



# ANNUAL REPORT 2013



## Key figures of the Hoftex Group

		HGB <sup>1)</sup> 2013	HGB 2012	HGB 2011	HGB 2010	HGB <sup>2)</sup> 2009
External sales	EUR million	190.4	203.4	224.1	196.4	146.7
Gross revenue	EUR million	189.0	202.0	231.8	191.1	147.1
Gross profit <sup>3)</sup>	EUR million	83.6	86.5	89.5	84.8	71.1
Cash flows for operating activity	EUR million	15.9	21.9	6.1	11.9	16.2
Personnel		1,419	1,507	1,585	1,556	1,472
Capital expenditure on tangible fixed assets	EUR million	21.6	10.8	7.2	5.4	4.7
Depreciation and amortisation	EUR million	8.9	8.7	8.6	9.0	9.0
Result from ordinary activities <sup>4)</sup>	EUR million	6.5	7.2	6.3	4.8	-0.9
Result current year	EUR million	0.2	6.4	5.5	3.8	-1.5
Result per share	EUR	0.0	1.2	1.0	0.7	-0.3
Balance sheet total	EUR million	160.0	157.2	159.9	154.2	157.0
of which tangible fixed assets	EUR million	73.0	63.7	61.8	63.7	66.9
balance-sheet equity	EUR million	76.2	77.9	71.8	66.2	62.0
economic equity <sup>5)</sup>	EUR million	95.5	97.0	92.6	91.8	69.8
Equity ratio <sup>6)</sup>	%	59.7	61.7	57.9	59.5	44.5

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

<sup>2)</sup> Provisions of the German Accounting Law Modernisation Act (*Bilanzierungsmodernisierungsgesetz*, or BilMoG) applied for the first time as stipulated in Article 66(3) sentence 6 of the Introductory Act to the German Commercial Code (*Einführungsgesetz zum Handelsgesetzbuch*, or EGHGB)

<sup>3)</sup> Gross revenue less cost of materials

<sup>4)</sup> After deducting other taxes

<sup>5)</sup> Balance-sheet equity + extraordinary items + subordinated shareholder capital less proposed dividend payment

<sup>6)</sup> Based on economic equity

## Table of Contents

<b>Group Overview</b>	<b>4</b>
<b>Supervisory Board Report</b>	<b>5</b>
<b>The HOFTEX GROUP AG Share</b>	<b>7</b>
<b>Group Management Report</b>	<b>9</b>
Group fundamentals	9
Economic report	10
Macroeconomic and sector-specific conditions	10
The Hoftex Group's performance	11
The divisions	17
Risk report	23
Opportunity report	25
Dependency report	25
Forecast and outlook	25
Report on events after the balance sheet date	26
<b>Consolidated financial statements</b>	<b>27</b>
Consolidated balance sheet	27
Consolidated income statement	28
Consolidated statement of changes in equity	29
Consolidated cash flow statement	30
Notes to the consolidated financial statements	31
<b>Annexes</b>	
HOFTEX GROUP AG Balance sheet	<a href="#">Annex 1</a>
HOFTEX GROUP AG Income statement	<a href="#">Annex 2</a>

## Group Overview

Supervisory Board Report

The HOFTEX GROUP AG Share

Group Management Report

Consolidated financial statements

Annexes

## Group overview

Divisions	Yarns & Fabrics	Home Decoration	Nonwovens
<b>Companies</b>	Hoftex GmbH Hoftex Spinnerei GmbH Hoftex Färberei GmbH Hoftex Färberei Betriebs GmbH Hoftex Liberec s.r.o. Hoftex CoreTech GmbH Hoftex Max Süß GmbH Hoftex Weberei 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>Sites</b>	Hof Selbitz Liberec (Czech Republic) Drebach Sehmatal-Cranzahl	Münchberg Targu Mures (Romania)	Hof Reichenbach Mittweida Lincolnton (USA) Huzhou (China)
<b>Sales in EUR million <sup>1)</sup></b>	67.2	20.2	103.0
<b>Employees (annual average) 2013</b>	595	314	471
<b>Unit sales <sup>2)</sup></b>	11.0 million kg 10.5 million RM	6.4 million m <sup>2</sup>	214.7 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 shareholdings

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

Hoftex Immobilien I GmbH

Hoftex Immobilien II GmbH & Co. KG

## Supervisory Board Report

During the 2013 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. With comprehensive written and oral reports, the Management Board regularly updated the Supervisory Board regarding the Group's business developments and financial position as well as its divisions, principal subsidiaries and key projects. The Supervisory Board also played a role in the Group's investment, financial and personnel planning through regular reporting on issues such as order receipts, staff development, sales, cash flow, 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 required, 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 all key transactions that were on-going.

During the year under review, the Supervisory Board met for four regular meetings and one extraordinary meeting in February 2014. Due to the limited number of members on the Supervisory Board, no committees were formed.

With the exception of one meeting at which one Supervisory Board member was absent and excused, all members of the Supervisory Board attended each meeting.

The key issue discussed at the Supervisory Board meeting on 6 March 2013 was the Management Board's report on developments at the production site for automotive nonwoven textiles currently under construction in China. The Management Board presented the business plan and outlined the necessary investments in detail, which were both approved by the Supervisory Board.

At its meeting on 13 May 2013, the discussions focused on reviewing and adopting the 2012 annual financial statements as well as the proposal on the appropriation of profits. The Supervisory Board also reviewed the agenda for the Annual General Meeting in July and discussed market trends, the competitive situation and the outlook for the weaving division. The Supervisory Board adopted the measures proposed by the Management Board and the Company's management for this unit's planned restructuring.

Among the topics discussed at its July meeting, the Supervisory Board received an update on the restructuring initiatives in the weaving mill. Thanks to the excellent order intake for technical tapes at the Nonwovens production site in Mittweida, the Supervisory Board approved the plans to purchase higher-performance equipment for the facility.

At its meeting on 2 December 2013, the Supervisory Board received documentation outlining the Group's plans for the 2014 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 adopted the proposed investment budget for 2014. The Management Board presented a detailed report on the proposed expansion of the Nonwovens production site in Reichenbach, which is the key focus of these investments. The participants also discussed various medium-term strategies at the meeting.

At this meeting, the Supervisory Board also reviewed the risk management report and found that the reporting and monitoring system set up by the Management Board as stipulated in Section 91(2) of the German Stock Corporation Act (*Aktiengesetz*, or AktG) is adequate for the Company's requirements and is suitable in both its design and its implementation for the early detection of any developments that might jeopardise the Company's existence. As part of its audit of the consolidated financial statements, the auditors evaluated the effectiveness of the accounting-related internal control system.



At the 24 February 2014 meeting, the Management Board presented a report to the Supervisory Board concerning the current status of the Hoftex division. Despite all restructuring measures implemented to date, this division, which has been operating at a loss for several years, showed no signs of improvement during 2013. Based on an analysis of the unit's structure and an evaluation of various future scenarios prepared with the support of an external consultant, the Management Board recommended the closure the Hof-Moschendorf site, which produces mainly classic yarns, ply yarns and fabrics. After in-depth discussions, the Supervisory Board members approved the proposal to close the Hof-Moschendorf site by majority vote on the grounds of its continued losses and lack of future prospects, which they felt was in the best interest of the Group as a whole.

The Annual General Meeting appointed Munich-based Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft as auditors of the single-entity and consolidated financial statements for fiscal 2013. They audited the HOFTEX GROUP AG financial statements and the consolidated financial statements for the year ending 31 December 2013 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 12 May 2014 annual report meeting, in which they engaged in full discussions of the HOFTEX GROUP AG financial statements and the consolidated financial statements for the year ending 31 December 2013, 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. After 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 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.

The Management Board submitted to the Supervisory Board its report concerning the Company's relationship with its affiliates in fiscal 2013 as stipulated by Section 312 AktG (dependency 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 the factual information contained in the report is correct and that 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 dependency 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 transactions were made with these affiliates, the Company received adequate consideration for each 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 dependency report, the Supervisory Board raised no objections to this declaration.

Hof, May 2014

Waltraud Hertreiter

Chairperson of the Supervisory Board

## The HOFTEX GROUP AG share

Our shares are traded on the m:access market segment of the Munich Stock Exchange. Since our move to the Open Market, the Company is no longer considered to be "publicly listed" in terms of the German Securities Trading Act (*Wertpapierhandelsgesetz*, or WpHG) and shareholders are no longer obliged to inform us when they exceed or fall below certain reporting thresholds. As a result, we can only provide information on the stake held by our principal shareholder, ERWO Holding AG, which currently own 4,588,175 shares, or 84.26% of all shares.

As a company listed on the m:access market segment, we are governed by the **"Rules and Regulations for the m:access Market Segment of the Munich Stock Exchange"** (*Regelwerk für das Marktsegment m:access an der Börse München*). In addition to complying with other regulations, we are obliged each year to attend at least one analyst conference organised by the Munich Stock Exchange or a comparable event. During fiscal 2013, we attended an analyst conference at the Munich Stock Exchange on 18 July and have been invited to another analyst conference on 22 July 2014.

Hoftex Group share: share performance



Source: [www.finanzen.net](http://www.finanzen.net)

As highlighted in the above share performance chart, we saw steady growth in our share price throughout 2013, which continued on through late March when the present report was completed. The share price increased from EUR 6.75 to EUR 9.40 as of 31 March 2014. As approximately 84% of our share capital is held by our principal shareholder ERWO Holding AG, in theory just 16% of our shares can 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. In fact, there were several days with no share trading at all. When trading did take place, there were only a few days in which the volume traded exceeded 2,000 shares. The low trading volume in our shares is likely also the reason for the strong fluctuations and/or deviations seen on the share performance chart above. A clear upward trend in our share price, however, is evident throughout 2013.

### Information on the Hoftex Group share

Share type	No-par value shares, each with a proportionate share of EUR 2.52 (rounded) in the share capital
Share capital	EUR 13,920 thousand
Number of no-par value shares	5,444,800
Market capitalisation as of 31 December 2013	EUR 51.1 million
Listing	Munich Stock Exchange
Stock exchange symbol	NBH
ISIN	DE0006760002
WKN <sup>1)</sup>	676000

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

### Information on the Hoftex Group share price

Fiscal year ending 31 December	2013	2012	2011
Year-end share price	EUR 9.39	EUR 7.00	EUR 7.76
Year high	EUR 9.39	EUR 7.79	EUR 7.85
Year low	EUR 6.75	EUR 5.90	EUR 7.00

### Financial calendar

HOFTEX GROUP AG Annual General Meeting

7 July 2014

at the Bürgergesellschaft in Hof

M:access Analyst Conference

22 July 2014

at the Munich Stock Exchange

Issuer report for the period ending 30 June 2014

September 2014



## Group management report

### Group fundamentals

#### Guiding principles and business model of the Group

The Hoftex Group is a highly diversified group of companies operating in the textile industry that can look back with pride at a long, successful history since its founding more than a century and a half ago. Throughout that time, the Hoftex Group as a whole has consistently succeeded in adapting to the changing dynamics of our industry. During the last decade in particular, we have seen profound structural change in the global textile industry. Working under our parent company, ERWO Holding AG, we have become a well-respected, globally-active provider of textile solutions for a wide variety of applications. In our business, we strive above all to achieve sustainability and sound growth. An awareness of our corporate social responsibility guides all of the Group's initiatives, both within and outside our corporate sphere. Using highly efficient decision-making processes, we are constantly working towards providing services with the best value for money for our customers. The only way to meet these high expectations is through specialisation, which is why for many years our business activities have been concentrated into three separate divisions, each of which comprise various business units.

#### Internal control system

Our internal control system is closely linked to our risk management system. The Group's management staff review and approve the divisions' business plans, making corrections where necessary. The approved plans are combined into one detailed Group planning document. The business units of each division submit sales reports to the Group's internal control department on a weekly basis, enabling us to quickly analyse variances and take countermeasures if needed. The subsidiaries in each division prepare monthly financial statements taking into account the relevant accruals/deferrals. At the latest when these monthly statements are released, we can determine and analyse what impact budgetary deviations in operating profit or at the cost level will have on earnings. The advisory committee convenes as soon as the monthly statements have been released and may, where necessary, adopt suitable countermeasures.

#### Research and development

The main focus of the Hoftex Group is on technical textiles in the divisions operating in the more traditional textile industry (yarns and fabrics), but also – and above all – in the production of nonwoven textiles at Tenowo GmbH, and we see further expansion of our R&D activities in this division in particular as a priority. A lot of development work often goes into meeting our customers' demanding product standards both in terms of technology and price. One major element of our corporate philosophy is to be proactive in translating the needs of our customers into finished products. Especially when a product is designed for a particular technical application, it is vital for us to achieve the exact specifications and still be competitive on price. At the Hoftex Group, we don't see ourselves as mass producers. Instead, we are moving towards becoming a niche provider for unique and specialised products. In our pursuit of these objectives and the development activities described here, certain Group companies have recruited additional staff. We currently have 16 staff employed worldwide in product development and invest a total of EUR 1.4 million in R&D.

## Economic report

### Macroeconomic and sector-specific conditions

#### Macroeconomic trends

In 2013, economic trends in the Eurozone and in Germany converged to a certain extent. The global economy appears to have stabilised, and the recovery that has taken hold in some of the industrialised nations in the West has been able to offset the slowdown in some Asian countries. In the second half of the year in particular, economies sagged in these developing markets. The general upswing in the global economy in 2013 was mainly due to the recovery in industrialised economies. We saw a clear increase in growth rates year-on-year. The strong momentum in the industrialised economies had a positive impact on their employment levels and labour markets. Unemployment rates dropped significantly in all of the major Western industrialised countries, with this trend even more pronounced in the United States, Great Britain and Japan than in the Eurozone. Thanks to improvements in the labour market and the corresponding increase in income, we saw domestic demand go up in Western industrial countries. Positive economic sentiment spread across Europe, leading to modest growth in most EU member states over the previous year. Based on preliminary data, the German economy fell in line with its neighbouring nations, with GDP growth declining slightly from 0.7% in the previous year to 0.4% in 2013. Consumer spending remained the key driver for economic growth in 2013. Disposable household income increased by 2.1%, while savings rates saw a further decline in 2013, sliding from 10.3% to 10.0%. Historically low interest rates played a role in this trend as well. Over the last few years, the continued drop in personal savings rates to finance consumer spending has been driving modest growth in our economy, however over the long term we see this trend as a cause for concern, as it has an adverse impact on private pension planning.

On the back of these developments, German unemployment rates worsened slightly in 2013. Total unemployment in Germany rose from 6.8% in the prior year to 6.9% in 2013 (Deutsche Bundesbank, monthly report from February 2014).

The moderate economic growth in 2013 came mainly due to the increase in the marginal propensity to consume and in capital expenditure, which showed signs of recovery for the first time in the last quarter of 2013. The latter trend in particular makes us optimistic that the upturn will continue in 2014. Lower net exports slowed the rate of GDP growth. Although the overall mood on the German and European markets at present (March 2014) is optimistic, it is unclear to what extent the deepening crisis between the Ukraine and Russia and the resulting tensions between the EU and Russia will negatively impact economic growth in the EU. These adverse conditions are likely to slow down the expected recovery.

## Trends in the textile industry

Unlike the positive developments on the economy as a whole, the German textile industry (textiles and apparel) did not report growth in 2013, as shown in the following figures from the February 2014 economic report from the German "textil + mode" industry association. Industry sales dropped by -1.0% year-on-year, including a decrease of -2.8% in the apparel sector. At only 0.2%, the growth in the textile sector was unable to offset the decrease. While the apparel sector saw losses across the board, with the exception of the workwear segment, trends in the textile sector varied significantly by segment. The spinning mills sector reported a decrease in both sales (-4.4%) and production output (-8.6%), whereas sales in the ready-made textiles sector (excluding apparel) increased by 5.2% and in the carpet textile sector by 5.6%. It is worth pointing out that production output decreased in these last two sectors despite an increase in sales, which could be due to either a liquidation of inventory or growth in imports.

In line with the downturn in sales, employment levels worsened during 2013 as well, falling by 1.5% in the textile segment and by 2.6% in the apparel segment. Taken together, the overall drop for both segments amounted to -1.9%. 2013 exports of textile products (from semi-finished to finished products) increased year-on-year by only 0.2%, or EUR 44 million in absolute terms. By contrast, imports rose by 1.3%, or EUR 473 million in absolute terms. As imports increased at a higher rate than exports in absolute terms, the industry reported a rise in the net import surplus of EUR 429 million. In the previous year, the import surplus decreased significantly, which had a positive effect on employment levels in the industry. The upward trend in the textile industry's trade balance in 2013 further aggravated the general decline in the industry's employment levels.

## The Hoftex Group's performance in fiscal 2013

Textilgruppe Hof AG changed its name to "HOFTEX GROUP AG" as of 1 January 2013 following a Group-wide restructuring process.

The Hoftex Group as a whole reported performance in line with the moderate growth in the overall economy, although technical restructuring in the Yarns & Fabrics division produced some one-off effects. For those divisions, however, that reported periods of peak capacity or above-average capacity utilisation, we were able to alter the cost structures substantially. In these cases, being able to leverage economies of scale in fixed costs had a strong impact, resulting in low per-unit costs and higher profits than would have been possible at normal capacity utilisation levels.

Prices for simpler product lines have been dropping for years due to tough competition from our Asian counterparts, a trend that intensified with the effects of a consistently strong euro. As a result, the **Yarns & Fabrics** division decided to close the older of its two spinning mills in Hof in 2012 and combine the technologically superior equipment from both sites under one roof in the state-of-the-art facilities in Hof-Moschendorf. In early 2013, the weaving mills experienced a sharp decrease in unit sales due to the increasingly difficult competitive situation in the global textile industry and the persistently strong euro.

This prompted our decision to cut the weaving mill capacity by half and rely on this measure bring operations back into line with overall market trends. Similar to the developments in the German textile industry outlined above, continued contraction in our sales markets meant that we were below optimal capacity utilisation in both the spinning mill and the weaving mill, despite the recent restructuring measures. In late 2013, it became evident that a spinning and weaving mill on the scale of our Moschendorf site would be unlikely to return to profitability in the foreseeable future with our current production technology and the existing global market conditions.

In cooperation with external consultants, we analysed the present situation from various perspectives in an effort to find potential solutions. Unfortunately, given the wider global competitive situation and the available production technology, we were unable to find a sustainable solution to keep the Moschendorf facility open. The Supervisory Board and the Management Board met at an extraordinary Supervisory Board meeting on 24 February 2014 and resolved to close the entire site with the spinning mill and the weaving mill. Production is due to be phased out during the period between summer and the fourth quarter of 2014.

After the closure of the Moschendorf site, the Yarns & Fabrics division consists of Hoftex GmbH, Hoftex CoreTech GmbH, Hoftex Max Süß GmbH, Hoftex Liberec s.r.o., Hoftex Färberei GmbH and Hoftex Betriebs GmbH. We can maintain the majority of our product range after optimising the production equipment used at the remaining two sites.

The **Home Decoration** division comprised the Romania-based companies SC Textor S.A. and SC Textor Distributive S.A. under the management of Neutex Home Deco GmbH until the end of 2012. The division kept sales largely at the prior-year levels in fiscal 2013. While the ready-made textile manufacturing facilities in Romania performed in line with forecasts and enabled us to leverage cost advantages relative to subcontracting out these orders, the weaving mill belonging to its Romanian affiliate underperformed. As disclosed in the last year's annual report, we closed the Romania-based weaving mill at the end of the first quarter of 2013 and transferred the product line manufactured there to Münchberg, insofar as Neutex Home Deco GmbH was able to accommodate its production. This measure appears to have improved the cost structure somewhat, at least for the Münchberg facility, and to have put an end to the loss-making textile manufacturing operations at Textor S.A. These two separate legal entities have now been merged to create a single company, which will produce ready-made textiles in the future.

The **Nonwovens** division succeeded in increasing sales for the fourth fiscal year in a row. However, the subgroup results including consolidating entries fell slightly short of the prior-year figures. With a modest increase in operating capacity following completion of several capital expenditure projects, the only way to achieve this level of growth is by working at full capacity in all facilities and by reducing turn times. Subgroup profits amounted to EUR 0.4 million including the costs of the China-based affiliate currently under construction.

#### **Fiscal 2013 at a glance:**

- Increase in sales in the Nonwovens division
- Working to capacity in the Nonwovens division
- Construction of new China-based subsidiary in the Nonwovens division
- Final decision taken to close a loss-making manufacturing site in the Yarns & Fabrics division
- Continuing stagnation in the Home Decoration division
- Closure of a Romania-based weaving mill in the Home Decoration division
- Excellent results from the Nonwovens division offsets weak performance in other divisions
- One-off closure costs amounting to EUR -6.0 million lead to EUR 0.2 million drop in consolidated net income for the year

## Financial position of the Group

The Hoftex Group's total assets (balance sheet total) rose from EUR 157 million to EUR 160 million in 2013. Fixed assets increased by EUR 9.6 million to EUR 80.6 million due primarily to the significant growth in capital expenditure on tangible fixed assets of EUR 21.7 million. As a result, our investments considerably exceeded annual depreciation charges. In the current assets, funds amounting to EUR 1.4 million were released for inventories, while funds amounting to EUR 1.7 million were committed for accounts receivable. Financial assets decreased by EUR 7.0 million.

Balance-sheet equity decreased year-on-year from EUR 77.9 million to EUR 76.2 million as a result of a drop in consolidated net income to EUR 0.2 million, a dividend pay-out of EUR 0.8 million and EUR 1.1 million in currency translation losses from the financial statements of foreign subsidiaries.

The Group reported a balance-sheet equity ratio of 47.7%, down from the prior-year figure of 49.6%. The more decisive figure for us is economic equity, which adds to the balance-sheet equity EUR 14.0 million in subordinated shareholder loans (prior year: EUR 14.0 million), EUR 3.0 million in funds from a long-term cash pooling arrangement with a subordination agreement (prior year: EUR 3.0 million) and EUR 2.2 million in deferred government grants (prior year: EUR 3.0 million). The economic equity ratio amounts to 59.7% (prior year: 61.7%). The decline in both equity ratios is mainly attributable to EUR 6.0 million in closure costs included in the extraordinary result, which reduced net income for the year to EUR 0.2 million.

Pension provisions are carried at their full amounts and calculated as stipulated in the German Accounting Law Modernisation Act (*Bilanzierungsrechtsmodernisierungsgesetz*, or BilMoG). Funds attributable to claims against insurance amounting to EUR 3.7 million (prior year: EUR 3.8 million) were deducted from these provisions, resulting in a EUR 0.4 million drop in the pension provision item (prior year: EUR 0.6 million). Pension provisions are calculated using a 4.88% interest rate (prior year: 5.05%) and a 1.5% annual rate of benefit increase (prior year: 1.5%).

Provisions for taxes increased by EUR 0.1 million and other provisions increased by EUR 7.1 million, of which EUR 6.0 million is attributable to provisions recognised for the closure of the Moschendorf site.

Bank loans included EUR 11.6 million in long-term loans (prior year: EUR 24.2 million) and EUR 8.9 million in short-term loans (prior year: EUR 0.2 million). The Company paid out EUR 12.6 million in scheduled repayments of long-term loans. With the movements of bank deposits included, net liabilities to banks rose by EUR 3.1 million. In particular the scheduled repayment of long-term loans with higher interest rates helped ease the burden of capital costs.

Trade payables increased by EUR 1.8 million.

Other liabilities, which also include short-term working capital loans from ERWO Holding AG, rose by EUR 0.5 million, due mainly to the integration of the new China-based subsidiary into the Group.

## Cash flow and financing

The solid performance of the Nonwovens division was a key driver for the Group's financial position in 2013. Net income for the year amounted to EUR 0.2 million, which falls significantly short of the prior-year figure and the forecasts, primarily due to one-off expenses incurred in setting up provisions for the closure of a production facility.

### Cash flow

The abbreviated version of the consolidated cash flow statement is as follows:

In EUR million	2013	2012
Cash flows from operating activities	15.9	21.9
Cash flows from investing activities	-18.2	-8.8
Cash flows from financing activities	-4.7	-6.3
Changes in cash and cash equivalents	-7.0	6.8

Cash flows from operating activities fell year-on-year by EUR 6.0 million to EUR 15.9 million, largely due to a lack of funds released from working capital. In 2013, EUR -0.3 million in working capital was committed, while in the prior year EUR 11.6 million in working capital was released. The only items with no outflows of cash were provisions and liabilities, mainly due to the increase in provisions mentioned above, which has the effect of releasing EUR 9.5 million in funds in the cash flow statement.

At EUR 21.7 million, capital expenditure was significantly higher than in the previous year. Sizable investments were made in the Nonwovens division for the new Tenowo Huzhou subsidiary in China, in the three Tenowo GmbH sites in Hof, Mittweida and Reichenbach and in the US-based Tenowo Inc. After offsetting these outflows with an inflow of EUR 3.5 million from repayments and disposals of tangible fixed assets, net cash flows from investing activities amount to EUR -18.2 million (prior year: EUR 8.8 million). The remaining EUR -2.3 million in funding requirements and EUR -4.7 million in repayment of loans were covered by cash and cash equivalents (bank balances) of EUR 7.0 million.

### Financing

HOFTEX GROUP AG performs all financing activities for the Hoftex Group, including taking out loans to cover the subsidiaries' funding requirements and negotiating adequate lines of credit with banks to secure sufficient liquidity. Derivatives are only used to hedge against currency and interest rate risks.

Based on our experiences during the recent financial crisis, the Hoftex Group moved to a syndicated financing model on 21 July 2010 by way of an agreement between HOFTEX GROUP AG and their domestic subsidiaries on one side and the financial institutions that have provided funding to date on the other: Commerzbank AG, UniCredit Bank AG and Bayerische Landesbank Anstalt des öffentlichen Rechts (*Konsortialdarlehensvertrag I*, or KDV I). A total of EUR 38 million in loans was granted, divided into EUR 18 million in long-term loans with a five-year term and EUR 20 million in working capital loans and lines of credit with fixed interest for a term of three years. EUR 10 million in working capital loans and EUR 10 million in short-term loans expired on 30 June 2013.



These loans were refinanced by increasing the working capital line of credit to EUR 16 million, which is due to expire on 30 June 2015. The Group took out a further syndicated loan (*Konsortialdarlehensvertrag* II, or KDV II) amounting to EUR 15 million with Commerzbank AG, Bayerische Landesbank Anstalt des öffentlichen Rechts and Baden-Württembergische Bank to finance the extensive investments proposed for the Nonwovens division, in particular EUR 25 million for investments in the planned expansion of the Reichenbach II plant. The Group did not draw down these approved loans during fiscal 2013.

The loans from these two syndicated loan agreements will be utilised exclusively by HOFTEX GROUP AG. The original syndicated loan agreement (KDV I) was used to secure funding during the financial and Eurozone crisis. In 2013, we secured new funding for our planned investments by way of another syndicated loan agreement (KDV II) in order to spread the borrower default risk evenly across the banks in the syndicate.

### The Group's results of operations

Group sales fell by EUR 13.0 million to EUR 190.4 million. The loss is mainly attributable to the performance of the Yarns & Fabrics division, where sales decreased by EUR 15.1 million. Sales were down again for Neutex Home Decoration, falling by EUR 0.2 million this year, while sales for Nonwovens were up by EUR 2.3 million based on the available capacity.

The **change in inventories** comes as a result of the EUR -1.5 million decrease in finished and unfinished goods inventories (prior year: EUR -1.5 million), which is largely attributable to the performance of the Nonwovens division.

At EUR 4.1 million, **other operating income** fell EUR 0.4 million short of the prior-year figure, due mainly to a EUR 0.3 million decrease in income from asset disposal. The only other items of note would be the EUR 0.1 million drop in gains from currency translation and the EUR 0.1 million rise in rental income over the previous year.

The ratio of **cost of materials** to operating profit fell to 55.8% due to a continued drop in cotton prices and a greater share of the Nonwovens division in the Group's overall business. The prior-year cost of materials ratio was higher at 57.2%.

Contrary to developments in sales, **personnel expenses** fell by just EUR 0.2 million to EUR 44.5 million, despite the closure of a spinning mill and cutbacks in the weaving operations in 2012. The average number of employees fell year-on-year by 88 to 1,419 employees (prior year: 1,507). Severance pay for some of the employees made redundant in the weaving mill restructuring also had a negative impact on personnel expenses for 2013.

**Depreciation and amortisation**, which can be characterised as fixed costs, increased year-on-year by EUR 0.2 million to EUR 8.9 million. The modest rise is due mainly to the continuing increase in capital expenditure this past year, although these investments will not be fully written down until next year.

**Other operating expenses**, which also contain fixed costs but to a lesser extent, reflect the solid performance of the Nonwovens division and the impact of the capacity cutbacks in the weaving mill. Administrative expenses remained unchanged at EUR 6.0 million. Operating costs fell by EUR 1.1 million to EUR 8.3 million, while selling expenses fell by EUR 0.4 million to EUR 8.3 million. Currency translation losses decreased by EUR 0.4 million to EUR 0.6 million.

The **operating result after deducting other taxes** fell from EUR 9.6 million in the prior year to EUR 8.6 million in 2013, despite a decrease of only EUR 0.1 million in the Nonwovens division's result. This is mainly due to the EUR 0.4 million decrease in the Yarns & Fabrics division's result and a EUR 0.3 million decrease in the Home Decoration division's result.

This year's **net investment income** relates to the Group's proportionate share in the net income of its India-based associate "Supreme Nonwoven", with an at-equity value of EUR 0.3 million (prior year: EUR 0.5 million). Even though our share in the associate's income fell short of last year's figure, its earnings are still solid. Translated into euros, Supreme Nonwoven Pvt. Ltd. generated net income for the financial year from 1 April 2012 to 31 March 2013 of EUR 0.9 million (prior year: EUR 1.2 million). Gross revenue increased by approx. 17%, cost of materials by approx. 20%, personnel costs by approx. 23% and other expenses by approx. 26%.

The negative **financial result** of EUR -2.4 million saw a slight improvement of just under EUR 0.5 million as a result of a significant drop in bank loan utilisation. This led to a EUR 0.3 million decline in interest expenses. The prior-year figure was negatively impacted by EUR 0.1 million in continuing amortisation of long-term financial assets. In addition to the original interest expenses, the financial result also includes EUR 0.6 million in non-cash charges for accrued interest on pension provisions (prior year: EUR 0.6 million).

The **extraordinary result** includes EUR 6.0 million in provisions recognised for the agreed closure of a site jointly owned by Hoftex Spinnerei GmbH and Hoftex Weberei GmbH and the subsequent liquidation of both companies.

**Taxes on income** are reported as EUR 0.3 million, resulting from taxes on income for the current 2013 financial year of EUR 0.5 million (prior year: EUR 0.7 million), less EUR 0.2 million from the reversal of prior-period provisions for taxes on income.

**Other taxes** include property tax, motor vehicle tax and value added tax on non-cash benefits.

Due largely to the recognition of EUR 6.0 million in provisions for the closure of a facility, the **consolidated net income for the year** fell from EUR 6.4 million in the previous year to EUR 0.2 million in the year under review.

### Result per share

HOFTEX GROUP AG's result amounted to EUR -0.42 per share (prior year: EUR 0.97) based on the Company's net loss for the year of EUR -2,260 thousand (prior year: net income of EUR 5,266 thousand) and a total of 5,444,800 shares. With consolidated net income at EUR 206 thousand (prior year: EUR 6,444 thousand), the Group reported results per share of EUR 0.04 (prior year: EUR 1.18).

### Employees

The Group employed an average of 1,419 staff compared to 1,507 in the prior year. This decrease results mainly from the closure of the Hof spinning mill in late 2012 and redundancies at Hoftex Weberei GmbH during 2013.

## Investments

Capital expenditure in tangible and intangible fixed assets and long-term financial assets amounted to EUR 21.7 million in 2013 (prior year: EUR 11.0 million).

## The divisions

### Yarns & Fabrics

In 2013, the **Yarns & Fabrics** division consisted of the following companies:

- **Hoftex GmbH**
- **Hoftex Spinnerei GmbH**
- **Hoftex Weberei GmbH**
- **Hoftex CoreTech GmbH**
- **Hoftex Max Süß GmbH**
- **Hoftex Färberei GmbH**
- **Hoftex Färberei Betriebs GmbH**
- **Hoftex Liberec s.r.o.**

### Sales trends

Sales fell short of forecasts in the first half of the year. First-quarter sales in the weaving mill in particular dropped sharply and stayed low, prompting our decision to cut capacity substantially and adjust production to the diminished opportunities on the market. In the second half of the year, we experienced further setbacks in the spinning mills and – to a far more significant extent – in the weaving mills. Sharp currency drops in developing countries where we had developed successful business relationships in recent years led to a complete collapse of these markets. The promising recovery in the industry in December 2013 failed to spread to our spinning and weaving mills. During the second half of the year, business volume for both plunged to such an extent that we were forced to take action. Despite cutting weaving mill output by half, the spinning and weaving mills at our Hof-Moschendorf site did not, at their current size, have the flexibility or the technical adaptability to respond to the rapid changes on today's market. Without extremely cost-intensive upgrades to our manufacturing infrastructure, it would have been impossible to facilitate even smaller lot sizes. It did not, however, make economic sense to invest in upgrades that would enable us temporarily to compete on price in a shrinking market experiencing a glut, only to be pushed out of the market once again after one to two years. Given the current conditions, the Supervisory Board endorsed the Management Board's proposal to close the spinning and weaving mill at the Moschendorf site by the end of 2014 at the latest. In future, the remaining production companies Hoftex CoreTech GmbH, Hoftex Max Süß GmbH, Hoftex Liberec s.r.o. and Hoftex Färberei Betriebs GmbH will take over production activities for the closed spinning mill, while Neutex Home Deco GmbH will handle output for the closed weaving mill. Relocating certain machinery will give us the opportunity to maintain an optimal product portfolio.

Division **sales** fell year-on-year by 18.7% to EUR 76.2 million (prior year: 22.1% decrease). Unit sales dropped by 21.5% in the spinning mills (prior year: 21.5% decrease) and by 27.7% in the weaving mills (prior year: 19.9% decrease). Such sharp falls for two years running show just how dramatic the situation has become in the past two years. There is no escaping the increasing momentum of this trend, which continued to spiral downward even faster during the second half of 2013.

2013 saw an even greater increase in finished and unfinished goods inventories. This is primarily due because we were unable to adjust production output fast enough to account for declining sales, despite introducing a short-time scheme. In total, **inventories** increased by EUR 1.2 million.

At EUR 68.4 million, **gross revenue** (excluding other operating income), decreased by 15.0% year-on-year (prior year: EUR 80.5 million).

The almost negligible decline in the **cost of materials ratio** to 65.7% (prior year: 66.0%) came as a result of a slight year-on-year decrease in raw material prices.

At EUR 15.9 million, **personnel expenses** fell by EUR 1.6 million over the previous year. Staff cutbacks continued until the end of the year. The average number of employees, including apprentices, decreased from 664 in the prior year to 595 in 2013.

**Depreciation and amortisation** increased by EUR 0.4 million to EUR 2.2 million due to renovations at the Moschendorf site completed in the previous year and the acquisition of two spinning machines.

2013 saw a EUR 2.8 million decrease in **other operating expenses**, from EUR 12.0 million to EUR 9.2 million in absolute terms. The disproportionate 22.9% decrease is mainly due to a delay in the cost benefit from last year's capacity adjustments, which did not take full effect until fiscal 2013. The prior-year amount also contained restructuring and relocation costs amounting to EUR 0.9 million, which no longer impact the 2013 figure. As a result, the share of other operating expenses in gross revenue stabilised once more, falling from 15.0% to 13.6%.

The **financial result** is determined by the interest on debt from the cash pooling arrangement. The debt carried a fixed interest rate of 4.5% in fiscal 2013. With interest expenses at almost the same level, the financial result fell by 0.1% due mainly to prior-year amortisation of financial assets amounting to EUR 0.1 million.

At EUR 6.0 million, the **extraordinary result** includes allocations to provisions for expenses from the social compensation scheme following the closure of the Moschendorf site as well as closure costs for Hoftex Spinnerei GmbH amounting to EUR 3.7 million, for Hoftex Weberei GmbH amounting to EUR 1.9 million and for Hoftex GmbH amounting to EUR 0.4 million. Due to their low carrying amounts, the buildings, machinery and office equipment are not subject to non-scheduled impairment loss.

In total, the division reported a **net loss before deduction of taxes** of EUR -9.0 million over the previous year (prior year: EUR -2.5 million). No tax allocations were required due to the loss. Taking into account other taxes at EUR -0.3 million, the net loss for the year amounts to EUR -9.3 million.

The Yarns & Fabrics division employed an average of 595 **staff** (excluding apprentices) during the year under review (prior year: 650). The year-end headcount for the division was 588 in 2013 and 619 in 2012.

**Investments** amounted to EUR 2.0 million (prior year: EUR 2.3 million) and related to add-on investments for last year's relocation of the spinning mill to Moschendorf and to investments in other companies within the division: Hoftex CoreTech GmbH, Hoftex Max Süß GmbH and Hoftex Liberec s.r.o.

## Home Decoration

The following companies were part of the **Home Decoration** division in 2013:

- **Neutex Home Deco GmbH**
- **Neutex Betriebs GmbH**
- **SC Textor S.A.**

Once again in fiscal 2013, the decorative fabrics sector showed no signs of recovery over the previous year and continued to struggle with falling sales. Sales in decorative fabrics fell by -8.5%, exports by 14.0% and domestic sales by -5.1% in the year under review. In contrast to the fall in sales, average prices in the decorative fabrics sector as a whole rose by 8.2%.

These developments come as a result of a change in the Zeitgeist and its impact on the relevant home decoration markets. For years, there has been a trend towards low-price products in the ready-made curtains segment. The increase in Asian imports poses an additional challenge, as these imports in particular supply the market with cheap ready-mades.

At EUR 20.2 million, **sales** underperformed the prior-year figure by 2.2%, while the corresponding unit sales fell by 6.9%. That means average prices increased by roughly 8.0%. In terms of product groups, sales of ready-mades increased, as did the share of ready-mades in overall division sales, rising from 34.9% to 38.6%. The share of exports in overall sales remained unchanged at 24%.

As outlined in last year's annual report, we closed down our Romanian subsidiary's traditional woven fabrics production mid-year. Although provisions were made for the closure the year before, the additional closure costs in 2013 had a negative effect on the division's results.

The **cost of materials** amounted to EUR 6.7 million, while the cost of materials ratio fell slightly from 35% to 34.8%.

Rising energy costs were responsible in part for the increase in cost of materials. Prices of other raw materials decreased slightly. Less favourable costs structures due to unsatisfactory capacity utilisation remained an issue this year.

**Personnel expenses** increased by EUR 0.1 million to EUR 7.5 million, with a personnel expenses ratio of 38.7% (prior year: 36.2%). The steady increase here is the product of unsatisfactory capacity utilisation.

**Other operating expenses** recorded a year-on-year decrease of EUR 0.2 million to EUR 4.9 million. The prior-year figure included the above-mentioned provisions for the closure of the weaving mill.

**Financing costs** remained unchanged at EUR 0.4 million.

Overall, the division reported a net loss for the year amounting to EUR -0.5 million, due in particular to EUR -0.3 million in losses from Textor and various consolidating entries relating to income from asset disposals in the sub-group. No tax allocations were required.

The Home Decoration division employed an average of 314 **staff** in the year under review (prior year: 345).

**Investments** amounted to EUR 0.5 million (prior year: EUR 0.3 million) and relate almost entirely to Neutex Home Deco GmbH.

Looking ahead to the next fiscal year, increasing energy costs continue to be a cause for concern. Other challenges include the recent trend towards smaller lot sizes and, at the same time, mounting pressure for faster turnaround times. One way we intend to offset these adverse effects is by increasing our efforts in the area of sun-protective textiles. If we can continue to compete on niche business in the lower price segment and cover our outlays, at the very least we can expect capacity utilisation and cost structures to improve.

### **Outlook for the Home Decoration division**

According to the industry association "textil + mode", demand for ready-made textile goods has grown by 5.2%, which confirms our strategy to increase our efforts in this area. The continuing trend towards shorter product lifecycles, which is becoming evident on our markets as well, presents potential challenges but also opens up potential new markets. We are also continuing to bank on the expansion of our "sun-safe" segment. Along with roller blinds, we have also added pleated shades to our product range and hope that diversifying the product range in this manner will help us grow sales.

### **Nonwovens**

The following companies were part of the **Nonwovens** division in 2013:

- **Tenowo GmbH**
- **Tenowo Hof GmbH**
- **Tenowo Reichenbach GmbH**
- **Tenowo Mittweida GmbH**
- **Tenowo Inc.**
- **Tenowo Huzhou New Materials Co. Ltd.**
- A 49% stake in **Supreme Nonwoven Industries Private Ltd.** (associate)

Overall, all of the companies in this division worked close to capacity for most of fiscal 2013. One benefit of high capacity utilisation is further improvement in cost structures as compared with prior years. The Group opened a China-based subsidiary to serve the Chinese market. Its new nonwovens manufacturing plant is currently under construction, with production scheduled go online in mid-2014. To ensure the capacity is fully utilised in the first year, we have signed supply agreements with a German business partner operating in China. The agreement will secure basic operations during the start-up phase.

**Sales** increased by 2.3%, amounting to EUR 103.0 million for the year under review (prior year: EUR 100.7 million). By comparison: sales amounted to EUR 57.9 million during the economic crisis in 2009, and approx. EUR 69 million in the year before the crisis. The positive trend in the Nonwovens division sales is quite evident in these figures.

The Tenowo division is subdivided into three different business units:

- Interlinings
- Industrial
- Automotive



With a major increase in Interlinings sales unlikely, we are focusing our efforts on growing the Industrial unit. Automotive is our best performing unit, as shown in the performance table below.

Business unit	2013		Prior year	
	External sales in EUR million	Share in %	External sales in EUR million	Share in %
Interlinings	12.2	11.9	12.9	12.8
Industrial	6.0	5.8	5.5	5.5
Automotive	84.8	82.3	82.3	81.7
<b>Total</b>	<b>103.0</b>	<b>100.0</b>	<b>100.7</b>	<b>100.0</b>

In terms of geographic area, sales within the EU rose by 6.3%, while third-country sales increased by only 0.8%. This is mainly due to our US-based subsidiary, which was unable to increase sales in the year just ended as it is already working at full capacity – much like several other facilities within Tenowo. Domestic sales revenues remained unchanged on the previous year.

Recent capital expenditure at the Mittweida site was a key driver for the increase in EU sales. Output at the plant grew by approx. 11% thanks to the investments in its expansion.

The fact remains that without additional investments in the Nonwovens business, we cannot expect any real growth in this promising division. It would be unfortunate if we were unable to leverage the favourable conditions this market is currently offering. Thanks to full order books, these companies are working at close to capacity, but that leaves no scope for vital new product developments.

We can demonstrate in detail how cost structures have improved on the basis of the following figures. Despite a rise in raw materials and energy prices, **cost of materials** fell slightly for the second year running. Our consistent effort to streamline the product portfolio is a key driver for this trend. The cost of materials ratio decreased from 55% to 53%. With prices at their current levels, the only way to achieve a more favourable cost of materials ratio would be to reduce turn times even further. This would require even larger lot sizes during production to lessen the impact of entrance and exit losses. Capital expenditure allocated for the expansion of the Reichenbach facility in 2014 will further reduce turn times.

At EUR 18.8 million, **personnel expenses** were up by EUR 2.0 million and their share in gross revenue increased from 16.6% to 18.6%. The rise in personnel expenses is mainly due to on-going wage hikes, wage adjustments for extended working hours and the increase in the average number of employees to 21.

**Depreciation and amortisation** rose from EUR 5.0 million to EUR 5.1 million as capital expenditure has exceeded depreciation charges in recent years.

**Other operating expenses** fell once again this year, down from EUR 13.0 million to EUR 12.7 million. 2013 saw cost savings in the following items: temporary staff (EUR -0.4 million), legal and consulting expenses (EUR -0.1 million) and bad debt losses (EUR -0.1 million). These savings were offset by a slight increase in some costs. The expenses for temporary workers decreased mainly due to the increase in personnel expenses for permanent staff.

The **financial result** relates to net interest and investment income. At EUR -2.6 million, net interest losses increased sharply, up by roughly EUR 0.7 million over the prior-year figure of EUR -1.9 million. This was due mainly to an increase in liabilities from the cash pooling arrangement with HOFTEX GROUP AG and an enterprise-wide change to a fixed rate of 4.5% for the interest on cash pooling loans as the underlying cash pooling receivables were converted to de facto long-term loans as of the second quarter of 2013. The increase in interest income from the first-time consolidation of the Chinese subsidiary Tenowo Huzhou was negligible.

The net investment income relates to the income from the Group's joint venture with India-based Supreme Nonwoven, which has an at-equity value of EUR 0.3 million, down EUR 0.2 million on the prior-year figure.

Taking into account the allocation of the Group's income tax burden to domestic income using a cause-based scheme, the Nonwovens division generated net income of EUR 7.0 million before profit transfer in 2013, down from the prior-year figure of EUR 7.7 million.

There were 471 **members of staff** (including apprentices) on average during the year under review (prior year: 450).

**Investments** in the Nonwovens division amounted to EUR 18.5 million in total (prior year: EUR 8.7 million) and relate to tangible fixed assets only. The investments focused on tangible fixed assets for the new China-based Tenowo Huzhou nonwovens production site (amounting to EUR 8.2 million) and the US-based Tenowo Inc. nonwovens production site (amounting to EUR 4.7 million). Investments in the three Tenowo GmbH sites in Hof, Reichenbach and Mittweida totalled EUR 5.6 million. Cost structures are expected to improve further following completion of the investments in Tenowo Inc. in the first half of 2014.

### **Outlook for the Nonwovens division**

Recent tensions developing between Russia and the West have had a negative impact on our forecasts. Apart from the threat to the economy, the potential rise in energy costs is a major concern. We do not expect interest rates to rise in the upcoming fiscal year. We have, however, hedged against interest rate hikes at Group level to cover the capital costs associated with the debt financing of future investments. The hedges protect us from rising interest rates for the next five years.

The division plans to make investments totalling EUR 33.0 million during the next fiscal year, focused primarily on EUR 25.0 million in investments for the expansion of the Reichenbach facility. Of course, we plan to invest additional funds in other sites where necessary, in an effort to eliminate bottlenecks that are tying up production capacity. Management has adopted the necessary resolutions for these strategic investments. In China, Tenowo GmbH established the independent subsidiary Tenowo Huzhou New Materials Co. Ltd., which will manufacture technical nonwovens and plans to start operations in the first half of 2014.

## Risk report

As a company that manufactures industrial textiles on a global scale, Hoftex Group is exposed to certain risks. The Management Board of HOFTEX GROUP AG is responsible for establishing an enterprise-wide control system for the timely identification and assessment of the Group's risk exposure pursuant to Section 91(2) of the AktG. Due to the decentralised structure of the Group, risk management is an integral part of its planning, monitoring and reporting processes. HOFTEX GROUP AG and its subsidiaries use a standardised risk management system that is improved and adjusted on an on-going basis to respond to changing requirements. With its diversified structure, the Hoftex Group is exposed to different risks and risk concentrations in each of the individual divisions. This enables the Group to spread risk to a certain extent.

We have set up efficient financial control systems for our cash flows as well as our interest and accounts receivable management. As a holding company, HOFTEX GROUP AG is responsible for hedging all of the Group's financial risks and for monitoring and controlling the utilisation of the credit lines granted to our subsidiaries by banks. The holding company monitors and coordinates any currency hedges set up by individual subsidiaries. As part of the daily cash pooling with all of our banks, the holding company has access to data on the subsidiaries' financial performance on an on-going basis.

We adhere to one key principle in our accounts management: customer orders are limited to the credit limit granted by credit insurers. Any divergency from this principle is subject to prior approval by Group management. The holding company receives monthly indicators on the aging of accounts as well as payment dates for current and past due accounts. Active management of our accounts receivable enables us to take advantage of opportunities without allowing risk to spiral out of control. Group companies entering into transactions that exceed the agreed limits must set aside adequate risk provisions.

Staff from internal control and the management of the individual Group companies are responsible for the early risk detection system.

The reporting system and the internal controls ensure decision-makers are kept up-to-date on business performance and on any unfavourable developments that may arise. The Group's internal audit department also monitors the efficiency of individual structures and processes, the reliability of individual systems and compliance with rules and regulations, as well as proper accounting and safeguarding of assets.

### **The three mainstays of our risk management system are:**

- Systemic security functions
- Reporting policies requiring regular and ad-hoc reporting
- Case-by-case examinations

These controls ensure management obtains information on potential risks in a timely manner and is able to take the correct actions to manage the risk.

The audits performed in 2013 did not produce any significant findings.

At the time this report was prepared (March 2014), our key risks are environmental and sector risks, corporate strategy risks and financial risks due to uncertainty about future interest and currency exchange rates. We were able to make realistic assessments in the past about the impact of increased competition from Asian countries – initially on our Yarns & Fabrics division and more recently on our Home Decoration division. As a result, we were able to mount a rapid response.

There are latent corporate strategy risks throughout the Nonwovens division. In its main role as a supplier to the automotive industry, Nonwovens is always under pressure to improve quality, delivery reliability and production costs, because it is the buyer in this segment that has a greater influence on prices than the manufacturer. To maintain our competitive edge over the long term, we must regularly invest in new, quality-enhancing and cost-cutting production methods. Risks are also associated with current uncertainties about the future development of the automotive sector in the United States and particularly in Europe. Our options for responding to these changes are very limited. Our decision to open a Nonwovens production site in China may serve to mitigate these risks somewhat.

During fiscal 2012, a sharp drop in demand in one market segment led to the closure of a spinning mill late that year. We merged the spinning operations of two former facilities under one roof and reduced output. We had expected the positive effects of these restructuring measures to continue through fiscal 2013, but, as noted in the prior-year annual report, this would only be the case if sales stabilised with no further drops. Regrettably, the segment did not recover in fiscal 2013. Sales for the Yarns & Fabrics division fell again during the second half of 2013, with the weaving mills taking the worst hit and prompting a negative knock-on effect on the spinning mills as well. Group management reacted in a timely manner and decided to close the remaining site in Moschendorf.

The overall demand for Nonwovens remains strong, however, and we feel it is necessary to adapt the division's production capacity to market realities. A major capital expenditure project to expand the Mittweida facility was completed in 2013, and we made an additional smaller, investment at the site to free up capacity for new customer orders. We opened a China-based subsidiary and started construction on a nonwovens production facility for the Chinese market, which is set to go online in the first half of 2014. A major investment project is also underway to expand our US-based subsidiary Tenowo Inc. and operations there will be phased in over time. Construction of Reichenbach II is scheduled to begin in April 2014, with production likely to start in 2015. The objective of this investment is to strengthen the Industrial business at Tenowo and drive growth for the Nonwovens division as a whole.

With interest rates at an all time low since the last quarter of 2013, we took advantage of the situation and entered into interest rate swaps to hedge the long-term loans for the Reichenbach expansion; these hedges have a five-year term from October 2014 to September 2019.

## Opportunity report

We work hard to identify risk early on, so that we can adopt countermeasures in a timely manner. The same is true for our efforts to identify opportunity at the right moment, but with a decentralised structure like ours, this has to be done with a systematic approach. The first step is to correctly identify and then assess opportunities. The divisions are responsible for identifying opportunity on a regular basis, while opportunities are assessed in cooperation with Group management. One way we are countering the risk of cyclical effects on our domestic markets is to keep growing our global business. A prime example of this is our recent activity on the Chinese market. By establishing a production company in China, we will be able to supply the Chinese market as well as other Asian markets directly from China. We made this strategic business decision in an aim to become even more independent from fluctuations in the more established industrialised economies. Thanks to the R&D activities described above, we are in a position to tap into new markets with product innovations. And our commitment to providing customers with the most cost-effective solutions will help us maintain our existing customer relationships and acquire new ones as well.

## Dependency report

As stipulated in Section 312 AktG, the HOFTEX GROUP AG Management Board prepared a report on HOFTEX GROUP AG's relationship with ERWO Holding AG and its affiliates. This report was also submitted to the Supervisory Board. At the end of the report, the Management Board made the following declaration: "Based on the circumstances known to the Management Board at the time the legal transactions disclosed in this report were conducted, the Company received consideration for each legal transaction disclosed in the report that was not unreasonably high. No measures requiring disclosure were taken during the year under review."

## Forecast and outlook for fiscal 2014

Our expectations regarding fiscal 2014 take into account many uncertainties regarding our decision to close the Moschendorf site, which should be completed by the end of 2014. EUR 6.0 million in provisions were set aside during the 2013 financial year to cover the closure costs. We project an operating loss of EUR -3.0 million to EUR -4.0 million for the Yarns & Fabrics division. As we phase out production during the second half of the year, sales in this operational division are set to drop sharply once again, down to approx. EUR 50.0 million as compared to EUR 67.2 million in fiscal 2013.

The Nonwovens and Home Decoration divisions are expected to develop in line with projections. Production is set to go online at the Chinese-based Tenowo Huzhou facility. We expect our investments in the expansion of US-based Tenowo Inc. and the Mittweida site in Germany to take full effect and generate a moderate increase in sales, up 5% to EUR 107.0 million. Start-up losses during the initial phase of the Chinese-based nonwovens plant may negatively impact the division's results somewhat. Overall, our projections put the operating result in the Nonwovens division somewhere in the region of EUR 8.0 million. The Home Decoration division is forecasting sales for fiscal 2014 to grow to roughly EUR 22.0 million with a break-even result.

Provided sales remain stable, a break-even result is very likely for other units as well, including the holding company, the real-estate companies and non-allocated consolidations within the Group.

Based on these assumptions, we think it is achievable to generate Group sales of EUR 184.0 million and consolidated net income in the range of EUR 4.0 million to EUR 5.0 million.

With rising energy prices next year as well, we expect higher costs for all domestic companies. We are very concerned about current political discussions that suggest the preferential treatment of energy-intensive sectors in the German economy provided in the German Renewable Energies Act (*Erneuerbare-Energien-Gesetz*, or EEG) may be inadmissible according to EU law. However, now that this discussion has become a bit more constructive, we feel it is very unlikely that the government will demand blanket reimbursement of all subsidies granted to date. In future, some sectors may be excluded from the scheme, but it seems doubtful that the textile industry would be among them, because – as recent history has clearly shown – tough global competition has taken its toll on the sector.

Recent wage negotiations are also a cause for concern, as agreed wages continue to rise. A sharp rise in the cost of domestic production makes it tougher to compete with suppliers from emerging economies, and this stiff competition has become an issue for all of our divisions. The current debate on how to finance the transition to clean energy is also worrying. The above forecasts come with the proviso that these two cost items do not increase unexpectedly. From today's point of view, we see the recent long-awaited recovery continuing in fiscal 2014, provided progress isn't slowed as a result of the threat of sanctions and countersanctions in the recent conflict between Russia and the EU.

#### **Report on events after the balance sheet date**

After the balance sheet date, there were no events that significantly impact the Group's net assets, financial position and results of operations.

Hof, 31 March 2014

HOFTEX GROUP AG

The Management Board

Steger

Adrion



## HOFTEX GROUP AG

### Consolidated balance sheet as of 31 December 2013

Assets in EUR thousand	Notes	31 December 2013	31 December 2012
<b>A. Fixed assets</b>			
I. Intangible fixed assets	6	321	321
II. Tangible fixed assets	6	73,045	63,743
III. Long-term financial assets	6/7	7,205	6,962
		<b>80,571</b>	<b>71,026</b>
<b>B. Current assets</b>			
I. Inventories	8	51,250	52,624
II. Receivables and other assets	9	24,178	22,662
III. Cash and cash equivalents	10	2,140	9,188
		<b>77,568</b>	<b>84,474</b>
<b>C. Prepaid expenses</b>		<b>577</b>	<b>356</b>
<b>D. Deferred tax assets</b>	11	<b>1,266</b>	<b>1,314</b>
<b>Total assets</b>		<b>159,982</b>	<b>157,170</b>

Equity and liabilities in EUR thousand	Notes	31 December 2013	31 December 2012
<b>A. Equity</b>			
I. Subscribed capital	12	13,920	13,920
II. Capital reserves	13	41,158	41,158
III. Revenue reserves	14	30,547	30,547
IV. Change in equity from currency translation		-3,561	-2,512
V. Consolidated net accumulated losses	15	-5,831	-5,220
		<b>76,233</b>	<b>77,893</b>
<b>B. Deferred investment grants and subsidies</b>	16	<b>2,215</b>	<b>2,950</b>
<b>C. Shareholder loans</b>	17	<b>14,000</b>	<b>14,000</b>
<b>D. Provisions</b>	18	<b>27,151</b>	<b>20,319</b>
<b>E. Liabilities</b>	19	<b>40,369</b>	<b>41,992</b>
<b>F. Deferred tax liabilities</b>	11	<b>14</b>	<b>16</b>
<b>Total equity and liabilities</b>		<b>159,982</b>	<b>157,170</b>

## HOFTEX GROUP AG

### Consolidated income statement for the 2013 financial year

In EUR thousand	Notes	2013	2012
Sales	20	190,448	203,415
Change in inventories of finished and unfinished goods		-1,478	-1,494
Other own work capitalised		3	31
<b>Gross revenue</b>		<b>188,973</b>	<b>201,952</b>
Other operating income	21	4,099	4,466
Cost of materials	22	-105,395	-115,457
<b>Gross profit</b>		<b>87,677</b>	<b>90,961</b>
Personnel expenses	23	-44,473	-44,644
Depreciation, amortisation and write-downs	6	-8,858	-8,645
Other operating expenses	24	-25,072	-27,366
<b>Operating result</b>		<b>9,274</b>	<b>10,306</b>
Investment income	25	313	466
Financial result	26	-2,373	-2,836
<b>Result from ordinary activities</b>		<b>7,214</b>	<b>7,936</b>
Extraordinary result	27	-6,000	0
<b>Result before taxes</b>		<b>1,214</b>	<b>7,936</b>
Taxes on income	28	-335	-746
Other taxes	29	-673	-746
<b>Consolidated net income for the year</b>		<b>206</b>	<b>6,444</b>

## HOFTEX GROUP AG

### Consolidated statement of changes in equity as of 31 December 2013

In EUR thousand	Subscribed capital	Capital reserves	Revenue reserves	Difference in equity from currency translation	Consolidated net accumulated losses	Total
<b>Balance as of 1 Jan 2012</b>	<b>13,920</b>	<b>41,158</b>	<b>27,917</b>	<b>-2,124</b>	<b>-9,034</b>	<b>71,837</b>
Consolidated net income for 2012					6,444	6,444
Foreign currency translation differences				-388		-388
Appropriation to revenue reserves pursuant to Section 58(2) AktG			2,630		-2,630	0
<b>Balance as of 31 Dec 2012</b>	<b>13,920</b>	<b>41,158</b>	<b>30,547</b>	<b>-2,512</b>	<b>-5,220</b>	<b>77,893</b>
2012 dividend payment					-817	-817
Consolidated net income for 2013					206	206
Foreign currency translation differences				-1,049		-1,049
<b>Balance as of 31 Dec 2013</b>	<b>13,920</b>	<b>41,158</b>	<b>30,547</b>	<b>-3,561</b>	<b>-5,831</b>	<b>76,233</b>

## HOFTEX GROUP AG

### Consolidated cash flow statement for the 2013 financial year

In EUR thousand	2013	2012
Consolidated net income for the year	206	6,444
-/+ Income/loss from disposal of fixed assets	-681	-1,341
+ Depreciation and amortisation on fixed assets	8,858	8,772
- Reduction in deferred government grants	-735	-776
-/+ Changes in pension provisions before offsetting with assets	-372	-716
-/+ Other non-cash expenses and income	-553	-990
Changes in assets and liabilities		
+/- Changes in inventories	1,374	5,166
-/+ Changes in receivables before offsetting with assets	-1,689	6,403
+/- Changes in liabilities and other provisions not attributable to financing activities	9,502	-1,047
<b>Cash flows from operating activities</b>	<b>15,910</b>	<b>21,915</b>
- Capital expenditure on intangible and tangible fixed assets	-21,690	-10,970
- Investment in long-term financial assets	0	0
+ Repayment of long-term financial assets	54	187
+ Proceeds from disposal of long-term financial assets	3,449	1,946
<b>Cash flows from investing activities</b>	<b>-18,187</b>	<b>-8,837</b>
- Changes in liabilities to banks	-3,926	-3,327
- Dividend payments	-817	0
+ Increase in shareholder loans	0	0
- Repayment of shareholder loans	0	0
- Decrease/+increase in short-term funding from parent company	0	-3,000
<b>Cash flows from financing activities</b>	<b>-4,743</b>	<b>-6,327</b>
Changes in cash and cash equivalents	-7,020	6,751
Increase/decrease in cash and cash equivalents due to currency translation	-28	-15
Cash and cash equivalents as of 1 January	9,188	2,452
<b>Cash and cash equivalents as of 31 December</b>	<b>2,140</b>	<b>9,188</b>

## NOTES TO THE 2013 CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

### (1) Presentation of the consolidated annual financial statements

HOFTEX GROUP AG is registered as a public limited company in the Federal Republic of Germany in the commercial register of the district court of Hof 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 raw and coloured yarns including specialty and ply yarns, the production of raw and coloured textiles including decorative fabrics and the production of nonwoven fabrics for technical applications and apparel.

As of 29 June 2009, the Company's shares have been traded on the m:access open market of the Munich Stock exchange, and 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 2013 are prepared on the basis of 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), if not 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 2013 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 2013 include 18 (prior year: 17) domestic and 4 (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). One domestic subsidiary (prior year: one) was not included in consolidation due to its insignificance for the Group's net assets, financial position and results of operations.

The change in consolidation comes as a result of restructuring measures within the Group that had already begun the previous year. This restructuring process entails transferring the production function from the various Group companies into independent production companies and combining the remaining administrative units into a single administrative and sales company for each division. As part of this process, the Group founded a new production company in the 2013 financial year. Another production company currently under construction in China has also been included in consolidation. The merger between Romania-based SC Textor Distributie S.A. and SC Textor S.A. took effect on 30 September 2013.

The subsidiaries Hoftex GmbH, Hoftex Spinnerei GmbH, Hoftex Weberei GmbH, Hoftex CoreTech GmbH, Hoftex Max Süß 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 a control and profit transfer agreement. Each of these 12 companies (prior year: 11) is also included in the HOFTEX GROUP AG consolidated annual financial statements and makes full use of the exemption provision in Section 264(3) HGB.

Hoftex Immobilien II GmbH & Co. KG 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 2013 are as follows:

	Registered office	Stake in %
<b>Fully consolidated companies as defined in Section 290(2) no. 1 HGB</b>		
Hoftex GmbH	Hof	<sup>1)</sup> 100.00
Hof Garn Verwaltungs GmbH	Hof	100.00
Hoftex Färberei GmbH	Hof	<sup>2)</sup> 100.00
Hoftex Färberei Betriebs GmbH	Hof	<sup>3)</sup> 100.00
Hoftex Spinnerei GmbH	Hof	<sup>2)</sup> 100.00
Hoftex Weberei GmbH	Hof	<sup>2)</sup> 100.00
Hoftex CoreTech GmbH	Hof	<sup>2)</sup> 100.00
Hoftex Max Süß GmbH	Hof	<sup>2)</sup> 100.00
Hoftex Liberec s.r.o.	Liberec, Czech Republic	<sup>2)</sup> 100.00
Tenowo GmbH	Hof	100.00
Tenowo Hof GmbH	Hof	<sup>4)</sup> 100.00
Tenowo Reichenbach GmbH	Hof	<sup>4)</sup> 100.00
Tenowo Mittweida GmbH	Hof	<sup>4)</sup> 100.00
Tenowo Inc.	Lincolnton, USA	<sup>4)</sup> 100.00
Tenowo Huzhou New Materials Co. Ltd.	Huzhou, China	<sup>4)</sup> 100.00
Neutex Home Deco GmbH	Münchberg	100.00
Neutex Betriebs GmbH	Münchberg	<sup>5)</sup> 100.00
SC Textor S.A.	Targu Mures, Romania	<sup>5)</sup> 100.00
Textil Hof Immobilien Geschäftsführungs GmbH	Hof	100.00
Hoftex Immobilien II GmbH & Co. KG	Hof	100.00
Feinspinnerei Hof GmbH	Hof	100.00
Hoftex Immobilien I GmbH	Hof	100.00
<b>Fully consolidated companies as defined in Section 290(2) no. 4 HGB</b>		
Wohlfahrtseinrichtung der Vogtländischen Baumwollspinnerei AG e.V.	Hof	-
<b>Non-consolidated companies as defined in Section 296(2) HGB</b>		
HBD Textil-GmbH	Hof	100.00
<b>Associates</b>		
Supreme Nonwoven Industries Private Limited	Mumbai, India	<sup>6)</sup> 49.00

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

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

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

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

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

<sup>6)</sup> 49% of all shares are held by Tenowo GmbH



### (3) Consolidation principles

For first-time consolidations before 1 January 2009, 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 (new version), which was amended after introduction of the BilMoG. According to this method, the subsidiary's equity at the time of initial consolidation is recorded at the fair value of all assets, liabilities, accruals, deferrals and extraordinary items to be included in the consolidated annual financial statements. Under the book value method, capital is consolidated by offsetting the cost of the consolidated company against the Group's share of its net assets on the date of initial consolidation and recognising any differences that arise in assets and liabilities. Where this difference is positive, any remaining excess is capitalised as goodwill. Where the difference is negative, it must be recorded as a separate line item under equity. Negative goodwill from first-time consolidations before 1 January 2009 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 as 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) sentence 1, 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 assets 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 are recognised on a straight-line basis throughout the Group.

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.

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.

Deferred tax assets are recognised 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. The difference between these two values is subject to the prevailing tax rate in the relevant countries. If the net difference results in a tax charge for the Group companies, this charge must be recognised as a deferred tax liability in the balance sheet. If the net difference results in a tax saving, it is recognised as a deferred tax asset in the balance sheet. In the calculation of deferred tax assets, tax loss carry-forwards must be recognised in the amount of the net losses expected to accumulate over the following 5 years. If consolidation measures 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. Deferred tax assets are calculated using the relevant income tax rate for the Group companies in question.

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 amounts to EUR 3,600 thousand; the fair value of the assets amounts to EUR 3,682 thousand; and the settlement amount of the offset obligations amounts to EUR 4,822 thousand, resulting in a net post-employment benefit liability of EUR 1,140 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 4.88% 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 seven financial years based on an assumed term of 15 years. These discount rates are determined and published by the German Bundesbank in accordance with the German Regulation on the Discounting of Provisions (*Rückstellungsabzinsungsverordnung*, or RückAbzinsV). 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.

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 accounting policies to date. 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 2,404 thousand as of the balance sheet date. Post-retirement benefit obligations, valued as required by Section 253(1) sentence 2 HGB, amount to EUR 3,280 thousand. The net liability of EUR 876 thousand is not recognised in the consolidated annual financial statements pursuant to Article 28(1) EGHGB.

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.

Other provisions must be recognised for uncertain liabilities and impending losses from on-going transactions. We must also set aside provisions 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. We recognised provisions 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. Contingent liabilities from liability agreements correspond to the loan amounts actually drawn down at the balance sheet date.

## **(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. 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 costs</b>	
<b>Balance on 1 January 2013</b>	<b>2,665</b>
Additions *)	119
Disposals **)	-45
<b>Balance on 31 December 2013</b>	<b>2,739</b>
<b>Cumulative depreciation, amortisation and write-downs</b>	
<b>Balance on 1 January 2013</b>	<b>2,344</b>
Additions	119
Disposals ***)	-45
<b>Balance on 31 December 2013</b>	<b>2,418</b>
<b>Carrying amounts on 31 December 2012</b>	<b>321</b>
<b>Carrying amounts on 31 December 2013</b>	<b>321</b>

### Tangible fixed assets

	Land and buildings	Prepayments and assets under construction	Machines and equipment	Factory and office equipment	Total
<b>Acquisition or production costs</b>					
<b>Balance on 1 January 2013</b>	<b>114,190</b>	<b>3,431</b>	<b>200,500</b>	<b>59,658</b>	<b>377,779</b>
Additions *)	1,409	12,123	6,569	1,471	21,572
Reclassifications	76	-1,637	1,558	3	0
Disposals **)	-1,822	-1,732	-8,385	-900	-12,839
<b>Balance on 31 December 2013</b>	<b>113,853</b>	<b>12,185</b>	<b>200,242</b>	<b>60,232</b>	<b>386,512</b>
<b>Cumulative depreciation, amortisation and write-downs</b>					
<b>Balance on 1 January 2013</b>	<b>82,111</b>	<b>0</b>	<b>176,209</b>	<b>55,716</b>	<b>314,036</b>
Depreciation, amortisation and write-downs in the fiscal year	1,952	0	5,798	990	8,740
Disposals ***)	-679	0	-7,912	-718	-9,309
<b>Balance on 31 December 2013</b>	<b>83,384</b>	<b>0</b>	<b>174,095</b>	<b>55,988</b>	<b>313,467</b>
<b>Carrying amounts on 31 December 2012</b>	<b>32,079</b>	<b>3,431</b>	<b>24,291</b>	<b>3,942</b>	<b>63,743</b>
<b>Carrying amounts on 31 December 2013</b>	<b>30,469</b>	<b>12,185</b>	<b>26,147</b>	<b>4,244</b>	<b>73,045</b>

## Long-term financial assets

	Equity interest (affiliates)	Equity interest (associates)	Investments	Other loans	Total
<b>Acquisition costs</b>					
<b>Balance on 1 January 2013</b>	<b>3,491</b>	<b>9,639</b>	<b>69</b>	<b>1,628</b>	<b>14,827</b>
Additions	0	296	0	0	296
Disposals	0	0	-53	0	-53
<b>Balance on 31 December 2013</b>	<b>3,491</b>	<b>9,935</b>	<b>16</b>	<b>1,628</b>	<b>15,070</b>
<b>Cumulative depreciation, amortisation and write-downs</b>					
<b>Balance on 1 January 2013</b>	<b>3,465</b>	<b>2,782</b>	<b>0</b>	<b>1,618</b>	<b>7,865</b>
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
<b>Balance on 31 December 2013</b>	<b>3,465</b>	<b>2,782</b>	<b>0</b>	<b>1,618</b>	<b>7,865</b>
<b>Carrying amounts on 31 December 2012</b>	<b>26</b>	<b>6,857</b>	<b>69</b>	<b>10</b>	<b>6,962</b>
<b>Carrying amounts on 31 December 2013</b>	<b>26</b>	<b>7,153</b>	<b>16</b>	<b>10</b>	<b>7,205</b>

\*) Additions include gains from currency translation amounting to EUR 0 thousand (prior year: EUR +303 thousand)

\*\*) Disposals include losses from currency translation amounting to EUR -1,882 thousand (prior year: EUR -486 thousand)

\*\*\*) Disposals include gains from currency translation amounting to EUR +1,117 (prior year: loss of EUR -150 thousand)

+ = asset increase / - = asset reduction

## 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% 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 annual financial statements for the financial year ending 31 March 2013 value the Group's share (49%) in the associate's net income for the year at EUR 447 thousand less EUR 17 thousand in dividends paid out, which is recorded on the balance sheet as EUR 430 thousand, less EUR 134 thousand in goodwill net of any cumulative amortisation. As the associate has not prepared interim financial statements for the period ending 31 December 2013, HOFTEX GROUP AG was unable to make any adjustments to the at-equity valuation in the 2013 consolidated annual financial statements.

## (8) Inventories

	31 December 2013	31 December 2012
Raw materials, consumables and supplies	17,835	17,305
Unfinished goods, services in progress	4,968	6,508
Finished goods and merchandise	28,447	28,811
	<b>51,250</b>	<b>52,624</b>

## (9) Receivables and other assets

	31 December 2013	31 December 2012
Trade receivables	20,191	18,187
Receivables from affiliated companies	1,854	1,842
Receivables from long-term investees and investors	0	176
Other receivables and other assets	2,133	2,457
	<b>24,178</b>	<b>22,662</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.

## (10) Cash and cash equivalents

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

## (11) Deferred tax assets and liabilities

The deferred tax assets relate to tax savings arising from the positive net difference between the book value and the tax base of consolidated assets and liabilities. The following table provides details on the items that result in deferred tax assets and liabilities:

	31 Dec 2013 Deferred tax assets	31 Dec 2012 Deferred tax assets	31 Dec 2013 Deferred tax liabilities	31 Dec 2012 Deferred tax liabilities
Tangible fixed assets	2,095	2,116	15	16
Long-term financial assets	1,237	1,237	10	9
Inventories	405	568	0	0
Receivables and other assets	191	124	747	747
Deferred investment grants/subsidies	322	430	0	0
Pension provisions	597	593	0	0
Other provisions	2,389	651	0	0
Liabilities	19	15	30	0
Net accumulated losses	6,032	6,496	0	0
Other	54	54	0	5
	<b>13,341</b>	<b>12,284</b>	<b>802</b>	<b>777</b>

After exercising the netting and recognition options for positive net differences, EUR 1,266 thousand (prior year: EUR 1,314 thousand) in deferred tax assets and EUR 14 thousand (prior year: EUR 16 thousand) in deferred tax liabilities are recognised in the balance sheet.

We reported EUR 19 million in tax loss carry forwards, where no deferred tax assets have been recognised, as we cannot predict with sufficient certainty whether the deferred tax benefit will be realized. EUR 8 million of this amount can be carried forward indefinitely.

Domestic Group companies calculate deferred tax positions with an income tax rate of 29% (corporation tax 15%, trade tax 14%) on the temporary difference between the tax base and the book value and/or on the net accumulated losses. The income tax rate used for the United States is 39%, for Romania 16% and for the Czech Republic 19%.

## (12) Subscribed capital

The subscribed capital of HOFTEX GROUP AG amounts to EUR 13,919,988.69 and is divided into 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) Capital reserves

HOFTEX GROUP AG reported capital reserves amounting to EUR 41,158, the majority of which are capital contributions from former shareholders. The difference between the 2008 issue price of new shares of EUR 7.00 and the notional par value of the shares of EUR 2.56 (rounded) was allocated to the capital reserves.

## (14) Revenue reserves

	31 December 2013	31 December 2012
Revenue reserves on 1 January 2013/2012	30,547	27,917
Allocations pursuant to Section 58(2) AktG	0	2,630
<b>Revenue reserves on 31 December 2013/2012</b>	<b>30,547</b>	<b>30,547</b>

## (15) Appropriation of net profit

	31 December 2013	31 December 2012
Net accumulated losses on 1 January 2013/2012	-5,220	-9,034
Dividend payment for 2012	-817	0
Consolidated net income for the year	206	6,444
Allocations pursuant to Section 58(2) AktG	0	-2,630
<b>Net accumulated losses on 31 December 2013/2012</b>	<b>-5,831</b>	<b>-5,220</b>



#### (16) Deferred investment grants and subsidies

This item relates to deferred government grants amounting to EUR 2,215 thousand (prior year: EUR 2,950 thousand) and includes both investment grants and subsidies. EUR 735 thousand from the scheduled reversal of this item is recorded under other operating income.

#### (17) Shareholder loans

This item relates to EUR 14,000 thousand in long-term loans granted by the principle shareholder ERWO Holding AG, for which ERWO Holding AG agrees to remain subordinated to all other creditors and to maintain the loan at the present amount until 30 June 2020.

#### (18) Provisions

	31 December 2013	31 December 2012
Provisions for pensions and similar obligations	12,182	12,553
Asset clearing with assignable insurance claims	-1,278	-1,280
Disclosure of pension provisions	10,904	11,273
Provisions for taxes	1,062	985
Other provisions	15,185	8,061
	<b>27,151</b>	<b>20,319</b>

Provided other provisions include provisions as defined in Section 249(2) HGB (old version), we are entitled to exercise the retention option provided Art. 67(3) EGHGB.

Other provisions generally comprise deferred risks, legal and litigation costs as well as obligations towards members of staff. During the year under review, this item also contains EUR 6,000 thousand in closure costs for the Moschendorf site.

#### (19) Liabilities

	31 December 2013	31 December 2012
Liabilities to banks	20,459	24,385
Payments received on account of orders	1	6
Trade payables	10,688	8,932
Liabilities to affiliated companies	7,409	7,368
Liabilities to other long-term investees or investors	0	31
Other liabilities	1,812	1,270
of which taxes	(610)	(693)
of which social security	(82)	(111)
	<b>40,369</b>	<b>41,992</b>

Liabilities to banks are fully secured by liens on property, the general assignment of receivables and inventories assigned as collateral.

Liabilities to affiliated companies include EUR 7,395 thousand (prior year: EUR 7,352 thousand) in liabilities to the shareholder ERWO Holding AG and EUR 14 thousand (prior year: EUR 16 thousand) in liabilities to other companies in the Südwolle Group. The liabilities to affiliated companies contain primarily short and medium-term liabilities from working capital loans (cash pooling) amounting to EUR 7,000 thousand (prior year: EUR 7,000 thousand) and other services amounting to EUR 409 thousand (prior year: EUR 368 thousand). Of this amount, EUR 3,000 thousand is subject to a subordination agreement until 30 June 2020.

Residual term	31 December 2013		31 December 2012	
	Less than 1 year	more than 5 years	Less than 1 year	more than 5 years
Liabilities to banks	11,943	0	12,801	0
Payments received	1	0	6	0
Trade payables	10,688	0	8,932	0
Liabilities to affiliated companies	4,409	3,000	7,368	0
Liabilities to other long-term investees or investors	0	0	31	0
Other liabilities	1,358	1	926	4
of which taxes	(610)	(0)	(410)	(0)
of which social security	(82)	(0)	(111)	(0)
	<b>28,399</b>	<b>3,001</b>	<b>30,064</b>	<b>4</b>

## (20) Classification of sales

	2013	2012
<b>By division</b>		
Yarns & Fabrics	66,897	81,719
Home Decoration	20,016	20,376
Nonwovens	102,841	100,699
Other	694	621
	<b>190,448</b>	<b>203,415</b>
<b>By region</b>		
Germany	89,854	96,181
Other EU member states	57,328	57,437
Other countries	43,266	49,797
	<b>190,448</b>	<b>203,415</b>

This chart only includes sales with non-Group companies.

## (21) Other operating income

The key items at Group level are income from disposed fixed assets at EUR 1,043 thousand (prior year: EUR 1,344 thousand), income from the reversal of investment grants received at EUR 735 thousand (prior year: EUR 776 thousand), income from the reversal of provisions no longer required at EUR 467 thousand (prior year: EUR 426 thousand), income from payments of receivables written down and the reversal of write-downs on receivables no longer required at EUR 222 thousand (prior year: EUR 350 thousand), income from investment grants and subsidies received at EUR 0 thousand (prior year: EUR 15 thousand), prior-period income at EUR 659 thousand (prior year: EUR 274 thousand) and currency translation gains at EUR 427 thousand (prior year: EUR 567 thousand), income from non-consolidated affiliated companies at EUR 130 thousand (prior year: EUR 273 thousand), leasing and rental income at EUR 231 thousand (prior year: EUR 134 thousand) and other operating income at EUR 185 thousand (prior year: EUR 307 thousand).

## (22) Cost of materials

	2013	2012
Cost of raw materials, consumables and supplies, and of purchased merchandise	103,231	113,111
Cost of purchased services	2,164	2,346
	<b>105,395</b>	<b>115,457</b>

The cost of materials ratio based on operating income/loss (excluding other operating income) fell once again to 55.8% (prior year: 57.3%) after cotton prices began to stabilise in early 2012.

## (23) Personnel expenses

	2013	2012
Wages and salaries	36,589	36,827
Social security, post-employment and other employee benefit costs	7,884	7,817
of which for post-employment benefits	(227)	(0)
	<b>44,473</b>	<b>44,644</b>

On average, the Company employed the following staff:

	2013	2012
Workers	1,005	1,088
Salaried employees	383	388
Apprentices	31	31
	<b>1,419</b>	<b>1,507</b>

#### (24) Other operating expenses

	2013	2012
Addition to valuation allowances, writing-off receivables	431	580
Currency translation losses	578	954
General and administrative expenses	6,029	5,994
Operating costs	8,282	9,401
Selling expenses	8,325	8,785
Other operating expenses	1,427	1,652
	<b>25,072</b>	<b>27,366</b>

#### (25) Investment income

	2013	2012
Income from associates	313	466

#### (26) Financial result

	2013	2012
Other interest and similar income	63	16
of which from affiliated companies	(0)	(0)
Interest and similar expenses	-1,829	-2,109
of which to affiliated companies	(-445)	(-498)
Interest expense from pension provisions and net interest income from special-purpose assets	-607	-616
Write-downs on financial investments	0	-127
	<b>-2,373</b>	<b>-2,836</b>

The net income from special-purpose assets amounts to EUR 25 thousand (prior year: EUR 34 thousand).

#### (27) Extraordinary result

The extraordinary expenses relate to EUR 6.0 million in provisions recognised for the expected closure costs at the Moschendorf site.

## (28) Taxes on income

	2013	2012
Corporate income tax financial year	-236	-380
Release of prior-year corporate income tax provisions	51	0
Corporate income tax arrears	0	-2
Corporate income tax refunds	2	0
Trade tax financial year	-241	-400
Release of prior-year trade tax provisions	136	0
Changes in deferred taxes	-47	36
	<b>-335</b>	<b>-746</b>

## (29) Other taxes

	2013	2012
Property tax	-474	-502
Motor-vehicle tax	-19	-20
Other taxes	-180	-224
	<b>-673</b>	<b>-746</b>

Other taxes in the previous year included value added tax arrears resulting from an external tax audit.

## (30) Auditors' fees

Our Munich-based auditors Deloitte & Touche GmbH charged fees totalling EUR 210 thousand (prior year: EUR 205 thousand) in the year under review.

	2013	2012
Auditing services	167	160
Other certification services	29	10
Tax consultancy services	12	5
Other services	2	30
	<b>210</b>	<b>205</b>

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

The provisions of Section 314 (1) 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 32 thousand (prior year: EUR 34 thousand).

Remuneration paid to former members of the Management Board and their survivor amounts to EUR 377 thousand (prior year: EUR 377 thousand). Provisions totalling EUR 3,935 thousand (prior year: EUR 4,011 thousand) have been recognised for pension obligations to former members of the Management Board and their survivor.

### (32) 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.

In fiscal 2013, the Group received net income tax refunds totalling EUR 2 thousand (prior year: EUR 0 thousand) and paid out EUR 1,829 thousand (prior year: EUR 2,109 thousand) in interest expenses. The interest payments received largely correspond to interest income.

### (33) Contingent liabilities

	2013	2012
Bills of exchange	28	219
Guarantee obligations	110	170

We do not expect any claims on the bills of exchange as they had all been honoured as of the date this report was completed.

### (34) Other financial commitments

The other financial commitments contain EUR 9,795 thousand (prior year: EUR 10,364 thousand) resulting from leasing contracts, purchase commitments and letter of credit obligations.

### (35) Derivative financial instruments

HOFTEX GROUP AG has entered into four interest swaps to hedge against some of the interest rate risk of its variable rate loans. The hedges had a nominal volume of EUR 12,000 thousand on 31 December 2013, with a five-year term from 1 October 2014 and end on 30 September 2019.

On 31 December 2013, the fair value of the Group's interest rate hedges were as follows:

Expiry date	Nominal value	Carrying value	Fair value	Swap rate
30 September 2019	EUR 3.0 million	EUR 0 thousand	EUR 4 thousand	1.395 %
30 September 2019	EUR 4.0 million	EUR 0 thousand	EUR 14 thousand	1.360 %
30 September 2019	EUR 2.0 million	EUR 0 thousand	EUR 1 thousand	1.410 %
30 September 2019	EUR 3.0 million	EUR 0 thousand	EUR 0 thousand	1.420 %

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 2013, the fair value of these contracts is as follows:

	Expiry date	Nominal value	Currency in thousand	Positive market value in EUR thousand	Negative market value in EUR thousand
Forward buying	19 February 2014	50	USD	0	0
	7 February 2014	348	USD	0	2
	30 May 2014	103	USD	0	1
Forward selling	19 February 2014	70	GBP	0	1
				<b>0</b>	<b>4</b>

A provision for potential losses was recognised for negative market values in the balance sheet under "Other provisions".



### (36) Members of the Supervisory Board

Waltraud Hertreiter  
 Chairperson  
 Consultant  
 Neubeuern

Hans Münch  
 Vice Chairperson  
 Member of the ERWO Holding AG Management Board  
 Managing Director of Südwolle GmbH & Co. KG  
 Neumarkt i.d.Opf.

Bernd Grossmann  
 Chairperson of the Commerzbank AG Nuremberg Branch Management Board  
 Nuremberg

Wolfgang Kammerer\*  
 Vice Chairperson of the Hoftex Group works council  
 Oberkotzau

Wolfgang Schmidt\*  
 Chairperson of the Hoftex Group works council  
 Hof

Martin Steger  
 Self-employed businessman  
 Nuremberg

\* elected by employees

### (37) Members of the Management Board

Klaus Steger  
 Chairperson of the Management Board  
 Nuremberg

Volker Adrion  
 Münchberg

Hof, 31 March 2014

HOFTEX GROUP AG

Management Board

Steger

Adrion

## 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 2013 to 31 December 2013. 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, 24 April 2014

**Deloitte & Touche GmbH**  
 Wirtschaftsprüfungsgesellschaft

Stadter  
 Wirtschaftsprüfer  
 [Public Auditor]

Markert  
 Wirtschaftsprüferin  
 [Public Auditor]

## **HOFTEX GROUP AG, Hof**

### **Balance sheet for the year ending on 31 December 2013**

<b>Assets in EUR thousand</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Fixed assets</b>		
Intangible fixed assets	172	181
Tangible fixed assets	1,620	1,158
Long-term financial assets	95,892	71,442
	<b>97,684</b>	<b>72,781</b>
<b>Current assets</b>		
Accounts receivable and other assets	60,538	77,488
Cash and cash equivalents	21	5,105
	<b>60,559</b>	<b>82,593</b>
<b>Prepaid expenses and deferred income</b>	<b>387</b>	<b>178</b>
<b>Total assets</b>	<b>158,630</b>	<b>155,552</b>

<b>Liabilities and equity in EUR thousand</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Equity</b>		
Subscribed capital	13,920	13,920
Capital reserves	41,158	41,158
Revenue reserves	33,508	33,508
Net retained profits	496	3,572
	<b>89,082</b>	<b>92,158</b>
<b>Shareholder loans</b>	<b>14,000</b>	<b>14,000</b>
<b>Provisions</b>	<b>10,918</b>	<b>11,088</b>
<b>Liabilities</b>		
Liabilities to banks	17,554	22,373
Trade payables	358	152
Liabilities to affiliated companies	26,269	15,293
Other liabilities	449	488
	<b>44,630</b>	<b>38,306</b>
<b>Total equity and liabilities</b>	<b>158,630</b>	<b>155,552</b>

**HOFTEX GROUP AG, Hof**  
**Income statement for the 2013 financial year**

<b>in EUR thousand</b>	<b>2013</b>	<b>2012</b>
Other operating income	2,316	2,108
Personnel expenses	-2,243	-1,771
Depreciation, amortisation and write-downs	-198	-198
Other operating expenses	-1,696	-1,711
Investment income	-1,691	7,274
Interest income	1,604	564
<b>Result from ordinary activities</b>	<b>-1,908</b>	<b>6,266</b>
Taxes on income	-279	-782
Other taxes	-73	-218
<b>Net loss for the financial year (prior year: net income)</b>	<b>-2,260</b>	<b>5,266</b>
Retained profits brought forward	2,756	936
Appropriation to revenue reserves	0	-2,630
<b>Net retained profits</b>	<b>496</b>	<b>3,572</b>

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TEXTILE TECHNOLOGIES

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