

Corporate Governance Report

Statement pursuant to Section 161 AktG on the observance of recommendations concerning the German Corporate Governance Code by Dr. Hönle AG as at 1 December 2008

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 for 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. The companies may deviate from the recommendations but are required to make an annual disclosure concerning such deviations. 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. 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 6 June 2008 with respect to the following points:

Deductibles concerning D&O Insurance Policies

The German Corporate Governance Code recommends that an adequate deductible be stipulated in liability insurance policies which a corporation takes out for its Management Board and Supervisory Board members [Directors and Officers Liability Insurances, in short D&O insurance] (Code paragraph 3.8, sub-paragraph 2). Dr. Hönle AG is not of the opinion that such deductibles would improve the Management Board and Supervisory Board members' motivation and responsibility respecting their duties and functions. Dr. Hönle AG does not plan to alter its current D&O insurance contracts, which do not provide for deductibles concerning members of corporate bodies.

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 is comprised of two persons. The distribution of business and cooperation within the Management Board is governed, among other things, by the rules of internal procedure. 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.

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

In accordance with German Corporate Governance Code recommendations, when concluding Management Board contracts care shall be taken to ensure that payments - including fringe benefits - made to a Management Board member on 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 until 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.

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.

Age Limits concerning Supervisory Board Members

The German Corporate Governance Code recommends that age limits be defined for Supervisory Board members (Code paragraph 5.4.1, sentence 2). Dr. Höhle AG regards such a limitation as being an inappropriate limitation of the shareholders' right to elect Supervisory Board members.

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 company therefore intends to discontinue the practice of splitting up compensation for the Supervisory Board into performance-independent and performance-related components and to introduce fixed compensation for Supervisory Board members at its next General Meeting of Shareholders.

Accounting

The German Corporate Governance Code recommends that, prior to publication, half-year and quarterly financial reports shall be discussed with the Management Board by the Supervisory Board or its 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 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, and the interim report within a period of forty-five days, after the financial year-end (Code paragraph 7.1.2, sentence 4).

Dr. Höhle AG has already published preliminary figures for the financial year within ninety days after the financial year-end and intends to continue this practice in the future. However, in accordance with the Stock Exchange Directive for 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-year and quarterly financial reports are published within two months after the end of the reporting year, in accordance with the Stock Exchange Directive for Prime Standard Securities of the Frankfurt Stock Exchange.

Disclosure in accordance with the German Corporate Governance Code

The German Corporate Governance Code recommends that information on compensation, securities holdings and securities transactions of corporate bodies as well as on stock option programmes be provided in the Corporate Governance Report. In some instances, these disclosures must also be made in other sections of this Annual Report. In order to avoid repetition, corresponding details are to be found in the respective sections which are pointed out below.

Compensation of Management Board Members

The German Corporate Governance Code recommends that compensation for Management Board members be disclosed in a compensation report, which is part of the Corporate Governance Report (Code paragraphs 4.2.2 to 4.2.5). Within this context, the compensation system for Board members is to be described in a generally understandable way. Dr. Hönle AG discloses the Board compensation in detail in the Management Report of this Annual 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 5.4.7, sub-paragraph 3). Dr. Hönle AG discloses the compensation for Supervisory Board members in the Management Report of this 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, sub-paragraphs 1 and 3). Dr. Hönle AG publishes the securities transactions of executive staff on its homepage: www.hoenle.de under the column "Investor Relations", "Directors' Dealings".

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, sub-paragraphs 2 and 3). Dr. Hönle AG provides detailed disclosures concerning ownership of shares or related financial instruments in the Corporate Governance column in the chapter on "Securities Holdings and Subscription Rights of Corporate Bodies".

Stock Option Programmes

The German Corporate Governance Code recommends that information about stock option programmes and similar security-based incentive systems of the company be provided in the Corporate Governance Report (Code paragraph 7.1.3). Dr. Hönle AG deals with the stock option programmes in detail in the Notes to this Annual Report in the chapter: Stock Option Programmes.