

# hönle group

Annual Report 2016/2017



Equipment and Systems – Glass and Lamps – Adhesives



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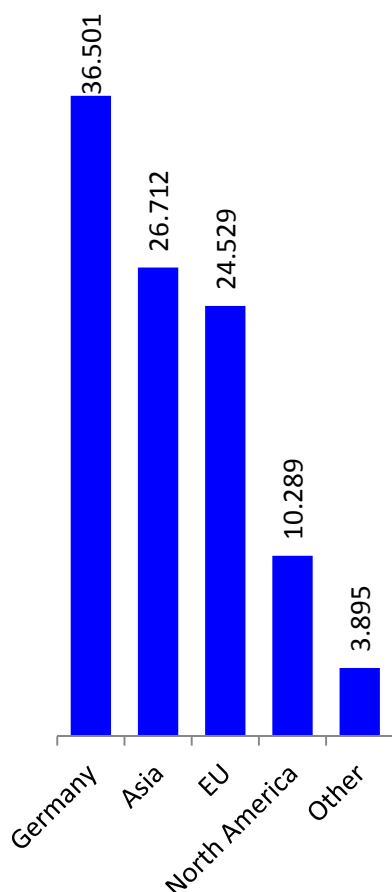
## Highlights

### Fluorescent adhesive for the electronics industry

Panacol develops a fluorescent adhesive for encapsulating electronic components on printed circuit boards. The adhesive is ideally suited for being used in conjunction with high production speeds and facilitates a reliable process control.

### Regional sales distribution

in € million



### Main growth driver Adhesives segment

*Revenue generated in the Adhesives segment climbed by 27.3 % to T€ 29,541 – the positive business development was largely attributable to the smart devices segment.*

# 49.7 %

### Short-lived assets

Short-lived assets account for 49.7 % (PY: 43.8 %) of the Hönle Group's total sales revenues.

### New quartz glass resize centre

**Raesch Quarz (Germany) GmbH** is investing in new production facilities and is thus opening up new business fields in the semi-conductor industry.

# €15.2 million

### EBIT

the operating result advances by 22.6 % to € 15.2 million

# € 102 million

## Revenue

*Our revenue exceeded the € 100 million mark for the first time.*

## Opening of central warehouse

Hönle bundles several warehouse sites in a new central warehouse in the Munich area and integrates the Unterlüß production site

# 22.3 %

## Stock price

*The Hönle share outperforms the DAX for the fifth consecutive year. The stock price rose by 22.3 % in financial year 2016/2017.*



## 22 to 26 Mio. €

## EBIT

**The operating profit shall increase from € 15.2 million in the year under revue to € 22 - 26 million in the financial year 2017/2018.**

# jetCURE LED

The LED unit of the new high-performance dryer enables the complete curing of inks, coatings and adhesives within a split second.

# € 1.89

**Earnings per share increase by 26 % to € 1.89.**



# 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 sterilisation 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.

Hönle is also developing and manufacturing 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.

# Business Development

<b>HÖNLE GROUP</b> in T€	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017	Changes
<b>Income Statement</b>											in %
Revenue	48,744	44,985	54,624	67,878	72,092	77,273	82,090	92,173	93,415	101,926	9.1
EBITDA	6,663	-2,779	6,722	12,751	10,664	10,235	12,034	16,162	15,109	18,144	20.1
Operating result/EBIT	5,630	-3,938	5,548	11,280	8,309	7,705	9,483	13,524	12,400	15,207	22.6
EBT	5,908	-4,073	5,342	10,771	8,431	8,637	8,967	14,023	12,050	14,877	23.5
Consolidated net income/loss for the year	4,569	-4,083	4,806	7,499	6,209	6,712	6,495	10,320	8,290	10,414	25.6
<b>Cash flow</b>											
Operating cash flow <sup>1)</sup>	4,340	-2,458	5,105	12,601	7,235	9,020	9,201	12,863	13,126	12,146	-7.5
<b>Statement of Financial Position <sup>2)</sup></b>											
Non-current assets	16,569	16,747	17,124	18,632	36,462	40,257	42,013	41,524	44,404	46,305	4.3
Current assets	31,945	21,780	27,310	37,119	40,476	39,445	43,582	49,112	49,871	56,002	12.3
Equity	31,420	25,624	30,769	39,204	43,830	46,872	49,718	57,514	61,669	69,778	13.2
Non-current liabilities	4,108	4,084	3,705	4,307	15,633	13,558	16,676	15,084	15,130	13,152	-13.1
Current liabilities	12,986	8,819	9,960	13,240	17,475	19,272	19,201	18,414	17,475	19,377	10.9
Total assets	48,514	38,527	44,434	55,751	76,938	79,702	85,595	91,012	94,275	102,306	8.5
Equity ratio as a %	64.8	66.5	69.4	68.5	57.0	58.8	58.1	63.2	65.4	68.2	4.3
<b>Staff</b>											
At the end of the financial year	302	253	276	363	473	526	506	545	542	581	7.2
<b>Share</b>											
Earnings per share in €	0.84	-0.80	0.89	1.30	1.08	1.20	1.13	1.84	1.50	1.89	26.0
Dividend in €	0.25	0.00	0.30	0.50	0.50	0.50	0.50	0.55	0.55	0.60 <sup>3)</sup>	9.1
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
<b>DR. HÖNLE AG (according to HGB)</b> in T€											
<b>Income Statement</b>											
Revenue	23,949	18,487	25,887	31,917	27,643	27,207	29,579	34,358	36,405	39,855	9.5
Operating result/EBIT	3,335	-717	2,121	5,979	3,929	2,321	3,833	3,747	2,709 <sup>4)</sup>	2,892	6.8
Net income/loss for the year	2,526	-484	2,898	5,507	4,334	7,028	5,191	11,300	6,737	4,476	-33.6
Earnings per share in €	0.49	-0.09	0.56	1.04	0.80	1.28	0.94	2.05	1.22	0.81	-33.6

1) Cash generated from operations

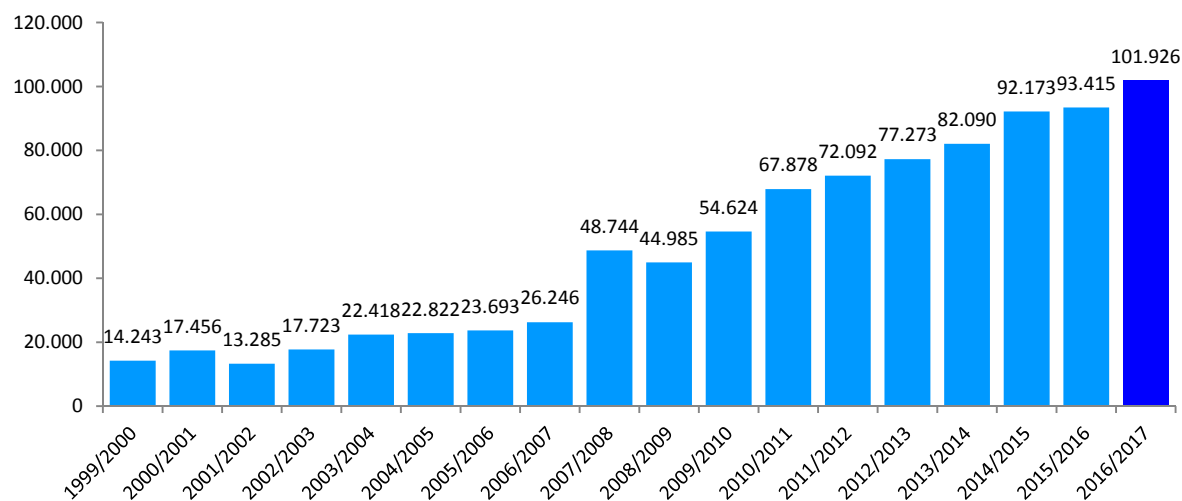
2) As at the end of the respective financial year

3) Management Board and Supervisory Board proposal

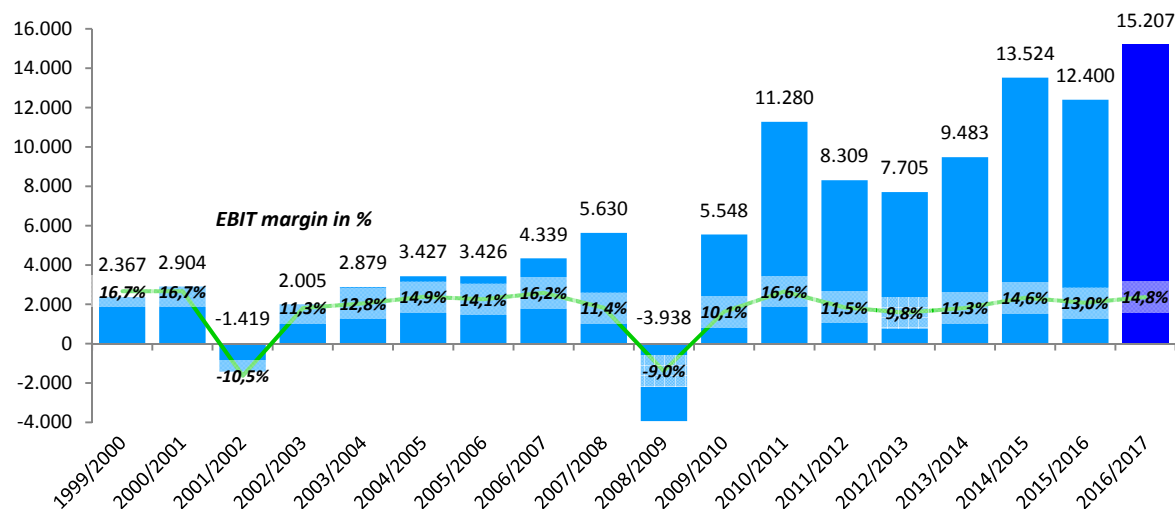
4) Adjustment according BilRUG



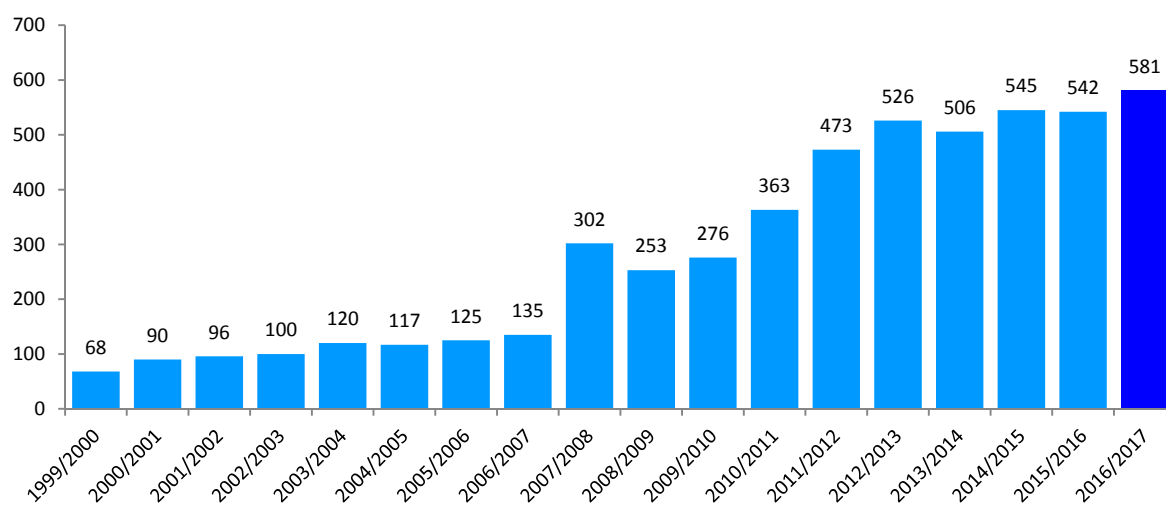
## Revenue in T€



## Operating result in T€



## Staff





Norbert Haimerl and Heiko Runge  
Dr. Hönle AG Management Board

Dear shareholders,  
Dear business friends,

In the financial year 2016/2017, our revenues exceeded the € 100 million mark for the first time with a 9.1 % increase to T€ 101,926. The Adhesives segment was the main growth driver with sales revenues climbing by 27.3 % to T€ 29,541. The positive business development was supported by the Consumer Electronics segment and, primarily by the Smart Devices segment. We succeeded in significantly expanding the customer base for adhesives applications in the electronics industry, primarily in Europe and Asia. The segment result jumped by 84.9 % to T€ 9,190.

Sales revenues achieved in the Equipment & Systems segment dropped by 2.4 % to T€ 51,307, mainly due to the temporarily lower revenues in the printing industry. On the other hand, we achieved a significant revenue increase in the segment of drying systems for adhesives applications. In this context, the demand for UV curing solutions increased strongly, in particular in the electronics industry. Restructuring processes however had a temporary dampening effect on earnings in financial year 2016/2017, and the segment result of T€ 5,242 was 19.7 % below the level of the previous year. The revenue development in the Glass & Lamps segment was encouraging with a 19.3 % rise to T€ 21,078 due, in particular, the revenue increase at Raesch Quarz (Germany) GmbH and Raesch Quarz (Malta) Ltd. We achieved significant revenues increases in the semi-conductor and glass fibre application segments as planned. Restructuring measures for the new Resize centre for quartz glass tubes and the disposal of furnace parts led to higher other operating expenses and depreciation. The segment result of T€ 775 was thus slightly below the prior-year's figure.

What are our objectives for the year 2018?

The economic experts agree that the global upswing in the world economy will continue in 2018. Following the economic growth of 3.6 % in the year 2017, the International Monetary Fund (IMF) expects growth of 3.7 % in 2018 and a consistently strong expansion in subsequent years.

With its UV-LED systems, the Hönle Group is well positioned in an up and coming market. To enable accommodating the planned growth, we will further expand the development and manufacturing capacities for LED technologies. New cooperation agreements with strategic partners in the printing and water sterilisation markets provide additional important growth potential for the sustained positive business development of the Hönle Group.

Moreover, with our quartz glass products, we are well positioned to tap further into the growing semi-conductor and glass fibre markets.

The Adhesives segment is expected to be of crucial importance in the new financial year. The close cooperation with global market leaders forms the basis for the development of high-quality industrial adhesives. We are also well represented in many growth markets, such as the market for smart devices. We expect a significant revenue and earnings increase in the Adhesives segment and, not least for this reason, raised our original forecast significantly.

With the general economic conditions remaining as they are, we aim at achieving revenue of between € 115 million and € 125 million and an operating result of between € 22 million and € 26 million for the Hönle Group in financial year 2017/2018.

In addition to strictly organic growth, corporate acquisitions will also play an important role in the expansion of Hönle Group's activities. In particular, we intend to further expand our market position in the area of short-lived economic goods such as adhesives and quartz glass products over the medium term.

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.

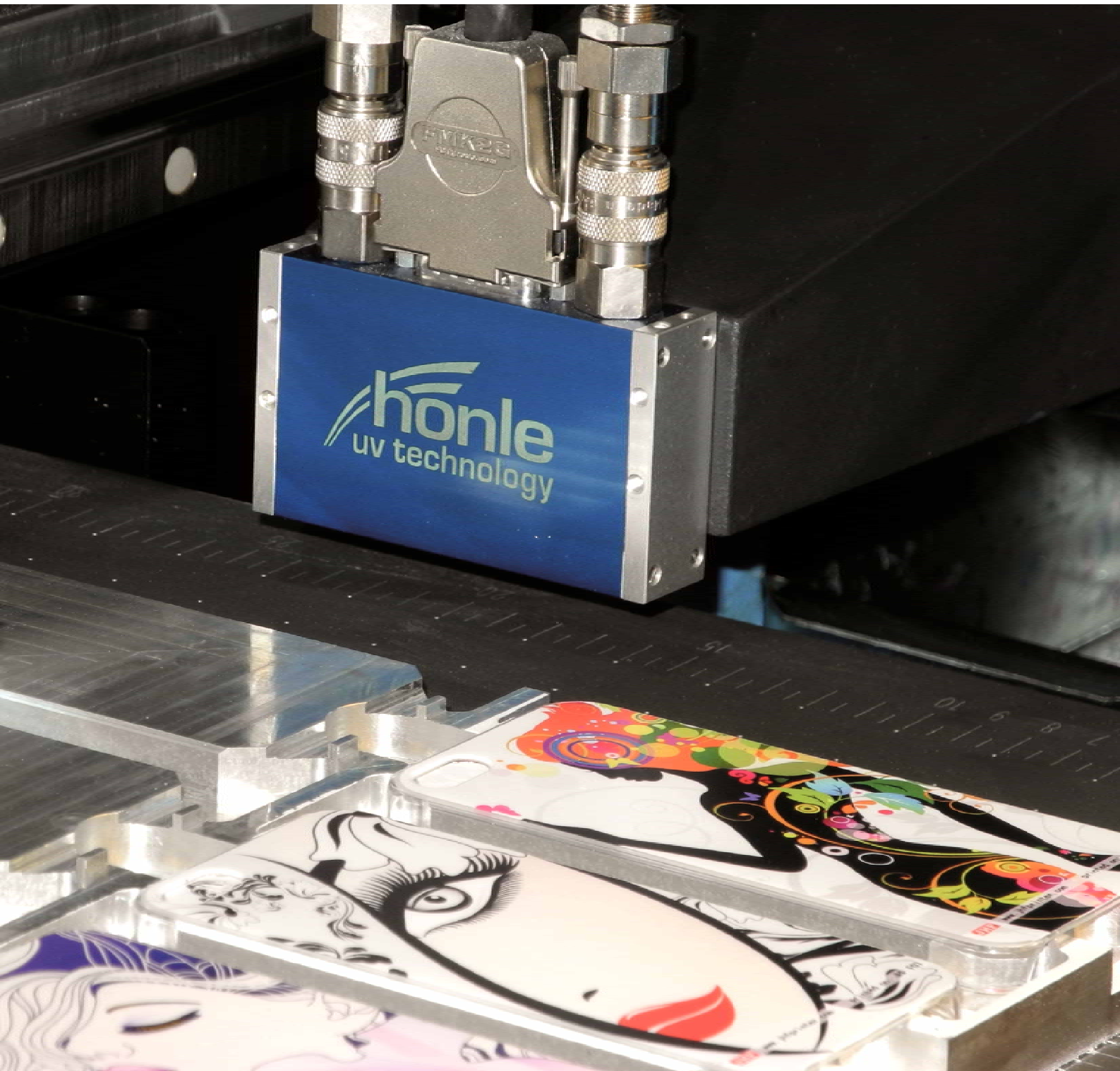


Norbert Haimerl  
Management Board



Heiko Runge  
Management Board

## LED UV Technology



### Equipment & Systems Segment

LED technology used in printing –

Ultraviolet light-emitting diodes are used for drying of inks and coatings, such as on mobile phone covers.

## Report of the Supervisory Board



Prof. Dr. Karl Höhle  
Chairman of the Supervisory Board



Dear shareholders,

The Hönle Group achieved sales revenues of more than € 100 million for the first time in the company's history and also posted a new record high of € 10.4 million in consolidated net income. The Adhesives segment was the main growth driver with sales revenues rising by 27 % to just under € 30 million in the reporting year. The prospects are also excellent in the new financial year in all segments, in particular in the Adhesives segment. Consumer Electronics are expected to lead to a sharp increase in revenue and earnings at the Panacol Group. As a consequence of this positive development, we have raised our forecast considerably.

In the following I would like to give you an overview of the Supervisory Board activities during the 2016/2017 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, characterised by mutual trust. We were involved in all decisions of fundamental importance relating, amongst other things, to investments in a Resize centre for quartz glass tubes at Raesch Quarz (Germany) GmbH in Langewiesen near Ilmenau and the planned construction of new business premises for expanding the business activities in the Adhesives segment in Steinbach (Taunus).

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 special occurrences.

The Management Board and the Supervisory Board held five meetings in the reporting year, four of which were attended by all members. At the meeting held on 29 August 2017, the Supervisory Board was represented by all of its members while the Management Board was represented by Mr. Haimerl. 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 approval for the motions issued by the Management Board following extensive discussions. We were able to satisfy ourselves as to the lawfulness and appropriateness of the Management Board's activities.

### Focal Points of the Consultations

In the meeting held on 3 November 2016, the Management Board discussed the provisional figures of the Höhle Group and those of the Höhle Group companies as at 30 September 2016. The Management Board confirmed that the annual auditors audited all individual financial statement of the Höhle Group at that date. The Management Board reported on the current status of building measures for the new Resize centre at Raesch Quarz (Germany) GmbH and on the new rented central warehouse in Olching. The central warehouse is to combine several decentralised warehouses and optimise logistics-related workflow processes.

Finally, we were provided with detailed P&L planning concerning all group companies for financial year 2016/2017.

The object of the Supervisory Board meeting held on 25 January 2017 was to discuss the audited annual financial statements of Dr. Höhle AG and the audited consolidated financial statements as at 30 September 2016. The auditors of Dr. Höhle AG also attended this meeting. The Management Board 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 of 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 28 March 2017 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. Höhle AG in the amount of € 30,045,722.66 for the 2015/2016 financial year.

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

On 27 March 2017, 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 2016/2017 as well as the projected income statement as at the end of the second quarter. The favourable business development in the Equipment and Systems segment was the main reason for the increase in revenue and earnings in the second quarter. The new Resize centre of Raesch Quarz (Germany) GmbH successfully commenced operations. In all, the Management Board assumed a slight revenue increase at group level and earnings to be on par with the previous year's level for the first six months of the financial year.

The business situation at the end of the first half of the year was discussed in detail at the Supervisory Board meeting held on 16 May 2017. The half-year result was 5 % above the previous year's value. The positive business development in the Adhesives segment led to a 47 % increase in the segment result and thus contributed significantly to the encouraging business development at the group. According to Management, the Adhesives segment would also have a significant impact on the group's positive development in the second half of the year. The Management introduced the planned activities concerning construction of new business premises in Steinbach near Frankfurt in the context of an expansion of the activities in the Adhesives segment. The Supervisory Board approved the project and pertaining investment.

On 29 August 2017 we held the last meeting for the 2016/2017 financial year. In this meeting, the Management Board reported on the projected third-quarter income statements of the individual companies and of the group. Among other things, the Management Board discussed the drop in earnings at Eltosch Grafix GmbH and Dr. Höhle AG. The Management Board then explained the reasons for appointing a new management at Raesch Quarz (Germany) GmbH. Furthermore, a decision was taken according an investment in a new annealing furnace at Raesch Quarz (Germany) GmbH. To conclude, the Management Board presented the expected business development of the Höhle Group in the fourth quarter.

### **Corporate Governance**

The Government Commission, German Corporate Governance Code, published the Code for Good Corporate Governance in the version dated 7 February 2017. 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 permanently available to the shareholders in the internet. The Dr. Höhle AG Management Board is comprised of two members and the Supervisory Board of Dr. Höhle AG has three members. No changes have occurred in the staffing of the Management Board and the Supervisory Board of Dr. Höhle AG.

### **Annual Financial Statements and Consolidated Financial Statements**

The annual general meeting held on 28 March 2017 elected S&P GmbH Wirtschaftsprüfungsgesellschaft, Munich, as annual auditor for the 2016/2017 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. Höhle AG's management report for the financial year from 1 October 2016 to 30 September 2017 and issued an unqualified audit opinion in each case.

In the telephone conference on 21 December 2017, the Supervisory Board was informed about the preliminary results of the auditors. In the Supervisory Board meeting held on 23 January 2018, 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. Höhle AG and provided supplementary information concerning the past financial year. In doing so, the auditor discussed in detail 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 21 March 2018 that the retained earnings of Dr. Höhle AG be used for the pay-out of a dividend of € 0.60 per dividend-bearing share and that the remaining amount be carried forward to the new accounting period.

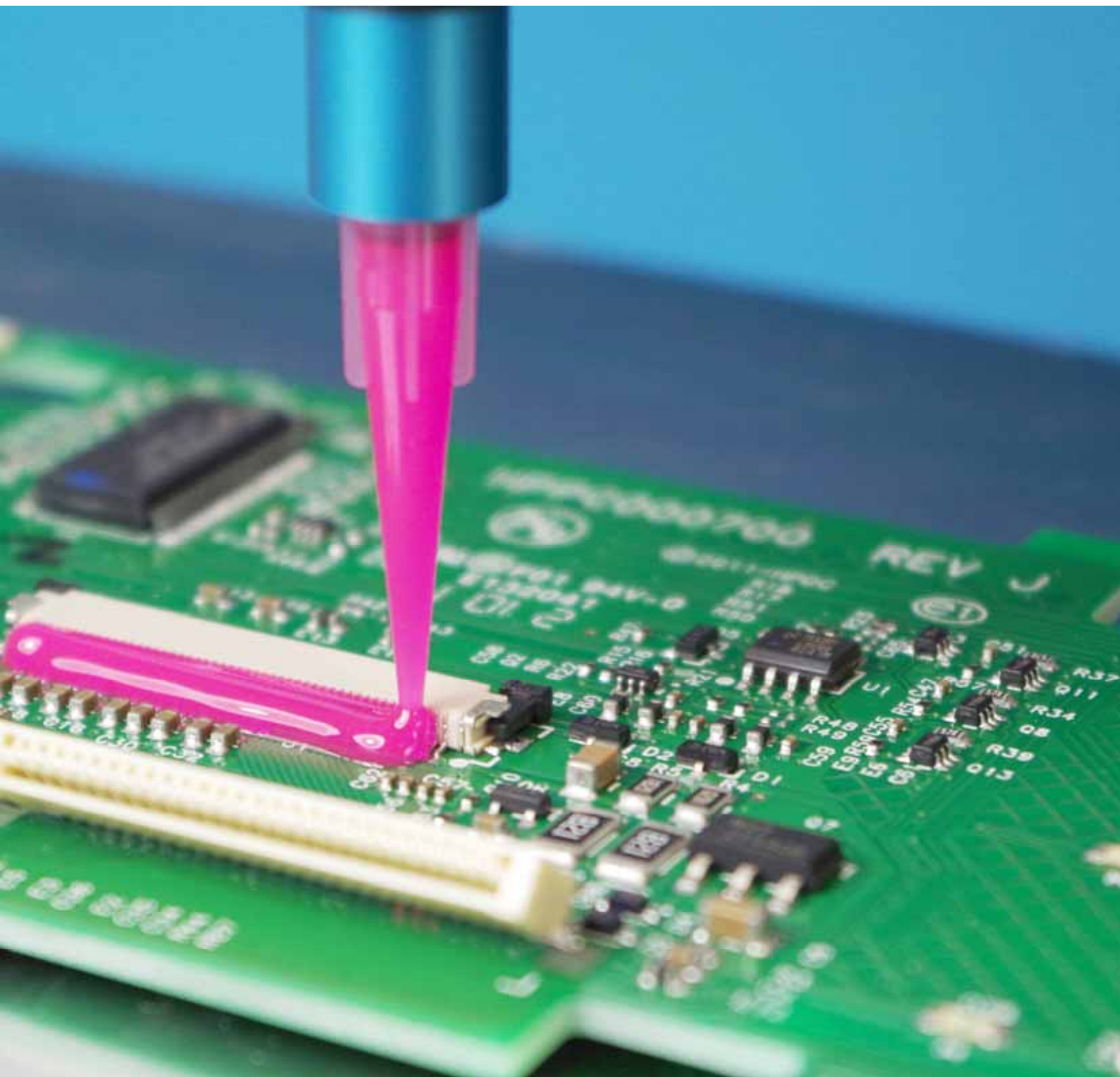
The Supervisory Board approved the findings of the annual audit. Furthermore, we examined the annual financial statements, the consolidated financial statements and the combined group management report. No grounds for objections were found. Consequently, the Supervisory Board approved the financial statements.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

I would like to thank the members of the Management Board, the employees of Dr. Höhle AG and all subsidiaries as well as my colleagues of the Supervisory Board for their great commitment and collaboration in the 2016/2017 financial year. I am looking forward to continuing this good cooperation in 2018.

A handwritten signature in dark ink, appearing to read 'K. Höhle', is positioned above the printed name and title.

Prof. Dr. Karl Höhle  
Chairman of the Supervisory Board

## Adhesives for the electronics industry



### **Adhesives Segment**

There are many applications for industrial adhesives. This is reflected in Panacol's product range of adhesives, which offers the perfect solution for every bonding application.

# The share

## Positive development of the stock price

Starting from € 25.50 at the beginning of last financial year, the price of the Hönle share climbed to € 35.26 as at the financial year-end. On 17 December 2017, Dr. Hönle AG had significantly revised its forecast upward for the 2017/2018 financial year, which resulted in that the stock price reached a new all-time high of € 51.74.

While the overall market, represented by the Technology All Share Index, gained 34.1 % in the past financial year, the Hönle share grew by 38.3 %. Looking at the period until 31 December 2017, the Hönle share price went up markedly by 94.4 %.

The average trading volume of the share per trading day rose from T€ 153 in the previous year to T€ 204 in the financial year under review. In the full financial year, shares with a value of € 51.5 million (PY: € 38.8 million) were traded. At the end of the financial year, the market value of the Hönle Group amounted to € 194.4 million.

## Analyses

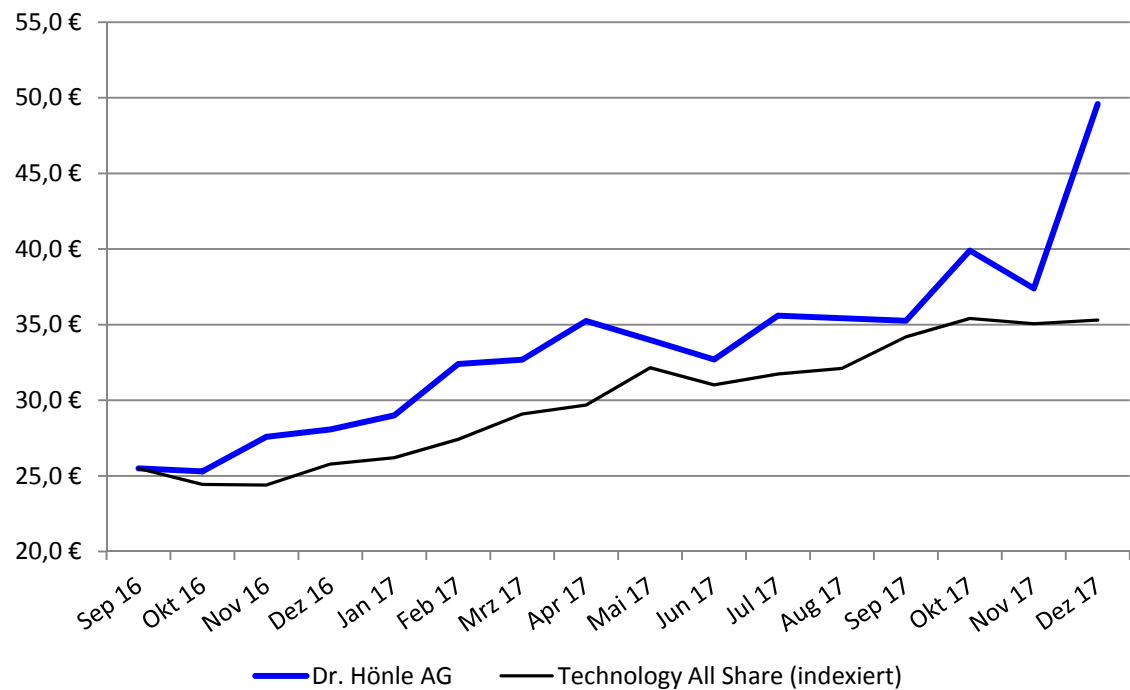
M.M. Warburg analyses the share of Dr. Hönle AG on an ongoing basis. The credit institution has repeatedly issued “buy” recommendations. In addition, financial journals reported several times about Dr. Hönle AG. The Smart Investor financial journal lists the Hönle share among the “all-time favourites” that should be held in every small- and mid-cap portfolio.

## Dividend policy

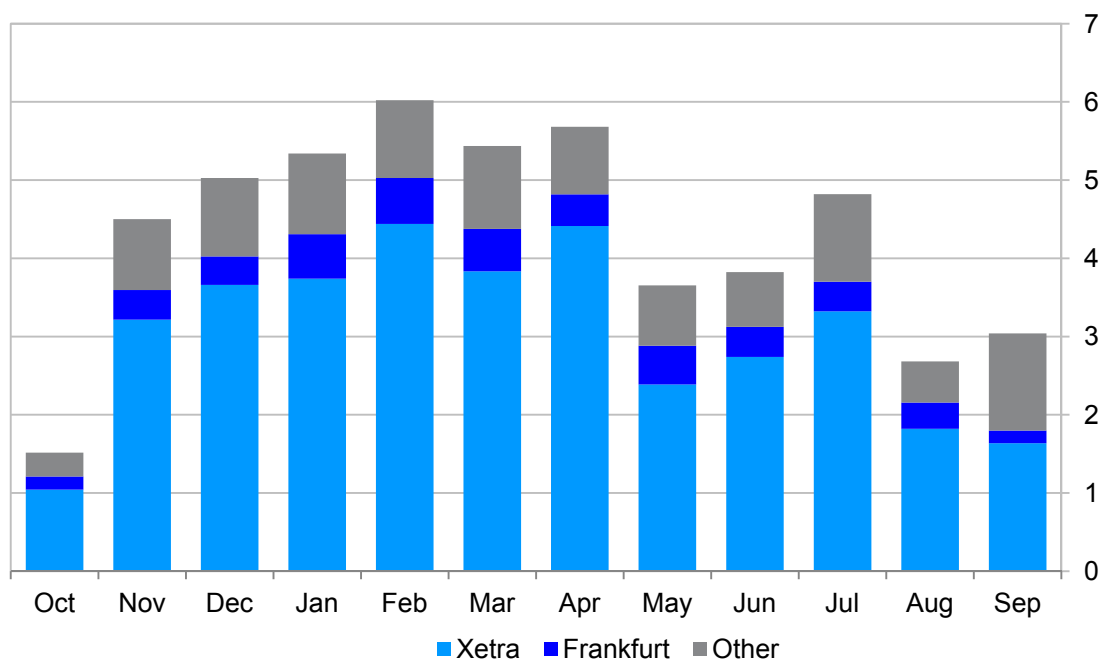
Dr. Hönle AG has allowed its shareholders to participate in its successful business development for many years and would like to give its shareholders an appropriate share of the profits in the future as well. The amount of the dividend depends significantly on the company’s result and must be in conformity with planned investment projects and the aim of providing a solid financial basis. For the past financial year, the Management Board and the Supervisory Board of Dr. Hönle AG will propose a dividend payment of € 0.60 (PY: € 0.55) per share for the past financial year to the Annual General Meeting to be held on 21 March 2018.



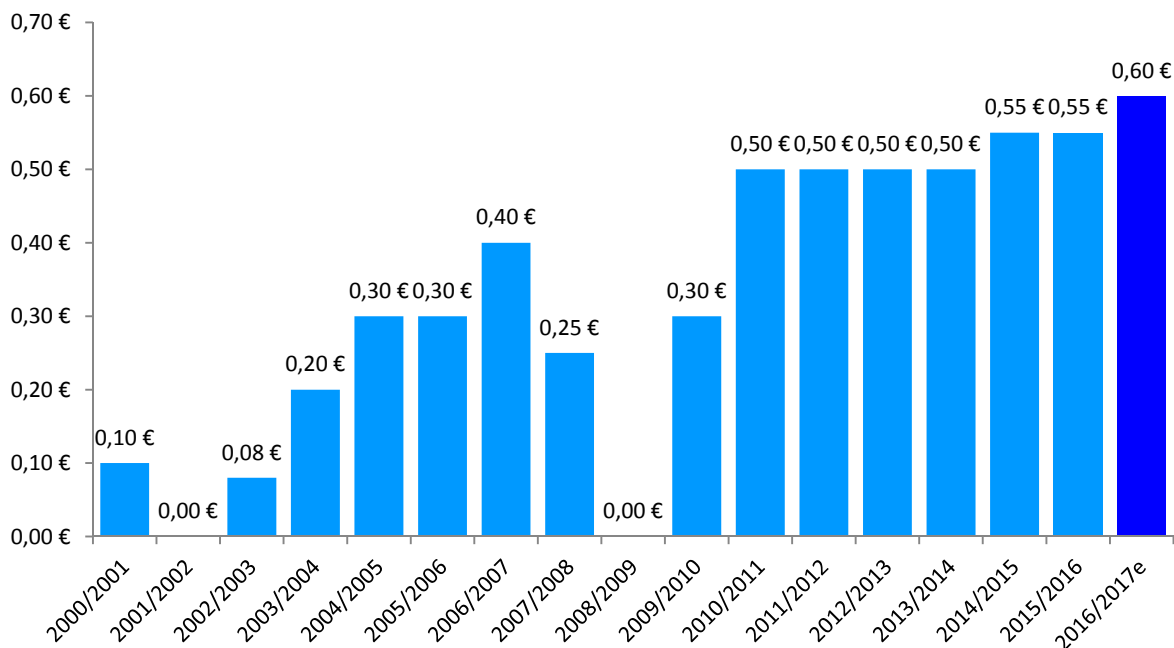
### Development of the Höhle stock price



### Höhle stock trading volume in € million



## Dividend development



## Annual General Meeting

The Annual General Meeting of Dr. Hönle AG on 28 March 2017 in Munich was attended by more than 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 21 March 2018 in Munich.

## Investor Relations

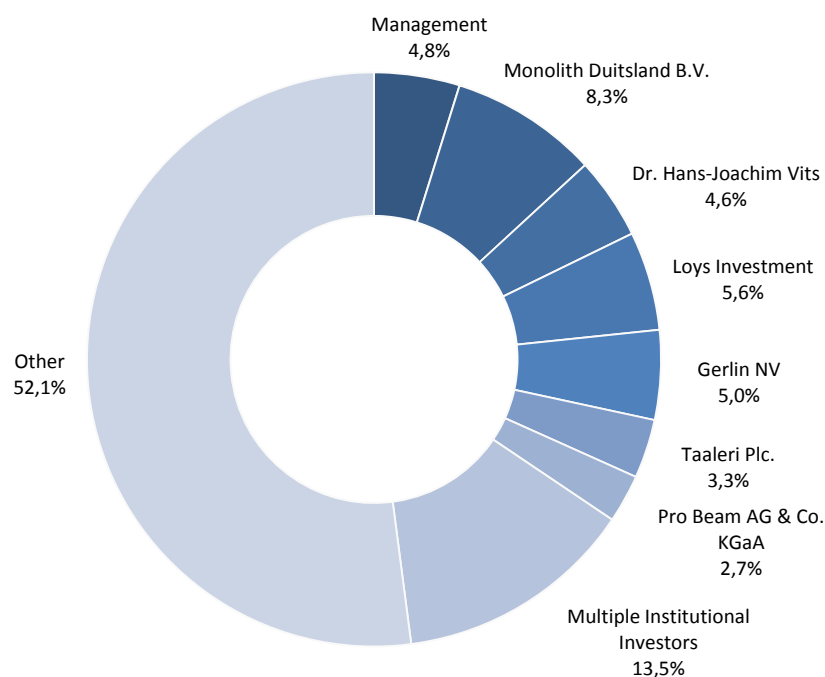
In the past financial year, Dr. Hönle AG was represented at several roadshows and conferences and engaged in intensive dialogue with the financial market. The Management Board and Investor Relations Managers were also involved in individual discussions with institutional and private investors as well 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 ([www.hoenle.com](http://www.hoenle.com)).

## Contact:

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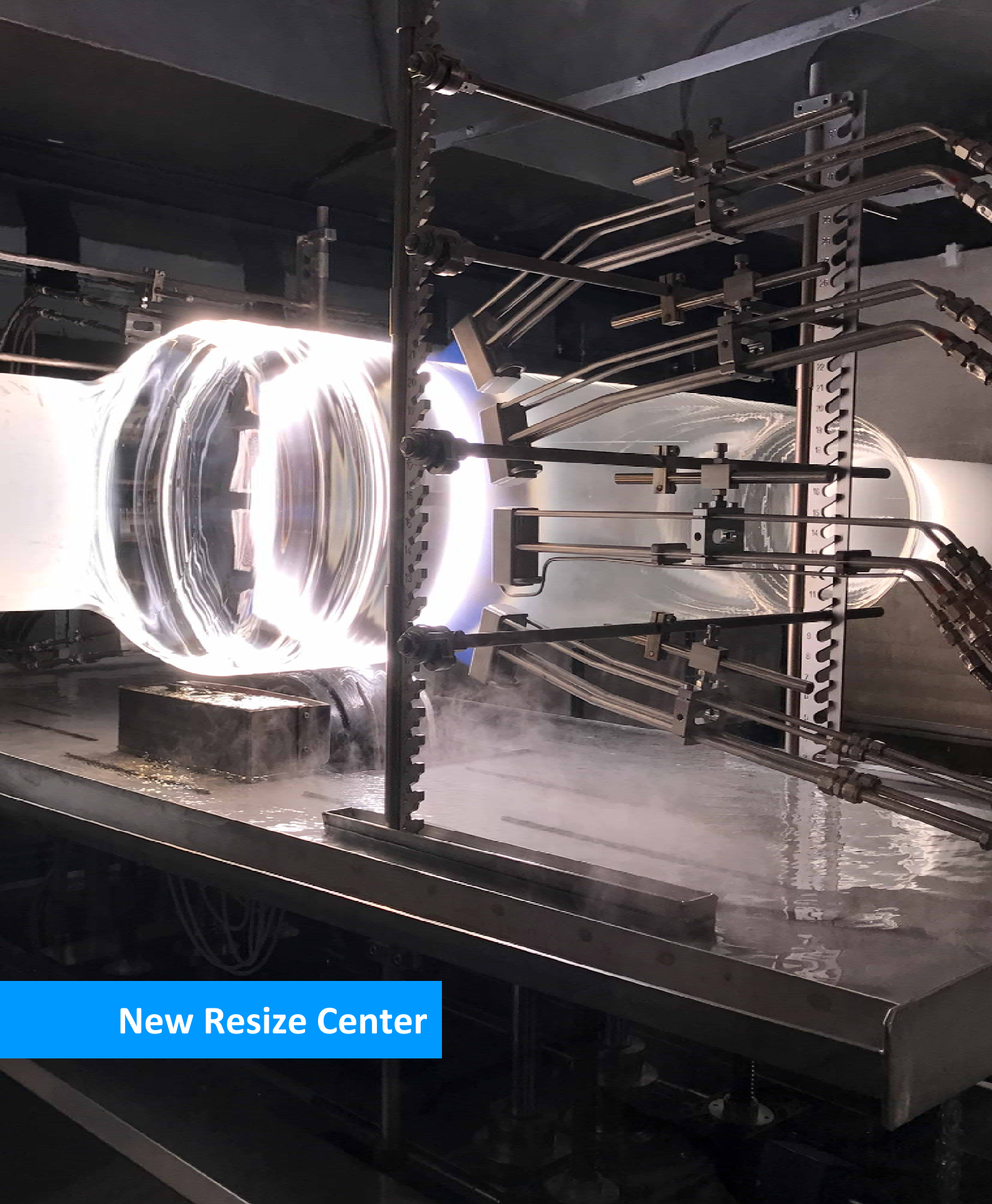
## Shareholder structure on 30 September 2017



## Data on the Hönle share

Price at the Beginning of the Financial Year in € (Xetra)	25.50
Price at the End of the Financial Year in € (Xetra)	35.26
Peak Price (Xetra)	€ 51.74 in December 2017
Lowest Price (Xetra)	€ 24.43 in October 2016
Trading Volume in Shares	1,656,856 (PY: 1,628,336)
Trading Volume in €	51,545,208 (PY: 38,774,494)
Number of Shares as of 30/09/2016	5,512,930
Market Capitalisation as of 30/09/2017 in € million	194.4
Earnings per Share in €	1.89
Dividend per share in € <sup>1</sup>	0.60
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

<sup>1</sup> Management Board and Supervisory Board proposal for the 2016/2017 financial year



## New Resize Center

### Glass & Lamps Segment

The new Raesch Resize Center can produce quartz glass tubes with a diameter up to 1000 mm.

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

For the 2016/2017 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 tubes and rods for the lamp, automotive, semiconductor and fibre cable industries as well as lamps for water sterilisation 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 2017:

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

<sup>1</sup> Minority shareholding; <sup>2</sup> Not consolidated

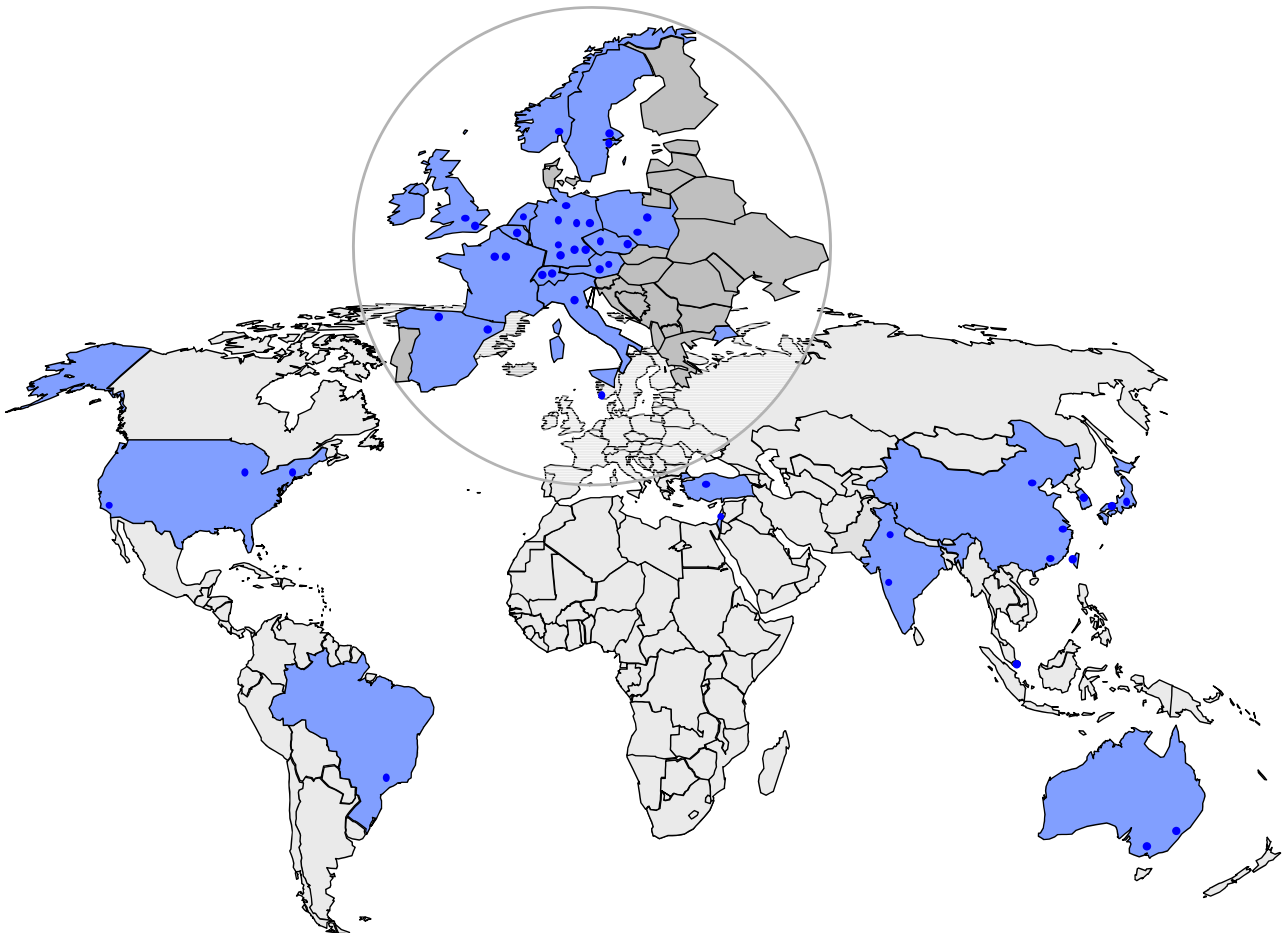
### Worldwide Locations

The Hönle Group is represented in more than 20 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 Höhle Group also wants to fulfil its social responsibility vis à vis employees, customers, suppliers and investors. Höhle 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 acquisitions as well as risk and opportunities management and regular reporting to the Supervisory Board.

The operational objective of Höhle'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, Höhle continually monitors the development of revenues and expense ratios and compares these with internal planning. Great emphasis is also placed on increasing the Höhle Group's operational cash flow.

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 for achieving the planned development of the control parameters.

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€	2016/2017	2015/2016	Change
Revenue	101,926	93,415	9.1 %
EBIT <sup>1</sup>	15,207	12,400	22.6 %
EBIT margin <sup>2</sup>	14.8 %	12.9 %	14.7 %
Consolidated net income/loss for the year	10,414	8,290	25.6 %

1) Earnings before interest and taxes;

2 Earnings before interest and taxes relative to aggregate operating performance; the aggregate operating performance includes the total of sales revenues, changes in inventories of finished goods and work in progress and work performed by entity and capitalised

## Annual General Meeting

The Annual General Meeting of Dr. Höhle AG was held on 28 March 2017. 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 five 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: € 0.55) per dividend-bearing share.

## **Economic Report**

### **Market Development**

The global economy experienced an upturn in 2017. Global growth - in 2016 at the weakest level of 3.2 % since the financial crisis according to the International Monetary Fund (IMF) - rose to 3.6 % in the year 2017.

All important economies of the industrialised countries and emerging markets posted positive growth rates.

Production increased significantly in the USA, Japan and the Eurozone. The economic recovery in Europe was also boosted by diminishing political risks following the elections in France, Germany, Austria, and the Netherlands. The Chinese economy expanded strongly again due to the economic stimuli provided. In combination with rising raw material prices, the upswing in the large national economies also bolstered the economy in the other emerging markets.

### **Course of Business**

The Hönle Group's sales revenues were up 9.1 % to T€ 101,926 in the 2016/2017 financial year. This increase was due to the positive business development in the Adhesives and Glass & Lamps segments. The operating result (EBIT) rose by 22.6 % to T€ 15,207.

### **Equipment & Systems Segment**

Sales revenues generated in the Equipment & Systems segment contracted by 2.4 % to T€ 51,307 in financial year 2016/2017. The operating result in the Equipment & Systems segment decreased from T€ 6,530 to T€ 5,242.

The decline in revenue is mainly due to temporarily lower sales in the printing industry. In contrast, revenues from drying systems for adhesives applications improved considerably. This was accompanied by a perceptible rise in the demand for UV curing solutions, in the electronics industry, in particular.

LED technology is used in an ever growing number of applications, and replaces traditional drying solutions. The proportion of revenue generated with LED-based drying systems grew significantly. In the financial year 2016/2017 Hönle continued to invest in this technology, set up a new production line for UV-LED modules and stocked up its workforce in both the development and production of LED systems.

Dr. Hönle AG opened a new central warehouse in Olching near Munich. Several warehouse sites in the Munich region were bundled in a modern central warehouse with good traffic connections with a view to optimising logistics processes.

### **Glass & Lamps Segment**

The development in the Glass & Lamps segment was encouraging. Revenues climbed by 19.3 % from T€ 17,662 in the previous year to T€ 21,078 in the reporting year, primarily due to revenue growth at Raesch Quarz (Germany) GmbH and Raesch Quarz (Malta) Ltd. Revenues increased perceptibly in the semi-conductor and glass fibre applications segments as planned. Raesch Quarz (Germany) GmbH has invested in new production facilities with a view to preparing for future growth. A new Resize centre enables the manufacture of quartz glass tubes

with a diameter of up to one meter. Raesch Quarz (Germany) GmbH is thus opening up new business fields in the semi-conductor industry. Although the gross yield of Raesch Quarz (Germany) GmbH was significantly higher than in the previous year, the operating loss increased. This is mainly due to higher other operating expenses and a higher level of depreciation/ amortisation in connection with building measures concerning the new Resize centre and the disposal of furnace parts. In addition, the production runs at the melting furnaces were postponed in the course of the building measures.

The Ballast Water Convention became effective in September 2017 and will probably lead to a significant revenue increase at UV-Technik Speziallampen GmbH in the future. However, due to the two-year prolongation of the transitional periods, the Ballast Water Convention failed to have any noticeable positive effects at UV-Technik Speziallampen GmbH in the past financial year. Nevertheless, the company succeeded in increasing revenues and operating result.

The operating result in the Glass & Lamps segment fell from T€ 900 in the previous year to T€ 775 in the current financial year.

### **Adhesives Segment**

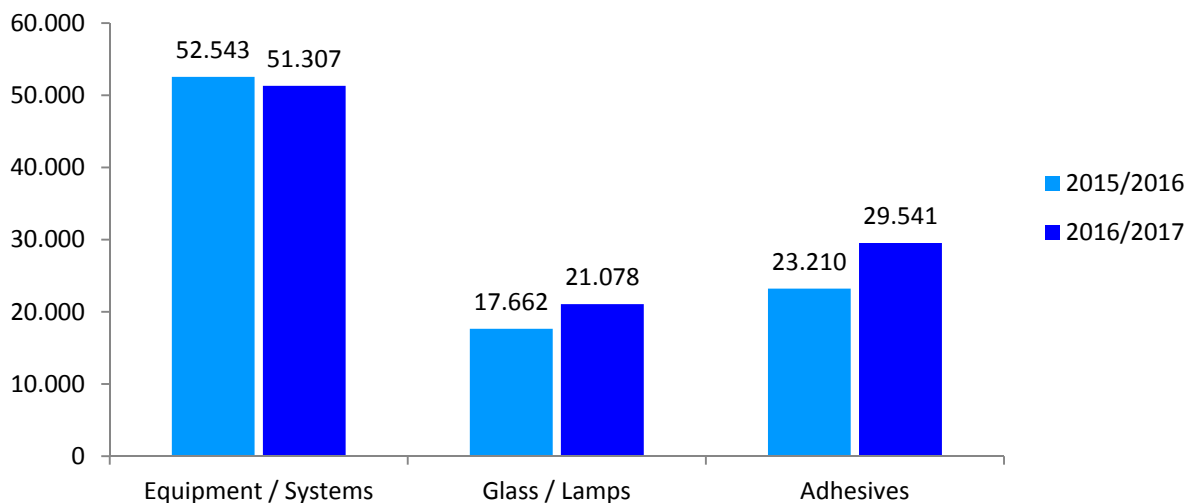
The Hönle Group realised a perceptible rise in sales revenues and earnings in the Adhesives segment with sales revenues climbing by 27.3% from T€ 23,210 in the previous year to T€ 29,541 in the reporting year. Consumer electronics and smart devices contributed, in particular, to the positive business development. The customer base for adhesives applications in the electronics industry was perceptibly expanded, particularly in Asia and Europe.

The operating result generated in the Adhesives segment surged by 84.9 % to T€ 9,190 in financial year 2016/2017.

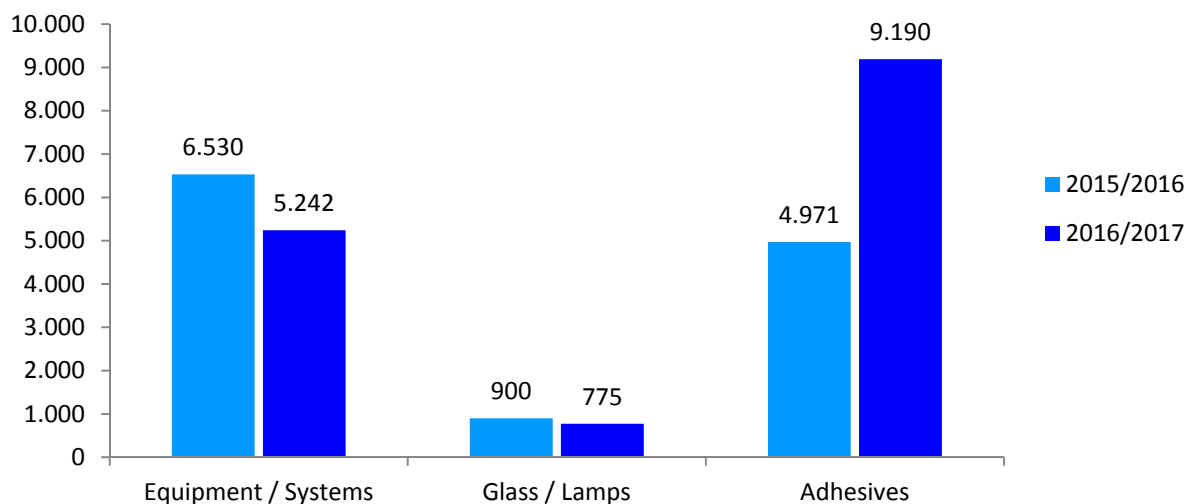
### **Business Development by Region**

Asia has superseded the EU as the largest export region for the first time. While revenues generated by the Hönle Group in Germany climbed by 5.0 % to T€ 36,501, they rose by 31.0 % to T€ 26,712 in Asia. The strong revenue growth in the Asian economic area is due mainly to the good business development in the Consumer Electronics segment. Revenues achieved in Europe advanced by 7.6 % to T€ 24,529, and were up 5.0 % to T€ 3,895 in the rest of the world.

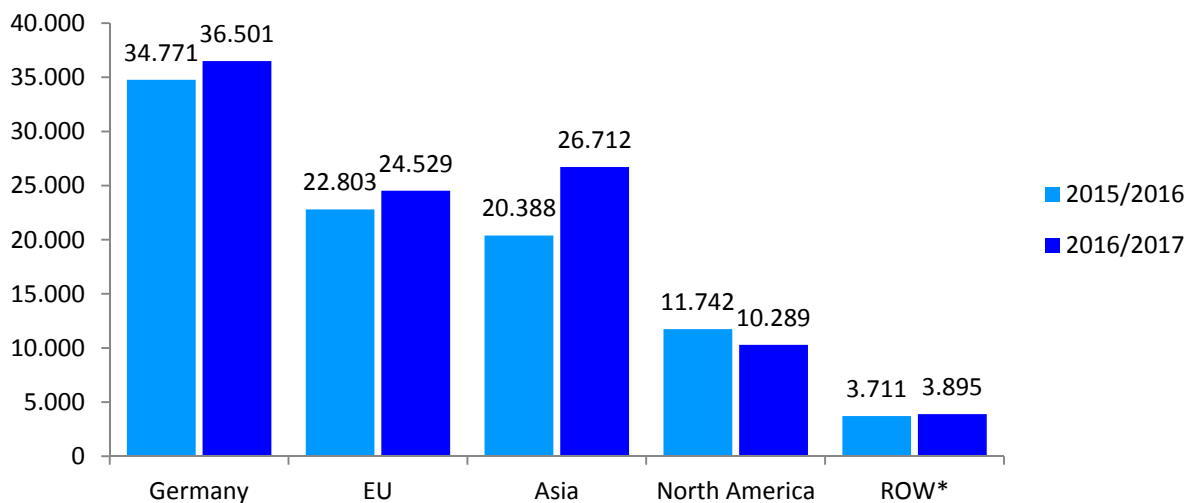
### Sales by segment (in T€)



### Operating result by segment (in T€)



### Sales by region (in T€)



\*) Rest of the world

## The Hönle Group's Results of

### Operations

The Hönle Group's revenues rose from T€ 93,415 in the previous year to T€ 101,926 in financial year 2016/2017.

At T€ 965, the inventory change was below the previous year's value of T€ 2,283, mainly as a result of a lower level of inventory increase at Raesch Quarz (Germany) GmbH. Cost of materials amounted to T€ 37,256 (PY: T€ 35,972), which corresponds to a ratio of 36.2 % (PY: 37.5 %). The improved cost of materials ratio is due, among other things, to the changed product mix coupled with a higher proportion of adhesives revenues in total sales. The personnel expense ratio dropped from 32.4 % to 31.8 %. The ratio of other operating expenses decreased slightly from 15.4 % in the previous year to 15.3 % in the reporting year.

The Hönle Group's operating result (EBIT) improved by 22.6 % to T€ 15,207 in financial year 2016/2017.

At T€ -330, the financial result in the reporting year is slightly up on the previous year' figure of T€ -350. After deducting income taxes of T€ 4,463, the consolidated net income amounts to T€ 10,414 (PY: T€ 8,290), which translates into earnings per share of € 1.89 (PY: € 1.50).

The profit margins improved as a consequence of the positive business development. The EBIT margin increased from 12.9 % in the previous year to 14.8 % in the reporting year. Net profit on sales climbed from 8.9 % in the previous year to 10.2 % in the financial year 2016/2017.

### The Hönle Group's Earnings Development

in T€	2016/2017	2015/2016	Change
Revenue	101,926	93,415	9.1 %
Gross profit	66,662	60,865	9.5 %
<b>Operating result (EBIT)</b>	<b>15,207</b>	<b>12,400</b>	<b>22.6 %</b>
EBIT margin as a %	14.8	12.9	14.7 %
Earnings before taxes (EBT)	14,877	12,050	23.5 %
<b>Consolidated net income for the year</b>	<b>10,414</b>	<b>8,290</b>	<b>25.6 %</b>
Earnings per share in €	1.89	1.50	26.0 %

## The Hönle Group's Financial Position

Starting from higher net income for the year, the operating cash flow decreased from T€ 13,126 in the previous year to T€ 12,146 in financial year 2016/2017, in particular due to increase in inventories. The cash flow from operating activities dropped from T€ 8,356 to T€ 6,579 year-on-year after payment of interest in the amount of T€ 236 and income taxes of T€ 5,332.

In financial year 2016/2017, 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€ 5,348,

investments were up from the previous year's figure of T€ 4,551.

The cash flow from financing activities in the amount of T€ -2,386 (PY: T€ -4,721) was mainly attributable to a dividend distribution of T€ 3,032.

In all, liquid assets (cash and cash equivalents) declined by T€ 1,299 to T€ 5,217 in the reporting year. With a capital ratio of 68.2 % (PY: 65.4 %), sufficient liquid assets and short-term bank liabilities in the amount of T€ 4,343, the Hönle Group has a solid financial footing.

## Liquidity Development

in T€	2016/2017	2015/2016	Change
<b>Cash generated from operations</b>	<b>12,146</b>	<b>13,126</b>	<b>-7.5 %</b>
Cash flow from operating activities	6,579	8,356	-21.3 %
Cash flow from investing activities	-5,348	-4,551	-17.5 %
Cash flow from financing activities	-2,386	-4,721	49.5 %
Change in cash and cash equivalents	-1,299	-940	-38.2 %



### The Hönle Group's Net Assets

Non-current assets rose by 4.3 % to T€ 46,305 in financial year 2016/2017, largely due to the rise in property, plant and equipment at Raesch Quarz (Germany) GmbH in the context of investments in production facilities. Inventory increases at Dr. Hönle AG and Panacol-Elosol GmbH contributed to a 9.7 % increase in inventories to T€ 30,073. Liquid assets dropped from T€ 6,516 to T€ 5,217 in the reporting year.

In all, non-current and current assets grew by 8.5 % to T€ 102,306 in the 2016/2017 financial year.

As at 30 September 2017, the Hönle Group's equity amounted to T€ 69,778, which corresponds to an equity ratio of 68.2 % (PY: 65.4 %).

Non-current loans decreased from T€ 6,043 to T€ 5,236 mainly as a result of loan repayments. Pension provisions dropped from T€ 6,528 to T€ 5,606, largely due to the higher interest rate for discounting. In all, non-current liabilities decreased from T€ 15,130 to T€ 13,152.

Current liabilities rose from T€ 17,475 to T€ 19,377 in the reporting year, primarily due to the T€ 1,347 rise in short-term liabilities to banks to T€ 4,343.

### Statement of Financial Position

in T€	30/09/2017	30/09/2016	Change
Non-current assets	46,305	44,404	4.3 %
Current assets	56,002	49,871	12.3 %
Equity	69,778	61,669	13.2 %
Non-current liabilities	13,152	15,130	-13.1 %
Current liabilities	19,377	17,475	10.9 %
Total assets	102,306	94,275	8.5 %

## Details 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. Dr. Höhle AG reported an average staff level of 200 (PY: 183) in the financial year 2016/2017. The company's revenues rose by 9.5 % to T€ 39,855 in the reporting year. The revenue increase is mainly due to the strong sales of UV-LED systems for adhesives applications in the electronics industry.

The change incorporates an amount of T€ 777 which is disclosed as sales revenue in the reporting year due to the application of BilRUG (Accounting Directive Implementation Act) provisions. In previous years this amount would have been disclosed as other operating income. Mainly for the same reason, other operating income was significantly below the previous

year's value of T€ 1,756. The increased prior year's value is due to income that resulted from the changed interest rate for the discounting of pension obligations on the one hand, and to higher income from investments in the previous year compared to the reporting year, on the other hand.

Dr. Höhle AG's research and development expenses came to T€ 1,928, which is slightly upon the previous year's figure of T€ 1,786. The average number of staff in the R&D department increased from 23 to 26. In all, Research and Development Department employees account for 13.0 % of Dr. Höhle AG's total staff.

Dr. Höhle AG's personnel expenses advanced from T€ 12,015 to T€ 13,039, which translates into a personnel expense ratio of 32.3 % (PY: 32.3 %).

The cost of materials ratio improved from 47.5 % in the previous year to 45.5 % in the reporting year, which, among other things, is attributable to a changed product mix.

The decrease in other operating expenses is primarily due to the fact that the previous year's figure included extraordinary expenses of T€ 489. The ratio dropped from 15.8 % to 13.4 %. At T€ 2,892, the operating result was slightly above the previous year's level of T€ 2,709.

In financial year 2016/2017, Dr. Höhle AG posted a financial result of T€ 2,412, largely comprising income from equity investments. At T€ 4,958, the previous year's financial result was significantly higher due to dividends distributed by a subsidiary. After payment of income taxes, the net income for the year came to T€ 4,476 (PY: T€ 6,737).

Investments in technical equipment and business equipment totalled T€ 925 (PY: T€ 1,844) in the past financial year. Property, plant and equipment climbed from T€ 3,714 to T€ 3,917 due, inter alia, to investments in operating and business equipment. Dr. Höhle AG's financial assets contracted from T€ 35,686 to T€ 34,324 due to a drop in loans extended to subsidiaries, particularly to Eltosch Grafix GmbH. As at 30 September 2017, the inventory balance stood at T€ 14,813, up T€ 1,630 on the previous year's figure.

Cash and cash equivalents amounted to T€ 519 as at the financial year-end (PY: T€ 1,359).

Receivables and other assets rose from T€ 18,137 to T€ 23,255, which is particularly due to an increase in receivables from affiliated companies.

Dr. Höhle AG's equity climbed from T€ 56,581 in the previous year to T€ 58,025 as at the end of the reporting year as a result of higher unappropriated retained earnings. Liabilities to banks increased from T€ 6,035 to T€ 7,111 and liabilities to affiliated companies climbed from T€ 3,762 to T€ 4,481.

Provided that the economic development does not slow down, Dr. Höhle AG's Management Board expects a perceptible rise in revenue and earnings for the financial year 2017/2018.

### Condensed income statement of Dr. Hönle AG (HGB individual financial statements) <sup>1)</sup>

in T€	2016/2017	2015/2016	Change
<b>Revenue</b>	<b>39,855</b>	<b>36,405</b>	<b>9.5 %</b>
Other operating income	122	1,756	-93.1 %
Cost of materials	18,341	17,657	3.9 %
Gross profit	22,094	21,306	3.7 %
Personnel expenses	13,039	12,015	8.5 %
Amortisation/depreciation	749	697	7.5 %
Other operating expenses	5,414	5,885	-8.0 %
<b>Operating result (EBIT)</b>	<b>2,892</b>	<b>2,709</b>	<b>6.8 %</b>
Financial result	2,412	4,958	-51.4 %
Taxes	828	930	-11.0 %
<b>Net income for the year</b>	<b>4,476</b>	<b>6,737</b>	<b>-33.6 %</b>
Earnings per share in €	0.81	1.22	-33.6 %

1) Adjustment of prior-year values pursuant to BilRUG (Accounting Directive Implementation Act)

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

in T€	30/09/2017	30/09/2016	Change
Intangible assets	511	543	-5.9 %
Property, plant and equipment	3,917	3,714	5.5 %
Financial assets	34,324	35,686	-3.8 %
<b>Non-current assets</b>	<b>38,752</b>	<b>39,943</b>	<b>-3.0 %</b>
Inventories	14,813	13,183	12.4 %
Receivables and other assets	23,255	18,137	28.2 %
Cash on hand, bank balances	519	1,359	-61.8 %
<b>Current assets</b>	<b>38,587</b>	<b>32,680</b>	<b>18.1 %</b>
Prepaid expenses	224	207	8.2 %
Deferred tax assets	298	183	62.8 %
Issued capital	5,512	5,512	0.0 %
Capital reserves	18,450	18,450	0.0 %
Retained earnings	2,573	2,573	0.0 %
Unappropriated retained earnings	31,490	30,046	4.8 %
<b>Equity</b>	<b>58,025</b>	<b>56,581</b>	<b>2.6 %</b>
<b>Provisions</b>	<b>5,922</b>	<b>5,099</b>	<b>16.1 %</b>
Liabilities to banks	7,111	6,035	17.8 %
Prepayments received on account of orders	746	333	124.0 %
Trade accounts payable	1,267	994	27.5 %
Liabilities to affiliated companies	4,481	3,762	19.1 %
Liabilities to companies in which an equity investment is held	3	0	- %
Other liabilities	306	209	46.4 %
<b>Liabilities</b>	<b>13,914</b>	<b>11,333</b>	<b>22.8 %</b>
<b>Total assets</b>	<b>77,861</b>	<b>73,013</b>	<b>6.6 %</b>

## **Overall Statement on the Höhle Group's Economic Situation**

The global economy experienced an upturn in 2017. Global growth increased to a rate of 3.6 %. All important economies of the industrialised countries and emerging markets posted positive growth rates.

In this positive market environment, the Höhle Group succeeded in increasing sales revenues from € 93.4 million to € 101.9 million in financial year 2016/2017. The operating result advanced from € 12.4 million to € 15.2 million. Both the sales revenues and operating result were thus within the target corridor predicted by the Management Board one year ago.

With cash and cash equivalents of € 5.2 million (PY: € 6.5 million) and the additionally existing credit facilities, the Höhle Group continues to be solidly financed. Liabilities to banks stood at € 9.6 million (PY: € 9.0 million) as at the financial year-end.

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

Raesch Quarz (Germany) GmbH will continue to invest in new production facilities in financial year 2017/2018 in order to prepare for the planned growth. The company plans to acquire a new vacuum annealing furnace and rebuild a

melting furnace. This will enable Raesch Quarz (Germany) GmbH to further expand its core competency and reduce its dependence on suppliers at the same time.

The business relationships with new strategic partners from the electronics- and the printing industry are expected to contribute to a positive business development. The Höhle Group's strong market position in the UV-LED technology segment and the expansion of activities at Raesch Quarz (Germany) GmbH will also have positive effects in the new financial year.

Based on the positive revenue and earnings development in the past financial year and the positive outlook, the Management Board is very satisfied with the group's position.

In all, the preconditions for a significant increase in the Höhle Group's revenue and earnings are promising in the coming years as well.

## **Events after the Balance Sheet Date**

Details on important post-balance sheet date events which impact significantly on the Höhle Group's net assets, financial position and results of operations are provided in the disclosures made in the Notes.

## Research & Development

The Hönle Group's research and development expenses edged up from T€ 4,377 in the previous year to T€ 4,844 in the financial year under review. During the same period, the number of staff employed in the R&D departments rose from 69 to 77 relative to the financial year-end. In all, 13.3 % (PY: 12.7 %) 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 tried-and-tested jetCURE series was supplemented by the enhanced jetCURE LED module, which makes the LED UV technology more attractive for numerous industrial applications. The length of this UV LED lamp can be adjusted to the requirements of the respective application by connecting the individual LED components. The module's individual components can be activated independently from one another. The jetCURE LED's UV intensity of 16,000 mW/cm<sup>2</sup> fully cures the irradiated areas within fractions of a second. The irradiation cycles of the jetCURE LED can thus be adjusted in the range of milliseconds. Diagnostic functions permit comprehensive monitoring of the process and maximum security.

Another new development relates to the LED Spot 100 HP IC. Hönle succeeded in doubling the performance of the LED Spot 100 compared with the proven predecessor model. The LED Spot 100 HP IC is available in the wavelengths 365, 385, 395 and 460 nm. The device has an

integrated controller (IC) in the lamp component for operating and monitoring the LED UV system, making external control unnecessary. A plug & play version can also be supplied.

### Glass & Lamps Segment

Unique in Europe and top-notch quality: The Raesch Group succeeded in developing a new feedstock tube. The tube's outside diameter range is 300 mm. It is ideally suited as base material for resizing process tubes in the semiconductor and solar power industry. Up to three resizing steps can be avoided, which translates into significant time savings and an associated reduction in energy costs.

UV-Technik Speziallampen GmbH presented its trend setting UV medium-pressure lamp components for the water industry at the Aquatech Amsterdam trade fair. Their advantage over the systems currently used is that the UV systems are significantly more compact and more efficient. More water can be disinfected reliably in a shorter time. The products that are used worldwide in disinfecting sewage water, swimming pool and ballast water disinfection stand for a high degree of reliability. At the trade fair, the company also presented new developments such as electronic power supply units (ballasts) of the EPS-D series and UV medium-pressure sensors with a unique lifespan.



### Adhesives Segment

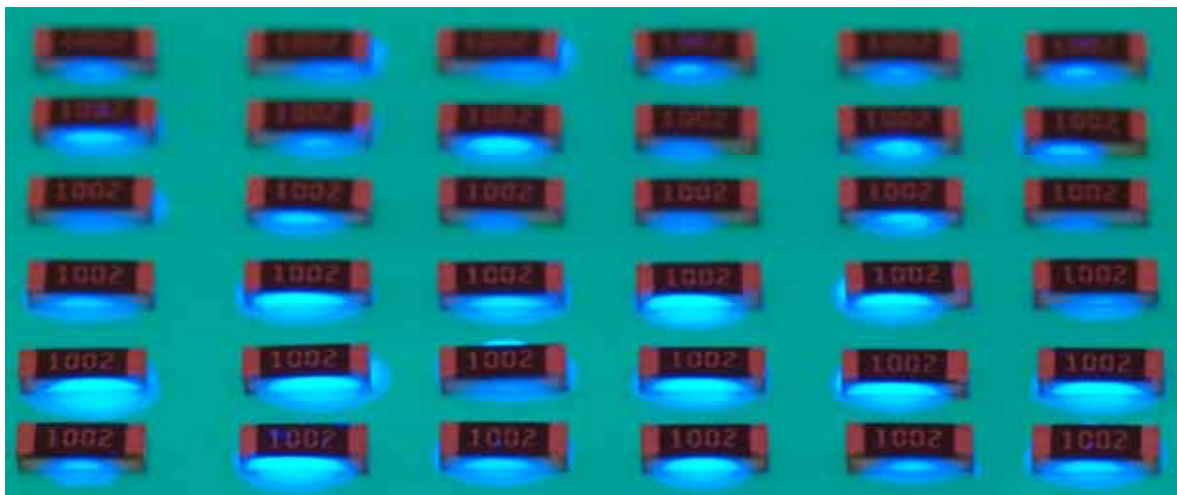
Surfaces are increasingly coated with inks, paints, adhesives and silicones. Independently of the great variety of coating procedures, the UV-technology is frequently used in order to ensure a faster and more efficient drying process. Hönle presented the current state of the art technology at the European Coatings Show, the world's leading trade fair of the coatings and paint industry in Nuremberg. Panacol developed an adhesive with low halogen content specifically for the consumer electronics industry. The adhesive is used for encapsulating electronic components on printed circuit boards (PCBs). The acrylic one-component adhesive is easily applicable and cures rapidly, making it particularly suitable for high production speeds. A version with fluorescent marker is also available for improved process control.

### Selection of Memberships

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

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

### New fluorescent adhesive of Panacol for the electronics industry





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.



FDI Fachverband Führungskräfte der Druckindus-  
trie 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



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. In most cases, the environmental compatibility of UV drying processes is 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.

In addition to UV discharge lamps, Hönle's offering includes a constantly growing range of UV LED systems. The use of LED technology enables a further improvement of the already favourable energy balance of the UV technology. In comparison with conventional discharge

lamps, electricity consumption can be reduced with LED systems and the lamps' lifespan can be significantly increased at the same time. With their compact dimensions and flexible layout, LED systems are ideally adaptable to any application.

For these reasons, the Hönle Group invests in this technology, sets up new production lines for UV LED modules and increases the staff level in both the development and production of UV LED systems.

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 ensure 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 without any harm to the environment. Waters are protected by using UV technology and their self-cleaning properties are preserved or restored.

The international Ballast Water Convention came into effect on 8 September 2017. The Convention provides for the ballast water management of ships and vessels. UV-Technik Speziallampen GmbH and Aladin GmbH offer suitable UV systems for water sterilisation on ships and vessels. The UV systems 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 Höhle Group also cares about 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 takes place without the emission of solvents. The adhesives react to irradiation, 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 melting 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.

## Employees

The number of Hönle Group employees rose from 542 to 581 as at the end of the respective financial years. The number of staff included 56 part-time employees, corresponding to 9.6 % of total staff. The workforce increased in the Production, Logistics and Development divisions. Personnel expenses climbed from T€ 31,031 to T€ 32,758 in the past financial year.

Hönle invests in vocational training with a view to covering the future demand for qualified

personnel: At the end of the financial year, the group employed 33 trainees (PY: 29). At present, the Hönle Group provides training for industrial managers, IT specialists, electricians, industrial mechanics, 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	30/09/2017	30/09/2016	Change
Sales & Marketing	86	86	0.0 %
Research & Development	77	69	11.6 %
Production, Service	274	252	8.7 %
Logistics	74	66	12.1 %
Administration	70	69	1.5 %
Total	581	542	7.2 %

Average	2016/2017	2015/2016	Change
Sales	88	86	2.3 %
Research & Development	74	66	12.1 %
Production, Service	262	263	-0.4 %
Logistics	71	66	7.6 %
Administration	69	69	0.0 %
Total	564	550	2.5 %

## Personnel Expenses

in T€	2016/2017	2015/2016	Change
Wages and salaries	27,002	25,589	5.5 %
Social security and pension costs	5,756	5,442	5.8 %
Total	32,758	31,031	5.6 %

## **Disclosures required pursuant to Section 289 (4) and Section 315 (4) HGB and explanatory report by the Board of Management**

The takeover disclosures required pursuant to Section 289 (4) and Section 315 (4) HGB are presented below as at 30 September 2017.

Re: No. 1: The nominal capital of Dr. Höhle 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: Equity.

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

Re: No. 6: The Supervisory Board appoints the Dr. Höhle 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 Annual General 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. Höhle AG, the Management Board is entitled to resign from office.

Re: No. 9: In the event of a change of ownership at Dr. Höhle 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](http://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 every three months; 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 is currently enjoying an upswing. Following a growth rate of 3.6 % in 2017, the International Monetary Fund (IMF) expects growth of 3.7 % in 2018 and a continued strong expansion in the subsequent years.

The economic recovery in Europe is boosted by the decreasing political risks following the elections in several European countries.

The economic stimuli introduced in China should impact positively China's future development.

The company does not expect any significant effects on its results of operations as a consequence of the UK's planned exit from the EU (Brexit).

The remaining risks include geopolitical developments that are difficult to predict, such as the conflict between North Korea and the USA. A substantial cooling down of the economy would impair Höhle Group's revenue and earnings development. Höhle addresses this risk by continuously monitoring the market in order to enable the company to respond swiftly to current economic developments.

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 Höhle Group decided against special hedging measures to cover commodity price risks. In contrast, a decline in the prices for energy and many raw materials would have a

positive impact on the Höhle 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, also entail risks. Setting up trade barriers and the intensification of geopolitical strains may have a negative impact. At the same time, opportunities arise from changes in general economic conditions such as the conclusion of trade agreements or as a result of the Ballast Water Convention that came into effect in September 2017 and which is projected to have a positive impact on the Höhle Group's development.

The Höhle 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 succeeded 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 (which belongs to the 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, beside the existing insurance coverage 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 internships. Hönle also counteracts the lack of skilled professionals by offering internal vocational training. The range of vocational training in the commercial area was significantly expanded in 2017. 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, for minimising 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 for the most part 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 advantages to the company outside the EU with an associated 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 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 are, however, provided with liquidity on the basis of non-current financial and liquidity planning. The Management Board is informed at regular intervals about the respective current liquidity situation. With cash and cash equivalents of currently € 5.2 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 did not achieve the planned earnings target in the last financial year. Following the optimisation measures implemented in the past financial years, the quartz melting furnaces continue to operate according to plan. On this basis, the company expects that sales and earnings will increase significantly in financial year 2017/2018 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 (4) and 315 (4) 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 also 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, if required, any system enhancements, are just as important to us as the observance of internal security guidelines by our employees. 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. 1 and 315 (2) No. 1 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. 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.

Depending on the changing market situation, significant price fluctuations may affect purchase prices for raw materials or for energy supply. 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 Hönle Group's products and purchase prices. The Hönle 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. Hönle 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, the Hönle Group 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 Hönle 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 Hönle 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 Hönle 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 with SKC Co., Ltd. in the adhesives segment provides for great growth potential concerning the Hönle 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 structure of the remuneration for Management Board members 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	
	2016/2017	2015/2016	2016/2017	2015/2016	2016/2017	2015/2016
Norbert Haimerl	265	232	26	25	291	256
Heiko Runge	264	231	14	14	278	245
Total	529	463	40	39	569	502

### 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	
	2016/2017		2015/2016	
Norbert Haimerl	270		248	
Heiko Runge	270		248	
Total	540		496	

## Pensions

in T€	Pension expenses pursuant to IAS 19	
	2016/2017	2015/2016
Norbert Haimerl	251	245
Heiko Runge	219	216
Total	470	461

## Pensions

in T€	Present value of defined benefit obligations	
	As at 30/09/2017	As at 30/09/2016
Norbert Haimerl	1,760	1,741
Heiko Runge	1,583	1,596
Total	3,343	3,336

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, a Management Board member is entitled to terminate the Management Board Service Agreement 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, Management Board members are entitled to settlement of their remuneration and fringe benefits at the time of the premature termination up to the maturity date of their service agreements. With respect to the pension commitments, the Management Board has a choice between a one-off payment in the amount of the value or the continuation. In this case the Management Board members are to be put in a position as though the company had fulfilled the respective pension commitments up to the termination date stipulated in the service agreement.

### ***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	
	2016/2017	2015/2016
Prof. Dr. Karl Höhle	48	48
Günther Henrich	36	36
Dr. Bernhard Gimple	24	24
Total	108	108

## Forecast Report

### Market Outlook

The global economy is currently enjoying an upswing which will probably continue in the year 2018. Following economic growth at a rate of 3.6 % in 2017, the International Monetary Fund (IMF) expects growth of 3.7 % in 2018 and a continued strong expansion in the subsequent years.

Normal capacity utilisation in manufacturing is almost reached in the USA, Japan and the Eurozone. In some cases, the production capacities even exceed the capacity utilisation limit. While Germany remains one of the key drivers for economic development in the Eurozone, the economic outlook for France and Italy is also improving. The economic recovery in Europe is boosted by decreasing political risks following the elections in several European countries.

The economic stimuli initiated in China should impact positively on the country's future development.

The remaining risks include several geopolitical developments that are difficult to predict, such as the conflict between North Korea and the USA. In all, the risks have diminished somewhat since spring, largely due to the more stable global economic environment.

### Outlook for the Höhle Group

The further business development of the individual segments of the Höhle Group largely depends on the economic conditions. The outlook is based on detailed planning for the individual Höhle Group companies.

### 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. A growing trend towards the use of LED technology can be observed in the printing industry as well as with respect to other industrial applications. 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 LED systems.

With respect to the financial year 2017/2018, the Management Board predicts an increase in sales revenues in the upper single-digit percentage range and a corresponding rise in earnings contributions in the Equipment & Systems segment and at Dr. Höhle AG as a whole.

### Glass & Lamps Segment

A positive business development is expected in the Glass & Lamps segment for financial year 2017/2018. It is assumed that this development will be driven by Raesch Quarz (Germany) GmbH, in particular. Following the implementation of technical optimisation processes and the start of operations of the new resize centre for quartz glass tubes with a diameter of up to one meter, rising revenues and a positive earnings contribution are expected. With the new centre,

Raesch Quarz (Germany) GmbH is opening up promising business fields in the semiconductor market.

The Ballast Water Convention came into effect in September 2017. However, the transitional guidelines were extended and do not apply until 2022 as originally planned, but rather until 2024.

It is assumed that the positive impact arising from the Ballast Water Convention for the Hönle Group, and specifically for UV-Technik Speziallampen GmbH, will make itself felt in the form of a considerable rise in revenue only after a corresponding delay.

The Management Board expects that the Glass & Lamps segment will contribute substantially to the Hönle Group's growth in sales and earnings in financial year 2017/2018 as well as in subsequent financial years.

#### **Adhesives Segment**

Following the very successful financial year 2016/2017, rising revenue and earnings are predicted for the Adhesives segment in the new financial year. The Consumer Electronics segment is expected to contribute significantly to this increase. Adhesives of the Panacol Group are increasingly being used in smart devices such as smart phones and tablets. The customer base was expanded, the number of adhesives applications was increased in growth markets, in particular, and new competitive adhesives were developed, thus laying the foundation for positive business development in the future also.

#### **Overall Assessment of Future Business**

##### **Development**

With its business segments, Equipment & Systems, Glass & Lamps and Adhesives, the Hönle Group is broadly diversified and well positioned.

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 increasingly expanded in order to prepare for the planned further growth. New cooperation agreements with strategic partners in the printing and water sterilisation markets provide additional important growth potential for Hönle Group's sustained positive business development.

In addition to traditional equipment manufacturing, short-lived economic assets already account for 47 % of consolidated revenue.

With respect to adhesives, Hönle is strongly represented in many growth markets such as the market for smart devices. Close cooperation with global market leaders forms the basis for the development of high-quality industrial adhesives.

Finally, with its quartz glass products, Hönle is also well positioned to further tap into the growing semi-conductor and fibre cable markets.

Assuming that the general economic conditions remain as they are, the Management Board aims at achieving revenue of between € 115 million and € 125 million and an operating result of between € 22 million and € 26 million for the Hönle Group in financial year 2017/2018.

The amount of Hönle Group's new and replacement investments is expected to range between € 3.0 million and € 4.0 million. Investments in production plants are mostly planned at Raesch Quarz (Germany) GmbH, Panacol-Elosol GmbH and Dr. Hönle AG in financial year 2017/2018.

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, 22 December 2017



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 29 January 2018**

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 7 February 2017 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 4.1.3 of the German Corporate Governance Code specified that the Management Board shall disclose the main features of the existing compliance management system. Dr. Höhle AG is of the opinion that it is not necessary to disclose the compliance management system to meet the compliance regulations. Consequently, Dr. Höhle AG does not disclose the main features of the compliance management system.

Section 4.1.5 of the German Corporate Governance Code stipulates that the Management Board shall lay down targets for the share of women presented in the two management levels below 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" dated 24 April 2015, the Management Board of Dr. Höhle AG specified such target figures. The Management Board defined that the minimum proportion of women represented in the first management level below the Management Board to be reached by 30 June 2022 shall be 25 %. The figure corresponds to the current proportion of women at this level. In addition, the Management Board defined that the proportion of women in the second management level below the Management Board shall be at least 0 %. Consequently, no deadline has to be specified 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 gender.

### **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 the Management Board Remuneration**

The German Corporate Governance Code recommends that Management Board remuneration should include fixed and variable components. In this context, the variable remuneration components should principally be based on a multi-year assessment basis that shall essentially have forward-looking characteristics and not be payable in advance (section 4.2.3 para. 2). The Supervisory Board of Dr. Höhle AG does not believe that a multi-year and forward-looking basis of assessment increases the quality of the activity of the Management 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. Hönle AG Management Board for a maximum term of office of five years. In the event of premature termination of Management activity, the respective employment contracts do not provide for a severance cap. The Supervisory Board principally considers the severance cap recommended by the German Corporate Governance Code in the event of a termination of Management Board activity to be problematic from a legal standpoint. If the Management Board activity is terminated for good reason for which the Management Board member is responsible, the respective member is not entitled to a severance payment. In the event of premature termination of Management Board activity without good cause, the employment contracts provide for the payment of Management Board remuneration up to the end of the contract term.

The Supervisory Board considers this regulation to be appropriate as it is in keeping with the interpretation of agreements with fixed terms under German civil law which are non-terminable except for good cause. Consequently, there is an entitlement to the agreed remuneration. Moreover, from the viewpoint of the Supervisory Board, there is no legal certainty as to how such severance caps could legally be realised by the company in the individual case. The Management Board employment contracts also do not provide for a severance cap if a Management Board member retires due to a change of control so that the company also deviates from the recommendation specified under section 4.2.3 para. 5 of the Code. In such cases, the Management Board contracts provide for severance payment in the amount of the Management Board remuneration up to the end of the contract term and, with regard to the existing pension commitment, the Management Board member is granted the option to settle the value of the pension commitment against severance payment equivalent or opt to receive the arising benefits under the pension commitment. The deviation from the recommendation set forth in section 4.2.3 para. 5 of the Code is based on the outcome of negotiations with the Management Board members upon conclusion of the respective contracts.

## **Disclosure of Management Board**

### **Remuneration**

The German Corporate Governance Code recommends that 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 such target figures. 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 specified 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 to be specified. 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.

### **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 and a nomination 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, among other things, 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, and that the principle of diversity be observed (section 5.4.1, para. 2). In addition, the Supervisory Board shall determine specific objectives regarding its composition and shall prepare a profile of skills and expertise for the entire Board (section 5.4.1 para. 2). The implementation status for the composition and the profile of skills and expertise is to be published in the Corporate Governance Report. Moreover, the corporate governance report is also to provide information on what the Supervisory Board regards as the appropriate number of independent Supervisory Board members representing shareholders, and disclose the names of these members (section 5.4.1. para. 3). The composition of the Supervisory Board shall also account for the company's ownership structure (section 5.4.2). The Dr. Hönle AG Supervisory Board consists of three members. Dr. Hönle 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, gender, ownership structure or similar aspects. Dr. Hönle AG's Supervisory Board did not specify any fixed limitations respecting age or length of appointment for its members. Dr. Hönle 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 objectives and profiles of the required skills and expertise concerning the composition of the Supervisory Board in terms of the Code. For this reason, Dr. Hönle AG will not publish the objectives of the composition of the Supervisory Board, information on compliance with the profile of the required skills and expertise or the status of implementation in the Corporate Governance Report. The same applies with respect to the number of independent Supervisory Board members and the disclosure of their names. Since the Dr. Hönle AG's Supervisory Board has only three members who introduce themselves in detail to the Annual General Meeting and answer the questions raised by the Annual General Meeting prior to their election to the Supervisory Board, Dr. Hönle AG, so far, has refrained from adding a curriculum vitae to the respective proposal for Supervisory Board candidates and from publishing and updating it annually on the company's website. 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. Hönle AG specified a target figure for the share of women on the Supervisory Board. Since Dr. Hönle 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 Supervisory Board.

## Accounting

The German Corporate Governance Code recommends that the Management Board shall discuss the interim financial information with the Supervisory Board or its Audit Committee prior to publication (section 7.1.2, sentence 2). Within the scope of an efficient publishing process, Dr. Höhle AG has already published interim financial information (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 and group management report shall be publicly accessible within a period of 90 days from the financial year-end, and the mandatory interim financial information (interim reports) within a period of 45 days from the financial year-end (section 7.1.2, sentence 3). As in the past, Dr. Höhle AG will, in the future also, publish preliminary figures for the financial year within a period of 90 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 period, 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.

## **Disclosures on Corporate Governance Practices**

### **Corporate Body**

The Corporate Body includes the Management Board, 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 Management Board 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. Hönle 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/de/investoren/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 (55)*

*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 (53)*

*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 Munich.

# 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, 22 December 2017

Dr. Hönle AG

Norbert Haimerl  
Management Board

Heiko Runge  
Management Board

# Audit Opinion of the Independent Auditor

To Dr. Hönle Aktiengesellschaft, Gräfelfing

## **Audit opinion on the consolidated financial statements and the group management report**

### **Audit judgements**

We have audited the consolidated financial statements of Dr. Hönle AG, Gräfelfing, and its subsidiaries (the group), comprising the statement of financial position as at 30 September 2017 and the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the financial year from 1 October 2016 to 30 September 2017 and the notes to the consolidated financial statements including a summary of significant accounting policies. We have also audited the group management report of Dr. Hönle AG, which is combined with the company's management report, for the financial year from 1 October 2016 to 30 September 2017.

In accordance with the findings gained during the audit, we establish that

- the attached consolidated financial statements comply in all material respects with IFRS as adopted by the EU and the additional requirements to be observed in Germany pursuant to Section 315a (1) HGB. The consolidated financial statements give a true and fair view of the group's net assets and the financial position as at 30 September 2017 and its results of operations for the financial year from 1 October 2016 to 30 September 2017 in accordance with these requirements, and
- the attached group management report as a whole appropriately reflects the group's position. The group management report is consistent with the consolidated financial statements in all material respects. It is in compliance with the German legal regulations and presents fairly the opportunities and risks of future development.

Pursuant to Section 322 (3) sent. 1 HGB, we confirm that our audit has not led to any objections to the appropriateness of the consolidated financial statements and the group management report.

### **Basis for the audit judgements**

We have performed our audit of the consolidated financial statements and the group management report in accordance with Section 317 HGB and the EU Regulation on specific requirements regarding statutory audits of public-interest entities (No. 537/2014; hereinafter "EU-APrVO"), thereby taking into account the generally accepted accounting principles as defined by the Institute of Public Auditors in Germany (IDW). Our responsibility under these provisions and principles is described in greater detail in the section "Responsibility of the auditor for the audit of the consolidated financial statements and the group management report" in our audit opinion. With respect to the company we are an independent entity as required under European and German commercial and professional provisions and we performed our activities in compliance with the other professional requirements applicable in Germany. In addition we confirm that, pursuant to Article 10 (2) Letter f) EU-APrVO, we have not provided any prohibited non-audit services as specified under Article 5 (1) EU-APrVO. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our audit judgements on the consolidated financial statements and the group management report.

### ***Critical audit matters in the audit of the consolidated financial statements***

Critical audit matters are matters which, based on our professional judgement, were the most significant matters arising from our audit of the consolidated financial statements for the financial year from 1 October 2016 to 30 September 2017. These matters were taken into account in the context of our audit of the consolidated financial statements as a whole and when forming our audit judgement. We do not provide a separate audit opinion on these matters.

In the following we present those critical audit matters which, from our viewpoint, are of special relevance:

- 1) Value of goodwill
- 2) Value of deferred tax assets

We have structured our presentation of these critical audit matters as follows:

- 1) Reasons for the definition as critical audit matter
- 2) Audit procedure and findings
- 3) Reference to further-going information

#### ***1) Value of goodwill***

- 1) The consolidated financial statements of Dr. Höhle AG disclose goodwill in the amount of T€ 18,849 (18.4 % of total assets) under non-current assets. Goodwill values are subjected to an impairment test at least once per year. These tests are regularly based on the present value of future cash flows of the cash-generating unit to which the goodwill concerned is allocated. The impairment tests are based on the budget accounting of the individual cash generating units which, in turn, results from the financial plans adopted by the management. Discounting is based on weighted average capital costs of the respective cash generating unit. The tests did not indicate any need for impairment.

The result of the tests depends, in particular, on the legal representatives' assessment of future inflows of cash and the discounting rate applied. The tests are therefore subject to uncertainties.

- 2) We determined that, overall, the future inflows of cash and cash equivalents and the applied discount rates underlying the evaluations provide an appropriate basis for the impairment tests of the individual cash generating units. We based our assessment, among other things, on a comparison of general and industry-specific market expectations and on management's elaborations respecting significant value drivers of planning. Keeping in mind that even relatively small changes in the discounting rate can impact significantly on the values, we also assessed the parameters used in the determination of the applied discounting rate, and have verified the calculation scheme. Moreover, we performed additional sensitivity analyses for the cash generating units with minor surplus cover (carrying amount relative to present value) in order to enable us to assess any potential impairment risk in the event of a possible change in significant valuation assumptions. In our view, the valuation parameters and assumptions used by the management have been appropriately derived and can be used for the purpose of verifying the values concerned.
- 3) The information which the company provided on the impairment tests is included in sections "5 – Accounting and Valuation Methods" and "20 – Fixed Assets" in the notes to the consolidated financial statements.

## **2) Value of deferred tax assets**

- 1) The deferred tax assets disclosed in the statement of financial position include tax losses carried forward in the amount of T€ 1,445. In our view, this fact represents a critical audit matter since the multi-year planning as a basis for the value of deferred taxes is highly dependent on the assessment and assumptions of the legal representatives, and is therefore subject to uncertainties.
- 2) We assessed the value of the above-stated deferred tax assets on the basis of the planning prepared by the legal representatives, and the appropriateness of the planning premises used. We have also assessed the correctness of the reconciliation of the planning result with the tax result, the compatibility of methods used for determining deferred taxes with IAS 12 and the arithmetical correctness. In the process, we were able to verify the assumptions made by the legal representatives and the methods applied.
- 3) The company's information on deferred tax assets is included in the sections "5 – Accounting and Valuation Method", "15 – Taxes on Income" and „23 – Deferred Tax Assets and Liabilities“ in the notes to the consolidated financial statements.

## **Other information**

The legal representatives are responsible for the other information. This other information comprises

- the remaining sections of the Annual Report with the exception of the audited consolidated financial statements, the group management report and our audit opinion,
- the Corporate Governance Report pursuant to Item 3.10 of the German Corporate Governance Code, and
- the assurance pursuant to Section 297 (2) Clause 4 HGB concerning the consolidated financial statements and the assurance pursuant to Section 315 (1) Clause 5 HGB concerning the group management report.

Our audit judgements on the consolidated financial statements and the group management report do not extend to the other information. Consequently, we do not provide an audit judgement or any other form of audit conclusion in this respect.

In connection with our audit, we were obliged to read the other information and to assess whether the other information

- is in material respects inconsistent with the consolidated financial statements, the group management report or the findings which we gained in the course of the audit, or
- otherwise appears to be incorrectly presented.

Should we conclude on the basis of the activities we performed that this other information includes material misrepresentations we are obliged to report on this fact. There is nothing to report in this context.

## **Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the group management report**

The legal representatives are responsible for preparing consolidated financial statements which comply in all material respects with IFRS as applied in the EU and the additional requirements of German commercial law pursuant to Section 315a (1) HGB. The legal representatives are also responsible for ensuring that the consolidated financial statements provide a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. In addition, the legal representatives are responsible for the internal controls which they consider to be essential in the context of preparing consolidated financial statements that are free of material misrepresentations, whether intended or not.

Within the scope of preparing the consolidated financial statements, the legal representatives are responsible for assessing the group's ability to continue as a going concern. Moreover, they are responsible for providing information on all matters of relevance in connection with the going concern assumption. They are additionally responsible for using the principle of going concern as accounting basis unless it is intended to liquidate the group or to discontinue business operations or if there is no other realistic alternative.

Furthermore, the legal representatives are responsible for preparing the group management report which as a whole provides a fair view of the group's position and is in all material respects consistent with the consolidated financial statements and the German legal regulations and appropriately presents the opportunities and risks of future development. The legal representatives are also responsible for the arrangements and measures (systems) which they consider to be essential for enabling the preparation of a group management report in compliance with the applicable German legal regulations and for providing sufficient and appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for monitoring the group's accounting process in the context of the preparation of the consolidated financial statements and the group management report.

#### ***Responsibility of the auditor for the audit of the consolidated financial statements and the group management report***

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free of intended or unintended misstatements, whether the group management report as a whole presents fairly the group's position and is consistent in all material respects with the consolidated financial statements and the findings which we gained during our audit, whether it is in compliance with the German legal regulations and appropriately presents the opportunities and risks of future development. In addition, our objective is to issue an audit opinion which includes our audit judgements on the consolidated financial statements and the group management report.

Reasonable assurance provides a high level of security but does not guarantee that an audit, which is performed in compliance with Section 317 HGB and the EU-APrVO, taking into account the German generally accepted accounting standards as defined by the Institute of Certified Public Accountants (IDW), always detects material misrepresentations. Misrepresentations can result from violations or inaccuracies. They are considered to be material when it can be reasonably expected that they impact separately or in aggregate on the economic decisions made by addressees on the basis of these consolidated financial statements and group management report.

During the entire audit process we performed our activities using our professional judgement and maintaining a critical approach. Moreover

- we identify and assess the risks arising from material misrepresentations, whether intended or not, in the consolidated financial statements and the group management report, we plan and perform audit activities as a response to these risks and we obtain audit evidence that is sufficient and appropriate to serve as a basis for our audit judgements. The risk that material misrepresentations are not detected is higher for violations than the risk associated with misstatements since violations may lead to fraudulent interaction, falsifications, wilful incompleteness, misleading presentation or overriding of internal controls.
- we obtain an understanding of the internal control system of relevance for the audit of the consolidated financial statements and the arrangements and measures relevant for the audit of the group management report in order to enable us to plan audit activities that are appropriate under the circumstances at the time without being aimed at issuing an audit judgement on the effectiveness of these systems.
- we assess the appropriateness of the accounting methods applied by the legal representatives and the viability of the assessed values and associated disclosures presented by the legal representatives

- we draw conclusions on the appropriateness of the accounting principle of going concern applied by the legal representatives and, using the audit evidence obtained, on whether there is a material uncertainty in connection with events or circumstances that may cast significant doubt on the group's ability to continue as a going concern. Should we arrive at the conclusion that a material uncertainty exists, we are obliged to draw attention to the pertinent disclosures in the consolidated financial statements and the group management report in the audit opinion or, if these disclosures should be unreasonable, to modify our respective audit judgement. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit opinion. However, future events or circumstances may result in the group being unable to continue its corporate activities.
- we assess the overall presentation, the structure and contents of the consolidated financial statements including pertinent information and we also assess whether the consolidated financial statements appropriately present the underlying business transactions and events thus ensuring that the consolidated financial statements provide a true and fair view of the group's net assets, financial position and results of operations, taking into account IFRS as applied in the EU and the additional requirements of German commercial law pursuant to Section 315a (1) HGB.
- we obtain sufficient and appropriate audit evidence concerning the companies' accounting information or activities within the group in order to issue audit judgements on the consolidated financial statements and the group management report. We are responsible for the guidance, monitoring and performance of the audit of the consolidated financial statements. We bear the sole responsibility for our audit judgements.
- we assess whether the group management report is consistent with the consolidated financial statements and the relevant legal regulations and whether it fairly presents the position of the group.
- we carry out audit activities relating to the future-oriented statements provided by the legal representatives in the group management report. Based on sufficient and appropriate audit evidence we verify the significant assumptions underlying the future-oriented statements of the legal representatives and we assess the appropriate derivation of the future-oriented statements from these assumptions. We do not issue a separate audit judgement on the future-oriented statements and the underlying assumptions. There is a considerable unavoidable risk that future events differ significantly from the future-oriented statements.

We discuss with those responsible for monitoring, inter alia, the scope and time schedule planned for the audit, and also discuss with them any significant audit findings including any shortcomings in the internal control systems that we may identify during our audit.

We provide those responsible for monitoring with our written confirmation that we have complied with the relevant independence requirements and we discuss with them all relations and other matters where it can reasonably be assumed that they impact on our independence, including the respective protective measures taken.

We select from the matters, which we discussed with those responsible for monitoring, those matters which were the most significant for the audit of the consolidated financial statements for the current reporting period and which therefore qualify as critical audit matters. We describe these matters in the audit opinion unless laws or other legal regulations exclude the public information about this specific matter.

#### **Other statutory and other legal requirements**

##### **Other disclosures pursuant to Article 10 APrVO**

The annual general meeting held on 28 March 2017 appointed us as group auditors. The Supervisory Board commissioned us on 7 August 2017. We have acted as the group auditor of Dr. Höhle AG from the financial year 2012/2013 on without interruptions.

We confirm that the audit judgements included in this audit opinion comply with the additional report to the Supervisory Board in accordance with Article 11 EU-APrVO (Audit Report).

#### **Responsible auditor**

Christoph Thomas is the auditor responsible for the audit.

Munich, 22 December 2017

S&P GmbH  
Wirtschaftsprüfungsgesellschaft

Christoph Thomas  
Wirtschaftsprüfer  
(Public Auditor)

Ulrich Stauber  
Wirtschaftsprüfer  
(Public Auditor)



# Consolidated Income Statement

for the period from 1 October 2016 to 30 September 2017 according to IFRS

	Notes	01/10/2016 - 30/09/2017 in T€	01/10/2015 - 30/09/2016 in T€
Revenue	(6)	101,926	93,415
Changes in inventories of finished goods and work in progress		965	2,283
Other work performed by entity and capitalised		164	127
Other operating income	(7)	862	1,012
Cost of purchased materials and services	(8)	37,256	35,972
Personnel expenses	(9)	32,758	31,031
Depreciation and amortisation expense	(10)	2,937	2,709
Other operating expenses	(11)	15,760	14,725
<b>Operating result/EBIT</b>		<b>15,207</b>	<b>12,400</b>
Profit/loss from investments accounted for using the equity method	(12)	-5	-14
Financial income	(13)	37	54
Financial expenses	(14)	362	390
Financial result		-330	-350
<b>Earnings before tax and non-controlling interests/EBT</b>		<b>14,877</b>	<b>12,050</b>
Income taxes	(15)	4,463	3,760
<b>Consolidated profit or loss</b>		<b>10,414</b>	<b>8,290</b>
Share in earnings attributable to non-controlling interests	(16)	-13	12
Share of earnings of Dr. Hönle AG shareholders		10,427	8,278
Earnings per share (basic) in €	(19)	1,89	1,50
Earnings per share (diluted) in €	(19)	1,89	1,50

# Consolidated Statement of Comprehensive Income

for the period from 1 October 2016 to 30 September 2017 according to IFRS

	01/10/2016 - 30/09/2017 in T€	01/10/2015 - 30/09/2016 in T€
<b>Consolidated profit or loss</b>	<b>10,414</b>	<b>8,290</b>
Other comprehensive income:		
Positions that may be subsequently reclassified to profit or loss		
- Currency translation differences	(30) -245	-7
- Other comprehensive income from hedge accounting	(45) 48	15
- Income tax effects	(23) -12	-4
Positions that will not be reclassified to profit or loss		
Actuarial gains / (losses) on defined benefit pension plans	(34) 1,094	-1,681
Income tax effects	(23) -276	424
Total other comprehensive income	609	-1,253
<b>Total comprehensive income</b>	<b>11,023</b>	<b>7,037</b>
Thereof:		
- Comprehensive income attributable to non-controlling interests	-12	6
- Comprehensive income of Dr Höhle AG shareholders	11,035	7,031

# Consolidated Statement of Financial Position

as at 30 September 2017 according to IFRS

A SSETS	Notes	30/09/2017 in T€	30/09/2016 in T€
<b>Non-current assets</b>			
Goodwill	(20)	18,849	18,849
Intangible assets	(20)	2,649	2,905
Property, plant and equipment	(20)	19,549	17,191
Investment property	(20)	1,249	1,301
Investments accounted for using the equity method	(22)	27	37
Financial assets	(20)	27	32
Other non-current assets	(21)	1,039	902
Deferred tax assets	(23)	2,916	3,187
<b>Total non-current assets</b>		<b>46,305</b>	<b>44,404</b>
<b>Current assets</b>			
Inventories	(24)	30,073	27,415
Trade accounts receivable	(25)	17,959	13,076
Receivables from companies in which an equity investment is held	(26)	199	213
Other current assets	(27)	1,834	2,003
Current tax assets	(28)	721	648
Cash and cash equivalents	(29)	5,217	6,516
<b>Total current assets</b>		<b>56,002</b>	<b>49,871</b>
<b>Total assets</b>		<b>102,306</b>	<b>94,275</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	(30)		
Subscribed capital		5,513	5,513
Own shares		-8	-8
Capital reserves		16,596	16,596
Retained earnings		45,779	37,776
<b>Equity attributable to Dr. Höhle AG shareholders</b>		<b>67,880</b>	<b>59,877</b>
Non-controlling interests		1,898	1,792
<b>Total equity</b>		<b>69,778</b>	<b>61,669</b>
<b>Non-current liabilities</b>			
Non-current loans (less current portion)	(31)	5,236	6,043
Non-current portion of finance lease obligations	(32)	199	187
Other non-current liabilities	(33)	426	537
Pension provisions	(34)	5,606	6,528
Accrued public investment grants	(35)	398	465
Deferred tax liabilities	(23)	1,286	1,369
<b>Total non-current liabilities</b>		<b>13,152</b>	<b>15,130</b>
<b>Current liabilities</b>			
Trade accounts payable	(36)	5,263	4,917
Liabilities to companies in which an equity investment is held	(26)	3	0
Prepayments received	(37)	1,492	938
Current portion of finance lease obligations	(32)	51	36
Current liabilities to banks and current portion of non-current loans	(38)	4,343	2,996
Other current liabilities	(39)	5,840	5,533
Other provisions	(40)	533	483
Current tax liabilities	(41)	1,852	2,573
<b>Current liabilities, total</b>		<b>19,377</b>	<b>17,475</b>
<b>Total equity and liabilities</b>		<b>102,306</b>	<b>94,275</b>

# Consolidated Statement of Changes in Equity

for the period from 1 October 2016 to 30 September 2017 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€	Capital reserves in T€	Legal and other reserves in T€	Derivative financial instruments in T€	Actuarial gains/(losses) on defined benefit pension plans in T€	Currency translation differences in T€	Equity attribu- table to Dr. Hönle AG's shareholders in T€	Non- controll- ing interests in T€	Total in T€
<b>As at 01/10/2015</b>	<b>5,513</b>	<b>-8</b>	<b>16,596</b>	<b>33,253</b>	<b>-81</b>	<b>-1,395</b>	<b>1,999</b>	<b>55,877</b>	<b>1,637</b>	<b>57,514</b>
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
<b>Total comprehensive income</b>				<b>8,278</b>	<b>11</b>	<b>-1,251</b>	<b>-7</b>	<b>7,031</b>	<b>6</b>	<b>7,037</b>
Equity contribution by non-controlling shareholders									149	149
Dividend distribution				-3,032				-3,032		-3,032
<b>As at 30/09/2016</b>	<b>5,513</b>	<b>-8</b>	<b>16,596</b>	<b>38,499</b>	<b>-70</b>	<b>-2,646</b>	<b>1,993</b>	<b>59,877</b>	<b>1,792</b>	<b>61,669</b>
<b>As at 01/10/2016</b>	<b>5,513</b>	<b>-8</b>	<b>16,596</b>	<b>38,499</b>	<b>-70</b>	<b>-2,646</b>	<b>1,993</b>	<b>59,877</b>	<b>1,792</b>	<b>61,669</b>
Consolidated net income for the year				10,427				10,427	-13	10,414
Other comprehensive income					36	817	-245	608	2	609
<b>Total comprehensive income</b>				<b>10,427</b>	<b>36</b>	<b>817</b>	<b>-245</b>	<b>11,035</b>	<b>-12</b>	<b>11,023</b>
Equity contribution by non-controlling shareholders									117	117
Dividend distribution				-3,032				-3,032		-3,032
<b>As at 30/09/2017</b>	<b>5,513</b>	<b>-8</b>	<b>16,596</b>	<b>45,894</b>	<b>-34</b>	<b>-1,829</b>	<b>1,748</b>	<b>67,880</b>	<b>1,898</b>	<b>69,778</b>

# Statement of Consolidated Cash Flows

for the period from 1 October 2016 to 30 September 2017 according to IFRS

	01/10/2016- 30/09/2017 in T€	01/10/2015- 30/09/2016 in T€
<b>Cash flows from operating activities:</b>		
Consolidated profit or loss before non-controlling interests and taxes	14,877	12,050
Adjustments for:		
Depreciation of intangible assets, property, plant and equipment and investment property	2,937	2,709
Gains/losses from disposal of intangible assets, property, plant and equipment and investment property	265	75
Financial income	-32	-40
Financial expenses	362	389
Other non-cash expenses/income	-37	-224
<b>Operating result before changes to net current assets</b>	<b>18,372</b>	<b>14,959</b>
Increase/decrease in accruals	142	176
Increase/decrease in trade accounts receivable	-4,906	511
Increase/decrease in receivables from companies, in which an equity investment is held	15	11
Increase/decrease in other assets	128	230
Changes in reinsurance policy	-161	-143
Increase/decrease in inventories	-2,724	-2,475
Increase/decrease in trade accounts payable	369	26
Increase/decrease in liabilities to companies, in which an equity investment is held	3	-7
Increase/decrease in advanced payments received	554	316
Increase/decrease in other current liabilities	312	-477
Increase/decrease in accrued public investment grants	41	0
<b>Cash generated from operations</b>	<b>12,146</b>	<b>13,126</b>
Interest paid	-236	-278
Income taxes paid	-5,332	-4,492
<b>Cash flows from operating activities</b>	<b>6,579</b>	<b>8,356</b>
<b>Cash flows from investing activities:</b>		
Payments received from the disposal of intangible assets, property, plant and equipment and investment property	9	376
Payments for the purchase of property, plant and equipment and intangible assets	-5,361	-4,980
Payments due to acquisitions in previous years	-57	-19
Payments received from non-current receivables	24	51
Interest received	37	22
<b>Cash flows from investing activities</b>	<b>-5,348</b>	<b>-4,551</b>
<b>Cash flows from financing activities:</b>		
Payments received from loans and liabilities to banks	3,348	1,153
Payments for loans and liabilities to banks	-2,819	-2,841
Repayments of liabilities to shareholders	0	-150
Equity contributions of other shareholders	117	149
Dividends paid	-3,032	-3,032
<b>Cash flows from financing activities</b>	<b>-2,386</b>	<b>-4,721</b>
Exchange rate differences	-73	-46
Exchange rate-related change in funds	-71	21
<b>Net increase/decrease in cash and cash equivalents</b>	<b>-1,299</b>	<b>-940</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>6,516</b>	<b>7,456</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>5,217</b>	<b>6,516</b>

Die Kapitalflussrechnung wird in Tz. 46 des Konzernanhangs erläutert.

# Notes to the IFRS Consolidated Financial Statements

for the Financial Year 2016/2017 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 22 December 2017.

## 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 34) and other provisions (cf. paragraph 40) and the determination of deferred taxes (cf. paragraph 23).

## 3. Consolidation

### Consolidated Group

The consolidated financial statements as of 30 September 2017 include the parent company, Dr. Hönlle AG, and the following subsidiaries:

Name	Head office	Percentage of shares held Reporting year	Percentage of shares held Prior year	Held via
<b>Direct participations:</b>				
(1) Aladin GmbH, Gräfelfing, Munich	Germany	60.00%	60.00%	
(2) Honle UV France S.à.r.l., Bron, Lyon	France	100.00%	100.00%	
(3) PrintConcept UV-Systeme GmbH, Kohlberg	Germany	100.00%	100.00%	
(4) Eltosch Grafix GmbH, Pinneberg	Germany	100.00%	100.00%	
(5) AGITA Holding AG, Regensburg, Zurich	Switzerland	100.00%	100.00%	
(6) UV-Technik Speziallampen GmbH, Wolfsburg	Germany	81.00%	81.00%	
(7) Hoenle UV Technology (Shanghai) Trading Ltd., Shanghai	China	100.00%	100.00%	
(8) Raesch Quarz (Germany) GmbH, Langewiesen	Germany	100.00%	100.00%	
(9) Raesch Quarz (Malta) Ltd., Mosta, Malta	Malta	100.00%	100.00%	
(10) Honle US Real Estate LLC, Torrington	USA	100.00%	100.00%	
<b>Indirect participations:</b>				
(11) Panacol AG, Regensburg/Zurich	Switzerland	100.00%	100.00%	(5)
(12) Panacol-Elosol GmbH, Steinbach/Frankfurt/M.	Germany	100.00%	100.00%	(11)
(13) Eleco Produits EFD, SAS, Gennevilliers/Paris	France	99.96%	99.96%	(11)
(14) Eltosch Grafix America Inc., Batavia/Chicago	USA	100.00%	100.00%	(4)
(15) SKC - Panacol Co., Ltd, Suwon-si	South Korea	51.00%	51.00%	(12)
(16) Tangent Industries, Inc., Torrington	USA	66.77%	62.18%	(11)
<b>Associated companies:</b>				
(17) Metamorphic Materials Inc., Winsted	USA	30.00%	30.00%	(11)
(18) TECINVENT GmbH, Schömburg	Germany	35.00%	35.00%	

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

The above-mentioned companies listed under direct and indirect participations are fully consolidated due to the possibility of exerting 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 that do not lead to a loss of control over the subsidiary concerned are accounted for as equity capital transactions.

Associated companies ("associates") pursuant to IAS 28 are accounted for at equity unless the shares are classified as assets held for sale, in which case accounting is based on IFRS 5. An associate is a company over which the group can exert significant influence due to the group's involvement in the associate's financial and business policy without, however, exerting control over the associate.

Significant influence is assumed when the parent company holds at least 20 % of the voting rights (associated company). In accordance with the equity method, shares in associated companies are to be included in the consolidated statement of financial position at cost which are adjusted for changes in the group's share in profit or loss and in the other comprehensive income 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 (revenue and total assets < T€ 50 in each case). The result for the year 2016/2017 generated by Solitec GmbH amounts to T€ 1 (PY: T€ -1), the amount of equity capital as of 30 September 2017 amounts to T€ 39 (PY: T€ 38).

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 significant control over the company. The equity investment is classified as "available-for-sale financial asset". The result for the financial year 2016/2017 generated by PrintDesign Engineering GmbH amounts to T€ 11 (PY: T€ -7) and equity capital amounts to T€ 35 (PY: T€ 24) as of 30 September 2017.

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

In the third quarter of 2016/2017, Panacol AG, Regensburg, Zurich, Switzerland exercised purchase options in Tangent Industries, Inc., Torrington, USA. In this connection, Panacol AG acquired a further 4.59 % stake in Tangent Industries, Inc. and now holds 66.77 % of the shares in Tangent Industries, Inc..

### **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 statement of financial position. Debit-side differences are released and included in the operating result following re-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 currency for the independent subsidiaries in Switzerland, the United States and South Korea is the Swiss Franc (CHF), the US Dollar (USD) and the Korean Won (KRW). The functional currency for the independent Chinese subsidiary 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	
		30/09/2017 in €	30/09/2016 in €	2016/2017 in €	2015/2016 in €
1 Swiss Franc	CHF	0.8653	0.9135	0.9167	0.9163
1 US Dollar	USD	0.8470	0.8960	0.9053	0.9004
1 Chinese Renminbi	RMB	0.1273	0.1343	0.1330	0.1378
1 Korean Won	KRW	0.0007	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 Standards

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 2016/2017. The first-time application had no major impact on the consolidated financial statements of Dr. Höhle AG.

- Annual Improvements to IFRSs 2012-2014 Cycle: Individual IFRSs are subject to changes within the scope of the annual improvement process implemented by the IASB in order to eliminate inconsistencies relative to other standards or to specify the respective contents. This concerns the standards: IFRS 5, IFRS 7, IAS 19 and IAS 34.
- Amendments to IAS 27 - Equity Method in Separate Financial Statements: The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an investor's separate financial statements.
- Amendments to IAS 16 and IAS 41 - Bearer Plants: As a result of the amendments, bearer plants that are no longer subject to clear biological changes fall under the scope of application of IAS 16 and consequently, are accounted for analogous to property, plant and equipment.

- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation: These amendments introduce guidelines for the definition of an acceptable depreciation and amortisation method. Specifically, the amendments state that revenue-based depreciation/amortisation is not considered to be an appropriate method for depreciating property, plant and equipment and is appropriate for the amortisation of intangible assets only exceptionally and in specific circumstances.
- Amendments to IFRS 11 - Accounting for Acquisitions of Interests in a Joint Operation: The acquirer of interests in a joint activity that constitute business operations as defined in IFRS 3 must apply all principles governing the recognition of business combinations as stated in IFRS 3 and other IFRSs as long as this is not in contradictory to the guidance specified in IFRS 11.
- Amendments to IAS 1 - Disclosure Initiative: The amendments to IAS 1 clarify that a disclosure obligation applies only in the event that the respective disclosure is considered to be significant. In addition, the amendment clarifies the aggregation and disaggregation of items in the statement of financial position and the statement of comprehensive income, the presentation of other comprehensive income of entities included at equity and the structure of Notes disclosures.
- Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment Entities: Applying the Consolidation Exception: The amendment specifies the consolidation requirement for parent companies which constitute an investment entity and addresses issues relating to the consolidation exception for the subsidiary.

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 IFRSs/IFRICs before the date of obligatory application (effective date). The possible impact on future consolidated financial statements is currently being analysed. A reliable assessment is not possible at this time, however.

- Amendments to IAS 12 - Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses: The amendments provide general clarifications relating to the accounting treatment of deductible temporary differences, in particular those deductible temporary difference that arise from debt instruments measured at fair value. (Effective date: 1 January 2017).
- Amendments to IAS 7 - Statement of Cash Flows: Disclosure Initiative: The objective of these amendments is to improve the information on changes to liabilities from financing activities. (Effective date: 1 January 2017). From a present point of view, the amendments to IAS 7 result in extended disclosures in connection with the statement of cash flows.
- 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 master the challenges arising from the different dates of first-time adoption of IFRS 9 and the IFRS 4 successor standard. (Effective date: 1 January 2018).
- IFRS 9 - Financial Instruments: The standard replaces IAS 39 and introduces a uniform approach for the classification and measurement of financial assets with the cash flow characteristics and the respective underlying business model serving as classification basis. In addition, IFRS 9 provides for a new impairment model and includes new regulations governing the application of hedge accounting. (Effective date: 1 January 2018)

The actual effects of IFRS 9 application on the consolidated financial statements for the financial year 2018/2019, in which the standard is to be applied for the first time, are not known and cannot be reliably assessed since these effects depend on the financial instruments held by the group, the economic conditions at the time and the group's future selection of accounting methods and discretionary decisions. The new standard requires the group to adjust its accounting processes and internal controls in connection with the presentation of financial instruments whereby an analysis

of the required adjustments is not yet finalised. Taking into account its financial positions as at 30 September 2017 and the hedging relations reported in the financial year, the group does not expect any significant effects to arise from the IFRS 9 regulations on the classification of financial assets and liabilities and the regulations on hedge accounting.

The group believes that the impairment losses concerning assets falling under the scope of application of the credit loss model stipulated in IFRS 9 will probably increase and become more volatile. Taking the impairment losses as at 30 September 2017 into account, the Dr. Höhle Group does not consider additional impairment losses to be of significance. The group has not yet specified how existing options should be exercised in the context of applicable impairment concepts.

- IFRS 15 - Revenue from Contracts with Customers: The standard specifies when and in what amount revenues are to be recognised. IFRS 15 replaces the previously applicable standards (IAS 18, IAS 11 and IFRIC 13) for revenue recognition, and relevant interpretations. The application of IFRS 15 including the clarifications to IFRS 15, which were published in April 2016, is obligatory for all users and applies to almost all contracts with customers. There are significant exceptions, however, which relate to leases, financial instruments and insurance contracts. (Effective date: 1 January 2018).

At present, the group assesses the possible impact of IFRS 15 application on its consolidated financial statements. Sales revenues in the Höhle Group are primarily generated with the sale of equipment, adhesives and glass pipes while service agreements play a minor role. Variable components of the consideration agreed with the customer are assessed as insignificant.

The revenues generated with these product sales are currently recognised at the time of the transfer of the rewards and risks associated with the transfer of ownership to the customer, depending on the Incoterms agreed upon with the customer. Sales revenues are currently recognized at that time if both the sales revenues and costs can be reliably assessed, the receipt of the respective consideration is probable and no other right of disposal concerning the assets applies. IFRS 15 stipulates that sales revenues are recognized as soon as a customer obtains control over the assets. Apart from the requirement to provide more extensive information on the sales revenues generated with customers, the group does not expect IFRS 15 to impact significantly on the consolidated financial statements, neither with regard to the date of revenue realisation nor with regard to the amount of the 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 every comparative period presented and adjust the consolidated financial statements accordingly. The group intends to use the practical simplifications for fulfilled contracts.

- IFRS 16 - Leases: The standard replaces all former regulations on the accounting treatment of leases and leads to a basic change in the lessee's accounting recognition. The recognition, measurement, disclosure and information requirements of leases are defined in the entities' financial statements. (Effective date: 1 January 2019).

IFRS 16 introduces a uniform accounting model requiring lessees to recognise leases in their balance sheets. Lessees post a right-of-use asset, which represents the right to use the underlying asset as well as a corresponding lease liability in their balance sheet. In addition, the standard provides for changes in the income statement. While, previously, the rental payments from operating lease agreements were largely included as expense in EBIT, the expense will be sub-divided into depreciation and interest expense in the future. Exceptions are granted for short-term leases and leases involving low value assets. Lessor accounting remains largely unchanged, i.e., the lessor continues to classify the leases as finance or operating leases.

The group has not yet finalised the analysis of possible effects on its consolidated financial statements and cannot quantify the effect from the first-time adoption of IFRS 16 at this time. The quantitative effects depend, among other things, on the transitional provisions chosen, the scope of simplification provisions applied in the group and on the amount of leases existing as of the date of initial application. At present, Dr. Höhle AG acts exclusively as lessee. With respect to the current leases that may fall under the scope of application of IFRS 16, reference is made to the disclosures on other financial obligations in section 44. The group expects that more detailed information on the effects and the transitional approach can be provided prior to initial application.

In addition, IASB and IFRIC, respectively, published the following regulations that have not yet been adopted by the European Commission. For this reason, early application of these regulations is not yet possible; possible effects on future consolidated financial statements are currently being reviewed. The present stage of the review does not yet permit any reliable estimates of these effects as of the balance sheet date:

- IFRS 17- Insurance Contracts: Purpose of this standard is the presentation of assets and liabilities resulting from insurance contracts in the IFRS reporting package. The scope of application of IFRS 17 covers all active insurance and reinsurance contracts. (Effective date: 1 January 2021).
- IFRS 14- Regulatory Deferral Accounts: The standard permits under certain conditions first-time adopters to report regulatory deferral accounts which are reported in accordance with national accounting guidelines in the IFRS financial statements as well. (Effective date: 1 January 2016). The EC decided not to start the transition process and to wait for 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 revised version clarifies transactions between investors and associates or joint ventures. The endorsement process was suspended in February 2015. (Effective date: deferred indefinitely).

Amendments to IFRS 2- Classification and Measurement of Share-based Payment Transactions: The changes relate to the classification and measurement of share-based remuneration. (Effective date: 1 January 2018).

- Annual Improvements to IFRS Standards 2014-2016 Cycle: Changes within individual IFRSs are made within the scope of the IASB's annual improvement process in order to eliminate inconsistencies with other standards or specify the respective contents. This concerns the standards: IFRS 1, IAS 28, IFRS 12, and IFRS 7. (Effective date concerning changes to IFRS 12: 1 January 2017, effective date for the other changes: 1 January 2018).
- IFRIC Interpretation 22- Foreign Currency Transactions and Advance Consideration: The interpretation addresses an application issue concerning IAS 21, specifically the effects of changes in exchange rates. The standard clarifies the date of exchange rate determination for purposes of translating transactions which include the receipt of payment or advance consideration into foreign currencies. (Effective date: 1 January 2018).

- Amendments to IAS 40: Transfers of Investment Property: The changes to IAS 40 serve to clarify in which cases the classification of a property as "investment property" begins or ends when the property is still under construction or in the development phase. The previous conclusively formulated listing in IAS 40.57 did not provide a clear regulation concerning the classification of property not completed (Effective date: 1 January 2018).
- IFRIC Interpretation 23- Uncertainty over Income Tax Treatments: Purpose of the interpretation respecting IAS 12 is to provide clarity and a uniform standard concerning the recognition and measurement of assets and liabilities in unclear tax situations. (Effective date: 1 January 2019)
- Amendments to IFRS 9 – Prepayment Features with Negative Compensation: The amendments address the issue of prepayment features with negative compensation with respect to the cash flow criterion included in IFRS 9. In accordance with the new regulation it is irrelevant who pays the compensation as long as the compensation paid is reasonable and in conformity with the cash flow criterion. The remaining conditions for the compatibility of prepayments with cash flow criteria remain unchanged. (Effective date: 1 January 2019).
- Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures: The amendments are aimed at clarifying the measurement of interests in associates and joint ventures at fair value. Certain entities may opt for fair value measurement of their direct or indirect interests in associates and joint ventures through profit or loss rather than continuing application of the equity method. Following clarification, this option can be exercised separately for each equity investment. A respective option applies to non-investment companies. (Effective date: 1 January 2019).

## 5. Accounting and Valuation Methods

The statement of financial position, 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.

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 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 the process, future expected cash flows from the most recent management planning are used as a basis with long-term growth rates and assumptions concerning the margin development, 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 carrying amount 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	3 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 non-current assets are written down according to schedule using the straight line method of depreciation.

The scheduled depreciation of the group's melting furnaces disclosed in technical equipment and machines is split up into individual components (in particular furnace body and melting pots including pertaining sub-components). These are written down separately in accordance with IAS 16.43 et seqq. due to their different useful lives. This approach leads to a more appropriate cause-based period recognition of the expense from the use of the asset and its components.

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 "Buildings" position also includes leasehold improvements. Scheduled depreciation of leasehold improvements is defined in accordance with 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.

## Investments Accounted for Using the Equity Method

Associated companies are accounted for at equity and disclosed in the statement of financial position under “Investments accounted for using the equity method”. A company on which the group exerts a significant 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 rights 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 used by 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.

Borrowing Costs are 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 at the time of 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 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 that are not part of a hedge relationship are deemed to be "held for trading". 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 or are allocable to loans and receivables.

#### 4. Available-for-sale financial assets

Available-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 recognised.



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.

The fair values of financial assets that are quoted on an active market are measured using 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 measurement 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 amortised 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 statement of financial position 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 sales transaction rather than through continued use. This precondition is only deemed to be met when the non-current asset is immediately available for sale in its current condition and if the sale is highly probable. The Management must have agreed to a sale of the respective asset and it must be assumed that the sales process will be concluded within one year following the classification as asset held for sale.

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

### **Cash and Cash Equivalents**

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 definition 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 as to whether the fulfilment of the contractual agreement depends on the use of a certain asset or assets and whether the agreement grants a right of use concerning the asset, even if this right is not explicitly stipulated in an 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.

When recognised for the first time, all financial liabilities are measured at fair value. In the case of loans, directly allocable transaction costs are additionally included in the measurement.

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

Amortised acquisition costs of **current liabilities** generally correspond to the nominal amount or the repayment amount. **Non-current 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 settled, 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. At the beginning of a hedge, 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 45.

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 income 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.

**Provisions**

**Provisions 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 provisions** 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 provisions 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 pertaining requirements are met and 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.

## Borrowing costs

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 the 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€ 101,926 include revenue from the sale of goods in the amount of T€ 99,171 (PY: T€ 90,437) and revenue from services provided in the amount of T€ 2,755 (PY: T€ 2,978).

The amount of T€ 2 (PY: T€ 5) concerns sales generated within the scope of deliveries to Dr. Hönle Medizintechnik GmbH at regular market conditions.

### 7. Other Operating Income

	2016/2017 in T€	2015/2016 in T€
Income from exchange rate differences	202	162
Subsidies / investment grants	160	164
Rental income	120	16
Off-period income	97	79
Income from the release of provisions	59	197
Income from reductions conc.IVA/GVA	54	48
Other income	170	346
	862	1,012

	2016/2017 in T€	2015/2016 in T€
Other income	143	325
Other income from compensation for damages	27	20
<b>Other income</b>	170	346

Other income reported in the financial year includes income from receivables written off in the amount of T€ 12 (PY: T€ 0).

Income from subsidies/investment grants results from the grant notifications concerning research projects and measures of 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 non-current assets.

### 8. Cost of Purchased Materials and Services

	2016/2017 in T€	2015/2016 in T€
Cost of raw materials and supplies and of purchased merchandise	36,474	35,124
Cost of purchased services	782	848
	37,256	35,972

## 9. Personnel Expenses

	2016/2017 in T€	2015/2016 in T€
Wages and salaries	27,002	25,589
Social security and pension costs	5,756	5,442
	32,758	31,031

## 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 Non-Current Assets (paragraph 20).

The annual impairment tests did not lead to a need for non-scheduled goodwill amortisation in financial years 2016/2017 and 2015/2016. 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:

	2016/2017 in T€	2015/2016 in T€
Cost of office space	3,662	3,349
Shipment, goods delivery, packaging	2,818	2,635
Travel expenses	1,591	1,466
Vehicle costs	1,104	1,129
<i>thereof leasing</i>	566	594
Consulting, bookkeeping, year-end closing costs	1,046	1,032
Advertising and representation	824	1,043
Expenses from exchange rate differences	470	161
Other off-period expenses	137	86
Other expenses	4,108	3,824
	15,760	14,725

Other expenses are classified as follows:

	2016/2017 in T€	2015/2016 in T€
Maintenance and repair	617	556
Insurance, membership fees and charges	697	716
Other expenses	2,794	2,552
<b>Other expenses</b>	<b>4,108</b>	<b>3,824</b>

Expenses from operating lease agreements totalled T€ 788 (PY: T€ 766) in the 2016/2017 financial year. Thereof, the amount of T€ 566 (PY: T€ 594) is attributable to vehicles and T€ 222 (PY: T€ 171) concerns machines and operating and business equipment, which are included in Other expenses.

Other expenses also include cost incurred for personnel recruitment and personnel training in the amount of T€ 287 (PY: T€ 241). In addition, the position includes expenses relating to equity holdings in the amount of T€ 25 (PY: T€ 39) and expenses within the scope of value adjustments in the amount of T€ 243 (PY: T€ 60) as well as IT expenses of T€ 268 (PY: T€ 277). Expenses relating to Supervisory Board compensation in the amount of T€ 108 (PY: T€ 108) are disclosed under Other expenses.

## 12. Income/Loss from Investments Accounted for using the Equity Method

This item includes the prorated results of T€ -5 (PY: T€ -13) concerning Metamorphic Materials Inc., Winsted, USA. and of T€ 0 (PY: T€ -1) respecting TECINVENT GmbH, Schömburg. For more information, please see paragraph 22 "Investments Accounted for using the Equity Method".

## 13. Financial Income

	2016/2017 in T€	2015/2016 in T€
Other interest and similar income	37	54
	37	54

Other interest and similar income include interest from bank credit balances and deposits in the amount of T€ 25 (PY: T€ 12).

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

## 14. Financial Expenses

	2016/2017 in T€	2015/2016 in T€
Write-down of financial assets and securities held as current assets	5	0
Interest and similar expenses	357	390
<b>Financial Expenses</b>	<b>362</b>	<b>390</b>

The position includes interest expenses in the amount of T€ 262 (PY: T€ 351) which are attributable to non-current financial liabilities of the group. Interest and similar expenses also include the amount of T€ 36 (PY: T€ 32 interest and similar income) from the adjustment of liabilities concerning written put options to non-controlling shareholders.

The interest portion for finance leasing agreements included in interest expenses amounts to T€ 13 (PY: T€ 12).

Interest expenses also include the amount of T€ 6 (PY: T€ 4) which is attributable to the pension claim reported on the liabilities side and which concerns surviving dependents of former managing directors.

## 15. Income Taxes

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

	2016/2017 in T€	2015/2016 in T€
<b>Current income tax expense and income</b>		
Tax expense for the period	4,563	4,109
Expenses/income relating to off-period income taxes	0	0
	4,563	4,109
<b>Deferred tax expense and tax income</b>		
from a change in non-current assets	19	-4
from a change in current assets	-23	0
from a change in provisions	-57	-85
from a change in liabilities	8	-1
from a change in losses carried forward	-327	-252
from value adjustments on losses carried forward	416	72
from consolidation effects	-136	-84
from currency differences	0	-1
from other valuation differences	0	6
	-100	-349
<b>Total tax expense</b>	<b>4,463</b>	<b>3,760</b>

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

	2016/2017 in T€	2015/2016 in T€
Earnings before tax	14,877	12,050
Theoretical tax rate in %	24.58%	24.58%
Computed tax expense	3,656	2,962
<i>Changes in computed tax expense relative to the actual tax expense due to:</i>		
- change in the value adjustment of deferred tax assets	416	72
- deviating tax base	26	219
- distribution-related tax refunds	-127	-62
- off-period effects	10	93
- deviating local tax rates	480	476
<b>Total tax expense</b>	<b>4,463</b>	<b>3,760</b>
<b>Effective group tax rate</b>	<b>30.00%</b>	<b>31.20%</b>

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

- Group companies in Germany: 24.58 % to 29.92 % (PY: 24.58 % to 29.85 %)
- Group companies in France: 33 1/3 % (PY: 33 1/3 %)
- Group companies in Switzerland: 26.1 % (PY: 26.1 %)
- Group companies in the USA: 27.85% to 39.41 % (PY: 25.92% 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€ -288 (PY: T€ 420) disclosed in the statement of comprehensive income include the amount of T€ -12 (PY: T€ -4) which is attributable to a change in the present value of hedging transactions, and the amount of T€ -276 (PY: T€ 424) 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:

	2016/2017 in T€	2015/2016 in T€
<b>Profit shares</b>		
Aladin GmbH	6	69
UV-Technik Speziallampen GmbH	97	76
<b>Loss shares</b>		
SKC - Panacol Co., Ltd	-116	-133
	-13	12

## 17. Off-Period Expenses and Income

The position "Other operating income" includes off-period income in the amount of T€ 97 (PY: T€ 79) and T€ 59 (PY: T€ 197) from the release of provisions.

The position "Other operating expenses" includes off-period expenses in the amount of T€ 137 (PY: T€ 86).

## 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 assess the respective technical feasibility or useful lives. There are no reliable assessments respecting the expenses for the further development of products and processes.

Expenses for research and development recorded as an expense during the reporting period amounted to T€ 4,844 (PY: T€ 4,377). Thereof, expenses in the amount of T€ 166 (PY: T€ 133) 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.

	2016/2017	2015/2016
Profit share in T€ attributable to Dr. Hönle AG shareholders	10,427	8,278
Weighted average of ordinary shares in circulation during the period (shares of stock) <b>(undiluted)</b>	5,511,854	5,511,854
Weighted average of ordinary shares in circulation during the period (shares of stock) <b>(diluted)</b>	5,511,854	5,511,854
<b>Undiluted earnings per share in €</b>	<b>1.89</b>	<b>1.50</b>
<b>Diluted earnings per share in €</b>	<b>1.89</b>	<b>1.50</b>

## NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### 20. Fixed Assets

Fixed assets include the following balance sheet items in the statement of financial position:

- Goodwill
- Intangible assets
- Property, plant and equipment
- Investment property
- Investments accounted for using the equity method
- 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 Höhle 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:

	2016/2017	2015/2016
	in T€	in T€
Dr. Höhle AG	5,850	5,850
Eltosch Grafix GmbH	2,495	2,495
PrintConcept GmbH	460	460
UV-Technik Speziallampen GmbH	367	367
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

Höhle reviews 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 recoverable amount for cash-generating units was determined on the basis of the value in use.

The value in use 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 3.0 % and 10.3 % 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 5.1 %.

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 Hönle Group's goodwill is attributable to the companies, Raesch Quarz (Germany) GmbH and Raesch Quarz (Malta) Ltd., both of which were acquired on 1 January 2012.

Raesch Quarz (Germany) GmbH succeeded in increasing its sales revenues significantly in financial year 2016/2017 compared to the previous year. Due to this positive development and the acquisition of a glass lathe in financial year 2016/2017, sales revenues are expected to rise by 11.7 % in the 2017/2018 financial year. An average sales increase of 10.3 % p.a. up to financial year 2021/2022 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 4.0 % in financial year 2017/2018. An average sales growth rate of 3.7 % is planned for the financial years up to 2021/2022.

A rise in sales revenues of 5.4 % is expected for Dr. Hönle AG in financial year 2017/2018 with an average sales increase of 3.5 % p.a. up to financial year 2021/2022.

Eltosch Grafix GmbH sales in the financial year 2017/2018 are expected to be on par with the previous year and an average sales increase of 3.9 % p.a. is projected up to financial year 2021/2022.

After the end of 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 values in use of the cash generating units were determined using the segment-specific capital cost rates before income taxes. They were as follows: 7.25 % for Dr. Hönle AG, 7.45 % PrintConcept GmbH, 7.59 % for Eltosch Grafix GmbH, 7.41 % for UV- Technik Speziallampen GmbH, 8.24 % for Raesch Quarz (Germany) GmbH and 10.30 % for Raesch Quarz (Malta) Ltd. The discount rates before taxes used in the prior year ranged between 5.91 % and 8.87 %.

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 values in use 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 increase in prices.

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 development.

### Intangible Assets

The development of other intangible assets in financial years 2016/2017 and 2015/2016 is as follows:

	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
	in T€	in T€	in T€	in T€	in T€	in T€
<b>Acquisition and production costs as at 01/10/2016</b>	<b>4,094</b>	<b>2,437</b>	<b>1,122</b>	<b>770</b>	<b>533</b>	<b>8,956</b>
Additions	-	74	7	-	199	279
Disposals	-	20	1	-	-	21
Reclassifications	-	-	-	-	-	-
Currency parities	-	-1	-	-	-	-1
<b>As at 30/09/2017</b>	<b>4,094</b>	<b>2,490</b>	<b>1,128</b>	<b>770</b>	<b>732</b>	<b>9,214</b>
<b>Amortisation as at 01/10/2016</b>	<b>2,342</b>	<b>2,343</b>	<b>763</b>	<b>604</b>	-	<b>6,052</b>
Additions	367	88	63	15	-	534
Disposals	-	20	1	-	-	21
Reclassifications	-	-	-	-	-	-
Currency parities	-	1	-	-	-	1
<b>As at 30/09/2017</b>	<b>2,709</b>	<b>2,412</b>	<b>825</b>	<b>619</b>	-	<b>6,566</b>
<b>Net carrying amount as at 30/09/2017</b>	<b>1,385</b>	<b>78</b>	<b>303</b>	<b>151</b>	<b>732</b>	<b>2,649</b>

	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
	in T€	in T€	in T€	in T€	in T€	in T€
<b>Acquisition and production costs as at 01/10/2015</b>	<b>4,094</b>	<b>2,245</b>	<b>1,025</b>	<b>770</b>	<b>406</b>	<b>8,540</b>
Additions	-	169	104	-	127	400
Disposals	-	3	-	-	-	3
Reclassifications	-	26	-7	-	-	19
Currency parities	-	1	-	-	-	1
<b>As at 30/09/2016</b>	<b>4,094</b>	<b>2,437</b>	<b>1,122</b>	<b>770</b>	<b>533</b>	<b>8,956</b>
<b>Amortisation as at 01/10/2015</b>	<b>1,969</b>	<b>2,245</b>	<b>686</b>	<b>589</b>	<b>-</b>	<b>5,489</b>
Additions	373	101	77	15	-	566
Disposals	-	3	-	-	-	3
Reclassifications	-	-	-	-	-	-
Currency parities	-	-	-	-	-	-
<b>As at 30/09/2016</b>	<b>2,342</b>	<b>2,343</b>	<b>763</b>	<b>604</b>	<b>-</b>	<b>6,052</b>
<b>Net carrying amount as at 30/09/2016</b>	<b>1,752</b>	<b>95</b>	<b>359</b>	<b>166</b>	<b>533</b>	<b>2,905</b>

Within the course of the corporate acquisitions in the financial years: 2007/2008, 2010/2011, 2011/2012, 2012/2013 and 2014/2015, brands, customer bases as well as production technologies were acquired and capitalised as intangible assets in non-current assets.

The position also includes purchased development services and subsequent acquisition costs concerning ERP software.

The intangible assets include other work performed by entity and capitalised in the amount of T€ 699 (PY: T€ 533) relating to a customer-specific development project which meets the requirements for capitalisation in accordance with IAS 38.

Intangible assets with limited useful lives are reported at acquisition or production costs and amortised according to schedule on a straight line basis over a period of 1 to 15 years, depending on the respective asset's estimated useful life. Intangible assets with a permanent useful life are reviewed for impairment at annual intervals.

## Property, Plant and Equipment

Property, plant and equipment developed as follows in the financial years 2016/2017 and 2015/2016:

	Land and buildings	Technical equipment and machinery	Other equipment, operating and business equipment	Payments on account and assets under construction	Total
	in T€	in T€	in T€	in T€	in T€
<b>Acquisition and production costs as at 01/10/2016</b>	<b>8,427</b>	<b>22,182</b>	<b>10,978</b>	<b>476</b>	<b>42,063</b>
Additions	84	2,002	1,096	1,900	5,082
Disposals	-	315	104	-	419
Reclassifications	176	1,931	89	-2,195	0
Currency parities	-69	-52	-16	-	-136
<b>As at 30/09/2017</b>	<b>8,618</b>	<b>25,748</b>	<b>12,043</b>	<b>180</b>	<b>46,589</b>
<b>Depreciation as at 01/10/2016</b>	<b>2,623</b>	<b>14,293</b>	<b>7,956</b>	<b>-</b>	<b>24,872</b>
Additions	229	1,354	781	-	2,364
Disposals	-	53	103	-	156
Reclassifications	-	-	-	-	-
Currency parities	-5	-25	-9	-	-39
<b>As at 30/09/2017</b>	<b>2,847</b>	<b>15,569</b>	<b>8,625</b>	<b>-</b>	<b>27,041</b>
<b>Net carrying amount as at 30/09/2017</b>	<b>5,771</b>	<b>10,179</b>	<b>3,418</b>	<b>180</b>	<b>19,549</b>

	Land and buildings	Technical equipment and machinery	Other equipment, operating and business equipment	Payments on account and assets under construction	Total
	in T€	in T€	in T€	in T€	in T€
<b>Acquisition and production costs as at 01/10/2015</b>	<b>9,767</b>	<b>19,033</b>	<b>10,505</b>	<b>234</b>	<b>39,539</b>
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
<b>As at 30/09/2016</b>	<b>8,427</b>	<b>22,182</b>	<b>10,978</b>	<b>476</b>	<b>42,063</b>
<b>Depreciation as at 01/10/2015</b>	<b>2,536</b>	<b>13,199</b>	<b>7,641</b>	<b>-</b>	<b>23,376</b>
Additions	256	1,213	665	-	2,134
Disposals	66	233	235	-	534
Reclassifications	-104	113	-112	-	-103
Currency parities	1	1	-3	-	-1
<b>As at 30/09/2016</b>	<b>2,623</b>	<b>14,293</b>	<b>7,956</b>	<b>-</b>	<b>24,872</b>
<b>Net carrying amount as at 30/09/2016</b>	<b>5,804</b>	<b>7,889</b>	<b>3,022</b>	<b>476</b>	<b>17,191</b>

Items of property, plant and equipment subject to wear and tear are stated at cost and subsequently measured using the acquisition cost model. They are depreciated according to schedule over the respective estimated useful life.

- *Land and Buildings*

This position discloses the group's own land and buildings. The following companies are concerned:

- 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€ 807. 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. A land charge of T€ 225 is attached to this property.

- *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 (PY: 245) as at 30 September 2017. A corresponding finance lease liability was reported on the liabilities side (cf. paragraph 32). Due to the existing lease relationships the equipment is available for use only to a limited extent.

- *Operating and Business Equipment*

The assets disclosed under this position are depreciated over their useful lives of between 1 to 39 years applying the straight line method.

### **Investment Property**

In financial year 2016/2017, 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 non-current assets stands at T€ 1,249. The investment property generated income of T€ 88 in financial year 2016/2017. Significant expenses in the context of this income generation amounted to T€ 52.

The position developed as follows:

	in T€
<b>Acquisition and production costs as at 01/10/2016</b>	<b>1,415</b>
Additions	-
Disposals	17
Reclassifications	-
<b>As at 30/09/2017</b>	<b>1,399</b>
<b>Depreciation as at 01/10/2016</b>	<b>114</b>
Additions	39
Disposals	3
Reclassifications	-
<b>As at 30/09/2017</b>	<b>150</b>
<b>Net carrying amount as at 30/09/2017</b>	<b>1,249</b>

	in T€
<b>Acquisition and production costs as at 01/10/2015</b>	-
Reclassifications	1,415
<b>As of 30/09/2016</b>	<b>1,415</b>
<b>Depreciation as at 01/10/2015</b>	-
Additions	10
Reclassifications	104
<b>As at 30/09/2016</b>	<b>114</b>
<b>Net carrying amount as at 30/09/2016</b>	<b>1,301</b>

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

## Financial Assets

This position includes shares in affiliated companies in the amount of T€ 27 (PY: T€ 32) which mainly relate to the 100 % investment in Solitec GmbH. The 20 % investment in PrintDesign Engineering GmbH was written off at 100 % in financial year 2016/2017 due to the liquidation of the company. Solitec GmbH is not included in the consolidated group due to its minor importance for the group.

## 21. Other Non-Current Assets

	30/09/2017 in T€	30/09/2016 in T€
Loans granted to related parties	0	30
Asset values, pension liability insurance	1,012	850
Other	27	22
	<b>1,039</b>	<b>902</b>

With respect to loans extended to related parties reference is made to paragraph 48.

## 22. Investments Accounted for Using the Equity Method

This position includes the balance sheet values 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 came to T€ 27 (PY: T€ 37) as at 30 September 2017.

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€	2016/2017	2015/2016	2016/2017	2015/2016
Ownership share in %	35%	35%	30%	30%
Non-current assets	0	0	15	22
Current assets	198	124	109	119
Non-current liabilities	0	0	131	160
Current liabilities	206	145	104	81
Net assets	-8	-21	-111	-100
Shares held by the group in the associated company	0	0	-34	-30
Elimination of non-realised profits	0	0	-1	-4
plus existing hidden reserves	0	0	62	71
Carrying amount of the at-equity value in the associated company	0	0	27	37
Revenue	326	281	311	262
Profit from continuing operations (100%)	13	-24	-12	-19
Total profit/loss (100%)	13	-24	-12	-19
Total profit/loss (relative to the group's share)	5	-8	-4	-6

## 23. Deferred Tax Assets and Deferred Tax Liabilities

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

	30/09/2017		30/09/2016	
	Asset in T€	Liability in T€	Asset in T€	Liability in T€
Non-current assets	210	316	215	302
Current assets	31	3	9	4
Provisions	987	6	1,201	1
Liabilities	95	357	128	370
Tax losses carried forward	1,445	0	1,534	0
- deferred taxes on losses	2,265	0	1,938	0
- value adjustments	-820	0	-404	0
Consolidation effect	148	604	100	692
Total	2,916	1,286	3,187	1,369

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: Panacol AG, Honle UV Technology (Shanghai) Trading Ltd., SKC-Panacol Co., Ltd. and Raesch Quarz (Germany) GmbH report tax losses carried forward as of 30 September 2017.

Value estimates are made on the basis of annual budget accounting from which predictions on the use of future tax losses can be derived. Only those losses are stated that are expected to be used within a period of five years.

Deferred tax assets from losses carried forward in the amount of T€ 1,338 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 are structured as follows:

	30/09/2017 in T€	30/09/2016 in T€
Raw materials and supplies incl. descriptive material (at acquisition costs)	17,702	16,109
<i>less depreciation</i>	934	992
	16,768	15,117
Work in progress (at acquisition or manufacturing costs)	399	318
<i>less depreciation</i>	0	0
	399	318
Finished goods and merchandise (at acquisition or manufacturing costs)	13,375	12,337
<i>less depreciation</i>	517	394
	12,858	11,943
Prepayments made	49	37
	30,073	27,415

The carrying amount of inventories stated at net sales prices (fair value) amounts to T€ 1,083 (PY: T€ 895). In the 2016/2017 reporting period, inventories in the amount of T€ 36,627 (PY: T€ 35,045) were booked under cost of materials and income of T€ 152 (PY: T€ 78 expense) was reported as impairment gain on 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

	30/09/2017 in T€	30/09/2016 in T€
Total trade receivables	18,483	13,576
<i>less value adjustments</i>	524	500
	17,959	13,076

The trade receivables are structured as follows:

The value adjustments include both individual value adjustments and general valuation allowances. The general valuation adjustment amounts to T€ 242 (PY: T€ 142) at the end of the current financial year.

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 on trade accounts receivable developed as follows:

	2016/2017 in T€	2015/2016 in T€
As at 01/10	358	423
Change in the consolidated group		
- Utilisation	-64	-88
- Release - (without utilisation)	-29	-11
- Addition	17	33
- Exchange rate differences	0	0
As at 30/09	282	358

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

The position mainly consists of loan receivables in the amount of T€ 132 (PY: T€ 159) vis à vis Meta-morphic Materials Inc. and in the amount of T€ 67 (PY: T€ 50) vis à vis TECINVENT GmbH.



## 27. Other Current Assets

	30/09/2017	30/09/2016
	in T€	in T€
Prepaid expenses	381	413
Other current assets	1,453	1,590
	1,834	2,003

	30/09/2017	30/09/2016
	in T€	in T€
Receivables from related parties	30	51
Value added tax	556	754
Receivables from employees	102	97
Other	765	688
	1,453	1,590

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 48. The position "Other" includes creditors with debit balances in the amount of T€ 46 (PY: T€ 86). The disclosed other assets are not subject to ownership restrictions or restraints on disposal.

## 28. Current Tax Assets

Tax refund claims consist of the following:

	30/09/2017	30/09/2016
	in T€	in T€
Dr. Hönle AG	244	448
PrintConcept GmbH	19	78
Eltosch Grafix GmbH	69	15
Eltosch Grafix America Inc.	103	0
Panacol AG	29	9
Panacol-Elosol GmbH	95	0
Aladin GmbH	102	34
Raesch Quarz (Germany) GmbH	1	1
Tangent Industries, Inc.	59	62
	721	648

The current tax assets include receivables of T€ 1 (PY: T€ 21) resulting from the capitalised claim for payment of a corporation tax credit pursuant to Section 37 German Corporation Tax Act n.v. [KStG n.v.], concerning Raesch Quarz (Germany) GmbH.

## 29. Cash and Cash Equivalents

Cash and cash equivalents 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 cash and cash equivalents are not subject to disposal restrictions.

Bank credit balances are held with various banks at credit interest rates of approximately 0.19 % to 1.0 % per year.

### 30. Shareholders' Equity

#### Equity Capital Management

In addition to achieving adequate interest on the equity capital utilised, the Hönle 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.

The shareholders' equity rose by T€ 8,109 to T€ 69,778 year-on-year and the equity capital ratio increased from 65.4 % to 68.2%.

With respect to changes in shareholders' equity in financial year 2016/2017 reference is made to the Statement of Changes in Consolidated Equity.

The bank loans received are associated with minimum requirements concerning economic equity capital (bank definition) and net debt (bank definition). All external minimum capital requirements were met in financial year 2016/2017. 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:

	30/09/2017 Shares of stock	30/09/2016 Shares of stock
Number of shares issued	5,512,930	5,512,930
less own shares	1,076	1,076
<b>Shares in circulation</b>	<b>5,511,854</b>	<b>5,511,854</b>

#### Own Shares (Treasury Stock)

The shareholders' meetings held in previous years authorised Dr. Hönle 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. Hönle 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. Hönle AG did not make use of the authorisation in financial year 2016/2017.

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 30/09/2016	Change	As at 30/09/2017
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 € 35.26 as at the balance sheet date.

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

## **Capital Reserves**

Capital reserves include 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. Unless distributed, the respective result for the year is transferred to retained earnings.

### **Reserve for Derivative Financial Instruments**

This reserve includes changes in the fair value of effective hedging transactions after accounting for deferred taxes. As of 30 September 2017, the reserve amounted to T€ 34 (PY: T€ 70) after deferred taxes.

### **Reserve for Actuarial Gains and Losses on Defined Benefit Pension Plans**

The reserve for actuarial gains and losses on defined benefit pension plans 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 Currency Translation 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 2018 that a dividend amounting to € 0.60 per share be paid out for financial year 2016/2017. This translates into the amount of T€ 3,307. In the preceding financial year, an amount of € 0.55 per share was paid out, which corresponds to the amount of 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, up to 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 the subsidiaries in which non-controlling interests are reported:

#### Financial year 2016/2017

in T€	Aladin	Eleco	UV Technik	SKC	Total
Non-controlling interests in %	40%	0,04%	19%	49%	
Non-current assets	565	1,092	2,022	85	3,764
Current assets	2,369	2,978	2,609	305	8,261
Non-current liabilities	6	268	364	0	638
Current liabilities	322	2,348	774	6	3,449
Net assets	2,606	1,454	3,494	384	7,938
<b>Carrying amount of non-controlling interests</b>	<b>1,043</b>	<b>1</b>	<b>664</b>	<b>190</b>	<b>1,898</b>
Revenue	3,626	8,216	5,744	83	17,670
Profit	14	604	510	-237	891
Other comprehensive income	0	33	8	0	42
Total comprehensive income	14	638	518	-237	933
Profit attributable to non-controlling interests	6	0	97	-116	-13
Other comprehensive income attributable to non-controlling interests	0	0	2	0	2
Dividends paid to non-controlling shareholders	0	0	0	0	0
Cash flow from operating activities	-12	666	623	-255	1,022
Cash flow from investing activities	-194	-60	-209	0	-463
Cash flow from financing activities	247	-620	-334	239	-468
Net increase (-decrease) in cash and cash equivalents	42	-14	80	-16	92

**Financial year 2015/2016**

<b>in T€</b>	<b>Aladin</b>	<b>Eleco</b>	<b>UV Technik</b>	<b>SKC</b>	<b>Total</b>
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
Non-current liabilities	5	308	360	0	673
Current liabilities	415	2,163	996	6	3,579
Net assets	2,593	1,416	2,975	425	7,409
<b>Carrying amount of non-controlling interests</b>	<b>1,037</b>	<b>-1</b>	<b>564</b>	<b>191</b>	<b>1,792</b>
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
Profit 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 increase (-decrease) in cash and cash equivalents	-72	47	27	-70	-68

### 31. Non-Current Loans (less current portion)

The position includes the non-current portion of the following bank loans:

	Loan amount in T€	Effective interest rate	Term until	Repayment p.a. in T€	Carrying amount in T€
Loan Dr. Hönle AG	494	1.65%	30/01/2025	50	365
Loan Dr. Hönle AG	700	2.90%	31/08/2023	69	442
Loan Dr. Hönle AG	400	1.69%	30/06/2022	50	237
Loan Dr. Hönle AG	3,500	2.29%	31/03/2021	500	1,750
Loan Dr. Hönle AG	205	2.15%	31/03/2019	51	77
Loan Dr. Hönle AG	4,500	2.64%	29/12/2017	900	225
Loan Dr. Hönle AG	350	0.85%	31/05/2022	83	333
Loan Dr. Hönle AG	340	1.50%	30/12/2022	50	264
Loan Dr. Hönle AG	878	1.90%	31/12/2018	67	76
Loan Dr. Hönle AG	300	0.70%	31/03/2022	75	285
Loan Dr. Hönle AG	1,500	0.90%	30/06/2023	222	1,278
Loan UV-Technik GmbH	221	5.50%	30/06/2019	24	43
Loan UV-Technik GmbH	300	6.25%	31/07/2019	33	61
Loan Raesch Quarz (G.) GmbH	2,000	1.65%	31/03/2019	625	875
Loan Raesch Quarz (G.) GmbH	500	1.25%	31/12/2018	50	75
Loan Raesch Quarz (G.) GmbH	1,000	1.74%	30/06/2022	240	952
Loan Raesch Quarz (G.) GmbH	500	1.40%	30/10/2020	188	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 swap T€	Collateral
Loan Dr. Hönle AG	50	315	no	Land charge
Loan Dr. Hönle AG	69	373	no	Land charge
Loan Dr. Hönle AG	50	187	400	none
Loan Dr. Hönle AG	500	1,250	3,500	none
Loan Dr. Hönle AG	51	26	no	Transfer of title
Loan Dr. Hönle AG	225	0	4,500	Land charge
Loan Dr. Hönle AG	83	250	no	none
Loan Dr. Hönle AG	50	214	no	none
Loan Dr. Hönle AG	67	9	no	Guaranty
Loan Dr. Hönle AG	222	1,056	no	none
Loan Dr. Hönle AG	75	210	no	none
Loan UV-Technik GmbH	24	19	no	none
Loan UV-Technik GmbH	33	28	no	none
Loan Raesch Quarz (G.) GmbH	625	250	no	Guaranty Dr. Hönle AG
Loan Raesch Quarz (G.) GmbH	50	25	no	Guaranty, land charge
Loan Raesch Quarz (G.) GmbH	240	712	no	Guaranty Dr. Hönle AG
Loan Raesch Quarz (G.) GmbH	188	312	no	Guaranty Dr. Hönle AG

### 32. 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 non-current finance lease obligations.

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

As at 30/09/2017	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	55	196	12
Interest portion (included in present value)	5	8	0

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

### 33. Other Non-Current Liabilities

This position includes the market value of derivatives amounting to T€ 45 (PY: T€ 93) and purchase price liabilities from written put options in the amount of T€ 181 (PY: T€ 208). The position also includes loan liabilities in the amount of T€ 199 (PY: T€ 236).

### 34. Pensions Provisions

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

Pension provisions 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.

The pension provisions concern pension commitments to employees of group companies in Germany and to employees of the French subsidiaries.

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

	30/09/2017 in T€	30/09/2016 in T€
Present value of pension obligations at the beginning of the year	8,051	5,827
plus service costs	615	486
plus interest costs	108	139
plus / net of actuarial gains / losses	-1,043	1,660
net of pension payments	-142	-61
<b>Value of pension obligations at year-end</b>	<b>7,589</b>	<b>8,051</b>

Payments of T€ 85 are expected to be made in the 2017/2018 financial year with respect to the above pension obligations.

The company assumes that the pension obligation in the amount of T€ 7,504 (PY: T€ 7,990) will be settled after more than 12 months.

Actuarial gains and losses arising in financial year 2016/2017 were transferred to or netted with equity with neutral effect on profit or loss, leading to the stated change in pension provisions with neutral effect on profit/loss.

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

	30/09/2017	30/09/2016	30/09/2015
Discounting rate	2.00%	1.35%	2.40%
Income from fund assets	2.00%	1.35%	2.40%
Growth rate of pension payments	2.00%	2.00%	2.00%

The pensions obligation recognized is covered by plan assets of T€ 1,983 (PY: T€ 1,523) in the form of independently managed funds.

Sensitivity analyses carried out within the scope of the actuarial expert opinions as of 30/09/2017 arrived at the following results concerning the pension obligations:

Amount of the pension obligation after a change in the parameter	in T€	
Discounting rate	+0.5%	6,829
Discounting rate	-0.5%	8,472

Amount of the pension obligation after a change in the parameter	in T€	
Growth rate of pension payments	+0.25%	7,855
Growth rate of pension payments	-0.25%	7,337

Amount of the pension obligation after a change in the parameter	in T€	
Life expectancy	+10.00%	7,805



The sensitivity analyses above were performed using an actuarial procedure which extrapolates the impact of realistic changes of the major assumptions at the end of the reporting period to the obligation arising from the defined benefit plan.

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 2016/2017:

	30/09/2017 in T€	30/09/2016 in T€
Fair value of plan assets at the beginning of the year	1,523	1,260
Expected return on plan assets	22	33
Employer contributions paid	485	247
Benefits paid	0	-10
plus/net of actuarial gains/losses	52	-7
Other	-99	0
<b>Fair value of plan assets at year-end</b>	<b>1,983</b>	<b>1,523</b>

The expected total return on plan assets is calculated based on 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 2017/2018 is as follows:

	30/09/2018 in T€
Fair value of plan assets at the beginning of the year	1,983
Expected return on plan assets	45
Employer contributions paid	484
<b>Fair value of plan assets at year-end</b>	<b>2,511</b>

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

	2016/2017 in T€	2015/2016 in T€
Current service costs	615	486
Interest costs	108	139
Return on plan assets	-22	-33
	<b>701</b>	<b>592</b>

Of the interest expense, T€ 6 (PY: T€ 4) is attributable to the pension benefits for surviving dependents of former managing directors.

The balance sheet position, "Pension provisions" saw the following movements in the reporting year:

	30/09/2017 in T€	30/09/2016 in T€
Carrying amount of pension provision at the beginning of the year	6,528	4,567
plus pension cost	701	592
net of contributions paid	-485	-247
net of payments/pension benefits	-142	-65
plus payment from fund assets	99	0
Changes with neutral effect on profit/loss	-1,094	1,681
thereof from adjusted historical values	45	52
thereof from biometric assumptions	0	1
thereof from financial assumptions	-1,140	1,628
<b>Carrying amount of pension provision at year-end</b>	<b>5,606</b>	<b>6,528</b>

With respect to pension obligations concerning current or former board members and managing directors, reference is made to paragraph 49.

### 35. Accrued Public Investment Grants

	2016/2017 in T€	2015/2016 in T€
As at 1 October 2016	465	533
Recognised/released through profit/loss	-67	-68
As at 30 September 2017	398	465

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.

### 36. 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€ 5,263 (PY: T€ 4,917). 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 (PY: T€ 57) vis à vis the Supervisory Board Chairman, Prof. Dr. Karl Hönle.

### 37. 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 excluding VAT.

### 38. Current Liabilities to Banks and Current Portion of Non-Current Loans

Liabilities to banks are stated at the respective settlement amounts.

Short-term liabilities to banks amounted to T€ 4,343 (PY: T€ 2,996) at the end of the reporting period. With respect to the structure of the loans included reference is made to paragraph 31. In addition, this position includes short-term loan facilities drawn down in the amount of T€ 1,741 (PY: T€ 193).

The current account credit lines granted by banks totalled T€ 6,622 (PY: T€ 3,160) as at 30 September. 2017. If utilised, they would be subject to regular market interest rates. Of the total, the amount of T€ 1,719 (PY: T€ 584) is utilised through overdraft facilities.

### 39. Other Current Liabilities

	30/09/2017 in T€	30/09/2016 in T€
Wage tax and VAT	530	859
Social security contributions	437	394
Profit sharing bonus and other bonuses	1,815	1,343
Christmas bonus	926	821
Holidays not taken	508	466
Flexi-time surpluses	619	448
Other personnel-related liabilities	419	583
Other	586	619
	5,840	5,533

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 companies included in the consolidated group.

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€ 60).

#### 40. Other Provisions

Other provisions developed as follows:

	01/10/2016 in T€	Utilisation in T€	Release in T€	Addition in T€	30/09/2017 in T€
<b>Contractual obligations vis à vis third parties:</b>					
Warranties and guaranties	364	11	4	42	391
Obligations from rental agreements	119	1	0	24	142
<b>Total</b>	<b>483</b>	<b>12</b>	<b>4</b>	<b>66</b>	<b>533</b>

Provisions 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 provision 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:

	30/09/2017 in %	30/09/2016 in %
In the following year	79	80
In the following 2 - 5 years	6	6
In the following 6 - 10 years	16	14
	<b>100</b>	<b>100</b>

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

#### 41. Current Tax Liabilities

Current tax liabilities 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

### 42. Contingent Liabilities

Beyond the existing obligations which are covered by provisions, there are no significant obligations that would depend on future uncontrollable events.

No guaranties were extended to parties outside the group.

### 43. Contingent Receivables

There are no contingent receivables as defined under IAS 37.

### 44. Other Financial Obligations

Other financial obligations of the group are as follows:

As at 30/09/2017	due within 1 year	due in 1 to 5 years	due in more than 5 years	Total obligation
	in T€	in T€	in T€	in T€
Equipment lease agreements	124	426	10	560
Room rental contracts	2,454	5,662	53	8,169
Vehicle lease agreements	541	600	0	1,141
Order commitments	6,933	0	0	6,933
	10,052	6,688	63	16,803

As at 30/09/2016	due within 1 year	due in 1 to 5 years	due in more than 5 years	Total obligation
	in T€	in T€	in T€	in T€
Equipment lease agreements	97	32	0	129
Room rental contracts	2,070	5,783	43	7,896
Vehicle lease agreements	463	499	0	962
Order commitments	4,761	0	0	4,761
	7,391	6,314	43	13,748

### 45. Management of Financial Risks

#### Risk Management Principles

Within the scope of its operative activities, the Höhle Group is exposed to risks which are 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 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 classified as liquidity, credit, and market risks.

### **Liquidity risks**

Basically, liquidity risks relate to the risk that the Höhle Group might not be in a position to meet its obligations in the context of financial liabilities.

One of the Höhle Group's management objectives is a sustained increase in the operative cash flow. In this context, the liquidity situation is permanently and intensively monitored. The Dr. Höhle AG Management Board is informed at weekly intervals about the group's liquidity situation. In particular, utilisation of the cash pooling account by Höhle Group subsidiaries is monitored and the Management Board is informed accordingly on a weekly basis by the Accounting Department. Moreover, all account balances of Höhle 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 Höhle 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 Höhle Group at present.

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

As at 30/09/2017	Residual term up to 1 year		Residual term 1 to 5 years		Residual term more than 5 years		Total amount	
	Inter-est in T€	Repay-ment in T€	Inter-est in T€	Repay-ment in T€	Inter-est in T€	Repay-ment in T€	Inter-est in T€	Repay-ment in T€
Liabilities to banks	114	4,343	157	4,867	4	369	275	9,579
Trade accounts payable	0	5,263	0	0	0	0	0	5,263
Financing lease	5	50	8	188	0	12	13	250
Liabilities to companies in which an equity investment is held	0	3	0	0	0	0	0	3
Other financial liabilities	4	5,674	49	326	4	99	57	6,100
<b>Total</b>	<b>123</b>	<b>15,333</b>	<b>214</b>	<b>5,381</b>	<b>8</b>	<b>480</b>	<b>345</b>	<b>21,195</b>

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	
	Inter- est in T€	Repay- ment in T€	Inter- est in T€	Repay- ment in T€	Inter- est in T€	Repay- ment in T€	Inter- est in T€	Repay- ment 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
<b>Total</b>	<b>164</b>	<b>12,646</b>	<b>232</b>	<b>6,115</b>	<b>12</b>	<b>653</b>	<b>409</b>	<b>19,414</b>

### **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€ 2,295 (PY: T€ 2,105) were due in less than 90 days as at 30 September 2017, which corresponds to 12.6 % (PY: 16.1 %) of the total amount of receivables outstanding. In all, T€ 356 or 2.0 %, (PY: T€ 203 or 1.6 %) and T€ 328 or 1.8 %, (PY: T€ 100 or 0.8 %) 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. Hönle 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 account receivables as low. This assessment is supported by the fact that Hönle 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 30/09/2017)	net  in T€	thereof not yet due	thereof overdue but not value-adjusted		
		in T€	< 90 days in T€	90 to 180 days in T€	>180 days in T€
Trade accounts receivable (net of individual value adjust- ments)	18,207	15,228	2,295	356	328

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

The Hönle 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 Hönle 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, 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, relative to the British pound, the euro had been stronger by 10 %, the consolidated result would have improved by T€ 1.5 (PY: T€ 0.4). A respective weakening of the euro would have led to a decrease in the consolidated result by T€ 1.8 (PY: T€ 0.5).

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€ 89 (PY: T€ 17) whereas a 10 % weakening would have improved earnings by T€ 109 (PY: T€ 21).

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€ 16 (PY: T€ 5). A corresponding weakening of the euro in comparison with the Chinese renminbi would have led to a decrease in the consolidated result by T€ 19 (PY: T€ 6).

## Interest Rate Risks

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

In the 2016/2017 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 the context of the sale of assets of the former Grafix GmbH in financial year 2012/2013, Dr. Hönle AG took out a loan in the amount of T€ 4,500 involving a 5-year term and running until 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 interest rate swap has a term of five years (from 28 March 2013 to 29 December 2017). The effective fixed interest rate is 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 was 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 was 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 involving a term of five years (from 30 March 2012 to 31 March 2017) served as hedging transaction. The resulting effective fixed interest rate was 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€ 48 (PY: T€ 15) were recognized directly in equity under the reserve for hedging transactions, taking deferred taxes of T€ -12 (PY: T€ -4) 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€ 35 (PY: T€ 4), assuming that the average negative balance on current accounts corresponds to the value of T€ 1,741 (PY: T€ 193) at the end of the 2016/2017 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 30/09/2017	Measurement category pursuant to IAS 39	Amortised costs in T€	Fair value with neutral effect on profit/loss in T€
Equity investments	AfS	27	0
Other non-current assets	LaR	27	0
Trade accounts receivable	LaR	17,960	0
Other current assets	LaR	1,475	0
Liquid assets	LaR	5,217	0
<b>Total</b>		<b>24,705</b>	<b>0</b>
Liabilities to banks	FLAC	9,579	0
Trade accounts payable	FLAC	5,266	0
Other non-current financial liabilities	FLAC	580	0
Other current financial liabilities	FLAC	5,724	0
Derivatives in connection with effective CF hedge	CF-Hedge	0	45
<b>Total</b>		<b>21,149</b>	<b>45</b>
<b>thereof aggregated pursuant to IAS 39 measurement categories</b>			
Loans and receivables (LaR)		24,678	0
Available-for-sale financial assets (AfS)		27	0
Financial liabilities measured at amortised cost (FLAC)		21,149	0
Amount of impairments recorded under profit/loss		-189	0
Net profit/loss			48
Total interest expense		-270	0
Total interest income		37	0

Carrying amounts as at 30/09/2016	Measurement category pursuant to IAS 39	Amortised costs in T€	Fair value with neutral effect on profit/loss 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
<b>Total</b>		<b>21,138</b>	<b>0</b>
Liabilities to banks	FLAC	9,040	0
Trade accounts payable	FLAC	4,917	0
Other non-current financial liabilities	FLAC	631	0
Other current financial liabilities	FLAC	4,733	0
Derivatives in connection with effective CF hedge	CF-Hedge	0	93
<b>Total</b>		<b>19,321</b>	<b>93</b>

**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

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 2017 balance sheet date.

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

Non-current financial liabilities include fixed-interest bearing liabilities and liabilities with floating interest rates as well as recognised leasing liabilities. The measurement of non-current 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 2017, 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 swaps in connection with effective CF hedge	30/09/2017	45	-	45	-
Interest rate swaps in connection with effective CF hedge	30/09/2016	93	-	93	-

#### 46. 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€ 12,146 (PY: T€ 13,126). It results from the consolidated net income for the year before non-controlling interests and taxes of T€ 14,877 (PY: T€ 12,050) and largely from adjustments relating to non-cash effects and financial results in the amount of T€ 3,495 (PY: T€ 2,909) and changes in net working capital. The position of other non-cash expenses and income mainly includes depreciation/amortisation of property, plant and equipment and intangible assets.

Cash used for investing activities results mainly from investments in property, plant and equipment and intangible assets in the amount of T€ 5,361 (PY: T€ 4,980).

The dividend distribution for financial year 2016/2017 in the amount of T€ 3,032 (PY: T€ 3,032) is to be mentioned within the scope of financing activities. Together with the repayment of liabilities to banks in the financial year 2016/2017 and leasing liabilities of T€ 2,819 (PY: T€ 2,841), they constitute the major outflows of cash used in the context of financing activities. Loans in the amount of T€ 3,348 (PY: T€ 1,153) taken out, in particular, for the financing of a new glass lathe represent the major cash flow from financing activities.

In all, liquid assets decreased from T€ 6,516 to T€ 5,217 in the financial year 2016/2017.

## 47. 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 Reporting for Financial Year 2016/2017

	Equipment /Systems	Adhesives	Glass /Lamps	Total	Eliminations	Consolidated
	2016/2017 in T€	2016/2017 in T€	2016/2017 in T€	2016/2017 in T€	2016/2017 in T€	2016/2017 in T€
<b>Sales revenues:</b>						
External customers:	51,307	29,541	21,078	101,926	0	101,926
Sales with other business units	1,109	424	2,070	3,603	-3.603	0
Total sales	52,416	29,965	23,148	105,529	-3.603	101,926
<b>RESULT:</b>						
<b>Segment result (operating result)</b>	<b>5,242</b>	<b>9,190</b>	<b>775</b>	<b>15,207</b>	<b>0</b>	<b>15,207</b>
Interest income	193	45	57	295	-258	37
Interest expenses	388	33	313	734	-377	357
Profit/loss from investments accounted for using the equity method				-5		-5
Write-downs of financial assets				5		5
<b>Earnings before taxes and non- controlling interests</b>						<b>14,877</b>
Income taxes	1,451	2,761	351	4,563	0	4,563
Deferred taxes	-17	-56	110	37	-136	-100
<b>Earnings before non-controlling interests</b>						<b>10,414</b>
<b>OTHER INFORMATION</b>						
Segment assets:	<b>58,111</b>	<b>21,770</b>	<b>29,543</b>	<b>109,424</b>	<b>-11.848</b>	<b>97,576</b>
Non-allocated assets:						
Investments accounted for using the equity method				27		27
Financial assets				27		27
Non-current receivables				1,039		1,039
Current tax assets				721		721
Deferred tax assets				2,916		2,916
<b>Consolidated assets</b>						<b>102,306</b>
<b>Segment debt</b>	<b>24,047</b>	<b>5,927</b>	<b>24,456</b>	<b>54,430</b>	<b>-30.475</b>	<b>23,955</b>
Deferred tax liabilities				1,286		1,286
Current tax liabilities				1,852		1,852
Non-current loans				5,435		5,435
<b>Consolidated liabilities (short- and long-term)</b>						<b>32,528</b>
<b>Investments:</b>	<b>1,139</b>	<b>843</b>	<b>3,380</b>	<b>5,362</b>	<b>-1</b>	<b>5,361</b>
<b>Segment write-downs</b>	<b>1,090</b>	<b>599</b>	<b>1,248</b>	<b>2,937</b>	<b>0</b>	<b>2,937</b>
<b>Non-cash expenses of the segment</b>	<b>80</b>	<b>8</b>	<b>91</b>	<b>179</b>	<b>0</b>	<b>179</b>

# Segment Reporting for Financial Year 2015/2016

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



## 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:

	2016/2017 in T€	2015/2016 in T€
Total sales revenues	101,926	93,415
Germany	36,501	34,771
Other countries	65,425	58,644

Sales revenues of T€ 9,622, corresponding to a share of 9.4 % in total sales were earned in France in financial year 2016/2017 and sales revenues of T€ 9,569, also corresponding to a share of 9.40 % in total sales, were generated in the U.S.

Non-current assets are allocated as follow:

Germany:	T€ 30,859 (PY: T€ 29,063)
Other countries:	T€ 11,190 (PY: T€ 11,192)

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 non-current and current obligations. Non-cash segment expenses relate to changes in pension provisions and other provisions.

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.

## 48. 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. Hönle 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 49.

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. Hönle 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€ 30 (PY: T€ 81) as at 30 September 2017. The current portion in the amount of T€ 30 (PY: T€ 51), is disclosed under "Other current assets" (cf. paragraph 27). The interest income (cf. paragraph 13) in the amount of T€ 3 (PY: T€ 5) results from the agreed annual interest rate of 4.5 %.

The loan is collateralised by an absolute guarantee in the same amount extended by Prof. Dr. Hönle.

See also paragraphs 13, 21, 27.

## **49. Disclosures regarding Corporate Bodies**

### ***Management Board***

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

Heiko Runge, Diplom-Ingenieur (FH), CTO, Sales, Marketing, Public Relations, Technology

The company is represented by the two Management Board members who are authorised to represent the company alone.

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 2016/2017 amounted to:

Mr Norbert Haimerl	T€ 561 (PY: T€ 504)
Mr Heiko Runge	T€ 548 (PY: T€ 493)

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, the success and future outlook of the company as well as the standard remuneration practice, taking the comparable environment and the company's general remuneration structure into account. The Supervisory Board regularly reviews the structure and amount of the Management Board remuneration.

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)**

in T€	Salary		Other remuneration		Total	
	2016/2017	2015/2016	2016/2017	2015/2016	2016/2017	2015/2016
Norbert Haimerl	265	232	26	25	291	256
Heiko Runge	264	231	14	14	278	245
<b>Total</b>	<b>529</b>	<b>463</b>	<b>40</b>	<b>39</b>	<b>569</b>	<b>502</b>

**Performance-based remuneration**

in T€	Profit sharing bonuses	
	2016/2017	2015/2016
Norbert Haimerl	270	248
Heiko Runge	270	248
<b>Total</b>	<b>540</b>	<b>496</b>

**Pensions**

in T€	Pension expenses pursuant to IAS 19	
	2016/2017	2015/2016
Norbert Haimerl	251	245
Heiko Runge	219	216
<b>Total</b>	<b>470</b>	<b>461</b>

**Pensions**

in T€	Present value of defined benefit obligations	
	as at 30/09/2017	as at 30/09/2016
Norbert Haimerl	1,760	1,741
Heiko Runge	1,583	1,596
<b>Total</b>	<b>3,343</b>	<b>3,336</b>

**Benefits upon 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 payment of the remuneration including fringe benefits from the date of the early termination up to expiry of his service agreement. With respect to the pension commitments, the Management Board has a choice between a one-off payment in the amount of the value or the continuation. In this case the Management Board members are to be put in a position as though the company had fulfilled the respective pension commitments up to the termination date stipulated in the service agreement.

### **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**

	2016/2017 in T€	2015/2016 in T€
Prof. Dr. Karl Höhle	48	48
Günther Henrich	36	36
Dr. Bernhard Gimple	24	24
<b>Total</b>	<b>108</b>	<b>108</b>

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 provisions in the amount of T€ 296 (PY: T€ 337) (cf. paragraph 34). The interest expense contains a respective portion of T€ 6 (PY: T€ 4).

#### **Supervisory Board**

- Prof. Dr. Karl Höhle, Dachau - Chairman  
Physicist, Professor of Technical Optics and Laser Technology at the Munich University for Applied Sciences (emeritus status), Managing Director of Dr. Höhle Medizintechnik GmbH
- Günther Henrich, Schäftlarn – Vice Chairman  
Lawyer, independent  
Advisory Board Chairman at Pfeifer Holding GmbH & Co. KG, Memmingen (till 30/09/2017)
- Dr. Bernhard Gimple, Munich  
Lawyer, independent

Total compensation for the Supervisory Board amounted to T€ 108 (PY: T€ 108) in financial year 2016/2017.

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

## 50. Corporate Governance Compliance Declaration pursuant to Section 161 AktG

In February 2017, 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](http://www.hoenle.de)).

## 51. Annual Auditor's Fees:

The annual auditor, S&P GmbH Wirtschaftsprüfungsgesellschaft, Munich, charged the following fees for the services provided in financial year 2016/2017

in T€

Financial statements audit (individual and consolidated)	171
Tax consulting services	35
Other auditor's services	4
<b>Total</b>	<b>210</b>

## 52. Employees

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

	2016/2017	2015/2016
Sales & Marketing	88	86
Research, Development	74	66
Production, Service	262	263
Logistics	71	66
Administration	69	69
<b>Total</b>	<b>564</b>	<b>550</b>

## 53. Events after the Balance Sheet Date

Events after the balance sheet date, which impact significantly on the Hönle Group's net assets, financial position and results of operations, did not occur.

Gräfelfing, 22 December 2017

Norbert Haimerl  
Management Board

Heiko Runge  
Management Board

# Glossary of Terms

## **Aggregate Operating Performance**

The aggregate operating performance is the total of sales revenues, inventory changes and work performed by entity and capitalised.

## **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

29 January 2018

**Present Annual Report 2016/2017**

22 February 2018

**First Quarterly Statement 2017/2018**

21 March 2018

**Shareholders Meeting in Munich**

18 May 2018

**Half-Year Report 2017/2018**

10 August 2018

**Third Quarterly Statement 2017/2018**







## hönle group

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