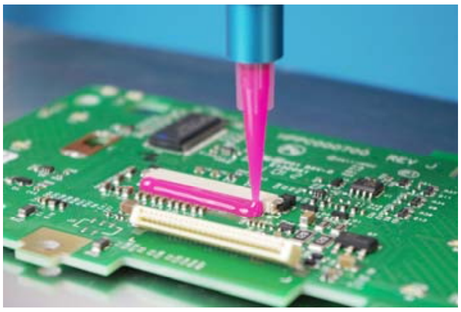
hönle group

Annual Report 2018/2019

Content

Business Segments

A d h e s i v e s



Consumer Electronics

The requirements in the electronics sector are increasing, with ever higher demands being placed on the quality and performance of computers, mobile phones and laptops. At the same time, devices and components are becoming smaller and lighter. This requires innovative adhesives that can keep up with the rapid pace of development and replace solder joints, shield components or protect them with coatings.

Automotive

Today, adhesives are used more and more frequently to replace welding, riveting or screwing work. In addition, the number of adhesive applications in automotive electronics is constantly increasing: sensors, driver assistance systems and displays must be bonded, coated or laminated. Especially in the field of e-mobility, the bonding of battery packs opens up completely new forms of application.

Optics and Opto-Electronics

Special adhesives are used for the manufacture of optoelectronic products such as optically transparent and non-yellowing adhesives used for the bonding of lens systems. Panacol products are filled with special nanoparticles which provide the advantage of not impairing the optical properties while at the same time improving enormously the mechanical properties of the adhesive.

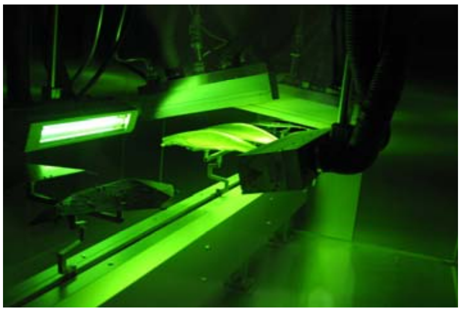
Medical Technology

Special regulations apply to medical devices. Among other things, the products must be biocompatible, have high adhesive strength and also withstand various sterilization methods. With solvent-free adhesives, medical products such as syringes, dialysis filters, blood bags or tube connections can be manufactured in a reliable process in short cycle times.

Equipment & Systems

Equipment for the printing industry

About two thirds of printed matter worldwide are produced using the offset process. Hönle 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. Hönle also offers infrared and thermal air drying systems as well as powder sprayers.



Drying of coatings

Hönle 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

UV-reactive adhesives cure quickly and reliably.
The Hönle 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, sunlight 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 makes products age in fast motion under laboratory conditions. Lighting systems are developed in the lighting technology segment for TV, trade fairs, research and other purposes.

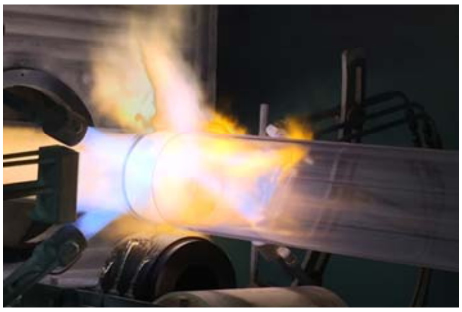
Glass & Lamps

Medium-pressure lamps

UV medium-pressure lamps are used, for example, for drying inks, paints and coatings. UV inks and paints are generally more scratch-resistant, more glossy and more durable than conventional coatings. The high quality of the UV-cured surface is a major reason for the ever-increasing spread of UV technology.

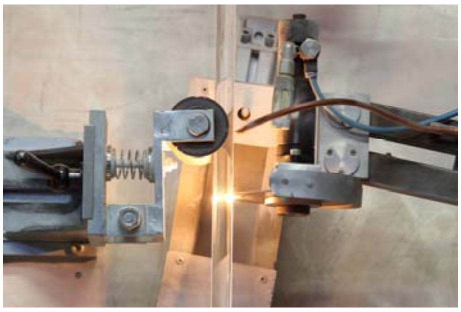
Special lamps for Life Science

UV discharge lamps are used to disinfect water and air in an environmentally friendly and cost-effective manner. Water disinfection is used for drinking water, but also for waste water treatment and the disinfection of ballast water in the shipping sector.
Hönle also develops and produces infrared lamps that are used in large-format printing machines.



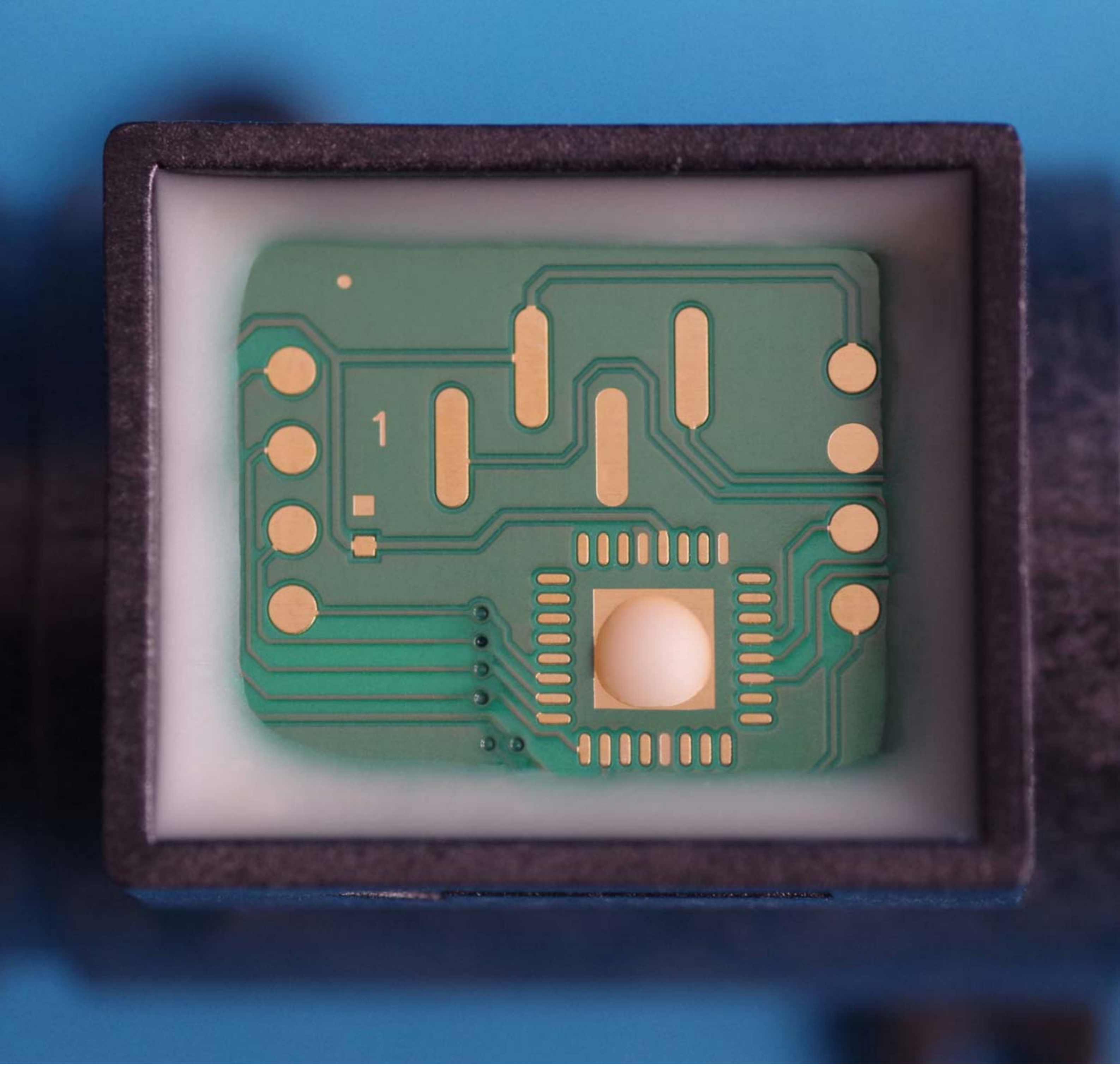
Quartz glass tubing

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



Quartz glass rods

Quartz glass rods are required in the manufacture of fibre optic cables. Fibre optic cables are mainly used in communications technology as a transmission medium and achieve higher ranges and transmission rates than electrical transmission on copper cables.



Adhesives for the electronics industry

The electronics industry is an important application area for adhesives. Panacol has developed a new biocompatible adhesive that cures quickly. Structalit 8801 is a one-component adhesive that adheres particularly well to metals, many plastics and ceramics. It is used, for example, in the production of sensors and medical technology devices.

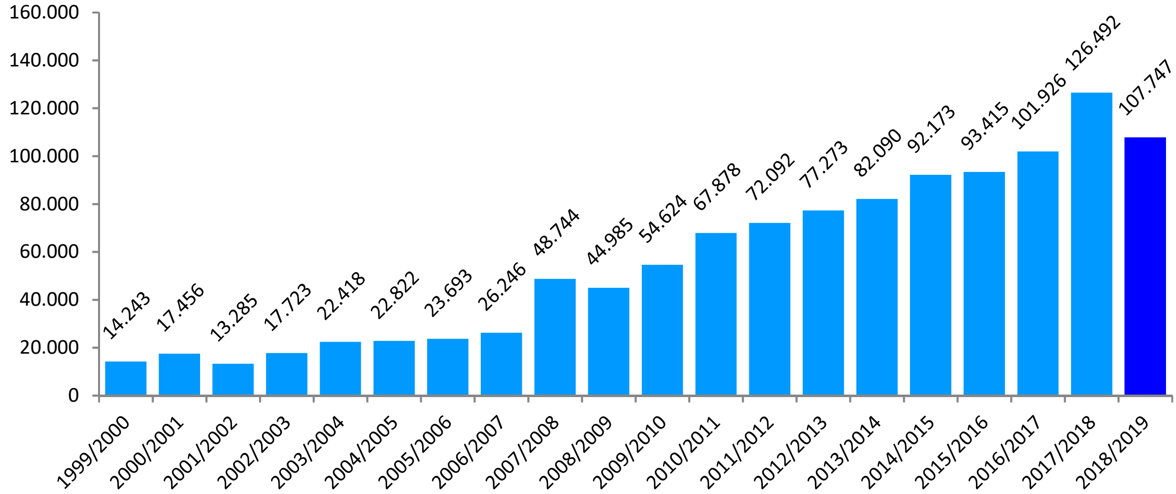
Business Development

HÖNLE GROUP in T€	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018	2018/ 2019	+/- %
Income Statement											
Revenue	54,624	67,878	72,092	77,273	82,090	92,173	93,415	101,926	126,492	107,747	-14.8
EBITDA	6,722	12,751	10,664	10,235	12,034	16,162	15,109	18,144	33,837	20,318	-40.0
Operating result/EBIT	5,548	11,280	8,309	7,705	9,483	13,524	12,400	15,207	30,687	17,003	-44.6
EBIT margin as a %	10.1	16.6	11.5	9.8	11.3	14.6	13.0	14.8	23.9	15.5	-35.2
EBT	5,342	10,771	8,431	8,637	8,967	14,023	12,050	14,877	30,397	16,872	-44.5
Consolidated profit for the year	4,806	7,499	6,209	6,712	6,495	10,320	8,290	10,414	21,726	12,396	-42.9
Cash flow											
Operating cash flow [1)]	5,105	12,601	7,235	9,020	9,201	12,863	13,126	12,146	27,877	23,062	-17.3
Statement of Financial Position [2)]											
Non-current assets	17,124	18,632	36,462	40,257	42,013	41,524	44,404	46,305	54,275	71,877	32.4
Current assets	27,310	37,119	40,476	39,445	43,582	49,112	49,871	56,002	71,248	71,320	0.1
Equity	30,769	39,204	43,830	46,872	49,718	57,514	61,669	69,778	87,250	90,122	3.3
Non-current liabilities	3,705	4,307	15,633	13,558	16,676	15,084	15,130	13,152	12,925	30,394	135.2
Current liabilities	9,960	13,240	17,475	19,272	19,201	18,414	17,475	19,377	25,351	23,630	-6.8
Total assets	44,434	55,751	76,938	79,702	85,595	91,012	94,275	102,306	125,523	144,147	14.8
Equity ratio as a %	69.4	68.5	57.0	58.8	58.1	63.2	65.4	68.2	69.5	62.5	-10.1
Staff											
At the end of the financial year	276	363	473	526	506	545	542	581	646	590	-8.7
Share											
Earnings per share in €	0.89	1.30	1.08	1.20	1.13	1.84	1.50	1.89	3.94	2.26	-42.6
Dividend in €	0.30	0.50	0.50	0.50	0.50	0.55	0.55	0.60	0.80	0.80 [3)]	0.0
Number of shares in thousands	5,512,9	5,512,9	5,512,9	5,512,9	5,512,9	5,512,9	5,512,9	5,512,9	5,512,9	5,512,9	0.0

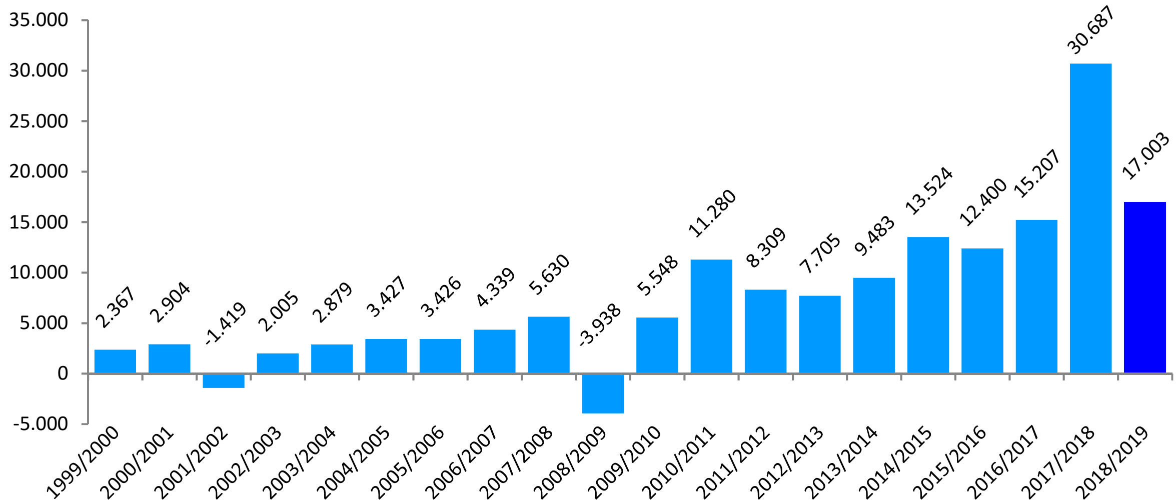
DR. HÖNLE AG (according to HGB) in T€											
Income Statement											
Revenue	25,887	31,917	27,643	27,207	29,579	34,358	36,405	39,855	46,038	38,627	-16.1
Operating result/EBIT	2,121	5,979	3,929	2,321	3,833	3,747	2,709	2,892	3,550	-225	-106.3
Net income for the year	2,898	5,507	4,334	7,028	5,191	11,300	6,737	4,476	4,333	2,141	-50.6
Earnings per share in €	0.56	1.04	0.80	1.28	0.94	2.05	1.22	0.81	0.79	0.39	-50.6

1) Cash generated from operations
2) As at the end of the respective financial year
3) Management Board and Supervisory Board proposal

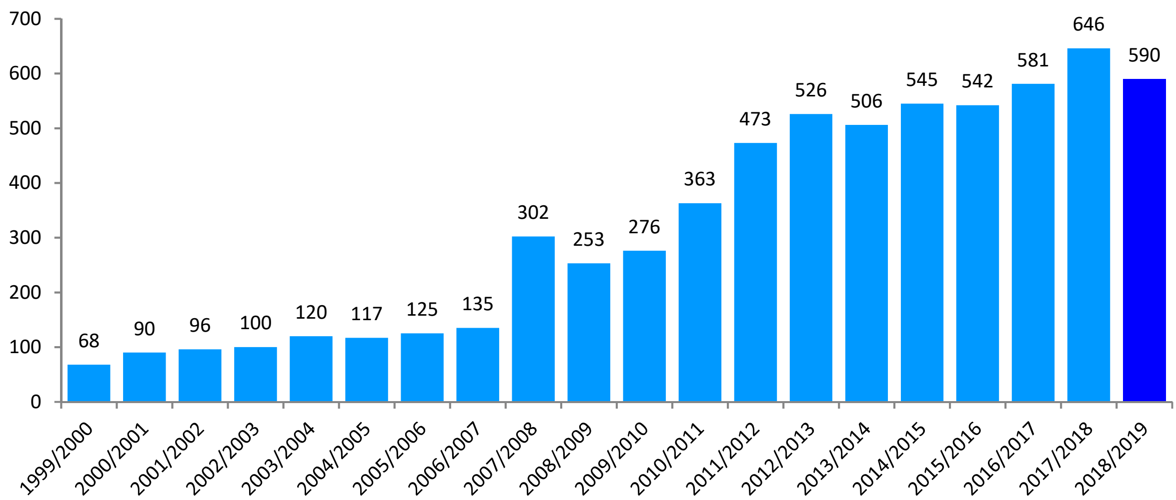
Revenue in T€



Operating result in T€



Staff



Norbert Haimerl and Heiko Runge
Dr. Hönle AG Management Board

Dear shareholders,
Dear business friends,

The 2018/2019 financial year was marked by several challenges for our company. After a highly successful previous year, the postponements of orders and lower revenues earned with a major customer led to a significant drop in sales and earnings in the Adhesives segment. Economic dynamics in the global economy weakened and this was followed by falling investment confidence. In the printing industry, in particular, the Hönle Group felt the effects of weak demand which was severe in some cases.

Adjusted sales in the Adhesives segment fell from T€ 47,097 in the previous year to T€ 33,894 in the reporting year. This represents a decrease of 28.0%. The segment's operating result fell from T€ 22,125 to T€ 11,674.
In the Equipment and Systems segment, adjusted sales dropped 10.0% to T€ 52,133 year-on-year. Investment restraint in the printing and coating industry, in particular, led to declining sales in this business segment. On the other hand, we are pleased to note that proceeds from sun simulation systems were slightly above the previous year's level. The decline in revenue in connection with a high level of personnel expenses as a consequence of the strong increase in personnel in the previous year, resulted in a decline in the operating result from T€ 7,568 to T€ 3,471.
While, at T€ 21,720, revenue earned in the Glass & Lamps segment was on par with the previous year's level, the operating result jumped by 87.0% to T€ 1.859. A significant contribution to this improvement in earnings was provided by Raesch Quarz (Germany) GmbH. Optimised production processes contributed to a reduction in reject rates for quartz glass products and to an improvement in the cost of materials ratios. Moreover, favourable business development was also reported by UV-Technik Speziallampen GmbH. A main focus of this company's activities is the development of lamps and components for the disinfection of ballast water. Revenue earned with these products increased significantly compared with the previous year.

Although the consolidated result was down on the previous year, we will propose to the Annual General Meeting that an unchanged dividend of € 0.80 be distributed. This will allow our shareholders to participate in our business success and at the same time ensure a solid financial basis.

What are our goals for the new financial year?
Economic experts agree that the economic development has passed its peak. At the same time, the risks caused by trade restrictions are increasing. Against the backdrop of an economic slowdown in financial year 2019/2020, we are aiming for sales of € 105 to 115 million and an operating result of € 17 to 20 million for the Hönle Group.

Business developments in the Adhesives segment are of central importance for the Hönle Group's future success. According to current knowledge, the change in supplier strategy in an application that is important to us will have a temporary dampening effect on the development of sales in the Adhesives segment in financial year 2019/2020. Nevertheless, the Management Board expects strong business development in the coming years. The expansion of existing important customer relationships as well as the acquisition of new customers and the significantly increased number of high-potential customer projects will contribute to this. In order to accelerate growth, sales capacities in the Adhesives segment will be increased by approx. 35% in financial year 2019/2020.

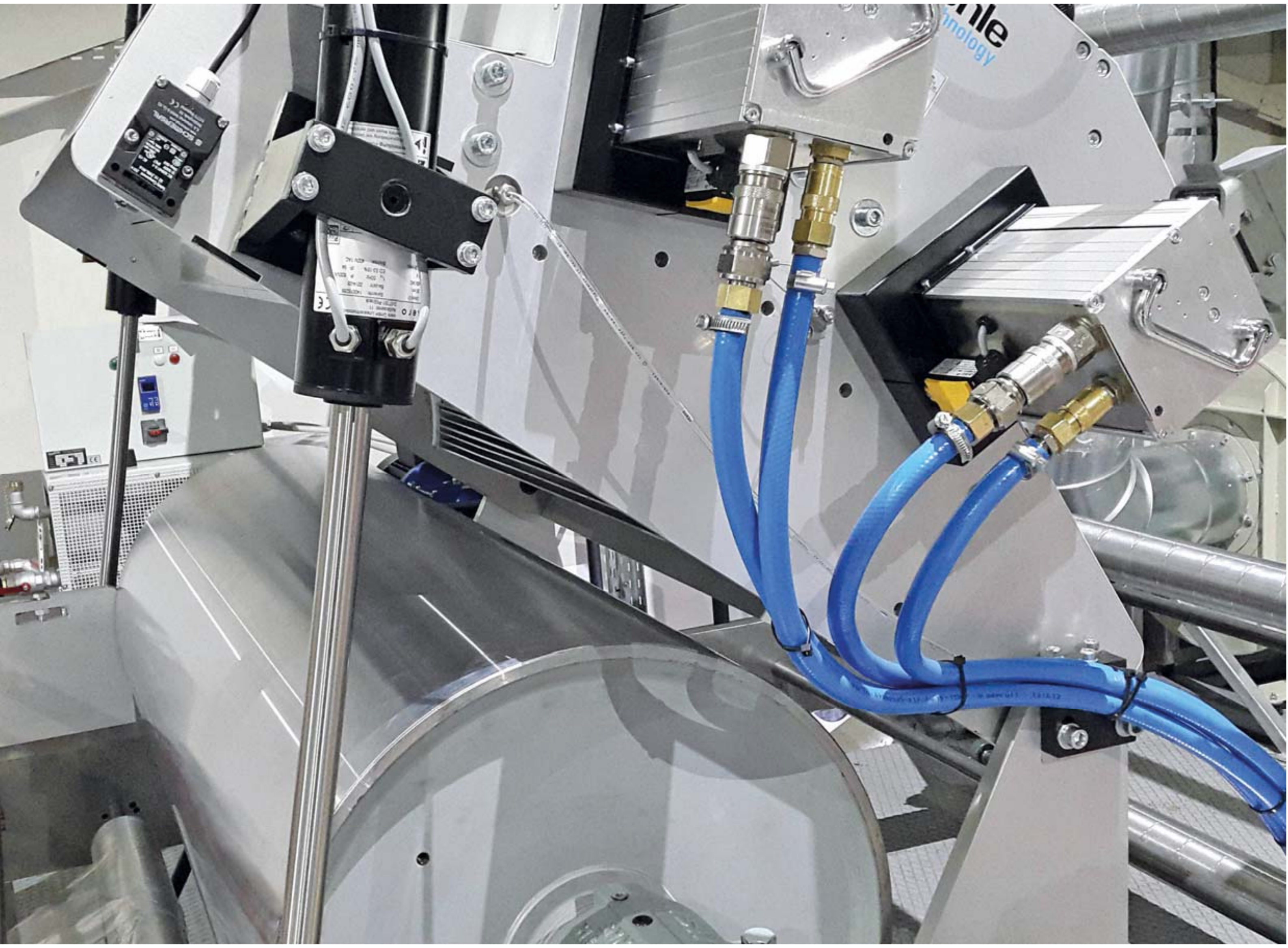
The cooperation with strategic partners in the printing market and in water disinfection represent further important growth potential for the Hönle Group's sustained positive business development. Moreover, on the basis of corresponding product qualifications we are well equipped to further tap into the semiconductor and fibre optic markets with strategic partnerships.
We would like to thank our employees for their commitment, and our customers in over 90 countries around the world for their trust in our company and our products. As a partner to industry, we are committed to achieving convincing performance and, in so doing, creating sustainable value for all our stakeholders. We look forward to shaping our future successfully together with you.

Norbert Haimerl
Management Board

Heiko Runge
Management Board

Drying technology for the coating industry

In the coating industry, UV systems are used for drying a wide variety of materials. UV inert dryers cross-link silicones and paints on web-shaped products in a low-oxygen atmosphere.



Report of the Supervisory Board

Prof. Dr. Karl Hönle
Chairman of the Supervisory Board

January 2020

Dear shareholders,

After by far the best year in our corporate history, with the past financial year a year of consolidation followed. Geopolitical tensions put a strain on economic development in the reporting year and, in particular, weighted on the demand for capital goods. In addition, we also had to cope with declining demand from major customers in the area of short-lived assets. It is gratifying that we have been able to further consolidate and expand our cooperation with strategic partners, so that we can once again be optimistic about the new financial year and the medium-term development. To ensure a positive business development, we have decided to make some structural changes in the management of the company. I would therefore like to ask you to continue to place your trust in us as shareholders.

In the following I would like to give you an overview of the Supervisory Board activities during the 2018/2019.

Intensive dialogue with the Management Board

In the last financial year, we performed the duties delegated to us by law and the company's statutes, advised the Management Board and supported its decisions. The Management Board and the Supervisory Board cooperated in a critical factual atmosphere, characterised by mutual trust. The Supervisory Board was involved in all decisions of fundamental importance. Among other things, this concerned the construction of new business premises in the context of extending our business activities as well as the company's strategic orientation by merging of business premises and the establishment and purchase of companies.

In preparation for the meetings, the Management Board provided us with current and in-depth information about the course of business. We also were promptly informed about any special occurrences either orally or in writing.

The Management Board and the Supervisory Board held five ordinary meetings.

We examined in detail the business development, the 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 approved the proposals 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 11 October 2018, the Management Board discussed the provisional figures of the Hönle Group and those of the Hönle Group companies for the 2017/2018 financial year. In particular, the Management Board highlighted the exceptionally good course of business in the Adhesives segment which played a major role in the Hönle Group's positive business development, and the increase in sales not only with respect to adhesives but also in the Glass & Lamps segment. Finally, Management provided us with an initial outlook for the 2018/2019 financial year.

The object of the Supervisory Board meeting held on 14 January 2019 was to discuss an approve the audited annual financial statements of Dr. Hönle AG and to discuss and determine the audited consolidated financial statements as at 30 September 2018. The auditors of Dr. Hönle 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 on the annual financial statements with the annual auditor and the Management Board, we approved the financial statements. Within the scope of this meeting we also established the agenda for the Annual General Meeting on 26 March 2019 including the resolution proposals. The Management Board and the Supervisory Board decided to propose to the Annual General Meeting that a dividend of € 0.80 per dividend-bearing share be paid out to the shareholders from the retained earnings of Dr. Hönle AG in the amount of € 32,516,304.62 for the 2017/2018 financial year. The Management Board then discussed the current business situation of Dr. Hönle AG and its subsidiaries in the first quarter and gave an outlook on expected developments for the first half of the year. In addition, the establishment of a new company in the Equipment & Systems segment was advised.

On 26 February 2019 the Management Board and the Supervisory Board held another meeting and discussed the current and planned business development, differentiated by segments. In this context, the Management Board explained the measures planned to reduce personnel expenses in the Equipment & Systems segment, among other things. With a view to accelerating growth in the Adhesives segment, it was discussed to implement a significant personnel expansion in the areas of sales, application technology and development.

The current business situation was also an issue of discussion at the Supervisory Board meeting held on 7 June 2019. In particular, the Management Board dealt with the sales and earnings development of the Hönle Group's key companies at the end of the third quarter and explained in each case the reasons for the business development presented. The Management Board then went on to discuss the cost-saving measures already implemented and those still in planning. After discussing the current status of the building projects, we finally discussed possible investment projects to expand our business activities.

Before the last meeting in the financial year, the Supervisory Board discussed at an informal meeting about possible adjustments to the management structure of Dr. Hönle AG, on the one hand to the changed business situation, on the other hand to the requirements of the German Corporate Governance Code. An increase in the number of committees by one person each was considered.

At our last meeting in financial year 2018/2019, which took place on 23 September 2019, the Management Board presented in detail the forecast figures of the individual Hönle Group companies as at 30 September 2019. The Management Board explained the reasons for the decline in revenues and earnings and outlined measures aimed at counteracting the weaker business development while, at the same time, achieving cost savings. Finally, the Management Board gave an outlook for the first quarter of the current financial year.

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 with the Management Board the implementation of the recommendations and suggestions stipulated in the Code and issued a joint declaration pursuant to Section 161 AktG. The declaration was included in the Annual Report and made permanently available to the shareholders on the internet. Currently the Dr. Hönle AG Management Board is comprised of two members and the Supervisory Board of Dr. Hönle AG has three members. No changes have occurred in the staffing of the Management Board and the Supervisory Board of Dr. Hönle AG. In principle, however, the Management Board and the Supervisory Board were open to changes.

Annual Financial Statements and Consolidated Financial Statements

The Annual General Meeting held on 26 March 2019 elected S&P GmbH Wirtschaftsprüfungsgesellschaft, Augsburg, as annual auditor for the 2018/2019 financial year. S&P GmbH Wirtschaftsprüfungsgesellschaft audited Dr. Hönle AG's annual financial statements, the consolidated financial statements and the group management report, which is combined with Dr. Hoenle AG's management report for the financial year from 1 October 2018 to 30 September 2019 and issued an unqualified audit opinion in each case.

In the Supervisory Board meeting held on 24 January 2020, the annual auditor elaborated in detail on the audit report. The auditor reported about the key findings of its audit of the annual financial statements and the consolidated financial statements as well as about the combined management report/group management report of Dr. Hönle AG and provided supplementary information concern-

ing 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 17 March 2020 that the retained earnings of Dr. Hönle AG be used for the pay-out of a dividend of € 0.80 per dividend-bearing share and that the remaining amount be carried forward to the new accounting period.
The Supervisory Board approved the findings of the annual audit. Furthermore, we examined the annual financial statements, the consolidated financial statements and the combined group management report. No grounds for objections were found. Subsequently, the Supervisory Board approved the financial statements. The annual financial statements were thus adopted.

I would like to thank my colleagues, the Management Board and all employees of the Hönle Group for their joint efforts and the success in the financial year ended.

Prof. Dr. Karl Hönle
Chairman of the Supervisory Board

The Share

Share price development

Starting from € 77.00 at the beginning of the past financial year the Hönle share price reached its high of € 80,00 already in October 2018. In the following months, it lost considerable value and reached its low of € 42.80 in December. The reason for the price drop was the predicted sales and earnings decrease of Dr. Hönle AG for the financial year 2018/2019. In 2019, the share price moved sideways in a broad corridor and stood at € 50.00 at the end of the financial year.

While the overall market, represented by the SDAX, gained 3.5% in the past financial year, the Hönle share fell by 35.1%. Looking at the period up to 31 December 2019, the Hönle share lost 42.6% in value.
In the course of the share price decline, trading revenues dropped by 18.7%, totalling € 188.7 million in the past financial year. This corresponds to an average volume of T€ 746 per day. The Hönle Group's market value came to € 275.6 million at the end of the financial year.

Analyses

M.M. Warburg analyses the Dr. Hönle AG on an ongoing basis. In addition, Hauck & Aufhäuser will also publish regular research reports in the future. Moreover, financial magazines and online portals reported on Dr. Hönle AG on several occasions.

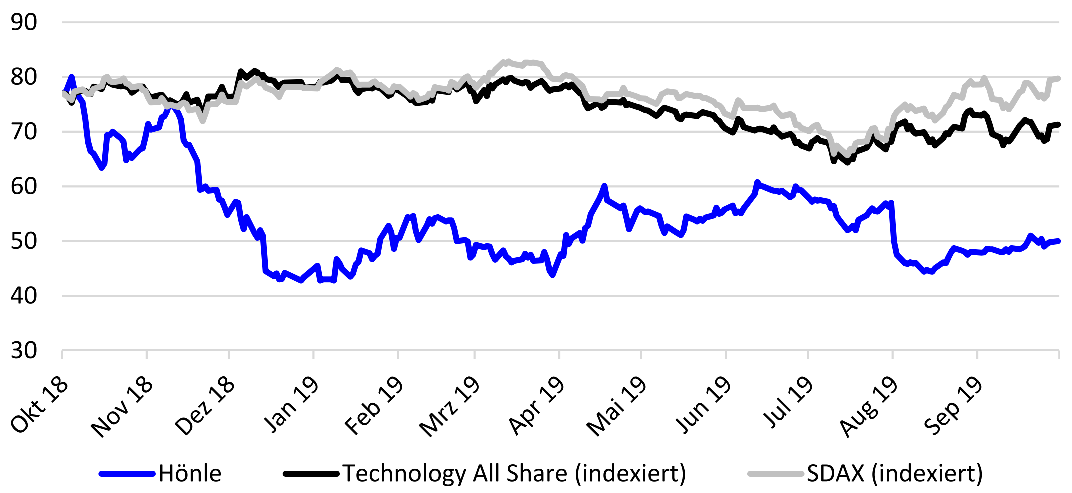
Investor Relations

In the past year, Dr. Hönle AG was represented at several roadshows and conferences and engaged in intensive dialogue with the financial market. In addition, the Management Board and Investor Relations Management also held extensive individual discussions with institutional and private investors as well as with financial press representatives. Apart from general market and business developments, the focus of our talks with investors in the last financial year were especially on the developments in the Adhesives segment and the current new building projects.
All information on the share, company reports and ad-hoc notices are provided on the company's homepage:
https://www.hoenle.com/investor-relation/overview

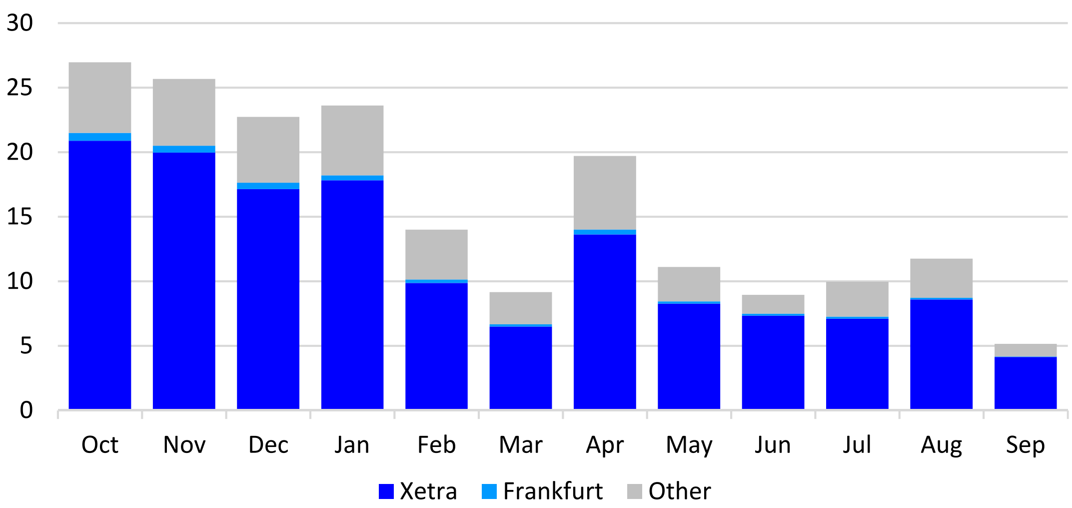
Dividend policy

For many years, Dr. Hönle AG has enabled its shareholders to participate in its successful business development. In the future, too, the company would like its shareholders to participate appropriately in the company's business success. 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. With respect to the past financial year, the Management Board and the Supervisory Board of Dr. Hönle AG will propose to the Annual General Meeting on 17 March 2020 that an unchanged dividend of € 0.80 per share to be distributed.

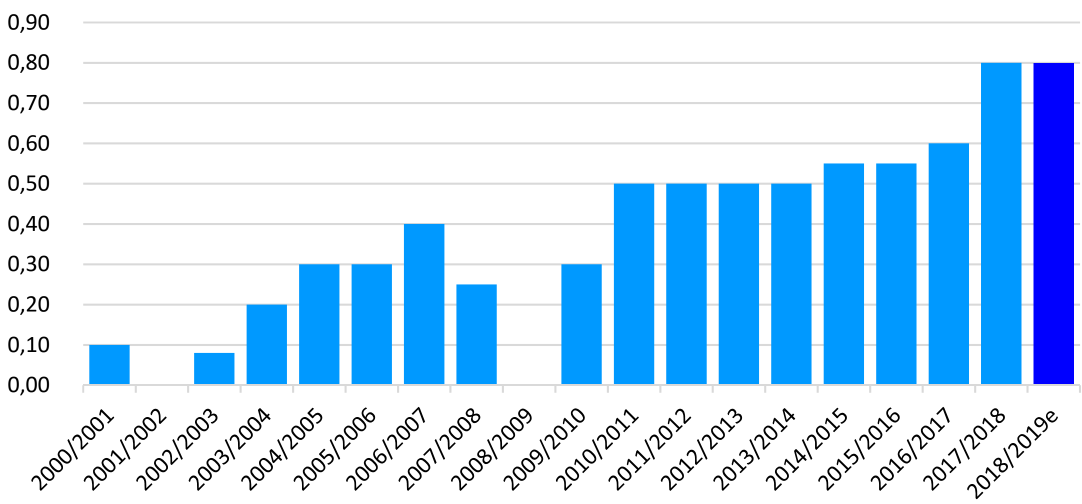
Development of the Hönle stock price (in euros)



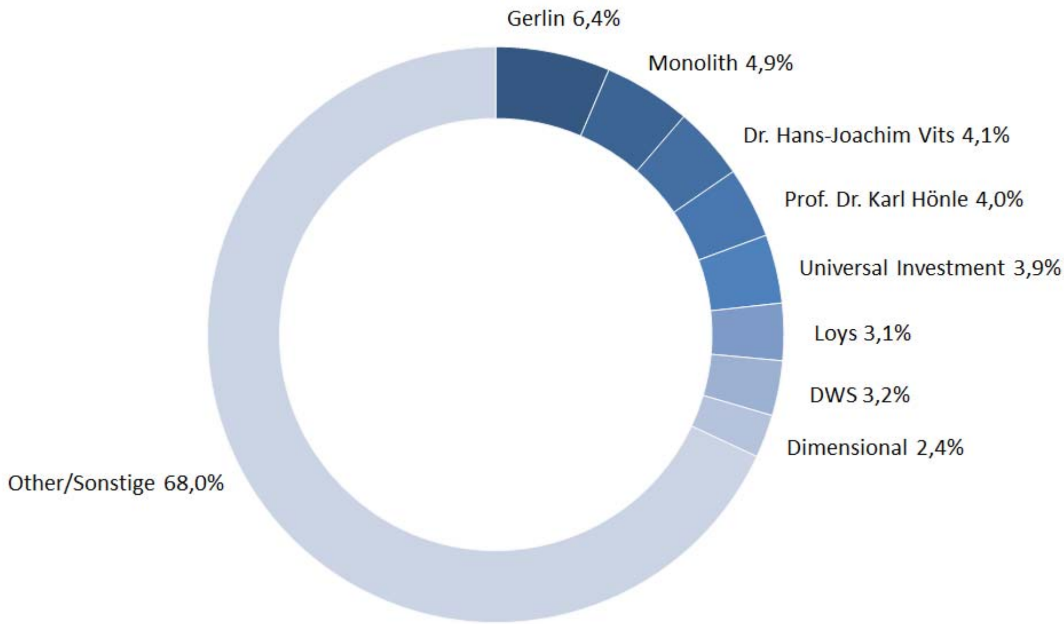
Hönle stock trading volume (in € million)



Dividend development (in euros)



Shareholder structure (as at 30 September 2019)



Data on the Hönle share

Price at the Beginning of the Financial Year in € (Xetra)	77.00
Price at the End of the Financial Year in € (Xetra)	50.00
Peak Price (Xetra)	€ 80.00 in October 2018
Lowest Price (Xetra)	€ 42.80 in December 2018
Trading Volume in Shares	3,507,494 (PY: 3,502,930)
Trading Volume in €	188,727,819 (PY: 232,193,093)
Number of Shares as of 30/09/2019	5,512,930
Market Capitalisation as of 30/09/2019 in € million	275.6
Earnings per Share in €	2.16
Dividend per Share in € [1]	0.80
Securities Identification Number	515710
ISIN	DE0005157101
Stock Exchange Symbol	HNL
Transparency Level	Prime Standard German Stock Exchange
Index Affiliation:	
SDAX	DE0009653386
Technology All Share	DE0008468943
Prime All Share	DE0007203325
DAX subsector Advanced Industrial Equipment	DE0007203895
CDAX	DE0008469602

[1] Management Board and Supervisory Board proposal for the 2018/2019 financial year

UV-lamps and measurement equipment

The combination of internally developed UV lamps, power supply units and measuring devices enables the manufacture of high-tech disinfection systems for a broad range of applications:
Water disinfection by means of ultraviolet radiation is used for drinking water, swimming pools and the treatment of waste water. Moreover, ballast water in shipping is also treated with UV radiation. Ballast water is taken up by large container ships to ensure sufficient stability of the ship or vessel during voyages without cargo.

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

for the 2018/2019 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: Adhesives, Equipment & Systems and Glass & Lamps. The Adhesives segment includes industrial adhesives designed for a broad spectrum of applications, inter alia, in the electronics, medical technology, optics and automotive segments. 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 semiconductor, fibre optics and lamp industries as well as lamps for water sterilisation and the drying of coatings and adhesives. Dr. Hönle AG held participating interests in the following companies as at 30 September 2019:

Name (in alphabetical sequence)	Corporate Seat
Segment: Adhesives	
Agita Holding AG	Regensdorf/Zurich, Switzerland
Eleco Panacol - EFD	Gennevilliers/Paris, France
Hoenle UV Technology Shanghai Ltd.	Shanghai, China
Metamorphic Materials Inc.[1, 2]	Winsted/Connecticut, USA
Panacol AG	Regensdorf/Zurich, Switzerland
Panacol-Elosol GmbH	Steinbach/Taunus, Germany
Panacol-USA, Inc.	Torrington/Connecticut, USA
Panacol-Korea Co., Ltd.	Seongnam, South Korea
Segment: Equipment & Systems	
Eltosch Grafix America Inc.	Batavia/Chicago, USA
Eltosch Grafix GmbH	Pinneberg, Germany
GEPA Coating Solutions GmbH	Frickingen, Germany
Hönle Electronics GmbH	Dornbirn, Austria
Honle US Real Estate LLC	Torrington/Connecticut, USA
Honle UV France S.à.r.l.	Lyon, France
PrintConcept UV-Systeme GmbH	Kohlberg, Germany
Solitec GmbH[2]	Gräfelfing/Munich, Germany
Tecinvent GmbH[1, 2]	Schömberg, Germany
Segment: Glass & Lamps	
Aladin GmbH	Gräfelfing/Munich, Germany
Raesch Quarz (Germany) GmbH	Ilmenau, Germany
Raesch Quarz (Malta) Ltd.	Mosta, Malta
UV-Technik Speziallampen GmbH	Ilmenau, Germany

[1] Minority shareholding; [2] Not consolidated

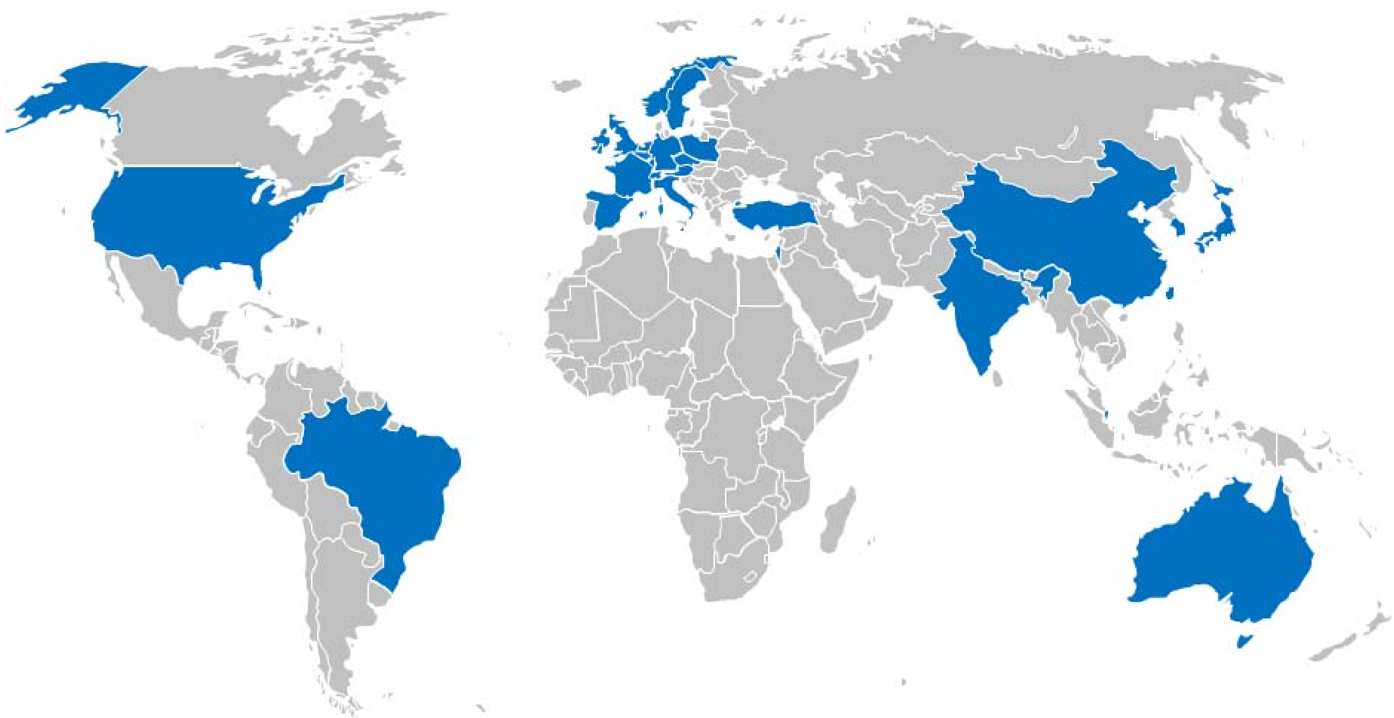
Worldwide Locations

Hönle is an internationally operating corporate group with 19 subsidiaries. Abroad, Hönle has its own sites in those countries that are of key importance to its operative business. The company also has an international network of sales and service partners.
Hönle has own production sites in Germany, Malta and in the USA.

Non-Financial Statement

With respect to the non-financial statement in accordance with the provisions of Section 289b in conjunction with Section 315b HGB [German Commercial Code], reference is made to the separate non-financial report, which is published under https://www.hoenle.de/investoren/corporate-governance.

Hönle Group Locations



Management System

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

The group's internal management system consists mainly of regular Management Board meetings, a monthly analysis of business developments, strategic corporate planning, quality management, the planning of investments, personnel and acquisitions as well as risks and opportunities management and regular reporting to the Supervisory Board.

The operational objective of Hönle's management is to increase the company's revenues, earnings and cash flow on a sustained basis while taking into account ecological and social aspects. The operative margins, in particular the EBIT margin, serve as important financial indicators in this context. Therefore, Hönle continually monitors the development of revenues and expense ratios and compares these with internal planning. Great emphasis is also placed on increasing the Hönle Group's operational cash flow.

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, and explains measures for the planned development of these indicators. 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€	**2018/2019**	**2017/2018**	**+/- %**
Revenue	107,747	126,492	-14.8
EBIT [1]	17,003	30,687	-44.6
EBIT margin [2]	15.5%	23.9%	-35.2
Consolidated profit for the year	12,396	21,726	-42.9

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. Hönle AG was held on 26 March 2019. About 250 participants met at the Munich-based Conference Centre [Haus der Bayerischen Wirtschaft] to listen to the Management Board's comments and explanations, among other things. All proposed resolutions on the agenda were adopted with a large majority. This also included the dividend increase from € 0.60 to € 0.80 per dividend-bearing share, which corresponds to a dividend distribution of T€ 4,409.

Economic Report

Market Development

The global economy expanded at a slower pace, particularly in the industrialized countries. In the developing and emerging markets, the economy has recently picked up again at a somewhat lower level than in the previous year. The manufacturing sector, in particular, is experiencing a downturn and the market mood of many companies here is worse than it has been for years. According to the International Monetary Fund (IMF), global production is expected to have grown by only 3.0% in 2019 after 3.6% in the previous year.

Course of Business

Sales of the Hönle Group in the 2018/2019 financial year were € 107,747 thousand and 14.8% lower than in the previous year. The operating result dropped by 44.6% to T€ 17,003. This decline in earnings is mainly attributable to the Adhesives segment where sales revenues and earnings were significantly down from the previous year. Sales revenues and earnings achieved in the Equipment & Systems segment were also below the previous year's values as a consequence of the economic downturn.

Adhesives Segment

Sales revenues achieved in the Adhesives segment declined from T€ 47,097 to T€ 33,894, which corresponds to a decrease of 28.0%. The segment's operating result contracted from T€ 22,125 in the previous year to T€ 11,674 in the financial year under review. The main reason for the sales and earnings decline related to shifts in orders which led to lower sales revenues in the current financial year. A change in supplier strategy of one of our key customers also contributed to this development.

Hönle succeeded in establishing new business relationships with technology and world market leaders in the last financial year, especially in the consumer electronics sector, thus reducing its dependence on key customers.

Equipment & Systems Segment

Sales revenues achieved in the Equipment & Systems segment dropped by 10.0% to T€ 52,133 year-on-year. While revenue from sunlight simulation equipment was more or less on a par with the previous year, a reluctance to invest was particularly noticeable in the printing industry. This led to declining sales of ink drying systems in the systems business.

The decline in sales revenues as well as the workforce increase at the end of the previous year and the associated high personnel expenses led to a decline in the operating result from T€ 7,568 in the previous year to T€ 3,471 in the financial year under review.

The business relationship with a leading printing press manufacturer was significantly expanded despite the difficult market environment.

Glass & Lamps Segment

At T€ 21,720, sales revenues in the Glass & Lamps segment were at a par with the previous year's level of T€ 21,443. At the same time, however, the operating result improved from T€ 994 to T€ 1,859.

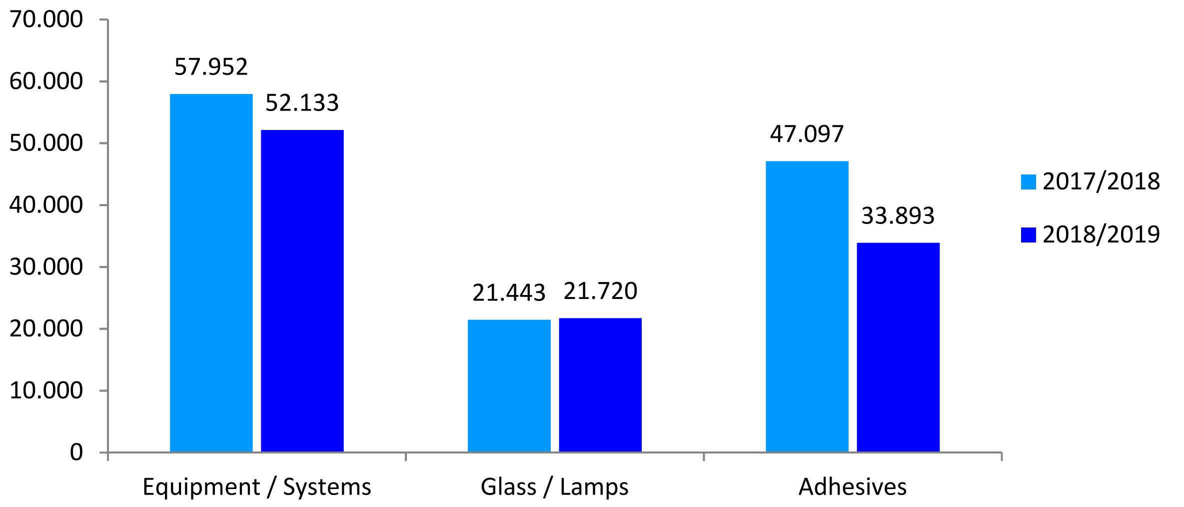
A significant contribution to the earnings improvement was provided by Raesch Quarz (Germany) GmbH. The optimisation of production processes at this company contributed to a reduction in reject rates for quartz glass products and to an improvement in the cost of materials ratios.

In addition, UV-Technik Speziallampen GmbH also reported positive development in the Glass & Lamps segment. A main focus of the company is the development of lamps and components for the disinfection of water. Here sales revenues and earnings from ballast water disinfection systems, in particular, have risen significantly.

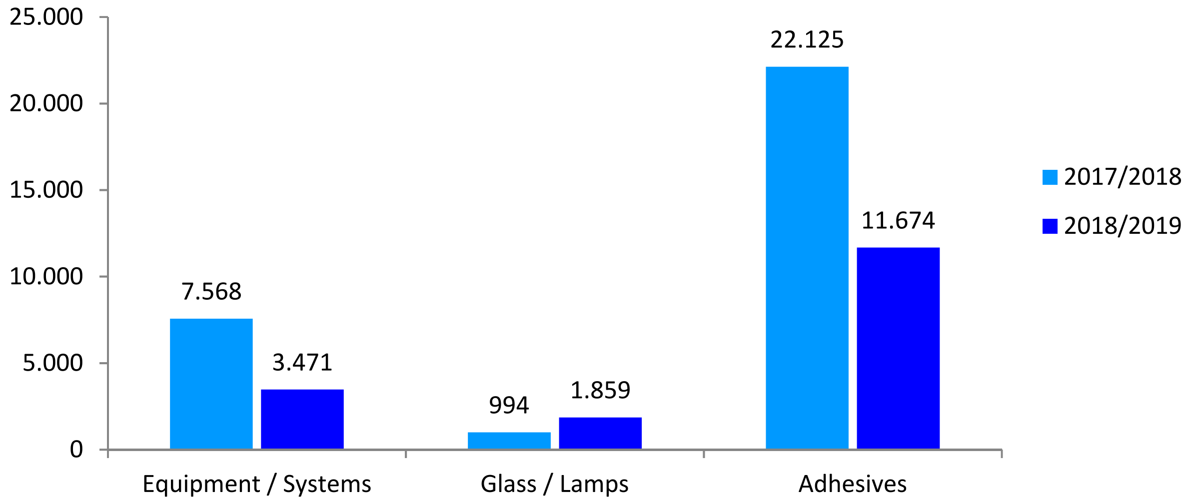
Business Development by Region

Domestic sales were down 14.9% to T€ 36,224 largely due to the weakness in the printing industry. In Asia, the 26.1% decline in sales revenues to T€ 32,289 was mainly attributable to weaker business with a key customer in the consumer electronics sector. Sales revenues generated in Europe outside Germany advanced by 4.6% to T€ 26,645, while sales revenues achieved in North America dropped by 9.1% to T€ 8,770. Sales revenues generated in the rest of the world contracted by 25.4% to T€ 3,819.

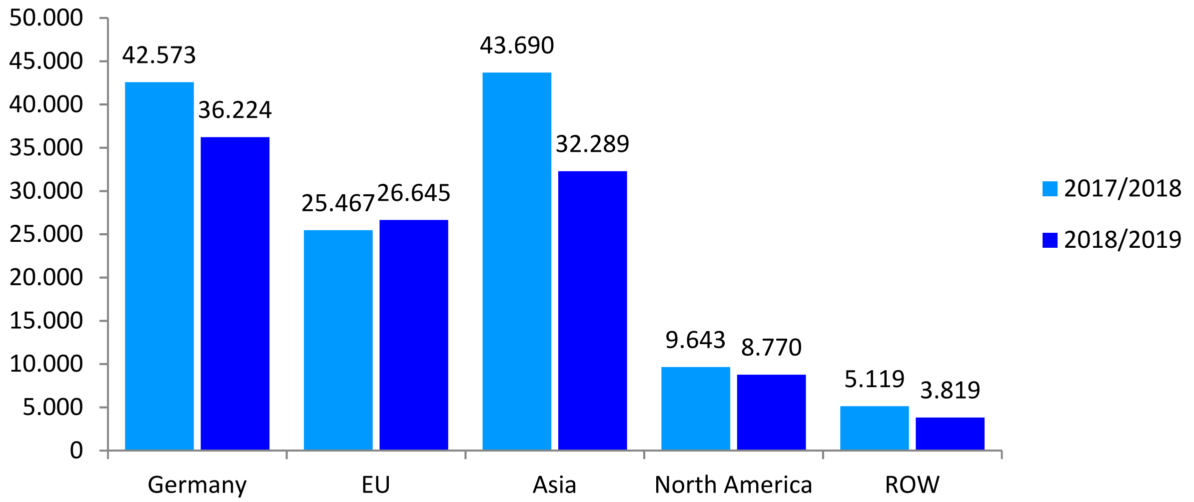
Sales by segment [1] (in T€)



Operating result by segment (in T€)



Sales by region [2] (in T€)



1) adjusted revenues in FY 2018/2019 in the Equipment & Systems and Adhesives segments; 2) ROW = Rest of World

The Hönle Group's Results of Operations

At T€ 107,747, sales revenues generated by the Hönle Group in the 2018/2019 financial year were down 14.8% on the previous year's level. The cost of materials ratio rose slightly from 33.4% to 33.6% and the personnel expense ratio climbed from 28.1% to 32.7%. The ratio of other operating expenses advanced from 12.9% to 16.6%, mainly as a consequence of the rise in sales commission payments in connection with a large-scale contract in the Equipment & Systems segment. The operating result (EBIT) decreased from T€ 30,687 to T€ 17,003, which translates into an EBIT margin of 15.5% (PY: 23.9%). Earnings before taxes (EBT) declined from T€ 30,397 to T€ 16,872. After income taxes, the consolidated net income came to T€ 12,396 (PY: T€ 21,726) or earnings per share of € 2.26 (PY: € 3.94). Net profit on sales thus decreased from 17.2% to 11.5%.

The Hönle Group's Earnings Development

in T€	2018/2019	2017/2018	+/- %
Revenue	107,747	126,492	-14.8
Gross profit	74,324	86,349	-13.9
Operating result (EBIT)	**17,003**	**30,687**	**-44.6**
EBIT margin as a %	15,5	23,9	-35.2
Earnings before taxes (EBT)	16,872	30,397	-44.5
Consolidated profit for the year	**12,396**	**21,726**	**-42.9**
Earnings per share in €	2.26	3.94	-42.6

The Hönle Group's Financial Position

The Hönle Group's operative cash flow amounted to T€ 23,062 (PY: T€ 27,877). In this context, the decrease in trade accounts receivable led to cash inflows of T€ 6,506 and the rise in inventories to cash outflows of T€ 2,407. The cash flow from operating activities amounted to T€ 16,924 (PY: T€ 24,216) after payment of interest in the amount of T€ 135 and income taxes of T€ 6,003.

Investments rose from T€ 10,627 in the previous year to T€ 19,136 in the financial year under review. They include, in particular, investments in construction projects at Panacol-Elosol GmbH, Dr. Hönle AG and UV-Technik Speziallampen GmbH in the amount of T€ 15,631 as well as investments in production facilities at Raesch Quarz (Germany) GmbH and Panacol-Elosol GmbH.

The cash flow from financing activities in the amount of T€ 4,682 (PY: T€ -6,814) is largely due to the taking out of bank loans in connection with new construction projects and the dividend payment to the shareholders.

In all, cash and cash equivalents increased by T€ 2,539 in the financial year 2018/2019 (PY: T€ 6,821).

Liquidity Development

in T€	2018/2019	2017/2018	+/- %
Cash generated from operations	**23,062**	**27,877**	**-17.3**
Cash flow from operating activities	16,924	24,216	-30.1
Cash flow from investing activities	-19,136	-10,627	-80.1
Cash flow from financing activities	4,682	-6,814	168.7
Change in cash and cash equivalents	2,539	6,821	-62.8

The Hönle Group's Net Assets

Non-current assets rose from T€ 54,275 to T€ 71,877 in the reporting year. The increase is mainly due to the construction projects, which are reflected in a rise in property, plant and equipment. Current assets came to T€ 71,320, which is almost unchanged from the previous year's level (T€ 71,248). While liquid assets (cash and cash equivalents) grew by T€ 2,539 and inventories by T€ 2,616, trade accounts receiva-ble were down T€ 6,019 on the previous year's figure as at the 30 September 2019 reporting date. Inventories increased, in particular, at Raesch Quarz (Germany) GmbH due to the inventories build-up concerning large-format quartz glass tubes for the semiconductor industry.

With an equity ratio of 62.5% and liquid assets in the amount of T€ 14,577, the Hönle Group's financing continues to be on solid ground.

There was a significant change in non-current liabilities, which rose by T€ 17,473 to T€ 30,395. The increase in non-current liabilities is mainly due to the taking out of long-term loans of T€ 9,784 used to finance construction projects and the increase in pension provisions. Pension provisions advanced by T€ 2,276, largely as a consequence of the declining interest rate level. In addition, the assessment of interest rate hedging instruments (SWAPs) associated with the real estate loans resulted in a rise in other non-current liabilities by T€ 5,552. In contrast, current liabilities dropped by T€ 1,721 to T€ 23,630.

Total assets were up 14.8% to T€ 144,147 in the 2018/2019 financial year.

Statement of Financial Position

in T€	**30/09/2019**	**30/09/2018**	+/- %
Non-current assets	71,877	54,275	32.4
Current assets	71,320	71,248	0.1
Equity	90,122	87,250	3.3
Non-current liabilities	30,395	12,922	135.2
Current liabilities	23,630	25,351	-6.8
Total assets	144,147	125,523	14.8

Details on Dr. Hönle AG (HGB Annual Financial Statements)

The management report of Dr. Hönle 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. Hönle AG are prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

Dr. Hönle AG is a listed technology company with head office in Gräfelfing, near Munich. Hönle 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, and for disinfecting surfaces. The product range also includes sunlight simulation and lighting equipment for industrial applications. The sales activities are carried out by the company's own staff, subsidiaries and independent partner companies. In addition, Dr. Hönle AG provides production, IT and administration services to subsidiaries. Dr. Hönle AG reported an average staff level of 230 (PY: 232) in the financial year 2018/2019. Initially, the number of employees rose significantly in the course of the previous year's positive business development but then declined again in the reporting year. Dr. Hönle AG's research and development expenses edged up from T€ 2,163 in the previous year to T€ 2,459 in the financial year under review. The average number of staff employed in the R&D department rose from 27 to 31. The Research and Development department employees thus accounted for 13.5% of Dr. Hönle AG's total staff.

Sales revenues decreased by 16.1% to T€ 38,627 in the financial year under review. While sales revenues from sunlight simulation equipment was more or less on a par with the previous year, a reluctance to invest was particularly noticeable in the printing industry. In all, this led to declining sales of drying systems for printing machines. Sales revenues generated from business with a leading printing press manufacturer was significantly expanded despite the difficult market environment.
At T€ 14,762, Dr. Hönle AG's personnel expenses were only slightly below the previous year's figure of T€ 15,069, which led to an increased personnel expenses ratio of 38.5% (PY: 32.5%) due to the lower sales revenues.
The cost of materials ratio decreased slightly from 46.0% in the previous year to 45.4% in the reporting year, which is attributable to a changed product mix.
At T€ 5,787, other operating expenses were slightly above the previous year's level (PY: T€ 5,642), while the respective ratio rose from 12.2% to 15.1% due to the lower sales level. At T€ -255, the operating result was clearly below the previous year's figure of T€ 3,550. In financial year 2018/2019, Dr. Hönle AG posted a financial result of T€ 2,534, largely comprising income from equity investments. After taxes in the amount of T€ 167, the net income came to T€ 2,141 (PY: T€ 4,333).

Dr. Hönle AG is setting up a new production and administrative building in Gilching near Munich with a view to expanding its business activities. In this context, property, plant and equipment in connection with prepayments made and assets under construction rose from T€ 255 to T€ 5,867. In all, property, plant and equipment increased from T€ 9,569 in the previous year to T€ 14,946 in the financial year under review.

Inventories decreased from T€ 15,711 to T€ 15,055 while receivables and other assets increased from T€ 30,555 to T€ 32,369. Cash and cash equivalents advanced from T€ 4,481 to T€ 7,584 as at the financial year end.

Dr. Hönle AG's equity capital dropped from T€ 59,051 in the previous year to T€ 56,783 in the reporting year as a result of lower unappropriated retained earnings. Liabilities to banks soared from T€ 5,405 to T€ 12,917 mainly due to the construction of the new business premises. Liabilities to affiliated companies (mainly to Panacol-Elosol GmbH) climbed from T€ 20,635 to T€ 24,784.

The phase of weakness in the economic development is expected to continue. The customs conflict between the USA and China is still unresolved and also weighs on the global economic development. Nevertheless, the Management Board anticipates a slight increase in sales revenues for the 2019/2020 financial year, not least to the expansion of strategic business relationships, and expects the operating result to be significantly higher than in the previous year.

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

in T€	2018/2019	2017/2018	+/- %
Revenue	**38,627**	**46,038**	**-16.1**
Other operating income	184	81	127.2
Cost of materials	17,399	21,313	-18.4
Gross profit	21,113	25,078	-15.8
Personnel expenses	14,762	15,069	-2.0
Amortisation/depreciation	789	818	-3.6
Other operating expenses	5,787	5,642	2.6
Operating result (EBIT)	**-225**	**3,550**	**-106.3**
Financial result	2,534	1,750	44.8
Taxes	167	967	-82.7
Net income for the year	**2,141**	**4,333**	**-50.6**
Earnings per share in €	0.39	0.79	-50.6

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

in T€	**30/09/2019**	**30/09/2018**	+/- %
Intangible assets	549	519	5.8
Property, plant and equipment	14,946	9,569	56.2
Financial assets	33,492	33,958	-1.4
Non-current assets	**48,988**	**44,046**	**11.2**
Inventories	15,055	15,711	-4.2
Receivables and other assets	32,369	30,555	5.9
Cash on hand, bank balances	7,584	4,481	69.3
Current assets	**55,009**	**50,746**	**8.4**
Prepaid expenses	255	257	-0.8
Deferred tax assets	702	483	45.3
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	30,248	32,516	-7.0
Equity	**56,783**	**59,051**	**-3.8**
Provisions	**6,896**	**7,657**	**-9.9**
Liabilities to banks	12,917	5,405	139.0
Prepayments received on account of orders	684	801	-14.6
Trade accounts payable	2,485	1,462	70.0
Liabilities to affiliated companies	24,784	20,635	20.1
Liabilities to companies in which an equity investment is held	3	0	300
Other liabilities	402	520	-22.7
Liabilities	**41,274**	**28,823**	**43.2**
Total assets	**104,954**	**95,532**	**9.9**

Overall Statement on the Economic Situation of the Hönle Group

The global economy expanded at a slower pace. The pace of expansion slowed considerably in the industrialized countries, in particular.

In the management report 2017/2018, the Management Board had reported that it expected sales of € 115 million to 130 million and an operating result of € 22 million to 30 million for the reporting year.

The sales and earnings target could not be achieved, as sales in the Adhesives segment with a key customer, in particular, clearly lagged behind expectations. Moreover, the investment restraint in the Equipment & Systems segment had a stronger than expected impact on the Hönle Group's business development. Sales and the operating result of the Glass & Lamps segment were largely in line with forecasts.

At T€ 107,747, sales revenues generated in the 2018/2019 financial year were down 14.8% on the previous year's values. The operating result decreased by 44.6% to T€ 17,003.

With cash and cash equivalents of € 14.6 million (PY: € 12.0 million) and the existing credit facilities (€ 42.6 million, mainly earmarked for the planned building projects), the Hönle Group is solidly financed. Liabilities to banks rose from € 6.8 million to € 16.0 million due, above all, to the planned building projects.

In recent years, the Hönle Group has increasingly diversified its activities and opened up new growth markets. As a result, the proportion of revenue generated from capital goods declined continuously while revenue from business with short-lived economic goods such as adhesives, lamps and quartz glass products increased considerably, as planned, and came to 54.8% in the past financial year.

The Hönle Group invests in new commercial real estate in order to prepare for the planned growth. This concerns the construction of new business premises for Dr. Hönle AG (Equipment & Systems segment), Panacol-Elosol GmbH (Adhesives segment) and UV-Technik Speziallampen GmbH (Glass & Lamps segment). Total investments extend over a period from 2018 to 2021 and amount to approximately € 50 million.

The investments are largely financed via long-term real estate loans. The average total term of the loans is 17.5 years. The variable-interest bearing loans are hedged against interest rate fluctuations by corresponding interest rate swaps.

The Management Board expects strong business development in the coming years. The prerequisites are good for significantly expanding the Hönle Group's revenue and earnings level in the future.

The Adhesives segment, in particular, offers good growth prospects for the Hönle Group. In the 2018/2019 financial year, new customers were acquired from the consumer electronics sector, among others, and existing relationships with key accounts were further expanded. This has led to a perceptible increase in the quality and volume of customer projects compared to the previous year.

The Hönle Group's favourable market position in the Equipment & Systems segment, particularly in the field of LED drying, offers good opportunities for further growth in this segment. In addition, new technologies will complement the existing product range and offer additional growth opportunities in water and surface disinfection.

Given the growth prospects described above, the Management Board is satisfied with the group's situation despite the predicted development of the global economy.

Research & Development

The Hönle Group's research and development expenses rose from T€ 5,610 in the previous year to T€ 6,087 in the financial year under review. The average number of staff employed in the R&D departments climbed from 80 to 87. In all, 14.1% (PY: 12.9%) of Hönle's staff work in Research and Development.

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

Adhesives Segment

Panacol-Elosol GmbH has developed new heat-curing adhesives with excellent heat-conducting properties. The adhesives with high metal adhesion were developed especially for bonding and heat decoupling from power electronics. Elecolit® 6603, for example, is provided with mineral-based fillers that ensure excellent electrical insulation. The adhesive is flexible and can also be used as a casting compound. It's flow behaviour is good and can be easily applied. Variations of this adhesive are characterized by high rigidity and form stability and the degree of viscosity can be individually adjusted.

Equipment & Systems Segment

At this year's Fespa trade fair, Dr. Hönle AG showcased drying systems that were specifically developed for inkjet printing applications. They range from LED-UV and UV through to IR systems. In addition to the jetCURE product series and numerous infrared variants, Hönle also presented an enhanced jetCURE LED version. The new development reaches irradiation intensities of 18,000 mW/qcm. It is both particularly powerful and energy-efficient, enabling reliable and even faster curing of UV-reactive printing inks and paints.

Glass & Lamps Segment

For the first time, UV-Technik Speziallampen GmbH presented digital UV components for water sterilisation at this year's Aquatech trade fair in Shanghai. The advantage of these components over the systems currently in use is that they can be combined with other systems, which optimises the interaction of all relevant modules. The functions are displayed on a touch panel and can thus be visualised at any time. Changes in operating conditions can be captured and system parameters can be adapted at an early stage.

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).

DECHEMA Gesellschaft für Chemische Technik und Biotechnologie e.V.

DFTA Flexodruck Fachverband e.V.

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

EWPA European Waterless Printing Association 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.

POLYGRAPH Leipzig e.V.

VCI Verband der Chemischen Industrie e.V.

Environmental Aspects

With the introduction of the environmental management system, Hönle is strengthening its efforts to achieve effective and sustainable environmental protection. Dr. Hönle AG has operated a certified environmental management system pursuant to ISO 14001 since 2018.

UV technology is among the Hönle Group's core competencies. Hönle UV drying systems are used 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 (BlmSchV) 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 is reduced with LED systems and the lamps' lifespan is 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 both in production lines and in development and production staff for innovative 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 off at drainage systems 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 force in 2017 and is transposed into national laws such as the Ballast Water Act in Germany, which governs the ballast water management of ships and vessels. The 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 to the chemical treatment of ballast water. In accordance with the most recent resolution of the Maritime Environment Protection Committee (MEPC) and the International Maritime Organization (IMO), all ships and vessels concerned must be equipped with systems for the treatment of ballast water by 2023 at the latest. This is to stop the global spread of alien species through the intake and discharge of ballast by shipping.

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. It renders obsolete the transport, storage and, above all, the disposal of chemicals. No harmful disinfection by-products have to be dealt with and aesthetic features, such as taste, odour or colour of the foodstuff are not impaired.

The Hönle Group also contributes to environmental protection in the segment of industrial adhesives. In addition to common adhesives, the product range also includes UV and light curing adhesives that enable drying process without the emission of solvents. The adhesives react to radiation, the molecules interconnect and cure in seconds - and no solvents are used, thus proving the environmental compatibility of UV and light curing adhesives.

Raesch Quarz (Germany) GmbH manufactures high-quality quartz glass products for industrial applications. Products for the processing industry are made from various quartz sand mixtures using 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.

Statement on Corporate Governance

The statement on corporate governance to be submitted pursuant to Section 289f and Section 315d HGB is included in the Corporate Governance Report: It is also available at www.hoenle.de.

Disclosures Required by the Takeover Directive and Explanatory Report of the Management Board

The disclosures required under Section 289a and Section 315a, HGB (German Commercial Code) are presented below as at 30 September 2019.

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

Re: No. 3: Pursuant to Section 33 (1) WpHG, shareholders must report significant participating interests in listed companies. Dr. Hönle AG is not aware of any shareholders with participating interests in Dr. Hönle AG of more than 10%.

Re: No. 6: The Supervisory Board appoints the Dr. Hönle AG Management Board for a maximum term of office of five years. Each amendment to the company’s Articles of Incorporation requires a resolution by the 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 26 March 2019 authorised the company to purchase up to 551,293 of its own shares by 31 December 2023.

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

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

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

Employees

The number of Hönle Group employees dropped from 646 to 590 as at the end of the respective financial year. The number of staff included 68 part-time employees, corresponding to 11.5% of total staff. The number of employees increased significantly in the course of the 2017/2018 financial year, but then declined again in the 2018/2019 financial year.

The staff turnover rate fell from 13.3% in the previous year to 12.6% in the reporting year.

Personnel expenses decreased from T€ 36,020 in the previous financial year to T€ 35,812 in the reporting year.

Personnel Development

With a view to ensuring a high qualification level among its employees, Hönle regularly invests in employee qualification and training measures. In this context, the company uses the services of both internal experts from the respective departments as well as external institutions. In financial year 2018/2019, expenses for staff training and qualification amounted to T€ 610 (PY: T€ 554).

Hönle invests in vocational training with a view to covering the future demand for qualified personnel: As in the previous year, the group employed 39 trainees at the end of the financial year. At present, the Hönle Group provides training for industrial staff, IT specialists, electricians, industrial mechanics, warehouse logistics specialists, and others.

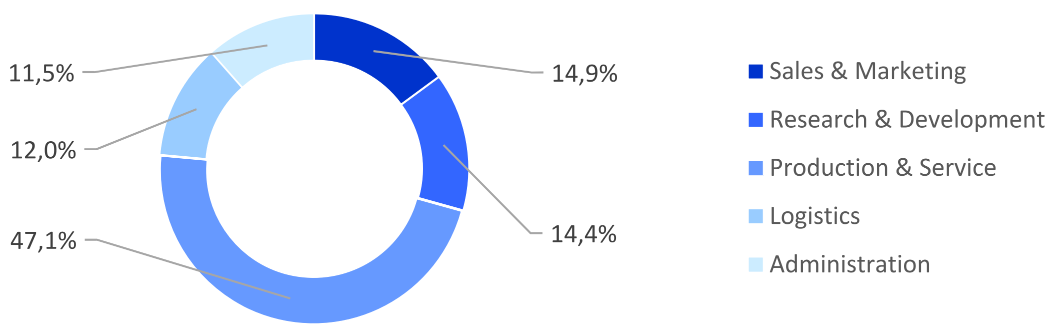
Employees by Segment

	30/09/2019	30/09/2018	+/- %
Equipment & Systems	274	311	-11.9
Glass & Lamps	198	221	-10.4
Adhesives	118	114	3.5
Total	590	646	-8.7

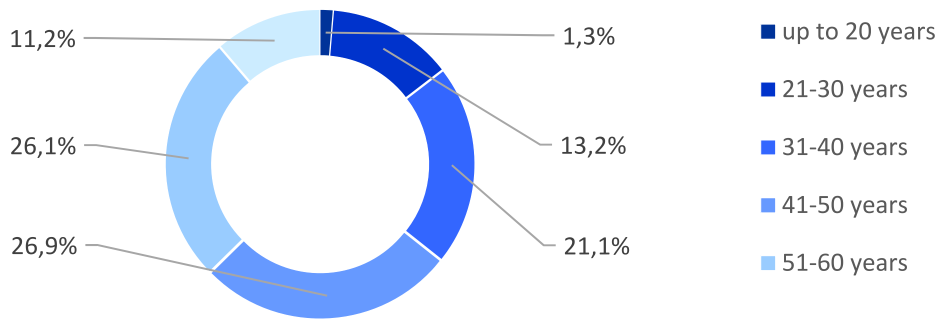
Personnel Expenses

in T€	2018/2019	2017/2018	+/- %
Wages and salaries	29,331	29,821	-1.6
Social security and pension costs	6,481	6,199	4.6
Total	35,812	36,020	-0.6

Employees by Functional Areas (as at 30 September 2019)



Employees by Age Group



Opportunities and Risk Report

Risk Management Objective

Dr. Hönle AG’s risk policy is aligned to the entrepreneurial objectives of sustained growth and improved corporate performance with a view to contributing to an increase in corporate value. Entrepreneurial opportunities are usually matched by risks and these risks must be identified and evaluated as early as possible. Through the introduction of suitable measures it is intended to limit possible negative effects and thus to prevent threats to the existence of the company.

Risk Management Structure

For purposes of risk monitoring, Dr. Hönle AG has implemented a formalised risk management system. The principles, which are documented in a risk manual, define the procedures for dealing with risks. In consideration of the potential amount of loss, the probability of losses occurring but also in view of the opportunities arising for the company, it is determined whether the respective risks should be avoided, reduced, transferred or accepted. The probability of occurrence is 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). Any necessary measures were defined and initiated (risk management). In addition, risk discussions were held with the responsible risk managers at three month-intervals; the risk situation was analysed and measures were monitored (risk controlling). The Dr. Hönle AG Management Board is informed of the group’s current risk situation at regular intervals and is promptly notified as soon as defined risk thresholds of 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

The following section describes risks that could have medium or high negative effects on the net assets, financial position or results of operations of Hönle Group's net assets, financial position and results of operations. It should be noted that the Hönle Group considers the probability of occurrence of all the risks mentioned below as low. The sequence of the risks presented in the categories below reflects the current assessment of the relative risk level (in descending order). Thus it provides an indication of the significance of these risks for the Hönle 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 Hönle Group is exposed to the following internal and external opportunities and risks:

Market and General Conditions

A significant global economic downturn is one of the material risks for the Hönle Group. In the USA, the economy continues to perform well thanks to strong consumption, although economic data from the industry also point to an economic slackening. China is trying to stimulate economic growth with expansive monetary and fiscal policy measures. In other countries for which foreign trade plays an important role, such as Germany, the economic slowdown is becoming increasingly visible. In Europe, both the economic and political challenges remain, but a recession is currently still unlikely given a stable economy in the services sector. However, the longer the period of weakness in industry continues, the more likely it is that this will affect other sectors of the economy.

A substantial cooling down of the economy would impair the Hönle Group's revenue and earnings development. Hönle addresses this risk by continuously monitoring the market in order to enable the company to respond swiftly to current economic developments.

Market risks also arise from changes in underlying data such as those pertaining to raw materials prices. Depending on the market situation, significant price fluctuations may affect purchase prices for the required raw materials or for energy supply. After careful consideration of all relevant factors, based on a cost-benefit analysis, the Hönle Group decided against special hedging measures to cover commodity price risks. In contrast, a decline in the prices for energy and many raw materials would have a positive impact on the Hönle Group's earnings development.

Changing international regulations and laws (in Germany and the EU, in particular) such as those concerning the use of raw materials and ingredients, also entail risks. Setting up trade barriers and the intensification of geopolitical strains may have a negative impact. The trade conflict between the US and China and the EU may lead to further increases in customs duties and prices for acquired goods and may also influence global growth dynamics.
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 which is projected to have a positive impact on the Hönle Group's development.

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

Operational Development

The loss of key customers could lead to a decline in revenues. Hönle addresses this risk through intensive monitoring of its key customers and ongoing examination of their financial performance. Satisfaction respecting key accounts is continually monitored. In addition, the expansion of the customer base in economically decoupled target industries leads to a better risk structure and the successful cooperation with key customers provides a sound basis for the 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 Hönle Group customers have thus far demonstrated good payment behaviour. Hönle adapts the payment conditions to customers’ credit standing as required.

As a result of the introduction of new products or technologies, the company's existing products may no longer be marketable. The Hönle Group's success 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 Hönle Group succeeded in recognising market developments at an early stage and using them to the company's advantage.

Just as other companies, the Hönle 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.

Although this has not occurred to date, power failures over a longer period can never be ruled out completely. A prolonged power failure at the Raesch Group 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.

Hönle 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. Hönle 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 as well as internships. Hönle also counteracts the lack of skilled professionals by offering internal vocational training. The range of vocational training in the industrial area was significantly expanded in recent years. 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 comprehensive measures to this end. Furthermore, corresponding substitution arrangements are in place in the sensitive areas, in particular, in order to minimise the impact of an unexpected loss of an employee.

Financial Risks

Financial risks include risks associated with financial losses due to fluctuating economic data, such as data pertaining to exchange and interest rates. Such risks may impact negatively on the company's net assets, financial position and results of operations. It is to be assumed that rising euro exchange rates could adversely impact on Hönle's export business. However, since sales are 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 might offer competitive advantages to the company outside the Eurozone 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 commercial real estate and 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 financing 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 € 14.6 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 generated earnings in financial year 2018/2019 that exceeded the planned result. Following the optimisation measures implemented in the past financial years, the quartz melting furnaces operate in line with our expectations. On this basis, the company expects that sales and earnings will increase in financial year 2019/2020 and beyond, especially in the semiconductor and fibre cable growth markets.

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 monitor risks and 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, in-depth 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 other 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 systems 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. Hönle AG monitors, coordinates, and manages the Hönle 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. Hönle 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.

Achievement of the planned targets of equity investments held by Hönle plays a major role in the existing risk exposure of Dr. Hönle AG. This applies, in particular, to the carrying amounts of equity investments as well as to loans and receivables vis à vis the equity holdings. If the equity investments fail to meet the planned targets or if necessary measures as a reaction to further developments cannot be implemented in time, the recognised values must be reviewed to identify any write-down requirements.

Liquidity Risk

The liquidity risk may be of relevance to the Hönle Group in the event that current or future payment obligations cannot be met due to insufficient availability of cash and cash equivalents. Long-term financial planning, which extends over several years, and regular liquidity planning ensure constant solvency.

Market Risk

The market risk arises from financial losses due to fluctuating market prices, e.g. respecting raw materials, exchange rates, interest rates and securities. The commodity price risk, currency risk and interest rate risk are particularly relevant to the Hönle 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 Hönle Group decided not to implement special hedging measures against currency and commodity price risks in most cases.

Depending on the changing market situation, significant price fluctuations may affect purchase prices for required raw materials or for energy supply. From a current perspective, the existing and expected market risks do not pose a threat to the Hönle 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 the 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 arise from a general economic downturn. It can be assumed that this would also impact negatively on Hönle Group's business development. Failures 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 sensor technology, semiconductor, water sterilisation or the medical technology sales markets, are to be further developed in the coming years.

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€	Salary		Other Remuneration		Total	
	2018/2019	2017/2018	2018/2019	2017/2018	2018/2019	2017/2018
Norbert Haimerl	281	281	18	26	299	307
Heiko Runge	281	281	19	18	300	299
Total	562	562	37	44	599	606

Performance-based Remuneration

in T€	Profit Sharing Bonuses	
	2018/2019	2017/2018
Norbert Haimerl	306	548
Heiko Runge	306	548
Total	612	1,096

Pension Expenses

in T€	Pension expenses pursuant to IAS 19	
	2018/2019	2017/2018
Norbert Haimerl	293	267
Heiko Runge	260	233
Total	553	500

Defined Benefit Obligations

in T€	Present value of defined benefit obligations	
	As at 30/09/2019	As at 30/09/2018
Norbert Haimerl	2,826	2,069
Heiko Runge	2,569	1,855
Total	5,395	3,924

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

Benefits Paid in the Event of 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 context, 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€	2018/2019	2017/2018
Prof. Dr. Karl Hönle	60	48
Günther Henrich	45	36
Dr. Bernhard Gimple	30	24
Total	135	108

Forecast Report

Market Outlook

The slackening of the global economy continues and the risks arising from the customs dispute between the USA and China increased. China is trying to stimulate economic growth with expansive monetary and fiscal policy measures. In other countries for which foreign trade plays an important role, such as Germany, the economic slowdown is also becoming increasingly visible. In the USA, the economy continues to perform well thanks to strong consumption, although economic data from the industry also point to an economic slowdown. In Europe, both the economic and political challenges remain, but a recession is currently still unlikely thanks to a stable economy in the services sector. However, the longer the period of weakness in industry continues, the more likely it is that this will affect other sectors of the economy.
The rebound in global growth of 3.4% predicted by the International Monetary Fund's (IMF) for 2020 is uncertain and assumes stabilisation in the emerging markets and progress in resolving trade policy differences.

Outlook for the Hönle Group

The general economic conditions play an important role in the further business development of the Hönle Group. The outlook is based on detailed planning for the individual companies in the three existing business segments.

Adhesives Segment

Hönle has established important new customer relationships in the last financial year, particularly in the consumer electronics sector, and further expanded its business relations with major customers. In the process, the quality as well as the number and volume of customer projects were significantly increased compared to the previous year and spread over a broader customer base. The number of products already qualified at customers' sites was also significantly expanded.

The Management Board thus sees good conditions for strong business development in the coming years, while factoring in that sales with a major customer in the sensor technology segment are likely to be lower in the coming financial year and may temporarily dampen growth in the next financial year.

In order to accelerate growth, sales capacities in the Adhesives segment will be increased by about 35% in the 2019/2020 financial year. Hönle also invests in the expansion of research and development capacities.

Equipment & Systems Segment

Following a decline in sales revenue in the year under review, which was largely attributable to an economic slump in the printing industry, revenue and earnings in the Equipment & Systems segment are expected to rise again in the 2019/2020 financial year.

The Hönle Group broadened its customer base and at the same time further expanded its business relationships with existing customers in the printing industry. In addition, Hönle has expanded its product range in the printing segment in order to tap further sales potential outside of the UV drying segment. Hönle will also supplement its product range with new technologies in the surface disinfection segment. Rising sales and cost-saving measures already implemented are expected to contribute to a significant improvement in earnings in the Equipment & Systems segment.

Glass & Lamps Segment

In the Glass & Lamps segment, Aladin GmbH will be relocated to the premises of UV-Technik Speziallampen GmbH in Thuringia. Low-pressure and medium-pressure lamps will then be exclusively manufactured in Thuringia. In addition, the site was expanded with a new factory building, thus offering significantly higher production capacities for the planned growth, especially in the area of ballast water sterilisation.

Successful product qualifications and ongoing qualification processes at major customers from the semiconductor and fibre optics market are expected to contribute to a rise in sales and earnings at Raesch Quarz (Germany) GmbH. In addition, optimised production processes will lead to lower reject rates and thus to an improvement in the cost of materials ratio. It is expected that the currently weaker quartz glass market will rebound in the first half of 2020.

Overall Assessment of Future Business Development

Several leading indicators point to a global slowdown in economic development, which would also negatively affect the Hönle Group's business development. Against this background, the Management Board expects sales revenues of between € 105 million and € 115 million for the financial year 2019/2020 and an operating result of between € 17 million and € 20 million.

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

In the past financial year, Hönle was able to acquire new high-potential customers and further expand its partnership with existing key customers.
All major smartphone manufacturers are now among Hönle's customers.
Since the quality as well as the number and volume of customer projects are significantly higher than in the previous year's values, the Management Board sees good conditions for further strong business development in the adhesives segment.

Cooperation agreements with strategic partners in the water sterilisation market also provide important growth potential for the Hönle Group in the coming years.
Qualification processes for quartz glass products were successfully completed with several important customers, which may be an important basis for further tapping into the semiconductor and fibre optics market.
With respect to durable goods in the Equipment & Systems segment, Hönle is well positioned in an up and coming market with innovative UV LED systems for the printing and coating industry. Here, too, intensive cooperation with market leaders is an important prerequisite for being able to accommodate the planned growth. Moreover, Hönle will expand its product range in the surface disinfection segment in order to achieve further growth in this interesting high-potential market.

Capital Expenditure

The amount of new and replacement investments in production facilities is expected to range between € 3 million and € 4 million.
In addition, Hönle is investing in new office and production space for the expansion of its business activities. An investment volume of about € 20 million is planned for financial year 2019/2020.

A production facility for the manufacture of UV lamps was built in Ilmenau in 2019 and will be ready for use in the spring of 2020.

Moreover, a new company building is being constructed in Steinbach near Frankfurt, which will also be completed and ready for use in 2020. Adhesives and casting compounds will be developed and manufactured in this significantly larger building complex in the future.

The new Hönle Group headquarters, consisting of two building complexes, is currently under construction in Gilching near Munich. Completion of the office and production building is scheduled for the end of 2021; the logistics building will be occupied one year earlier.

In addition to organic growth, the acquisition of companies will continue to play an important role in the expansion of the Hönle Group's business activities in the future. Over the medium term, the Hönle Group intends to further expand its market position in the adhesives segment, in particular.

Gräfelfing, 20 January 2020

Norbert Haimerl
Management Board

Heiko Runge
Management Board

Statement pursuant to Section 289f and Section 315d HGB on the observance of recommendations concerning the German Corporate Governance Code by Dr. Hönle AG as at 24 January 2020

The German Corporate Governance Code presents essential statutory regulations governing the management and supervision of German listed companies and includes internationally and nationally recognised standards concerning corporate governance. The German Corporate Governance Code defines three different standards, namely regulations that describe current statutory law as well as recommendations and suggestions of the government commission.
Under currently valid statutory law, corporations are obliged to act in compliance with the legal provisions defined in the German Corporate Governance Code. Companies may deviate from the recommendations but are required to disclose such deviations each year. In accordance with Section 161 AktG [German Stock Corporation Act], the Management Board and the Supervisory Board of German listed companies are required to issue annual statements concerning observance of the recommendations of the government commission. Deviations from the suggestions of the German Corporate Governance Code need not be disclosed.

Even though the Code is - in many cases - mainly directed at large companies, Dr. Hönle AG complies to a great 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 issues:

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. Hönle AG is of the opinion that it is not necessary to disclose the compliance management system to meet the compliance regulations. Consequently, Dr. Hönle 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. Hönle 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, but not gender, are decisive when filling management positions.

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. Hönle 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. Hönle 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. To continue positive business development, Dr. Hönle AG plans to expand the board of directors from two to three persons. A chairman of the board or spokesman for the board is not planned.

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. Hönle 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. Hönle 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 Board 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 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, in this case, 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. Hönle 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. Hönle 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. Hönle AG specified such target figures. The Supervisory Board defined an achievable target figure of at least 0% for the share of women on Dr. Hönle AG's Management Board. Consequently, no deadline has to be specified for achieving the minimum share. The two Dr. Hönle AG Management Board members, Mr Haimerl and Mr Runge, have successfully managed the group for many years now. 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 plans to add another person to the current board to three members then. The supervisory board will orientate itself on the qualification and the individual abilities of the candidate both in the selection of the planned third board member as well as in the future selection of board members in general. 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. Despite the planned expansion of the board to three people, there are currently no plans to raise the existing target for the proportion of women on the board by at least 0%.

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. Hönle AG Supervisory Board consists of three members. Decision-making committees must also consist of three members. In view of the size of the Dr. Hönle AG Supervisory Board, no committees are formed at present. There are no plans to form committees in the future.

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 status of the target-setting process 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 currently 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 currently 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. Hönle 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. Hönle AG were re-elected at the Annual General Meeting held in March 2015 for a tenure of five years. 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. At the Annual General Meeting on March 17, 2020, the Supervisory Board of Dr. Hönle AG will be newly elected. The incumbent members of the Supervisory Board will stand for election again. In addition, the Supervisory Board is to be expanded by another member to four members and a corresponding proposal for a resolution at the Annual General Meeting of Dr. Hönle AG will be put to the vote on March 17, 2020. As a further member, the supervisory board will propose a female candidate, so that the proportion of women on the supervisory board - provided the four proposed candidates are selected - will be 25% in the future. The newly elected Supervisory Board will then set new targets for the proportion of women on the Supervisory Board and the target achievement period.

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

Responsibilities of the Management Board

The Management Board manages the company on its own authority in accordance with applicable laws, the company's Articles of Incorporation, and the Board's Rules of Internal Procedure, and by taking the resolutions of the General Annual Meeting into account. The Management Board represents the company vis-a-vis third parties. The company is managed via regular strategic discussions at Management Board level and by including the managers of the business segments. The Management Board is informed about the development of significant key indicators of Dr. Hönle 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 German Corporate Governance Code that qualified committees be formed, which are to comprise at least three members. Since Dr. Hönle 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)
The shareholders may have their voting rights exercised by proxy of their choice or by a voting 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 (57)
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 (55)
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. Ingenieur (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
Prof. Dr. 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 Günther 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. Bernhard 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 Stadtsparkasse 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, 20 January 2020

Dr. Hönle AG

Management Board

Independent Auditor’s Report

To Dr. Hönle Aktiengesellschaft, Gräfelfing

Report on the consolidated financial statements and the group management report

Audit opinion

We have audited the consolidated financial statements of Dr. Hönle AG, Gräfelfing, and its subsidiaries (the group), comprising the consolidated statement of financial position as at 30 September 2019 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year from 1 October 2018 to 30 September 2019 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 2018 to 30 September 2019.

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 315e (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 2019 and its results of operations for the financial year from 1 October 2018 to 30 September 2019 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 opinion

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 auditor’s report. 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 opinion 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 2018 to 30 September 2019. 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 opinion. 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:

- Value of goodwill
- 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

Value of goodwill

1) The consolidated financial statements of Dr. Hönle AG disclose goodwill in the amount of T€ 18,849 (13.1% 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 write-downs.

   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 value of goodwill.

3) The information which the company provided on the impairment tests is included in sections "5 – Accounting and Valuation Methods“ and "20 – Non-Current Assets“ in the notes to the consolidated financial statements.

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€ 1,976. 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 auditor's report,
- the statement on corporate governance pursuant to Section 289f and Section 315d HGB to which reference is made in the combined management report,
- the non-financial statement pursuant to Section 289b and Section 315b HGB to which reference is made in the combined management report,
- the corporate governance report pursuant to item 3. 10 of the German Corporate Governance Code to which reference is made in the combined management report, and
- the statement of the legal representatives pursuant to Section 297 (2) sentence 4 HGB for the consolidated financial statements and the Statement pursuant to Section 315 (1) sentence 5 HGB for the group management report.

Our audit opinion on the consolidated financial statements and the group management report do not extend to the other information. Consequently, we do not provide an audit opinion 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 315e (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 auditor’s report which includes our audit opinion 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 opinion. The risk that material misrepresentations are not detected is higher for violations than the risk associated with misstatements since violations may involve fraudulent interaction, falsifications, wilful incompleteness, misleading presentation or the 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 opinion 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 auditor’s report or, if these disclosures should be unreasonable, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our auditor’s report. 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 315e (1) HGB.
- we obtain sufficient and appropriate audit evidence concerning the companies' accounting information or business activities within the group in order to issue an audit opinion 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 opinion.

- 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 opinion 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 auditor's report 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 26 March 2019 appointed us as group auditors. The Supervisory Board commissioned us on 29 September 2019. We have acted as group auditor of Dr. Hönle AG without interruption since the financial year 2012/2013.
We confirm that in every case the audit opinion included in this auditor's report complies with the additional report to the Supervisory Board in accordance with Article 11 EU-APrVO (Audit Report).

Responsible auditors

Joachim Mairock and Dr. Henriette Burkhardt-Böck are the auditors responsible for the audit.

Augsburg, 20 January 2020

S & P GmbH
Wirtschaftsprüfungsgesellschaft

Mairock Wirtschaftsprüfer (Public Auditor)	Dr. Burkhardt-Böck Wirtschaftsprüferin (Public Auditor)

Consolidated Income Statement

for the period from 1 October 2018 to 30 September 2019 according to IFRS

	Notes	01/10/2018 - 30/09/2019 in T€	01/10/2017 - 30/09/2018 in T€
Revenue	(6)	107,747	126,492
Changes in inventories of finished goods and work in progress		1,893	1,531
Other work performed by entity and capitalised		56	156
Other operating income	(7)	1,500	949
Cost of purchased materials and services	(8)	36,872	42,779
Personnel expenses	(9)	35,812	36,020
Depreciation and amortisation of property, plant and equipment and intangible assets	(10)	3,315	3,150
Other operating expenses	(11)	18,167	16,492
Impairment pursuant to IFRS 9		26	0
Operating result/EBIT		**17,003**	**30,687**
Profit/loss from investments accounted for using the equity method	(12)	17	3
Financial income	(13)	13	24
Financial expenses	(14)	162	318
Financial result		-132	-291
Earnings before tax and non-controlling interest/EBT		**16,872**	**30,397**
Income taxes	(15)	4,476	8,671
Consolidated profit or loss		**12,396**	**21,726**
Share of earnings attributable to non-controlling interests	(16)	-81	-12
Share of earnings to Dr. Hönle AG shareholders		12,477	21,738
Earnings per share (basic) in €	(19)	2.26	3.94
Earnings per share (diluted) in €	(19)	2.26	3.94

Consolidated Statement of Comprehensive Income

for the period from 1 October 2018 to 30 September 2019 according to IFRS

		01/10/2018 - 30/09/2019 in T€	01/10/2017 - 30/09/2018 in T€
Consolidated profit or loss		**12,396**	**21,726**
Other comprehensive income: Positions that may be subsequently reclassified to profit or loss			
- Currency translation differences	(31)	222	74
- Other comprehensive income from hedge accounting	(46)	-5,638	-112
- Income tax effects	(15)	1,479	28
Positions that will not be reclassified to profit or loss			
Actuarial gains / (losses) on defined benefit pension plans	(35)	-2,133	-260
Deferred tax from change to actuarial gains/losses from pensions	(23)	529	73
Total other comprehensive income		-5,541	-195
Total comprehensive income		**6,855**	**21,530**
Thereof:			
- Comprehensive income attributable to non-controlling interests		-81	-12
- Comprehensive income of Dr. Hönle AG shareholders		6,936	21,543

Consolidated Statement of Financial Position

As at 30 September 2019 according to IFRS

A SSETS	Notes	30/09/2019 in T€	30/09/2018 in T€
Non-current assets			
Goodwill	(20)	18,849	18,849
Intangible assets	(20)	2,355	2,619
Property, plant and equipment	(20)	42,241	26,972
Investment property	(20)	1,171	1,210
Investments accounted for using the equity method	(22)	52	30
Financial assets	(20)	27	27
Other non-current assets	(21)	1,495	1,269
Deferred tax assets	(23)	5,687	3,298
Total non-current assets		**71,877**	**54,275**
Current assets			
Inventories	(24)	35,895	33,279
Trade accounts receivable	(25)	16,980	22,999
Receivables from companies in which an equity investment is held	(26)	150	167
Other current assets	(27)	2,841	2,114
Current tax assets	(28)	877	652
Cash and cash equivalents	(29)	14,577	12,037
Total current assets		**71,320**	**71,248**
Non-current assets held for sale	(30)	950	0
Total assets		**144,147**	**125,523**

EQUITY AND LIABILITIES			
Equity	(31)		
Subscribed capital		5,513	5,513
Own shares		-8	-8
Capital reserves		16,596	16,596
Retained earnings		67,875	64,985
Equity attributable to Dr. Hönle AG shareholders		**89,976**	**87,086**
Non-controlling interests		146	163
Total equity		**90,122**	**87,250**
Non-current liabilities			
Non-current loans (less current portion)	(32)	14,344	4,560
Non-current portion of finance lease obligations	(33)	144	210
Other non-current liabilities	(34)	6,085	533
Pension provisions	(35)	8,264	5,988
Accrued public investment grants	(36)	266	332
Deferred tax liabilities	(23)	1,292	1,300
Total non-current liabilities		**30,395**	**12,922**
Current liabilities			
Trade accounts payable	(37)	7,866	6,838
Liabilities to companies in which an equity investment is held	(26)	3	0
Contract liabilities	(38)	1,410	1,300
Current portion of finance lease obligations	(33)	65	64
Current liabilities to banks and current portion of non-current loans	(39)	1,672	2,263
Other current liabilities	(40)	5,671	7,090
Other provisions	(41)	502	590
Current tax liabilities	(42)	6,441	7,206
Current liabilities, total		**23,630**	**25,351**
Total equity and liabilities		**144,147**	**125,523**

Consolidated Statement of Changes in Equity

for the period from 1 October 2018 to 30 September 2019 according to IFFRS

				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€	Reserve from measurement accord. to IFRS 9 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-controlling interests in T€	Total in T€
As at 01/10/2017	**5,513**	**-8**	**16,596**	**45,894**	**0**	**-34**	**-1,829**	**1,748**	**67,880**	**1,898**	**69,778**
Consolidated net income for the year				21,738					21,738	-12	21,726
Other comprehensive income						-83	-187	74	-195		-195
Total comprehensive income				**21,738**		**-83**	**-187**	**74**	**21,543**	**-12**	**21,530**
Changes due to the purchase of non-controlling interests				979			-9		971	-1,771	-800
Equity contribution by non-controlling shareholders										49	49
Dividend distribution				-3,307					-3,307		-3,307
As at 30/09/2018	**5,513**	**-8**	**16,596**	**65,305**	**0**	**-117**	**-2,024**	**1,822**	**87,087**	**164**	**87,250**
As at 01/10/2018	**5,513**	**-8**	**16,596**	**65,305**	**0**	**-117**	**-2,024**	**1,822**	**87,087**	**164**	**87,250**
Adjustment pursuant to IFRS 9					341				341		341
As at 01/10/2018 (adjusted)	**5,513**	**-8**	**16,596**	**65,305**	**341**	**-117**	**-2,024**	**1,822**	**87,428**	**164**	**87,591**
Consolidated net income for the year				12,477					12,477	-81	12,396
Other comprehensive income						-4,159	-1,604	222	-5,541		-5,541
Total comprehensive income				**12,477**		**-4,159**	**-1,604**	**222**	**6,936**	**-81**	**6,855**
Changes due to the purchase of non-controlling interests				23					23	-83	-60
Equity contribution by non-controlling shareholders										147	147
Dividend distribution				-4,409					-4,409		-4,409
As at 30/09/2019	**5,513**	**-8**	**16,596**	**73,395**	**341**	**-4,276**	**-3,630**	**2,044**	**89,976**	**146**	**90,122**

Statement of Consolidated Cash Flows

for the period from 1 October 2018 to 30 September 2019 according to IFRS

	01/10/2018-30/09/2019 in T€	01/10/2017-30/09/2018 in T€
Cash flows from operating activities:		
Consolidated profit or loss before non-controlling interests and taxes	16,872	30,397
Adjustments for:		
Depreciation of intangible assets, property, plant and equipment and investment property	3,315	3,150
Gains/losses from disposal of intangible assets, property, plant and equipment and investment property	159	90
Financial income	-30	-27
Financial expenses	162	318
Other non-cash expenses/income	-488	250
Operating result before changes to net current assets	**19,991**	**34,178**
Increase/decrease in provisions	31	71
Increase/decrease in trade accounts receivable	6,506	-5,107
Increase/decrease in receivables from companies in which an equity investment is held	17	32
Increase/decrease in other assets	-795	-317
Changes in reinsurance policy	-278	-168
Increase/decrease in inventories	-2,407	-3,501
Increase/decrease in trade accounts payable	1,126	1,602
Increase/decrease in liabilities to companies in which an equity investment is held	3	-3
Increase/decrease in advance payments received	110	-192
Increase/decrease in other current liabilities	-1,309	1,246
Increase/decrease in accrued public investment grants	68	36
Cash generated from operations	**23,062**	**27,877**
Interest paid	-135	-171
Income taxes paid	-6,003	-3,490
Cash flows from operating activities	**16,924**	**24,216**
Cash flows from investing activities:		
Payments received from the disposal of intangible assets, property, plant and equipment and investment property	76	11
Payments for the purchase of property, plant and equipment and intangible assets	-19,278	-10,577
Payments due to acquisitions in previous years	0	-23
Payments received from non-current receivables	52	68
Payments for non-current receivables	0	-130
Interest received	13	21
Dividends received	0	3
Cash flows from investing activities	**-19,136**	**-10,627**
Cash flows from financing activities:		
Payments received from loans and liabilities to banks	11,407	1,384
Payments for loans and liabilities to banks	-2,304	-4,140
Payments for the purchase of non-controlling interests	-60	-800
Equity contribution by minority shareholders	49	49
Dividends paid	-4,409	-3,307
Cash flows from financing activities	**4,682**	**-6,814**
Exchange rate differences	0	27
Exchange rate-related change in funds	69	19
Net increase/decrease in cash and cash equivalents	**2,539**	**6,821**
Cash and cash equivalents at the beginning of the reporting period	**12,037**	**5,217**
Cash and cash equivalents at the end of the reporting period	**14,577**	**12,037**

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

Notes to the IFRS Consolidated Financial Statements

for the Financial Year 2018/2019 of Dr. Hönle AG, Gräfelfing

GENERAL INFORMATION

1. Accounting Basis

Dr. Hönle 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 Hönle Group is split into the following three business segments: Equipment & Systems, Adhesives and Glass & Lamps. The equipment and systems are used for drying inks and coatings, for curing adhesives and plastics, for disinfecting surfaces and for sunlight simulation. The Adhesives segment includes industrial adhesives designed for a broad spectrum of applications such as electronics, medical technology, optics and glass processing. 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 present consolidated financial statements of Dr. Hönle 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 315e (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. Hönle AG and the group.

The financial year of Dr. Hönle AG and its included subsidiaries, with the exception of the subsidiaries, Hoenle UV Technology (Shanghai) Trading Ltd., China, and Panacol-Korea 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 two companies are included on the basis of interim financial statements.

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 Hönle 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). Due to rounding-off the totals, individual figures may not add up to the total stated. 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. Hönle AG Management Board prepared the consolidated financial statements on 20 January 2020.

2. Estimates and Assumptions

The preparation of the consolidated financial statements requires estimates and assumptions that have influenced the reported amounts and related disclosures. In preparing the consolidated financial statements, management has discretionary powers which are exercised to the best of its knowledge. However, actual results may deviate from these estimates and assumptions.
The major future-related assumptions and other key sources of estimation uncertainty as at the reporting date that involve a significant risk of causing major adjustments to the carrying amounts of assets and debts within the next financial year are disclosed in the notes to the individual items.
Estimates and assessments within the Hönle Group relate, to a large extent, to assessing the value of goodwill (cf. paragraph 20), the valuation of pension provisions (cf. paragraph 35), and other provisions (cf. paragraph 41) and the determination of deferred taxes (cf. paragraph 23).

3. Consolidation

Consolidated Group

The consolidated financial statements as of 30 September 2019 include the parent company, Dr. Hönle AG, and the following subsidiaries:

	Name	Home state	Percentage of shares held Reporting year	Percentage of shares held Prior year	Held via
Direct participations:					
(1)	Aladin GmbH, Gräfelfing, Munich	Germany	100.00%	100.00%	
(2)	Honle UV France S.à.r.l., 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, Regensdorf, Zurich	Switzerland	100.00%	100.00%	
(6)	UV-Technik Speziallampen GmbH, Ilmenau	Germany	100.00%	100.00%	
(7)	Hoenle UV Technology (Shanghai) Trading Ltd., Shanghai	China	100.00%	100.00%	
(8)	Raesch Quarz (Germany) GmbH, Ilmenau	Germany	100.00%	100.00%	
(9)	Raesch Quarz (Malta) Ltd., Mosta	Malta	100.00%	100.00%	
(10)	Honle US Real Estate LLC, Torrington	USA	100.00%	100.00%	
(11)	Hönle Electronics GmbH, Dornbirn	Austria	51.00%	51.00%	
(12)	GEPA Coating Solutions GmbH, Frickingen	Germany	51.00%	0.00%	
Indirect participations:					
(13)	Panacol AG, Regensdorf, Zurich	Switzerland	100.00%	100.00%	(5)
(14)	Panacol-Elosol GmbH, Steinbach/Frankfurt/M.	Germany	100.00%	100.00%	(13)
(15)	Eleco Panacol - EFD, SAS, Gennevilliers/Paris	France	99.96%	99.96%	(13)
(16)	Eltosch Grafix America Inc., Batavia/Chicago	USA	100.00%	100.00%	(4)
(17)	Panacol-Korea Co., Ltd, Seongnam	South Korea	100.00%	51.00%	(14)
(18)	Panacol-USA, Inc., Torrington	USA	71.36%	71.36%	(13)
Associated companies:					
(19)	Metamorphic Materials Inc., Winsted	USA	30.00%	30.00%	(12)
(20)	TECINVENT GmbH, Schömberg	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 an 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 20% or more but less than 50% 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. Hönle's share in the profit/loss of an associated company are reported in the consolidated income statement. The share in changes in equity capital with neutral effects on profit or loss is reported directly in the consolidated equity capital.

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 2018/2019 generated by Solitec GmbH amounts to T€ 2 (PY: T€ 2), the amount of equity capital as of 30 September 2019 amounts to T€ 44 (PY: T€ 41).

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

Panacol-Elosol GmbH, Steinbach/Frankfurt a. M., acquired a further 49% stake in SKC Panacol Co., Ltd. Seongnam, South Korea in November 2018 and the company was renamed as Panacol-Korea Co, Ltd.. Consequently, 100% of the shares are held in Panacol-Korea Co., Ltd., as of the balance sheet date.

In addition, in the first quarter of 2018/2019, the American subsidiary, Tangent Industries, Inc. of Torrington, USA, was renamed as Panacol-USA, Inc..

The second quarter of financial year 2018/2019 saw the foundation of GEPA Coating Solutions GmbH with head office in Frickingen (Bodensee). The company's share capital amounts to € 100,000, and Dr. Hönle AG holds 51% of the shares. The company is included in the Hönle Group's consolidated financial statements for the first time as of 31 March 2019. GEPA Coating Solutions GmbH is engaged in the development, manufacture and sale of machines for the varnishing, finishing and coating of printed products.

The French subsidiary, Eleco Produits EFD, SAS, Gennevilliers/Paris, France, was renamed as Eleco Panacol – EFD, SAS in the fourth quarter of 2018/2019.

Consolidation Methods

Business combinations are accounted for using the acquisition method. The cost of an acquisition are measured at the fair value of the assets transferred and the liabilities transferred or entered into at the acquisition date. The identified assets acquired within the scope of a business combination as well as the liabilities transferred including contingent liabilities are initially measured at the respective fair values as of the acquisition date, irrespective of the scope of any non-controlling interests.

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.

Transactions with non-controlling interests, which do not lead to a loss of control, are reported as equity capital transactions with neutral effect on profit or loss.

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. Hönle 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 South 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 neural 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	
		30/09/2019 in €	30/09/2018 in €	2018/2019 in €	2017/2018 in €
1 Swiss Franc	CHF	0,9136	0,8703	0,8907	0,8610
1 US Dollar	USD	0,9184	0,8639	0,8865	0,8399
1 Chinese Renminbi	RMB	0,1286	0,1255	0,1289	0,1285
1 South Korean Won	KRW	0,0008	0,0008	0,0008	0,0008

In accordance with IAS 21, foreign currency receivables and liabilities are generally translated at the mean spot exchange rate on the date of initial accounting entry and at the end of the reporting period at the mean rate of exchange as of the balance sheet date. 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. New Standards and Interpretations and Newly Issued Accounting Provisions

New standards and interpretations to be applied in the financial year

In financial year 2018/2019, the following new or amended standards of the IASB (International Accounting Standards Board) or IFRIC (International Financial Reporting Interpretations Committee) were to be applied for the first time. With the exception of the first-time application of IFRS 9 and IFRS 15, the first-time application of the other standards and interpretations had no material impact on the consolidated financial statements of Dr. Hönle AG.

Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts: The amendments state two approaches, specifically the overlay approach and the deferral approach, in order to meet the challenges arising from the lack of consistency between the dates of first-time adoption under IFRS 9 and the follow-up standard of IFRS 4 (effective date: 1 January 2018).

IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration:
The interpretation addresses a question of application regarding IAS 21 (Effects of Changes in Foreign Exchange Rates). It clarifies the point in time at which the exchange rate is to be determined for the translation of foreign currency transactions which include advance payments received or made (effective date: 1 January 2018).

Amendments to IAS 40 - Transfers of Investment Property: The amendment to IAS 40 serves to clarify in which cases the classification of a property as "investment property" begins or ends if the property is still under construction or development. The previously exhaustive listing in IAS 40.57 did not clearly define the classification of properties not yet completed (effective date: 1 January 2018).

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

Annual Improvements to IFRS Standards 2014-2016 Cycle: As part of the IASB's annual improvement process, amendments are made within individual IFRSs in order to eliminate inconsistencies with other standards or to clarify their content. The standards concerned include IFRS 1, IAS 28, IFRS 7 (effective date 1 January 2018).

IFRS 9 - Financial Instruments: The standard replaces IAS 39 and introduces a uniform approach used for the classification, measurement and derecognition of financial assets and financial liabilities, as well as for hedge accounting and impairment of financial assets. The cash flow characteristics and the business model by which they are managed serve as the basis for classification. IFRS 9 also provides for a new impairment model and contains new rules on the application of hedge accounting.

On October 1, 2018, Dr. Hönle AG applied IFRS 9 for the first time, taking into account the respective simplification and transitional provisions. The group has made use of the exemption not to adjust comparative information of prior periods with respect to changes in classification and measurement (including impairment). Differences between the carrying amounts of financial assets and financial liabilities resulting from the application of IFRS 9 will then generally be recognized in retained earnings as of October 1, 2018. In this respect, the information presented for the 2017/2018 financial year generally does not comply with the requirements of IFRS 9, but with those of IAS 39.

The first-time application of the new impairment model in accordance with IFRS 9 as of October 1, 2018, led to a reduction in the recognised impairment loss on trade receivables in the amount of T€ 480 (before deferred taxes). The cumulative effect at the time of initial application was recognised directly in equity without adjusting the comparative period.

With respect to cash and cash equivalents that involved a low credit risk at the time of first-time application of IFRS 9, the group has assumed that the default risk of the asset has not increased significantly since its initial recognition.

The effect on the opening balance sheet is as follows:

Equity capital as of 30 September 2018	T€ 87,250
IFRS 9 amendments in retained earnings:	
- Valuation allowances on trade receivables	T€ 480
- Deferred taxes on IFRS 9 amendments	T€ -139
Equity capital as of 1 October 2018 after IFRS 9 amendments	T€ 87,591

In addition, the first-time application of IFRS 9 leads to changed categories of financial instruments for the classification of financial assets and financial liabilities. According to IFRS 9, upon initial recognition, financial assets must be classified into the categories "measured at fair value through profit or loss (FVthPL)", "measured at fair value through other comprehensive income (FVthOCI) or "measured at amortized cost" (AC). Financial assets that are based on the collection of contractual cash flows and whose cash flows represent exclusively repayments and interest on the outstanding capital are to be allocated to the category "measured at amortized cost (AC).

The classifications at the time of first-time application were made in consideration of the business model within the scope of which financial assets are held.

The classification of financial liabilities has not changed compared to IAS 39.

	Measurement category pursuant to IAS 39	**Measurement category pursuant to IFRS 9**	**Carrying amount as of 01/10/2018 pursuant to IAS 39**	**Carrying amount as of 01/10/2018 pursuant to IFRS 9**
			in T€	in T€
Equity investments	AfS	FVthOCI	27	27
Other non-current assets	LaR	AC	89	89
Trade accounts receivable	LaR	AC	22,999	23,479
Other current assets	LaR	AC	1,789	1,789
Liquid assets	LaR	AC	12,037	12,037
Total			**36,941**	**37,421**
Liabilities to banks	FLAC	AC	6,823	6,823
Trade accounts payable	FLAC	AC	6,838	6,838
Other non-current financial liabilities	FLAC	AC	586	586
Other current financial liabilities	FLAC	AC	6,661	6,661
Derivatives in connection with effective CF-hedge	CF-hedge	CF-hedge	157	157
Total			**21,065**	**21,065**

As a result of the introduction of IFRS 9, the group has implemented subsequent amendments to IAS 1 "Presentation of Financial Statements", according to which impairment losses on financial assets must be reported in a separate item in the statement of comprehensive income. Previously, the group had recognized impairment losses on trade receivables under other expenses. For the previous year, no reclassification of the recorded impairment was made. In addition, the group made subsequent amendments to IFRS 7 "Financial Instruments: Disclosures" respecting the Notes disclosures for the 2018/2019 financial year. However, these were generally not applied to the comparative information.

IFRS 9 also contains new provisions on hedge accounting in the form of a new general hedge accounting model which requires the group to ensure that the hedging relationships are consistent with its risk management objectives and strategy and to adopt a more qualitative and forward-looking approach to assessing hedge effectiveness. The application of IFRS 9 for hedge accounting does not have any effects on the Hönle Group. All hedging relationships designated as at 1 October 2018 fulfil the criteria for hedge accounting in accordance with IFRS 9 and are therefore regarded as ongoing hedging relationships. Accordingly, the new IFRS 9 regulations are applied prospectively.

IFRS 15 - Revenue from Contracts with Customers: The standard regulates when and in what amount revenue is to be recognized. As a result, IFRS 15 replaces the previously relevant standards (IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13) and relevant interpretations on revenue recognition.

IFRS 15 is based on the principle that revenue should be recognised when control of the goods or services is transferred to the customer. The first-time application had no effect on the items of the consolidated income statement (including earnings per share) or the consolidated cash flow statement. In the consolidated statement of financial position, the first-time application of IFRS 15 results in a separate presentation of advance payments received as contractual liabilities. The changeover was made using the modified retrospective approach (with simplification rules). The comparative figures for the previous year have not been adjusted. In addition, the disclosure requirements of IFRS 15 were generally not applied to comparative information.

The Hönle Group's sales revenues are primarily generated through the sale of equipment, adhesives and glass tubes. Service contracts play a subordinate role.

In accordance with IFRS 15, proceeds from the sale of the aforementioned products are realised when the customer gains control over the asset. The power of disposal is usually transferred at a certain point in time - specifically, when the products are delivered to the customers. This also depends on the Incoterms agreed with the customer. Revenue is recognized at this point in time provided that both the revenue and costs can be reliably measured, receipt of the consideration is probable and there is no other right of disposal over the goods. As a rule, advance payments by the customer are agreed which are reported as contractual liabilities insofar as the corresponding performance obligation has not yet been fulfilled by the group.

The transaction price results from the contractual agreements and usually does not contain any variable components.

In the Hönle Group, there are no material differences compared to the revenue recognition before IFRS 15 was applied.

New Standards and Interpretations not yet Mandatory

The IASB and IFRIC also issued the following standards, interpretations and amendments which have already been adopted by the EU but whose application was not yet mandatory for Hönle AG in the financial year. As a general rule, Dr. Hönle AG does not apply new IFRS/IFRICs before the date of mandatory application (date of entry into force). Possible effects on future consolidated financial statements are currently being examined. However, a reliable assessment is not yet possible at present.

IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments: The interpretation to IAS 12 is intended to provide clarity and uniform accounting treatment with regard to the recognition and measurement of assets and liabilities in situations where the tax position is uncertain (effective date: 1 January 2019).

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement: The amendments concern the accounting treatment of an adjustment, curtailment or settlement of a defined benefit plan. The new regulations are intended to standardise the accounting practices, which are currently inconsistent in some areas, and to provide information relevant to decision-making (effective date: 1 January 2019).

Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures: The amendments serve to clarify that an entity applies IFRS 9 "Financial Instruments" to long-term investments in an associate or joint venture that are part of the net investment in that associate or joint venture but are not accounted for using the equity method (effective date: 1 January 2019).

Annual Improvements to IFRS Standards 2015-2017 Cycle As part of the IASB's annual improvement process, amendments are made within individual IFRSs to eliminate inconsistencies with other standards or to clarify their content. The standards affected are IFRS 3, IFRS 11, IAS 12 and IAS 23 (effective date: 1 January 2019).

Amendments to IFRS 9 - Prepayment Features with Negative Compensation: The amendments address the significance of early repayment penalties for the cash flow criterion contained in IFRS 9. Under the new rules, it no longer matters who pays the early repayment fee. As long as it is appropriate, it is in line with the cash flow criterion. The other conditions concerning compatibility of the early repayment fee with the cash flow criterion remain unchanged (effective date: 1 January 2019).

Amendments to References to the Conceptual Framework in IFRS Standards: The reworked framework concept contains extensive additions, clarifications and updates. Moreover, the quotations and cross-references in various standards have been updated (effective date: 1 January 2020).

Amendment to IAS 1 and IAS 8 - Definition of Material: These adjustments are intended to address the recurring questions of materiality that arise in practice (effective date: 1 January 2020).

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform: These amendments have changed some specific hedge accounting rules for the accounting of hedge relationships to remove the potential impact of the uncertainties caused by the IBOR reform. They also require companies to provide investors with additional information about their hedging relationships that are directly impacted by these uncertainties (effective date: 1 January 2020).

IFRS 16 - Leases: The standard replaces the previous regulations on accounting for leases (IAS 17, IFRIC 4, SIC 15 and SIC 16) and fundamentally changes recognition of the leases at the lessee. It specifies the recognition, measurement, presentation and disclosure requirements for leases in entities' financial statements (effective date: January 1, 2019).

IFRS 16 introduces a uniform accounting model according to which leases must be recognised in the lessee's balance sheet. A lessee recognises a right of use asset, which reflects the lessee's right to use the underlying asset, and recognises a corresponding lease liability. There are also changes within the income statement. Previously, rental payments under operating leases were mainly included as expenses in EBIT. In the future, expenses will be divided into depreciation and interest expense. There are exceptions for short-term leases and leases for low-value assets. The lessor's accounting is comparable with the current standard - i.e. the lessor continues to classify the leases as finance or operating leases

The analysis for the first-time adoption of IFRS 16 has shown that this standard will probably have the following effects on the components of the consolidated financial statements and the presentation of the net assets, financial position and results of operations:

For leases previously classified as "operating leases" in accordance with IAS 17, the lease liability is recognised at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The right to use the leased asset is generally measured at an amount equal to the lease liabilities plus initial direct costs. In addition, advance payments and liabilities relating to the past financial year are taken into account. The analysis within the framework of the group-wide project for first-time adoption has shown that the changeover is expected to lead to a balance sheet extension of approximately € 6 - 7 million as of October 1, 2019. No significant effects on retained earnings are expected.

In contrast to the previous disclosure of expenses from operating leases, depreciation on rights of use and interest expenses from the compounding of leasing liabilities will be recorded in the future. The change in the disclosure of lease expenses from operating leases will improve the cash flow from operating activities accordingly and worsen the cash flow from financing activities. The company will probably make use of the simplification rules for short-term and low-value leasing relationships.

In addition, the IASB and IFRIC have issued the following regulations which have not yet been adopted by the European Commission. Early application of these regulations is therefore not yet possible; possible effects on future consolidated financial statements are currently being examined. However, the current status of the review does not yet permit a reliable assessment of the effects as of the balance sheet date:

IFRS 17 - Insurance Contracts: The object of the standard is the presentation of assets and liabilities resulting from insurance contracts in IFRS financial statements. The scope of IFRS 17 extends to all active insurance and reinsurance contracts (effective date: 1 January 2021).

Amendments to IFRS 3 - Business Combinations: The amendment is intended to remove ambiguities regarding the identification of business operations (effective date: 1 January 2020).

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 (CGUs) 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 capitalised at acquisition and manufacturing 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 10 years
Copyrights, patents and other commercial property rights	7 to 10 years
Formulas, secret procedures, models, drafts and prototypes	10 to 15 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 and more 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 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 20 to 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 location.

Deferred taxes are measured using the tax rate expected for the period in which an asset is realised or an obligation 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 measured at manufacturing costs. The manufacturing costs contain, in addition to directly allocable costs, fixed and variable manufacturing and material overheads as well as the cost of value depletion to the extent caused by manufacture. The manufacturing costs also include production-related administration costs and expenses incurred for voluntary social benefits.

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

Until 30 September 2018, financial assets were accounted for in accordance with IAS 39 (Financial Instruments: Recognition and Measurement) using the following principles:

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 acquisition, 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
- 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 twelve 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 twelve 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 twelve 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 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.

With the introduction of IFRS 9 (Financial Instruments), accounting is based on the following regulations from 1 October 2018:

The categorisation of financial assets under IFRS 9 is based on the following three measurement categories:

- financial assets measured at amortised cost (AC)
- financial assets measured at fair value (FVthOCI) without neutral effect on profit or loss
- financial assets measured at fair value through profit or loss (FVthPL).

Financial assets are classified according to the underlying business model and the contractual cash flows of the financial assets. Essentially, the Dr. Hönle AG business model is to hold financial assets in order to recognise contractual cash flows.

Financial assets are measured at amortised cost (AC) if they comply with the "hold" business model and their contractual cash flows consist exclusively of interest and principal payments. Amortized cost is reduced by impairment losses. Interest income, exchange rate gains/losses and impairment losses are recognized in profit or loss. A gain or loss from derecognition is also recognized in the income statement.

With respect to equity instruments, IFRS 9 optionally permits measurement at fair value with neutral effect on profit or loss (FVthOCI). Dividends are recognized as income in profit or loss unless the dividend is clearly intended to cover part of the cost of the investment. Other net gains or losses are recognised in other comprehensive income and are never reclassified to profit or loss.

A debt instrument is designated as "FVthOCI measured" to the extent that both of the following conditions are met and the asset is not designated as FVthPL:

- It is held as part of a business model whose objective is both to hold financial assets to recognise the contractual cash flows and to sell financial assets; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

Debt instruments classified as FVthOCI are subsequently measured at fair value. Interest income, foreign exchange gains and losses and impairments are recognized in profit or loss. Other net gains or losses are recognized in other comprehensive income. On derecognition, the accumulated other comprehensive income is reclassified to profit or loss. The group currently has no such debt instruments.

Financial assets whose cash flows do not consist exclusively of interest and principal payments are measured at fair value through profit or loss (FVthPL). Net gains and losses in this category, including any interest or dividend income, are recognized in the income statement. Dr. Hönle AG does not currently have any financial assets measured at FVthPL. At present, derivatives are only reported within the scope of hedging relationships.

The impairment model under IFRS 9 takes into account expectations about the future and is based on expected credit losses, whereas under IAS 39 only incurred losses were recognised as impairment losses on financial assets. The model under IFRS 9 basically provides for three levels and is applicable to all financial assets (debt instruments) that are measured either at amortised cost or at fair value with neutral effect on income.

In the group, the following classes of financial instruments are generally subject to the impairment model under IFRS 9:

- Other non-current financial assets
- Trade accounts receivable
- Other current financial assets
- Liquid assets (cash and cash equivalents)

Level 1:
Includes financial assets at the time of acquisition and, thereafter, those financial assets without a significant increase in credit risk since acquisition. Impairment is measured based on the expected credit loss within the next twelve months.

Level 2:
Includes financial assets that have experienced an increase in credit risk but whose credit quality has not yet been impaired. Impairment is measured based on the expected credit loss over the entire remaining term. The group considers an increase in credit risk to be a deterioration in the credit rating of the counterparty.

Level 3:
Includes financial assets which show objective evidence of impairment or have a failure status. The expected credit losses over the entire term of the financial asset and other qualitative information indicating significant financial difficulties of the debtor are recorded as impairment losses.

The Hönle Group makes use of the relief option under IFRS 9 for trade receivables with a financing component, contractual assets with a financing component and leasing receivables. Consequently, upon acquisition, these financial assets can be directly allocated to Level 2 rather than to Level 1, with the option of exclusively recording the expected credit loss over the entire term (lifetime expected credit loss).

Trade receivables and contract assets - each without a financing component - must be allocated to Level 2 of the valuation adjustment model when they are added, with the necessity of recording the lifetime expected credit loss.

A classification or reclassification to Level 3 takes place if there is objective evidence of impairment.

The group applies an impairment matrix to determine the need for value adjustments on trade receivables. Reference is made in this regard to the explanations in section 46 "Credit risks"..

In the simplified approach for trade receivables, impairment is determined on the basis of default probabilities by customer group. In the process, past data is adjusted for future-oriented parameters. These parameters may include macroeconomic factors (e.g. growth in gross domestic product, unemployment rate) and forecasts of future economic conditions.

Derecognition

A financial asset (or a portion of a financial asset or a portion of a group of similar financial assets) is derecognised if 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 (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.

If the continuing commitment takes the form of guaranteeing the transferred asset, the amount of the continuing commitment is the lower of the original carrying amount of the asset and the maximum amount of the consideration received that the group might have to repay.

Assets Held for Sale

Non-current assets are classified as assets held for sale when the associated carrying amount is realised primarily through a sale transaction rather than through continued use. This condition is only considered to be met when the non-current asset is immediately available for sale in its present condition and the sale is highly probable. The Management must have agreed to a sale of the respective asset and it must be assumed that the sale process will be completed 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

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 defines 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, the financial liabilities 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.

The classification and measurement of financial liabilities as a result of initial IFRS 9 application have remained unchanged in comparison with the approach applied under IAS 39.

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
In accordance with its risk management strategy, 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 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 as other comprehensive income in the statement of comprehensive income.

Hedging instruments are classified as follows for hedge accounting purposes:

- As a fair value hedge when 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 as well as 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 on the hedging instrument is recognised in other comprehensive income and in the cash flow hedge reserve, while the ineffective portion is recognised immediately in profit/loss under "Other operating expenses".
The Hönle Group uses interest rate swaps as a hedging instrument to hedge the interest rate risk of financial liabilities. For further explanations, please refer to paragraph 46.

The amounts recognised in other comprehensive income are transferred to the income statement in the period in which the hedged transaction affects profit or loss, 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.

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.

Income Tax Liabilities

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

Sales Realisation

Sales realisation principles applicable **until 30 September 2018:**
Sales are realised following conclusion of purchase contracts and delivery of the respective goods (passage of risk). If a contract for work is concluded, the sales are realised upon acceptance by the ordering party. Sales from services are realised upon provision of the respective services.

Sales revenues are realised when the power of disposal over identifiable goods or services is transferred to the customer, i.e., when the customer is in a position to determine the use of the goods or services transferred and is essentially the beneficiary of the remaining use. As a precondition, a contract with enforceable rights and obligation must have been concluded and receipt of a counter value must be probable, taken the customer's credit standing into account.

With respect to the principles applicable as of 1 October 2018, reference is made to the explanations on first-time adoption of IFRS 15 referred to in section 4 above.

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.

The 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 partici-

pant 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 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€ 107,747 (PY: T€ 126,492) include revenue from the sale of goods in the amount of T€ 104,406 (PY: T€ 123,162) and revenue from services in the amount of T€ 3,341 (PY: T€ 3,330).

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

All sales revenues result from contracts concluded with customers.

For a further breakdown of revenue from contracts with customers, please refer to: Segment Reporting.

The following table provides information on receivables and contractual liabilities from contracts with customers There are no contractual assets.

in T€	As of 01/10/2018	Change	As of 30/09/2019
Trade accounts receivable	23,479	-6,499	16,980
Contractual liabilities	1,300	110	1,410

The contractual liabilities relate to advance payments received from customers for the manufacture of partly customer-specific machines. The amount of T€ 1,300 reported under contractual liabilities at the beginning of the period was mainly recognised as revenue in the financial year. The expected term of contractual liabilities reported as of the balance sheet date is less than one year.

7. Other Operating Income

	2018/2019 in T€	2017/2018 in T€
Rental income	332	325
Income from exchange rate differences	560	187
Subsidies / investment grants	114	127
Off-period income	34	62
Income from the release of provisions	206	50
Other income	254	198
	1,500	949

	2018/2019 in T€	2017/2018 in T€
Other income	128	105
Other income from wage compensation	65	41
Income from receivables written off	0	32
Other income from compensation for damages	59	20
Other income	254	198

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 fixed asset-acquisitions.

8. Cost of Purchased Materials and Services

	2018/2019 in T€	2017/2018 in T€
Cost of raw materials and supplies and of purchased merchandise	36,088	41,891
Cost of purchased services	784	888
	36,872	42,779

9. Personnel Expenses

	2018/2019 in T€	2017/2018 in T€
Wages and salaries	29,331	29,821
Social security and pension costs	6,481	6,199
	35,812	36,020

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 2018/2019 and 2017/2018. 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:

	2018/2019 in T€	2017/2018 in T€
Cost of office space	4,000	3,886
Shipment, goods delivery, packaging	4,391	3,637
Travel expenses	1,502	1,459
Vehicle costs	1,170	1,142
thereof leasing	*584*	*564*
Consulting, bookkeeping, year-end closing costs	987	886
Expenses from exchange rate differences	513	296
Other off-period expenses	422	168
Other expenses	5,182	5,018
	18,167	16,492

Other expenses are classified as follows:

	2018/2019 in T€	2017/2018 in T€
Insurance, membership fees and charges	778	778
Maintenance and repair	722	757
Advertising and representation	861	706
Other expenses	2,821	2,777
Other expenses	5,182	5,018

Expenses from operating lease agreements totalled T€ 858 in the 2018/2019 financial year (PY: T€ 826), thereof T€ 584 (PY: T€ 564) attributable to vehicles and T€ 274 (PY: T€ 262) to 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€ 201 (PY: T€ 341). In addition, the position includes expenses relating to equity holdings in the amount of T€ 30 (PY: T€ 21) and IT expenses in the amount of T€ 383 (PY: T€ 344). Expenses relating to Supervisory Board compensation in the amount of T€ 135 (PY: 108) are disclosed under Other expenses.

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

This item includes the prorated results concerning Metamorphic Materials Inc., Winsted, USA in the amount of T€ 17 (PY: T€ 3). For more information see paragraph. 22 "Investments Accounted for using the Equity Method".

13. Financial Income

	2018/2019 in T€	2017/2018 in T€
Other interest and similar income	13	22
Income from equity investments	0	2
Financial income	13	24

Other interest and similar income include the amount of T€ 2 (PY: T€ 4) which relates to interest from bank credit balances and deposits allocated to the IFRS 9 category: "Measured at amortised cost (AC)".

The position "Other interest and similar income" includes interest income of T€ 4 (PY: T€ 5) relating to loan receivables vis à vis Dr. Hönle Medizintechnik GmbH.

14. Financial Expenses

	2018/2019 in T€	2017/2018 in T€
Interest and similar expenses	162	318
Financial expenses	**162**	**318**

The position includes inter alia, interest expenses in the amount of T€ 129 which are attributable to the IFRS 9 category: "Measured at amortised cost (AC)" as well as interest and similar expenses of T€ -82 (PY T€ 39) from the adjustment of liabilities concerning written put options to non-controlling shareholders.

The interest portion for finance lease agreements included in interest expenses amounts to T€ 8 (PY: 14).

15. Income Taxes

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

	2018/2019 in T€	2017/2018 in T€
Current income tax expense and income	5,011	8,935
Deferred tax expense and tax income		
from a change in non-current assets	-11	45
from a change in current assets	-154	-7
from a change in provisions	-67	-102
from a change in liabilities	91	62
from a change in losses carried forward	-52	-232
from value adjustments on losses carried forward	-441	194
from consolidation effects	102	-228
from currency differences	-6	3
from other valuation differences	2	1
	-535	-264
Total tax expense	4,476	8,671

The following overview reconciles the tax expense that would notionally result when applying the current German tax rate of 24.85% of the group parent (corporation tax, solidarity surcharge, trade tax), with the actual tax expense in the consolidated financial statements:

	2018/2019 in T€	2017/2018 in T€
Earnings before tax	16,872	30,397
Theoretical tax rate in %	24,85%	24,86%
Computed tax expense	4,192	7,557
Changes in computed tax expense relative to the actual tax expense due to:		
- change in the value adjustment of deferred tax assets	-435	197
- deviating tax base	75	-111
- distribution-related tax refunds	-84	96
- off-period effects	130	-107
- deviating local tax rates	573	1,039
Total tax expense	25	0
Effective group tax rate	4,476	8,671
	26,53%	28,53%

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: 24.85% to 29.83% (PY: 24.86% to 29.88%)
- Group companies in France: 28.00% to 33 1/3% (PY: 33 1/3%)
- Group companies in Switzerland: 26.1% (PY: 26.1%)
- Group companies in the USA: 26.93% to 28.50% (PY: 21.38% to 31.45%)
- 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%)
- Group companies Austria: 25.0% (PY: 25.0%)

The income tax effects of T€ 2,008 (PY: T€ 101) disclosed in the statement of comprehensive income include the amount of T€ 1,479 (PY: T€ 28) which is attributable to a change in the present value of hedging transactions, and the amount of T€ 529 (PY: T€ 73) 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:

	2018/2019 in T€	2017/2018 in T€
Profit shares		
Aladin GmbH	0	9
UV-Technik Speziallampen GmbH	0	55
Hönle Electronics GmbH	0	21
Loss shares		
Panacol-Korea Co., Ltd.	-10	-98
Hönle Electronics GmbH	-15	0
GEPA Coating Solutions GmbH	-57	0
	-81	-12

17. Off-Period Expenses and Income

The position "Other operating income" includes off-period income in the amount of T€ 34 (PY: T€ 62) and T€ 206 (PY: T€ 50) from the release of provisions.

The position "Other operating expenses" includes off-period expenses in the amount of T€ 422 (PY: T€ 168).

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 further developing the 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€ 6,087 (PY: T€ 5,610).

19. Earnings per Share

In accordance with IAS 33, earnings per share are determined by dividing the profit share 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.

	2018/2019	2017/2018
Profit share in T€ attributable to Dr. Hönle AG shareholders	12,477	21,738
Weighted average of ordinary shares in circulation during the period (shares of stock) **(undiluted)**	5,511,854	5,511,854
Weighted average of ordinary shares in circulation during the period (shares of stock) **(diluted)**	5,511,854	5,511,854
Undiluted earnings per share in €	**2.26**	**3.94**
Diluted earnings per share in €	**2.26**	**3.94**

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

20. Non-Current Assets

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

	2018/2019 in T€	2017/2018 in T€
Dr. Hönle 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 components of business segments in accordance with IFRS 8.5.

Hönle 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 the continued use of the cash-generating units and the respective 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 the sales development, the sales prices and the 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 3.1% and 13.6% is assumed for the respective companies in the planning period. In all, the average revenue growth rate earned in the planning period of the companies concerned is 7.4%.

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.

Sales revenues generated by Raesch Quarz (Germany) GmbH are expected to increase by 28.7% in the financial year 2019/2020 , based on the assumption that probably successful product qualifications and ongoing qualification processes with major customers from the semiconductor and fibre optic market will contribute to the sales increase. It is expected that the currently weaker quartz glass market will pick up in the first half of 2020. Based on these and future qualification processes, an average sales increase of 13.6% p.a. is expected by the 2023/2024 financial year

Raesch Quarz (Malta) Ltd. is expected to record a 16.1% sales increase in the 2019/2020 financial year. This is explained by the expected incoming orders for ongoing projects. An average of 6.0% p.a. is assumed up to financial year 2023/2024

Dr. Hönle AG anticipates an increase in revenue of 6.0% in financial year 2019/2020, as the printing industry, in particular, is expected to recover. Revenue is expected to increase by an average of 7.8% p.a. up to financial year 2023/2024. This expectation is based, among other things, on a broadening of the product range in various areas, thus opening up further sales potential.

Eltosch Grafix GmbH is expected to generate a 10.2% increase in revenue in financial year 2019/2020 since the printing industry is expected to recover. An average annual revenue increase of 3.1% is predicted up to financial year 2023/2024.

After the end of the five-year planning horizon, a sales growth rate of 1% p.a. is assumed for the following years.

On the basis of cash flow forecasts, the values in use of the cash-generating units were calculated using segment-specific cost of capital rates before income taxes for Dr. Hönle AG (8.93%), for PrintConcept GmbH (9.80%), for Eltosch Grafix GmbH (9.80%), for UV- Technik Speziallampen GmbH (9.46%), for Raesch Quarz (Germany) GmbH (7.57%) and for Raesch Quarz (Malta) Ltd. (9.66%). In the previous year, discounting rates of 7.27% to 9.11% before interest were applied.

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.

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 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 2018/2019 und 2017/2018 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€
Acquisition and production costs as at 01/10/2018	**4,094**	**2,593**	**1,409**	**1,557**	**15**	**9,668**
Additions	-	192	13	-6	25	**223**
Disposals	-	4	-	-	-	**4**
Reclassifications	-	8	-	-	-8	**-**
Currency parities	-	1	-	-	-	**1**
Consolidated group	30	-	15	-	-	**45**
As at 30/09/2019	**4,124**	**2,789**	**1,436**	**1,551**	**32**	**9,932**
Amortisation as at 01/10/2018	**3,012**	**2,506**	**907**	**624**	**-**	**7,050**
Additions	283	124	73	52	-	532
Disposals	-	4	-	-	-	4
Reclassifications	-	-	-	-	-	-
Currency parities	-	1	-	-	-	1
As at 30/09/2019	**3,295**	**2,626**	**980**	**676**	**-**	**7,578**
Net carrying amount as at 30/09/2019	**829**	**163**	**456**	**875**	**32**	**2,355**

	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€
Acquisition and production costs as at 01/10/2017	**4,094**	**2,490**	**1,128**	**770**	**732**	**9,214**
Additions	-	96	281	76	2	**455**
Disposals	-	1	-	-	-	**1**
Reclassifications	-	8	-	710	-718	**-**
Currency parities	-	-	-	-	-	**-**
As at 30/09/2018	**4,094**	**2,593**	**1,409**	**1,557**	**15**	**9,668**
Amortisation as at 01/10/2017	**2,709**	**2,412**	**825**	**619**	**-**	**6,566**
Additions	303	95	82	5	-	485
Disposals	-	1	-	-	-	1
Reclassifications	-	-	-	-	-	-
Currency parities	-	-	-	-	-	-
As at 0/09/2018	**3,012**	**2,506**	**907**	**624**	**-**	**7,050**
Net carrying amount as at 30/09/2018	**1,082**	**87**	**502**	**933**	**15**	**2,619**

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 under non-current assets.

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

The intangible assets mainly include internally developed assets in the amount of T€ 728 (PY: T€: 787) 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 2018/2019 and 2017/2018:

	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€
Acquisition and production costs as at 01/10/2018	**14,227**	**27,178**	**12,735**	**2,377**	**56,516**
Additions	4,814	1,480	750	12,012	19,055
Disposals	1,451	228	134	-	1,813
Reclassifications	198	119	11	-327	-
Currency parities	77	50	14	-	141
Consolidated group	-	-	53	-	53
As at 30/09/2019	**17,865**	**28,598**	**13,429**	**14,061**	**73,953**
Depreciation as at 01/10/2018	**3,087**	**17,104**	**9,354**	**-**	**29,545**
Additions	246	1,572	926	-	2,743
Disposals	501	57	69	-	627
Reclassifications	-	-	-	-	-
Currency parities	8	35	7	-	50
As at 30/09/2019	**2,840**	**18,654**	**10,217**	**-**	**31,712**
Net carrying amount as at 30/09/2019	**15,025**	**9,944**	**3,212**	**14,061**	**42,241**

	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€
Acquisition and production costs as at 01/10/2017	**8,618**	**25,748**	**12,043**	**180**	**46,589**
Additions	5,441	1,429	806	2,449	10,124
Disposals	-	113	127	-	240
Reclassifications	144	96	12	-253	-
Currency parities	24	18	-	-	43
As at 30/09/2018	**14,227**	**27,178**	**12,735**	**2,377**	**56,516**
Depreciation as at 01/10/2017	**2,847**	**15,569**	**8,625**	**-**	**27,041**
Additions	238	1,546	842	-	2,627
Disposals	-	23	113	-	136
Reclassifications	-	-	-	-	-
Currency parities	2	12	-1	-	14
As at 30/09/2018	**3,087**	**17,104**	**9,354**	**-**	**29,545**
Net carrying amount as at 30/09/2018	**11,140**	**10,074**	**3,381**	**2,377**	**26,971**

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:

- Dr. Hönle AG
- UV-Technik Speziallampen GmbH
- Raesch Quarz (Germany) GmbH
- Eleco Panacol EFD, SAS
- Honle US Real Estate LLC
- Panacol-Elosol GmbH.

The buildings are written down over useful lives of between three and 50 years. The land of Dr. Hönle AG, Panacol-Elosol GmbH and UV-Technik Speziallampen GmbH also serves to collateralise bank loans totalling T€ 11,974.

- *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 relating to technical equipment and machinery include machinery which was acquired within the scope of a finance lease agreement. The carrying amount of the assets amounts to T€ 165

(PY: T€ 192) as of 30 September 2019. It is contrasted by a liability from finance leasing (cf. paragraph 33). The lease relationship does not provide for unrestricted access to the technical equipment and machinery.

- *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. The assets under this position include vehicles which were acquired within the scope of a finance lease agreement. The carrying amount of the assets is T€ 66 (PY: T€ 77) as at 30 September 2019. It is contrasted by a liability from finance leasing (cf. paragraph 33). The lease relationship does not provide for unrestricted access to the operating and business equipment.

- *Prepayments Made and Assets under Construction*

In the financial year, the position includes primarily the additions relating to Dr. Hönle AG's building projects in the amount of T€ 5,611 (PY: T€ 250), of UV-Technik Speziallampen GmbH in the amount of T€ 2,358 (PY: T€: 0) and of Panacol-Elosol GmbH in the amount of T€ 3,170 (PY: T€: 643). In addition, Raesch Quarz (Germany) GmbH made prepayments for a new annealing furnace.

Investment Property

In financial year 2018/2019, Eltosch Grafix GmbH holds a commercial property in Unterlüß, Germany, which qualifies as investment property in terms of IAS 40 following discontinuation of production activities at this site and use of the property for rental purposes. The carrying amount of this property reported under non-current assets stands at T€ 1,171. The investment property generated income of T€ 218 in financial year 2018/2019. Significant expenses in the context of this income generation amounted to T€ 42.

The position developed as follows:

	in T€
Acquisition and production costs as at 01/10/2018	**1,399**
Additions	-
Disposals	-
Reclassifications	-
As at 30/09/2019	**1,399**
Depreciation as at 01/10/2018	**189**
Additions	39
Disposals	-
Reclassifications	-
As at 30/09/2019	**228**
Net carrying amount as at 30/09/2019	**1,171**

	in T€
Acquisition and production costs as at 01/10/2017	**1,399**
Additions	-
Disposals	-
Reclassifications	-
As at 30/09/2018	**1,399**
Depreciation as at 01/10/2017	**150**
Additions	39
Disposals	-
Reclassifications	-
As at 30/09/2018	**189**
Net carrying amount as at 30/09/2018	**1,210**

The fair value of € 1.55 million is derived from an indexed appraisal prepared by a real estate expert.

Financial Assets

This position includes shares in affiliated companies in the amount of T€ 27 (PY: T€ 27) which mainly relate to the 100% investment in Solitec GmbH. Solitec GmbH is not included in the consolidated group due to its minor importance for the group.

21. Other Non-Current Assets

	30/09/2019 in T€	30/09/2018 in T€
Loans granted to related parties	8	61
Asset values, pension liability insurance	1,458	1,180
Other	29	28
	1,495	1,269

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

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€ 52 (PY: T€ 30) as at 30 September 2019.

The following disclosures are based on the most recent financial statements prior to conversion to the participating interest held by Dr. Hönle 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.

in T€	TECINVENT GmbH 2018/2019	TECINVENT GmbH 2017/2018	Metamorphic M. Inc. 2018/2019	Metamorphic M. Inc. 2017/2018
Ownership share in%	35%	35%	30%	30%
Non-current assets	0	0	18	11
Current assets	152	169	166	111
Non-current liabilities	0	0	97	113
Current liabilities	163	171	140	114
Net assets	-11	-2	-53	-105
Shares held by the group in the associated company	0	0	-16	-31
Elimination of non-realised profits	0	0	-6	-3
plus existing hidden reserves	0	0	74	64
Carrying amount of the at-equity value in the associated company	0	0	52	30
Revenue	213	238	468	367
Profit from continuing operations (100%)	-9	6	59	10
Total profit/loss (100%)	-9	6	59	10
Total profit/loss (relative to the group's share)	-3	2	18	3

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:

	30/09/2019 Asset in T€	30/09/2019 Liability in T€	30/09/2018 Asset in T€	30/09/2018 Liability in T€
Non-current assets	147	287	180	331
Current assets	54	3	38	2
Provisions	1,757	8	1,163	6
Liabilities	1,604	514	129	425
Tax losses carried forward	1,976	0	1,483	0
- deferred taxes on losses	*2,549*	*0*	*2,497*	*0*
- value adjustments	*-573*	*0*	*-1,014*	*0*
Consolidation effect	148	479	306	534
Total	5,687	1,292	3,298	1,300

In accordance with IAS 12, deferred tax assets which are 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, Agita Holding AG, Hoenle UV Technology Shanghai Ltd., Panacol-USA, Inc., Panacol-Korea Co., Ltd., Hönle Electronics GmbH, GEPA Coating Solutions GmbH and Raesch Quarz (Germany) GmbH, record tax losses carried forward as of 30 September 2019.

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€ 1,759 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.

Due to unforeseeable taxable usability, no deferred tax assets (or specific valuation allowances) were recognized on corporation tax losses carried forward in the amount of T€ 2,187 and trade tax losses carried forward of T€ 1,708 relating to Raesch Quarz (Germany) GmbH.

24. Inventories

Inventories are structured as follows:

	30/09/2019 in T€	30/09/2018 in T€
Raw materials and supplies incl. descriptive material (at acquisition costs)	19,887	19,439
less depreciation	811	1,107
	19,076	18,332
Work in progress (at acquisition or manufacturing costs)	536	474
less depreciation	0	0
	536	474
Finished goods and merchandise (at acquisition or manufacturing costs)	16,986	15,063
less depreciation	727	640
	16,259	14,423
Prepayments made	24	50
Inventories	35,895	33,279

The carrying amount of inventories stated at net sales prices (fair value) amounts to T€ 1,384 (PY: T€ 1,207). In the 2018/2019 reporting period, inventories in the amount of T€ 36,235 (PY: T€ 42,132) were booked under cost of materials and the amount of T€ 96 (PY: T€ 457 loss) was booked as income from an increase in the value of inventories.

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

25. Trade Accounts Receivable

	30/09/2019 in T€	30/09/2018 in T€
Total trade receivables	17,084	23,590
less value adjustments	104	591
	16,980	22,999

The trade receivables as of 30 September 2019 were measured in accordance with the impairment loss model stipulated in IFRS 9. The value adjustments were adjusted for prospective expectations, based on past experience with actual payment defaults (see section 46 "Credit Risks").

The development of impairment on trade receivables is as follows:

In T€	2018/2019	2017/2018
As at 30 September (acc. to IAS 39)	591	524
Adjustment effect IFRS 9	-480	0
As of 1 October (acc. to IFRS 9)	**111**	**524**
Change in impairment on trade receivables	-7	67
As at 30 September	**104**	**591**

Impairments in the previous year were determined in accordance with IAS 39 provisions.

In the financial year under review, the receivables presented do not include amounts as at the balance sheet date and for which the group has not recognised any impairment losses.

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

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

The position mainly consists of receivables from Metamorphic Materials Inc. in the amount of T€ 96 (PY: T€ 112) and from TECINVENT GmbH in the amount of T€ 54 (PY: T€ 55).

27. Other Current Assets

	30/09/2019 in T€	30/09/2018 in T€
Prepaid expenses	550	494
Other current assets	2,291	1,620
	2,841	2,114

	30/09/2019 in T€	30/09/2018 in T€
Receivables from related parties	52	50
Value added tax	1,416	492
Receivables from employees	141	68
Other	682	1,010
	2,291	1,620

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€ 31 (PY: T€ 96). The disclosed other assets are not subject to ownership restrictions or restraints on disposal.

28. Current Tax Assets

Current tax assets are structured as follows:

	30/09/2019 in T€	30/09/2018 in T€
Dr. Hönle AG	607	285
PrintConcept GmbH	37	23
Eltosch Grafix GmbH	68	68
Eltosch Grafix America Inc.	0	65
Panacol AG	48	60
Aladin GmbH	38	91
Hönle Electronics GmbH	15	0
Panacol-USA, Inc.	64	60
	877	652

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 up to 1.0% per year.

30. Non-Current Assets Held for Sale

The group plans to sell a building including land (carrying amount as at 30/09/2019: T€ 950) within the next twelve months. Both the building and the land are owned by Dr. Hönle AG – Equipment and Systems segment – and was used by the subsidiary, Aladin GmbH. The production of medium pressure lamps at the current location of Aladin GmbH at Rott a. Inn will be discontinued and relocated to Ilmenau. The search for a buyer of the property has already begun. No impairment losses were recognised either at the time of reclassification as "held for sale" during the year or at 30 September 2019, as the fair value net of selling costs is higher than the carrying amount. The fair value net of selling costs amounts to € 2.8 Mio.. The above Schedule of Non-Current Assets (paragraph 20) therefore does not include said land and building.

31. 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.

Shareholders' equity rose by T€ 2,872 to T€ 90,122 year-on-year. The equity capital ratio dropped to 62.5% (PY: 69.5%).

With respect to changes in shareholders' equity in financial year 2018/2019 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 indebtedness (bank definition). All external minimum capital requirements were met in financial year 2018/2019. 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:

	30/09/2019 Share of stock	30/09/2018 Share of stock
Number of shares issued	5,512,930	5,512,930
less own shares	1,076	1,076
Shares in circulation	5,511,854	5,511,854

Own Shares (Treasury Stock)

The shareholders' meetings held in previous years authorised Dr. Hönle AG to acquire up to 10% of the respective nominal capital pursuant to Section 71 (1) No. 8 AktG [German Stock Corporation Act].

Effective 27 March 2019, the Annual General Meeting resolved to authorise the Dr. Hönle AG Management Board and Supervisory Board to acquire treasury stock up to a total of 10% of the share capital in the amount of € 5,512,930 up to 31 December 2023 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 2018/2019.
In previous years, the company acquired shares or issued shares in the current financial year as follows, with a view to purchasing additional subsidiaries:

Financial year	As at 30/09/2018	Change	As at 30/09/2019
Number of treasury shares	1,076	0	1,076
Acquisition costs in T€	8	0	
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 € 50.00 as at the balance sheet date.

Pursuant to Section 71b AktG, Dr. Hönle 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 Measurement in accordance with IFRS 9

The changes from the impairment model in accordance with IFRS 9 are recognised in this reserve after taking deferred taxes into account. As at 30 September 2019, the reserve amounted to T€ 341 (PY: T€ 0) after deferred taxes.

Reserve for Hedging Transactions

This reserve includes changes in the fair value of effective hedging transactions after accounting for deferred taxes. As at 30 September 2019, the reserve amounted to T€ 4,276 (PY: T€ 117) after deferred taxes.

Reserve for Actuarial Gains and Losses pursuant to IAS 19

The reserve for actuarial gains and losses pursuant to IAS 19 includes the actuarial losses from the measurement of pension obligations pursuant to IAS 19 after accounting for deferred taxes.

Reserve for Currency Translation Differences

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

Proposed Dividend

Due to the positive business development, the Dr. Hönle AG Management Board and Supervisory Board propose to the Annual General Meeting 2020 that a dividend of € 0.80 per share be paid out for financial year 2018/2019. This translates into the amount of T€ 4,409. In the preceding financial year, an amount of € 0.80 per share was paid out, which corresponds to the amount of T€ 4,409.

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 those subsidiaries where non-controlling interests are reported:

Financial year 2018/2019

in T€	Eleco	Hönle Electronics GmbH	GEPA Coating Solutions GmbH	Total
Non-controlling interests in%	0.04%	49%	49%	
Non-current assets	1,054	191	160	1,405
Current assets	3,119	232	35	3,386
Non-current liabilities	321	0	0	321
Current liabilities	2,276	310	10	2,596
Net assets	1,576	113	185	1,874
Carrying amount of non-controlling interests	**0**	**55**	**90**	**146**
Revenue	8,224	998	3	9,225
Profit	655	-31	-115	509
Other comprehensive income	6	0	0	6
Total comprehensive income	661	-31	-115	515
Profit attributable to non-controlling interests	0	-15	-56	-71
Other comprehensive income attributable to non-controlling interests	0	0	0	0
Dividends paid to non-controlling shareholders	0	0	0	0
Cash flow from operating activities	704	17	-146	575
Cash flow from investing activities	-25	0	-28	-53
Cash flow from financing activities	-600	0	202	-398
Currency-related change in cash and cash equivalents	0	0	0	0
Net increase (-decrease) in cash and cash equivalents	79	17	28	124

Financial year 2017/2018

in T€	Eleco	Hönle Electronics GmbH	Panacol Korea Co., Ltd.	Total
Non-controlling interests in%	0.04%	49%	49%	
Non-current assets	1,109	202	101	1.412
Current assets	2,926	240	103	3.270
Non-current liabilities	304	0	0	304
Current liabilities	2,266	298	6	2,570
Net assets	1,465	144	199	1,808
Carrying amount of non-controlling interests	**1**	**70**	**93**	**164**
Revenue	8,383	378	104	8,865
Profit	626	44	-202	468
Other comprehensive income	-14	0	0	-14
Total comprehensive income	612	44	-202	454
Profit attributable to non-controlling interests	0	21	-98	-77
Other comprehensive income attributable to non-controlling interests	0	0	0	0
Dividends paid to non-controlling shareholders	0	0	0	0
Cash flow from operating activities	633	-20	-209	404
Cash flow from investing activities	-61	0	0	-61
Cash flow from financing activities	-500	100	0	-400
Currency-related change in cash and cash equivalents	0	0	12	12
Net increase (-decrease in cash and cash equivalents	72	80	-197	-45

32. 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	266
Loan Dr. Hönle AG	700	2.90%	31/08/2023	74	301
Loan Dr. Hönle AG	400	1.69%	30/06/2022	50	138
Loan Dr. Hönle AG	3,500	2.29%	31/03/2021	500	750
Loan Dr. Hönle AG	205	2.15%	31/03/2019	26	-
Loan Dr. Hönle AG	350	0.85%	31/05/2022	67	183
Loan Dr. Hönle AG	340	1.50%	30/12/2022	50	164
Loan Dr. Hönle AG	878	1.90%	31/12/2018	15	-
Loan Dr. Hönle AG	300	0.70%	31/03/2022	60	150
Loan Dr. Hönle AG	1,500	0.90%	30/06/2023	222	833
Loan Dr. Hönle AG	1,300	0.80%	31/12/2024	208	1,092
Loan Dr. Hönle AG	30,100	2.24%	30/06/2038	-	8,906
Loan Panacol-Elosol GmbH	15,000	2.17%	29/10/2038	-	-
Loan UV-Technik GmbH	4,200	2.14%	30/09/2037	-	2,501
Loan UV-Technik GmbH	221	5.50%	30/06/2019	18	-
Loan UV-Technik GmbH	300	6.25%	31/07/2019	28	-
Loan Raesch Quarz (G.) GmbH	2,000	1.65%	31/03/2019	375	-
Loan Raesch Quarz (G.) GmbH	500	1.25%	31/12/2018	25	-
Loan Raesch Quarz (G.) GmbH	1,000	1.74%	30/06/2022	192	521
Loan Raesch Quarz (G.) GmbH	500	1.40%	30/10/2020	150	163

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 in T€	Collateral
Loan Dr. Hönle AG	50	216	no	Land charge
Loan Dr. Hönle AG	74	227	no	Land charge
Loan Dr. Hönle AG	50	88	400	none
Loan Dr. Hönle AG	500	250	3,500	none
Loan Dr. Hönle AG	0	0	no	Transfer of title
Loan Dr. Hönle AG	67	116	no	none
Loan Dr. Hönle AG	50	114	no	none
Loan Dr. Hönle AG	0	0	no	Guarantee
Loan Dr. Hönle AG	60	90	no	none
Loan Dr. Hönle AG	222	611	no	none
Loan Dr. Hönle AG	208	884	no	none
Loan Dr. Hönle AG	0	8,906	30,100	Land charge
Loan Panacol-Elosol GmbH	0	0	15,000	Land charge
Loan UV-Technik GmbH	0	2.501	4,200	Land charge
Loan UV-Technik GmbH	0	0	no	none
Loan UV-Technik GmbH	0	0	no	none
Loan Raesch Quarz (G.) GmbH	0	0	no	Guarantee Dr. Hönle AG
Loan Raesch Quarz (G.) GmbH	0	0	no	Guarantee, land charge
Loan Raesch Quarz (G.) GmbH	192	329	no	Guarantee Dr. Hönle AG
Loan Raesch Quarz (G.) GmbH	150	13	no	Guarantee Dr. Hönle AG

33. Non-Current and Current Finance Lease Obligations

Finance lease obligations include the present values of minimum lease instalments for machines and vehicles. The portions that fall due within one year are disclosed in the statement of financial position 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 30/09/2019	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	70	148	0
Interest portion (included in present value)	4	4	0

As at 30/09/2018	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	71	218	0
Interest portion (included in present value)	6	8	0

34. Other Non-Current Liabilities

This position includes the market value of derivatives amounting to T€ 5,795 (PY: T€ 157) and purchase price liabilities from written put options in the amount of T€ 128 (PY: T€ 198). The position also includes loan liabilities in the amount of T€ 163 (PY: T€ 179).

35. Pension 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 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:

	30/09/2019 in T€	30/09/2018 in T€
Present value of pension obligation as at beginning of the year	8,476	7,589
plus service costs	607	578
plus interest costs	160	151
plus / net of actuarial gains / losses	2,104	243
plus / net of payments fund assets	7	0
net of pension payments	-85	-85
Value of pension obligation at year-end	**11,269**	**8,476**

Payments of T€ 85 are expected to be made in the 2018/2019 financial year with respect to the above pension obligations.

The company assumes that the pension obligation in the amount of T€ 11,183 (PY: T€ 8,391) will be settled after more than twelve months.

Actuarial gains and losses arising in financial year 2018/2019 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 were used to determine the carrying value of the pension obligation:

	30/09/2019	30/09/2018	30/09/2017
Discounting rate	1.00%	1.90%	2.00%
Income from fund assets	1.00%	1.90%	2.00%
Growth rate of pension payments	1.60% - 2.00%	1.60% - 2.00%	2.00%
Heubeck Mortality Tables	2018_G	2005_G	2005_G

The pensions obligation recognized is covered in the amount of T€ 3,005 (PY: T€ 2,488) by plan assets in the form of life insurance policies managed independently by various providers.

Sensitivity analyses carried out within the scope of the actuarial expert opinions as at 30/09/2019 led to the following results concerning the pension obligations:

Amount of the pension obligation following a change in parameters		in T€
Discounting rate	+0.5%	10,118
Discounting rate	-0.5%	12,610

Amount of the pension obligation following a change in parameters		in T€
Growth rate of pension payments	+0.25%	11,704
Growth rate of pension payments	-0.25%	10,856

Amount of the pension obligation following a change in parameters		in T€
Life expectancy	+10.00%	11,643

The sensitivity analyses above were carried out 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 2018/2019:

	30/09/2019 in T€	30/09/2018 in T€
Fair value of plan assets at the beginning of the year	2,488	1,983
Expected return on plan assets	52	45
Employer contributions paid	487	478
Benefits paid	-7	0
plus/net of actuarial gains/losses	-16	-17
Other	0	0
Fair value of plan assets at year-end	**3,005**	**2,488**

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 2019/2020 is as follows:

	30/09/2020 in T€
Fair value of plan assets at the beginning of the year	3,005
Expected return on plan assets	32
Employer contributions paid	481
Fair value of plan assets at year-end	**3,518**

The income statement for the financial year contains the following expenses with respect to pension obligations:

	2018/2019 in T€	2017/2018 in T€
Current service costs	607	578
Interest costs	160	151
Return on plan assets	-52	-45
	715	**684**

Of the interest expense, the amount of T€ 3 (PY: T€ 5) 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:

	30/09/2019 in T€	30/09/2018 in T€
Carrying amount of pension provision at the beginning of the year	5,988	5,606
plus pension cost	715	685
net of contributions paid	-487	-478
net of payments/pension benefits	-85	-85
plus payment from fund assets	0	0
Changes with neutral effect on profit/loss	2,133	260
thereof from adjusted historical values	97	87
thereof from biometric assumptions	80	1
thereof from financial assumptions	1,956	173
Carrying amount of pension provision at year-end	**8,264**	**5,988**

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

36. Accrued Public Investment Grants

	2018/2019 in T€	2017/2018 in T€
As at 1 October 2018	332	398
Requested in the financial year	0	0
Recognised/released through profit/loss	-66	-66
As at 30 September 2019	266	332

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 will be fulfilled. There are no significant uncertainties.

37. Trade Accounts Payable

Trade accounts payable are stated at the settlement amount. The carrying amount of trade accounts payable as at the balance sheet date is T€ 7,866 (PY: T€ 6,838). Given the short payment periods concerning these liabilities, this amount is in line with the fair value of the liabilities.

38. Contract Liabilities (Previous Year: Prepayments Received)

Prepayments received on account of orders that are recognised as contract liabilities relate to payments from customers for services not yet provided by the company. The amounts are shown excluding VAT. Reference in this respect is made to the explanations under the section paragraph 6: "Sales Revenues".

39. Current Liabilities to Banks and Current Portion of Non-Current Loans

The liabilities to banks are stated at the respective settlement amounts.

Short-term liabilities to banks amounted to T€ 1,672 (PY: T€ 2,263) at the end of the reporting period. With respect to the structure of the loans included, reference is made to paragraph 32. In addition, this position includes short-term loan facilities drawn down in the amount of T€ 50 (PY: T€ 40).

The current account credit lines granted by banks totalled T€ 4,742 (PY: T€ 4,475) as at 30 September. 2019. If utilised, they would be subject to regular market interest rates. Of the total, the amount of T€ 50 (PY: T€ 40) is utilised through overdraft facilities.

40. Other Current Liabilities

	30/09/2019 in T€	30/09/2018 in T€
Wage tax and VAT	490	658
Social security contributions	449	435
Profit sharing bonus and other bonuses	1,736	2,941
Christmas bonus	1,041	990
Holidays not taken	448	462
Flexi-time surpluses	411	674
Other personnel-related liabilities	555	519
Other	541	410
	5,671	7,090

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€ 135 (PY: T€ 60).

41. Other Provisions

Other provisions developed as follows:

	As at 01/10/2018 in T€	Utilisation in T€	Release in T€	Addition in T€	As at 30/09/2019 in T€
Contractual obligations vis à vis third parties:					
Warranties and guaranties	451	1	84	6	372
Obligations from rental agreements	139	2	23	16	130
Total	590	3	107	22	502

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 used for the above-mentioned provisions is as follows:

	30/09/2019 in %	30/09/2018 in %
In the following year	78	81
In the following 2 to 5 years	20	4
In the following 6 to 10 years	2	15
	100	**100**

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.

42. Income Tax Liabilities

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

OTHER DISCLOSURES

43. Contingent Liabilities

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

No guaranties have been issued to parties outside the group.

44. Contingent Receivables

There are no contingent receivables as defined under IAS 37.

45. Other Financial Obligations

The other financial obligations of the group are as follows:

As at 30/09/2019	due within 1 year in T€	due in 1 to 5 years in T€	due in more than 5 years in T€	Total obligation in T€
Equipment lease agreements	147	251	0	398
Room rental contracts	2,668	2,205	399	5,272
Vehicle lease agreements	436	384	0	820
Order commitments	3,606	0	0	3,606
	6,857	2,840	399	10,096

As at 30/09/2018	due within 1 year in T€	due in 1 to 5 years in T€	due in more than 5 years in T€	Total obligation in T€
Equipment lease agreements	125	391	5	521
Room rental contracts	2,599	4,317	175	7,091
Vehicle lease agreements	469	437	0	906
Order commitments	6,238	0	0	6,238
	9,431	5,145	180	14,756

46. Management of Financial Risks

Principles of Risk Management

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

Dr. Hönle AG has introduced a formalised risk management system in order to monitor risks. The governing principles are documented in a manual. In measuring the probability of a loss event and the probability of a loss 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. Hönle 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 Hönle Group might not be in a position to meet its obligations in the context of financial liabilities.

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

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

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

As at 30/09/2019	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	176	1,792	3,769	13,434	5,988	38,684	9,934	53,910
thereof from loan commit-ments not yet called in	*172*	*120*	*1,126*	*10,565*	*1,838*	*27,209*	*3,136*	*37,894*
Trade accounts payable	0	7,866	0	0	0	0	0	7,866
Financing lease	4	65	4	144	0	0	8	209
Liabilities to companies in which an equity investment is held	0	3	0	0	0	0	0	3
Other financial liabilities	4	5,732	48	6,036	1	50	53	11,817
Total	184	15,458	3,821	19,613	5,989	38,734	9,994	73,805

The interest disclosures in the liquidity profile. "Liabilities to banks" include payments resulting from interest rate swaps. Reference is also made to the explanations under "Interest rate risks".

As at 30/09/2018	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	84	2,263	108	4,233	2	326	195	6,823
Trade accounts payable	0	6,838	0	0	0	0	0	6,838
Financing lease	6	65	8	210	0	0	14	275
Other financial liabilities	4	6,596	50	459	2	74	56	7,129
Total	94	15,762	166	4,902	4	401	264	21,065

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. It is assumed that the actual risk is covered by applying the impairment model for trade receivables in accordance with IFRS 9.
The 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 in the event of a change in customers' payment pattern.

Risk concentrations may arise in the event that 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.

The carrying amounts of financial assets represent the maximum default risk in the event that the contracting parties do not meet their payment obligations.

The (net-) impairment losses on financial assets recognised in the income statement expenses result from impairment losses on trade receivables.

The group's default risk is primarily due to trade receivables. A corresponding risk provision has been made for these financial assets. The group assesses the risk concentration with regard to trade receivables as low. This assessment is supported by the fact that the group's customers are divided into three different segments (Equipment and Systems, Adhesives and Glass & Lamps). In addition, the customers operate on a worldwide scale and are active in various industries and largely independent markets, particularly in the Adhesives and Glass & Lamps segments.

The group uses a value adjustment matrix to measure the expected credit losses on trade and other receivables. Depending on the receivables' age structure, valuation allowances on receivables applied uniformly throughout the group.

Based on default risk rating categories, the gross carrying amounts of trade receivables are as follows:

Overdue in days	**Carrying amounts in T€ as at 30/09/2019**	**Default rate in %**	**Impairment in T€ as at 30/09/2019**
Current (not yet due)	13,445	0.04	6
1 to 90 days overdue	3,396	2.10	71
91 to 180 days overdue	358	7.56	27
more than 180 days overdue	63	13.07	8
Total	**17,262**		**112**

Overdue in days	**Carrying amounts in T€ as at 01/10/2018**	**Default rate in %**	**Impairment in T€ as at 01/10/2018**
Current (not yet due)	20,317	0.04	9
1 to 90 days overdue	2,748	2.10	58
91 to 180 days overdue	242	7.56	18
more than 180 days overdue	195	13.07	26
Total	**23,502**		**111**

The calculated loss ratios are based on historical values adjusted for prospective expectations. Any internal indications or external indications (e.g. information on significant financial difficulties or insolvency of the contractual partner) identified within the group as of the balance sheet date are accounted for by setting up appropriate additional risk provisions. No such additional risk provisions were identified as of the balance sheet date

With regard to other financial assets, experience has shown that no payment defaults are expected.

No impairment calculation is made for bank credit balances, as the group does not expect any impairment. The default risk concerning bank credit balances is eliminated by spreading the risk (different banks) and selecting banks with strong credit ratings. The risk assessment has not changed since the date of acquisition. The risk at the time of acquisition was assessed as insignificant.

Comparative information according to IAS 39:

The age structure of trade receivables is as follows:

Age structure of overdue receiva-bles (as at 30/09/2018)	net in T€	thereof not yet due in T€	thereof overdue < 90 days in T€	90 to 180 days in T€	>180 days in T€
Trade receivables	23,502	20,317	2,748	242	195

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

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, 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 US Dollar, the Euro had been stronger by 10%, the consolidated result would have deteriorated by T€ 28 (PY: T€ 39) whereas a respective 10% weakening would have led to an improve-ment in the consolidated result by T€ 34 (PY: T€ 48).

If the Euro had been stronger by 10% relative to the Chinese Renminbi, the consolidated result would have deteriorated by T€ 139 (PY: improvement T€ 38). A corresponding weakening of the Euro in comparison with the Chinese Renminbi would have led to an improvement in the consolidated result by T€ 170 (PY: deterioration T€ 47).

If the Euro had been stronger by 10% relative to the Japanese Yen, the consolidated result would have deteriorated by T€ 43 (PY: T€ 52) whereas a weakening by 10% would have led to an improvement in the consolidated result by T€ 53 (PY: T€ 64).

Fluctuations in other currencies such as the South Korean Won, the Swiss Franc or the British Pound are of immaterial importance for the group's results of operations.

Interest Rate Risks

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

In the 2018/2019 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.

The group's strategy is aimed at ensuring that interest rate risks of variable-interest bank liabilities are hedged. Payer interest rate swaps are used as hedging instruments. The group applies a hedging ratio of 1:1.

The group determines the existence of an economic relationship between the hedging instrument and the hedged underlying transaction on the basis of reference interest rates, maturities, interest rate adjustment dates, maturities and nominal or notional amounts.

The group uses the critical term match method to assess whether the derivative designated in a hedging relationship is expected to be effective in offsetting changes in the cash flows of the hedged underlying transaction.

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%.

In the financial year 2017/2018, Dr. Hönle AG concluded an agreement respecting a bank loan in the amount of T€ 30,100. The loan has a term of 17.5 years and matures on 30 June 2038. 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 0.75 percentage points. It is fixed until 30 June 2038 (which corresponds to the term of the loan). The Payer interest rate swap concluded in this context in the nominal amount of T€ 30,100 serves as hedging transaction. The term is 17.5 years from 31 December 2020 to 30 June 2038 and results in an effective fixed interest rate of 2.24%.

In the financial year 2017/2018, UV-Technik Speziallampen GmbH concluded an agreement respecting a bank loan in the amount of T€ 4,200. The loan has a term of 17.5 years and matures on 30 September 2037. 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 0.79 percentage points. It is fixed until 30 September 2037 (which corresponds to the term of the loan). The Payer interest rate swap concluded in this context in the nominal amount of T€ 4,200 serves as hedging transaction. The term is 17.5 years from 31 March 2020 to 30 September 2037 and results in an effective fixed interest rate of 2.14%.

In financial year 2018/2019, Panacol-Elosol GmbH concluded a contract for a bank loan of €15,000 with a term of 17 3/4 years until 29 October 2038. The interest rate is fixed for a roll-over period of 3 months in each case. The agreed interest rate is the EURIBOR rate valid for the corresponding term on the trading day plus a nominal premium of 0.55 percentage points. It is fixed until 29 October 2038 (equal to the loan term). The Payer interest rate swap concluded in this context and covering the nominal amount of € 15,000 has a term of 17 3/4 years from 4 January 2021 to 29 October 2038. It qualifies as a hedging transaction with an effective fixed interest rate of 2.165%.

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 hedging instruments are stated in the balance sheet under the item "Other non-current liabilities"

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 hedging derivatives in the amount of T€ -5,638 T€ (PY: T€ -112) were recognized directly in equity under the reserve for hedging transactions, taking deferred taxes of T€ 1,479 (PY: T€ 28) into account. Reconciliation of the reserve for hedging transactions is shown in the statement of changes in equity. Apart from the interest rate risk, there are no other risk categories.

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€ 1 (PY: T€ 1), assuming that the average negative balance on current accounts corresponds to the value of T€ 50 (PY: T€ 40) at the end of the 2018/2019 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 positions pursuant to the IFRS 9 categories as well as the impairment losses recognised in profit/loss in the respective financial year, the net profits/losses and the total interest expense and income:

Carrying amount as at 30/09/2019	**Measurement category pursuant to IFRS 9**	**Carrying amount as at 30/09/2019 pursuant to IFRS 9** in T€
Equity investments	FVthOCI	27
Other non-current assets	AC	37
Trade accounts receivable	AC	16,980
Other current assets	AC	1,576
Liquid assets	AC	14,577
Total		**33,197**
Liabilities to banks	AC	16,016
Trade accounts payable	AC	7,869
Other non-current financial liabilities	AC	435
Other current financial liabilities	AC	5,797
Derivatives in connection with effective CF hedge	CF hedge	5,795
Total		**35,912**

thereof aggregated pursuant to IFRS 9 measurement categories	
Amortised Cost (AC)	
Financial assets	33,170
Financial liabilities	30,117
Financial assets, fair value through other comprehensive income (FVthOCI)	27
Further disclosures regarding financial assets and liabilities	
Amount of impairment losses on financial assets recognised in profit or loss	26
Net change in derivatives in connection with effective CF hedge recognised in other comprehensive income	5,638
Total interest expenses	129
Total interest income	13

Prior-year figures according to IAS 39

Carrying amounts as at 30/09/2018	Measurement category pursuant to IAS 39	Amortised costs	Difference relative to fair value
		in T€	in T€
Equity investments	AfS	27	0
Other non-current assets	LaR	89	0
Trade accounts receivable	LaR	22,999	0
Other current assets	LaR	1,789	0
Liquid assets	LaR	12,037	0
Total		**36,941**	**0**
Liabilities to banks	FLAC	6,823	0
Trade accounts payable	FLAC	6,838	0
Other non-current financial liabilities	FLAC	586	0
Other current financial liabilities	FLAC	6,661	0
Derivatives in connection with effective CF hedge	CF hedge	0	157
Total		**20,908**	**157**
thereof aggregated pursuant to IAS 39 measurement categories			
Loans and receivables (LaR)		36,914	0
Available-for-sale financial assets (AfS)		27	0
Financial liabilities measured at amortised cost (FLAC)		20,908	0
Amount of impairments recorded under profit/loss			
		-121	0
Net profit/loss			
			-112
Total interest expense			
Total interest income		-211	0
		17	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. The market values are determined in consideration of interest rates, corresponding impairment in value, and individual criteria. The carrying amounts correspond to market values as at the 30 September 2019 balance sheet date.

The carrying amounts of financial liabilities (current financial liabilities and trade accounts payable) also 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 measure-ment 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 2019, the derivative items are measured at market value (mark-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	Reporting date	Total in T€	**Prices quoted on active markets** (Level 1) in T€	**Significant observable input parameter** (Level 2) in T€	**Significant non-observable input parameter** (Level 3) in T€
Interest rate swaps in connection with effective CF hedge	30/09/2019	5,795	-	5,795	-
Interest rate swaps in connection with effective CF hedge	30/09/2018	157	-	157	-

47. Statement of Consolidated Cash Flows

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

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

Cash from current activities amounts to T€ 23,062 (PY: T€ 27,877) It results from the consolidated result for the year before non-controlling interests and taxes in the amount of T€ 16,872 (PY: T€ 30,397) and largely from adjustments relating to the non-cash effects and financial results in the amount of T€ 3,119 (PY: T€ 3,781) and changes in net working capital. The other non-cash expenses and income mainly include 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€ 19,278 (PY: T€ 10,577).

The dividend distribution for financial year 2017/2018 in the amount of T€ 4,409 (PY: T€ 3,307) is to be mentioned within the scope of financing activities. Together with the repayment of liabilities to banks in the 2018/2019 financial year and leasing liabilities of T€ 2,304 (PY: T€ 4,140) they represent the major outflows of cash used in the context of financing activities. Loans raised in the amount of T€ 11,407 (PY: T€ 1,384), in particular for financing the construction projects at Dr. Hönle AG, Panacol-Elosol GmbH and UV-Technik Speziallampen GmbH, represent the main inflow of cash from financing activities.

Reconciliation according to IAS 7

in T€	01.10.2018	Payment effective change	Non-cash changes			30/09/2019
			Acquisitions	Currency differences	Fair value changes	
Long-term borrowed capital	4,560	9,784				14,344
Short-term borrowed capital	2,263	-591				1,672
Lease liabilities	274	-65				209
Liabilities from other financing transactions *	360	-25	1,536	12	4,101	5,984
Total	7,457	9,103	1,536	12	4,101	22,209

* The liabilities from other financing transactions are a component of the balance sheet items: Non-current liabilities and Other current liabilities.

In all, cash and cash equivalents increased from T€ 12,037 to T€ 14,577 in the financial year 2018/2019.

48. Segment Reporting

Segment reporting was prepared in conformity with IFRS 8.

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

At the Hönle 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 Hönle Group, as described in paragraph 5.

Segment Reporting for Financial Year 2018/2019

	Equipment & Systems	Adhesives	Glass & Lamps	Total	Eliminations	Consolidated
	2018/2019 in T€	2018/2019 in T€	2018/2019 in T€	2018/2019 in T€	2018/2019 in T€	2018/2019 in T€
Sales revenues:						
External customers:	52,133	33,894	21,720	107,747	0	107,747
Sales with other business units	161	286	2,060	2,507	-2,507	0
Total sales	52,294	34,180	23,780	110,254	-2,507	107,747*
RESULT:						
Segment result (operating result)	**3,471**	**11,674**	**1,859**	**17,003**	**0**	**1,003**
Interest income	315	15	39	370	-357	13
Interest expenses	199	24	398	621	-459	162
Profit/loss from investments accounted for using the equity method				17		17
Earnings before taxes and non-controlling interests						**16,872**
Income taxes	1,142	3,509	360	5,011	0	5,011
Deferred taxes	-196	-65	-377	-638	102	-536
Earnings before non-controlling interests						**12,396**
OTHER INFORMATION						
Segment assets:	**87,325**	**51,186**	**38,326**	**176,837**	**-40,827**	**136,009**
Non-allocated assets:						
Investments accounted for using the equity method				52		52
Financial assets				27		27
Non-current receivables				1,495		1,495
Current tax assets				877		877
Deferred tax assets				5,687		5,687
Consolidated assets						**144,147**
Segment debt	**48,926**	**9,862**	**31,930**	**90,718**	**-58,913**	**31,804**
Deferred tax liabilities				1,292		1,292
Current income tax liabilities				6,441		6,441
Non-current loans				14,488		14,488
Consolidated liabilities (short- and long-term)						**54,025**
Investments:	6,427	8,314	4,537	19,278	0	19,278
Segment write-downs	1,104	681	1,530	3,315	0	3,315
Non-cash expenses of the segment	81	1	0	82	0	82

* Deviating from half-year reporting, sales revenues generated by the Adhesives segment in the context of a major order in the amount of T€ 3,399 were allocated to the Equipment & Systems segment, since the sales revenues earned with the external customer were, in economic terms, provided by this segment. In half-year reporting, sales in the Adhesives segment (the segment handling the order) were reported and explained accordingly.

Segment Reporting for Financial Year 2017/2018

	Equipment & Systems	Adhesives	Glass & Lamps	Total	Eliminations	Consolidated
	2017/2018	2017/2018	2017/2018	2017/2018	2017/2018	2017/2018
	in T€	in T€	in T€	in T€	in T€	in T€
Sales revenues:						
External customers:	57,952	47,097	21,443	126,492	0	126,492
Sales with other business units	2,506	412	2,416	5,334	-5,334	0
Total sales	60,458	47,509	23,859	131,826	-5,334	126,492
RESULT:						
Segment result (operating result)	**7,568**	**22,125**	**994**	**30,687**	**0**	**30,687**
Interest income	254	25	50	329	-305	24
Interest expenses	301	32	361	694	-376	318
Profit/loss from investments accounted for using the equity method				3		3
Earnings before taxes and non-controlling interests						**30,397**
Income taxes	2,266	6,313	355	8,934	0	8,934
Deferred taxes	11	-21	-26	-36	-228	-264
Earnings before non-controlling interests						**21,726**
OTHER INFORMATION						
Segment assets:	**77,672**	**43,166**	**33,040**	**153,878**	**-33,632**	**120,246**
Non-allocated assets:						
Investments accounted for using the equity method				30		30
Financial assets				27		27
Non-current receivables				1,269		1,269
Current tax assets				652		652
Deferred tax assets				3,298		3,298
Consolidated assets						**125,523**
Segment debt	**40,189**	**7,463**	**28,649**	**76,301**	**-51,304**	**24,997**
Deferred tax liabilities				1,300		1,300
Current tax liabilities				7,206		7,206
Non-current loans				4,770		4,770
Consolidated liabilities (current and non-current)						**38,273**
Investments:	6,815	1,060	2,703	10,578	0	10,578
Segment write-downs	1,078	627	1,445	3,150	0	3,150
Non-cash expenses of the segment	178	8	0	186	0	186

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:

	2018/2019 in T€	2017/2018 in T€
Total sales revenues	107,747	126,492
Germany	36,224	42,576
Other countries	71,523	83,915

In the financial year 2018/2019 none of the companies abroad generated revenue of more than 10% of total sales revenues. In the previous year, revenue of T€ 19,993 was earned in Singapore with a customer in the Equipment and Systems and Adhesives segments. This corresponds to 15.7% of total revenues. No single customer accounted for more than 10.0% of total sales in the current financial year.

Non-current assets are allocated as follows:

Germany:	T€ 53,441 (PY: T€ 38,353)
Other countries	T€ 11,178(PY: T€ 11,299)

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.

49. Related Party Disclosures

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

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

- the members of the Management Board or Supervisory Board of Dr. 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 50.

Regarding the reportable business relationships, reference is made to our comments on individual balance sheet and income statement items. Costs are passed on mainly between Solitec GmbH and Dr. Hönle AG within the scope of advertising. The respective amounts are immaterial with respect to the results of operations, however. TECINVENT GmbH also provided companies included in the group with development services which were immaterial with respect to the results of operations.

- ***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, Gilching

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. In December 2017 the loan was stocked up by T€ 130 at unchanged conditions. The term was extended and runs to 30 November 2020. The carrying amount as at 30 September 2019 amounts to T€ 61 (PY: T€ 111). The current portion in the amount of T€ 52 (PY: T€ 50), is disclosed under "Other current assets" (cf. paragraph 27). The interest income (cf. paragraph 13) in the amount of T€ 4 (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.

In addition, a receivable in the amount of T€ 73 relates to the Supervisory Board Chairman.

See paragraphs 13, 21, 27.

50. Disclosures on 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 (without pension cost) in financial year 2018/2019 amounted to:

Mr. Norbert Haimerl	T€ 605 (PY: T€ 855)
Mr. Heiko Runge	T€ 606 (PY: T€ 847)

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)	Salary		Other remuneration		Total	
	2018/2019 in T€	2017/2018 in T€	2018/2019 in T€	2017/2018 in T€	2018/2019 in T€	2017/2018 in T€
Norbert Haimerl	281	281	18	26	299	307
Heiko Runge	281	281	19	18	300	299
Total	**562**	**562**	**37**	**44**	**599**	**606**

Performance-based remuneration	Profit sharing bonus	
	2018/2019 in T€	2017/2018 in T€
Norbert Haimerl	306	548
Heiko Runge	306	548
Total	**612**	**1.096**

Pensions	Pension expenses pursuant to IAS 19	
	2018/2019 in T€	2017/2018 in T€
Norbert Haimerl	293	267
Heiko Runge	260	233
Total	**553**	**500**

Pensions	Present value of defined benefit obligations	
	2017/2018 in T€	2017/2018 in T€
Norbert Haimerl	2,826	2,069
Heiko Runge	2,569	1,855
Total	**5,395**	**3,924**

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.

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 twelve 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. Hönle 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. Hönle 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.

Pension payments were made to surviving dependants of former managing directors in the amount of T€ 12 (PY: T€ 12). These pension claims are covered by pension provisions in the amount of T€ 315 (PY: T€ 291) (cf. paragraph 35). The interest expense includes a respective proportion of T€ 3 (PY: T€ 5).

Compensation of Supervisory Board Members

The compensation is comprised exclusively of fixed remuneration which is 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

	2018/2019 in T€	2017/2018 in T€
Prof. Dr. Karl Hönle	60	48
Günther Henrich	45	36
Dr. Bernhard Gimple	30	24
Total	**135**	**108**

Supervisory Board

- Prof. Dr. Karl Hönle, Dachau - Chairman
  Physicist, Professor of Technical Optics and Laser Technology at the Munich University for Applied Sciences (emeritus status), Managing Director of Dr. Hönle Medizintechnik GmbH

- Günther Henrich, Schäftlarn - Vice Chairman
  Lawyer, independent

- Dr. Bernhard Gimple, Munich
  Lawyer, independent

Total compensation for the Supervisory Board amounted to T€ 135 (PY: T€ 108) in financial year 2018/2019).

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

51. Corporate Governance Compliance Declaration pursuant to Section 161 AktG

Im January 2019, 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 (www.hoenle.de).

52. Annual Auditor's Fees

The annual auditor, S&P GmbH Wirtschaftsprüfungsgesellschaft, Augsburg, charged the following fees for the services provided in financial year 2018/2019:

	2018/2019 in T€	2017/2018 In T€
Financial statements audit (individual and consolidated)	180	178
Tax consulting services	45	32
Other attestation services	7	4
Total	**232**	**214**

53. Employees

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

	2018/2019	2017/2018
Sales & Marketing	87	85
Research, Development	87	80
Production, Service	296	297
Logistics	80	86
Administration	68	70
Total	**618**	**618**

54. Approval of the Consolidated Financial Statements pursuant to IAS 10.17

The present consolidated financial statements were approved on 20 January 2020 by the Management Board for review by the Supervisory Board.

55. Events after the Balance Sheet Date

Events after the balance sheet date that would impact significantly on the Hönle Group's net assets, financial position and results of operations, have not occurred.

Gräfelfing, 20 January 2020

Norbert Haimerl	Heiko Runge
Management Board	Management Board

Glossary of Terms

Aggregate Operating Performance
The aggregate operating performance represents the sum total of sales revenue, inventory changes and other work performed by entity and capitalised.

Cost of Materials Ratio
The cost of materials ratio represents the ratio of cost of materials to aggregate operating performance

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.

Personnel Expense Ratio
The personnel expense ratio represents the ratio of personnel expense relative 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

28 January 2020
Present Annual Report 2018/2019

21 February 2020
First Quarterly Statement 2019/2020

17 March 2020
Shareholders Meeting in Munich

15 May 2020
Half-Year Report 2019/2020

7 August 2020
Third Quarterly Statement 2019/2020

Disclaimer

This annual report contains statements and information concerning Dr. Hönle AG and the Hönle Group which relate to future periods. These forward-looking statements represent estimates that were made on the basis of all information available at the time of preparation of the report. If the assumptions underlying the forecasts are not correct or risks - such as those mentioned in the risk report - occur, actual developments and results may differ from current expectations. The company assumes no obligation to update the statements contained in this management report outside the statutory publication requirements.

The figures and percentages contained in this report may be subject to rounding differences.

hönle group

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