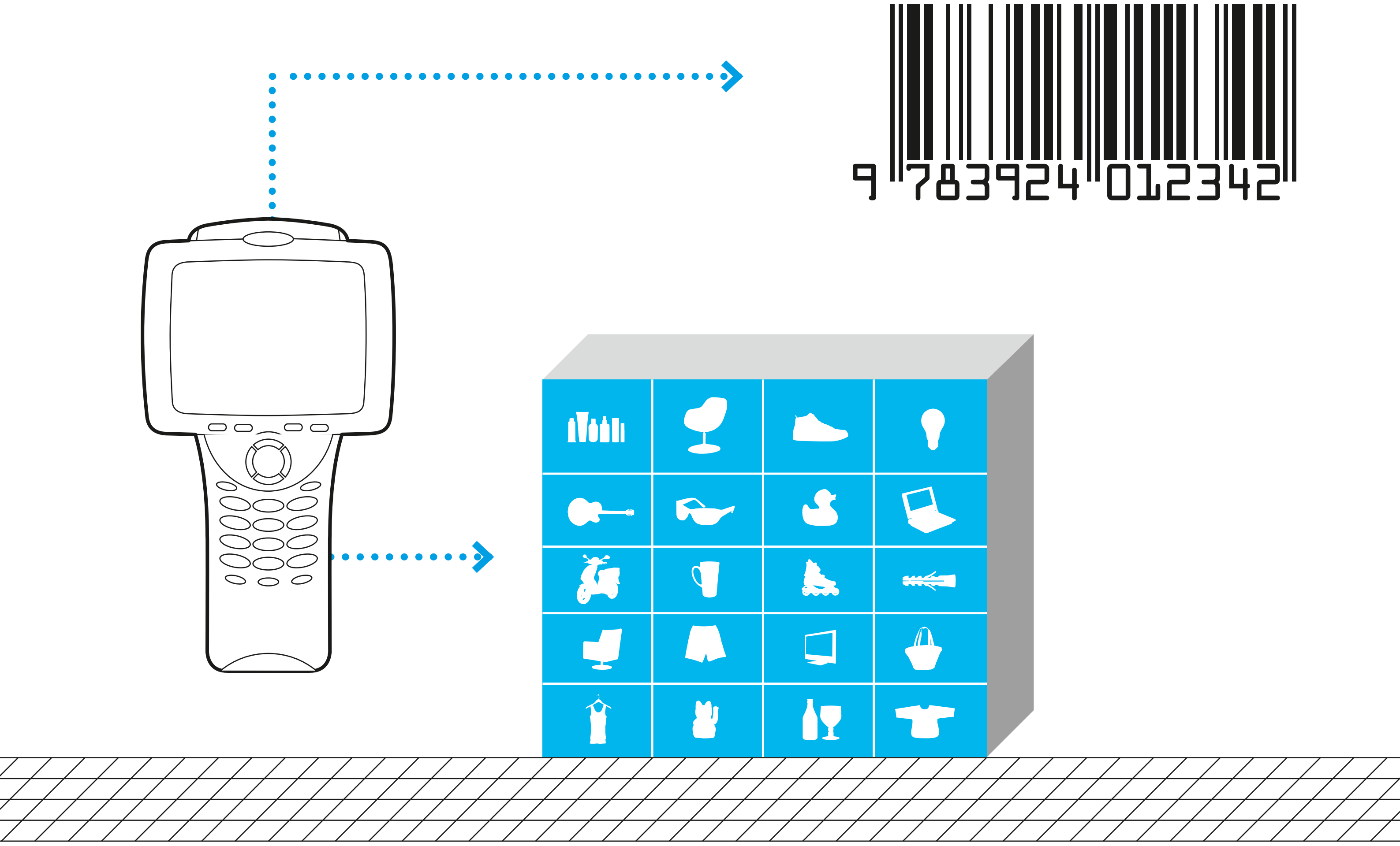
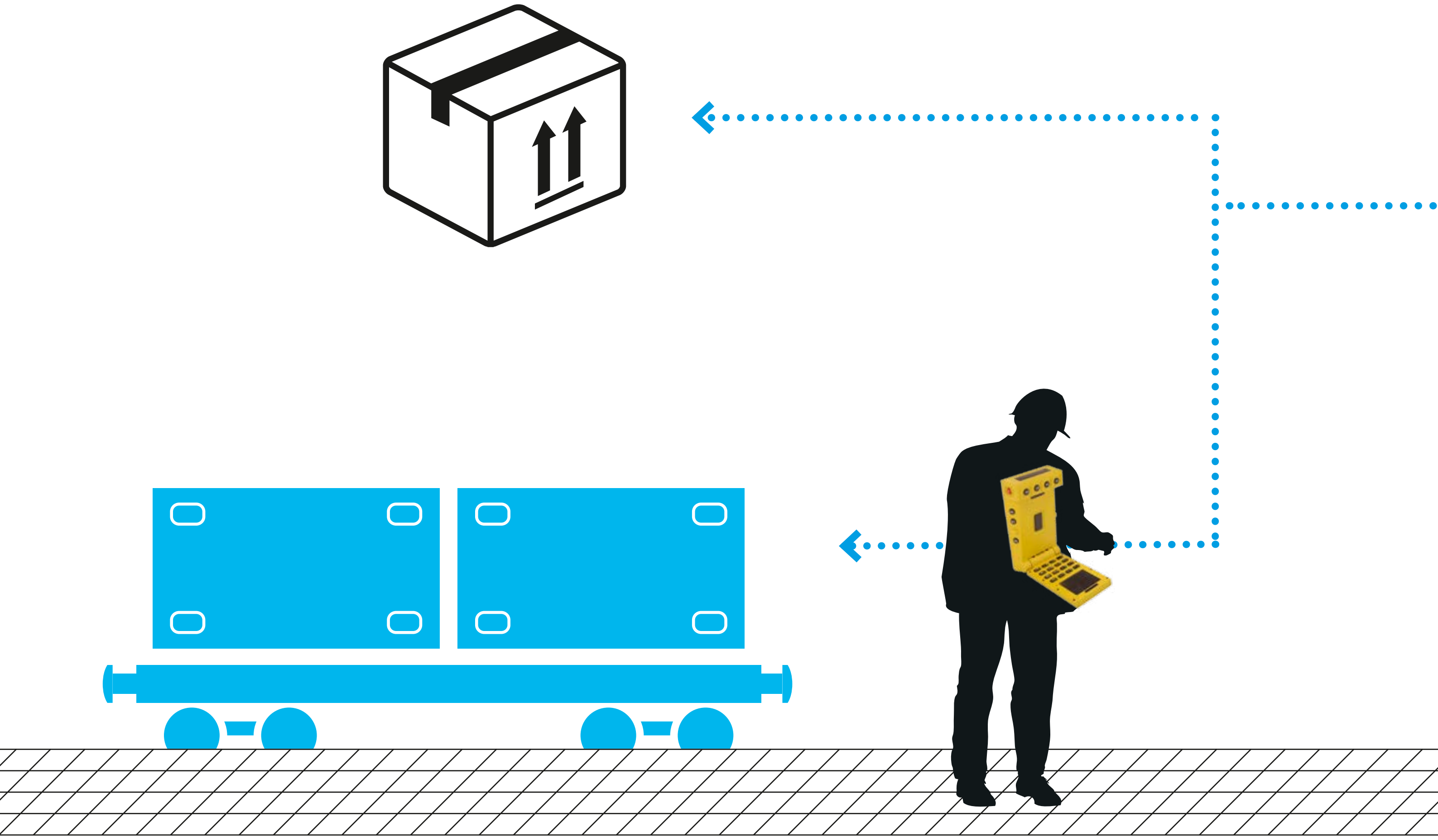


processed and presented in good legible form. Equipment facilities comprise all radio transmission standards, various display sizes as well as imagers, laser scanners and RFID readers for barcodes, text and RFID tags. Operating systems used include Windows Embedded CE, Windows Embedded Handheld and Android as well as Linux. The range on offer is complemented by development frameworks for software development and a device management system facilitating automatic configuration and installation of mobile terminals. As a result, the effort and expense of device deployment is substantially minimised.

// Generally speaking, a "shift in service" is expected towards ever more complex back-end systems. The trick in the process will be to realise the top-performance interfaces for data capture with these back-end systems.

Rudolf Spiller, CEO Höft & Wessel Group

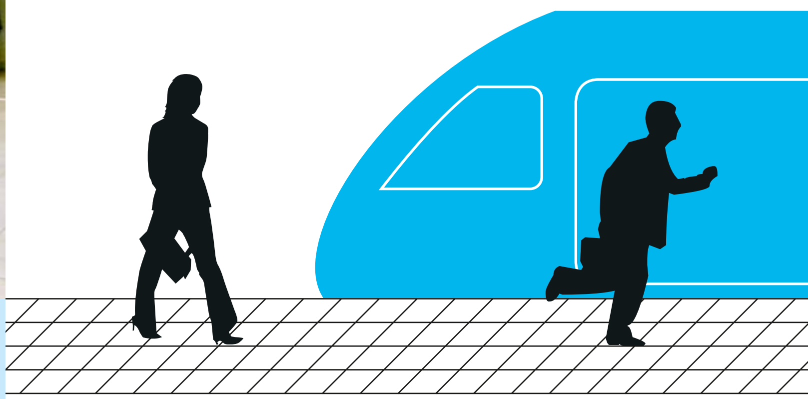


RAILWAY & CARGO

One of Höft & Wessel's segment focal points is rail-borne passenger and merchandise transport. In the field of ticketing solutions for railways, the range comprises various mobile ticket terminals and ticket vending machines that have been tried and tested by numerous European railway corporations. Moreover, the company recently presented the completely new development of a mobile system for the special requirements in shunting and construction work: the particularly safe and highly robust system comprises the following functions: data

// The secret of a successful project is close co-operation between customers and our consultants. We need a shared understanding to ensure that what we implement with our innovative solutions is exactly what the customer needs and actually wants. And this will become even more important in future once our vision is translated into reality: Mobility as a Service.

Olaf Bödecker, Project Manager Höft & Wessel

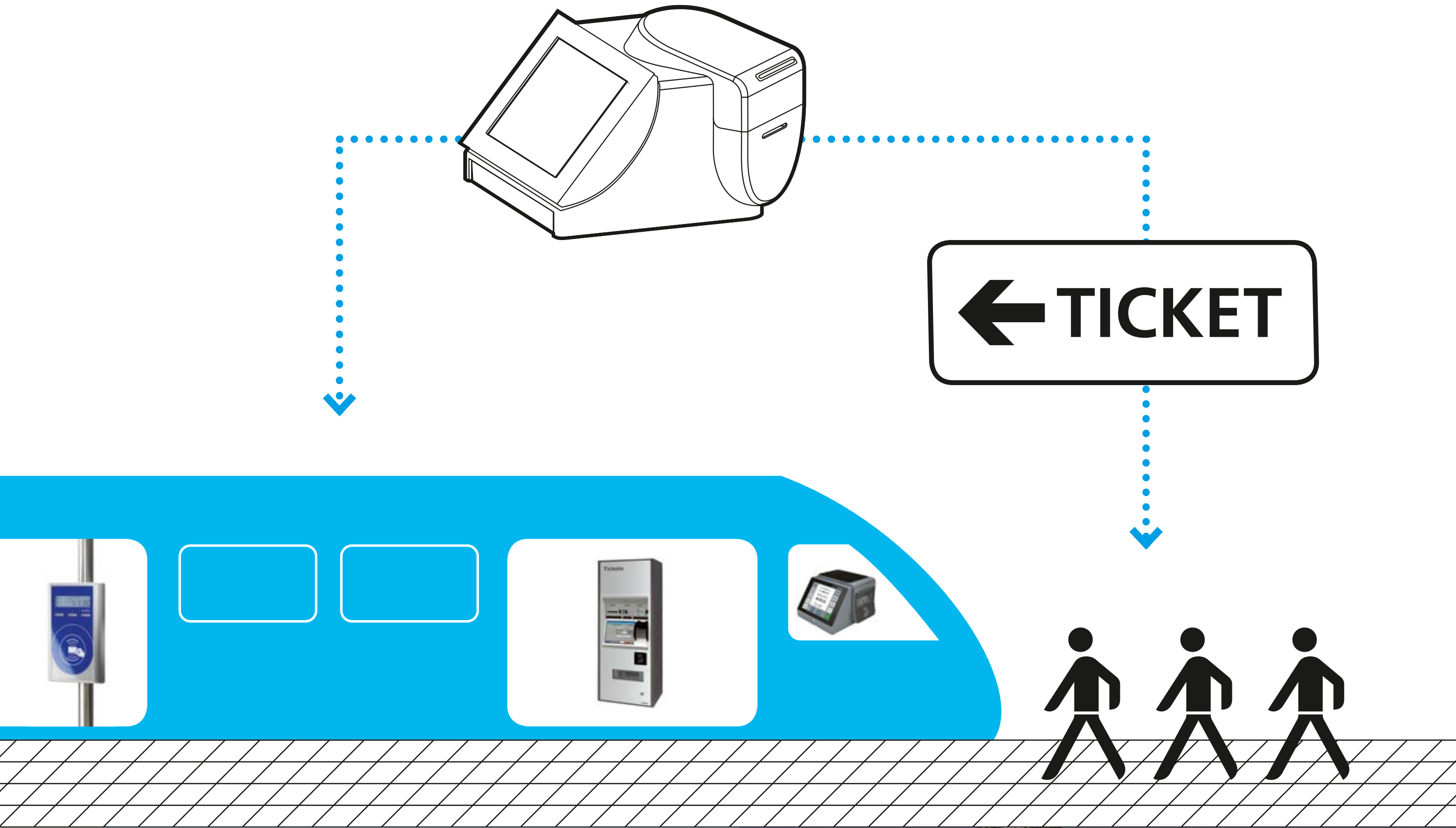


BELGIN STATE RAILWAY SNCB/NMBS

Whoever travels by train in Belgium draws their ticket at vending machines from Höft & Wessel. The Belgian State Railway SNCB/NMBS (French: Société Nationale des Chemins de fer Belges/Flemish: Nationale Maatschappij der Belgische Spoorwegen) is gradually replacing its past devices with the very latest generation of terminals from Höft & Wessel. To this end, the SNCB receives the highly efficient background software almex.office, which can be seamlessly integrated into existing systems. What is important for the Belgian State Railway: passengers in particular are to benefit from the new technology. For this reason, Höft & Wessel provides a solution in which the Brussels-based e-Ticketing system “MOBIB” is already integrated.

communication, telephony with group calls, remote control and order book SMS handling and emergency calls. Transmission takes place via the special GSM-R radio standard used by European railways. The device is individually tailored to the special work conditions prevailing on site: it also works reliably in outside spaces and railway track workers can also operate it with working gloves in a rough environment. By wearing a special vest, the users have both hands free for other work required.

The new terminal for the cargo segment and the further development of a mobile ticketing terminal in tablet format provides additional sales potential in the Railway & Cargo sector. Höft & Wessel is confident of its ability to exploit part of this potential as early as 2014.

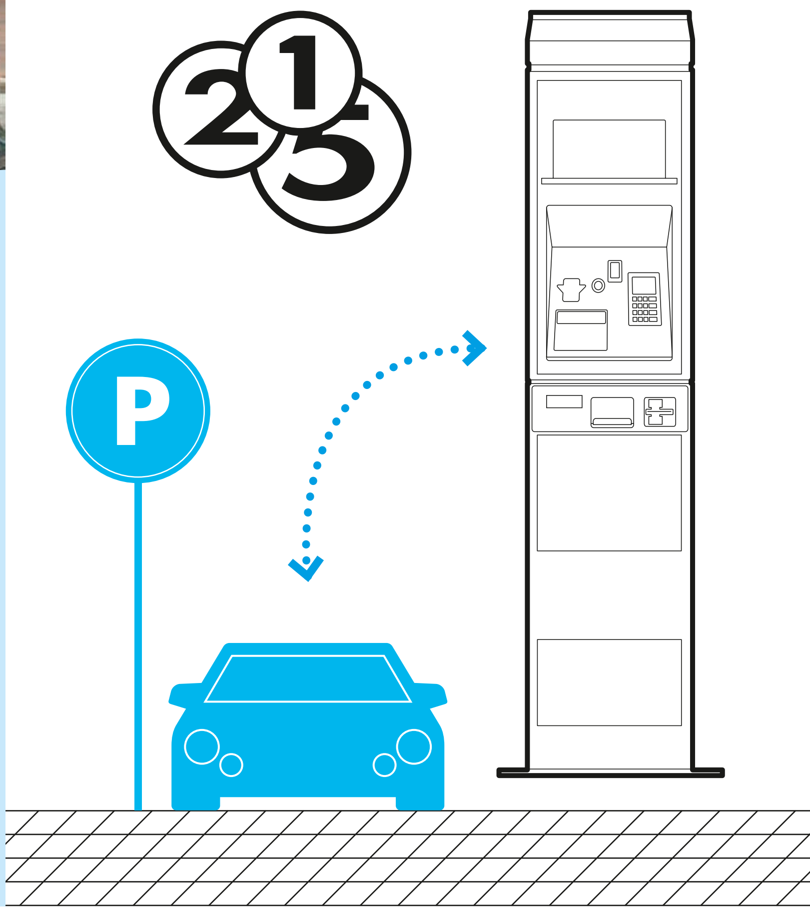


FIRSTGROUP

With a fleet of 6,500 buses and 2.3 million passengers a day, FirstGroup UK is one of the largest public transport corporations in the United Kingdom. Höft & Wessel has already made this gigantic bus operator the fastest and most modern utility of its kind in the British Isles. The basis for this are 5,200 on-board computers with ticket printers of the optima.bl series in the keyboard variant. The device is in conformity with all conventional norms like the ITSO standard for e-Tickets and simultaneously EMV contactless ready. This means that in the near future, passengers will be able to use the bus in a particularly convenient manner. All they need to do is hold up a credit card to a reading device when boarding and leaving the bus.

At present, the so-called ITSO card provides a practical service as an e-Ticketing solution. Again: simply hold up a card when boarding and that is all it takes. The ITSO Concessionary Card is particularly popular with passengers aged 60+ because it offers price reductions all the way down to free travel. The younger set use the ITSO Commercial Card that has names of its own in the various regions. It is like a Swiss pocket knife, making it possible to book time, route and zone tickets, and it can also be used as a multi-operator card. In addition to the hardware, Höft & Wessel implements eight software background systems for data transfer, sales data management as well as for reporting purposes.

The devices were replaced between December 2011 and May 2013 – without any disruption of ongoing operations. Summing up, it can be said that the package as a whole is stable and fast. Amongst other things, by introducing the ITSO cards it was possible to sharply reduce the waiting times at bus stops.



PHILADELPHIA PARKING AUTHORITY

In recent years, the Höft & Wessel subsidiary Metric has equipped the US east coast metropolis with over 1,000 car park terminals. The order placed by the Philadelphia Parking Authority – the municipal parking space management entity in the city – comprises both car park terminals and back-office software. The modern devices are equipped with solar cells and feature payment facilities for cash, credit cards, and smartcards with RFID tags – making them absolutely future-proof. The terminals distributed throughout the city make parking easier using the parking by space system. Motorists simply enter their number plate codes at the terminal and the number of the parking space and pay for the desired time slice. That is all it takes. No tickets need to be deposited in the vehicle and, if the parking time is to be extended later, this can be done at any particular terminal in the city.

PARKING & PUBLIC TRANSPORT

In the Parking & Public Transport markets, Höft & Wessel focuses on municipalities but also on companies that operate both public commuter transport and parking management services. In these combined cases, the solutions from Höft & Wessel provide immense synergy effects. The Höft & Wessel Group provides state-of-the-art car park terminals via its Metric subsidiary. These devices support all payment options available from credit cards to cash. Moreover, the product portfolio comprises a centralised parking management communications network via the Web. The offer is complemented by so-called pay-on-foot systems from the partner Amano, i.e. integrated systems for barrier terminals of the kind used in multi-storey car parks. Accordingly, the Metric subsidiary is a full provider of parking management solutions. Metric is one of the few leading providers in this field on an international scale. This niche market reflects stable development. In 2014, Metric will extend the collaboration with its partner Amano in the US. In the relatively saturated market of the United Kingdom, the parking subsidiary of Höft & Wessel plans to consolidate its market leadership also by distributing pay-on-foot products. However, Metric plans to avoid an excessive dependency on its strategic partner and will therefore also intensify exports of its products. In the field of ticketing systems, Höft & Wessel is one of the most well-known producers in Europe. The company is also already engaged in other regions of the world, such as South Africa. The market for ticketing systems has not been consolidated as yet. Thanks to its high degree of brand recognition and experience, Höft & Wessel is confident of its ability to register further growth and extend its position on the market. With a new, extended solutions portfolio, the company perceives additional sales potential in Europe, e.g. in France, and in other markets.

In the segment of ticketing systems, the range extends from full-range offers with guidance and back office systems all the way through to ticket vending machines and mobile ticketing terminals. This also includes the further development of the tried-and-tested ticket vending machine. A smaller vending machine and on-board computer with a ticket printer have been designed for installation in vehicles. In future, this on-board computer will also facilitate a new, simple form of e-Ticketing using contactless credit cards instead of fare tickets. A small, handy control device makes it easier for conductors to check e-Tickets, and a device in tablet format is the solution for mobile ticketing with a printer. The portfolio is rounded off by back-office software that ensures communication with the central office as well as speedy and effective further processing of the relevant data. Featuring the VDV-KA, ITSO and Calypso standards, the ticketing systems from Höft & Wessel are ready for the future of e-Ticketing.

The development of the ticket vending machine

INNOVATIVE SOLUTIONS FROM HÖFT & WESSEL

1998

- Universal approach to design
- Easy and safe operation

1999

- Easily usable, discrimination-free user interface
- Over 50 transport utilities supplied in Europe

2004

- Secure, convenient payment facilities
- Barrier-free systems

The share

PERFORMANCE 2013

Share

ISIN:	DE000A1X3X66
Symbol:	HWSA
Class:	Bearer shares without par value
Stock Exchange:	Frankfurt, Germany Regulated Market – Prime Standard
Sector:	Technology
Index:	Technology All Share
Reuters:	HWSAk.DE
Number of shares:	11.046.737
Market capitalisation:	EUR 13.8 million (28/12/2013)

Höft & Wessel in comparision to DAX and Technology All Share

Höft & Wessel Technology All Share Dax

Content

2008

- Optimum terminal device design for passengers
- Service-compliant design for service personnel

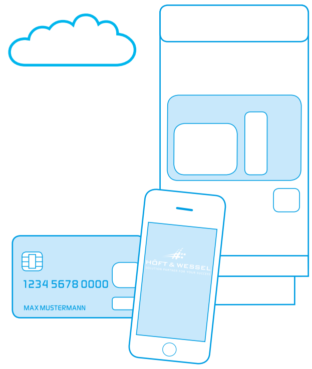
2009

- Perfect user ergonomics for users of centralised systems
- European TSI standard

2014

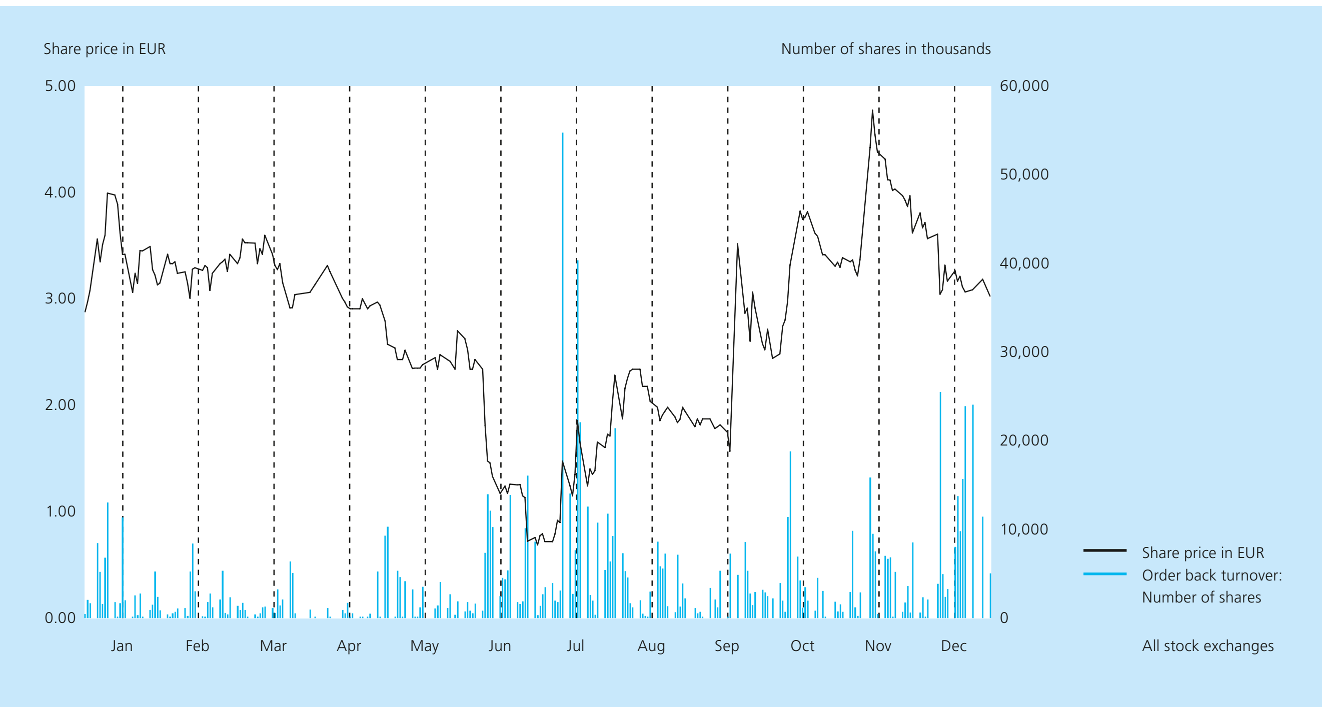
- Four corner menu
- APSIS4all

in future



- Mobility as a Service

SHARE PRICE AND ORDER BOOK TURNOVER 2013



Content

GROUP MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2013

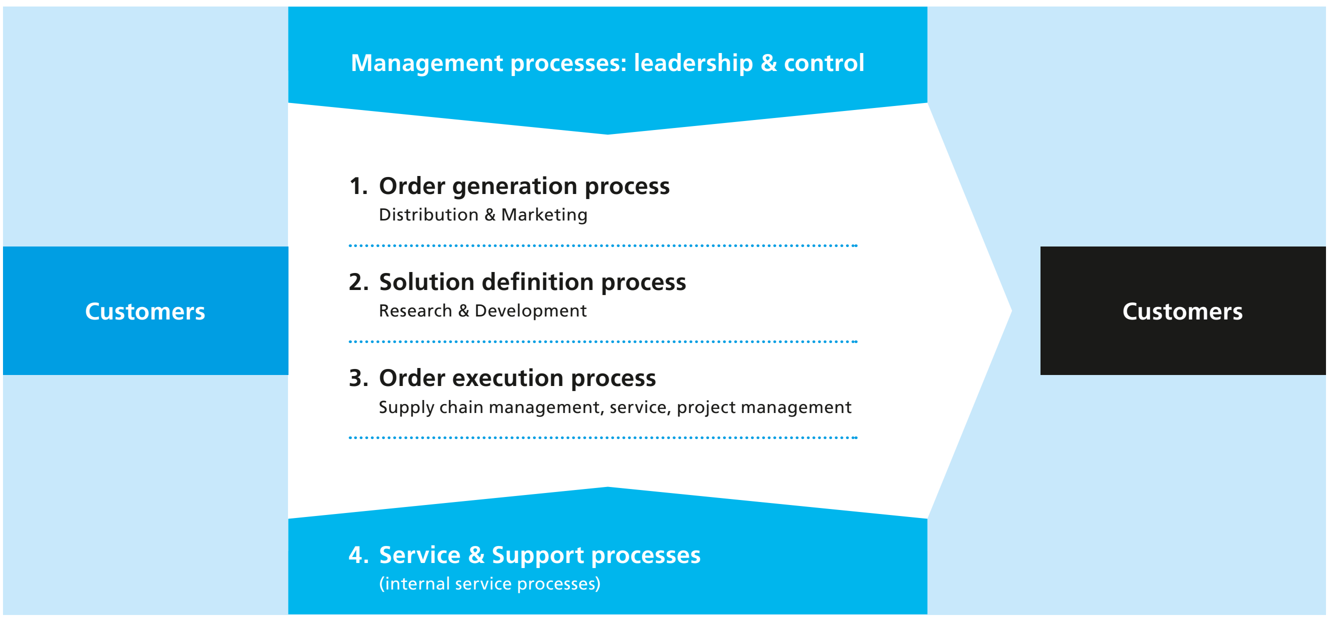
A. FOUNDATIONS OF THE GROUP

1. VISION AND STRATEGY

In the next several years, the Höft & Wessel Group plans to further develop from a supplier of software and hardware solutions for parking, ticketing and data capture systems into a provider of the full range of services in the fields of trade & logistics, railway & cargo and parking & public transport. As a solution provider for "Mobility as a Service", in doing so the Company can proactively exploit the growing requirements in the field of mobility. In the medium to long term, the Höft & Wessel Group would like to design intermodal transport of passengers and merchandise as well as the associated services in the form of an integrated management system, by networking solutions with enterprise systems as well as by making a statistical evaluation of these transport streams. This also includes the capture, validation, consolidation and settlement of these streams of persons, merchandise and services across all systems.

To Höft & Wessel, "Mobility as a Service" means gradually changing the business model from that of a supplier of products to an operator of systems solutions for customers. This operator model relies for guidance on the performance of tasks that is measured in service levels. As a result, the investment burden of the customer is also spread across the total period of use, for which the service provider is gradually remunerated in the course of time. For customers, this means relief from tasks that do not belong to their core business, ensuring improved financial planning capabilities and balance sheet relief.

PROCESS MODEL



2. BUSINESS MODEL, PROCESSES, ORGANISATION

The Höft & Wessel Group headquartered in Hannover and with a subsidiary in Swindon, west of London, is a producer of system solutions for ticketing, parking, and mobile data capture. Customers include enterprises, public organisations and municipalities in the segments of transport, wholesale & retail, and logistics. The software and hardware solutions serve to capture, validate and process data. Moreover, Höft & Wessel provides dedicated after-sales services subject to service level agreements to be arranged. With its systems, the company contributes towards improving efficiencies within the scope of automating processes.

External manufacture of its products represents a key element of the business model of Höft & Wessel. In this context, the Company is responsible for the complete development, close coordination of external production, and detailed quality control. For the production of car park terminals, the English subsidiary Metric operates a finished production unit of its own.

In line with its business model, the Höft & Wessel Group focuses primarily on research & development. In this particular field, the EU Industrial R&D Investment Scoreboard rates Höft & Wessel as one of the leading European enterprises.

In Europe as well as a number of other countries worldwide, the group of companies is a well-known producer of ticketing systems, mobile data capture systems and car park terminals. Key regional markets are Germany, the United Kingdom, and Switzerland.

In its workflows, the Group relies on a defined process model for guidance. This consists of the three core processes of generating orders, defining solutions and executing orders and is supported by internal services and by management processes. The entire process model is specially geared to customers. The structural organisation of the Höft & Wessel Group is defined along the process chain that is in place. Below the Board of Management, there is an operational management level consisting of Division Head as well as staff functions directly assigned to the Board of Management.

3. PRODUCT AND SOLUTION PORTFOLIO

Since its inception in 1978, the Company has continued to develop into a solution specialist for data capture, validation and processing. With a dedicated product portfolio that is to be further extended, the Company provides turnkey solutions that meet the requirements of defined industry segments such as Trade & Logistics, Railway & Cargo und Parking & Public Transport. In addition to products derived from a modular construction kit, Höft & Wessel is also well-known for its individualised solutions for customers. Systems are tailored to the specific needs of customers or even newly developed from scratch where necessary.

In the field of data capture systems, the product portfolio ranges from devices such as simple scanners all the way through to tablets and large-scale format printers. These devices are deployed in wholesale & retail and logistics.

The product range of mobile systems is suitable for applications in the field of merchandise management, shipment tracking as well as transport and storage logistics and the field service. With these devices, complex information is simply and speedily captured, processed and presented in good legible form. Equipment facilities comprise all radio transmission standards, various display sizes as well as imagers, laser scanners and RFID readers for barcodes, text and RFID tags. Operating systems used include Windows Embedded CE, Windows Embedded Handheld and Android as well as Linux. The range on offer is complemented by development frameworks for software development and a device management system facilitating automatic configuration and installation of mobile terminals. As a result, the effort and expense of device deployment is substantially minimised.

In the field of ticketing solutions for railways, the range comprises various mobile ticket terminals and ticket vending machines in use by European railway corporations. Moreover, since fairly recently the completely new development of a mobile system for the special requirements in shunting and construction work has been available. In addition to data communication, voice communication via GSM-R is also facilitated. The particularly secure and very robust system comprises the functionalities of data communication, telephone function with group calls, remote control and order book, SMS handling, and emergency calls. The device is also capable of being used with gloves and in a rugged environment and can be reliably deployed in external areas. By wearing a special vest, employees equipped with this system can continue working with both hands free.

Via Metric, the Höft & Wessel Group offers modern car park terminals at which payments can be made using all payment options available internationally on the market. Moreover, a centralised parking management communications network is offered via the Web. The range is augmented by pay-on-foot systems derived from the provider Amano. Accordingly, the Metric subsidiary is a full provider of parking management solutions.

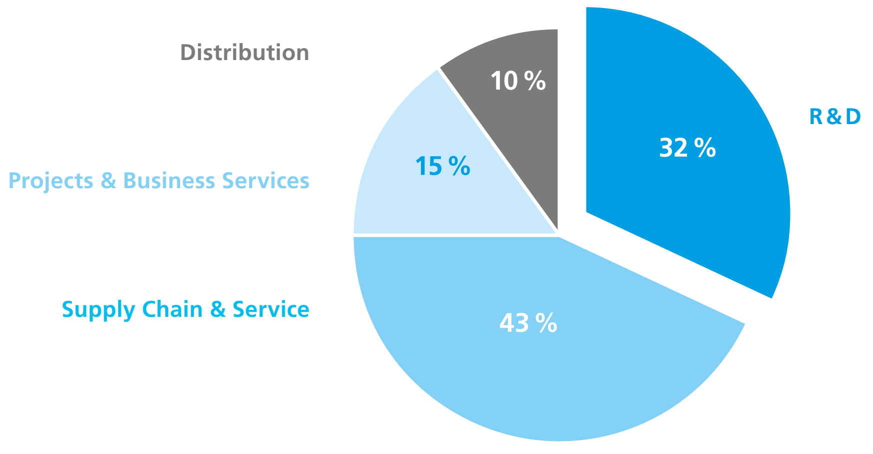
In the segment of ticketing systems for public commuter transport, the range extends from complete offers with guidance and back office systems all the way through to ticket vending machines and mobile ticketing terminals. This also includes the further development of the tried-and-tested ticket vending machine. A smaller vending machine and on-board computer with a ticket printer have been designed for installation in vehicles. In future, this on-board computer will also facilitate a new, simple form of e-Ticketing in which contactless credit cards can be used instead of fare tickets. A small, handy control device makes it easier for conductors to check e-Tickets, and a device in tablet format is the solution for mobile ticketing with a printer. The portfolio of solutions is rounded off by a back-office software that ensures communication with the central office as well as speedy and effective further processing of the relevant data. Featuring the VDV-KA, ITSO and Calypso standards, the ticketing systems from Höft & Wessel are ready for the future of e-Ticketing.

4. WORKFORCE

In the financial year 2013, the Höft & Wessel Group had an average of 422 employees, including apprentices and trainees (previous year: 475). Roughly one third of the workforce is engaged in Research & Development. This illustrates the expertise of this group of companies: the development of technologically sophisticated software and hardware. Accordingly, a large number of IT specialists and engineers are employed by the Company. The largest segment in terms of the number of employees is Supply Chain & Service.

After the number of employees in the Group had already been reduced by 85 in 2012 within the scope of the restructuring, resulting in additional employees leaving the Company of their own accord, in the year under review the Company had to adopt counteractive measures due to the development of its order situation. For this reason, Höft & Wessel AG is in search of qualified staff and already recruited 40 new permanent employees in 2013. Moreover, the Company has an extensive and sophisticated vocational training programme in place, with 12 apprentices and trainees at the end of 2013. There are also 5 students who benefit from interesting vocational training prospects as part of a dual study programme. Since 1999, the company has been co-operating with a technical and business college known as the Fachhochschule der Wirtschaft (FHDW), offering practical phases or internships to students majoring in information science, business information science, and mechatronics. Internships allow students in particular to gain a first impression of the Company.

PERSONNEL STRUCTURE OF THE HÖFT & WESSEL GROUP



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5. SERVICE

With a share of about 30 per cent of sales revenues, services within the scope of the after-sales offering for customers also reflected the importance of this core business in 2013. As an integral part of the solutions portfolio, this service provides customers with a high level of investment security. The absolute sales volume derived from services amounted to EUR 23 million in the year under review, exceeding the previous year's level (2012: EUR 29.1 million). Metric generates service revenues at same level of EUR 11 million (2012: EUR 11.7 million).

Service is perceived by customers in the business-to-business segment as an integral element of systems solutions in order to guarantee a high level of investment protection. Contracting partners expect individually tailored, reliable services that ensure the uninterrupted deployment of the systems in question.

6. CONTROL SYSTEM

The control system is an immediate element of the controlling process in place within the Höft & Wessel Group. It comprises regular monitoring especially of financial performance indicators by means of which the Höft & Wessel Group is controlled. The key financial performance indicators are sales revenues, the operating result (EBIT) and the EBIT margin (EBIT/sales). In addition, Höft & Wessel AG does not use any non-financial performance indicators.

In 2013, the performance indicators specified above reflected the following development in the table.

A comparison with the values forecast in the previous year is shown in the table.

The deviations are essentially due to projects being deferred. Section B 3.1 contains a description of the change in EBIT.

PERFORMANCE INDICATORS

in EUR million	2013	2012 adjusted	Change in %
Sales revenues	79.8	78.9	+1
EBIT	(0.3)	(10.3)	n/a
EBIT margin in %	n/a	n/a	n/a

PERFORMANCE INDICATORS

in EUR million	2013 (actual)	Forecast for 2013
Sales revenues	79.8	82.0
EBIT	(0.3)	1.0
EBIT margin in %	n/a	1.2

7. RESEARCH AND DEVELOPMENT

The Research & Development division makes a decisive contribution towards the success of this technology enterprise. The group of companies invests up to ten per cent each year, measured by sales revenues. According to the EU Industrial R&D Investment Scoreboard, this makes Höft & Wessel AG one of Europe's leading enterprises in 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 solutions and systems to customers' requirements and write complex application programmes, for instance. In 2013, specific development services for software and hardware were carried out especially for customer projects. Moreover, dedicated further developments of successful production series were triggered in the course of the year. These include ticketing and car park terminals as well as a mobile data capture device that will meet the specific needs for deployment in the Trade & Logistics segment.

Research & Development cooperate closely with Sales to be able to respond to the requirements of the market, customers and partners at an early stage. Participation at customer meetings facilitates speedy and targeted strategies for finding suitable solutions.

Predominantly on account of the restructuring phase that continued in the first half of 2013 and the concentration on critical large-scale projects that had been delayed, expenditure on research & development in the financial year 2013 came to EUR 11.7 million (previous year: EUR 7.6 million). The share of total Group sales revenues accounted by spending on research & development amounted to 14.6 per cent (previous year: 9.6 per cent).

During the financial year 2013, development costs amounting to EUR 1.5 million were capitalised; of this sum, roughly EUR 0.8 million were accounted for by product development at Metric. The extent of write-downs of capitalised development costs was amounting to EUR 2.0 million, substantially exceeded additions.

B. ECONOMIC REPORT

1. GENERAL FRAMEWORK CONDITIONS

According to the Institute for the World Economy in Kiel (IfW), there was a discernible revitalisation in aggregate economic output during the financial year 2013. The figures indicate that global Gross Domestic Product was up by 2.9 per cent. For Europe, the key region for the Höft & Wessel Group's business activities, according to the IfW there was a slight decline in aggregate economic output by 0.4 per cent. In the two key markets for the Company, namely Germany and the United Kingdom, in 2013 Gross Domestic Product grew by 0.4 and 1.4 per cent, respectively.

For the Höft & Wessel Group, the segments of Trade & Logistics, Railway & Cargo and Parking & Public Transport were of decisive importance in the financial year 2013. According to studies of public commuter transportation in Europe, expenditure is expected to rise in a single-digit percentage range. This is being primarily driven by newer technologies within the scope of the extension of e-Ticketing operations. In the field of mobile data capture, industry experts likewise assume further growth, especially since business processes will be automated even further, making it possible to achieve cost savings. In the Parking segments, the traditional markets like the United Kingdom appear to be increasingly saturated, while there still are municipalities worldwide that either plan to make greater use of revenues earned from parking fees or to introduce them in the first place.

BREAKDOWN OF SALES REVENUES

in EUR million	2013	2012
Germany	27.5	30.0
United Kingdom	18.8	25.3
Rest of the EU	18.3	12.9
Switzerland, the US and other countries	15.2	10.7
Total	**79.8**	**78.9**

2. BUSINESS TRENDS

In the financial year 2013, the Höft & Wessel Group's sales revenues were slightly higher at EUR 79.8 million than in the preceding year (2012: EUR 78.9 million).

As in the second and third quarter of 2013, the Höft & Wessel Group again managed to achieve moderate growth in the fourth quarter year-on-year. This was last the case in the first quarter of 2011 and shows the continual consolidation and increase in sales revenues in the wake of the restructuring successfully finalised in 2013.

Key sales revenue contributions came from customers in the fields of transport, wholesale & retail and the logistics sector. Ticketing systems were supplied to the Belgian State Railway SNCB, to Aerolis in France, a joint venture of Keolis and Air France, and to the Danish State Railway, amongst others. Mobile terminals for data capture in the retail segment were supplied to Edeka and Rewe as well as to other retail chains of note. Amongst the customers of the Metric subsidiary taking delivery of car park terminals and systems were the cities of Riga in Latvia, and London, as well as a partner company in Switzerland.

In terms of sales revenue distribution, at the balance sheet date Germany was the largest sales market, accounting for roughly 34 per cent of the total. The United Kingdom followed with 24 per cent, and the rest of Europe and countries outside Europe generated 42 per cent of sales.

The positive business trend was also evident in a 5 per cent increase in incoming orders placed, amounting to EUR 79.9 million (previous year: EUR 75.8 million). In 2013, The Berlin public transport corporation Berliner Verkehrsbetriebe (BVG) ordered more than 800 stationary and mobile ticketing terminals as well as an associated background system. Sirona, worldwide market and technology leader in the dental industry, ordered approx. 15,000 radio adapters. Via a partner, an order was received for more than 600 mobile ticket vending terminals for the Slovakian Railway. The Finnish State Railway ordered ticketing terminals for installation on regional trains, and Cardiff in Wales ordered additional car park terminals.

At EUR 40.1 million, the order portfolio matched the level of the previous year (31 December 2012: EUR 40.0 million).

3. SITUATION REPORT

3.1 EARNINGS POSITION

The operating result (EBIT) of the Höft & Wessel Group in the financial year 2013, at – EUR 0.3 million, turned out close to break-even after two years of clearly negative results. Even though lower than initially expected, taking account of the high level of non-recurring expenses in 2013 for the restructuring measure, amounting to EUR 1.6 million, the level of EBIT reflected the regained operational strength of this technology enterprise.

What was of decisive importance for the results in the year under review were the positive impacts of the streamlining programme "H&W 2.0" successfully concluded at Höft & Wessel AG in 2013 as well as a similarly structured savings programme at Metric Group Ltd. known as "MPIP (Metric Profit Improvement Programme)", which led to a substantial increase in EBIT in 2013.

This was offset by the costs of the "financial freedom" initiative, the implementation of which was funded by substantial resources of the Group with a view to rearranging and successfully finalising a number of critical large-scale projects. For instance, against the backdrop of a very moderate increase in sales revenues, the materials ratio rose substantially by 6.2 percentage points, from 51.5 per cent in 2012 to 57.7 per cent in 2013. The cost of materials increased by EUR 5.4 million, to reach EUR 46.0 million.

The level of personnel costs was reduced by EUR 5.7 million as planned in the year under review, to EUR 21.6 million. In the case of other expenditure, it was possible to achieve a decline by as much as EUR 5.3 million, to EUR 12.3 million.

The net effect of the factors above again led to a positive operating result before depreciation and amortisation (EBITDA) of EUR 2.4 million; in the previous year, this key financial indicator was still substantially in negative earnings territory at – EUR 7.3 million.

Depreciation and amortisation declined by EUR 0.3 million, to EUR 2.7 million. The operating result (EBIT), at – EUR 0.3 million, likewise saw a return to positive territory, whereas in the previous year a loss of – EUR 10.3 million had been incurred.

A key prerequisite for the capital increase effected in October 2013 was a debt haircut of the financing banks by a total of approx. EUR 13.5 million, which led to financing gains to the same extent. The level of financing expenditure declined from EUR 2.6 million to EUR 1.1 million. In 2012, this had included a contingent loss provision for an interest rate swap amounting to EUR 1.1 million, of which EUR 0.2 million was used up in 2013.

Earnings before taxes (EBT) improved by EUR 24.9 million, from – EUR 12.9 million to EUR 12.0 million; the consolidated result improved by EUR 20.2 million, from – EUR 12.7 million to EUR 7.5 million.

3.1.1 Höft & Wessel segment

The segment Höft & Wessel AG comprises the following entities: Höft & Wessel AG, Höft & Wessel Traffic Computer Systems GmbH, Skeye Partner Support Center GmbH.

Höft & Wessel AG is a well-known solution provider for ticketing and mobile data capture systems in Europe. In 2013, sales revenues in this segment, at EUR 59.8 million, were slightly higher than the previous year (2012: EUR 58.5 million). The operating result in this segment, at – EUR 966 k, turned out to be fairly low, in particular due to the non-recurring expenditure on restructuring, amounting to EUR 1.6 million (previous year: – EUR 10.5 million). The EBIT margin, at – 1.6 per cent, likewise turned out negative (previous year: – 18 per cent).

3.1.2 Segment Metric

Höft & Wessel's Metric subsidiary is a producer of car park terminals and a services provider based in Swindon, west of London. In the financial year 2013, this segment generated EUR 20.0 million in sales revenues, more or less at the same level of the previous year (2012: EUR 20.4 million). Following the restructuring measures carried out, the operating result, at EUR 0.7 million, turned out positive (previous year: EUR 0.2 million). The EBIT margin was in the region of 3.5 per cent (previous year: 1.0 per cent).

3.2 FINANCIAL POSITION

After two consecutive years of high financial losses, the financial position was extremely strained in 2013 until the capital increase was carried out in October. The borrowing capacity still available thanks to several standstill arrangements was nearly depleted; the guarantors had frozen the guarantee lines, which means that even guarantees that expired were not replaced by new guarantees. On the supplier side, the terms of payment for the Höft & Wessel Group were either drastically reduced or delivery was made only against advance payments.

Against this backdrop, the primary objective of finance management is to plan, monitor and ensure the solvency of the Company. This objective was possible to achieve only with the consistent implementation of the parameters of the streamlining programme "H&W 2.0" geared to a drastic reduction of the Company's working capital.

3.2.1 Capital measures/restructuring

In the wake of declining sales revenues, the Höft & Wessel Group experienced financial difficulties in 2012. By means of decisive cost savings, intensive working capital management and the deferral of investments, it was possible to avert a liquidity deficit. An important measure in this context was the operational streamlining within the scope of the "H&W 2.0" programme launched in mid-2012 and successfully concluded in mid-2013. In total, with the aid of this programme an improvement potential of over EUR 12 million is anticipated by the Höft & Wessel Group by end-2014 thanks to targeted restructuring measures. This will be continued on expiry of "H&W 2.0" with the "A4P – Act for Performance" programme launched as a continual improvement programme on the back of "H&W 2.0".

In addition to an operational streamlining, a financial restructuring was carried out in 2013. To this end, a resolution was adopted by a large majority of shareholders at the Extraordinary General Meeting of the Company on 18 July 2013 to introduce a comprehensive financial restructuring concept. Owing to a shortfall below half of the Company's share capital, this also extended to include a capital reduction in a ratio of 5 to 1, followed by a cash capital increase in a ratio of 1 to 5. The capital measures were part of a comprehensive streamlining arrangement made between the Company, the long-term oriented investor Droege International Group AG,Düsseldorf, key individual shareholders and the creditor banks.

In accordance with this arrangement, as part of the capital increase the Droege International Group AG subscribed to the new shares that had not been subscribed to by the shareholders on the basis of the subscription rights offered.

Of just under EUR 8.5 million derived from the successfully executed capital increase, EUR 3.3 million went to the banks in partial compensation for their waiver of receivables amounting to EUR 16.8 million. This transaction was settled via a subsidiary of Höft & Wessel AG, which was endowed with EUR 3.3 million in liquidity by the Höft & Wessel AG to this end. Accordingly, EUR 5.2 million in fresh capital remained within the Höft & Wessel Group.

Due to the banks' waiver of roughly half of their receivables, the credit limit of the Höft & Wessel Group with the remaining banks decreased to EUR 8.5 million. Moreover, the Company can draw guarantee lines of credit worth a total of EUR 5.25 million with two credit institutions.

3.2.2 Capital structure

Owing to the capital increase carried out during the year under review and the debt haircut already specified earlier, the Group's equity capital as at the balance sheet date (31 December 2013) amounted to EUR 3.8 million (previous year: – EUR 10.5 million). The subscribed capital increased from EUR 8.5 million to EUR 10.2 million.

Due to the capital measures carried out in fiscal 2013, the Company's capital reserves amounted to EUR 24.9 million (previous year: EUR 20.2 million).

3.2.3 Investments

Investments by the Höft & Wessel Group predominantly relate to the field of research and development. During the financial year 2013, additions to fixed assets amounted to EUR 2.8 million (preceding year: EUR 2.3 million). With a total of EUR 0.7 million, only about a quarter of these investments is accounted for by furniture and fixtures as well as standard software (maintenance capex). The capitalised development costs amounted to EUR 1.5 million and advance payments on external development services came to EUR 0.6 million as at the balance sheet date.

3.2.4 Liquidity

Following the waiver of receivables by the creditor banks and the successful execution of the capital measures, the Group now has a total of EUR 8.5 million in secured and uncollateralised lines of credit with a term to maturity until end-2018 at its disposal (previous year: credit lines of EUR 25.2 million). Past guarantee lines, loan and current account lines were consolidated in the process. The interest rate agreed is based on the 3-month EURIBOR. These agreements contain no financial covenants.

In addition, pure guarantee lines of EUR 5.25 million (previous year: EUR 3.9 million) and EUR 2.0 in factoring lines (previous year: EUR 5.0 million) are available to the Company.

Owing to the difficulty of planning the project business, current intra-year liquidity management poses an entrepreneurial challenge. This is compounded by the fact that the Company has not been able to have access to guarantee lines or not to the necessary extent. As a result, the Company made substantial financial advance contributions, especially in the field of large-scale projects. It has not been possible for the contractually agreed advance payments based on progress with projects to be drawn on to date owing to the absence of guarantees. Accordingly, a substantial and sustainable improvement in the liquidity situation will depend to a decisive degree on whether – sometimes critical – large-scale projects can be successfully finalised without delay.

In total, a slightly positive cash flow of EUR 0.2 million from current business operations was achieved in the year under review (previous year: – EUR 1.4 million). The cash flow from investment activities came to – EUR 2.7 million (previous year: – EUR 2.3 million). In the year under review, these investments were financed by a positive cash flow from financing activities, which turned out to be substantially positive at EUR 2.9 million (previous year: EUR 1.4 million), mainly as a result of the capital increase. The volume of cash & cash equivalents thus increased by EUR 0.3 million, while a decline by EUR 2.3 million had been recorded a year earlier.

3.3 ASSET POSITION

The volume of non-current assets had declined by a total of EUR 0.8 million in the year under review, to EUR 9.9 million. A total of EUR 1.6 million in intangible assets was capitalised, which was significantly below the amortisation of these assets in the year under review. These amounted to EUR 2.1 million; accordingly, the level of total intangible assets decreased by EUR 0.5 million, to EUR 4.5 million. At the time of completion, these amounts were capitalised under intangible assets. Other than that, additions and write-downs in the category of other tangible assets were more or less even at EUR 0.6 million each. Deferred tax assets declined by EUR 0.7 million, to EUR 2.9 million.

Looking at current assets in the year under review, compared with the Company's business development a significant increase by EUR 5.7 million was recorded, to EUR 39.2 million. The services valued without loss in accordance with IAS 11, particularly within the framework of the large-scale projects mentioned earlier, amounted to EUR 6.9 million in the year under review, causing the level of service-based trade receivables to grow from EUR 14.6 million in 2012 to EUR 22.9 million as at the balance sheet date in 2013. The significance of these facts and circumstances with regard to the short and medium-term liquidity trend has already been dealt with. In contrast, it was possible to reduce the volume of inventory assets by EUR 2.8 million, from EUR 16.5 million to EUR 13.7 million. The volume of other financial and non-financial assets remained nearly at the previous year's level.

Group equity as at the balance sheet date in 2012 was substantially negative at – EUR 10.5 million following the high losses incurred in the financial years 2011 and 2012, as well as due to the implications of IAS 19 (rev.) for Metric Group Ltd. Due to a slightly positive operating result and, in particular, the effects of the capital increase and debt haircut, the level of equity capital returned to positive territory again in 2013 at EUR 3.8 million. EUR 2.0 million in capital procurement costs are netted directly with the capital reserve. The equity capital ratio came to just under eight percent.

Total non-current liabilities amounted to EUR 21.3 million (previous year: EUR 10.9 million). Of this sum, EUR 8.2 million was attributable to personnel-related provisions in accordance with IAS 19 (rev.). Owing to the haircut in 2013, deferred tax liabilities in 2013 increased from EUR 0.8 million to EUR 4.9 million. Other financial liabilities decreased from EUR 0.9 million to EUR 0.7 million. The long-term portion of the contingent loss provision set up for the interest rate swap in 2012 was reported in this balance sheet line item with EUR 1,109 k (31.12.2013: EUR 916 k).

Total current liabilities came to EUR 23.9 million, down by EUR 19.8 million year-on-year (2012: EUR 43.8). Provisions declined by EUR 0.7 million, from EUR 5.5 million to EUR 4.8 million, as the Company succeeded in averting an imminent legal dispute by means of a moderate settlement. Thanks to the haircut already mentioned on several occasions, it was possible to achieve a significant decline in the level of financial liabilities owed to banks by a total of EUR 16.2 million, from EUR 23.6 million to EUR 7.4 million. Due to the longer utilisation of trade payables, the substantial increase in trade receivables was offset, avoiding a disproportionately high increase in working capital in the process. Owing to the absence of guarantee lines, the advance payments received decreased by EUR 1.1 million, from EUR 4.9 million to EUR 3.8 million.

Personnel-related provisions, at EUR 1.7 million, were up slightly by EUR 0.2 million year-on-year (2012: EUR 1.5 million), which was due to a larger workforce on the whole as well as the provisions set up for variable remuneration components.

Other financial liabilities decreased from EUR 3.5 million to EUR 2.1 million as the share of liabilities-side differences booked in accordance with IAS 11 turned out substantially lower by EUR 0.7 million. The decline in other non-financial liabilities from EUR 1.8 million to EUR 1.2 million was predominantly due to a lower value added tax liability.

3.4 SUMMARISED GENERAL STATEMENT BY THE BOARD OF MANAGEMENT

According to the Board of Management, the Company's asset, financial and earnings position is adequate as a whole, provided its business proceeds as planned. Following the successful restructuring, the Board of Management has launched a continual improvement process to achieve a sustainable consolidation.

C. EVENTS AFTER THE BALANCE SHEET DATE

Following the close of the financial year 2013, a resolution was adopted to carry out a capital increase, partly by using the authorised capital, with the subscription rights of legacy shareholders being excluded. The execution of the capital increase was entered in the Commercial Register on 6 February 2014. The Company's share capital was thus raised from formerly EUR 10,196,988 by an amount of EUR 849,749 to EUR 11,046,737 against a cash deposit. The new shares were subscribed to by a subsidiary of Droege International Group AG at an issue price of EUR 2.95 per share, which meant that the Company received an inflow of fresh capital amounting to approx. EUR 2.5 million.

According to a notification of 11 February 2014, Droege International Group AG has since held a stake of 75.001 per cent in Höft & Wessel AG via a subsidiary.

The subsidiary Skeye Partner Support Center GmbH, Leipzig, was merged with its parent company Höft & Wessel AG, Hannover, as at 1 January 2014.

ASSET INTENSITIES

in per cent	2013	2012
Plant intensity		
Fixed assets/total assets	14	16
Inventory intensity		
Inventory/total assets	28	37
Intensity of receivables		
Trade receivables/total assets	47	33

D. OPPORTUNITIES AND RISK REPORT

1. OPPORTUNITIES REPORT

The opportunities arising for the Company are identified through ongoing, targeted observation of the specialist markets of relevance to the Company, of the competitive environment and the general economic trends in key sales markets, and the results of this observation are included in the strategic considerations regarding the future development of the Company's products and solutions portfolio.

The findings of market research carried out are collected and evaluated in the Product Management department and are then made available to the managerial staff. At the weekly leadership meetings with the Board of Management and in management workshops, the findings identified are discussed on a regular basis; any actions resulting from these along with any potentials identified are then incorporated in the Company's planning activities.

The largely completed internal reorientation of the Company, with a simplification of its organisational structure and the definition of clear process workflows, hold many and various opportunities in store for the Company thanks to the resulting efficiency enhancements. This also includes the implementation now under way of the industry segment orientation in line with the three segments Trade & Logistics, Railway & Cargo, Parking & Public Transport.

Additional opportunities arise from the strategic further development initiated. The Höft & Wessel Group plans to proactively utilise the opportunities arising from mobility as a megatrend and to further develop with its current solutions portfolio into a services provider. This calls for a deepening of the value added chain. This is also intended to be achieved through inorganic growth.

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. Contributions to this are made by current trends like urbanisation, growing environmental awareness, scarcer energy resources, but also deregulation of public commuter transport and, in effect, greater convergence with private motorised traffic and rising mobility requirements. As a result of these trends, 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 line 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. The Höft & Wessel Group plans to further develop in these markets in a targeted fashion.

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. The Höft & Wessel Group stands to benefit from this in the next several years through its expertise in the field of contactless payments, amongst other factors.

2. RISK REPORT

Being a capital market oriented company, as parent company Höft & Wessel AG is required to describe the features of the internal control and risk management system including early identification of risks pursuant to Section 91 (2) of the German Companies Act (Aktiengesetz – AktG) both with regard to the accounting processes of the companies included in the consolidated financial statements and to the consolidated accounting process.

In the financial year 2013, the risk management system underwent a modification and adjustment phase in the context of structured processes and their suitability for early risk identification. This also extended to include the accounting-related internal control system that is implemented as part of the risk management system. Höft & Wessel AG understands its risk management system as a support instrument that facilitates the systematic identification, evaluation and treatment of risks.

An early risk identification system was implemented at Höft & Wessel AG and documented in a Risk Manual that is updated accordingly from time to time where necessary. During the financial year 2013, the past system was replaced by an IT-supported software tool, and the Risk Manual was adjusted accordingly. The Metric subsidiary maintains an early risk identification system of its own along with the relevant handbook, namely the "Risk and Crisis Management Manual". The risk evaluation of the subsidiary is included in the Group's analyses.

After the recording and assessment of risks was still being carried out by an external business consultancy commissioned by the Board of Management in the first half of 2013, this task was then gradually transferred to Controlling in the Business Services division with the executive function of the Chief Risk Officer. In the course of the transition, the software tool Risk City was implemented within the Company. As a result, once again a risk management system has been implemented that corresponds to the relevant parameters stipulated. An effective cash management is duly taken into account in the form of weekly liquidity planning activities. Moreover, medium-term liquidity requirement forecasts are also prepared as part of the planning activities.

The general risks are determined and reviewed on a regular basis by means of detailed and standardised interviews of the Division heads and determined in reconciliation with the Risk Manual.

In addition to the basic information, a risk evaluation is carried out. This may either be qualitative or quantitative, with the qualitative evaluation being translated into average euro values in the categories "minor", "serious" and "dangerous." There is a possibility of adding measures to a particular risk. As a rule, these will be addressed at reducing the extent of loss or damage or the probability of occurrence. An assessment of the gross risks (prior to measures being taken) and net risk (after the relevant measures) and the target value are defined. Within the scope of the existing risk management system, only risks are monitored. A monitoring of opportunities is currently carried out within the scope of current business, especially via the Distribution division, and is not followed up any further by Controlling.

The various sets of measures forming part of the early risk detection system of Höft & Wessel AG are described in detail below. In principal, early risk detection management distinguishes between organisational and content-related risks. Organisational risks arise from the organisation and processes of the Company. In the category of content-related risks, distinctions are drawn between financial, external, operative, operational and strategic risks as well as risks arising from current customer projects.

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. 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. In the event of an increase in the level of interest rates, a change in the corporate rating or of lending terms and conditions, there is the risk of an increasing interest burden. It was possible at present to fix the same lending terms and conditions for all lenders in the medium term until 2018. A dedicated receivables management system is used to counter the risk of default in trade receivables. Moreover, merchandise credit insurance policies are taken out. In order to hedge the risk of payment flows of financial liabilities subject to variable interest rates, in the previous year 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. 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 2013. Accordingly, the valuation effects as at the balance sheet date were recognised in net interest income by the Company. The value of the interest rate swap amounted to EUR 916 k at the balance sheet date, and to this end a contingent loss provision in the same amount was set up as at 31 December 2013. The hedged interest rate originally amounted to 4.83 per cent p. a. The negative market value of the hedge transaction reversed with an impact on profit and loss amounted to – EUR 1,109 k as at 31 December 2012. The company set up a contingent loss provision in this regard, amounting to EUR 1,109 k as at December, 2012. The effectivity measurement as at 31 December 2013 led to a reduction through profit and loss of the contingent loss provision by EUR 193 k to currently 916 k.

RISKS BY OBSERVATION FIELD SUBJECT TO

in EUR thousands		probability-weighted loss potential as at 31 December 2013
Risk category		
External risks	Probability of occurrence > 40 %	–
	Loss potential > EUR 1 million	–
Financial risks	Probability of occurrence > 40 %	1,200
	Loss potential > EUR 1 million	–
Operational risks	Probability of occurrence > 40 %	3,075
	Loss potential > EUR 1 million	10,932
Strategic risks	Probability of occurrence > 40%	–
	Loss potential > EUR 1 million	–

In the external risk category, a further distinction is made between changes in market demand, political changes and economic developments.

Höft & Wessel deals with market and sales revenue risks by endeavouring to establish long-term contractual relations with customers wherever possible. 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 contracts by the heads of the business divisions and deployment of the overarching ERP system serve to effectively identify and mitigate internal risks at an early stage.

At present, the risk management at Höft & Wessel AG comprises project-related risk management, which monitors technical and project-related risks, as well as operational risk management, which monitors the risks arising from processes as well as from the structural and procedural organisation. Within the scope of risk management, a risk is considered to be material if the probability of its occurrence exceeds 40 per cent or if the potential loss exceeds EUR 1 million. This results in the four risk categories of external, financial, operational and strategic risks, within which the individual risks are consolidated.

Owing to the significance for the Höft & Wessel Group, there is a special project reporting system in place, which is closely monitored by Controlling. At present, this is essentially concentrated on ongoing delayed projects from previous years, namely those that were part of the "financial freedom" campaign. The project heads deliver regular SAP-based reports on the criteria of sales revenues currently reached, cost-to-completion, the risk of conventional penalties and effects on after-sales business within the scope of a specified scale. The results are processed using the software tool "Risk City". At present, there still are substantial risks for the Company arising from the current processing of projects going back to the "financial freedom" campaign. These are declining in the course of time as they are increasingly being processed. The "financial freedom" projects are part of the Company's operational risks.

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.

Strategic risks essentially arise from lacking or incorrect planning parameters. Intensified market expertise is essential in this regard. With the expansion of expertise in market research in the Product Management department, more detailed and improved attention is devoted to the markets. The findings are incorporated in the planning activities and also provide substantial assistance in defining the product road map. The further developments triggered in the Höft & Wessel AG segment were already reconciled intensively in advance with the relevant market requirements. This also applies to the Metric segment.

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) and made available on the Intranet. 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.

The risk management system and the risk mitigation measures presented constitute the foundations for identifying, analysing and monitoring risks. On this basis, in the financial year 2013 the Höft & Wessel Group deliberately took entrepreneurial risks, but the risks were acceptable at all times.

2.1 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM WITH REGARD TO THE CONSOLIDATED ACCOUNTING PROCESS

The essential features of the internal control and risk management system with regard to the accounting process represent both process-integrated and process-independent measures at Höft & Wessel AG.

In this context, manual process controls such as the proven "four-eyes principle" of simultaneous double checks constitute a material element of the process-integrated measures. The ERP system SAP already successfully introduced at Höft & Wessel AG a few years ago likewise allows a large number of automated IT process controls to be made. Similarly, specific Group functions such as Group Accounting and the newly established Group Risk Manager ensure that process-integrated and process-independent monitoring activities are in place at all times.

Moreover, the Supervisory Board of Höft & Wessel AG carries out process-independent monitoring activities and is seamlessly integrated into the internal control system.

As a component of the internal control system, risk management is geared to identify the risk of incorrect statements in the context of accounting as well as external reporting.

The recording of accounting activities of the English subsidiary is carried out within the scope of its local accounting system. The data on the financial statements are transferred to the SAP system of Höft & Wessel AG for consolidation purposes. Höft & Wessel AG is responsible for preparing the consolidated financial statements as well as for Group accounting at the location of Hannover. The reporting packages and annual financial statements of the English subsidiary are subject to an annual audit by the auditing firm commissioned to do so. The latter ensures, amongst other things, that the adjustment booking entries made by the subsidiary are correct in accordance with the International Financial Reporting Standards (IFRS). Group Accounting at Höft & Wessel AG is responsible for ensuring the adherence to uniform accounting and valuation principles in the financial statements.

Measures of the internal control system geared to the regularity and reliability of accounting ensure that business transactions are recorded in full and on a timely basis in conformity with the statutory regulations and provisions defined in the articles of association as well as internal rules. By means of appropriate instructions and established processes, the Company ensures that inventory-taking is duly carried out and that assets and liabilities are appropriately recognised. The fundamental separation of administrative, execution, settlement and approval functions reduces the possibility of inappropriate actions being taken.

The purpose of the Company's internal control system in the context of financial reporting is to ensure with an adequate degree of certainty that financial reporting reflects a high degree of reliability and is in conformity with the generally accepted accounting principles. Owing to its inherent limits, in certain circumstances the internal control system for financial reporting may not prevent or identify all potentially misleading declarations in the annual financial statements. In particular, decisions based on personal discretion, incorrect controls and criminal acts cannot be ruled out altogether in the process. This may give rise to restricted effectiveness of the internal control system, which means that even consistent application of the extensive rules cannot provide absolute certainty with regard to the correct, full and timely recording of facts and circumstances within the scope of accounting.

E. OUTLOOK

The Kiel-based Institute for the World Economy (Institut für Weltwirtschaft – IfW) assumes that there will be a discernible revitalisation in economic activity in 2014. Accordingly, the global economy will grow by 3.7 per cent, a 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 increase in aggregate economic output by 0.9 per cent is anticipated. In the two key markets for the Company, namely Germany and the United Kingdom, in 2014 Gross Domestic Product is to rise more substantially, by 1.7 and 2.0 per cent, respectively.

As a result, the overall economic environment of the Höft & Wessel Group in the relevant regional markets will be slightly better in the current financial year than in the previous year. Even though business trends of the Group on the whole generally appeared to be largely unaffected by cyclical influences in the past, changing framework conditions such as lower public-sector spending may have an impact. For this reason, the industry sectors of key importance to business trends, namely Trade & Logistics, Railway & Cargo und Parking & Public Transport, are carefully monitored and the resultant opportunities and risks are weighted accordingly and taken into account in market processing. Furthermore, megatrends and public policy measures such as a deregulation of public commuter transport or even public-sector debt may acquire a certain relevance in this regard.

The orientation towards customer segments alone, which is in the course of being implemented, will result in further business opportunities thanks to improved, direct customer contact, and synergies will be leveraged from the even closer and more focused collaboration in the organisation as a whole, particularly in distribution.

In the Trade & Logistics segment, with its mobile devices for data capture Höft & Wessel is one of the manufacturers of note in the Auto-ID sector and market leader in the retail grocery sector, especially in Germany. The Company plans to retain this position and build on it, extending the level of market penetration in the field of logistics. The level of brand recognition in the markets even applies on an international scale. This is reflected in market analyses of well-known international research institutes, which forecast further worldwide growth for the Auto-ID sector in a single-digit percentage range.

The consistent further development of a mobile Ticket terminal in tablet format and a newly developed, particularly robust terminal for the Cargo sector will provide additional medium-term sales potential in the Railway & Cargo segment; part of this will be realised as early as the year 2014.

In the Parking & Public Transport segment, the Parking sector reflects stable development. Internationally, the Metric subsidiary belongs to a relatively small number of providers. In 2014, the level of collaboration with Amano in the US will be further improved. In the relatively saturated market in the United Kingdom, market leadership is also to be consolidated through the distribution of pay-on-foot products from Amano. On the other hand, the strategic partnership with Amano may also entail some risks. Metric will continue to intensify the level of exports of its products.

In the market for ticketing systems, which is not consolidated as yet, Höft & Wessel is a manufacturer of note in Europe and beyond and stands to benefit from this within the scope of the growth strategy adopted. The further extension of the solution portfolio will also yield sales potential for the organisation in Europe and other regions.

After two years of substantially negative operating results, an EBIT close to break-even could be achieved in the financial year 2013. The Höft & Wessel Group anticipates slightly higher sales revenues for the current financial year 2014. Unimpacted by restructuring expenses, the operating result (EBIT) in 2014 is expected to turn out substantially higher and the EBIT margin will increase accordingly. While slightly higher sales revenues are anticipated in the Höft & Wessel AG segment, sales in the Metric segment are forecast to remain roughly at the same level.

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.

F. FURTHER DISCLOSURES

1. REMUNERATION REPORT

1.1 Board of Management

In addition to fixed remuneration, the Board of Management of Höft & Wessel AG receives regular, variable remuneration based on the EBIT 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.

The performance-based remuneration is paid on reaching the Group's EBIT 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 2013, performance-related remuneration was fixed at EUR 100 k for the Board of Management (previous year: EUR 0 k) in addition to the performance-related components in the table "Remuneration paid to the board of management".

REMUNERATION PAID TO THE BOARD OF MANAGEMENT

in EUR thousands	Non-performance related		Performance-related		Components with a long-term incentive effect		Total emoluments	
	2013	2012	2013	2012	2013	2012	2013	2012
Rudolf Spiller	434	141	100	–	13	–	547	141
Michael Höft	–	264	–	–	–	–	–	264
Thomas Wolf	–	96	–	–	–	–	–	96
Hansjoachim Oehmen	–	18	–	–	–	–	–	18
Total	**434**	**519**	**100**	**0**	**13**	**0**	**547**	**519**

In the financial year 2013, 50,000 stock options were issued to the Board of Management in two tranches. Following the capital measures carried out in the financial year, these provide for entitlement to the acquisition of 10,000 shares.

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.

1.2 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 Chairman in this regard receives double the remuneration paid to a member of the Supervisory Board. The Deputy Chairman receives 1.5 times the remuneration paid to a member of the Supervisory Board. No payments were made to earlier Supervisory Board members. There are no commitments on the part of the Company to do so.

2. SHARE-RELATED DISCLOSURES

The Company's share capital at the balance sheet date is denominated in 10,196,988 no-par-value bearer shares, with each such share representing an entitlement to exercise one vote.

H&W Holding GmbH, Burgdorf, held a 40.6 per cent stake of the share capital as at the previous year's balance sheet date.

In the course of the financial year 2013, H&W Holding sold the majority of its equity interests in Höft & Wessel AG to Droege International Group AG. Since October 2013 and, therefore, as at the balance sheet date, via a subsidiary the Droege Group has been a majority shareholder of Höft & Wessel AG with a stake of 72.71 per cent.

At the balance sheet date of the previous year, Zollner Elektronik AG, Zandt, had an equity interest of 10.5 per cent in the share capital of Höft & Wessel AG. This share was reduced to less than 3 per cent in the course of the financial year.

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 (Sections 84, 85 of the German Companies Act [Aktiengesetz – AktG]) and to any amendments to the articles of association (Sections 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.

REMUNERATION PAID TO THE SUPERVISORY BOARD

in EUR thousands	2013	2012
Dirk Ulrich Hindrichs	1	–
Christoph Hartmann	1	–
Johannes Feldmayer	1	–
Prof. Dr. Dr.-Ing. Dr. h.c. Klaus E. Goehrmann	19	20
Dr. Peter Versteegen	14	15
Dr. Martin Künnemann	9	10
Rolf Wessel	–	10
Manfred Zollner	1	10
Hinrich Peters	9	8
Total	**55**	**73**

G. STATEMENT ON CORPORATE GOVERNANCE

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 statement – pursuant to Section 289a of the German Commercial Code (Handelsgesetzbuch – 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 statement in conformity with Section 161 of the German Companies Act (Aktiengesetz – 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 (Aktiengesetz – AktG), the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) and the German Corporate Governance Code.

1. STATEMENT BY THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD IN ACCORDANCE WITH SECTIONS 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 13 May 2013 and will continue to do so in future, subject to the following few exceptions:

› **Setting up Committees (No. 5.3)**
In view of the Supervisory Board's size, the Supervisory Board did not set up any committees and exercises the relevant tasks jointly.

› **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.

› **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 2012 to be finally audited; for this reason, the subsequent quarterly report and half year report has not been published within the periods laid down either.

Since the last declaration of conformity was issued in April 2013, Höft & Wessel AG has been in compliance with the Code in its version of 13 May 2013, subject to the exceptions stated in the last declaration of conformity.

Hannover, 10 March 2014
(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 Annual General Meeting 2014 is scheduled to be held on 22 May 2014. 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 three (as at 6 December 2013: four, and as at 28 January 2013: five) members. The Supervisory Board elects its Chairman from its own ranks.

The Supervisory Board was elected at the Annual General Meeting 2013 for a term of five years. 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 its articles of association, the Board of Management of Höft & Wessel AG consists of one or a number of persons. Being a managerial body, the members 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 Supervisory Board. Prior to publication, the Supervisory Board discusses the interim reports with the Board of Management.

The consolidated financial statements of the Höft & Wessel Group and the annual financial statements of Höft & Wessel AG were audited by the auditing firm PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Hannover. 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, within the relevant periods laid down in this regard. 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 on 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 website, with adequate advance notice: www.hoeft-wessel.com

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 Opportunities and Risk Report as part of the Group Management Report in the 2013 Annual Report. This includes the report required in accordance with the German Accounting Law Modernisation Act (BilMoG) on the accounting-related control and risk management systems.

Directors' Dealings – trading of shares by Board members

Section 15a of the German Securities Trading Act (Wertpapiergesetz – 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 EUR 5,000 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 the BaFin.

During fiscal year 2013, Höft & Wessel AG was notified of the following securities transactions: 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, announced that it had a share of voting rights amounting to 37.12 per cent in Höft & Wessel AG in accordance with Section 25a of WpHG. On 9 October 2013, Special Purpose Zwei Holding GmbH, Düsseldorf, an enterprise of the Droege Group, announced that it had a share of voting rights of 66.52 per cent. As at 14 October 2013, the share of voting rights amounted to 72.71 per cent.

The stock portfolio of members of management bodies and their family members as at 31 December 2013 was as follows:

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. Section 13 of WpHG contains a definition of the term "insider information" that directly affects the issuer itself. In accordance with Section 15b of WpHG, issuers must record the names of all persons with authorised access to insider information in an insider register and constantly update this register. Höft & Wessel AG has implemented this requirement.

STOCK PORTFOLIO OF MEMBERS OF MANAGEMENT BODIES

	number of stock options
Board of Management	
Rudolf Spiller	10,000

SHAREHOLDERS AND RELATED ENTITIES WITH A DECISIVE INFLUENCE

	number of shares
Special Technology Holding GmbH	7,413,961

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. DEPENDENCY REPORT

In the financial year 2013, until 8 October Höft & Wessel AG was a company dependent on H&W Holding GmbH and since 8 October a company dependent on the Droege Group International AG subsidiary Special Technology Holding GmbH within the meaning of Section 312 of the German Companies Act (AktG). For this reason, in accordance with Section 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, 10 March 2014

The Board of Management

Consolidated Financial Statement as of 31/12/2013

CONSOLIDATED BALANCE SHEET AS OF 31/12/2013

ASSETS in EUR thousands	Note	31/12/13	31/12/12 adjusted*	01/01/12 adjusted*
Non-current assets				
Intangible assets	(5)	4,536	5,071	5,641
Property, plant and equipment	(6)	2,478	1,986	2,055
Deferred tax assets	(7)	2,877	3,598	3,966
Total non-current assets		**9,891**	**10,655**	**11,662**
Current assets				
Inventories	(8)	13,720	16,472	21,889
Trade receivables	(9)	22,876	14,574	17,994
Cash and cash equivalents	(10)	1,169	829	3,103
Other assets	(11)	873	848	1,533
Other non-financial assets		543	744	1,249
Total current assets		**39,181**	**33,467**	**45,768**
Total assets		**49,072**	**44,122**	**57,430**

EQUITY AND LIABILITIES in EUR thousands	Note	31/12/13	31/12/12 adjusted*	01/01/12 adjusted*
Equity				
Subscribed capital	(12)	10,197	8,497	8,497
Capital reserves	(12)	24,934	20,180	20,176
Accumulated retained earnings	(12)	(26,880)	(34,877)	(21,121)
Other comprehensive income		(4,421)	(4,297)	(5,429)
Total equity		**3,830**	**(10,497)**	**2,123**
Non-current liabilities				
Personnel related provisions	(17)	8,233	9,172	8,017
Leasing liabilities	(14)	0	0	17
Deferred tax liabilities	(7)	4,948	837	1,127
Liabilities due to banks	(14)	7,439	0	0
Other liabilities	(15)	673	857	1,057
Total non-current liabilities		**21,293**	**10,866**	**10,218**
Current liabilities				
Provisions	(18)	4,815	5,502	4,396
Current income tax liabilities		0	50	440
Leasing liabilities	(14)	0	17	29
Liabilities due to banks	(14)	0	23,567	20,827
Trade payables	(19)	10,361	2,871	9,753
Advance payments received		3,837	4,922	2,656
Personnel-related accrued/deferred liabilities	(17)	1,731	1,513	964
Other financial liabilities	(15)	2,051	3,528	3,743
Other non-financial liabilities	(20)	1,154	1,783	2,281
Total current liabilities		**23,949**	**43,753**	**45,089**
Total equity and liabilities		**49,072**	**44,122**	**57,430**

** Adjustment of previous year's figures refers to the first-time adoption of the revised IAS 19 benefits to employees.*

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2013

in EUR thousands	Note	2013	2012 adjusted*
Sales revenues	(24)	79,819	78,875
Inventory changes relating to finished goods and work-in-progress		(1,633)	(4,400)
Other company-produced add. to plant and equipment		1,495	1,348
Aggregate output		**79,681**	**75,823**
Other income	(26)	2,726	2,367
Cost of materials and services procured		(46,017)	(40,609)
Personnel expenses	(25)	(21,624)	(27,269)
Other expenses	(27)	(12,339)	(17,593)
Operating result before depreciation and amortisation (EBITDA)		**2,427**	**(7,281)**
Depreciation and amortisation of property, plant, and equipment and intangible assets		(2,741)	(2,994)
Operating result (EBIT)		**(314)**	**(10,275)**
Financial income	(28)	13,479	1
Financial expenses	(28)	(1,131)	(2,594)
Net financial income		**12,348**	**(2,593)**
Earnings before taxes (EBT)		**12,034**	**(12,868)**
Tax position	(29)	(4,493)	170
Group earnings		**7,541**	**(12,698)**
Items subsequently reclassified through profit or loss provided certain requirements are met:			
Difference arising from currency translation		(124)	104
Cash flow hedges		0	1,502
Deferred taxes on cash flow hedges		0	(474)
Items not subsequently reclassified through profit or loss:			
Actuarial gains/losses from defined benefit pension plans		640	(1,278)
Deferred taxes on actuarial gains/losses from defined benefit pension plans		(184)	220
Other earnings		**332**	**74**
Total earnings for the period		**7,873**	**(12,624)**
Earnings per share in EUR (basic)	(13)	0.81	(1.49)
Earnings per share in EUR (diluted)	(13)	0.80	(1.49)

** Adjustment of previous year's figures refers to the first-time adoption of the revised IAS 19 benefits to employees.*

CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2013

in EUR thousands		2013	2012 adjusted*
Group earnings		**7,541**	**(12,698)**
+/–	Tax position	4,493	(170)
+	Financial results	(12,348)	2,593
+	Depreciation of fixed assets	2,741	2,994
–/+	Earning/loss from reduction of fixed assets	0	0
+/–	Increase/decrease in provisions	(836)	1,106
+/–	Rate effects with no impact on payments	(200)	419
–/+	Earning/loss from impairments on receivables	(205)	118
–/+	Earning/loss from impairments on inventories	68	353
+	Other non-cash item effects	477	(1,318)
–/+	Increase/decrease in inventories	2,684	5,064
–/+	Increase/decrease in trade receivables	(8,191)	3,711
–/+	Increase/decrease in other assets	246	1,057
+/–	Increase/decrease in other provisions	(939)	1,155
+/–	Increase/decrease in trade payables	7,478	(6,896)
+/–	Increase/decrease in payments received	(1,085)	2,265
+/–	Increase/decrease in other liabilities	(1,555)	(931)
+/–	Increase/decrease in other long-term liabilities	(184)	(200)
–	Payouts for income tax	0	0
=	**Cash flow from current operating activities**	**185**	**(1,378)**
–	Disbursements for investments in fixed assets	(2,698)	(2,269)
=	**Cash flow from investment activities**	**(2,698)**	**(2,269)**
–	Disbursements from amortisation of financial loans	(2,654)	2,740
–	Disbursement for finance leasing	(17)	(29)
+	Interest received	6	1
–	Interest paid	(1,085)	(1,347)
–	Disbursement for dividends	0	0
+	Cash flow from capital increase	8,498	0
–	Disbursement for expenses of the capital increase	(1,897)	0
=	**Cash flow from financing activities**	**2,851**	**1,365**
Decrease/increase in liquid funds		**338**	**(2,282)**
Cash and cash equivalents at the beginning of the period		**829**	**3,103**
–	Changes in exchange-rate compensation item	2	8
Cash and cash equivalents at the end of the period		**1,169**	**829**

** Adjustment of previous year's figures refers to the first-time adoption of the revised IAS 19 benefits to employees.*

PERFORMANCE OF SHAREHOLDERS' EQUITY FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2013

				Other equity			
in EUR thousands	Subscribed capital	Capital reserve	Retained earnings	Hedging activities	Currency reserves	Sum	Total
Status as of 01/01/2012 as reported	**8,497**	**20,176**	**(15,849)**	**(1,028)**	**(4,401)**	**(5,429)**	**7,395**
Balance sheet change regarding IAS 19R			(5,272)				(5,272)
Status as of 01/01/2012 adjusted*	**8,497**	**20,176**	**(21,121)**	**(1,028)**	**(4,401)**	**(5,429)**	**2,123**
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
Adjustments IAS 19			(1,058)		(162)	(162)	(1,220)
Other earnings	**0**	**0**	**(1,058)**	**1,028**	**104**	**1,132**	**74**
Earnings for period			(12,698)				(12,698)
Total consolidated earnings	**0**	**0**	**(13,756)**	**1,028**	**104**	**1,132**	**(12,624)**
Issue of stock options		4				0	4
Status as of 31/12/12 adjusted*	**8,497**	**20,180**	**(34,877)**	**0**	**(4,297)**	**(4,297)**	**(10,497)**
Currency differences from translation of entities abroad (including taxes)					(286)	(286)	(286)
Effective portion of time changes of cash flow hedges (including taxes)						0	0
Adjustments IAS 19			456		162	162	618
Other earnings	**0**	**0**	**456**	**0**	**(124)**	**(124)**	**332**
Earnings for period			7,541				7,541
Total consolidated earnings	**0**	**0**	**7,997**	**0**	**(124)**	**(124)**	**7,873**
Issue of stock options		3				0	3
Capital decrease	(6,798)	6,798				0	0
Capital increase	8,498	(2,047)				0	6,451
Status as of 31/12/2013	**10,197**	**24,934**	**(26,880)**	**0**	**(4,421)**	**(4,421)**	**3,830**

** Adjustment of previous year's figures refers to the first-time adoption of the revised IAS 19 benefits to employees.*

Notes to the consolidated financial statements for the financial year 2013

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 that is domiciled in Germany. The Company is headquartered in Hannover, Rotenburger Strasse 20.

Höft & Wessel AG is included in the consolidated financial statements of Droege International Group AG, Düsseldorf (smallest group of entities).

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:

» Höft & Wessel AG
  ticketing and telematics for public commuter transport as well as mobile terminals and POS systems

» Metric
  systems for parking space management and services rendered within the scope of full-service agreements

At the beginning of the financial year 2013, the company consolidated its past "Almex" and "Skeye" business segments into the "Höft & Wessel AG" segment since a further segmentation was no longer considered to be sensible in commercial terms.

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.

By means of the measures initiated during the last financial year, Höft & Wessel AG succeeded in ensuring the Company's existence as a going concern as well as an appropriate equity capital base and ultimately also managed to restore the trust and confidence of investors, the markets, its business partners and employees alike.

At the extraordinary general meeting of the Company held on 18 July 2013, a resolution was adopted for a capital decrease and a cash capital increase of 8,497.490 new shares. It was possible to fully place these at a subscription price of EUR 1.00 per share. Within the scope of the subscription offering of Höft & Wessel AG, the shareholders exercised their right to subscribe to a total of 1,714,437 new shares. A further 6,783,053 new shares were subscribed to by a subsidiary of Droege International Group AG, Düsseldorf. This subsidiary therefore is the new majority shareholder of Höft & Wessel AG. After the cash capital increase, the Company's share capital now amounts to EUR 10,196,988.00.

The Company received an inflow of proceeds of just under EUR 8.5 million from the issuance of the new shares. These capital measures enabled Höft & Wessel AG to make investments in order to reinforce its technological expertise and to settle financial liabilities. Moreover, as part of the refinancing plan the creditor banks waived part of their loan receivables from the Höft & Wessel Group, bringing about a corresponding reduction in the Company's debt position.

Against the backdrop of the restructuring and streamlining initiated in 2012 and successfully concluded in 2013, the accounting and evaluation in the consolidated financial statements are made on the assumption of the Company's continued existence as a going concern.

2 PRINCIPLES OF PREPARING THE FINANCIAL STATEMENTS

Disclosures on compliance

The Consolidated Financial Statements as at 31 December 2013 were prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union by way of the endorsement process and released for publication by resolution of the Supervisory Board on 10 March 2014.

Standards applied for the first time in the year under review (mandatory disclosure in accordance with IAS 8.28):

» 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 IFRS, 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.

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

» Amendments to IFRS 1 – Government Loans

This amendment relates to accounting for a government loan at an interest rate below the market rate by an IFRS first-time adopter. For government loans in existence at the time of the transfer, the valuation can be retained in accordance with to preceding accounting principles. The valuation rules in accordance with IAS 20.10A read in conjunction with IAS 39 therefore only apply to such government loans that are entered into after the point in time of the transfer.

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

» Amendments to IFRS 7 –
Offsetting Financial Assets and Financial Liabilities

In conjunction with the clarification of IAS 32, the rules on notes disclosures were also extended in IFRS 7. This amendment to IAS 32 establishes the requirements that need to be made for offsetting 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. The amendment to IAS 32 is to be applied to financial years beginning on or after 1 January 2014. The amendments to IFRS 7 refer to the associated disclosures on netting or set-off of financial assets and financial liabilities.

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 value measurement in IFRS financial statements in a uniform manner. All fair value measurements required according to other standards must follow the uniform, standardised requirements of IFRS 13; 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, with IFRS 13 a 3-stage hierarchy system was 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.

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

» 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”) are 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.

Höft & Wessel AG adjusted the statement of income and comprehensive income accordingly in the consolidated financial statements.

» IAS 19 – Employee Benefits (revised)

In addition to more extensive mandatory disclosures on employee benefits, in particular the following changes will result from the revised standard:
In the past, there was 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 could 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 of a more transparent and comparable presentation, which means that 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, in the past the expected gains of plan assets at the beginning of the accounting period were 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 uniform, 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 was 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.

This revised standard has substantial impacts on the consolidated financial statements of Höft and Wessel AG. Owing to the new regulation, there will be a decline in equity of EUR 6.2 million and a corresponding increase in pension reserves.

The following tables represent the material impacts of the amended provisions of IAS 19, which are to be applied with retrospective effect:

CONSOLIDATED BALANCE SHEET

in EUR thousands	31/12/2012 prior to adjustment	adjustment	31/12/2012 after adjustment
Total assets	**42,090**	**2,032**	**44,122**
of which, other financial assets	848	–	848
of which, deferred taxes	1,566	2,032	3,598
Total liabilities	**42,090**	**2,032**	**44,122**
of which, equity	(4,290)	(6,207)	(10,497)
of which, personnel-related provisions	933	8,239	9,172

CONSOLIDATED BALANCE SHEET

in EUR thousands	01/01/2012 prior to adjustment	adjustment	01/01/2012 after adjustment
Total assets	**55,526**	**1,904**	**57,430**
of which, other financial assets	1,533	–	1,533
of which, deferred taxes	2,062	1,904	3,966
Total liabilities	**55,526**	**1,904**	**57,430**
of which, equity	7,395	(5,272)	2,123
of which, personnel-related provisions	841	7,176	8,017

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

in EUR thousands	2012 prior to adjustment	adjustment	2012 after adjustment
Earnings before taxes	**(13,246)**	**378**	**(12,868)**
of which net financial income	(2,451)	(142)	(2,593)
Tax position	263	(93)	170
Group earnings	**(12,983)**	**285**	**(12,698)**
Reconciliation with total earnings for the period			
of which, other comprehensive income	1,294	(1,220)	74
Total earnings for the period	**(11,689)**	**(935)**	**(12,624)**
Earnings per share in EUR (basic)	(1.53)	0.04	(1.49)
Earnings per share in EUR (diluted)	(1.53)	0.04	(1.49)

The changed definition of benefits at the end of an employment relationship referred to as termination benefits has an 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 were already in the release phase of their retirement plans.

» IFRIC 20 –
Stripping Costs in the Production Phase of a Surface Mine

This interpretation standardises 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.

This interpretation has no impacts on the consolidated financial statements of Höft & Wessel AG.

EU Endorsement has already been given:

» 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.

» 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 and IFRS 12 are to be applied for the first time 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 IAS 27 – Separate Financial Statements
As part of the adoption of IFRS 10 Consolidated Financial Statements, the rules relating to the control principle and the requirements concerning the preparation of consolidated financial statements were removed from IAS 27 and subsequently dealt with in IFRS 10 (see explanatory notes on IFRS 10). As a result, in future IAS 27 will only contain the accounting rules for subsidiaries, joint ventures and associated companies in individual financial statements according to IFRS. The amendment is to be applied to financial years beginning on or after 1 January 2014.

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

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

In future, potential voting rights and other derivative financial instruments will be decisive in assessing whether an entity has a decisive influence or in determining the investor's share of the company's assets. A further amendment concerns accounting according to IFRS 5 if only one part of the share in an associated company or a joint venture is intended for sale. IFRS 5 is to be partially applied if only a share or part of a share in an associated entity (or a joint venture) meets the "held for sale" criterion. The amendment is to be applied for the first time 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 – Offsetting Financial Assets and Financial Liabilities
This amendment to IAS 32 establishes the requirements that need to be made for offsetting 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. The amendment to IAS 32 is to be applied for the first time to financial years beginning on or after 1 January 2014.

This amendment has no impacts on the consolidated financial statements of Höft & Wessel AG.

» Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets
This amendment refers to the clarification in connection with the required disclosures of the achievable amount for non-financial assets. In addition, the amendment leads to new mandatory disclosures in the event of a value impairment or write-up of an asset or a cash-generating unit, in the case of which the achievable amount was determined on the basis of the fair value less costs of sale. The amendments – subject to adoption in EU law still outstanding at this point – are to be applied for the first time 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 IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

This amendment concerns the accounting for derivatives which – despite a novation – continue to be designated as hedge instruments in existing hedge relationships. 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 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.

EU Endorsement is still outstanding:

» IFRS 9 – Financial Instruments

IAS 39 will supersede the accounting and valuation principles applicable to financial instruments in accordance with IFRS 9. In future, financial assets will only be classified and measured in two groups, namely at amortised cost and at fair value. The group of financial assets at amortised cost consist of such financial assets that only provide for a claim to interest and redemption payments at specified points in time and which, in addition, are held within the scope of a business model, the aim of which is to hold assets. All other financial assets comprise the group measured at fair value. In certain circumstances, for financial assets of the first category – as in the past – a designation to the category at fair value ("fair value option") can be made.

Changes in the value of financial assets of the fair value category are to be recognised through profit or loss as a matter of principle. For certain equity capital instruments, however, the optional right may be exercised to recognise change in value under other comprehensive income; dividend claims arising from these assets must be recognised through profit of loss, however. The regulations for financial liabilities are assumed from IAS 39 on principle. The most significant difference refers to the recognition of change in value of financial liabilities measured at fair value. In future, these are to be subdivided as follows: the share accounted for by the entity's own credit risk is to be recognised under other comprehensive income and the residual portion of the change in value through profit or loss. IFRS 9 – subject to adoption in EU law still outstanding at this point – is to be applied for the first time in financial years beginning on or after 1 January 2015.

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

» IFRS 14 – Regulatory Deferral Accounts

With this standard, a rule is introduced that allows a first adopter of IFRS subject to price regulations to continue accounting for regulatory accruals and deferrals according to its past accounting principles with certain limitations. 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 2016.

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 diclosures 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 material impacts on the consolidated financial statements of Höft & Wessel AG.

» IFRIC 21 – Levies

This interpretation provides guidance on accounting for a commitment arising from a levy that does not constitute income tax. IFRIC 21 governs the obliging event giving rise to payment of a levy and when such levy is to be recognised as a liability. This interpretation is to be applied for the first time in financial years beginning on or after 1 January 2014.

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

» Improvements to IFRS 2010 – 2012

Within the scope of the annual improvement project, amendments were made to six 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 standards IAS 16, IAS 24, IAS 38, IFRS 2, IFRS 3 and IFRS 8 are affected by this.

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 July 2014.

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

» Improvements to IFRS 2011 – 2013

Within the scope of the annual improvement project, amendments were made to three 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 standards IAS 40, IFRS 3 and IFRS 13 are affected by this.

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 July 2014.

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

» Amendments to IAS 19 –
Defined Benefit Plans: Employee Contributions

This amendment introduces an optional right regarding the accounting for performance-oriented pension commitments in which employees or third parties participate with obligatory contributions. The optional right makes it possible to recognise employee contributions tied to the performance of work but not to the number of years of service in the period in which the corresponding work is performed or calculated and distributed using the projected unit credit method. If the employee contributions vary according to the number of years of service, then the calculation and distribution is required to be made using the projected unit credit method.

The amendment – 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 July 2014.

This amendment has no material 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 held 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 000's 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 deferred tax asset relating to tax losses carried forward applies in full to the British subsidiary.

In Germany, as a precaution no deferred tax assets arising from tax losses carried forward were taken into account any longer on the basis of the Company's planning calculations.

(b) Trade receivables

In the context of specific valuation adjustments, the probability of payments being received was estimated.

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

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

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

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

(g) Anticipated losses from projects
In order to ensure that impending losses arising from project transactions are recognised 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 from 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

SHAREHOLDINGS

a) Shares held directly	**Shares*** in per cent
Höft & Wessel Traffic Computer Systems GmbH, Hannover (non-operating)	100
Skeye Partner Support Center GmbH, Leipzig	100
Metric Group Holdings Ltd. (MGHL), Swindon (United Kingdom)	100
b) Shares held indirectly (via MGHL)	
Metric Group Ltd. (MGL), Swindon (United Kingdom)	100
c) Shares held indirectly (via MGL)	
Metric Group Inc., New Jersey (USA)	100

* *No changes were recorded concerning the shareholdings year-on-year.*

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. A value impairment will prevail where there is objective proof of one or several reasons for negative impacts on future payments received on the asset in question. If a receivable is considered as probably uncollectible, appropriate valuation adjustments are made to take this into account. Cash and cash equivalents including cash accounts and current deposits with credit institutions have a residual lifetime of up to three months at the time of recognition and are valued at amortised cost of acquisition.

Trade receivables as well as other non-current receivables are measured at fair value at the time of receipt, plus possible transaction costs involved. Upon first recognition, receivables are measured at amortised cost, applying the effective interest rate, less impairments. Impairment charges in the form of specific valuation adjustments 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 as well as trade payables as well as other liabilities are measured using the effective interest method on principle at amortised cost of acquisition. First-time recognition is made at fair value less transaction costs.

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 deploys 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 mentioned, 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, in contrast, they are negative, this will produce financial liabilities. At the time of realisation of the underlying transactions hedged, the reversal of the hedge transactions is assigned to the item of the statement of overall results in which the underlying transaction is recognised.

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

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

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

Intangible assets as well as property, plant & equipment

(a) Recognition and valuation

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

(b) Depreciation and amortisation

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

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

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

(c) Research and development

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

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

- to the extent that the costs can be determined with certainty,
- the development is technically and commercially feasible and the generation of future economic benefits is probable,
- adequate resources are available and
- the 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 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 business segments Höft & Wessel AG as well as Metric correspond to the definition of 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 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 in relation to the material assumptions. 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

Defined contribution and defined benefit plans are in place for active and former employees of the Höft & Wessel Group and their surviving dependants. In the case of a defined contribution plan, fixed payment amounts are made to external pension funds per period and recognised as current expenses under personnel expenditure. This refers to a benefit that is paid as a pension on retirement from the Company. There is no obligation to make any further payments beyond these defined benefits.

(b) Defined benefit pension plan

The evaluation of defined benefit plans is based on the projected unit credit method in accordance with IAS 19). In the case of this form of pension commitment, the evaluation is made based on the cash value of already vested pension entitlements, taking account of the anticipated wage and salary increases as well as pension trends forecast. In addition to calculating the cash value of vested pension entitlements and similar obligations, the fair values of the plan assets are likewise newly measured. The revaluation effects arising in the process – which used to be referred to as actuarial losses or profits in the past – arise inter alia from irregularities in risk patterns (e.g. more or fewer cases of invalidity or death than expected on the basis of the calculations used) or from changes in calculation parameters. The evaluation for defined benefit plans is defined by means of an external actuarial expert opinion. Due to the change in the standard, the corridor method used in the past has been dispensed with, and actuarial profits and losses are now included under revenue reserves within the scope of equity, with no impact on profit or loss.

Remuneration to members of management bodies

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

Share-based remuneration

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

Provisions

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

Deferred liabilities

Accrued/deferred liabilities for personnel expenses, outstanding invoices received and other provisions 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 liabilities", are reported under the item "Short-term liabilities". Liabilities in connection with income taxes are reported under the item "Current income tax liabilities".

Revenue recognition

(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 an ancillary element 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. The Company recognises order costs as soon as they are incurred. In contrast, it books expected losses 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 grants are required to be repaid if the projects subsidised are not carried out.

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.

Cash flow statement

The cash flow statement 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. Transactions between segments are billed at terms and prices in conformity with those prevailing on the market.

Market price measurements

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

(a) Trade receivables

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

(b) Share-based remuneration

When granting stock options, the market price is measured by means of a Monte Carlo simulation within the scope of an externally commissioned expert valuation. In the interests of a long-term procedure according to objective criteria, volatilities and correlations are derived from historic values. To the extent that any other specific stipulations were made, these are described in the relevant notes.

SEGMENT REPORTING

1 January – 31 December 2013 in EUR thousands	Höft & Wessel AG	Metric	Total
External sales revenues	60,046	20,675	80,721
Sales revenues between segments	(250)	(652)	(902)
Segment revenues	**59,796**	**20,023**	**79,819**
Operating results (EBT)	(966)	652	(314)
Earnings before taxes (EBT)	11,696	338	12,034
Financial income	13,479	0	13,479
Financial expenses	(817)	(314)	(1,131)
Scheduled depreciation and amortisation	(1,550)	(1,191)	(2,741)
Assets	34,090	14,982	49,072
Additions to non-current assets	1,803	994	2,797
Liabilities	29,197	16,045	45,242

4 SEGMENT REPORTING

The Group is engaged in the following segments:

» Höft & Wessel AG
ticketing and telematics for public commuter transport as well as mobile terminals and POS system

» Metric
systems for parking space management and services rendered within the scope of full-service agreements

Moreover, the costs of the holding function and the stock exchange listing are reported under the Höft & Wessel AG segment.

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

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 division Höft & Wessel AG were allocated to the parent company and, therefore, to Germany, while those of the Metric division 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.

SEGMENT REPORTING

1 January – 31 December 2012, adjusted in EUR thousands	**Höft & Wessel AG**	**Metric**	**Total**
External sales revenues	58,668	21,017	79,685
Sales revenues between segments	(212)	(598)	(810)
Segment revenues	**58,456**	**20,419**	**78,875**
Operating results (EBIT)	(10,471)	196	(10,275)
Earnings before taxes (EBT)	(12,642)	(226)	(12,868)
Financial income	1	0	1
Financial expenses	(2,172)	(422)	(2,594)
Scheduled depreciation and amortisation	(1,697)	(1,297)	(2,994)
Assets	27,964	16,158	44,122
Additions to non-current assets	1,042	1,227	2,269
Liabilities	37,958	16,661	54,619

5 INTANGIBLE ASSETS

Development activities

Development costs amounting to EUR 4,943 k (previous year: EUR 5,125 k) were recognised directly as expenditure. Expenses on research amounted to EUR 0 k in the fiscal year (previous year: EUR 24 k). Depreciation and amortisation include EUR 0 k (previous year: EUR 91 k) in impairment charges. In 2012, impairment charges amounting to EUR 91 k were due to necessary depreciation following the impairment test carried out on the business segment Höft & Wessel AG. The share of borrowing costs to be capitalised amounts to EUR 38 k (previous year: EUR 20 k). The financing cost rate used in determining third-party borrowing costs capable of being capitalised amounts to 6.7 per cent (previous year: 6.0 per cent).

Impairment testing

The triggering event for execution of an impairment test as contemplated by IAS 36 for the Höft & Wessel AG and Metric segments as a cash-generating unit led to no necessary impairment.

INTANGIBLE ASSETS

in EUR thousands	Goodwill	Software	Development activities	Total
Status: 1 January 2012				
Acquisition/manufacturing cost	24,362	1,492	36,121	61,975
Accumulated depreciation	24,362	1,418	30,554	56,334
Carrying amount	0	74	5,567	5,641
Net development 2012				
Carrying amount	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
Impairment charges	–	–	91	91
Transfers	–	13	–	13
Currency translation difference	–	–	62	62
Carrying amount	0	193	4,878	5,071
Status: 31 December 2012				
Acquisition/manufacturing cost	24,644	1,657	37,368	63,669
Accumulated depreciation	24,644	1,464	32,490	58,598
Carrying amount	0	193	4,878	5,071
Net development 2013				
Carrying amount	0	193	4,878	5,071
Additions from internal development activities	–	–	1,265	1,265
Additions from separate acquisitions	–	100	242	342
Depreciation and amortisation	–	71	2,003	2,074
Currency translation difference	–	–	(68)	(68)
Carrying amount	0	222	4,314	4,536
Status: 31 December 2013				
Acquisition/manufacturing cost	24,346	1,758	32,476	58,580
Accumulated depreciation	24,346	1,536	28,162	54,044
Carrying amount	0	222	4,314	4,536

The recoverable amount is determined on the basis of fair value less the costs of sale. The discount rate applied came to 9.5 per cent each (previous year: 12.0 per cent for Metric and 9.5 per cent for Höft & Wessel AG).

A change in the assumption of the WACC (by one percentage point) as well as in the growth rate (by one percentage point) does not lead to any necessary depreciation either.

TANGIBLE ASSETS

in EUR thousands	Land and buildings	Other equipment, furniture and fixtures	Assets under construction	Total
Status: 1 January 2012				
Acquisition/manufacturing cost	922	16,993	13	17,928
Accumulated depreciation	807	15,066	0	15,873
Carrying amount	115	1,927	13	2,055
Net development 2012				
Carrying amount	115	1,927	13	2,055
Additions	–	484	149	633
Depreciation and amortisation	53	660	–	713
Disposals	–	1	–	1
Transfers	–	–	(13)	(13)
Currency translation differences	3	22	–	25
Carrying amount	65	1,772	149	1,986
Status: 31 December 2012				
Acquisition/manufacturing cost	942	17,288	149	18,379
Accumulated depreciation	877	15,516	0	16,393
Carrying amount	65	1,772	149	1,986
Net development 2013				
Carrying amount	65	1,772	149	1,986
Additions	–	601	588	1,189
Depreciation and amortisation	51	616	–	667
Transfers	298	(149)	(149)	0
Currency translation differences	(10)	(20)	–	(30)
Carrying amount	302	1,588	588	2,478
Status: 31 December 2013				
Acquisition/manufacturing cost	914	17,567	588	19,069
Accumulated depreciation	612	15,979	0	16,591
Carrying amount	302	1,588	588	2,478

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 2013 came to EUR 0 k (previous year: EUR 17 k).

Impairment testing
The impairment test for the business segments Höft & Wessel AG and Metric (also see Note 5) in the field of property, plant and equipment did not lead to any necessary impairment charges during the financial year (previous year: EUR 0 k).

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

7 DEFERRED TAX ASSETS AND TAX LIABILITIES

Deferred tax assets represent the foreseeable income tax relief arising from limited differences between recognition of assets and liabilities on the balance sheets in accordance with IFRS and the tax balance sheet values according to local provisions of tax law.

Deferred tax liabilities represent the foreseeable income tax burden arising from limited differences between recognition of assets and liabilities on the balance sheets in accordance with IFRS and the tax balance sheet values according to local provisions of tax law.

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. For the British Group member companies, the tax rate amounts to 20.0 per cent (previous year: 24.5 per cent).

Taking account of tax planning statements, no deferred taxes were recognised on tax losses carried forward by the English Group entities amounting to EUR 7,487 k (previous year: EUR 6,711 k). Moreover, there still are losses carried forward in Germany. The remaining corporation and trade tax losses carried forward following the change in shareholdership as at 31 December 2013 amount to EUR 13,701 k and EUR 13,964 k, with a final legal assessment of the remaining losses carried forward is still outstanding. Moreover, deferred tax assets arising from temporary differences amounting to EUR 191 k in Germany were not taken into account.

TAX ASSETS/LIABILITIES

	Tax assets		Tax liabilities	
in EUR thousands	**2013**	**2012**	**2013**	**2012**
Development activities	–	–	(1,227)	(1,422)
Property, plant & equipment	37	94	(2)	(5)
Receivables and other assets	10	4	(4,273)	(22)
Provisions	2,265	645	–	–
Liabilities	–	5	–	–
Benefits from tax losses carried forward	1,119	1,430	–	–
Adjustments re: IAS 19	–	2,032	–	–
	3,431	**4,210**	**(5,502)**	**(1,449)**
Balance	(554)	(612)	554	612
Net tax assets/liabilities	**2,877**	**3,598**	**(4,948)**	**(837)**

In the previous year, the deferred tax asset relating to tax losses carried forward applied in full to the British subsidiary. In Germany, no deferred tax assets arising from tax losses carried forward were taken into account on the basis of the Company's planning calculations.

The effects on profit and loss of the change in tax assets and liabilities were fully taken into account in the consolidated profit and loss statement. Deferred taxes of – EUR 184 k (previous year: EUR 220 k) were recorded on amounts recognised under other comprehensive income owing to actuarial gains and losses within pension reserves.

The reversal of deferred tax assets amounting to EUR 1,038 k and deferred tax liabilities of EUR 4,273 k is expected within twelve months of the balance sheet date.

8 INVENTORIES

The total amount of deductions came to EUR 5,778 k (previous year: EUR 7,457 k). For the financial year, value write-downs amounting to EUR 1,411 k (previous year: EUR 824 k) were recognised. The cost of materials to be allocated to sales revenues totalled EUR 35,817 k (previous year: EUR 41,982 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 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 67 k (previous year: EUR 117 k) were reversed. Moreover, valuation adjustments amounting to EUR 356 k (previous year: EUR 396 k) were added. No other value deductions or write-ups were made. The volume of specific valuation adjustments decreased by EUR 74 k during the financial year, thus amounting to EUR 575 k (previous year: EUR 649 k).

At the reference date, receivables in a total amount of EUR 1,098 k were sold within the scope of a factoring arrangement (previous year: EUR 967 k). The Group's sum total of credit and currency risks is explained in Note (21). During the financial year, order revenues amounting to EUR 9,611 k were recorded (previous year: EUR 8,222 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 9,611 k (EUR 18,801 k). The advance payments for these projects amounted to EUR 2,900 k (previous year: EUR 15,523 k).

INVENTORIES

in EUR thousands	2013	2012
Raw materials, supplies and operating supplies	5,017	6,136
Work and services in progress	2,395	2,973
Finished goods and trading stock	6,308	7,363
Total	**13,720**	**16,472**

Content

Projects not finalised as at the balance sheet date, where the capitalised order costs exceed the advance payments received (debit balance), as well as those where the advance payments received exceed the order costs (credit balance). Projects with a debit balance amounted to EUR 6,868 k as at the balance sheet date (previous year: EUR 4,132 k). These are reported in the category of trade receivables. Projects with a credit balance amounted to -EUR 158 k as at the balance sheet date (previous year: –EUR 854 k). These are reported under Other liabilities.

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 10 per cent is applicable (previous year: 10 per cent). In this context, this reflects the maximum possible risk of loss arising from factoring transactions (financial year: EUR 110 k.; previous year: EUR 104 k).

The receivables from customers sold to the factoring company 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 1,169 k (previous year: EUR 829 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 below)

12 EQUITY

In accordance with Section 92 (1) of the German Companies Act (Aktiengesetz – AktG), at the Extraordinary General Meeting of 18 July 2013 the Board of Management reported the loss of half of the Company's common stock.

Next, a resolution was adopted at the Extraordinary General meeting to reduce the Company's common stock as part of a due and proper process for a transfer to reserves. The Company's share capital, amounting to EUR 8,497,490.00, divided up into 8,497,490 no-par-value common bearer shares (no-par-value shares) with a prorated amount of the share capital of EUR 1.00 per share, will be reduced by way of a capital reduction in the ordinary course of proceedings 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, namely for the purpose of adding the amount of the reduction to the capital reserve.

Article 3 (1) of the Company's articles of association were reworded accordingly, with the Company's common stock amounting to EUR 1,699,498.00 as at 4 September 2013. It is divided up into 1,699,498 no-par-value shares. The shares are issued to bearer.

The reduction of the share capital in a ratio of 5:1 was executed with full legal effect following the entry in the Commercial Register of the Local Court of Hannover on 4 September 2013.

The Company's share capital reduced to EUR 1,699,498.00 in accordance with the resolution adopted was increased against cash deposits in a ratio of 1 : 5 by EUR 8,497,490.00 by issuing 8,497,490 new no-par-value common bearer shares (no-par-value shares) with a prorated amount of the share capital of EUR 1.00 per no-par-value share, to reach EUR 10,196,988.00.

OTHER FINANCIAL ASSETS

in EUR thousands	2013	2012
Cash collateral for foreign guarantees	325	322
Receivables from factoring companies	292	121
Other	256	405
Total	**873**	**848**

The increase in the share capital in a ratio of 1:5 was executed with full legal effect following the entry in the Commercial Register of the Local Court of Hannover on 8 October 2013.

The share capital 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 8 per cent (adjusted as at 31 December 2012: –24 per cent). The Company did not pay out a dividend in the financial year, as had already been the case a year earlier.

Authorised capital
As at 31 December 2013, the Company's authorised capital totalled EUR 4,248,745.00 in nominal terms.

The following authorisations exist for the purpose of increasing the share capital:

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 share capital 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. To the extent that the Company issued convertible bonds and the subscription right was excluded in accordance with Section 186 (3) sentence 4 of the German Companies Act (Aktiengesetz – AktG), the aforementioned amount of EUR 849,749.00 will be reduced further by the pro-rata portion of the share capital of those shares to which the bearers of convertible bonds are or were entitled to subscribe. 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 in kind.

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

On 7 January 2014, the Board of Management adopted a resolution, subject to the approval of the Supervisory Board, to increase the Company's share capital with partial use of the authorised capital, from EUR 10,196,988.00 by an amount of EUR 849.749.00 to EUR 11,046,737.00 against a cash deposit by issuing 849,749 new no-par-value bearer shares with a notional share of the share capital amounting to EUR 1.00 per share. The new shares are eligible for dividends as of 1 January 2014. The shareholders' subscription right is excluded. The company Special Technology Holding GmbH (formerly trading as: Special Purpose Zwei Holding GmbH), a subsidiary of Droege International Group AG, is permitted to subscribe to the new shares. The issue price of the new shares is not significantly lower than the Company's share price on the stock exchange.

In a resolution adopted on 8 January 2014, the Supervisory Board of Höft & Wessel AG approved this capital measure. In executing the Supervisory Board's right to make adjustments in accordance with Article 19 of the Company's articles of association, the versions of Article 3 (1) and (2) of the Company's articles were amended to take account of the capital increase.

The increase in the authorised capital was executed with full legal effect following the entry in the Commercial Register of the Local Court of Hannover on 6 February 2014.

Contingent capital
As at 31.12.2013, 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 capital 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 Article 3 of the articles of association in accordance with the respective utilisation of the contingent capital.

The Company's share capital 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 share capital is increased on a contingent basis by up to EUR 600,000.00 by issuing 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 Article 3 of the articles of association in accordance with the respective utilisation of the contingent capital.

The share capital is increased on a contingent basis by up to EUR 1.5 million by issuing up to 1.5 million no-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 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
Within the scope of the Stock Option Plan 2005, during the financial year a total of 50,000 subscription rights were issued to the Board of Management in two tranches of 30,000 and 20,000 of such subscription rights. Following the capital reduction carried out during the financial year as at 4 September 2013 and the capital increase as at 8 October 2013, these subscription rights now ultimately carry an entitlement to the acquisition of a total of 10,000 shares. 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 10 per cent of its share capital 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.

Capital reserves
Capital reserves increased by EUR 4,754 k year-on-year (previous year: increase by EUR 4 k). An amount of EUR 6,798 k was involved in the resolution adopted at the Extraordinary General Meeting of 18 July 2013 to carry out a capital reduction, and for this reason in connection the capital increase cost of EUR 2,047 k, and the amount of EUR 3 k (previous year: EUR 4 k) was the equivalent of the stock options issued in the past as part of personnel expenditure.

Accumulated retained earnings/losses
Accumulated retained losses decreased by EUR 7,997 k year-on-year (previous year: increase by EUR 13,756 k). This refers to the profit/loss for the year of EUR 7,541 k (previous year: EUR 12,698 k) carried over to the new accounts as well as the adjustments in accordance with IAS 19 (financial year: EUR 456; previous year: EUR 1,058) to be reported in the Company's revenue reserves in accordance with the new provisions of the standard.

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 7,541 k (previous year: -EUR 12,698 k) as well as the weighted average number of common shares issued. As at the balance-sheet date, these amounted to 10,196,988 shares, with the weighted average amounting to 9,347,239 shares.

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, a member of the Board of Management received subscription rights amounting to 50,000 of such rights. Following the capital reduction carried out in the financial year, the subsequent capital increase carries an entitlement to acquire 10,000 shares.

The 200,000 stock options granted to a former member of the Board of Management in the past meanwhile carry an entitlement to the acquisition of 40,000 shares owing to the capital measures carried out in the financial year.

In the previous year, 10,000 stock options had been cancelled when an employee left the Company.

Accordingly, the total dilutive number of shares amounted to 50,000 shares as at the balance sheet date (previous year: 200,000 shares). The weighted average of these amounts to 125,000 shares. Accordingly, the total number of dilutive shares amounts to 9,472,239 shares (previous year: 8,497,490 shares).

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).

Following a waiver of receivables by the creditor banks and the successful execution of the capital measures, the Group now has a total of EUR 8.5 million in secured and uncollateralised lines of credit at its disposal (previous year: credit line of EUR 25.2 million). Past guarantee lines, loan and current account lines were consolidated in the process.

As part of the waiver of receivables, receivables were assigned to a subsidiary of Höft & Wessel AG.

With regard to the remaining credit liabilities, after the waiver of receivables the following terms and conditions exclusively apply:

» The residual term to maturity will end as at 31 December 2018.
» The agreed interest rate is geared to loans taken out in euros at the 3-month EURIBOR interest rate plus a margin and for loans taken out in other currencies, a suitable reference interest rate applicable to the relevant currency plus a margin.
» No penalty was incurred for premature compensation on account of the adjustment to the terms and conditions.
» No collateral is to be provided with regard to the credit liability beyond the items of collateral in existence as at 8 April 2013. An extension and amendment to the purpose of the existing items of collateral is possible, however.

The agreements contain no financial covenants.

In the financial year, within the scope of a credit agreement entered into for an indefinite term Höft & Wessel AG arranged non-accessory collateral with the remaining banks for the entire inventory of raw materials and manufacturing supplies as well as semi-finished and finished goods at the location: Rotenburger Strasse 20 in Hannover.

EARNINGS PER SHARE

in EUR thousands	Basic 2013	Basic 2012 reported	Basic 2012 adjusted	Diluted 2013	Diluted 2012 reported	Diluted 2012 adjusted
Weighted average number of shares issued	9,347	8,497	8,497	9,472	8,497	8,497
Profit/loss for period assignable to shareholders	7,541	(12,983)	(12,698)	7,541	(12,983)	(12,698)
Earnings per share (in EUR)	**0.81**	**(1.53)**	**(1.49)**	**0.80**	**(1.53)**	**(1.49)**

These items of collateral primarily serve to secure all existing, future and contingent claims to which the banks and all of its domestic and foreign branch offices may be entitled on the basis of the loans listed in the pooling agreement.

In addition, the following lines of credit are available to the Company:
» EUR 5.25 million in pure guarantee lines
  (previous year: EUR 3.9 million).
» EUR 2.0 million factoring line
  (previous year: EUR 5.0 million).
  Interest rates 2013: 2.21 % – 2,27 %
  (previous year: 2.21 % – 3.12 %).

The previous year's interest on the uncollateralised or mixed current account and guarantee lines as well as for the redemption loan ranged in an interval between 2.30 % and 9.38 %.

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. Financial bottlenecks are managed by the Group's stricter payment reminder and dunning system, optimised payment flows as well as reinforced expenditure controls. In addition the Höft & Wessel Group has approved lines of credit at its disposal.

TERMS AND CONDITIONS/REPAYMENT SCHEDULE OF FINANCIAL LIABILITIES

in EUR thousands	Due	Carrying amount 2013	Carrying amount 2012
Collateralised liabilities to banks	2018	7,439	4,777
Uncollateralised liabilities to banks	2013	–	18,790
Financial leasing liabilities	2013	–	17
Trade payables	2014	10,361	2,871
Personnel-related, deferred liabilities	2014	1,247	1,114
Other financial liabilities	2014 – 2018	2,940	4,385

CURRENT INTEREST-BEARING FINANCIAL LIABILITIES

in EUR thousands	2013	2012
Uncollateralised liabilities to banks	–	18,790
Collateralised liabilities to banks	–	4,777
Financial leasing liabilities	–	17
Total	**0**	**23,584**

NON-CURRENT INTEREST-BEARING FINANCIAL LIABILITIES

in EUR thousands	2013	2012
Uncollateralised liabilities to banks	–	–
Collateralised liabilities to banks	7,439	–
Financial leasing liabilities	–	–
Total	**7,439**	**0**

OVERVIEW OF REPAYMENT COMMITMENTS ARISING FROM FINANCIAL LEASING LIABILITIES

in EUR thousands	Minimum leasing payments 2013	Interest share 2013	Redemption share 2013	Minimum leasing payments 2012	Interest share 2012	Redemption share 2012
Earlier than in one year	–	–	–	22	5	17
Between one and five years	–	–	–	–	–	–
In more than five years	–	–	–	–	–	–
Total	**0**	**0**	**0**	**22**	**5**	**17**

MATURITIES OF FINANCIAL LIABILITIES AS AT 31/12/2013

in EUR thousands	Carrying amount	In up to 6 months	In 6 to 12 months	In 12 to 24 months	In over 24 months
Non-derivative financial instruments					
Collateralised bank loans	7,439	–	–	–	7,439
Uncollateralised liabilities to banks	–	–	–	–	–
Financial leasing liabilities	–	–	–	–	–
Trade payables	10,361	10,361	–	–	–
Personnel-related, deferred liabilities	1,247	1,247	–	–	–
Other financial liabilities	2,024	2,024	–	–	–
Total	**21,071**	**13,632**	**0**	**0**	**7,439**
Financial derivatives					
Payer swap for long-term interest hedges	916	122	121	243	430
Forward exchange transactions	–	–	–	–	–
Total	**916**	**122**	**121**	**243**	**430**

MATURITIES OF FINANCIAL LIABILITIES AS AT 31/12/2012

in EUR thousands	Carrying amount	In up to 6 months	In 6 to 12 months	In 12 to 24 months	In over 24 months
Non-derivative financial instruments					
Collateralised bank loans	4,777	4,777	–	–	–
Uncollateralised liabilities to banks	18,790	18,790	–	–	–
Financial leasing liabilities	17	8	9	–	–
Trade payables	2,871	2,871	–	–	–
Personnel-related, deferred liabilities	1,114	1,114	–	–	–
Other financial liabilities	3,135	3,135	–	–	–
Total	**30,704**	**30,695**	**9**	**0**	**0**
Financial derivatives					
Payer swap for long-term interest hedges	1,109	126	126	252	605
Forward exchange transactions	141	–	141	–	–
Total	**1,250**	**126**	**267**	**252**	**605**

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 2013.

The credit lines made available were almost completely utilised within the financial year. In the preceding year, the free lines of credit amounted to at least EUR 2.2 million.

Risk concentration

As a result of the substantially deteriorated asset, financial and earnings position in 2012, the financing banks were entitled to a right to special termination at the time, which they waived for the time being within the scope of standstill arrangements. The maintenance of the standstill agreement constituted the prerequisite for maintaining the Company's business operations at the time.

During the financial year, Höft & Wessel AG succeeded in reducing the level of cluster risks thanks to successfully executed capital, streamlining and restructuring measures and in agreeing a long-term, sustainable financing concept with the creditor banks.

The liabilities to banks are current account lines that can be repaid at any time. Within the scope of the restructuring, a standard final maturity until 2018 was agreed with the credit institutions in question. For this reason, the Company reports these liabilities in the consolidated balance sheet as well as in the notes in the category of non-current liabilities.

15 OTHER FINANCIAL LIABILITIES

(See below)

16 SHARE-BASED REMUNERATION

The stock options granted to the members of the Board of Management and Key Management executives fall within the scope of application of IFRS 2 and "IFRS 2 – Share-based payment" as so-called share-based remuneration transactions settled with the use of equity capital instruments. The fair value of these remuneration transactions is to be distributed pro rata across the years of service and recognised as personnel expenditure and taken into account accordingly in equity.

Within the scope of the stock option programme 2005, a former 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 same programme in the year 2010. In the financial year 2013, 50,000 options were allotted to the Board of Management in tranches of 30,000 and 20,000 units within the scope of the Stock Option Programme 2005.

Owing to the capital measures executed during the financial year, the 200,000 options granted in the past now carry an entitlement to the acquisition of 40,000 shares. The stock options granted to the Board of Management in the financial year entitle their holders to acquire 10,000 after the capital measures effected. The capital reduction took place on 4 September 2013, and the capital increase as at 8 October 2013.

The options of a member of the managerial staff, totalling 10,000, had already been forfeited in the previous year when he left the Company.

OTHER CURRENT FINANCIAL LIABILITIES

in EUR thousands	2013	2012
Carried as liabilities in accordance with IAS 11	158	854
Liabilities arising from derivative financial instruments (current)	243	393
Other provisions	706	504
Provisions for outstanding invoices	565	941
Other	379	836
Total	**2,051**	**3,528**

DESCRIPTION OF VALUATION METHOD FOR THE STOCK OPTION PLAN 2005

	2013	2012
Expected volatility Höft & Wessel	77.00 %	–
Expected volatility of Prime All-Share index	22.00 %	–
Correlation between the share and the index	7.00 %	–
Expected dividend payment	0.00 %	–
Present value per right as per options of 8 April 2013	1.03 EUR	–
Present value per right as per options of 30 September 2013	1.62 EUR	–
Fair value as per options as at 8 April 2013	6,180.00 EUR	–
Fair value as per options as at 30 September 2013	6,480.00 EUR	–
Share price on 8 April 2013	1.74 EUR	–
Share price on 30 September 2013	2.57 EUR	–
Strike price of the options as at 8 April 2013	9.37 EUR	–
Strike price of the options as at 30 September 2013	10.82 EUR	–
Maturity of options	9 years	–
Risk-free interest rate	0.34 %	–

FURTHER PARTICULARS ON THE STOCK OPTION PLAN 2005

	granted to Board of Management		granted to managerial staff members	
in units	**2013**	**2012**	**2013**	**2012**
Options outstanding at beginning of period	200,000	200,000	0	10,000
Options granted[1]	50,000	–	–	–
Options exercised	–	–	–	–
Options expired	–	–	–	–
Options forfeited	–	–	–	10,000
Changes through capital measures	(200,000)	–	–	–
Options outstanding at end of period	**50,000**	**200,000**	**0**	**0**

Minimum share price for reaching the exercise hurdle on the balance sheet date for	**2013**	**2012**
1/3 of the issue from 2006: 4,000 (previous year: 20,000) options[2]	34.29	6.49
1/3 of the issue from 2007: 4,000 (previous year: 20,000) options[2]	39.63	7.47
1/3 of the issue from 2008: 5,333 (previous year: 26,666) options[2]	36.53	6.86

in EUR	**2013**	**2012**
Weighted average of residual contractual term (in years)	3.83	3.68
Average strike price of options outstanding at the beginning of the period	4.24	4.22
Average strike price of options outstanding at the end of the period	22.01	4.24
Average strike price of options forfeited	–	3.78
Average strike price of newly granted options	9.95	–

1) The 50,000 options granted to the Board of Management in the financial year 2013 carry an entitlement to acquire a total of 10,000 stock options after the capital measures effected.

2) The 200,000 options granted to a former member of the Board of Management in previous years carry an entitlement for the acquisition of a total of 40,000 options. Accordingly, the information on the options eligible for exercise changed (decreased) per tranche as at the effective date.

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 per cent 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.

Furthermore, a contractually agreed adjustment is made to the options granted or their strike price in the event of a change in the number of shares issued by the Company, a change in the nominal amount per share and the issue of shares as part of a capital increase if the issuing amount falls below the share price at a certain point in time (dilution surcharge).

The average strike prices listed in the table were calculated as follows:

Strike price of the tranches calculated for the years 2006 to 2008, 2010 and 2013, 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, 2010 and 2013, reduced by the dilution surcharge.

The bandwidth of strike prices for the options outstanding at the end of the reporting period ranged between EUR 9.37 for the options granted in 2006 and EUR 23.20 for the options granted in 2008.

The term of the subscription rights is nine years, with a two-year waiting period. The subscription rights are redeemed by the issuance of shares. As part of the evaluations, the earliest possible date of execution was assumed; accordingly, the expected lifetime is approximately five years. A time window of five years has been defined for the purpose of measuring volatilities. The options allocated in the financial year are within the two-year holding period. None of these were eligible for being exercised.

During the financial year, the total expenditure on share-based remuneration came to EUR 3 k (previous year: EUR 4 k). This is attributable in full to remuneration paid in the form of equity instruments.

17 PROVISIONS FOR SERVICES AFTER TERMINATION OF THE EMPLOYMENT RELATIONSHIP

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 1.5 per cent (previous year: 1.39 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 936 k in the financial year (previous year: EUR 1,186 k). Contribution payments of a similar extent are planned to be made for fiscal 2014.

The Höft & Wessel Group has obligations arising from defined benefit pension commitments in Germany and the United Kingdom.

In Germany, there is only an obligation of this kind to a single pensioner. In addition to this old-age pension, an assurance was given to provide for dependant survivors. The pension obligation thus is subject to the longevity risk. The Company is under a statutory obligation to review the necessity of a pension adjustment every three years, based on the development of the consumer price index or the salary of comparable employee groups. The pension obligation thus is also subject to the risk of inflation.

In the United Kingdom, there are commitments that are dependent both on a service time and final salary as well as on a contribution commitment involving minimum benefits ("Money Purchase Plan"). Both assurances were exclusively given for new recruitments, and no further vested entitlement can be earned in this connection. The benefit commitment grants old-age and surviving dependants' pension with a fixed pension adjustment of 3.0 per cent for vested entitlements acquired between 5 April 1988 and 6 April 1997. The extent to which these claims can be increased as vested entitlements is ultimately subject to the decision of the trustee and the actuary of the pension plan, The provisions in the balance sheet are shown as follows:

PENSION RESERVES

in EUR thousands	2013	2012 adjusted
Cash value of funded obligations	14,823	17,015
Fair value of plan assets	(7,284)	(8,484)
Deficit in plans funded	**7,539**	**8,531**
Cash value of unfunded obligations	387	404
Total	**7,926**	**8,935**

The defined benefit obligation developed as follows:

DEFINED BENEFIT OBLIGATION

in EUR thousands	Cash value of the obligation Germany	Cash value of the obligation United Kingdom	Fair value of plan assets United Kingdom	Provision Total
1 January 2012 (adjusted)	**377**	**16,503**	**(9,150)**	**7,730**
Current service costs	–	–	–	0
Interest expense/income	16	745	(418)	343
Revaluations				
– from plan assets	–	–	(170)	(170)
– from the change in demographic assumptions	–	–	–	0
– from the change in financial assumptions	41	1	–	42
– from experience-related adjustments	10	1,397	–	1,407
Total	**51**	**1,398**	**(170)**	**1,279**
Currency translation differences	–	374	(212)	162
Employer contributions	–	–	(539)	(539)
Benefits paid	(40)	(2,005)	2,005	(40)
31 December 2012 (adjusted)	**404**	**17,015**	**(8,484)**	**8,935**
1 January 2013	**404**	**17,015**	**(8,484)**	**8,935**
Current service costs	–	–	–	0
Interest expense/income	12	669	(331)	350
Revaluations				
– from plan assets	–	–	(293)	(293)
– from the change in demographic assumptions	–	(863)	–	(863)
– from the change in financial assumptions	–	247	–	247
– from experience-related adjustments	11	258	–	269
Total	**11**	**(358)**	**(293)**	**(640)**
Currency translation differences	–	(408)	195	(213)
Employer contributions	–	–	(466)	(466)
Benefits paid	(40)	(2,095)	2,095	(40)
31 December 2013	**387**	**14,823**	**(7,284)**	**7,926**

The Company has made the following actuarial assumptions:

ACTUARIAL ASSUMPTIONS

in per cent	2013 Germany	2013 United Kingdom	2012 Germany	2012 United Kingdom
Actuarial interest rate	3.00	4.40	3.00	4.50
Salary trend	–	–	–	–
Pension trend	1.00	3.00	1.00	3.00
Inflation	1.00	2.60	1.00	2.20

SENSITIVITIES – PENSION PLAN GERMANY

in per cent	Change in assumption by	Impacts on the obligation: increase in assumption	Impacts on the obligation: decrease in assumption
Actuarial interest rate	0.5	Reduction by 3.6	Increase by 3.8

SENSITIVITIES – PENSION PLAN UNITED KINGDOM

in per cent	Change in assumption by	Impacts on the obligation
Reduction in actuarial interest rate	0.1	Increase by 1.5
Extension of life expectancy	1.5	Increase by 2.3

The plan assets comprise investments in the following classes:

PLAN ASSETS PER MAIN CATEGORY

in per cent	2013	2012
Equities and structured investments	70	68
Gilts	5	5
Corporate bonds	10	12
Property	14	14
Cash	1	1
Total	**100**	**100**

Had the Company applied IAS 19 in its previous form, i.e. if it had continued to apply the corridor method, the values would have been as listed in the tables below (before possible tax effects):

PENSION PLAN GERMANY

in EUR thousands	IAS 19 o.f.
Provision as at 1 January 2013	315
Other P&L components	49
Components to be recognised with no impact on profit and loss	0
Provision as at 31 December 2013	335

taking account of the period of time between the assumed and the actual time of drawing a pension.

For part of the entitled beneficiaries, the Company took out pension insurance for payment of current pensions in order to hedge biometric risks (in particular, longevity). In the case of the contribution commitment with minimum benefits ("Money Purchase Plan"), provident capital is saved and can be converted into an old-age and surviving dependants pension on retirement. Accordingly, when converted into an annuity for life, this commitment is subject to the longevity risk. The minimum interest rate approved in this connection amounts to 3.0 per cent. Moreover, the trustees have an option to increase the pensions beyond that level. Appropriate assets are kept in a fund for both commitments. The assets contributed to the fund are subject to the investment risk as approx. 70 per cent were contributed in the form of equity capital instruments and other profit-earning investments and 30 per cent in low-risk investments such as corporate bonds and cash. As a result, a diversifi-cation is made concerning the type of investments and geographical regions.

The trustees are responsible for ensuring the membership contributions and other contributions continue to be paid.

The provisions of the "Pension Act" apply in the United Kingdom:
To settle any shortfalls, the employer will make additional contributions payable as part of a ten-year compensation programme that began to run on 29 November 2011. The contri-

PENSION PLAN UNITED KINGDOM

in GBP thousands	IAS 19 o.f.
Provision as at 1 January 2013	311
Net interest expense (or interest expense + expected interest income)	119
Other P&L components	490
Components to be recognised with no impact on profit and loss	0
Provision as at 31 December 2013	530

PROVISIONS

in EUR thousands	Status 01/01/2013	Consumption	Write-backs	Additions	Status 31/12/2013
Warranties	2,211	(1,192)	(334)	778	1,463
Subsequent costs and conventional penalties	3,032	(1,430)	(859)	980	1,723
Contingent loss provision	259	(101)	–	1,471	1,629
Total	**5,502**	**(2,723)**	**(1,193)**	**3,229**	**4,815**

NET RESULTS FROM VALUATION CATEGORIES (IFRS 7.20 [a])

	From interest	from subsequent valuation			2013	2012
in EUR thousands		at fair value	Currency translation	Valuation adjustment		
Loans and Receivables (LaR)	(41)	–	(10)	205	154	(210)
Financial Liabilities Measured at Amortised Cost (FLAC)	(1,082)	–	3	–	(1,079)	(1,474)
Financial Instruments Held for Trading FLHfT)	–	–	–	–	–	78
Total	**(1,123)**	**–**	**(7)**	**205**	**(925)**	**(1,606)**

butions made within the scope of this programme are subject to regular reviews. Moreover, the employer bears the administrative costs and expenses of asset management.

For the obligation in Germany, the Heubeck Mortality Tables 2005G were used as a basis. In evaluating the obligations in the United Kingdom, the PNMA00 was used for men (adjusted by 115 per cent) and the PNFA00 for women (adjusted by 110 per cent).

The weighted duration of the obligations amounts to 17 years.

The sensitivity of the obligations to changes in actuarial assumptions is shown on page 78. In this context, it should be noted that in Germany, only actuarial interest rate sensitivities apply.

The above sensitivities are based on the change of an assumption, whereas the remaining assumptions remain unchanged in each case. It should be noted in this context that there may be correlations between the individual assumptions. No adjustments were made with regard to the evaluation method.

For 2014, the Company expects contributions to the fund to be made to an extent of EUR 430 k.

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

CARRYING AMOUNTS, VALUATION APPROACHES AND FAIR VALUES BY VALUATION CATEGORIES

in EUR thousands	Valuation category according to IAS 39	Fair value hierarchy level IFRS 7.26	Carrying amount 31/12/2013
Assets			
Cash and cash equivalents	LaR	–	1,169
Trade receivables	LaR	–	22,876
Other financial assets	LaR	–	873
Derivatives without hedge relationship	FAHfT	2	–
Derivatives with hedge relationship	n.a.	2	–
Liabilities			
Trade payables	FLAC	–	10,361
Liabilities to banks	FLAC	–	7,439
Liabilities from leasing finance	n.a.	–	0
Other financial liabilities	FLAC	–	1,808
Derivative financial liabilities		–	
Derivatives without hedge relationship	FLHfT	2	916
Derivatives with hedge relationship	n.a.	2	–
Aggregrated with classes of measurements according to IAS 39:			
Loans and Receivables	(LaR)	–	24,918
Financial Asset Held for Trading	(FAHfT)	–	–
Financial Liabilities Measured at Amortised Cost	(FLAC)	–	19,608
Financial Liabilities Held for Trading	(FLHfT)	–	916

is estimated at 1.5 per cent of sales revenues, as in the previous year. Provisions for subsequent costs and conventional penalties 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 5 k (previous year: –EUR 6 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 5 k (previous year: –EUR 2 k).

19 TRADE PAYABLES

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

20 OTHER NON-FINANCIAL LIABILITIES

Other non-financial liabilities essentially comprise EUR 25 k in liabilities relating to value added taxes (previous year: EUR 740) and EUR 246 k in payroll taxes (previous year: EUR 295 k) as well as EUR 474 k in advance payments for subsidised projects (previous year: EUR 584 k), and EUR 285 k deferred rental payment.

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,

Recognition in balance sheet according to IAS 39						
Amortised cost	Fair value No impact on profit and loss	Fair value Recognised through profit and loss	Recognition in balance sheet according to IAS 17	Fair value 31/12/2013	Carrying amount 31/12/2012	Fair value 31/12/2012
1,169	–	–	–	1,169	829	829
22,876	–	–	–	22,876	14,574	14,574
873	–	–	–	873	848	848
–	–	–	–	–	–	–
–	–	–	–	–	–	–
10,361	–	–	–	10,361	2,871	2,871
7,439	–	–	–	7,439	23,567	23,567
–	–	–	–	0	17	22
1,808	–	–	–	1,808´	3,136	3,136
–	–	–	–	–	–	–
–	–	916	–	916	1,250	1,250
–	–	–	–	–	–	–
24,918	–	–	–	24,918	16,251	16,251
–	–	–	–	–	–	–
19,608	–	–	–	19,608	29,574	29,574
–	–	916	–	916	1,250	1,250

the amounts carried on the balance sheet approximately correspond to the relevant fair values. The fair value of financial liabilities to banks and financial liabilities incurred in leasing are measured as cash values of the payments associated with the liabilities in question. Financial derivatives without a hedge 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 7.26 are to be fully assigned to Level 2 (valuation model).

To calculate the market value (the selling price) of the interest rate swap, only observable market data are used (according to IFRS 13, this corresponds to the Level 2 parameters) in the valuation model. In the case of the transaction mentioned, for one thing these are the yield curves for calculating future interest payments (forward interest) and, for another, there are the discount rates obtained from the Reuters information service.

At the end of the reporting period, Höft & Wessel AG ascertains whether there are reasons for reclassification in or from a particular valuation category. A reclassification from Level 1 to Level 2 must be made if no listed prices are available any longer for the financial instrument in question, or if the level of trading activity has declined to such a sharp extent that no active market can be presumed to exist any longer. The converse situation applies to reclassifications from Level 2 and 3 to Level 1. A reclassification from Level 3 to Level 2 must take place if only observable input factors are included in the valuation. Conversely, a reclassification to Level 3 must be made as soon as non-observable input factors are included in the valuation.

In the financial year 2013, no reclassications were made between the valuation categories.

II. Risk management of financial instruments

Principles of risk management

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

Foreign currency risks

Strategy

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

Hedge measures

The implementation of strategy in the field of currency management is effected by means of current and non-current forward exchange transactions and/or simple currency options. 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 reporting year 2013 and in the preceding year no hedge accounting took place.

As at the balance sheet date, no forward exchange transactions were designated as hedge instruments within the framework of cash flow hedges. The term to maturity of a forward exchange transaction with a fair value amounting to EUR 828 k that no longer had an underlying transaction came to an end in the reporting year 2013.

Financial derivatives

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

Foreign currency exposure

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

Sensitivity analysis

IFRS 7 requires sensitivity analyses to be carried out to take account of market risks. These show what consequences hypothetical changes to relevant risk variables can have on earnings and equity. The periodic effects are determined by comparing the hypothetical changes to risk variables with the portfolio of financial instruments as at the balance sheet date. In the process, it is assumed that the portfolio as at the balance sheet date is indicative for the year as a whole and that all other variables, especially interest rates, remain constant. A depreciation of the currencies shown by 10 per cent against the euro as at 31 December would have reduced/increased the capital and profit/loss for the period by the amounts reflected in the Tables "Equity capital effect of sensitivities from foreign currency effects" and "Earnings effect of sensitivities from foreign currency effects". An appreciation of the relevant currencies by 10 per cent would have had the same effect, with the preceding plus and minus signs being reversed.

Risk concentration

In the field of foreign currency risks, there is a particular cluster risk 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 11.1 million (previous year: EUR 9.4 million) as well as in GBP of EUR 1.7 million (previous year: EUR 2.2 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 2013 an average of 67 per cent (previous year: 72 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 0 million as at the balance sheet date, were based on interest agreements at fixed interest rates (previous year: EUR 7.8 million). The remaining 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, in the previous year 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. 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 2013. Accordingly, the valuation effects as at the balance sheet date were recognised in net interest income by the Company. The fair value of the interest rate swap as at the balance sheet date amounted to – EUR 916 k. To this end, a contingent loss provision to the corresponding extent was set up as at 31 December 2013. The hedged interest rate originally amounted to 4.83 per cent p.a. The present value of the hedge transaction reversed with a negative impact on profit and loss amounted to – EUR 1,109 k as at the balance sheet date 2012. The Company set up a contingent loss provision in this context, amounting to EUR 1,109 k as at 31 December 2012.

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 2013 had turned out 100 basis points higher/lower, this would have resulted in a higher/lower expense of EUR 74 k (previous year: EUR 158 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 7,439 k (previous year: EUR 15,794 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.

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 325 k (previous year: EUR 321 k) was deposited for a guarantee line to be utilised by beneficiaries domiciled in countries outside Europe for a total of EUR 502 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. 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 13,540 k (previous year: EUR 7,636 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. As far as the development of valuation adjustments is concerned, 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 5 per cent of the receivables portfolio (previous year: 10 per cent). Furthermore, there are no geographical cluster 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 24,918 k (previous year: EUR 16,250 k).

VOLUME OF FOREIGN CURRENCY ITEMS AT NOMINAL VALUE

in EUR thousands		**31/12/2013**				**31/12/2012**
	USD	**CHF**	**GBP**	**USD**	**CHF**	**GBP**
Receivables from retail customers	376	359	594	152	203	400
Advance payments received	–	(894)	(499)	–	(15,381)	(520)
Liabilities to suppliers	(544)	(346)	(278)	(95)	(65)	(252)
Balance sheet exposure	**(168)**	**(881)**	**(183)**	**57**	**15,243**	**(372)**
Expected sales revenues	13	13,632	1,417	500	27,668	2,753
Expected purchases	(9,626)	(962)	(2,126)	(5,300)	(150)	(752)
Expected exposure	**(9,613)**	**12,670**	**(709)**	**(4,800)**	**27,518**	**2,001**
Forward exchange transactions	–	–	–	–	(1,000)	–
Net exposure	**(9,781)**	**11,789**	**(892)**	**(4,743)**	**11,275**	**1,629**

FINANCIAL DERIVATIVES

in EUR thousands	Fair Value 31/12/2013	Fair Value 31/12/2012
Assets		
Forward exchange transactions/currency swaps		
– without hedge relationship	–	–
– with hedge relationship	–	–
Liabilities		
Interest rate swaps		
– without hedge relationship	(916)	(1,109)
– in combination with cash flow hedges	–	–
Forward exchange transactions/currency swaps		
– without hedge relationship	–	(141)
– in combination with cash flow hedges	–	–

KEY CURRENCY TRANSLATION RATES

	Average exchange rate		Rate at reference date	
	2013	2012	2013	2012
Equivalent of 1 EUR/GBP	0.84921	0.81092	0.83640	0.81610
Equivalent of 1 EUR/USD	1.32806	1.28495	1.37830	1.31940
Equivalent of 1 EUR/CHF	1.23091	1.20520	1.22590	1.20720

EARNINGS EFFECT OF SENSITIVITIES FROM FOREIGN CURRENCY EFFECTS

in EUR thousands	2013	2012
from GBP	(17)	(44)
from USD	(16)	5
from CHF	(62)	(1,169)

EQUITY CAPITAL EFFECT OF SENSITIVITIES FROM FOREIGN CURRENCY EFFECTS

in EUR thousands	2013	2012
from CHF	–	–
from GBP	–	–

RECONCILIATION VALUATION ADJUSTMENT ACCOUNT

in EUR thousands	2013	2012
Status of valuation adjustments on 1 January	**649**	**531**
Additions	356	396
Consumption	(362)	(161)
Reversals	(67)	(117)
Status of valuation adjustments on 31 December	**576**	**649**

TERMS TO MATURITY OF RECEIVABLES AS AT THE BALANCE SHEET DATE

in EUR thousands	Receivables 2013	Valuation adjustment 2013	Receivables 2012	Valuation adjustment 2012
Not due	17,838	–	10,453	–
Overdue for 1 to 30 days	2,780	–	3,157	–
Overdue for 31 to 180 days	1,529	–	964	–
Overdue for 181 to 360 days	1,075	(408)	165	(165)
Overdue for more than one year	230	(168)	484	(484)
Total	**23,452**	**(576)**	**15,223**	**(649)**

MAXIMUM CREDIT RISK ARISING FROM TRADE RECEIVABLES ACCORDING TO CUSTOMER GROUPS

in EUR thousands	2013	2012
Höft & Wessel AG segment (Bus and train corporations, airlines, retail and distribution companies)	19,071	11,569
Metric segment (cities and municipalities, parking space management)	3,805	3,005
Total	**22,876**	**14,574**

PAYABILITY OF NON-TERMINABLE OPERATING LEASES

in EUR thousands	2013	2012
Within the following year	2,433	2,716
Between one and five years	6,428	7,166
In more than five years	3,659	5,130
Total	**12,520**	**15,012**

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. The financial obligations arising from the leasing instalments for the business premises of the Company in Hannover were deferred in the financial year in agreement with the refinancing partner for a total of four quarters as a streamlining contribution.

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 2,627 k (previous year: EUR 3,526 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.

GROUP'S CONTINGENT LIABILITIES

in EUR thousands	2013	2012
Contractual performance bonds	2,194	1,850
Advance payment bonds	870	916
Payment bonds	336	336
Warranty bonds	675	1,393
Bid bonds	–	–
Total	**4,075**	**4,495**

24 SALES REVENUES

Of total income generated on the performance of services, the UK subgroup earned a share of EUR 10,848 k (previous year: EUR 11,690 k). Essentially, this comprises services rendered within the scope of a full-service agreement with London Bus as well as repair and maintenance work on car park ticketing terminals.

25 PERSONNEL EXPENSES

The Group's average workforce size (without trainees) was 410 employees (previous year: 475). Of these, 110 (previous year: 106) were classified as commercial wage earners and 300 (previous year: 369) as employees.

26 OTHER INCOME

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

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 15 k (previous year: EUR 551 k).

SALES REVENUES

in EUR thousands	2013	2012
Merchandise sales	56,986	49,795
Services rendered	22,833	29,080
Total	**79,819**	**78,875**

PERSONNEL EXPENSES

in EUR thousands	2013	2012 adjusted
Wages and salaries	(18,149)	(22,358)
Statutory social expenditure	(3,024)	(4,863)
Contributions to defined benefit pension plan	(466)	(539)
Adjustments re: IAS 19	–	520
Contributions and actuarial expenses arising from direct commitments	18	(25)
Share-based remuneration components	(3)	(4)
Total	**(21,624)**	**(27,269)**

OTHER INCOME

in EUR thousands	2013	2012
Income from the reversal of provisions	1,260	661
Currency translation gains	420	683
Gains from the reversal of specific valuation adjustments to receivables	67	117
Public-sector allowances and subsidies	203	165
Other	776	741
Total	**2,726**	**2,367**

28 NET FINANCIAL INCOME

Net financial income includes income and expenses arising from bank interest, interest to other lenders, interest effects of accrued and discounted interest as well as accounting profit derived from the debt haircut.

The accounting profit derived from the debt haircut is determined from the difference between the original extent of the loan receivables from Höft & Wessel AG and the purchase price paid to the exit banks.

OTHER EXPENSES

in EUR thousands	2013	2012
Expenses for premises	(2,748)	(2,848)
Services	(2,615)	(1,937)
Motor vehicle expenses	(1,693)	(2,003)
Currency translation expenses	(392)	(1,401)
Travel expenses	(836)	(1,066)
Postage/courier services	(1,082)	(1,144)
Legal and consultancy fees	(1,705)	(3,215)
Telecommunications	(693)	(657)
Advertising/trade fairs	(394)	(566)
Valuation adjustments to receivables	(224)	(396)
Insurance policies	(188)	(199)
Other	231	(2,161)
Total	**(12,339)**	**(17,593)**

NET FINANCIAL INCOME

in EUR thousands	2013	2012 adjusted
Interest income from the waiver of receivables	13,473	–
Interest income on bank balances	6	1
Financial income	**13,479**	**1**
Interest expenses on liabilities to banks	(1,033)	(1,057)
Other interest expenses	(98)	(1,395)
Adjustments re: IAS 19	–	(142)
Financial expenses	**(1,131)**	**(2,594)**
Net financial income	**12,348**	**(2,593)**

INTEREST INCOME/EXPENSES ARISING FROM FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS

in EUR thousands	2013	2012
Interest income	–	–
Interest expenses	–	(18)
Total	**0**	**(18)**

TAX POSITION

in EUR thousands	2013	2012 adjusted
Tax income (expense) for current reporting period	–	(10)
Tax income (expense) previous years	49	55
Current tax income (expense)	**49**	**45**
Deferred taxes	**(4,542)**	**125**
Tax position	**(4,493)**	**170**

EFFECT OF DEFERRED TAXES ON EARNINGS (INCOME/[EXPENSE])

in EUR thousands	2013	2012 adjusted
Deferred tax assets		
from losses carried forward	(311)	(173)
from temporary differences	(178)	115
from adjustments re: IAS 19	–	(93)
Deferred tax liabilities		
from development activities	195	180
from temporary differences	9	96
from consolidating entries	(4,257)	–
Total	**(4,542)**	**125**

TAX RECONCILIATION STATEMENT

in EUR thousands	2013	2012 adjusted
Consolidated earnings after taxes	7,541	(12,698)
(Gains)/expenses arising from income taxes	4,493	(170)
Consolidated earnings before taxes (EBT)	12,034	(12,868)
Imputed tax expense/(tax income)	**3,803**	**(4,066)**
Tax impacts		
Effects arising from change in loss carried forward	920	3,801
Effects of different tax rates within the Group	(425)	43
Aperiodic effects	(49)	(45)
Unrecognised deferred taxes arising from temporary differences	191	–
Non-deductible operating expenses for tax purposes and other items	53	124
Adjustments IAS 19	–	(27)
Tax expenses/(tax income) reported	**4,493**	**(170)**

29 TAX POSITION

The table "Tax reconciliation statement" shows the reconciliation of the calculatory 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 the German Commercial Code (Handelsgesetzbuch – 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 (Aktiengesetz – AktG), 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.

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 17 March 2013, the date of submission of the consolidated financial statements as at 31 December 2013 by the Board of Management to the Supervisory Board:

On 7 January 2014, the Board of Management adopted a resolution, subject to the approval of the Supervisory Board, to increase the Company's share capital with partial use of the authorised capital, from EUR 10,196,988.00 by an amount of EUR 849.749.00 to EUR 11,046,737.00 against a cash deposit by issuing 849,749 new no-par-value bearer shares with a notional share of the share capital amounting to EUR 1.00 per share. The new shares are eligible for dividends as of 1 January 2014. The shareholders' subscription right is excluded. The company Special Technology Holding GmbH (formerly trading as: Special Purpose Zwei Holding GmbH), a subsidiary of Droege International Group AG, is permitted to subscribe to the new shares. The issue price of the new shares is not significantly lower than the Company's share price on the stock exchange. The legally effective entry in the Commercial Register was effected as at 6 February 2014.

AUDITORS' FEES

in EUR thousands	2013	2012
Audit of annual financial statements	105	280
Tax consultancy services	10	29
Other confirmation services	28	–
Other services	19	–
Total	**162**	**309**

REMUNERATION PAID TO MANAGERS IN KEY POSITIONS

in EUR thousands	2013	2012
Remuneration to members of the Board of Management and Supervisory Board	589	592
Share-based remuneration	13	–
Total	**602**	**592**

In a resolution adopted on 8 January 2014, the Supervisory Board of Höft & Wessel AG approved this capital measure.

The subsidiary Skeye Partner Support Center Gmbh, Leipzig, was merged with the parent company Höft & Wessel AG, Hannover, on 1 January 2014.

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

32 DISCLOSURES REGARDING RELATED ENTITIES AND PERSONS

The following parties belong to the category of related third parties of the Höft & Wessel Group:

- Persons in key positions or who have a decisive influence, as well as their immediate family members
- Special Technology Holding GmbH, Düsseldorf (formerly trading as: Special Purpose Zwei Holding GmbH, Düsseldorf) as the parent company of Höft & Wessel AG
- Persons in key positions or who have a decisive influence at the parent company Special Technology Holding GmbH as well as their immediate family members
- Subsidiaries of Höft & Wessel AG
- Subsidiaries and affiliates of the parent company Special Purpose Technology GmbH, as well as all parties with direct and indirect equity interests in Special Purpose Zwei Holding GmbH.

Shareholders with a decisive influence

At the balance sheet date of the previous year, H & W Holding GmbH, Burgdorf, held 3,450,000 shares (40.6 per cent) of the total shares of Höft & Wessel AG. Dividend payments were neither made during the financial year nor in the preceding year. With the exception of the trust and voting commitment agreement explained below, no business relations concerning the shareholdership existed in the past.

In terms of a trust agreement dated 21 January 2013, H&W Holding GmbH, Burgdorf, transferred 2,115,875 shares (24.9 per cent) by way of a dual benefit fiduciary arrangement to the trustee H&W Beteiligungsgesellschaft mbH, Hamburg. For a further 424,875 shares held by H & W Holding GmbH (5.0 %), a limited voting commitment agreement was entered into with the trustee H& W Beteiligungsgesellschaft mbH, Hamburg.

Within the scope of the streamlining programme of Höft & Wessel AG, these shares were in majority acquired by Droege International Group AG, Düsseldorf. On 25 July 2013, Droege International Group AG, Düsseldorf, announced that the reporting threshold had been exceeded. The reportable share of voting rights at that point in time amounted to 37.12 % or 3,154,542 voting rights.

On 9 October 2013, Special Purpose Zwei Holding GmbH, Düsseldorf, an enterprise of the Droege Group, announced that the reporting threshold of 50 % had been exceeded. The reportable share of voting rights as at 8 October 2013 amounted to 66.52 % or 6,783,053 voting rights. As at 14 October 2013, the share of voting rights amounted to 72.71 %. This corresponds to 7,413,961 voting shares in Höft & Wessel AG. Pursuant to § 22 (1) sentence 1 No. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), the companies Droege Holding GmbH & Co. KG, Düsseldorf, Droege International Group AG, Düsseldorf, Droege Capital GmbH, Düsseldorf and Special Purpose Zwei Holding GmbH, Düsseldorf are attributed to Walter P. J. Droege via Droege Holding Verwaltungsgesellschaft mbH, Düsseldorf.

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 EBIT 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. The performance-based remuneration is paid on reaching the Group’s EBIT 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 2013, a performance-related provision was set up in the amount of EUR 100 k (previous year: EUR 0 k).

No payments were made to earlier Supervisory Board members. There are no commitments on the part of the Company to do so.

In the financial year 2013, 50,000 stock options were issued to the Board of Management in two tranches. Following the capital measures carried out in the financial year, these provide for an entitlement to the acquisition of 10,000 shares. 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 total remuneration paid to the Board of Management in 2013 amounted to EUR 547 k (previous year: EUR 519 k). The table below shows the details of the remuneration of the individual members of the Board of Management.

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 Chairman in this regard receives double the remuneration paid to a member of the Supervisory Board. The Deputy Chairman receives the 1.5-fold 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.

The total remuneration paid to the Supervisory Board in 2013 amounted to EUR 55 k (previous year: EUR 73 k).

Transactions with related entities

In the year under review, goods and services were procured from other related entities amounting to EUR 0.1 million.

REMUNERATION PAID TO THE BOARD OF MANAGEMENT

in EUR thousands	Non-performance related		Performance-related		Components with a long-term incentive effect		Total emoluments	
	2013	2012	2013	2012	2013	2012	2013	2012
Rudolf Spiller	434	141	100	–	13	–	547	141
Michael Höft	–	264	–	–	–	–	–	264
Thomas Wolf	–	96	–	–	–	–	–	96
Hansjoachim Oehmen	–	18	–	–	–	–	–	18
Total	**434**	**519**	**100**	**0**	**13**	**0**	**547**	**519**

REMUNERATION PAID TO THE SUPERVISORY BOARD FSICHTSRAT

in EUR thousands	2013	2012
Dirk Ulrich Hindrichs	1	–
Christoph Hartmann	1	–
Johannes Feldmayer	1	–
Prof. Dr. Dr.-Ing. Dr. h.c. Klaus E. Goehrmann	19	20
Dr. Peter Versteegen	14	15
Dr. Martin Künnemann	9	10
Rolf Wessel	–	10
Manfred Zollner	1	10
Hinrich Peters	9	8
Total	**55**	**73**

Members of the Management Board and of the Supervisory Board

MEMBERS OF THE MANAGEMENT BOARD

Rudolf Spiller
Member of the Board of Management and CEO
Sales & Marketing, Research & Development,
Supply Chain, Project Management, Administration
Metric Group Holdings Ltd., Swindon (Managing Director)

MEMBERS OF THE SUPERVISORY BOARD

Dirk Ulrich Hindrichs
Chairman
(since 6 December 2013)
Founder and managing partner of D.U.H. GmbH & Co. KG, Bielefeld
Other mandates:
Member of the Advisory Board of Lampe Privatinvest (Bankhaus Lampe KG), Hamburg
Member of the Advisory Board of Eduard Hueck GmbH & Co. KG, Lüdenscheid
Member of the Regional Advisory Board of Deutsche Bank West, Düsseldorf

Christoph Hartmann
Deputy Chairman
(since 6 December 2013)
Vice President of Droege International Group AG, Düsseldorf
Other mandates:
Board of Directors und Audit Committee Dutech Holdings Limited, Singapore
Consejo de Administración Helis S.A., Barcelona/Spain

Johannes Feldmayer
(since 6 December 2013)
Vice President of HEITEC AG, Erlangen
Other mandates:
Member of the Supervisory Board of FRIWO AG, Ostbevern/Westphalia
Member of the Management Board of LEUZE electronic GmbH & Co. KG, Owen
Member of the Advisory Board of POLAR-Mohr Maschinenvertriebsgesellschaft GmbH & Co. KG, Hofheim

Prof. Dr. Dr.-Ing. Dr. h.c. Klaus E. Goehrmann
Chairman
(until 6 December 2013)
Chairman of the Board of the International Neurobionics Foundation, Hannover
Other mandates:
Member of the Supervisory Board of MAN Truck & Bus AG, Munich
Member of the Supervisory Board of Internationale Schule Hannover Region GmbH, Hannover
Chairman of the Management Board of VHV Vereinigte Hannoversche Versicherungen, Hannover

Dr. Peter Versteegen
Deputy Chairman
(until 6 December 2013)
Attorney-at-law
(partner of the law firm Freshfields Bruckhaus Deringer LLP)

Dr. Martin Künnemann
(until 6 December 2013)
Auditor/partner of Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Hannover (until 31 May 2013)
Other mandates:
Member of the Supervisory Board of Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf
Member of the Supervisory Board of Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich

Hinrich Peters
(until 6 December 2013)
Tax consultant

Manfred Zollner
(until 28 January 2013)
Businessman
Other mandates:
Chairman of the Supervisory Board of Zollner Elektronik AG, Zandt
Member of the Supervisory Board of PA Power Automation AG, Pleidelsheim (until 28 June 2013)

Hannover, 10 March 2014

The Board of Management

Auditor's Report

We have audited the consolidated financial statements prepared by the Höft & Wessel Aktiengesellschaft, comprising the statement of financial position, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2013. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) is the responsibility of the parent Company's Board of. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company´s Board of Management as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hannover, 18 March 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Jens Wedekind	**ppa. Michael Meseberg**
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public 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, 10 March 2014

The Board of Management

IMPRINT

Höft & Wessel AG, Investor Relations
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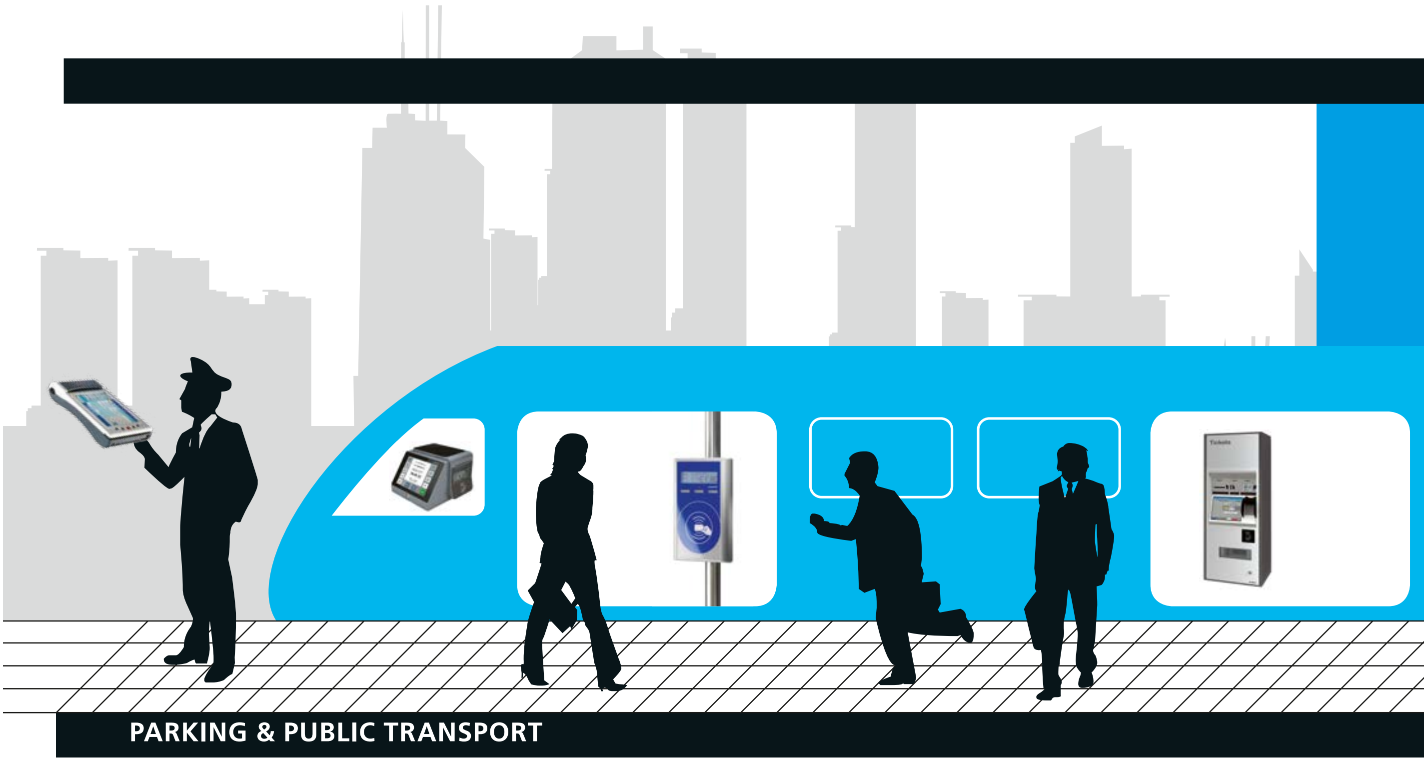
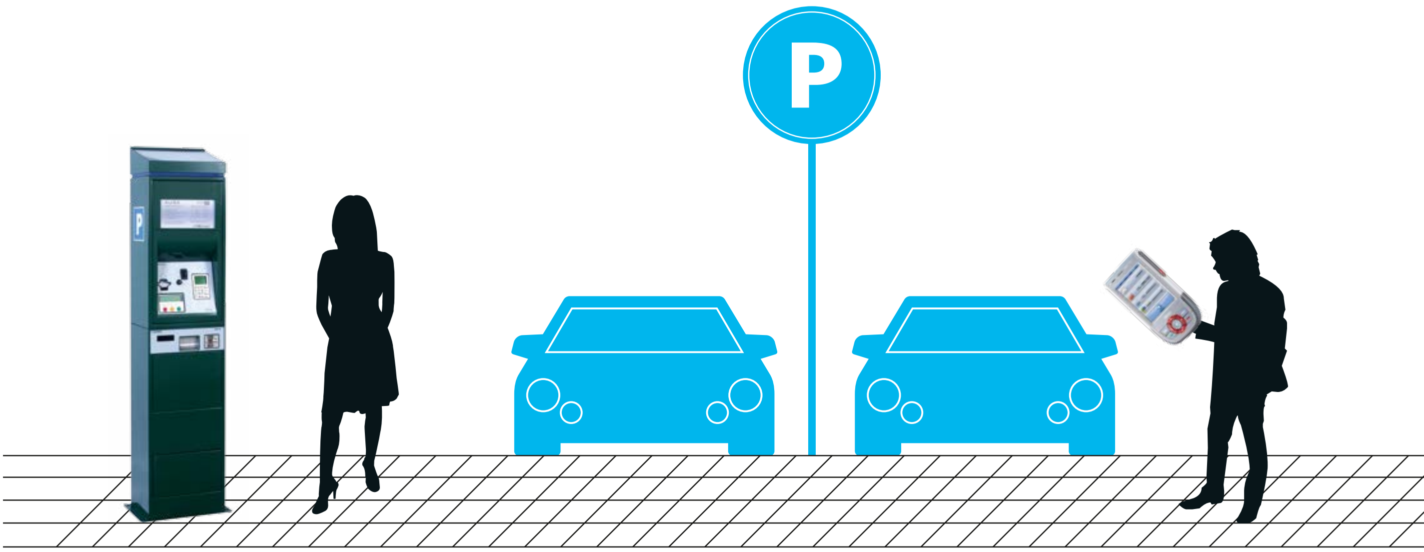
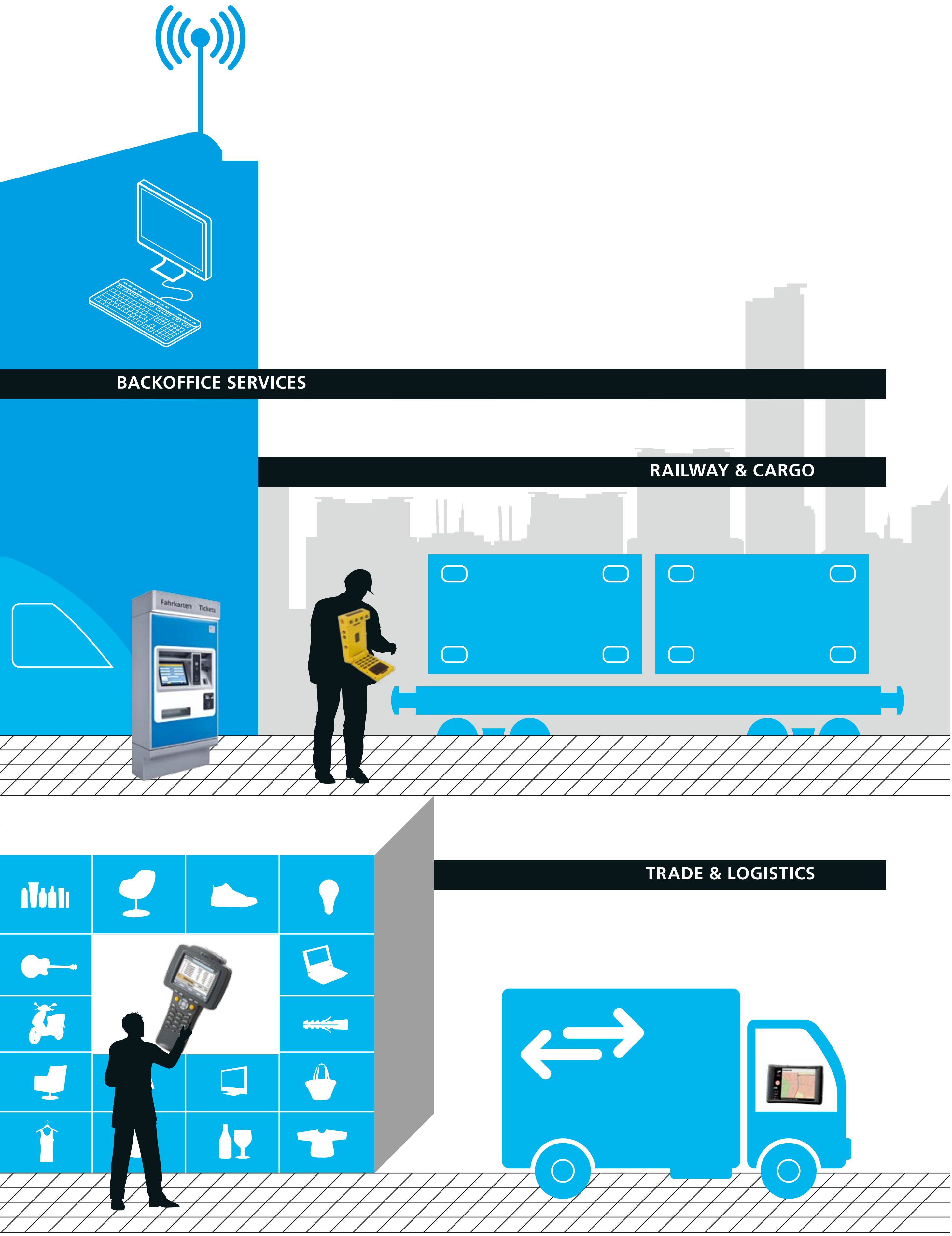
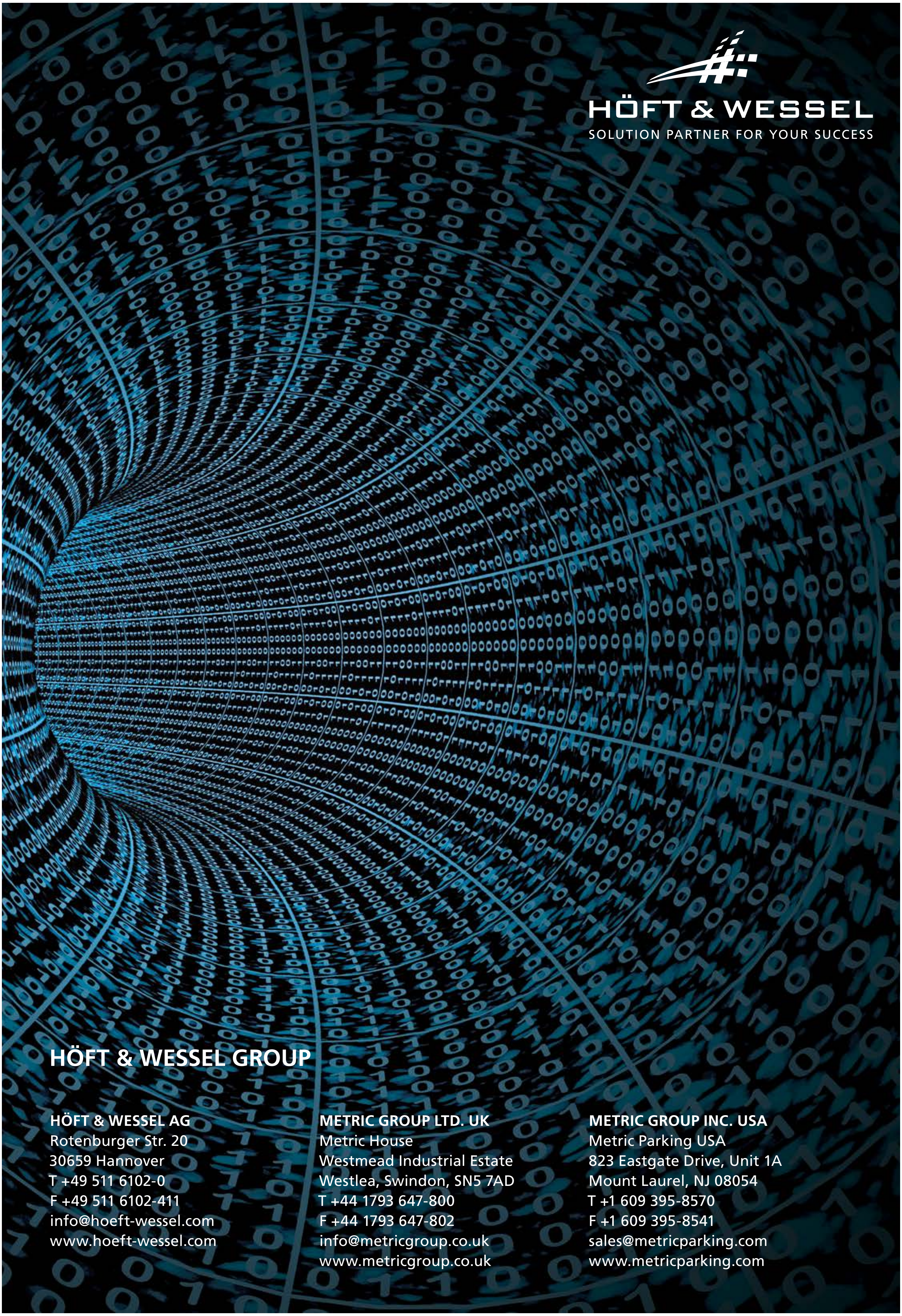
The world of Höft & Wessel

Elements of our Solutions // Our increasingly mobile world calls for a large number of devices such as ticketing, car park or mobile terminals for merchandise and data capture; instead, back office services will feature as the centre of attraction to control the flows of passengers, merchandise and services in the future. Mobility as a Service is our array of offerings for the future.






BACKOFFICE SERVICES
Fahrkarten
Tickets
RAILWAY & CARGO
TRADE & LOGISTICS



HÖFT & WESSEL
SOLUTION PARTNER FOR YOUR SUCCESS

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Content

HÖFT & WESSEL
SOLUTION PARTNER FOR YOUR SUCCESS

FINANCIAL STATEMENT 2013

CONTENT

IMPRINT

Höft & Wessel AG, Investor Relations
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MANAGEMENT REPORT FOR FISCAL 2013

A. FOUNDATIONS

1. VISION AND STRATEGY

In the next several years, Höft & Wessel AG plans to further develop from a supplier of software and hardware solutions for parking, ticketing and data capture systems into a provider of the full range of services in the fields of Trade & Logistics, Railway & Cargo and Parking & Public Transport. As a solution provider for "Mobility as a Service", the Company can proactively exploit the growing requirements in the field of mobility. In the medium to long term, Höft & Wessel AG would like to design intermodal transport of passengers and merchandise as well as the associated services in the form of an integrated management system, by networking solutions with enterprise systems as well as by making a statistical evaluation of these transport streams. This also includes the capture, validation, consolidation and settlement of these streams of persons, merchandise and services across all systems.

To the Höft & Wessel AG, "Mobility as a Service" means gradually changing the business model from that of a supplier of product to an operator of systems solutions for customers. This operator model relies for guidance on the performance of tasks that is measured in service levels. As a result, the investment burden of the customer is also spread across the total period of use, for which the service provider is gradually remunerated in the course of time. For customers, this means relief from tasks that do not belong to their core business, ensuring improved financial planning capabilities and balance sheet relief.

2. BUSINESS MODEL, PROCESSES, ORGANISATION

Höft & Wessel AG, headquartered in Hannover, Germany, is a manufacturer of system solutions for ticketing and data capture. Customers include enterprises, public organisations and municipalities in the segments of transport, wholesale & retail, and logistics. The software and hardware solutions serve to capture, validate and process data. Moreover, Höft & Wessel AG provides dedicated after-sales services subject to service level agreements to be arranged. With its systems, the company contributes towards improving efficiencies within the scope of automating processes.

In its workflows, Höft & Wessel AG relies on a defined process model for guidance. This consists of the three core processes of generating orders, defining solutions and order execution and is supported by internal services and by management processes. The entire process model is especially geared to customers. The structural organisation of Höft & Wessel AG is defined along the processes in place. Below the Board of Management is an operational management level consisting of Division Heads as well as staff functions directly assigned to the Board of Management.

3. PRODUCT AND SOLUTION PORTFOLIO

Since its inception in 1978, the Company has continued to develop into a solution specialist for data capture, validation and processing. With a dedicated product portfolio that is to be further extended, the Company provides turnkey solutions that meet the requirements of defined industry segments such as Trade & Logistics, Railway & Cargo und Parking & Public Transport. In addition to products derived from a modular construction kit, Höft & Wessel is also well-known for its individually tailored solutions for customers. Systems are tailored to the specific needs of customers or even newly developed from scratch where necessary.

4. WORKFORCE

In the financial year 2013, Höft & Wessel AG had an average of 249 employees, including apprentices and trainees (previous year: 302).

5. SERVICE

Services continue to represent a key mainstay of the Company's core business. As an integral part of the solutions portfolio, this service provides customers with a high level of investment security.

Service is perceived by customers in the business-to-business segment as an integral element of systems solutions in order to guarantee a high level of investment protection.

6. CONTROL SYSTEM

The control system is an immediate element of the controlling process in place within Höft & Wessel AG. It comprises regular monitoring especially of financial performance indicators by means of which Höft & Wessel AG is controlled. The key financial performance indicators are sales, the operating result (EBIT) and the EBIT margin (EBIT/sales).

In addition, Höft & Wessel AG does not use any non-financial performance indicators.

As all segments of the Höft & Wessel Group are exclusively controlled according to the aforementioned IFRS performance indicators of sales revenues, EBIT and the EBIT margin, an appropriate reference is made in the explanatory notes below to the IFRS data of Höft & Wessel AG.

The following accounting facts and circumstances at Höft & Wessel AG have led to the most significant deviations between German Commercial Code (HGB) and IFRS:

» Delineations of sales revenues according to loss-free valuation ("cost-to-completion"),
» Costs of capital procurement within the scope of the capital increase,
» Development costs.

In 2013, the performance indicators specified above reflected to the development as in the table below.

7. RESEARCH AND DEVELOPMENT

The Research & Development division makes a decisive contribution towards the success of this technology enterprise. Höft & Wessel AG invests up to ten per cent each year in this field, measured by sales revenues. According to the EU Industrial R&D Investment Scoreboard, this makes Höft & Wessel AG one of Europe's leading enterprises in research and development.

In accordance with IFRS, Hoeft & Wessel AG capitalises both internal and external development costs according to defined criteria in fixed assets and depreciates these pro rata temporis. During the financial year 2013, the Company capitalised a total of EUR 0.7 million (previous year: EUR 0.6 million) and wrote off EUR 1.1 million in development costs (previous year: EUR 1.2 million). The residual carrying amount of the development costs capitalised in accordance with IFRS came to EUR 2.1 million as at 31 December 2013 (previous year: EUR 2.6 million).

In contrast, in accordance with German Commercial Code (HGB) these costs are not capitalised but reported in earnings for the current period. The share of sales revenues accounted for by R&D costs amounts to 17 per cent according to IFRS, or 14 per cent according to HGB.

B. ECONOMIC REPORT

1. GENERAL FRAMEWORK CONDITIONS

According to the Institute for the World Economy in Kiel (IfW), there was a discernible revitalisation in aggregate economic output during the financial year 2013. The figures indicate that global Gross Domestic Product was up by 2.9 per cent. For Europe, the key region for Höft & Wessel AG's business activities, according to the IfW there was a slight decline in aggregate economic output by 0.4 per cent.

In the two key markets for the Company, namely Germany and the United Kingdom, in 2013 Gross Domestic Product grew by 0.4 and 1.4 per cent, respectively.

For the Höft & Wessel AG, the segments of Trade & Logistics, Railway & Cargo and Parking & Public Transport were of decisive importance in the financial year 2013. According to studies of public commuter transportation in Europe, expenditure is expected to rise in a single-digit percentage range. This is being primarily driven by newer technologies within the scope of the extension of e-Ticketing operations. In the field of mobile data capture, industry experts likewise assume further growth, especially since business processes will be automated even further, making it possible to achieve cost savings.

2. BUSINESS TRENDS

In the financial year 2013, Höft & Wessel AG's sales revenues according to HGB were 30 per cent higher at EUR 65.3 million than in the preceding year (2012: EUR 50.2 million).

Key sales revenue contributions came from customers in the fields of transport, wholesale & retail and the logistics sector. Ticketing systems were supplied to the Belgian State Railway SNCB, to Aerolis in France, a joint venture of Keolis and Air France, and to the Danish State Railway, amongst others. Mobile terminals for data capture in the retail segment were supplied to Edeka and Rewe as well as to other retail chains of note.

In terms of sales revenue distribution, at the balance sheet date Germany was the largest sales market, accounting for roughly 41 per cent of the total. The United Kingdom followed with 4 per cent, and the rest of Europe and countries outside Europe generated 55 per cent of sales.

The positive business trend was also evident in a 5 per cent increase in incoming orders placed, amounting to EUR 59.3 million (previous year: EUR 56.7 million). In 2013, the Berlin public transport corporation Berliner Verkehrsbetriebe (BVG)

PERFORMANCE INDICATOR

in EUR million	2013	2012	Change in %
Sales revenues (IFRS)	59.8	58.5	+2.2
EBIT (IFRS)	(1.0)	(10.3)	n/a
EBIT margin (IFRS) in %	n/a	n/a	n/a

ordered more than 800 stationary and mobile ticketing terminals as well as an associated background system. Sirona, worldwide market and technology leader in the dental industry, ordered approx. 15,000 radio adapters. Via a partner, an order was received for more than 600 mobile ticket vending terminals for the Slovakian Railway. The Finnish State Railway ordered ticket vending terminals for installation on regional trains.

At EUR 31.1 million, the order portfolio at 31/12/2013 roughly matched the level of the previous year (31 December 2012: EUR 31.5 million).

The increase in sales revenues according to IFRS amounts to 2.2 per cent. During the financial year 2013, IFRS sales revenues amounted to EUR 59.8 million (previous year: EUR 58.5 million). The sales revenue delineations carried out in accordance with loss-free valuation ("cost-to-completion") predominantly led to the differences between the disclosures according to HGB and IFRS, respectively. The breakdown by countries is shown in the table below.

3. SITUATION REPORT

3.1 Earnings position

The operating result (EBIT) according to IFRS of Höft & Wessel AG in the financial year 2013, at – EUR 1.0 million, turned out slightly more stable again for the first time following two years of clearly negative results. Even though lower than initially expected, taking account of the high level of non-recurring expenses in 2013 for the economic debt haircut achieved and restructuring measure, amounting to EUR 1.6 million, the level of EBIT reflected the regained operational strength of this technology enterprise. In addition, the cost of the capital increase was a non-recurring burden on the operating result.

What was of decisive importance for the operating result in the year under review were the positive impacts of the "H&W 2.0" streamlining programme concluded in 2013 at Höft & Wessel AG.

This was offset by the costs of the "liberation" initiative, the implementation of which was funded by substantial resources of the Group with a view to rearranging and successfully finalising a number of critical large-scale projects. Against this backdrop, in the period under review the percentage-based contribution margin (sales revenues less cost of materials (including inventory changes) according to IFRS in per cent of sales revenues) was down by 2.5 percentage points, to 33.5 per cent. The cost of materials according to IFRS increased by EUR 5.0 million, to reach EUR 38.5 million (previous year: EUR 33.5 million).

The level of personnel costs according to IFRS was reduced by EUR 4.3 million as planned in the year under review, to EUR 14.9 million. In the category of other expenses according to IFRS, it was even possible to achieve a reduction by EUR 5.3 million, to EUR 7.6 million, even though this line item in the financial year 2013 comprises also non-recurring expenses from the restructuring measure (EUR 1.6 million).

Depreciation and amortisation according to IFRS declined slightly by EUR 147 k, to EUR 1.550 k. The operating result (EBIT) according to IFRS thus amounted to – EUR 1.0 million, whereas in the previous year a loss of – EUR 10.3 million had been incurred.

A key prerequisite for the capital increase effected in October 2013 was an economic debt haircut of the financing banks by

BREAKDOWN OF SALES REVENUES (HGB)

in EUR million	2013	2012
Germany	26.5	28.5
United Kingdom	2.4	7.9
Other countries	36.4	13.8
Total	**65.3**	**50.2**

BREAKDOWN OF SALES REVENUES (IFRS)

in EUR million	2013	2012
Germany	27.5	29.9
United Kingdom	2.6	7.9
Other countries	29.7	20.7
Total	**59.8**	**58.5**

a total of approx. EUR 13.5 million. The level of financing expenditure according to IFRS declined from EUR 2.2 million to EUR 0.9 million. In 2012, this had included a contingent loss provision for an interest rate swap amounting to EUR 1.1 million, of which EUR 0.2 million was used up in 2013.

Earnings before taxes (EBT) according to IFRS improved by EUR 10.0 million, from – EUR 11.8 million to – EUR 1.8 million; the loss for the year according to IFRS improved similarly by EUR 9.9 million, from – EUR 11.3 million to – EUR 1.4 million.

3.2 Financial position

After two consecutive years of high financial losses, the financial position was extremely strained in 2013 until the capital increase was carried out in October. The borrowing capacity still available thanks to several standstill arrangements was nearly depleted; the guarantors had frozen the guarantee lines, which mean that even guarantees that expired were not replaced by new guarantees. On the supplier side, the terms of payment for Höft & Wessel AG were either drastically reduced or delivery was made only against advance payments.

Against this backdrop, the primary objective of finance management is to plan, monitor and ensure the solvency of the Company. This objective was possible to achieve only with the consistent implementation of the parameters of the streamlining programme "H&W 2.0" geared to a drastic reduction of the Company's working capital.

3.2.1 Capital measures/restructuring

In the wake of declining sales revenues, Höft & Wessel AG experienced financial difficulties in 2012. By means of decisive cost savings, intensive working capital management and the deferral of investments, it was possible to avert a liquidity deficit. An important measure in this context was the operational streamlining within the scope of the "H&W 2.0" programme launched in mid-2012 and successfully concluded in mid-2013. In total, with the aid of this programme an improvement potential of over EUR 10 million is anticipated by Höft & Wessel AG by end-2014 thanks to targeted restructuring measures. This will be continued on expiry of "H&W 2.0" with the "A4P – Act for Performance" programme launched as a continual improvement programme on the back of "H&W 2.0".

In addition to an operational streamlining, a financial restructuring was carried out in 2013. To this end, a resolution was adopted by a large majority of shareholders at the Extraordinary General Meeting of the Company on 18 July 2013 to introduce a comprehensive financial restructuring concept. Owing to a shortfall below half of the Company's share capital, this also extended to include a capital reduction in a ratio of 5 to 1, followed by a cash capital increase in a ratio of 1 to 5. The capital measures were part of a comprehensive streamlining arrangement made between the Company, the long-term oriented investor Droege International Group AG, Düsseldorf, key individual shareholders and the creditor banks.

In accordance with this arrangement, as part of the capital increase a subsidiary of the Droege International Group AG subscribed to the new shares that had not been subscribed to by the shareholders on the basis of the subscription rights offered.

Of just under EUR 8.5 million from the successfully executed capital increase, EUR 3.3 million went to the banks in partial compensation for their economic debt haircut amounting to EUR 16.8 million. This transaction was settled via a subsidiary of Höft & Wessel AG, which was endowed by Höft & Wessel with EUR 3.3 million in liquidity to this end. Accordingly, EUR 5.2 million in fresh capital remained at Höft & Wessel AG.

Due to the banks' economic debt haircut amounting to roughly half of their receivables, the credit limit of Höft & Wessel AG with the remaining banks decreased to EUR 8.5 million. Moreover, the Company can draw guarantee lines of credit worth a total of EUR 5.25 million with two credit institutions.

3.2.2 Capital structure

Owing to the capital increase carried out during the year under review and the debt haircut already specified earlier, Höft & Wessel AG's equity capital as at the balance sheet date (31 December 2013) amounted to EUR 2.4 million (previous year: deficit of EUR 2.8 million not covered by equity). The subscribed capital increased from EUR 8.5 million to EUR 10.2 million.

Due to the capital reduction carried out prior to the capital increase, the Company's capital reserves grew by EUR 6.8 million in the interim. After netting this amount with the balance sheet deficit, this results in a capital reserve of EUR 1.0 million as at the balance sheet date (previous year: EUR 0.9 million).

3.2.3 Investments

During the financial year 2013, additions to fixed assets amounted to EUR 1.1 million (preceding year: EUR 0.4 million).

3.2.4 Liquidity

Following the waiver of receivables by the creditor banks and the successful execution of the capital measures, Höft & Wessel AG now has a total of EUR 8.5 million in secured and uncollateralised lines of credit with a term to maturity until end-2018 at its disposal (previous year: credit lines of EUR 25.2 million). Past guarantee lines, loan and current account lines were consolidated in the process. The interest rate agreed is based on the 3-month EURIBOR. These agreements contain no financial covenants.

In addition, pure guarantee lines of EUR 5.25 million (previous year: EUR 3.9 million) and EUR 2.0 in factoring lines (previous year: EUR 5.0 million) are available to the Company.

As project operations are difficult to plan, there is an entrepreneurial challenge as far as intra-year control of short-term liquidity is concerned. A compounding factor is that the Company has not been able to have access to guarantee lines in the past, or not to the necessary extent. As a result, the Company made substantial financial advance contributions, especially in the field of large-scale projects. It has not been possible for the contractually agreed advance payments based on progress with projects to be drawn on to date owing to the absence of guarantees. Accordingly, a substantial and sustainable improvement in the liquidity situation will depend to a decisive degree on whether – sometimes critical – large-scale projects can be successfully finalised without delay.

The total cash flow from current operating activities amounted to – EUR 6.4 million in the year under review (previous year: – EUR 4.0 million). The cash flow from investment activities came to – EUR 1.0 million (previous year: – EUR 0.4 million). The cash flow from financing activities turned out clearly positive at EUR 8.0 million (previous year: EUR 2.7 million); this was chiefly due to the capital increase. The volume of cash & cash equivalents thus increased by EUR 0.6 million, while a decline by EUR 1.8 million had been recorded a year earlier.

3.3 Asset position

Fixed assets increased by a total of EUR 0.7 million, to EUR 10.8 million. Additions amounting to EUR 1.1 million are offset by depreciation amounting to EUR 0.4 million.

Current assets (excluding cash) exceed the previous year's level by a total of EUR 1.2 million.

Inventories at Höft & Wessel AG increased by a total of EUR 8.7 million in the year under review as services rendered as part of a number of current large-scale projects have meanwhile been realised as sales revenues as at the balance sheet date.

Loans granted to affiliates caused receivables from affiliates to rise by EUR 7.5 million, thus making a decisive contribution towards raising the balance sheet line item Receivables and other assets by EUR 10.0 million.

ASSET INTENSITIES

in %	**2013**	**2012**
Asset intensity		
Fixed assets/total assets	21	19
Inventory intensity		
Inventories/total assets	41	58
Intensity of receivables		
Trade receivables/total assets	18	14

EQUITY RATIO

in %	**2013**	**2012**
Equity capital/total assets	5	–

CASH FLOW

in EUR thousands	**2013**	**2012**
Cash flow from current operating activities	(6,372)	(4,022)
Cash flow from investment activities	(1,025)	(429)
Cash flow from financing activities	7,950	2,698
Change in cash and cash equivalents impacting on payments	553	(1,753)

As at the balance sheet date of the previous year, the Company reported a shortfall not covered by equity amounting to EUR 2.8 million on the balance sheet. The level of equity at Höft & Wessel AG amounted to EUR 2.4 million as at 31 December 2013. The improvement in the equity capital base corresponds to the capital measures executed in the financial year.

Total liabilities came to EUR 41.1 million, down by EUR 1.0 million year-on-year (2012: EUR 42.1 million). Provisions declined by EUR 1.7 million, from EUR 9.8 million to EUR 8.1 million, as the Company succeeded in averting an imminent legal dispute by means of a moderate settlement. Thanks to the economic haircut already mentioned on several occasions, it was possible to achieve a significant decline in the level of financial liabilities owed to banks by a total of EUR 12.1 million, from EUR 18.9 million to EUR 6.8 million. Due to the longer utilisation of trade payables, the substantial increase in trade receivables was offset, avoiding a disproportionately high increase in working capital in the process. Advance payments received decreased by EUR 12.8 million, from EUR 19.6 million to EUR 6.8 million. On the one hand, this is attributable to a lack of guarantee lines and, on the other, at the balance sheet date (31 December 2013) a large number of large-scale projects had meanwhile been finalised, for which the Company had received progress payments in the past.

3.4 Summarised general statement by the Board of Management

According to the Board of Management, the Company's asset, financial and earnings position is adequate as a whole, provided its business proceeds as planned. Following the successful restructuring, the Board of Management has launched a continual improvement process to achieve a sustainable consolidation.

KEY DATA FROM THE INCOME STATEMENT (HGB)

in EUR million	2013	2012
Sales revenues	65.3	50.2
Aggregate output	57.8	54.3
Earnings before interest and taxes (EBIT)	(2.5)	(8.8)
Earnings before taxes (EBT)	(3.3)	(10.9)
EBT margin in % of sales revenues	n/a	n/a
Profit / (loss) for the year	(3.3)	(10.9)

KEY DATA FROM THE INCOME STATEMENT (IFRS)

in EUR million	2013	2012
Sales revenues	59.8	58.5
Aggregate output	58.5	54.6
Earnings before interest and taxes (EBIT)	(1.0)	(10.3)
Earnings before taxes (EBT)	(1.8)	(11.8)
EBT margin in % of sales revenues	n/a	n/a
Profit / (loss) for the year	(1.4)	(11.3)

C. EVENTS AFTER THE BALANCE SHEET DATE

At the end of the financial year 2013, a resolution was adopted for a capital increase providing for partial use of the authorised capital, with legacy shareholders' subscription rights being excluded. The execution of the capital increase was entered in the Commercial Register on 6 February 2014. The Company's share capital was thus raised from EUR 10,196,988 by an amount of EUR 849,749 to EUR 11,046,737 against a cash contribution. The new shares were subscribed to by a subsidiary of Droege International Group AG at an issue price of EUR 2.95 per share, which resulted in an inflow of approx. EUR 2.5 million in fresh capital for the Company.

According to a notice of 11 February 2014, Droege International Group AG has since held a stake of 75.001 per cent in Höft & Wessel AG via a subsidiary.

The subsidiary Skeye Partner Support Center GmbH, Leipzig, was merged with the parent company Höft & Wessel AG, Hannover, effective as of 1 January 2014.

D. OPPORTUNITIES AND RISK REPORT

1. OPPORTUNITIES REPORT

The opportunities arising for the Company are identified through ongoing, targeted observation of the specialist markets of relevance to the Company, of the competitive environment and the general economic trends in key sales markets, and the results of this observation are included in the strategic considerations regarding the future development of the Company's portfolio of products and solutions.

The results of market research are collected and evaluated in the Product Management department and then made available to managerial staff. At the weekly management meetings with the Board of Management and in management workshops, the findings made area discussed on a regular basis, with actions possibly being derived in the process and any potentials being included in planning activities.

The largely concluded internal reorientation with the simplification of the organisational structure and definition of clear process workflows, many and various opportunities arise for the Company based on resulting efficiency enhancements. This also includes the industry orientation being implemented at present in line with the three segments Trade & Logistics, Railway & Cargo, Parking & Public Transport.

Other opportunities arise from the strategic further development initiated. Höft & Wessel AG plans to proactively use the opportunities leveraged from mobility as a megatrend and to further develop with its current portfolio of solutions into a provider of services. This means a deepening of the value added chain. This is also to be achieved through inorganic growth.

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 a 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. The Höft & Wessel AG plans to continue developing further in a targeted fashion in these markets.

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. The Höft & Wessel AG will benefit from this in the next several years through its expertise in the field of contactless payments, amongst other factors.

2. RISK REPORT

2.1 Risk management system

As a capital market-oriented company, pursuant to Section 91 (2) of the German Companies Act (Aktiengesetz – AG), Höft & Wessel AG is required to describe the characteristics and features of the internal control and risk management system, including early identification of risks.

During the financial year 2013, the risk management system was in a modification and adjustment phase as far as structured processes and the suitability for early detection of risks were concerned. This also extended to include the accounting-related internal control system that is implemented as part of the risk management system. Höft & Wessel AG perceives the risk management system as a support instrument that facilitates systematic identification, evaluation and management of risks in all the Company's sub-segments.

An early risk identification system was introduced at Höft & Wessel AG and documented in a Risk Manual that is updated accordingly whenever necessary. In the financial year 2013, the past system was replaced by an IT-aided software tool, and the risk manual was adjusted accordingly.

After the recording and assessment of risks was still being carried out by an external business consultancy commissioned by the Board of Management in the first half of 2013, this task was then gradually transferred Controlling in the Business Services division with the executive function of the Chief Risk Officer. Moreover, the corporate structures newly created within the scope of the restructuring measure called for an appropriate adjustment to the early risk detection system. In the course of the transition, the software tool "Risk City" was implemented within the Company. As a result, a risk management system will be installed, which fits to the requirements. An effective cash management is duly taken into account in the form of weekly liquidity planning activities. Moreover, medium-term liquidity requirement forecasts are also prepared as part of the planning activities.

The general risks are determined and reviewed on a regular basis by means of detailed and standardised interviews of the Division heads and determined in reconciliation with the Risk Manual.

In addition to the basic information, a risk evaluation is carried out. This may either be qualitative or quantitative, with the qualitative evaluation being translated into average euro values in the categories "minor", "serious" and "dangerous." There is a possibility of adding measures to a particular risk. As a rule, these will be addressed at reducing the extent of loss or damage or the probability of occurrence. An assessment of the gross risks (prior to measures being taken) and net risk (after the relevant measures) and the target value are defined. Within the scope of the existing risk management system, only risks are monitored. A monitoring of opportunities is currently carried out within the scope of current business, especially via the Distribution division, and is not followed up any further by Controlling.

The various sets of measures forming part of the early risk detection system of Höft & Wessel AG are described in detail below. In principle, early risk detection management distinguishes between organisational and content-related risks. Organisational risks arise from the organisation and processes of the Company. In the category of content-related risks, distinctions are drawn between financial, external, operative, operational and strategic risks as well as risks arising from current customer projects.

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. 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. In the event of an increase in the level of interest rates, a change in the corporate rating or of lending terms and conditions, there is the risk of an increasing interest burden. It was possible at present to fix the same lending terms and conditions for all lenders in the medium term until 2018. A dedicated receivables management system is used to counter the risk of default in trade receivables. Moreover, merchandise credit insurance policies are taken out. In order to hedge the risk of payment flows of financial liabilities subject to variable interest rates, in the previous year the Group had entered into a payer interest swap (payment fixed – receipt variable) for the volume of expected non-current credit utilisations amounting to EUR 5 million. 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 2013. Accordingly, the valuation effects as at the balance sheet date were recognised in net interest income by the Company. The value of the interest rate swap amounted to EUR 916 k at the balance sheet date, and to this end a contingent loss provision in the same amount was set up as at 31 December 2013. The hedged interest rate originally amounted to 4.83 per cent p. a. The negative present value of the hedge transaction recognised with an impact on profit and loss amounted to – EUR 1,109 k as at the balance sheet date of the preceding year. The Company set up a contingent loss provision in this regard, amounting to EUR 1,109 k as at 31 December 2012.

In the external risk category, a further distinction is made between changes in market demand, political changes and economic developments.

Höft & Wessel deals with market and sales revenue risks by endeavouring to establish long-term contractual relations with customers wherever possible. Höft & Wessel deals with market and sales revenue risks by endeavouring to establish long-term contractual relations with customers wherever possible. 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 contracts by the heads of the business divisions and deployment of the overarching ERP system serve to effectively identify and mitigate internal risks at an early stage.

At present, the risk management at Höft & Wessel AG comprises project-related risk management, which monitors technical and project-related risks, as well as operational risk management, which monitors the risks arising from processes as well as from the structural and procedural organisation. Within the scope of risk management, a risk is considered to be material if the probability of its occurrence exceeds 40 per cent or if the potential loss exceeds EUR 1 million. This results in the four risk categories of external, financial, operational and strategic risks, within which the individual risks are consolidated.

Owing to the significance for Höft & Wessel AG, there is a special project reporting system in place, which is closely monitored by Controlling. At present, this is essentially concentrated on ongoing delayed projects from previous years, namely those that were part of the "liberation" campaign. The project heads deliver regular SAP-based reports on the criteria of sales revenues currently reached, cost-to-completion, the risk of conventional penalties and effects on after-sales business within the scope of a specified scale. The results are processed using the software tool "Risk City". At present, there still are substantial risks for the Company arising from the current processing of projects going back to the "liberation" campaign. These are declining in the course of time as they are increasingly being processed. The "liberation" projects are part of the Company's operational risks.

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.

Strategic risks essentially arise from lacking or incorrect planning parameters. Intensified market expertise is essential in this regard. With the expansion of expertise in market research in the Product Management department, more detailed and improved attention is devoted to the markets. The findings are incorporate in the planning activities and also provide substantial assistance in defining the product road map. The further developments triggered at Höft & Wessel AG were already

RISKS BY OBSERVATION FIELD SUBJECT TO ...

in EUR thousands		... probability-weighted loss potential as at 31 December 2013
Risk category		
External risks	Probability of occurrence > 40 %	–
	Potential loss > EUR 1 million	–
Financial risks	Probability of occurrence > 40 %	1,200
	Potential loss > EUR 1 million	–
Operational risks	Probability of occurrence > 40 %	3,075
	Potential loss > EUR 1 million	10,932
Strategic risks	Probability of occurrence > 40 %	–
	Potential loss > EUR 1 million	–

reconciled intensively in advance with the relevant market requirements.

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) and made available on the Intranet. The increased transparency of competences and procedures achieved through this minimises the risk of incorrect interpretations and assessments.

Höft & Wessel AG was certified in accordance with the environmental management standard ISO 14001.

The risk management system and the risk mitigation measures presented constitute the foundations for identifying, analysing and monitoring risks. On this basis, in the financial year 2013 Höft & Wessel AG deliberately took entrepreneurial risks, but the risks were acceptable at all times.

2.2 Internal control and risk management system with regard to the accounting process

The essential features of the internal control and risk management system with regard to the accounting process represent both process-integrated and process-independent measures at Höft & Wessel AG.

In this context, manual process controls such as the proven "four-eyes principle" of simultaneous double checks constitute a material element of the process-integrated measures. The ERP system SAP already successfully introduced at Höft & Wessel AG a few years ago likewise allows a large number of automated IT process controls to be made.

Similarly, specific Group functions such as Group Accounting and the newly established Group Risk Manager ensure that process-integrated and process-independent monitoring activities are in place at all times.

Moreover, the Supervisory Board of Höft & Wessel AG carries out process-independent monitoring activities and is seamlessly integrated into the internal control system.

As a component of the internal control system, risk management is geared to identify the risk of incorrect statements in the context of accounting as well as external reporting.

Measures of the internal control system geared to the regularity and reliability of accounting ensure that business transactions are recorded in full and on a timely basis in conformity with the statutory regulations and provisions defined in the articles of association as well as internal rules. By means of appropriate instructions and established processes, the Company ensures that inventory-taking is duly carried out and that assets and liabilities are appropriately recognised. The fundamental separation of administrative, execution, settlement and approval functions reduces the possibility of inappropriate actions being taken.

The purpose of the Company's internal control system in the context of financial reporting is to ensure with an adequate degree of certainty that financial reporting reflects a high degree of reliability and is in conformity with the generally accepted accounting principles. Owing to its inherent limits, in certain circumstances the internal control system for financial reporting may not prevent or identify all potentially misleading declarations in the annual financial statements. In particular, decisions based on personal discretion, incorrect controls and criminal acts cannot be ruled out altogether in the process. This may give rise to restricted effectiveness of the internal control system, which means that even consistent application of the extensive rules cannot provide absolute certainty with regard to the correct, full and timely recording of facts and circumstances within the scope of accounting.

E. OUTLOOK

The Kiel-based Institute for the World Economy (Institut für Weltwirtschaft – IfW) assumes that there will be a discernible revitalisation in economic activity in 2014. Accordingly, the global economy will grow by 3.7 per cent, a higher increase in Gross Domestic Product than in the previous year. For Europe, the key region for Höft & Wessel AG's business, a slight increase in aggregate economic output by 0.9 per cent is anticipated.

As a result, the overall economic environment of Höft & Wessel AG in the relevant regional markets will be slightly better in the current financial year than in the previous year. Even though business trends of Höft & Wessel AG on the whole generally appeared to be largely unaffected by cyclical influences in the past, changing framework conditions such as lower public-sector spending may have an impact. For this reason, the industry sectors of key importance to business trends, namely Trade & Logistics, Railway & Cargo und Parking & Public Transport, are carefully monitored and the resultant opportunities and risks are weighted accordingly and taken into account in market processing. Furthermore, megatrends and public policy measures such as a deregulation of public commuter transport or even public-sector debt may acquire a certain degree of relevance in this regard.

The orientation towards customer segments alone, which is in the course of being implemented, will result in further business opportunities thanks to improved, direct customer contact, and synergies will be leveraged from the even closer and more focused collaboration in the organisation as a whole, particularly in distribution.

In the Trade & Logistics segment, with its mobile devices for data capture Höft & Wessel one of the manufacturers of note in the Auto-ID sector and market leader in the retail grocery sector, especially in Germany. The Company plans to retain this position and build on it, extending the level of market penetration in the field of logistics. The level of brand recognition in the markets even applies on an international scale. This is reflected in market analyses of well-known international research institutes, which forecast further worldwide growth for the Auto-ID sector in a single-digit percentage range.

The consistent further development of a mobile Ticket terminal in tablet format and a newly developed, particularly robust terminal for the Cargo sector will provide additional medium-term sales potential in the Railway & Cargo segment; part of this will be realised as early as the year 2014.

In the market for ticketing systems, which is not consolidated as yet, Höft & Wessel is a manufacturer of note in Europe and beyond and stands to benefit from this within the scope of the growth strategy adopted. The further extension of the solution portfolio will also yield sales potential for the organisation in Europe and other regions.

Following the conclusion, by and large, of legacy project burdens in the financial year 2013, with the Company returning to a better EBIT after two years of substantially negative operating results, the Höft & Wessel Group anticipates slightly higher sales revenues for the current financial year 2014. Unimpacted by restructuring expenses, the operating result (EBIT) in 2014 is expected to turn out substantially higher and the EBIT margin will increase accordingly.

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 Höft & Wessel AG 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 Höft & Wessel AG to differ substantially from the information on results, successes and performance expressly or implicitly contained in these forward-looking statements.

F. FURTHER DISCLOSURES

1. REMUNERATION REPORT

1.1 Board of Management

In addition to fixed remuneration, the Board of Management of Höft & Wessel AG receives regular, variable remuneration based on the EBIT 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.

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

REMUNERATION PAID TO THE BOARD OF MANAGEMENT

in EUR thousands	Non-performance related		Performance-related		Components with a long-term incentive effect		Total emoluments	
	2013	2012	2013	2012	2013	2012	2013	2012
Rudolf Spiller	434	141	100	–	13	–	547	141
Michael Höft	–	264	–	–	–	–	–	264
Thomas Wolf	–	96	–	–	–	–	–	96
Hansjoachim Oehmen	–	18	–	–	–	–	–	18
Total	**434**	**519**	**100**	**0**	**13**	**0**	**547**	**519**

In the financial year 2013 the company accrued a performance-related remuneration amounting to EUR 100 k for the Board of Management (previous year: EUR 0 k). This accrual is not included within the table "Remuneration paid to the Board of Management".

In the financial year 2013, 50,000 stock options were issued to the Board of Management in two tranches. Following the capital measures carried out in the financial year, these provide for entitlement to the acquisition of 10,000 shares.

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.

1.2 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 Chairman in this regard receives double the remuneration paid to a member of the Supervisory Board. The Deputy Chairman receives 1.5 times the remuneration paid to a member of the Supervisory Board. No payments were made to earlier Supervisory Board members. There are no commitments on the part of the Company to do so.

2. SHARE-RELATED DISCLOSURES

The Company's share capital at the balance sheet date is denominated in 10,196,988 no-par-value bearer shares, with each such share representing an entitlement to exercise one vote.

H&W Holding GmbH, Burgdorf, held a 40.6 per cent stake of the share capital as at the previous year's balance sheet date. In the course of the financial year 2013, H&W Holding sold its equity interests in Höft & Wessel AG largely to Droege International Group AG. Since October 2013 and, therefore, as at the balance sheet date, via a subsidiary the Droege Group has been a majority shareholder of Höft & Wessel AG with a stake of 72.71 per cent.

At the balance sheet date of the previous year, Zollner Elektronik AG, Zandt, had an equity interest of 10.5 per cent in the share capital of Höft & Wessel AG. This share was reduced to less than 3 per cent in the course of the financial year.

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 (Sections 84, 85 of the German Companies Act (Aktiengesetz – AktG) and to any amendments to the articles of association (Sections 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, there are no material agreements on the part of the Company that are subject to a change in control as a consequence of a takeover bid, or alternatively no compensation arrangements were entered into with the members of the Board of Management or employees in the event of a takeover bid.

REMUNERATION PAID TO THE SUPERVISORY BOARD

in EUR thousands	2013	2012
Dirk Ulrich Hindrichs	1	–
Christoph Hartmann	1	–
Johannes Feldmayer	1	–
Prof. Dr. Dr.-Ing. Dr. h.c. Klaus E. Goehrmann	19	20
Dr. Peter Versteegen	14	15
Dr. Martin Künnemann	9	10
Rolf Wessel	–	10
Manfred Zollner	1	10
Hinrich Peters	9	8
Total	**55**	**73**

G. 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/

H. DEPENDENCY REPORT

In the financial year 2013, until 8 October Höft & Wessel AG was a company dependent on H&W Holding GmbH and since 8 October a company dependent on Droege Group International AG within the meaning of Section 312 of the German Companies Act (AktG). For this reason, in accordance with Section 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, 10 March 2014

The Board of Management

BALANCE SHEET AS OF 31 DECEMBER 2013

ASSETS in EUR		31/12/13	31/12/12
A. Fixed assets			
I. Intangible assets			
Non-gratuitous concessions, industrial property rights and similar rights and assets, including licences to such rights and assets	222,021.73		192,531.79
II. Property, plant and equipment			
1. Other equipment, fixtures and fittings	995,533.91		768,953.15
2. Advance payments made and assets under construction	587,494.00		149,199.98
III. Financial assets			
Shares in affiliates	9,025,157.28		9,025,157.28
		10,830,206.92	**10,135,842.20**
B. Current assets			
I. Inventories			
1. Raw materials, supplies and trading stock	2,551,451.35		3,707,355.63
2. Work and services in progress	14,172,521.07		20,866,474.93
3. Finished goods and trading stock	4,393,716.25		5,236,182.83
4. Advance payments made	117,926.65		170,660.84
	21,235,615.32		**29,980,674.23**
II. Accounts receivable and other assets			
1. Trade receivables	9,407,123.81		7,437,300.13
2. Receivables from affiliated companies	8,129,451.28		672,525.21
3. Other assets	1,393,908.04		851,542.30
	18,930,483.13		**8,961,367.64**
III. Cash in hand, cash balances with banks and cheques	654,979.24		101,671.97
		40,821,077.69	**39,043,713.84**
C. Accruals/deferrals		**57,230.77**	**47,143.57**
D. Shortfall not covered by equity		**0.00**	**2,785,867.75**
Total ASSETS		**51,708,515.38**	**52,012,567.36**

EQUITY AND LIABILITIES in EUR		31/12/13	31/12/12
A. Equity			
I. Subscribed capital	10,196,988.00		8,497,490.00
» *Authorized capital*	*2,543,000.00*		*2,543,000.00*
II. Capital reserves	1,019,698.80		849,749.00
III. Accumulated loss	(8,798,661.38)		(9,347,239.00)
» Total balance sheet loss EUR 8,798,661.38 (previous year: EUR 12,133,106.75)			
» Balance sheet loss not covered by equity EUR 0.00 (previous year: EUR 2,785,867.75)			
		2,418,025.42	**0.00**
B. Provisions			
1. Pension reserves and similar obligations	338,947.00		349,015.00
2. Tax provisions	0.00		50,000.00
3. Other provisions	7,707,636.05		9,370,906.04
		8,046,583.05	**9,769,921.04**
C. Liabilities			
1. Liabilities due to banks	6,807,742.81		18,930,600.47
2. Advance payments on orders	6,845,915.11		19,624,651.91
3. Trade payables	9,238,092.61		2,150,806.32
4. Liabilities to affiliated companies	17,065,923.51		230,569.53
5. Other liabilities	1,163,232.87		1,142,018.09
» thereof, arising from taxes: EUR 237,100.61 (previous year: EUR 523,276.00)			
» thereof as part of social security contributions: EUR 0.00 (previous year: 14,558.00)			
		41,120,906.91	**42,078,646.32**
D. Accruals/deferrals		**123,000.00**	**164,000.00**
Total LIABILITIES		**51,708,515.38**	**52,012,567.36**

PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2013

in EUR	2013	2012
1. Sales revenues	65,321,984.40	50,229,887.03
2. Increase/reduction in portfolio of finished goods and work in progress	(7,536,420.44)	4,080,968.34
Aggregate output	**57,785,563.96**	**54,310,855.37**
3. Other operating income	2,428,235.09	2,036,769.15
4. Cost of materials		
a) Cost of materials, supplies and trading stock	28,023,793.16	27,766,181.30
b) Cost of services procured	9,766,745.36	5,611,576.95
	37,790,538.52	**33,377,758.25**
5. Personnel expenses		
a) Wages and salaries	12,775,586.91	16,712,058.35
b) Social security contributions and expenses of pension benefits and support	2,033,598.86	2,519,327.74
» thereof, for pension benefits: EUR 25,736.35 (previous year: EUR 40,826.08)		
	14,809,185.77	**19,231,386.09**
6. Depreciation and amortisation on intangible fixed assets as well as property, plant and equipment	427,560.73	462,172.85
7. Other operating expenses	9,693,179.52	12,663,769.42
8. Income from participations	0.00	550,000.00
» thereof, from affiliated companies: EUR 0.00 (previous year: EUR 550,000.00)		
Earnings before interest and taxes (EBIT)	**(2,506,665.49)**	**(8,837,462.09)**
9. Other interest and similar income	62,084.16	142,550.98
» thereof, from affiliated companies: EUR 56,140.93 (previous year: EUR 141,843.72)		
10. Interest expenses and similar charges	890,593.36	2,202,447.22
» thereof, to affiliated companies: EUR 71,409.84 (previous year: EUR 34,200.26)		
Net financial income	**(828,509.20)**	**(1,509,896.24)**
11. Net profit or loss from ordinary activities (earnings before taxes – EBT)	**(3,335,174.69)**	**(10,897,358.33)**
12. Income taxes	(49,092.21)	(37,202.68)
13. Other taxes	7,514.35	7,279.65
14. Loss for the year	**(3,293,596.83)**	**(10,867,435.30)**
15. Loss carried forward from the previous year	(12,133,106.75)	(1,265,671.45)
16. Reversal of capital reserve	6,628,042.20	0.00
17. Income from capital reduction	6,797,992.00	0.00
18. Addition to capital reserve	(6,797,992.00)	0.00
19. Accumulated loss	**(8,798,661.38)**	**(12,133,106.75)**

NOTES FOR THE FISCAL 2013

I. GENERAL

The annual financial statements of Höft & Wessel Aktiengesellschaft, Hannover (hereinafter "Höft & Wessel AG") 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 Section 275 (2) of HGB. The Company is a large cap corporation as contemplated by Section 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 Section 252 (1) No. 2 of HGB under the premise of continued trading as a going concern. In this context, we also refer to our explanatory notes in the Management Report.

II. ACCOUNTING AND VALUATION PRINCIPLES

1. 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. Movable assets subject to wear and tear at acquisition costs from EUR 150 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. Financial assets are written off in the event of a lasting impairment.

2. 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 unfinished and finished goods are determined as part of material and manufacturing unit cost and incorporate an appropriate share of material and manufacturing 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 generally stated at their nominal value. In accordance with Section 256a HGB, receivables denominated in foreign currency are translated at the middle spot forex rate prevailing on the balance sheet date. The residual term to maturity of assets in foreign currency is less than one year.

3. Provisions

Pension provisions are valued at the "Projected Unit Credit" (PUC) method, taking account of the "2005 G Tables" of Prof. Dr Klaus Heubeck. In the process, a guaranteed, dynamic pension increase of one per cent was assumed. This provision is discounted at the average interest rate published by Deutsche Bundesbank for the past seven years, for a term to maturity of 15 years. The discount rate as at 31 December 2013 amounts to 4.89 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.

4. 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.

5. 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. At the time of their first recognition and measurements at later dates, it must be established whether the requirements of Section 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.

Höft & Wessel AG 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.

2. Accounts receivable and other assets

Trade receivables as well as other receivables and other assets, except for a sum of EUR 294 k (previous year: EUR 581 k), are due within a period of one year. Receivables from affiliates, amounting to EUR 8,129 k (previous year: EUR 673 k) comprise trade receivables (EUR 39 k; previous year: EUR 130 k), loan receivables (EUR 8,532 k; previous year: EUR 980 k), trade liabilities (EUR 442 k; previous year: EUR 437 k). Other assets, amounting to EUR 1,394 k (previous year: EUR 852 k) chiefly comprise customer payments to the factoring company (EUR 321 k; previous year: EUR 367 k), items of collateral deposited (EUR 325 k; previous year: EUR 300 k), tenant loans (EUR 77 k; previous year: EUR 59 k) as well as creditors with debit balances (EUR 54 k; previous year: EUR 58 k) and receivables from the revenue office (EUR 534 k; previous year: EUR 6 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 of the preceding year, Höft & Wessel AG reported a shortfall not covered by equity amounting to EUR 2,786 k.

In accordance with Section 92 (1) of the German Companies Act (Aktiengesetz – AktG), at the Extraordinary General Meeting of 18 July 2013 the Board of Management reported the loss of half of the Company’s common stock.

Next, a resolution was adopted at the Extraordinary General meeting to reduce the Company’s common stock as part of a due and proper process for a transfer to reserves. The Company’s capital stock, amounting to EUR 8,497,490.00, divided up into 8,497,490 no-par-value common bearer shares (no-par-value shares) with a prorated amount of the capital stock of EUR 1.00 per share, will be reduced by way of a capital reduction in the ordinary course of proceedings 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, namely for the purpose of adding the amount of the reduction to the capital reserve. Article 3 (1) of the Company’s articles of association were reworded accordingly, with the Company’s share capital amounting to EUR 1,699,498.00 as at 4 September 2013. It is divided up into 1,699,498 no-par-value shares. The shares are issued to bearer.

The reduction of the capital stock in a ratio of 5:1 was executed with full legal effect following the entry in the Commercial Register of the Local Court of Hannover on 4 September 2013. The Company’s share capital reduced to EUR 1,699,498.00 in accordance with the resolution adopted was increased against cash deposits in a ratio of 1 : 5 by EUR 8,497,490.00 by issuing 8,497,490 new no-par value common bearer shares (no-par-value shares) with a prorated amount of the share capital of EUR 1.00 per no-par-value share, to reach EUR 10,196,988.00. The increase in the capital stock in a ratio of 1:5 was executed with full legal effect following the entry in the Commercial Register of the Local Court of Hannover on 8 October 2013.

The share capital is fully paid up. Capital and accumulated retained earnings can be applied subject to the provisions of Section 150 of the German Companies Act (AktG).

The capital reserve reported by Höft & Wessel AG is the statutory reserve pursuant to Section 150 AktG. This represents ten per cent of the share capital. The statutory reserve is not available for any particular purpose.

STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY

in EUR thousands	Capital stock	Capital reserve	Accumulated loss	Equity Total
Status: 1 January 2012	8,497	850	(12,133)	(2,786)
Withdrawals from capital reserves	8,497	(6,628)	6,628	8,497
Reclassified to capital reserves	(6,798)	6,798	–	0
Loss for the year 2013	–	–	(3,294)	(3,294)
Status: 31 December 2013	**10,196**	**1,020**	**(8,799)**	**2,417**

Subscribed capital
Following the capital reduction and capital increase carried out during the financial year, respectively, the total nominal value of the Company's share capital is denominated in 10,196,988 no-par-value bearer shares, with each such share representing an entitlement to exercise one vote.

The reduction of the capital stock in a ratio of 5:1 was executed with full legal effect following the entry in the Commercial Register of the Local Court of Hannover on 4 September 2013.

The increase in the capital stock in a ratio of 1:5 was executed with full legal effect following the entry in the Commercial Register of the Local Court of Hannover on 8 October 2013.

Authorised capital
As at 31 December 2012, the Company's authorised capital totalled EUR 4,248,745.00 in nominal terms.

As at the balance sheet date, 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. To the extent that the Company issued convertible bonds and the subscription right was excluded in accordance with Section 186 (3) sentence 4 of the German Companies Act (Aktiengesetz – AktG), the aforementioned amount of EUR 849,749.00 will be reduced further by the pro-rata portion of the share capital of those shares to which the bearers of convertible bonds are or were entitled to subscribe. 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 in kind.

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

On 7 January 2014, the Board of Management adopted a resolution, subject to the approval of the Supervisory Board, to increase the Company's share capital with partial use of the authorised capital, from EUR 10,196,988.00 by an amount of EUR 849.749.00 to EUR 11,046,737.00 against a cash deposit by issuing 849,749 new no-par-value bearer shares with a notional share of the capital stock amounting to EUR 1.00 per share. The new shares are eligible for dividends as of 1 January 2013. The shareholders' subscription right is excluded. The company Special Technology Holding GmbH (formerly trading as: Special Purpose Zwei Holding GmbH), a subsidiary of Droege International Group AG, is permitted to subscribe to the new shares. The issue price of the new shares is not significantly lower than the Company's share price on the stock exchange.

In a resolution adopted on 8 January 2014, the Supervisory Board of Höft & Wessel AG approved this capital measure. In executing the Supervisory Board's right to make adjustments in accordance with Article 19 of the Company's articles of association, the versions of Article 3 (1) and (2) of the Company's articles were amended to take account of the capital increase.

The increase in the authorised capital was executed with full legal effect following the entry in the Commercial Register of the Local Court of Hannover on 6 February 2014.

Contingent capital
As at 31 December 2013, 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 as at the balance sheet date:

The Company's share capital 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 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 issuing 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 Article 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 no-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 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

Within the scope of the Stock Option Plan 2005, during the financial year, 50,000 subscription rights were issued to the Board of Management in two tranches of 30,000 and 20,000 of such subscription rights. These now carry an entitlement to the acquisition of 10,000 stock options following the capital reduction carried out as at 4 September 2013 and the capital increase executed as at 8 October 2013. In the preceding year, no subscription rights were issued as part of the Stock Option Plan of 2005.

After the capital reduction of 4 September 2013 and the capital increase carried out as at 8 October 2013, the 200,000 stock options allotted to a former member of the Board of Management in the past now carry an entitlement to the acquisition of 40,000 stock options.

A managerial staff member who held 10,000 stock options had already left the Company in the previous year. Accordingly, no obligations arose for Höft & Wessel AG from the Stock Option Plan 2005 for this particular subscription rights holder. As a result, a total of 50,000 stock options remained as at the balance sheet date; of these 10,000 are within the contractually agreed holding period of two years.

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 3,294 k is reported for the financial year. For reconciliation purposes regarding this loss, the income statement was augmented to include the breakdown pursuant to Section 158 (1) of the German Companies Act (AktG).

4. Provisions

Other provisions amounting to EUR 7,708 k (previous year: EUR 9,371 k) essentially comprise provisions for warranty claims, follow-up costs and conventional penalties at EUR 3,186 k (previous year: EUR 5,159 k), contingent losses of EUR 1,737 k (previous year: EUR 1,509 k), personnel expenses of EUR 1,814 k (previous year: EUR 1,734 k) and incoming invoices outstanding, amounting to EUR 598 k (previous year: EUR 465 k). Of provisions for contingent losses, an amount of EUR 916 k (previous year: EUR 1,250 k) essentially relates to the negative recognition of market values at imparity of financial derivatives (interest rate swap). A previous year comparison of contingent losses is only possible to a limited extent because an adjustment to an asset (inventories) was made for the first time during the financial year 2013.

5. Liabilities

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

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 2,428 k (previous year: EUR 2,037 k).

This essentially includes currency translation gains amounting to EUR 401 k (previous year: EUR 752 k). In addition, other operating income comprises income from other periods totalling

MATURITY STRUCTURE OF LIABILITIES AS AT 31 DECEMBER 2013

in EUR thousands		of which, residual term		
	Total	up to 1 year	1 to 5 years	more than 5 years
Liabilities due to banks	6,808	–	6,808	–
Advance payments for orders	6,846	6,846	–	–
Trade payables	9,238	9,238	–	–
Intra-group accounts payable	17,066	–	17,066	–
Other liabilities	1,163	1,163	–	–
	41,121	**17,247**	**23,874**	**0**

MATURITY STRUCTURE OF LIABILITIES AS AT 31 DECEMBER 2012

in EUR thousands		of which, residual term		
	Total	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**	**0**	**0**

BREAKDOWN OF SALES REVENUES

in EUR thousands	Domestic	EU	Others	Total
New equipment and spare parts	20,470	16,664	5,604	42,738
Maintenance, repairs and other services	5,256	4,975	11,002	21,233
Software	1,122	345	336	1,803
Subtotal	**26,848**	**21,984**	**16,942**	**65,774**
Sales deductions	(335)	(80)	(37)	(452)
Total	**26,513**	**21,904**	**16,905**	**65,322**

EUR 1,324 k (previous year: EUR 806 k) which, at EUR 1,257 k, chiefly stem from the reversal of provisions (previous year: EUR 656 k).

Other operating expenses amounted to EUR 9,693 k (previous year: EUR 12,664 k).

These essentially comprise legal and consultancy costs (EUR 3,510 k; previous year: EUR 2,984 k), warranty expenses (–EUR 1,560 k; previous year: EUR 1,590 k), costs of buildings (EUR 1,959 k; previous year: EUR 1,978 k) and currency translation losses amounting to EUR 383 k (previous year: EUR 1,029 k) as well as passed on costs from the subsidiary Metric Group Ltd. to the AG with an amount of EUR 873 k (previous year: EUR 0 k).

As the company always reported these onward debits under personnel expenditure in previous years, a comparison with the previous year figures in terms of other operating and personnel expenses is only possible to a limited degree.

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

Moreover, other operating expenses also extend to include non-recurring costs incurred in connection with the capital increase carried out during the financial year.

8. Interest expenses and income

In the financial year, expenses resulting from the accrual of provisions amounting to EUR 22 k were recorded in interest expenditure (previous year: EUR 46 k). The Company registered gains resulting from the discounting of provisions amounting to EUR 22 k reported as interest income (previous year: EUR 50 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. 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 finance sector results from financial liabilities and GBP loans for financing 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, no new non-current loans were taken out owing to the ongoing refinancing negotiations with the lenders. Accordingly, the Company's liabilities to banks as at 31 December 2012 were reported in their entirety under current liabilities to banks.

The credit receivable purchase and assignment agreement entered into in the financial year between the financing banks, Höft & Wessel Traffic Computer Systems GmbH as well as Höft & Wessel AG led inter alia to a change in the past credit terms and conditions. These provide for the residual term of all credit liabilities of Höft & Wessel AG to uniformly come to an end on 31 December 2018 and for the agreed interest rate for credit drawdowns in euros to amount to 150 basis points above the 3-month EURIBOR and, in the case of loan utilisations in other currencies, a suitable market reference interest rate common for the relevant currency to apply plus a certain margin. Interest risks may also arise through the loan agreements between Höft & Wessel AG (borrower) and its subsidiaries (lenders) on account of the variable interest agreed.

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 utilisation of credit lines with variable interest rates were hedged in the financial year 2011 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 at 31 December 2012, Höft & Wessel AG recognised the negative market value of the derivative as a liability, leading to EUR 1,109 k in interest expenditure. The effectivity measurement as at 31 December 2013 led to a reduction through profit and loss of the contingent loss provision by EUR 193 k to EUR 916 k.

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

HEDGE TRANSACTIONS WITHOUT VALUATION UNITS

in EUR thousands	Term	Nominal value of hedge transactions	Present value
Hedge transaction with negative market values	2018	5,000	916

10. Deferred taxes

Deferred taxes are determined in respect of differences in time between the recognition of assets, liabilities and accruals/deferra ls between the commercial and tax balance sheet, taking account of eligible loss and interest carry-forwards. Loss and interest carry-forwards can be taken into consideration if the amounts in question are expected to be netted with taxable income within the period of five years stipulated by law. Deferred taxes are calculated at a tax rate of 31.6 %. Deferred tax assets and liabilities are netted. A resulting tax burden overall is recognised in the balance sheet as a deferred tax liability. In the event of tax relief, the option is exercised not to recognise this relief as such.

The tax loss carry-forwards existing in the Company are not included in calculating deferred taxes.

11. Income taxes

Income taxes amounted to EUR 49 k (previous year: EUR 37 k) had a positive impact on net profit or loss from ordinary activities.

IV. OTHER MANDATORY DISCLOSURES

1. INFORMATION ON EMPLOYEES

The workforce determined in accordance with Sect. 267 (5) of the German Commercial Code (HGB) averaged 237 employees and 0 commercial staff members (previous year: 289 and 0 commercial staff members). These figures do not include any apprentices or trainees.

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. The main reason for this is based on the existing budgeting of the Group. In the past, a claim was made only in extremely rare cases.

The guarantees essentially are performance guarantees to customers of Höft & Wessel AG.

In addition, the subsidiary Metric Group Ltd. entered into a contractual undertaking during the financial year to assume joint and several liability for a certain proportion of the lines of credit drawn on by Höft & Wessel AG.

DEFERRED TAXES

in EUR thousands	assets	liabilities
Loss carry-forwards	–	–
Provisions	821	–
Effects resulting from foreign currency valuation	–	12
Total	**821**	**12**

CONTINGENT LIABILITIES

in EUR thousands	2013	2012
Guarantees	3,983	4,353
» thereof: intra-group accounts payable	–	–
Warranties	–	5,000
» thereof: intra-group accounts payable	–	5,000
Letter of responsibility	unlimited	unlimited
» thereof: intra-group accounts payable	unlimited	unlimited

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 9,467 k as at 31 December 2013 (previous year: EUR 10,660 k). Of this sum, an amount of EUR 1,341 k is due within one year (previous year: EUR 1,429 k), EUR 4,738 k in one to five years (previous year: EUR 4,714 k) and EUR 3,388 k in over five years (previous year: EUR 4,517 k).

4. OFF-BALANCE SHEET LIABILITIES

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

As at the balance sheet date, trade receivables totalling EUR 1,098 k were sold within the scope of a genuine, silent factoring arrangement (previous year: EUR 967 k).

5. SHAREHOLDINGS

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

6. COLLATERAL

In the financial year, within the scope of a pooling agreement entered into for an indefinite term Höft & Wessel AG arranged non-accessory collateral with the remaining banks for the entire inventory of raw materials and manufacturing supplies as well as semi-finished and finished goods at the location: Rotenburger Strasse 20 in Hannover.

These items of collateral primarily serve to secure all existing, future and contingent claims to which the banks and all of its domestic and foreign branch offices may be entitled on the basis of the loans listed in the pooling agreement.

SHAREHOLDINGS

in EUR thousands	Shares in percent	Equity 31/12/2013	Net income/ (-loss) 2013
a) Shares held directly			
Höft & Wessel Traffic Computer Systems GmbH, Hanover	100	108	62
Skeye Partner Support Center GmbH, Leipzig	100	189	16
Metric Group Holdings Ltd., (MGHL), Swindon (United Kingdom)**	100	3,160*	(572)*
b) Shares held indirectly (via MGHL)			
Metric Group Ltd. (MGL), Swindon (United Kingdom)**	100	10,174*	909*
c) Shares held indirectly (via MGHL)			
Metric Group Inc., New Jersey (USA)**	100	(1,069)*	(1,079)*

* *Shareholders' equity or profit/loss for the year 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: 0,8161; 0,81092, USD: 1,3194; 1,28495.*

** *As the local financial statements will be prepared only once the annual financial statements of Hoeft & Wessel AG have been rendered, the table reflects the corresponding previous-year figures as at 31 December 2012 and for the financial year 2012, respectively.*

7. MANAGEMENT BODIES

Members of the Management Board

Rudolf Spiller
Member of the Board of Management and CEO
Sales & Marketing, Research & Development, Supply Chain, Project Management, Administration
Metric Group Holdings Ltd., Swindon (Managing Director)

Members of the Supervisory Board

Dirk Ulrich Hindrichs
Chairman
(from 6 December 2013)
Founder and managing partner of D.U.H. GmbH & Co. KG, Bielefeld
Other mandates:
Member of the Advisory Board of Lampe Privatinvest (Bankhaus Lampe KG), Hamburg
Member of the Advisory Board of Eduard Hueck GmbH & Co. KG, Lüdenscheid
Member of the Regional Advisory Board of Deutsche Bank West, Düsseldorf

Christoph Hartmann
Deputy Chairman
(from 6 December 2013)
Chief Representative of Droege International Group AG, Düsseldorf
Other mandates:
Board of Directors und Audit Committee Dutech Holdings Limited, Singapore
Consejo de Administración Helis S.A., Barcelona/Spain

Johannes Feldmayer
(from 6 December 2013)
Chief Representative of HEITEC AG, Erlangen
Other mandates:
Member of the Supervisory Board of FRIWO AG, Ostbevern/Westphalia
Member of the Management Board of LEUZE electronic GmbH & Co. KG, Owen
Member of the Advisory Board of POLAR-Mohr Maschinenvertriebsgesellschaft GmbH & Co. KG, Hofheim

Prof. Dr. Dr.-Ing. Dr. h.c. Klaus E. Goehrmann
Chairman
(until 6 December 2013)
Chairman of the Board of the International Neurobionics Foundation, Hannover
Other mandates:
Member of the Supervisory Board of MAN Truck & Bus AG, Munich
Member of the Supervisory Board of Internationale Schule Hannover Region GmbH, Hannover
Chairman of the Management Board of VHV Vereinigte Hannoversche Versicherungen, Hannover

Dr. Peter Versteegen
Deputy Chairman
(until 6 December 2013)
Attorney-at-law
(partner of the law firm Freshfields Bruckhaus Deringer LLP)

Dr. Martin Künnemann
(until 6 December 2013)
Auditor/partner of Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Hannover (until 31 May 2013)
Other mandates:
Member of the Supervisory Board of Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf
Member of the Supervisory Board of Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich

Hinrich Peters
(until 6 December 2013)
Tax consultant

Manfred Zollner
(until 28 January 2013)
Businessman
Other mandates:
Chairman of the Supervisory Board of Zollner Elektronik AG, Zandt
Member of the Supervisory Board of PA Power Automation AG, Pleidelsheim (until 28 June 2013)

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 Section 290 of 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 Section 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.

Höft & Wessel AG is included in the consolidated financial statements of Droege International Group AG, Düsseldorf (smallest group of entities).

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 SECTION OF THE GERMAN COMPANIES ACT (AKTIENGESETZ)

Special Technology Holding GmbH, Düsseldorf, a subsidiary of the Droege Group, notified Höft & Wessel AG pursuant to Section 20 (1) of AktG that it held a direct equity participation of 72.71 in the Company's share capital as at the balance sheet date.

In terms of a trust agreement dated 21 January 2013, H&W Holding GmbH, Burgdorf, transferred 2,115,875 shares (24.9 per cent) by way of a dual benefit fiduciary arrangement to the trustee H&W Beteiligungsgesellschaft mbH, Hamburg. For a further 424,875 shares held by H&W Holding GmbH (5.0 per cent), a limited voting commitment agreement was entered into with the trustee H&W Beteiligungsgesellschaft mbH, Hamburg.

Within the scope of the streamlining agreement of Höft & Wessel AG, these shares were largely acquired by Droege International Group AG, Düsseldorf.

On 9 October 2013, Special Purpose Zwei Holding GmbH, Düsseldorf, an enterprise of the Droege Group, announced that the reporting threshold of 50 per cent had been exceeded. The reportable share of voting rights as at 8 October 2013 amounted to 66.52 per cent or 6,783,053 voting shares. As at 14 October 2013, the share of voting rights amounted to 72.71 per cent. This corresponds to 7,413,961 voting rights in Höft & Wessel AG.

Zollner Elektronik AG, Zandt, notified us as at 31 December 2012 pursuant to Section 21 (1) of WpHG that it had a direct equity interest of 10.5 per cent in the Company's share capital as at the balance sheet date. This share declined to 1.7 per cent as at 31 December 2013.

12. REMUNERATION REPORT

In addition to fixed remuneration, the Board of Management of Höft & Wessel AG receives regular, variable remuneration based on the EBIT of the Höft & Wessel Group. The variable share of remuneration with a long-term incentive effect consists of stock options issued to the Board of Management within the scope of the Stock Option Plan adopted at the Annual General Meeting of 17 June 2005. 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. The performance-based remuneration is paid on reaching the Group's EBIT 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 2013, a performance-related provision was set up additionally in the amount of EUR 100 k (previous year: EUR 0 k).

During the financial year 2013, 50,000 stock options were issued to the Board of Management in two tranches of 30,000 and 20,000 units, respectively. Following the capital reduction and the subsequent capital increase carried out in the financial year, these stock options now carry an entitlement to acquire 6,000 and 4,000 shares, respectively. The fair value of the 6,000 stock options granted to the Chairman of the Board of Management under the Stock Option Plan 2005 as assessed by appraisers amounted to 6 k euros as at the day of the appraisal (date granted), 8 April 2013. (previous year: EUR 0 k). The fair value of the 4,000 stock options granted to the Chairman of the Board of Management under the Stock Option Plan 2005 as assessed by appraisers amounted to EUR 7 k as at the day of the appraisal (date granted), 30 September 2013 (previous year: EUR 0 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 Chairman in this regard receives double the remuneration paid to a member of the Supervisory Board. The Deputy Chairman receives the 1.5-fold remuneration paid to a member of the Supervisory Board.

During the financial year, no payments were made to former members of the Board of Management or to former members of the Supervisory Board.

Neither Höft & Wessel AG nor any of its subsidiaries granted any loans to the members of the Supervisory Board or the Board of Management.

Hannover, 10 March 2014

The Board of Management

REMUNERATION PAID TO THE BOARD OF MANAGEMENT

in EUR thousands	Non-performance related		Performance-related		Components with a long-term incentive effect		Total emoluments	
	2013	2012	2013	2012	2013	2012	2013	2012
Rudolf Spiller	434	141	100	–	13	–	547	141
Michael Höft	–	264	–	–	–	–	–	264
Thomas Wolf	–	96	–	–	–	–	–	96
Hansjoachim Oehmen	–	18	–	–	–	–	–	18

REMUNERATION PAID TO THE SUPERVISORY BOARD

in EUR thousands	2013	2012
Dirk Ulrich Hindrichs	1	–
Christoph Hartmann	1	–
Johannes Feldmayer	1	–
Prof. Dr. Dr.-Ing. Dr. h.c. Klaus E. Goehrmann	19	20
Dr. Peter Versteegen	14	15
Hinrich Peters	9	8
Dr. Martin Künnemann	9	10
Rolf Wessel	–	10
Manfred Zollner	1	10

COMPOSITION AND DEVELOPMENT OF FIXED ASSETS

in EUR	Acquisition costs Status 01/01/2013	Additions	Disposals	Transfers	Status 31/12/2013
I. Intangible assets					
Non-gratuitous concessions, industrial property rights and similar rights and assets, including licences to such rights and assets	3,190,402.19	100,727.32	–	–	3,291,129.51
II. Tangible fixed assets					
1. Other equipment, fixtures and fittings	10,629,556.12	433,704.13	330,077.20	149,199.98	10,882,383.03
2. Advance payments on assets under construction	149,199.98	587,494.00	–	(149,199.98)	587,494.00
	10,778,756.10	**1,021,198.13**	**330,077.20**	**0.00**	**11,469,877.03**
III. Financial assets					
Shares in affiliates	32,077,460.81	–	–	–	32,077,460.81
Total	**46,046,619.10**	**1,121,925.45**	**330,077.20**	**0.00**	**46,838,467.35**

	Accumulated depreciation			Residual book values	
Status 01/01/2013	Additions	Disposals	Status 31/12/2013	Status 31/12/2013	Status 31/12/2012
2,997,870,40	71,237.38	–	3,069,107.78	222,021.73	192,531.79
9,860,602.97	356,323.35	330,077.20	9,886,849.12	995,533.91	768,953.15
0.00	–	–	0.00	587,494.00	149,199.98
9,860,602.97	**353,323.35**	**330,077.20**	**9,886,849.12**	**1,583,027.91**	**918,153.13**
23,052,303.53	–	–	23,052,303.53	9,025,157.28	9,025,157.28
35,910,776.90	**427,560.73**	**330,077.20**	**36,008,260.43**	**10,830,206.92**	**10,135,842.20**

Auditor's Certificate

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the Höft & Wessel AG, Hannover, for the business year from 1 January to 31 December 2013. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting [and in the management report] are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Hannover, 18 March 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Jens Wedekind	**ppa. Michael Meseberg**
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public 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, 10 March 2014

The Board of Management

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