

# ANNUAL REPORT 2017

**HOFTEX GROUP**  
TEXTILE TECHNOLOGIES

## Key figures of the Hoftex Group

		HGB <sup>1)</sup> 2017	HGB 2016	HGB 2015	HGB 2014	HGB 2013
External sales	EUR million	182.6	181.4	175.4	185.1	190.4
Gross revenue	EUR million	181.0	182.4	170.7	177.2	189.0
Gross profit <sup>2)</sup>	EUR million	88.7	89.3	83.5	82.0	83.6
Cash flows from operating activity	EUR million	16.3	21.7	23.2	19.6	15.9
Personnel		1,220	1,206	1,221	1,286	1,419
Capital expenditure on tangible fixed assets	EUR million	8.8	16.0	24.8	26.2	21.6
Depreciation, amortization and write-downs	EUR million	10.6	11.6	10.0	9.8	8.9
Result current year	EUR million	6.8	7.8	6.1	3.5	0.2
Result per share	EUR million	1.3	1.4	1.1	0.7	0.0
Cash flows	EUR million	15.0	18.9	18.2	16.3	6.7
EBITDA	EUR million	20.4	22.2	19.0	18.7	17.8
Net senior debt to EBITDA ratio	x-fold	1.9	1.4	1.1	0.7	1.0
Dynamic debt-equity ratio <sup>3)</sup>	Years	5.1	3.9	3.5	4.0	9.8
Balance sheet total	EUR million	188.6	191.2	180.1	174.7	160.0
of which tangible fixed assets	EUR million	92.8	97.4	94.7	83.8	73.0
balance-sheet equity	EUR million	98.0	96.4	89.5	82.7	76.2
economic equity <sup>4)</sup>	EUR million	96.8	95.3	103.3	100.3	95.5
Equity ratio <sup>5)</sup>	%	51.3	49.9	57.3	57.4	59.7

<sup>1)</sup> HGB (*Handelsgesetzbuch* = German Commercial Code)

<sup>2)</sup> Gross revenue less cost of materials

<sup>3)</sup> Debt capital (excluding shareholder loan) less cash and cash equivalents/cash flow

<sup>4)</sup> Balance-sheet equity + extraordinary items + subordinated shareholder capital less proposed dividend payment

<sup>5)</sup> Based on economic equity

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## Group Overview

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## Group overview

Divisions	Hoftex	Neutex	Tenowo
<b>Companies</b>	Hoftex GmbH Hoftex Färberei GmbH Hoftex Färberei Betriebs GmbH Hoftex CoreTech GmbH Hoftex Max Süß GmbH	Neutex Home Deco GmbH Neutex Betriebs GmbH SC Textor S.A.	Tenowo GmbH Tenowo Hof GmbH Tenowo Reichenbach GmbH Tenowo Mittweida GmbH Tenowo Inc. Tenowo Huzhou New Materials Co. Ltd.
<b>Locations</b>	Hof Selbitz Drebach Sehmatal-Cranzahl	Münchberg Targu Mures (Romania)	Hof Reichenbach Mittweida Lincolnton (USA) Huzhou (China)
<b>Sales in EUR million</b> <sup>1)</sup>	27.3	16.8	136.7
<b>Employees (annual average) 2017</b>	203	274	690
<b>Unit sales</b> <sup>2)</sup>	4.5 million kg	4.6 million m <sup>2</sup>	271.1 million m <sup>2</sup>

<sup>1)</sup> External sales and intragroup sales

<sup>2)</sup> External unit sales and intragroup unit sales

### Other companies / significant equity investments

Supreme Nonwoven Industries Pvt. Ltd., Mumbai (India)

Hoftex Immobilien I GmbH

Hoftex Immobilien II GmbH & Co. KG

## Letter to Shareholders

Dear Shareholders,

We are delighted to report that the Hoftex Group continued to make progress in 2017 – despite facing a tough market environment. And although we were compelled to revise down our earnings targets to between EUR 5.5 and 6.5 million in August of last year, it makes us proud to know that our year-end earnings of EUR 6.8 million slightly outperformed projections.

The Group is already seeing the positive impact from our refinancing package implemented at the end of 2016, particularly through significant reductions in our 2017 interest expense for corporate financing. The additional capital made available as a result each year can be used for additional investment, although the Group invested with caution in 2017. Sales were on par with the prior year's figures, which made growth slower than expected. On the one hand, that is less than ideal; on the other hand, by postponing or cancelling some planned investment projects, we were able to focus more on our daily operations and the implementation of our new ERP system.

The new ERP system was scheduled to roll out in the first of our Group companies during H1 2017, but we were unfortunately unable to keep that deadline and postponed the go-live date to October 2017 for one large unit. We would not be the first company to face challenges with a roll out of this magnitude, and we will not be the last. Seen in hindsight, we are satisfied that there was no adverse impact on operations from the implementation of the new ERP system. Everyone involved in this project deserves a lot of praise – without their commitment and dedication, we certainly would not have been able to succeed with such a complex and demanding project. The system is expected to go live in additional companies throughout 2018.

Our objective for fiscal 2018 is to come as close to our EUR 200 million sales target as possible. One thing is certain: thanks to our strategic outlook and the initiatives we have taken to increase earnings, the Hoftex Group share price is likely to continue to rise in 2018. Share prices are not where we would like them to be at present, nor do they reflect the Group's true potential.

We are proposing a EUR 0.22 dividend to the Annual General Meeting, up 10% on the prior year. Based on year-end earnings in 2017, this represents a dividend yield of 1.68%. We do hope, dear shareholders, that you will continue to accompany us on our journey and would like to express our sincere gratitude for the trust you have placed in our Company during the fiscal year just ended.

Our gratitude also goes to the Supervisory Board and, of course, our entire staff. In 2017, you achieved all that was achievable given the market environment and still managed to introduce several key forward-looking initiatives as well.

Hof, 29 March 2018

Klaus Steger  
Chairman of the Management Board

Jacques van den Burg  
CFO

## Supervisory Board Report

During the 2017 fiscal year, the Supervisory Board played an advisory and supervisory role for the Management Board in all key transactions and strategic decisions relating to the Company and the Group, as stipulated in the German Stock Corporation Act, the Articles of Association and the Board's internal rules and procedures. With comprehensive written and oral reports, the Management Board regularly updated the Supervisory Board on the Group's business developments and financial position as well as its divisions, principal subsidiaries and key projects. The Supervisory Board also played a key role in the Group's investment, financial and personnel planning through regular reporting on issues such as order intake, staff development, sales, cash flows, earnings performance, variance analyses (forecasts vs. actual results) and the current cash position, as well as quarterly reports with balance sheets and income statements that were reviewed in detail by the Supervisory Board.

During its meetings, the Supervisory Board dutifully reviewed all measures and transactions requiring its approval and discussed them in detail with the Management Board. Where necessary, resolutions were passed by circulation.

In addition to regular reporting from the Management Board at Supervisory Board meetings, the Chairperson of the Supervisory Board was in regular contact with the Management Board and received updated information on current conditions and all key transactions.

During the year under review, the Supervisory Board met for four regular meetings. No extraordinary meetings were convened.

With the exception of one meeting, for which one member sent apologies, all members of the Supervisory Board attended each meeting. As in the previous years, no committees were formed. The Supervisory Board in its present form with nine members is of a suitable size to deliberate and resolve all matters.

In addition to recurring topics, the Management Board presented the Group's medium-term forecasts at the 20 March 2017 meeting. In this context, the participants also discussed the three-year plan for India-based subsidiary Supreme Nonwoven and its prospects. Other issues on the agenda included an explanation of key investment initiatives in the nonwovens division and their profitability as well as an update on the roll-out of the Mittweide nonwovens plant's Malimo technology at the US-based site. On the basis of the risk report presented at the 9 December 2016 meeting, the Supervisory Board discussed in detail the plans to expand and structure the risk management system in future.

At the 22 May 2017 meeting, the Supervisory Board held a comprehensive review of the annual financial statements and audit reports as of 31 December 2016 for HOFTEX GROUP AG and the Group. The Board approved the agenda for the Annual General Meeting, along with the various resolution proposals. The Management Board also gave a presentation on current business performance and progress in the roll out of the new IT system.

In addition to a presentation on key figures for the Group as of August 2017, the 22 September 2017 meeting focused on a report detailing the situation in the Neutex division. The Management Board provided a detailed update on the Neutex division's sales and earnings figures and discussed in depth with the Supervisory Board possible courses of action given the challenging market environment for household textiles.

In its final meeting of the fiscal year on 4 December 2017, the Supervisory Board received documentation outlining the Group's business performance as of October 2017, the year-end forecasts for 2017 and the Group's plans for the 2018 fiscal year. After reviewing them in detail and discussing their inherent opportunities and risks with the Management Board, the Supervisory Board approved the plans. The Supervisory Board also approved the investment plan for fiscal 2018. Other key items on the agenda included the risk management system and the amendments to the Management Board's internal rules and procedures put forward by the Management Board.

The Annual General Meeting appointed Munich-based Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft as auditors of the single-entity and consolidated financial statements for fiscal 2017. They audited the HOFTEX GROUP AG financial statements and the consolidated financial statements for the year ending 31 December 2017 as well as the Group management report, the accounting system and the accounting-related internal control system and issued them with an unqualified audit certificate. Upon completion, all audit reports were immediately sent to the members of the Supervisory Board.

The Company's auditors were present at the 17 May 2018 annual report meeting of the Supervisory Board, in which they engaged in a thorough discussion of the HOFTEX GROUP AG financial statements and the consolidated financial statements for the year ending 31 December 2017, as well as the Group management report, the Management Board's proposal for the appropriation of the net retained profits and the audit reports. The Supervisory Board duly noted and approved the audit findings. Following the Supervisory Board's careful review of the single-entity and consolidated financial statements, the Group management report and the proposal for the appropriation of profits, no objections were raised. The Supervisory Board approved and thus adopted the annual financial statements of HOFTEX GROUP AG as of 31 December 2017 prepared by the Management Board. The consolidated financial statements and the Group management report were also adopted. The Supervisory Board endorsed the Management Board's proposal for the appropriation of net retained profits.

Der Management Board submitted to the Supervisory Board its report concerning the Company's relationship with its affiliates in fiscal 2017 as stipulated by Section 312 AktG (subordinate status report) and the auditor's report on the same. The auditor issued the report with the following unqualified certificate:

„Based on our duly performed audit and assessment, we hereby certify that:

1. The factual information contained in the report is accurate and
2. The consideration received by the Company for each legal transaction disclosed in the report was not unreasonably high.”

The Supervisory Board duly noted the report and the findings of the audit of the report, reviewed both reports and discussed the findings of each with the Management Board and the auditors. The Supervisory Board concurred with the findings of the audit of the subordinate status report prepared by the auditors.

At the end of the report, the Management Board declared that, based on the circumstances known to it at the time the legal transactions were made with these affiliates, the Company received adequate consideration for each legal transaction and neither took nor refrained from taking measures in the best interest of the controlling company. Based on the findings of these discussions and its assessment of the subordinate status report, the Supervisory Board raised no objections to this declaration.

The members of the Supervisory Board would like to thank the Management Board and the entire Group staff for their dedicated and successful efforts during the 2017 fiscal year.

Hof, May 2018

The Supervisory Board of HOFTEX GROUP AG

Waltraud Hertreiter  
Chairperson of the Supervisory Board



## The HOFTEX GROUP AG share

### General

2017 was an outstanding year for equity investors, with Wall Street, the DAX and many emerging markets hitting new all-time highs. Five stock markets in Eastern Europe even outperformed the DAX in 2017. That said, the best financial investment in the world was in cryptocurrencies where tenfold increases in share prices were commonplace in 2017 – Ripple reported a 5,284 per cent increase, eclipsing Bitcoin's peak at 1,148 per cent.

Investors particularly profited from the Trump euphoria of the first quarter, although Europe was eventually able to catch up – at first thanks to the French elections and then as all the euphoria across the Atlantic gave way to a more realistic view of the new administration. The rally continued as the economic numbers coming out of Europe got stronger every quarter and even outperformed the US in the second half of the year. China, much to the markets' surprise, pushed ahead with its expansion and became the key driver for Asia's outstanding year.

Looking at the major stock indices, year-end results for 2017 were as follows:

- DAX: +12.5 %
- Stoxx50: +5.7 %
- S&P500: +20.0 %
- Dow Jones: +25.7 %

We have to translate the performance of the US indices into euro to achieve a reasonable comparison. The US dollar started the 2017 fiscal year at 1.058 relative to the euro and finished the year at 1.1996, down 13.4% against the euro. On a euro basis, 2017 saw a 6.6% rise in the S&P500 and a 12.3% rise in the Dow Jones. European investors that didn't systematically hedge against currency risks were hit hard by the unexpected devaluation of the US dollar.

China's massive debt bubble looms large over the global economy – and Donald Trump has countered with a pro-cyclical fiscal policy that could cause overheating (and therefore higher inflation) in the US economy.

### The Hoftex Group share

Hoftex Group shares are traded on the m:access market of the Munich Stock Exchange. Since our move to the Open Market on 29 June 2009, the Company is no longer considered to be "publicly listed" as defined in the German Securities Trading Act (*Wertpapierhandelsgesetz*, or WpHG). For this reason, shareholders are no longer subject to the special provisions in the WpHG governing the duty to disclose holdings that exceed or fall below certain reporting thresholds. Our principal shareholder ERWO Holding AG currently holds 4,607,862 shares, or 84.6% of all shares.

Share type	No-par value shares, each with a proportional share of €2.56 (rounded) in the share capital
Listing	Munich Stock Exchange
Share capital	€ 13,919,988.69
Number of no-par value shares	5,444,800
Market segment	m:access
Stock exchange symbol	NBH
ISIN	DE0006760002
WKN <sup>1)</sup>	676000

<sup>1)</sup> German Securities Identification Number (*Wertpapierkennnummer*, or WKN)



The following chart shows the performance of the Hoftex Group share from 1 August 2016 to 1 March 2018.



Source: [www.onvista.de](http://www.onvista.de)

During the year under review, shares in HOFTEX GROUP AG went from EUR 12.11 on 1 January 2017 to EUR 13.10 on 31 December 2017, reaching a low point of EUR 12.11 and a peak of EUR 17.00 during this period.

As 84.6% of our share capital is held by our principal shareholder ERWO Holding AG, a maximum of only 15.4% of shares can theoretically be in free float at any time. As a result, trading volume in these shares is low, as evidenced in the bottom section of the chart. The low trading volume is probably a key factor in the strong fluctuations and deviations seen on the performance chart above. It is difficult, if not impossible, to otherwise account for these fluctuations and deviations.

That said, the move to a *Schuldscheindarlehen* at the end of fiscal 2016 could be one possible explanation for the upwards trend in the share price during the first half of 2017, culminating in the price hitting an all-time high of EUR 17.00 in early July. We were compelled to revise down our earnings projections at the end of August 2017, which resulted in a drop in the share price. The share price appears to have found its way back up in early 2018.

Key figures for the Hoftex Group share	FY 2017	FY 2016	Change	
Net income (EUR/share)	1.26	1.43	-0.17	-11.9%
Equity <sup>1)</sup> (EUR/share)	18.00	17.85	0.15	0.8%
Opening price 1 Jan. (EUR/share)	12.11	10.13	1.98	19.5%
Year high (EUR/share)	17.00	12.71	4.29	33.8%
Year low (EUR/share)	12.11	9.50	2.61	27.5%
Year-end share price 31 Dec. (EUR/share)	13.10	12.11	0.99	8.2%
Market capitalization 31 Dec. (EUR thousand)	71,327	65,937	5,390	8.2%

<sup>1)</sup> based on consolidated equity

Dividends for the Hoftex Group share	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Proposed dividend in EUR/share	0.00	0.15	0.17	0.20	0.22

Our commitment to taking measured and forward-looking action is reflected in our dividend policy. Despite the fact that we revised down our earnings projections at the end of August 2017, our outlook for the medium to long term is very positive and we propose a 10% increase in the dividend over the previous year.

## Group Management Report

### 1. Group fundamentals

#### 1.1. Business model

The HOFTEX GROUP AG with its registered office in Hof (Bavaria), is a group of companies operating in the global textile industry. The companies of the Hoftex Group are active on three continents in 4 countries at a total of 11 manufacturing and sales locations, offering customers worldwide their services as a trusted partner.

The Hoftex Group is among Europe's largest textile companies with a 160-year history in the global textile trade. During this time, the Group has grown in several stages from a conventional textile manufacturer to a diversified niche supplier of highly innovative textile products.

In the three divisions Hoftex, Neutex and Tenowo, the Hoftex Group brings together unparalleled expertise in production and R&D.

Hoftex Division	Neutex Division	Tenowo Division
Hoftex GmbH	Neutex Home Deco GmbH	Tenowo GmbH
Hoftex CoreTech GmbH	Neutex Betriebs GmbH	Tenowo Hof GmbH
Hoftex Max Süß GmbH <sup>*)</sup>	SC Textor S.A.	Tenowo Reichenbach GmbH
Hoftex Färberei GmbH		Tenowo Mittweida GmbH
Hoftex Färberei Betriebs GmbH		Tenowo Inc.
		Tenowo Huzhou New Materials Co. Ltd.
		Supreme Nonwoven Industries Pvt. Ltd.

<sup>\*)</sup> Sold on 1 Jan. 2018

The **Hoftex** division represents the origins of today's Hoftex Group and offers traditional products from the spinning sector, such as yarns and threads, with a special focus on applications for technical textiles and apparel. Tailored to meet the needs of its customers, Hoftex develops and manufactures numerous specialised textiles such as yarns for tyre production and applications in the food sector, in addition to more conventional yarns and threads. The central location of its production and development facilities in Germany guarantees short lead times and on-schedule deliveries.

The **Neutex** division includes segments for weaving, dyeing and finishing of decorative fabrics and has for the past 50 years maintained a strong position in a sector where the critical success factors are creativity, the ability to keep pace with changes in the zeitgeist on local markets, rapid development and lead times as well as strong, fast-paced innovation. Today, as a premium systems supplier operating on a global scale, Neutex manufactures and markets creative decorative fabrics as yard goods as well as ready-made household textiles. It also supplies innovative sun-protective textiles to industrial customers for further processing.

The **Tenowo** division with sites in Europe, North America, China and India is a market leader in the development and manufacturing of innovative technical textiles and nonwovens, demonstrating that the modern textile industry in Germany can still achieve success. Tenowo develops and manufactures products such as acoustic nonwovens for the automotive industry as well as nonwoven textiles for the construction industry, the cable industry or the garment trade.

## 1.2. Structure

The HOFTEX GROUP AG functions as a holding company with a flat hierarchy and forms part of the Hoftex Group along with the three divisions and their respective subsidiaries. As a holding company, HOFTEX GROUP AG is primarily focused on performing core duties across the entire Hoftex Group, including purchasing, human resources, corporate finance and accounting, Group financial control, IT and plant engineering, among others.

With its nine members, the Supervisory Board advises the Management Board and oversees its management activities. The Supervisory Board must be consulted in all decisions material to the company, including evaluating the single-entity and consolidated annual financial statements. During the Annual General Meeting, the chairperson of the Supervisory Board presents the Management Board's written report. The Supervisory Board has members who are employees of ERWO Holding AG, employee representatives and independent experts.

The Management Board comprises two members, while the divisions in the individual subsidiaries are run by their respective managing directors. The managing directors receive support from a management team that includes staff for sales, production/engineering and finance.

## 1.3. Strategy and objectives

The Hoftex Group has evolved over several stages from a conventional textile producer to a diversified niche provider of highly innovative textile products. As a manufacturer of textile solutions, our companies act as professional and reliable partners for customers in a wide variety of future-oriented and high-growth industries. There is very little overlap between the divisions, which allows each division to develop its own strategy.

Each division is focused on products that are innovative and reliable as well as satisfying the highest product quality standards. We always place the requests and requirements of our customers at the heart of our operations, which in turn forms the foundation for every strategy and development.

The stable ownership structure of the HOFTEX GROUP AG along with its balanced product and service portfolio guarantee steady and sustainable long-term corporate growth and enable us to pursue our corporate strategy. As a result, customers of the Hoftex Group are secure in the knowledge that they have a trustworthy partner at their side, even over the course of a multi-year product cycle.

## 1.4. Sustainability

Every day we are faced with the effects of our changing world: scarcity of resources, climate change and increasing economic inequality. It is our view that the Hoftex Group can leverage its expertise with textiles, particularly in terms of technology and plant engineering, to play a key role in making the textile industry more transparent and sustainable.

A crucial component of any sustainability program is energy and environmental management. Once again last year, we introduced measures to further reduce our energy consumption. We plan to pursue such measures in future as well.

The companies of the Hoftex Group are subject to regular audits in an effort to maintain and systematically improve our safety, quality and sustainability standards, which ultimately results in a more efficient and more profitable enterprise. The numerous certifications we have received document and guarantee for our stakeholders our strong commitment. Within our industry, we are also acknowledged and valued as a reliable partner.

### 1.5. Control system

The financial performance indicators decisive for corporate management include sales, net income for the year and EBITDA. Operating result, operating cash flow, headcount and total investments by division are additional key indicators that each division must account for on a monthly basis.

In addition, our management teams also focus on non-financial metrics such as costs complaint rates, energy consumption and on-time deliveries.

Overall, however, the management of the Hoftex Group relies exclusively on financial performance indicators.

### 1.6. Research and development (R&D)

The Hoftex Group places a high value on proprietary research and development and considers it a critical success factor. The goal of our R&D efforts in each division is, on the one hand, to enhance the benefits our products offer to customers, and to guarantee high quality and top performance at competitive pricing on the other. In addition to optimizing manufacturing technology, our focus is also on using resources efficiently and finding new raw materials. The efforts in our R&D departments go beyond further development of established products and also tackle new, innovative products and applications – both for existing and new markets. The divisions are laser-focused on product as well as process innovations.

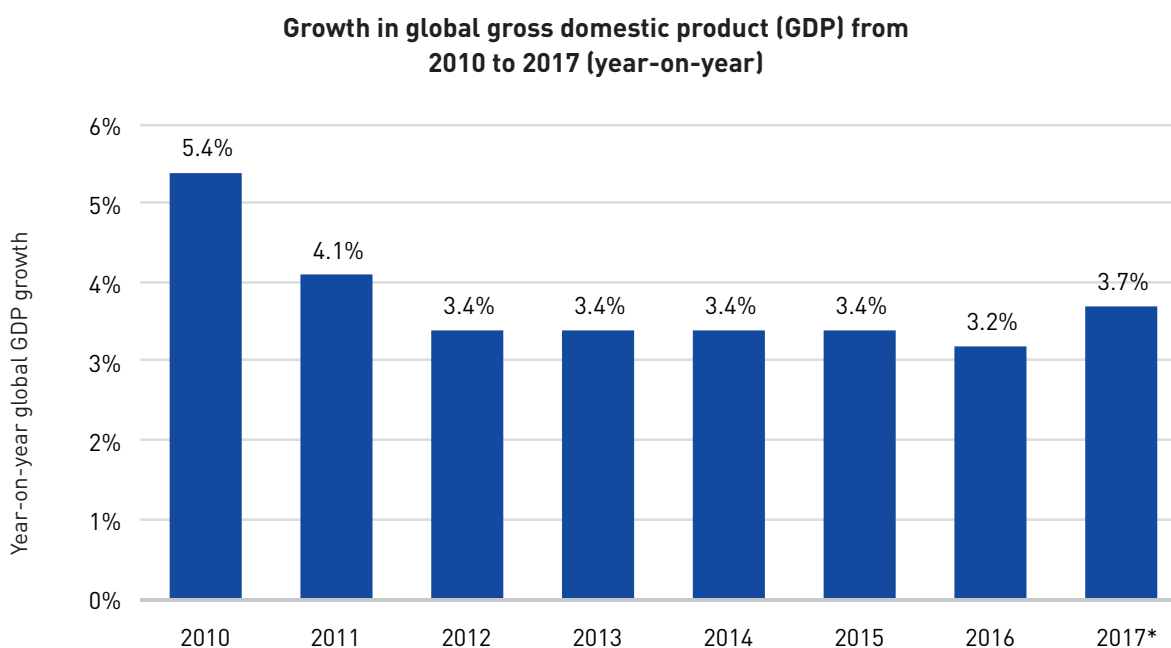
In support of our R&D activities, we work with research institutes, polytechnic colleges and universities. Key partners here are: the Hof University of Applied Science, the Technical University Chemnitz, STFI Chemnitz, the Fraunhofer Institute, the University of Bayreuth, the Technical University Dresden and the University of Applied Sciences Zwickau. We also currently have several joint projects with numerous partners in industry.

The Hoftex division's R&D activities are strongly focused on developing products to meet our customers' specific demands. In the Neutex division, a total of 9 R&D staff are employed in our workshop and production facilities, focusing on developing new designs and new weaving techniques. The associated costs amount to EUR 0.6 million (prior year: EUR 0.7 million). 20 staff are employed worldwide in research and development for the Tenowo division, with costs for trial production amounting to EUR 1.1 million (prior year: EUR 1.6 million).

## 2. Economic report

### 2.1. Macroeconomic conditions

After world economies remained stagnant over the past few years and reported the weakest year of growth since the financial crisis at 3.2% last year, the global economy emerged stronger in 2017 with virtually all major national economies reporting upward trends for the first time in several years. Driven by growth in the emerging economies of East Asia, favourable financial conditions and a rise in consumer confidence, 2017 was able to continue the upwards trends of the past two half-years and achieve 3.7% growth according to IMF projections.



Source: Chart supplied by Germany's Federal Statistics Office, based on annual figures published by the IMF

\*) estimate

In the advanced economies, dynamics remained moderate – industrialised economies reported 2.3% growth. Momentum picked up on the Eurozone economy, with a 2017 growth rate of 2.4% (prior year: 1.8%) driven mainly by the continued expansionary monetary policy of the ECB, general improvements on the employment market and persistent positive consumer sentiment. Germany and Italy in particular performed better than the previous year; notable also is the fact that all 28 EU member states reported economic growth. The US economy reported 2.3% growth, up significantly on the previous year (1.5%) thanks above all to the expectations surrounding the tax reform passed at the end of the year, but also to a weaker US dollar and a stronger manufacturing economy. The Canadian economy reported 2.7% growth, almost two times the prior year figure (1.4%). Underpinned by expansionary monetary policy, even the Japanese economy defied the odds (from 0.9% growth to 1.8%).

Among emerging and developing economies, 2017 saw strong growth particularly in East Asian economies. High public sector spending and generous lending policies created momentum in the Chinese economy and led to a growth rate of 6.8%. At 6.7%, growth on the Indian economy fell slightly short of the previous year's performance due to somewhat restrained consumer spending, although increasing investments and public sector spending turned that trend around in the second half of the year. The association of southeast Asian nations ASEAN reported growth of 5.3%. Russia continued the recovery that began in 2016 with 1.8% growth for 2017. Brazil appears also to have survived its deep recession, reporting growth once again in the fiscal year just ended for the first time since 2014.

## 2.2. Sector-specific conditions

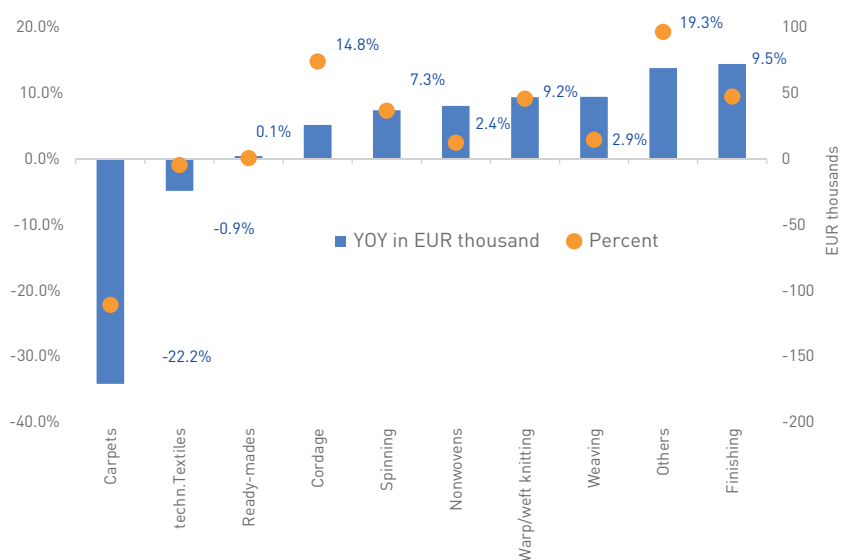
2017 was a better year for the textile and apparel sector than the year before. A breakdown of the total sales of EUR 35 billion puts the household textile segment at roughly EUR 3 billion in sales, apparel at around EUR 12 billion and technical textiles at approximately EUR 13 billion. The market report published by the "textile + mode" trade association put 2017 sales growth at 1.8% (prior year: 0.2%), slightly outperforming the projected growth of 1.7%. Breaking that figure down by segment reveals interesting deviations from the projected growth rates.



The textile segment was unable to maintain the strong performance of the previous years (2015: 3.7%; 2016: 2.9%), reporting a 1.3% increase in sales that fell short of the 2% target. After reporting a slight decline in nonwovens sales last year, which dampened the strong growth trend of the past few years, the 2.4% rise in 2017 nonwovens sales appears to show signs of a return to form. Technical textiles, which generate just under 60% of total segment sales, were unable to drive growth to the degree that they did over the past few years. This development along with a sharp -22% decline in the heavily-weighted carpet trade put a damper on the otherwise exceedingly positive performance of the other areas and produced weaker growth in the textile segment overall.

The association of German Home Textile Manufacturers reported a 15.7% year-on-year drop in sales on the German market in 2017.

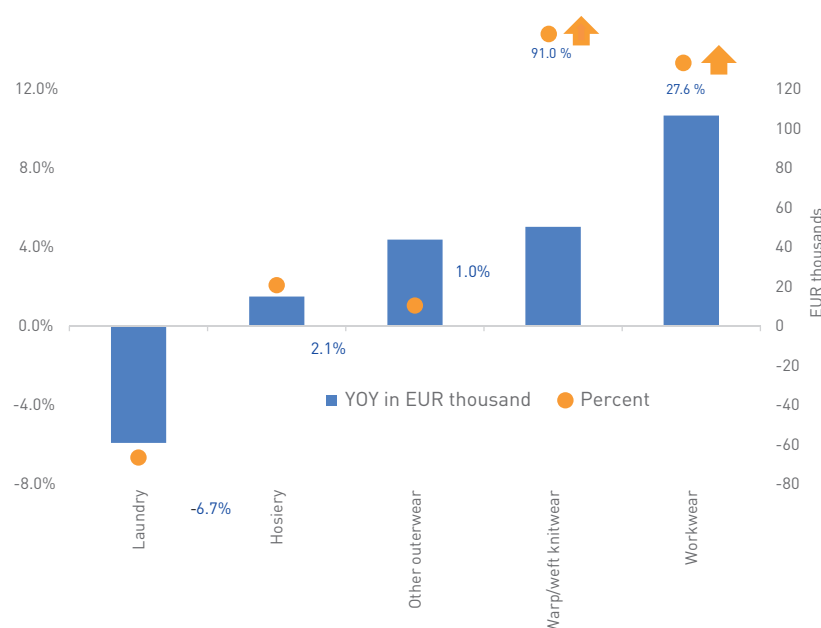
### 2017 sales trends – textile segments



Source: Industry association „textile+ mode“, Feb. 2018 market report

By contrast, the apparel segment exceeded expectations after a weak performance in the previous year (-3.8%) and achieved growth of 2.5%. With the exception of intimates, all segments reported growth in 2017. According to the market report, the positive trends in the workwear segment were due in part to a change in the statistical methodology from the previous year relating to some heavily-weighted companies. The increase in the warp/weft knitting segment is also primarily due to a one-off statistical effect caused by a new, relatively heavily-weighted company that was added to the sample in the middle of the year. The association does not expect either anomaly to play a role in 2018.

### 2017 sales trends in the Apparel segment



Source: Industry association "textile+ mode", Feb. 2018 market report

As in the previous year, 2017 saw a slight increase in employment in the German textile and apparel industry. Wage and salary levels for the roughly 119,000 employees increased as well, up 2.6% over the previous year. At 11.3% of overall sales, it was also a very good year for exports, which increased year on year by 2.6% for companies in the textile segment and by 17.7% for companies in the apparel industry, although the latter figure was likely impacted by a statistical anomaly as mentioned above.

### 2.3. Business performance

2017 proved to be quite a challenging year. Given the fast-moving, dynamic market and growing political uncertainty, our goals for the year were quite ambitious. Many of our customers were wary during the first six months of the year, which led to results that significantly underperformed expectations. After the mood on the market improved during the second half of the year, we saw an improvement in our business figures as well. In the end, a series of cost-cutting measures were able to close the gap between target margins and projections.



### **Hoftex Group**

- Sales (EUR 182.6 million) at prior-year levels
- Net income for the year (EUR 6.8 million) below prior-year levels (EUR 7.8 million)
- EBITDA (EUR 20.4 million) below prior-year levels (EUR 22.2 million)
- Average number of employees rose from 1,220 to 1,206 year on year
- Investments (EUR 9.7 million) below prior-year levels (EUR 17.0 million)
- Every unit let in the former production site at Hof-Moschendorf

### **Hoftex Division**

- Sales at prior-year levels and 2% below projections
- Average number of employees down 10% year on year
- Investments at prior-year levels and slightly below target
- Sale of Hoftex Max Süß GmbH on 1 January 2018

### **Neutex Division**

- Sales down 12% over the previous year and 22% below projections
- Year-on-year drop in earnings
- Cost-cutting measures implemented: reduction in staff, among others
- Average number of employees significantly below the prior-year level
- Investments at prior-year levels, but below target
- Positive trends for the SUN und TEC ranges

### **Tenowo Division**

- Sales down 2% year-on-year and 5% below projections
- Average number of employees up by 1% year on year
- Investments significantly below prior-year levels and targets
- Roll out of a new ERP system at the German plants

### **Hoftex division**

During the 2017 fiscal year, Hoftex division generated EUR 27.3 million in sales, almost in line with targets. The products were manufactured at the facilities in Venusberg (spinning mill), Cranzahl (doubling mill) und Selbitz (dyeworks) or purchased wholesale from third-parties. Sales were down slightly by EUR 0.1 million year on year and exports accounted for 53% of sales.

Accounting for 22% of total sales, sales for the automotive range declined in 2017, and we saw a decrease in customer inquiries for the carpet yarn range. Good news for apparel sales, which accounted for 19% of total sales and outperformed sales targets. Sales for technical textiles were on par with the previous year, making up a 57% share of total sales.

The dyeworks had a very good year once again in 2017. Solid order intake figures led to an increase in both gross revenue and sales.

We are seeing a continuing trend towards strong fluctuations in customer demand over the course of the year, making it vital for our production sites to operate with the greatest possible flexibility. This translates into tough challenges for our engineering team and our workflows.

## Neutex Division

Neutex was unable to buck the downward trend on the household textile market in 2017, reporting a 12% decline in annual sales. As early as Q2 2017, signs indicated that division performance would fall short of both prior-year results and projections. Demand in Germany was particularly weak, while an increase in exports of products from the SUN range was the key driver for the 4% growth for the division as a whole. The share of sales attributable to exports rose to 23%, due in part to the drop in domestic sales.

Sales trends for our SUN product range continue to be promising, accounting for almost 20% in overall sales. We have also stepped up our marketing efforts for the TEC range, which grew by 21%. Sadly, this growth was insufficient to offset the slump in sales of our traditional yard goods and ready-mades.

If past seasonal fluctuations are any indication, order intake is not expected to pick up over the next few months. For this reason, we are making more capacity adjustments to add to the cost-saving measures already implemented at the weaving mill and adapting our production output accordingly. The ready-mades line at the Romania-based facility, which manufactures solely for Neutex, has also been impacted by the decrease in production volume and has made short-term adjustments to its production capacity in response to the changing conditions.

## Tenowo Division

2017 business results for the Tenowo division slightly outperformed the previous year. Domestic sales saw the largest growth, even as sales to EU member states and third countries rose as well. Sales of nonwovens produced in Germany to Tenowo's US-based subsidiary fell due to weaker demand on the US market. Sales to Tenowo China increased marginally. Intra-Group sales overall were up slightly compared to the previous year's figures.

The automotive product range continues to be our strongest sales driver, with acoustic nonwovens, decorative and backing fleeces and technical tapes recording the largest gains. The automotive range's share in overall sales remained unchanged, as sales in the industrial segment grew significantly as well.

2017 saw robust growth in the industrial segment, although the substantial gains in the filtration and medical product ranges were offset slightly by sector-specific losses in other areas.

Tenowo's interlinings range (nonwoven and fabric interlayers) performed well again in 2017, seeing its sales rise in an otherwise shrinking European market. On the whole, however, this market segment only makes up a small share of Tenowo's business.

We have been able to accommodate extra orders from our customers thanks to last year's investments in the expansion of our Germany-based production sites. The Mittweida site once again served as an important mainstay within the Group, resulting in impressive capacity utilization and strong results. This is particularly true for the Hof-Moschendorf plant. Results at the Reichenbach facility improved significantly year on year, suggesting that our prototyping activities from 2016 have paid off. That said, internal issues at one of our key accounts negatively impacted results in 2017.

Results at Tenowo USA were not entirely satisfactory in the fiscal year just ended. Demand for products from the automotive range fell precipitously as of Q2 2017, resulting in an 8% drop in overall sales at year-end. Due to delays from a major customer, the expansion of the US-based production facilities at the end of 2016 did not produce the expected sales growth. However, after using this new technology to produce a number of samples for applications that go beyond traditional acoustic nonwovens applications demonstrate that there is still a lot of potential for diversification that we can leverage on this market.

2017 was a difficult year for Tenowo China. In-house production increased significantly, but without producing a notable growth in sales. Strong price pressure in the automotive segment combined with a shift in the product range towards more lightweight and therefore low-margin items put a strain on results. By contrast, sales from the interlinings range trended upwards. 2017 saw only minor investments in factory and office equipment at the China-based plant.

During the year just ended, our India-based subsidiary, Supreme Nonwoven Industries, reported growth in sales over the previous year. As in the previous year, we received a divided payment of EUR 0.15 million.

## 2.4. Business performance

### Results of operations

The Hoftex Group's sales for fiscal 2017 were up slightly on the previous year, resulting in a net income for the year of EUR 6.8 million (prior year: EUR 7.8 million). The results break down as follows:

in Euro thousand	FY 2017	in % of gross revenue	FY 2016	in % of gross revenue	Change year- on-year	Change year- on-year %
Sales	182,609	100.9	181,391	99.5	1,218	0.7
Gross revenue	180,966	100.0	182,383	100.0	-1,417	-0.8
Cost of materials	-92,347	-51.0	-93,055	-51.0	708	-0.8
Personnel expenses	-45,797	-25.3	-43,884	-24.1	-1,913	4.4
Operating result	10,279	5.7	11,164	6.1	-885	-7.9
Net income for the year	6,836	3.8	7,803	4.3	-967	-12.4

The decline in sales can be attributed to a difficult market environment, above all in the household textiles segment. In view of the decrease (prior year: increase) in inventories, gross revenue fell short of the previous year's figure, down by EUR 1.4 million to EUR 181.0 million. We achieved the objective we set ourselves last year by reducing inventory as planned.

At 51%, the cost of materials is on par with last year's results. The purchasing department did an excellent job in preventing prices from increasing. Personnel costs, however, did go up due to an increase in wages and salaries as well as a slight rise in headcount. 2017 also saw the implementation of new personnel policies in the Neutex division.

These factors resulted in an almost EUR 0.9 million year-on-year decrease in operating result for fiscal 2017.

## Financial position

Results in 2017 demonstrate that the Hoftex Group is able to sustain its strong cash flow and financial position. With net income for the year amounting to EUR 6.8 million and non-cash expenses/income of EUR -1.8 million (prior year: EUR +0.3 million), which are mainly attributable to effects from the USD and RMB exchange rates, the Group generated cash flow from operating activity amounting to EUR 16.3 million and was therefore able to fund its EUR 9.7 million investments in fixed assets. The investments relate primarily to the implementation of a new ERP system as well as renovations at the former production site at Hof-Moschendorf.

The comfortable cash flow situation enabled us to grant a short-term loan amounting to EUR 9.0 million to ERWO Holding AG and to repay EUR 3.0 million in loans to affiliates.

With EUR 13.6 million in cash and cash equivalents as of 31 December 2017, the Hoftex Group is well positioned to compensate for any potential future losses.

## Net assets

Despite EUR 9.7 million in investments in 2017, fixed assets declined mainly due to scheduled depreciation amounting to EUR 10.6 million. The increase in intangible fixed assets can be attributed to the roll-out of a new IT system. In large part, long-term financial assets relate to our equity investment in Nonwoven Industries Pvt. Ltd., India.

2017 saw an increase in current assets from EUR 83.3 million to EUR 84.2 million. Although we were able to reduce inventories slightly, receivables rose significantly after a short-term loan of EUR 9.0 million was granted to ERWO Holding AG. Cash and cash equivalents fell to EUR 13.6 million (prior year: EUR 20.5 million).

Thanks to the strong net income for the year, we were able to strengthen our equity base once again this year – despite the adverse effect of the USD to RMB exchange rate in particular. Taking equity as a percentage of total equity and liabilities, the equity ratio for 2017 amounted to 52.0%, up from last year's figure of 50.4%.

Liabilities decreased by EUR 3.2 million to EUR 67.9 million in 2017 (prior year: EUR 71.1 million), driven primarily by trade liabilities (EUR 0.9 million) and other liabilities (EUR 2.4 million). The first repayment of our Schuldscheindarlehen is due at the end of 2019. Based on our current financial position and cash flow, we do not envision any problems in making the repayments.

## 2.5. General statement

On the whole, the management sees the Group's performance in 2017 as satisfactory. We felt compelled to revise down our main target for the year – generating consolidated net income of between EUR 8.0 million and EUR 9.0 million – in August 2017 (to EUR 5.5 million to EUR 6.5 million). After performance picked up in the second half of 2017, our year-end results slightly outperformed the target with EUR 6.8 million in consolidated net income for the year.

The Tenowo division improved on the prior-year's results but fell short of projections. One very positive outcome for 2017 was the successful roll-out of the new ERP system in Germany.

Results in the Neutex division – despite the difficult market environment – cannot be deemed satisfactory. Though it will be challenging to return to profitability, we have already taken important steps toward containing costs in 2017.

The Hoftex division reported sales roughly in line with expectations.

## **2.6. Employees**

The Group employed an average of 1,220 staff in the year under review (prior year: 1,206). While the Tenowo division recruited new staff to drive further growth, staff cuts were made in the other divisions, particularly at Neutex.

## **3. Gender quota**

On 9 December 2016, the Supervisory Board of the HOFTEX GROUP AG resolved to maintain the status quo as the target for the Management Board up to 31 December 2021, i.e. a zero quota. The Supervisory Board resolved to appoint at least two women members by 31 December 2021. There are four women on the Supervisory Board at present. The Management Board of the HOFTEX GROUP AG has set a target of 20% for the top management level below the Management Board on or before 31 December 2021. At the time the target was set, 50% of the managers at this level were women. No target has been set for the second management level, as HOFTEX GROUP AG in its role as a holding company has a flat hierarchy; there is therefore no continuous second management level.

## 4. Risk and opportunity report

The Hoftex Group is faced with risks and opportunities every day that can have both a negative or a positive impact on our results of operations, financial position and net assets as well as the Group's market position. This risk and opportunity report presents the key risks and opportunities facing the Hoftex Group.

### 4.1. Risk management

The Hoftex Group has a multi-tiered risk management system and additional supporting control systems. Central oversight and coordination of the risk management system is the responsibility of the Group's finance and accounting managers.

Risk management is integrated into the existing planning, controlling and information systems and covers all companies of the Hoftex Group.

The internal control system incorporates the principles, processes and measures introduced by the management to ensure

- its business activities are conducted effectively and profitably
- the internal and external accounting is performed in a proper, reliable manner
- it complies with all legal provisions that are relevant for the company.

All of the organisational rules and measures implemented to identify and manage the risks associated with business operations are included in the risk management system. With regard to the Group's financial reporting process, the following structures and processes have been implemented at Group level. The Management Board bears overall responsibility for the internal control and risk management system. All corporate units and divisions are involved as defined in the management and reporting structure. Internal guidelines outline the principles, the organisational structure and workflows as well as all processes for the accounting-related control and risk management systems. In terms of the financial reporting process, the internal control and risk management systems that we define as material are those that have a significant impact on the accounts and the overall picture conveyed by the single-entity and consolidated annual financial statements including the Group management report. These relate primarily to the following elements:

- Identification of key risk and oversight areas that are relevant for the financial reporting process.
- Monitoring controls designed to oversee the financial reporting process and their results at Management Board level.
- Preventive control measures in finance and accounting as well as in operational, performance-related processes that generate key data for the preparation of the single-entity and consolidated financial statements including the Group management report ensure that the relevant divisions uphold the segregation of duties and pre-defined approval process.
- Measures to ensure the proper computer processing of accounting-related events and data.
- Measures to monitor the accounting-related internal control and risk management system.

## 4.2. Key risks and opportunities

Risks and opportunities are part of any commercial undertaking. The key factor is to identify any risks and opportunities at an early stage and implement suitable measures to address them. Risks and opportunities are essential factors in our internal decision-making process as well as our short-term and medium-term projections. The risks and opportunities of the Hoftex Group can be broken down into the following four categories:

<b>Strategic risks and market risks</b> <ul style="list-style-type: none"> <li>• Site/country risks</li> <li>• Competition</li> <li>• Pricing pressure/fluctuations</li> <li>• Market trends/sales fluctuations</li> <li>• Purchasing market risks</li> </ul>	<b>Operating Risks</b> <ul style="list-style-type: none"> <li>• Production</li> <li>• Purchasing/logistics</li> <li>• Personnel</li> <li>• Project management</li> <li>• Research/development</li> <li>• Sales</li> <li>• Information management</li> </ul>
<b>Financial risks</b> <ul style="list-style-type: none"> <li>• Currency and interest rate risks</li> <li>• Risk on default of receivables</li> <li>• Liquidity risks</li> <li>• Devaluation risks (e.g. fixed assets, goodwill, inventories)</li> </ul>	<b>Compliance risks</b> <ul style="list-style-type: none"> <li>• Regulatory risk</li> <li>• Environmental risk</li> <li>• Code of conduct</li> <li>• Information security/data protection</li> <li>• Tax law</li> <li>• Capital markets</li> </ul>

### 4.2.1. Strategic and market-driven risks and opportunities

#### Site/country risk

Political crises and regulatory barriers, economic emergencies and military conflicts: the list of potential risks that could impact our operations overseas is long. We can only achieve sustainable success abroad if we are fully aware of these country risks and monitor them closely.

That said, taking your business abroad can present interesting opportunities: markets in western Europe and North America are already saturated in many cases. Selling our products worldwide can drive growth in sales and give us access to a wider pool of highly skilled staff. Shifting our supply chain geographically enables us to make our operations significantly more efficient and more effective.

Country risk management is an effective tool for identifying crisis points in due time. The first step must always be identifying the potential for heightened threat. Subsequent steps involve understanding precisely how these different risks impact our supply chains, finances and human resources and then implementing appropriate measures.



### **Competition, pricing pressure/fluctuation and market trends/sales fluctuations**

We have numerous competitors in the textile industry. When competitive pressure increases, it can have significant consequences for the volume of product we can sell and the prices we can charge. Maintaining strong customer relationships, innovating product enhancements and conducting market analyses all act as key countermeasures.

Digitalization is a key market trend and digital technologies are playing an increasingly important role in our markets. We have introduced strategic digital initiatives that are designed to shape our internal processes on the one hand and assess the benefits of digitalisation for our products and customers on the other. By expanding these activities, we expect to leverage new market opportunities that can positively impact our sales over the medium term.

### **Purchasing market risks**

Quality controls along the entire value chain mitigate risks related to the quality and availability of products. This starts with certifying our suppliers and continues with quality standards for raw materials, semi-finished goods purchased from third parties and equipment. We are dependent on a single supplier for certain products. If one of these suppliers decided to limit or cut off supply, this could potentially have critical consequences for the operations in question. We can significantly reduce the likelihood of this happening by entering into long-term strategic partnerships and pursuing alternative purchasing strategies.

## **4.2.2. Operational risks and opportunities**

### **Production**

There are two main factors that can negatively impact profitability: fluctuations in production capacity due to cyclical factors and production delays due to potential shortages in production materials.

Wage increases for workers on the production line, particularly in emerging economies (Eastern Europe and East Asia), and rising raw material prices can raise the price of our products and have a negative impact on the Group's profitability overall.

We minimise these risks by improving efficiency in our production and purchasing processes, by continuously optimising our material usage and by implementing a consistent pricing strategy.

### **Purchasing/logistics**

The logistics risks facing the Group relate primarily to a temporary failure or loss of a warehouse and the potential loss in sales as a result. All of our raw materials and finished goods are stored in a small number of select locations.

We have implemented robust fire protection and safety measures at all of our warehouse facilities. The financial risk of a loss of goods at these facilities is also covered by insurance. This risk is further mitigated by the availability of storage space at third-party or consignment warehouses.

### **Personnel**

The Group's efforts to achieve its strategic and financial goals are heavily dependent on its human resources, their skills and motivation as well as its ability to maintain a fair and values-based corporate culture. Personnel risks can arise where the Group encounters difficulties in recruiting staff, where there is a shortage of skilled workers or where there is a high turnover of staff. We mitigate that risk through a forward-looking personnel strategy, attractive development and training measures and a performance-based compensation scheme.

### **Project management**

We track our investments closely using project management tools. In an attempt to avoid planning errors and misallocation of resources, we regularly assess the production capacity required for our projects and track key milestones across several years as part of the budget planning process and in Supervisory Board meetings. We closely monitor all major investments.

### **Research and development**

At the Hoftex Group, the responsibility for researching market trends and developing innovative products generally rests within the individual business units. We develop products and solutions that provide extra benefits for the Hoftex Group and for our customers. We also support scientific initiatives that aim to develop products, solutions or markets that are critical to the future success of the Group.

### **Sales**

There are resource planning risks inherent in the purchasing process in terms of projecting future sales, planning production capacity and allocating raw materials and finished goods. Misallocation of resources can lead to overstocks and therefore the risk of tying up capital on the one hand or to shortfalls that run the risk of unrealised sales opportunities on the other. In its effort to mitigate this risk, the Group is committed to a continuous improvement process in the reliability of its projections and the flexibility of its resource management across all sales channels and markets.

### **Information management**

Efficient processes and workflows that run smoothly are heavily dependent on a high-performance and secure IT infrastructure. The failure of major IT systems within the Group could significantly disrupt operations; cyber-attacks could disrupt entire systems and result in a loss of confidential data, putting the Group at risk of reputational damage or liability claims. In order to minimise these risks, the Group-wide IT department carries out regular preventative systems maintenance and security checks, relies on multi-level security and antivirus measures, and assigns access rights consistent with employees' job descriptions. Conditional access systems, daily backups of the data from the ERP system, an independent electricity supply and regular training workshops are further measures designed to increase IT security.

## **4.2.3. Financial risks and opportunities**

### **Currency and interest risks**

With its business operating on a global scale, the Hoftex Group is subject to currency risks that could impact the Group's performance in terms of consolidated earnings and equity.

Currency risks arise in the Group's operations through the purchasing and sale of products in different currencies at different rates (transaction risk).

The sales of our subsidiaries in the US and China are the driving force behind key payment flows in foreign currency, as are acquisitions made in foreign currencies like USD and RMB by the Group's purchasing units. The US dollar has a major impact on the prices of our main supplier. We therefore continue to watch currency developments closely and try to mitigate risks as much as possible with "natural hedging". The Group uses forward exchange derivatives where appropriate.

The Group is also exposed to currency risk in relation to the translation of financial results for consolidated companies outside the Eurozone into the Group's default currency, the euro (translation risk). We monitor the translation risk on an ongoing basis, but have elected not to hedge for that risk as its impact on the consolidated balance sheet and the consolidated income statement does not affect cash flow.

At the end of 2016, we secured a *Schuldscheindarlehen*, or bonded loan, with a term of 3 to 7 years to cover our capital requirements. As the variable portion of the loan is subject to the risk of interest rate fluctuations, we concluded interest rate hedging agreements to minimise the interest rate risk.

#### **Default risk**

As part of our business selling goods and services, the divisions continually monitor outstanding debts and default risks and make sure that as much of the risk as possible is covered by trade credit insurance. The creditworthiness of major customers comes under particular scrutiny.

#### **Liquidity risk**

In order to guarantee the Group's solvency and financial flexibility, we secure long-term credit lines and make cash and cash equivalents available in the amount determined by our multi-year financial plan and rolling liquidity plan. Most of our cash-pooling funds and outside financing are concentrated within the Hoftex Group. In relation to the Group's cash pooling arrangement, funds are transferred internally to Group companies on a needs-oriented basis.

#### **Devaluation risks**

The Hoftex Group prepares its financial statements in accordance with the German Commercial Code (*Handelsgesetzbuch*, or HGB). The capitalised software assets and similar rights are purchased solely in return for payment and are written down over their expected useful lives. The same is true for tangible fixed assets. As soon as indications arise of possible impairment that would require unscheduled depreciation, the asset is written down.

There are also valuation guidelines for inventories. Where prices are falling on the reporting date, the inventories could be subject to valuation risks.

#### **4.2.4. Compliance risks and opportunities**

As a rule, compliance violations can lead to substantial fines, reputation loss and claims for damages. Depending on the country in question, compliance violations may also carry prison sentences for executives and other employees involved.

#### **Regulatory risks**

New legislation and amendments to other statutory regulations at the national or international level can pose risks for our business activities. As an energy-intensive enterprise, we run the risk of losing profitability if we are unable in international competition to pass on higher prices in full or in part to our customers and/or if we are not compensated for them.

### **Environmental risk**

The Hoftex Group supports constructive efforts to protect the climate and transition to sustainable energy sources, where environmental protection and competitiveness are pursued in equal measure. We work with various (local) stakeholders and cooperate with local trade associations to help minimise such risks as rising energy prices.

### **Code of conduct**

Everyone working at the Hoftex Group is obliged to comply with the code of conduct and the specific compliance rules derived from it.

### **Information security / data protection**

Risks can arise due to human error, organisational or technical processes and/or flaws in IT security, which threaten the confidentiality, availability and integrity of our data. We are therefore continually assessing our processes and technologies, adapting these systems and our procedures in a timely manner where necessary.

### **Tax law**

As a globally active corporation, the Hoftex Group must comply with a wide range of tax laws and regulations. Changes in this area can lead to higher tax charges and tax payments and impact the recognition of current and deferred tax assets and liabilities. We assess and evaluate all tax-related issues on a regular basis, relying on the expert advice of third-party advisors in the jurisdiction in question, such as attorneys or tax consultants.

### **Capital markets**

With our listing on the open market of the Munich Stock Exchange, we are subject to regulatory guidelines and laws. Pursuant to Article 19 of the European Market Abuse Directive with effect from 3 July 2016, persons discharging managerial responsibilities and persons closely associated with them must notify both the Hoftex Group and the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, or BaFin) of every transaction conducted on the persons' accounts relating to the shares or debt instruments of the Hoftex Group, or to derivatives or other financial instruments linked thereto. We work closely with a law firm that provides support to us in this matter. All relevant persons have been and are being trained and made aware of his or her responsibilities relating to our listing on the open market.

## **5. Closing statement on the subordinate status report**

Pursuant to Section 312 AktG, the Management Board of HOFTEX GROUP AG compiled a report about the relationships between HOFTEX GROUP AG to its affiliates and presented it to the Supervisory Board. The final statement of the report declares: "On the basis of circumstances known to the Management Board at the time at which the legal transaction was concluded in each case, the Company received adequate consideration for every legal transaction. No measures subject to reporting requirements occurred during the year under review."

## 6. Forecasts

### 6.1. Outlook on macroeconomic conditions

As in the previous year, economic experts expect the global economy to pick up pace slightly in 2018, with the International Monetary Fund forecasting global economic growth of 3.9% in its most recent outlook. Continued favourable financing terms as well as strong consumer confidence are expected to prolong the recent uptick in demand, particularly in the area of investments. Experts expect these developments to have a significant impact on economies that rely heavily on exports.

The ongoing economic recovery in the Eurozone is likely to continue in 2018. In addition to positive employment figures, the recently passed tax reform and the fiscal stimulus associated with it will lead to stronger growth in the US, at least temporarily. Overall, the IMF expects advanced economies to grow at about the same rate as the previous year. It is likely that the Chinese economy will cool over the next year due to slower monetary and credit expansion, even as East Asia will account for more than 50% of overall global growth. The IMF is predicting a 4.9% growth rate for emerging and developing economies in 2018.

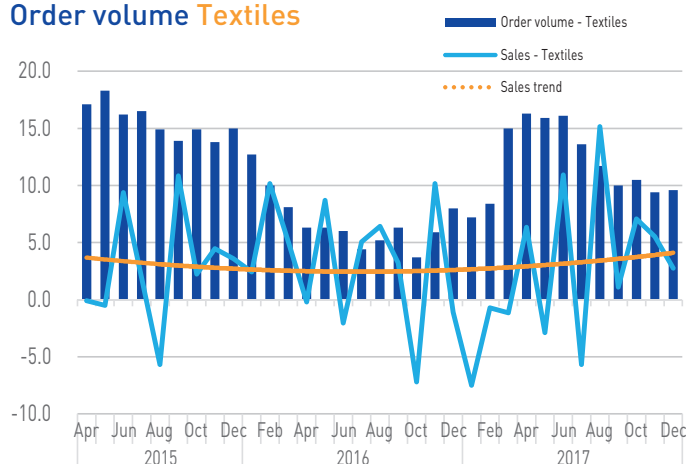
The forecasts for a strong economy are based on expansionary monetary policies as well as the acceleration of international trade in particular. As a result, some of the increasingly protectionist trends we are seeing – above all the recent developments in US trade policy – pose an immense threat to the global economy. What is more, issues like the conflict in North Korea, nationalist movements and calls for autonomy in the Eurozone, tensions in the Middle East and the changing power structures in China's bureaucracy are sources of additional uncertainty.

### 6.2. Outlook on sector-specific conditions

The German textile and apparel industry has proven itself to be extremely flexible and innovative. The strong, innovative brands and designs marketed by German textile and apparel companies are sought after across the globe. Technical textiles remain a big growth driver. Thanks to the projected rise in order volume and the favourable conditions in the economy as a whole, growth is likely to continue for the German textile industry in 2018. We expect strong business performance to more than compensate for the expected increase in raw materials prices and negotiated wages.

The trade association textil+mode is projecting growth in the low single digits for the textile segment in the coming year. A technical analysis of order intake figures and how they trended versus the subsequent sales results reveals that order volume grew did indeed grow in 2017 and that we saw a slight uptick in sales as a result. The strong momentum in order intake did not, however, continue through year-end, making it difficult to identify a clear trend.

## Order volume Textiles



Source: trade association textil+mode, Feb. 2018 Market Report

The economists at VR Banken have a brighter outlook: they are forecasting growth in sales for 2018 in the textile segment. According to their estimates, sector data from the Federal Statistics Office indicate that we can expect solid earnings in 2018 as well. Competitive pressure is expected to remain intense in the textile trade. Sales for nonwovens will be on par with the prior year's results, while expectations for the technical textiles segment are extremely high. According to experts, the stagnation we saw in the previous year was only short lived and 2018 will bring strong growth. They are forecasting growth in the household textile segment as well, along with healthy earnings throughout 2018.

Sector rating – Textile industry						
Sector/segment	Sales trends		Cyclicality	Competitive pressure	Earnings position	
	FY 2017	Forecast 2018			FY 2017	Forecast 2018
<b>Overall</b>	<b>growth</b>	<b>growth</b>	<b>strong</b>	<b>very high</b>	<b>good</b>	<b>good</b>
Nonwovens (products)	growth	stagnation	strong	very high	satisfactory	satisfactory
Technical textiles	stagnation	very strong growth	strong	very high	good	good
Household textiles	slight decline	growth	increasing	very high	good	very good
Spinning	very strong growth	growth	strong	predatory	good	good
Weaving	growth	growth	strong	predatory	satisfactory	satisfactory
Finishing	very strong growth	very strong growth	strong	very high	good	good

Source: VR Branchen Special Textilgewerbe, Report No. 24, November 2017

According to the market report from the trade association textile+mode, growth is expected to continue in both order intake and sales for the apparel segment. The sector rating issued by VR Banken reaches the same conclusion, forecasting a sustained positive trend in the apparel segment as well. In line with the textile segment, technical textiles are also expected to be a key growth driver in the apparel segment. Workwear remains the segment with the strongest growth, as in the previous year. What is more, workwear – in contrast to other areas in the apparel segment – is not yet subject to predatory competition and is expected to generate earnings above the segment average.

### 6.3. Outlook – business performance

2018 promises to be a challenging year for the Hoftex Group. Macroeconomic and sector-specific trends will have a major impact on business performance. We expect pressure on profit margins as in the years before and will need to keep close watch on our cost structures as a result. All that being said, we plan to invest EUR 15.0 million in 2018, substantially higher than 2017 investment levels, and to increase headcount slightly year on year.

#### Hoftex

The 2018 fiscal year started strong for our spinning operations, with a majority of our sales contracts already signed and sealed. While we see solid performance in the tyre cord and sewing thread product ranges, order intake is still stagnant for carpet yarn. Our search for skilled staff, particularly in commercial roles, is becoming increasingly difficult.

Business in the dyeworks is stable. We were pleased to see demand on the German market pick up after the restraint shown over the past few years.

Replacement investments in the dyeworks scheduled for this year are designed not only to increase reliability, but also to optimise energy consumption.

With economic effect from 1 January 2018, we sold the doubling mill in Cranzahl by way of an asset deal, with no material effect on the Hoftex Group.

#### Neutex

Based on the response to the “Heimtextil” trade show in Frankfurt, there is cause for optimism on the household textile market. The show in January demonstrated its unique position as the world’s leading event in our sector with an increase in both exhibitors and visitors over the previous year. This year’s show, as we had seen in previous shows, is increasingly attracting visitors from abroad. The leading fair for interior sun protection “r+t” at the end of February, which takes place every three years in Stuttgart, provided inspiration for our SUN product range again this year.

Neutex is currently in negotiations for an exclusive arrangement with one key account for the sale of a new technology in the area of interior sun protection. If the negotiations proceed as planned, we would see a significant increase in future sales.

The TEC product range looks set to continue the positive sales trends from 2017 in the current fiscal year. One of our key customers recently increased its orders by two-thirds.

The sales volume for yard goods from the DECO product range will continue to decline. This appears to be driven by the fact that various customers across the board are deemphasising this type of product over the long term.

We see a few good opportunities to secure the sales volume we need to maintain decent capacity utilisation. In addition to continued expansion of the SUN and TEC ranges, there are opportunities for ready-made pieces in custom sizes from the READY range. Our initial pilot projects with select clients have produced solid demand, with plans to further refine and expand the offering over the course of 2018. We have also intensified efforts to work with wholesalers on the German market and international textile houses to produce custom and exclusive designs (“Designers Collection”). We make many of these products on commission.

We look forward to continuing the upward trend in export sales started in 2017 by expanding existing customer accounts and acquiring new customers. It is difficult to predict whether conditions will be favourable to pursue markets within the Commonwealth of Independent States. If conditions improved, it could have spin-off effects.



### Tenowo

On the whole, fiscal 2018 started out well for Tenowo, making us cautiously optimistic about achieving our stated goals. The challenge for our headquarters in Germany will be to carry out our maintenance works at the plant as effectively as possible, while keeping capacity utilisation high and bringing the increased capacity at one plant in the former east to market within an appropriate period of time.

Performance is still weak on the US market and we don't expect business to pick up on the customer side before mid-year. The negative impact of full imports from European competitors is still substantial, increasing pressure on profit margins. We expect the roll-out of the new stitch-bonding technology and the training measures associated with it to be extremely demanding for staff in Lincolnton (US) and Mittweida in 2018. But we also expect it to strengthen the bonds between staff members across continents and within the entire organisation. Having this new stitch-bonding technology in the US will enable us to drive growth in the sale of technical tapes on the US market as well.

We have seen steady growth in sales on the Chinese market over the past few months, bringing us closer to maxing out capacity. Improvements in production flows, particularly with regard to optimisation of material usage, are the key priority for 2018 coupled with the necessary training of local staff.

### 6.4. Overall outlook

As mentioned earlier, we expect 2018 to be a challenging year. Our sales projections are slightly higher than the previous year (EUR 185 million to EUR 195 million). Our investment target of around EUR 17 million significantly exceeds the 2017 figure (EUR 9.7 million), though we do not expect to see the impact of these investments on sales growth until 2019.

Due to market uncertainties and continually increasing material and personnel costs, we expect net income for the year to range between EUR 6.0 million and EUR 7.5 million, with EBITDA in the EUR 20.0 million to EUR 22.0 million range.

We plan to continue to pursue our apprenticeship program in the area of human resources, particularly in view of the demographics of our staff. For that reason, we are likely to see a moderate increase in headcount in 2018.

Hof, 29 March 2018

HOFTEX GROUP AG

The Management Board

Klaus Steger

Jacques van den Burg

## HOFTEX GROUP AG

### Consolidated balance sheet as of 31 December 2017

Assets in EUR thousand	Notes	31 Dec. 2017	31 Dec. 2016
<b>A. Fixed assets</b>			
I. Intangible fixed assets	6	2,266	1,580
II. Tangible fixed assets	6	92,769	97,427
III. Long-term financial assets	6/7	7,756	7,561
		<b>102,791</b>	<b>106,568</b>
<b>B. Current assets</b>			
I. Inventories	8	38,213	39,479
II. Receivables and other assets	9	32,473	23,354
III. Cash and cash equivalents	10	13,616	20,456
		<b>84,302</b>	<b>83,289</b>
<b>C. Prepaid expenses</b>		<b>274</b>	<b>109</b>
<b>D. Deferred tax assets</b>	11	<b>1,195</b>	<b>1,207</b>
<b>Total assets</b>		<b>188,562</b>	<b>191,173</b>

Equity and liabilities in EUR thousand	Notes	31 Dec. 2017	31 Dec. 2016
<b>A. Equity</b>			
I. Subscribed capital	12	13,920	13,920
II. Capital reserves	14	41,158	41,158
III. Revenue reserves	15	46,754	42,254
IV. Change in equity from currency translation		-3,307	849
V. Consolidated net accumulated loss	16	-538	-1,785
		<b>97,987</b>	<b>96,396</b>
<b>B. Provisions</b>	17	<b>22,656</b>	<b>23,674</b>
<b>C. Liabilities</b>	18	<b>67,907</b>	<b>71,091</b>
<b>D. Deferred tax liabilities</b>	11	<b>12</b>	<b>12</b>
<b>Total equity and liabilities</b>		<b>188,562</b>	<b>191,173</b>

## HOFTEX GROUP AG

### Consolidated Income Statement for the 2017 financial year

in EUR thousand	Note	2017	2016
Sales	19	182,609	181,391
Change in inventories of finished and unfinished goods		-1,643	992
Other own work capitalised		0	0
<b>Gross revenue</b>		<b>180,966</b>	<b>182,383</b>
Other operating income	20	3,262	4,207
Cost of materials	21	-92,347	-93,055
<b>Gross profit</b>		<b>91,881</b>	<b>93,535</b>
Personnel expenses	22	-45,797	-43,884
Depreciation, amortisation and write-downs	6	-10,649	-11,621
Other operating expenses	23	-25,156	-26,866
<b>Operating result</b>		<b>10,279</b>	<b>11,164</b>
Net investment income	24	347	447
Net interest income	25	-2,108	-2,459
Taxes on income	26	-805	-271
<b>Earnings after taxes</b>		<b>7,713</b>	<b>8,881</b>
Other taxes	27	-877	-1,078
<b>Consolidated net income for the year</b>		<b>6,836</b>	<b>7,803</b>

## HOFTEX GROUP AG

### Consolidated statement of changes in equity as of 31 December 2017

in EUR thousand	Subscribed Capital	Capital reserves	Revenue Reserves	Change in equity from currency translation	Consolidated net accumulated losses	Total
<b>Balance as of 1 Jan. 2016</b>	<b>13,920</b>	<b>41,158</b>	<b>38,754</b>	<b>796</b>	<b>-5,162</b>	<b>89,466</b>
2015 dividend payment					-926	-926
Consolidated net income for 2016					7,803	7,803
Foreign currency translation differences				53		53
Appropriation to revenue reserves pursuant to Section 58(3) AktG			1,400		-1,400	0
Appropriation to revenue reserves pursuant to Section 58(2) AktG			2,100		-2,100	0
<b>Balance as of 31 Dec. 2016</b>	<b>13,920</b>	<b>41,158</b>	<b>42,254</b>	<b>849</b>	<b>-1,785</b>	<b>96,396</b>
2016 dividend payment					-1,089	-1,089
Consolidated net income for 2017					6,836	6,836
Foreign currency translation differences				-4,156		-4,156
Appropriation to revenue reserves pursuant to Section 58(3) AktG			1,200		-1,200	0
Appropriation to revenue reserves pursuant to Section 58(2) AktG			3,300		-3,300	0
<b>Balance as of 31 Dec. 2017</b>	<b>13,920</b>	<b>41,158</b>	<b>46,754</b>	<b>-3,307</b>	<b>-538</b>	<b>97,987</b>

## HOFTEX GROUP AG

### Consolidated cash flow statement for the 2017 fiscal year

in EUR thousand	2017	2016
Consolidated net income for the year	6,836	7,803
+/- Depreciation, amortisation and write-downs of fixed assets/reversals of write-downs of fixed assets	10,649	11,621
+/- Increase/decrease in provisions incl. pension provisions	-653	848
+/- Other non-cash expenses and income	-1,848	337
-/+ Decrease in deferred government grants and subsidies	0	-735
-/+ Increase/decrease in inventories, trade receivables and other assets not attributable to investing or financing activities	982	1,218
+/- Increase/decrease in trade payables and other liabilities not attributable to investing or financing activities	-488	-696
-/+ Gain/loss on disposal of fixed assets	-389	-928
+/- Interest expense/interest income	1,711	2,029
- Other investment income	-152	-154
+/- Income tax expense/income	805	271
-/+ Income tax payments	-1,157	112
<b>Cash flows from operating activities</b>	<b>16,296</b>	<b>21,726</b>
- Payments to acquire intangible fixed assets	-930	-1,055
+ Proceeds from disposal of tangible fixed assets	596	2,045
- Payments to acquire tangible fixed assets	-8,811	-15,957
- Cash repayments of short-term borrowings to the parent company	-9,000	0
+ Interest received	60	0
+ Dividends received	152	154
<b>Cash flows from investing activities</b>	<b>-17,933</b>	<b>-14,813</b>
+ Cash proceeds from bank borrowings	762	51,446
- Cash repayments of bank borrowings	0	-33,529
- Cash repayments of borrowings from parent company	0	-14,000
+ Cash proceeds from short-term loans from related companies	0	561
- Cash repayments of short-term loans to related companies	-3,000	0
+ Proceeds from grants/subsidies received	40	28
- Interest paid	-1,771	-2,029
- Dividends paid	-1,089	-926
<b>Cash flows from financing activities</b>	<b>-5,058</b>	<b>1,551</b>
Changes in cash and cash equivalents	<b>-6,695</b>	<b>8,464</b>
Effect on cash funds of exchange rate movements and remeasurement	-145	12
Cash and cash equivalents as of 1 January	20,456	11,980
<b>Cash and cash equivalents as of 31 December</b>	<b>13,616</b>	<b>20,456</b>

## Notes to the 2017 consolidated annual financial statements

### (1) Presentation of the Consolidated Financial Statements

HOFTEX GROUP AG is registered as a public limited company in the Federal Republic of Germany with an entry in the commercial register of the Hof district court under the code HRB 50. Its business address is Fabrikzeile 21, 95028 Hof, Germany. It serves the holding company of the Hoftex Group.

The purpose of the Company corresponds to the entry in the commercial register. The Hoftex Group's main activities are the production of nonwoven fabrics for technical applications and apparel, the production of raw and coloured textiles including decorative fabrics and the production of raw and coloured yarns including specialty and ply yarns.

As of 29 June 2009, the Company's shares have been traded on the m:access open market of the Munich Stock exchange. Since this time HOFTEX GROUP AG is no longer considered as a "publicly listed" or "capital market-oriented" company as defined in the HGB and the AktG.

The consolidated financial statements of the HOFTEX GROUP AG for the year ending 31 December 2017 are prepared pursuant to the provisions of the HGB and the AktG prevailing on the balance sheet date.

Section 290 HGB governs the obligation to prepare consolidated annual financial statements. The consolidated financial statements for the preceding financial year are to be prepared within five months of the new financial year. These statements are prepared in euros (EUR) and all figures are shown in thousands of euros (EUR thousand), unless expressly stated otherwise.

The single-entity annual financial statements of the Group companies and the consolidated annual financial statements are prepared as of the balance sheet date of the parent company. The HOFTEX GROUP AG annual financial statements and the annual financial statements of all domestic subsidiaries included in consolidation for the 2017 financial year were prepared on the basis of the provisions of the HGB, the AktG and/or the German Limited Liability Companies Act (*Gesetz betreffend die Gesellschaften mit beschränkter Haftung*, or GmbHG). For the purpose of preparing the consolidated annual financial statements, we have adapted the annual financial statements of foreign subsidiaries to comply with HGB where necessary.

Certain items in the balance sheet and the income statement have been aggregated to improve clarity of presentation. These items are reported separately and clarified in the notes to the financial statements. The income statement is prepared using the total cost method.

## **(2) Consolidated companies**

In addition to HOFTEX GROUP AG, the consolidated annual financial statements for the year ending 31 December 2017 include 16 (prior year: 16) domestic and 3 (prior year: 4) foreign companies, in which HOFTEX GROUP AG directly or indirectly holds a majority of voting rights and therefore exercises control over these companies. The Group relief fund, the Wohlfahrtseinrichtung der Vogtländischen Baumwollspinnerei AG e.V., is also subject to consolidation as stipulated in Section 290(2) no. 4 HGB in conjunction with Standard 19 of the German Accounting Standards (Deutsche Rechnungslegungsstandard or DRS). Pursuant to Section 296(2) HGB, one domestic subsidiary (prior year: 1) was not included in consolidation due to its insignificance for the Group's net assets, financial position and results of operations. After completion of the liquidation process for Hoftex Liberec s.r.o., the company was deconsolidated.

The subsidiaries Hoftex GmbH, Hoftex CoreTech GmbH, Hoftex Max Süß GmbH, Hoftex Färberei GmbH, Hoftex Färberei Betriebs GmbH, Neutex Home Deco GmbH, Neutex Betriebs GmbH, Tenowo GmbH, Tenowo Hof GmbH, Tenowo Reichenbach GmbH, Tenowo Mittweida GmbH and Hoftex Immobilien I GmbH are all bound to HOFTEX GROUP AG as their parent company on the basis of control and profit transfer agreements. Each of these companies is also included in the HOFTEX GROUP AG consolidated annual financial statements. Of these 12 companies (prior year: 12), 6 companies (prior year: 6) make full use of the relief provisions in Section 264(3) HGB and 6 companies (prior year: 6) make partial use of the same relief provisions.

Hoftex Immobilien II GmbH & Co. is included in the HOFTEX GROUP AG consolidated annual financial statements and therefore makes full use of the relief provisions in Section 264b HGB.



HOFTEX GROUP AG's consolidated companies for the year ending 31 December 2017 are as follows:

Company	Registered office	Share of capital in %	Currency	Equity in EUR thousand <sup>7)</sup>	Result for the year in EUR thousand
<b>Fully consolidated companies as defined in Section 290(2) no. 1 HGB</b>					
Hoftex GmbH	Hof	<sup>1)</sup> 100.00	Euro	26,232	(CPTA) <sup>8)</sup>
Hof Garn Verwaltungs GmbH	Hof	100.00	Euro	-192	-5
Hoftex Max Süß GmbH	Hof	<sup>2)</sup> 100.00	Euro	150	(CPTA)
Hoftex CoreTech GmbH	Hof	<sup>2)</sup> 100.00	Euro	150	(CPTA)
Hoftex Färberei GmbH	Hof	<sup>2)</sup> 100.00	Euro	800	(CPTA)
Hoftex Färberei Betriebs GmbH	Hof	<sup>3)</sup> 100.00	Euro	150	(CPTA)
Tenowo GmbH	Hof	100.00	Euro	63,171	(CPTA)
Tenowo Hof GmbH	Hof	<sup>4)</sup> 100.00	Euro	150	(CPTA)
Tenowo Reichenbach GmbH	Hof	<sup>4)</sup> 100.00	Euro	150	(CPTA)
Tenowo Mittweida GmbH	Hof	<sup>4)</sup> 100.00	Euro	150	(CPTA)
Tenowo Inc.	Lincolnton, USA	<sup>4)</sup> 100.00	USD <sup>9)</sup>	9,559	2,725
Tenowo Huzhou New Materials Co. Ltd.	Huzhou, China	<sup>4)</sup> 100.00	CNY <sup>10)</sup>	19,885	-16,027
Neutex Home Deco GmbH	Münchberg	100.00	Euro	7,536	(CPTA)
Neutex Betriebs GmbH	Münchberg	<sup>5)</sup> 100.00	Euro	150	(CPTA)
SC Textor S.A.	Targu Mures, Romania	<sup>5)</sup> 100.00	RON <sup>11)</sup>	11,576	-106
Textil Hof Immobilien Geschäftsführungs GmbH <sup>13)</sup>	Hof	100.00	Euro	77	-1
Hoftex Immobilien II GmbH & Co. KG	Hof	100.00	Euro	11,579	836
Feinspinnerei Hof GmbH	Hof	100.00	Euro	50	-4
Hoftex Immobilien I GmbH	Hof	100.00	Euro	4,472	(CPTA)
<b>Fully consolidated companies as defined in Section 290(2) no. 4 HGB</b>					
Wohlfahrtseinrichtung der Vogtländischen Baumwollspinnerei AG e.V.	Hof	0.00	Euro	-	-
<b>Unconsolidated companies as defined in Section 296(2) HGB</b>					
HBD Textil-GmbH	Hof	100.00	Euro	6	-4
<b>Associated companies</b>					
Supreme Nonwoven Industries Private Limited	Mumbai, India	<sup>6)</sup> 49.00	INR <sup>12)</sup>	1,043,610	49,088

<sup>1)</sup> 96% of all shares held by HOFTEX GROUP AG, 4% held by Hof Garn Verwaltungs GmbH.

<sup>2)</sup> 100% of all shares held by Hoftex GmbH.

<sup>3)</sup> 100% of all shares held by Hoftex Färberei GmbH.

<sup>4)</sup> 100% of all shares held by Tenowo GmbH.

<sup>5)</sup> 100% of all shares held by Neutex Home Deco GmbH.

<sup>6)</sup> 49.00% of all shares held by Tenowo GmbH.

<sup>7)</sup> This figure is reported including the result for the year and without deducting for unpaid contributions.

<sup>8)</sup> CPTA = Control and profit transfer agreement

<sup>9)</sup> Spot rate on the closing date 31 Dec. 2017: 1 Euro = 1.1993 USD

<sup>10)</sup> Spot rate on the closing date 31 Dec. 2017: 1 Euro = 7.8044 CNY

<sup>11)</sup> Spot rate on the closing date 31 Dec. 2017: 1 Euro = 4.6585 RON

<sup>12)</sup> Spot rate on the closing date 31 Mar. 2017: 1 Euro = 69.3965 INR; annual financial statements as of 31 Mar. 2017.

<sup>13)</sup> General partner of Hoftex Immobilien II GmbH & Co. KG.

### (3) Consolidation principles

For first-time consolidations before 1 January 2010, capital is consolidated using the book value method pursuant to Art. 66(3) sentence 4 of the EGHGB. First-time consolidations after this date use the revaluation method only, as outlined in Section 301 HGB as amended by the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz, or BilMoG). According to this method, the subsidiary's equity at the time of initial consolidation is recorded as the fair value of all assets, liabilities, accruals, deferrals and extraordinary items to be included in the consolidated annual financial statements. Any excess of acquisition cost over the value of the equity is capitalised as goodwill.

If the value of equity exceeds the purchase price, it must be recorded as a separate line item below equity. Negative goodwill from first-time consolidations before 1 January 2010 is released to income pursuant to Section 309(2) HGB.

The results from subsidiaries that are bought or sold during the year are recognised in the consolidated income statements from the actual date of acquisition or up until the actual date of sale. Where necessary, the annual financial statements of new subsidiaries will be adjusted to conform to the accounting policies used in the consolidated annual financial statements.

All receivables and payables between companies included in consolidation are eliminated.

Interim results, intragroup sales, expenses and income, receivables and payables between consolidated companies as well as intragroup provisions are eliminated.

### (4) Accounting policies

Intangible assets, provided they have been acquired in cash, are recognised at cost and amortised on a straight-line basis over their estimated useful life. As provided in Section 248(2) HGB, companies may exercise the option to capitalise internally generated intangible assets at cost in line with Section 255(3) sentences 1 and 2, provided these assets are not brands, newspaper mastheads, publishing rights, customer lists or similar intangible fixed assets. The Group did not exercise this option. The intangible fixed asset item relates in particular to software and licences purchased from third parties. These are written down from the date of acquisition using straight-line amortisation over a period of 5 years.

Tangible assets are recognised at cost less straight-line depreciation provided the assets are subject to wear and tear. The cost of tangible assets produced in-house includes directly allocable expenses and a reasonable share of necessary materials and production overheads including depreciation, provided it is production-related. Interest on borrowed capital is not included in the production cost.

Extraordinary depreciation charges are recognised for impairment that exceeds scheduled depreciation and is likely to be permanent. When the reasons for the impairment no longer apply, the write-downs are reversed.

As a rule, depreciation and amortisation throughout the Group are recognised on a straight-line basis over the expected useful life of the asset in question.

Long-term financial assets are generally carried at cost or, in the event of permanent value impairment, at the lower of cost and fair value on the balance sheet date.

Equity interests in non-consolidated affiliates and other equity interests are carried at cost or, in the event of permanent value impairment, at the lower of cost and fair value. If the reasons for retaining the lower value no longer apply, the write-downs are reversed pursuant to Section 253(5) HGB.

Equity interests in associates are recognised using the equity method pursuant to Section 312 HGB. Any remaining difference from the purchase of equity interests in an associate or from an increase in the equity interest in an existing associate after 31 December 2008 will be amortised using the straight-line method over a period of five years, provided it is characterised as goodwill.

Loans are carried at face value or, where appropriate, at the lower of cost and fair value.

Raw materials, consumables and supplies are recognised under inventories using the average cost method or at the current market value on the purchase or sales market, whichever is lower.

Finished and unfinished goods are carried at cost pursuant to Section 255(2) HGB. Production costs include direct material costs, direct production costs, extraordinary direct production costs and a reasonable portion of material overheads, production overheads and impairment charges for fixed assets provided they are production-related. They also include a reasonable share of the other general and administrative expenses. Borrowing costs are not included in the production cost.

When replacement costs or realisable prices are the lower of cost or market on the balance sheet date, write-downs are taken on the lowest value. Reasonable and adequate write-downs are recognised to cover resale risk.

Accounts receivable and other assets are generally carried at face value. Specific valuation allowances are made for accounts receivable based on the likelihood of default. General valuation allowances are made for overall credit risk, generally based on past experience.

Cash and cash equivalents are recognised at their nominal value.

Prepaid expenses relate to expenditures prior to the balance sheet date that pertain to a determinable period after this date; amortisation is recognised on a straight-line basis over the specified period of time.

Taxes are deferred on the basis of the temporary concept. The single-entity financial statements of the companies included in consolidation recognise deferred tax liabilities where differences arise between the book value and the tax base of assets, liabilities, prepaid expenses and deferred income, and these differences are likely to diminish in subsequent financial years and result in a tax charge. If the differences result in a tax savings in subsequent financial years, it is only recognised up to a maximum of the deferred tax liabilities from other temporary differences. Where there is an excess of deferred tax assets over deferred tax liabilities, the resulting net deferred tax assets are not recognised. Deferred tax assets are not recognised for tax loss carry-forwards. Deferred tax assets for domestic Group companies are calculated using an income tax rate of 29% (corporate tax rate 15%, trade tax 14%). The relevant income tax rate in the country in question is used for subsidiaries outside Germany and ranges between 16% and 29%.

If consolidation rules (Sections 300 to 307 HGB) result in additional differences between the book value and the tax base of assets, liabilities, prepaid expenses and deferred income, and these differences are likely to diminish in subsequent financial years, the net tax charge must be recognised as a deferred tax liability and the net tax saving must be recognised as a deferred tax asset, which are both calculated with the flat tax rate of 29%. Deferred tax assets and liabilities are netted in accordance with the option provided in Section 306 HGB.

In order to meet our obligations for post-employment employee benefits on the basis of deferred compensation, we have taken out endowment life insurance policies, which are pledged to the qualifying employees and therefore exempt from attachment by all other creditors. As of fiscal 2009, these assets are carried at fair value as communicated to the Group by the insurance company. Pursuant to Section 246(2) sentence 2 HGB, the fair value of plan assets is offset against the matched post-employment benefit obligations. If the obligations exceed the plan assets, the excess is recognised in provisions. If the fair value of the plan assets exceeds the obligations, this must be recognised under the item "Excess of plan assets over post-employment benefit liability" on the asset side of the balance sheet. The acquisition cost of the offset assets is almost exactly the same as the fair value amounting to EUR 3,189 thousand (prior year: EUR 3,237 thousand) and the settlement amount of the offset obligations amounts to EUR 4,430 thousand (prior year: EUR 4,491 thousand), resulting in a net post-employment benefit liability (provision) of EUR 1,241 thousand (prior year: EUR 1,254 thousand). In the interest income/expense item, expenses for the reversal of discounting on pension obligations amounting to EUR 426 thousand (prior year: EUR 476 thousand) are offset against the expected return on pension plan assets of EUR 29 thousand (prior year: 28 thousand).

Provisions for the post-employment benefit entitlements of individual employees and pensioners are calculated using the projected unit credit method taking into account actuarial principles and all binding obligations on the balance sheet date. The present value is calculated using a 3.68% interest rate and a 1.5% rate of benefit increase. As provided in Section 253(2) sentence 2 HGB, the underlying interest rate used to discount pension obligations corresponds to the average market interest rate from the past ten financial years based on an assumed term of 15 years as calculated and published by the German Bundesbank in accordance with the German Regulation on the Discounting of Provisions (*Rückstellungsabzinsungsverordnung*, or *RückAbzinsV*). In the previous year, the Company exercised its option to apply the revised provisions in Section 253(2) HGB before they came into force in accordance with Article 75(7) of the EGHGB. The excess amount resulting from exercising the option to choose between a seven and a ten-year average discount rate, which at EUR 585 thousand (prior year: EUR 540 thousand) falls short of the dividend pay-out threshold, amounts to EUR 725 thousand (Prior year: EUR 627 thousand).

The Company pension scheme has been closed to new members since 1976. According to an agreement dated 14 December 1994, all unvested and vested pension entitlements were fixed and guaranteed at their corresponding Deutschmark amount with effect from 31 December 1994.

We use Prof Dr Klaus Heubeck's 2005 G Standard Tables published in 2006 for estimating *biometric probabilities*. The salaries have already been frozen and will therefore no longer be increased. As the scheme is closed to new members, no fluctuation rate is taken into account.

Pursuant to Section 290(2) no. 4 HGB and its interpretation in DRS 19 (published on 18 February 2011), relief funds (*Unterstützungskassen*) must now also be included in consolidation, contrary to previous accounting policies. According to this interpretation of the law, the HofTex Group is required to include its relief fund in the consolidated annual financial statements. For the most part, the relief fund's obligations are funded by life insurance policies. The present value of the claims against the insurance companies amount to EUR 1,921 thousand (prior year: EUR 1,973 thousand). Post-retirement benefit obligations, valued as stipulated by Section 253(1) sentence 2 HGB, amount to EUR 2,717 thousand (prior year: EUR 2,826). The net liability of EUR 796 thousand (prior year: EUR 853 thousand) is not recognised in the consolidated annual financial statements pursuant to Article 28 (1) EGHGB.

Other provisions must be recognised for uncertain liabilities and impending losses from on-going transactions. Provisions must also be set aside for deferred maintenance, which is to be completed within three months after the start of the subsequent financial year, and for warranties granted with no legal obligation. Provisions are recognised in the amount required to meet these obligations as determined by prudent business judgement, taking all foreseeable risks into account. We have allowed for future price and cost increases where they seemed likely to occur based on objective evidence. Provisions with a remaining term of more than one year were discounted using the relevant average market interest rate from the past seven financial years in accordance with the remaining term.

Liabilities are recognised at their settlement amount as of the balance sheet date. Contingencies from liability agreements correspond to the loan amounts actually drawn down at the balance sheet date.

Where hedge accounting is applied pursuant to Section 254 HGB, the amounts are reported using the so-called "net hedge presentation method" (*Einfrierungsmethode*).

## (5) Currency translation

Assets and liabilities denominated in foreign currency were translated using the average spot market rate on the balance sheet date. Where the residual term is less than one year, the acquisition cost no longer represents the upper value limit and gains must be recognised in income. The assets and liabilities of all companies within the Group are translated using the period-end closing rate. Historic exchange rates are used for all equity items. Expenses and income are translated at the fiscal-year average exchange rate.

## (6) Fixed assets

### Intangible fixed assets

	Purchased software and other rights
<b>Acquisition or production cost</b>	
<b>Balance on 1 January 2017</b>	<b>4,087</b>
Additions	930
Disposals	-17
<b>Balance on 31 December 2017</b>	<b>5,000</b>
<b>Cumulative depreciation, amortisation and write-downs</b>	
<b>Balance on 1 January 2017</b>	<b>2,507</b>
Additions	243
Disposals *)	-16
<b>Balance on 31 December 2017</b>	<b>2,734</b>
<b>Carrying amounts on 31 December 2017</b>	<b>2,266</b>
<b>Carrying amounts on 31 December 2016</b>	<b>1,580</b>

\*) Disposals include gains from currency translation amounting to EUR +11 thousand.  
+ Asset increase / - asset reduction

## Tangible fixed assets

	Land and buildings	Prepayments and assets under construction	Machines and equipment	Factory and office equipment	Total
<b>Acquisition or production cost</b>					
<b>Balance on 1 January 2017</b>	<b>130,593</b>	<b>975</b>	<b>211,227</b>	<b>56,677</b>	<b>399,472</b>
Additions	907	1,980	5,127	797	8,811
Reclassifications	395	-589	189	5	0
Disposals *)	-4,192	-1	-9,729	-2,953	-16,875
<b>Balance on 31 December 2017</b>	<b>127,703</b>	<b>2,365</b>	<b>206,814</b>	<b>54,526</b>	<b>391,408</b>

<b>Cumulative depreciation, amortisation and write-downs</b>					
<b>Balance on 1 January 2017</b>	<b>83,996</b>	<b>0</b>	<b>166,002</b>	<b>52,047</b>	<b>302,045</b>
Depreciation, amortisation and write-downs in the fiscal year	1,840	0	7,368	1,198	10,406
Disposals **)	-2,801	0	-8,113	-2,898	-13,812
<b>Balance on 31 December 2017</b>	<b>83,035</b>	<b>0</b>	<b>165,257</b>	<b>50,347</b>	<b>298,639</b>
<b>Carrying amounts on 31 December 2017</b>	<b>44,668</b>	<b>2,365</b>	<b>41,557</b>	<b>4,179</b>	<b>92,769</b>
<b>Carrying amounts on 31 December 2016</b>	<b>46,597</b>	<b>975</b>	<b>45,225</b>	<b>4,630</b>	<b>97,427</b>

\*) Disposals include losses from currency translation amounting to EUR -5.751.

\*\*) Disposals include gains from currency translation amounting to EUR +2.872.

+ Asset increase / - asset reduction

## Long-term financial assets

	Equity interest in affiliated companies	Equity interest in associates	Long-term equity investments	Other loans	Total
<b>Cost</b>					
<b>Balance on 1 January 2017</b>	<b>26</b>	<b>10,300</b>	<b>83</b>	<b>1</b>	<b>10,410</b>
Additions	0	195	0	0	195
Disposals	0	0	-67	0	-67
<b>Balance on 31 December 2017</b>	<b>26</b>	<b>10,495</b>	<b>16</b>	<b>1</b>	<b>10,538</b>
<b>Cumulative depreciation, amortisation and write-downs</b>					
<b>Balance on 1 January 2017</b>	<b>0</b>	<b>2,782</b>	<b>67</b>	<b>0</b>	<b>2,849</b>
Additions	0	0	0	0	0
Disposals	0	0	-67	0	-67
<b>Balance on 31 December 2017</b>	<b>0</b>	<b>2,782</b>	<b>0</b>	<b>0</b>	<b>2,782</b>
<b>Carrying amounts on 31 December 2017</b>	<b>26</b>	<b>7,713</b>	<b>16</b>	<b>1</b>	<b>7,756</b>
<b>Carrying amounts on 31 December 2016</b>	<b>26</b>	<b>7,518</b>	<b>16</b>	<b>1</b>	<b>7,561</b>

## (7) Equity interests in associates

In May 2006, Tenowo GmbH entered into an equity interest acquisition agreement with an Indian group of companies operating in the nonwovens sector, in which Tenowo GmbH agreed to purchase a 25% equity interest in the group. The total translated purchase price amounted to EUR 3,113 thousand. The majority of the group's activities are performed by their affiliate, Supreme Nonwovens. When restructuring measures within the group were completed on 1 April 2007, the investment was included at equity in the consolidated annual accounts for the first time and reclassified from "Equity interest" to "Long-term investments in associates". The restructuring was approved by the High Court in Mumbai as per a resolution dated 28 September 2007. Since this date, the company has operated under the name Supreme Nonwoven Industries Private Limited. The goodwill resulting from the difference between the allocable net assets and the purchase price was offset against the reserves in the year of acquisition.

Additional equity interest acquired in the company as part of two unilateral capital increases brought the equity share up to 44.9% in 2008 and to 49.0% in 2010. The acquisition costs for the final instalment amounted to EUR 1,179 thousand, resulting in EUR 670 thousand in goodwill that will be written down over a useful life of 5 years. The associate's financial year runs from 1 April to 31 March of the subsequent year. The financial statements issued for the fiscal year ending 31 March 2017 value the Group's share (49.0%) in the associate's net income for the year at EUR 347 thousand (prior year: EUR 447 thousand) less EUR 152 thousand (prior year: EUR 154 thousand) in dividends paid out, which is recorded on the balance sheet as EUR 195 thousand (prior year: EUR 293 thousand). As the associate has not prepared interim financial statements for the period ending 31 December 2017, HOFTEX GROUP AG was unable to make any adjustments to the at-equity valuation for 2017 in the consolidated annual financial statements.

## (8) Inventories

	31 Dec. 2017	31 Dec. 2016
Raw materials, consumables and supplies	17,349	16,623
Unfinished goods, services in progress	5,171	4,284
Finished goods and merchandise	15,619	18,572
Advance payments	74	0
	<b>38,213</b>	<b>39,479</b>

## (9) Receivables and other assets

	31 Dec. 2017	31 Dec. 2016
Trade receivables	20,335	19,899
Receivables from affiliated companies	9,033	256
Other receivables and other assets	3,105	3,199
	<b>32,473</b>	<b>23,354</b>

As in the previous year, all receivables and other assets are due within one year. The receivables from affiliated companies are all trade receivables.

The receivables from affiliated companies relate to a short-term loan granted to shareholder ERWO Holding AG in the amount of EUR 9,000 thousand and EUR 33 thousand (prior year: EUR 256 thousand) from trade receivables.

## (10) Cash and cash equivalents

The cash and cash equivalents relate to cash-in-hand, cheques and bank balances.

## (11) Deferred tax assets and liabilities

Temporary differences between the book value and the tax base are recognised primarily for tangible fixed assets, receivables and other assets, long-term financial assets, other provisions and pension provisions. Tax loss carry-forwards are also recognised.

Deferred tax assets and liabilities are only recognised in the annual financial statements of the companies included in consolidated where deferred tax liabilities exceed deferred tax assets. During fiscal 2017, EUR 12 thousand in deferred tax liabilities were recognised for a temporary difference in the book value and tax base of tangible fixed assets. EUR 1,195 thousand in deferred tax assets were also recognised for consolidation entries.

The following table shows the development of deferred tax assets and liabilities during fiscal 2017:

	2017	2016	Change
Deferred tax assets	1,195	1,207	-12
Deferred tax liabilities	12	12	0

## (12) Subscribed capital

The subscribed capital of HOFTEX GROUP AG amounts to EUR 13,919,988.69 and is divided into 5,444,800 no-par value bearer shares, with each share carrying one vote. One share represents a notional par value of EUR 2.56 (rounded) in the share capital.

## (13) Authorised capital

With a resolution dated 7 July 2014, the Management Board is authorised, with the consent of the Supervisory Board, to increase the share capital by up to EUR 5,000 thousand on one or more occasions on or before 6 July 2019, whereby the shareholders' subscription rights may be excluded. To date, the Management Board has not exercised its authority to increase the share capital.

## (14) Capital reserves

HOFTEX GROUP AG reported capital reserves amounting to EUR 41,158 thousand. Pursuant to Section 272(2) no. 1 HGB, this figure includes a premium of EUR 2,199 thousand from the capital increase implemented in 2008 as well as capital contributions from former shareholders.



## (15) Revenue reserves

	2017	2016
Revenue reserves on 1 Jan.	42,254	38,754
Allocations pursuant to Section 58(3) AktG	1,200	1,400
Allocations pursuant to Section 58(2) AktG	3,300	2,100
<b>Revenue reserves on 31 Dec.</b>	<b>46,754</b>	<b>42,254</b>

## (16) Appropriation of net profit

	2017	2016
Consolidated net loss on 1 Jan.	-1,785	-5,162
Dividend payment	-1,089	-926
Allocation to other reserves by the Annual General Meeting pursuant to Section 58(3) AktG	-1,200	-1,400
Accumulated consolidated losses brought forward	-4,074	-7,488
Consolidated net income for the year	6,836	7,803
Allocation to other reserves by the Annual General Meeting pursuant to Section 58(2) AktG	-3,300	-2,100
<b>Consolidated net losses on 31 Dec.</b>	<b>-538</b>	<b>-1,785</b>

## (17) Provisions

	31 Dec. 2017	31 Dec. 2016
Provisions for pensions and similar obligations	10,413	11,132
Excess of plan assets over pension liability	-1,268	-1,264
Disclosure of pension provisions	9,145	9,868
Provisions for taxes	742	1,107
Other provisions	12,769	12,699
	<b>22,656</b>	<b>23,674</b>

Other provisions mainly obligations towards members of staff, guarantees, legal and litigation costs as well as outstanding invoices.

## (18) Liabilities

	31 Dec. 2017	31 Dec. 2016
Liabilities to banks	52,225	51,463
Trade payables	5,872	6,792
Liabilities on bills accepted and drawn	394	482
Liabilities to affiliated companies	116	605
Other liabilities	9,300	11,749
of which taxes	(557)	(375)
of which social security	(75)	(54)
	<b>67,907</b>	<b>71,091</b>

Liabilities to affiliated companies include EUR 109 thousand (prior year: EUR 595 thousand) in liabilities to the shareholder ERWO Holding AG and other companies of the Südvolle Group. As in the previous year, they relate mainly to other recharges.

Residual maturity	31 Dec. 2017			31 Dec. 2016		
	Less than 1 year	1 to 5 years	More than 5 years	Less than 1 year	1 to 5 years	More than 5 years
Liabilities to banks	2,225	40,000	10,000	1,463	37,500	12,500
Trade payables	5,872	0	0	6,792	0	0
Liabilities on bills accepted and drawn	394	0	0	482	0	0
Liabilities to affiliated companies	116	0	0	605	0	0
Other liabilities	9,300	0	0	11,746	3	0
of which taxes	(557)	(0)	(0)	(375)	(0)	(0)
of which social security	(75)	(0)	(0)	(54)	(0)	(0)
	<b>17,907</b>	<b>40,000</b>	<b>10,000</b>	<b>21,088</b>	<b>37,503</b>	<b>12,500</b>

As a group, the HOFTEX GROUP AG and its subsidiaries are jointly and severally liable for all debts to their lending banks.

Other liabilities include EUR 7,727 thousand (prior year: EUR 11,080 thousand) in liabilities to related companies. Of that amount, EUR 6,343 thousand (prior year: EUR 9,800 thousand) relates to loans granted by China-based Zhangjiagang Yangtse Spinning Co. (ZYS) to Tenowo Huzhou Ltd., which bear interest of current rates and are due within one year.

#### (19) Classification of sales

	2017	2016
<b>By division</b>		
Hoftex	27,279	27,370
Neutex	16,818	18,999
Tenowo	136,443	133,297
Others	2,069	1,725
	<b>182,609</b>	<b>181,391</b>
<b>By region</b>		
Germany	71,255	69,288
Other EU member states	52,531	50,535
Rest of world	58,823	61,568
	<b>182,609</b>	<b>181,391</b>

The chart only includes sales with non-Group companies.

## (20) Other operating income

	2017	2016
Income from the reversal of provisions	1,155	585
Foreign exchange/currency gains	1,122	1,084
Income from the disposal of fixed assets	398	942
Income from the recovery of receivables written off in prior periods and income from reduction in valuation allowances	195	147
Income from the derecognition of grants and subsidies received	0	735
Other prior-period income	210	321
Other operating income	182	393
	<b>3,262</b>	<b>4,207</b>

The income from foreign exchange/currency gains includes EUR 742 thousand in cumulative currency gains relating to the first-time consolidation of a subsidiary.

## (21) Cost of materials

	2017	2016
Cost of raw materials, consumables and supplies, and of purchased merchandise	88,515	88,131
Cost of purchased services	3,832	4,924
	<b>92,347</b>	<b>93,055</b>

The cost of materials ratio based on the operating income/loss (excluding other operating income) amounts to 51.0% (prior year: 51.1%).

## (22) Personnel expenses

	2017	2016
Wages and salaries	37,648	35,869
Social security, post-employment and other employee benefit costs	8,149	8,015
of which for post-employment benefits	(-67)	(245)
	<b>45,797</b>	<b>43,884</b>

On average during the year under review, the Company employed:

	2017	2016
Workers	850	844
Salaried employees	330	326
Apprentices	40	36
	<b>1,220</b>	<b>1,206</b>

### (23) Other operating expenses

	2017	2016
Addition to valuation allowances, derecognition of receivables	352	326
Currency translation losses	824	517
Other prior-period expenses	134	428
Other general and administrative expenses	5,281	5,815
Operating costs	8,653	9,773
Selling expenses	7,978	8,017
Other operating expenses	1,934	1,990
	<b>25,156</b>	<b>26,866</b>

### (24) Investment income

	2017	2016
Income from associates	347	447

### (25) Net interest result

	2017	2016
Other interest and similar income	89	45
of which from affiliated companies	(22)	(0)
Interest and similar expenses	-1,771	-2,029
of which to affiliated companies	(0)	(-249)
Interest expense from pension provisions	-426	-475
	<b>-2,108</b>	<b>-2,459</b>

The excess of plan assets over pension obligations amounts to EUR 29 thousand (prior year: EUR 28 thousand).

### (26) Taxes on income

	2017	2016
Corporate income tax financial year	-457	-267
Release of prior-year corporate income tax provisions	9	40
Corporate income tax refunds	38	146
Trade tax financial year	-412	-271
Release of prior-year tax provisions	32	100
Trade tax refund	30	95
Trade tax arrears	-33	0
Changes in deferred taxes	-12	-114
	<b>-805</b>	<b>-271</b>

## (27) Other taxes

		2017		2016
Property tax		-585		-551
Motor vehicle tax		-18		-18
Other taxes				
- in Germany	-100		-116	
- in the US	-140		-286	
- in China	<u>-42</u>		<u>-107</u>	
		-282		-509
Wage taxes and VAT from tax audit		8		0
		<b>-877</b>		<b>-1,078</b>

## (28) Auditors' fees

Our Munich-based auditors Deloitte GmbH Wirtschaftsprüfungsgesellschaft charged fees totalling EUR 335 thousand (prior year: EUR 322 thousand).

The following table provides a breakdown of the fees:

	2017	2016
Auditing services	189	190
Other certification services	27	22
Tax consultancy services	112	107
Other services	7	3
	<b>335</b>	<b>322</b>

## (29) Remuneration of the Supervisory Board and Management Board

The provisions of Section 314 no. 6a HGB in conjunction with section 286(4) HGB apply with respect to the nondisclosure of the total remuneration paid to members of the Management Board.

The remuneration of the Supervisory Board members amounts to EUR 89 thousand (prior year: EUR 89 thousand).

Remuneration paid to former members of the Management Board and their survivors amounts to EUR 382 thousand (prior year: EUR 381 thousand). Provisions totalling EUR 3,509 thousand (prior year: EUR 3,770 thousand) have been recognised for pension obligations to former members of the Management Board and their survivors.

## (30) Consolidated cash flow statement

The cash and cash equivalents disclosed here comprise highly liquid funds. The consolidated cash flow statement is compiled using the indirect method. Starting with the consolidated net income for the year, we use significant non-cash expenses and changes in the net current assets to determine the cash inflows from operating activities. The statement records cash outflows from investment and financing activities as well.

### (31) Contingent liabilities

	2017	2016
Bills of exchange	81	181
Guarantee obligations	120	120

Based on past experience, we do not expect any claims arising from contingencies.

### (32) Other financial commitments

The other financial commitments contain EUR 6,123 thousand (prior year: EUR 5,540 thousand) resulting from leasing contracts, purchase commitments and letter of credit obligations.

### (33) Derivative financial instruments

HOFTEX GROUP AG will only utilise derivative financial instruments that are clearly designated as qualified hedging instruments and where the underlying transaction and the hedging instrument are combined in a so-called net hedge. For the purpose of hedging against the interest rate risk on variable-interest long-term loans, the Company entered into six interest swaps with a combined value of EUR 28,500 thousand to minimise the risk of future interest rate increases. With a term of 21 months and 48 months, the interest rate hedges currently held have a term less than those of the underlying transactions and have been combined to create net hedges. As of the balance sheet date, the Company was not obliged to recognise provision arising from the net hedges for these transactions; in other words, the Company was able to avoid setting aside provisions for contingent losses on pending transactions, corresponding to the negative fair values in the amount of EUR 487 thousand.

On 31 December 2017, the fair value of the Group's interest rate hedges is as follows:

Expiry date	Nominal value	Carrying value	Fair value	Swap rate
30 Sept. 2019	EUR 3.0 million	EUR 0 thousand	EUR -88 thousand	1.3950 %
30 Sept. 2019	EUR 4.0 million	EUR 0 thousand	EUR -114 thousand	1.3600 %
30 Sept. 2019	EUR 2.0 million	EUR 0 thousand	EUR -59 thousand	1.4100 %
30 Sept. 2019	EUR 3.0 million	EUR 0 thousand	EUR -89 thousand	1.4200 %
23 Dec. 2021	EUR 10.0 million	EUR 0 thousand	EUR -86 thousand	0.5225 %
23 Dec. 2021	EUR 6.5 million	EUR 0 thousand	EUR -51 thousand	0.5000 %

The counterparty bank calculates the fair value of the interest rate hedges using recognised calculation models based on the respective yield curves.

The Group has also entered into forward foreign exchange contracts to hedge against currency risk. As of 31 December 2017, the fair value of these contracts is as follows:

	Expiry date (latest)	Nominal value	Currency in thousands	Positive market value in EUR thousand	Negative market value in EUR thousand
Forward sales	15 Feb. 2018	265	USD	0	2

A provision for potential losses was recognised for negative market values on the balance sheet under other provisions.

### (34) Report on events after the balance sheet date

There were no significant events after the balance sheet date.

### (35) Members of the Supervisory Board

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Waltraud Hertreiter  
Chairperson  
Independent Management Consultant  
Neubeuern

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Martin Steger  
Deputy Chairperson  
Self-employed property developer  
Nürnberg

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Werner Berlet  
IT-Manager  
Bad Homburg

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Renate Dempfle  
Managing Director of PDV Inter-Media GmbH  
Augsburg

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Johanna Falasa\*  
Commercial employee  
Münchberg

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York Riedel  
Independent attorney  
Nürnberg

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Wolfgang Schmidt\*  
Chairperson of the works council at Tenowo Hof und Reichenbach  
Hof

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Tom Steger  
Independent attorney  
Nürnberg

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Carmen Teismann\*  
Laboratory technician  
Schwarzenbach/Saale

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\* elected by employee

### (36) Members of the Management Board

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Klaus Steger  
Chairperson of the Management Board, Chief Executive Officer  
Nürnberg

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Jacques van den Burg  
Chief Financial Officer  
Wendelstein

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### (37) Corporate group

HOFTEX GROUP AG, Hof, is a small corporation as defined in Section 267 HGB, the parent company of the Group and also a subsidiary of ERWO Holding AG, Schwaig. The two companies both prepare consolidated financial statements as the parent company of their respective groups that include each of their subsidiaries; they did not avail of the exemption provisions of Section 291 HGB. In the notes to the annual financial statements, HOFTEX GROUP AG reports that it is included in the consolidated financial statements of ERWO Holding AG. Further, the Company confirms that ERWO Holding AG prepares the consolidated financial statements for the largest group of companies (Section 285 no. 14 HGB) and that HOFTEX GROUP AG prepares the consolidated financial statements for the smallest group of companies (Section 285 no. 14a HGB). Both consolidated financial statements are available in the Electronic Federal Gazette.

### (38) Group parent company's proposal for the appropriation of net income

With the consent of the Supervisory Board, a proposal will be made to the Annual General Meeting to allocate the net retained profits of HOFTEX GROUP AG as follow:

Payment of a dividend of EUR 0.22 per share on the subscribed capital of EUR 13,919,988.69 (= 5,444,800 no-par value shares)	≈ 1,197,856.00
Allocation to the revenue reserves pursuant to 58(3) AktG	≈ 2,000,000.00
Carry forward to new account	≈ 247,021.59
<b>Net retained profits</b>	<b>≈ 3,444,877.59</b>

Hof, 31 March 2018

HOFTEX GROUP AG

The Management Board

Steger

van den Burg



## Auditor's Report

We have audited the consolidated annual financial statements, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes, including the Group management report of HOFTEX GROUP AG, Hof/Saale, for the fiscal year from 1 January 2017 to 31 December 2017. The accounting and the preparation of the annual financial statements and the Group management report in accordance with the German Commercial Code (*Handelsgesetzbuch*, or HGB) are the responsibility of the Group's Management Board. Our responsibility is to express an opinion, based on our audit, of the consolidated annual financial statements and the Group management report.

We conducted our audit of the consolidated annual financial statements in accordance with Section 317 of the HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer*, or IDW). These standards require that we plan and perform the audit such that any misstatements and violations materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements and the Group management report in accordance with German principles of proper accounting are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of our audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the accounting system, consolidated annual financial statements and Group management report are examined primarily on a test basis during the audit. The audit includes assessing the single-entity financial statements of the companies included in consolidation, the definition of the consolidated group, the accounting and consolidation principles used, and the significant estimates made by the Management Board, as well as evaluating the overall presentation of the consolidated annual financial statements and the Group management report. We believe our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the results of our audit, the consolidated annual financial statements of HOFTEX GROUP AG, Hof/Saale (Germany), comply with the statutory provisions and convey a true and fair view of the Group's net assets, financial position and results of operations, in accordance with the principles of proper accounting. The Group management report is consistent with the consolidated financial statements, provides a true and fair view of the Group's situation and accurately reflects the opportunities and risks of future growth.

Munich, 26 April 2018

### Deloitte GmbH

Wirtschaftsprüfungsgesellschaft

Löffler  
Wirtschaftsprüfer (Public Auditor)

Markert  
Wirtschaftsprüferin (Public Auditor)

**HOFTEX GROUP AG, Hof/Saale**  
**Balance Sheet as of 31 December 2017**

Assets in EUR thousand	31 Dec. 2017	31 Dec. 2016
<b>Fixed assets</b>		
Intangible fixed assets	2,156	1,452
Tangible fixed assets	1,388	1,483
Long-term financial assets	116,353	91,473
	<b>119,897</b>	<b>94,408</b>
<b>Current assets</b>		
Accounts receivable and other assets	65,283	78,082
Cash and cash equivalents	10,213	16,562
	<b>75,496</b>	<b>94,644</b>
<b>Prepaid expenses</b>	<b>82</b>	<b>12</b>
<b>Total assets</b>	<b>195,475</b>	<b>189,064</b>

Liabilities and equity in EUR thousand	31 Dec. 2017	31 Dec. 2016
<b>Equity</b>		
Subscribed capital	13,920	13,920
Capital reserves	41,158	41,158
Revenue reserves	49,715	45,215
Net retained profits	3,445	2,389
	<b>108,238</b>	<b>102,682</b>
<b>Provisions</b>	<b>9,256</b>	<b>10,000</b>
<b>Liabilities</b>		
Liabilities to banks	50,000	50,000
Trade payables	225	150
Liabilities to affiliated companies	27,420	26,135
Other liabilities	336	97
	<b>77,981</b>	<b>76,382</b>
<b>Total equity and liabilities</b>	<b>195,475</b>	<b>189,064</b>

**HOFTEX GROUP AG, Hof/Saale**  
**Income Statement for the 2017 fiscal year**

<b>in EUR thousand</b>	<b>2017</b>	<b>2016</b>
Sales	3,745	3,378
Other operating income	22	17
Personnel expenses	-3,004	-2,777
Depreciation, amortisation and write-downs	-380	-227
Other operating expenses	-1,843	-2,140
Net investment income	7,187	4,524
Net interest income	1,819	1,772
Taxes on income	-792	-150
<b>Earnings after tax</b>	<b>6,754</b>	<b>4,397</b>
Other taxes	-109	-76
<b>Net income for the financial year</b>	<b>6,645</b>	<b>4,321</b>
Retained profits brought forward	100	168
Appropriation to revenue reserves	-3,300	-2,100
<b>Net retained profits</b>	<b>3,445</b>	<b>2,389</b>



No.

# HOFTEXPLOSION

# 4

KUNST- & KULTURFESTIVAL

**5. bis 7. OKTOBER 2018**

Fabrikhalle in der Schützenstraße 9a/b in Hof

*save  
the date!*

**HOFTEX GROUP**  
TEXTILE TECHNOLOGIES

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