

hönle group

ANNUAL REPORT 2015/2016



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Cover

Raesch Quarz (Germany) GmbH produces high quality quartz glass tubes, for example for the semiconductor industry
The cover was coated using a UV spot varnish

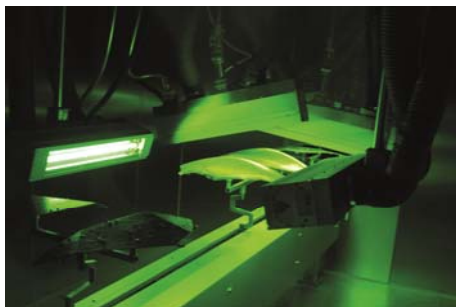
At a Glance Business Segments

Capital Goods



Equipment for the printing industry

About two thirds of printed matter worldwide are produced using the offset printing process. Höhle supplies UV drying systems for this market as well as for the digital inkjet printing segment. UV technology offers excellent printing quality and a significantly improved environmental and energy performance compared to conventional drying processes. Höhle also offers infrared and thermal air drying systems as well as powder sprayers.



Drying of coatings

Höhle develops innovative UV drying systems for painting, coating, and finishing web-shaped substrates and 3D objects. This results in scratch- and impact-resistant end products, such as light-scattering screens for the automotive industry, casings and flat screens used in the IT industry, and also furniture veneers and high-quality packaging for the cosmetics industry.



Equipment for curing adhesives

The Höhle Group has advanced to become a unique global systems supplier for UV bonding technology with its Panacol high-tech adhesives and casting compounds. The product range comprises high-performance UV and innovative LED-UV curing equipment.



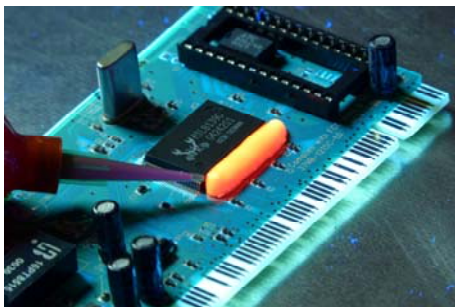
Surface disinfection, sun simulation and lighting technology

UV irradiation is a reliable and environmentally friendly surface disinfection method, which, for example, is used in the food and beverages industry. Artificial sunlight accelerates the products' aging process under laboratory conditions. Lighting systems are developed in the lighting technology segment for TV, trade fairs, research and other purposes.



UV and light curing adhesives

Vitralit® adhesives cure in seconds when exposed to UV light. High production speeds can thus be achieved, such as in mass production. UV adhesives are used in optics, opto-electronics and in many medical products.



Industrial adhesives

In the industrial manufacturing industry, adhesives are presently replacing many conventional bonding techniques, such as soldering and welding. The use of adhesives saves time, materials and/or weight, depending on the respective application. This results in a broad range of applications in the electronics, automotive, and glass and plastics processing industries, as well as in many other areas.



Lamps

UV low-pressure lamps are used in the sterilization of water and air in an environmentally friendly and cost-efficient manner. UV medium-pressure lamps are employed in the drying of inks, paints and coatings and also for other applications.

Since 2013, Hönle has been developing and producing own infrared lamps. Infrared lamps are often used in wide-format printing machines.



Quartz glass

Quartz glass tubing is not only required in the production of our own UV lamps; high-quality quartz glass is also an indispensable component that is employed in the most varied processes by the semiconductor and automotive industries as well as in the treatment of water.

Quartz glass rods are required in the manufacture of fibre cable.

At a Glance Business Development

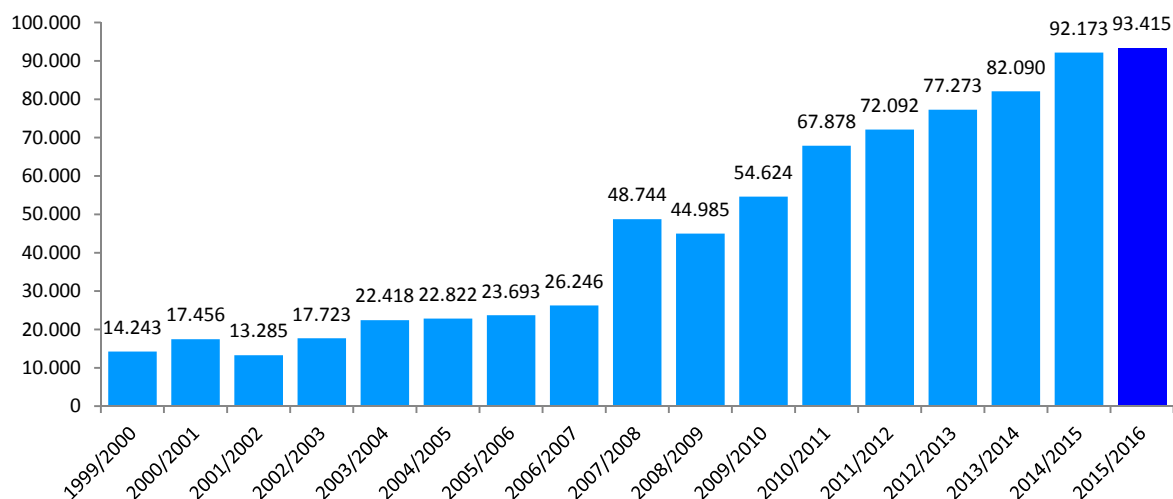
HÖNLE GROUP in T€	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016	Chan- ges
Income Statement											in %
Revenue	26,246	48,744	44,985	54,624	67,878	72,092	77,273	82,090	92,173	93,415	1.3
EBITDA	5,007	6,663	-2,779	6,722	12,751	10,664	10,235	12,034	16,162	15,109	-6.5
Operating result/EBIT	4,339	5,630	-3,938	5,548	11,280	8,309	7,705	9,483	13,524	12,400	-8.3
EBT	4,967	5,908	-4,073	5,342	10,771	8,431	8,637	8,967	14,023	12,050	-14.1
Consolidated net income/loss for the year	3,167	4,569	-4,083	4,806	7,499	6,209	6,712	6,495	10,320	8,290	-19.7
Cash Flow											
Operating cash flow ¹⁾	4,647	4,340	-2,458	5,105	12,601	7,235	9,020	9,201	12,863	13,126	2.0
Balance Sheet ²⁾											
Non-current assets	6,492	16,569	16,747	17,124	18,632	36,462	40,257	42,013	41,524	44,404	6.9
Current assets	28,029	31,945	21,780	27,310	37,119	40,476	39,445	43,582	49,112	49,871	1.5
Shareholders' equity	28,913	31,420	25,624	30,769	39,204	43,830	46,872	49,718	57,514	61,669	7.2
Long-term liabilities	2,199	4,108	4,084	3,705	4,307	15,633	13,558	16,676	15,084	15,130	0.3
Short-term liabilities	3,409	12,986	8,819	9,960	13,240	17,475	19,272	19,201	18,414	17,475	-5.1
Total assets	34,521	48,514	38,527	44,434	55,751	76,938	79,702	85,595	91,012	94,275	3.6
Equity capital ratio as a %	83.8	64.8	66.5	69.4	68.5	57.0	58.8	58.1	63.2	65.4	3.5
Staff											
At the end of the financial year	135	302	253	276	363	473	526	506	545	542	-0.6
Share											
Earnings per share in €	0.55	0.84	-0.80	0.89	1.30	1.08	1.20	1.13	1.84	1.50	-18.4
Dividend in €	0.40	0.25	0.00	0.30	0.50	0.50	0.50	0.50	0.55	0.55 ³⁾	0.0
Number of shares in thousands	5,512.9	5,512.9	5,512.9	5,512.9	5,512.9	5,512.9	5,512.9	5,512.9	5,512.9	5,512.9	0.0
DR. HÖNLE AG (according to HGB) in T€											
Income Statement											
Revenue	22,023	23,949	18,487	25,887	31,917	27,643	27,207	29,579	34,358	36,405	6.0
Operating result/EBIT	3,328	3,335	-717	2,121	5,979	3,929	2,321	3,833	3,747	3,199	-14.6
Result from ordinary activities	4,480	3,557	-496	3,100	7,221	5,459	7,724	6,130	12,403	8,156	-34.2
Net income /loss for the year	2,960	2,526	-484	2,898	5,507	4,334	7,028	5,191	11,300	6,737	-40.4
Earnings per share in €	0.54	0.49	-0.09	0.56	1.04	0.80	1.28	0.94	2.05	1.22	-40.5

1) Cash from current business activities

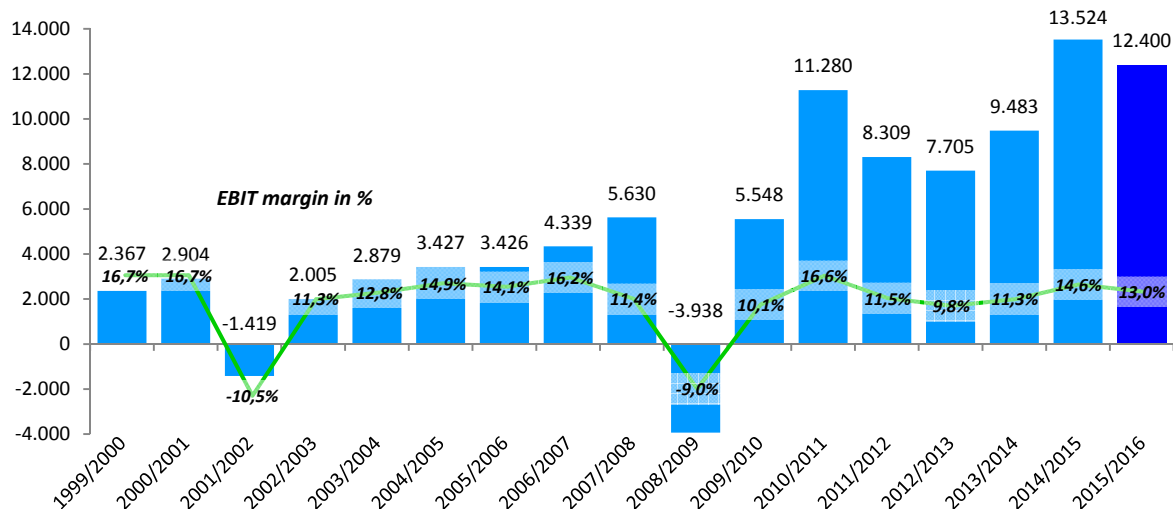
2) As at the end of the respective financial year

3) Management Board and Supervisory Board recommendation

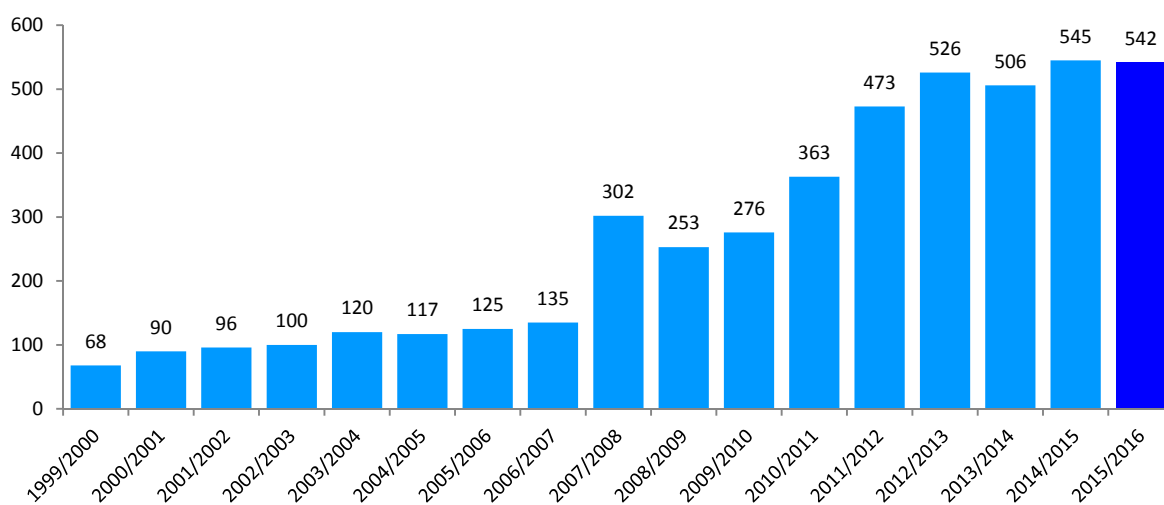
Revenue in T€



Operating result in T€



Staff





Norbert Haimerl and Heiko Runge
Dr. Hönle AG Management Board

**Dear shareholders,
Dear business friends,**

Our main objective in the financial year 2015/2016 was to achieve the turnaround at Raesch Quarz (Germany) GmbH. The company successfully concluded the technical optimization processes required for the quartz glass melting furnaces in the first half of the financial year. As a consequence, starting from the second half, it was possible to use all furnaces for the drawing of high-quality quartz glass products.

This enabled the company to achieve a clearly positive result in the second quarter after the poor half-year result. We have thus reached an important milestone and expect further positive development of business at Raesch Quarz (Germany) GmbH.

In the past financial year we relocated the Eltosch Grafix GmbH production site from Unterlüß near Celle to Dr. Höhle AG in Gräfelfing. Powdering equipment and UV drying systems will be assembled at the Gräfelfing production site in the future. This will lead to more efficient workflow processes and savings effects.

The importance of LED technology for drying processes in the areas of digital printing and sheet offset printing has grown significantly in recent years. We have positioned ourselves well in this technology sector in recent years as attested by rising revenue and new customer relationships.

Investments in new production facilities and employees led to a reduction in our dependency on suppliers and the assured high quality of our LED systems in the past financial year.

In the first half of our financial year, revenue and earnings in the Adhesives segment were significantly below the level of the previous year, due mainly to the decreases in revenue earned with our customers in the smartphones segment. This was a significant factor that led us to revise our original revenue and earnings forecast for the 2015/2016 financial year. The results in the Adhesives segment were satisfactory in the second half of the year and revenues earned with smartphones as well as with established and new customers in other areas of application picked up considerably.

What are our expectations and objectives for the year 2017?

The outlook for the further economic development of the global economy has become somewhat clouded. Great Britain's decision to exit from the EU is impacting on the global economic perspectives. The upcoming separation process is associated with political and economic uncertainties. The International Monetary Fund (IMF) has lowered its forecasts for global economic growth slightly to 3.7 % for 2017. Nevertheless, we view the prospects for the Höhle Group with optimism. In the Adhesives, Glass & Lamps segments, in particular, we expect positive development of business for the 2016/2017 financial year.

In addition to economic developments, the positive effects of technological and organizational optimization processes implemented at Raesch Quarz (Germany) GmbH will be crucial for improving the operating result. Following the negative result in the 2015/2016 financial year, we are looking forward to good growth opportunities and a clearly positive result at this company for the coming financial year.

We also expect positive revenue and earnings development in the Adhesives segment.

The expansion of the dealer network as well as current projects in the areas of consumer electronics and medical technology will contribute to this.


The Höhle Group is taking on a leading role in the area of LED drying technology for digital and sheet offset printing. For the 2016/2017 financial year we are assuming rising sales in this business segment. Moreover, the Höhle Group will probably profit from a slight recovery of the market for printing equipment for the packaging industry. Furthermore the relocation of our production site from Unterlüß near Celle to Dr. Höhle AG in Gräfelfing will yield savings effects.

40 Years Höhle

We have been active as a reliable partner of industry for forty years now. From the initial enquiry through to conception and realisation to the provision of services, always keeping our eyes and ears open in order to recognize any market changes at an early stage and take advantage of promising opportunities. This has made us strong and is a key factor for our success.

We have made it our aim to offer our customers forward-looking products and a first-class service – and this is what more than 500 employees in Germany and abroad are working for.

We thank you for the trust you have placed in us and would be very happy if you continued to accompany us in the future as well.



Norbert Haimerl
Management Board



Heiko Runge
Management Board



Equipment & Systems Segment

We manufacture key components ourselves –
Control units and electronic power supplies are developed and produced in-house

Report of the Supervisory Board



Prof. Dr. Karl Höhle
Chairman of the Supervisory Board

Dear shareholders,

The Hönle Group posted revenue of € 93.4 million and an operating result of € 12.4 million in the past financial year. While some markets developed somewhat weaker in comparison with our initial expectations, signs are now again pointing to growth, and we are expecting rising revenues and earnings in the new financial year. In order to maintain and expand our market position we will invest in new machines and equipment such as a turning lathe for large-format quartz tubes which will open up new markets in the semi-conductor industry, or a manufacturing plant for UV lamps to service the growing market of ballast water disinfection.

I would like to give you an overview of the Supervisory Board activities during the 2015/2016 financial year.

Supervision and Advisory Services for the Management Board

In the last financial year, we performed the duties delegated to us by law and the company's statutes and supervised and advised the Management Board. The Management Board and the Supervisory Board cooperated in an open atmosphere, characterized by mutual trust. We were involved in all decisions of fundamental importance. This related, amongst other things, to investments in a conveyor system for UV LEDs and a coating plant for cold light reflectors.

In preparation for the meetings, the Management Board provided us with current and in-depth information about the course of business. We also received ad-hoc information, either orally or in writing about any extraordinary occurrences.

The Management Board and the Supervisory Board held five meetings in the reporting year which were attended by all members. We examined in detail the business development, net assets and financial position, corporate planning and the company's risk management system on the basis of detailed reports provided by the Management Board. To the extent required by law, the company's statutes or internal regulations, we gave our approved for the motions issued by the Management Board following extensive discussions.

We were able to convince ourselves of the legality and appropriateness of the Management Board's activities.

Focal Points of the Consultations

In the meeting held on 25 November 2015, the Management Board discussed the provisional figures of the Hönle Group and those of the Hönle Group companies as at 30 September 2015. The 12 % increase in revenue in the financial year 2014/2015 was due to the positive development of business in the Equipment & Systems and Adhesives segments whereas the increase in the operating result by approx. 40 % was largely the consequence of the positive business development of Panacol Elosol GmbH, Eltosch Grafix GmbH and Mitronic GmbH. In addition, the result achieved by Raesch Quarz (Germany) GmbH improved as planned from € -2.2 million to € -1.1 million.

According to the Board of Management, the audit of the individual financial statements by the appointed auditors did not lead to any major findings.

After having presented the business figures for the 2014/2015 financial year, the Management Board reported on the corporate planning of the individual Hönle Group companies and the Hönle Group and, in this context, also discussed the investments planned for the new financial year. We approved the purchase of a new coating plant for reflectors since the existing plant operated at the limit of its capacity.

The object of the Supervisory Board meeting on 27 January 2016 was to discuss the audited annual financial statements of Dr. Hönle AG and the consolidated financial statements as at 30 September 2015. The auditors of Dr. Hönle AG also attended this meeting and reported about the profitability of the company, the subsidiaries and the equity investments and, in particular, about the return on equity capital pursuant to Section 90 (1) Item 2 AktG. Following a detailed discussion on the annual financial statements with the annual auditor and the Management Board, we approved the financial statements.

Within the scope of this meeting we also established the agenda for the annual general meeting on 16 March 2016 including the resolution proposals. The Management Board and the Supervisory Board decided to propose to the annual general meeting that a dividend of € 0.55 per dividend-bearing share be paid out to the shareholders from the retained earnings of Dr. Hönle AG in the amount of € 26,340,042.26 for the 2014/2015 financial year.

The Management Board then elaborated on the current business situation of Dr. Hönle AG and its subsidiaries.

On 15 March 2016, the Management Board and the Supervisory Board held another meeting and discussed the course of business and earnings situation of the individual companies and the group in the first quarter of 2015/2016. In this meeting, the Management Board stressed the business development of Raesch Quarz (Germany) GmbH and reported that the company was well positioned to produce high-value quartz glass products with a low scrap rate level for the semi-conductor industry. At Panacol GmbH the weak demand in the smartphone industry led to lower revenue and earnings

contributions. The Management Board then gave an outlook for the first six months of the year. It is expected that consolidated revenue will probably be at the previous year's level while the half-year result is likely to be below the level reached in the previous year.

The business situation in the first half of the year was discussed in detail at the Supervisory Board meeting held on 24 May 2016. The half-year result was 10 % below the previous year's value. The Management Board explained and specified the reasons for major plan deviations such as the fact that several trade fair events and the gradual relocation of the Unterlüß production site to Dr. Höhle AG in Gräfelfing led to a temporary increase in expenses. Management then provided an outlook for the second half of the year. The meeting also dealt with the planned investment project concerning a resize turning lathe for quartz glass tubes for the semi-conductor market.

On 27 July 2016 we held the last meeting for the 2015/2016 financial year. In this meeting, the Management Board reported on the projected third-quarter income statements of the individual companies of the group, informed about the decline in earnings in the Adhesives segment and explained the reasons for this development. Management also highlighted the positive earnings contributed by Raesch Quarz (Germany) GmbH after several quarters with negative earnings contributions. The company succeeded in achieving the turnaround in the third quarter and generated a positive quarterly result and, according to current forecasts, PrintConcept GmbH will achieve the best result in its entire corporate history. In all, however, the consolidated result will probably be below the previous year's value due to the weaker first six months of the year.

Corporate Governance

The Government Commission, German Corporate Governance Code, published the Code for Good Corporate Governance in the unchanged version dated 5 May 2015. The Code thus has remained unchanged in comparison with the previous year. The Supervisory Board coordinated the implementation of the recommendations and suggestions stipulated in the Code with the Management Board and issued a joint declaration pursuant to Section 161 AktG. The declaration was included in the Annual Report and was made available to the shareholders in the internet permanently. The Dr. Höhle AG Management Board is comprised of two members and the Supervisory Board has three members. No changes have occurred in the staffing of the Management Board and the Supervisory Board.

Annual Financial Statements and Consolidated Financial Statements

The annual general meeting held on 16 March 2016 elected S&P GmbH Wirtschaftsprüfungsgesellschaft, Munich, as annual auditor for the 2015/2016 financial year.

S&P GmbH Wirtschaftsprüfungsgesellschaft audited Dr. Höhle AG's annual financial statements, the consolidated financial statements and the group management report, which is combined with Dr.

Hoenle AG's management report for the financial year from 1 October 2015 to 30 September 2016 and issued an unqualified audit opinion in each case.

In the Supervisory Board meeting held on 25 January 2017, the annual auditor elaborated in detail on the audit report. The auditor reported about the key findings of its audit of the annual financial statements and the consolidated financial statements as well as about the combined management report/group management report of Dr. Hönle AG and provided supplementary information concerning the past financial year. In doing so, the auditor elaborated, in particular, on the net assets, financial position and results of operations of the stock corporation and the group.

The Management Board and the Supervisory Board decided to propose to the Annual General Meeting on March 28, 2017 that the retained earnings of Dr. Hönle AG be used for the pay-out of a dividend of € 0.55 per dividend-bearing share and that the remaining amount be carried forward to the new accounting period.

The Supervisory Board approved the findings of the annual audit. Furthermore, we examined the annual financial statements, the consolidated financial statements and the combined group management report. No grounds for objections were found. Subsequently, the Supervisory Board approved the financial statements. The annual financial statements were thus adopted.

On behalf of the Supervisory Board, I would like to thank the members of the Management Board, the employees of Dr. Hönle AG and all subsidiaries for their great commitment and good cooperation in the 2015/2016 financial year.

A handwritten signature in black ink, appearing to read 'K. Hönle', written in a cursive style.

Prof. Dr. Karl Hönle
Chairman of the Supervisory Board



Adhesives Segment

Panacol-Elosol GmbH develops and produces customised industrial adhesives – from UV adhesives to structural adhesives to silicones

The share

Positive development of the stock price

Starting from € 23.15 at the beginning of last financial year the price of the Hönle share climbed to € 25.50. In December 2015, the stock price then climbed to the all-time high of € 28.49. While the overall market, represented by the Technology All Share Index, gained 3.5 % in the past financial year, the Hönle share grew by 10.2 %.

The average revenue per share and trading day was T€ 153. In the full financial year, shares with a value of € 38.8 million (PY: € 50.8 million) were sold. At the end of the financial year, the market value of the Hönle Group amounted to € 140.6 million.

Dividend policy

Dr. Hönle AG has allowed its shareholders to participate in its successful business development for many years and would like to give its shareholders an appropriate share of the profits in the future as well. The amount of the dividend depends significantly on the company's result and must be in conformity with planned investment projects and the aim of providing a solid financial basis. For the past financial year, the Board of Management and the Supervisory Board of Dr. Hönle AG will propose a dividend

payment of € 0.55 per share for the past financial year to the Annual General Meeting to be held on March 28, 2017.

Analyses

M.M. Warburg analyses the share of Dr. Hönle AG on an ongoing basis. The credit institution has repeatedly issued "buy" recommendations. In addition, financial journals reported several times about Dr. Hönle AG. The Hönle share is one of the stock market favourites for the German Association for the Protection of Capital Investors.

Shareholder structure

As of 30 September 2016, 4.8 % of the shares were held by the Supervisory Board and the Board of Management. Dr. Hönle AG holds 0.02 % of its own shares.

The company had knowledge of the following shareholders with holdings above the reporting limit of 3 %:

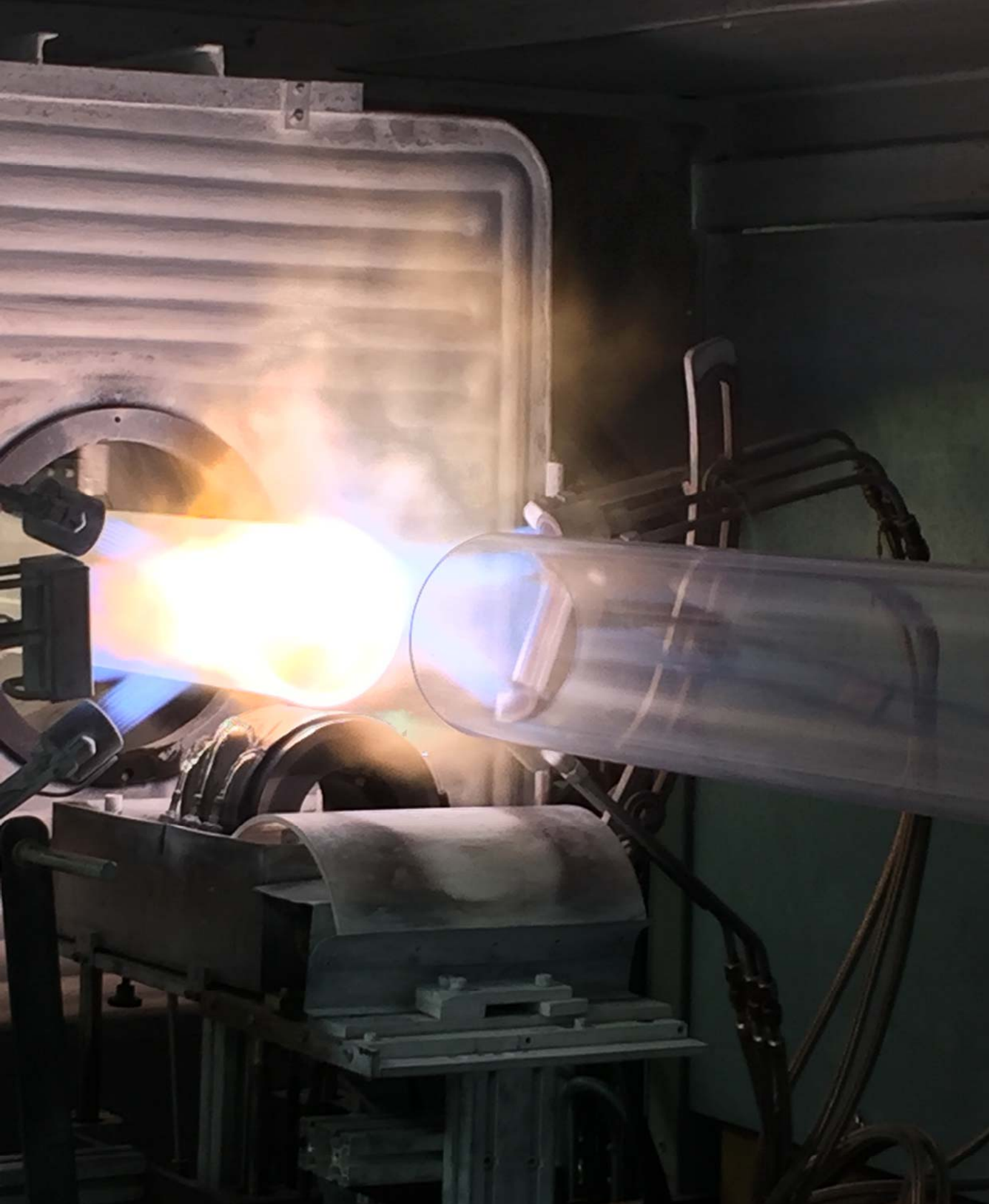
Monolith Duitsland B.V.: 8.3 %

Dr. Hans-Joachim Vits: 6.6 %

Loys AG: 6.6 %

Prof. Dr. Karl Hönle: 4.0 %

Taaleri Plc: 3.5 %

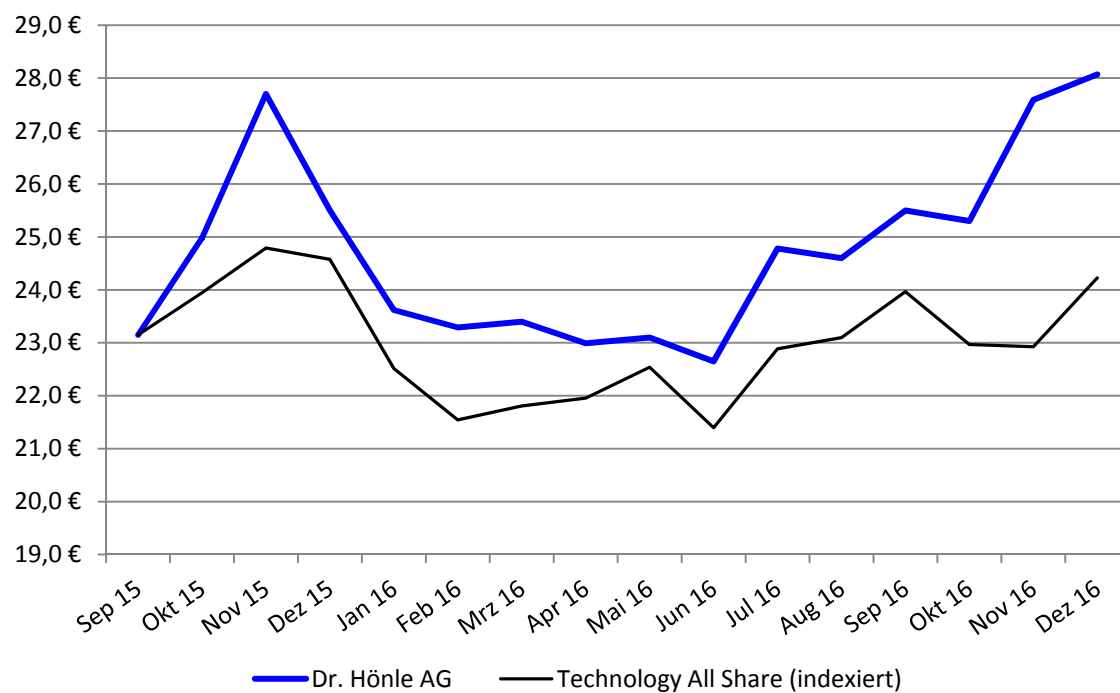


Glass & Lamps Segment

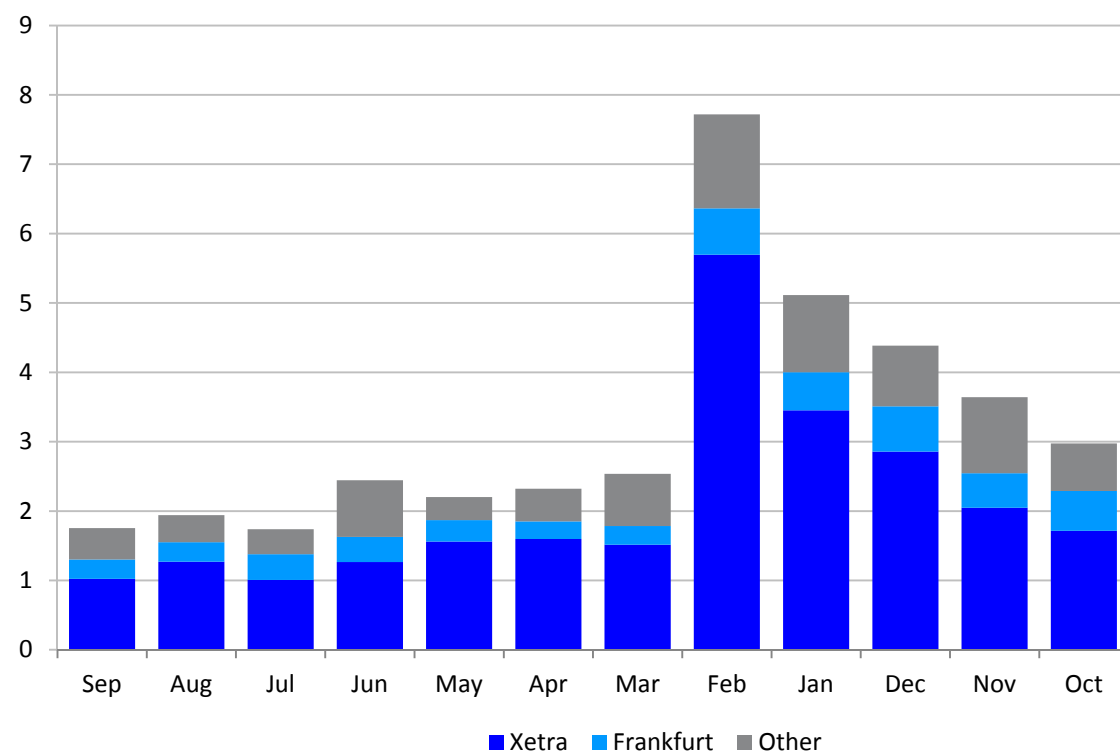
Quartz Glass – Made in Germany

Raesch Quarz (Germany) GmbH produces high quality quartz glass tubes, for example for the semiconductor industry

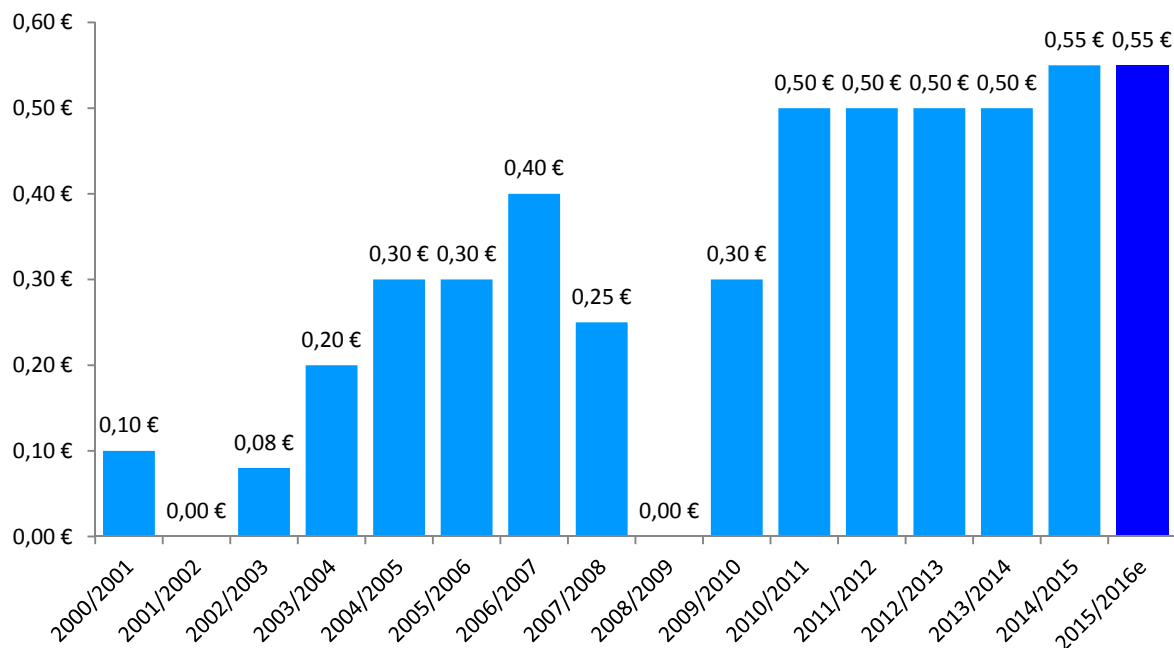
Development of the Hönle stock price



Hönle stock trading volume in € million



Dividend development



Annual Meeting of the Shareholders

The Annual General Meeting of Dr. Hönle AG on 16 March 2016 in Munich was attended by nearly 250 participants. The shareholders approved all agenda items with a large majority. The voting results can be viewed in the Internet. The next annual meeting of the shareholders will be held on March 28, 2017 in Munich.

Investor Relations

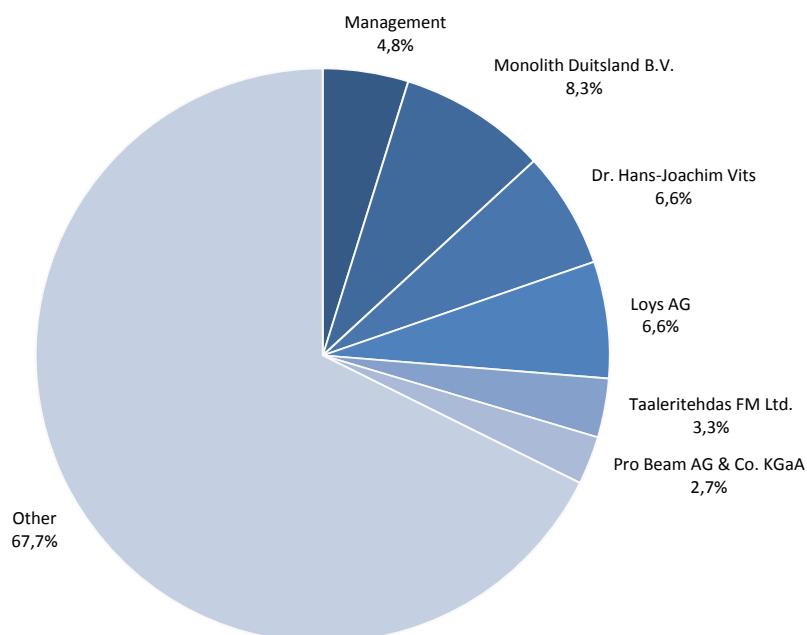
In the past financial year, Dr. Hönle AG was represented at several roadshows and conferences and engaged in intensive dialogue with the financial market. The Board of Management and Investor Relations Managers were also involved in individual discussions with institutional and private investors as well as with

representatives of the financial press. The focus of the investor discussions in the last financial year was on the general market and business development as well as, in particular, on the business development of Raesch Quarz (Germany) GmbH and the Panacol Group. All company reports and ad-hoc notices, the financial calendar and all information on the share are provided on the company's homepage.

Contact:

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Internet: www.hoenle.de/ir-welcome

Shareholder structure on 30 September 2016



Data on the Hönle share

Price at the Beginning of the Financial Year in € (Xetra)	23.15
Price at the End of the Financial Year in € (Xetra)	25.50
Peak Price (Xetra)	€ 28.49 in December 2015
Lowest Price (Xetra)	€ 19.30 in February 2016
Trading Volume in Shares	1,628,336 (PY: 2,508,886)
Trading Volume in €	38,774,494 (PY: 50,796,328)
Number of Shares as of 30/09/2016	5,512,930
Market Capitalisation as of 30/09/2016 in € million	140.6
Earnings per Share in €	1.50
Dividend per share in € ¹	0.55
Securities Identification Number	515710
ISIN	DE0005157101
Stock Exchange Symbol	HNL
Transparency Level	Prime Standard German Stock Exchange
Index Affiliation:	
Technology All Share	DE0008468943
Prime All Share	DE0007203325
DAXsubsector Advanced Industrial Equipment	DE0007203895
DAXsubsector All Advanced Industrial Equipment	DE000A0SM817
DAXsector Industrial	DE0009660282
DAXsector All Industrial	DE000A0SM7R8
CDAX	DE0008469602

¹ Management Board and Supervisory Board proposal for the 2015/2016 financial year



Glass & Lamps Segment

UV-Technik Speziallampen GmbH offers a huge assortment of tailor-made infrared-emitters, which apply for industrial heating processes

Combined Management Report / Group Management Report of Dr. Hönle AG

for the 2015/2016 Financial Year

Business Operations and General Conditions

Business Purpose and Structure of the Group

Dr. Hönle AG is a listed technology company with head office in Gräfelfing, near Munich. The Hönle Group is split into the following three business segments: Equipment & Systems, Glass & Lamps and Adhesives. The equipment and systems are used for drying inks and coatings, for curing adhesives and plastics, for disinfecting surfaces and for sunlight simulation.

The Glass & Lamps segment comprises quartz glass tubing and rods for the lamp, automotive, semiconductor and fibre cable industries as well as lamps for water sterilization and the drying of coatings and adhesives. The Adhesives segment encompasses industrial adhesives for a broad range of applications, inter alia, in the electronics, medical technology, optics and automotive segments. Dr. Hönle AG held participating interests in the following companies as at 30 September 2016:

Name (in alphabetical sequence)	Head Office
Segment: Equipment & Systems	
Eltosch Grafix America Inc.	Batavia/Chicago, USA
Eltosch Grafix GmbH	Pinneberg, Germany
Hönle US Real Estate LLC	Torrington/Connecticut, USA
Hönle UV France SARL	Bron/Lyon, France
PrintConcept UV-Systeme GmbH	Kohlberg, Germany
PrintDesign Engineering GmbH ^{1, 2}	Kohlberg, Germany
Solitec GmbH ²	Gräfelfing/Munich, Germany
Tecinvent GmbH ^{1, 2}	Schömbach, Germany
Segment: Glass & Lamps	
Aladin GmbH	Gräfelfing/Munich, Germany
Raesch Quarz (Germany) GmbH	Langewiesen, Germany
Raesch Quarz (Malta) Ltd.	Mosta, Malta
UV-Technik Speziallampen GmbH	Wümbach, Germany
Segment: Adhesives	
Agita Holding AG	Regensdorf/Zurich, Switzerland
Eleco Produits EFD SAS	Gennevilliers/Paris, France
Hönle UV Technology Shanghai Ltd.	Shanghai, China
Metamorphic Materials Inc. ^{1, 2}	Winsted/Connecticut, USA
Panacol AG	Regensdorf/Zurich, Switzerland
Panacol-Elosol GmbH	Steinbach/Taunus, Germany
Tangent Industries, Inc.	Torrington/Connecticut, USA
SKC-Panacol Co., Ltd.	Suwon-si, South Korea

¹ Minority shareholding; ² Not consolidated

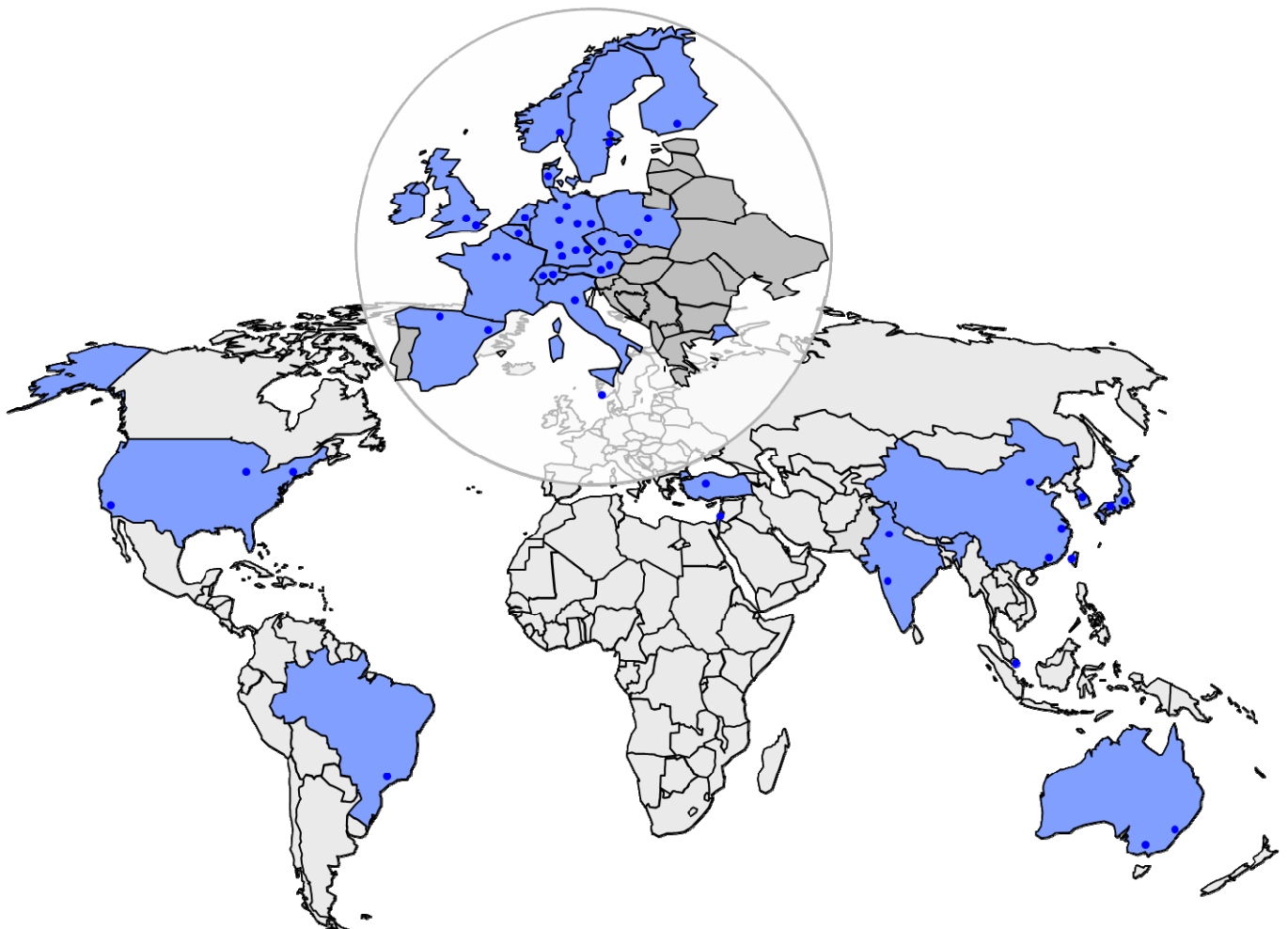
Worldwide Locations

The Hönle Group is represented in 28 countries with its own companies or partner companies.

Abroad, Hönle has its own sites in those countries that are of key importance to its

operative business. Hönle is represented with its own production sites in Germany, France, Malta and in the USA. In addition, the company has established a network of cooperating partners.

Hönle Group Locations



Management System

The goal of entrepreneurial activity is to achieve sustained growth of corporate value. With this objective in mind, the Hönle Group also wants to fulfil its social responsibility vis à vis employees, customers, suppliers and investors. Hönle aims at stabilising and expanding its market position in its core business segments and focuses, in particular, on customer-specific systems solutions. As a company, we see ourselves as a partner of industry.

The group's internal management system consists mainly of regular Management Board meetings, a monthly analysis of business developments, strategic corporate planning, the planning of investments, personnel and acquisition as well as risk and opportunities manage-

ment and regular reporting to the Supervisory Board.

The operational objective of Hönle's management is to increase the company's revenues and earnings on a sustained basis while taking into account social responsibility. The operative margins, in particular the EBIT margin, serve as important financial indicators in this context.

Therefore, Hönle continually monitors the development of revenues and expense ratios and compares these with internal planning.

Great emphasis is also placed on increasing the Hönle Group's operational cash flow.

The major control parameters in the past financial year and the respective changes versus the previous year are presented in the following table:

Earnings Development

in T€	2015/2016	2014/2015	Change
Revenue	93,415	92,173	1.3 %
EBIT	12,400	13,524	-8.3 %
EBIT margin	12.9 %	14.6 %	-11.6 %
Consolidated net income/loss for the year	8,290	10,320	-19.7 %

This management report provides more detailed information on individual control parameters, in particular in the sections: Course of Business, Results of Operations, Financial Position and

Outlook. It also informs about the measures planned for the further development of the control parameters.

Economic Report

Market Development

After disappointing economic data had been published several times, the International Monetary Fund (IMF) lowered its global growth forecast for 2016 for the second time. Following economic growth of 3.1 % in 2015, the IMF now forecasts a growth rate of 3.1 % for 2016 also. Great Britain's decision to exit the EU led to a deterioration in global economic prospects. The fact that the general economic conditions have stabilised in the two largest economies, the U.S. and China, is assessed as positive, however. It appears as though the economic downturn has also bottomed out in many emerging markets. The emerging markets are the ones that benefited, in particular, from the recovery of raw material prices.

Annual General Meeting

The Annual General Meeting of Dr. Höhle AG was held on 16 March 2016. About 250 participants followed the company's invitation and met at the Munich-based conference centre to listen to the Management Board's comments and explanations, ask questions and vote on a total of four agenda items, which were passed with a large majority. Among other things, the Annual General Meeting decided to pay out a dividend of € 3,031,519.70, which corresponds to a dividend of € 0.55 (PY: € 0.50) per dividend-bearing share.

Course of Business

In the course of the initial consolidation of Tangent Industries Inc. for the entire year, the Höhle Group's sales revenues increased by 1.3 % to T€ 93,415 in financial year 2015/2016. At T€ 12,400, the operating result (EBIT) was below the previous year's value of T€ 13,524. The change in the product mix accompanied by lower adhesives sales, expenses of about T€ 300 incurred in connection with the DRUPA trade fair, off-period personnel expenses in the amount of T€ 211 and start-up losses of T€ 301 reported by the newly founded SKC-Panacol Co., Ltd. in South Korea impacted negatively on the operating result in financial year 2015/2016.

Equipment & Systems Segment

Sales revenues generated by the Equipment & Systems segment rose from T€ 50,999 in the previous year to T€ 52,543 in financial year 2015/2016. The rise in sales revenues was already posted in the first six months of the 2015/2016 financial year. Dr. Höhle AG and Eltosch Grafex GmbH, in particular, contributed to this increase due to the favourable revenues earned from business with the printing industry. Newly established customer relationships with major printing machine manufacturers impacted positively on sales development. PrintConcept UV-Systeme GmbH and Eltosch Grafex America Inc. sold more drying equipment to the printing industry than in the previous year and thus also contributed to the positive development in the Equipment & Systems segment. Incoming orders decreased in the second half of the year in the context of DRUPA, the world's largest trade fair for print media and this led to temporarily

weaker sales. Positive sales effects from the DRUPA trade fair are expected to materialise in the subsequent quarters.

From a technological viewpoint it is clearly evident that LED drying equipment will also increasingly find its way into the printing industry. For this reason, Dr. Hönle AG invested in this technology, set up a new production line for UV-LED modules and increased the staff level in both the development and production of UV-LED systems.

The subsidiary, Mitronic GmbH, Gräfelting, was merged with the parent company, Dr. Hönle AG, in the second quarter of the 2015/2016 financial year. The merger took place with retrospective effect as of 1 October 2015.

Expenses incurred in connection with the DRUPA trade fair as well as off-period personnel expenses in financial year 2015/2016 impacted adversely on the operating result of the Equipment & Systems segment, which dropped from T€ 7,535 in the previous year to T€ 6,530 in the financial year under review. In addition, the previous year saw non-recurring special income from the sale of brand rights and receivables already written off in the total amount of T€ 553.

Glass & Lamps Segment

Sales revenues generated by the Glass & Lamps segment in financial year 2015/2016 amounted to T€ 17,662 and were almost on par with the previous year's figure of T€ 17,395.

Initially, at the beginning of the financial year, sales revenues were below the previous year's figure. This was mainly attributable to the postponed start of production of quartz glass melting furnaces at Raesch Quarz (Germany)

GmbH, which manufactures tubes for the semiconductor industry. It was not possible to realise sales revenues as initially planned since the melting furnaces came on stream only at the end of the second quarter and not, as originally planned, at the end of the first quarter of the 2015/2016 financial year.

Raesch Quarz (Germany) GmbH has successfully implemented the technical optimisation processes respecting quartz glass melting furnaces at the end of the first six months of the 2015/2016 financial year. As a result, the company succeeded in contributing positively to earnings in the second half of the year and ushered in a turnaround. It is encouraging that, as of the end of the financial year, orders on hand at Raesch Quarz (Germany) GmbH are also clearly higher than in the previous year.

The Ballast Water Convention was ratified on 8 September 2016. The required majority for the enactment of the international Convention was achieved when Finland deposited its instrument of ratification. The Convention provides for the ballast water management of ships and vessels, particularly container vessels. UV treatment is an environmentally friendly alternative to chemical disinfection. It is expected that UV-Technik Speziallampen GmbH and Aladin GmbH therefore will, in particular, benefit from the Convention.

The operating result achieved by the Glass & Lamps segment rose from T€ 76 in the previous year to T€ 900 in the reporting year, mainly as a consequence of the improved business performance concerning Raesch Quarz (Germany) GmbH in financial year 2015/2016.

Adhesives Segment

The Hönle Group generated sales revenues of T€ 23,210 in the Adhesives segment, compared to T€ 23,780 in the previous year. The sales revenues thus remained almost unchanged from the previous year's figure. They include the initial full-year consolidation of Tangent Industries, Inc., which earned sales revenues of T€ 2,101 in the 2015/2016 financial year.

Contrary to expectations, sales revenues generated with customers in the area of smartphones in the first half of the year were down from the previous year's figure. This was attributable to temporarily weaker sales earned with a major customer in the field of consumer electronics. In the second half of the year, this business area recovered significantly and revenues were almost on par with the previous year's level.

The year as a whole saw the implementation of important objectives such as the expansion of new customer business and higher sales in the automotive sector.

The Hönle Group, together with South-Korean SKC Co. Ltd. , established a company for the sale of adhesives at the end of the last financial year. SKC Co. Ltd. is a company of the SK Group, one of the largest conglomerates in South Korea. SKC-Panacol Co., Ltd. started operations according to plan. Several interesting projects with companies from the electronics industry, amongst other things, were in an advanced development stage at the end of the financial

year. Against the background of significantly reduced start-up losses we expect the first notable sales revenues in the current financial year.

The operating result generated in the Adhesives segment fell from T€ 5,913 in the previous year to T€ 4,971 in financial year 2015/2016. Sales and earnings at Panacol-Elosol GmbH, in particular, were below the previous year's level due to a temporary weakness in demand for consumer electronics. In addition, start-up losses of T€ 301 at the newly founded SKC-Panacol Co., Ltd. in South Korea impacted negatively on the operating result

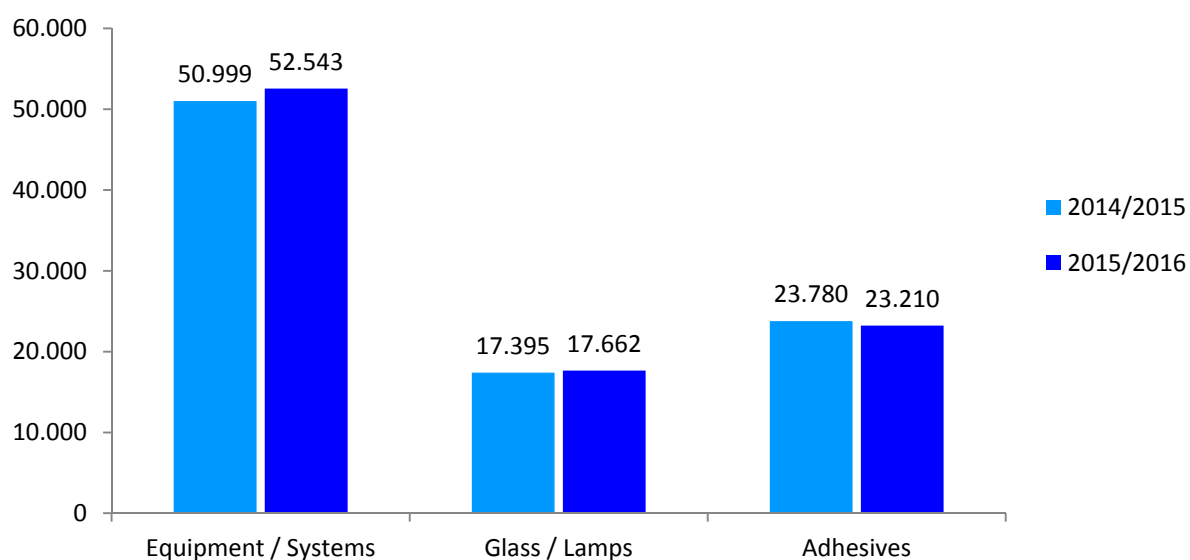
Business Development by Region

Sales revenues generated in Germany were up 7.5 % to T€ 34,771. Hönle thus achieved 37.2 % of its total sales in Germany. Revenues generated in Europe edged up from T€ 22,368 in the previous year to T€ 22,803, which corresponds to a 24.4 % share in total sales. As a result of weaker sales concerning consumer electronics, sales revenues generated in the Asian economic area dropped by 16.9 % to T€ 20,388, which corresponds to a proportion of 21.8 % in total sales. Sales revenues climbed by 34.1 % to T€ 11,742 in North America due to the initial full-year consolidation of Tangent Industries, Inc. and higher sales revenues from business with the American printing industry. Sales revenues generated in the rest of the world contracted by 11.1 % to T€ 3,711.

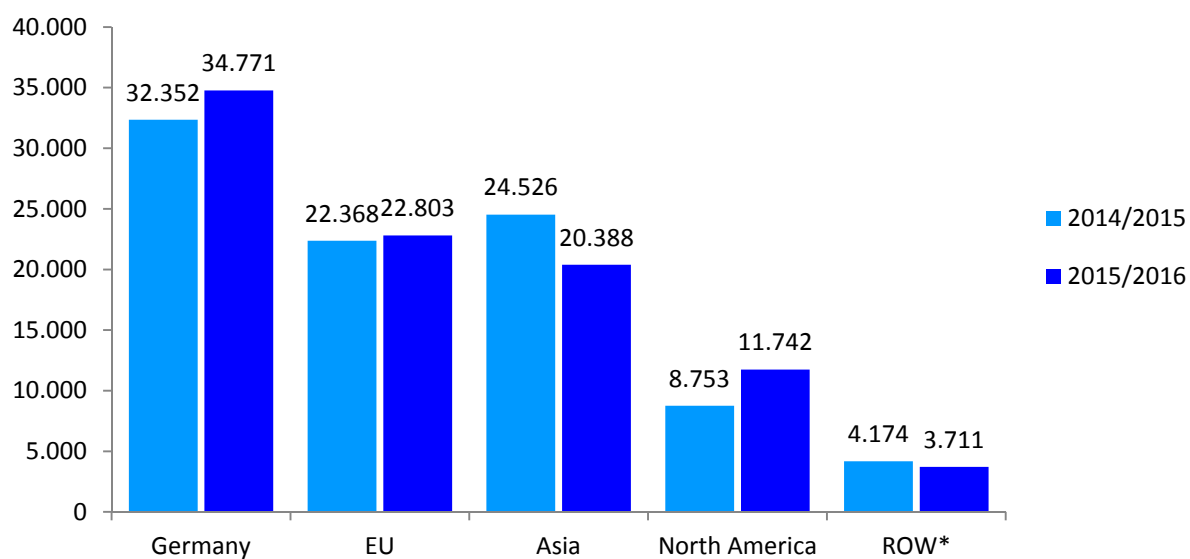
The Hönle Group's Earnings Development

in T€	2015/2016	2014/2015	Change
Sales revenue	93,415	92,173	1.3 %
Gross profit	60,865	60,673	0.3 %
Operating result (EBIT)	12,400	13,524	-8.3 %
EBIT margin	12.9 %	14.6 %	-11.6 %
Earnings before taxes (EBIT)	12,050	14,023	-14.1 %
Consolidated net income/loss for the year	8,290	10,320	-19.7 %
Earnings per share in €	1.50	1.84	-18.4 %

Sales by segment (in T€)



Sales by region (in T€)



*) Rest of the world

The Hönle Group's Results of

Operations

The Hönle Group sales revenues rose from T€ 92,173 in the previous year to T€ 93,415 in financial year 2015/2016.

At T€ 1,012, other operating income was down from the previous year's level of T€ 1,673. It should be noted in this context, however, that the Hönle Group generated special income of T€ 553 from the sale of brand rights and received funds from receivables already written off in the previous year.

Expenses of approx. T€ 300 were incurred in connection with the DRUPA trade fair. Moreover, off-period personnel expenses of T€ 211 incurred at Dr. Hönle AG and start-up losses of T€ 301 reported by the newly founded SKC-Panacol Co., Ltd. in South Korea impacted negatively on the operating result.

Cost of materials amounted to T€ 35,972 (PY: T€ 33,527), which corresponds to a ratio of 37.5 % (PY: 36.2 %). The higher cost of materials ratio is due, among other things, to the changed product mix coupled with a smaller proportion of sales revenues in total sales. The personnel expense ratio rose from 31.8 % to 32.4 %. The other operating expenses ratio decreased from 16.3 % in the previous year to 15.4 % in the financial year under review.

The Hönle Group's operating result (EBIT) dropped by 8.3 % to T€ 12,400.

In financial year 2014/2015, the Hönle Group generated financial income of T€ 1,094 mainly from the purchase of the outstanding minority shares of 20 % in Raesch (Quarz) Malta Ltd. At T€ -350, the financial result in the reporting year is thus below the previous year's figure of T€ 499.

After deducting income taxes of T€ 3,760 (PY: T€ 3,703), the consolidated net income comes to T€ 8,290 (PY: T€ 10,320) which translates into earnings per share of € 1.50 (PY: € 1.84).

The EBIT margin thus stood at 12.9 % in the reporting year after 14.6 % in the previous year. Net profit on sales decreased from 11.2 % in the previous year to 8.9 % in financial year 2015/2016.

The Hönle Group's Financial Position

The operating cash flow improved from T€ 12,863 in the previous year to T€ 13,126 in financial year 2015/2016, despite an increase in inventories. The cash flow from operating activities decreased from T€ 9,159 to T€ 8,356 year-on-year after payment of interest in the amount of T€ 278 and income taxes of T€ 4,492.

In financial year 2015/2016, the cash flow from investing activities mainly comprises expenses incurred for technical equipment and business equipment, particularly at Raesch Quarz (Germany) GmbH and Dr. Hönle AG. At T€ 4,551,

investments were up from the previous year's figure of T€ 2,478.

The cash flow from financing activities in the amount of T€ -4,721 (PY: T€ -5,075) is mainly attributable to the repayment of loans in the amount T€ 2,841 and a dividend distribution of T€ 3,032.

In all, liquid assets declined by T€ 940 to T€ 6,516 in the reporting year. With a capital ratio of 65.4 % (PY: 63.2 %), sufficient liquid assets and short-term liabilities to banks in the amount of T€ 2,996, the Hönle Group has a solid financial footing.

Liquidity Development

in T€	2015/2016	2014/2015	Change
Cash from current activities	13,126	12,863	2.0 %
Cash flow from operating activities	8,356	9,159	-8.8 %
Cash flow from investing activity	-4,551	-2,478	-83.7 %
Cash flow from financing activities	-4,721	-5,075	7.0 %
Change in liquid assets	-940	1,771	-153.1 %

The Höhle Group's Net Assets

Non-current assets rose by 6.9 % to T€ 44,404 in the current financial year, largely due to the rise in property, plant and equipment at Raesch Quarz (Germany) GmbH in the context of investments in production facilities. Inventories climbed by 9.4 % to T€ 27,415 mainly as a consequence of the increase in inventories at Dr. Höhle AG and Raesch Quarz (Germany) GmbH. Liquid assets dropped from T€ 7,456 to T€ 6,516 in the reporting year.

In all, non-current and current assets increased by 3.6 % to T€ 94,275 in the 2015/2016 financial year.

As at 30 September 2016, the Höhle Group's equity capital amounted to T€ 61,669, which corresponds to a capital ratio of 65.4 % (PY: 63.2 %)

Long-term loans decreased from T€ 8,034 to T€ 6,044 mainly as a result of loan repayments. At the same time, pension accruals jumped from T€ 4,567 to T€ 6,528, mainly as a result of the lower interest rate for discounting. At T€ 15,130, long-term liabilities remained almost unchanged.

Short-term liabilities fell from T€ 18,414 to T€ 17,475. This is primarily due to the T€ 813 decline in other short-term liabilities to T€ 5,533 and the T€ 365 decrease in liabilities from income taxes to T€ 2,573.

Balance Sheet

in T€	30/09/2016	30/09/2015	Change
Non-current assets	44,404	41,524	6.9 %
Current assets	49,871	49,112	1.5 %
Shareholders' equity	61,669	57,514	7.2 %
Long-term liabilities	15,130	15,084	0.3 %
Short-term liabilities	17,475	18,414	-5.1 %
Balance sheet total	94,275	91,012	3.6 %

Disclosures on Dr. Höhle AG

The management report of Dr. Höhle AG and the group management report are combined in accordance with the provisions of Section 315 (3) HGB in conjunction with Section 298 (3) HGB. The annual financial statements of Dr. Höhle AG are prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

Dr. Höhle AG is a listed technology company with head office in Gräfelfing, near Munich. Höhle AG develops, produces and sells UV and infrared systems. The equipment and systems are used for drying inks and coatings, for curing adhesives and plastics, for disinfecting surfaces, and for sunlight simulation. The sales activities are carried out by the company's own staff, subsidiaries and independent partner companies. In addition, Dr. Höhle AG provides production, IT and administration services to subsidiaries. With an average staff level of 183 (PY: 163), Dr. Höhle AG succeeded in increasing sales revenues by 6.0 % to T€ 36,405 in financial year 2015/2016. The sales growth is largely due to revenues from the business with new customers in the UV LED systems segment.

The former subsidiary Mitronic GmbH was merged with the parent company, Dr. Höhle AG, with retroactive effect from 1 October 2015.

Dr. Höhle AG's research and development expenses came to T€ 1,786, which is nearly on par with the previous year's figure (T€ 1,755). The average number of staff employed in the R&D department was 23 (PY: 22) which means that 12.6 % of Dr. Höhle AG's staff is employed in

the Research and Development department.

Personnel expenses increased from T€ 10,621 to T€ 12,015.

The cost of materials ratio increased from 46.2 % in the previous year to 47.5 % in the financial year under review. The increase is attributable, inter alia, to a higher share of intra-Group sales revenues.

Other operating expenses rose from T€ 4,830 to T€ 5,395, which, among other things, is attributable to expenses associated with the Drupa trade fair. At T€ 3,199, the operating result was below the previous year's level of T€ 3,747.

Dr. Höhle AG posted a financial result of T€ 4,958 in the financial year 2015/2016, which largely comprises income from equity investments. At T€ 8,656, the previous year's financial result was higher due to dividends distributed by two subsidiaries. The merger of Mitronic GmbH with Dr. Höhle AG led to extraordinary expenses of T€ 471. Net income for the year amounted to T€ 6,737 (PY: T€ 11,300).

Investments in technical equipment and business equipment totalled T€ 1,844 in the past financial year.

Property, plant and equipment climbed from T€ 2,711 to T€ 3,714 due, inter alia, to equipment and systems investments. Dr. Höhle AG's financial assets contracted from T€ 40,171 to T€ 35,686 in financial year 2015/2016 due to the repayment of loans of Eltosch Grafix GmbH.

The inventory balance rose by T€ 2,752 to T€ 13,183 due, among other things, to the take-over of inventories from Eltosch Grafix GmbH within the scope of the relocation of production to Dr. Höhle AG.

Liquid assets amounted to T€ 1,359 as of 30 September 2016 (PY: T€ 4,014). Receivables from affiliated companies increased from T€ 11,036 to T€ 14,210 year-on-year.

Dr. Höhle AG's equity capital climbed from T€ 52,875 in the previous year to T€ 56,581 as at the end of the reporting year as a result of higher unappropriated retained earnings. Liabilities decreased in the same period from T€ 13,858 to T€ 11,333 mainly as a result of lower liabilities to affiliated companies.

Provided that the economic development does not cloud over, Dr. Höhle AG's Management Board expects a perceptible rise in sales and earnings for the financial year 2016/2017.

Condensed income statement of Dr. Hönle AG (HGB individual financial statements)

in T€	2015/2016	2014/2015	Change
Sales revenue	36,405	34,358	6.0 %
Other operating income	1,756	1,307	34.4 %
Cost of materials	17,657	15,882	11.2 %
Gross profit	21,306	19,823	7.5 %
Personnel expenses	12,015	10,621	13.1 %
Amortisation/depreciation	697	625	11.5 %
Other operating expenses	5,395	4,830	11.7 %
Operating result (EBIT)	3,199	3,747	-14.6 %
Financial result	4,958	8,656	-42.7 %
Results from ordinary activities	8,156	12,403	-34.2 %
Taxes	930	1,085	-14.3 %
Net income for the year	6,737	11,300	-40.4 %
Earnings per share in €	1.22	2.05	-40.5 %

Condensed balance sheet of Dr. Hönle AG (HGB individual financial statements)

in T€	30/09/2016	30/09/2015	Change
Intangible assets	543	383	41.8 %
Property, plant and equipment	3,714	2,711	37.0 %
Financial assets	35,686	40,171	-11.2 %
Non-current assets	39,943	43,265	-7.7 %
Inventories	13,183	10,431	26.4 %
Receivables and other assets	18,137	13,890	30.6 %
Cash on hand, bank balances	1,359	4,014	-66.1 %
Current assets	32,680	28,335	15.3 %
Prepaid expenses	207	236	-12.3 %
Deferred tax assets	183	133	37.6 %
Issued capital	5,512	5,512	0.0 %
Additional paid-in capital	18,450	18,450	0.0 %
Retained earnings	2,573	2,573	0.0 %
Unappropriated retained earnings	30,046	26,340	14.1 %
Shareholders' equity	56,581	52,875	7.0 %
Accruals	5,099	5,236	-2.6 %
Liabilities to banks	6,035	7,593	-20.5 %
Prepayments received on account of orders	333	242	37.6 %
Trade accounts payable	994	975	1.9 %
Liabilities to affiliated companies	3,762	4,795	-21.5 %
Liabilities to companies in which an equity investment is held	0	7	-100.0 %
Other liabilities	209	246	-15.0 %
Liabilities	11,333	13,858	-18.2 %
Total assets	73,013	71,969	1.5 %

Overall Statement on the Economic Situation of the Höhle Group

Based on the 3.1 % growth rate predicted by the IMF, the global economic momentum in the past financial year remained subdued. Economic growth thus remained at the same level as in the previous year.

In this market environment, the Höhle Group generated sales revenues of € 93.4 million (PY: € 92.2 million) in financial year 2015/2016. The operating result came to € 12.4 million, which is down from the previous year's level of € 13.5 million. One year ago, the Management Board still expected that sales revenues and operating result would be on par with the previous year's level.

With liquid assets of € 6.5 million (PY: € 7.5 million) and the additionally existing credit facilities, the Höhle Group continues to be solidly financed. Liabilities to banks declined from € 11.1 million to € 9.0 million due to scheduled repayments in the reporting year.

In recent years, the Höhle Group has increasingly diversified its business activities and opened up new and interesting growth markets. The share of sales generated with short-lived economic goods such as adhesives, lamps and glass tubes relative to total sales increased considerably.

The technical optimisation processes at Raesch Quarz (Germany) GmbH were successfully completed. We assume that sales will increase and a clearly positive result will be achieved by Raesch Quarz (Germany) GmbH in the current

financial year already. With a view to opening up new markets, investments in a new quartz glass turning lathe will be made in financial year 2016/2017. The production plan permits the manufacture of tubes with a diameter of up to one meter and this will enable Raesch Quarz (Germany) GmbH to further expand its core competency and, at the same, reduce its dependency on suppliers.

The ratification of the Ballast Water Convention in September 2016 is expected to contribute to a positive business development in the Glass & Lamps segment. Moreover, the business relationships with new strategic partners, promising adhesives projects and Höhle Group's strong market position in the UV LED technology segment will lead to a positive business development.

In the Adhesives segment, sales revenues generated in connection with smart phones fell short of expectations in the first six months of the year. In addition, the start of production of quartz glass tubes for the semi-conductor industry was postponed in the Glass & Lamps segment. In the second half of the year, sales from adhesives developed significantly better again with revenues being almost on par with the previous year's level.

While business development in the first six months of the year lagged behind expectations, the Management Board is satisfied with the development in the second half of the financial year and the group's position and the improvements in the Adhesives and Glass & Lamps segments.

In all, the preconditions for a further increase in Hönle Group's revenue and earnings in the coming years are promising.

Events after the Balance Sheet Date

Since 1 October 2016, no events of special significance have occurred that would impact significantly on the Hönle Group's net assets, financial position and results of operations.

Research & Development

The Hönle Group's research and development expenses edged up from T€ 4,108 in the previous year to T€ 4,377 in the financial year under review. During the same period, the number of staff employed in the R&D departments rose from 59 to 69 relative to the financial year-end. In all, 12.7 % (PY: 10.8 %) of Hönle's staff was employed in the Research and Development departments.

A selection of R&D activities in the past financial year is presented below:

Equipment & Systems Segment

The Hönle Group's engineers succeeded in developing a compact, powerful and yet energy-saving UV system which provides for fast and reliable curing of inks and coatings on temperature-sensitive substrates, which is important for printing on foils, for example. At its peak, the lamp's UV intensity is clearly superior to that of conventional lamps. Drying performance is increased by 10 % while, at the same time, the temperature load is reduced by 15 %. The device is particularly easy to use due to its "quick change" technology, which comprises a plug that is integrated into the casing.

The Hönle Group presented its products at many trade fairs in Germany and abroad in the reporting year. The Drupa print trade fair was the most important trade fair in the Glass & Lamps segment. The Hönle Group show-cased the entire range of its high-tech drying solutions for the printing industry at the Drupa trade fair. The focus was on customer-specific solutions for the sheet offset, web offset and inkjet printing

segments including, for example, the LED Powerline series. It comprises high-intensity LED wavelength lamps that are available in various radiation widths and wavelengths. They can be ideally adjusted to fit the respective application. The individual models are differentiated by the size of the light emission window and the intensity and type of cooling. The light and compact UV-based curing system, jetCURE UV, was specifically developed to meet the requirements of the large-format inkjet printing segment. The system offers twice the peak power of comparable equipment and thus enables reliable curing even in the case of high path velocity. Generally equipped with cold light reflectors, the system can also be used for printing on temperature-sensitive materials.

Glass & Lamps Segment

The market for water treatment is extremely dynamic. High performance lamps are the latest trend in disinfecting water on the basis of ultraviolet radiation. In this context Hönle developed a UVC low-pressure lamp of 800 W power rating. The new high performance amalgam lamp provides maximum power optimisation and requires only minimum space. The lamp can be used for the treatment of drinking water, waste water and ballast water and for treating grey water in green houses.

UV-Technik Speziallampen GmbH presented digital UV components for industrial air and water treatment at this year's IFAT trade fair. Companies from all over the world present their products at the trade fair for water, sewage, waste and raw materials management. The Hönle Group presented future-oriented product solutions for water and air treatment including a selection of customer-specific products that set new standards in highly automated systems.

Adhesives Segment

The Panacol Group developed two new adhesives with low halogen content specifically for the consumer electronics segment. The adhesives are used for encapsulating electronic components on printed circuit boards (PCBs). Vitralit® UD 8050 is an acrylic-based adhesive which, thanks to its easy dispensing ability and rapid curing property, is especially suitable for use in the electronics industry, in which a high throughput is required. Due to moisture curing, the adhesive can also fully cure in shadowed areas, thereby increasing the performance of the adhesive compound following UV curing. A version with fluorescent marker is also available for improved process control. Structalit® 8838 is an epoxy-based adhesive characterised by a low glass transition temperature, good flexibility and fast thermal curing. Once cured, Structalit® 8838 is the perfect solution for flexible encapsulation of electronic components. Temperature and moisture tests provide evidence that the adhesive does not impair the electronic properties of the individual components.

Panacol presented the solvent-free adhesive Vitralit® VBB-2N LV at the BondExpo trade fair in Stuttgart. The adhesive can be used for bonding rubber and latex. It is characterised by low viscosity and is suitable for bonding very narrow gaps. Furthermore, the adhesive provides good adhesion to flexible plastics such as TPE (Thermal Plastic Elastomer), which would otherwise be difficult to bond.

Selection of Memberships

Exchanging experiences with customers and interested persons is crucial to the success of the Höhle Group. In addition to cooperation with technical colleges and research institutions, Höhle also visited many trade fairs in Germany and abroad and conducted own seminars, thus directly exchanging experiences with its customers.

In addition, the Höhle Group is member of several interest groups and organisations (excerpt in alphabetical sequence).



DECHEMA Gesellschaft für Chemische Technik und Biotechnologie e.V.



Der FlexoDruck.
DFTA Flexodruck Fachverband e.V.



DVS Deutscher Verband für Schweißen und verwandte Verfahren e.V.



EWPA
EUROPEAN WATERLESS
PRINTING ASSOCIATION e.V.
EWPA European Waterless Printing Association e. V.



FDI Fachverband Führungskräfte der Druckindustrie und Informationsverarbeitung e.V.



FGD Forschungsgesellschaft Druckmaschinen e.V.; im VDMA Verband Deutscher Maschinen- und Anlagenbau e.V.



FOGRA Forschungsgesellschaft Druck e.V.



Industrieverband Klebstoffe e.V.



IUVA International Ultraviolet Association



NeZuMed Netzwerkprojekt Medizintechnik



VERBAND DER CHEMISCHEN INDUSTRIE e.V.
WIR GESTALTEN ZUKUNFT.
VCI Verband der Chemischen Industrie e.V.

Environmental Aspects

UV technology is among the Hönle Group's core competencies. Hönle UV drying systems are employed in a wide variety of printing and coating applications. The environmental compatibility of UV drying processes is often clearly better than that of conventional thermal drying processes. The use of modern UV drying systems is recommended due to the systems' superior energy performance when compared to conventional infrared and hot air drying systems. In addition, the high quality and scratch resistance of end products help to reduce the repair work necessary due to mechanical stress and strain.

Moreover, the use of UV technology enables a significant reduction in the amount of hazardous solvents. The German Solvent Ordinance (BImSchV) limits the emission of volatile organic compounds (VOC). The use of UV inks and paints represents a possibility to comply with that Directive. The process aimed at a further reduction of emissions as promulgated in the VOC and National Emission Ceilings Directive, for example, is continuing at cross-national level. For this reason, the opportunities for further proliferation of UV technology in the printing, paints and lacquers and coating segments are also promising in the future.

Another business segment of the Hönle Group comprises the disinfection of drinking water and waste water as well as the treatment of ballast water on ships. The ultraviolet rays purify the water, reaching very high germ elimination rates. The use of chemicals can be minimised or

even completely avoided. Micro-organisms, for example, are killed at the drainage system of sewage treatment plants without using chemicals and therefore without any harm to the environment. Waters are protected by using UV technology and their self-cleaning properties are preserved.

The international Ballast Water Convention was ratified on 8 September 2016. Consequently, it will automatically come into force after 12 months. The Convention provides for the ballast water management of ships and vessels, particularly container vessels. UV-Technik Speziallampen GmbH and Aladin GmbH offer suitable UV systems for water sterilisation which provide an environmentally friendly alternative for the chemical treatment of ballast water.

Around the globe, UV disinfection has been successfully employed for decades in surface disinfection, in the food industry for instance. UV disinfection offers numerous advantages over chemical disinfection methods. For example, it renders obsolete the transport, storage and especially the disposal of chemicals. No harmful disinfection by-products are formed and aesthetic characteristics, such as the taste, odour and colour of the foodstuff are not impaired.

The Hönle additionally takes care for environmental protection in the segment of industrial adhesives. In addition to common adhesives, the product range also includes UV and light curing adhesives. With these adhesives, the drying process can be carried out without the emission of solvents. The adhesives react to radiation, the

molecules interconnect and cure in seconds - and no solvents are used, thus proving the environmental compatibility of UV and light curing adhesives.

Raesch Quarz (Germany) GmbH manufactures high-quality quartz glass products for industrial applications. Products for the processing industry are made from various quartz sand mixtures using blast furnaces. The customers come from various branches of industry, such as the lighting, semiconductor, automotive supplier, fibre cable, and water treatment industries. High temperatures are required for melting the sand. The energy required for this melting process is correspondingly high. The Company implemented a certified energy management system (EnMS) in compliance with its principle of sustainability and best environmental practice. The energy management system uses a systematic approach based on the DIN EN ISO 50001 standard. The system aims at improving energy efficiency and, consequently, the company's competitiveness. This provides not only economic benefits but also makes an important contribution to climate protection. With a view to reducing energy consumption, high-quality insulation granules have been used in the energy-intensive melting furnaces of Raesch Quarz (Germany) GmbH since 2014.

Staff

At the end of the financial year, the Hönle Group employed a staff of 542, which is almost unchanged from the previous year's staff level (PY: 545). The number of staff included 43 part-time employees, which corresponds to 7.9 % of total staff. Personnel expenses rose from T€ 29,395 to T€ 31,031 in the past financial year. The Hönle Group further expanded the Research and Development segment. In this connection, the number of staff employed in the Development departments increased mainly at Dr. Hönle AG, Eltosch Grafix GmbH and Tangent Industries, Inc. Significant personnel-related changes concern the closing down of a production site in Unterlüß near Celle, which affected 23 employ-

ees. The production activities were transferred to Dr. Hönle AG in Gräfelfing.

Hönle invests in occupational training with a view to covering the future demand for qualified personnel: At the end of the financial year, the group employed 29 trainees (PY: 19). The Hönle Group is presently providing training for industrial clerks, technical product designers, chemical laboratory assistants, mechatronic technicians, IT administrators, warehouse logistics specialists and others. Hönle also offers trainees and bachelor undergraduates the possibility to gain deeper insight into how technology companies operate. With a view to ensuring a high qualification level among its employees, Hönle also regularly invests in employee qualification and training measures.

Functional Areas

Reporting date	30/09/2016	30/09/2015	Change
Sales	86	87	-1.1 %
Research & Development	69	59	16.9 %
Production, Service	252	264	-4.5 %
Logistics	66	65	1.5 %
Administration	69	70	-1.4 %
Total	542	545	-0.6 %

Average	2015/2016	2014/2015	Change
Sales	86	87	-1.1 %
Research & Development	66	58	13.8 %
Production, Service	263	261	0.8 %
Logistics	66	60	10.0 %
Administration	69	71	-2.8 %
Total	550	537	2.4 %

Personnel Expenses

in T€	2015/2016	2014/2015	Change
Wages and salaries	25,589	24,339	5.1 %
Social security and pension costs	5,442	5,056	7.6 %
Total	31,031	29,395	5.6 %

Information Required under Takeover Law

The disclosures required pursuant to Section 289 (4) and Section 315 (4) HGB are presented below as at 30 September 2016.

Re: No. 1: The nominal capital of Dr. Hönle AG reported as of the financial year-end amounted to € 5,512,930; it is split into 5,512,930 no-par bearer shares. Each share of stock carries one voting right. Shares carrying special rights do not exist. Further details regarding the nominal capital are provided in the Notes to this Annual Report in the chapter: Shareholders' Equity.

Re: No. 3: Pursuant to Section 21 (1) WpHG, shareholders must report significant participating interests in listed companies. Dr. Hönle AG is not aware of any shareholders with participating interests in Dr. Hönle AG of more than 10 %.

Re: No. 6: The Supervisory Board appoints the Dr. Hönle AG Management Board for a maximum term of office of five years. Each amendment to the company's Articles of Incorporation requires a resolution by the Shareholders' Meeting.

Re: No. 7: In the future also, the Management Board and Supervisory Board are to be in a position to utilise authorised capital for the acquisition of companies, company shareholdings and other economic assets, and for strengthening the company's equity capital. To this end, the Annual General Meeting held on 20 March 2015 authorised the Management Board, with the approval of the Supervisory Board, to

increase the nominal capital through the single or repeated issuance of new, no-par bearer shares by up to 2,750,000 shares by 19 March 2020. Moreover, the Annual General Meeting held on 21 March 2014 authorised the company to purchase - in the interest of its shareholders - up to 551,293 of its own shares by 31 December 2018.

Re: No. 8: In the event of a change of ownership at Dr. Hönle AG, the Management Board is entitled to resign from office.

Re: No. 9: In the event of a change of ownership at Dr. Hönle AG, the Management Board is entitled to receive a severance payment.

Further details respecting Section 315 (4) Nos. 8 and 9 HGB are provided in the remuneration report presented below.

Statement on Corporate Governance

The statement on corporate governance to be submitted pursuant to Section 289a HGB is included in the Corporate Governance Report: It is also available at www.hoenle.de.

Opportunities and Risk Report

Structure of the Risk Management System

Dr. Höhle AG's risk policy is aligned to the entrepreneurial objectives of sustained growth and improvement of corporate performance in order to increase corporate value. In most cases, entrepreneurial opportunities contrast with risks that must be recognised and evaluated at an early stage and, through the introduction of suitable measures, any possible negative impact is to be limited in order to avoid threats to the company's existence as a going concern.

Dr. Höhle AG established a formalised risk management system for monitoring risks. The principles documented in a risk manual define the procedures for dealing with risks. In consideration of the amount of potential damage, the probability of the occurrence of losses, and also in view of the opportunities arising for the company, decisions are made as to whether the respective risks are to be avoided, reduced, transferred or accepted. The probability of occurrence and potential damage/loss are assessed on the basis of the categories low, medium and high.

In the past financial year, risk reports were sent to the risk manager as required (risk identification). All risks were evaluated within the scope of a predefined scale for the evaluation of potential losses and the probability of occurrence (risk evaluation). Necessary measures were defined and initiated as required (risk management). In addition, risk discussions were held with the responsible risk managers at quarterly intervals; the risk situation was

analysed and measures were monitored (risk controlling). The Dr. Höhle AG Management Board is informed of the group's current risk situation at regular intervals and is promptly notified when defined risk thresholds respecting individual risks are reached. All responsibilities, principles and procedural approaches are documented in a risk management manual and all risk reports are recorded on standardised forms (risk documentation).

Individual Risks

Risks that might have a medium or high adverse impact on the Höhle Group's net assets, financial position and results of operations are described in the following. It should be noted in this context that the probability of occurrence of all risks mentioned below is assessed as low by the Höhle Group. The sequence of the risks presented in the categories below reflects the current assessment of the relative risk level and thus provides an indication of the significance of these risks for the Höhle Group to the extent this is possible in each individual case. Additional risks which are not known to us at present or risks which we currently classify as insignificant may also impact adversely on our business activities. Unless otherwise specified, the following risks concern all segments. From the current perspective, the Höhle Group is exposed to the following internal and external opportunities and risks:

Market and General Conditions

The global economy has remained subdued until now. While the situation in the emerging markets stabilised, the economic momentum in

the advanced economies waned in the course of the first six months of the year. However, the global economy will probably gain momentum in the coming two years although a robust global upswing is not to be expected. Global production is predicted to increase at a rate of 3.1 % in 2016, which is the same level as in 2015. The International Monetary Fund (IMF) expects growth of 3.4 % for 2017 and, on average, 3.7 % for the years from 2018 through 2021. The prospects for many emerging markets have brightened up due to the stabilisation of raw materials prices and the strengthening of the Chinese economy.

Risks emanate from geopolitical strains and protectionist tendencies. A cooling down of the economy would impair Hönle Group's revenue and earnings development. Hönle addresses this risk by continuously monitoring the market in order to enable the company to respond swiftly to current economic developments. Should economic momentum pick up in the advanced economies as a consequence of measures to stimulate the economy or for other reasons, this would have a positive impact on both the general economic development and the business development of the Hönle Group.

Market risks arise from changes in underlying data such as those pertaining to raw materials prices. Depending on the changing market situation, significant price fluctuations may affect purchase prices for raw materials or for energy supply. After careful consideration of all relevant factors, based on a cost-benefit analysis, the Hönle Group decided against special hedging measures to cover commodity price risks. On the other side, a decline in the

prices for energy and many raw materials as seen in recent years would have a positive impact on the Hönle Group's earnings development.

Changing international regulations and laws (in Germany and the EU, in particular) such as those concerning the use of raw materials and ingredients, entail risks. Setting up trade barriers and the intensification of geopolitical strains may also have a negative impact.

At the same time, opportunities might arise from changing general conditions, such as the conclusion of trade agreements or as a result of the ratified Ballast Water Convention. This could impact positively on Hönle Group's development.

The Hönle Group companies regularly receive investments grants and subsidies for development projects from public or private sources. In some cases, these grants and subsidies are subject to future-oriented criteria or preconditions. Consequently, there is a risk that some grants or subsidies will have to be repaid in the case of plan deviations. The managements and the Management Board control compliance with the criteria at regular intervals in order to avoid or properly respond to such risks.

Operational Development

The loss of key customers could lead to a decline in revenues. Höhle addresses this risk through intensive monitoring of its key customers and ongoing examination of their financial performance. Customer satisfaction respecting key accounts is continually monitored. In addition, expansion of the customer base to include economically unrelated target industries improves the risk structure and the successful cooperation with key customers provides a sound basis for further expansion of business activities and continuing growth with strong partners.

It cannot be ruled out that in individual cases customers may meet their future payment obligations too late or not at all. However, the Höhle Group customers have thus far demonstrated good payment behaviour. Höhle adapts the payment conditions to customers' credit standing as required.

Due to the introduction of new products or technologies, the company's existing products may no longer be marketable. The success of the Höhle Group depends on the ability to promptly recognise market developments and to continuously develop and offer new products. At the same time, technological changes also offer an opportunity to open up new sales markets with innovative products. In the past, the Höhle Group already succeeded several times in recognising market developments at an early stage and using them to the company's advantage.

Just as other companies, the Höhle Group is exposed to IT-related risks. IT systems provide the basis for almost all operational procedures and processes. Structures were established with a view to protecting the business processes from IT risks. These structures are to prevent possible damage/losses and ensure high process security. The redundant design of IT systems is of crucial importance in this context. The operational solutions concerning access control, extensive protection systems, failure management and data backup ensure a high level of availability of the IT infrastructure.

A prolonged power failure, possibly as a result of the energy turnaround or other factors, cannot be ruled out completely, although this has not occurred to date. A prolonged power failure at the Raesch Group (Glass & Lamps segment) would lead to considerable damage to technical equipment and interruption of production processes. Should the risks/costs ratio move within a reasonable scope, the Raesch Group will initiate further hedging measures.

Höhle competes for specialists and executive staff. The market for skilled workers and engineers, in particular, is subject to intense competition. The attractiveness of an employer plays a crucial role in applicants' decision-making process. Höhle thus places great emphasis on a good working environment, targeted training and internal training and qualification measures and offers promising career prospects. The company also cooperates closely with selected technical universities and offers bachelor's and master's theses to be written as well as intern-

ships. Hönle also counteracts the lack of skilled professionals by offering internal vocational training. In all, Hönle is well equipped to cope with the challenge of intensified competition for specialists and executives on the labour market.

The loss of key personnel in the company on whose knowledge the company's success depends constitutes a further, at least short-term risk. In order to counteract this risk, Hönle aims to retain its staff in the company over the long term and has implemented various measures to this end. Furthermore, corresponding substitution arrangements are in place in the sensitive areas, in particular, in order to minimise the impact of an unexpected loss of an employee.

Financial Risks

Financial risks include risks associated with financial losses due to fluctuating economic data, such as data pertaining to exchange and interest rates. Such risks may impact negatively on the company's net assets, financial position and results of operations.

It is to be assumed that rising euro exchange rates could adversely impact on Hönle's export business. However, since sales are generally invoiced in euros, Hönle does not engage in currency hedging transactions. Hönle addresses exchange rate fluctuations which affect regional price structures through continuous market monitoring and through product or price adjustments, as required. A weaker euro entails the risk of higher cost of materials. On the other hand, a depreciating euro (as was the case in recent years) might offer competitive advan-

tages to the company outside the EU with a resulting positive impact on the results of operations.

Interest rate risks arise from changes in interest rates. Among other measures, the Hönle Group took out loans with variable interest rates in order to finance the acquisition of shares.

Derivative financial instruments (interest rate swaps) were used in this context for hedging against interest risks. In all, the interest risk therefore is presently of subordinate relevance to the Hönle Group.

At the same time, the current low interest rates translate into favourable refinancing conditions

Liquidity bottlenecks due to a permanent decline in business development cannot be ruled out completely. Dr. Hönle AG and its subsidiaries however are provided with liquidity on the basis of long-term financial and liquidity planning. The Management Board is informed at regular intervals about the respective current liquidity situation. With liquid assets of currently € 6.5 million and additionally existing credit facilities, the Hönle Group is solidly financed. Moreover, a cash pooling arrangement optimises the liquidity supply of the individual companies and minimises the respective liquidity risks.

Acquisitions are an important component in the strategic further development of Hönle's corporate structure. The acquisition of companies is associated with both opportunities and risks. Acquisitions offer the possibility to open up new business areas and markets, and to contribute to the Hönle Group's positive

business development on a sustainable basis. Impairment risks arise when the acquired company cannot be integrated within the planned time schedule or does not develop as expected.

The probability of unfavourable business developments increases in times of difficult or uncertain general macroeconomic conditions. It cannot be ruled out completely that some Hönle Group companies may be required to perform value adjustments respecting recognised amounts of goodwill (consolidated financial statements) or investment values (annual financial statements) in the event that business activities develop below expectations. On the other hand, however, sales and earnings may develop significantly better than planned. Raesch Quarz (Germany) GmbH largely achieved the planned earnings targets in the last financial year. Following the optimisation measures implemented in the past financial years, the quartz melting furnaces operate according to plan at a high quality level. On this basis, the company expects that sales and earnings will increase significantly in financial year 2016/2017 and beyond, especially in the semi-conductor and fibre cable growth markets.

It cannot be ruled out that recognised insurance claims are not, or only partly, paid by the insurance company despite careful examination and assessment of the reimbursement claim and reimbursement amount. On the other hand, the amounts actually to be paid by the insurance companies may exceed the respective recognised receivables.

Internal Control and Risk Management System with regard to the Accounting Process

The disclosures required under Sections 289 (5) and 315 (2) No. 5 HGB are presented in the following.

Both the risk management system and the internal control system deal with the monitoring of accounting processes, among other things. In addition to identifying and assessing the risks which may hinder adequate financial statements preparation, suitable measures must be taken to avert such risks.

Dr Hönle AG's risk management system incorporates strategic corporate planning, internal reporting and the internal control system. Strategic corporate planning is aimed at identifying and utilising future opportunities while assessing the associated risks that may arise. Internal reporting serves as an information system that provides information about current developments and existing risks. The internal control system is continuously used for the identification of risks, the taking of corresponding measures and monitoring their implementation and effectiveness. The internal control system also encompasses Dr. Hönle AG's accounting process. The controlling department is responsible for analysing the accounting process. Accounting-related reporting to the Management Board takes place regularly and promptly. The reporting includes relevant financial indicators and comprises a detailed comparison of actual figures with those planned.

In addition, within the scope of risk management, meetings which involve all departments of Dr. Hönle AG are held at regular intervals in order to discuss any measures to be taken. The Management Board is provided with the respective reports in due time.

In order to ensure appropriate implementation of the internal risk management guidelines, Hönle also uses a manual specifically developed for this purpose. The contents of the manual include rules of conduct respecting the identification, analysis, assessment, treatment, monitoring and documentation of risks.

The major preconditions for proper accounting include an adequate merchandise management system, thorough staff training, the allocation of responsibilities, functional segregation with respect to the accounting system, and controlled access at IT system level. Dr. Hönle AG implemented an ERP (Enterprise Resource Planning) and accounting system that enables appropriate accounting. In addition, the Hönle Group established a uniform, Group-wide ERP system and implemented a certified consolidation program aimed at ensuring reliable and prompt financial accounting. Newly founded or acquired companies are integrated into the existing ERP system as quickly as possible. In this context, Dr. Hönle AG performs the accounting function centrally as a service provider for the Hönle Group companies. The accounting process is based on the principle of dual control. In addition, the information provided in the financial statements is subject to defined release processes. The figures stated in the financial statements are analysed and any changes are

reviewed in the context of financial statements preparation.

In order to exclude as far as possible any threat to data security, Hönle aims to constantly review and further enhance preventive measures in the IT segment. Regular system updates and any required system enhancements as well as observance of internal security guidelines by our employees are evident. Protection against unauthorised access, destruction, and misuse is ensured to a great extent through complex firewall systems and access control at operating system and applications level as well as through other measures.

The IT system structure contributes to prompt and adequate recording of all information relevant to the accounting process and ensures the greatest possible security throughout the group.

Risk Management with regard to Financial Instruments

Disclosures pursuant to Sections 289 (2) No. 2 and 315 (2) No. 2 HGB are presented in the following.

In its capacity as the controlling group company, Dr. Höhle AG monitors, coordinates, and manages the Höhle Group's financial activities. In so doing, top priority is given to ensuring that sufficient liquidity reserves are in place and great emphasis is placed on achieving optimised profitability while minimising risks at the same time.

Default Risk

Default risks arising from the failure of contracting parties to meet their payment obligations as scheduled generally constitute a potential financial threat in business dealings. Höhle reviews the credit standing of its business partners with particular focus on key accounts. Due to continuous monitoring of business transactions, the default risk is low.

Target achievement concerning the equity investments held by Höhle plays a major role in the existing risk exposure of Dr. Höhle AG concerning, in particular, the carrying amounts of equity investments as well as the loans and receivables vis à vis the equity holdings. If the equity investments fail to meet the planned targets or should the measures necessary in view of further developments not be implemented within the appropriate time period, the recognised values must be reviewed to identify any write-down requirements.

Liquidity Risk

The liquidity risk may be of relevance to the Höhle Group in the event that current or future payment obligations cannot be met due to insufficient liquidity. The company's solvency is continuously ensured on the basis of long-term financial planning over several years and regular liquidity planning.

Market Risk

The market risk arises from financial losses due to fluctuating market prices (e.g. respecting raw materials), exchange rates, interest rates and stock prices. The commodity price risk, currency risk and interest rate risk are particularly relevant to the Höhle Group. Such risks may impact negatively on the company's net assets, financial position and results of operations.

Depending on the changing market situation, significant price fluctuations may affect purchase prices for required raw materials or for energy supply. Following a careful assessment based on a cost-benefit analysis, the Höhle Group decided not to implement special hedging measures against currency and commodity price risks. From a current perspective, the existing and expected market risks do not represent a threat to the Höhle Group's continued existence as a going concern. A favourable market development, however, could have a positive impact on the company's net assets, financial position and results of operations.

The currency risk comprises risks arising from exchange rate fluctuations that may impact on the competitiveness of Höhle Group's products and purchase prices. The Höhle Group settles

most of its purchase and sales transactions in euros and is thus in a position to largely avoid currency risks associated with the settlement of services and deliveries from suppliers or to customers, respectively.

The interest rate risk arises from changes in interest rates. Derivative financial instruments (interest rate swaps) were used for hedging against interest risks. Due to the effectiveness of the hedging instruments, Dr. Höhle AG is not exposed to a reportable earnings risk since any possible negative fair values of the respective financial instrument are offset by the positive developments of the associated underlying transaction (hedged item). For further details, reference is made to the disclosures in the notes to the consolidated financial statements.

Overall Assessment of the Opportunities and Risk Situation

With high-performance products in various industries and fields of application, Höhle is excellently positioned and has a solid financial footing.

From the current perspective, significant risks may be involved in a general economic downturn. In such case, the economic downturn would presumably also impact negatively on Höhle Group's business development. Failure to meet the targeted figures at Raesch Quarz (Germany) GmbH could also negatively impact on the company's and the group's net assets, financial position and results of operations.

On the other hand, economic opportunities arise for the Höhle Group from the opening up of new markets and fields of application. The expansion of sales capacities - whether via own companies or via local sales partners - is intended to create new sales markets for the Höhle Group. New fields of application such as those in the semiconductor, fibre cable, water sterilisation or the medical technology segments, are to be continuously tapped in the coming years. The cooperative partnership in Korea in the adhesives segment provides for additional growth potential concerning the Höhle Group's future development.

Currently, no risks are discernible that could jeopardise the company's continuation as a going concern now or in the future.

Remuneration Report

Remuneration of Management Board Members

The remuneration structure is aligned to sustained corporate development. The monetary remuneration includes fixed and variable components based on the Hönle Group's performance.

The criteria used in evaluating the suitability of remuneration are as follows: The tasks of the respective Management Board member, personal performance, the economic situation, earnings, and future outlook of the company, standard practice in the industry and the company's general remuneration structure. The Supervisory Board regularly reviews the structure and amount of the remuneration for Management Board members.

The company reports pension commitments concerning the Management Board members, Mr. Haimerl and Mr. Runge. Within the context of the conversion of pension commitments for Management Board members, annual pension modules have been acquired starting from 1

January 2012. The amount of a pension module acquired in a given financial year is derived from the pension expenses that are converted into pension instalments using age-dependent conversion factors. The pension expenses correspond to a fixed percentage rate of the annual fixed remuneration (excluding profit sharing bonus). The designated benefit types are: old age pension (from the age of 60), and disability pension and survivors' pension (for widows, widowers, partners and orphans). The amount of the disability and old age pensions corresponds to the total of vested rights components and the pension components acquired up to the time when a pension becomes due. The widow's/widower's and partner's pension corresponds to 60 % of the disability or old age pension entitlement at the time of death or which was paid out at the time of death. The orphan's pension amounts to 12 % of the mentioned pension entitlement for half-orphans and 20 % for orphans. Reinsurance contracts were concluded with a view to covering the pension commitments.

Fixed Remuneration (not based on performance)

in T€	S a l a r y		O t h e r R e m u n e r a t i o n		T o t a l	
	2015/2016	2014/2015	2015/2016	2014/2015	2015/2016	2014/2015
Norbert Haimerl	232	225	25	25	256	250
Heiko Runge	231	224	14	15	245	239
Total	463	449	39	40	502	489

Performance-Based Remuneration

in T€	P r o f i t S h a r i n g		B o n u s e s	
	2015/2016		2014/2015	
Norbert Haimerl	248		300	
Heiko Runge	248		300	
Total	496		600	

Pensions

in T€	Pension Expenses pursuant to IAS 19	
	2015/2016	2014/2015
Norbert Haimerl	245	205
Heiko Runge	216	177
Total	461	382

Pensions

in T€	Present Value of Defined Benefit Obligations	
	As at 30/09/2016	As at 30/09/2015
Norbert Haimerl	1,741	1,171
Heiko Runge	1,596	1,059
Total	3,336	2,230

In addition, benefits amounting to T€ 12 (PY: T€ 12) were paid to surviving dependents of former Management Board members.

Benefits upon Termination of Management Board Activity

The Supervisory Board appoints the Dr. Hönle AG Management Board for a maximum term of office of five years.

An agreement governing a transitional allowance was concluded with the company's Management Board. In accordance with this agreement, Management Board members who resign from office at the end of their 50th year of age and before the end of their 60th year of age, continue to receive payment of the fixed remuneration for 12 months as defined in their employment contracts. After the 12-month period, between 40 % and up to a maximum of 50 % of the fixed remuneration is paid until the pension commitment for Management Board members enters into effect. However, the agreement concerning the transitional allowance only enters into effect provided that the

respective Management Board member has been a member of the company's Management Board for at least ten years and if she/he is not personally responsible for the termination of employment. Other income is to be counted against the transitional allowance and can reduce or completely set off the allowance. In addition, the Supervisory Board is authorised to reduce the transitional allowance if the company's economic position deteriorates. In the event that benefits were received erroneously or if the Supervisory Board reduced the benefits subsequently, the benefits granted must be repaid to the company.

In the event of a change of control at Dr. Hönle AG, Management Board members are entitled to terminate their Board of Management Service Agreement within a period of three months after obtaining knowledge of the change of control with a three-month notice period as at the end of a respective month-end, and to resign from office at that time. A change of control is defined as any direct or indirect assumption of control over Dr. Hönle AG by a third party within the

meaning of the German Securities Purchase and Takeover Act (WpÜG). In the event of resignation, 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 of T€ 400. Calculation of the annual gross salary is based on the average gross salary for the past three financial years prior to leaving the company

Compensation of Supervisory Board Members

The compensation contains only fixed payments which are oriented towards the duties and responsibilities of the respective Supervisory Board member. No other compensation, for example from advisory or brokerage services, is granted.

Supervisory Board Compensation

in T€	T o t a l	
	2015/2016	2014/2015
Prof. Dr. Karl Hönle	48	43
Günther Henrich (since 20/03/2015)	36	21
Dr. Bernhard Gimple (since 20/03/2015)	24	14
Dr. Hans-Joachim Vits (until 20/03/2015)	0	24
Eckhard Pergande (until 20/03/2015)	0	12
Total	108	114

Forecast Report

Market Outlook

The global economy is currently experiencing moderate growth. While the situation in the emerging markets has stabilised, the economic momentum in the advanced economies waned in the course of the first six months of the year. While the global economy will probably gradually gain momentum in the next two years, a robust global upswing is not to be expected. Global production is predicted to increase at a rate of 3.1 % in 2016, which is the same level as in 2015. The IMF expects growth of 3.4 % for 2017 and, on average, 3.7 % for the years from 2018 through 2021. The prospects for many emerging markets have improved recently due to the stabilisation of raw materials prices and the strengthening of the Chinese economy. Risks emanate from geopolitical strains and protectionist tendencies.

Outlook for the Höhle Group

Forecasts of future business development largely depend on the global economic development. The outlook on the development of the individual segments and of the group is based on detailed planning for the individual companies of the Höhle Group.

Equipment & Systems Segment

The Höhle Group plays a leading role in the field of LED drying technology in the digital and sheet-fed offset printing segment. For the financial year 2016/2017 a moderate rise in sales revenues and positive earnings contributions are predicted for this business unit, in particular, and also for Dr. Höhle AG. Furthermore, the relocation of a production site from Unterlüß near Celle to Dr. Höhle AG at Gräfelting is expected to yield cost savings.

A growing trend towards the use of LED technology can also be observed in the printing industry. For this reason, Dr. Höhle AG invests in this technology, sets up a new production line for UV-LED modules and increases the staff level in both the development and production of UV-LED systems.

Glass & Lamps Segment

A positive business development accompanied by significantly rising sales revenues are projected in the Glass & Lamps segment for financial year 2016/2017. It is assumed that this development will be driven by Raesch Quarz (Germany) GmbH, in particular. After successful implementation of technical optimisation processes, the company achieved positive earnings contributions in the second half of the year and thus ushered in a turnaround. While the result for the financial year under review was, in all, still negative, clearly positive earnings contributions are expected for financial year 2016/2017. Raesch Quarz (Germany) GmbH invested into a new resize turning lathe that is capable of producing quartz glass tubes with a

diameter of up to one meter. The investment was made with a view to opening up new business fields.

The ratification of the Ballast Water Convention in September 2016 will presumably contribute to significantly rising sales at UV-Technik Speziallampen GmbH in the coming years. First notable effects on the company's sales revenues are expected in financial year 2016/2017.

The Management Board expects that the Glass & Lamps segment will contribute substantially to the Höhle Group's sales growth and an above average rise in earnings in the next financial year and in subsequent financial years.

Adhesives Segment

Lower sales figures from business with customers in the smart phones segment led to a temporary dip in the growth rate in the first half of the reporting year, in particular. Revenue and earnings are projected to rise significantly in the Adhesives segment in the coming financial year. Ongoing projects in the consumer electronics segment which are close to being realised are expected to contribute to the revenue and earnings increase in the course of the financial year.

South Korean SKC-Panacol Co., Ltd. started operations according to plan. The company was established on the basis of a cooperation of the Höhle Group with one of the largest conglomerates in South Korea. Initial interesting projects with companies in the electronics industry are already quite advanced and the first notable

sales revenues can be expected for the current financial year. While it is assumed that SKC-Panacol Co., Ltd. will also post a negative result in the current financial year, this will be at a lower level.

Overall Assessment of Future Business

Development

With its UV-LED systems, the Hönle Group is well positioned in an up and coming market. The development and manufacturing capacities for the LED technology segment will be further expanded in order to prepare for the planned further growth.

Moreover, with its quartz glass products, Hönle is well positioned to tap into the growing semiconductor and fibre cable markets. New cooperations with strategic partners in the printing and water sterilisation markets provide additional important growth potential for Hönle Group's sustained positive business development.

Assuming that the general economic conditions remain as they are, the Management Board aims at achieving revenue of between € 95 million and € 105 million and an operating result of between € 14 million and € 16 million for the Hönle Group in financial year 2016/2017.

The amount of Hönle Group's new and replacement investments is expected to range between € 3.5 million and € 4.5 million. Investments in production plants are planned, inter alia, at Raesch Quarz (Germany) GmbH, Panacol-Elosol GmbH and Dr. Hönle AG in financial year 2016/2017.

The Hönle Group is broadly positioned with its three business segments: Equipment & Systems, Glass & Lamps and Adhesives. At the same time, the group is represented on markets that offer great potential for further growth.

In addition to strictly organic growth, the acquisition of companies will also play an important role in the expansion of Hönle Group's business activities. Over the medium term, the Hönle Group intends to further expand its market position in the area of short-lived economic goods such as adhesives and quartz glass products.

Gräfelfing, 23 December 2016



Norbert Haimerl
Management Board



Heiko Runge
Management Board

Future-Oriented Statements

The management report contains statements and information on Dr. Hönle AG and the Hönle Group that relate to future time periods. The future-oriented statements represent assessments that were made on the basis of information available at the time when this report was prepared. Should the assumptions underlying the forecasts prove to be incorrect or should risks, such as those mentioned in the risk report, materialise, actual developments and results may deviate from current expectations. The company assumes no obligation to update the statements contained in this management report, with the exception of publishing such updates as required by statutory provisions.

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. Höhle AG as at 3 November 2016

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. Höhle 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 did so. 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 this level. 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 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 Privatwirtschaft 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 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, 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), its 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 a 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 Supervi-

sory 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 reports and quarterly statements are published within two months after the end of the reporting year, in accordance with the Stock Exchange Directive of the Frankfurt Stock Exchange. The shortening of the

publication dates would increase administrative expenses to an inappropriate extent. The publication dates will thus remain 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 2016	Number of shares	Shares as a percentage of nominal capital	Other financial instruments
Management Board			
Norbert Haimerl	27,000	0.49	0
Heiko Runge	16,100	0.29	0
Supervisory Board			
Günther Henrich	500	0.01	0
Prof. Dr. Karl Hönle	222,000	4.03	0
Total	265,600	4.82	0
Number of shares, total	5,512,930	100.00	0

Disclosures on Corporate Governance Practices

Corporate Body

The Corporate Body includes the Board of Management, the Supervisory Board, and the Annual General Meeting.

The respective competencies are governed by the German Stock Corporation Act (AktG), the company's Articles of Incorporation, and the Rules of Internal Procedure for the Management Board and Supervisory Board.

Responsibilities of the Management Board

The Management Board manages the company on its own authority in accordance with applicable laws, the company's Articles of Incorporation, and the Board's Rules of Internal Procedure, and by taking the resolutions of the General Annual Meeting into account. The Management Board represents the company vis-a-vis third parties. The company is managed via regular strategic discussions at Management Board level and by including the managers of the business segments. The Management Board is informed about the development of significant key indicators of Dr. Höhle AG and its subsidiaries on a monthly basis. Further information on corporate governance can be found in this management report under the heading "Management System." The Management Board is required to take suitable measures to identify developments that could threaten the company's continued existence as a going concern at an early stage. This includes establishing a monitoring system, in particular. This system is continuously being enhanced and adjusted to

changes in general circumstances. The risk report includes further information on risk management.

Responsibilities of the Supervisory Board

The Supervisory Board monitors and advises the Management Board with respect to the management of the company's business activities. To this end, the Supervisory Board is promptly and properly involved in all decisions of fundamental importance to the company. The Board of Management regularly and promptly informs the Supervisory Board in detail on the course of business, results of operations, financial position, the employment situation, and on the company's planning and intended projects. The Management Board regularly provides written reports to the Supervisory Board with a view to preparing for Board meetings. Following careful examinations and consultations, the Supervisory Board passes resolutions, as required. Further details on the activities of the Supervisory Board are presented in the report of the Supervisory Board. A recommendation is made in the Corporate Governance Code that qualified committees be formed, which are to comprise at least three members. Since Dr. Höhle AG's Supervisory Board also consists of three members, no committees are being formed at present.

Annual General Meeting

Shareholders exercise their rights at the Annual General Meeting and decide on fundamental issues that concern Dr. Höhle AG by exercising their voting rights. Each share of stock carries one voting right. All important documents that

are required for decision-making are also made accessible to the shareholders on Dr. Hönle AG's website in good time before the Annual General Meeting.

(► <https://www.hoenle.de/delinvestoren/hauptversammlung>)

Shareholders may exercise their voting rights by proxy via an authorised person of their choice or through a representative appointed by Dr. Hönle AG who acts upon instruction of the shareholder. Following the Annual General Meeting, the attendance and voting results are published on the company's website.

Management Board

Norbert Haimerl

MBA (54)

Responsible for Finances and Human Resources

Norbert Haimerl completed his business management studies at the Regensburg University for Applied Science with a diploma in business management. [Dipl.-Betriebswirt (FH)]. He commenced his career in 1990 as assistant to the management of a medium-sized company. During the years from 1992 to 1996, he worked for a subsidiary of a German printing machine manufacturer as a management assistant. In 1996 he changed jobs to take up a position as commercial manager with Dr. Hönle AG, and was appointed to the Management Board with effect from 1 January 2000

Heiko Runge

Graduate Engineer (52)

Responsible for Sales and Technology

Heiko Runge completed his physical technology studies at the Wedel University for Applied Science with a diploma in engineering [Dipl. Ing. (FH)]. He began his career in 1990 as product manager for marketing at Eltosch Torsten Schmidt GmbH. Three years later, he changed jobs to work for Dr. Hönle AG. Here, his first position was as marketing manager, and he was appointed to the Management Board with effect from 1 January 2000.

Supervisory Board

Prof. Dr. Karl Hönle

Physicist

Supervisory Board Chairman

Karl Hönle is an emeritus professor at the Munich University of Applied Science. There, he held the Chair in technical optics and laser technology and was an authorised representative for the transfer of technology and for the trade fair participation of Bavarian applied sciences universities. He was also engaged in local government politics in Dachau for twenty years.

As member of the Panel, he headed the Lab for Lighting Technology [Labor für Lichttechnik (GbR)] and is a member of the Technical Standards Committee for Lighting Technology at the German Institute for Standardization (DIN). In addition, Prof. Hönle is managing director of Dr. Hönle Medizintechnik GmbH.

Günther Henrich

Lawyer

Vice Chairman of the Supervisory Board

Following his activities for the Bavarian Ministry of Economics and LfA Förderbank Bayern, Mr Henrich acted as managing director at BayBG Bayerische Beteiligungsgesellschaft mbH and its predecessor companies from 1987 through 2012. Mr Henrich has played a leading role in building up BayBG to become the present market leader for SME investment capital in Bavaria. As a result, Mr Henrich has an extensive network in the Bavarian industry. He was

member of the supervisory and advisory boards of numerous small- and medium-sized companies. In addition, Mr Henrich headed an expert group and was member of the Board of Directors of the German Private Equity and Venture Capital Association [BVK Bundesverband deutscher Kapitalbeteiligungsgesellschaften].

Dr. Bernhard Gimple

Lawyer

Supervisory Board

Dr. Gimple has been working as a lawyer in Munich since 2001. After completing his law studies and receiving his PhD at Ludwig-Maximilian-University in Munich, he initially worked for several large-scale supra-regional business law firms before founding the law firm, SOLEOS, together with another colleague in 2011. Since November 2005 the trained banker has also been acting as Pfandbrief trustee at Stadtparkasse München.

Audit opinion

We have audited the consolidated financial statements as at 30 September 2016 prepared by Dr. Höhle AG, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from 1 October 2015 to 30 September 2016. The preparation of the consolidated financial statements and the group management report of Dr. Höhle AG and of the group in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB (Handelsgesetzbuch: German Commercial Code) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit such that misstatements and irregularities materially affecting the presentation of the net assets, financial position and results of operations in the consolidated

financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of Dr. Höhle AG comply with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net

assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole and provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Munich, 23 December 2016

S&P GmbH
Wirtschaftsprüfungsgesellschaft

Christoph Thomas
Wirtschaftsprüfer

Ulrich Stauber
Wirtschaftsprüfer

Statement of the Company's Management

We affirm that, to the best of our knowledge, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the group in accordance with generally accepted accounting principles.

The group management report provides a suitable understanding of the course of business, including the business results and the group's position, and suitably presents the opportunities and risks of future development.

Gräfelfing, 23 December 2016

Dr. Höhle AG



Norbert Haimerl
Management Board



Heiko Runge
Management Board

Consolidated Income Statement

for the period from 1 October 2015 to 30 September 2016 according to IFRS

	Notes	01/10/2015 - 30/09/2016 in T€	01/10/2014 - 30/09/2015 in T€
Revenue	(6)	93,415	92,173
Changes in inventories of finished goods and work in progress		2,283	94
Other capitalised services		127	259
Other operating income	(7)	1,012	1,673
Cost of purchased materials and services	(8)	35,972	33,527
Personnel expenses	(9)	31,031	29,395
Depreciation and amortisation including goodwill	(10)	2,709	2,638
Other operating expenses	(11)	14,725	15,115
Operating result/EBIT		12,400	13,524
Profit/loss from investments accounted for at equity	(12)	-14	-11
Financial income	(13)	54	1,094
Financial expenses	(14)	390	584
Financial result		-350	499
Earnings before tax and non-controlling interests/EBT		12,050	14,023
Income tax	(15)	3,760	3,703
Consolidated net income		8,290	10,320
Share in earnings attributable to non-controlling interest	(16)	12	192
Share in earnings attributable to Dr. Höhle AG's shareholders		8,278	10,128
Earnings per share (basic) in €	(19)	1.50	1.84
Earnings per share (diluted) in €	(19)	1.50	1.84

Statement of Consolidated Comprehensive Income

for the period from 1 October 2015 to 30 September 2016 according to IFRS

	01/10/2015 - 30/09/2016 in T€	01/10/2014 - 30/09/2015 in T€
Consolidated net income	8,290	10,320
Other comprehensive income:		
Positions that may be subsequently reclassified to profit or loss		
- Difference from currency translation	(31)	355
- Other income/loss from hedging transactions	(46)	35
- Income tax effects	(23)	-9
Positions that will not be reclassified to profit or loss		
Changes of actuarial profit/loss from pensions	(35)	231
Deferred taxes from changes of actuarial profit/loss from pensions	(23)	-56
Other comprehensive income	-1,253	556
Total comprehensive income for the period	7,037	10,877
Thereof:		
- Proportion of earnings attributable to non-controlling interest	6	188
- Proportion of earnings attributable to Dr. Höhle AG's shareholders	7,031	10,689

Consolidated Statement of Financial Position

as at 30 September 2016 according to IFRS

ASSETS	Notes	30/09/2016 in T€	30/09/2015 in T€
Non-current assets			
Goodwill	(20)	18,849	18,849
Intangible assets	(20)	2,905	3,051
Property, plant and equipment	(20)	17,191	16,163
Investment property	(20)	1,301	0
Investments accounted for at equity	(22)	37	50
Financial assets	(20)	32	32
Other non-current assets	(21)	902	810
Deferred income tax claims	(23)	3,187	2,569
Total non-current assets		44,404	41,524
Current assets			
Inventories	(24)	27,415	25,055
Trade accounts receivable	(25)	13,076	13,513
Receivables from companies in which an equity investment is held	(26)	213	224
Other current assets	(27)	2,003	2,233
Tax refund claims	(28)	648	631
Liquid assets	(29)	6,516	7,456
Total current assets		49,871	49,112
Non-current assets held for sale	(30)	0	376
Total assets		94,275	91,012

LIABILITIES AND SHAREHOLDERS' EQUITY		30/09/2016 in T€	30/09/2015 in T€
	Notes		
Shareholders' equity	(31)		
Subscribed capital		5,513	5,513
Own shares		-8	-8
Additional paid-in capital (capital reserves)		16,596	16,596
Retained earnings		37,776	33,776
Equity attributable to Dr. Höhle AG's shareholders		59,877	55,877
Non-controlling interest		1,792	1,637
Total shareholders' equity		61,669	57,514
Long-term liabilities			
Long-term loans (less current portion)	(32)	6,043	8,034
Long-term finance lease obligations	(33)	187	8
Other long-term liabilities	(34)	537	416
Pension accruals	(35)	6,528	4,567
Accrued public investment grants	(36)	465	533
Deferred income tax liabilities	(23)	1,369	1,526
Total long-term liabilities		15,130	15,084
Short-term liabilities			
Trade accounts payable	(37)	4,917	4,990
Liabilities to companies in which an equity investment is held	(26)	0	7
Prepayments received	(38)	938	622
Current portion of finance lease obligations	(33)	36	3
Short-term liabilities to banks and current portion of long-term loans	(39)	2,996	3,022
Other short-term liabilities	(40)	5,533	6,346
Other accruals	(41)	483	486
Liabilities from income taxes	(42)	2,573	2,938
Short-term liabilities, total		17,475	18,414
Total liabilities and shareholders' equity		94,275	91,012

Consolidated Statement of Changes in Equity

for the period from 1 October 2015 to 30 September 2016 according to IFRS

			R e t a i n e d e a r n i n g s				E q u i t y			
	Sub- scribed capital in T€	Own shares in T€	Addi- tional paid-in capital in T€	Legal and other reserve in T€	Reserve for hedging transactions in T€	Reserve for actuarial losses IAS 19 in T€	Reserve for currency differences in T€	Equity attribu- table to Dr. Hönle AG's shareholders in T€	Non- controll- ing interests in T€	Total in T€
As at 01/10/2014	5,513	-8	16,596	25,502	-107	-1,570	1,643	47,569	2,149	49,718
Consolidated net income for the year				10,128				10,128	192	10,320
Other comprehensive income					26	175	355	556	-4	552
Total comprehensive income				10,128	26	175	355	10,684	188	10,872
Changes due to the purchase of non-controlling interests				379				379	-736	-357
Changes of non-controlling interests due to the purchase of company shares								0	185	185
Dividend distribution				-2,756				-2,756	-149	-2,905
As at 30/09/2015	5,513	-8	16,596	33,253	-81	-1,395	1,999	55,877	1,637	57,514
As at 01/10/2015	5,513	-8	16,596	33,253	-81	-1,395	1,999	55,877	1,637	57,514
Consolidated net income for the year				8,278				8,278	12	8,290
Other comprehensive income					11	-1,251	-7	-1,247	-6	-1,253
Total comprehensive income				8,278	11	-1,251	-7	7,031	6	7,037
Equity contribution by non-controlling shareholders								0	149	149
Dividend distribution				-3,032				-3,032	0	-3,032
As at 30/09/2016	5,513	-8	16,596	38,499	-70	-2,646	1,993	59,877	1,792	61,669

Statement of Consolidated Cash Flows

for the period from 1 October 2015 to 30 September 2016 according to IFRS

	01/10/2015- 30/09/2016 in T€	01/10/2014- 30/09/2015 in T€
Cash flow from operating activities:		
Net income for the year before non-controlling interests and taxes	12,050	14,023
Adjustments for:		
Amortisation/depreciation of fixed assets	2,709	2,638
Gains/losses from the disposal of fixed assets	75	-314
Financial income	-40	-1,083
Financial expenses	389	584
Other non-cash expenses/income	-224	-1,026
Operating result before changes to net current assets	14,959	14,822
Increase/decrease in accruals	176	247
Increase/decrease in trade accounts receivable	511	-876
Increase/decrease in receivables from companies in which an equity investment is held	11	43
Increase/decrease in other assets	230	362
Changes in reinsurance policy	-143	-50
Increase/decrease in inventories	-2,475	-1,778
Increase/decrease in trade accounts payable	26	-21
Increase/decrease in liabilities to companies in which an equity investment is held	-7	-69
Increase/decrease in advance payments received	316	-72
Increase/decrease in other short-term liabilities	-477	245
Increase/decrease in accrued public investment grants	0	9
Cash from current activities	13,126	12,863
Interest paid	-278	-334
Income tax paid	-4,492	-3,371
Cash flow from operating activities	8,356	9,159
Cash flow from investing activities:		
Payments received from the sale of fixed assets	376	511
Purchase of subsidiaries, less net cash and cash equivalents acquired	0	186
Payments for the purchase of non-controlling interest	0	-357
Payments for the purchase of investments accounted for at equity	0	-39
Payments for the purchase of property, plant and equipment and intangible assets	-4,980	-2,136
Changes due to acquisitions in previous years	-19	-603
Payments received from long-term receivables	51	66
Payments for long-term receivables	0	-150
Payments received from interest	22	29
Payments received from dividends	0	15
Cash flow from investing activities	-4,551	-2,478
Cash flow from financing activities:		
Payments received from loans and liabilities to banks	1,153	1,350
Payments relating to loans and liabilities to banks	-2,841	-3,241
Repayment of liabilities to shareholders	-150	-279
Cash receipts from equity contributions of other shareholders	149	0
Dividends paid	-3,032	-2,905
Cash flow from financing activities	-4,721	-5,075
Currency differences	-46	110
Currency-related changes in cash and cash equivalents	21	56
Net increase/decrease in cash and cash equivalents	-940	1,771
Cash and cash equivalents at the beginning of the reporting period	7,456	5,685
Cash and cash equivalents at the end of the reporting period	6,516	7,456

The cash flow statement is explained in the Notes (47).

Notes to the IFRS Consolidated Financial Statements

for the Financial Year 2015/2016 of Dr. Höhle AG, Gräfelfing

GENERAL INFORMATION

1. Accounting Basis

Dr. Höhle AG is a listed corporation. It is registered in the Commercial Register of the Munich (Germany) local court under HR B No. 127507. The company's head office is located at Lochhamer Schlag 1 in 82166 Gräfelfing near Munich, Germany.

The Höhle Group is split into the following three business segments: Equipment & Systems, Glass & Lamps and Adhesives. The equipment and systems are used for drying inks and coatings, for curing adhesives and plastics, for disinfecting surfaces and for sunlight simulation. The Glass & Lamps segment comprises quartz glass tubing and rods for the lamp, automotive, semiconductor and fibre cable industries as well as lamps for water sterilization and the drying of coatings and adhesives. The Adhesives segment includes industrial adhesives designed for a broad spectrum of applications such as electronics, medical technology, optics and glass processing.

The present consolidated financial statements of Dr. Höhle AG have been prepared in accordance with the International Financial Reporting Standards (IFRS) as applied in the European Union and the supplementary applicable provisions stipulated in Section 315a (1) of the German Commercial Code (HGB).

The consolidated financial statements include the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in consolidated equity, the cash flow statement and the notes to the financial statements (Notes). The consolidated financial statements are supplemented by the combined management report of Dr. Höhle AG and the group.

The financial year of Dr. Höhle AG and its included subsidiaries, with the exception of the subsidiaries, Hoenle UV Technology (Shanghai) Trading Ltd., China and SKC - Panacol Co., Ltd., South Korea, corresponds to the period from 1 October to 30 September. The financial year of the above-mentioned subsidiaries corresponds to the calendar year.

The present consolidated financial statements were prepared in full compliance with relevant IFRS standards as approved by the EU, and therefore present a true and fair view of the Höhle Group's net assets, financial condition and results of operations and cash flows.

The consolidated financial statements are prepared in euro currency. Unless otherwise stated, the amounts quoted are shown as T€ (thousand euros). The consolidated financial statements are generally based on historical purchase and production costs, unless stated otherwise under section 5 (Accounting and Valuation Methods).

The consolidated financial statements are prepared on the basis of the going concern assumption.

The Dr. Höhle AG Management Board prepared the consolidated financial statements on 23 December 2016.

2. Estimates and Assumptions

The preparation of the consolidated financial statements requires estimates and assumptions to be made that impact on the amounts shown and on related disclosures. As a consequence, management has some scope of discretion respecting the preparation of the consolidated financial statements, which was exercised to the best of management's knowledge. However, actual results may deviate from these estimates and assumptions.

The most significant future-related assumptions and other significant sources of estimation uncertainties as at the reporting date, which involve a considerable risk of major adjustments to the carrying amounts of assets and debts becoming necessary within the next financial year, are listed in the respective explanations of the individual items. Estimates and assessments within the Hönlle Group relate, to a large extent, to assessing the value of goodwill (cf. paragraph 20), the valuation of pension accruals (cf. paragraph 35) and other accruals (cf. paragraph 41) and the determination of deferred taxes (cf. paragraph 23).

3. Consolidation

Consolidated Group

The consolidated financial statements as of 30 September 2016 include the parent company, Dr. Hönlle AG, and the following subsidiaries:

Name	Head office	Shareholding as a % Reporting year	Shareholding as a % Prior year	Held via
Direct participations				
(1) Aladin GmbH, Gräfelfing, Munich	Germany	60.00	60.00	
(2) Honle UV France SARL, Bron, Lyon	France	100.00	100.00	
(3) Honle Spain S.A.U., Olesa de Bonesvalls, Barcelona	Spain	0.00	100.00	
(4) PrintConcept UV-Systeme GmbH, Kohlberg	Germany	100.00	100.00	
(5) Eltosch Grafix GmbH, Pinneberg	Germany	100.00	100.00	
(6) AGITA Holding AG, Regensburg, Zurich	Switzerland	100.00	100.00	
(7) UV-Technik Speziallampen GmbH, Wümbach	Germany	81.00	81.00	
(8) Mitronic GmbH, Gräfelfing, Munich	Germany	0.00	100.00	
(9) Hoenle UV Technology (Shanghai) Trading Ltd., Shanghai	China	100.00	100.00	
(10) Raesch Quarz (Germany) GmbH, Langewiesen	Germany	100.00	80.00	
(11) Raesch Quarz (Malta) Ltd., Mosta, Malta	Malta	100.00	100.00	
(12) Honle US Real Estate LLC, Torrington	USA	100.00	100.00	
Indirect participations				
(13) Panacol AG, Regensburg, Zurich	Switzerland	100.00	100.00	(6)
(14) Panacol-Elosol GmbH, Steinbach/Frankfurt/M.	Germany	100.00	100.00	(13)
(15) Eleco Produits EFD, SAS, Gennevilliers/Paris	France	99.96	99.96	(13)
(16) Eltosch Grafix America Inc., Batavia/Chicago	USA	100.00	100.00	(5)
(17) SKC - Panacol Co., Ltd, Suwon-si	South Korea	51.00	51.00	(14)
(18) Tangent Industries, Inc., Torrington	USA	62.18	57.59	(13)
Associated companies:				
(19) Metamorphic Materials Inc., Winsted	USA	30.00	30.00	(13)
(20) TECINVENT GmbH, Schömberg	Germany	35.00	35.00	

The investment quotas for all direct and indirect participations (equity investments) also represent the voting rights quotas.

The above-mentioned companies listed under direct and indirect participations are fully consolidated due to the existing possibility of control through the majority of voting rights. Control is achieved when the parent company,

- can exercise control over the equity investments,
- is exposed to fluctuating returns from its equity investments, and
can exert influence on the amount of returns due to its control over the equity investments.

Changes in the group's investment quotas in subsidiaries, which do not lead to a loss of control over this subsidiary are accounted for as equity capital transactions.

Associated companies pursuant to IAS 28 are accounted for using the equity method unless the shares are classified as assets held for sale, in which case accounting is based on IFRS 5. An associated company is a company on which the group can exert influence through involvement in the financial and business policy without, however, exerting control over the company. Decisive influence is assumed when the parent company holds at least 20 % of voting rights (associated company). In accordance with the equity method, shares in associated companies are to be included in the consolidated balance sheet at cost which are adjusted for changes in the group's share in profit or loss and in the other result of the associated company after the acquisition date.

Although Solitec Gesellschaft für technischen Produktvertrieb mbH (Solitec GmbH) with registered head office in Gräfelfing, is a 100 % participation (equity investment), it was not included in consolidation as the company is immaterial for providing a true and fair view of the group's net assets, financial position and results of operations of the group (revenue and total assets < T€ 50 in each case). the result for the year 2015/2016 generated by Solitec GmbH amounts to T€ -1 (PY: T€ 2), the amount of equity capital as of 30 September 2016 amounts to T€ 38 (PY: T€ 39).

The business shares of PrintDesign Engineering GmbH - with registered head office in Kohlberg, Germany - in the amount of 20 % of nominal capital are disclosed in the consolidated financial statements under the balance sheet item: "Financial assets". The business shares are not consolidated as Dr. Höhle AG does not exert decisive control over the company. The equity investment is classified as "available-for-sale financial asset". The result for the financial year 2015/2016 generated by PrintDesign Engineering GmbH amounts to T€ -7 (PY: T€ 0) and equity capital amounts to T€ 24 (PY: T€ 31) as of 30 September 2016.

The companies included in the consolidated group saw the following changes in comparison with the previous year:

The subsidiary, Mitronic GmbH, Gräfelfing, was merged with the parent company, Dr. Höhle AG, in the second quarter of 2015/2016. The merger was made with retrospective effect as of 1 October 2015.

Also in the second quarter of 2015/2016, Panacol AG, Regensdorf, Zurich, Switzerland exercised a purchase option in Tangent Industries, Inc., Torrington, USA. In this connection, Panacol AG acquired a further 4.59 % stake in Tangent Industries, Inc. and now holds 62.18 % of the shares in Tangent Industries, Inc..

In June 2016, Dr. Höhle AG acquired a further 20 % stake in Raesch Quarz (Germany) GmbH, Lange-wiesen. Consequently, 100 % of the shares in Raesch Quarz (Germany) GmbH were held as of the balance sheet date.

In the fourth quarter 2015/2016, the subsidiary, Honle Spain S.A.U., was dissolved. In the future, equipment and systems will be sold distributed via the subsidiary, Honle UV France SARL, Bron, Lyon, France. Honle Spain S.A.U was deconsolidated as of 30 September 2016. This had no significant impact on the consolidated balance sheet or the consolidated income statement.

Consolidation Methods

Business combinations are accounted for using the acquisition method. Asset-side differences between acquisition costs and the company's prorated revalued equity capital are reported as goodwill in the balance sheet. Debit-side differences are released and included in the operating result following another examination. Differences resulting from the acquisition of non-controlling interests are set off directly in equity capital.

Non-controlling interests are valued at the prorated fair value of the acquired assets and transferred debts. Following initial recognition, profits and losses are allocated without any limitations in accordance with the proportionate investment share, and this may result in a negative balance with respect to non-controlling interests.

All intra-group business transactions, balances, and intra-group results are fully eliminated within the scope of consolidation.

Currency Translation

The functional currency and the reporting currency of Dr. Höhle AG and most of its European subsidiaries is the euro (€).

The functional currencies, Swiss Franc (CHF), US-Dollar (USD) and Korean Won (KRW) are the functional currencies for the independent subsidiaries in Switzerland, the United States and South Korea.); the functional currency for the dependent Chinese subsidiary the functional currency is the Chinese Renminbi (RMB). Assets and debts are translated at the rates applicable as of the balance sheet date while equity capital is translated at historical rates.

The resulting currency translation differences were recorded in equity capital and in the statement of comprehensive income with neutral effect on profit/loss. The development of this special item is presented in the statement of changes in equity. Income statement items are translated using the average rate for the financial year.

		Reporting date rate		Average rate	
		30/09/2016	30/09/2015	2015/2016	2014/2015
		in €	in €	in €	in €
1 Swiss Franc	CHF	0,9135	0,9060	0,9163	0,9117
1 US Dollar	USD	0,8960	0,8926	0,9004	0,8710
1 Chinese Renminbi	RMB	0,1343	0,1404	0,1378	0,1400
1 Korean Won	KRW	0,0008	0,0008	0,0008	0,0008

Foreign currency receivables and liabilities are generally translated at the mean rates of exchange as of the balance sheet date in accordance with IAS 21. The resulting translation differences are recognized in profit/loss as income/expenses from exchange rate differences. No hedging transactions were concluded to hedge against currency risks.

4. Newly Published Accounting Provisions

The following new or revised IASB or IFRIC (International Financial Reporting Interpretations Committee) standards were to be applied for the first time in financial year 2015/2016. The comparative figures were adjusted as required.

- IAS 19- Employee Contributions: Clarification and allocation of employee contributions or third-party contributions linked with the length of service as well as relief provisions if the amount of the contributions is independent of the number of years of service. The Hönle Group's employee contributions do not include defined benefit plan. The changes concerning IAS 19 do not impact on accounting and the Notes disclosures in the consolidated financial statements of the Hönle Group.
- Annual Improvements to IFRSs 2010-2012 Cycle: Amendments were applied to individual IFRSs within the scope of the annual improvements process of the IASB with a view to eliminating inconsistencies with other standards or to clarify their contents. The amendments concern the standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, and IAS 38. These amendments to the standards mentioned do not impact on the consolidated financial statements of the Hönle Group.
- Annual Improvements to IFRSs 2011-2013 Cycle: Within the scope of the annual IASB improvement process, some amendments to within individual IFRSs were made in order to eliminate inconsistencies relative to other standards or put the respective contents into more precise terms. The amendments, which do not impact on the consolidated financial statements of the Hönle Group, concern the standards: IFRS 1, IFRS 3, IFRS 13 and IAS 40.

Furthermore, the IASB and IFRIC issued the following standards, interpretations and amendments to existing standards which have already been adopted by the European Commission, the application of which, however, was not yet mandatory for Dr. Hönle AG in the financial year. As a general rule, Dr. Hönle AG does not apply new IFRS/IFRICs before the date of obligatory application (effective date). The possible impact on future consolidated financial statements is being analysed. A reliable assessment is not possible at this time, however.

- Annual Improvements to IFRSs 2012-2014 Cycle: Within the scope of the IASB's annual improvement process, individual IFRSs will be subject to amendments in order to eliminate inconsistencies relative to other standards. This concerns the following standards: IFRS 5, IFRS 7, IAS 19 and IAS 34 (effective date: 1 January 2016)
- Amendments to IAS 27- Equity Method in Separate Financial Statements: As a consequence of these amendments, the equity method is again admitted as accounting option for shares in subsidiaries, joint ventures and associated companies in the separate financial statements of an investor. (Effective date: 1 January 2016).
- Amendments to IAS 16 and IAS 41- Bearer Plants: The amendments bring bearer plants that are no longer subject to significant biological changes into the scope of IAS 16. Consequently, they are accounted for in the same way as property, plant and equipment. (Effective date: 1 January 2016).
- Amendments to IAS 16 and IAS 38- Clarification of Acceptable Methods of Depreciation and Amortisation: These amendments provide for guidelines respecting the methods that can be used for depreciation/amortisation of property, plant and equipment and intangible assets and, in particular, revenue-based depreciation/amortisation methods. (Effective date: 1 January 2016).
- Amendments to IFRS 11- Accounting for Acquisitions of Interests in Joint Operations : The acquirer of shares in joint arrangements that represent business operations as defined in IFRS 3 must apply all principles respecting the accounting for business combinations from IFRS 3 and other IFRSs as long as these do not conflict with the guidelines described in IFRS 11 (effective date: 1 January 2016).
- IAS 1- Disclosure Initiative: The IAS amendment mainly clarifies that a disclosure requirement only applies when the contents of the amendment is deemed material. The amendment also provides

clarifications on the aggregation and disaggregation of financial statement items in the statement of financial position and statement of comprehensive income, and on the presentation of other comprehensive income of consolidated companies accounted for at equity and on the structure of disclosures in the notes. (Effective date: 1 January 2016).

- Amendments to IFRS 10, IFRS 12 and IAS 28- Investment Entities: Applying the Consolidation Exception: the amendment puts the consolidation duty when the parent company qualifies as an investment company in concrete terms, specifying the circumstances when the subsidiary is not subject to a consolidation duty. (Effective date: 1 January 2016).
- IFRS 15- Revenue from Contracts with Customers: The standard specifies when and in what amounts revenue will be recognised. Consequently, IFRS 15 supersedes the previously relevant standard (IAS 18, IAS 11 and IFRIC 13) on revenue recognition and the relevant interpretations. The application is mandatory for all users and is to be applied to almost all contracts with customers. However, there are significant exceptions concerning lease relationships, financial instruments and insurance contracts. In addition, "Amendments to IFRS15" were published in April 2016 which provide for clarity and simplification in the context of transition to IFRS 15. (Effective date: 1 January 2018).

At present, the group assesses the possible impact of IFRS 15 on the consolidated financial statements. Sales revenues in the Hönle Group are primarily generated with the sale of equipment, adhesives and glass pipes. Service agreement play an only minor role.

In the context of the sale of the products mentioned, at present, sales revenues are recognised at the time of transfer of rewards and risks associated with the transfer of ownership to the customer. The decisive criterion is provided by the Incoterms agreed upon with the customer. Sales revenues are recognized at that date to the extent that sales revenues and costs can be reliably assessed, that the receipt of the respective consideration is likely and that no other right of disposal concerning the assets applies. In accordance with IFRS 15 sales revenues are recognized as soon as a customer obtains control over the assets. The group does not expect IFRS 15 to impact significantly on the consolidated financial statements, neither in respect of the date of revenue realisation nor in respect of the amount of sales revenues. At present, the group intends to apply IFRS 15 to its consolidated financial statements as at 30 September 2019 and, in so doing, using the retrospective approach. As a consequence, the group will apply all requirements stipulated in IFRS 15 to all presented comparative period and adjust the consolidated financial statements accordingly. The group intends to use the practical simplifications for fulfilled contracts

- IFRS 9- Financial Instruments: The standard replaces IAS 39 and introduces a single approach for the classification and valuation of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. In addition, IFRS 9 provides for a new impairment model and includes new regulations on the application of hedge accounting. (Effective date: 1 January 2018).

The actual impact of the application of IFRS 9 on the consolidated financial statements for the financial year 2018/2019 - the first-time application of the standard - is not known and cannot be reliably assessed as it depends on the financial instruments held by the group and the economic conditions at that point in time and is also contingent on the accounting methods selected and the group's discretionary decisions in the future. The new standard requires the group to adjust its accounting processes and internal controls associated with the presentation of financial instruments. The analysis of required adjustment is not yet completed. Taking the group's financial positions as of 30 September 2016 and the hedge relationships existing in the financial year into account, the group does not expect the new IFRS 9 regulations to impact significantly on the classification of financial assets and financial liabilities and the provisions on hedge accounting.

The group is of the opinion that impairment expenses for assets will probably increase or become more volatile within the scope of application of the IFRS 9 impairment model. In consideration of the impairment expenses as of 30 September 2016, the Hönle Group considers additional impairment expenses to be insignificant. The group has not yet specified the impairment methods to be applied in accordance with IFRS 9.

In addition, the IASB and IFRIC issued the following regulations which have not yet been adopted by the European Commission. Early adoption of these regulations is not permitted. Their possible impact on future consolidated financial statements is being analysed. The current status of the analysis does not permit a reliable assessment of the impact, however:

- IFRS 14- Regulatory Deferral Accounts: The standard permits an entity which is a first-time adopter of the International Financial Reporting Standards to also recognize regulatory deferral account balances, which are accounted for under national law in the IFRS financial statements under certain circumstances. (Effective date: 1 January 2016). The EU has decided not to start the transition process but to await the final standard.
- Amendments to IFRS 10 and IAS 28- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture: The amendment provides for clarification concerning transactions between investors and associated entities or joint ventures. The endorsement process was suspended in February 2015. (Effective date: postponed for an indefinite time period).
- Amendments to IAS 12- Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses: The amendments provide for general clarifications concerning the treatment of deductible temporary differences. In particular, the accounting for deductible temporary differences is clarified which results from debt securities measured at fair value. (Effective date: 1 January 2017)
- Amendments to IAS 7- Statement of Cash Flows: Disclosure Initiative: The amendments are aimed at improving the information about changes in the liabilities from financing activities. (Effective date: 1 January 2017).
- Amendments to IFRS 2- Classification and Measurement of Share-based Payment Transactions: The amendments relate to the classification and measurement of share-based remuneration. (Effective date: 1 January 2018)
- Amendments to IFRS 4- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts: The amendments introduce two approaches, specifically the overlay approach and the deferral approach in order to address the concerns about issues arising from implementation of IFRS 9 Financial Instruments before the new Insurance Contracts standard comes into effect. (Effective date: 1 January 2018).
- Annual Improvements to IFRS Standards 2014-2016 Cycle: Within the scope of the annual IASB improvement process, amendments are made to individual IFRs in order to eliminate inconsistencies relative to other standards or to put their content into more precise terms. The amendments concern the standards: IFRS 1, IAS 28, IFRS 12, IFRS 7. (Effective date: concerning amendments to IFRS 12: 1 January 2017, concerning the remaining amendments: 1 January 2018)
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration: The interpretation addresses an application question relating to IAS 21: The Effects of changes in Foreign Currency. It provides clarification as to when the exchange rate is to be determined or the translation of foreign currency transactions which involve prepayments made or received (Effective date: 1 January 2018).
- Amendments to IAS 40: Transfers of Investment Property: The amendment of IAS 40 serves to provide clarification as to when the classification of property held as "investment property" begins or ends if the property is still under construction or in the development phase. The previously finalized listing in IAS 40.57 had not provided a clear regulation concerning the classification of properties not yet completed. (Effective date: 1 January 2018).
- IFRS 16- Leases: The standard replaces the previous regulations governing the accounting for lease relationships and leads to a basic change in recognition at the lessee. The standard specifies the recognition, measurement, disclosure and reporting requirements respecting the lease relationship in the financial statements of enterprises. (Effective date: 1 January 2019).

IFRS 16 introduces a single lessee accounting model requiring recognition of the leases in the balance sheet of the lessee. All leases result in the lessee obtaining the "right-of-use assets" which

represents the lessee's right to the underlying asset, and in the liability from the lease which represents the lessee's obligation to make lease payments. Exemption: IFRS does not require a company to recognize assets and liabilities for short-term leases and leases of low-value assets. Accounting concerning the lessor is similar to the current standard, i.e., the lessor continues to classify leases as finance or operating leases.

The group has not yet commenced with analysing the possible impact on the consolidated financial statements, and has not yet decided on whether or not to make use of exemptions of which transitional provisions will be applied. The group expects to be able to provide more detailed information about the impact and transitional approach prior to initial application.

5. Accounting and Valuation Methods

The balance sheet, the income statement and the statement of comprehensive income of companies included in the consolidated financial statements were prepared in a uniform manner using the parent company's accounting policies presented below.

Goodwill

Goodwill is not subject to scheduled amortisation but is reviewed with regard to impairment at least once a year. A review is also carried out in the case of triggering events that indicate a possible impairment in value. Goodwill is stated at acquisition costs net of accumulated amortisation from impairments. Goodwill is stated at acquisition costs net of accumulated amortisation from impairments.

The goodwill impairment test is carried out at the level of cash generating units which represent the lowest level at which the goodwill is monitored for purposes of internal corporate management.

For purposes of the impairment test, the goodwill acquired within the context of a business combination is allocated to the cash generating unit which is expected to profit from the synergies of the business combination. If the carrying amount of the entity to which the goodwill is allocated is higher than its recoverable amount, the goodwill allocated to the cash-generating unit is amortised accordingly due to value impairment. The achievable amount is the higher of the two amounts from fair value less sales costs and the usage value of the unit.

The usage value is determined using the discounted cash flow method. In so doing, future expected cash flows from the most recent management planning are used as a basis, extrapolated on the basis of long-term growth rates and margin development assumptions and discounted with the capital costs of the unit to be measured.

No reinstatements of the original values of amortised goodwill are recorded in future periods if the achievable amount exceeds the book value of the cash generating unit or the group of cash generating units to which the goodwill is allocated.

For details on the assumptions used in impairment tests, please see paragraph 20.

Intangible Assets

Acquired intangible assets and internally developed intangible assets are stated at cost in accordance with IAS 38 and are amortised over their expected useful lives using the straight line method.

The following useful lives were applied:

Customer base and other rights	5 to 10 years
Software	1 to 15 years

Licenses	1 to 14 years
Copyrights, patents and other commercial property rights	7 to 10 years
Formulas, secret procedures, models, drafts and prototypes	10 years

Property, Plant and Equipment

Property, plant and equipment are measured at acquisition or manufacturing costs net of accumulated depreciation in accordance with IAS 16. Depreciable fixed assets are written down according to schedule using the straight line method of depreciation.

In contrast to previous years, the scheduled depreciation of the group's melting furnaces disclosed in technical equipment and machines is no longer based on asset per melting furnace; instead, it is split up into individual components (in particular furnace body and melting pot and pertaining sub-components). These are written down separately in accordance with IAS 16.43 et seqq. due to their different useful lives. Consequently, the relevant individual useful lives were re-estimated and the individual components were written off accordingly. This approach leads to a more appropriate cause-based period-recognition of the expense from the use of the asset and its components.

Only insignificant changes versus the previously applied depreciation method occurred for the total amount of depreciation in financial year 2015/2016. The company assumes that this will also be the case in the next years.

The following useful lives were applied:

Buildings	3 to 50 years
Technical equipment and machines	1 to 20 years
Operating and business and operating equipment	1 to 39 years

The item "Buildings" also includes leasehold improvements. Scheduled depreciation of leasehold improvements is defined according to the expected useful life.

Maintenance expenses are treated as expense for the period.

Investment Property

Property, which is not used for business purposes and exclusively serves to generate rental income and profit from value increases, is recognized at depreciated acquisition costs. The scheduled depreciation of this property runs for a period of 33 years.

Participations Accounted for at Equity

Associated companies are accounted for using the equity method and disclosed in the balance sheet under “Investments accounted for at equity”. A company on which the group exerts a decisive influence without, however, being able to control the company alone or jointly, qualifies as an associated company. IAS 28.6 assumes that a participation of more than 20 % of the voting shares indicates significant control.

Deferred Taxes

The liability method stipulated in IAS 12 is used to determine deferred taxes. In principle, this involves creating deferred tax assets and deferred tax liabilities for all temporary valuation differences between the values applied according to IFRS and the tax values of balance sheet items. Deferred tax assets were taken into account only where it is expected that taxable profits will be available in the future. Deductible temporary differences, unused tax losses as well as unused tax credit notes can be set off against these profits.

The tax rates applicable with respect to the German companies differ due to differing trade tax factors at the individual sites.

Deferred taxes are measured using the tax rate that is expected to be valid for the period in which the asset is realised or the liability is settled.

Inventories

In general, raw materials and supplies are stated at acquisition cost in accordance with IAS 2. Acquisition costs are determined using the weighted average cost method. Finished goods and work in progress are recorded at manufacturing costs, which also contain, in addition to directly allocable costs, fixed and variable manufacturing and material overheads.

Cost of debt is charged to expenditure at the full amount since these costs cannot be directly allocated to qualified assets.

Slow-moving items are written down at the lower of acquisition or manufacturing costs and the net realisable value. The net realisable value represents the estimated sales proceeds that are achievable in the normal course of business, net of estimated manufacturing and selling costs.

Financial Assets

The categorisation of financial assets is based on the following categories:

- Assets measured at fair value through profit or loss
- Held-to-maturity financial assets
- Financial assets available for sale
- Loans and receivables

The assets are allocated to a specific category upon addition, depending on the type and purpose of the financial asset. The classification is reviewed on each balance sheet date.

Dr. Hönle AG does not report assets measured at fair value through profit or loss and financial investments held to maturity. Financial instruments are accounted for as follows:

1. Assets measured at fair value through profit or loss

Financial assets allocated to this category are attributable to one of the following sub-categories:

- Financial assets held for trading from the beginning
- Financial assets measured at fair value through profit or loss from initial recognition

As a general rule, a financial asset is allocated to this category if it was acquired with the intention to sell the asset within the short-term or if it was designated accordingly by Management. Assets included in this category are disclosed as current assets if they are held for trading purposes or are expected to be realised within 12 months after the balance sheet date.

Derivative financial instruments are measured at fair value. Changes in the value of derivatives for which no qualified hedge can be created are deemed to be held for "trading purposes". Consequently they are recognised through profit or loss in the income statement. If the derivatives are included in a cash flow hedge, the fair value adjustments are disclosed directly in equity taking deferred taxes into account. If the derivative financial instruments are included in fair value hedges, the carrying amount of the underlying transaction is adjusted for the profit or loss from the derivative allocable to the risk to be hedged.

2. Loans and receivables

Loans and receivables include non-derivative financial assets under fixed or determinable payment terms that are not quoted on an active market. Excluded from this are financial assets held for trading as well as assets designated by Management for fair value measurement. Loans and receivables arise when the group provides a debtor directly with money, goods or services without the intention to resell these receivables. The receivables are allocated to current assets to the extent that the maturity of the loans and receivables does not exceed 12 months after the balance sheet date. Longer-term loans and receivables are disclosed as non-current assets.

3. Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payment terms and a fixed maturity where Management has the intention and the capability to hold these assets up to final maturity. Excluded are investments designated for accounting at fair value which are held for trading purposes or are allocable to loans and receivables.

4. Held-for-sale financial assets

Held-for-sale financial assets are non-derivative financial assets classified as held for sale and which were not allocated to any of the other categories presented. They are allocated to non-current assets unless Management intends to sell them within 12 months after the balance sheet date.

Financial assets are measured at fair value plus transaction costs on the date they are first recognized.

Held-for-sale financial assets and assets of the category "measured at fair value through profit or loss" are measured at the respective fair values following initial balance sheet recognition. Loans and receivables and financial investments held to maturity are accounted for at amortised costs using the effective interest rate method.

Realised and non-realised profits and losses arising from changes in the fair value of assets of the category "measured at fair value through profit or loss" are reported under profit or loss in the income statement in the period in which they arise. Unrealised profits and losses arising from changes in the fair value of non-monetary securities of the category "held-for-sale financial assets" are reported under other comprehensive income. If securities of the category "held-for-sale financial assets" are sold or value-adjusted, the fair value changes summarised in the other comprehensive income are reported in the income statement under profit or loss from financial assets.

Measurement of the fair values of financial assets that are quoted on an active market is based on the current bid price. In the absence of an active market for the financial assets or if non-quoted securities are concerned, the respective fair values are determined using suitable valuation methods. These include references to recent transactions between independent business partners, the use of current market prices of other comparable assets, discounted cash flow methods and special option price models.

The group reviews at each balance sheet date whether there are any indications of impairment respecting a financial assets or a group of financial assets. In the event of equity instruments classified as held-for-sale financial assets, a significant or permanent decline in fair value below the acquisition costs of these equity instruments is taken into account when determining the extent of impairment of the equity instruments. If such indication respecting held-for-sale assets exists, the accumulated loss (measured as the difference between acquisition costs and the current fair value) less the impairment reported for the respective financial asset is derecognized from equity and reported in the income statement. Impairment losses recognized in the income statement on equity instruments shall not be reversed through profit or loss.

Shares in affiliated companies are allocated to the "financial assets available for sale" category. As an exception, they are stated at acquisition costs as no active market exists for these shares and reliable determination of the fair values would require unreasonable efforts.

As a general rule, regular purchases and sales of financial assets are accounted for as at the settlement date.

Derecognition

A financial asset (or a portion of a financial asset or a portion of a group of similar financial assets) is derecognised when one of the following prerequisites is met:

- The contractual rights to the receipt of cash flows from a financial asset have expired.
- The group transferred the contractual rights to receive the cash flows from a financial asset to a third party or assumed a contractual obligation stipulating immediate payment of the cash flow to a third party within the scope of an agreement in conformity with IAS 39.19 requirements (so-called pass-through agreement), and, in doing so, either (a) transferred substantially all the risks and awards of ownership of the financial asset or (b) neither transferred nor retained substantially all risks and awards of the ownership of the financial asset, but transferred control of the asset.

When the group transfers the contractual rights to cash flows from an asset or enters into a pass-through agreement, it measures whether and if so to what extent the risks and rewards remain with the group. If the group neither transfers nor retains substantially all risks and rewards of the financial asset, and if it does not transfer control over the asset, the group states the asset at the amount of the respective ongoing commitment. In this case, the group also recognises a pertaining liability. The transferred asset and the associated liability are measured in such a way that the rights and obligations retained by the group are accounted for.

When the form of the ongoing commitment guarantees the asset transferred, the amount of the ongoing commitment corresponds to the lower of the original carrying amount of the asset and the maximum amount of the consideration received, which the group might have to repay.

Receivables and Other Assets

Trade receivables are allocated as financial assets to the category “Loans and Receivables”. They are stated at amortized acquisition costs since the respective payments are fixed and determinable and no active market exists. Impairment of trade receivables is reported if there are objective indications that not all of the outstanding amounts will be recovered. The amount of impairment is measured as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows from this receivable, discounted by the effective interest rate. The impairment is recognized through profit or loss. Should the reasons for impairment recorded in earlier periods no longer exist, a corresponding reinstatement of the value is reported.

Other receivables and other assets are stated at nominal value or at the lower present value as of the effective date.

Current foreign currency receivables are translated at reporting date rates in accordance with IAS 21.

Non-current receivables were discounted. An interest rate based on general market terms was applied in the context of the repurchase value of the reinsurance for employees’ pension entitlements. The amount shown in the balance sheet corresponds to the present value of the receivable as of the balance sheet date.

Assets held for sale

Non-current assets are classified as assets held for sale when the related carrying amount is recovered mainly through a sale transaction rather than continuing use. This precondition is only regarded as being met when the non-current asset is immediately available for sale in its current state and if the sale is highly probable. The Management must have committed to the respective asset's sale. In this context it must be assumed that the sales process will be concluded within one year following such a classification.

Non-current assets that are classified as held for sale are measured at the lower of the assets' original carrying amount and the fair value, net of selling costs.

Liquid assets

Cash on hand and bank balances are stated at nominal value. Credit balances denominated in foreign currencies are translated at the mean spot exchange rate applicable as of the balance sheet date.

Leasing

The determination as to whether an agreement contains a lease relationship is made on the basis of the economic content of the agreement at the date when the agreement is concluded. It also requires an assessment of whether performance of the contractual agreement depends on the utilisation of a certain asset or assets and whether the agreement grants a right to use that asset, even if this right is not explicitly stipulated in the agreement.

Finance leases where substantially all risks and awards associated with the ownership of the leased asset are transferred to the group lead to capitalisation of the leased asset at the beginning of the lease term. The leased asset is stated at the lower of fair value or present value of the minimum lease payments. Lease payments are allocated to financing expenses and the repayment portion of the residual debt such that a constant interest rate results for the remaining lease liability over the lease term. Financing expenses are reported in the financial result in the income statement.

Leased assets are written down over the respective asset's useful life. If the transfer of ownership to the group is not sufficiently certain at the end of the lease term, the leased asset is fully written off over the period of its expected useful life or, if shorter, over the term of the lease.

Lease payments concerning operating leases are recognised in the income statement as expenses for operating leases over the term of the lease using the straight-line method.

Own shares (treasury stock)

Acquired own shares are deducted from equity capital as a special item at the amount of the acquisition costs pursuant to IAS 32.33. Only insignificant transaction costs were incurred.

Liabilities

Initial recognition and measurement

Financial liabilities in terms of IAS 39 are either classified as financial liabilities that are measured at fair value through profit or loss, or as other liabilities measured at amortised acquisition costs. The group determines the classification of financial liabilities upon initial recognition.

The group's financial liabilities include trade accounts payable and other liabilities, overdraft facilities, loans, financial guarantees, and derivative financial instruments.

In the event of initial recognition, all financial liabilities are measured at fair value. In the case of loans, directly allocable transaction costs are included in measurement.

Within the scope of **subsequent measurement**, with the exception of derivative financial instruments, they are stated at amortized acquisition cost in accordance with the effective interest rate method. Derivative financial instruments are reported at fair value.

Amortised acquisition costs of **short-term liabilities** generally correspond to the nominal amount or the repayment amount. **Long-term liabilities** are reported at the respective present value or, if interest-bearing, at the respective repayable amounts.

In accordance with IAS 32.23, purchase price liabilities from written put options on non-controlling interests are stated as a liability at the amount of the present value of the expected payment obligation. Since the options are based on execution prices that are influenced by the corporate development, a change in the cash flow that determines the value of the financial liability leads to a balance sheet adjustment which, in the opinion of the IASB, is to be reported in profit or loss in accordance with IAS 39.

Short-term liabilities denominated in foreign currencies are translated at reporting date rates in accordance with IAS 21.

Derecognition

A financial liability is derecognised if the obligation underlying the liability has been met, annulled or has expired.

If an existing financial liability is replaced with another financial liability of the same lender with substantially different contractual terms and conditions, or if the terms and conditions of an existing liability are subject to significant changes, the replacement or change is treated as derecognition of the original liability and recognition of a new liability. The difference between the respective carrying amounts is reported in profit/loss.

Derivative Financial Instruments and the Accounting Treatment of Hedging Relationships

Initial recognition and subsequent measurement

The group uses derivative financial instruments, such as interest rate swaps, to hedge against interest rate risks. These derivative financial instruments are stated at present value at the date of contract conclusion and are remeasured at fair value in the subsequent periods. Derivative financial instruments are recognised as financial assets if their present values are positive and as financial liabilities if their present values are negative.

Gains and losses from changes in the fair value of derivatives are immediately reported in profit/loss, with the exception of the effective portion of a cash flow hedge which is stated in the other profit/loss in the statement of comprehensive income.

Hedging instruments are classified as follows for hedge accounting purposes:

- As a fair value hedge if the hedge relates to the risk of a change in the fair value of a recognised asset or a recognised liability or an unrecognised firm commitment,
- As a cash flow hedge if the hedge relates to the risk of cash flow fluctuations that can be allocated to the risk associated with a recognised asset, a recognised liability or the risk of a highly probable future transaction or the currency risk of an unrecognised firm commitment,
- As a hedge of a net investment in a foreign operation.

The Hönle Group exclusively uses hedging instruments to hedge cash flows. When a hedge is entered into, both the hedging relationship and the group's risk management objectives and strategies with respect to the hedge are formally established and documented. The documentation contains the designation of the hedging instrument, the underlying transaction or the hedged transaction, the nature of the hedged risk, and a description of how the enterprise determines the effectiveness of changes in the fair value of the hedging instrument in compensating for the risk from changes in the cash flows of the hedged underlying transaction, which can be ascribed to the hedged risk. Such hedge relationships are deemed to be highly effective in compensating for risks arising from changes in cash flows. They are continuously evaluated to determine if they were actually highly effective during the entire reporting period for which the hedge relationship has been defined.

Hedging transactions that satisfy the strict criteria for hedge accounting are reported as follows:

Cash Flow Hedges

The effective portion of the gain or loss attributable to a hedging instrument is recognised in the reserves for hedging cash flows under other profit/loss in the statement of comprehensive income, while the ineffective portion is immediately reported in profit/loss under "Other operating expenses."

The Hönle Group uses interest rate swaps for hedging against interest rate risks associated with financial liabilities. For further information, please see paragraph 46.

The amounts recognised under other profit/loss in the statement of comprehensive income, are reclassified and reported in the income statement in the period in which the hedged transaction impacts on the period result, e.g., when hedged financial income or expenses are recognised or when an expected sale is carried out. If a hedge results in the recognition of a non-financial asset or a non-financial liability, the amounts reported under Other comprehensive income become part of acquisition costs at the acquisition date of the non-financial asset or non-financial liability.

If an expected transaction or a firm commitment is no longer expected to materialise, the accumulated gains and losses previously recognised in equity are reclassified and reported in the income statement. If the hedging instrument expires or is sold, terminated, or exercised and the hedging instrument is not replaced or rolled over to another hedging instrument, or if the criteria for hedge accounting are no longer met, the accumulated gains and losses continue to be recognised under Other comprehensive until the expected transaction or firm commitment impacts on profit or loss.

Classification as current and non-current

Derivative financial instruments that are not designated as hedging instruments and are effective as such, are classified as current or non-current, or are split up into a current and a non-current portion on the basis of an assessment of the facts and circumstances (i.e. the underlying contractual cash flows).

If the group holds a derivative for a period of more than twelve months after the balance sheet date in its portfolio for hedging purposes (and does not state the derivative as a hedge relationship), the derivative is classified as non-current (or is divided into a current and a non-current portion) in accordance with the classification of the underlying item.

Embedded derivatives that are not closely associated with the host contract are classified in accordance with the cash flows of the host contract.

Derivative financial instruments that were designated as hedging instruments and are effective as such, are classified in line with the classification of the underlying transaction.

The derivative financial instrument is split into a current and a non-current portion only when a reliable allocation is possible.

Accruals

Accruals for pensions are set up using the projected unit credit method pursuant to IAS 19 (Employee Benefits). Based on a prudent estimate of the relevant parameters, this method takes into account the pensions and vested pension benefits known as at the balance sheet date as well as expected future salary and pension increases. The calculation is carried out using actuarial reports on the basis of biometrical calculation assumptions.

Other accruals are reported in accordance with IAS 37 if a current legal or factual obligation exists as a result of a past event, if the outflow of resources with economic benefit concerning the settlement of this obligation is likely, and if the amount of the obligation can be assessed reliably. Other accruals take all recognisable risks into account. They are stated on the basis of their most probable amount.

Government Grants

Government grants pursuant to IAS 20 are recognised when there is reasonable assurance that the requirements associated with them will be complied with and that the grants will be actually received. Grants earmarked for the purchase or manufacture of non-current assets (asset value-based grants) are stated using the gross method ("deferred income") at the initial recognition and are released and recognised in the income statement on a scheduled basis over the assets' useful lives. In accordance with IAS 20.20, grants for expenses or losses already incurred or that serve as immediate financial support without pertaining expenses in the future are recognised as income in the period in which the corresponding claim arises.

Liabilities from income taxes include obligations arising from current income taxes.

Sales Realisation

Sales are realised after conclusion of purchase contracts upon delivery of the goods concerned (passage of risk), and after conclusion of contracts for work upon acceptance by the ordering party.

Sales from services are realised upon provision of the respective services.

Sales revenues are reported net of VAT, sales reductions and credit notes.

Cost of Debt

Borrowing costs are recorded and reflected in the income statement as they accrue unless they are allocable to a qualifying asset in accordance with IAS 23.

Measurement of fair value

On each balance sheet date, the group performs a fair value measurement respecting certain financial instruments (e.g., derivatives). The fair value is defined as the price that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date. Within the scope of a fair value measurement it is assumed that the respective transaction (the sale of an asset or transfer of a liability) takes place either

- in the principal market for the asset or the liability, or
- in the most advantageous market for the asset or liability, if a principal market is not available.

The group must be able to access the principal market or the most advantageous market.

A fair value measurement of an asset or a liability is based on the criteria which market participants would use when determining the prices for an asset or a liability, assuming that market participants act in their economic best interest.

The fair value of a non-financial asset is measured based on the assumption that the market participant is capable of generating economic benefits through the highest and best use of the asset concerned or the sale of this asset to another market participant who would find the best and highest use of the asset.

The group uses measurement techniques which are appropriate under the circumstances and for which sufficient data for measuring the fair value is available. In doing so, both observable and non-observable input factors are applied.

All assets and liabilities that are measured at fair value or which are recognised at fair value in the financial statements, are classified on the basis of the fair value hierarchy described below, based on the input parameters of the lowest level which is of overall significance for fair value measurement:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – measurement methods where the input parameter of the lowest level, which, overall, is significant for measuring fair value, is observable, either directly or indirectly.

Level 3 – measurement methods where the input parameter of the lowest level, which, overall, is significant for measuring fair value, is not unobservable on the market.

With respect to assets and liabilities that are reported in the financial statements on a recurring basis, the group determines whether they were reclassified within the hierarchy levels by reviewing classification (based on the lowest level input parameters which, overall, are of significance for fair value measurement) at the end of each reporting period.

The employees responsible for group accounting determine, together with Management, the guidelines and procedures governing the recurring and non-recurring measurement of fair value.

In order to meet the information requirements respecting fair value, the group defined groups of assets and groups of liabilities on the basis of type, specific features and risks as well as the levels of the above-stated fair value hierarchy.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

The consolidated income statement was prepared using the type of expenditure format.

6. Revenue

Sales revenues of T€ 93,415 include revenue from the sale of goods in the amount of T€ 90,437 (PY: T€ 89,235) and revenue from services provided in the amount of T€ 2,978 (PY: T€ 2,938).

The amount of T€ 5 (PY: T€ 1) concerns sales generated within the scope of deliveries to Dr. Hönle Medizintechnik GmbH at regular market conditions.

7. Other Operating Income

	2015/2016 in T€	2014/2015 in T€
Income from the reversal of accruals	197	104
Subsidies / investment grants	164	102
Income from exchange rate differences	162	421
Off-period income	79	51
Other income	410	995
	1,012	1,673

	2015/2016 in T€	2014/2015 in T€
Income from the reduction of IVA/GVA	48	30
Income from the sale of non-current assets	41	349
Other income	321	617
Other income	410	995

Other income reported in the previous year included income from receivables already written off in the amount of T€ 240.

In the previous year, income from the sale of non-current assets related, in particular, to the sale of trademarks to a Spanish acquirer.

Income from subsidies/investment grants results from the grant notifications concerning research projects and measures taken by the European Union which are associated with the corresponding expenses. In addition, the item includes income from the release of deferred grants within the scope of acquisitions of fixed assets.

8. Cost of Purchased Materials and Services

	2015/2016 in T€	2014/2015 in T€
Cost of raw materials and supplies and of purchased merchandise	35,124	32,502
Cost of purchased services	848	1,025
	35,972	33,527

9. Personnel Expenses

	2015/2016 in T€	2014/2015 in T€
Wages and salaries	25,589	24,339
Social security and pension costs	5,442	5,056
	31,031	29,395

10. Depreciation/Amortisation of Property, Plant and Equipment and of Intangible Assets

The structure of depreciation/ amortisation of property, plant and equipment and of intangible assets is presented in the Schedule of Fixed Assets (paragraph 20).

The annual impairment tests did not lead to a need for non-scheduled goodwill amortization in financial years 2015/2016 and 2014/2015. Further details concerning impairment tests are provided in the comments on non-current assets (paragraph 20).

11. Other Operating Expenses

Other operating expenses are classified as follows:

	2015/2016 in T€	2014/2015 in T€
Cost of office space	3,349	3,226
Shipment, goods delivery, packaging	2,635	2,999
Travel expenses	1,466	1,570
Vehicle costs	1,129	1,150
<i>thereof leasing</i>	594	583
Advertising and representation	1,043	700
Consulting, bookkeeping, year-end closing costs	1,032	1,029
Expenses from exchange rate differences	161	437
Other off-period expenses	86	126
Other expenses	3,824	3,878
	14,725	15,115

Other expenses are classified as follows:

	2015/2016 in T€	2014/2015 in T€
Insurance, membership fees and charges	716	648
Maintenance and repair	556	715
Postage, telephone	409	409
Other expenses	2,143	2,106
Other expenses	3,824	3,878

Expenses from operating lease agreements totalled T€ 766 (PY: T€ 733) in the 2015/2016 financial year. Thereof, the amount of T€ 594 (PY: T€ 583) is attributable to vehicles and T€ 171 (PY: T€ 150) concerns machines and operating and business equipment, which is included in Other expenses.

Other expenses also include cost incurred for personnel recruitment and personnel training in the amount of T€ 241 (PY: T€ 233). In addition, the item includes expenses relating to equity holdings in the amount of T€ 39 (PY: T€ 139) and expenses within the scope of value adjustments in the amount of T€ 60 (PY: T€ 197) as well as IT expenses of T€ 277 (PY: T€ 252). Expenses relating to Supervisory Board compensation in the amount of T€ 108 (PY: T€ 114) are disclosed under Other expenses.

12. Income/Loss from Investments Accounted for at Equity

This item includes the prorated result of T€ -13 (PY: T€ 2) concerning Metamorphic Materials Inc., Winsted, USA. and of T€ -1 (PY: T€ 8) respecting TECINVENT GmbH, Schömburg. For more information, please see paragraph 22 "Investments Accounted for at Equity".

13. Financial Income

	2015/2016 in T€	2014/2015 in T€
Other interest and similar income	54	1,079
Income from equity investments	0	15
	54	1,094

Other interest and similar income include interest from bank credit balances and deposits in the amount of T€ 12 (PY: T€ 18). The position also includes the amount of T€ 32 (PY: T€ 1,047) from the adjustment of liabilities arising from written put options issued to non-controlling shareholders.

The position Other interest and similar income also includes interest income of T€ 5 (PY: T€ 3) from loan receivables vis à vis Dr. Hönle Medizintechnik.

14. Financial Expenses

	2015/2016 in T€	2014/2015 in T€
Write-down of financial assets and securities held as current assets	0	1
Interest and similar expenses	390	583
	390	584

The item includes interest expenses in the amount of T€ 351 (PY: T€ 328) which are attributable to long-term financial liabilities of the group.

The interest portion for finance leasing agreements included in interest expenses amounts to T€ 12 (PY: T€ 2).

Interest expenses also include the amount of T€ 4 (PY: T€ 7) which is attributable to the pension claim reported on the liabilities side and which concerns surviving dependents of former managing directors.

15. Income Tax

Current and deferred tax expenses and tax income are structured as follows:

	2015/2016 in T€	2014/2015 in T€
Current income tax expense and income		
Tax expense for the period	4,109	3,860
Deferred tax expense and income		
from a change in non-current assets	-4	47
from a change in current assets	0	-6
from a change in accruals	-85	-66
from a change in liabilities	-1	-24
from a change in losses carried forward	-252	-223
from value adjustments on losses carried forward	72	222
from consolidation effects	-84	-92
from currency differences	-1	-16
from other valuation differences	6	1
	-349	-157
Total tax expense	3,760	3,703

The following overview represents the reconciliation between the tax expense which would notionally result when applying the current German tax rate of 24.58 % of the group parent (corporation tax, solidarity surcharge, trade tax), and the actual tax expense in the consolidated financial statements:

	2015/2016 in T€	2014/2015 in T€
Earnings before income taxes	12,050	14,023
Theoretical tax rate as a %	24.58%	24.58%
Computed tax expense	2,962	3,447
<i>Changes in computed tax expense relative to the actual tax expense due to:</i>		
- change in the value adjustment of deferred tax assets	72	223
- deviating tax base	219	-32
- distribution-related tax refunds	-62	-319
- off-period effects	93	40
- deviating local tax rates	476	344
Total tax expense	3,760	3,703
Effective group tax rate	31.20%	26.41%

The list below reflects the tax rates applicable in the respective countries used for the calculation of deferred taxes. When calculating deferred taxes, the following tax rates were applied:

- Group companies in Germany: 24.58 % to 29.85 % (PY: 24.58 % to 29.83 %)
- Group companies in France: 33 1/3 % (PY: 33 1/3 %)
- Group companies in Spain: 25.0 % (PY: 25.0 %)
- Group companies in Switzerland: 26.1 % (PY: 26.1 %)
- Group companies in the US: 25.92% to 39.12 % (PY: 25.41% to 39.12 %)
- Group companies in China: 25.0 % (PY: 25.0 %)
- Group companies in Malta: 15.0% (PY: 15.0%)
- Group companies in South Korea: 10.0% (PY: 10.0%)

The income tax effects of T€ -420 (PY: T€ 65) disclosed in the statement of comprehensive income include the amount of T€ -4 (PY: T€ -9) which is attributable to a change in the present value of hedging transactions, and the amount of T€ +424 (PY: T€ -56) which is attributable to the change in actuarial gains and losses from pension obligations.

16. Share in Earnings Attributable to Non-Controlling Interests

Non-controlling interests in the result for the financial year consist of the following:

	2015/2016 in T€	2014/2015 in T€
Profit shares		
Aladin GmbH	69	75
UV-Technik Speziallampen GmbH	76	127
Loss shares		
SKC - Panacol Co., Ltd	-133	-10
	12	192

17. Off-Period Expenses and Income

The position "Other operating income" includes off-period income in the amount of T€ 79 (PY: T€ 51) and T€ 197 (PY: T€ 104) from the release of accruals.

The position "Other operating expenses" includes off-period expenses in the amount of T€ 86 (PY: T€ 126).

18. Research and Development Costs

Research costs are taken into account as expense as they accrue. Development costs are only capitalised when the Hönle Group meets the capitalisation requirements defined in IAS 38 "Intangible Assets". Although the other development costs are aimed at the further development of Hönle Group's products and processes, it is almost impossible to evaluate their technical feasibility or useful lives. There are also no reliable assessments respecting the expenses for further development of products and processes.

Expenses for research and development recorded as an expense during the reporting period amounted to T€ 4,377 (PY: T€ 4,108), of which expenses in the amount of T€ 133 (PY: T€ 248) were capitalised.

19. Earnings per Share

In accordance with IAS 33, earnings per share are determined by dividing the profit shares that are attributable to Dr. Hönle AG shareholders by the weighted average number of shares in circulation during the period.

The weighted average portfolio of own shares (treasury stock) as at the balance sheet date (1,076 shares of stock), is not taken into account in the calculation of undiluted earnings per share and in the diluted earnings per share.

	2015/2016	2014/2015
Profit share in T€ attributable to Dr. Hönle AG shareholders	8,278	10,128
Weighted average of ordinary shares in circulation during the period (shares of stock) (undiluted)	5,511,854	5,511,854
Weighted average of ordinary shares in circulation during the period (shares of stock) (diluted)	5,511,854	5,511,854
Undiluted earnings per share in €	1.50	1.84
Diluted earnings per share in €	1.50	1.84

NOTES TO THE CONSOLIDATED BALANCE SHEET

20. Non-Current Assets

Non-current assets include the following balance sheet items:

- Goodwill
- Intangible assets
- Property, plant and equipment
- Investment property
- Investments accounted for at equity
- Financial assets

Goodwill

Goodwill values from business combinations are allocated to those cash-generating units that draw benefit from the combinations, irrespective of whether other assets or debts of the acquiring company have already been allocated to these units.

Each unit or group of units to which goodwill has been allocated (a) is to represent the lowest level within the group where the goodwill is monitored for internal management purposes, and (b) may not be larger than a business segment in terms of IFRS 8

The Hönle Group accounted for goodwill in the amount of T€ 18,849 (PY: T€ 18,849). The values have been allocated to the following cash-generating units:

	2015/2016	2014/2015
	in T€	in T€
Dr. Hönle AG	5,850	5,292
Eltosch Grafix GmbH	2,495	2,495
PrintConcept GmbH	460	460
UV-Technik Speziallampen GmbH	367	367
Mitronic GmbH	0	558
Raesch Quarz (Germany) GmbH	3,387	3,387
Raesch Quarz (Malta) Ltd.	6,290	6,290
	18,849	18,849

The above stated companies qualify as business segments in accordance with IFRS 8.5

Goodwill recognised for Mitronic GmbH in the amount T€ 558 will in the future be allocated to the cash-generating unit Dr. Hönle due to the merger of Mitronic GmbH with Dr. Hönle AG as of 1 October 2015.

Hönle tests the goodwill for impairment at least once a year in accordance with the procedure presented under paragraph 5. The recoverable amount for these cash-generating units is determined in order to perform an impairment test pursuant to IAS 36. The achievable amount for cash-generating units was determined on the basis of the usage value.

The usage value is the present value of future cash flows that are expected from continued use of the cash-generating units and their disposal at the end of their useful life. The usage value is determined using the discounted cash flow method on the basis of current corporate planning data in accordance with IAS 36. The planning horizon is five years. A weighted average capital cost rate (WACC) is used to discount the cash flows.

The cash flow projection is based on the profits/losses of the individual group companies which are determined within the scope of a detailed planning process using internal historical values and external economic data. Planning is based, in particular, on assumptions concerning sales development, and on sales prices as well as purchase prices for materials and primary products. The assumptions take cost-reducing measures already taken as well as replacement investments into account. An average annual sales increase of between 2.5 % and 14.8 % is assumed in the planning period for the respective companies. In all, the average growth rate respecting revenues earned in the planning period of the respective companies is 6.1 %.

These growth rates are based on detailed revenue planning which includes the sales development relating to individual customers and a sales forecast relating to new customers, generally on the basis of current sales projects. The forecast also takes into account estimates and information provided by the customers as well as information and assumptions on emerging trends and development on the relevant markets (product-specific and regional).

A significant share in the Höhle Group's goodwill is attributable to the companies, Raesch Quarz (Germany) GmbH und Raesch Quarz (Malta) Ltd., both of which were acquired on 1 January 2012.

Raesch Quarz (Germany) GmbH posted a significant rise in sales revenues in the second half of the financial year 2015/2016 compared to the first six months of the financial year. The company also made positive earnings contributions in the second half of the year. A 30.1 % rise in sales revenues is expected as a result of the above-mentioned developments and the acquisition of a glass lathe in the beginning of the 2016/2017 financial year. An average sales increase of 14.8 % p.a. up to financial year 2020/2021 is assumed. The coming financial years will be characterised by the strategic orientation on the lamps, semi-conductor and fibre optics markets.

It is assumed that Raesch Quarz (Malta) Ltd. will achieve sales growth of 9.4 % in financial year 2016/2017. The planned sales increase is mainly based on the assumption that the current customer projects will contribute to sales realisation within the short term. An average sales growth rate of 5.9 % is planned for the financial years up to 2020/2021.

It is projected that Dr. Höhle AG will post a rise in sales revenues of 11.4 % in financial year 2016/2017, mainly due to the takeover of the production activities of Eltosch Grafix GmbH as result of the closing down of a production site. Consequently, Dr. Höhle AG will fully supply Eltosch Grafix GmbH starting from the 2016/2017 financial year. An average sales increase of 4.6 % p.a. up to financial year 2020/2021 is predicted.

A 8.0 % sales increase in financial year 2016/2017 is forecast for Eltosch Grafix GmbH. An average sales increase of 3.9 % p.a. up to financial year 2020/2021 is projected, mainly as result of the expected rise in sales in the LED drying equipment segment.

Following the five-year planning horizon, an annual sales increase of 1 % is projected for the subsequent years. The growth rate is not above the long-term sector growth in the industries in which the cash-generating units operate.

On the basis of these cash flow forecasts, the usage values of the cash generating units were determined using the segment-specific capital cost rates before income taxes. They were as follows: 6.73 % for Raesch Quarz (Germany) GmbH, 8.87 % for Raesch Quarz (Malta) Ltd., 5.91 % for Dr. Höhle AG, 6.05 % for PrintConcept GmbH, 6.36 % for Eltosch Grafix GmbH, and 6.09 % for UV-Technik Speziallampen GmbH. The discount rates before taxes used in the prior year ranged between 8.22 % and 10.04 %.

The impairment test carried out did not indicate a need for downward adjustment, as the recoverable amounts exceed the carrying amounts of cash-generating units significantly.

The calculation of usage values is based on assumptions that are subject to uncertainties. This relates, in particular, to sales expectations, the development of gross profit margins, the discount rates and the growth rate, which is set to extrapolate cash flow projections beyond the detailed planning period.

The discount rates represent current market assessments respecting the risks attributable to the cash-generating units. The determination of the discount rates is based on the weighted average cost of capital (WACC). The weighted average cost of capital accounts for both the equity capital and debt capital. Equity capital costs are derived from the expected return on investments of typical market participants. Borrowing costs are based on the borrowing rate of typical market participants. The segment-specific risk is taken into account by using individual beta factors. The beta factors are calculated annually on the basis of market data.

The estimation of growth rates is based on the expected general inflation.

The Management calculated scenarios involving a 10 % increase in Weighted Average Cost of Capital (WACC) and a reduction in growth rates of 0.5 % after the detail planning period. The calculations would not lead to impairment losses concerning the reported goodwill of the individual cash-generating units (CGUs), neither individually nor as a combination of the disadvantageous developments.

Intangible Assets

The development of other intangible assets in financial years 2015/2016 and 2014/2015 is as follows:

	Brand names	Customer base and other rights	Software	Patents, licenses and other industrial property rights	Procedures, models, designs and prototypes	Intangible assets in the development phase	Total
	T€	T€	T€	T€	T€	T€	T€
Acquisition and production costs as at 01/10/2015	-	4,094	2,245	1,025	770	406	8,540
Change in scope of consolidation	-	-	-	-	-	-	-
Additions	-	-	169	104	-	127	400
Disposals	-	-	3	-	-	-	3
Reclassifications	-	-	26	7	-	-	19
Currency parities	-	-	1	-	-	-	1
As at 30/09/2016	-	4,094	2,437	1,122	770	533	8,956
Amortisation as at 01/10/2015	-	1,969	2,245	686	589	-	5,489
Additions	-	373	101	77	15	-	566
Disposals	-	-	3	-	-	-	3
Reclassifications	-	-	-	-	-	-	-
Currency parities	-	-	-	-	-	-	-
As at 30/09/2016	-	2,342	2,343	763	604	-	6,052
Net book value as at 30/09/2016	-	1,752	95	359	166	533	2,905

	Brand names	Customer base and other rights	Software	Patents, licenses and other industrial property rights	Procedures, models, designs and prototypes	Intangible assets in the development phase	Total
	T€	T€	T€	T€	T€	T€	T€
Acquisition and production costs as at 01/10/2014	129	3,888	2,208	1,025	770	151	8,171
Change in scope of consolidation	-	210	5	-	-	-	215
Additions	-	-	37	-	-	255	292
Disposals	129	-	6	-	-	-	135
Reclassifications	-	-	-	-	-	-	-
Currency parities	-	4	1	-	-	-	3
As at 30/09/2015	-	4,094	2,245	1,025	770	406	8,540
Amortisation as at 01/10/2014	25	1,594	2,126	614	571	-	4,930
Additions	18	375	125	72	18	-	608
Disposals	43	-	6	-	-	-	49
Reclassifications	-	-	-	-	-	-	-
Currency parities	-	-	-	-	-	-	-
As at 30/09/2015	-	1,969	2,245	686	589	-	5,489
Net book value as at 30/09/2015	-	2,125	-	339	181	406	3,051

Within the scope of business acquisitions in financial years 2007/2008, 2010/2011, 2011/2012, 2012/2013 and 2014/2015, brands, customer bases, and also manufacturing technology were acquired and capitalised in non-current assets as intangible assets.

The item also includes externally acquired development services and subsequent acquisition costs concerning ERP software.

Intangible assets include capitalised development costs amounting to T€ 533 (PY: T€ 400) which relate to a customer-specific development project which qualifies for capitalisation pursuant to IAS 38.

Intangible assets with limited useful lives are stated at cost and are amortised over a period of between 1 and 15 years, depending on their estimated useful life using the straight line method. Intangible assets with unlimited useful lives are reviewed with regard to impairment at annual intervals.

Property, Plant and Equipment

The development of other property, plant and equipment in financial years 2015/2016 and 2014/2015 is as follows:

	Land and buildings	Technical equipment and machinery	Other equipment, operating and business equipment	Prepayments made and assets under construction	Total
	T€	T€	T€	T€	T€
Acquisition and production costs as at 01/10/2015	9,767	19,033	10,505	234	39,539
Change in scope of consolidation	-	-	-	-	-
Additions	101	2,333	838	1,308	4,580
Disposals	63	315	247	-	625
Reclassifications	- 1,383	1,128	113	- 1,066	1,434
Currency parities	5	3	5	-	3
As at 30/09/2016	8,427	22,182	10,978	476	42,063
Depreciation as at 01/10/2015	2,536	13,199	7,641	-	23,376
Additions	256	1,213	665	-	2,134
Disposals	66	233	235	-	534
Reclassifications	- 104	113	112	-	103
Currency parities	1	1	3	-	1
As at 30/09/2016	2,623	14,293	7,956	-	24,872
Net book value as at 30/09/2016	5,804	7,889	3,022	476	17,191

	Land and buildings	Technical equipment and machinery	Other equipment, operating and business equipment	Prepayments made and assets under construction	Total
	T€	T€	T€	T€	T€
Acquisition and production costs as at 01/10/2014	8,450	17,788	10,202	542	36,982
Change in scope of consolidation	-	155	27	-	182
Additions	53	457	578	757	1,845
Disposals	-	386	374	-	760
Reclassifications	1,232	1,010	55	- 1,065	1,232
Currency parities	32	9	17	-	58
As at 30/09/2015	9,767	19,033	10,505	234	39,539
Depreciation as at 01/10/2014	2,273	12,426	7,280	-	21,979
Additions	263	1,048	719	-	2,030
Disposals	2	279	369	-	650
Reclassifications	-	-	-	-	-
Currency parities	2	4	11	-	17
As at 30/09/2015	2,536	13,199	7,641	-	23,376
Net book value as at 30/09/2015	7,231	5,834	2,864	234	16,163

Property, plant and equipment items subject to wear and tear are stated at cost and subsequently measured using the acquisition cost model. Property, plant and equipment items are depreciated according to schedule over their respective expected useful lives.

- *Land and Buildings*

This position includes the group's own land and buildings concerning the following companies:

- Aladin GmbH
- UV-Technik Speziallampen GmbH
- Raesch Quarz (Germany) GmbH
- Eleco Produits EFD, SAS
- Honle US Real Estate LLC.

The buildings are written down over useful lives of between 3 and 50 years. The land of Aladin GmbH and UV-Technik Speziallampen GmbH also serves to collateralise bank loans totalling T€ 2,049. The land and commercial property of Eltosch Grafix GmbH was reclassified from the position "Land and buildings" to "Investment property" as at 1 July 2016.

- *Technical Equipment and Machinery*

The assets disclosed under this position are depreciated over their useful lives of between 1 to 20 years applying the straight line method.

The assets under technical equipment and machinery include machines that were purchased within the scope of a finance lease agreement. The carrying amount of the technical equipment amounts to T€ 245 as of 30 September 2016 (PY: T€ 12). A corresponding finance lease liability was reported on the liabilities side (cf. paragraph 33). Due to the existing lease relationships, availability of the equipment is limited.

- *Operating and Business Equipment*

Assets shown under this position are depreciated over their regular useful lives of between 1 to 39 years applying the straight-line method of depreciation.

Investment Property

In financial year 2015/2016, Eltosch Grafix GmbH holds a commercial property in Unterlüß, Germany, which qualifies as investment property in terms of IAS 40 after production activities had been discontinued at this site and the property is held for rental purposes. The carrying amount of this property reported under fixed assets stands at T€ 1,301. Income is assumed to be generated from the investment property in financial year 2016/2017. Major expenses associated with the generating of income are not expected before financial year 2016/2017. Scheduled depreciation in the amount T€ 10 has been recorded since the reclassification in July 2016.

The position developed as follows:

	T€
Acquisition and manufacturing costs as at 01/10/2015	-
Reclassifications	1,415
As at 30/09/2016	1,415
Amortisation/depreciation as at 01/10/2015	-
Additions	10
Reclassifications	104
As at 30/09/2016	114
Net book value at 30/09/2016	1,301

The fair value in the amount of T€ 1,300 is derived from an appraisal made by a real estate expert in 2013.

Financial Assets

This item includes shares in affiliated companies in the amount of T€ 32 (PY: T€ 32) which mainly relate to the 100 % investment in Solitec GmbH and the 20 % investment in PrintDesign Engineering GmbH. Solitec GmbH is not included in the consolidated group due to its insignificance for the group. Print-Design Engineering GmbH is not consolidated, since a decisive influence or joint control cannot be exercised.

21. Other Non-Current Assets

	30/09/2016	30/09/2015
	in T€	in T€
Loans granted to related parties	30	81
Asset values, employers' pension liability insurance	850	708
Other	22	21
	902	810

With respect to loans extended to related parties reference is made to paragraph 49.

22. Investments Accounted for at Equity

This item includes the balance sheet recognition of the investments in Metamorphic Materials Inc. and TECINVENT GmbH which were accounted for at equity. The carrying amount of the investments accounted for under the equity method stood at T€ 37 (PY: T€ 50) as at 30 September 2016.

The following disclosures are based on the most recent financial statements, respectively, prior to conversion to the participating interest held by Dr. Höhle AG. TECINVENT GmbH develops and sells products in the segment of electronic circuits, components, equipment and systems. Metamorphic Materials Inc. develops, produces and sells oligomers and polymers.

	TECINVENT GmbH		Metamorphic Materials Inc.	
in T€	2015/2016	2014/2015	2015/2016	2014/2015
Shares in %	35%	35%	30%	30%
Non-current assets	0	0	22	40
Current assets	124	103	119	141
Long-term liabilities	0	0	160	170
Short-term liabilities	145	101	81	67
Net assets	-21	2	-100	-56
Shares held by the group in the associated company	0	1	-30	-17
Elimination of non-realised profits	0	0	-4	-4
plus existing hidden reserves	0	0	71	71
At-equity book value at the associated company	0	1	37	50
Revenue	281	239	262	272
Profit from continuing operations (100%)	-24	5	-19	13
Total profit/loss (100%)	-24	5	-19	13
Total profit/loss (based on the group's share)	-8	2	-6	4

23. Deferred Income Tax Claims and -Deferred Income Tax Liabilities

The tax deferrals recorded are to be allocated to the following balance sheet items or tax issues:

	30/09/2016		30/09/2015	
	Asset	Liability	Asset	Liability
	in T€	in T€	in T€	in T€
Fixed assets	215	302	255	304
Current assets	9	4	18	13
Non-current assets held for sale	0	0	0	42
Accruals	1,201	1	699	8
Liabilities	128	370	136	376
Tax losses carried forward	1,534	0	1,354	0
- deferred tax assets	1,938	0	1,750	0
- value adjustments	-404	0	-396	0
Consolidation effects	100	692	108	783
Total	3,187	1,369	2,569	1,526

In accordance with IAS 12, deferred tax assets to be offset against unused tax losses carried forward are accounted for to the extent that future taxable income is likely to be available against which the unused tax losses can be offset.

The companies, Agita Holding AG, Honle UV Technology (Shanghai) Trading Ltd., Tangent Industries, Inc., SKC-Panacol Co., Ltd. and Raesch Quarz (Germany) GmbH report tax losses carried forward as of 30 September 2016.

Value estimates are based on annual planning from which predictions concerning the use of future tax losses can be derived. In accordance with planning, only those losses that can be used within a period of five years are reported. In accordance with planning, only those losses that can be used within a period of five years are reported.

Deferred tax assets from losses carried forward in the amount of T€ 1,445 are attributable to Raesch Quarz (Germany) GmbH, which reported losses in the last two financial years. The material indications respecting recognition are derived from budget accounting and pertaining underlying assumptions. Reference in this respect is made to the explanations under paragraph 20.

24. Inventories

Inventories include the following items:

	30/09/2016 in T€	30/09/2015 in T€
Raw materials and supplies incl. descriptive material (at acquisition costs)	16,109	15,806
<i>less depreciation</i>	992	836
	15,117	14,970
Unfinished goods and services (at acquisition or manufacturing costs)	318	185
<i>less depreciation</i>	0	0
	318	185
Finished goods and merchandise (at acquisition or manufacturing costs)	12,337	10,279
<i>less depreciation</i>	394	435
	11,943	9,844
Prepayments made	37	55
	27,415	25,055

The carrying amount of inventories stated at net sales price (fair value) amounts to T€ 895 (PY: T€ 1,193). In the 2015/2016 reporting period, inventories in the amount of T€ 35,045 (PY: T€ 32,748) were booked under cost of materials and T€ 78 (PY: income of T€ 246) were reported as expenses reflecting a depreciation of inventories.

The values disclosed under inventories are subject to retention of title only as is usual within the scope of purchase contracts.

25. Trade Accounts Receivable

Trade accounts receivable are broken down as follows:

	30/09/2016	30/09/2015
	in T€	in T€
Total trade receivables	13,576	14,087
<i>less value adjustments</i>	500	574
	13,076	13,513

The value adjustments include both individual value adjustments and general valuation allowances. The general valuation adjustment amounts to T€ 142 (PY: T€ 151) at the end of the financial year under review.

The fair values of trade accounts receivable correspond to the carrying amounts. Value adjustments concern receivables which most probably cannot be collected. The residual term of trade accounts receivable is less than one year.

Individual value adjustments concerning trade accounts receivable developed as follows:

	2015/2016	2014/2015
	in T€	in T€
As at 01/10	423	545
- Utilisation	-88	-183
- Release - (without utilisation)	-11	-48
- Addition	33	105
- Exchange rate differences	0	5
As at 30/09	358	423

26. Receivables from and Liabilities to Companies in which an Equity Investment is Held

The position mainly consists of loan receivables vis à vis Metamorphic Materials Inc. in the amount of T€ 159 (PY: T€ 169) and vis à vis TECINVENT GmbH in the amount of T€ 50 (PY: T€ 50).

27. Other Current Assets

	30/09/2016	30/09/2015
	in T€	in T€
Expenses paid in advance	413	413
Other current assets	1,590	1,820
	<u>2,003</u>	<u>2,233</u>

The item "Expenses paid in advance" is classified as follows:

	30/09/2016	30/09/2015
	in T€	in T€
Insurance	25	26
Maintenance agreements	16	18
Trade fairs	44	63
Other	328	306
	<u>413</u>	<u>413</u>

Other current assets are structured as follows:

	30/09/2016	30/09/2015
	in T€	in T€
Receivables from related parties	51	96
VAT	754	914
Receivables from employees	97	91
Other	688	719
	<u>1,590</u>	<u>1,820</u>

The disclosed carrying amounts correspond to the fair values. The residual term is less than one year.

With respect to receivables from related parties reference is made to paragraph 49.

The position "Other" includes creditors with debit balances in the amount of T€ 86 (PY: T€ 161).

Disclosed other assets are not subject to ownership restrictions or restraints on disposal.

28. Tax Refund Claims

Tax refund claims consist of the following:

	30/09/2016 in T€	30/09/2015 in T€
Dr. Höhle AG	448	341
PrintConcept GmbH	78	78
Eltosch Grafix GmbH	15	31
Panacol AG	9	19
Aladin GmbH	34	18
UV-Technik Speziallampen GmbH	0	49
Raesch Quarz (Germany) GmbH	1	27
Höhle US Real Estate LLC	0	5
Tangent Industries, Inc.	62	63
	648	631

The tax refund claims include receivables of T€ 21 (PY: T€ 43) from capitalisation of a claim for payment of a corporation tax credit pursuant to Section 37 KStG n.v., concerning Dr. Höhle AG, Eltosch Grafix GmbH and Raesch Quarz (Germany) GmbH.

29. Liquid Assets

Liquid assets include cheques, cash in hand and bank credit balances. The position also represents cash and cash equivalents relevant to the cash flow statement within the meaning of IAS 7. The reported liquid assets are not subject to disposal restrictions.

Bank credit balances are held with various banks at annual interest rates of approximately 0.03 % to 1.5 % p.a.

30. Non-Current Assets Held for Sale

In the previous year, this item included a piece of land that was used by Tangent Industries, Inc. prior to the move to Torrington. This plot of land was sold in financial year 2015/2016. The sales prices amounted to about T€ 295, and the sale led to a loss in the amount of T€ 81, which is reported under Other operating expenses.

31. Shareholders' Equity

Equity Capital Management

In addition to achieving adequate interest on the equity capital utilised, the Höhle Group aims at keeping the equity capital ratio and pertaining liquidity reserves at a continuously high level to enable further growth and to increase the corporate value.

With respect to changes in equity capital in financial year 2015/2016 reference is made to the Statement of Changes in Consolidated Equity.

The bank loans received result in minimum requirements with respect to the economic equity capital (bank definition) and regarding net debt (bank definition). All external minimum capital requirements were met in financial year 2015/2016. Compliance was continuously monitored on the basis of actual figures.

Subscribed Capital

The subscribed capital (share capital) amounts to € 5,512,930. Accordingly, one share of stock grants a notional share of € 1.00 in corporate capital. The no par shares of stock are made out to the bearer. As at the respective balance sheet date, shares issued and in circulation were as follows:

	30/09/2016 Shares of stock	30/09/2015 Shares of stock
Number of shares issued	5,512,930	5,512,930
less own shares	1,076	1,076
Shares in circulation	5,511,854	5,511,854

Own Shares (Treasury Stock)

The shareholders' meetings held in previous years authorised Dr. Höhle AG to acquire up to 10 % of the respective nominal capital pursuant to Section 71 (1) No. 8 AktG

Effective 22 March 2014, the Annual General Meeting resolved to authorise the Management Board and Supervisory Board of Dr. Höhle AG to acquire treasury stock up to a total of 10 % of the share capital at the nominal capital of € 5,512,930 up to 31 December 2018 pursuant to Section 71 (1) No. 8, AktG. The company may not use the authorisation to trade in own shares. Dr. Höhle AG did not make use of the authorisation in financial year 2015/2016.

In previous years, the company acquired shares or issued shares in the current financial year with a view to purchasing additional subsidiaries as follows:

Financial year	As at 30/09/2015	Change	As at 30/09/2016
Number of treasury shares	1,076	0	1,076
Acquisition costs in T€	8	0	8
Average acquisition costs per share in €	7.77	0	7.77

In accordance with IAS 32, own shares are deducted from equity and disclosed as a separate item at acquisition costs of T€ 8. The average share price of all treasury stock held amounts to € 7.77. The stock exchange price amounted to € 25.50 as at the balance sheet date.

Pursuant to Section 71b AktG, Dr. Höhle AG is not entitled to any rights arising from own shares; in particular, these shares do not carry an entitlement to dividends.

Additional Paid-in Capital (Capital Reserves)

Additional paid-in capital includes mainly the premiums from the capital increase in the context of the stock flotation in financial year 2000/2001.

Nature and Purpose of Reserves

Legal and Other Reserves

The legal reserve was set up in accordance with Section 150 AktG [German Stock Corporation Act]. Unless distributed, the respective result for the year is transferred to retained earnings.

Reserve for Hedging Transactions

This reserve includes changes in the fair value of effective hedging transactions after accounting for deferred taxes. As of 30 September 2016, the reserve amounted to T€ 70 (PY: T€ 81) after deferred taxes.

Reserve for Actuarial Gains and Losses pursuant to IAS 19

The reserve for actuarial gains and losses pursuant to IAS 19 includes the actuarial losses from the measurement of pension obligations pursuant to IAS 19 after accounting for deferred taxes. They are reported with neutral effect on profit or loss.

Reserve for Exchange Rate Differences

The reserve for exchange rate differences is used for the recording of exchange rate differences arising from currency translation of the financial statements of foreign subsidiaries.

Proposed Dividend

Due to the positive business development, the Dr. Höhle AG Management Board and Supervisory Board propose to the Annual General Meeting 2017 that a dividend amounting to € 0.55 per share be paid out for financial year 2015/2016, which translates into the amount of T€ 3,032. In the preceding financial year, also a dividend of € 0.55 per share was paid out, which corresponds to T€ 3,032.

Authorised Capital 2015

In accordance with a resolution passed by the Annual General Meeting on 20 March 2015, the Management Board was authorised, with the approval of the Supervisory Board, to increase the share capital by up to T€ 2,750 through one or several issues of new, no-par shares (ordinary shares), made out to the bearer, by 19 March 2020, in exchange for cash contributions and/or contributions in kind. With the approval of the Supervisory Board, the Management Board is authorised to wholly or partly exclude shareholders' subscription rights in certain instances.

Non-Controlling Interests

The following table shows the structure of non-controlling interests and provides significant financial information on subsidiaries in which there are non-controlling interests:

Financial Year 2015/2016

in T€	Aladin	Eleco	UV Technik	SKC	Total
Non-controlling interests in %	40%	0.04	19%	49%	
Non-current assets	478	1,101	2,015	88	3,681
Current assets	2,535	2,786	2,316	343	7,981
Long-term liabilities	5	308	360	0	673
Short-term liabilities	415	2,163	996	6	3,579
Net assets	2,593	1,416	2,975	425	7,409
Book value non-controlling interests	1,037	-1	564	191	1,792
Revenue	3,727	7,938	5,409	26	17,099
Profit	172	514	399	-271	815
Other comprehensive income	0	-42	-34	0	-76
Total comprehensive income	172	472	365	-271	739
Income attributable to non-controlling interests	69	0	76	-133	12
Other comprehensive income attributable to non-controlling interests	0	0	-6	0	-6
Dividends paid to non-controlling shareholders	0	0	0	0	0
Cash flow from operating activities	101	558	545	-308	896
Cash flow from investing activities	-165	-25	-140	-66	-396
Cash flow from financing activities	-8	-486	-378	304	-568
Net (decrease) increase in cash and cash equivalents	-72	47	27	-70	-68

Financial Year 2014/2015

in T€	Aladin	Eleco	UV Technik	SKC	Total
Non-controlling interests in %	40%	0.04%	19%	49%	
Non-current assets	413	1,112	2,038	0	3,563
Current assets	2,399	2,674	2,356	376	7,805
Long-term liabilities	4	237	501	0	742
Short-term liabilities	387	2,104	1,282	24	3,797
Net assets	2,421	1,445	2,611	352	6,829
Book value non-controlling interests	968	-1	495	175	1,637
Revenue	3,543	7,684	5,402	0	16,629
Profit	188	488	365	-21	1,020
Other comprehensive income	0	2	-4	0	-2
Total comprehensive income	188	490	361	-21	1,018
Income attributable to non-controlling interests	75	0	127	-10	192
Other comprehensive income attributable to non-controlling interests	0	0	-4	0	-4
Dividends paid to non-controlling shareholders	0	0	-149	0	-149
Cash flow from operating activities	571	523	1,084	0	2,177
Cash flow from investing activities	-82	-40	-34	0	-156
Cash flow from financing activities	-442	-663	-1,197	376	-1,926
Net (decrease) increase in cash and cash equivalents	47	-180	-147	376	96

32. Long-Term Loans (Less Current Portion)

The item includes the long-term portion of the following bank loans:

	Loan amount in T€	Effective Interest rate	Term up to	Repayment p.a. in T€	Carrying amount in T€
Loan Dr. Höhle AG	494	1.65%	30/01/2025	50	415
Loan Dr. Höhle AG	700	2.90%	31/08/2023	67	509
Loan Dr. Höhle AG	400	1.69%	30/06/2022	50	287
Loan Dr. Höhle AG	3,000	3.18%	31/03/2017	300	300
Loan Dr. Höhle AG	3,500	2.29%	31/03/2021	500	2,250
Loan Dr. Höhle AG	205	2.15%	31/03/2019	51	128
Loan Dr. Höhle AG	4,500	2.64%	29/12/2017	900	1,125
Loan Dr. Höhle AG	350	0.85%	31/05/2022	33	350
Loan Dr. Höhle AG	340	1.50%	30/12/2022	50	315
Loan Dr. Höhle AG	878	1.90%	31/12/2018	61	132
Loan UV-Technik Speziall.	221	5.50%	30/06/2019	24	67
Loan UV-Technik Speziall.	300	6.25%	31/07/2019	33	94
Loan Raesch Quarz (Germany) GmbH	2,000	1.65%	31/03/2019	500	1,250
Loan Raesch Quarz (Germany) GmbH	500	1.25%	31/12/2018	50	125
Loan Raesch Quarz (Germany) GmbH	1,000	1.74%	30/06/2022	96	1,000
Loan Raesch Quarz (Germany) GmbH	500	1.40%	30/10/2020	38	500

The non-current and current portions of the above-stated loans are as follows:

	Current portion in T€	Non-current portion in T€	Payer interest rate swap in T€	Collateral
Loan Dr. Höhle AG	50	365	no	Property charge
Loan Dr. Höhle AG	67	442	no	Property charge
Loan Dr. Höhle AG	50	237	400	none
Loan Dr. Höhle AG	300	0	3,000	none
Loan Dr. Höhle AG	500	1,750	3,500	none
Loan Dr. Höhle AG	51	77	no	Transfer of title
Loan Dr. Höhle AG	900	225	4,500	Property charge
Loan Dr. Höhle AG	33	317	no	none
Loan Dr. Höhle AG	50	265	no	none
Loan Dr. Höhle AG	61	71	no	Guaranty
Loan UV-Technik Speziall.	24	43	no	none
Loan UV-Technik Speziall.	33	61	no	none
Loan Raesch Quarz (Germany) GmbH	500	750	no	Guaranty Dr. Höhle AG
Loan Raesch Quarz (Germany) GmbH	50	75	no	Guaranty, property charge
Loan Raesch Quarz (Germany) GmbH	96	904	no	Guaranty Dr. Höhle AG
Loan Raesch Quarz (Germany) GmbH	38	462	no	Guaranty Dr. Höhle AG

33. Non-Current and Current Finance Lease Obligations

Finance lease obligations include the present values of minimum lease instalments for machines and vehicles. The portions that fall due within one year are disclosed in the balance sheet as short-term lease obligations. The present values of minimum lease instalments due after one year are reflected under long-term finance lease obligations.

The liabilities arising from the finance lease relationships have developed as follows:

As at 30/09/2016	Residual term of up to 1 year in T€	Residual term of between 1 and 5 years in T€	Residual term of more than 5 years in T€
Present value of minimum lease payment	39	148	48
Interest portion (included in present value)	4	8	1

As at 30/09/2015	Residual term of up to 1 year in T€	Residual term of between 1 and 5 years in T€	Residual term of more than 5 years in T€
Present value of minimum lease payment	3	8	0
Interest portion (included in present value)	1	1	0

34. Other Long-Term Liabilities

This position includes the market value of derivatives amounting to T€ 93 (PY: T€ 108) and purchase price liabilities from written put options in the amount of T€ 208 (PY: T€ 257). The item also includes loan liabilities in the amount of T€ 236.

In the previous year, other long-term liabilities also included loan liabilities in the amount of T€ 50 that were due to a non-controlling shareholder.

35. Pension Accruals

Pension accruals for pension obligations are set up in connection with pension plans and pertaining old age, invalidity, and surviving dependents' commitments.

Pension accruals concerning defined benefit plans are determined in accordance with IAS 19 (2011) applying the projected unit credit method; i.e., future commitments are measured on the basis of prorated pension benefits accrued as of the balance sheet date. Trend assumptions concerning the relevant parameters that have an impact on future commitments are taken into account. This relates, in particular, to fluctuation, future salary trends and the respective applicable interest rate.

Pension accruals concern pension commitments to employees of group companies in Germany and to employees of the French subsidiaries.

The pension obligations were as follows as at the balance sheet date:

	30/09/2016	30/09/2015
	in T€	in T€
Present value of pension obligation at the beginning of the year	5,827	5,512
plus service costs	486	493
plus interest costs	139	131
plus/net of actuarial gains/losses	1,660	-248
plus/net of payments re fund assets	0	-6
net of pension payments	-61	-55
Value of pension obligation at year-end	8,051	5,827

Payments of € 61 thousand are expected in the 2016/2017 financial year for the above pension obligations.

The company assumes that the pension obligation in the amount of T€ 7,990 (PY: T€ 5,777) will be settled after more than 12 months.

Actuarial gains and losses arising in financial year 2015/2016 were transferred to or netted with equity capital with neutral effect on profit or loss, leading to the stated change in pension accruals with neutral effect on profit/loss.

The following actuarial assumptions are used for determining the balance sheet value of the pension obligation:

	30.09.2016	30.09.2015	30.09.2014
Discounting rate	1.35%	2.40%	2.40%
Income from fund assets	1.35%	2.40%	2.40%
Growth rate of pension payments	2.00%	2.00%	2.00%

The amount of T€ 1,523 (PY: T€ 1,260) of the reported pension obligation is covered by plan assets in the form of independently managed funds.

Sensitivity analyses performed with respect to the actuarial reports as of 30 September 2016 indicated the following results concerning pension obligations:

Amount of pension obligation in the event of changed parameters	in T€	
Discounting rate	+0.5%	7,226
Discounting rate	-0.5%	9,013

Amount of pension obligation in the event of changed parameters		in T€
Growth rate of pension payments	+0.25	8,345
Growth rate of pension payments	-0.25%	7,773

Amount of pension obligation in the event of changed parameters		in T€
Life expectancy	+10.00	8,298

The above-stated sensitivity analyses were performed using an actuarial approach which extrapolates the impact of realistic changes of the major assumptions at the end of the reporting period on the obligation arising from the defined benefit plans.

The company monitors the development of the above-stated parameters precisely and adjusts the existing reinsurance contracts as required.

The plan assets developed as follows in the financial year 2015/2016:

	30/09/2016 in T€	30/09/2015 in T€
Fair value of plan assets at beginning of the year	1,260	1,013
Expected income from plan assets	33	27
Employer's contributions paid	247	247
Benefits paid	-10	-6
plus/net of actuarial gains/losses	-7	-21
Fair value of plan assets at year-end	1,523	1,260

The expected total income arising from plan assets is calculated using the market prices prevailing at that time for the period during which the obligation is met. These market prices are reflected in the basic assumptions.

The expected development of plan assets for financial year 2016/2017 is as follows:

	30/09/2017 in T€
Fair value of plan assets at beginning of the year	1,523
Expected income from plan assets	22
Employer's contributions paid	241
Benefits paid	-6
Fair value of plan assets at year-end	1,780

The income statement for the financial year includes the following pension obligation expenses:

	2015/2016 in T€	2014/2015 in T€
Current service costs	486	493
Interest costs	139	131
Return on plan assets	-33	-27
	592	597

Of the interest expense, T€ 4 (PY: T€ 7) is attributable to pension benefits concerning surviving dependents of former managing directors.

Movements within the balance sheet position "Pension accruals" were as follows in the reporting year:

	30/09/2016 in T€	30/09/2015 in T€
Carrying value of pension accrual at beginning of the year	4,567	4,498
plus pension cost	592	597
less contributions paid	-247	-247
less payments/pension payments	-65	-54
Changes with neutral effect on profit/loss	1,681	-227
thereof from adjusted historical values	52	74
thereof from biometric assumptions	1	1
thereof from financial assumptions	1,628	-302
Carrying value of pension accrual at year-end	6,528	4,567

With respect to pension obligations concerning current or former board members and managing directors, reference is made to paragraph 50.

36. Accrued Public Investment Grants

	2015/2016 in T€	2014/2015 in T€
As at 1 October 2015	533	606
Applied for in the financial year:	0	0
Recognised/revised through profit/loss	-68	-73
As at 30 September 2016	465	533

The public grants relate largely to the acquisition of a building, melting furnaces and annealing furnaces of Raesch Quarz (Germany) GmbH, and the new construction of the production facilities of UV-Technik Speziallampen GmbH. It is expected that all conditions linked to these grants were fulfilled. There are no significant uncertainties.

37. Trade Accounts Payable

Trade accounts payable are stated at the settlement amount. The carrying amount of trade accounts payable as at the balance sheet date is T€ 4,917 (PY: T€ 4,990). Given the short payment periods concerning these liabilities, this amount is in line with the fair value of the liabilities. As at the balance sheet date, trade accounts payable include liabilities in the amount of T€ 57 which are due to the Supervisory Board Chairman, Prof. Dr. Karl Höhle.

38. Prepayments Received

Prepayments received on account of orders relate to payments from customers for services not yet provided by the company. The amounts are shown in net form, i.e., without VAT.

39. Short-Term Liabilities to Banks and Current Portion of Long-Term Loans

Liabilities to banks are stated at the respective settlement amounts.

Short-term liabilities to banks amounted to T€ 2,996 (PY: T€ 3,022) at the end of the reporting period. This position mainly relates to the loan in the amount of T€ 900 (PY: T€ 900) taken out to finance the Grafix GmbH acquisition, the loan in the amount of T€ 300 (PY: T€ 1,100) taken out to finance the Raesch Group acquisition and to an operating loan in the amount of T€ 500 (PY: T€ 500). Reference is made to paragraph 32. The position also includes short-term credit facilities drawn down in the amount of T€ 193 (PY: T€ 143).

The current account credit lines granted by banks totalled T€ 3,160 (PY: T€ 2,660) as at 30 September 2016. If utilised, they would be subject to regular market interest rates. Of the total, the amount of T€ 584 (PY: T€ 504) is utilised through overdraft facilities and credits by way of guaranty.

40. Other Short-Term Liabilities

	30/09/2016 in T€	30/09/2015 in T€
Wage tax and VAT	859	1,018
Social security contributions	394	378
Profit sharing bonus and other bonuses	1,343	1,575
Christmas bonus	821	780
Holidays not taken	466	505
Flexi-time surpluses	448	383
Other personnel-related liabilities	583	574
Liabilities to minority shareholders	0	100
Other	619	1,033
	5,533	6,346

Liabilities concerning **profit sharing bonuses and other bonuses** relate to variable remuneration components and profit sharing bonuses vis à vis the management boards, managing directors and employees of individual consolidated group companies.

Christmas bonus liabilities were set up to account for appropriate allocation of the Christmas allowance.

Liabilities for **holidays not taken** were determined on a pro rata temporis basis due to the deviating financial year.

The liabilities respecting **flexi-time surpluses** relate to employees' overtime account credits.

Liabilities for Supervisory Board compensation, included in the item "**Other**", amount to T€ 60 (PY: T€ 114).

41. Other Accruals

Other accruals developed as follows:

	As at 01/10/2015 in T€	Utilisation in T€	Release in T€	Addition in T€	As at 30/09/2016 in T€
Contractual obligations vis à vis third parties:					
Warranties and guaranties	375	39	5	33	364
Obligations from rental agreements	111	1	0	9	119
Total	486	40	5	42	483

Accruals for **warranties and guaranties** relate to warranties provided with or without a legal obligation to do so, and to the cost of reworking as a result of returns. The accrual is usually calculated at 0.5 % of the risk-prone revenue. The percentage rate is derived from historical values.

The expected **outflow of cash** concerning the above-mentioned accruals is as follows:

	30/06/2016 in %	30/09/2015 in %
In the following year	80	82
In the following 2 - 5 years	6	6
In the following 6 - 10 years	14	12
	100	100

The expected cash outflow in the following two to ten years relates primarily to obligations from rental agreements concluded with respect to the rented buildings up to the end of the contract term.

42. Liabilities from Income Taxes

Liabilities from income taxes were stated at the amount of the expected actual payment obligations resulting from income taxes for both the financial year and previous years.

OTHER DISCLOSURES

43. Contingent Liabilities

In addition to the existing liabilities which are covered by accruals, no significant obligations currently exist that may occur as a consequence of future uncontrollable events.

No guaranties were extended to parties outside the group.

44. Contingent Receivables

There are no contingent receivables as defined under IAS 37.

45. Other Financial Obligations

Other financial obligations of the group are as follows:

As at 30/09/2016	due within 1 year in T€	due within 1 to 5 years in T€	due in more than 5 years in T€	Total obligation in T€
Equipment lease agreements	97	32	0	129
Room rental contracts	2,070	5,783	43	7,896
Motor vehicle rental agreements	463	499	0	962
	2,630	6,314	43	8,987

As at 30/09/2015	due within 1 year in T€	due within 1 to 5 years in T€	due in more than 5 years in T€	Total obligation in T€
Equipment lease agreements	99	72	0	171
Room rental contracts	1,993	6,671	440	9,104
Motor vehicle rental agreements	423	241	0	664
	2,515	6,984	440	9,939

46. Management of Financial Risks

Risk Management Principles

Within the scope of its operative activities, the Höhle Group is exposed to risks that are also dealt with in the Risk Report section of the Management Report.

Dr. Höhle AG has introduced a formalised risk management system in order to monitor risks. The governing principles are documented in a manual. In measuring the probability of a damage occurring and the probability of a damage amount (and taking into account any potential opportunities for the group), a decision is made as to whether the pertaining risk is to be avoided, reduced, transferred or accepted. The risk situations are analysed and counter measures are defined and taken whenever necessary. The Dr. Höhle AG Management Board is informed at regular intervals about the group's current risk situation and is also informed immediately if new risks should occur.

Significant risks associated with financial assets and debts are allocated to liquidity, credit, and market risks.

Liquidity Risks

Basically, liquidity risks relate to the risk that the Hönle Group might not be in a position to comply with the obligations that result from financial liabilities.

One of the Hönle Group's management targets is a sustained increase in the operative cash flow. In this context, the liquidity situation is permanently and intensively monitored. The Dr. Hönle AG Management Board is informed at weekly intervals about the group's liquidity situation. In particular, utilisation of the cash pooling account by Hönle Group subsidiaries is monitored and the Management Board is informed accordingly on a weekly basis by the Accounting Department. Moreover, all account balances of Hönle Group's bank accounts are reported in detail to the management. The group monitors the risk associated with possible liquidity bottlenecks on an ongoing basis and assesses the liquidity development of all Hönle Group companies, based on the respective liquidity status in combination with the earnings forecast and intended financial and investing transactions.

According to our current planning, no liquidity bottlenecks are recognisable within the Hönle Group at present.

The following tables reflect the contractually agreed interest and repayments concerning all liabilities:

As at 30/09/2016	Residual term up to 1 year		Residual term 1 to 5 years		Residual term more than 5 years		Total amount	
	Interest in T€	Repayment in T€	Interest in T€	Repayment in T€	Interest in T€	Repayment in T€	Interest in T€	Repayment in T€
Liabilities to banks	159	2.996	224	5.438	12	606	395	9.040
Trade accounts payable	0	4.917	0	0	0	0	0	4.917
Financing lease	4	36	8	140	1	47	12	223
Liabilities to companies in which an equity investment is held	0	0	0	0	0	0	0	0
Other financial liabilities	1	4.698	0	537	0	0	1	5.235
Gesamtsumme	164	12.646	232	6.115	12	653	408	19.414

As at 30/09/2015	Residual term up to 1 year		Residual term 1 to 5 years		Residual term more than 5 years		Total amount	
	Interest in T€	Repayment in T€	Interest in T€	Repayment in T€	Interest in T€	Repayment in T€	Interest in T€	Repayment in T€
Liabilities to banks	238	3.022	380	6.807	44	1.227	661	11.056
Trade accounts payable	0	4.990	0	0	0	0	0	4.990
Financing lease	1	3	1	7	0	0	1	10
Liabilities to companies in which an equity investment is held	0	7	0	0	0	0	0	7
Other financing liabilities	5	5.063	1	416	0	0	5	5.479
Total	243	13.084	381	7.230	44	1.227	668	21.541

Credit Risks

The credit risk refers to the default risk concerning financial assets.

The Accounting and Sales/Marketing departments assess the customer receivables default risk at regular intervals. Outstanding receivables from customers are monitored, in particular, by analysing the age structure lists with respect to the maturity of outstanding receivables. Supplies to key account customers, in particular customers from abroad, are generally covered by letters of credit or other hedging instruments. The age structure list indicated that T€ 2,105 (PY: T€ 2,489) were due in less than 90 days as at 30 September 2016, which corresponds to 16.1 % (PY: 18.2 %) of the total amount of receivables outstanding. In all, T€ 203 or 1.6 %, (PY: T€ 367 or 2.7 %) and T€ 100 or 0.8 %, (PY: T€ 453 or 3.3 %) were due in 90 to 180 days, or in more than 180 days, respectively. The amount of value adjustment requirements is analysed individually for all customers at monthly intervals.

The Dr. Höhle Group Management is informed at monthly intervals about the age structure statistics of open receivables respecting all customers with special attention being paid to customer receivables involving amounts of more than T€ 10 where the maturity date is exceeded by more than 90 days.

The financial performance of specific customers or key account customers, respectively, is monitored permanently by external service providers or information that arises from the customers' payment pattern. In addition, market information is used in the assessment of customers' ability to comply with their payment obligations. The risk involved in large-scale contracts, in particular, is hedged on the basis of credit information and instalment plans. As a general rule, credit information is obtained with respect to new customers or when a change in customers' payment pattern is observed.

The group assesses the risk concentration with respect to trade receivables as low. This assessment is supported by the fact that Höhle Group customers are allocated to three different segments (Systems & Equipment, Adhesives and Glass & Lamps). Furthermore, the customers are located around the globe and are active in various sectors of industry and largely independent markets, in particular in the Adhesives and Glass & Lamps segments.

The carrying values of financial assets represent the maximum default risk in the event that contracting partners should fail to meet their payment obligations.

In the event that internal indications such as delayed payments or external information (indicating serious financial difficulties of the contracting party) become apparent in the group as at the balance sheet date, respective value adjustments are recorded.

The age structure of non-value-adjusted trade accounts receivable is as follows:

Age structure of overdue receivables (As at: 30/09/2016)	net in T€	thereof not yet due in T€	thereof past due but not value-adjusted < 90 days in T€	90 to 180 days in T€	>180 days in T€
Trade accounts receivable (net of individual value adjustments)	13,036	10,628	2,105	203	100

Age structure of overdue receivables (As at: 30/09/2015)	net in T€	thereof not yet due in T€	thereof past due but not value-adjusted < 90 days in T€	90 to 180 days in T€	>180 days in T€
Trade accounts receivable (net of individual value adjustments)	13,679	10,370	2,489	367	453

The Höhle Group assumes recoverability of all non-value adjusted trade accounts receivable. The other assets do not include any overdue items.

Risk concentrations arise when several business partners are engaged in similar activities in the same region or when, due to their economic features, their ability to meet their contractual obligations is impaired in the event of changes in the economic or political situation. In order to avoid disproportionately high risk concentrations, the Adhesives segment and the Glass & Lamps segment, in particular, are being expanded in addition to the Equipment & Systems segment. Identified default concentrations are continuously monitored and controlled. Selected hedging transactions are used within the group with a view to avoiding risks at the level of individual business relationships.

Market Risks

The market risk is split up into currency and interest rate risks.

Currency Risks

The Höhle Group is exposed to currency risks in as much as some of its purchases are made in foreign currencies and are not sold in the respective foreign currencies to the same extent.

Risks resulting from fluctuations in foreign currency receivables, liabilities, and from pending contracts and accrued and deferred items are largely associated with foreign currency transactions in US dollars, Swiss francs, Korean won and Chinese renminbi.

As at the balance sheet date, no rate hedging transactions were reported with respect to these foreign currency positions.

If the euro had been stronger by 10 % relative to the Swiss franc, this would have improved the consolidated result by T€ 1 (PY: T€ 4). A 10 % weakening of the euro in comparison with the Swiss franc would have lowered the consolidated result by T€ 2 (PY: T€ 5).

If, relative to the British pound, the euro had been stronger by 10 %, the consolidated result would have improved by T€ 0.4 (PY: T€ 0.1). A weakening of the euro in comparison with the British pound would have led to a decrease in the consolidated result by T€ 0.5 (PY: T€ 0.1).

If the euro had been stronger by 10 % relative to the US dollar, this would have led to a decrease in the consolidated result by T€ 17 (PY: T€ 9) whereas a 10 % weakening would have improved earnings by T€ 21 (PY: T€ 11).

If the euro had been stronger by 10 % relative to the Chinese renminbi, this would have led to an improvement in the consolidated result by T€ 5 (PY: T€ 3). A corresponding weakening of the euro in comparison with the Chinese renminbi would have led to a decrease in the consolidated result by T€ 6 (PY: T€ 4).

Interest Rate Risks

Interest rate risks are associated with variable interest-bearing financial instruments vis à vis banks.

In the 2015/2016 financial year and in prior years, derivative financial instruments were used to hedge against the interest rate risks to which the Hönle Group is exposed.

In financial year 2012/2013, Dr. Hönle AG took out a five-year loan in the amount of T€ 4,500 to finance the acquisition of assets of the former Grafix GmbH. The loan matures on 29 December 2017.

The interest rate is fixed for a rollover period of three months at each rollover date. The agreed interest rate is determined on the basis of the EURIBOR (European Interbank Offered Rate) applicable for the corresponding term on the trade date, plus a nominal spread of 1.95 percentage points. It is fixed until 29 December 2017 (which corresponds to the term of the loan). The PAYER interest rate swap concluded in this context in the nominal amount of T€ 4,500 serves as hedging transaction. The IRS has a term of five years (from 28 March 2013 to 29 December 2017) and results in an effective fixed interest rate of 2.64 %.

In the 2011/2012 financial year, an agreement was concluded respecting a bank loan in the amount of T€ 3,000. The loan has a term of five years and matures on 31 March 2017. The interest rate is fixed for a rollover period of three months at each rollover date. The agreed interest rate is determined on the basis of the EURIBOR applicable for the corresponding term on the trade date, plus a nominal spread of 1.80 percentage points. It is fixed until 31 March 2017 (which corresponds to the term of the loan). The PAYER interest rate swap concluded in this context in the nominal amount of T€ 3,000 serves as hedging transaction. The IRS has a term of five years (from 30 March 2012 to 31 March 2017) and results in an effective fixed interest rate of 3.18 %.

In the 2013/2014 financial year, an agreement was concluded respecting a bank loan in the amount of T€ 400. The loan has a term of eight years and matures on 30 June 2022. The interest rate is fixed for a rollover period of three months at each rollover date. The agreed interest rate is calculated using the EURIBOR applicable on the trading day for the respective term, plus a nominal spread of 0.80 percentage points. It is fixed until 30 June 2022 (which corresponds to the term of the loan). The PAYER interest rate swap concluded in this context in the nominal amount of T€ 400 serves as hedging transaction. The term is eight years (from 1 July 2014 to 30 June 2022) and results in an effective fixed interest rate of 1.69 %.

Also in the financial year 2013/2014, an agreement was concluded respecting a bank loan in the amount of T€ 3,500. The loan has a term of seven years and matures on 31 March 2021. The interest rate is fixed for a rollover period of three months at each rollover date. The agreed interest rate is calculated using the EURIBOR applicable on the trading day for the respective term, plus a nominal spread of 1.30 percentage points. It is fixed until 31 March 2021 (which corresponds to the term of the loan). The PAYER interest rate swap concluded in this context in the nominal amount of T€ 3,500 serves as hedging transaction. The term is seven years (from 31 March 2014 to 31 March 2021) and

results in an effective fixed interest rate of 2.29 %.

The interest rate swaps are treated as cash flow hedges. The interest rate swaps (variable to fixed interest rates) serve to hedge against rising interest rates concerning the bank loans carrying variable interest rates. The fair value (= market value) corresponds to the value the respective company would receive or would have to pay at the cancellation of the transaction as of the balance sheet date.

The fair values are determined by discounting the future cash flows from variable payments on the basis of generally accepted financial models. Interbank rates are used in the valuation.

The changes in the fair values of derivatives that qualify as effective hedge in the amount of T€ 15 (PY: T€ 35) were recognized directly in equity under the reserve for hedging transactions, taking deferred taxes of T€ -4 (PY: T€ -9) into account.

All other loans are subject to fixed interest agreements. The loans are measured at amortised acquisition costs using the effective interest rate method. Consequently, a change in market interest rates does not impact on measurement. Current overdrafts and credit balances on current accounts bear variable interest rates. If an average 2 % increase in the interest level respecting current account loans were to be assumed, the additional interest expense would amount to T€ 4 (PY: T€ 3), assuming that the average negative balance on current accounts corresponds to the value of T€ 193 (PY: T€ 142) at the end of the 2015/2016 financial year. According to current information, market price changes concerning these financial instruments would not have any further significant impact on the Hönle Group results.

Other Disclosures regarding Financial Assets and Debts

The following table provides an overview of the transition of financial assets and debts included in the balance sheet items pursuant to the IAS 39 categories as well as impairment losses recorded in the respective financial year under profit or loss, net profits/losses as well as the total interest expense and income:

Carrying amounts as at 30/09/2016	Measurement category pursuant to IAS 39	Amortised costs	Fair value with neutral effect on profit/loss
		in T€	in T€
Equity investments	AfS	32	0
Other non-current assets	LaR	52	0
Trade accounts receivable	LaR	13,078	0
Other current assets	LaR	1,461	0
Liquid assets	LaR	6,516	0
Total		21,138	0
Liabilities to banks	FLAC	9,040	0
Trade accounts payable	FLAC	4,917	0
Other long-term financial liabilities	FLAC	631	0
Other short-term financial liabilities	FLAC	4,733	0
Derivatives in conjunction with effective CF hedge	CF hedge	0	93
Total		19,321	93

**thereof aggregated pursuant to
IAS 39 measurement categories**

Loans and Receivables (LaR)	21,107	0
Available-for-Sale Financial Assets (AfS)	32	0
Financial Liabilities Measured at Amortised Cost (FLAC)	19,321	0
Amount of impairments recorded under profit/loss	-12	0
Net profit/loss		15
Total interest expense	-278	0
Total interest income	53	0

Carrying amounts as at 30/09/2015	Measurement category pursuant to IAS 39	Amortised costs	Fair value with neutral effect on profit/loss
		in T€	in T€
Equity investments	AfS	32	0
Other non-current assets	LaR	102	0
Trade accounts receivable	LaR	13,737	0
Other current assets	LaR	1,319	0
Liquid assets	LaR	7,456	0
Total		22,646	0
Liabilities to banks	FLAC	11,056	0
Trade accounts payable	FLAC	4,996	0
Other long-term financial liabilities	FLAC	315	0
Other short-term financial liabilities	FLAC	5,066	0
Derivatives in conjunction with effective CF hedge	CF hedge	0	108
Total		21,432	108

**thereof aggregated pursuant to
IAS 39 measurement categories**

Loans and Receivables (LaR)	22,614	0
Available-for-Sale Financial Assets (AfS)	32	0
Financial Liabilities Measured at Amortised Cost (FLAC)	21,432	0
Amount of impairments recorded under	-167	0
Net profit/loss		35
Total interest expense	-478	0
Total interest income	1,078	0

The carrying amounts of financial assets (trade accounts receivable, other current assets and liquid assets) correspond to market values.

Other non-current assets include fixed-interest bearing receivables. Market values are determined in consideration of interest rates, corresponding impairment of value, and individual criteria. Book values correspond to market values as at the 30 September 2016 balance sheet date.

The carrying amounts of financial liabilities (short-term financial liabilities and trade accounts payable) correspond to market values. All positions are due within one year.

Long-term financial liabilities include fixed-interest bearing liabilities and liabilities with floating interest rates as well as recognised leasing liabilities. The measurement of long-term financial liabilities at market values is based on the discounting of future cash flows over the contract term of the

respective financial instruments, using the issuer's borrowing rate at the end of the reporting period. Management established that the carrying amounts of financial liabilities are almost equal to their fair values due to short terms to maturity or interest rates in line with market conditions.

Interest rate swaps (derivatives with effective hedge relationship) are regularly measured using a valuation method that is based on input parameters that are observable in the market. The measurement methods most frequently applied include option price- and swap models using present value calculations. The models make reference to various parameters such as the credit standing of business partners, FOREX spot and futures prices/rates and yield curves. As of 30 September 2016, the derivative items are measured at market value (marked-to-market). Both the default risk of the group as well as that of the bank are classified as low.

The following table reflects the financial liabilities accounted for at fair values on the basis of hierarchy levels:

Category of liabilities		Prices quoted on active markets	Significant observable input parameter	Significant non-observable input parameter	
	Reporting date	Total in T€	(Level 1) in T€	(Level 2) in T€	(Level 3) in T€
Interest rate swap in connection with effective CF hedge	30/09/2016	93	-	93	-
Interest rate swap in connection with effective CF hedge	30/09/2015	108	-	108	-

47. Statement of Consolidated Cash Flows

The cash flow statement indicates changes in the group's cash and cash equivalents and the respective changes resulting from an inflow and outflow of funds. In accordance with IAS 7 (Cash Flow Statements), cash flows are split into operating, investing, and financing activities. The cash and cash equivalents under review encompass the liquid assets disclosed in the balance sheet.

Additions to/disposals of cash and cash equivalents are presented using the indirect determination method.

Cash from current activities amounts to T€ 13,126 (PY: T€ 12,863). It results from the consolidated net income for the year before non-controlling interests and taxes of T€ 12,050 (PY: T€ 14,023) and largely from adjustments relating to non-cash effects and financial results in the amount of T€ 2,909 (PY: T€ 799) and changes in net working capital. The position of other non-cash expenses and income mainly includes depreciation/amortisation of property, plant and equipment, intangible assets and the previous year's non-cash financial income.

Cash used for investing activities results mainly from investments in property, plant and equipment and intangible assets in the amount of T€ 4,980 (PY: T€ 2,136).

The dividend distribution for financial year 2014/2015 in the amount of T€ 3,032 (PY: T€ 2,756) is to be mentioned within the scope of financing activities. Cash provided by financing activities is largely attributable to the taking out of loans in the amount of T€ 1,153 (PY: T€ 1,350), in particular a short-term operating credit line concerning Raesch Quarz (Germany) GmbH. Cash used for financing activities in the financial year under review related mainly to the repayment of liabilities to banks and

lease liabilities in the amount of T€ 2,841 (PY: T€ 3,241).

In all, liquid assets decreased from T€ 7,456 to T€ 6,516 in the financial year 2015/2016.

48. Segment Reporting

Segment reporting was prepared in conformity with IFRS 8.

The Höhle Group companies are combined into segments if they operate in similar markets, they manufacture the same products and their structures are similar.

At the Höhle Group, the parent company's Management Board is responsible for allocating resources and for assessing the segments' earnings power. The relevant segments were identified using the management approach in accordance with the Management Board's management information system.

The following business segments have been defined:

- Equipment & Systems
- Adhesives
- Glass & Lamps

The Equipment & Systems segment encompasses the development, production and sale of equipment and systems. The Adhesives segment comprises the development, production and sale of adhesives.

The Glass & Lamps segment includes the development, production and sale of tubing and semi-finished goods made of quartz glass as well as the manufacture of UV medium-pressure and low-pressure lamps.

Other activities and other segments were not defined. Segmentation is based on the data provided by the accounting departments of the included legal entities.

The segment reporting accounting principles generally correspond to the accounting and valuation methods applied at the Höhle Group, as described in paragraph 5.

Segment report financial year 2015/2016

	Equipment/Systems 2015/2016 T€	Adhesives 2015/2016 T€	Glass/Lamps 2015/2016 T€	Total 2015/2016 T€	Eliminations 2015/2016 T€	Consolidated 2015/2016 T€
Sales revenues:						
External customers	52,543	23,210	17,662	93,415	0	93,415
Sales with other business units	824	420	2,162	3,406	-3,406	0
Total sales	53,367	23,630	19,824	96,821	-3,406	93,415
RESULT:						
Segment result (operating result)	6,530	4,971	900	12,400	0	12,400
Interest income	232	22	65	319	-265	54
Interest expenses	535	33	393	961	-572	389
Investments accounted for at equity				-14		-14
Write-downs on securities				0		0
Earnings before taxes and non-controlling interests						12,050
Income taxes	2,044	1,734	330	4,108	0	4,109
Deferred taxes	43	-126	-182	-265	-84	-349
Earnings before non-controlling interests						8,290
OTHER INFORMATION:						
Segment assets:	54,665	15,943	26,896	97,504	-8,034	89,470
Non-allocated assets:						
Investments accounted for at equity				36		36
Financial assets				32		32
Long-term receivables				902		902
Tax refund claims				648		648
Deferred tax assets				3,187		3,187
Consolidated assets						94,275
Segment debt	23,428	5,795	20,385	49,608	-27,175	22,433
Deferred tax liabilities				1,369		1,369
Liabilities from income taxes				2,573		2,573
Long-term loans				6,230		6,230
Consolidated liabilities (short-term and long-term)						32,605
Investments:	2,023	744	2,364	5,132	-152	4,980
Segment write-downs	1,062	536	1,111	2,709	0	2,709
Non-cash expenses of the segment	284	2	5	291	0	291

Segment report financial year 2014/2015

	Equipment/Systems 2014/2015 T€	Adhesives 2014/2015 T€	Glass/Lamps 2014/2015 T€	Total 2014/2015 T€	Eliminations 2014/2015 T€	Consolidated 2014/2015 T€
Sales revenues:						
External customers	50,999	23,780	17,395	92,173	0	92,173
Sales with other business units	1,390	326	1,732	3,448	-3,448	0
Total sales	52,389	24,106	19,127	95,621	-3,448	92,173
RESULT:						
Segment result (operating result)	7,535	5,913	76	13,524	0	13,524
includes significant income and expense items:						
Interest income	220	42	113	375	720	1,094
Interest expenses	712	17	366	1,095	-511	584
Investments accounted for at equity				-11		-11
Write-downs on securities				1		1
Earnings before taxes and non-controlling interests						14,023
Income taxes	1,625	1,898	336	3,859	0	3,860
Deferred taxes	250	-93	-222	-65	-92	-158
Earnings before non-controlling interests						10,321
OTHER INFORMATION:						
Segment assets:	56,095	15,366	23,512	94,973	-8,052	86,920
Non-allocated assets:						
Investments accounted for at equity				50		50
Financial Assets				32		32
Long-term receivables				810		810
Tax refund claims				631		631
Deferred tax assets				2,569		2,569
Consolidated assets						91,012
Segment debt	27,047	4,845	16,603	48,495	-27,506	20,989
Deferred tax liabilities				1,526		1,526
Liabilities from income taxes				2,938		2,938
Long-term loans				8,045		8,045
Consolidated liabilities (short-term and long-term)						33,497
Investments:	824	425	887	2,136	0	2,136
Segment write-downs	1,048	409	1,181	2,638	0	2,638
Non-cash expenses of the segment	621	5	7	633	0	633

Geographical Information

Sales revenues generated with external customers are allocated on the basis of customer location.

The regional allocation of sales revenues is as follows:

	2015/2016 in T€	2014/2015 in T€
Total sales revenues	93,415	92,173
Germany	34,771	32,353
Other countries	58,644	59,820

Sales revenues of T€ 9,592, corresponding to a portion of 10.3 % of total sales, were earned in France in financial year 2015/2016 whereas sales revenues of T€ 10,275, corresponding to a portion of 11.0 % in total sales, were generated in the U.S.

Non-current assets are allocated as follows:

Germany:	T€ 29,063 (PY: T€ 26,968)
Other countries:	T€ 11,192 (PY: T€ 11,095)

Segment assets are defined as the sum total of intangible assets, property, plant and equipment, inventories, short-term receivables and liquid assets. Segment debt includes long-term and short-term obligations. Non-cash segment expenses relate to changes in pension accruals and other accruals.

Transfer prices relating to intercompany services and supplies including the pertaining calculation basis are based on the same terms and conditions as those applied for third parties. In this respect no changes have been recorded in comparison with previous years.

49. Related Party Disclosures

Related parties within the meaning of IAS 24 are named below.

In accordance with IAS 24, a party is related to an entity if it is controlled by the reporting company or can have a significant influence over the company, such as

- the members of the Management Board or Supervisory Board of Dr. Höhle AG
- associated companies
- non-consolidated subsidiaries.

With respect to disclosures relating to the Board of Management and the Supervisory Board, reference is made to our comments in paragraph 50.

Regarding the reportable business relationships, reference is made to our comments on individual balance sheet and income statement items. Costs are passed on mainly between Solitec GmbH and Dr. Höhle AG within the scope of advertising. The respective amounts are immaterial with respect to the results of operations, however.

- **Controlled companies not included in the consolidated financial statements due to insignificance**

Solitec Gesellschaft für technischen Produktvertrieb mbH, Gräfelfing

- **Companies under significant influence of a Supervisory Board of the group:**

Dr. Hönle Medizintechnik GmbH, Kaufering

A loan in the amount of T€ 150 was extended to Dr. Hönle Medizintechnik GmbH in the 2014/2015 financial year. The loan, which matures on 30 April 2018, is repaid on the basis of agreed annuities of T€ 54 per year. The carrying amount was T€ 81 (PY: T€ 130) as at 30 September 2016. The non-current portion, which amounts to T€ 30 (PY: T€ 81), is disclosed under "Other non-current assets" (cf. paragraph 21), the current portion of T€ 51 (PY: T€ 49) is reported under the position "Other current assets" (cf. paragraph 27). The interest income (cf. paragraph 13) in the amount of T€ 5 (PY: T€ 3) results from the agreed annual interest rate of 4.5 %.

The loan is collateralised by an absolute guarantee of an equivalent amount provided by Prof. Dr. Hönle.

See also paragraphs 13, 21, 27.

50. Disclosures regarding Corporate Bodies

Management Board

Norbert Haimerl, Diplom-Betriebswirt (FH), CEO, Commercial Units, Investor Relations, Logistics, Quality Management

Heiko Runge, Diplom-Ingenieur (FH), CEO, Distribution, Marketing, Public Relations, Technology

The company is represented by the two Management Board members.

Both members hold sole power of representation. The Management Board members are authorised to represent the company without limitation when carrying out legal transactions where they themselves act as third party representatives.

Total remuneration for the Management Board members in financial year 2015/2016 amounted to:

Mr Norbert Haimerl	T€ 504 (PY: T€ 550)
Mr Heiko Runge	T€ 493 (PY: T€ 539)

The remuneration structure is based on the assumption of sustained corporate development. The monetary remuneration components include fixed and variable components based on the Hönle Group's performance.

The criteria used in evaluating the suitability of remuneration are as follows: The tasks of the respective Management Board member, personal performance, the economic situation, earnings, and future outlook of the company, standard practice in the industry and the company's general remuneration structure. The Supervisory Board regularly reviews the structure and amount of the remuneration for Management Board members.

Pension commitments were granted to the Management Board members, Mr Haimerl and Mr Runge. Annual pension modules have been and are acquired since 1 January 2012 within the course of a conversion of pension commitments for Management Board members. The amount of the pension module acquired in a given financial year results from the pension expense which is converted to an annuity on the basis of age-dependent conversion factors. The pension expense corresponds to a fixed percentage of annual fixed remuneration (excluding bonus payments). The benefit types include

retirement pension (from the age of 60), disability pension benefits and survivors' pension (widow's/life partner's and orphan's pension). The amount of the disability pension and retirement pension corresponds to the total of vested rights and the pension modules acquired up to the date when the benefits fall due. The widow's and life partner's pension corresponds to 60 % of disability pension or retirement benefits acquired or paid out at the time of death. The full orphan's pension allowance is 20 % of the respective pension entitlement, the reduced ("half-allowance") orphan's pension is 12 % of the respective pension entitlement. Reinsurance pension agreements were concluded to cover the pension commitments.

Fixed remuneration (not based on performance)

	Salary		Other remuneration		Total	
	2015/2016	2014/2015	2015/2016	2014/2015	2015/2016	2014/2015
	T€	T€	T€	T€	T€	T€
Norbert Haimerl	232	225	25	25	256	250
Heiko Runge	231	224	14	15	245	239
Total	463	449	39	40	502	489

Performance-based remuneration

Profit sharing bonuses

	2015/2016	2014/2015
	T€	T€
Norbert Haimerl	248	300
Heiko Runge	248	300
Total	496	600

Pensions

Pension expenses pursuant to IAS 19

	2015/2016	2014/2015
	T€	T€
Norbert Haimerl	245	205
Heiko Runge	216	177
Total	461	382

Pensions

Present value of defined benefit obligations

	2015/2016	2014/2015
	T€	T€
Norbert Haimerl	1,741	1,171
Heiko Runge	1,596	1,059
Total	3,336	2,230

Benefits on Termination of Board of Directors Activity

The Supervisory Board appoints the Dr. Höhle AG Management Board for a maximum term of office of five years

A transitional remuneration agreement was concluded with the Management Board of the company. According to this agreement, in the event of a departure from the Board after reaching the age of 50 and before reaching the age of 60, the fixed remuneration provided for in the service agreement will continue to be paid for 12 months, followed by continued payments ranging between 40 % and a maximum of 50 % of the fixed remuneration until the effective date of the pension plan of the member of the Board of Directors. However, the transitional remuneration agreement only enters into effect if the respective individual was a member of the Management Board for at least ten years and did not leave the Management Board upon his own responsibility. Any income derived from other sources is deducted from the transitional remuneration. This can lead to a reduction or a complete loss of the transitional remuneration. In addition, the Supervisory Board is entitled to reduce the transitional remuneration in the event of a deterioration of the company's situation. In the event of unjustified payments or subsequent reductions by the Supervisory Board, the benefits granted must be refunded to the company.

In the event of a change of control at Dr. Höhle AG, the Management Board member is entitled to terminate the management board service agreement within a period of three months after obtaining knowledge of the change of control. The notice period is three months to the end of the month and the Management Board member can resign from office as of that date. A change of control is considered to be any direct or indirect acquisition of control over Dr. Höhle AG by a third party within the meaning of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetzes (WpÜG)). If the Management Board member leaves the company, said member is entitled to a severance payment in the amount of two annual gross salaries (including profit-sharing remuneration), up to a maximum of T€ 400. The calculation of the gross annual salary is based on the average annual gross salary earned in the last three financial years prior to the departure.

Compensation of Supervisory Board Members

The compensation contains only fixed payments which are oriented towards the duties and responsibilities of the respective Supervisory Board member. No other compensation, for example from advisory or brokerage services, is granted.

Supervisory Board Compensation

	2015/2016 T€	2014/2015 T€
Prof. Dr. Karl Höhle	48	43
Günther Henrich	36	21
Dr. Bernhard Gimple	24	14
Dr. Hans-Joachim Vits	0	24
Eckhard Pergande	0	12
Total	108	114

Pension payments of T€ 12 (PY: T€ 12) were made to the surviving dependents of former Managing Directors. These pension claims are covered by pension accruals in the amount of T€ 273 (PY: T€ 231). (cf. paragraph 35). Interest expense contains a portion of T€ 4 (PY: T€ 7) to this end.

Supervisory Board

- Prof. Dr. Karl Hönle, Dachau - Chairman
Physicist, Professor of Technical Optics and Laser Technology at the Munich University for Applied Sciences (emeritus status), Managing Director of Dr. Hönle Medizintechnik GmbH
- Günther Henrich, Schäftlarn – Vice Chairman
Lawyer, independent
Advisory Board Chairman at Pfeifer Holding GmbH & Co. KG, Memmingen
- Dr. Bernhard Gimple, Munich
Lawyer, independent

Total compensation for the Supervisory Board amounted to T€ 108 (PY: T€ 114) in financial year 2015/2016.

For more details concerning Management Board and Supervisory Board remuneration, please see the Remuneration Report, which is an integral part of the Management Report.

51. Corporate Governance Compliance Declaration pursuant to Section 161 AktG

In November 2016, the Management Board and the Supervisory Board of Dr. Hönle AG issued a Compliance Declaration as required under Section 161 AktG, and have provided shareholders with permanent access to it on the company's Internet page at (www.hoenle.de).

52. Annual Auditor's Fees

The annual auditor, S&P GmbH Wirtschaftsprüfungsgesellschaft, Munich, charged the following fees for financial year 2015/2016:

	T€
Financial statements audit (individual and consolidated)	171
Tax consulting services	40
Other auditor's services	4
Total	215

53. Employees

The average number of staff in the group (excluding the Management Board), allocated according to functions, was as follows:

	2015/2016	2014/2015
Sales & Marketing	86	87
Research & Development	66	58
Production, Service	263	261
Logistics	66	60
Administration	69	71
Total	550	537

Glossary of Terms

EBT

Earnings Before Taxes

EBIT

Earnings Before Interest and Taxes

EBIT Margin

The EBIT margin represents the relationship between profits before interest and taxes and aggregate operating performance.

EnMS

The Energy management system (EnMS) pursuant to DIN EN ISO 50001 ensures the continuous and systematic improvement of an entity's energy-related performance.

IAS, IFRS

International Financial Reporting Standards – international accounting guidelines issued by the International Accounting Standards Board (IASB).

IASB

International Accounting Standards Board – an international independent panel of accounting experts that develops and revises the International Financial Reporting Standards (IFRS).

NEC Directive

The NEC Directive defines national emission ceilings.

Net Profit on Sales

The net profit on sales represents the ratio of consolidated earnings for the year to sales revenues.

Cost of Materials Ratio

The cost of materials ratio represents the ratio of cost of materials to aggregate operating performance.

Personnel Expense Ratio

The personnel expense ratio represents the ratio of personnel expense to aggregate operating performance.

Ratio of Other Operating Expenses

The ratio of other operating expenses represents the relationship between other operating expenses and aggregate operating performance.

VOC

Volatile Organic Compounds – organic chemicals that evaporate easily or, at low temperatures, act as reactive organic gases. German Emission Law (Bundes-Immissionsschutzverordnung) limits the emission of volatile organic compounds. The use of UV paints and lacquers provides for the possibility of complying with the regulations stipulated in the German Emission Law.

Financial Calendar

31 January 2017

Present Annual Report 2015/2016

22 February 2017

I. Quarterly Statement 2016/2017

28 March 2017

Shareholders Meeting in Munich

19 May 2017

Half-Year Report 2016/2017

17 August 2017

III. Quarterly Statement 2016/2017



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