HÖFT & WESSEL
SOLUTION PARTNER FOR YOUR SUCCESS

Annual Report 2014

CALENDAR

Quarterly Report 2015		05/05/2015
Annual General Meeting	Hannover	21/05/2015
Half-Year Report 2015		11/08/2015
Nine-Month Report 2015		03/11/2015
Analyst conference		19/11/2015

KEY FINANCIALS

in EUR thousands	**2014**	**2013**	**2012**	**2011**	**2010**
Sales revenues	57,020	79,819	78,875	86,252	94,828
Operating result before depreciation & amortisation (EBITDA)	(12,639)	2,427	(7,281)	(4,769)	6,546
Operating result (EBIT)	(14,872)	(314)	(10,275)	(16,090)	1,419
Earnings before taxes (EBT)	(16,259)	12,034	(12,868)	(17,194)	502
Group earnings	(12,020)	7,541	(12,698)	(18,970)	1,888
Earnings per share (in EUR)	(1.13)	0.81	(1.49)	(2.23)	0.22
Contribution margin (in percent*)	36.3	40.3	42.9	37.5	43.1
Cash flow from operating activities	(1,909)	185	(1,378)	(2)	8,654
Average number of employees	423	422	475	497	500

** (Turnover - cost of materials +/- inventory changes) in relation to turnover*

CONTENT

Foreword

Thomas Dibbern //

CEO
Höft & Wessel AG

Dear readers,

The financial year 2014 was an unexpectedly difficult year for the Höft & Wessel Group. Expectations 12 months ago were for the restructuring programme initiated in 2012 to be concluded and the turnaround to be successfully completed. As it turned out, this was not the case.

The year 2014 was essentially characterised by time-consuming and complex residual work on legacy projects that had a severe impact on the Company's business development. Additional delays in finalising such projects that had been acquired in the period from 2007 to the year 2010 had to be absorbed with further streamlining efforts that called for a high level of personnel effort and financial expenditure. This resulted in a protracted restriction of the Company's sales activities in 2014, with a heavy impact on earnings. Accordingly, this led to an operating result for the Höft & Wessel Group of -EUR 14.9 million in the financial year 2014, compared with -EUR 0.3 million in 2013.

Despite this disappointing result, what is of primary importance is that in the course of fiscal 2014 it was finally possible to bring the relevant critical legacy projects to a successful conclusion. The finalisation of these projects will in future enable the Company to invest its resources that had previously been tied down in these projects in the further extension of a new product portfolio and in the Company's growth.

The subsidiary Metric Group Ltd. in Swindon (UK) recorded an encouraging, positive sign in its business development in 2014. Thanks to the consistent continuation of optimisation measures it was possible for the subsidiary's earnings before interest and taxes to be further improved on slightly reduced sales revenues (EBIT: EUR 0.9 million in 2014, compared with EUR 0.7 million in 2013). With the acquisition and further development of a cloud-based complete ticketing solution for public transport operations as well as the new development of car park ticketing terminals to be concluded in 2015 for the Company's core Parking Systems business, our Metric subsidiary is in an outstanding position for successful international sales activities and continual growth.

The order intake at Höft & Wessel AG also developed positively in 2014. As it turned out, numerous enterprises of note at home and abroad trusted and relied on our products. At the top of the list was Deutsche Bahn (German Rail) with a large-scale order worth EUR 15.0 million placed in the third quarter of 2014. In addition, yet another EDEKA food retailer will be deploying Höft & Wessel products in their mobile data capture operations in the future. The railway service WestfalenBahn placed an order for 90 new ticketing terminals as well as a back-office system with a total volume of approx. EUR 3.0 million. These substantial order receipts, combined with a large number of other success stories in sales, serve to document the sustainable market access and competitiveness of the Höft & Wessel Group.

Notwithstanding the non-recurring expenditure on concluding the legacy projects, the Höft & Wessel Group already invested consistently in new product developments in 2014. This was also possible in particular thanks to the stable development of the workforce, in which IT specialists and mechanical engineers for the development of technologically sophisticated software and hardware traditionally predominate in the Höft & Wessel Group (on an annual average, 423 employees in 2014; 422 in 2013).

The extensive new product developments, including the new mobile terminal in particular as well as the latest, fourth generation of a successful data capture device, constitute the basis for the future success of the Höft & Wessel Group. The mobile terminal “almex.mobile 2” was already presented to the public at the InnoTrans in Berlin at the end of September 2014. We presented the new mobile data capture device skeye.allegro LSi (the predecessor model of which was sold over 250,000 times) at the EuroCIS in Düsseldorf in February 2015, which met with a highly enthusiastic reception.

In addition to these already completed developments, in the financial year 2014 Höft & Wessel invested extensively in the development of a state-of-the-art web-based back-office system and a new application software for ticketing terminals. With these developments and the implementation as a full package solution as part of one of the largest public transport projects in Germany in 2015 and 2016, Höft & Wessel AG has delivered compelling proof of its expertise at developing solutions and its competitiveness.

The Höft & Wessel Group remains focused on the three business fields “Public Transport”, “Retail, Logistics & Field Service” and “Parking Systems” and reoriented its sales organisation at the turn of 2014 / 2015 to these highly promising markets. The product business geared to stability in the business field Retail, Logistics & Field Service as well as the after-sales-oriented solution business in the Parking Systems business unit represent an ideal supplement to the project business in Public Transport operations. With its new orientation of sales to these three markets, the Höft & Wessel Group’s long-standing industry experience stands it in good stead, enabling the Company to act as a technology consultant to customers on the market ("consultative selling").

The planned sales revenues of the Höft & Wessel Group for the financial year 2015 are predominantly secured inter alia by order portfolios for nationwide rollout of the mobile terminal for train attendants of Deutsche Bahn as well as for rollout of the new mobile data capture device skeye.allegro LSi at a large EDEKA food retail company. The completely renewed product portfolio of Höft & Wessel in the course of fiscal 2015 will give the company a good starting point for initiating a sustained growth phase.

As the principal shareholder of the Höft & Wessel Group, the Droege Group supported the streamlining efforts in 2014 with a capital increase and the funding of a technology acquisition, amongst other measures. The Droege Group continues to support and endorse the growth initiatives launched by the Höft & Wessel Group and remains firmly convinced of the Company’s positive strategic and operational development. This gives the workforce and us as the new Board of Management of the Höft & Wessel Group the necessary stability and foundations for the Company’s long-term successful development.

Hannover, April 2015

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 Shareholders,
Dear Readers,

The strategic reorientation of the Höft & Wessel Group had to be consistently continued in the financial year 2014. On the one hand, in the course of 2014 it was possible to successfully finalise the critical legacy projects. On the other, the volume of orders received saw a positive trend, in particular thanks to a large-scale order placed by Deutsche Bahn AG. Moreover, the Höft & Wessel Group invested in new product developments in a targeted fashion and acquired and further developed a cloud-based full ticketing solution. As a result, key foundations were laid for the Company's future development. We also plan to proactively continue pursuing the reorientation and further development of the Höft & Wessel Group.

In the financial year 2014, 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 development as well as its business strategy and policy, and with the current market, competitive, earnings and liquidity 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 a number of 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, also 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. Following the downsizing of this control body to three members in 2013, the Supervisory Board has not set up any committees since and now exercises its tasks jointly. During the financial year 2014, the Supervisory Board held eight meetings. Moreover, resolutions were also adopted by circulation procedure, and telephone conferences were held.

Besides consultancy and monitoring-related points of emphasis on the Company's corporate development, in 2014 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 discussed on a regular basis.
- >> Key topics in corporate 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.
- >> 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.
- >> The Board of Management now consists of the following new members: Mr Thomas Dibbern (CEO), Chief Officer for Sales / Marketing, Dr Günter Kuhlmann (CTO), Chief Officer for Manufacture and Development, as well as Mr Paul Lebold (CFO), Chief Officer for Finance, IT, HR and Supply Chain Management.
- >> At the Supervisory Board meeting held on 28 October 2014, Mr Rudolf Spiller was released from his tasks as CEO of Höft & Wessel AG with immediate effect. Mr Thomas Dibbern was appointed the new Chairman of the Board of Management.

The auditors attended the Supervisory Board meeting at which the annual financial statements were discussed and also took part in the meeting of the Supervisory Board held by telephone conference, 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 2014 were audited by the auditor appointed and commissioned by the Supervisory Board, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, and issued with an unqualified auditor's certificate.

The outcome of the audit and the audit certificate on the dependent parties report dated 8 April 2015 read as follows:

“According to our audit and assessment in accordance with our duties, we confirm that

1. *The actual statements made in the report are correct,*
2. *In the case of the legal transactions listed in the report, the Company’s performance was not unduly high.”*

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 2014 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. On the other hand, the auditor perceives good progress concerning the creation of an early risk identification system that now is suitable. 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 auditor's 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 2014; as a result, the annual financial statements were adopted.

The Supervisory Board wishes to thank the new Board of Management, the executives and employees for their loyalty to the Company in yet another difficult year and for their commitment and dedication in the year 2014.

Hannover, 8 April 2015

The Supervisory Board

Consolidated Management Report for fiscal 2014

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 extensive system solutions in the fields of public transport, retail & logistics, and parking & public transport. As a solution provider for "Mobility as a Service" in the broader sense, in doing so the Company can proactively exploit the growing requirements in the field of mobility. The Höft & Wessel Group would like develop and shape the intermodal transport of persons and merchandise as well as the associated services in the form of integrated management and through the networking of solutions. This also includes the capture, validation, consolidation and settlement of these streams of persons, merchandise and services across all systems.

To the Höft & Wessel Group, "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 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, with subsidiaries in Swindon (to the West of London) as well as in New Jersey in the US, is a producer of system solutions for the target markets of public transport, retail & logistics, and parking systems. Customers include enterprises of note, public organisations and municipalities in the segments of transport, retail, and logistics. The software and hardware solutions serve to capture, validate and process data. Key regional markets are Germany, the United Kingdom, and Switzerland. 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.

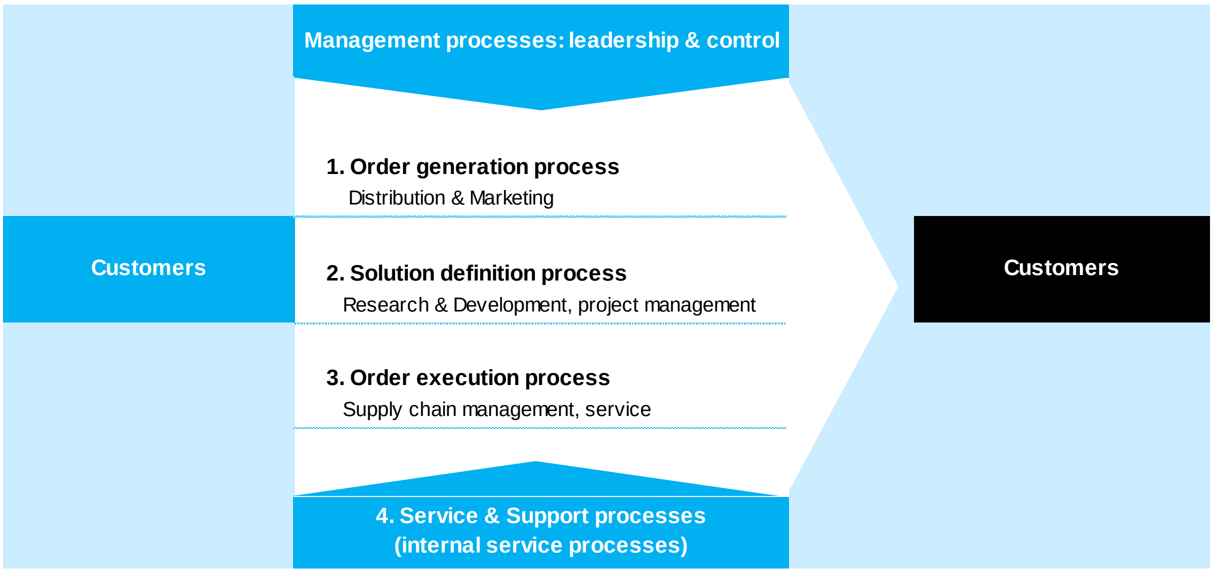
External manufacture of its products represents a key element of the business model of Höft & Wessel. In this context, the Company is responsible for the complete development, close coordination of external production, and detailed quality control. For the production of car park terminals, the English 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 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 order execution and is supported by internal services and by management processes. The entire process model is characterised by a strong customer orientation. The structural organisation of the Höft & Wessel Group as a whole is defined along the three core processes in place. These three core processes are also reflected in the three areas of responsibility of the Board of Management:

- Sales, Marketing and Product Management (➔ Order generation)
- Research, Development and Projects (➔ Solution definition)
- Supply Chain, Service, Finance, IT, and Human Resources (➔ Order execution)

PROCESS MODEL



3. Product and solution portfolio

Since its inception in 1978, the Company has developed further into a solution specialist for data capture, validation and processing. With a dedicated product portfolio that is to be further extended, the Company provides extensive system solutions and services for the industry segments of public transport, retail & logistics, and parking systems. Historically, Höft & Wessel is well known for its individually customised solutions. Even though the expertise to develop ideally matching solutions for specific customer requirements still remains a key characteristic of Höft & Wessel, the company has developed in particular into a provider of flexible standard solutions. The basis of these solutions are products structured in modular form. In addition, synergies are being generated beyond the three fields of business by thinking in terms of “product families”.

The business segment public transport comprises the offering of all-in solutions for public and private transport companies with guidance systems via back office all the way through to dispensing machines and mobile vehicle systems and 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 and validator of eTickets have been designed for installation in vehicles. In future, this on-board computer will also facilitate a new, simple form of electronic tickets in which contactless credit cards can be used instead of fare tickets. A small, handy control device makes it easier for conductors to check eTickets, 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 eTicketing on an international scale. Moreover, the completely new development of a mobile system for the special requirements in shunting and construction work is 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, “hands free”, and in a rugged environment and can be reliably deployed in external areas.

The business field Retail & Logistics deals with data capture systems ranging from a simple scanner all the way through to tablets with large-format printers. The product range 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 include various Windows systems as well as Android. The range on offer is complemented by development frameworks for software development and a device management system for back office, facilitating automatic configuration and installation of handhelds. As a result, the effort and expense of device deployment is substantially minimised.

The business segment Parking Systems comprises the offer of modern car park terminals at which payments can by made by all options available on the international market. Control of the car park terminals is handled via a central, web-enabled parking management system for the back office. The product range is rounded off by ticketless parking systems based on number plate identification (referred to as LPR systems) as well as barrier systems (referred to as pay-on-foot systems). The latter are sourced from the provider Amano. Via its Metric subsidiary, this makes Höft & Wessel a complete provider of parking solutions.

4. Workforce

In the financial year 2014, the Höft & Wessel Group had an average of 423 employees, including apprentices and trainees (previous year: 422). Roughly one third of the workforce is engaged in Research & Development. This illustrates the particular 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.

The Company has an extensive and sophisticated vocational training programme in place, with ten apprentices and trainees at the end of 2014. There are also 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.

Höft & Wessel AG will further extend its vocational training activities in 2015 and give additional apprentices and students the opportunity for attractive vocational training.

5. Service

With a share of about 30 per cent of Group sales revenues, services within the scope of the after-sales offering for customers also reflected the importance of this constant business in 2014. The absolute sales volume from services rendered amounted to approx. EUR 20 million, as in the preceding year. 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 a direct 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, the operating result (EBIT) and the EBIT margin (EBIT/sales).

The Höft & Wessel Group uses non-financial performance indicators for the financial year 2014 for the very first time. To this end, personnel figures are broken down into the fields of Research and Development (R&D), Supply Chain Management (SCM), Sales and Marketing (SM), Business Services (BS) as well as Training / interns and Metric Group Ltd. The Company plans to optimise the ratio of internal to external employees – particularly in development and project management – substantially in favour of the share of internal employees. This is to ensure that expertise acquired remains within the Company and the transfer of knowledge is ensured on a long-term basis.

In 2014, the performance indicators specified above reflected the following development year-on-year:

FINANCIAL PERFORMANCE INDICATORS

In EUR million	**2014**	**2013**	**Change** in per cent
Sales (IFRS)	57.0	79.8	(28.6)
EBIT (IFRS)	(14.9)	(0.3)	n/a
EBIT margin in %	n/a	n/a	n/a

The comparison with the values forecast in the previous year is shown in the following table. Section B 3.1 contains a description of the change in EBIT.

In EUR million	**2014 (actual)**	**Forecast for 2014**
Sales (IFRS)	57.0	> 79.8 “slight upward trend compared to 2013”
EBIT (IFRS)	(14.9)	> (0.3) “substantially higher compared to 2013”
EBIT margin in %	n/a	> 0.00 “substantially higher compared to 2013”

NON-FINANCIAL PERFORMANCE INDICATORS

per capita	2014	2013	Change in per cent
R&D	128	n/a	n/a
SCM	73	n/a	n/a
VM	26	n/a	n/a
BS	26	n/a	n/a
Vocational training / interns	13	n/a	n/a
Total	**266**	**n/a**	**n/a**
>> of whom external employees / freelancers	20		
Metric Group Ltd.	159	n/a	n/a
Höft & Wessel Group	**425**	**n/a**	**n/a**

NON-FINANCIAL PERFORMANCE INDICATORS

per capita	2014 (actual)	Forecast for 2014
R&D	128	n/a
SCM	73	n/a
VM	26	n/a
BS	26	n/a
Vocational training / interns	13	n/a
Total	**266**	**n/a**
>> of whom external employees / freelancers	20	n/a
Metric Group Ltd.	159	n/a
Höft & Wessel Group	**425**	**n/a**

7. Research and development

The Research & Development division constitutes an essential element of the technology enterprise. The group of companies invests at least ten per cent of sales per annum. According to the EU Industrial R&D Investment Scoreboard, the Höft & Wessel Group is 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 programs, for instance. In 2014, the dedicated further development of successful product series was continued. This includes ticketing and car park terminals as well as a mobile data capture device that meets the special deployment requirements for the target market Retail & Logistics, and a new mobile terminal for use in public transport systems. On the whole, therefore, it will be possible to achieve a fully overhauled product presence of the Höft & Wessel Group in 2015, which will lead to a significantly improved competitive situation.

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.

Expenditure on Research & Development within the Group in the reporting year 2014 came to EUR 8.3 million (previous year: EUR 11.7 million). The share of total Group sales revenues accounted by spending on research & development amounted to 14.5 per cent (previous year: 14.6 per cent).

During the financial year 2014, development costs amounting to EUR 2.2 million were capitalised; of this sum, roughly EUR 0.9 million was accounted for by product development at Metric. The extent of depreciation and amortisation of capitalised development costs amounted to EUR 1.4 million in 2014 (previous year: EUR 2.0 million).

B. Economic report

1. General framework conditions

The process of expansion in the world economy intensified in the course of 2014. After global Gross Domestic Product had risen only slightly in the first half of the year, growth became appreciably more robust in the third quarter. Global trade also picked up markedly after recording little growth in the first half of the year. For the fourth quarter of 2014, the IfW indicator of global economic activity calculated on the basis of sentiment indicators from 42 countries forecasts a similarly robust increase in production. However, measured by the medium-term trend this growth rate remains moderate, and at an annual average of 3.4 per cent, global production is only likely to have risen slightly more sharply than in 2013.

For the Höft & Wessel Group, the target markets Public Transport, Retail & Logistics and Parking Systems were of decisive importance in 2014. According to studies of future public commuter transportation in Europe, expenditure on public transport is expected to rise in the single-digit percentage range. This is being primarily driven by newer technologies within the scope of the extension of eTicketing 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.

2. Business trends

The Höft & Wessel Grouip had to contend with a substantial decline in sales in the financial year, at EUR 57.0 million (2013: EUR 79.8 million). A breakdown of the key sales markets reveals the following position:

BREAKDOWN OF SALES REVENUES

In EUR million	2014	2013
Germany	25.2	27.5
United Kingdom	19.1	18.8
Rest of the EU	8.4	18.3
Switzerland, the US and other countries	4.4	15.2
Total	**57.0**	**79.8**

While business trends in the core markets of Germany and the United Kingdom were fairly stable, in Switzerland and the rest of the EU it was not possible to acquire substitution orders for large-scale projects, which had contributed a double-digit figure in millions to sales revenues of the Höft & Wessel Group in 2013. Instead, the finalisation of these large-scale projects in 2014 represented a burden on development capacities to a substantial degree, particularly at the Company's headquarters in Hannover, a factor that compounded the highly unsatisfactory earnings trend on the whole.

In contrast, following a very subdued start into the financial year 2014, on the whole it was possible to achieve an order intake of EUR 70.3 million (previous year: EUR 79.9 million). The resulting order portfolio at the beginning of the financial year amounts to EUR 53.4 million, representing sustainable foundations to facilitate growth once again in the medium term.

3. Situation report

3.1 Earnings position

The operating result (EBIT) of the Höft & Wessel Group for fiscal 2014 was clearly negative at -EUR 14.9 million (previous year: -EUR 0.3 million). The main reasons for this, apart from the unexpectedly high sales decline of EUR 22.8 million, were erroneous assessments of the actual costs of finalising large-scale projects still under way as at 31 December 2013. And finally, the restructuring measures initiated in the fields of personnel and process optimisation resulted in an unscheduled total charge of EUR 3.1 million to the operating result for 2014.

The sharp decline in sales, in combination with the substantial expenses of disproportionately higher material expenses on legacy projects, led to a decline in the contribution margin „CM I“ (sales +/- inventory changes + capitalised company-produced additions - material expenses) and, therefore, to a direct deterioration of the operating result (EBIT) of EUR 10.8 million year-on-year.

Personnel expenses in the year under review came to EUR 22.9 million, only up by EUR 1.3 million year-on-year in spite of numerous measures and the finalised change in the Company’s management (previous year: EUR 21.6 million). It was possible to achieve a substantial reduction by EUR 3.0 million in expenditure on external personnel for project management and development and other external staff, from EUR 6.6 million in 2013 to EUR 3.6 million in 2014.

Other expenditure – netted with other income – was up by EUR 3.0 million, from EUR 9.6 million in 2013 to EUR 12.6 million in 2014. A substantial share of this was accounted for by expenditure on advisory services, particularly in the field of process optimisation, amounting to EUR 2.7 million.

Depreciation and amortisation decreased by EUR 0.5 million, from EUR 2.7 million to EUR 2.2 million. A high level of expenditure on winding up and/or completing legacy projects again led to scarce financial scope for investments in 2014.

Owing to the limited current account and guarantee lines available, which – in spite of a capital increase and associated liquidity inflows of EUR 2.5 million – were mostly almost depleted intra-year, in the Höft & Wessel segment the Company was only able to obtain funding via a merchandise credit from its main supplier. This credit was utilised in the medium single-digit million range on an annual average and carried interest on terms in conformity with market conditions in the medium single-digit percentage range. As a result, financing expenses in the reporting year were up by EUR 0.3 million, from EUR 1.1 million to EUR 1.4 million.

Against this backdrop, pre-tax earnings came to -EUR 16.3 million. As Höft & Wessel Traffic Computer Systems GmbH declared a waive to the Company of receivables arising from the accumulation of bank debts of Höft & Wessel AG within the scope of the commercial debt haircut in 2013, at Group level this led to a reversal of deferred tax liabilities and, therefore, to taxable earnings of EUR 4.2 million. Accordingly, the Group's operating result in 2014 amounted to -EUR 12.0 million.

3.1.1 Höft & Wessel segment

The Höft & Wessel AG segment comprises the companies Höft & Wessel Aktiengesellschaft and Höft & Wessel Traffic Computer Systems GmbH. The company Skeye Partner Support Center GmbH, Leipzig, was merged with the parent company Höft & Wessel AG effective as of 1 January 2014.

Höft & Wessel AG is an established solution provider for the target markets of Public Transport and Retail & Logistics in Europe. In 2014, this segment had to contend with a substantial decline in sales at EUR 37.9 million (2013: EUR 59.8 million). In combination with the factors mentioned under 3.1, the operating result in this segment turned out substantially negative at -EUR 15.8 million (previous year: -EUR 1.0 million).

3.1.2 Metric segment

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 2014, this segment generated EUR 19.1 million in sales, slightly down on the previous year (2013: EUR 20.0 million). In contrast, the operating result increased by EUR 0.2 million (from EUR 0.7 million in 2013) to EUR 0.9 million in 2014, thanks to the consistent continuation of the "MPIP" cost reduction programme. The EBIT margin amounted to 4.7 per cent (previous year: 3.5 per cent).

3.2 Financial position

Following the operating losses accumulated, the Group's financial position became increasingly critical in the fourth quarter of 2014. The existing syndicate of banks was not prepared to enlarge the credit lines granted and the guarantors had frozen their guarantee lines – following a partial intra-year stretching – which meant that even guarantees expiring on schedule could not be replaced by new lines. On the supplier side, the terms of payment for the Höft & Wessel Group were either reduced or delivery was made against payment in advance.

In December 2014 the Company negotiated a merchandise credit with its main supplier amounting to EUR 12.0 million, which will be available to the Group until 31 December 2016. The interest rate for this merchandise credit limit was also lowered significantly to a medium single-digit percentage rate common on the market. At this point in time the credit limit had already been utilised to a degree of approx. EUR 9.0 million.

In parallel, a related entity of Höft & Wessel AG granted Metric Group Ltd. a loan amounting to EUR 3.0 million with a term to maturity until end-2017.

In total, the financing leeway of the Höft & Wessel Group has thus increased by EUR 6.0 million. This means that the Group's funding is secure until 31 December 2016 if business proceeds as planned.

Against this backdrop, the primary objectives of finance management are to plan, monitor and ensure the solvency of the Company.

3.2.1 Restructuring/Streamlining

The main emphasis of the restructuring and streamlining initiatives in 2014, in addition to a further optimisation of the personnel structure, was on defining process enhancements in the following corporate areas:

- Demand planning
- Procurement optimisation
- Reduction in superfluous repairs (DOA)
- Efficiency of repair centres
- Efficiency of storage / logistics
- R&D – Reduction of warranty costs (services)
- R&D – Reduction of warranty costs (material)
- R&D – Increase in development efficiency

The implementation of the documented results is to lead to a sustainable improvement of the cost structure by EUR 4.3 million already in the short run.

3.2.2 Capital structure

As at the 31 December 2013 balance sheet date, the level of equity in the Group amounted to EUR 3.8 million. Due to the capital increase in the year under review, the level of subscribed capital was up by EUR 0.8 million, from EUR 10.2 million to EUR 11.0 million. As a result, capital reserves increased by EUR 1.7 million, from EUR 24.9 million to EUR 26.6 million. Accordingly, in the wake of the capital increase, the level of equity grew by a total of EUR 2.5 million. The period result, amounting to -EUR 12.0 million, IAS 19 adjustments at Metric, which came to -EUR 1.7 million, as well as a change in the currency compensation item amounting to EUR 0.3 million, produced negative Group equity as at 31 December 2014 amounting to -EUR 7.0 million.

3.2.3 Investments

Investments by the Höft & Wessel Group predominantly relate to the field of research and development. During fiscal 2014, additions to fixed assets amounted to EUR 4.1 million (preceding year: EUR 2.8 million). With a total of EUR 0.5 million, only about 12 per cent of these investments is accounted for by furniture and fixtures as well as standard software (maintenance capex). Capitalised development costs amounted to EUR 2.2 million.

EUR 0.7 million of inflows were accounted for by the acquisition of the software “Future Fleet”, by means of which the competitiveness of the Metric Group was secured in the medium term in the field of vehicle systems.

During the financial year, additional advance payments (plant under construction) on external development services were recorded in the amount of EUR 0.6 million.

3.2.4 Liquidity

The Höft & Wessel Group has a total of EUR 8.5 million in collateralised and uncollateralised lines of credit available to it with a term to maturity until year-end 2018. 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 5.25 million) and EUR 2.0 million in factoring lines (previous year: EUR 2.0 million) are available to the Company, which cannot be used at present because the guarantors declared that existing guarantees would not be declared payable immediately, but that guarantee lines becoming free would not be available for utilisation any longer.

On the supplier side, the Company succeeded in arranging a merchandise credit line of EUR 12.0 million with a term to maturity until 31 December 2016.

As project operations are difficult to plan, resulting in preliminary financing needs, there is an entrepreneurial challenge as far as intra-year control of short-term liquidity is concerned. To compound matters further, the Company will not be able to resort to guarantees, at least not in the coming months. As a result, the Company will need to engage in substantial anticipatory performance. Contractually agreed advance payments in line with project progress could not and still cannot be drawn on account of expiring guarantee lines that will not be replaced. For this reason, a substantial and sustainable improvement in the liquidity situation will depend to a decisive degree on whether large-scale projects can be successfully finalised without delay.

Measured according to the period result of the Höft & Wessel Group (-EUR 12.0 million), the cash flow from current operating activities turned out comparatively moderate at EUR 1.9 million (previous year: EUR 0.2 million). The main causes of this are the merchandise credit line already mentioned, a significant reduction in trade receivables owing to the sharp decline in sales as well as the increase in other debts (including advisory services in connection with process optimisation).

The cash flow from investment activities came to -EUR 4.1 million (previous year: -EUR 2.7 million). In the period under review, these investments were funded by a positive cash flow from financing activities which – chiefly due to the capital increase already mentioned as well as two loans from a related entity of Höft & Wessel AG for a total of EUR 3.7 million to Metric Group Ltd. – turned out substantially positive at EUR 6.0 million (previous year: EUR 2.9 million).

As a result, the level of cash & cash equivalents remained more or less unchanged, whereas in the previous year a slight increase by EUR 0.3 million had been recorded.

3.3 Asset position

Long-term assets during the reporting year increased by EUR 1.8 million, from EUR 9.9 million to EUR 11.7 million. A total change of EUR 2.7 million was recorded in the volume of intangible assets. This increase also includes the acquisition of the “Future Fleet” software by Metric Group Ltd. for approx. EUR 0.7 million. The volume of property, plant & equipment decreased moderately by EUR 0.7 million, from EUR 2.5 million to EUR 1.7 million, which on the one hand underscores the low level of maintenance capex in the Group and, on the other, is due to the restructuring of advance payment services in the field of intangible assets. Deferred tax assets, at EUR 2.7 million, more less remained at the previous year’s level of EUR 2.9 million. The effect resulting from the valuation of pension commitments of Metric Group Ltd. was almost compensated by the reversal of deferred tax assets on temporary differences at Höft & Wessel AG.

Non-current assets saw w substantial decline by a total of EUR 6.6 million, from EUR 39.2 million to EUR 32.6 million, which was chiefly attributable to the decline in sales in the year under review. Trade receivables as at the balance sheet date amounted to EUR 15.0 million, down on the previous year’s figure (EUR 22.9 million) by EUR 7.9 million.

Total non-current liabilities amounted to EUR 18.5 million (previous year: EUR 21.3 million). Liabilities to banks included hereunder remained more or less unchanged at EUR 7.7 million (previous year: EUR 7.4 million). Owing to the waiver of receivables by Höft & Wessel Traffic Computer Systems GmbH in relation to Höft & Wessel AG, deferred tax liabilities in the Group declined by EUR 4.3 million to a present level of EUR 0.1 million. Personnel-related provisions in the non-current segment increased by EUR 1.9 million, from EUR 8.2 million to EUR 10.1 million, on account of the valuation of pension commitments of Metric Group Ltd. as at the balance sheet date.

Total current liabilities came to EUR 32.9 million, up substantially by EUR 9.0 million year-on-year (2013: EUR 23.9). Trade payables alone increased by EUR 5.0 million, from EUR 10.4 million to EUR 15.4 million, on account of the merchandise credit facility negotiated on a step-by-step basis in the year under review.

In the category of liabilities to affiliates, the Höft & Wessel Group reports an amount of EUR 4.6 million for the first time. This comprises two loans for a total of EUR 3.7 million granted by a related entity of Höft & Wessel AG to Metric Group Ltd. and derived from deferred receivables from advisory services (EUR 0.9 million) rendered by a related entity of Höft & Wessel AG to Höft & Wessel AG.

The performance-related remuneration component of advisory services amounting to EUR 1.7 million is accounted for under other financial liabilities and is chiefly responsible for their increase by EUR 2.6 million, from EUR 2.1 million to EUR 4.7 million.

During the last financial year, total assets of the Höft & Wessel Group declined by EUR 4.8 million, from EUR 49.1 million to EUR 44.3 million. The asset intensities in this context developed as follows:

ASSET INTENSITIES

in per cent	**2014**	**2013**
Asset intensity		
Fixed assets / total assets	20	14
Inventory intensity		
Inventory / total assets	31	28
Intensity of receivables		
Trade receivables / total assets	34	47

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. In order to achieve a sustainable consolidation, the Board of Management - in addition to measures initiated to boost sales – implemented a continual improvement process along with a rigorous savings programme.

C. Events after the balance sheet date

After the close of the financial year, on 15 January 2015 the Swiss National Bank decoupled the Swiss Franc from the Euro. As a result, the past exchange rate between the two currencies was modified, reaching near parity as at today's date.

This exchange rate modification can have a decisive influence on non-current leasing obligations of the Company.

The Board of Management of Höft & Wessel AG plans to merge the subsidiary Höft & Wessel Traffic Computer Systems GmbH, Hannover, with the parent company Höft & Wessel AG, Hannover, with retrospective effect as at 1 January 2015.

D. Opportunity and risk report

1. Opportunity 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 regular management meetings with the Board of Management and in management workshops, the findings made are discussed on a weekly 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. However, this also included the increased focus on the target markets Public Transport, Retail & Logistics und Parking Systems.

Other opportunities arise from the strategic further development initiated. The Höft & Wessel Group 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 in the long run. This means a deepening of the value added chain.

In the next few years, the Company perceives increasing demand particularly for management, planning, guidance, information and ticketing systems. 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.

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

2. Risk Report

As a capital market-oriented company, pursuant to Section 91 (2) of the German Companies Act (*Aktiengesetz – AG*), being the parent company Höft & Wessel AG is required to describe the characteristics and features of the internal control and risk management system, including early identification of risks both in terms of the accounting processes of the consolidated companies and the Group accounting process.

Risk management was intensified on account of the experiences over the past financial year. The task at hand is to consistently refine and extend risk management since the Company's project risks have turned out to be difficult to estimate.

This also extended to include the accounting-related internal control system that was 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. Moreover, since the financial year 2013 the software tool RiskCity has been actively and successfully deployed for risk management purposes. The Metric subsidiary maintains an early risk identification system of its own along with the relevant documentation in the "Risk and Crisis Management Manual". The risk evaluation of the subsidiary is included in the Group analysis.

In the field of risk management, risks are recorded in the observation fields "external risks", "financial risks", "operational risks" and "strategic risks". The main focus is on the "operational risks", which chiefly include project risks, as well as on "financial risks". Due to the strong focus on project risks, the monthly reports to the Board of Management were structured into "project risks" and "general/other risks".

Risks are recorded by risk executives at Höft & Wessel and reported to Central Risk Management. Monthly interviews were held with members of the Board of Management and division heads in 2014. Project risks are recorded by the Company by means of a reconciliation of the project status reports prepared on a weekly basis. In addition to the basic information, an evaluation is made in cooperation between the risk executive and the risk manager. In the process, the extent of damage or loss (potential damage or loss in EUR '000s) in the event of occurrence and the probabilities thereof (probabilities of the risk eventuating) are measured in per cent. As a product of these two categories, the weighted damage or loss expectation value is calculated, reflecting the significance of the risk to the Company. There is also 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. If measures exist, then a "net" quantification of the risks will be made.

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.

All risks are recorded and permanently monitored in the risk management system and reported to the Board of Management on a monthly basis. The primary focus in this regard is on risks with a damage or loss expectation value in excess of EUR 200 k as well as on the changes in relation to the preceding month.

BREAKDOWN OF RISKS BY OBSERVATION FIELDS

In EUR '000s	Amount of damage	Expected amount of damage
Risk field		
Operational risks	33,789	5,278
Financial risks	4,981	1,585
Strategic risks	0	0
External risks	750	75
Total	**39,520**	**6,938**

In the observation field of **operational risks**, items 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. The material individual risks are presented in this particular observation field.

A material individual operational risk is the timely and error-free completion of large-scale projects. In addition to possible reputation loss, risks also include significant fines in the form of conventional penalties and/or claims for damages. In the financial year 2014 one particular case can be mentioned as an example. Within the scope of a new development, due to individual risks such as "subsequent developments owing to terminated construction elements", "audio requisitioning" or "mutual influencing of GSM-R modules" kept leading to endangered or delayed acceptances. The individual risks were named by the Project Head and documented on a monthly basis in risk management. Thanks to effective risk management, all risks were processed in such a manner that the project was accepted during the financial year. Owing to risk-related postponements in large-scale projects, gaps in liquidity planning may arise. If such gaps are not discovered in good time, there is the danger of temporary inability to pay. If deficiencies are not remedied, there is a danger of the sales and operating result targets being endangered. The risks and consequences of a potential shortfall in liquidity are dealt with at length in the paragraph Financial risks.

Owing to the significance for the Höft & Wessel Group, there is a special project reporting system in place, which is closely monitored by Controlling. 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. Facts and circumstances of relevance to risks are recorded in the software tool RiskCity. The risks of "legacy projects" were significantly reduced in the course of 2014 thanks to contractual arrangements with customers and the achievement of material milestones and acceptances. As a result, the operational risk at the end of 2014 can be considered as substantially reduced compared with the position at the beginning of the year.

Höft & Wessel AG is dependent to a high degree on a functioning IT infrastructure. The Company has been using the SAP R/3 Enterprise programme since 1 January 2005. Partial failures can be bridged by means of backups and redundancies. In the unlikely event of a total failure, backup mechanisms are deployed that restore full functionality within 1-3 days. Should the risk eventuate, there will only be slight impacts on the Company's asset, financial and earnings position.

The observation field **Financial risks** comprises *inter alia* market and sales risks, defaults of receivables, risks of exchange-rate fluctuations and interest rate hikes.

Höft & Wessel deals with market and sales revenue risks as material individual risks by endeavouring to establish long-term contractual relations with customers wherever possible. The risk of declining order receipts owing to the general economic situation is dealt with by continual market observation. Changing customer requirements and impending technological changes are monitored closely and coordinated with staff working on projects currently at the development stage. If the risk eventuates, negative impacts on the Company's asset, financial and earnings situation are to be expected.

The availability of cash & cash equivalents is considered a further material individual risk. The **liquidity risk** is taken into account with an effective cash management system and fixed weekly liquidity planning activities based on a 13-week revolving plan. Moreover, medium-term liquidity requirement forecasts are also prepared as part of the planning activities. As a rule, the bank lines available intra-year were nearly fully exploited. In the event of a lack of cash & cash equivalents, new projects can possibly not be accepted as a preliminary financing arrangement would not be ensured. Participations in public tenders are frequently tied to the availability of guarantees. If insufficient liquidity were to prevent the acceptance of new projects and participation in public tenders, the achievement of the sales and growth targets would be endangered. For this reason, the Company resorted to supplier credits as an alternative financing option. Moreover, the procurement process and pricing are subjected to a continual improvement process.

A risk to the continued existence of the company as a going concern exists in connection with the refinancing or the prolongation of a revolving merchandise credit facility expiring on December 31st, 2016. Additional risks could materialise if mid-term planning - predominately revenue forecasts and calculations for major projects - cannot be achieved. In both cases, additional financing sources would be required.

In order to hedge the risk of payment flows of financial liabilities subject to variable interest rates, in the year 2012 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 2014. 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 amounted to -EUR 872 k as at the balance sheet date. To this end, a provision for a pending loss was set up in the corresponding amount effective 31 December 2014 (previous year: -EUR 916 k). The hedged interest rate originally amounted to 4.83 per cent p. a.

The operational risk results in a risk of a default in receivables for Höft & Wessel AG if a customer fails to meet its contractual payment obligation either wholly or in part. Should this risk eventuate to a significant extent, this would have impacts on the liquidity, planned sales and planned earnings. A fixed receivables management system is used to counter the risk of default in trade receivables. Moreover, merchandise credit insurance policies are taken out. Since 1 January 2014, all receivables offered to the factor for purchase have been covered by merchandise credit insurance.

Strategic risks arise from lacking or incorrect planning parameters. With the expansion of the Product Management department, more detailed and improved attention is devoted to the markets. The findings are incorporated into the planning activities and also provide substantial assistance in defining the product road map. The further developments triggered in 2014 have already been intensively reconciled in advance with market requirements. Should the innovations developed not be accepted by the market or turn out to be uneconomical, the R&D expenses may be forfeited, either wholly or in part. Other strategic risks may arise with the acquisition of companies within the scope of product diversification. The successful integration of know-how acquired into the existing structure thus entails risks at the time of acquisition. Depending on the scope or complexity of the acquisition, there may be substantial impacts on business activities, on the financial and earnings position as well as on the cash flow and sales.

External risk include natural events such as fire, lightning strikes or flooding. Such risks are usually insured, with no changes being recorded over long periods of time.

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 the whole, Höft & Wessel AG is exposed to risks within the scope of the project business in combination with the accompanying financing requirements. During the financial year, in particular critical large-scale projects were finalised, which improved the overall risk situation to a marked degree compared with the previous year. On this basis, in the financial year 2014 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 identifying 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 (IfW) assumes the following trends for the years from 2015 to 2019:

In the Euro area, according to the researchers an exit from expansionary monetary policy will occur at a relatively late stage owing to the ongoing low level of cyclical dynamism and the particularly high underutilisation of macroeconomic capacities. The economic upturn is likely to grow stronger in this context by the year 2017. On the whole, the increase in Gross Domestic Product in the industrialised economies will amount to an average of 2.3 per cent per annum in the years from 2015 to 2019. This would be the highest growth rate in a 5-year period for over a decade.

According to the researchers, global production will increase at an average rate of 3.7 per cent in the years 2015 to 2019. Global economic expansion will continue to be predominantly driven by developing and emerging market countries.

The Höft & Wessel Group missed its outlook for the financial year 2014 in almost every respect. Only the estimates prepared for the Metric segment were essentially correct.

The main reason for the substantial failure were excessively optimistic assumptions regarding sales as well as incorrect assessments of the actual costs of completing a number of large-scale projects still under way at the 31 December 2013 balance sheet date. In addition, it became clear that the restructuring and streamlining of the Company had not yet been concluded in a sustainable manner.

Accordingly, as the most important consequence for corporate planning, sales forecasts were fundamentally reformed and considerably higher benchmarks were set for the probability of profits from public tenders and orders on the basis of which sales planning activities are ultimately developed.

The winding up and/or completion of all large-scale projects are viewed as a positive development of the last financial year 2014; these projects had almost paralysed the Company in recent years under the classification “Legacy projects / financial freedom projects”, leaving hardly any scope for new developments.

Against this backdrop, the Höft & Wessel Group plans to record sales revenue growth in the lower single-digit percentage range and – on the basis of the process optimisations initiated and the associated sustainable cost savings – a return to positive operational earnings territory. The operating result before interest and taxes (EBIT is therefore to be more or less even, with a corresponding improvement in the EBIT margin. In the case of the non-financial performance indicator “Personnel by segments”, the Company plans a slight decline at Group level. In the process, the reductions in the segments of Höft & Wessel AG are to be more or less offset by increases generated at Metric.

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 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 a regular, variable remuneration that is dependent on the achievement of objectives. 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, accommodation costs). 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-related remuneration is paid on achievement of the performance targets. The maximum amount is capped in case targets are exceeded. In the event of target shortfalls of over 10 per cent, this remuneration component may even be forfeited altogether.

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 2013, these provide for entitlement to the acquisition of 10,000 shares. No additional stock options were issued to the Board of Management in the financial year 2014.

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 further former member of the Board of Management in the past now carry an entitlement to the acquisition of 40,000 stock options.

As a result, a total of 50,000 stock options remain as at the balance sheet date; of these, 10,000 are within the contractually agreed holding period of two years.

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.

During the financial year, a former member of the Board of Management received a subsequent salary payment for the year 2012 amounting to EUR 410 k in the wake of a court order and out-of-court settlement, respectively. The Company paid a further EUR 100 k into a pension fund for this former member of the Board of Management. The Company made the final payment agreed, amounting to EUR 90 k, in January 2015.

In presenting a table regarding the remuneration paid to the Board of Management, Höft & Wessel AG follows the recommendations by the Government Commission on the German Corporate Governance Code of 24 June 2014.

BENEFITS GRANTED

In EUR '000s	Rudolf Spiller Chairman of the Board of Management Left as at 12 November 2014				Thomas Dibbern Chairman of the Board of Management Joined as at 2 July 2014				Günter Kuhlmann Member of the Board of Management Joined as at 1 October 2014				Paul Lebold Member of the Board of Management Joined as at 1 October 2014			
	2013	**2014**	**2014 (min.)**	**2014 (max.)**	**2013**	**2014**	**2014 (min.)**	**2014 (max.)**	**2013**	**2014**	**2014 (min.)**	**2014 (max.)**	**2013**	**2014**	**2014 (min.)**	**2014 (max.)**
Fixed remuneration	434	483	483	483	-	90	90	90	-	45	45	45	-	40	40	40
Perquisites	21	21	21	21	-	4	4	4	-	4	4	4	-	-	-	-
Total	**455**	**504**	**504**	**504**	**0**	**94**	**94**	**94**	**0**	**49**	**49**	**49**	**0**	**40**	**40**	**40**
One-year variable remuneration	100	165	-	248	-	45	45	68	-	11	-	11	-	10	10	10
Multiple years variable remuneration	3	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Plan designation (term of plan)	Stock option plan 2005 9 years	Stock option plan 2005 9 years														
Total	**558**	**675**	**504**	**752**	**0**	**139**	**139**	**162**	**0**	**60**	**49**	**60**	**0**	**50**	**50**	**50**
Provident costs	16	16	16	16	-	4	4	4	-	2	2	2	-	-	-	-
Total remuneration	**574**	**691**	**520**	**768**	**0**	**143**	**143**	**166**	**0**	**62**	**51**	**62**	**0**	**50**	**50**	**50**

INFLOWS

In EUR '000s	**Rudolf Spiller** Chairman of the Board of Management Left as at 12 November 2014		**Thomas Dibbern** Chairman of the Board of Management Joined as at 2 July 2014		**Günter Kuhlmann** Member of the Board of Management Joined as at 1 October 2014		**Paul Lebold** Member of the Board of Management Joined as at 1 October 2014	
	2013	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**
Fixed remuneration	434	483	-	90	-	45	-	40
Perquisites	21	21	-	4	-	4	-	-
Total	**455**	**504**	**0**	**94**	**0**	**49**	**0**	**40**
One-year variable remuneration	100	-	-	45	-	-	-	-
Multiple years variable remuneration	-	-	-	-	-	-	-	-
Plan designation (term of plan)	"Stock option plan 2005" 9 years	"Stock option plan 2005" 9 years						
Other	-	-	-	-	-	-	-	-
Total	**555**	**504**	**0**	**139**	**0**	**49**	**0**	**40**
Provident costs	16	16	-	4	-	2	-	-
Total remuneration	**571**	**520**	**0**	**143**	**0**	**51**	**0**	**40**

1.2 Supervisory Board

The remuneration of the Supervisory Board is governed by Art. 12 of the articles of association and is exclusively payable in the form of a fixed salary. With effect as of the beginning of the financial year 2014, each member of the Supervisory Board is to receive, in addition to refunds for out-of-pocket expenses, a fixed remuneration amounting to EUR 25,000.00 at the end of the financial year. The Chairman receives double this amount.

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

REMUNERATION OF THE SUPERVISORY BOARD

In EUR '000s	2014	2013
Dirk Ulrich Hindrichs	50	1
Christoph Hartmann	25	1
Johannes Feldmayer	25	1
Prof. Dr Dr-Ing. Dr. h.c. Klaus E. Goehrmann	-	19
Dr Peter Versteegen	-	14
Dr Martin Künnemann	-	9
Manfred Zollner	-	1
Hinrich Peters	-	9
Total	**100**	**55**

2. Share-related disclosures

The Company's share capital at the balance sheet date is denominated in 11,046,737 no-par-value bearer shares, with each such share representing an entitlement to exercise one vote.

Since October 2013, via a subsidiary the Droege Group has been a majority shareholder of Höft & Wessel AG with a stake of 72.71 per cent. According to a notice of 11 February 2014 and, therefore, as at the balance sheet date 31 December 2014, Droege International Group AG has since held a stake of 75.001 per cent in Höft & Wessel AG via a subsidiary.

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 ten 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.

G. Declaration in line with the Corporate Governance Report

The principles of responsible and good corporate governance represent the framework for action on the part of the management and control bodies of the Höft & Wessel Group. In this declaration – pursuant to 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 declaration 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 Section 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 24.06.14 and will continue to do so in future, subject to the following exceptions:

- **Tasks and responsibilities (No. 5.1.2)**

  The Supervisory Board has not defined any age limit for members of the Board of Management.

  When appointing members of the Board of Management, the decisive criteria are specialist expertise and personal suitability. An age limit has a restrictive effect on selection and is therefore not viewed as being in the Company's interests.

- **Setting up committees (No. 5.3)**

  In view of the Supervisory Board's size (3 members), the Supervisory Board did not set up any committees and exercises the relevant tasks jointly.

- **Composition of the Supervisory Board (No. 5.4.1)**

  The Supervisory Board has defined no specific target parameters for its composition and no age limits either. For election nominations at the Annual General Meeting, the focus must only be on the specialist expertise and personal suitability of the candidates in question. Limiting the options for nominations by orientation to target parameters and an age limit is not viewed as being in the Company's interests.

Since the last declaration of conformity was issued in March 2014, 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 2015

The Supervisory Board of Höft & Wessel AG

The Board of Management of Höft & Wessel AG

(Also 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 bound by the company's instructions.

The Annual General Meeting 2015 is scheduled to be held on 21 May 2015. 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 members elected at the Annual General Meeting for a term of five years.

The Supervisory Board elects a Chairman and a Deputy Chairman from its members.

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 adopted by the Board of Management 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, of 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 www.hoeft-wessel.com website, with adequate advance notice.

Remuneration of the Board of Management and Supervisory Board

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

Risk management

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

The Board of Management informs the Supervisory Board on a regular basis concerning existing risks and their development. Details on risk management in the Höft & Wessel Group are shown in the Opportunities and Risk Report as part of the Group Management Report in the 2014 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.

Since October 2013, via a subsidiary the Droege Group has been a majority shareholder of Höft & Wessel AG with a stake of 72.71 per cent. According to a notice of 11 February 2014 and, therefore, as at the balance sheet date 31 December 2014, Droege International Group AG has since held a stake of 75.001 per cent in Höft & Wessel AG via a subsidiary.

The stock portfolio of members of management bodies and their family members as at 31 December 2014 was as follows:

Stock portfolio of members of management bodies / number of shares / number of stock options

Board of Management:	
- Paul Lebold	10,000
- Rudolf Spiller	10,000

Shareholders and related entities with a decisive influence:

Special Technology Holding GmbH	8,285,210

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.

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 2014, Höft & Wessel AG was an enterprise that was dependent on a subsidiary of Droege Group International AG as contemplated by Section 312 of the German Companies Act. 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 known to it at the time at which legal transactions were entered into – received reasonable consideration and/or the benefits paid by the Company were not unduly high."

Hannover, 8 April 2015

The Board of Management

Consolidated Financial Statement as of 31/12/2014

CONSOLIDATED BALANCE SHEET AS OF 31/12/2014

ASSETS in EUR thousands	Note	31/12/14	31/12/13
Non-current assets			
Intangible assets	(5)	7,240	4,536
Property, plant and equipment	(6)	1,766	2,478
Deferred tax assets	(7)	2,728	2,877
Total non-current assets		**11,734**	**9,891**
Current assets			
Inventories	(8)	13,529	13,720
Trade receivables	(9)	14,985	22,876
Cash and cash equivalents	(10)	1,185	1,169
Other assets	(11)	2,198	873
Other non-financial assets		683	543
Total current assets		**32,580**	**39,181**
Total assets		**44,314**	**49,072**

EQUITY AND LIABILITIES in EUR thousands	Note	31/12/14	31/12/13
Equity			
Subscribed capital	(12)	11,047	10,197
Capital reserves	(12)	26,597	24,934
Accumulated retained earnings	(12)	(40,615)	(26,880)
Other comprehensive income		(4,077)	(4,421)
Total equity		**(7,048)**	**3,830**
Non-current liabilities			
Personnel-related provisions	(17)	10,116	8,233
Leasing liabilities	(14)	0	0
Deferred tax liabilities	(7)	52	4,948
Liabilities due to banks	(14)	7,677	7,439
Other liabilities	(15)	627	673
Total non-current liabilities		**18,472**	**21,293**
Current liabilities			
Provisions	(18)	2,550	4,815
Current income tax liabilities		19	0
Leasing liabilities	(14)	0	0
Liabilities due to banks	(14)	0	0
Trade payables	(19)	15,386	10,361
Payables due to related companies		4,553	0
Advance payments received		1,503	3,837
Personnel-related accrued/deferred liabilities	(17)	2,134	1,731
Other financial liabilities	(15)	4,909	2,051
Other non-financial liabilities	(20)	1,836	1,154
Total current liabilities		**32,890**	**23,949**
Total equity and liabilities		**44,314**	**49,072**

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014

in EUR thousands	Note	**2014**	**2013**
Sales revenues	(24)	57,020	79,819
Inventory changes relating to finished goods and work-in-progress		549	(1,633)
Other company-produced add. to plant and equipment		2,177	1,495
Aggregate output		**59,746**	**79,681**
Other income	(26)	3,131	2,726
Cost of material and services procured		(36,897)	(46,017)
Personnel expenses	(25)	(22,870)	(21,624)
Other expenses	(27)	(15,749)	(12,339)
Operating result before depreciation and amortisation (EBITDA)		**(12,639)**	**2,427**
Depreciation and amortisation of property, plant, and equipment and intangible assets		(2,233)	(2,741)
Operating result (EBIT)		**(14,872)**	**(314)**
Financial income	(28)	7	13,479
Financial expenses	(28)	(1,394)	(1,131)
Net financial income		**(1,387)**	**12,348**
Earnings before taxes (EBT)		**(16,259)**	**12,034**
Tax position	(29)	4,239	(4,493)
Group earnings		**(12,020)**	**7,541**
Items subsequently reclassified through profit or loss provided certain requirements are met:			
Difference arising from currency translation		344	(124)
Cash flow hedges		0	0
Deferred taxes on cash flow hedges		0	0
Items not subsequently reclassified through profit or loss:			
Actuarial gains/losses from defined benefit pension plans		(2,183)	640
Deferred taxes on actuarial gains/losses from defined benefit pension plans		468	(184)
Other earnings		**(1,371)**	**332**
Total earnings for the period		**(13,391)**	**7,873**
Earnings per share in EUR (basic)	(13)	(1.13)	0.81
Earnings per share in EUR (diluted)	(13)	(1.13)	0.80

CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014

	in EUR thousands	2014	2013
	Group earnings	**(12,020)**	**7,541**
+/-	Tax position	(4,239)	4,493
+	Financial results	1,386	(12,348)
+	Depreciation of fixed assets	2,233	2,741
-/+	Earnings/loss from reduction of fixed assets	0	0
+/-	Increase/decrease in provisions	(2,266)	(836)
+/-	Rate effects with no impact on payments	(97)	(200)
-/+	Earnings/loss from impairments on receivables	154	(205)
-/+	Earnings/loss from impairments on inventories	(403)	68
+	Other non-cash item effects	(2,762)	477
-/+	Increase/decrease in inventories	595	2,684
-/+	Increase/decrease in trade receivables	7,706	(8,191)
-/+	Increase/decrease in other assets	(1,566)	246
+/-	Increase/decrease in other provisions	1,883	(939)
+/-	Increase/decrease in trade payables	5,876	7,478
+/-	Increase/decrease in payments received	(2,334)	(1,085)
+/-	Increase/decrease in other liabilities	3,991	(1,555)
+/-	Increase/decrease in other long-term liabilities	(46)	(184)
-	Payouts for income tax	0	0
=	**Cash flow from current operating activities**	**(1,909)**	**185**
-	Disbursements for investments in fixed assets	(4,051)	(2,698)
=	**Cash flow from investment activities**	**(4,051)**	**(2,698)**
-	Disbursements from amortisation of financial loans	0	(2,654)
+	Proceeds from borrowings	3,950	0
-	Disbursements for finance leasing	0	(17)
+	Interest received	7	6
-	Interest paid	(483)	(1,085)
-	Disbursements for dividens	0	0
+	Cash flow from capital increase	2,507	8,498
-	Disbursement for expenses of the capital increase	0	(1,897)
=	**Cash flow from financing activities**	**5,981**	**2,851**
	Decreas/increase in liquid funds	**21**	**338**
	Cash and cash equivalents at the beginning of the period	**1,169**	**829**
-	Changes in exchange-rate compensation item	(5)	2
	Cash and cash equivalents at the end of the period	**1,185**	**1,169**

PERFORMANCE OF SHAREHOLDERS' EQUITY FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014

				Other equity			
in EUR thousands	Subscribed capital	Capital reserve	Retained earnings	Hedging activities	Currency reserves	Sum	Total
Status as of 01/01/2013 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	0	162	162	618
Other earnings	**0**	**0**	**456**	**0**	**(124)**	**(124)**	**332**
Earnings for period			7,541			0	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**
Currency differences from translation of entities abroad (including taxes)					344	344	344
Effective portion of time changes of cash flow hedges (including taxes)						0	0
Adjustments IAS 19			(1,715)			0	(1,715)
Other earnings	**0**	**0**	**(1,715)**	**0**	**344**	**344**	**(1,371)**
Earnings for period			(12,020)				(12,020)
Total consolidated earnings	**0**	**0**	**(13,735)**	**0**	**344**	**344**	**(13,391)**
Issue of stock options		6				0	6
Capital decrease						0	0
Capital increase	850	1,657				0	2,507
Status as of 31/12/2014	**11,047**	**26,597**	**(40,615)**	**0**	**(4,077)**	**(4,077)**	**(7,048)**

* *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 2014

1 Reporting entity

Höft & Wessel AG (hereinafter also referred to as: “the Company”, “Höft & Wessel” or collectively as “the Group” including its subsidiaries) is a company domiciled in Germany. The Company is headquartered in Hannover, Rotenburger Strasse 20.

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 majority 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

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.

Against the backdrop of the restructuring and streamlining initiated in 2012 and continued in 2014, 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 2014 were prepared in conformity with the International Financial Reporting Standards (IFRSs) adopted by the European Union by way of the endorsement process and released for publication by resolution of the Supervisory Board on 8 April 2015.

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

Standard	Note	Application man-datory for EU as of	Impacts on consolidated f inancial statements of Höft & Wessel AG
IAS 32	Amendment re: IAS 32: Netting of financial assets and liabilities	01/01/2014	Low
IAS 36	Amendment re: IAS 36: Disclosures of amount recoverable on non-financial assets	01/01/2014	Low
IAS 39	Amendment re: IAS 39: Novation of derivatives and ongoing hedge accounting	01/01/2014	Low
IFRS 10, IFRS12, IAS 27	Amendments re: IFRS 10, IFRS 12, IAS 27: Investment fund companies	01/01/2014	Low
IFRS 10-12	Amendments re: IFRS 10, IFRS 11 and IFRS 12: Transitional provisions	01/01/2014	Low
IFRS 10	Now standard on consolidated financial statements: Consolidation and control regulations (superseding IAS 27 and SIC-12)	01/01/2014	Low
IFRS 11	New standard on joint agreements: Classification and accounting for joint operations and joint ventures	01/01/2014	Low
IFRS 12	New standard on mandatory disclosures of equity interests in other enterprises	01/01/2014	Low
IAS 27	Amendment due to IFRS 10: only individual financial statements on equity interests of the parent company	01/01/2014	Low
IAS 28	Amendment due to IFRS 10 – 12: Equity interests in associates and joint ventures	01/01/2014	Low

Standards already implemented under EU endorsements but not applicable as yet:

Standard	Note	IASB effective Date	Impacts on consolidated financial statements of Höft & Wessel AG
IFRIC 21	New interpretation on levies	17/06/2014	Low
IAS 1	“Disclosure initiative” – Presentation of annual financial statements.	01/01/2016	Low
IAS 16, IAS 38	Clarification of acceptable depreciation / amortisation methods	01/01/2016	Low
IAS 16, IAS 41	Clarification on “fruit-bearing plants” in agriculture	01/01/2016	None
IAS 19	Amendment re: IAS 19: Introduction of optional choice of defined benefit pension plans and employee contributions	01/07/2014	Low
IAS 27	Amendment re: IAS 27: Use of equity method in individual financial statements	01/01/2016	Low
Miscellaneous	Annual Improvement Project 2010 - 2012: Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38	01/07/2014	Low
Miscellaneous	Annual Improvement Project 2011 - 2013: Amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40	01/07/2014	Low
Miscellaneous	Annual Improvement Project 2012 -2014: Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34	01/01/2016	Low
IFRS 9 (Phase 1 – 3)	New standard on financial instruments: - Classification and valuation - Depreciation / amortisation and risk provisioning - General accounting of hedge relationships	01/01/2018	Low
IFRS 10, IFRS 12, IAS 28	Amendments re: IFRS 10, IFRS 12, IAS 28: Application of consolidation exception for investment fund companies	01/01/2018	None
IFRS 10, IAS 28	Amendments of IFRS 10 and IAS 28 Sale or contribution of assets between an investor and an associated company or joint venture	01/01/2016	None
IFRS 11	Amendment re: IFRS 11: Accounting for the acquisition of equity interests in a joint venture	01/01/2016	None

Standard	Note	IASB effective Date	Impacts on consolidated financial statements of Höft & Wessel AG
IFRS 14	New standard on regulators accruals and deferrals	01/01/2016	None
IFRS 15	New standard on “Proceeds of contracts with customers” (superseding IAS 11, IAS 18)	01/01/2017	High

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 000s in order to improve the transparency and clarity of the consolidated financial statements.

Exercising discretion and uncertainties in making estimates

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

(a) Deferred tax assets on losses carried forward

Deferred tax assets on losses carried forward refer both to the English subsidiary and to Höft & Wessel AG. In Germany, on the basis of the Company's planning calculations, deferred tax assets were only applied up to the extent of deferred tax liabilities, taking account of the minimum tax payable.

(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 were 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 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.

SHAREHOLDING

	Shares*
	in per cent
a) Shares held directly	
Höft & Wessel Traffic Computer Systems GmbH, Hanover	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 MGHL):	
Metric Group Inc., New Jersey (USA)	100

* During the financial year, the company Skeye Partner Support Center GmbH, Leipzig, was merged with Höft & Wessel AG.

Foreign currency translation

Currency translation of transactions

Transactions in foreign currencies are translated into the functional currency of the group member companies at the time of the transaction; currency translation differences are recognised through profit or loss. Assets and liabilities in foreign currencies at the balance sheet date are valued at the rate applicable on the effective 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

A **financial asset** is measured **at fair value through profit or 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.

In the past, the Company deployed financial derivatives to hedge interest and currency risks resulting from operations or financial transactions. In the process, none of the financial derivatives was held or negotiated for speculation purposes. Financial derivatives were measured at fair value on first-time recognition and in the course of subsequent measurement dates.

As already mentioned, in the past Höft & Wessel used hedge transactions solely to hedge underlying transactions. If the fair values were positive, this led to recognition of financial assets; if, in contrast, they were negative, this produced 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 Company no longer applies the rules and regulations of hedge accounting for a long-term interest rate swap since no derivatives with hedge relationships existed any longer as at balance sheet dates since 2012.

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

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. Actuarial gains and losses are included in 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 SecSectiontion 314 (1) No. 6a of HGB, reference is made to Note 32 this document.

Share-based remuneration

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

Provisions

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

Deferred liabilities

Accrued/deferred liabilities for personnel expenses, outstanding invoices received and other liabilities which, on account of their comparatively higher degree of certainty concerning the timing and/or amount of the expenses anticipated, are to be qualified as “accrued/deferred liabilities”, are reported under the item “Current liabilities”. Liabilities in connection with income taxes are reported under the item “Current income tax liabilities”.

Realisation of proceeds

(a) Merchandise delivered

The realisation of proceeds from merchandise deliveries is made at the time of transfer of the decisive risks and opportunities to the buyer if the extent of the expenses incurred in connection with the sale and the proceeds thereof can be reliably determined and receipt of the economic benefit is probable. The time of passage of risk is determined by the contractually agreed terms and conditions of purchase 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 or 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.

Capital flow account

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

Segment reporting

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

The segments are controlled taking account of EBIT. 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.

(c) Liabilities due to banks

Since the economic environment and costs of financing for Höft & Wessel Group remained basically unchanged, the carrying amount of financial debts almost exacts their net present value.

4 Segment reporting

Business activities of the Höft & Wessel Group are broken down into the following two reportable 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

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

The reportable segments of the Höft & Wessel Group are largely independently managed in line with the type of services offered.

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. The accounting principles on which the segment informaiton of the Höft & Wessel Group are based, reflect the accounting and valuation methods laid down by the IFRS.

In accordance with IFRS 8, segment reporting of the Höft & Wessel Group relies for guidance on the internal reporting to the Management. The latter is responsible for segment profit or loss and for its allocation of resources.

Segment profit or loss is measured according to EBIT and sales revenues as control and success factors.

With regard to a geographical breakdown of segment sales according to specific countries or regions, we refer to the “Segment sales revenues” tables. In the process, sales revenues are allocated to the country or region in which the customer of the “Höft & Wessel AG” or “Metric” segments is ultimately domiciled.

The business segments “Höft & Wessel AG” and “Metric” are each engaged worldwide, with the primary focus of activities being on Germany, the United Kingdom and the rest of Europe.

The assets and liabilities assigned to the “Höft & Wessel AG” segment are located in Germany. The assets and liabilities assigned to the “Metric” segment are essentially located in Great Britain, in line with the respective headquarters of the companies. The assets and liabilities of segments in principle comprise all asset and liabilities in question.

SEGMENT REPORTING 1 January - 31 December 2014

In EUR ‘000s	Höft & Wessel AG	Metric	Total
External sales revenues	38,272	20,378	58,650
Sales revenues between segments	(396)	(1,234)	(1,630)
Segment revenues	**37,876**	**19,144**	**57,020**
Earnings before interest and taxes (EBIT)	(15,790)	918	(14,872)
Earnings before taxes (EBT)	(16,651)	392	(16,259)
Financing income	7	0	7
Financing expenses	(868)	(526)	(1,394)
Scheduled depreciation and amortisation	(1,017)	(1,216)	(2,233)
Assets	27,476	16,838	44,314
Additions to non-current assets (excluding financial instruments and deferred tax assets)	1,073	919	1,992
Liabilities	32,541	18,821	51,362

SEGMENT REPORTING 1 January - 31 December 2013

In EUR '000s	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**
Earnings before interest and taxes (EBIT)	(966)	652	(314)
Earnings before taxes (EBT)	11,696	338	12,034
Financing income	13,479	0	13,479
Financing 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 (excluding financial instruments and deferred tax assets)	255	(298)	(43)
Liabilities	29,197	16,045	45,242

In the financial year 2014 and in the preceding year, no share of at least 10 per cent of sales revenues of the Höft & Wessel Group was generated with a single customer.

SEGMENT SALES REVENUES BY COUNTRY 1 January - 31 December 2014

In EUR million	Höft & Wessel AG	Metric	Total
Germany	25.1	0.0	25.1
United Kingdom	2.3	16.8	19.1
Rest of the EU	8.0	0.4	8.4
Switzerland, the US and other countries	2.5	1.9	4.4
Total	**37.9**	**19.1**	**57.0**

SEGMENT SALES REVENUES BY COUNTRY 1 January - 31 December 2013

In EUR million	Höft & Wessel AG	Metric	Total
Germany	27.5	0.0	27.5
United Kingdom	2.6	16.2	18.8
Rest of the EU	17.7	0.6	18.3
Switzerland, the US and other countries	12.0	3.2	15.2
Total	**59.8**	**20.0**	**79.8**

5 Intangible assets

Development activities

Development costs amounting to EUR 4,843 k (previous year: EUR 4,943 k) were recognised directly as expenditure. Expenses on research amounted to EUR 0 k in the fiscal year (previous year: EUR 0 k). Depreciation and amortisation include EUR 0 k (previous year: EUR 0 k) in impairment charges. The share of borrowing costs to be capitalised amounts to EUR 13 k (previous year: EUR 38 k). The financing cost rate used in determining third-party borrowing costs capable of being capitalised amounts to 7.9 per cent (previous year: 6.7 per cent).

Impairment testing

The impairment tests as contemplated by IAS 36 for the segments Höft & Weseel AG and Metric as cash-generating units did not give rise to any need for impairment charges.

The recoverable amount is determined on the basis of fair value less the costs of sale. The discount amount applied for Höft & Wessel AG came to 6.3 per cent and for Metric to 7.9 per cent (previous year: 9.5 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.

INTANGIBLE ASSETS

In EUR '000s	Goodwill	Software	Development activities	Advance payments	Total
Status: 1 January 2013					
Acquisition / manufacturing cost	24,644	1,657	37,368	0	63,669
Accumulated depreciation	24,644	1,464	32,490	0	58,598
Carrying amount	0	193	4,878	0	5,071
Net development 2013					
Carrying amount	0	193	4,878	0	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
Impairment charges	-	-	-	-	-
Transfers	-	-	-	-	-
Currency translation differences	-	-	(68)	-	(68)
Carrying amount	0	222	4,314	0	4,536
Status: 31 December 2013					
Acquisition / manufacturing cost	24,346	1,758	32,476	0	58,580
Accumulated depreciation	24,346	1,536	28,162	0	54,044
Carrying amount	0	222	4,314	0	4,536
Net development 2014					
Carrying amount	0	222	4,314	0	4,536
Additions from internal development activities	-	-	1,607	-	1,607
Additions from separate acquisitions	-	720	597		1,317
Depreciation and amortisation	-	90	1,447	-	1,537
Impairment charges	-	-	-	-	-
Transfers	-	-	-	1,194	1,194
Currency translation differences	-	(1)	124	-	123
Carrying amount	0	851	5,195	1,194	7,240
Status: 31 December 2014					
Acquisition / manufacturing cost	25,175	2,477	35,725	1,194	64,571
Accumulated depreciation	25,175	1,626	30,530	0	57,331
Carrying amount	0	851	5,195	1,194	7,240

6 Property, plant and equipment

Leased furniture and fixtures

In the past, the Group leased fixed assets within the scope of leasing finance agreements. These have meanwhile expired and have not been renewed to date. Accordingly, their net carrying amount as at 31 December 2014 remains at EUR 0 k, as in the preceding year.

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.

PROPERTY, PLANT AND EQUIPMENT

In EUR '000s	Land and buildings	Other equipment, furniture and fixtures	Assets under construction	Total
Status: 1 January 2013				
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
Impairment charges	-	-	-	0
Retirements	-	-	-	0
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
Net development 2014				
Carrying amount	302	1,588	588	2,478
Additions	-	517	609	1,126
Depreciation and amortisation	53	643	-	696
Impairment charges	-	-	-	-
Retirements	-	-	-	-
Transfers	-	-	(1,194)	(1,194)
Currency translation differences	19	33	-	52
Carrying amount	268	1,495	3	1,766
Status: 31 December 2014				
Acquisition / manufacturing cost	974	18,491	3	19,468
Accumulated depreciation	706	16,996	0	17,702
Carrying amount	268	1,495	3	1,766

7 Deferred tax assets and tax liabilities

Deferred tax assets represent the foreseeable income tax relief asiring 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 at a tax rate of 31.6 per cent for the German Group member companies (previous year: 31.6 per cent). For the British Group member companies, the tax rate amounts to 20.0 per cent (previous year: 20.0 per cent).

On account of the agenda decision by the IFRS Interpretation Committee of May 2014, when accounting for deferred tax assets on losses carried forward as of the financial year 2014 the so-called minimum tax will also be taken into account if, due to a lack of expectations of taxable income, deferred taxes are applied only to the extent to which there is a surplus of deferred tax liabilities. In consequence of applying the agenda decision, deferred tax liabilities of EUR 52 k are reported by Höft & Wessel AG. This accounting change will be applied retroactively (IAS 8.28) to the comparative period, i.e. as at 31 December 2013. In the preceding year, the application case of the agenda decision did not exist.

Deferred tax assets on losses carried forward refer both to the English subsidiary and to Höft & Wessel AG. In Germany, on the basis of the Company’s planning calculations, deferred tax assets were only applied up to the extent of deferred tax liabilities, taking account of the minimum tax payable.

Taking account of tax planning statements, no deferred taxes were recognised on tax losses carried forward by the English Group entities amounting to EUR 7,733 k (previous year: EUR 7,487 k). Moreover, there still are losses carried forward in Germany. The remaining corporation and trade tax losses carried forward as at 31 December 2014 amount to EUR 24,441 k and EUR 24,009 k, respectively; a final legal assessment of the remaining losses carried forward is still outstanding. Of these sums, no deferred tax liabilities were reported on losses carried forward amounting to EUR 23,195 k and EUR 22,763 k, respectively. Deferred tax assets arising from temporary differences amounting to EUR 0 k in Germany (previous year: EUR 191 k) were not taken into account.

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 468 k (previous year: -EUR 184 k) were recorded on amounts recognised under other comprehensive income in the financial year owing to actuarial gains and losses within pension reserves.

The reversal of deferred tax assets amounting to EUR 692 k (previous year: EUR 1,038 k) and deferred tax liabilities of EUR 283 k (previous year: EUR 4,273 k) is expected within twelve months of the balance sheet date.

TAX ASSETS / LIABILITIES

In EUR '000s	Tax assets		Tax liabilities	
	2014	2013	2014	2013
Development activities	-	-	(1,497)	(1,227)
Property, plant & equipment	134	37	-	(2)
Inventories	-	-	(124)	-
Receivables and other assets	13	10	-	(4,273)
Provisions	2,752	2,265	-	-
Liabilities	-	-	(159)	-
Benefits from tax losses carried forward	1,557	1,119	-	-
	4,456	**3,431**	**(1,780)**	**(5,502)**
Balance	(1,728)	(554)	1,728	554
Net tax assets / liabilities	**2,728**	**2,877**	**(52)**	**(4,948)**

8 Inventories

The total amount of deductions came to EUR 6,049 k (previous year: EUR 5,778 k). For the financial year, value deductions amounting to EUR 271 k (previous year: EUR 1,411 k) were recognised. The cost of materials to be allocated to sales revenues totalled EUR 29,095 k (previous year: EUR 35,817 k).

INVENTORIES

In EUR '000s	2014	2013
Raw materials, supplies and trading stock	4,514	5,017
Work and services in progress	3,104	2,395
Finished goods and trading stock	5,911	6,308
Total	**13,529**	**13,720**

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 83 k (previous year: EUR 67 k) were reversed. Moreover, valuation adjustments amounting to EUR 457 k (previous year: EUR 356 k) were added. No other value deductions or increases were effected. The volume of specific valuation adjustments increased by EUR 295 k during the financial year, thus amounting to EUR 870 k (previous year: EUR 575 k).

At the reference date, receivables in a total amount of EUR 722 k were sold within the scope of a factoring arrangement (previous year: EUR 1,098 k). The Group's sum total of credit and currency risks is explained in Note (21). At the reference date receivables due to IAS 11 sales came up to EUR 6,773 k (previous year: EUR 9,611 k). During fiscal year 2014 the company recorded IAS 11 revenues in the amount of EUR 4,223 k. Receivables in the amount of EUR 7,061 k had to be reversed for IAS 11 projects that have been approved by the customer in the meantime. 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 6,773 k (previous year: EUR 9,611 k). Advance payments for these projects amounted to EUR 4,619 k (previous year: EUR 2,900 k).

Projects not finalised as at the balance sheet date, where the capitalised order costs exceed the advance payments received (credit balance), as well as those where the advance payments received exceed the order costs (debit balance). Projects with a credit balance amounted to EUR 2,580 k as at the balance sheet date (previous year: EUR 6,868 k). These are reported in the category of trade receivables. Projects with a debit balance amounted to EUR -426 k as at the balance sheet date (previous year: -EUR 158 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 ten per cent is applicable (previous year: ten per cent). In this context, this reflects the maximum possible risk of loss arising from factoring transactions (financial year: EUR 72 k.; previous year: EUR 110 k).

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

10 Cash and cash equivalents

Bank balances and cash in hand amount to EUR 1,185 k (previous year: EUR 1,169 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

Other financial assets are described in the table below:

OTHER FINANCIAL ASSETS

In EUR '000s	2014	2013
Cash collateral for foreign guarantees	325	325
Other cash collateral	902	-
Receivables from factoring companies	169	292
Last order options exercised	228	-
Other	574	256
Total	**2,198**	**873**

12 Equity

Subscribed capital

Following the capital increase carried out during the financial year, the total nominal value of the Company's share capital is denominated in 11,046,737 no-par-value bearer shares, with each such share representing an entitlement to exercise one vote.

The increase in the authorised capital by EUR 849,749.00 was executed with full legal effect following the entry in the Commercial Register of the Local Court of Hannover on 6 February 2014.

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. Equity capital of the Höft & Wessel Group was negative at the end of the financial year. The equity capital ratio as at 31 December 2013 had still amounted to 8 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 2014, the Company's authorised capital totalled EUR 3,398,996.00 in nominal terms.

As at the balance sheet date, the following authorisations exist for the purpose of increasing the capital stock:

The Board of Management is authorised to raise the share capital by 16 June 2015 on a cash or non-cash basis once or repeatedly by up to a total of EUR 3,398,996.00 by issuing new no-par-value bearer shares (authorised capital) with the approval of the Supervisory Board. In the process, the shareholders are to be granted subscription rights. The new shares may be assumed by a credit institution or some other company engaged pursuant to Section 53 (1) sentence 1 or Section 53b (1) sentence 1 or (7) of the German Banking Act (*Gesetz über das Kreditwesen – KWG*) subject to the duty to offer the said shares only for purchase to the shareholders in accordance with the Company's instructions. The Board of Management shall, however, be authorised to exclude maximum amounts from the right of subscription of the shareholders with the approval of the Supervisory Board. The Board of Management shall further be authorised, with the approval of the Supervisory Board, to exclude the right of subscription if it should be necessary to grant holders of warrants and convertible bonds issued by the Company a subscription right to the new shares to the extent to which they would have been entitled thereto after exercising their options or conversion rights. In addition, the Board of Management shall be authorized to exclude the subscription right to employee shares issued up to a total of EUR 350,000.00 with the approval of the Supervisory Board. Finally, the Board of Management shall be authorized to exclude shareholders' subscription rights once or repeatedly up to an amount totalling EUR 3,398,996.00 when the new shares are issued against non-cash contributions with the approval of the Supervisory Board.

In the financial year, 849,749 shares forming part of authorised capital were subscribed to.

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 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 Articles 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 2014, the Company had contingent capital at its disposal totalling EUR 2,100,000.00 in nominal terms, or up to 2,100,000 shares.

The following authorisations exist as at the balance sheet date:

The share capital is to be increased on a contingent basis by up to EUR 600,000.00 through the issue of up to 600,000.00 bearer shares. The contingent capital increase is carried out only to the extent that holders of subscription rights granted to persons entitled to subscription rights on the basis of the authorisation adopted at the Annual General Meeting of 17 June 2005 exercise their subscription rights. The new shares carry dividend rights starting in the fiscal year in which they are created as a result of the exercise of subscription rights. The Supervisory Board is authorised to amend § 3 of the articles of association in accordance with the respective utilisation of the contingent capital.

The share capital shall be increased on a contingent basis by up to EUR 1.5 million through the issue of up to 1.5 million bearer shares (contingent capital). The contingent capital increase is carried out only to the extent that the holders of convertible bonds issued and/or guaranteed on the basis of the authorisation of the Board of Management in terms of a resolution passed at the Annual General Meeting of 17 June 2005 exercise their conversion rights or, like the holders obliged to convert their bonds, comply with their conversion obligation.

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

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

Issue of subscription rights

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

In fiscal 2013, a former member of the Management Board received 50,000 subscription rights in two tranches of 30,000 and 20,000 such rights, respectively. 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.

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 further former member of the Board of Management in the past now carry an entitlement to the acquisition of 40,000 stock options.

As a result, a total of 50,000 stock options remain as at the balance sheet date; of these, 10,000 are within the contractually agreed holding period of two years.

For further particulars, reference is made to Note (16).

Acquisition of own shares

Furthermore, at the General Shareholders' Meeting of 17 June 2010 the Company was authorised, upon meeting certain conditions, to acquire own or treasury shares equivalent to no more than ten per cent of its capital stock by 16 June 2015. The Board of Management was authorised, subject to compliance with certain conditions and with the consent of the Supervisory Board without a further resolution required to be adopted at the Annual General Meeting, to sell these treasury shares at market prices in some manner other than via the stock exchange, or to use or collect them as consideration for the acquisition of other entities.

This authorisation has not been exercised as yet to date.

Capital reserves

Capital reserves increased by a total of EUR 1,663 k year-on-year (previous year: increase by EUR 4,754 k). In this context, an amount of EUR 1,657 k was involved in the resolution adopted by the Supervisory Board on 8 January 2014 to carry out a capital increase, which was legally executed on 6 February 2014, and the amount of EUR 6 k (previous year: EUR 3 k) was the equivalent of the stock options issued in the past as part of personnel expenditure.

Accumulated retained earnings/losses

Accumulated retained earnings increased by EUR 13,735 k year-on-year (previous year: reduction by EUR 7,997 k). This refers to the profit/loss for the year of -EUR 12,020 k (previous year: EUR 7,541 k) carried over to the new accounts as well as the adjustments in accordance with IAS 19 (financial year: -EUR 1,715 k; previous year: EUR 456 k) to be reported in the Company's revenue reserves in accordance with the 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 -12,020 k (previous year: EUR 7,541 k) as well as the weighted average number of common shares issued. As at the balance-sheet date, these amounted to 11,046,737 shares, with the weighted average amounting to 10,621,863 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 former member of the Board of Management received 50,000 subscription rights. Following the capital reduction carried out in the previous year, the subsequent capital increase carries an entitlement to acquire 10,000 shares as at 31 December 2014.

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 further former member of the Board of Management in the past now carry an entitlement to the acquisition of 40,000 stock options.

Accordingly, the total dilutive number of shares amounts to 50,000 shares as at the balance sheet date (previous year: 50,000 shares). The weighted average of these amounts to 50,000 shares. Accordingly, the total number of dilutive shares amounts to 10,671,863 shares (previous year: 9,472,239 shares).

EARNINGS PER SHARE

In EUR '000s	**Basic**		**Diluted**	
	2014	**2013**	**2014**	**2013**
Weighted average number of shares issued	10,622	9,347	10,672	9,472
Profit/loss for period assignable to shareholders	(12,020)	7,541	(12,020)	7,541
Earnings per share (in EUR)	**(1.13)**	**0.81**	**(1.13)**	**0.80**

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).

Since the debt haircut of the creditor banks carried out in the previous year and the execution of capital measures, the Group has had a total of EUR 8.5 million in collateralised and uncollateralised credit lines at its disposal. Credit lines, guarantee lines, loan and current account lines were consolidated in the process.

As part of the debt haircut, receivables were assigned to a subsidiary of Höft and Wessel AG. During the financial year a loan waiver to the full extent was agreed between Höft & Wessel AG and its subsidiary.

The following credit terms and conditions exclusively apply to the Company:

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.

These agreements contain no financial covenants.

As at the balance sheet date (31 December 2014), Höft & Wessel AG reports non-accessory collateral already obtained in the previous year for the entire volume 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.

In addition, the following lines of credit are available to the Company:

EUR 5.25 million in pure guarantee lines (previous year: EUR 5.25 million).

EUR 2.0 million as a factoring line (previous year: EUR 2.0 million).

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 manage 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.

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.

During the financial year, the Company entered into a loan agreement with a main supplier in the amount of EUR 12.0 million. This merchandise credit is fully repayable by 31 December 2016. However, the loan may be repayable by Höft & Wessel AG at any time, as agreed.

The company Metric Group. Ltd. entered into two loan agreements with a company related to Höft & Wessel AG for a total of EUR 3.7 million. Of this amount, EUR 0.7 million is repayable at any time but no later than by 31 December 2015. A further sum of EUR 3.0 million is repayable at any time but no later than by 29 December 2017.

Variable interest payments on financial instruments were determined on the basis of the interest rates last fixed prior to 31 December 2014.

The bank credit lines available were almost fully utilized within the financial year and in the preceding year.

Risk concentration (cluster risks)

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 Group balance sheet under non-current liabilities. In the Notes, this item is assigned to the category “due and payable in over 24 months”.

TERMS AND CONDITIONS / REPAYMENT SCHEDULE OF FINANCIAL LIABILITIES

In EUR '000s	Due	Carrying amount 2014	Carrying amount 2013
Collateralised liabilities to banks	2018	7,677	7,439
Trade payables	2015 - 2016	15,386	10,361
Intra-group accounts payable	2015 - 2017	4,553	-
Personnel-related, deferred liabilities	2015	1,291	1,247
Other deferred liabilities	2015 - 2018	5,536	2,940

CURRENT INTEREST-BEARING FINANCIAL LIABILITIES

In EUR '000s	2014	2013
Collateralised liabilities to banks	-	-
Trade payables	11,336	-
Intra-group accounts payable	3,700	-
Personnel-related, deferred liabilities	-	-
Other deferred liabilities	-	-
Total	**15,036**	**0**

NON-CURRENT INTEREST-BEARING FINANCIAL LIABILITIES

In EUR '000s	2014	2013
Collateralised liabilities to banks	7,677	7,439
Trade payables	-	-
Intra-group accounts payable	-	-
Personnel-related, deferred liabilities	-	-
Other deferred liabilities	-	-
Total	**7,677**	**7,439**

TERMS TO MATURITY OF FINANCIAL LIABILITIES AS AT 31 DECEMBER 2014

In EUR '000s	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 liabilities to banks	7,677	-	-	-	7,677
Trade payables	15,386	4,050	11,336	-	-
Intra-group accounts payable	4,553	853	3,700	-	-
Personnel-related, deferred liabilities	1,291	1,291	-	-	-
Other deferred liabilities	4,909	4,909			
Total	**33,816**	**11,103**	**15,036**	**0**	**7,677**
Financial derivatives					
Payer swap for long-term interest hedges	872	122	122	244	384
Forward exchange transactions	-	-	-	-	-
Total	**872**	**122**	**122**	**244**	**384**

TERMS TO MATURITY OF FINANCIAL LIABILITIES AS AT 31 DECEMBER 2013

In EUR '000s	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 liabilities to banks	7,439	-	-	-	7,439
Trade payables	10,361	10,361	-	-	-
Intra-group accounts payable	0	-	-	-	-
Personnel-related, deferred liabilities	1,247	1,247	-	-	-
Other deferred 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**

15 Other financial liabilities

The table below provides information on other financial liabilities

OTHER CURRENT FINANCIAL LIABILITIES

In EUR '000s	2014	2013
Carried as liabilities in accordance with IAS 11	426	158
Liabilities arising from derivative financial instruments (current)	244	243
Provisions for outstanding invoices	3,016	1,271
Outstanding invoices for goods received	454	158
Other	769	221
Total	**4,909**	**2,051**

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 another former member of 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 2013, the 200,000 options granted in the past carry an entitlement to the acquisition of 40,000 shares as at 31 December 2014 (previous year: 40,000 shares).

Following the capital measures executed in fiscal 2013, the 50,000 stock options granted to another former member of the Board of Management in the financial year 2013 carried an entitlement to acquire 10,000 shares as at 31 December 2013 and 31 December 2014, respectively. The capital reduction took place on 4 September 2013, and the capital increase as at 8 October 2013.

The stock options of the managerial staff member, totalling 10,000, had already been forfeited in 2012 as he left the Company.

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 exercise 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 exercise prices listed in the table after the next 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 from EUR 9.33 to EUR 23,11 for the options granted in the years 2013 and 2008.

The term of the subscription rights is nine years, with a two-year waiting period. The subscription rights are redeemed by issuing 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 2013 are within the two-year holding period. None of these were eligible for exercise.

DESCRIPTION OF VALUATION METHOD FOR THE STOCK OPTION PLAN 2005

	2014	2013
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	-	EUR 1.03
Present value per right as per options of 30 September 2013	-	EUR 1.62
Fair value as per options as at 8 April 2013	-	EUR 6,180.00
Fair value as per options as at 30 September 2013	-	EUR 6,480.00
Share price on 8 April 2013	-	EUR 1.74
Share price on 30 September 2013	-	EUR 2.57
Strike price of the options as at 8 April 2013	-	EUR 9.37
Strike price of the options as at 30 September 2013	-	EUR 10.82
Maturity of options	-	9 years
Risk-free interest rate	-	0.34 %

FURTHER PARTICULARS ON THE STOCK OPTION PLAN 2005

In units	Approved to the Board of Management		Approved to managerial staff members	
	2014	2013	2014	2013
Options outstanding at the beginning of the period	50,000	200,000	0	0
Options granted	-	50,000	-	-
Options exercised	-	-	-	-
Options expired	-	-	-	-
Options forfeited	-	-	-	-
Changes through capital measures	-	(200,000)	-	-
Options outstanding at the end of the period	**50,000**	**50,000**	**0**	**0**

In EUR	2014	2013
Minimum share price for reaching the exercise hurdle on the balance sheet date for		
1/3 of the issue from 2006: 4,000 (previous year: 4,000) options	36.14	34.29
1/3 of the issue from 2007: 4,000 (previous year: 4,000) options	41.89	39.63
1/3 of the issue from 2008: 5,333 (previous year: 5,333) options	38.75	36.53
Weighted average of residual contractual term in years	2.83	3.83
Average strike price of options outstanding at the beginning of the period	22.01	4.24
Average strike price of options outstanding at the end of the period	21.96	22.01
Average strike price of options forfeited	-	-
Average strike price of newly granted options	-*	9.95

* No new options were granted during the financial year 2014.

During the financial year, total expenditure on share-based remuneration was recognised as EUR 6 k (previous year: EUR 3 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.

Staff-related provisions as at balance sheet date are amounting to EUR 10,116 k. This amount consists of provisions for pensions (EUR 9,988 k) and provisions for early retirement part-time work agreements (EUR 128 k).

In the year under review, the provision for early retirement part-time work agreements were reduced by EUR 180 k. The discount rate applied amounts to 0.5 per cent (previous year: 1.5 per cent). An appropriate guarantee was deposited for insolvency protection relating to working time credits earned as part of the block model. Employer contributions to pension insurance in the German subgroup, classified as a defined contribution pension plan, amounted to EUR 1,006 k in the financial year (previous year: EUR 936 k). Contribution payments of a similar extent are planned to be made for fiscal 2015.

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

In Germany, there was only an obligation of this kind to a single pensioner. Since a surviving dependants' pension was committed in addition to this old-age pension, the commitment only applies in relation to the widow of the deceased pensioner. 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, 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 diversification 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 contributions made within the scope of this programme are subject to regular reviews. Moreover, the employer bears the administrative costs and expenses of asset management.

The provisions in the balance sheet are shown as follows:

PENSION PROVISIONS

In EUR '000s	**2014**	**2013**
Cash value of funded obligations	18,016	14,823
Fair value of plan assets	(8,364)	(7,284)
Deficit in plans funded	**9,652**	**7,539**
Cash value of unfunded obligations	336	387
Total	**9,988**	**7,926**

The defined benefit obligation developed as follows:

DEFINED BENEFIT OBLIGATION

In EUR '000s	Cash value of the obligation		Fair value of plan assets	Provision
	Germany	United Kingdom	United Kingdom	Total
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**
1 January 2014	**387**	**14,823**	**(7,284)**	**7,926**
Current service costs	-	-	-	0
Interest expense / income	11	705	(370)	346
Revaluations				
- from plan assets	-	-	(470)	(470)
- from the change in demographic assumptions	-	(1,335)	-	(1,335)
- from the change in financial assumptions	-	2,419	-	2,419
- from experience-related adjustments	(36)	1,038		1,002
Total	**(36)**	**2,122**	**(470)**	**1,616**
Currency translation differences	-	1,093	(520)	573
Employer contributions	-	-	(447)	(447)
Benefits paid	(26)	(727)	727	(26)
31 December 2014	**336**	**18,016**	**(8,364)**	**9,988**

The Company has made the following actuarial assumptions:

ACTUARIAL ASSUMPTIONS

In per cent	2014		2013	
	Germany	United Kingdom	Germany	United Kingdom
Actuarial interest rate	1.30	3.50	3.00	4.40
Salary trend	-	-	-	-
Pension trend	1.00	3.00	1.00	3.00
Inflation	1.00	2.20	1.00	2.60

For the obligation in Germany, the Heubeck Mortality Tables 2005G were used as a basis.

In evaluating the obligations in the United Kingdom, the Mortality Tables S1PxA were applied accordingly.

The weighted duration of the obligations amounts to 16 years (previous year: 17 years) for the pension plan in the United Kingdom and 8 years (previous year: 7 years) for the pension plan in Germany.

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

Sensitivities of pension plan in Germany 2014

In per cent		Impacts on the obligation	
	Changed assumption by	on increased assumption	on decreased assumption
Actuarial interest rate	0.5	Reduction by 4.2	Increase by 4.5

Sensitivities of pension plan in Germany 2013

In per cent		Impacts on the obligation	
	Changed assumption by	on increased assumption	on decreased assumption
Actuarial interest rate	0.5	Reduction by 3.6	Increase by 3.8

Sensitivities of pension plan in the UNITED KINGDOM 2014

In per cent	Changed assump-tion by	Impacts on the obligation
Reduction in actuarial interest rate	0.1	Increase by 1.4
Extension of longevity	1.5	Increase by 2.3

Sensitivities of pension plan in the UNITED KINGDOM 2013

In per cent	Changed assump-tion by	Impacts on the obligation
Reduction in actuarial interest rate	0.1	Increase by 1.5
Extension of longevity	1.5	Increase by 2.3

The 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 2015, the Company expects contributions to the fund to be made to an extent of EUR 460 k (previous year: EUR 430 k).

The plan assets comprise investments in the following classes:

PLAN ASSETS PER MAIN CATEGORY

In per cent	2014	2013
Corporate equity interests	51	70
Government bonds	4	5
Corporate bonds	12	10
Real estate / land and buildings	2	14
Cash	10	1
Miscellaneous	21	-
Total	**100**	**100**

Plan assets exclusively comprise assets for which a fair value pricing exists on an active market. According to IAS 19.143, the Company has no plan assets whatsoever, i.e. assets that are used or held by the Company itself in this connection.

18 Provisions

Provisions for warranties are set up for goods and services supplied during the financial year. Their extent is based on assumptions made concerning historical product warranty costs. This provision is expected to be eliminated over the following three years. The risk of claims being made on warranty obligations is estimated at 1.5 per cent of sales revenues, as in the previous year. Provisions for subsequent costs 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 29 k (previous year: -EUR 5 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 3 k (previous year: -EUR 5 k).

PROVISIONS

In EUR '000s	Status 01/01/2014	Con-sumption	Rever-sal	Addit-ion	Status 31/12/2014
Warranties	1,463	(417)	(783)	834	1,097
Subsequent costs and conventional penalties	1,723	(1,166)	-	161	718
Contingent loss provision	1,629	(863)	-	410	1,176
Total	**4,815**	**(2,446)**	**(783)**	**1,405**	**2,991**

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 592 k in liabilities relating to value added taxes (previous year: EUR 25 k) and EUR 176 k in payroll taxes (previous year: EUR 246 k) as well as EUR 140 k in advance payment for subsidised projects (previous year: EUR 474 k) and EUR 560 k in deferred rental payments (previous year: EUR 285 k).

21 Financial instruments

I. General notes on financial instruments

Disclosure of methods for fair value measurement

Cash and cash equivalents, trade receivables as well as other assets have current residual terms to maturity. Accordingly, their carrying amounts as at the reporting date approximately reflect their fair value. Trade payables and other financial liabilities likewise generally have current residual terms to maturity. An exception is the supplier loan granted to the Company by the main supplier during the financial year. This merchandise credit is fully repayable by 31 December 2016. Again, the amounts carried on the balance sheet approximately correspond to the relevant fair values. The fair value of financial liabilities to banks and financial liabilities incurred in leasing are measured as cash values of the payments associated with the liabilities in question. Since the economic environment and costs of financing for Höft & Wessel Group remained basically unchanged, the carrying amount of financial debts almost exacts their net present value.

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 is 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 2014, no reclassifications were made between the valuation categories.

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

In EUR '000s	from interest	from subsequent valuation			2014	2013
		at fair value	Currency translation	Valuation adjustment		
Loans and Receivables (LaR)	(588)	-	(44)	(295)	(927)	154
Financial Liabilities Measured at Amortised Cost (FLAC)	(536)	-	4	-	(532)	(1.079)
Financial Instruments Held for Trading FLHfT)	(238)	-	-	-	(238)	-
Total	**(1,362)**	**-**	**(40)**	**(295)**	**(1.697)**	**(925)**

CARRYING AMOUNTS, VALUATION APPROACHES AND FAIR VALUES ACCORDING TO VALUATION CATEGORIES

In EUR '000s	Valuation category according to IAS 39	Fair value hierarchy level according to IFRS 7.26	Carrying amount 31/12/2014	Recognition in balance sheet acc. to IAS 39			Recognition in balance sheet according to IAS 17	Fair value 31/12/2014	Carrying amount 31/12/2013	Fair value 31/12/2013
				Amortised cost	Fair value outside profit or loss	Fair value through profit or loss				
Assets										
Cash and cash equivalents	LaR	-	1,185	1,185	-	-	-	1,185	1,169	1,169
Trade receivables	LaR	-	14,985	14,985	-	-	-	14,985	22,876	22,876
Other financial assets	LaR	-	2,198	2,198	-	-	-	2,198	873	873
Derivatives without hedge relationship	FAHfT	2	-	-	-	-	-	-	-	-
Derivatives with hedge relationship	n. a.	2	-	-	-	-	-	-	-	-
Liabilities										
Trade payables	FLAC	-	15,386	15,386	-	-	-	15,386	10,361	10,361
Liabilities to banks	FLAC	-	7,677	7,677	-	-	-	7,677	7,439	7,439
Liabilities from leasing finance	n. a.	-	0	-	-	-	-	0	0	0
Other financial liabilities	FLAC	-	4,650	4,650	-	-	-	4,650	1,808	1,808
Derivative financial liabilities										
Derivatives w/o hedge relationship	FLHfT	2	872	-	-	872	-	872	916	916
Derivatives with hedge relationship	n. a.	2	-	-	-	-	-		-	-
Aggregated according to valuation categories in accordance with IAS 39:										
Loans and Receivables	(LaR)	-	18,368	18,368	-	-	-	18,368	24,918	24,918
Financial Asset Held for Trading	(FAHfT)	-	-	-	-	-	-		-	-
Financial Liabilities Measured at Amortised Cost	(FLAC)	-	27,713	27,713	-	-	-	27,713	19,608	19,608
Financial Asset Held for Trading	(FLHfT)	-	872	-	-	872	-	872	916	916

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, available 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 would be 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 and loan utilisations), CHF (sales and purchases) 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

At the balance sheet date, no forward exchange transactions were designated as hedge instruments within the scope 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 already 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 ten 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 effects, with the preceding plus and minus signs being reversed.

Risk concentration (cluster risks)

In the category of foreign currency risks, in the past the Swiss franc represented a particular risk concentration for the Company. On the effective date of the previous year, the order book of Höft & Wessel AG included a total volume of orders in CHF amounting to EUR 11.1 million. As at 31 December 2014, the order book reflected a CHF order volume of EUR 3.5 million. The CHF was valued at an average exchange rate of 1.21 to the Euro.

In January 2015 the Swiss National Bank decoupled the Swiss franc from the Euro. On account of this fact, the Company does not perceive the Swiss Franc to have a particular risk concentration any longer.

At the balance sheet date, the Company’s order book included orders denominated in GBP amounting to EUR 0.5 million (previous year: EUR 1.7 million). This reduction is also due to the transfer of the operating site to Metric Group Ltd. as at 1 July 2014 as customers can now order directly from Metric in its local currency (GBP) rather than from Höft & Wessel AG, whose local currency is the Euro.

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 interest lock-in period for the existing credit lines of Höft & Wessel AG will end in 2018. The extent of interest is secured at a comfortable interest rate in any event (EURIBOR plus 150 basis points) until expiry of this period.

The Group currently has no further new instruments (swaps and the like) at its disposal to hedge interest rate risks.

Interest profile

The supplier loan entered into with one of the main suppliers of Höft & Wessel AG in the financial year 2014 is based on a fixed interest arrangement. The remaining interest-bearing financial liabilities of the Group excluding finance leasing and factoring are therefore based on interest arrangements subject to variable interest rates.

Hedge measures

In order to hedge the risk of payment flows of financial liabilities subject to variable interest rates, the Group had already entered into a payer interest swap (payment fixed – receipt variable) in previous years 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 hedge transactions were concluded in the financial year 2014, as had also been the case in the preceding year. 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 amounted to -EUR 872 k (previous year: -EUR 916 k). To this end, a provision for a pending loss was set up in the corresponding amount effective 31 December 2014. The hedged interest rate originally amounted to 4.83 per cent p. a.

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 2014 had turned out 100 basis points higher/lower, this would have resulted in a higher/lower expense of EUR 77 k (previous year: EUR 74 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 7,677 k (previous year: EUR 7,439 k). There are no interest-bearing trade receivables in the Company portfolio. 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 (cluster risks)

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 was deposited for a guarantee line to be utilised by beneficiaries domiciled in countries outside Europe for a total of EUR 502 k (previous year: EUR 325 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

Specific valuation adjustments are made to take account of risks of default. 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 2,513 k (previous year: EUR 13,540 k). The part merchandise credit insurance policy expired at the end of the preceding financial year. Since the beginning of the year under review, receivables offered to the factor for purchase have been included under the merchandise credit insurance. Moreover, credit risks for critical customers are additionally mitigated by cash in advance arrangements. Classification as “critical” is effected on a regular basis via information on credit ratings.

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

Risk concentration (cluster risks)

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 four per cent of the receivables portfolio (previous year: five per cent). Furthermore, there is no concentration of geographical risks.

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

RECONCILIATION OF VALUATION ADJUSTMENT ACCOUNT

In EUR '000s	2014	2013
Status of valuation adjustments on 1 January	**576**	**649**
Additions	457	356
Consumption	(80)	(362)
Reversals	(83)	(67)
Status of valuation adjustments on 31 December	**870**	**576**

MATURITIES OF RECEIVABLES ON THE BALANCE SHEET DATE

In EUR '000s	Receivables 2014	Valuation adjustment 2014	Receivables 2013	Valuation adjustment 2013
Not due	10,642	-	17,838	-
Overdue for 1 to 30 days	1,973	-	2,780	-
Overdue for 31 to 180 days	2,110	-	1,529	-
Overdue for 181 to 360 days	631	(371)	1,075	(408)
Overdue for more than one year	499	(499)	230	(168)
Total	**15,855**	**(870)**	**23,452**	**(576)**

MAXIMUM CREDIT RISK OF TRADE RECEIVABLES BY CUSTOMER GROUPS

In EUR '000s	2014	2013
Höft & Wessel AG segment (Bus and train corporations, airlines, retail and distribution companies	11,566	19,071
Metric segment (cities and municipalities, parking space management)	3,419	3,805
Total	**14,985**	**22,876**

Credit risk exposure

The carrying amount of financial assets represents the maximum credit volume of the Group. The maximum credit risk amounts to EUR 18,368 k (previous year: EUR 24,918 k).

VOLUME OF FOREIGN CURRENCY ITEMS AT THEIR NOMINAL VALUE

In EUR '000s	31/12/2014			31/12/2013		
	USD	CHF	GBP	USD	CHF	GBP
Receivables from retail customers	141	91	994	376	359	594
Advance payments received	(102)	(435)	(653)	-	(894)	(499)
Liabilities to suppliers	(772)	(165)	(214)	(544)	(346)	(278)
Balance sheet exposure	**(733)**	**(509)**	**127**	**(168)**	**(881)**	**(183)**
Expected sales revenues	0	3.028	496	13	13,632	1,417
Expected purchases	(16,000)	(758)	(120)	(9,626)	(962)	(2,126)
Expected exposure	**(16,000)**	**2,270**	**376**	**(9,613)**	**12,670**	**(709)**
Forward exchange transactions	-	-	-	-	-	-
Net exposure	**(16,733)**	**1,761**	**503**	**(9,781)**	**11,789**	**(892)**

FINANCIAL DERIVATIVES

In EUR '000s	fair value 31/12/2014	fair value 31/12/2013
Assets		
Forward exchange transactions / currency swaps		
- without hedge relationship	-	-
- with hedge relationship	-	-
Liabilities		
Interest rate swaps		
- without hedge relationship	(872)	(916)
- in combination with cash flow hedges	-	-
Forward exchange transactions / currency swaps		
- without hedge relationship	-	-
- in combination with cash flow hedges	-	-

KEY CURRENCY TRANSLATION RATES

	Average exchange rate		Rate at reference date	
	2014	2013	2014	2013
Equivalent of 1 EUR / GBP	0.80610	0.84921	0.78230	0.83640
Equivalent of 1 EUR / USD	1.32865	1.32806	1.21600	1.37830
Equivalent of 1 EUR / CHF	1.21461	1.23091	1.20280	1.22590

EARNINGS EFFECT SENSITIVIES ARISING FROM FOREIGN CURRENCY EFFECTS

In EUR ‘000s	2014	2013
from GBP	10	(17)
from USD	(4)	(16)
from CHF	(34)	(62)

EQUITY EFFECT SENSITIVIES ARISING FROM FOREIGN CURRENCY EFFECTS

In EUR ‘000s	2014	2013
from CHF	-	-
from GBP	-	-

22 Operating leases as lessee

The Group has rented or leased buildings, vehicles and IT equipment. The leasing payments in respect of the building of Höft & Wessel AG in Habnover are based on a leasing agreement entered into in 1998. The fixed basic term of the lease is 22.5 years. There is no option to buy or to extend the lease. The financial obligations arising from the leasing instalments for the business premises of the Company in Hannover were deferred in the previous year in agreement with the refinancing partner for a total of four quarters as a streamlining contribution. Repayment of the amounts deferred is scheduled to begin after 31 December 2014.

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 in full conformity with their contractual terms and conditions. Their term ended in 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 2,341 k (previous year: EUR 2,627 k) were recognised under other operating expenses.

PAYABILITY OF NON-TERMINABLE OPERATING LEASES

In EUR '000s	**2014**	**2013**
Within the following year	1,928	2,433
Between one and five years	6,244	6,428
In more than five years	2,258	3,659
Total	**10,430**	**12,520**

23 Group's contingent liabilities

No payment bonds were deposited in the financial year as part of contractual performance guarantees.

LEGAL LIABILITY OF THE GROUP

In EUR '000s	2014	2013
Contractual performance bonds	2,214	2,194
Advance payment bonds	2,953	870
Payment bonds	336	336
Warranty bonds	662	675
Bid bonds	-	-
Total	**6,165**	**4,075**

24 Sales revenues

Of total income generated on the performance of services, the UK subgroup earned a share of EUR 10,623 k (previous year: EUR 10,848 k). Essentially, this comprises services rendered within the scope of a full-service agreement with a bus company, located in London, as well as repair and maintenance work on car park ticketing terminals.

SALES REVENUES

In EUR '000s	2014	2013
Merchandise sales	36,418	56,986
Services rendered	20,602	22,833
Total	**57,020**	**79,819**

25 Personnel expenses

The Group's average workforce size (excluding apprentices and trainees) was 416 employees (previous year: 410). Of these, 96 (previous year: 110) were classified as commercial wage earners and 320 (previous year: 300) as employees.

PERSONNEL EXPENSES

In EUR '000s	**2014**	**2013**
Wages and salaries	(19,229)	(18,149)
Statutory social expenditure	(3,125)	(3,024)
Contributions to defined benefit pension plans	(460)	(466)
Contributions and actuarial expenses arising from direct commitments	(50)	18
Share-based remuneration components	(6)	(3)
Total	**(22,870)**	**(21,624)**

26 Other income

Höft & Wessel AG reports public-sector grants and subsidies according to the gross method and recognises these under other operating income. In the past, the Company received EU grants, *inter alia* for the development of ticketing terminals suitable for disabled users.

OTHER INCOME

In EUR '000s	**2014**	**2013**
Income from the reversal of provisions	1,123	1,260
Currency translation gains	1,217	420
Gains from the reversal of specific valuation adjustments to receivables	83	67
Public-sector allowances and subsidies	336	206
Other	372	776
Total	**3,131**	**2,726**

27 Other expenses

The remaining other expenses relate to, in particular, general administration and distribution services. Expenses arising from currency translation include gains from the valuation of forward exchange transactions totalling EUR 0 k (previous year: gains of EUR 15 k).

OTHER EXPENSES

In EUR '000s	2014	2013
Expenses for premises	(2,628)	(2,748)
Services	(1,530)	(2,615)
Vehicle costs	(1,689)	(1,693)
Currency translation expenses	(1,188)	(392)
Travel expenses	(632)	(836)
Postage / courier services	(993)	(1,082)
Legal and consultancy fees	(3,980)	(1,705)
Telecommunications	(744)	(693)
Advertising / trade fairs	(490)	(394)
Valuation adjustments to receivables	(419)	(224)
Insurance policies	(204)	(188)
Other	(1,252)	231
Total	**(15,749)**	**(12,339)**

28 Net financial income

Net financial income includes income and expenses arising from bank interest, interest to other lenders as well as interest effects of accrued and discounted interest as well as accounting profits achieved (in the previous year) from the commercial debt haircut.

The accounting profit derived from the debt haircut was determined for the year 2013 from the difference between the original extent of the loan receivables from Höft & Wessel AG and the purchase price paid to the exit banks.

NET FINANCIAL INCOME

In EUR '000s	2014	2013
Accounting profits derived from commercial debt haircut	-	13,473
Interest income on bank balances	7	6
Financing income	**7**	**13,479**
Interest expenses on liabilities to banks	(173)	(1,033)
Other interest expenses	(1,221)	(98)
Financing expenses	**(1,394)**	**(1,131)**
Net financial income	**(1,387)**	**(12,348)**

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

In EUR '000s	2014	2013
Interest income	-	-
Interest expenses	-	-
Total	**0**	**0**

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.

TAX POSITION

In EUR ‘000s	2014	2013
Tax income (expense) for current reporting period		-
Tax income (expense) previous years	(20)	49
Current tax income (expense)	**(20)**	**49**
Deferred taxes	**4,259**	**(4,542)**
Tax position	**4,239**	**(4,493)**

EARNINGS EFFECT DERIVED FROM DEFERRED TAXES INCOME / (EXPENSE)

In EUR ‘000s	2014	2013
Deferred tax assets		
from losses carried forward	439	(311)
from temporary differences	114	(178)
Deferred tax liabilities		
from development activities	(268)	195
from temporary differences	(283)	9
from consolidation-related booking entries	4,257	(4,257)
Total	**4,259**	**(4,542)**

TAX RECONCILIATION STATEMENT

In EUR '000s	2014	2013
Consolidated earnings after taxes	(12,020)	7,541
(Gains) / expenses arising from income taxes	(4,239)	4,493
Consolidated earnings before taxes (EBT)	(16,259)	12,034
Imputed tax expense / (tax income)	**(5,138)**	**3,803**
Tax impacts		
Effects arising from change in loss carried forward	880	920
Effects of different tax rates within the Group	(226)	(425)
Aperiodic effects	20	(49)
Deferred taxes not taken into account arising from temporary differences	(8)	191
Non-tax-deductible operating expenses and miscellaneous items	233	53
Tax expenses / (tax income) reported	**(4,239)**	**4,493**

30 Additional mandatory disclosures under Germany commercial law

Information on remuneration paid to the auditors

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

REMUNERATION OF AUDITORS

In EUR '000s	2014	2013
Audit of annual financial statements	122	105
>> thereof relating to other periods	17	-
Tax consultancy services	76	10
Other confirmation services	5	28
Other services	48	19
>> thereof relating to other periods	11	-
Total	**251**	**162**

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 sect. 161 of the German Companies Act, stating that recommendations of the "German Government's Commission on the German Corporate Governance Code" have been and will be complied with and have made this declaration available to the Company's shareholders on the Company's website www.hoeft-wessel.com.

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 after the balance sheet date:

After the close of the financial year, on 15 January 2015 the Swiss National Bank decoupled the Swiss Franc from the Euro. As a result, the past exchange rate between the two currencies was modified, reaching near parity as at today's date.

This exchange rate modification can have a decisive influence on future obligations of the Company.

The Board of Management of Höft & Wessel AG plans to merge the subsidiary Höft & Wessel Traffic Computer Systems GmbH, Hannover, with the parent company Höft & Wessel AG, Hannover, with retrospective effect as at 1 January 2015.

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 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 Technology Holding GmbH, as well as all parties with direct and indirect equity interests in Special Technology Holding GmbH.

Shareholders with a significant influence

As at the balance sheet date, the voting rights of Special Technology Holding GmbH, Düsseldorf, a company of the Droege Group, amounted to 75.001 per cent. All voting rights are attributed to Walter P. J. Droege pursuant to Section 22 (1) Sentence 1 No. 1 of the German Securities Act (WpHG) via Droege Holding Verwaltungsgesellschaft mbH, Düsseldorf, Droege Holding GmbH & Co. KG, Düsseldorf, Droege International Group AG, Düsseldorf, Droege Capital GmbH, Düsseldorf, and Special Technology Holding GmbH, Düsseldorf.

Transactions with members of the Board of Management and Supervisory Board

a) Remuneration report for the Board of Management

In addition to fixed remuneration, the Board of Management of Höft & Wessel AG receives a regular, variable remuneration that is dependent on the achievement of objectives. 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, accommodation costs). 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-related remuneration is paid on achievement of the performance targets. The maximum amount is capped in case targets are exceeded. In the event of target shortfalls of over 10 per cent, this remuneration component may even be forfeited altogether.

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 2013, these provide for entitlement to the acquisition of 10,000 shares. No additional stock options were issued to the Board of Management in the financial year 2014.

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 further former member of the Board of Management in the past now carry an entitlement to the acquisition of 40,000 stock options.

As a result, a total of 50,000 stock options remain as at the balance sheet date; of these, 10,000 are within the contractually agreed holding period of two years.

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.

During the financial year, a former member of the Board of Management received a subsequent salary payment for the year 2012 amounting to EUR 410 k in the wake of a court order and out-of-court settlement, respectively. The Company paid a further EUR 100 k into a pension fund for this former member of the Board of Management. The Company made the final payment agreed, amounting to EUR 90 k, in January 2015.

In presenting a table regarding the remuneration paid to the Board of Management, Höft & Wessel AG follows the recommendations by the Government Commission on the German Corporate Governance Code of 24 June 2014.

In this context, we refer to the following two tables, namely “Benefits granted” and “Inflows”.

On the disclosure in accordance with IAS 24, 17, we refer to the table "Remuneration of the Board of Management”.

b) Remuneration report for the Supervisory Board

The remuneration of the Supervisory Board is governed by Art. 12 of the articles of association and is exclusively payable in the form of a fixed salary. With effect as of the beginning of the financial year 2014, each member of the Supervisory Board is to receive, in addition to refunds for out-of-pocket expenses, a fixed remuneration amounting to EUR 25,000.00 at the end of the financial year. The Chairman receives double this amount.

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

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

The total remuneration paid to the Supervisory Board in 2014 amounted to EUR 100 k (previous year: EUR 55 k).

REMUNERATION OF THE SUPERVISORY BOARD

In EUR ‘000s	2014	2013
Dirk Ulrich Hindrichs	50	1
Christoph Hartmann	25	1
Johannes Feldmayer	25	1
Prof. Dr Dr-Ing. Dr. h.c. Klaus E. Goehrmann	-	19
Dr Peter Versteegen	-	14
Dr Martin Künnemann	-	9
Manfred Zollner	-	1
Hinrich Peters	-	9
Total	**100**	**55**

BENEFITS GRANTED

In EUR '000s	**Rudolf Spiller** Chairman of the Board of Management Left as at 12 November 2014				**Thomas Dibbern** Chairman of the Board of Management Joined as at 2 July 2014				**Günter Kuhlmann** Member of the Board of Management Joined as at 1 October 2014				**Paul Lebold** Member of the Board of Management Joined as at 1 October 2014			
	2013	**2014**	**2014 (min.)**	**2014 (max.)**	**2013**	**2014**	**2014 (min.)**	**2014 (max.)**	**2013**	**2014**	**2014 (min.)**	**2014 (max.)**	**2013**	**2014**	**2014 (min.)**	**2014 (max.)**
Fixed remuneration	434	483	483	483	-	90	90	90	-	45	45	45	-	40	40	40
Perquisites	21	21	21	21	-	4	4	4	-	4	4	4	-	-	-	-
Total	**455**	**504**	**504**	**504**	**0**	**94**	**94**	**94**	**0**	**49**	**49**	**49**	**0**	**40**	**40**	**40**
One-year variable remuneration	100	165	-	248	-	45	45	68	-	11	-	11	-	10	10	10
Multiple years variable remuneration	3	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Plan designation	Stock option plan 2005	Stock option plan 2005														
(term of plan)	9 years	9 years														
Total	**558**	**675**	**504**	**752**	**0**	**139**	**139**	**162**	**0**	**60**	**49**	**60**	**0**	**50**	**50**	**50**
Provident costs	16	16	16	16	-	4	4	4	-	2	2	2	-	-	-	-
Total remuneration	**574**	**691**	**520**	**768**	**0**	**143**	**143**	**166**	**0**	**62**	**51**	**62**	**0**	**50**	**50**	**50**

INFLOWS

In EUR '000s	Rudolf Spiller Chairman of the Board of Management Left as at 12 November 2014		Thomas Dibbern Chairman of the Board of Management Joined as at 2 July 2014		Günter Kuhlmann Member of the Board of Management Joined as at 1 October 2014		Paul Lebold Member of the Board of Management Joined as at 1 October 2014	
	2013	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**
Fixed remuneration	434	483	-	90	-	45	-	40
Perquisites	21	21	-	4	-	4	-	-
Total	**455**	**504**	**0**	**94**	**0**	**49**	**0**	**40**
One-year variable remuneration	100	-	-	45	-	-	-	-
Multiple years variable remuneration	-	-	-	-	-	-	-	-
Plan designation (term of plan)	"Stock option plan 2005" 9 years	"Stock option plan 2005" 9 years						
Other	-	-	-	-	-	-	-	-
Total	**555**	**504**	**0**	**139**	**0**	**49**	**0**	**40**
Provident costs	16	16	-	4	-	2	-	-
Total remuneration	**571**	**520**	**0**	**143**	**0**	**51**	**0**	**40**

REMUNERATION OF THE BOARD OF MANAGEMENT

In EUR '000s	Non-performance related		Performance-related		Components with long-term incentive effects		Benefits on the occasion of employment being terminated		Total emoluments	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Rudolf Spiller	483	434	165	100	6	13	50	-	704	547
Thomas Dibbern	90	-	45	-	-	-	-	-	135	-
Dr Günter Kuhlmann	45	-	11	-	-	-	-	-	56	-
Paul Lebold	40	-	10	-	-	-	-	-	50	-
Total	**658**	**434**	**231**	**100**	**6**	**13**	**50**	**0**	**945**	**547**

Transactions with related entities

In carrying out its business activities, the Höft & Wessel Group (in addition to the subsidiaries included in the consolidated financial statements) is engaged in direct or indirect relations with related entities and persons.

In the year under review, goods and services were procured from other related entities amounting to EUR 1.0 million. In parallel, a related entity of Höft & Wessel AG granted Metric Group Ltd. two loans totalling to EUR 3.7 million. For consulting services Höft & Wessel AG accrued EUR 1.7 million.

Members of the Board of Management

Thomas Dibbern

Member of the Board of Management and CEO

(since 2 July 2014)

Sales & Marketing, Investor Relations, Public Relations, Product Management

Metric Group Holdings Ltd., Swindon (Managing Director)

Metric Group Inc. USA, Mount Laurel (Managing Director)

Dr Günter Kuhlmann

Board of Management

(since 1 October 2014)

Research & Development, Project Management

Paul Lebold

Member of the Board of Management

(since 1 October 2014)

Finance & Controlling, Legal Affairs, Human Resources, IT, Supply Chain Management

Rudolf Spiller

Member of the Board of Management and CEO

(until 12 November 2014)

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

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

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

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

Hannover, 8 April 2015

The Board of Management

Auditor's Report

We have audited the consolidated annual financial statements of Höft & Wessel Aktiengesellschaft, Hannover, – consisting of the balance sheet, profit and loss statement, movements in equity, cash flow statement, and the notes – as well as the consolidated management report for the financial year from 1 January to 31 December 2014. The Board of Management of the Company is responsible for preparing the consolidated annual financial statements and the consolidated management report in accordance with IFRS, as applicable in the EU, and in supplementation thereof, according to Section 315a (1) of the German Commercial Code (HGB). Our task is to make an assessment of the consolidated annual financial statements and the consolidated management report on the basis of the findings of our audit.

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

Our audit gave rise to no objections.

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

In line with our duties, we wish to advise that the continued existence of the parent company is threatened by risks presented in detail in the "Risk report" section of the Management Report, where it is stated that the continued existence of the parent company as a going concern is dependent on a merchandise credit as of 1 January 2017. In addition, in the event of a failure of medium-term planning activities, especially on account of risks in the case of large-scale projects, of sales targets not being reached as well as of unsuccessful implementation of the restructuring and streamlining measures adopted, additional sources of funding would be necessary.

Hannover, 8 April 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Jens Wedekind	**ppa. Thomas Monecke**
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Responsibility statement

RESPONSIBILITY STATEMENT IN RELATION TO THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO SECTION 297 (2) SENTENCE 4 and SECTION 315 (1) SENTENCE 6 OF THE GERMAN COMMERCIAL CODE (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, 8 April 2015

The Board of Management

PUBLISHING INFORMATION

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HÖFT & WESSEL

SOLUTION PARTNER FOR YOUR SUCCESS

Annual Report 2014

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MANAGEMENT REPORT FOR FISCAL 2014

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 extensive system solutions in the fields of public transport, retail & logistics, and parking & public transport. As a solution provider for "Mobility as a Service" in the broader sense, in doing so the Company can proactively exploit the growing requirements in the field of mobility. Höft & Wessel AG would like develop and shape intermodal transport of persons and merchandise as well as the associated services in the form of integrated management and through the networking of solutions. This also includes the capture, validation, consolidation and settlement of these streams of persons, merchandise and services across all systems.

To Höft & Wessel AG, "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 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, with subsidiaries in Swindon (to the West of London) as well as in New Jersey in the US, is a producer of system solutions for the target markets of public transport, retail & logistics, and parking systems. Customers include enterprises of note, public organisations and municipalities in the segments of transport, retail, and logistics. The software and hardware solutions serve to capture, validate and process data. Key regional markets are Germany, the United Kingdom, and Switzerland. 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.

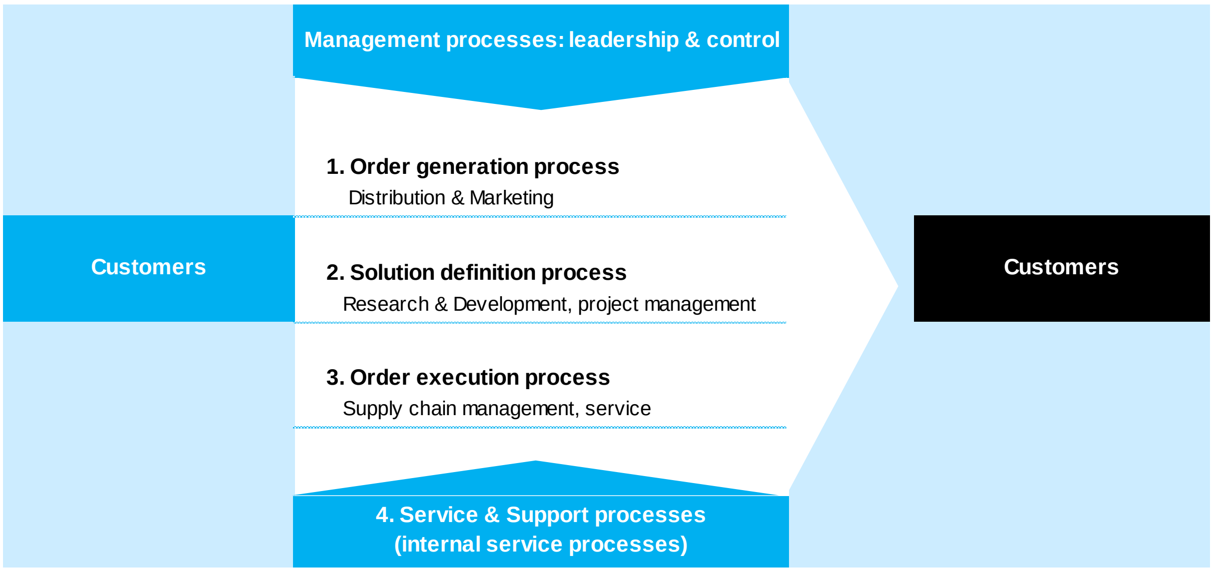
External manufacture of its products represents a key element of the business model of Höft & Wessel. In this context, the Company is responsible for the complete development, close coordination of external production, and detailed quality control. For the production of car park terminals, the English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

In line with its business model, Höft & Wessel AG 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.

Within the scope of its workflows, the Company 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 features a strong customer orientation. The structural organisation of the Höft & Wessel Group as a whole is defined along the three core processes in place. These three core processes are also reflected in the three areas of responsibility of the Board of Management:

- Sales, Marketing and Product Management (➔ Order generation)
- Research, Development and Projects (➔ Solution definition)
- Supply Chain, Service, Finance, IT, and Human Resources (➔ Order execution)

PROCESS MODEL



3. PRODUCT AND SOLUTION PORTFOLIO

Since its inception in 1978, the Company has developed further into a solution specialist for data capture, validation and processing. With a dedicated product portfolio that is to be further extended, the Company provides extensive system solutions and services for the industry segments of public transport, retail & logistics, and parking systems. Historically, Höft & Wessel AG is well known for its individually customised solutions. Even though the expertise to develop ideally matching solutions for specific customer requirements still remains a key characteristic of Höft & Wessel AG, the company has developed in particular into a provider of flexible standard solutions. These solutions are based on products structured in modular form. In addition, synergies are being generated beyond the three fields of business by thinking in terms of “product families”.

4. EMPLOYEES

In the financial year 2014, Höft & Wessel AG had an average of 247 employees, including apprentices and trainees (previous year: 249).

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. 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 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).

Höft & Wessel AG uses non-financial performance indicators for the financial year 2014 for the very first time. To this end, personnel figures are broken down into the fields of Research and Development (R&D), Supply Chain Management (SCM), Sales and Marketing (SM), Business Services (BS) as well as Training / interns. The Company plans to optimise the ratio of internal to external employees – particularly in development and project management – substantially in favour of the share of internal employees. This is to ensure that expertise acquired remains within the Company and the transfer of knowledge is ensured on a long-term basis.

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 GAAP (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 2014, the performance indicators specified above reflected the development year-on-year in the following tables:

FINANCIAL PERFORMANCE INDICATORS

In EUR million	2014	2013	Change in per cent
Sales (IFRS)	38.3	59.8	(36.0)
EBIT (IFRS)	(15.6)	(1.0)	n/a
EBIT margin in %	n/a	n/a	n/a

NON-FINANCIAL PERFORMANCE INDICATORS

per capita	2014	2013	Change in per cent
R&D	128	n/a	n/a
SCM	73	n/a	n/a
VM	26	n/a	n/a
BS	26	n/a	n/a
Apprentices / interns	13	n/a	n/a
Total	**266**	**n/a**	**n/a**
>> of whom external employees / freelancers	20	n/a	n/a
Höft & Wessel AG	**266**	**n/a**	**n/a**

7. RESEARCH AND DEVELOPMENT

The Research & Development division makes a decisive contribution towards the success of this technology enterprise. Höft & Wessel AG continually invests in this particular field. According to the EU Industrial R&D Investment Scoreboard, Höft & Wessel AG is one of Europe’s leading enterprises in research and development. In accordance with IFRS, Höft & 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 2014, the Company capitalised a total of EUR 1.2 million (previous year: EUR 0.7 million) and wrote off EUR 0.5 million in development costs (previous year: EUR 1.1 million). The residual carrying amount of the development costs capitalised in accordance with IFRS came to EUR 2.8 million as at 31 December 2014 (previous year: EUR 2.1 million).

In contrast, in accordance with German GAAP (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 (including all apportionments) was below 20 per cent according to IFRS or HGB.

B. ECONOMIC REPORT

1. GENERAL FRAMEWORK CONDITIONS

The process of expansion in the world economy intensified in the course of 2014. After global Gross Domestic Product had risen only slightly in the first half of the year, growth became appreciably more robust in the third quarter. Global trade also picked up markedly after recording little growth in the first half of the year. For the fourth quarter of 2014, the IfW indicator of global economic activity calculated on the basis of sentiment indicators from 42 countries forecasts a similarly robust increase in production. However, measured by the medium-term trend this growth rate remains moderate, and at an annual average of 3.4 per cent, global production is only likely to have risen slightly more sharply than in 2013.

For Höft & Wessel AG, the target markets Public Transport, Retail & Logistics and Parking Systems were of decisive importance in 2014. According to studies of public commuter transportation in Europe, expenditure in this segment is expected to rise in the single-digit percentage range. This is being primarily driven by newer technologies within the scope of the extension of eTicketing 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 DEVELOPMENT

In the financial year 2014, Höft & Wessel AG's sales revenues were 37 per cent lower at EUR 41.0 million than in the preceding year (2013: EUR 65.3 million).

It was not possible to acquire substitution orders for large-scale projects in Switzerland and the rest of the EU; in 2013, these had still contributed an amount in the double-digit million range to sales revenues of Höft & Wessel AG. Instead, the finalisation of these large-scale projects in 2014 represented a burden on development capacities to a substantial degree at the Company's headquarters in Hannover, a factor that compounded the highly unsatisfactory earnings trend on the whole.

In terms of sales revenue distribution, at the balance sheet date Germany was the largest sales market, accounting for roughly 50 per cent of the total. The United Kingdom followed with 3 per cent, and the rest of Europe and countries outside Europe generated 47 per cent of sales.

At EUR 42.2 million as at 31 December 2014, the order portfolio exceeded the level of the previous year (31 December 2013: EUR 31.1 million). The order portfolio thus represents sustainable foundations to be able to record growth again in the medium term.

Sales according to IFRS in the financial year were down on the previous year's figure by 36 per cent. During the financial year 2014, IFRS sales revenues amounted to EUR 38.3 million (previous year: EUR 59.8 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.

BREAKDOWN OF SALES REVENUES (HGB)

In EUR million	2014	2013
Germany	20.3	26.5
United Kingdom	1.4	2.4
Other countries	19.3	36.4
Total	**41.0**	**65.3**

BREAKDOWN OF SALES REVENUES (IFRS)

In EUR million	2014	2013
Germany	25.2	27.5
United Kingdom	2.7	2.6
Other countries	10.4	29.7
Total	**38.3**	**59.8**

3. OVERALL SITUATION REPORT

3.1 Earnings position

The operating result (EBIT) of Höft & Wessel AG for fiscal 2014 was clearly negative at -EUR 15.6 million (previous year: -EUR 1.0 million). The main reasons for this, apart from the unexpectedly high sales decline of EUR 22.8 million, were erroneous assessments of the actual costs of finalising large-scale projects still under way as at 31 December 2013. And finally, the restructuring measures initiated in the fields of personnel and process optimisation resulted in an unscheduled total charge of EUR 3.1 million to the operating result for 2014.

The cost of materials according to IFRS increased by EUR 9.1 million, to reach EUR 29.4 million (previous year: EUR 38.5 million).

Personnel expenses according to IFRS in the year under review came to EUR 16.3 million, only up by EUR 1.4 million year-on-year in spite of numerous measures and the finalised change in the Company's management (previous year: EUR 14.9 million). It was possible to achieve a substantial reduction by EUR 2.7 million in expenditure on external personnel for project management and development and other external staff, from EUR 5.7 million in 2013 to EUR 3.0 million in 2014.

Other expenditure – netted with other income – was up by EUR 2.9 million, from EUR 5.2 million in 2013 to EUR 8.1 million in 2014. A substantial share of this was accounted for by expenditure on advisory services, particularly in the field of process optimisation, amounting to EUR 2.7 million.

Depreciation & amortisation according to IFRS decreased by EUR 0.5 million, from EUR 1.5 million to EUR 1.0 million. A high level of expenditure on winding up and/or completing legacy projects again led to scarce financial scope for investments in 2014.

Owing to the limited current account and guarantee lines available, which – in spite of a capital increase and associated liquidity inflows of EUR 2.5 million – were mostly almost depleted intra-year, in the Höft & Wessel segment the Company was only able to obtain funding via a merchandise credit from its main supplier. This credit was utilised in the medium single-digit million range on an annual average and carried interest on terms in conformity with market conditions in the medium single-digit percentage range. As a result, financing expenses according to IFRS in the reporting year were up by EUR 0.4 million, from EUR 0.9 million to EUR 1.3 million.

Against this backdrop, pre-tax earnings according to IFRS came to -EUR 2.9 million. As Höft & Wessel Traffic Computer Systems GmbH declared a waiver of receivables against Höft & Wessel AG from the acquisition of bank liabilities of Höft & Wessel AG within he scope of the debt haircut in 2013, this led to income of EUR 13.9 million at Höft & Wessel AG. The Company reports this as extraordinary income in its financial statements according to German GAAP (HGB).

Accordingly, the deficit for the year according to IFRS deteriorated by EUR 1.5 million, from -EUR 1.4 million to -EUR 2.9 million.

3.2 Financial position

Following the operating losses accumulated, the financial position of Höft & Wessel AG became increasingly critical in the fourth quarter of 2014. The existing syndicate of banks was not prepared to enlarge the credit lines granted and the guarantors had frozen their guarantee lines – following a partial intra-year stretching – which meant that even guarantees expiring on schedule could not be replaced by new lines. On the supplier side, the terms of payment for Höft & Wessel AG were either reduced or delivery was made against payment in advance.

In December 2014 the Company negotiated a merchandise credit with its main supplier amounting to EUR 12.0 million, which will be available to the Group until 31 December 2016. The interest rate on this merchandise credit limit was also lowered significantly to a medium single-digit percentage rate common on the market. At this point in time the credit limit had already been utilised to a degree of approx. EUR 9.0 million.

This means that the financing of Höft & Wessel AG is secure until 31 December 2016 if business proceeds as planned.

Against this backdrop, the primary objectives of finance management are to plan, monitor and ensure the solvency of the Company.

3.2.1 Restructuring/Streamlining

The main emphasis of the restructuring and streamlining initiatives in 2014, in addition to a further optimisation of the personnel structure, was on defining process enhancements in the following corporate areas:

- Demand planning
- Procurement optimisation
- Reduction in superfluous repairs (DOA)
- Efficiency of repair centres
- Efficiency of storage / logistics
- R&D – Reduction of warranty costs (services)
- R&D – Reduction of warranty costs (material)
- R&D – Increase in development efficiency

The implementation of the documented results is to lead to a sustainable improvement of the cost structure by EUR 4.3 million already in the short run.

3.2.2 Capital structure

Due to the capital increase carried out in the year under review, the level of equity in the Company increased by a total of EUR 2.5 million. This and the deficit for the year reported in accordance with HGB led to a reference date value of EUR 1.6 million (previous year: EUR 2.4 million).

Capital reserves remained almost unchanged at EUR 1.1 million (previous year: EUR 1.0 million).

3.2.3 Investments

During the financial year 2014, additions to fixed assets amounted to EUR 0.8 million (previous year: EUR 1.1 million).

3.2.4 Liquidity

Höft & Wessel AG has a total of EUR 8.5 million in collateralised and uncollateralised lines of credit available to it with a term to maturity until end-2018. 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 5.25 million) and EUR 2.0 in factoring lines (previous year: EUR 2.0 million) are available to the Company, which cannot be used at present because the guarantors declared that existing guarantees would not be declared payable immediately, but that guarantee lines becoming free would not be available for utilisation any longer.

On the supplier side, the Company succeeded in arranging a merchandise credit line of EUR 12.0 million with a term to maturity until 31 December 2016.

As project operations are difficult to plan, resulting in preliminary financing needs, there is an entrepreneurial challenge as far as intra-year control of short-term liquidity is concerned. To compound matters further, the Company will not be able to resort to guarantees, at least not in the coming months. As a result, the Company will need to engage in substantial anticipatory performance. Contractually agreed advance payments in line with project progress could not and still cannot be drawn on account of expiring guarantee lines that will not be replaced. For this reason, a substantial and sustainable improvement in the liquidity situation will depend to a decisive degree on whether large-scale projects can be successfully finalised without delay.

The total cash flow from current operating activities amounted to -EUR 2.3 million in the year under review (previous year: -EUR 6.4 million). The cash flow from investment activities came to -EUR 0.8 million (previous year: -EUR 1.0 million). Owing to the extensive capital measures, the cash flow from financing activities in the preceding year, at EUR 8.0 million, turned out EUR 5.1 million higher than at the 31 December 2014 balance sheet date (EUR 2.9 million). The volume of cash & cash equivalents declined by -EUR 0.3 million (previous year: increase by EUR 0.6 million).

3.3 Asset position

Fixed assets increased by a total of EUR 0.4 million, to EUR 11.2 million. Additions amounting to EUR 0.8 million are offset by depreciation amounting to approx. EUR 0.4 million.

Current assets (excluding cash) are down on the previous year's level by a total of EUR 13.3 million.

Inventories at Höft & Wessel AG decreased by a total of EUR 3.3 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, which have meanwhile been repaid or waived, caused receivables from affiliates to drop by EUR 7.1 million, thus making a decisive contribution towards reducing the balance sheet line item Receivables and other assets by EUR 10.0 million.

The level of equity at Höft & Wessel AG amounted to EUR 1.6 million as at 31 December 2014 (previous year: EUR 2.4 million). Due to the capital increase effected in the financial year, the Company recorded an inflow of EUR 2.5 million.

Total liabilities came to EUR 29.6 million, down by EUR 11.5 million year-on-year (2013: EUR 41.1 million). This decline is attributable to the loan waiver, which has been expressed by the company Höft & Wessel Traffic Computer Systems GmbH to Höft & Wessel AG.

Provisions decreased by EUR 0.8 million, from EUR 8.0 million to EUR 7.2 million. In this connection, it was possible for the addition of a provision for consultancy costs in the financial year, amounting to EUR 1.7 million, to be offset by reductions in project provisions.

Liabilities to banks remained more or less unchanged at EUR 7.2 million (previous year: EUR 6.8 million).

Advance payments received decreased by EUR 0.7 million, from EUR 6.8 million to EUR 6.1 million. On the one hand, this moderate decline is attributable to a lack of guarantee lines and, on the other, at the balance sheet date (31 December 2014) a number of large-scale projects had meanwhile been finalised, for which the Company had received progress payments in the past.

ASSET INTENSITIES

In per cent	**2014**	**2013**
Asset intensity		
(Fixed assets / total assets)	29	21
Inventory intensity		
Inventory / total assets	47	41
Intensity of receivables		
Trade receivables / total assets	15	18

EQUITY CAPITAL RATIO

In per cent	**2014**	**2013**
Equity capital / total assets	4	5

CASH FLOW

In EUR ‘000s	**2014**	**2013**
Cash flow from current operating activities	(2,311)	(6,372)
Cash flow from investment activities	(849)	(1,025)
Cash flow from financing activities	2,890	7,950
Change in cash and cash equivalents impacting on payments	(270)	553

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. In order to achieve a sustainable consolidation, the Board of Management - in addition to measures initiated to boost sales – implemented a continual improvement process along with a rigorous savings programme.

KEY DATA FROM THE PROFIT AND LOSS STATEMENT (HGB)

In EUR million	2014	2013
Sales revenues	41.0	65.3
Aggregate output	38.0	57.8
Earnings before interest and taxes (EBIT)	(16.2)	(2.5)
Earnings before taxes and extraordinary income (EBT)	(17.3)	(3.3)
EBT margin as a percentage of sales revenues	n/a	n/a
Loss for the year	(3.3)	(3.3)

KEY DATA FROM THE PROFIT AND LOSS STATEMENT (IFRS)

In EUR million	2014	2013
Sales revenues	38.3	59.8
Aggregate output	38.0	58.5
Earnings before interst and taxes (EBIT)	(15.6)	(1.0)
Earnings before taxes (EBT)	(2.9)	(1.8)
EBT margin as a percentage of sales revenues	n/a	n/a
Loss for the year	(2.9)	(1.4)

C. REPORT ON EVENTS AFTER THE BALANCE SHEET DATE

After the close of the financial year, on 15 January 2015 the Swiss National Bank decoupled the Swiss franc from the euro. As a result, the past exchange rate between the two currencies was modified, reaching near parity as at today's date.

This exchange rate modification can have a decisive influence on future obligations of the Company.

The Board of Management of Höft & Wessel AG plans to merge the subsidiary Höft & Wessel Traffic Computer Systems GmbH, Hannover, with the parent company Höft & Wessel AG, Hannover, with retrospective effect as at 1 January 2015.

D. OPPORTUNITY AND RISK REPORT

1. OPPORTUNITY 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 regular management meetings with the Board of Management and in management workshops, the findings made are discussed on a weekly 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 increased focus on the target markets Public Transport, Retail & Logistics und Parking Systems.

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.

In the next few years, the Company perceives increasing demand particularly for management, planning, guidance, information and ticketing systems. 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.

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

2.1 Risk management system

As a capital market-oriented company, pursuant to Section 91 (2) of the German Companies Act (*Aktiengesetz – AG*), being the parent company Höft & Wessel AG is required to describe the characteristics and features of the internal control and risk management system, including early identification of risks both in terms of the accounting processes of the consolidated companies and the Group accounting process.

Risk management was intensified on account of the experiences over the past financial year. The task at hand is to consistently refine and extend risk management since the Company's project risks have turned out to be difficult to estimate.

This also extended to include the accounting-related internal control system that was 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. Moreover, since the financial year 2013 the software tool RiskCity has been actively and successfully deployed for risk management purposes.

In the field of risk management, risks are recorded in the observation fields "external risks", "financial risks", "operational risks" and "strategic risks". The main focus is on the "operational risks", which chiefly include project risks, as well as on "financial risks". Due to the strong focus on project risks, the monthly reports to the Board of Management were structured into "project risks" and "general/other risks".

Risks are recorded by risk executives at Höft & Wessel and reported to Central Risk Management. Monthly interviews were held with members of the Board of Management and division heads in 2014. Project risks are recorded by the Company by means of a reconciliation of the project status reports prepared on a weekly basis. In addition to the basic information, an evaluation is made in cooperation between the risk executive and the risk manager. In the process, the extent of damage or loss (potential damage or loss in EUR '000s) in the event of occurrence and the probabilities thereof (probabilities of the risk eventuating) are measured in per cent. As a product of these two categories, the weighted damage or loss expectation value is calculated, reflecting the significance of the risk to the Company. There is also 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. If measures exist, then a "net" quantification of the risks will be made.

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.

All risks are recorded and permanently monitored in the risk management system and reported to the Board of Management on a monthly basis. The primary focus in this regard is on risks with a damage or loss expectation value in excess of EUR 200 k as well as on the changes in relation to the preceding month.

BREAKDOWN OF RISKS BY OBSERVATION FIELDS

In EUR '000s	**Amount of damage**	**Expected amount of damage**
Risk field		
Operational risks	33,789	5,278
Financial risks	4,981	1,585
Strategic risks	0	0
External risks	750	75
Total	**39,520**	**6,938**

In the observation field of **operational risks**, items 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. The essential individual risks are presented in this particular observation field.

A material individual operational risk is the timely and error-free completion of large-scale projects. In addition to possible reputation loss, risks also include significant fines in the form of conventional penalties and/or claims for damages. In the financial year 2014 one particular case can be mentioned as an example. Within the scope of a new development, due to individual risks such as "subsequent developments owing to terminated construction elements", "audio requisitioning" or "mutual influencing of GSM-R modules" kept leading to endangered or delayed acceptances. The individual risks were named by the Project Head and documented on a monthly basis in risk management. Thanks to effective risk management, all risks were processed in such a manner that the project was accepted during the financial year. Owing to risk-related postponements in large-scale projects, gaps in liquidity planning may arise. If such gaps are not discovered in good time, there is the danger of temporary inability to pay. If deficiencies are not remedied, there is a danger of the sales and operating result targets being endangered. The risks and consequences of a potential shortfall in liquidity are dealt with at length in the paragraph Financial risks.

Owing to the significance for Höft & Wessel AG, there is a special project reporting system in place, which is closely monitored by Controlling. 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. Facts and circumstances of relevance to risks are recorded in the software tool RiskCity. The risks of "legacy projects" were significantly reduced in the course of 2014 thanks to contractual arrangements with customers and the achievement of material milestones and acceptances. As a result, the operational risk at the end of 2014 can be considered as substantially reduced compared with the position at the beginning of the year.

Höft & Wessel AG is dependent to a high degree on a functioning IT infrastructure. The Company has been using the SAP R/3 Enterprise programme since 1 January 2005. Partial failures can be bridged by means of backups and redundancies. In the unlikely event of a total failure, backup mechanisms are deployed that restore full functionality within 1-3 days. Should the risk eventuate, there will only be slight impacts on the Company's asset, financial and earnings position.

The observation field **Financial risks** comprises *inter alia* market and sales risks, defaults of receivables, risks of exchange-rate fluctuations and interest rate hikes.

Höft & Wessel deals with market and sales revenue risks as material individual risks by endeavouring to establish long-term contractual relations with customers whenever possible. The risk of declining order receipts owing to the general economic situation is dealt with by continual market observation. Changing customer requirements and impending technological changes are monitored closely and coordinated with staff working on projects currently at the development stage. If the risk eventuates, negative impacts on the Company's asset, financial and earnings situation are to be expected.

The availability of cash & cash equivalents is considered a further material individual risk. The **liquidity risk** is taken into account with an effective cash management system and fixed weekly liquidity planning activities based on a 13-week revolving plan. Moreover, medium-term liquidity requirement forecasts are also prepared as part of the planning activities. As a rule, the bank lines available intra-year were nearly fully exploited. In the event of a lack of cash & cash equivalents, new projects can possibly not be accepted as a preliminary financing arrangement would not be ensured. Participations in public tenders are frequently tied to the availability of guarantees. If insufficient liquidity were to prevent the acceptance of new projects and participation in public tenders, the achievement of the sales and growth targets would be endangered. For this reason, the Company resorted to supplier credits as an alternative financing option. Moreover, the procurement process and pricing are subjected to a continual improvement process.

A risk to the continued existence of Höft & Wessel AG as a going concern exists in connection with the refinancing or the prolongation of a revolving merchandise credit facility expiring on December 31st, 2016.

A risk to the continued existence of the company as a going concern exists in connection with the refinancing or the prolongation of a revolving merchandise credit facility expiring on December 31st, 2016. Additional risks could materialise if mid-term planning - predominately revenue forecasts and calculations for major projects - cannot be achieved. In both cases, additional financing sources would be required.

In order to hedge the risk of payment flows of financial liabilities subject to variable interest rates, in the year 2012 the Company 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 2014. 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 amounted to -EUR 872 k as at the balance sheet date. To this end, a provision for a pending loss was set up in the corresponding amount effective 31 December 2014 (previous year: -EUR 916 k). The hedged interest rate originally amounted to 4.83 per cent p. a.

The operational risk results in a risk of a default in receivables for Höft & Wessel AG if a customer fails to meet its contractual payment obligation either wholly or in part. Should this risk eventuate to a significant extent, this would have impacts on the liquidity, planned sales and planned earnings. A fixed receivables management system is used to counter the risk of default in trade receivables. Moreover, merchandise credit insurance policies are taken out. Since 1 January 2014, all receivables offered to the factor for purchase have been covered by merchandise credit insurance.

Strategic risks arise from lacking or incorrect planning parameters. With the expansion of the Product Management department, more detailed and improved attention is devoted to the markets. The findings are incorporated into the planning activities and also provide substantial assistance in defining the product road map. The further developments triggered in 2014 have already been intensively reconciled in advance with market requirements. Should the innovations developed not be accepted by the market or turn out to be uneconomical, the R&D expenses may be forfeited, either wholly or in part. Other strategic risks may arise with the acquisition of companies within the scope of product diversification. The successful integration of know-how acquired into the existing structure thus entails risks at the time of acquisition. Depending on the scope or complexity of the acquisition, there may be substantial impacts on business activities, on the financial and earnings position as well as on the cash flow and sales.

External risks include natural events such as fire, lightning strikes or flooding. Such risks are usually insured, with no changes being recorded over long periods of time.

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. 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 the whole, Höft & Wessel AG is exposed to risks within the scope of the project business in combination with the accompanying financing requirements. During the financial year, in particular critical large-scale projects were finalised, which improved the overall risk situation to a marked degree compared with the previous year. On this basis, in the financial year 2014 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 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 identifying 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 (IfW) assumes the following trends for the years from 2015 to 2019:

In the Euro zone, according to the researchers an exit from expansionary monetary policy will occur at a relatively late stage owing to the ongoing low level of cyclical dynamism and the particularly high underutilisation of macroeconomic capacities.

The economic upturn is likely to grow stronger in this context by the year 2017. On the whole, the increase in Gross Domestic Product in the industrialised economies will amount to an average of 2.3 per cent per annum in the years from 2015 to 2019. This would be the highest growth rate in a 5-year period for over a decade. According to the researchers, global production will increase at an average rate of 3.7 per cent in the years 2015 to 2019.

Global economic expansion will continue to be predominantly driven by developing and emerging market countries.

Höft & Wessel AG missed its outlook for the financial year 2014 in almost every respect.

The main reason for the substantial failure were excessively optimistic assumptions regarding sales as well as incorrect assessments of the actual costs of completing a number of large-scale projects still under way at the 31 December 2013 balance sheet date. In addition, it became clear that the restructuring and streamlining of the Company had not yet been concluded in a sustainable manner.

Accordingly, as the most important consequence for corporate planning, sales forecasts were fundamentally reformed and considerably higher benchmarks were set for the probability of profits from public tenders and orders on the basis of which sales planning activities are ultimately developed.

The winding up and/or completion of all large-scale projects are viewed as a positive development of the last financial year 2014; these projects had almost paralysed the Company in recent years under the classification “Legacy projects / financial freedom projects”, leaving hardly any scope for new developments.

Against this backdrop, Höft & Wessel AG plans to record sales revenue growth in the lower single-digit percentage range and – on the basis of the process optimisations initiated and the associated sustainable cost savings – a return to positive operational earnings territory. The operating result before interest and taxes (EBIT) is therefore to be more or less even, with a corresponding improvement in the EBIT margin. In the non-financial performance indicator “Personnel by segments”, the Company plans a decrease in the individual segments of Höft & Wessel AG. This will chiefly affect the “External employees / freelancer” segment.

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 a regular, variable remuneration that is dependent on the achievement of objectives. 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, accommodation costs). 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-related remuneration is paid on achievement of the performance targets. The maximum amount is capped in case targets are exceeded. In the event of target shortfalls of over 10 per cent, this remuneration component may even be forfeited altogether.

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 2013, these provide for entitlement to the acquisition of 10,000 shares. No additional stock options were issued to the Board of Management in the financial year 2014.

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 further former member of the Board of Management in the past now carry an entitlement to the acquisition of 40,000 stock options.

As a result, a total of 50,000 stock options remain as at the balance sheet date; of these, 10,000 are within the contractually agreed holding period of two years.

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.

During the financial year, a former member of the Board of Management received a subsequent salary payment for the year 2012 amounting to EUR 410 k in the wake of a court order and out-of-court settlement, respectively. The Company paid a further EUR 100 k into a pension fund for this former member of the Board of Management. The Company made the final payment agreed, amounting to EUR 90 k, in January 2015.

In presenting a table regarding the remuneration paid to the Board of Management, Höft & Wessel AG follows the recommendations by the Government Commission on the German Corporate Governance Code of 24 June 2014.

BENEFITS GRANTED

In EUR '000s	Rudolf Spiller Chairman of the Board of Management Left as at 12 November 2014				Thomas Dibbern Chairman of the Board of Management Joined as at 2 July 2014				Günter Kuhlmann Member of the Board of Management Joined as at 1 October 2014				Paul Lebold Member of the Board of Management Joined as at 1 October 2014			
	2013	**2014**	**2014 (min.)**	**2014 (max.)**	**2013**	**2014**	**2014 (min.)**	**2014 (max.)**	**2013**	**2014**	**2014 (min.)**	**2014 (max.)**	**2013**	**2014**	**2014 (min.)**	**2014 (max.)**
Fixed remuneration	434	483	483	483	-	90	90	90	-	45	45	45	-	40	40	40
Perquisites	21	21	21	21	-	4	4	4	-	4	4	4	-	-	-	-
Total	**455**	**504**	**504**	**504**	**0**	**94**	**94**	**94**	**0**	**49**	**49**	**49**	**0**	**40**	**40**	**40**
One-year variable remuneration	100	165	-	248	-	45	45	68	-	11	-	11	-	10	10	10
Multiple years variable remuneration	3	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Plan designation (term of plan)	Stock option plan 2005 9 years	Stock option plan 2005 9 years														
Total	**558**	**675**	**504**	**752**	**0**	**139**	**139**	**162**	**0**	**60**	**49**	**60**	**0**	**50**	**50**	**50**
Provident costs	16	16	16	16	-	4	4	4	-	2	2	2	-	-	-	-
Total remuneration	**574**	**691**	**520**	**768**	**0**	**143**	**143**	**166**	**0**	**62**	**51**	**62**	**0**	**50**	**50**	**50**

INFLOWS

In EUR '000s	Rudolf Spiller Chairman of the Board of Management Left as at 12 November 2014		Thomas Dibbern Chairman of the Board of Management Joined as at 2 July 2014		Günter Kuhlmann Member of the Board of Management Joined as at 1 October 2014		Paul Lebold Member of the Board of Management Joined as at 1 October 2014	
	2013	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**
Fixed remuneration	434	483	-	90	-	45	-	40
Perquisites	21	21	-	4	-	4	-	-
Total	**455**	**504**	**0**	**94**	**0**	**49**	**0**	**40**
One-year variable remuneration	100	-	-	45	-	-	-	-
Multiple years variable remuneration	-	-	-	-	-	-	-	-
Plan designation (term of plan)	"Stock option plan 2005" 9 years	"Stock option plan 2005" 9 years						
Other	-	-	-	-	-	-	-	-
Total	**555**	**504**	**0**	**139**	**0**	**49**	**0**	**40**
Provident costs	16	16	-	4	-	2	-	-
Total remuneration	**571**	**520**	**0**	**143**	**0**	**51**	**0**	**40**

1.2 Supervisory Board

The remuneration of the Supervisory Board is governed by Art. 12 of the articles of association and is exclusively payable in the form of a fixed salary. With effect as of the beginning of the financial year 2014, each member of the Supervisory Board is to receive, in addition to refunds for out-of-pocket expenses, a fixed remuneration amounting to EUR 25,000.00 at the end of the financial year. The Chairman receives double this amount.

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

REMUNERATION OF THE SUPERVISORY BOARD

In EUR '000s	2014	2013
Dirk Ulrich Hindrichs	50	1
Christoph Hartmann	25	1
Johannes Feldmayer	25	1
Prof. Dr Dr-Ing. Dr. h.c. Klaus E. Goehrmann	-	19
Dr Peter Versteegen	-	14
Dr Martin Künnemann	-	9
Manfred Zollner	-	1
Hinrich Peters	-	9
Total	**100**	**55**

2. SHARE-RELATED DISCLOSURES

The Company's share capital at the balance sheet date is denominated in 11,046,737 no-par-value bearer shares, with each such share representing an entitlement to exercise one vote.

Since October 2013, via a subsidiary the Droege Group has been a majority shareholder of Höft & Wessel AG with a stake of 72.71 per cent. According to a notice of 11 February 2014 and, therefore, as at the balance sheet date 31 December 2014, Droege International Group AG has since held a stake of 75.001 per cent in Höft & Wessel AG via a subsidiary.

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 ten 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.

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 2014, Höft & Wessel AG was an enterprise that was dependent on a subsidiary of Droege Group International AG as contemplated by Section 312 of the German Companies Act. 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 known to it at the time at which legal transactions were entered into – received reasonable consideration and/or the benefits paid by the Company were not unduly high.”

Hannover, 8 April 2015

The Board of Management

BALANC E SHEET AS OF 31 DECEMBER 2014

A S S E T S in EUR		31/12/14	31/12/13
A. Fixed assets			
I. Intangible assets			
1. Non-gratuitous concessions, industrial property rights and similar rights and assets, including licences to such rights and assets	166,351.94		222,021.73
2. Advance payments made	1,194,248.83		0.00
II. Property, plant and equipment			
1. Other equipment, fixtures and fittings	810,016.33		995,533.91
2. Advance payments made and assets under construction	3,171.06		587,494.00
III. Financial assets			
Shares in affiliates	9,025,155.75		9,025,157.28
		11,198,943.91	**10,830,206.92**
B. Current assets			
I. Inventories			
1. Raw materials, supplies and trading stock	2,141,917.27		2,551,451.35
2. Work and service in progress	11,748,519.67		14,172,521.07
3. Finished goods and trading stock	3,848,542.56		4,393,716.25
4. Advance payments made	243,423.29		117,926.65
	17,982,402.79		**21,235,615.32**
II. Accounts receivable and other assets			
1. Trade receivables	5,636,423.96		9,407,123.81
2. Receivables from affiliated companies	1,044,974.81		8,129,451.28
3. Other assets	2,226,333.53		1,393,908.04
	8,907,732.30		**18,930,483.13**
III. Cash in hand, cash balances with banks and cheques	384,682.88		654,979.24
		27,274,817.97	**40,821,077.69**
C. Accruals/deferrals		**48,044.74**	**57,230.77**
Total ASSETS		**38,521,806.62**	**51,708,515.38**

BALANC E SHEET AS OF 31 DECEMBER 2014

EQUITY AND LIABILITIES in EUR		31/12/14		31/12/13
A. Equity				
I. Subscribed capital	11,046,737.00			10,196,988.00
>> Authorized capital	*2,100,000.00*			*2,543,000.00*
II. Capital reserves	1,104,673.70			1,019,698.80
III. Accumulated loss	(10,502,352.24)			(8,798,661.38)
>> Total balance sheet loss EUR 10,502,352.24 (previous year: EUR 8,798,661.38)				
		1,649,058.46		**2,418,025.42**
B. Provisions				
1. Pension reserves and similar obligations	259,829.00			338,947.00
2. Tax provisions	0.00			0.00
3. Other provisions	6,928,594.99			7,707,636.05
		7,188,423.99		**8,046,583.05**
C. Liabilities				
1. Liabilities due to banks	7,190,432.59			6,807,742.81
2. Advance payments on orders	6,119,045.35			6,845,915.11
3. Trade payables	14,048,768.12			9,238,092.61
4. Liabilities to affiliated companies	839,658.46			17,065,923.51
5. Other liabilities	1,404,419.65			1,163,232.87
>> thereof, arising from taxes: EUR 176,476.77 (previous year: EUR 237,100.61)				
>> thereof as part of social security contributions: EUR 0.00 (previous year: 0.00)				
		29,602,324.17		**41,120,906.91**
D. Accruals/deferrals		**82,000.00**		**123,000.00**
Total EQUITY AND LIABILITIES		**38,521,806.62**		**51,708,515.38**

PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014

in EUR			2014	2013
1.	Sales revenues		40,959,760.29	65,321,984.40
2.	Increase/reduction in portfolio of finished goods and work in progress		(2,969,175.09)	(7,536,420.44)
Aggregate output			**37,990,585.20**	**57,785,563.96**
3.	Other operating income		3,148,821.12	2,428,235.09
4.	Cost of materials			
	a)	Cost of materials, supplies and trading stock	21,490,456.07	28,023,793.16
	b)	Cost of services procured	7,567,556.12	9,766,745.36
			29,058,012.19	**37,790,538.52**
5.	Personnel expenses			
	a)	Wages and salaries	13,529,219.61	12,775,586.91
	b)	Social security contributions and expenses of pension benefits and support	2,287,095.65	2,033,598.86
		>> thereof, for pension benefits: EUR 167,952.45 (previous year: EUR 25,736.35)		
			15,816,315.26	**14,809,185.77**
6.	Depreciation and amortisation on intangible fixed assets as well as property, plant and equipment		480,135.05	427,560.73
7.	Other operating expenses		11,956,762.77	9,693,179.52
8.	Income from participations		0.00	0.00
		>> thereof, from affiliated companies: EUR 0.00 (previous year: EUR 0.00)		
Earnings before interest and taxes (EBIT)			**(16,171,818.95)**	**(2,506,665.49)**
9.	Other interest and similar income		117,913.24	62,084.16
		>> thereof, from affiliated companies: EUR 111,380.15 (previous year: EUR 56,140.93)		
10.	Interest expenses and similar charges		1,255,484.66	890,593.36
		>> thereof, to affiliated companies: EUR 275,044.00 (previous year: EUR 71,409.84)		
Net financial income			**(1,137,571.42)**	**(828,509.20)**
11.	**Net profit or loss from ordinary activities (earings before taxes - EBT)**		**(17,309,390.37)**	**(3,335,174.69)**
12.	Extraordinary income		14,041,570.77	0.00
13.	Extraordinary expenses		0.00	0.00
14.	**Extraordinary result**		**14,041,570.77**	**0.00**
15.	Income taxes		(125.52)	(49,092.21)
16.	Other taxes		8,032.43	7,514.35
17.	**Loss for the year**		**(3,275,726.51)**	**(3,293,596.83)**
18.	Loss carried forward from the previous year		(8,798,661.38)	(12,133,106.75)
19.	Reversal of capital reserve		1,572,035.65	6,628,042.20
20.	Income from capital reduction		0.00	6,797,992.00
21	Addition to capital reserve		0.00	(6,797,992.00)
22.	**Accumulated loss**		**(10,502,352.24)**	**(8,798,661.38)**

NOTES FOR THE FISCAL 2014

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 at 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 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.

In the previous year, the company reported part of cash items of collateral deposited in the amount of EUR 366 k under credit balances with banks. These were reclassified as at 31 December 2014 to the category of Other receivables.

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 2014 amounts to 4.53 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. None of the derivatives is held or negotiated for speculation purposes. At the time of their first recognition and measurements at later dates, it must be established whether the requirements of 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

All trade receivables as well as other receivables and other assets are due within a period of one year. In the preceding year, the Company reported EUR 294 k in trade receivables due and payable for over one year. Receivables from affiliates, amounting to EUR 1,045 k (previous year: EUR 8,129 k) comprise trade receivables (EUR 1,240 k; previous year: EUR 39 k), loan receivables (EUR 0 k; previous year: EUR 8,532 k), trade payables (EUR 195 k; previous year: EUR 442 k). Other assets, amounting to EUR 2,226 k (previous year: EUR 1,394 k) chiefly comprise customer payments to the factoring company (EUR 570 k; previous year: EUR 321 k), items of collateral deposited (EUR 861 k; previous year: EUR 325 k), tenant loans (EUR 112 k; previous year: EUR 77 k) as well as creditors with debit balances (EUR 12 k; previous year: EUR 54 k) and receivables from the revenue office (EUR 28 k; previous year: EUR 534 k). In addition, a receivable amounting to EUR 273 k was recognised in respect of a pay-as-you-use transaction (previous year: EUR 0 k).

3. Equity

Subscribed capital

The share capital is fully paid up.

Following the capital increase carried out during the financial year, the total nominal value of the Company's share capital is denominated in 11,046,737 no-par-value bearer shares, with each such share representing an entitlement to exercise one vote.

The increase in the authorised capital by EUR 849,749.00 was executed with full legal effect following the entry in the Commercial Register of the Local Court of Hannover on 6 February 2014.

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. The ensuing 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 reduction of the capital stock carried out in the previous year 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.

Authorised capital

As at 31 December 2014, the Company's authorised capital totalled EUR 3,398,996.00 in nominal terms.

As at the balance sheet date, the following authorisations exist for the purpose of increasing the capital stock:

The Board of Management is authorised to raise the share capital by 16 June 2015 on a cash or non-cash basis once or repeatedly by up to a total of EUR 3,398,996.00 by issuing new no-par-value bearer shares (authorised capital) with the approval of the Supervisory Board. In the process, the shareholders are to be granted subscription rights. The new shares may be assumed by a credit institution or some other company engaged pursuant to Section 53 (1) sentence 1 or Section 53b (1) sentence 1 or (7) of the German Banking Act (*Gesetz über das Kreditwesen – KWG*) subject to the duty to offer the said shares only for purchase to the shareholders in accordance with the Company's instructions. The Board of Management shall, however, be authorised to exclude maximum amounts from the right of subscription of the shareholders with the approval of the Supervisory Board. The Board of Management shall further be authorised, with the approval of the Supervisory Board, to exclude the right of subscription if it should be necessary to grant holders of warrants and convertible bonds issued by the Company a subscription right to the new shares to the extent to which they would have been entitled thereto after exercising their options or conversion rights. In addition, the Board of Management shall be authorized to exclude the subscription right to employee shares issued up to a total of EUR 350,000.00 with the approval of the Supervisory Board. Finally, the Board of Management shall be authorized to exclude shareholders' subscription rights once or repeatedly up to an amount totalling EUR 3,398,996.00 when the new shares are issued against non-cash contributions with the approval of 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 capital stock 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, was 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 Articles 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 2014, the Company had contingent capital at its disposal totalling EUR 2,100,000.00 in nominal terms, or up to 2,100,000 shares.

The following authorisations exist as at the balance sheet date:

The share capital is increased on a contingent basis by up to EUR 600,000.00 through the issue of up to 600,000.00 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 Section 3 of the articles of association in accordance with the respective utilisation of the contingent capital.

The share capital shall be increased on a contingent basis by up to EUR 1.5 million through the issue of up to 1.5 million bearer shares (contingent capital). The contingent capital increase is carried out only to the extent that the holders of convertible bonds issued and/or guaranteed on the basis of the authorisation of the Board of Management in terms of a resolution passed at the Annual General Meeting of 17 June 2005 exercise their conversion rights or, like the holders obliged to convert their bonds, comply with their conversion obligation.

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

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

Issue of subscription rights

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

In fiscal 2013, a former member of the Management Board received 50,000 subscription rights in two tranches of 30,000 and 20,000 such rights, respectively. 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.

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

As a result, a total of 50,000 stock options remain 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 3,276 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).

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

In EUR '000s	Capital stock	Capital reserves	Balance sheet loss	Equity in total
Status: 1 January 2014	10,196	1,020	(8,799)	2,417
Addition to capital reserve	851	1,657		2,508
Withdrawal from capital reserve		(1,572)	1,572	0
Loss for the year 2014			(3,276)	(3,276)
Status: 31 December 2014	**11,047**	**1,105**	**(10,503)**	**1,649**

4. Provisions

Other provisions amounting to EUR 6,929 k (previous year: EUR 7,708 k) essentially comprise provisions for warranty claims, follow-up costs and conventional penalties at EUR 1,373 k (previous year: EUR 3,186 k), contingent losses of EUR 944 k (previous year: EUR 1,737 k), personnel expenses of EUR 2,002 k (previous year: EUR 1,814 k) and incoming invoices outstanding, amounting to EUR 213 k (previous year: EUR 598 k). Of provisions for contingent losses, an amount of EUR 872 k (previous year: EUR 916 k) essentially relates to the recognition at parity of negative market values of financial instruments (interest rate swap).

5. Liabilities

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

The company Höft & Wessel Traffic Computer Systems GmbH („TCS GmbH"), Hannover, expressed a loan waiver to Höft & Wessel AG concerning the loans exisiting as at 31 December 2014. In this connection, the Company reports EUR 13,852 k under extraordinary income during the financial year.

MATURITY STRUCTURE OF LIABILITES AS AT 31 DECEMBER 2014

In EUR '000s	in total	of which, residual term Up to 1 year	1 to 5 years	more than 5 years
Liabilities due to banks	7,190	-	7,190	-
Advance payments on orders	6,119	6,119	-	-
Trade payables	14,049	2,998	11,051	-
Intra-group accounts payable	840	840	-	-
Other liabilities	1,404	1,404	-	-
	29,602	**11,361**	**18,241**	**0**

MATURITY STRUCTURE OF LIABILITES AS AT 31 December 2013

In EUR '000s	in total	of which, residual term Up to 1 year	1 to 5 years	more than 5 years
Liabilities due to banks	6,808	-	6,808	-
Advance payments on 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**

BREAKDOWN OF SALES REVENUES

In EUR '000s	Domestic	EU	Others	in total
New equipment and spare parts	13,239	8,577	7,728	29,544
Maintenance, repairs, other services	6,449	2,636	895	9,980
Software	813	886	27	1,726
Subtotal	**20,501**	**12,099**	**8,650**	**41,250**
Reductions in revenues	(218)	(58)	(14)	(290)
in total	**20,283**	**12,041**	**8,636**	**40,960**

6. Sales revenues

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

7. Other operating income and expenses

Other operating income amounted to EUR 3,149 k (previous year: EUR 2,428 k).

This essentially includes currency translation gains amounting to EUR 1,236 k (previous year: EUR 401 k). In addition, other operating income comprises income from other periods totalling EUR 1,206 k (previous year: EUR 1,324 k) which, at EUR 1,123 k, chiefly stem from the reversal of provisions (previous year: EUR 1,257 k).

Other operating expenses amounted to EUR 11,957 k (previous year: EUR 9,693 k).

These essentially comprise legal and consultancy costs (EUR 3,573 k; previous year: EUR 3,510 k), warranty expenses (EUR 530 k; previous year: -EUR 1,560 k), costs of buildings (EUR 1,838 k; previous year: EUR 1,959 k) and currency translation losses amounting to EUR 1,290 k (previous year: EUR 383 k) as well as costs passed on by the subsidiary Metric Group Ltd., Swindon, to Höft & Wessel AG amounting to EUR 478 k (previous year: EUR 873 k).

In the years prior to 2013, the Company always reported such onward charges to the subsidiary under personnel expenditure.

Other operating expenses include EUR 99 k in expenses from different periods (previous year: EUR 0 k).

Moreover, other operating expenses of the previous year also extend to include non-recurring costs incurred in connection with the capital increase carried out during the financial year 2013.

8. Extraordinary income and expenses

Extraordinary income amounts to EUR 14,041 k. Of this sum, EUR 13,852 k was attributable to the loan waiver by Höft & Wessel Traffic Computer Systems GmbH in relation to Höft & Wessel AG and EUR 189 k was attributable to the merger of Skeye Partner Support Center GmbH with Höft & Wessel AG as at 1 January 2014.

9. Interest expenses and income

In the financial year, expenses resulting from the accrual of provisions amounting to EUR 46 k were recorded in net profit / loss (previous year: EUR 22 k). The Company registered gains resulting from the discounting of provisions amounting to EUR 0 k reported as interest income (previous year: EUR 22 k).

10. 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 and loan utilisations), CHF (sales predominating by far) and GBP (purchases, sales, loans to subsidiaries). In addition to receivables and liabilities in foreign currency, fixed contracts and planned deposits and disbursements classified as having a high probability of occurring are included in currency exposure. Foreign currency risks in the field of financing are the result of financial liabilities as well as loans granted in GBP for the funding of subsidiaries.

Interest rate risks

The Company is exposed to risks of interest rate fluctuations in the field of short-term financing of working capital. The credit receivable purchase and assignment agreement entered into in the year 2013 between the financing banks, Höft & Wessel Traffic Computer Systems GmbH, Hannover, 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 generally may also arise through the loan agreements between Höft & Wessel AG (borrower) and its subsidiaries (lenders) on account of the variable interest agreed. At the effective date, this intercompany risk was minimal as no loans existed any longer between Höft & Wessel AG and its subsidiaries as at 31 December 2014. The loan agreement entered into with a main supplier during the financial year also has an influence on the Company’s interest rate risk. The loan volume amounts to EUR 12.0 million. The loan is repayable at any time but no later than as at 31 December 2016 and bears interest at a rate of 4.9 per cent.

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 booked the negative market value of the derivative as a liability, leading to interest expenditure of EUR 1,109 k. The effectivity measurement as at 31 December 2014 led to a reduction through profit and loss of the contingent loss provision by EUR 44 k, to EUR 872 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 OPERATIONS WITHOUT VALUATION UNITS

In EUR '000s	Term	Nominal value of hedge transactions	Present value
Hedge transaction with negative market values	2018	5,000	-872

11. Deferred taxes

Deferred taxes are determined in respect of differences in time between the recognition of assets, liabilities and accruals/deferrals 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.

DEFERRED TAXES

In EUR '000s	assets	liabilities
Losses carried forward	-	-
Provisions	317	-
Effects resulting from foreign currency valuation	-	1
Total	**317**	**1**

12. Income taxes

Income taxes amounted to EUR 0 k (previous year: EUR 49 k) had a positive impact on net profit or loss from ordinary activities.

IV. OTHER MANDATORY DISCLOSURES

1. DISCLOSURES ON EMPLOYEES

The workforce determined in accordance with Sect. 267 (5) of the German Commercial Code (HGB) averaged 240 employees and 0 commercial staff members (previous year: 237 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 associated with the present planning calculations of the Group of companies. In the past, a claim was made only in extremely rare cases.

The guarantees essentially are advance payment and performance bonds to customers of Höft & Wessel AG.

In addition, the subsidiary Metric Group Ltd. already entered into a contractual undertaking during the financial 2013 year to assume joint and several liability for a certain proportion of the lines of credit drawn on by Höft & Wessel AG.

CONTINGENT LIABILITIES

In EUR '000s	**2014**	**2013**
Guarantees	6,053	3,983
>> thereof: intra-group	-	-
Warranties	-	-
>> thereof: intra-group	-	-
Letter of comfort	unlimited	unlimited
>> thereof: intra-group	unlimited	unlimited

3. OTHER FINANCIAL OBLIGATIONS

The total amount of other financial obligations for office rent, furniture and fixtures, software, purchase commitments, car leases, payments to provident funds and the leasing of an equipment pool amounted to EUR 8,195 k as at 31 December 2014 (previous year: EUR 9,467 k). Of this sum, an amount of EUR 1,285 k is due within one year (previous year: EUR 1,341 k), EUR 4,652 k in one to five years (previous year: EUR 4,738 k) and EUR 2,258 k in over five years (previous year: EUR 3,388 k).

4. OFF-BALANCE SHEET OBLIGATIONS

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

As at the balance sheet date, trade receivables totalling EUR 722 k were sold within the scope of a genuine, silent factoring arrangement (previous year: EUR 1,098 k).

5. SHAREHOLDINGS

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

The company Skeye Partner Support Center GmbH, Leipzig, had been merged with Höft & Wessel AG as at 1 January 2014.

SHAREHOLDINGS

In EUR '000s	Shares in per cent	Equity 31/12/2014	Profit / (loss) for the year 2014
a) Shares held directly			
Höft & Wessel Traffic Computer Systems GmbH, Hanover	100	(17)	(125)
Metric Group Holdings Ltd., (MGHL), Swindon (United Kingdom)**	100	2,581*	(495)*
b) Shares held indirectly (via MGHL)			
Metric Group Ltd. (MGL), Swindon (United Kingdom)	100	9,829*	(250)*
c) Shares held indirectly (via MGHL):			
Metric Group Inc., New Jersey (USA)**	100	(733)*	(243)*

* Shareholders' equity and 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: 0.8364; 0.84921, USD: 1.3783; 1.32806.

** As the local financial statements will be prepared only once the annual financial statements of Höft & Wessel AG have been rendered, the table reflects the corresponding previous-year figures as at 31 December 2013 and for the financial year 2013, respectively.

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.

7. MANAGEMENT BODIES

Members of the Board of Management

Thomas Dibbern

Member of the Board of Management and CEO

(since 2 July 2014)

Sales & Marketing, Investor Relations, Public Relations, Product Management

Metric Group Holdings Ltd., Swindon (Managing Director)

Metric Group Inc. USA, Mount Laurel (Managing Director)

Dr Günter Kuhlmann

Member of the Board of Management

(since 1 October 2014)

Research & Development, Project Management

Paul Lebold

Member of the Board of Management

(since 1 October 2014)

Finance & Controlling, Legal Affairs, Human Resources, IT, Supply Chain Management

Rudolf Spiller

Member of the Board of Management and CEO

(until 12 November 2014)

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

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

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

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

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. NOTES 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 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 Section 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 160 of the German Companies Act (*Aktiengesetz*)

Special Technology Holding GmbH, Düsseldorf, a subsidiary of the Droege Group, notified Höft & Wessel AG pursuant to Section 21 (1) of WpHG that it held a direct equity participation of 75.001 in the Company's share capital as at the balance sheet date. Pursuant to Section 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 Technology Holding GmbH, Düsseldorf are attributable to Walter P. J. Droege via Droege Holding Verwaltungsgesellschaft mbH, Düsseldorf.

12. Remuneration Report

In addition to fixed remuneration, the Board of Management of Höft & Wessel AG receives a regular, variable remuneration that is dependent on the achievement of objectives. 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, accommodation costs). 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-related remuneration is paid on achievement of the performance targets. The maximum amount is capped in case targets are exceeded. In the event of target shortfalls of over 10 per cent, this remuneration component may even be forfeited altogether.

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 2013, these provide for entitlement to the acquisition of 10,000 shares. No additional stock options were issued to the Board of Management in the financial year 2014.

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.

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.

During the financial year, a former member of the Board of Management received a subsequent salary payment for the year 2012 amounting to EUR 410 k in the wake of a court order and out-of-court settlement, respectively. The company paid an additional EUR 100 k into the pension plan of the forementioned Board Member. Last instalment amounting to EUR 90 k was paid by the company in January 2015.

In presenting a table regarding the remuneration paid to the Board of Management, Höft & Wessel AG follows the recommendations by the Government Commission on the German Corporate Governance Code of 24 June 2014.

BENEFITS GRANTED

In EUR ‘000s	**Rudolf Spiller** Chairman of the Board of Management Left as at 12 November 2014				**Thomas Dibbern** Chairman of the Board of Management Joined as at 2 July 2014				**Günter Kuhlmann** Member of the Board of Management Joined as at 1 October 2014				**Paul Lebold** Member of the Board of Management Joined as at 1 October 2014			
	2013	**2014**	**2014 (min.)**	**2014 (max.)**	**2013**	**2014**	**2014 (min.)**	**2014 (max.)**	**2013**	**2014**	**2014 (min.)**	**2014 (max.)**	**2013**	**2014**	**2014 (min.)**	**2014 (max.)**
Fixed remuneration	434	483	483	483	-	90	90	90	-	45	45	45	-	40	40	40
Perquisites	21	21	21	21	-	4	4	4	-	4	4	4	-	-	-	-
Total	**455**	**504**	**504**	**504**	**0**	**94**	**94**	**94**	**0**	**49**	**49**	**49**	**0**	**40**	**40**	**40**
One-year variable remuneration	100	165	-	248	-	45	45	68	-	11	-	11	-	10	10	10
Multiple years variable remuneration	3	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Plan designation (term of plan)	Stock option plan 2005 9 years	Stock option plan 2005 9 years														
Total	**558**	**675**	**504**	**752**	**0**	**139**	**139**	**162**	**0**	**60**	**49**	**60**	**0**	**50**	**50**	**50**
Provident costs	16	16	16	16	-	4	4	4	-	2	2	2	-	-	-	-
Total remuneration	**574**	**691**	**520**	**768**	**0**	**143**	**143**	**166**	**0**	**62**	**51**	**62**	**0**	**50**	**50**	**50**

INFLOWS

In EUR '000s	Rudolf Spiller Chairman of the Board of Management Left as at 12 November 2014		Thomas Dibbern Chairman of the Board of Management Joined as at 2 July 2014		Günter Kuhlmann Member of the Board of Management Joined as at 1 October 2014		Paul Lebold Member of the Board of Management Joined as at 1 October 2014	
	2013	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**
Fixed remuneration	434	483	-	90	-	45	-	40
Perquisites	21	21	-	4	-	4	-	-
Total	**455**	**504**	**0**	**94**	**0**	**49**	**0**	**40**
One-year variable remuneration	100	-	-	45	-	-	-	-
Multiple years variable remuneration	-	-	-	-	-	-	-	-
Plan designation (term of plan)	"Stock option plan 2005" 9 years	"Stock option plan 2005" 9 years						
Other	-	-	-	-	-	-	-	-
Total	**555**	**504**	**0**	**139**	**0**	**49**	**0**	**40**
Provident costs	16	16	-	4	-	2	-	-
Total remuneration	**571**	**520**	**0**	**143**	**0**	**51**	**0**	**40**

The remuneration of the Supervisory Board is governed by Art. 12 of the articles of association and is exclusively payable in the form of a fixed salary. With effect as of the beginning of the financial year 2014, each member of the Supervisory Board is to receive, in addition to refunds for out-of-pocket expenses, a fixed remuneration amounting to EUR 25,000.00 at the end of the financial year. The Chairman receives double this amount.

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

REMUNERATION OF THE SUPERVISORY BOARD

In EUR '000s	**2014**	**2013**
Dirk Ulrich Hindrichs	50	1
Christoph Hartmann	25	1
Johannes Feldmayer	25	1
Prof. Dr Dr-Ing. Dr. h.c. Klaus E. Goehrmann	-	19
Dr Peter Versteegen	-	14
Dr Martin Künnemann	-	9
Manfred Zollner	-	1
Hinrich Peters	-	9
Total	**100**	**55**

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, 8 April 2015

The Board of Management

COMPOSITION AND DEVELOPMENT OF FIXED ASSETS

	Acquisition costs					Accumulated depreciation				Residual book value	
	Status 01/01/2014	**Additions**	**Disposals**	**Transfers**	**Status 31/12/2014**	**Status 01/01/2014**	**Additions**	**Disposals**	**Status 31/12/2014**	**Status 31/12/2014**	**Status 31/12/2013**
I. Intangible assets											
1. Non-gratuitous concessions, industrial property rights and similar rights and assets, including licences to such rights and assets	3,291,129.51	14,805.87	0.00	0.00	3,305,935.38	3,069,107.78	70,475.66	0.00	3,139,583.44	166,351.94	222,021.73
2. Advance payments	0.00			1,194,248.83	1,194,248.83	0.00			0.00	1,194,248.83	0.00
	3,291,129.51	**14,805.87**	**0.00**	**1,194,248.83**	**4,500,184.21**	**3,069,107.78**	**70,475.66**	**0.00**	**3,139,583.44**	**1,360,600.77**	**222,021.73**
II. Tangible fixed assets											
1. Other equipment, fixtures and fittings	10,882,383.03	224,141.81	15,150.54	0.00	11,091,374.30	9,886,849.12	409,659.39	15,150.54	10,281,357.97	810,016.33	995,533.91
2. Advance payments on assets under construction	587,494.00	609,925.89		(1,194,248.83)	3,171.06	0.00	0.00		0.00	3,171.06	587,494.00
	11,469,877.03	**834,067.70**	**15,150.54**	**(1,194,248.83)**	**11,094,545.36**	**9,886,849.12**	**409,659.39**	**15,150.54**	**10,281,357.97**	**813,187.39**	**1,583,027.91**
Financial assets											
Shares in affiliates	32,077,460.81	0.00	1.53	0.00	32,077,459.28	23,052,303.53			23,052,303.53	9,025,155.75	9,025,157.28
	32,077,460.81	**0.00**	**1.53**	**0.00**	**32,077,459.28**	**23,052,303.53**	**0.00**	**0.00**	**23,052,303.53**	**9,025,155.75**	**9,025,157.28**
Total	**46,838,467.35**	**848,873.57**	**15,152.07**	**0.00**	**47,672,188.85**	**36,008,260.43**	**480,135.05**	**15,150.54**	**36,473,244.94**	**11,198,943.91**	**10,830,206.92**

Auditor’s Certificate

We have audited the annual financial statements – consisting of the balance sheet, income statement, and the notes – including the accounting and management report of Höft & Wessel AG, Hannover, for the financial year from 1 January to 31 December 2014. The Board of Management of the Company is responsible for the accounting and for preparing the annual financial statements and management report in accordance with the German Commercial Code (HGB). Our task is to make an assessment of the annual financial statements, including the accounting and management report, on the basis of the findings of our audit.

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

Our audit gave rise to no objections.

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

In line with our duties, we wish to advise that the continued existence of the company is threatened by risks presented in detail in the “Risk report” section of the Management Report, where it is stated that the continued existence of the parent company as a going concern is dependent on a merchandise credit as of 1 January 2017. In addition, in the event of a failure of medium-term planning activities, especially on account of risks in the case of large-scale projects, of sales targets not being reached as well as of unsuccessful implementation of the restructuring and streamlining measures adopted, additional sources of funding would be necessary.

Hannover, 8 April 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Jens Wedekind	**ppa. Thomas Monecke**
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Balance Sheet Oath

RESPONSIBILITY STATEMENT IN RELATION TO THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO SECTION 297 (2) SENTENCE 4 and SECTION 315 (1) SENTENCE 6 OF THE GERMAN COMMERCIAL CODE (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, 8 April 2015

The Board of Management