

# Corporate Governance Statement

## Corporate Governance Report

### **Statement pursuant to Section 161 AktG on the observance of recommendations concerning the German Corporate Governance Code by Dr. Hönle AG as at 1 December 2015**

The German Corporate Governance Code presents essential statutory regulations governing the management and supervision of German listed companies and includes internationally and nationally recognised standards concerning corporate governance. The German Corporate Governance Code defines three different standards, namely regulations that describe current statutory law as well as recommendations and suggestions of the government commission.

Under currently valid statutory law, corporations are obliged to act in compliance with the legal provisions defined in the German Corporate Governance Code. Companies may deviate from the recommendations but are required to disclose such deviations each year. In accordance with Section 161 AktG [German Stock Corporation Act], the Management Board and the Supervisory Board of German listed companies are required to issue annual statements concerning observance of the recommendations of the government commission. Deviations from the suggestions of the German Corporate Governance Code need not be disclosed.

Even though the Code is - in many cases - mainly directed at large companies, Dr. Hönle AG complies to a large extent with the recommendations of the German Corporate Governance Code. The "Government Commission on the German Corporate Governance Code" reviewed the Code and applied some changes. The company's past, present, and expected future practices deviate from the recommendations of the German Corporate Governance Code as amended on 5 May 2015 with respect to the following points:

#### **Deductibles concerning D&O Insurance Policies for the Supervisory Board**

The German Corporate Governance Code recommends that an adequate deductible be agreed when the company takes out a D&O [Directors and Officers Liability Insurance] insurance policy for the Supervisory Board (section 3.8 (3)). The D&O insurance policy for the Management Board includes a deductible in accordance with the statutory regulation. However, the insurance policy does not provide for a deductible for members of the Supervisory Board. The Management Board and the Supervisory Board continue to be of the opinion that responsible actions are a fundamental duty of all members of corporate bodies; therefore, there is no need for a deductible concerning Supervisory Board members.

### **Duties of the Management Board**

Section 4.1.5 of the German Corporate Governance Code stipulates that the Management Board shall lay down targets for the share of women in the two management levels below the Management Board. In accordance with the specifications of the German "Act on Equal Participation of Women and Men in Executive Positions in the Private Economy and Public Sector" (Gesetz über die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst) dated 24 April 2015, the Management Board of Dr. Höhle AG specified targets for the share of women in the two management levels below the Management Board. The Management Board defined that the minimum share of women in the first management level below the Management Board to be reached by 30 June 2017 shall be 25 %. The figure corresponds to the current share of women in the first management level below the Management Board. In addition, the Management Board defined that the share of women in the second management level below the Management Board shall be at least 0%. Consequently, no deadline has to be defined for achieving the minimum share. The Management Board is of the opinion that personal qualifications and individual ability should be the determining factors for staffing executive positions and not age or gender. However, latest by midnight, 30 June 2017, the Management Board of Dr. Höhle AG will again decide on the targets to be achieved for the share of women in the two upper management levels below Dr. Höhle AG's Management Board.

### **Composition of the Management Board**

The German Corporate Governance Code recommends that the Management Board shall have a chairman or a spokesman (section 4.2.1, sentence 1). At present, the Management Board of Dr. Höhle AG is comprised of two persons. The distribution of business and cooperation within the Management Board is governed, among other things, by the rules of internal procedure concerning the Management Board. Dr. Höhle AG does not have a Management Board chairman or a Management Board spokesman. Both Management Board members have been working together closely and successfully for years under this structure. Dr. Höhle AG does not deem it practical to change the Management Board structure.

### **Structure of Management Remuneration**

The German Corporate Governance Code recommends that Management Board remuneration should include fixed and variable components. In this respect, it must be ensured that the variable remuneration components are principally based on a multi-year assessment (section 4.2.3 para. 2). The Supervisory Board of Dr. Höhle AG does not believe that a multi-year basis of assessment increases the quality of the activity of the Board. The Management Board members of Dr. Höhle AG therefore receive fiscal year-related variable remuneration components that are capped as to their amount.

### **Payments to a Management Board Member in the Event of Premature Termination of Board Activity**

In accordance with German Corporate Governance Code recommendations, when concluding Management Board contracts, care shall be taken to ensure that payments - including fringe benefits - made to a Management Board member upon premature termination of his contract do not exceed the value of two years' remuneration, and compensate for no more than the remaining term of the contract. The severance payment cap shall be calculated on the basis of the total remuneration for the past full financial year and, if appropriate, also the expected total remuneration for the current financial year (severance payment cap, section 4.2.3, para. 4). The Supervisory Board appoints the Dr. Höhle AG Management Board for a maximum term of office of five years. In the event of premature termination of Management Board activity, Management Board contracts provide for continuation of Management Board remuneration up to the end of the contract term. Should a Management Board member leave the company due to a change in the ownership structure (change of control, section 4.2.3., para. 5), the respective Management Board member is entitled to a severance payment in the amount of two annual gross salaries (including performance-based compensation), up to a maximum amount of T€ 400. Calculation of the annual gross salary is based on the average annual gross salaries paid for the past three financial years prior to leaving the company.

Dr. Höhle AG is of the opinion that it would not be expedient to change the calculation base for

determining the severance payment applicable to Management Board members.

### **Disclosure of Management Board Remuneration**

The German Corporate Governance Code recommends that, for financial years starting after 31 December 2013, the benefits granted to each Management Board member shall be disclosed, including the maximum and minimum achievable remuneration components respecting variable remuneration components, as well as the allocation of fixed remuneration, short-term variable remuneration and long-term variable remuneration. Predefined model tables should be used to disclose this information (section 4.2.5, para. 3). Dr. Höhle AG publishes the remuneration paid to its Management Board members in accordance with the applicable provisions. The information is provided separately and broken down by fixed and performance-based remuneration components and pensions. Dr. Höhle AG does not believe that a change in the presentation of Management Board remuneration would improve the presentation's quality and comprehensibility.

### **Duties of the Supervisory Board**

Section 5.1.2 of the German Corporate Governance Code stipulates that the Supervisory Board shall determine targets for the share of women on the Management Board. In accordance with the legal specifications of the German "Act on Equal Participation of Women and Men in Executive Positions in the Private Economy and Public Sector" (Gesetz über die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privat-

wirtschaft und im öffentlichen Dienst) dated 24 April 2015, the Supervisory Board of Dr. Höhle AG specified a target figure for the share of women on the Management Board. The Supervisory Board defined an achievable target figure of at least 0 % for the share of women on Dr. Höhle AG's Management Board. Consequently, no deadline has to be defined for achieving the minimum share. The two Dr. Höhle AG Management Board members, Mr Haimerl and Mr Runge, have successfully managed the group for many years now. At present, it is not planned to expand the Management Board or to appoint new Management Board members. For this reason, no minimum target in excess of 0 % for the share of women on the Management Board is specified for the period up to 30 June 2017. The Supervisory Board will base the selection of Management Board members on the candidates' qualifications and individual competence in the future also. The Supervisory Board believes that decisions respecting the staffing of vacant Management Board positions should be based on suitability considerations alone and not on gender or age. However, latest by midnight, 30 June 2017, the Dr. Höhle AG Supervisory Board will make a new decision on the achievable target figure concerning the composition of the Management Board.

#### **Formation of Supervisory Board Committees**

The German Corporate Governance Code recommends that the Supervisory Board shall form committees with sufficient expertise, in particular an audit committee (section 5.3). At present the Dr. Höhle AG Supervisory Board consists of three members. Decision-making committees must also consist of three members.

In view of the size of the Dr. Höhle AG Supervisory Board, no committees are formed at present.

#### **Composition of the Supervisory Board**

The German Corporate Governance Code issues specific recommendations regarding the composition of the Supervisory Board. In so doing, the Code recommends that age limits shall be specified for members of the Supervisory Board and that a limit respecting the length of tenure shall be stipulated for Supervisory Board members, as well as diversity (section 5.4.1, para. 2). Moreover, the objectives regarding the composition of the Supervisory Board shall be specified and the status of implementation is to be published in the Corporate Governance Report (section 5.4.1, para. 3). The Dr. Höhle AG Supervisory Board consists of three members. Dr. Höhle AG is of the opinion that personal qualifications and individual competence should be the determining factors regarding the composition of the Supervisory Board rather than age or gender or similar aspects. Dr. Höhle AG's Supervisory Board did not specify any fixed limitations respecting age or length of appointment for its members. Dr. Höhle AG regards such a limitation as being an inappropriate limitation of the shareholders' right to elect Supervisory Board members. Consequently, the Supervisory Board has not defined specific targets concerning the composition of the Supervisory Board in terms of the Code. For this reason, Dr. Höhle AG will not publish the objectives of the composition of the Supervisory Board or the status of implementation in the Corporate Governance Report. In accordance with the specifications stipulated in German "Act

on Equal Participation of Women and Men in Executive Positions in the Private Economy and Public Sector" (Gesetz über die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst) dated 24 April 2015, however, the Supervisory Board of Dr. Höhle AG specified a target figure for the share of women on the Supervisory Board. Since Dr. Höhle AG is not subject to the German Co-Determination Act (Mitbestimmungsgesetz), Dr. Höhle AG's Supervisory Board does not have to comprise at least 30 % women and at least 30 % men. The Dr. Höhle AG Supervisory Board defined that the target figure to be achieved for the share of women on the Supervisory Board shall be at least 0 %. Consequently, no deadline has to be defined for achieving the target figure. The present Supervisory Board members of Dr. Höhle AG were re-elected at the Annual General Meeting held in March 2015 for tenure of five years. The Supervisory Board is of the opinion that it is currently not practical and not necessary to expand the Supervisory Board. Consequently, a target figure in excess of 0 % for the share of women on the Supervisory Board is not to be specified for the current tenure of the newly elected Supervisory Board. In the event that a member of the current Supervisory Board should resign from office before the end of tenure, Dr. Höhle AG will propose the most suitable candidate for election to the Supervisory Board. However, latest by midnight, 30 June 2017, the Supervisory Board of Dr. Höhle AG will again decide on the achievable target figure respecting the share of women on the Supervisory Board.

## Accounting

The German Corporate Governance Code recommends that the Management Board shall discuss the half-yearly and quarterly financial reports with the Supervisory Board or its Audit Committee prior to the reports' publication (section 7.1.2, sentence 2). Within the scope of an efficient publishing process, Dr. Höhle AG has already published interim reports in the past without extensive preliminary discussions with the Supervisory Board, and the company intends to continue this practice in the future also. Furthermore, the German Corporate Governance Code recommends that the consolidated financial statements shall be publicly accessible within a period of ninety days after the financial year-end, and the interim report within a period of forty-five days after the financial year-end (section 7.1.2, sentence 4). As in the past, Dr. Höhle AG will, in the future also, publish preliminary figures for the financial year within a period of ninety days. However, in accordance with the Stock Exchange Directive regarding Prime Standard Securities of the Frankfurt Stock Exchange, the Annual Report is published within four months after the end of the reporting period. The half-yearly and quarterly financial reports are published within two months after the end of the reporting year, in accordance with the Stock Exchange Directive on Prime Standard Securities of the Frankfurt Stock Exchange. The shortening of the publication dates would increase administrative expenses to an inappropriate extent. The publication dates will thus remained unchanged until further notice.

### Securities Holdings of Corporate Bodies

The German Corporate Governance Code recommends that disclosures be made concerning ownership of company shares or related financial instruments by Management Board and

Supervisory Board members (section 6.2). Dr. Hönle AG discloses the ownership of the company's shares or related financial instruments as follows:

Securities Holdings as at 30 September 2015	Number of Shares shares	Shares as a percentage of nominal capital	Other financial instruments
<b>Management Board</b>			
Norbert Haimerl	27,000	0.49	0
Heiko Runge	16,100	0.29	0
<b>Supervisory Board</b>			
Günther Henrich	500	0.01	0
Prof. Dr. Karl Hönle	222,000	4.03	0
<b>Total</b>	<b>265,600</b>	<b>4.82</b>	<b>0</b>
<b>Number of shares, total</b>	<b>5,512,930</b>	<b>100.00</b>	<b>0</b>