



ANNUAL REPORT  
2009 | 2010

**hönle**group



## **Content**

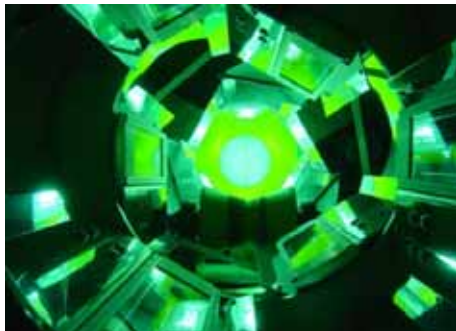
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## At a Glance **Products**



### ***Drying equipment for the printing industry***

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



### ***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.



### ***Surface disinfection***

In less than half a second, micro-organisms are killed on a reliable basis through UVC radiation, which represents an effective and environmentally friendly form of disinfection. Major application fields include the food and beverages industry.



### ***Sun simulation***

Irradiation based on artificial sunlight simulates processes that show the light-ageing process and changes in materials' properties due to sunlight exposure. The radiation sources used by Hönle emit a continuous light spectrum that comes very close to natural sunlight.



### ***Adhesives***

In the industrial manufacturing industry, adhesives are presently replacing many conventional bonding techniques, such as soldering and welding. The use of adhesives saves time, materials and/or weight, depending on the respective application. This has led to a broad range of applications in the electronics, glass processing, medical technology, construction, and optics segments as well as in many other areas.



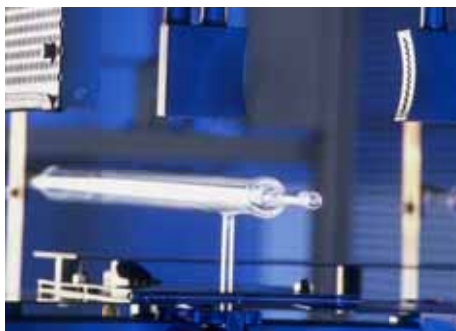
### ***Equipment for curing adhesives***

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.



### ***UV lamps for disinfecting water, air and surfaces***

Through the acquisition of UV-Technik Speziallampen GmbH located in Ilmenau, the Hönle Group succeeded in further expanding its business activities in the life sciences segment. As an efficient partner of systems and equipment manufacturers in the growing market for UV environmental engineering, the newly acquired company offers its customers a broad range of UV lamps and fitting components.



### ***UV lamps for drying inks, coatings and adhesives***

A UV lamp constitutes the core component of every UV system. In addition to all common standard light spectra and lamp lengths up to three meters, Aladin develops customised special lamps by means of which new procedures and conventional processes can be optimised.

## At a Glance Business Development

<b>HÖNLE GROUP</b>	<b>2009/2010</b>	<b>2008/2009</b>	<b>Change</b>
<b>Income Statement</b>	<b>T €</b>	<b>T €</b>	<b>in %</b>
Revenue	<b>54,624</b>	44,985	21.4
EBITDA	<b>6,722</b>	- 2,779	341.9
EBIT	<b>5,548</b>	- 3,938	240.9
EBT	<b>5,342</b>	- 4,073	231.2
Net income	<b>4,806</b>	- 4,083	217.7
<b>Cash flow</b>			
Operating cash flow <sup>1)</sup>	<b>5,105</b>	- 2,458	307.7
<b>Balance Sheet <sup>2)</sup></b>			
Non-current assets	<b>17,124</b>	16,747	2.3
Current assets	<b>27,310</b>	21,780	25.4
Shareholders' equity <sup>3)</sup>	<b>29,866</b>	24,823	20.3
Non-current liabilities	<b>3,705</b>	4,084	- 9.3
Current liabilities	<b>9,960</b>	8,819	12.9
Total assets	<b>44,434</b>	38,527	15.3
Capital ratio in %	<b>69.2</b>	66.5	4.1
<b>Staff</b>			
at the end of the financial year	<b>276</b>	253	9.1
<b>Share</b>			
Earnings per share	<b>0.89</b>	- 0.80	211.3
Dividend	<b>0.25 <sup>4)</sup></b>	0.00	-
Number of shares	<b>5,512,930</b>	5,512,930	0.0

<b>DR. HÖNLE AG</b>	<b>2009/2010</b>	<b>2008/2009</b>	<b>Changes</b>
<b>Income Statement</b>	<b>T €</b>	<b>T €</b>	<b>in %</b>
Revenue	<b>25,887</b>	18,487	40.0
EBIT	<b>2,121</b>	- 717	395.8
EBT	<b>3,100</b>	- 496	725.0
Net income	<b>2,898</b>	- 484	698.8
Earnings per share	<b>0.56</b>	- 0.09	722.2

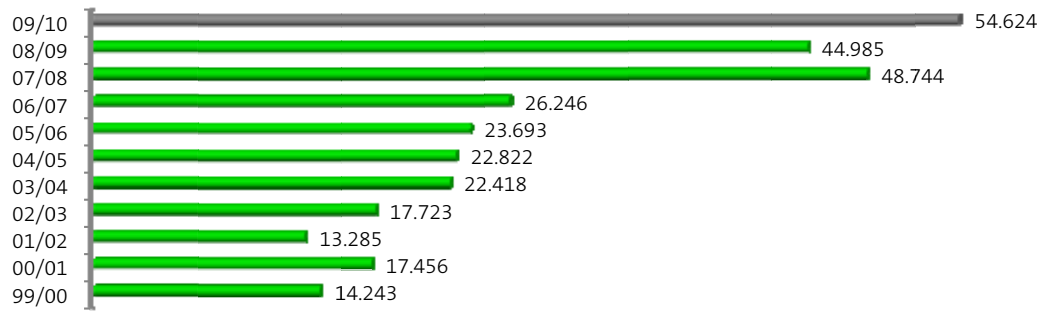
1) Cash from current business activities

2) As of 30/09/2009 and 30/09/2010

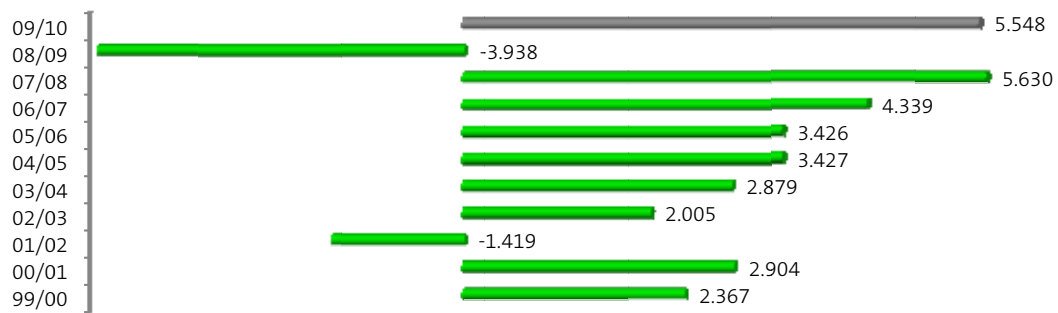
3) Equity attributable to Dr. Höhle AG's shareholders

4) Supervisory Board and Management Board recommendation: min. € 0.25

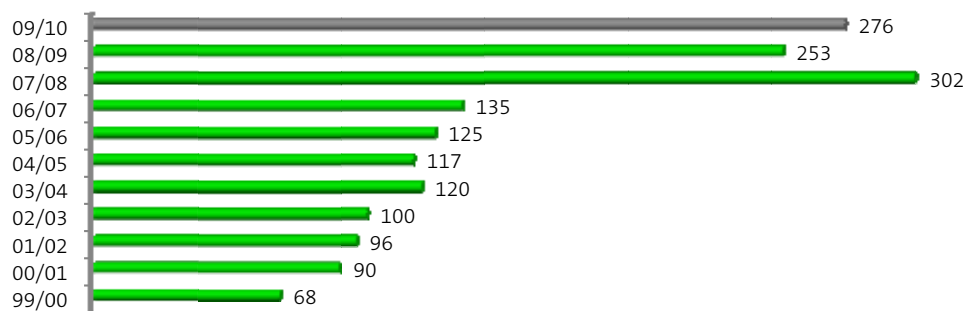
### Sales (in T€)



### EBIT



### Staff



*Following the company acquisitions and the successfully concluded restructuring process, we formed a basis for achieving sales revenues and results that are higher by far than those generated in the past.*



Norbert Haimerl  
Director of Finance and Human Resources



Heiko Runge  
Director of Sales and Technology

## Dear Shareholders and Business Friends,

*The past financial year was one of the most successful business years in the Hönle Group's history. At € 54.6 million, which represents a 21.4 % increase compared to the previous year, sales revenues reached a record high. Both the systems and adhesives segments contributed to this surge in sales. A broad range of products and services form the basis for this success and have one thing in common: They are innovative, of high quality, and are adapted to specific customer requirements. We are partners of the industry and develop optimised solutions for our customers, and we do so in collaboration with the customers.*

*In view of the events that occurred in the previous financial year, the positive results are even more striking: Just one year ago, we were still in the midst of one of the most severe economic crises to occur since the foundation of the Federal Republic of Germany. At the same time, we had to manage the integration of the newly acquired companies. The Hönle Group's operating result stood at € -3.9 million in the previous year. The economic recovery in conjunction with comprehensive cost reduction measures resulted in an operating result of € 5.5 million being achieved just one year after the crisis.*

*In December 2010, we expanded our product range in the life sciences segment. As was recently published, Dr. Hönle AG acquired a 51% stake in UV-Technik Speziallampen GmbH, Wümbach, Ilmenau. The company has accumulated many years of know-how in the segment of UV lamps that are used in the water sterilisation market, in particular. We have thus tapped a sustainable growth market in the environmental engineering segment.*

*As a result of this and other acquisitions made in 2008, we succeeded in improving our competitive position and in significantly expanding our sales and earnings potential. In addition, we enlarged our product range in the industrial adhesives, UV systems and lamps segments.*

*Being the second largest systems supplier for industrial UV technology worldwide and following the company acquisitions, we are positioned more strongly than ever before in the UV systems and adhesives markets. We have now created a basis for sustained positive business development. As regards financial year 2010/2011, we have dedicated ourselves to increasing sales revenues to € 65 million and the operating result to € 7.5 million.*

*We have dedicated ourselves to putting all our efforts into continuing this successful course of business, and would be pleased to have you accompany us further along the way.*



Norbert Haimerl  
Board of Management



Heiko Runge  
Board of Management

# Share

## **Positive business development in 2010**

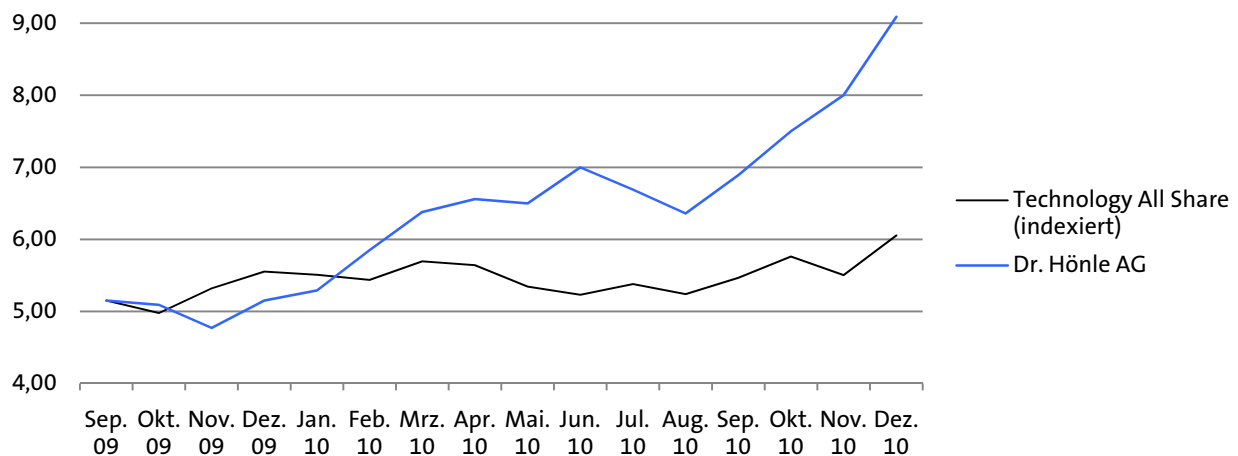
The Hönle stock price picked up significantly in 2010, rising from € 5.15 recorded at the beginning of the year by 76.5 % to € 9.09 at the year-end.

The Hönle share thus significantly outperformed the underlying Technology All Share Index, which only gained 9.0 % in the same period.

Based on 5.51 million shares issued by Hönle, the Group's market value amounts to € 50.1 million as at the end of the financial year.

Dr. Hönle AG will celebrate its tenth anniversary as a listed company on 24 January 2011. By going public, we laid the basis for successful business development. While sales revenues amounted to € 14.2 million ten years ago, they jumped to € 54.6 million in the past financial year. In the meanwhile the product range as well as the international sales and service network increased.

**Chart of the Hönle Share**



## **Open communication with the financial market**

Providing the capital market with prompt, comprehensive and open information is the most important basis for successful investor relations activity. The Internet plays an important role in this regard. For this reason, Hönle places great emphasis on a clearly structured informative and up-to-date website, which contains current press releases, ad hoc notifications, information

pertaining to the share and Annual General Meeting as well as quarterly and annual reports. Dr. Hönle AG's Management Board and investor relations managers answered investors' questions in detail in the past financial year and, in particular, explained the comprehensive restructuring measures implemented by the Hönle Group. To this end, they held intensive talks with institutional and private investors.

### **Shareholder structure**

Dr. Hönle AG holds 5.91 % of the share capital in own shares (treasury stock). Institutional investors, each with equity participations of less than 3% in Dr. Hönle AG, held 11.57 % of the shares. In addition, the Company was aware of the following shareholders with equity holdings exceeding the reporting threshold as at 30 September 2010:

Dr. Hans-Joachim Vits: 6.41 %  
Prof. Dr. Karl Hönle 4.01 %  
Pro Beam AG & Co. KGaA: 8.16 %  
Scherzer & Co. AG: 5.32 %  
HSBC Trinkaus Investment Managers: 3.17 %  
The remaining 55.45 % of the shares are held by private shareholders and other shareholders.

### **Hönle Share Data**

Securities Identification Number (WKN)	515710
ISIN	DE5157101
Stock Exchange Symbol	HNL
Transparency Level	Prime Standard

#### Index Affiliation:

Technology All Share	DE0008468943
Prime All Share	DE0007203325
DAXsubsector Advanced Industrial Equipment	DE0007203895
DAXsubsector All Advanced Industrial Equipment	DE000A0SM817
DAXsector Industrial	DE0009660282
DAXsector All Industrial	DE000A0SM7R8
CDAX	DE0008469602

### **The Hönle Share in the 2009/2010 Financial Year**

Price at the Beginning of the Financial Year in €	5.15
Price at the End of the Financial Year in €	6.89
Peak Price	€ 7.20 on 17.06.2010
Lowest Price	€ 4.71 on 02.12.2009
Annual Revenue in Shares	1,118,513
Annual Revenue in €	6,812,564
Number of Shares on 30.09.2009	5,512,930
Market Capitalisation on 30.09.2009	37,984,088
Earnings per Share in €	0.89
Dividend per Share min. in € <sup>1</sup>	min. 0.25

<sup>1</sup> Supervisory Board and Management Board recommendation

# Dr. Höhle AG Group Management Report

for the 2009/2010 Financial Year

## **Business Operations and General Conditions**

### **Group Structure**

Dr. Höhle AG is a listed technology company with head office in Gräfelfing near Munich. The Höhle Group is one of the leading, worldwide systems providers in the UV technology sector. The

equipment is used for drying inks and coatings, for curing adhesives and plastics, for disinfecting surfaces and for sunlight simulation. Höhle Group's business activities also focus on the development and sale of industrial adhesives.

Dr. Höhle AG holds interests in several domestic and foreign companies:

No.	Name and Head Office	Nominal Capital	Participation	held via
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### **Direct Participations of Dr. Höhle AG**

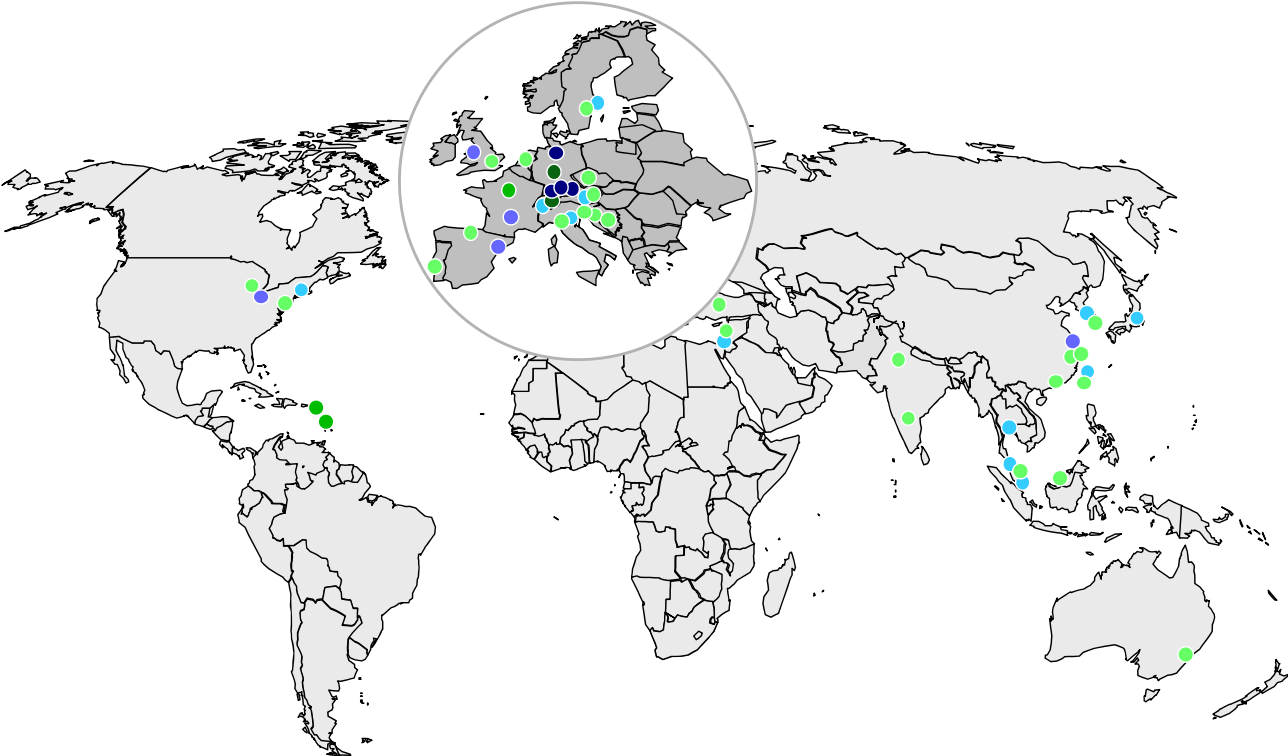
1	Agita Holding AG, Regensdorf, Zurich, Switzerland	CHF	50,000	100.00%
2	Aladin GmbH, Gräfelfing, Munich	€	500,000	60.00%
3	Eltosch Torsten Schmidt GmbH, Hamburg	€	750,000	100.00%
4	Honle Spain S.A., Gavà, Barcelona, Spain	€	160,200	60.00%
5	Honle UV France S.à.r.l., Bron, Lyon, France	€	7,622	100.00%
6	Honle UV (UK) Ltd., Luton, Great Britain	£	71,000	100.00%
7	PrintConcept GmbH, Kohlberg	€	26,000	90.00%
8	Solitec GmbH, Gräfelfing, Munich	€	25,565	100.00%
9	PrintDesign Engineering GmbH, Kohlberg	€	25,000	20.00%

### **Indirect Participations of Dr. Höhle AG**

10	Domino S.à.r.l., Gennevilliers, Paris, France	€	7,622	100.00%	11
11	Eleco Produits E.F.D., Gennevilliers, Paris, France	€	352,000	99.96%	15
12	Eltosch America Inc., Mt. Prospect, Chicago, USA	\$	1,000	100.00%	3
13	Megadustries S.à.r.l., Guadeloupe, France	€	15,245	76.00%	11
14	Megadustries S.à.r.l., Martinique, France	€	21,343	75.71%	11
15	Panacol AG, Regensdorf, Zurich, Switzerland	CHF	50,000	100.00%	1
16	Panacol Elosol GmbH, Steinbach, Ts.	€	255,646	100.00%	15

**Hönle Group: Worldwide Locations**

The Hönle Group is represented worldwide in over twenty countries; in seven of these countries it established own companies or representative offices. The head office for all production sites is located in Germany. Hönle is represented by own sites in those countries that are of key importance to its operating business. Hönle has sales offices in France, Switzerland, Spain, England, the USA, and in China. Furthermore, the Company is represented by a network of distribution partners in other countries.



- Equipment
- Adhesives
- Manufacturing Base
- Manufacturing Base
- Sales Base
- Sales Base
- Sales Partner
- Sales Partner

### **Management System**

The Company's entrepreneurial activities are aimed at achieving sustained growth of corporate value. In doing so, Hönle also endeavours to fulfil its social responsibility vis à vis employees, customers, suppliers and investors. Hönle aims at stabilising and expanding its market position in its core business segments and focuses, in particular, on customer-specific systems solutions in this context. We view ourselves as a partner of the industrial sector.

Dr. Hönle AG's business segments work together within a functional organisational structure. The Group's internal management system mainly consists of regular Management Board meetings, a monthly business development analysis, strategic corporate planning, planning respecting investments, personnel and acquisitions, risks and

opportunities management, and regular reporting to the Supervisory Board.

The operational objective of Hönle's management is to increase the Company's sales revenues and net income on a sustained basis. Great emphasis is also placed on increasing the Hönle Group's operational cash flow. In addition to corporate performance, the operative margins serve as important financial indicators for reviewing profitability. Therefore, Hönle continually monitors the development of revenues and cost/income ratios and compares these with its internal planning.

The most important control parameters of the past financial year and the respective changes (compared to the previous year), are presented in the following table:

<b>Control Parameters</b>	<b>2009/2010</b>	<b>2008/2009</b>	<b>Change</b>
Revenue	54,624 T€	44,985 T€	21.4 %
Consolidated Net Income/Loss for the Year	4,806 T€	- 4,083 T€	217.7 %
Cash Provided by Operating Activity	5,105 T€	- 2,458 T€	307.7 %
Cost of Materials Ratio	41.2 %	45.7 %	-9.8 %
Personnel Expense Ratio	30.8 %	37.4 %	- 17.6 %
Other Operating Expenses Ratio	19.1 %	28.1 %	- 32.0 %
EBIT Margin	10.2 %	- 8.8 %	215.9 %
Net Return on Sales	8.8 %	- 9.1 %	196.7 %

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

Outlook. It also provides information about measures that are planned with regard to further development of the control parameters.

### ***Market Development***

The global economy recovered faster than expected from the economic crisis. The strong economic expansion, which commenced about the middle of 2009, also continued in 2010. The Institute for the World Economy upwardly revised its forecast and expects a 4.7 % increase in global production for 2010. Economic recovery in Germany set in much earlier than in most other industrialised countries. In addition to the booming export market, consumption also picked up again.

However, the economic situation in the printing industry improved significantly later than in the overall economy. Up to mid-2010, sales revenues generated by the printing industry were decreasing. It was not until before the summer that a slight rebound in demand was reported. However, the printing industry's market volume is lower by far than the level reported before the economic crisis.

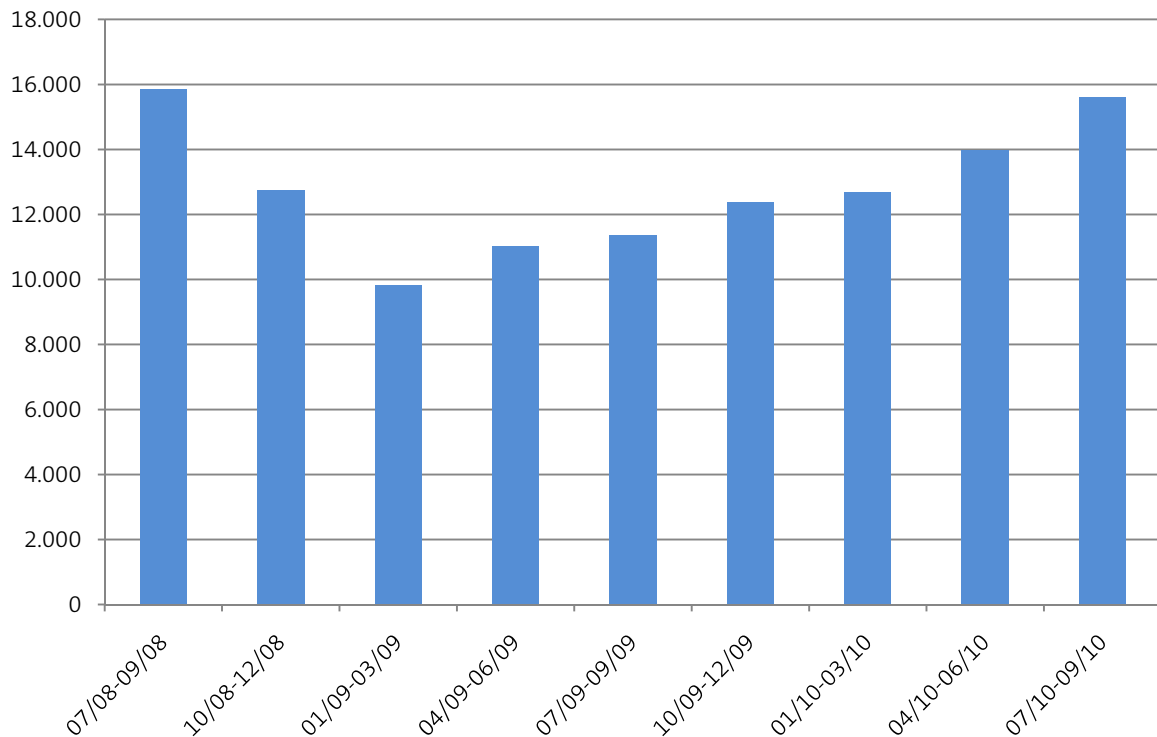
In contrast, the production level in the manufacturing sector and in the chemical industry grew faster than the overall economy in the past financial year. General conditions for the adhesives, surface disinfection and sun simulation business segments were thus far better for the Hönle Group than in the previous year.

### **Course of Business**

The Hönle Group's sales increased significantly in the 2009/2010 financial year.

In this context, Hönle benefited from the economic recovery, which encompassed all business segments. Sales revenues were up 21.4 % to T€ 54,624. The following graph describes the Hönle Group's quarterly sales revenues, which were already on the increase since the spring of 2009.

#### **Development of Quarterly Sales Revenues since Expansion of the Consolidated Group (in T€)**

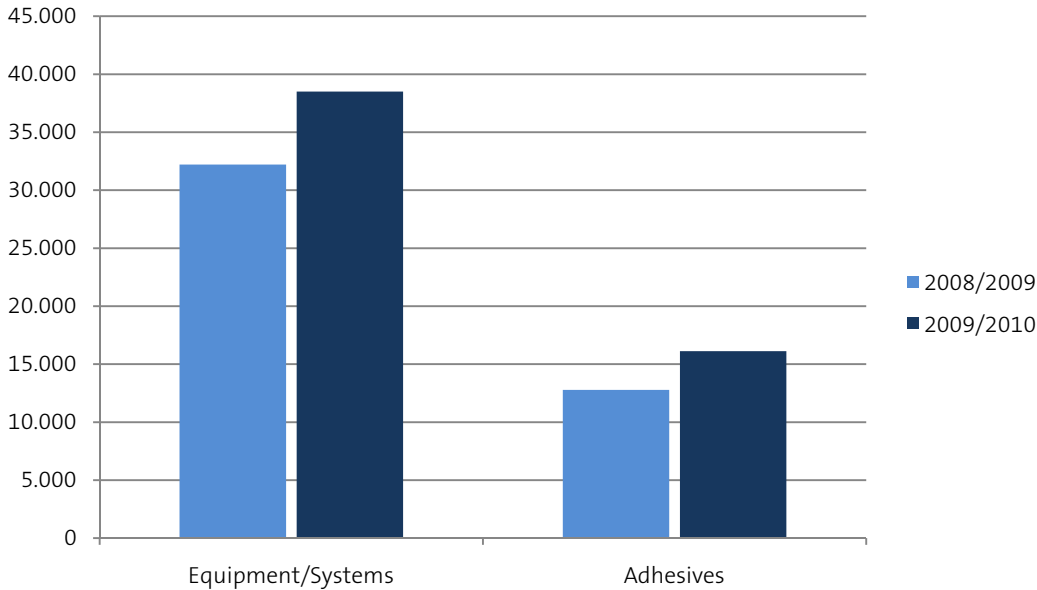


Sales revenues increased in the offset printing, digital printing, and telecommunications segments, among others. In all, however, the rise in sales revenues was based on a broad range of diverse application fields.

Hönle sold considerably more drying equipment for printing and coating applications than in the previous year. The market mood in the printing industry improved noticeably during the course of the financial and the willingness to invest started to increase again. Sales revenues also increased with respect to the special equipment segment: In the past financial year already, this was the only segment that grew despite the financial crisis, and sales revenues generated by the surface disinfection and sunlight simulation equipment segments increased further in the past year. In all, sales revenues generated in the 'Equipment and Systems' business segment were up 19.6 % to T€ 38,510.

The 'Adhesives' business segment reported the strongest growth with respect to sales revenues. Business started to pick up again for many customers, such as those in the electronics or mechanical engineering industries, and this resulted in noticeably more adhesives being ordered than in the previous year. The Panacol Group significantly increased its sales revenues generated in the optoelectronics sector, which constitutes an important business segment for the company. Electrically and thermally conductive adhesives, which are used by the electronics industry, contributed to the Company's successful performance. Sales revenues generated in the 'Adhesives' segment amounted to T€ 16,114, up 26.1 % from the previous year's level.

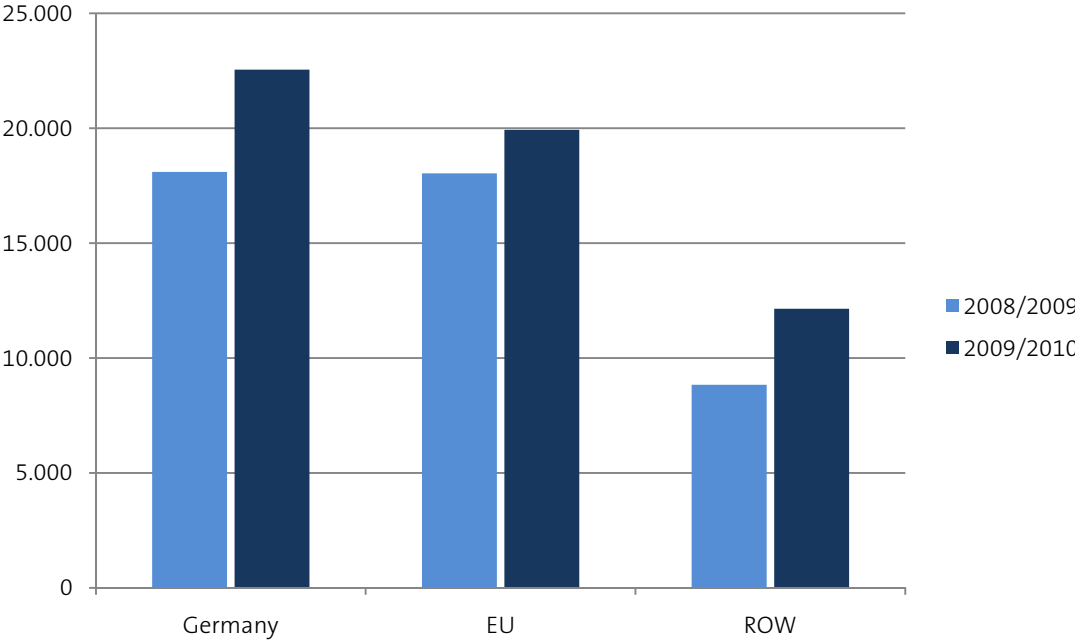
**Sales Development according to Company Segment (in T€)**



From a regional perspective, the Company's business performance was also very positive. Sales revenues generated in Germany, the Hönle Group's most important sales market, increased by 24.6 % to T€ 22,549. The mechanical engineering sector, which is traditionally strong in Germany, benefited greatly from the economic recovery. Hönle also sold significantly more UV systems and adhesives than in the previous year. In Europe outside Germany, sales revenues were up 10.5 % to T€ 19,929.

The sales market outside the European Union that was hit hardest by the economic crisis in the last financial year was the segment that reported the highest increase in the year under review on a percentage basis, which is very satisfactory. Sales revenues increased by 37.4 % to T€ 12,146. In this context, North America and South-East Asia profited from the economic recovery.

**Sales Development according to Region (in T€)**



Hönle continued to push ahead the integration of the new subsidiaries in the 2009/2010 financial year.

This included the transfer of Eltosch production activities to Dr. Hönle AG in Gräfelfing near Munich. In the past, Eltosch had its systems manufactured by external service providers. Hönle and Eltosch systems are now being manufactured internally (since 2009).

Standardisation of assembly groups also resulted in a simplification of internal workflows and led to a decrease in expenses. In addition, Hönle continued to work on a joint modular control concept for Hönle and Eltosch systems and on uniform, infinitely variable power electronics. As a result of these developments, manufacturing costs will decrease further and the provision of services will be simplified.

Furthermore, Dr. Hönle AG has optimised the production processes in general and has thus contributed to more efficient production. Moreover, investments were made in production plants.

Centralised purchasing activities translated into further cost savings potential with respect to Hönle and Eltosch products. In this context, initial cost savings potential was analysed and released. Hönle also reorganised its strategic acquisition activities and placed particular emphasis on quality management and on improving gross profit margins.

The fine-tuning concerning integration of the new Group companies has been completed. All business segments involved in the integration of the new subsidiaries have been restructured and the new tasks and processes have been successfully implemented.

The Hönle Group's staff level started to increase again as a result of the improved orders situation. The number of staff increased in the production and service segments, in particular. Dr. Hönle AG moved into the new, additional premises in Gräfelfing, near Munich, as planned. The rented space of ca. 1,200 square metres is used for the logistics segment, in particular.

In view of the positive growth expectations, we also decided in the past financial year to enlarge the existing office and production capacities at the Gräfelfing site. In total, 1,700 square metres of additional space will become available. The rental agreement for the Gräfelfing production site at Lochhamer Schlag 1 was renegotiated. Rental expenses for this property will decrease by approximately 20 % in the next financial year as a result of the new agreements.

Hönle participated in several trade fairs in Germany and abroad, including the IPEX trade fair. The IPEX trade fair is the biggest English-language trade show for the printing industry and thus serves to gauge the further development of the market for printed matter. The response of market participants was entirely positive and they are again more optimistic with respect to the future. Interest in printing machines and, in particular, in UV and thermal drying systems increased. Hönle established interesting contacts and engaged in promising discussions and conversations. Incoming orders and sales increased following the trade fair. Hönle also expects positive stimuli with respect to the further business development.

In addition, Panacol visited several adhesives trade fairs. In all, a positive conclusion can also be

drawn with respect to the adhesives segment:

The number of participants at the trade fair increased compared to the previous year and the demand for industrial adhesives picked up.

The 2009/2010 financial year was characterised by the onset of an economic recovery, the complete integration of manufacturing activities concerning the Eltosch systems, and the final integration of the new Group companies. A significant increase in sales revenues compared to the previous year coupled with the restructuring measures resulted in a considerably improved earnings situation. The operating result climbed from T€ -3,938 in the previous year to T€ 5,548 in the 2009/2010 financial year. Consolidated net income/loss for the year increased from T€ -4,083 to T€ 4,806 in the same period.

## Results of Operations

Two factors had a positive influence on Hönle Group's business development, namely the unexpectedly fast economic recovery, which encompassed all market segments, and the complete integration of the production of Eltosch systems into Dr. Hönle AG. Only one year after the severest economic crisis since decades, the Hönle Group succeeded in returning to positive territory and generated earnings before tax of more than € 5 million.

The Hönle Group's cost of materials ratio stood at 41.2 %, down 4.5 percentage points on the previous year. The proportion of high-margin products in total sales increased, while sales revenues generated from the less profitable Eltosch systems decreased. At the same time, the in-house production of Eltosch systems resulted in a decline in the cost of materials ratio.

Owing to the higher sales level, the personnel expense ratio dropped from 37.4 % to 30.8 %. Restructuring of the Hönle Group and the implementation of cost reduction measures translated into a significant drop in other operating expenses, which decreased from T€ 12,226 to T€ 10,470. Despite expensing currency effects of about 420 T € the other operating expenses ratio dropped from 28.1 % in the previous year to 19.1 % in the past financial year.

### Earnings Development

<i>in T€</i>	<i>2009/2010</i>	<i>2008/2009</i>	<i>Changes</i>
Revenue	54,624	44,985	21.4 %
Gross profit	34,095	25,750	32.4 %
Operating result (EBIT)	5,548	-3,938	240.9 %
Earnings before tax (EBT)	5,342	-4,073	231.2 %
Consolidated net income/loss for the year	4,806	-4,083	217.7 %
Earnings per share in €	0.89	-0.80	211.3 %

The operating result jumped from T€ -3,938 in the 2008/2009 financial year to T€ 5,548 in financial year 2009/2010. This result includes revenues in the amount of T€ 400 which are attributable to the realisation of warranty claims associated with the acquisition of Eltosch GmbH. The financial result dropped from T€ -135 in the previous year to T€ -206 in the year under review. The negative financial result includes interest amounting to T€ 75 paid on the provision of a KfW loan. The loan was not utilised and has already been cancelled, so that no further interest payments will have to be made for this loan.

The result from ordinary activities (EBT) increased from T€ -4,073 to T€ 5,342.

One non-recurring factor had an impact on corporation taxes, namely the acquisition of Eltosch GmbH by Dr. Hönle AG in 2008. Due to the positive results of the company, deferred taxes were activated for the total losses carried forward since the time of the acquisition. The activation of the deferred taxes reduced tax expenses by T€ 1,051. Taxes amounted to T€ 536 in the reporting year, which is reflected in the Group's low tax quota of only 10.0 %. The consolidated net income/loss for the year jumped from T€ -4,083 to T€ 4,806, while earnings per share rose from € -0.80 to € 0.89.

## **Financial Position**

The systematic management of the operative business by means of the cash-pooling system, and the continuous repayment of loan liabilities by the Treasury department contributed to the good financial result. Together with a sustained, positive cash flow in the coming years, the liquidity situation should see further improvement.

The debt-equity ratio, i.e. outside capital (T€ 13,665) in relation to equity capital (T€ 30,769), dropped from 0.50 to 0.44.

Despite an increase in inventories by T€ 1,742, cash provided by operating activities amounted to T€ 4,644 (cash used for operating activities in the previous year amounted to T€ -3,096), which is associated with an increase in the business volume and cash and cash equivalents generated therefrom.

At T€ -1,114, cash used for investing activity remained at a similar level compared to the previous year (PY: T€ -1,385). This amount includes investments amounting to T€ 263 relating to the acquisition of shares in PrintConcept GmbH, and investments totalling T€ 867 in intangible assets and in property, plant and equipment.

Cash used for financing activity amounted to T€ -533 and concerned liquidation of liabilities to banks and finance lease liabilities.

## **Cash Flow and Liquidity Development**

<b>in T€</b>	<b>2009/2010</b>	<b>2008/2009</b>	<b>Change</b>
Cash from current activities	5,105 T€	- 2,458 T€	307.7 %
Cash provided by/used for operating activity	4,644 T€	-3,096 T€	250.0 %
Cash provided by/used for investing activity	-1,114 T€	-1,385 T€	19.6 %
Cash provided by/used for financing activity	-533 T€	-1,482T€	64.0 %
Change in liquid assets	3,585 T€	-5,769 T€	162.1 %

## **Net Assets**

Due to the revenue growth, integration of the Eltosch production activities and the extension of suppliers' delivery periods, inventories increased from T€ 9,392 to T€ 10,897 in the year under review.

Liquid assets climbed from T€ 3,158 to T€ 6,743, which is attributable to the positive business development, in particular.

Overall, assets increased by T€ 5,907 in the period from 1 October 2009 to 30 September 2010 and amounted to T€ 44,434 as at the end of the financial year.

The increase in current liabilities by T€ 1,140 reported on the balance sheet is mainly attributable to personnel-related liabilities concerning profit-sharing of the staff, profit-sharing bonuses and commission payments. Non-current and current liabilities to banks dropped significantly from T€ 1,133 as at 30 September 2009, to T€ 703 as at 30 September 2010.

With an equity capital ratio of 69.2 %, Hönle Group financing is on solid ground.

## **Balance Sheet**

<b>in T€</b>	<b>30.09.2010</b>	<b>30.09.2009</b>	<b>Change</b>
Non-current assets	17,124	16,747	2.3 %
Current assets	27,310	21,780	25.4 %
Shareholders' equity	30,769	25,624	20.1 %
Non-current liabilities	3,705	4,084	-9.3 %
Current liabilities	9,960	8,819	12.9 %
Balance sheet total	44,434	38,527	15.3 %

## ***Overall Statement on the Economic***

### ***Situation***

Both the economic upturn of the overall economy and the now successfully completed in-house production of Eltosch systems had a positive impact on the Hönle Group's economic situation in financial year 2009/2010. The positive development of the domestic market and the onset of an economic recovery outside Germany - in particular in Southeast Asia - formed the basis for a 21.4 % increase in sales revenues. The restructuring and integration of the companies acquired in 2008 was successfully completed in the 2009/2010 financial year. Hönle's earnings before tax exceeded € 5 million.

With assets of more than € 9 million that can swiftly be converted into cash and existing credit facilities, the Hönle Group continues to be solidly financed. Liabilities to banks amount to only € 0.7 million. Owing to its strong market share in several growth segments, the Group is excellently positioned with respect to its further business development.

## **Research & Development**

In the past financial year, the focus of R&D activities was on enlarging the product range. Optimisation of the systems with respect to functionality, quality and energy efficiency also played an important role. The ideas of staff members and the knowledge of external partners such as industrial companies, technical universities and research institutions played a key role in this respect. The major projects of the last financial year are described in the following:

Green printing is a key issue for the printing industry. The Hönle Group's UV drying systems make a positive contribution to environmental-friendly printing. UV technology can almost do without any solvents and - in most cases - utilises less energy than traditional drying processes. Naturally, our experts for drying systems are committed to continuously enhancing their developments, and they take the criterion of environmental compatibility into account when it comes to technology. The combination of these two approaches is reflected in new developments and in the enhancement of already proven products of the Hönle Group.

The Federal Cooperative Association for Print and Paper Processing (Bundesgenossenschaft für Druck und Papierverarbeitung) recently distinguished Hönle for its powerful and environmental-friendly products – a reward for Hönle's R&D staff and its customer- and future-oriented way of working. At the ICE trade fair, the Company received the BG test certificate for 'Energy-minimised drying'. Prior to that, the Association performed a comprehensive test of the light

guide UV module manufactured by Eltosch. Based on the already high efficiency of the predecessor model, the test series confirmed that the new Eltosch module can increase efficiency by another 20%. Greater efficiency, while the energy used remains the same, leads to cost savings for the customer while simultaneously saving environmental resources.

Electronic power supply units serve to control UV intensity in an optimised manner during the printing process, and increase the UV yield. Hönle developed a new 10kW power supply unit and, in so doing, has further expanded its product range. The devices can be used for controlling the power output for both Hönle and Eltosch drying systems. Several development projects are being carried out within the scope of the standardisation of assembly groups for Hönle and Eltosch systems. These projects concern the modular control concept and the uniform, infinitely variable power electronics.

The promising UV-LED technology is finding its way into the printing industry. Hönle is taking this development into account: For example, several new, high performance products, such as the LED Powerline, were created in recent months. This high-performance array is ideal for intermediate (pinning) and final drying. The device has high irradiation power and permits flexible programming of processes, which is why it is particularly suitable for fully automated production lines.

Panacol launched two new special adhesives for the multi-purpose bonding of glass: The UV-reactive high-tech products of the Vitralit series represent solvent-free products that are made up

of one component which can be processed quickly and comfortably. They cure in seconds when placed under UV light and their final strength can - in most cases - withstand forces that exceed the limits that glass or other materials can sustain. An innovative adhesive used in the manufacture of circuit boards was also newly introduced. An LED-based curing system was developed to ensure subsequent, process-optimised drying of the product in seconds.

The order-independent research and development expenses incurred by the Hönle Group increased from T€ 656 in the previous year to T€ 688 in the financial year under review. The number of staff employed in the R&D department as at the end of the financial year is 41 (unchanged from the previous year). This means that 15.0 % of Hönle's staff is employed in the Research and Development department.

### ***Environmental Aspects***

Drying processes are usually significantly more environment-friendly than conventional thermal drying processes. The considerably better energy performance of modern UV drying systems as compared to conventional infrared and hot air drying systems speaks in favour of their utilisation. Moreover, the use of UV technology significantly reduces the amount of solvents regarding inks, paints and adhesives that are harmful to the environment. Finally, the high quality and scratch resistance of the paints and varnishes also help to reduce the repair work that is necessary due to mechanical stress and strain.

The VOC Directive issued by the European Union was adopted as German law in 2001 as the 31st Federal Emissions Directive. The Directive limits the emission of volatile organic compounds (VOC). The schedule concerning practical implementation stipulates 2013 as the end of transitional periods. The Directive will then become fully effective. The use of UV inks and paints represents a possibility to comply with that Directive. For this reason, the opportunities for further popularisation of UV technology in the printing, paints and lacquers and coating segments are promising in the near future. The process aimed at the further reduction of emissions as promulgated in the National Emission Ceilings Directive, for example, is continuing at cross-national level. A further reduction of emission limits would create additional revenue potential for UV technology.

## Staff

Owing to the positive orders situation, Höhle increased its staff from 253 as at the end of the previous financial year to 276 as at the end of the financial year under review. New employees were hired in the production, service and administra-

tion departments, in particular. Höhle Group's staff of 276 includes 31 part-time employees, which corresponds to 11.2 % of its total staff. The employees were active in the following functional areas:

### Functional Areas

	<b>30.09.2010</b>	<b>30.09.2009</b>	<b>Change</b>
Sales	68	63	7.9 %
Research & Development	41	41	0.0 %
Production, Service	93	83	12.0 %
Logistics	30	29	3.4 %
Administration	44	37	18.9 %
Total	276	253	9.1 %

<b>Average</b>	<b>2009/2010</b>	<b>2008/2009</b>	<b>Change</b>
Sales	66	63	4.8 %
Research & Development	41	44	-6.8 %
Production, Service	88	92	-4.3 %
Logistics	26	32	-18.8 %
Administration	42	45	-6.7 %
Total	263	276	-4.7 %

Personnel expenses rose from T€ 16,303 to T€ 16,903 in the last financial year. This increase is attributable to profit-sharing bonuses, commission payments, the employee profit sharing plan,

accruals recorded with regard to Christmas bonuses, vacation entitlements and flexi-time accounts. Personnel expenses were distributed as follows:

### Personnel Expenses

<b>in T€</b>	<b>2009/2010</b>	<b>2008/2009</b>	<b>Change</b>
Wages and salaries	13,870	13,259	4.6 %
Social security and pension costs	3,033	3,044	-0.4 %
Total	16,903	16,303	3.7 %

Hönle invests in occupational training with a view to covering the future demand for qualified personnel: At the end of the financial year, the Group employed 23 trainees, i.e. seven more than in the previous year. The Hönle Group is presently providing training for industrial clerks, design draughtsmen, chemical laboratory assistants, IT administrators, marketing communication assistants, warehouse logistics specialists, and others. Hönle also offers trainees and undergraduates the possibility to gain a deeper insight into how technology companies operate. With a view to ensuring a high qualification level among its employees, Hönle regularly invests in employee qualification and training measures. Hönle employed eleven persons within the scope of temporary staffing as at the end of the financial year.

### **Supplementary Report**

**Significant Events after the balance Sheet Date**  
In November of 2010, a fire in an external warehouse destroyed part of Dr. Hönle AG's inventories. Dr. Hönle AG expects that the damage incurred is fully covered by fire and business interruption insurance and that delivery deadlines can be largely met despite the fire damage.

Following the end of the financial year, Dr. Hönle AG acquired another 35 % of the shares in Honle Spain S.A., Gavá, Barcelona. The company distributes Hönle Group products on the Iberian peninsula. As a consequence, Dr. Hönle AG has held 95 % of the shares in Honle Spain S.A. since November 2010.

Dr. Hönle AG also acquired 51 % of the shares in UV-Technik Speziallampen GmbH, Wümbach, Ilmenau, after the end of the financial year. Hönle thus tapped a sustainable growth market in the life sciences segment. UV-Technik Speziallampen GmbH develops, manufactures and distributes UV lamps, power supply units, and measuring equipment. These devices are used for disinfection and curing processes and for analysing materials. Upon signing the purchase contract, Dr. Hönle AG obtained the right to acquire the remaining 49 % of the shares in UV-Technik Speziallampen GmbH.

Dr. Hönle AG also holds the right to acquire UV-Electronic GmbH, Durchhausen. This company distributes electronic power supply units for uv lamps.

### ***Disclosures pursuant***

The disclosures required pursuant to Section 315 (4) HGB are presented below as at 30 September 2010.

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.

Re No. 3: Pursuant to Section 21 (1) WpHG, shareholders must report significant participating interests in listed companies. The only shareholder who has reported a participating interest of more than 10 % in Dr. Hönle AG is Dietrich Freiherr von Dobeneck. Pursuant to Section 21 (1) WpHG, Mr. von Dobeneck reported on 12 February 2006 that he held a voting share of 10.28 % in Dr. Hönle AG as of 25 January 2006; 8.41 % of the voting rights were allocable to him under Section 22 (1) Sent. 1 No. 1 WpHG.

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

Re No. 7: In the future also, the Management Board and Supervisory Board are to be enabled to use 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 23 March 2010 authorised the Management Board, with the approval of the Supervisory Board, to increase the nominal capital through a single or repeated issuance of new, no-par bearer shares by up to 2,750,000 shares up to 22 March 2015. Moreover, the Annual General Meeting held on 23 March 2010 authorised the Company to purchase - in the interests of its shareholders - up to 551,293 of its own shares by 31 December 2014.

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 pertaining to Section 289 (4) Nos. 8 and 9 HGB are provided in the remuneration report, which is presented below.

### ***Statement on Corporate Governance***

The statement on corporate governance to be submitted pursuant to Section 289a HGB is included in the Corporate Governance Report. It is also available under [www.hoenle.de](http://www.hoenle.de).

## **Risk Report**

Dr. Höhle AG's risk policy is aligned to the entrepreneurial objectives of sustained growth and improvement of the Company's performance with a view to contributing to corporate value. In order to achieve these objectives, risks are to be recognised and evaluated at an early stage, and the introduction of appropriate measures is intended to limit any possible negative impact and avoid threats to the Company's existence as a going concern.

Höhle introduced a formalised risk management system for monitoring risks. The principles documented in a risk manual define the procedures for dealing with risks. In consideration of the amount of potential damage, the probability of the occurrence of losses, and also in view of the opportunities arising for the Company, decisions are made as to whether the respective risks are to be avoided, reduced, transferred or accepted.

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). Counter-measures were defined and taken as required (risk management). In addition, risk discussions were held with the responsible risk managers at quarterly intervals; the risk situation was analysed and measures were monitored (risk controlling). The Dr. Höhle AG Management Board is informed of the Company's current risk situation at regular intervals and is promptly notified when defined risk thresholds are reached concerning individual risks. All

responsibilities, principles and procedural approaches are documented in a risk management manual and all risk reports are recorded on standardised forms (risk documentation).

From the current perspective, Dr. Höhle AG is exposed to the following internal and external risks:

### **Market Risks**

Economic situation improved considerably. It remains to be seen, however, whether the positive trend will also continue in the new financial year, especially since recently the outlook for the global economy clouded over somewhat. However, the present breather taken by economic growth rates in the industrialised countries is expected to be only short-term and should not impede the momentum of the economic upturn. An economic downturn would also have an impact on the Höhle Group's sales and earnings development. Höhle addresses this risk by continuously monitoring the market, thus enabling the Company to react swiftly to current economic developments.

### **Operational Risks**

The prices for raw materials and supplies are expected to increase further.

There is also a risk that supply bottlenecks may occur in individual cases.

Whenever possible, Höhle will offset increases in manufacturing costs by raising prices and will largely ensure its ability to deliver by selecting alternative suppliers and by increasing inventories, as required.

Dr. Höhle AG acquired Eltosch Torsten Schmidt GmbH in May of 2008. The Company's significant decline in sales translated into a negative operating result in financial year 2008/2009. Höhle implemented a package of measures aimed at improving its earnings power. Personnel expenses were reduced significantly, the Eltosch systems that were formerly manufactured externally are now manufactured at Dr. Höhle AG, and the development of identical assembly groups for Eltosch and Höhle systems was started. Eltosch reported a positive result in the 2009/2010 financial year. However, the company's further business development must be monitored critically.

The loss of key customers could lead to a decline in revenues. Höhle addresses this risk through intensive monitoring of its key customers and ongoing examination of their financial performance. Customer satisfaction in regard to key accounts is continually monitored. In addition, expansion of the customer base into economically unrelated target industries leads to an improved risk structure. By contrast, successful cooperation with key customers forms a good basis for further

expansion of business activities and for continued growth with strong partners in the future also.

It cannot be ruled out that individual customers might delay payment or will be unable to fulfil their payment obligations in the future. However, the customers of Dr. Höhle AG have thus far demonstrated good payment behaviour. Höhle adapts the payment conditions to customers' credit standing as needed.

Theoretically, there is a risk that another technology will replace UV technology in whole or in part in the future. According to our knowledge, however, the chances of further expansion of UV technology are assessed as being significantly greater in comparison.

The same as other companies, the Höhle Group is also subject to IT-related risks.

IT systems form 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 process security. The redundant design of the IT systems is of crucial importance in this context. Our operational solutions concerning access control, protection systems, failure management and data backup ensure high availability of the EDP-related technical infrastructure.

Höhle competes for skilled staff and executive staff. The attractiveness of an employer plays a key role in applicants' decision-making process. Höhle thus places great emphasis on a good working environment, targeted advanced training

measures and internal training, offers promising career prospects, and cooperates closely with selected technical universities. Höhle counteracts the risk of possibly losing staff members who have significant know-how by means of a deputisation principle, which ensures information-sharing and the retention of professional know-how in the Company. In all, Höhle is well prepared for participating successfully in the increasing competition for specialists and executives.

### **Financial Risks**

The euro depreciated against the US dollar in the 2009/2010 financial year, but has been appreciating again since June 2010. The US dollar has been losing value in comparison to the euro since 2001. It may be assumed that, if the euro exchange rate should continue to rise, this could adversely impact on Höhle's export business. However, since all sales have been invoiced in euro, Höhle does not engage in any currency hedging transactions. Höhle addresses the exchange rate fluctuations which affect regional price structures through continuous market monitoring and product or price adjustments, as required. On the other hand, if the euro should weaken again in the future, this might offer the Company competitive advantages in the rest of Europe.

The Höhle Group holds financial assets in the form of shares amounting to T€ 219. These shares primarily concern blue chips. The carrying amount of the securities remained almost unchanged in the year under review. It is, however, possible that stock prices might drop due to an unexpected economic downturn or for other reasons, and that

value adjustments might become necessary. On the other hand, there is also a chance of future positive development and a corresponding appreciation in value.

### **Overall Risk**

Höhle is well positioned as a result of its high-performance products and solid financial basis. An economic downturn would also have a negative impact on the Höhle Group's business development. In all, and from the current perspective, the opportunities associated with positive business development by far outweigh the potential risks. Currently, there are no discernible risks that could jeopardise the Company's continuation as a going concern now or in the future.

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

Disclosures pursuant to Section 289 (5) HGB are presented in the following:

The risk management system and the internal control system deal with the monitoring of accounting processes, among other things. In addition to the identification and assessment of risks that impair the adequate preparation of consolidated financial statements, taking suitable measures to avert such risks is mandatory.

The most important prerequisites for proper accounting include in-depth staff training (for example, in the event of new, statutory regulations being introduced), the determination of responsibilities, functional segregation with respect to the accounting system, and controlled access at the IT system level.

Strategic corporate planning, internal reporting and the internal control system are inseparable components of the risk management system.

Strategic corporate planning aims at identifying future opportunities and risks. Internal reporting serves as an information system that informs about existing risks. The internal control system constantly monitors the identified risks and the counter-measures that have been taken. The internal control system also encompasses Dr. Hönle AG's accounting process.

With a view to largely eliminating a possible threat to data security, Hönle constantly aims at reviewing and, if necessary, improving preventive measures in the IT segment of the financial accounting system. Regular updates and en-

hancements of the system as well as the observance of internal security guidelines by our employees are a matter of course. Firewall systems and access control respecting the operating system and applications provide protection against unauthorised access, destruction, and misuse.

In addition, the design of the IT system contributes to the prompt and adequate recording of Group-relevant information concerning the accounting process. In this way, Hönle ensures Group companies, customers, suppliers, and business partners the greatest possible security.

## ***Risk Management with regard to Financial Instruments***

Disclosures pursuant to Section 289 (2) No. 2 HGB are presented in the following:

Within the scope of its capacity as the controlling Group company, Dr. Höhle AG monitors, coordinates, and manages the Höhle Group's financial activities. Ensuring that sufficient liquidity reserves are available is of utmost priority in this context. Moreover, great emphasis is placed on achieving optimised profitability while, at the same time, minimising risks.

### ***Default Risk***

In principle, the default risk that arises when contracting partners are in arrears with payments constitutes a potential financial threat with respect to trade settlements. Höhle reviews the credit standing of its business partners on an ongoing basis, while placing special focus on key accounts. The continuous monitoring of business transactions ensures a low default risk.

### ***Liquidity Risk***

The liquidity risk could become relevant to the Höhle Group in the event that current or future payments cannot be made due to the unavailability of sufficient cash and cash equivalents. The Company's solvency is constantly ensured through long-term financial planning spanning several years and by regular liquidity planning.

### ***Market Risk***

The market risk concerns the risk associated with financial losses due to fluctuating market prices (e.g. with regard to raw materials, exchange rates, interest rates and stock prices). The currency risk, interest rate risk and commodity price risk are particularly relevant to the Höhle Group. Such risks can have a negative impact on the Company's net assets, financial position and results of operations.

The currency risk comprises risks arising from exchange rate fluctuations that could have an impact on the competitiveness of Höhle Group's products. Since the Höhle Group settles its transactions in euro, exchange rate risks arising from the clearing of trade receivables from customers are avoided. The interest rate risk arises from changes in interest rates, but is only of subordinate relevance to Höhle.

Depending on the changing market situation, significant price fluctuations may affect purchase prices for the required raw materials or for energy supply. Following a thorough cost-benefit analysis, the Höhle Group decided not to implement special hedging measures against currency, interest rate and commodity price risks. From a current perspective, the existing and expected market risks do not represent a threat to the Höhle Group's continued existence as a going concern. However, positive market development provides opportunities with respect to a positive impact on the Company's net assets, financial position and results of operations.

## Remuneration Report

### Remuneration of Management Board Members

The remuneration structure is geared to sustained corporate development. Monetary remuneration includes fixed and variable components.

The criteria used in evaluating the suitability of remuneration are as follows: The tasks of the

respective Management Board member, his personal performance, the economic situation, profit 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.

### Fixed Remuneration (not Based on Performance)

in T€	Salary		other Remuneration		Total	
	09/10	08/09	09/10	08/09	09/10	08/09
Norbert Haimerl	211	204	19	14	230	218
Heiko Runge	210	203	11	10	221	213
Total	421	407	30	24	451	431

### Performance-Based Remuneration

in T€	Profit Sharing Bonus	
	09/10	08/09
Norbert Haimerl	143	0
Heiko Runge	143	0
Total	286	0

### Pensions

in T€	Annual Remuneration upon Reaching Pensionable Age		Addition to Pension Accruals	
	as at 30.09.2010	as at 30.09.2009	2009/2010	2008/2009
Norbert Haimerl	36	36	23	17
Heiko Runge	36	36	19	14
Total	72	72	42	31

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

At the beginning of the financial year, each Dr. Hönle AG Management Board member held 10,000 stock options. Since performance targets were not achieved, the options could not be exercised. The stock option plan matured in the

financial year under review and the options expired completely.

### **Payments upon Termination of Management**

#### **Board Activity**

The Supervisory Board appoints the Dr. Höhle AG Management Board members for a maximum term of office of five years. In the event of a change of control of Dr. Höhle AG, Management Board members are entitled to terminate their Board of Management Service Agreement within a period of three months after obtaining knowledge of the change of control with a three-month notice period and to resign from office at that time. A change of control is defined as any direct or indirect assumption of control over Dr. Höhle AG by a third party within the meaning of the German Securities Purchase and Takeover Act (WpÜG). In the event of resignation, the respective Management Board member is entitled to a severance payment in the amount of two annual gross salaries (including performance-based compensation), up to a maximum of T€ 400. Calculation of the annual gross salary is based on the average salary for the past three financial years prior to leaving the Company.

### **Compensation of Supervisory Board Members**

The compensation for Supervisory Board members is exclusively comprised of fixed remuneration, which is based on the respective tasks and responsibilities of the Supervisory Board members. Since fiscal year 2009/2010 results-based component are no longer included. No further remuneration, e.g. for consulting or intermediary services, is granted.

The significance of the Supervisory Board as an advisory and monitoring body and its responsibility with respect to the Company's well-being have increased in recent years. This fact is also to be accounted for in the Supervisory Board's remuneration. The Annual General Meeting held on 23 March 2010 has thus resolved to adjust the remuneration for Supervisory Board members, initially with respect to the financial year ended 30 September 2009.

The remuneration disclosed in the financial year 2009/2010 includes the retroactive pay adjustment for fiscal year 2008/2009.

### **Compensation of Supervisory Board Members**

<i>in T€</i>	<i>Total</i>	
	2009/2010	2008/2009
Dr. Hans-Joachim Vits	56	8
Prof. Dr. Karl Höhle	42	6
Eckhard Pergande	28	4
Total	126	18

The amounts are distributed as follows to the statutory compensation for the fiscal year 2009/2010 and the retroactive adjustment for the fiscal year 2008/2009:

#### **Retroactive Adjustment in T€**

	Statutory Compensation	Retroactive Adjustment for 2008/2009	Total
Dr. Hans-Joachim Vits	32	24	56
Prof. Dr. Karl Höhle	24	18	42
Eckhard Pergande	16	12	28
Total	72	54	126

## **Forecast Report**

### **Market Outlook**

Strong expansion of the global economy continued after the turn of the year 2009/2010 and continued also into the third quarter of 2010. Recently, the outlook for the global economy clouded over somewhat. However, the present easing of economic growth in the industrialised countries is expected to be only short-term and should not impede the momentum of the global economic upturn. It is expected that the easing of growth rates in the emerging markets will be only moderate in nature and that the economy will expand vigorously in 2011 also. In effect, the experts forecast that the pace of expansion of the global economy will slow down, but overall economic production is expected to rise significantly.

For the first time since the beginning of the financial crisis, the business situation in the German printing industry is again being assessed as positive. The values provided by the Ifo Business Survey on the situation in the German printing industry increased considerably by 32 percentage points at the end of the financial year, which represents a 9 % increase compared to the previous month. According to the survey, the assessments concerning demand, production, development, and existing orders have improved further and all of them are currently positive.

It is expected that the adhesives market will also develop positively in the next financial year due to the economic upturn. It is forecast that growth in the electronics, medical technology, and glass processing sales markets will lead to an increase in demand for industrial adhesives.

### ***Outlook for the Höhle Group***

Following the acquisition of several companies, almost all functional areas of the Höhle Group were restructured: The production of Eltosch systems has meanwhile been completely integrated into Dr. Höhle AG. In the past, the Eltosch systems were manufactured by external service providers. In-house production results in lower production costs and enables effective quality assurance. The accounting process of the subsidiaries was centralised and is now being performed at Dr. Höhle AG. The IT, procurement, and logistics activities respecting several Group companies are now carried out centrally at the Gräfelfing production site. The establishment of a centralised adhesives production site for the international adhesives activities led to a bundling of competencies and to a significant improvement in cost structures at the Panacol Group. All of this resulted in an improvement of processes and in a reduction of expenses at the Group.

Dr. Höhle will adapt production capacities to the planned sales development. To this end, in addition to the already accomplished expansion of the industrial area by 1,200 square metres, the Company will enlarge its facilities by another 1,700 square metres. This will ensure efficient production activities and start of operations in the future also. The new facilities are scheduled for use by the end of 2011. The staff level will also be adapted to the planned corporate development: In connection with the expected further growth, new employees will be hired in the production department, in particular, but also in the development and sales departments.

Höhle is developing a uniform control concept for Höhle and Eltosch systems that is directed at Höhle's largest sales market, the printing machines industry. The new control concept serves to optimise production processes and simplifies the provision of services. With regard to the adhesives market, Höhle will expand its product range in the LED-UV curing equipment segment. The objective is to further improve the products' efficiency and increase the intensity. New, smart adhesives that are thermally or electrically conductive will supplement the product range and enable us to tap new sales markets. The new control concept, the new LED products and smart adhesives will provide additional sales stimuli and contribute to positive sales development at the Höhle Group.

With a view to opening up the Chinese market further, Höhle intends to establish a trading company in the Shanghai free trade zone. The Panacol Group has also expanded its distribution network in Southeast Asia and has succeeded in gaining new distribution partners. Höhle thus continues the dynamic expansion of its sales network, in particular in Southeast Asia. North America is an important sales market for industrial adhesives. Panacol thus intends to tap the American market by setting up or acquiring a company.

Dr. Höhle AG has started to restructure the strategic procurement activities. In this context, the focus is on quality management, cost analysis, the selection of suppliers, and the bundling of purchasing volumes. The implemented measures

will contribute to quality assurance and to tapping savings potential at the same time. Due to the uncertain economic development in the last financial year, Höhle employed a large number of temporary staff in its production department. The number of temporary staff will be reduced in the new financial year and, at the same time, new, qualified specialists will be hired. This will increase efficiency in the production segment and result in expenses being reduced. The measure is scheduled to be implemented in the first quarter of the new financial year. Planned capital expenditure for organic expansion of the business activities amounts to less than one million euros in the current financial year. Höhle will primarily invest in research and development and in sales activities. The development of new products is to strengthen the Group's competitive position, and the intensification of sales activities is aimed at tapping new customers and market segments. Following the successful integration of the new companies, Höhle also plans to expand in the growth markets on a sustained basis by acquiring further companies.

Gräfelfing, 20 December 2010

Dr. Höhle AG



**Norbert Haimerl**  
Board of Management

The ongoing economic upturn, which encompasses all of the Höhle Group's sales markets, will have a positive impact on the Company's business development. In the printing market, which is the Höhle Group's largest sales market, incoming orders increased further. Höhle expects to profit greatly from the rising sales levels expected in the printing industry for the coming years. The economic recovery will also have a positive impact on sales in the Höhle Group's other sales segments. The Management Board expects that the upswing in the adhesives segment will continue.

The objective of the Management Board with respect to the 2010/2011 financial year is to increase consolidated sales to € 65 million - including the effects arising from the takeover of UV-Technik Speziallampen GmbH - and the operating result (EBIT) to € 7.5 million. The Management Board expects a further increase in the operating results and sales for the 2011/2012 financial year.



**Heiko Runge**  
Board of Management

#### Future-Oriented Statements

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

# Statement on Corporate Governance

## ***Statement pursuant to Section 161 AktG on the observance of recommendations concerning the German Corporate Governance Code by Dr. Hönle AG as at 8 December 2010***

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, recommendations of the government commission, and government commission suggestions.

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

Even though the Code is - in many cases - mainly directed at large companies, Dr. Hönle AG complies to a large extent with the recommendations of the German Corporate Governance Code. The Company's past, present, and expected future practices deviate from the recommendations of the German Corporate Governance Code as amended on 26 May 2010 with respect to the following points:

### ***Postal Vote***

The German Corporate Governance Code recommends that the company shall facilitate the personal exercising of shareholders' voting rights, and that it shall also assist the shareholders in using postal votes and proxies (Code paragraph 2.3.3, sentence 2). Dr. Hönle AG appointed a representative to exercise shareholders' voting rights in accordance with their instructions, but the Company does not offer the possibility to exercise voting rights through postal votes as an alternative.

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

The German Corporate Governance Code recommends that the Management Board shall have a chairman or a spokesman (Code paragraph 4.2.1, sentence 1). At present, the Management Board of Dr. Hönle AG comprises of two persons. The distribution of business and cooperation within the Management Board is governed, among other things, by the rules of internal procedure.

Both Management Board members have worked together closely and successfully for years. Dr. Hönle AG does not have a Management Board chairman or a Management Board spokesman.

#### ***Structure of executive compensation***

The German Corporate Governance Code recommends that remuneration of the Board should include fixed and variable components. Thereby is to make sure, that the variable components in principle base on a multi-year assessment (Code section 4.2.3 subparagraph 2). The Supervisory Board of Dr. Hönle AG does not believe that a multi-year basis of assessment increases the quality of the activity of the Board. The management board of Hönle therefore receive on the fiscal year related variable remuneration components.

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

In accordance with German Corporate Governance Code recommendations that, 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 without serious cause do not exceed the value of two years' compensation (severance payment cap), 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 compensation for the past full financial year and, if appropriate, also the expected total compensation for the current financial year (Code paragraph 4.2.3, sub-paragraph 4). The Supervisory Board appoints the Management Board

members of Dr. Hönle AG for a maximum term of office of five years. In the event of premature termination of Management Board activity, the Management Board contracts provide for continuation of Management Board compensation up to the end of the contract term. Should a Management Board member leave the company due to a change in the ownership structure (change of control), the respective Management Board member is entitled to a severance payment in the amount of two annual gross salaries (including performance-based compensation), up to a maximum amount of T€ 400. Calculation of the annual gross salary is based on the average annual gross salaries paid for the past three financial years prior to leaving the company. Dr. Hönle AG is of the opinion that it would not be reasonable to change the calculation base for determining the severance payment applicable to Management Board members.

#### ***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 (Code paragraph 5.3.1, sentence 1). At present the Dr. Hönle AG Supervisory Board consists of three members. Decision-making committees must also consist of three members. Owing to the size of the Dr. Hönle AG Supervisory Board, no committees are formed at present.

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

The German Corporate Governance Code provides specific recommendations regarding the composition of the Supervisory Board. For example, the Code recommends that age limits shall be specified for members of the Supervisory Board and that an appropriate degree of female representation be stipulated. (Code paragraph 5.4.1, sub-paragraph 2). Moreover, the objectives regarding the composition of the Supervisory Board shall be specified and the status of implementation is to be published in the Corporate Governance Report (Code paragraph 5.4.1, sub-paragraph 3). The Dr. Höhle AG Supervisory Board consists of three members. Dr. Höhle AG is of the opinion that personal qualifications and individual ability should be the determining factors regarding the composition of the Supervisory Board and not age or gender. Dr. Höhle AG regards such a limitation as an inappropriate limitation of the shareholders' right to elect Supervisory Board members. Consequently, Dr. Höhle AG will not publish the objectives of the new composition of the Supervisory Board nor the status of implementation in the Corporate Governance Report.

### ***Compensation of Supervisory Board Members***

The German Corporate Governance Code recommends that Supervisory Board members shall receive fixed as well as performance-related compensation (Code paragraph 5.4.6, sub-paragraph 2). Dr. Höhle AG is not of the opinion that a performance-related component would improve the quality of the activities of the Supervisory Board. The Dr. Höhle AG Supervisory

Boards members thus receive only fixed compensation.

### ***Accounting***

The German Corporate Governance Code recommends that, prior to publication, half-yearly and quarterly financial reports shall be discussed with the Management Board by the Supervisory Board or the Audit Committee (Code paragraph 7.1.2, sentence 2). Within the scope of an efficient publishing process, Dr. Höhle AG has already published interim reports in the past without extensive preliminary discussions with the Supervisory Board, and the company intends to continue this practice in the future also.

Furthermore, the German Corporate Governance Code recommends that the consolidated financial statements shall be publicly accessible within a period of ninety days after the financial year-end, and the interim report within a period of forty-five days after the financial year-end (Code paragraph 7.1.2, sentence 4). As in the past, Dr. Höhle AG will, in the future also, publish preliminary figures for the financial year within a period of ninety days. However, in accordance with the Stock Exchange Directive regarding Prime Standard Securities of the Frankfurt Stock Exchange, the Annual Report is published within four months after the end of the reporting period. The half-yearly and quarterly financial reports are published within two months after the end of the reporting year, in accordance with the Stock Exchange Directive on Prime Standard Securities of the Frankfurt Stock Exchange.

## ***Disclosures pursuant to the German Corporate Governance Code***

### ***Remuneration of Management Board Members***

The German Corporate Governance Code recommends that remuneration for Management Board members be disclosed in a compensation report, which is part of the Corporate Governance Report (Code paragraph 4.2.5). Within this context, the remuneration system for Board members is to be described in a generally understandable way. Dr. Hönle AG discloses the Board remuneration in detail in the Management Report – see chapter: Compensation Report - and explains the basic features of the compensation system in a generally understandable manner.

### ***Compensation of Supervisory Board Members***

The German Corporate Governance Code recommends that the compensation of Supervisory Board members be individualised in the Corporate Governance Report and classified according to compensation components (Code paragraph 5.4.6, sub-paragraph 3). Dr. Hönle AG discloses the compensation for Supervisory Board members individually in the Management Report of the Annual Report in the chapter "Compensation Report".

### ***Directors' Dealings***

The German Corporate Governance Code recommends that dealings in company shares or related financial instruments by Management Board and Supervisory Board members shall be published in the Corporate Governance Report (Code paragraph 6.6). Dr. Hönle AG publishes the securities transactions of executive staff on its homepage: [www.hoenle.de](http://www.hoenle.de) under the column "Investor Relations", "Directors' Dealings". No securities transactions falling under the directors' dealings category were reported to Dr. Hönle AG in the 2009/2010 financial year.

### ***Securities Holdings of Corporate Bodies***

The German Corporate Governance Code recommends that disclosures be made in the Corporate Governance Report concerning ownership of company shares or related financial instruments by Management Board and Supervisory Board members (Code paragraph 6.6). Dr. Hönle AG provides detailed disclosures concerning the ownership of shares or related financial instruments in the Corporate Governance column in the chapter on "Securities Holdings and Subscription Rights of Corporate Bodies".

## ***Disclosures on Applied Corporate Governance Practices***

### ***Executive Bodies***

The Company's executive bodies are the Board of Management, the Supervisory Board, and the Annual General Meeting.

The competencies of those bodies are governed in the German Stock Corporation Act (AktG), the Company's Articles of Incorporation, and in the Rules of Internal Procedure for the Management Board and Supervisory Board.

### ***Duties and Activities of the Board of Management***

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

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

### ***Duties and Activities of the Supervisory Board***

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

### ***Annual General Meeting***

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

accessible to the shareholders on Dr. Hönle AG's website in good time before the Annual General Meeting. Shareholder may exercise their voting rights by proxy via an authorised person of their choice or through a representative appointed by Dr. Hönle AG who acts upon instruction of the shareholder.

Following the Annual General Meeting, the attendance and voting results are published on the Company's website

### ***Board of Management***

#### ***Norbert Haimerl***

MBA (48)

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 Schiessl GmbH & Co. KG. During the years from 1992 to 1996, he worked for MAN Roland Vertrieb Bayern GmbH 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 (46)

Responsible for Sales and Technology

Heiko Runge completed his physical technology studies at the Wedel University for Applied Science with a diploma in engineering [Dipl. Ing. (FH)]. He began his career in 1990 as product manager for marketing at Eltosch Torsten

Schmidt GmbH. Three years later, he changed jobs to work for Dr. Hönle AG. Here, his first position was as marketing manager, and he was appointed to the Management Board with effect from 1 January 2000.

## ***Supervisory Board***

### ***Dr. Hans-Joachim Vits***

Lawyer

Supervisory Board Chairman

Hans-Joachim Vits headed the commercial management of Robert Bosch Espanola S.A., Madrid, for five years before he entered the services of Schwelmer Eisenwerk, Schwelm, a family-owned, small to medium-sized company, as managing partner for twelve years. After the partition of the families of the Eisenwerk Group, he joined an asset management firm and worked as a lawyer for a commercial law firm in Düsseldorf. He fulfilled numerous voluntary functions in an honorary capacity, inter alia, as a member of the National Board of the St. John Ambulance Brigade (Johanniter-Unfall-Hilfe). He also held various supervisory offices such as Supervisory Board Chairman of IVECO Magirus Brandschutztechnik AG, and as a Supervisory Board member of Salzgitter Maschinenbau AG, Gothaer Versicherungsgruppe and Sintermetallwerk Krebsöge GmbH.

### ***Prof. Dr. Karl Hönle***

Vice Chairman of the Supervisory Board

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 and of A.L.T. Lichttherapietechnik GmbH.

### ***Eckhard Pergande***

Banker

Supervisory Board

From 1980 to 1990, Eckhard Pergande was Chairman of the Management Board of Münchner Bank e.G.. Thereafter he became Chairman of the Management Board of Lagerland AG until 2002. During that time, he fulfilled various voluntary functions for professional associations at federal level in an honorary capacity.



Dr. Hans-Joachim Vits  
Supervisory Board Chairman

# Report of the Supervisory Board

## ***Dear Shareholders,***

We have duly performed our legal and statutory duties and monitored and provided advice to our Company's Management Board in the past financial year. The collaboration between the Management Board and Supervisory Board was characterised by an open atmosphere and trusting cooperation. We were involved in all decisions of fundamental importance to the Company.

We are delighted to look back on a financial year in which - only one year after one of the severest economic crises ever - we succeeded in again generating a positive operating result. Through the restructuring and realignment of the Hönle Group, we laid the basis for successful business development and for achieving sales revenues and operating results that are higher by far than those generated in the past.

For the purpose of preparing Board meetings, the Management Board provided us with current and detailed information on the course of business. Moreover, we were also promptly informed verbally or in writing about special occurrences on an ad hoc basis.

The Management Board and the Supervisory Board held five meetings in the reporting year. All Board members were present at those meetings. On the basis of comprehensive reports prepared by the Management Board and subsequent consulting, we dealt, inter alia, with the course of business, the assets and financial position, corporate planning and risk management. Following extensive discussions and to the extent required by law, the Company's articles of incorporation or a Supervisory Board resolution, we approved all proposals submitted by the Management Board.

We succeeded in satisfying ourselves as to the correctness and appropriateness of the work performed by the Management Board.

### ***Focal Points of the Consultations***

At the meeting held on 30 October 2009, we received a report on the Hönle Group's business development, which also included current Group figures and a comparison with the forecast figures. In its report, the Management Board also informed in detail about special influences in the fourth quarter of the 2008/2009 financial year. In this context, restructuring costs had an income-reducing effect, in particular. Another issue discussed at the Supervisory Board meeting was the expected future business development. In view of the sound orders situation, the Management Board expects increasing sales revenues and again positive earnings contributions for the next quarter. Another focal point of the meeting was the presentation of the expected structural development of the printing market. In this context, the Management Board addressed speculations respecting mergers among leading printing machine manufacturers. The Management Board also explained the strategic orientation of the Hönle Group and expounded on the development opportunities in existing and potential market segments.

At the meeting held on 12 January 2010, the Management Board presented us with the audited annual financial statements of Dr. Hönle AG and with the audited consolidated financial statements as at 30 September 2009. In addition, the Management Board reported about the profitability of the Company, in particular with respect to the profitability of equity capital pursuant to Section 90 (1) Item 2 AktG. Following in-depth discussions about the annual financial statements with the annual auditor and the Management Board, we approved the financial statements. We determined the agenda and resolution proposals concerning the Annual General Meeting on 23 March 2010 at the same meeting. In view of the net loss reported for the last financial year, we decided to propose to the Annual General meeting that the payment of a dividend be suspended. Subsequently, the Management Board reported on the current business situation of Dr. Hönle AG and on its equity investments, and afterwards on its expected further development in the 2009/2010 financial year. In this context, the Management Board pointed out possible opportunities for the Group's further development through the acquisition of potentially suitable companies. Finally, we issued a Declaration of Compliance with the Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act(AktG), which had been coordinated with the Management Board in advance.

The business development in the first quarter was discussed at the Supervisory Board meeting held on 22 March 2010. In this context, the Management Board elaborated on the sales and earnings development of the individual companies and informed us about the status of the cost reduction measures. Thereafter, the Management Board provided an outlook on the expected development of the economic conditions and of the Hönle Group. Acquisition-related activities were also discussed at that Supervisory Board meeting.

The Management Board and Supervisory Board met again on 7 April 2010. The discussions focused mainly on another possible acquisition.

At the meeting held on 7 June 2010, the Management Board reported on the first seven months of the 2009/2010 financial year and also addressed the sales and earnings development as well as the current economic situation. The Management Board informed us about the development of the individual sales markets and focused on the printing market in detail. Another issue discussed at the meeting was the conclusion of a new rental agreement for Dr. Hönle AG, the key points of which had been agreed by the Supervisory Board and the Management Board.

### ***Corporate Governance***

The German Corporate Governance Code was altered and supplemented in some areas. The Supervisory Board came to an agreement with the Management Board on implementation of the recommendations and suggestions of the Code and issued a joint statement as required under Section 161 AktG. The statement was included in the Annual Report and published on the Internet, thus making it permanently available to the shareholders.

The Annual General Meeting held on 23 March 2010 appointed a new Supervisory Board. The existing Supervisory Board was re-elected in its entirety and the composition of the Supervisory board remained unaltered from the 2009/2010 financial year. The composition of the Dr. Hönle AG Management Board also remained unchanged.

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

The Annual General Meeting held on 23 March 2010 appointed AWT Horwath GmbH, Wirtschaftsprüfungsgesellschaft, Munich, as annual auditor for the 2009/2010 financial year. AWT Horwath GmbH audited the annual financial statements as at 30 September 2010 and the management report of Dr. Hönle AG as well as the consolidated financial statements and group management report, and issued an unqualified auditors' opinion in each case.

At the Supervisory Board meeting held on 12 January 2011, the annual auditor informed us in detail about the audit report. The annual auditor reported about significant findings of the audit of the annual financial statements and the management report as well as concerning the consolidated financial statements and the group management report, and provided supplementary information about the previous financial year. In this context, the auditor discussed the net assets, financial position and results of operation of the stock corporation and the Group, in particular.

The reports of the annual auditor were presented to us for inspection. The audit results were approved by the Supervisory Board. We also examined the annual financial statements, the management report, the consolidated financial statements, and the group management report. There being no objections, the Supervisory Board approved the consolidated financial statements of Dr. Hönle AG. The annual financial statements were thus endorsed.

Dear Shareholders,

Boosted by an unexpectedly strong economic upturn, the Hönle Group succeeded in increasing sales revenues to € 54.6 million, up 21.4 % from the previous year's level. We have significantly decreased our cost structure and were thus able to generate consolidated net income for the year amounting to € 4.8 million, while in the previous year we still reported a consolidated net loss for the year in the amount of € 4.1 million.

We wish to extend our gratitude to Management Board members and employees of the Hönle Group for their dedication and look forward to the new financial year, during which we will do our utmost to make it even more successful than the past financial year.

Gräfelfing, 12 January 2011



**Dr. Hans-Joachim Vits**

Supervisory Board Chairman

# Shareholdings and Option Rights of the corporate bodies

Securities portfolio as at 30 September 2010

	<i>Number of shares</i>	<i>Shares as percentage of nominal capital</i>	<i>Number of options</i>
<b><i>Board of Management</i></b>			
Norbert Haimerl	25,000	0.45	0
Heiko Runge	16,100	0.29	0
<b><i>Supervisory Board</i></b>			
Dr. Hans-Joachim Vits	353,444	6.41	0
Prof. Dr. Karl Hönle	221,000	4.01	0
Eckhard Pergande	4,200	0.07	0
<b><i>Total</i></b>	<b><i>619,744</i></b>	<b><i>11.24</i></b>	<b><i>0</i></b>
<b><i>Number of shares overall</i></b>	<b><i>5,512,930</i></b>	<b><i>100.00</i></b>	<b><i>0</i></b>

# Consolidated Financial Statement

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## Auditor's Report

We have audited the consolidated financial statements prepared by the Dr. Höhle AG, comprising the balance sheet, the income statement, total comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 October 2009 to 30 September 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a subpar. 1 HGB and supplementary provisions of the shareholder agreement of incorporation are the responsibility of the board of management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit.

The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a subpar. 1 HGB and supplementary provisions of the shareholder agreement of incorporation and give a true and fair view of the net assets, financial position and results of

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

Munich, 10 January 2011

AWT Horwath GmbH  
Auditing Company

ppa. A. Haas  
Auditor

ppa. S. Spitaler  
Auditor

## *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 December 2010

Dr. Hönle AG

Norbert Haimerl  
Board of Management

Heiko Runge  
Board of Management

# Consolidated Income Statement

for the period 1 October 2009 until 30 September 2010 according to IFRS

	<i>Notes</i>	<b>01.10.2009 – 30.09.2010 in T€</b>	<b>01.10.2008 – 30.09.2009 in T€</b>
<b>Revenue</b>	(6)	54,624	44,985
Changes in inventories of finished goods and work in progress		201	-1,410
Other operating income	(7)	1,880	2,081
Cost of purchased materials and services	(8)	22,610	19,906
Personnel expenses	(9)	16,903	16,303
Depreciation and amortization including goodwill	(10)	1,174	1,159
Other operating expenses	(11)	10,470	12,226
<b>Operating result/EBIT</b>		<b>5,548</b>	<b>-3,938</b>
Interest income	(12)	44	112
Interest expense	(13)	250	247
Financial result		-206	-135
<b>Earnings before tax and minority interest/EBT</b>		<b>5,342</b>	<b>-4,073</b>
Income tax	(14)	536	10
<b>Consolidated net income</b>		<b>4,806</b>	<b>-4,083</b>
Share in earnings attributable to minority interest	(15)	205	80
Share in earnings attributable to Dr. Höhle AG shareholders		4,601	-4,163
Earnings per share (basic) in €	(18)	0.89	-0.80
Earnings per share (diluted) in €	(18)	0.89	-0.80
Weighted average shares outstanding (basic)		5,187,091	5,187,091
Weighted average shares outstanding (diluted)		5,187,091	5,187,091

# Consolidated Total Comprehensive Income

for the period 1 October 2009 until 30 September 2010 according IFRS

	<b>01.10.2009 - 31.12.2010 in T€</b>	<b>01.10.2008 - 31.12.2009 in T€</b>
<b><i>Consolidated net income</i></b>	<b>4,806</b>	<b>-4,083</b>
Other comprehensive income:		
- Valuation of investments due to IAS 39 not effecting net income	3	-3
- Currency differences	541	195
Other comprehensive income after tax	544	192
<b><i>Total comprehensive income for the period</i></b>	<b>5,350</b>	<b>-3,891</b>
Thereof account for:		
- Share in earnings attributable to minority interest	205	80
- Share in earnings attributable to Dr. Hönle AG shareholders	5,145	-3,971

# Consolidated Statement of Financial Position

as of 30 September 2010 according IFRS

<b>ASSETS</b>	<b>Notes</b>	<b>30.09.2010 in T€</b>	<b>30.09.2009 in T€</b>
<b>LONG-TERM ASSETS</b>			
Goodwill	(19)	6,927	6,927
Intangible assets	(19)	1,746	1,899
Property, plant and equipment	(19)	6,027	6,210
Financial assets	(19)	249	241
Other non current assets	(20)	810	751
Deferred taxes	(21)	1,365	719
<b>Total non-current assets</b>		<b>17,124</b>	<b>16,747</b>
<b>CURRENT ASSETS</b>			
Inventories	(22)	10,897	9,392
Trade accounts receivable	(23)	8,396	7,678
Amounts owed by associated companies		0	1
Other current assets	(24)	1,031	1,082
Tax refund claims	(25)	243	469
Liquid assets	(26)	6,743	3,158
<b>Total current assets</b>		<b>27,310</b>	<b>21,780</b>
<b>TOTAL ASSETS</b>		<b>44,434</b>	<b>38,527</b>

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>Notes</b>	<b>30.09.2010 in T€</b>	<b>30.09.2009 in T€</b>
<b>SHAREHOLDERS' EQUITY</b>			
	(27)		
Subscribed capital		5,513	5,513
Own shares		-2,531	-2,531
Additional paid-in capital (capital reserves)		16,325	16,427
Legal reserve		49	49
Special item revaluation		-262	-265
Retained earnings		9,747	5,146
Currency differences		1,025	484
<b>Equity attributable to Dr. Hönle AG's shareholders</b>		<b>29,866</b>	<b>24,823</b>
Minority interest		903	801
<b>Total Shareholders' Equity</b>		<b>30,769</b>	<b>25,624</b>
<b>NON-CURRENT DEBTS</b>			
Non-current loans (less current portion)	(28)	635	682
Non-current portion of finance lease obligation	(29)	69	172
Other non-current liabilities	(30)	187	486
Pension accruals	(31)	1,853	1,805
Deferred taxes	(21)	961	939
<b>Non-current liabilities</b>		<b>3,705</b>	<b>4,084</b>
<b>CURRENT LIABILITIES</b>			
Trade accounts payable	(32)	2,689	2,578
Liabilities to associated companies	(33)	0	2
Advance payments received	(34)	640	616
Current portion of finance lease obligation	(29)	102	108
Current loans towards banks and current portion of non-current loans	(35)	68	451
Other current liabilities	(36)	4,122	2,982
Other accruals	(37)	1,320	1,785
Tax accruals	(38)	1,019	297
<b>Total current liabilities</b>		<b>9,960</b>	<b>8,819</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>44,434</b>	<b>38,527</b>

# Consolidated Statement of Changes in Equity

for the period 1 October 2009 until 30 September 2010 according IFRS

	sub- scribed capital in T€	own shares in T€	Addi- tional paid-in capital in T€	legal reserve in T€	Special item revalu- ation in T€	Consolid. retained earnings/ loss in T€	Cur- ency differ- ences in T€	Equity attribu- table to Dr. Hönle AG's shareholders in T€	Minority interest in T€	Total in T€
<b>As at 01.10.2008</b>	<b>5,513</b>	<b>-2,531</b>	<b>16,916</b>	<b>49</b>	<b>-262</b>	<b>10,605</b>	<b>289</b>	<b>30,579</b>	<b>841</b>	<b>31,420</b>
Purchase of additional paid in capital due to purchase of minority interest			-489					<b>-489</b>		-489
Valuation of investments due to IAS 39 not effecting net income					-3			<b>-3</b>		-3
Dividend distribution						-1,296		<b>-1,296</b>	-45	-1,341
Currency differences							195	<b>195</b>		195
Change of minority interest affecting net income								<b>0</b>	80	80
Change of minority interest due to acquisitions							<b>0</b>	-75	-75	
Share in earnings attributable to Dr. Hönle AG shareholders						-4,163		<b>-4,163</b>		-4,163
<b>As at 30.09.2009</b>	<b>5,513</b>	<b>-2,531</b>	<b>16,427</b>	<b>49</b>	<b>-265</b>	<b>5,146</b>	<b>484</b>	<b>24,823</b>	<b>801</b>	<b>25,624</b>
Purchase of additional paid in capital due to purchase of minority interest			-102					<b>-102</b>		-102
Valuation of investments due to IAS 39 not effecting net income					3			<b>3</b>		3
Dividend distribution								<b>0</b>	-31	-31
Currency differences							541	<b>541</b>		541
Change of minority interest effecting net income								<b>0</b>	205	205
Change of minority interest due to acquisitions							<b>0</b>	-72	-72	
Share in earnings attributable to Dr. Hönle AG shareholders						4,601		<b>4,601</b>		4,601
<b>As at 30.09.2010</b>	<b>5,513</b>	<b>-2,531</b>	<b>16,325</b>	<b>49</b>	<b>-262</b>	<b>9,747</b>	<b>1,025</b>	<b>29,866</b>	<b>903</b>	<b>30,769</b>

The Statement of Changes in Equity is explained in the notes (27).

\*) Equity attributable to Dr. Hönle AG's shareholders

# Consolidated Cash Flow Statement

for the period 1 October 2009 until 30 September 2010 according to IFRS

	<b>01.10.2009- 30.09.2010</b>	<b>01.10.2008- 30.09.2009</b>
	<b>in T€</b>	<b>in T€</b>
<b>Cash flows from operating activities:</b>		
Net income for the year before minority interest and taxes	5,342	-4,073
Adjustments for:		
Depreciation of fixed assets	1,174	1,159
Profit/loss due to retirement of fixed assets	3	240
Financial income	-44	-113
Interest expenses	250	247
Other non-cash expenses/income	237	97
<b>Operating result before changes to net current assets</b>	<b>6,962</b>	<b>-2,443</b>
Increase/decrease in accruals	-417	220
Increase/decrease of trade accounts receivable	-718	2,712
Increase/decrease of other assets	52	-51
Increase/decrease in inventories	-1,742	1,550
Increase/decrease in trade accounts payable	111	-2,849
Increase/decrease in liabilities to associated companies	-2	-2
Increase/decrease in advance payments received	24	104
Increase/decrease in other liabilities	835	-1,699
<b>Cash from continuing business activities</b>	<b>5,105</b>	<b>-2,458</b>
Interest paid	-250	-247
Income tax paid	-211	-391
<b>Net cash from operating activities</b>	<b>4,644</b>	<b>-3,096</b>
<b>Cash flows from investing activities:</b>		
Payments received from the sale of fixed assets (incl. reimbursement of participation certificates)	36	-11
Purchases of company shares	-263	-100
Purchase of property, plant and equipment and intangible assets	-867	-1,366
Changes in financial assets	-5	0
Payments received from non-current receivables	50	0
Payments for non-current receivables	0	-128
Changes in qualifying insurance policy	-109	107
Payments received from interest	34	102
Payments received from dividends	10	11
<b>Net cash used for investing activities</b>	<b>-1,114</b>	<b>-1,385</b>
<b>Cash flows from financing activities:</b>		
Payments received from loans and non-current liabilities to banks	-533	-142
Dividends paid	0	-1,340
<b>Net cash from financing activities</b>	<b>-533</b>	<b>-1,482</b>
Currency differences	411	127
Exchange rate differences of liquid assets	177	67
<b>Net increase/decrease in cash</b>	<b>3,585</b>	<b>-5,769</b>
<b>Cash at the beginning of the reporting period</b>	<b>3,158</b>	<b>8,927</b>
<b>Cash at the end of the reporting period</b>	<b>6,743</b>	<b>3,158</b>
<b>Changes in liquid assets</b>	<b>3,585</b>	<b>-5,769</b>

The cash flow statement is explained in the notes (43).

# Notes to the IFRS Consolidated Financial Statements

of Dr. Hönle Aktiengesellschaft Gräfelfing for Financial Year 2009/2010

## **GENERAL INFORMATION**

Dr. Hönle AG is a stock listed corporation. It is registered with the Commercial Register of the Munich (Germany) local court under HR B No. 127507. The Company's head office is located at Gräfelfing near Munich, Germany.

Dr. Hönle AG is among the leading suppliers worldwide of industrial UV technology. Together with its subsidiaries, the Group sells UV radiation systems, UV lamps, and UV adhesives and casting compounds for industrial applications.

The present consolidated financial statements of Dr. Hönle AG and its subsidiaries have been prepared in accordance with Section 315a HGB [German Commercial Code] ("Consolidated financial statements in accordance with international accounting standards"), in conformity with the International Financial Reporting Standards (IFRS) and the pertaining interpretations of the International Accounting Standards Board (IASB) to be applied pursuant to Directive No. 1606/2002 of the European Parliament and the European Council governing the application of international accounting standards within the EU.

The consolidated financial statements include the balance sheet, the income statement, the total comprehensive income statement, the statement of changes in shareholders' equity, the cash flow statement and the notes to the financial statements (Notes).

The financial year of Dr. Hönle AG and its consolidated subsidiaries covers the period from 1 October to 30 September.

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).

The Dr. Hönle AG Management Board has released the consolidated financial statements for passing on to the Supervisory Board on 20 December 2010.

## **2. Estimates and Assumptions**

Preparation of the consolidated financial statements requires estimates and assumptions that have impacted on the amounts shown and on related disclosures. As a consequence, some leeway is provided for management in the preparation of the consolidated financial statements, which is exercised to the best of management's knowledge. However, actual results may deviate from these estimates and assumptions.

The most significant future-related assumptions and other significant sources of uncertainties concerning estimation as at the reporting date which involve a considerable risk of major adjustments to the book values of assets and debts becoming necessary within the next financial year are listed in the respective section of these Notes. Estimates and assessments within the Hönle Group relate, to a large extent, to assessing the value of goodwill (cf. paragraph 19), as well as the value of pension accruals (cf.

paragraph 31), other accruals (cf. paragraph 37), and the determination of deferred taxes (cf. paragraph 21).

### 3. Consolidation

#### Consolidated Group

The consolidated financial statements as of 30 September 2010 include the parent company, Dr. Höhle AG, and the following subsidiaries:

Name	Head Office	Participation quota Reporting year	Participation quota Prior year	Held via
<b>Indirect participations:</b>				
(1) Aladin GmbH, Munich	Germany	60.00%	60.00%	
(2) Honle UV France S.a.r.l., Bron, Lyon	France	100.00%	100.00%	
(3) Honle UV UK Ltd., Luton	England	100.00%	100.00%	
(4) Honle Spain S.A., Gavá, Barcelona	Spain	60.00%	60.00%	
(5) PrintConcept UV-Systeme GmbH, Kohlberg	Germany	80.00%	70.00%	
(6) Eltosch Torsten Schmidt GmbH, Hamburg	Germany	100.00%	100.00%	
(7) Agita Holding AG, Regensdorf, Zurich	Switzerland	100.00%	100.00%	
<b>Direct participations:</b>				
(8) Panacol AG, Regensdorf, Zurich	Switzerland	100.00%	100.00%	(7)
(9) Panacol-Elosol GmbH, Steinbach, Frankfurt/M.	Germany	100.00%	100.00%	(8)
(10) Eleco Produits EFD, SAS, Paris	France	99.96%	99.96%	(8)
(11) Domino S.a.r.l., Paris	France	100.00%	100.00%	(10)
(12) Megadustries Martinique S.a.r.l.	France	75.71%	75.71%	(10)
(13) Megadustries Guadeloupe S.a.r.l.	France	76.00%	76.00%	(10)
(14) Eltosch America Inc. Mt Prospect, Chicago	USA	100.00%	0.00%	(6)

The participation quota also represents the voting rights quota.

The above-mentioned companies are fully consolidated due to the existing possibility of control through the majority of voting rights. Control is achieved when the parent company is in a position to determine a company's financial and business policy in order to derive benefits from the company's activities.

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

Although held to 100 %, Solitec Gesellschaft für technischen Produktvertrieb mbH (hereinafter referred to as Solitec GmbH) was not included since the company is of minor importance in terms of providing a true and fair view of the Group's net assets, financial position and results of operations. The net income for the financial year of Solitec amounts to T€ 1 (PY: T€ 2), and equity capital amounts to T€ 38 (PY: T€ 36.)

The business shares of PrintDesign Engineering GmbH in the amount of 20% of nominal capital were acquired on the basis of a notarial act on 21 December 2009. These shares are disclosed under the balance sheet item: "Participation" in the consolidated financial statements as Dr. Höhle AG does not exert a significant influence on the enterprise.

PrintDesign Engineering GmbH generated income for the year in the amount of T€ 1, equity capital amounts to T€ 25.

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

A further 10% stake in the fully consolidated subsidiary, PrintConcept UV-Systeme GmbH, Kohlberg (hereinafter PrintConcept GmbH), was acquired as at 1 January 2010. A 90% stake in PrintConcept GmbH was held as at the balance sheet date.

### ***Consolidation Methods***

Business combinations are accounted for using the acquisition method. Credit differences between acquisition costs and the company's prorated re-valued equity capital are reported as goodwill in the balance sheet. Debit differences are released and recorded under profit or loss following another review. Differences within the scope of the acquisition of minorities are set off directly in equity capital.

Minority shares are measured either at fair value ("full goodwill method") or at the prorated fair value of the assets acquired and liabilities transferred. Following initial recognition, profits and losses are allocated without any limitations in accordance with the proportionate share, which may result in a negative balance with respect to non-controlling interests.

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

### ***Currency Translation***

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

The functional currency for the subsidiaries in England and Switzerland is the British pound (GBP), or the Swiss franc (CHF), respectively. The functional currency for the US subsidiary is the US dollar (US\$). Assets and debts are translated at the rates applicable at the balance sheet date; equity capital, by contrast, is stated at historical rates. The resulting currency translation differences are included in equity with neutral effect on operating results. Changes concerning this special item are reflected in the statement of changes in shareholders' equity (Appendix 3). Income statement items are translated at the average rate during the financial year.

		Reporting date rate		Average rate	
		30/09/2010	30/09/2009	2009/2010	2008/2009
		in €	in €	in €	in €
1 British pound	GBP	1.1610	1.0997	1.1538	1.1375
1 Swiss franc	CHF	0.7445	0.6541	0.7044	0.6574
1 US dollar	USD	0.7348	-0.6853	0.7387	0.156

As a general rule, receivables and liabilities denominated in foreign currencies are valued at the mean rate of exchange as at the balance sheet date in accordance with IAS 21. No hedging transactions were concluded.

#### **4. Newly Published Accounting Provisions**

The following new or revised IASB or IFRIC standards were to be applied for the first time in financial year 2009/2010. The comparative figures were adjusted as required.

- Adjustment, IFRS 2 “Share-based Payment” (effective date: 1 January 2009): The changes clarify and explain that the conditions of execution are based on length of service and on performance. The adjustment will not impact on the consolidated financial statements.
- Adjustments, IFRS 3 “Business Combinations”. Comprehensive revision concerning application of the acquisition method within the scope of business combinations (effective date: 1 July 2009). The revised version includes significant changes in the measurement of non-controlling shares, the recognition of successive corporate acquisitions, the treatment of conditional purchase price components and incidental acquisition costs, the treatment of incidental acquisition costs within the scope of business combinations, significant changes in the treatment of conditional purchase price payments, significant changes in the presentation of phased acquisitions and disposals, and significant changes in the presentation of transactions with non-controlling interests. Initial application of the IFRS 3 adjustment impacts on the presentation of the consolidated financial statements.
- Adjustment, IFRS 7: “Financial Instruments: Disclosures” (effective date: 1 January 2009). Introduction of a three-step model for measurement of fair value and extended disclosure requirements.
- Adjustment, IFRS 1 “Presentation of Financial Statements”: The changes primarily concern the presentation of financial statements with a view to improving analysis of comparative figures or evaluations (effective date: 1 January 2009).
- Adjustment, IAS 23 “Borrowing Costs”: This adjustment clarifies that borrowing costs which can be allocated directly to the acquisition, construction, or manufacture of a qualified asset must be capitalised (effective date: 1 January 2009). Initial application does not impact on the consolidated financial statements.
- IAS 27 (rev. 2008): “Consolidated and Separate Financial Statements” (effective date: 1 July 2009). The major changes concern the accounting of transactions without transfer of control, and transactions with a change in control. If transactions involve a loss of control, they are to be reported as equity capital transactions with neutral effect on profit or loss. The shares remaining at the date of change of control are measured at fair value. Due to the adjustment, the disclosure of negative balances is admissible in the event of non-controlling interests.
- Adjustment, IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements”: These adjustments primarily relate to the classification of certain financial instruments (equity capital/debt capital). The respective notes disclosures were changed as a result of the reclassification (effective date: 1 January 2009).

- Adjustment IAS 39 “Financial Instruments: Clarification with respect to hedging inflation risks concerning certain underlying transactions as well as designation of options and their inherent value or present value (effective date: 1 July 2009). The adjustment will not impact on the Hönle Group financial statements.
- Adjustment IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement” (effective date: 1 January 2009). The adjustment is mainly aimed at clarifying the accounting for embedded derivatives within the scope of reclassification of financial instruments. The adjustments do not impact on the financial statements of the Hönle Group.

Moreover, the following new regulations that have not yet been approved by the European Union were adopted by the IASB or IFRIC, respectively, in the course of financial year 2009/2010. Early application of these regulations is not possible:

- IFRS 9 “Financial Instruments” Classification and Measurement of Financial Assets” (effective date: 1 January 2013): The basic idea behind this standard is to measure financial assets either on the basis of the acquisition cost model or at fair value. The standard is to replace IAS 39 completely. The impact on the financial statements of the Hönle Group is being reviewed.
- IAS 24: “Related Party Disclosures” (effective date: 1 January 2011). The adjustments serve to clarify the definition of related parties. The impact on the financial statements of the Hönle Group is being reviewed.
- IFRIC 14 “The Limit on a Defined Benefit Asset. Minimum Funding Requirements and their Interaction”. The interpretation is viewed in the context of IAS 19 “Employee benefits” and governs respective assets, minimum requirements and their interaction (effective date: 1 January 2011). The impact on the financial statements of the Hönle Group is being reviewed.
- Adjustment IFRIC 17 “Distribution of Non-Cash Assets to Owners” (effective date: 1 November 2009): This interpretation deals with the question of when and at what amount non-cash dividends are to be accounted for in the balance sheet. An impact on the financial statements of the Hönle Group is not expected.
- Adjustment IFRIC 18 “Transfers of Assets from Customers” (effective date: 1 November 2009). This standard relates primarily to the energy sector and deals with questions associated with the provision of a service network or access to a supply with goods or services. An impact on the financial statements of the Hönle Group is not expected.
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Capital Instruments” (effective date 1 July 2010). The impact on the financial statements of the Hönle Group is being reviewed.
- In April 2009, the IASB published its second collective standard “Improvements to IFRSs”, which includes 15 minor changes to 12 standards. A possible impact on the financial statements of the Hönle Group is being examined. (Effective date: 1 January 2010 to a large extent).

## **5. Accounting and Valuation Methods**

The balance sheet and income statement of companies included in consolidation were prepared in agreement with the parent company's accounting and valuation methods as follows.

### **Goodwill**

Goodwill is not subject to scheduled amortisation but is reviewed with regard to impairment 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 or groups of cash generating units which represent the lowest level at which the goodwill is monitored for purposes of internal corporate management.

For purposes of the impairment test, the goodwill acquired within the scope of a business combination is allocated to the cash generating unit or the group of cash generating units which is/are expected to profit from the synergies of the business combination. If the book value of the unit to which the goodwill was allocated exceeds the achievable amount of this unit, the goodwill allocated to this cash generating unit or group of cash generating units 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 achievable amount is determined using the discounted cash flow method. In so doing, future expected cash flows from the most recent management planning are used as a basis, extrapolated on the basis of long-term growth rates and margin development assumptions and discounted with the capital costs of the unit to be measured.

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

For details on the assumptions used in impairment tests, please see paragraph 19.

### **Intangible Assets**

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

The useful lives are allocated as follows:

Brand names	15 years
Customer base and other rights	1 to 20 years
Software	1 to 10 years
Licenses	8 to 10 years
Copyrights, patents, and other commercial property rights	7 years
Formulas, secret procedures, models, designs and prototypes	10 years

Deviations may result in the event of intangible assets with limited useful lives that were taken over within the scope of acquisition-based initial consolidation. Intangible assets acquired within the scope of corporate acquisitions relate, in particular, to customer relationships and technology. The expected weighted average useful lives concerning customer relationships transferred within the framework of specific transactions were between ten and twenty years.

### **Property, Plant and Equipment**

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

#### **Depending on the respective asset, the following useful lives are applied:**

Buildings	10 to 50 years
Technical equipment and machines	1 to 19 years
Other equipment, operating and business equipment	1 to 23 years

The “Buildings” position includes leasehold improvements. Scheduled depreciation of leasehold improvements is defined in connection with the terms of the rental contracts.

Maintenance expenses are treated as expense for the period.

### **Financial Assets**

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

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

The assets are allocated to a specific category upon addition, depending on the type and purpose of the financial asset.

The disclosed **shares in affiliated companies** are classified as “*available-for-sale financial assets*”. They are reported at acquisition costs. No active market exists for these shares and the present values cannot be reliably determined within a reasonable amount of time.

The disclosed **shares** are classified as “*available-for-sale financial assets*”. After initial recording they are measured at the fair value that results from the stock market price as at the reporting date. Profits or losses arising from the present value adjustment are recorded under equity capital with neutral effect on earnings in accordance with IAS 39. The accumulated profit or loss previously recorded under equity capital is credited to income at the time when the financial assets are derecognised or when a permanent impairment in the value of the financial investment has been determined.

**Current receivables** are allocated to the category: *Loans and Receivables*. They are measured at amortised acquisition costs net of impairments, if any.

Recognisable risks are accounted for by recording adequate impairment.

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

## **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 accounting for deferred taxes from losses carried forward is based on the following assumptions:

The legislator revised Section 8c (1a) of the (German) Corporation Tax Act within the scope of the 2008 Corporation Tax Reform and introduced an exemption governing the treatment of losses carried forward. According to this provision, losses can be taken into account to the full extent provided that shares (more than 50%) are transferred for restructuring purposes. The EU Commission raised objections to this “restructuring clause”, however, and instigated a formal examination procedure pursuant to Art. 103 (2) AEUV [Contract on the working method of the European Union]. By these means the EU Commission indicates that it doubts that the regulation complies with European Subsidy Law. The procedure, initiated on 24 February 2010, was not completed as at the balance sheet date. With respect to the recognition of deferred taxes from losses carried forward, the Management Board expects that the restructuring privilege will be regarded as not being compatible with European law. The Management Board therefore presently assumes that loss carryforwards of the subsidiary, which was acquired in financial year 2007/2008, will be subject to forfeiture as a result of the share acquisition. For this reason, deferred tax assets on the loss carryforward were recorded only for losses incurred as from the acquisition date. To the extent that the restructuring clause of the EU Commission is confirmed as being lawful, deferred tax assets are also to be recorded for losses generated prior to the acquisition.

When calculating deferred taxes, the following tax rates were applied:

- Group companies in Germany: 24.58 % to 32.28 % (PY: 25 % to 32.28 %)
- Group companies in the UK: 28 % (PY: 28 %)
- Group companies in France: 33 1/3 % (PY: 33 1/3 %)
- Group companies in Spain: 25 % (PY: 30 %)
- Group companies in Switzerland: 25.9 % (PY: 21 %)
- Group companies in the US: 38.82 % (PY: 30.40 %)

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

As a general rule, deferred taxes are measured at the tax rate valid as at the reporting date.

## **Inventories**

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

The cost of debt is charged to expenditure at the full amount since direct allocation to qualified assets is not possible.

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.

### ***Receivables, Other Assets, Prepaid Expenses***

Trade receivables are allocated as financial assets to the category “Loans and Receivables”. They are stated at depreciated acquisition costs since payments are fixed and determinable and no active market exists. Doubtful receivables and receivables involving recognisable risks are subject to adequate value adjustments. Bad debts are written off.

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

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

Non-current receivables were not discounted since interest rates are based on general market terms and, with respect to the repurchase value of employers’ pension liability insurance concerning employees’ pension claims, the amount shown in the balance sheet corresponds to the present value of the receivable as of the balance sheet date.

### ***Leasing***

In cases where lease agreements qualify as finance leasing within the meaning of IAS 17, the lease asset is capitalised in the balance sheet and the payment obligation respecting future lease instalments is carried as a financial liability using the effective interest method. Treatment as financing leasing leads to a depreciation expense in the income statement, which is contingent on the useful life of the lease asset and the financing expense.

Lease instalments or rental payments in the case of operating leases are recorded directly as expense in the income statement.

### ***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.

### ***Liabilities***

**Financial liabilities** are stated in the balance sheet at amortised acquisition costs using the effective interest rate method. They primarily include trade accounts payable and loans received.

**Current liabilities** are always recorded at the respective settlement or repayment amount. **Non-current other liabilities** are reported in the balance sheet at the respective present value or, if interest-bearing, at the respective repayable amounts.

Amortised acquisition costs of current liabilities generally correspond to the nominal amount or the repayment amount.

Current liabilities also include liabilities to employees arising from profit-sharing bonuses and other bonuses, Christmas bonus, holidays not taken and flexi-time surpluses.

Liabilities denominated in foreign currencies are translated at reporting date rates pursuant to IAS 21.

### **Accruals**

The actuarial determination of **pension accruals due to defined benefit plans** is based on the projected unit credit method concerning employee benefits as defined in IAS 19. This method takes future expected salary and pension increases into account, in addition to the pensions and acquired pension entitlements known at the balance sheet date. Actuarial gains and losses are recognised using the corridor method in accordance with IAS 19.92.

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

**Tax accruals** include obligations arising from current income taxes.

### **Share-based Payment**

The stock option program for the Management Board and employees is accounted for in accordance with IFRS 2 using time-adjusted methods and on the basis of option price models. In so doing, options are measured at the present values applicable on the day of their being granted. The present value is then spread as personnel expense over the term of the period in which the employees acquire an unlimited claim to these instruments.

### **Sales Realisation**

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

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

### **Public Grants**

Performance-based public grants are posted as income in the income statement during the period for which they were granted.

### **Cost of Debt**

Cost of debt is charged to operations at the time of origin.

## **NOTES TO THE CONSOLIDATED INCOME STATEMENT**

The consolidated income statement was prepared in accordance with the total cost method.

### **6. Revenues**

Details concerning the allocation of revenues are provided in the explanations on segment reporting.

T€ 7 (PY: T€ 7) concern revenues from supplies to Dr. K. Hönle Medizintechnik GmbH that were delivered at generally accepted market terms.

### **7. Other Operating Income**

	2009/2010 T€	2008/2009 T€
Release of accruals	425	310
Private vehicle use	16	17
Increases in asset values reinsurance (employers' pension liability insurance)	109	107
Off-period income	116	92
Rental income	35	27
Subsidies/investment grant	25	80
Income from debit difference	0	212
Other	1,154	1,236
	<hr/> 1,880	<hr/> 2,081

The item "Other" includes extraordinary income in the amount of T€ 414 and the amount of T€ 60, which is attributable to insurance /damage compensation payments.

### **8. Cost of Purchased Materials and Services**

	2009/2010 T€	2008/2009 T€
Cost of raw materials and supplies and purchased merchandise	21,870	18,994
Cost of purchased services	740	912
	<hr/> 22,610	<hr/> 19,906

## 9. Personnel Expenses

	2009/2010 T€	2008/2009 T€
Wages and salaries	13,870	13,259
Social security and pension costs	3,033	3,044
	16,903	16,303

In financial year 2009/2010, no expenses are included in personnel expense due to IFRS 2 (PY: T€ 0).

With respect to the stock options, reference is made to paragraph 48.

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

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

In financial year 2009/2010 no non-scheduled amortisation of goodwill was recorded due to the annual impairment test. Further details concerning impairment tests are provided in the comments on fixed assets (paragraph 19).

## 11. Other Operating Expenses

Other operating expenses are classified as follows:

	2009/2010 T€	2008/2009 T€
Cost of office space	2,191	3,117
Insurance, membership fees and charges	452	537
Maintenance and repair	109	141
Vehicle costs	816	721
Advertising and representation	546	570
Travel expenses	973	1,231
Shipment, goods delivery, packaging	2,077	1,379
Postage, telephone	360	366
Office supplies, technical literature	133	301
Consulting, bookkeeping, year-end closing costs and costs of being public	746	1,145
Other costs	2,067	2,718
	10,470	12,226

The item “Other Costs” mainly includes expenses from losses on receivables in the amount of T€ 66, value adjustments on receivables in the amount of T€ 45, and expenses relating to licenses in the amount of T€ 34.

The General Meeting held on 23 March 2010 resolved on retrospective adjustment of the compensation) for the Supervisory Board. The expenses for Supervisory Board compensation in the amount of T€ 72 are disclosed under “Other Costs”.

Expenses from operating lease agreements amounted to T€ 443 in the 2009/2010 financial year (PY T€ 484); of this amount, T€ 337 related to vehicles.

## **12. Interest Income**

	2009/2010 T€	2008/2009 T€
Income from long-term financial investments	10	11
Other interest and similar income	34	101
	44	112

Income from financial assets and other securities primarily relates, at T€ 10 (PY: T€ 11), to distributions of the Dr. Höhle AG securities portfolio and a Höhle France money market fund investment which is allocated to cash and cash equivalents. The Höhle France money market fund investment was sold in the financial year under review.

Other interest and similar income relate, at T€ 34 (PY: T€ 79), to interest received from bank balances and deposits.

The amount of T€ 10 (PY: T€ 16) concerns interest received from loan receivables vis à vis Dr. K. Höhle Medizintechnik GmbH.

## **13. Interest Expenses**

The item “Interest and Similar Expenses” includes interest expenses in the amount of T€ 28 (PY: T€ 30) which are attributable to non-current Group liabilities.

The interest portion for finance leasing agreements included in interest expense amounts to T€ 15 (PY: T€ 22).

The interest expense also includes the amount of T€ 12 (PY: T€ 13), which is attributable to recorded pension benefits concerning surviving dependents of former managing directors.

## 14. Income Tax

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

	2009/2010 T€	2008/2009 T€
<b>Current tax expense and income:</b>		
Current income tax expense for the period	1,178	268
Expenses/income tax relating to off-period income taxes	0	-3
	1,178	265
<b>Deferred tax expense and income:</b>		
from a change in fixed assets	-14	-12
from a change in current assets	-2	-241
from a change in accruals	60	-42
from a change in liabilities	45	25
from a change in losses carried forward	-755	-104
from a change in the deferred tax rate	33	21
from consolidation effects	-30	-74
from value adjustments on losses carried forward	0	145
from currency differences	21	27
	-642	-255
Total tax expense	536	10

In financial year 2009/2010 the item "Deferred tax expense and income" includes deferred tax income of T€ 1,051 which results from utilisation of previously unused tax losses carried forward by Eltosch Torsten Schmidt GmbH.

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

	2009/2010 T€	2008/2009 T€
Earnings before income taxes	5,342	-4,073
Theoretical tax rate as a %	24.58	25.0
Computed tax expense	1,313	-1,018
<i>Changes in the computed tax expenses relative to actual tax expense due to:</i>		
- tax effects from unrecognised deferred taxes on losses carried forward	0	1,245
- tax effect from recognition of deferred taxes on previous year's tax losses carried forward	-984	0
- deviating tax assessment base	68	-47
- off-period effects	-40	-3
- deviating local tax rates	152	-189
- tax rate changes	27	22
Actual tax expense	536	10
Effective Group tax rate as a %	10.03	-0.25

The table below reflects the tax rates applicable in the respective countries used for the calculation of deferred taxes:

	Germany %	Switzerland %	UK %	France %	Spain %	USA %
Income tax	24.58	25.9	28.0	33.33	25.0	38.82

### **15. Profit Share Attributable to Minorities**

Minority shares in the result for the financial year are made up as follows:

	2009/2010 T€	2008/2009 T€
<i>Profit shares:</i>		
Aladin GmbH	148	81
PrintConcept GmbH	55	13
Megadustries S.a.r.l., Martinique	3	0
Megadustries S.a.r.l., Guadeloupe	1	-3
<i>Loss shares:</i>		
Honle Spain S.A.	-2	-11
	205	80

## 16. Off-period Expenses and Income

The item "Other operating income" includes off-period income in the amount of T€ 116 (PY: T€ 92), and T€ 425 (PY: T€ 310) from the release of accruals. Thereof, the amount of T€ 102 is attributable to the release of pension accruals due to a plan change at a subsidiary. In addition, the item includes income in the amount of T€ 414, mainly attributable to receipt of a settlement payment.

The item "Other operating expenses" includes off-period expense in the amount of T€ 123 (PY: T€ 284). Of this amount, T€ 54 are attributable to the retrospective adjustment of Supervisory Board compensation for financial year 2008/2009 as decided by the General Meeting on 23 March 2010, and the amount of T€ 36 is attributable to sales bonus regulations.

## 17. Research and Development Costs

Research and development costs are recorded as expense as they accrue. Development costs are not capitalised since the Hönle Group does not fully meet the capitalisation requirements defined in IAS 38 "Intangible Assets", or because the amounts to be capitalised are immaterial due to the short time span between technical feasibility and actual market launch.

Expenses for order-independent research and development recorded during the reporting period amounted to T€ 688 (PY: T€ 656).

## 18. Earnings per Share

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

Generally, the weighting of the average number of shares or of potential shares, respectively, takes the date of share issuance or the date of subscription rights to potential shares into consideration. The average own shares portfolio (325,839 shares of stock) was deducted from the weighted number of shares both in the undiluted and in the diluted earnings per share.

### Undiluted earnings per share

	2009/2010	2008/2009
Portion attributable to		
Dr. Hönle AG shareholders in T€	4,601	-4,163
Weighted number of shares of stock net of own shares	5,512,930	5,512,930
	-325,839	-325,839
Weighted average of ordinary shares in circulation during the period	5,187,091	5,187,091
<b>Undiluted earnings per share in €</b>	<b>0.89</b>	<b>-0.80</b>

The stock options issued within the scope of the Stock Option Programme did not lead to a dilution effect as the options are not exercisable due to non-compliance with performance targets and the exercise price was above the average share market price. No options were exercisable at the financial year-end.

***Diluted earnings per share***

	<b>2009/2010</b>	<b>2008/2009</b>
Portion attributable to Dr. Hönle AG shareholders in T€	4,601	-4,163
Weighted number of shares of stock net of own shares	5,512,930 -325,839	5,512,930 -325,839
Weighted average of ordinary shares in circulation during the period	5,187,091	5,187,091
<b>Diluted earnings per share in €</b>	<b>0.89</b>	<b>-0.80</b>

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 19. Non-Current Assets

Non-current assets include the following balance sheet items:

- Goodwill
- Intangible assets
- Property, plant and equipment
- Financial assets

The development of acquisition costs, accumulated amortisation/depreciation, value adjustments neutral in their effect on profits, and the book values of non-current assets are shown in the Schedule of Consolidated Fixed Assets.

#### **Schedule of Consolidated Fixed Assets of Dr. Hönle AG for the period from 1 October 2009 to 30 September 2010**

	Purchase and manufacturing costs					Accumulated depreciation						Book value			
	as at 01.10.09 T€	Addi- tions T€	Dis- posals T€	Trans- fers T€	Cur- rency differ- ences T€	as at 30.09.10 T€	as at 01.10.09 T€	Addi- tions T€	Write- ups T€	Dis- posals T€	Cur- rency differ- ences T€	as at 30.09.10 T€	Re- valu- ation T€	30.09.10 T€	30.09.09 T€
<b>GOODWILL</b>	6,955	0	0	0	0	6,955	28	00	0	0	0	28	0	6,927	6,927
<b>INTANGIBLE ASSETS</b>															
Brand names	127	0	0	0	0	127	14	8	0	0	0	22	0	105	113
Customer base and other rights	909	0	0	0	0	909	199	86	0	0	0	285	0	624	710
Computer software	1,398	184	57	0	0	1,525	1,155	194	0	57	0	1,292	0	233	243
Licenses and Franchise agreements	32	0	0	0	0	32	16	4	0	0	0	20	0	12	16
Patents and other industrial property rights	591	0	0	0	0	591	160	31	0	0	0	191	0	400	431
Procedures, models, drafts and prototypes	770	0	0	0	0	770	384	14	0	0	0	398	0	372	386
Advanced payments received and tangible assets concerning development	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	3,827	184	57	0	0	3,954	1,928	337	0	57	0	2,208	0	1,746	1,899
<b>TANGIBLE ASSETS</b>															
Land and buildings	2,776	0	0	0	0	2,776	419	77	0	0	0	496	0	2,280	2,357
technical equipment and machines	3,705	249	13	0	0	3,941	2,036	268	0	10	0	2,294	0	1,647	1,669
Other equipment, factory and office equipment	5,121	417	123	0	5	5,420	2,940	493	24	66	0	3,343	0	2,077	2,181
Payments on account	3	24	4	0	0	23	0	0	0	0	0	0	0	23	3
	11,605	690	140	0	5	12,160	5,395	838	24	76	0	6,133	0	6,027	6,210
<b>FINANCIAL ASSETS</b>															
Shares in associated companies	26	0	0	0	0	26	0	0	0	0	0	0	0	26	26
Long term investments	543	0	0	0	0	543	63	0	0	0	0	63	-262	218	215
Investments/other loans	0	5	0	0	0	5	0	0	0	0	0	0	0	5	0
	569	5	0	0	0	574	63	0	0	0	0	63	-262	249	241
	22,956	879	197	0	5	23,643	7,414	1,175	24	133	0	8,432	-262	14,949	15,277

**Schedule of Consolidated Fixed Assets of Dr. Hönle AG  
for the period from 1 October 2008 to 30 September 2009**

	Purchase and manufacturing costs					Accumulated depreciation					Book value				
	as at 01.10.08 T€	Addi- tions T€	Dis- posals T€	Trans- fers T€	Cur- rency differ- ences T€	as at 30.09.09 T€	as at 01.10.08 T€	Addi- tions T€	Write- ups T€	Dis- posal T€	Cur- rency differ- ences T€	as at 30.09.09 T€	Re- valu- ation T€	30.09.09 T€	30.09.08 T€
<b>GOODWILL</b>	6,955	0	0	0	0	6,955	28	0	0	0	0	28	0	6,927	6,927
<b>INTANGIBLE ASSETS</b>															
Brand names	127	0	0	0	0	127	6	8	0	0	0	14	0	113	121
Customer base and other rights	909	0	0	0	0	909	113	86	0	0	0	199	0	710	796
Computer software	1,352	122	76	0	0	1,398	1,154	78	0	77	0	1,155	0	243	198
Licenses and Franchise agreements	50	0	18	0	0	32	30	4	0	18	0	16	0	16	20
Patents and other industrial property rights	591	0	0	0	0	591	94	66	0	0	0	160	0	431	497
Procedures, models,, drafts and prototypes	739	6	0	25	0	770	310	74	0	0	0	384	0	386	429
Advanced payments received and tangible assets concerning development	25	0	0	-25	0	0	0	0	0	0	0	0	0	0	25
	3,793	128	94	0	0	3,827	1,707	316	0	95	0	1,928	0	1,899	2,086
<b>TANGIBLE ASSETS</b>															
Land and buildings	2,776	0	0	0	0	2,776	342	77	0	0	0	419	0	2,357	2,434
technical equipment and machines	3,619	73	4	17	0	3,705	1,767	271	0	2	0	2,036	0	1,669	1,852
Other equipment, factory and office equipment	5,258	1,163	1,299	2	-3	5,121	3,516	495	0	1,068	-1	2,940	0	2,181	1,742
Payments on account	17	5	0	-19	0	3	0	0	0	0	0	0	0	3	17
	11,670	1,241	1,303	0	-3	11,605	5,625	843	0	1,070	-1	5,395	0	6,210	6,045
<b>FINANCIAL ASSETS</b>															
Shares in associated companies	26	0	0	0	0	26	0	0	0	0	0	0	0	26	26
Long term investments	543	0	0	0	0	543	63	0	0	0	0	63	-265	215	218
Investments/other loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	569	0	0	0	0	569	63	0	0	0	0	63	-265	241	244
	22,987	1,369	1,397	0	-3	22,956	7,423	1,159	0	1,165	-1	7,414	-265	15,277	15,302

## **Goodwill**

Goodwill values from business combinations are allocated to those cash-generating units or groups of cash-generating units that draw benefit from the combinations. In the Dr. Höhle Group, goodwill values remained unchanged at the amount of T€ 6,927 (PY: T€ 6,927). The goodwill values are allocated exclusively to the group of cash-generating units which form the UV equipment and systems business segment.

Höhle reviews the value of goodwill at least once a year according to the procedure presented under paragraph 5.

The achievable amount for this group of cash-generating units is determined in order to perform an impairment test pursuant to IAS 36. The achievable amount is the higher amount from the fair value of the cash generating unit net of any sales costs and their usage value. The achievable amount concerning the UV equipment and systems business segment is determined on the basis of the usage value.

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

The cash flow projection is based on the profits/losses of the individual Group companies which are determined within the scope of a detailed planning process using internal historical values and external economic data. Planning is based, in particular, on assumptions concerning sales development, and on sales prices as well as purchase prices for materials and primary products. The assumptions take cost-reducing measures already taken as well as replacement investments into account. Revenue growth in the planning period was calculated at a range of up to 11.6% per year.

Following the five-year planning horizon, growth rates of 1 % are assumed for subsequent cash flows. The growth rates are not higher than the long-term industry growth in the sectors of industry in which the cash generating units operate.

The usage value of the cash generating units is determined on the basis of these cash flow projections, using a capital cost rate before income tax of 8.6117 % (PY: 9.4997 %).

The impairment test performed did not indicate a need for devaluation. The Management Board is of the opinion that, according to reasonable judgement, a possible change in the basic assumptions on which the determination of the achievable amount is based will not lead to the accumulated book value of the cash generating units exceeding their accumulated achievable amount.

## **Intangible Assets**

Within the scope of business acquisitions in financial year 2007/2008, brands, customer bases, and also manufacturing technology were acquired and capitalised in non-current assets as intangible assets.

The item also includes external development services and adjustment expenses concerning ERP software.

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

## **Property, Plant and Equipment**

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

### **- Land and Buildings**

This item includes the Aladin GmbH business premises which were acquired by Dr. Hönle AG in financial year 2004/2005. The building is allocated to two significant, identifiable components for purposes of determining its useful life. The building section for operational use is depreciated according to schedule over 33.33 years. The building section used for residential purposes is depreciated according to schedule over 50 years. In order to provide collateral for the real estate loan, a first mortgage of T€ 800 was taken out in favour of the lender (cf. paragraph 28).

The item also includes a Domino S.a.r.l. commercial building which was accounted for in the balance sheet within the framework of a finance lease agreement. The book value as at 30 September 2010 amounts to T€ 720 (PY: T€ 744). The building is depreciated straight line over a useful life of 33.33 years. Correspondingly, a finance lease liability was reported on the liability side (paragraph 29). Due to the existing lease relationship, availability of the building is limited. At the end of the contract term in April 2012, the property will be transferred to the Group as contractually agreed.

### **- Technical Equipment and Machines**

The assets disclosed under this item are depreciated over their useful lives of between 1 to 19 years applying the straight line method.

### **- Other Equipment, Factory and Office Equipment**

Assets shown under this item are depreciated over their regular useful lives of between 1 to 23 years applying the straight-line method of depreciation.

The factory and office equipment includes vehicles which were acquired within the framework of finance lease agreements. The vehicles' book values amounted to T€ 32 as of 30 September 2010 (PY: T€ 32). A corresponding finance lease liability was reported on the liability side (paragraph 29). Due to the existing lease relationships, availability of the vehicles is limited. The agreed upon purchase option at the end of the contract term is to be made use of, according to current planning.

## **Financial Assets**

This item includes **shares in associated companies** in the amount of T€ 26 which relate to the 100% investment in Solitec GmbH. The 20% **investment** in PrintDesign Engineering GmbH is disclosed separately. Solitec GmbH is not included in the consolidated group due to its insignificance regarding the Group.

The item also includes **long term investments** which exclusively relate to shares of international corporations.

Any changes in the fair value of these shares are recorded in the "Special item, Revaluation" under equity with neutral effect on profits and presented in the statement of income and accumulated earnings. Amounts released are recorded as income upon sale, or under acquisition costs in the event of a lasting decline in market value.

As at the balance sheet date, the stock market value of the shares held was T€ 218 (PY: T€ 215). As a consequence of the current value adjustment as of 30 September 2010, a reduction of the “Special item, Revaluation” was recorded with respect to the shares held as of the balance sheet date. Overall, the “Special item, Revaluation” declined by T€ 3 and amounted to T€ -262 (PY: T€ -265) on 30 September 2010.

## 20. Other Non-Current Assets

	30/09/2010 T€	30/09/2009 T€
Loans	96	134
Asset value, employers' pension liability insurance	684	575
Other	30	42
	810	751

Loans mainly refer to an annuity loan extended by Dr. Hönle AG to Dr. K. Hönle Medizintechnik GmbH which is secured through guaranties issued by Prof. Dr. Hönle.

The residual book value of the loan amounted to T€ 137 (PY: T€ 195) as at 30 September 2010. The disclosed non-current portion amounts to T€ 91 (PY: T€ 103; the current portion of T€ 46 (PY: T€ 92) is disclosed under the item “Other current assets” (cf. paragraph 24).

The loan extended to Dr. K. Hönle Medizintechnik GmbH bears an interest rate of 6.5 % and is due to expire on 30 June 2013. The annuity for the loan amounts to T€ 54 per year.

## 21. Deferred Taxes Assets and Deferred Tax Liabilities

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

	30/09/2010		30/09/2009	
	Asset T€	Liability T€	Asset T€	Liability T€
Non-current assets	7	253	7	270
Current assets	2	46	24	58
Accruals	110	93	201	118
Liabilities	56	0	157	0
Tax losses carried forward	1,125	0	371	0
Consolidation effect	65	569	82	616
Total before netting and set-off	1,365	961	842	1,062
Netting of deferred tax assets/ liabilities	0	0	-123	-123
Total	1,365	961	719	939

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

losses can be offset. Value estimates are based on annual planning from which predictions concerning the use of tax losses in the future can be derived.

The companies, Honle Spain S.A., Eltosch Torsten Schmidt GmbH, Panacol GmbH and Eltosch America Inc. recorded tax losses carried forward as of 30 September 2010. The losses carried forward by Honle Spain S.A., Eltosch Torsten Schmidt GmbH and Panacol GmbH were fully set off against deferred tax assets. Of the tax losses in the amount of T€ 50 (PY: T€ 27) carried forward by Eltosch America Inc., for which no deferred tax assets have been recorded, the amount of T€ 50 is forfeited in the period up to 2030 (PY: 2029).

The shares in Eltosch Torsten Schmidt GmbH were acquired by Dr. Hönle AG in financial year 2007/2008. The corporation tax loss carried forward as at the acquisition date amounted to T€ 4,726 and trade tax was carried forward in the amount of T€ 4,581. Losses carried forward prior to the share acquisition were saved from forfeiture only through the restructuring clause of Section 8c KStG. The EU Commission instigated investigation proceedings in the reporting year, assuming that the restructuring clause introduced by the Federal Government violates EU Subsidy Law. In the event that the restructuring clause is found to be incompatible with EU law, the tax losses accumulated up to the acquisition date are subject to forfeiture. At present, the Management Board expects that the EU Commission will classify the outcome of the current proceedings pursuant to Art. 108 (2) AEUV, ref. no. C7/2010 (ex NN 510) as not being compatible with EU law. Consequently, deferred tax assets were only recorded for Eltosch Torsten Schmidt GmbH losses carried forward that were incurred after 15 May 2008 (acquisition date).

## 22. Inventories

Inventories are made up as follows:

	30/09/2010 T€	30/09/2009 T€
Raw materials and supplies, incl. descriptive material (at acquisition costs)	8,581	7,428
<i>less depreciation</i>	1,962	1,648
	6,619	5,780
Finished goods and merchandise (at acquisition or manufacturing costs)	5,663	4,159
<i>Less depreciation</i>	1,459	668
	4,204	3,491
Advance payments made	74	121
	10,897	9,392

The book value of inventories disclosed at the respective net realisable value (fair value) amounts to T€ 3,672 (PY: T€ 2,224).

In the 2009/2010 reporting period, inventories amounting to T€ 21,936 (PY: T€ 17,872) were recorded as expense and the amount of T€ 1,105 (PY: € 1,122) was recorded as an impairment of inventories.

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

### 23. Trade Accounts Receivable

Trade Accounts Receivables are made up as follows:

	30/09/2010 T€	30/09/2009 T€
Total trade receivables	8,926	8,349
Less value adjustments	530	671
	8,396	7,678

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

As of the balance sheet date, a receivable from Dr. K. Hönle Medizintechnik GmbH was recorded in the amount of T€ 0 (PY: T€ 1).

Value adjustments concerning trade accounts receivable developed as follows:

	2009/2010 T€	2008/2009 T€
As at 1 October	671	542
Change in consolidated group	0	0
- Utilisation	-9	-12
- Release (without utilisation)	-276	-281
- Addition	167	422
- Currency differences	0	0
As at 30 September	553	671

### 24. Other Current Assets

	30/09/2010 T€	30/09/2009 T€
Prepaid expenses	213	237
Other current assets	818	845
	1,031	1,082

Prepaid expenses consist of the following:

	30/09/2010	30/09/2009
	T€	T€
Insurance	45	32
Maintenance agreements	9	10
Trade fairs	32	61
Other	127	134
	213	237

Other current assets are structured as follows:

	30/09/2010	30/09/2009
	T€	T€
Receivables from Supervisory Board members	25	25
VAT	99	355
Bonus claims from supplier relationships	0	0
Short term portion of loans	76	192
Receivables from employees	77	24
Other	538	249
	818	845

The disclosed book values correspond to fair values. The residual term is less than one year.

Current receivables amounting to T€ 28 (PY: T€ 25) from Supervisory Board members are subject to 5 % interest; collateral was not provided.

The short term repayment proportion of the annuity loan extended to Dr. K. Hönle Medizintechnik GmbH amounts to T€ 46 (PY: T€ 92). The long term portion is included in the item "Other non-current assets" (cf. paragraph 20).

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

## 25. Tax Refund Claims

Tax refund claims consist of the following:

	30/09/2010	30/09/2009
	T€	T€
Dr. Hönle AG	74	135
Honle UV UK Ltd.	0	4
Honle UV France S.a.r.l.	0	50
Aladin GmbH	0	38
PrintConcept GmbH	0	8
Eltosch Torsten Schmidt GmbH	59	66
Eleco S.A.S.	0	37
Panacol AG	89	67
Panacol GmbH	20	27
Agita AG	1	37
	243	469

Tax refund claims include a receivable of T€ 127 (PY: T€ 153) from capitalisation of a claim for payment of a corporation tax credit pursuant to Section 37 KStG n.v. concerning Dr. Hönle AG and Eltosch Torsten Schmidt GmbH.

## 26. Liquid Assets

Liquid assets include cheques, cash in hand and bank balances. This item also represents cash and cash equivalents relevant to the cash flow statement within the meaning of IAS 7.

Bank credit balances are held with various banks at annual interest rates of approximately 0.1 % to 0.9 %.

## 27. 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.

With respect to changes in equity capital in financial year 2009/2010 reference is made to the Statement of Changes in Equity.

### **Subscribed Capital**

The subscribed capital (share capital) amounts to € 5,512,930. Accordingly, one share of stock grants a computational share of € 1.00 in corporate capital. The shares of stock are made out to the bearer.

As of 30 September 2010, shares issued and in circulation were as follows:

	30/09/2010 Share of stock	30/09/2009 Share of stock
Number of shares issued	5,512,930	5,512,930
Less own shares	325,839	325,839
Shares in circulation	5,187,091	5,187,091

### **Own Shares (Treasury Stock)**

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

At the Shareholders' Meeting held on 23 March 2010, a resolution was passed to again authorise Dr. Höhle AG to acquire treasury stock up to a total of 10 % of the share capital of € 5,512,930 by 22 March 2015 pursuant to Section 71 (1) No. 8, AktG. The Company may not use the authorisation to trade in own shares. Dr. Höhle AG did not make use of the authorisation in financial year 2009/2010.

The Company purchased the following shares in recent years:

Financial year	2001/2002	2002/2003	2005/2006	2006/2007	2007/2008	Total
Number of treasury shares	23,039	120,000	142,250	5,000	35,550	325,839
Acquisition costs T€	120	823	1,235	41	312	2,531
Average acquisition costs per share in €	5.20	6.86	8.68	8.05	8.77	7.77

In accordance with IAS 32, own shares are deducted from equity and disclosed as a separate item at acquisition costs of T€ 2,531. The average share price for all own shares held is € 7.77. The market price of own shares as of 30 September 2010 amounts to T€ 2,245 (PY: T€ 1,662). The stock exchange price amounted to € 6.89 as at the balance sheet date.

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

### **Additional paid-in Capital**

Additional paid-in capital mainly includes premiums from the capital increase in the context of the initial public offering in financial year 2000/2001. The reduction in the additional paid-in capital in the amount of T€ 102 results, at the amount of T€ 191, from the acquisition of a further 10 % stake in PrintConcept GmbH and an adjustment of the purchase price liability for the residual 10% of T€ 395. The increase in

the existing majority holding through acquisition of minority shares qualifies as a transaction between equity providers with neutral effect on profit or loss.

### ***Legal Reserve***

The legal reserve was set up in accordance with Section 150 AktG [German Stock Corporation Act].

### ***Special Item, Revaluation***

The special item “Revaluation” includes value adjustments arising from changes in “available-for-sale assets” which were measured at fair value. This item was stated at T€ -262 as at 30 September 2010 (PY: T€ -265). The change in the fair value of shares still held in the stock portfolio amounts to T€ 3.

### ***Retained Earnings***

The previous year’s retained earnings amounted to T€ 5,146. After taking into account the profit shares of Dr. Höhle AG shareholders in the amount of T€ 4,601 for 2009/2010, retained earnings amounted to T€ 9.747 as at 30 September 2010.

No dividend was paid out for financial year 2008/2009 in financial year 2009/2010.

Due to the positive business development, the Dr. Höhle AG Management Board and Supervisory Board propose to the Shareholders’ Meeting 2011 that a dividend amounting to at least T€ 1,297 be paid out for financial year 2009/2010, which translates into an amount of € 0.25 per share.

### ***Authorised Capital 2010***

In accordance with a resolution passed by the Shareholders’ Meeting on 23 March 2010, the Management Board was authorised, with the approval of the Supervisory Board, to increase the share capital by up to T€ 2,750 through one or several issues of new, no-par shares (ordinary shares), made out to the bearer, by 22 March 2015, 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.

### ***Conditional Capital Increase***

#### **Stock Option Plan 2002 of 27 February 2002**

A resolution was passed at the Shareholders’ Meeting on 20 November 2000 concerning a conditional increase in share capital by up to T€ 364 for the purpose of servicing option rights; the Management Board was authorised to issue these options in accordance with the stock option programme (Employee Participation Programme). The stock option programme 2000/2002 expired in financial year 2008/2009. Options from this stock option programme can no longer be exercised.

#### **Stock Option Plan 2004 of 26 February 2004**

In order to enable the Company to grant further stock options to employees, the 2004 Shareholders’ Meeting resolved on creating new conditional capital (“Conditional Capital II”) in the amount of T€ 160. Options from this stock option programme can no longer be exercised.

For more details on the stock option programme in the current financial year, see paragraph 48.

### **Minority Interest**

Minority interest is structured as follows:

	30/09/2010	30/09/2009
	T€	T€
Aladin GmbH	743	595
Honle Spain S.A.	40	43
PrintConcept GmbH	94	143
Eleco Produits EFD, SAS	2	1
Megadustries Guadeloupe SARL	6	5
Megadustries Martinique SARL	18	14
	903	801

When recognising subsidiaries' profits/losses that are attributable to minority shares, netting with losses incurred by the respective companies and not yet taken over from previous years was taken into account.

### **28. Non-Current Loans (less Current Portion)**

This item includes the long-term portion of the bank loan amounting to T€ 635 (PY: T€ 682) used to finance acquisition of the Aladin GmbH business premises. The residual book value of the loan amounts to T€ 682 (PY: T€ 729). The loan is due to expire in 2025, and is repaid in 34 semi-annual instalments starting from September 2008. The interest rate is 3.90% (from March 2005). Collateral covering the full amount was provided in favour of the lender in the form of a first mortgage.

### **29. Finance Lease Obligations**

Finance lease obligations include the present values of minimum lease instalments for one building and several vehicles (passenger cars). The portions that fall due within one year are disclosed in the balance sheet as current 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 relationship have developed as follows:

As at 30/09/2010	Residual term, up to one year T€	Residual term, one to five years T€	Residual term, more than five years T€
Minimum lease payment	110	71	0
Interest portion	8	2	0
Present value	102	69	0

As at 30/09/2009	Residual term, up to one year T€	Residual term, one to five years T€	Residual term, more than five years T€
Minimum lease payment	123	182	0
Interest portion	15	10	0
Present value	108	172	0

### **30. Other Non-Current Liabilities**

In the previous year this item included a loan extended by a co-partner of a subsidiary with a residual book value of T€ 100. Based on newly agreed-upon contractual conditions and repayment agreements, the loan is disclosed under Current liabilities as at the 2009/2010 balance sheet date.

In addition, the item includes a liability from an early retirement agreement concerning Panacol GmbH in the amount of T€ 100 (PY: T€ 87).

### **31. Pension Accruals**

Pension accruals are set up to cover pension commitments associated with old age, invalidity, and surviving dependents' benefit plans.

Pension accruals concerning defined benefit plans are determined in accordance with IAS 19 applying the projected unit credit method; i.e., future commitments are calculated on the basis of 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 the fluctuation of future salary trends and the respective applicable interest rate.

Pension accruals concern pension commitments to employees of Group companies in Germany and to employees of the French subsidiaries. As a general rule, pension entitlements are acquired after two years of service.

Benefits concerning surviving dependents of former managing directors are included in pension accruals at the amount of T€ 194 (PY: T€ 208).

Pension accruals were as follows as at the balance sheet date:

	30/09/2010	30/09/2009
	T€	T€
Present value of pension obligation at the beginning of the year	1,926	1,692
Service expense	85	100
Interest expense	99	101
Actuarial gains (+) losses (-) not recorded in the balance sheet	459	-90
Redemption amount for retrospective pension plan changes	2	0
Effects of reductions and reimbursements	-74	0
Pension payments	-33	-57
<b>Present value of pension obligation at year-end</b>	<b>2,464</b>	<b>1,926</b>

Actuarial gains or losses result from portfolio changes and deviations from actual trends (e.g. income or interest increases), in comparison with calculation assumptions.

With the exception of a sub-amount of T€ 43 (PY: T€ 31), the pension commitment recorded in the balance sheet is not fund-financed.

The Company assumes that the pension obligation amounting to T€ 1,820 will be met after more than 12 months.

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

	2009/2010	2008/2009
	T€	T€
Current service expense	85	100
Interest expense	99	101
Redemption amount concerning actuarial losses	-2	0
Redemption amount concerning retrospective pension plan changes	0	-104
Effects of reductions and reimbursements	-89	0
	93	97

Interest expense includes the amount of T€ 11 (PY: T€ 13) which is attributable to pension benefits concerning surviving dependents of former managing directors.

Movements within the balance sheet item “Pension obligations” were as follows in the reporting year:

	30/09/2010 T€	30/09/2009 T€
Value of the pension accrual at the beginning of the year	1,835	1,796
Pension expense	93	97
Payments / pension payments	-33	-57
Fund assets	-42	-31
Amount of pension accrual at year-end	1,853	1,805

The following actuarial assumptions served as a basis for determining the balance sheet value of the pension obligation:

	01/10/2010	01/10/2009	01/10/2008
Discount rate	4.25%	5.25%	6.25%
Rate of increase in pension payments	2.00%-3.00%	2.00%-3.00%	2.00%

Actuarial losses of T€ 459 (PY: T€ -90) which were not recorded as of 30 September 2010 include, inter alia, the effect of changes in pension commitments and the effect of a change in the discounting rate.

The following overview reflects the development of present values of the pension obligation and the fair values of the plan assets over the last five balance sheet days:

	30/09/2010	30/09/2009	30/09/2008	30/09/2007	30/09/2006
Present value of pension obligation as at the balance sheet date	2,464	1,926	1,656	1,359	1,297
Fair values of plan assets	43	31	31	0	0
Plan – short cover:	2,421	1,895	1,625	1,359	1,297

The present value of the pension obligation increased significantly in financial year 2009/2010 in comparison with the previous year, mainly as a result of a decline in the discounting rate from 5.25% to 4.25%. In addition, the pension commitment vis à vis one employee was increased.

### **32. Trade Accounts Payable**

Trade accounts payable are reported at repayment amounts. Given the short payment periods concerning these liabilities, the respective amounts are in line with the market value of the liabilities.

### 33. Liabilities to Associated Companies

In the previous year, this item included the internal account with Solitec Gesellschaft für technischen Produktvertrieb mbH. No balance was recorded in the current financial year

### 34. Advance Payments Received

Advance payments received on account of orders relate to payments from customers for services not yet provided by the Company. The amounts are shown net and do not include VAT.

### 35. Current Bank Liabilities and Current Portion of Non-Current Loans

As a general rule, liabilities to banks are stated at the respective repayable amounts.

Short term liabilities to banks amounted to T€ 68 (PY: T€ 451) at the end of the reporting period.

Current account credit lines granted by banks totalled T€ 3,088 (PY: T€ 3,090) as at 30 September 2010; when drawn upon, these credit lines are subject to the usual market interest rates. Of the total, the amount of T€ 772 is utilised on the basis of credits by way of guaranty.

### 36. Other Current Liabilities

	30/09/2010 T€	30/09/2009 T€
Wage tax and VAT	500	498
Social security contributions	293	357
Profit sharing bonus and other bonuses	1,026	231
Christmas bonus	551	400
Holidays not taken	359	326
Flexi time surpluses	214	152
Other personnel-related liabilities	292	367
License liabilities and similar liabilities	0	0
Purchase price obligations	395	165
Other	492	486
	4,122	2,982

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

**Christmas bonus** liabilities were set up to account for appropriate Christmas allowance allocation (10/12). A respective mark-up was calculated for employers' social security contributions.

Liabilities for **holidays not taken** were determined on a pro rata temporis basis due to the deviating financial year. A respective mark-up was calculated for employers' social security contributions.

The **flexi-time surpluses** liability relates to employees' overtime account credits which are stated including employers' social security contributions.

Liabilities for Supervisory Board compensation amount to T€ 72 (PY: T€ 18).

The current portion of the purchase price liability for the acquisition of a further 10% stake in Print-Concept GmbH amounts to T€ 395.

### 37. Other Accruals

Other accruals developed as follows:

	As at 01/10/2009 T€	Utilisation T€	Release T€	Addition T€	For. currency effects 30/09/2010 T€	As at 30/09/2010 T€
Contractual obligations vis à vis third parties:						
Warranties and guaranties	389	107	4	190	1	470
Renovation costs	380	197	157	24	0	50
Invoices outstanding	982	646	112	549	7	781
Other	34	2	15	3	1	19
<b>Total</b>	<b>1,785</b>	<b>952</b>	<b>288</b>	<b>766</b>	<b>9</b>	<b>1,320</b>

Accruals for **warranties and guaranties** relate to warranties provided with or without a legal obligation to do so, and to the cost of reworking as a result of returns. As a general rule, the accrual is calculated at between 0.5% to 2 % of the risk-prone revenue, whereby the percentage rate is derived from historical values.

The previous year's amount of the accrual for **renovation costs** concerned renovation obligations following the vacating of rented business premises of Dr. Hönle AG at Gräfelfing and the former business premises of Panacol at Oberursel. The rental conditions were subject to new contractual regulations at the end of financial year 2009/2010 in the context of extension of the premises for Dr. Hönle AG, Gräfelfing. Within the scope of the new regulation, the lessor waived a claim to have the building restored to its original condition after leasehold improvements had been made. The expected renovation costs at the end of the contract period were re-assessed and an accrual amounting to T€ 150 concerning obligations from the rental relationship was released. A settlement payment of T€ 204 was made to the tenant with respect to the renovation obligation for the former business premises of Panacol GmbH in Oberursel in the current financial year.

An accrual for **invoices outstanding** was recorded for invoices received during the new financial year and relating to the reporting period. In addition, the item includes the expected cost of preparation and audit of the annual financial statements of consolidated companies and the consolidated financial statements, including publication. The amounts stated are based on agreed-upon supply conditions and arrangements.

The expected **outflow of cash** concerning these accruals is as follows:

	30/09/2010 As a %	30/09/2009 As a %
In the following year	96	74
In the following 2 - 5 years	0	13
In the following 6 - 10 years	4	13
	100	100

The expected cash outflow in the following 2 to 10 years relates solely to renovation costs up to the end of the contract term concerning the rented buildings.

### **38. Tax Accruals**

Tax accruals were set up at the amount of expected actual payment obligations concerning income taxes for both the financial year and previous years.

## **OTHER DISCLOSURES**

### **39. Contingent Liabilities**

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

No guaranties were extended to parties outside the Group.

### **40. Contingent Receivables**

There are no contingent receivables as defined under IAS 37.

### **41. Other Financial Obligations**

Other financial obligations of the Group are as follows:

	Annual obligation		Total obligation	
	30/09/2010 T€	30/09/2009 T€	30/09/2010 T€	30/09/2009 T€
Equipment lease agreements	326	264	625	437
Room rental contracts	1,451	1,718	14,635	5,988
	1,777	1,982	15,260	6,425

## 42. Management of Financial Risks

### Risk Management Principles

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

Since possible risks are considered to be low at present, no derivatives are applied as at the balance sheet date to limit financial risks within the Höhle Group.

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

### Liquidity Risks

Basically, liquidity risks relate to the Höhle Group not being in a position to comply with the obligations that result from financial liabilities.

One of the Höhle Group's management targets is a sustained increase in the operative cash flow. In this context, the liquidity situation is monitored on an ongoing basis.

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

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

As at 30/09/2010	Residual term of up to 1 year		Residual term of between one and five years		Residual term more than five years		Total amount	
	Interest	Repayment	Interest	Repayment	Interest	Repayment	Interest	Repayment
	T€	T€	T€	T€	T€	T€	T€	T€
Liabilities to banks	26	68	86	188	87	447	200	703
Trade accounts payable	0	2,689	0	0	0	0	0	2,689
Other financial obligations	11	3,708	2	256	0	0	12	3,964
Total	37	6,465	88	444	87	447	212	7,356

As at 30/09/2009	Residual term of up to 1 year		Residual term of between one and five years		Residual term more than five years		Total amount	
	Interest	Repayment	Interest	Repayment	Interest	Repayment	Interest	Repayment
	T€	T€	T€	T€	T€	T€	T€	T€
Liabilities to banks	28	451	94	188	106	494	228	1,133
Trade accounts payable	0	2,578	0	0	0	0	0	2,578
Other financial liabilities	20	3,180	13	571	0	0	33	3,751
Total	48	6,209	107	759	106	494	261	7,462

## **Credit Risks**

The credit risk refers to the default risk inherent in financial liabilities.

Amounts outstanding are continuously monitored within the course of receivables management. The financial performance of key account customers is also monitored on a permanent basis. Contracts are, in some instances, secured on the basis of credit information and instalment plans. Credit information is also obtained with respect to new customers or changes in the payment pattern.

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

Any default risks discernible as at the balance sheet date are subject to respective value adjustments.

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

Age structure of overdue receivables	Net	Thereof, not yet due	Thereof overdue but not value-adjusted		
	T€	T€	< 90 days T€	90 to 180 days T€	>180 T€
Trade accounts receivable	8,396	6,700	1,014	228	454

The other assets do not include any overdue items.

## **Market Risks**

The market risk is classified as currency, interest, and other stock price risks.

## **Currency Risks**

The Hönle Group is exposed to currency risks in as much as purchases are, in part, made in foreign currencies and re-sales are not made in the respective foreign currencies to the same extent. In addition, currency risks are associated with the fact that, within the scope of granting inter-company loans, the functional currencies of the companies involved do not correspond to one another.

Risks resulting from fluctuations in foreign currency receivables, liabilities, and from incomplete contracts and accrued and deferred items are largely associated with foreign currency transactions in US dollars, Swiss francs, and British pounds.

As at the balance sheet date, no rate hedging measures are taken with respect to these foreign currency positions.

If the euro had been stronger by 10 % relative to the Swiss franc, this would have improved the consolidated result by T€ 235 (PY: 297). A weakening of the euro in comparison with the Swiss franc would have led to a reduction in the consolidated result by T€ 288 (PY: T€ 363).

If, relative to the British pound, the euro had been stronger by 10%, the consolidated result would have deteriorated by T€ 14 (PY: T€ 36). A weakening of the euro in comparison with the British pound would have improved the consolidated result by T€ 17 (PY: T€ 44).

Had the euro been stronger by 10% in comparison with the US dollar, this would have led to a deteriorated consolidated result by T€ 23 (PY: T€ 17) whereas a weakening of 10% would have resulted in a T€ 28 (PY: T€ 21) improvement in results.

### ***Interest Rate Risks***

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

The interest rate risks to which the Höhle Group is exposed are considered to be immaterial.

All loans recorded as at the balance sheet date are subject to fixed interest agreements. The loans are valued at depreciated acquisition costs using the effective interest rate method. To this extent, a change in market interest rates has no impact on their valuation. Only current overdrafts and credit balances on current accounts bear variable interest rates. According to current information, however, market price changes concerning these financial instruments will not impact significantly on the results of the Höhle Group.

### ***Stock Price Risks***

According to IFRS 7, the impact of hypothetical changes in risk variables on financial instruments such as the development of stock prices must be disclosed. As at 30 September 2010, the Höhle Group did not hold any significant participations in other listed companies where price fluctuations would exert a substantial influence on results.

### **Other Disclosures on Financial Assets and Debts**

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

Book values: 30/09/2010	Loans and receivables T€	Financial assets available for sale T€	Amortised acquisition costs T€
Financial assets	0	244	0
Other non-current assets	91	0	0
Trade accounts receivable	8,396	0	0
Other current assets	719	0	0
Liquid assets	6,743	0	0
Non-current financial liabilities	0	0	891
Current financial liabilities	0	0	3,755
Trade accounts payable	0	0	2,689
<b>Total</b>	<b>15,949</b>	<b>244</b>	<b>7,335</b>
Amount of impairments recorded under profit or loss	-345	0	0
Net profit / loss	250	0	0
Total interest expense	0	0	-230
Total interest income	37	0	0

Book values: 30/09/2009	Loans and receivables T€	Financial assets available for sale T€	Amortised acquisition costs T€
Financial assets	0	241	0
Other non-current assets	177	0	0
Trade accounts receivable	7,678	0	0
Other current assets	491	0	0
Liquid assets	3,158	0	0
Non-current financial liabilities	0	0	1,253
Current financial liabilities	0	0	3,631
Trade accounts payable	0	0	2,578
<b>Total</b>	<b>11,504</b>	<b>241</b>	<b>7,462</b>
Amount of impairments reported under profit or loss	-422	0	0
Net profit / loss	212	7	0
Total interest expense	0	0	-146
Total interest income	100	0	0

The following table shows the market values and book values of financial assets and financial liabilities that are recorded at fair values upon initial recognition and which are subsequently stated at acquisition costs using the effective interest rate method:

	30/09/2010		30/09/2009	
	Market value	Book value	Market value	Book value
	T€	T€	T€	T€
Other current assets	91	91	177	177
Trade accounts receivable	8,396	8,396	7,678	7,678
Other current assets	719	719	491	491
Liquid assets	6,743	6,743	3,158	3,158
Non-current financial liabilities	891	891	1,253	1,253
Current financial liabilities	3,755	3,755	3,631	3,631
Trade accounts payable	2,689	2,689	2,578	2,578

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

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

Other non-current assets include fixed-interest bearing receivables. Market values are determined in consideration of interest rates, corresponding impairment of value, and individual criteria. Book values correspond to market values as at the 30 September 2010 balance sheet date.

Non-current financial liabilities include fixed-interest bearing liabilities and leasing liabilities. Non-current liabilities are valued by discounting contractual future cash flows over the contract term of the respective financial instruments.

Financial assets include shares of stock classified as “available-for-sale financial assets” in accordance with IAS 39 upon initial recognition and stated at fair value. Subsequent measurement of these financial assets is based on the provisions of IAS 39 and is continued at the fair value which corresponds to the stock exchange price as at the balance sheet date. The quoted market prices on active markets are subject to the first level of the fair value hierarchy.

Financial assets and financial liabilities measured at market value were not allocated to the other levels of the fair value hierarchy (2nd and 3rd level) in financial year 2009/2010.

#### **43. Consolidated Cash Flow Statement**

The cash flow statement shows the changes in the Group’s cash and cash equivalents during the financial year which resulted from an inflow and outflow of funds. In accordance with IAS 7 (Cash Flow Statements), cash flows are subdivided into operating, investing, and financing activities. Cash and cash equivalents in the reporting year encompass the liquid assets disclosed in the balance sheet.

Within the scope of financing activities, cash was used mainly for repaying current liabilities to banks in the amount of T€ 383 and for reduction of the leasing liability in the amount of T€ 103.

Cash used for investing activity mainly concerns investments in property, plant and equipment amounting to T€ 1,114 (PY: T€ 1,385), and in intangible assets in the amount of T€ 867 (PY: T€ 1,366). This item also includes payment of the purchase price instalment for the acquisition of a further 10 % stake in PrintConcept GmbH.

In the operating segment, the positive result for the year before minority shares and taxes in the amount of T€ 5,342 (PY: T€ -4,073) requires mention, which is fully reflected in the cash flows generated from operating activity.

#### **44. Segment Reporting**

Since the beginning of the financial year, disclosures concerning segment reporting are based on IFRS 8 provisions.

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

The Hönle Group is responsible for the “Equipment/Systems” and “Adhesives” segments. The core activities are as follows:

- Equipment and systems: development, production as well as sale & marketing of equipment and systems for curing and hardening.
- Adhesives: development, production as well as sales & marketing of adhesives

Other activities and other segments were not defined.

Segmentation is based on the data provided by the accounting departments of included legal entities.

The previous year’s figures were adjusted accordingly.

	Equipment and systems		Adhesives		Eliminations		Consolidated	
	as at	as at	as at	as at	as at	as at	as at	as at
	09/10	09/09	09/10	09/09	09/10	09/09	09/10	09/09
	T€	T€	T€	T€	T€	T€	T€	T€
<b>INCOME:</b>								
Revenues	38,510	32,206	16,114	12,778	0	0	54,624	44,985
Revenues with other business units	556	252	91	221	-647	-473	0	0
<b>Total sales</b>	<b>39,066</b>	<b>32,458</b>	<b>16,205</b>	<b>12,999</b>	<b>-647</b>	<b>-473</b>	<b>54,624</b>	<b>44,985</b>
<b>NET EARNINGS:</b>								
<b>Segment result (operating result)</b>	<b>4,508</b>	<b>-2,502</b>	<b>1,134</b>	<b>-847</b>	<b>-94</b>	<b>-589</b>	<b>5,548</b>	<b>-3,938</b>
Interest income	306	331	136	71	-408	-301	34	101
Interest expenses	475	417	163	131	-388	-301	250	247
Income from securities							10	11
<b>Earnings before tax and minority interest</b>							<b>5,342</b>	<b>-4,073</b>
Income taxes	1,004	190	174	79	0	-4	1,178	265
Deferred taxes	-911	52	299	-234	-30	-73	-642	-255
<b>Earnings before minority interest</b>							<b>4,806</b>	<b>-4,083</b>
<b>OTHER INFORMATION:</b>								
<b>Segment assets:</b>	31,656	28,845	14,701	13,401	-4,594	-5,899	41,763	36,347
Non-allocated assets:								
Financial assets							249	241
Non-current receivables							810	751
Tax refund claims							247	469
Deferred tax assets							1,365	719
<b>Consolidated assets</b>							<b>44,434</b>	<b>38,527</b>
<b>Segment debt</b>	<b>16,119</b>	<b>17,578</b>	<b>7,357</b>	<b>7,518</b>	<b>-12,597</b>	<b>-14,391</b>	<b>10,879</b>	<b>10,705</b>
Deferred tax liabilities							961	939
Tax accruals							1,019	297
Non-current loans							806	962
<b>Consolidated liabilities (current and non-current)</b>							<b>13,665</b>	<b>12,903</b>
<b>Investments:</b>	572	477	295	892	0	0	867	1,369
<b>Segment amortisation/depreciation</b>	858	753	316	406	0	0	1,174	1,159
<b>Non-cash expenses of the segment</b>	231	1,209	32	296	0	0	263	1,505

## **Geographical Information**

Sales revenues earned with external customers are allocated on the basis of the customers' location:

	2009/2010 in T€	2008/2009 in T€
Total revenues	54,624	44,985
Germany:	22,549	18,103
Other countries:	32,075	26,882
Thereof, France	9,614	7,680

In financial year 2009/2010, revenue in the amount of T€ 9,614 (PY: T€ 7,680) was earned in France, which corresponds to a share of 17.6% (PY: 17.1%) in total revenues.

Non-current assets are allocated as follows:

Germany:	T€ 13,016 (PY: T€ 13,242)
Other countries:	T€ 1,626 (PY: 1,734)

The "Equipment/Systems" segment respecting the region, Germany, includes sales revenues of T€ 8,488 which were generated with a major customer pursuant to IFRS 8.34.

Segment assets are defined as the sum total of intangible assets, property, plant and equipment, inventories, current receivables and liquid assets. Segment debt comprises non-current and current liabilities. Non-cash segment expenses take changes in pension accruals and changes in other accruals into account.

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.

### **45. Disclosures concerning Changes in the Context of Subsidiaries**

PrintConcept UV-Systeme GmbH, Kohlberg

Dr. Hönle AG acquired a 70 % stake in PrintConcept GmbH, Kohlberg near Stuttgart, on 1 January 2008. The purchase agreement also includes an obligation to acquire 10 % of the shares, at the beginning of 2009, 2010 and 2010 in each case.

Acquisition of the additional 10 % stake in PrintConcept GmbH in the year 2010, at a purchase price of T€ 263 led to a T€ 72 reduction in the minority interest. The difference of T€ 191 was debited to additional paid-in capital.

#### **46. Related Party Disclosures**

Related parties within the meaning of IAS 24 are named below. With respect to disclosures relating to the Board of Management and the Supervisory Board, reference is made to our comments in paragraph 47.

With respect to reportable business relationships, reference is made to our comments on individual balance sheet and income statement items. Costs were 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.

##### **- Controlled companies not included in the consolidated financial statements**

Solitec Gesellschaft für technischen Produktvertrieb mbH, Gräfelfing

##### **- Companies under the controlling influence of a member of the Group Supervisory Board:**

Dr. K. Hönle Medizintechnik GmbH, Kaufering

The annuity loan extended by Dr. Hönle AG to Dr. K. Hönle Medizintechnik GmbH is secured through guaranties issued by Prof. Dr. Hönle.

The residual book value of the loan amounts to T€ 137 (PY: T€ 195) as of 30 September 2010. The non-current portion is T€ 91 (PY: T€ 103). The current portion in the amount of T€ 46 (PY: T€ 92) is reported under the item "Other current assets" (cf. paragraphs 20 and 24).

The loan is interest-bearing at a rate of 6.5 % and is due to expire on 30 June 2013.

The annuity for the loan amounts to T€ 54, respectively, in the remaining years.

Interest income in the amount of T€ 10 (PY: T€ 16) is attributable to the loan extended to Dr. K. Hönle Medizintechnik GmbH.

See also paragraphs 12, 20, 23.

#### **47. Disclosures on Corporate Bodies**

##### **Management Board**

- Norbert Haimerl, (MBA) Diplom-Betriebswirt (FH)
- Heiko Runge, (Graduate Engineer) Diplom-Ingenieur (FH)

The Company is represented either by two Management Board members or by one member of the Management Board together with an authorised signatory (Proxy).

Management Board members are authorised to represent the Company without limitation when carrying out legal transactions where they themselves act as third party representatives.

Total remuneration for the Management Board members in financial year 2009/2010 amounted to:

Mr. Norbert Haimerl	T€	372 (PY: T€ 218)
Mr. Heiko Runge	T€	364 (PY: T€ 213)

Total compensation for the Supervisory Board amounted to T€ 126 (PY: T€ 18) in financial year 2009/2010.

Pension payments in the amount of T€ 12 were made to surviving dependants of former managing directors. These pension claims are covered by pension accruals in the amount of T€ 194 (cf. paragraph 30). Interest expense contains a portion of T€ 11 to this end.

### ***Supervisory Board***

- Dr. Hans-Joachim Vits, Wuppertal – Chairman,  
Lawyer, self-employed
- Prof. Dr. Karl Hönle, Dachau - Deputy Chairman  
Physicist, Professor of Technical Optics and Laser Technology at the Munich University for Applied Sciences (now emeritus status), Managing Director of Dr. K. Hönle Medizintechnik GmbH
- Eckhard Pergande, Seefeld  
Banker

None of the Supervisory Board members is represented on the Supervisory Board of any other company.

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

### ***48. Stock Option Plans***

Stock options are stated at fair value in accordance with IFRS 2. The fair value was determined at the option issue date. It is spread as personnel expense over the time of the respective service period and is booked against capital reserves. The Monte-Carlo simulation procedure is applied for fair value determination.

Individual stock options were issued within the scope of two different stock option plans (Stock Option Plan 2002 and Stock Option Plan 2004). Stock options from Stock Option Plan 2004 were issued on two different dates (1<sup>st</sup> tranche and 2<sup>nd</sup> tranche).

No stock options from Stock Option Plan 2002 were available as at the balance sheet date.

Options from Stock Option Plan 2004 cannot be exercised as at 30 September 2010 as performance targets were not achieved during the exercise period.

Stock Option Plan 2004 of 26 February 2004 is explained below:

The 2004 Shareholders' Meeting resolved on creating new, conditional capital ("Conditional Capital II") in order to enable the granting of share options to employees.

Stock Option Plan 2004 comprises a total of 160,000 subscription rights (total volume).

Subscription rights are granted as follows:

- A total of 120,000 subscription rights (75.0 %) are allocated to Dr. Hönle Aktiengesellschaft employees and employees of domestic and foreign affiliated companies
- A total of 20,000 subscription rights (12.5 %) are allocated to Management Board members of Dr. Hönle Aktiengesellschaft
- A total of 20,000 subscription rights (12.5 %) are allocated to management members of domestic and foreign affiliated companies of Dr. Hönle Aktiengesellschaft.

Subscription rights may be exercised within a period of six years. At most, each of the entitled persons may exercise 40 % of subscription rights after two years, a further 30 % after three years, and the remaining 30 % after four years.

During the maturity period, subscription rights may only be exercised if the average closing price of the Dr. Höhle AG shares in Xetra trade on the Frankfurt stock exchange has increased by an average of 10 % per year (“performance target”) in comparison with the reference value at the issue date (initial value”) during the period from the 6<sup>th</sup> to the 25<sup>th</sup> trading day (inclusive), prior to commencement of the relevant exercise period.

Other significant conditions of Stock Option Program 2004 are stated below:

- Stock Option Plan 2004 is due to expire at the end of Dr. Höhle AG’s 2009/2010 financial year.
- Subscription rights shall be granted within a period of four weeks following the Ordinary Shareholders’ Meeting of Dr. Höhle Aktiengesellschaft or following the announcement of an annual report, interim report, or quarterly report of the Company (“acquisition periods”).
- The price to be paid by the persons entitled to acquire shares (“exercise price”) represents the initial value less 75 % of the difference between the amount of the current market price and the indexed initial value; at a minimum, however, 65 % of the initial value or the minimum issue amount, whichever is higher.
- Subscription rights may be exercised subject to expiry of the waiting periods and subject to achievement of the performance target within four weeks following the day of the annual Ordinary Shareholders’ Meeting, or publication of the quarterly report for the third quarter of a given financial year (“exercise periods”).

The average closing price of the Dr. Höhle AG share, which is necessary to achieve the performance target, is known as the “indexed initial value”. If, during the maturity period, the performance target of subscription rights is exceeded at the beginning of an exercise period, it is not necessary for the performance target to be exceeded during further exercise periods in order to exercise the respective subscription right.

The current stock exchange price of the Dr. Höhle share is the determined arithmetical average closing price of the Dr. Höhle AG share in Xetra trade of the Frankfurt stock exchange during the period from the 6<sup>th</sup>, up to and including the 25<sup>th</sup>, trading day prior to commencement of the relevant exercise period.

Subscription rights are non-transferable and can only be exercised by persons entitled to these rights.

The Company may meet its obligations to procure shares after exercising the subscription period either by

- (1) issuing shares from the conditional capital created for this purpose, by
- (2) sale of own shares, by
- (3) payment of the difference per share between the exercise price and the current stock exchange price.

The shares to be acquired by those entitled within the scope of exercising an option are not subject to a blocking period with respect to sale.

The stock option program enables Dr. Höhle AG to service the options either in the form of shares or in cash at the time of their being exercised. Dr. Höhle AG decided to service the options through the issuance of shares from the conditional capital, which may lead to dilution of the shares.

Granting such option rights means that an increase in employee compensation for future job performance by the total value of the option at the granting date is agreed upon. The Company achieves compensation for the option (job performance) due to the job performed during the period after granting the

option up to the date of the earliest possible exercising of the respective tranche of options (vesting period).

For this reason, the additional paid-in capital (capital reserves) is to be built up on a prorated basis over the period during which employees perform their services.

In accordance with IFRS 2, stock options are reported at fair value. The fair value is determined at the time of option issuance and is distributed over the time of the respective vesting period and booked against capital reserves. The fair value is determined using the Monte Carlo simulation. Individual stock options were issued on two different dates (1st – 2nd tranche) which resulted in two different fair values.

From this stock option program, a total of 125,700 options were granted in two tranches in financial year 2003/2004. Of these initially granted 125,700 options, no more exercisable options exist as at 30 September 2010.

It was not possible to exercise the stock options as of 30 September 2010 since the reference stock price was below the performance target.

The following model parameters and premises were used to determine the option price concerning options that can still be exercised:

- (1) Initial value per share is € 8.12.
- (2) The term of the options extends over a period of six years due to the three vesting periods.
- (3) The market price of the underlying share is € 6.76 as of the issue date.
- (4) In accordance with IFRS 2, the fluctuation is to be determined on the basis of the number of expected valid option rights rather than on a fair value basis.
- (5) The future expected volatility of the stock price is 30%. Volatility was determined on the basis of historical volatility during the two previous years. The previous years were not included in determination of the historical volatility in order to exclude special influences.
- (6) An annual dividend payment of € 0.30 per share entitled to dividend is assumed.
- (7) The non-risk interest for the term of the option is 3.63%.

On the basis of the assumptions presented above, a fair value of € 1.79 was determined for an option.

No expense was recorded for the stock option program in the reporting year (PY: T€ 0).

The following overview reflects the portfolio development of stock options and the exercise prices valid at the respective issue dates concerning the 1st tranche of Stock Option Program 2004. There are no options outstanding for the second tranche.

## Stock Option Program 2004 (1<sup>st</sup> tranche)

1st Tranche	30/09/2010		30/09/2009	
	Weighted average exercise price per share in €	Number of options	Weighted average exercise price per share in €	Number of options
Options outstanding at beginning of reporting period	8.12 €	116,200	8.12 €	118,700
Options granted in the reporting period	0.00 €	0	0.00 €	0
Options expired in the reporting period	8.12 €	116,200	8.12 €	2,500
Options exercised in the reporting period	0.00 €	0	0.00 €	0
Options called in and reissued in the reporting period	0.00 €	0	0.00 €	0
Options outstanding at end of reporting period	0.00 €	0	8.12 €	116,200
Options exercisable at end of reporting period	0.00 €	0	0.00 €	0

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

In December 2009, the Management Board and the Supervisory Board of Dr. Hönle AG issued a Compliance Declaration as required under Section 161 AktG, and have provided shareholders with permanent access to it on the Company's Internet page at [www.hoenle.de](http://www.hoenle.de).

### 50. Annual Auditor's Fees

The annual auditor, AWT Horwath GmbH Wirtschaftsprüfungsgesellschaft charged the following fees for financial year 2009/2010:

	2009/2010	2008/2009
	T€	T€
Financial statements audit (individual and consolidated)	113	110
Tax consulting services	29	18
Other services	32	4
Total	174	132

## 51. Employees

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

	2009/2010	2008/2009
Sales & Marketing	66	63
Research, Development	41	44
Production, Service	88	92
Logistics	26	32
Administration	42	45
Total	263	276

## 52. Events after the Balance Sheet Date

Dr. Hönle AG acquired 51% of the shares and voting rights in UV-Technik Speziallampen GmbH, Wümbach, Ilmenau, with effect as of 1 January 2011. The acquisition date (1 January 2011) is the date of obtaining control, i.e., the possibility to determine the financial and business policy of the acquired enterprise. UV-Technik Speziallampen GmbH is included in the consolidated group as of 1 January 2011. At this date, Dr. Hönle AG exerts control in terms of IFRS 3 for the first time.

UV-Technik Speziallampen GmbH develops, produces, and markets uv systems and pertaining components, in particular in the water sterilisation segment.

The purchase price for 51% of the shares in UV-Technik Speziallampen GmbH amounts to T€ 820, whereby T€ 320 are provided in the form of liquid assets and T€ 500 through treasury shares.

Upon signature of the purchase agreement on 7 December 2010, Dr. Hönle AG acquired the right to purchase the residual 49% of shares in UV-Technik Speziallampen GmbH. In addition, Dr. Hönle acquired the right to purchase UV-Electronic GmbH, Durchhausen, which develops, manufactures and markets electronic power supplies for UV lamps.

UV-Technik Speziallampen GmbH was not required to prepare financial statements based on international accounting regulations. The purchase price is allocated to the identifiable assets, debts, and contingent liabilities at fair values within the scope of the purchase price allocation under IFRS 3 (rev. 2008). At the time of preparing the consolidated financial statements the respective figures were not yet available.

The information required under IFRS 3 (rev. 2008) is presented on the basis of the most recently available financial statements as at 31 December 2009, in accordance with German accounting provisions:

31 December 2009	
Fixed assets	T€ 756
Current assets	T€ 1,907
Equity capital	T€ 1,130
Outside capital	T€ 1,533
Sales revenues:	T€ 5,457
Net income for the year	T€ 255

In addition, Dr. Höhle AG acquired a further 35 % stake in Honle Spain S.A., Gavá, Barcelona. Consequently, since November 2010, Dr. Höhle AG has held 95 % of the shares in Honle Spain S.A..

A fire in an external warehouse destroyed parts of the inventory of Dr. Höhle AG in November 2010. Dr. Höhle AG assumes that the loss incurred is fully covered by fire and business interruption insurance and that delivery dates can be complied with despite the fire damage.

### **53. Consolidated Financial Statements - Signature**

Gräfelfing, 20 December 2010



Norbert Haimerl  
(Board of Management)



Heiko Runge  
(Board of Management)

# Financial Calendar

25 February 2011

**3 - Month Report 2010/2011**

16 March 2011

**Shareholders Meeting in Munich**

27 May 2011

**6 - Month Report 2010/2011**

25 August 2011

**9 - Months Report 2010/2011**

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Page 4: Drying equipment for the printing industry: Durst Phototechnik

Drying of coatings: inTEC GmbH Lackiersysteme

Surface disinfection: GRUNWALD GmbH

Son simulation: [www.digitalstock.de](http://www.digitalstock.de)

Page 5: Equipment for curing adhesives: LIMO/Markus-Steuer.de



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