

# Corporate Governance Statement

## Corporate Governance Report

### **Statement pursuant to Section 289f and Section 315d HGB on the observance of recommendations concerning the German Corporate Governance Code by Dr. Höhle AG as at 14 January 2019**

The German Corporate Governance Code presents essential statutory regulations governing the management and supervision of German listed companies and includes internationally and nationally recognised standards concerning corporate governance. The German Corporate Governance Code defines three different standards, namely regulations that describe current statutory law as well as recommendations and suggestions of the government commission.

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

Even though the Code is - in many cases - mainly directed at large companies, Dr. Höhle AG complies to a large extent with the recommendations of the German Corporate Governance Code. The "Government Commission on the German Corporate Governance Code" reviewed the Code and applied some changes. The company's past, present, and expected future practices deviate from the recommendations of the German Corporate Governance Code as amended on 7 February 2017 with respect to the following points:

#### **Deductibles concerning D&O Insurance Policies for the Supervisory Board**

The German Corporate Governance Code recommends that an adequate deductible be agreed when the company takes out a D&O [Directors and Officers Liability Insurance] insurance policy for the Supervisory Board (section 3.8 (3)). The D&O insurance policy for the Management Board includes a deductible in accordance with the statutory regulation. However, the insurance policy does not provide for a deductible for members of the Supervisory Board. The Management Board and the Supervisory Board continue to be of the opinion that responsible actions are a fundamental duty of all members of corporate bodies; therefore, there is no need for a deductible concerning Supervisory Board members.

### **Duties of the Management Board**

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

Section 4.1.5 of the German Corporate Governance Code stipulates that the Management Board shall lay down targets for the share of women presented in the two management levels below the Management Board. In accordance with the legal specifications of the German "Act on Equal Participation of Women and Men in Executive Positions in the Private Economy and Public Sector" dated 24 April 2015, the Management Board of Dr. Hönle AG specified such target figures. The Management Board defined that the minimum proportion of women represented in the first management level below the Management Board to be reached by 30 June 2022 shall be 25%. The figure corresponds to the current proportion of women at this level. In addition, the Management Board defined that the proportion of women in the second management level below the Management Board shall be at least 0%. Consequently, no deadline has to be specified for achieving the minimum share. The Management Board is of the opinion that personal qualifications and individual ability should be the determining factors for staffing executive positions and not gender.

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

The German Corporate Governance Code recommends that the Management Board shall have a chairman or a spokesman (section 4.2.1, sentence 1). At present, the Management Board of Dr. Hönle AG is comprised of two persons. The distribution of business and cooperation within the Management Board is governed, among other things, by the rules of internal procedure concerning the Management Board. Dr. Hönle AG does not have a Management Board chairman or a Management Board spokesman. Both Management Board members have been working together closely and successfully for years under this structure. Dr. Hönle AG does not deem it practical to change the Management Board structure.

### **Structure of the Management Remuneration**

The German Corporate Governance Code recommends that Management Board remuneration should include fixed and variable components. In this context, the variable remuneration components should principally be based on a multi-year assessment basis that shall essentially have forward-looking characteristics and not be payable in advance (section 4.2.3 para. 2). The Supervisory Board of Dr. Hönle AG does not believe that a multi-year and forward-looking basis of assessment increases the quality of the activity of the Management Board. The Management Board members of Dr. Hönle AG therefore receive fiscal year-related variable remuneration components that are capped as to their amount.

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

In accordance with German Corporate Governance Code recommendations, when concluding Management Board contracts, care shall be taken to ensure that payments - including fringe benefits - made to a Management Board member upon premature termination of his contract do not exceed the value of two years' remuneration, and compensate for no more than the remaining term of the contract. The severance payment cap shall be calculated on the basis of the total remuneration for the past financial year and, if appropriate, also the expected total remuneration for the current financial year (severance payment cap, section 4.2.3, para. 4). The Supervisory Board appoints the Dr. Höhle AG Management Board for a maximum term of office of five years. In the event of premature termination of Management activity, the respective employment contracts do not provide for a severance cap. The Supervisory Board principally considers the severance cap recommended by the German Corporate Governance Code in the event of a termination of Management Board activity to be problematic from a legal standpoint. If the Management Board activity is terminated for good reason for which the Management Board member is responsible, the respective member is not entitled to a severance payment. In the event of premature termination of Management Board activity without good cause, the employment contracts provide for the payment of Management Board remuneration up to the end of the contract term.

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

## **Disclosure of Management Board Remuneration**

The German Corporate Governance Code recommends that the benefits granted to each Management Board member shall be disclosed, including the maximum and minimum achievable remuneration components respecting variable remuneration components, as well as the allocation of fixed remuneration, short-term variable remuneration and long-term variable remuneration. Predefined model tables should be used to disclose this information (section 4.2.5, para. 3). Dr. Hönle AG publishes the remuneration paid to its Management Board members in accordance with the applicable provisions. The information is provided separately and broken down by fixed and performance-based remuneration components and pensions. Dr. Hönle AG does not believe that a change in the presentation of Management Board remuneration would improve the presentation's quality and comprehensibility.

## **Duties of the Supervisory Board**

Section 5.1.2 of the German Corporate Governance Code stipulates that the Supervisory Board shall determine targets for the share of women on the Management Board. In accordance with the legal specifications of the German "Act on Equal Participation of Women and Men in Executive Positions in the Private Economy and Public Sector" (Gesetz über die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst) dated 24 April 2015, the Supervisory Board of Dr. Hönle AG specified such target figures. The Supervisory Board defined an

achievable target figure of at least 0% for the share of women on Dr. Hönle AG's Management Board. Consequently, no deadline has to be specified for achieving the minimum share. The two Dr. Hönle AG Management Board members, Mr Haimerl and Mr Runge, have successfully managed the group for many years now. At present, it is not planned to expand the Management Board or to appoint new Management Board members. For this reason, no minimum target in excess of 0% for the share of women on the Management Board is to be specified. The Supervisory Board will base the selection of Management Board members on the candidates' qualifications and individual competence in the future also. The Supervisory Board believes that decisions respecting the staffing of vacant Management Board positions should be based on suitability considerations alone and not on gender or age.

## **Formation of Supervisory Board Committees**

The German Corporate Governance Code recommends that the Supervisory Board shall form committees with sufficient expertise, in particular an audit committee and a nomination committee (section 5.3). At present the Dr. Hönle AG Supervisory Board consists of three members. Decision-making committees must also consist of three members. In view of the size of the Dr. Hönle AG Supervisory Board, no committees are formed at present.

## Composition of the Supervisory Board

The German Corporate Governance Code issues specific recommendations regarding the composition of the Supervisory Board. In so doing, the Code recommends, among other things, that age limits shall be specified for members of the Supervisory Board and that a limit respecting the length of tenure shall be stipulated for Supervisory Board members, and that the principle of diversity be observed (section 5.4.1, para. 2). In addition, the Supervisory Board shall determine specific objectives regarding its composition and shall prepare a profile of skills and expertise for the entire Board (section 5.4.1 para. 2). The status of the target-setting process for the composition and the profile of skills and expertise is to be published in the Corporate Governance Report. Moreover, the corporate governance report is also to provide information on what the Supervisory Board regards as the appropriate number of independent Supervisory Board members representing shareholders, and disclose the names of these members (section 5.4.1. para. 3). The composition of the Supervisory Board shall also account for the company's ownership structure (section 5.4.2). The Dr. Hönle AG Supervisory Board consists of three members. Dr. Hönle AG is of the opinion that personal qualifications and individual competence should be the determining factors regarding the composition of the Supervisory Board rather than age, gender, ownership structure or similar aspects. Dr. Hönle AG's Supervisory Board did not specify any fixed limitations respecting age or length of appointment for its members. Dr. Hönle AG regards such a limitation as being an

inappropriate limitation of the shareholders' right to elect Supervisory Board members. Consequently, the Supervisory Board has not defined specific objectives and profiles of the required skills and expertise concerning the composition of the Supervisory Board in terms of the Code. For this reason, Dr. Hönle AG will not publish the objectives of the composition of the Supervisory Board, information on compliance with the profile of the required skills and expertise or the status of implementation in the Corporate Governance Report. The same applies with respect to the number of independent Supervisory Board members and the disclosure of their names.

Since the Dr. Hönle AG's Supervisory Board has only three members who introduce themselves in detail to the Annual General Meeting and answer the questions raised by the Annual General Meeting prior to their election to the Supervisory Board, Dr. Hönle AG, so far, has refrained from adding a curriculum vitae to the respective proposal for Supervisory Board candidates and from publishing and updating it annually on the company's website.

In accordance with the specifications stipulated in the German "Act on Equal Participation of Women and Men in Executive Positions in the Private Economy and Public Sector" (Gesetz über die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst) dated 24 April 2015, however, the Supervisory Board of Dr. Hönle AG specified a target figure for the share of women on the Supervisory Board. Since Dr. Hönle AG is not subject to the German Co-Determination Act (Mitbestimmungsgesetz), its

Supervisory Board does not have to comprise at least 30% women and at least 30% men. The Dr. Hönle AG Supervisory Board defined that the target figure to be achieved for the share of women on the Supervisory Board shall be at least 0%. Consequently, no deadline has to be defined for achieving the target figure. The present Supervisory Board members of Dr. Hönle AG were re-elected at the Annual General Meeting held in March 2015 for a tenure of five years. The Supervisory Board is of the opinion that it is currently not practical and not necessary to expand the Supervisory Board. Consequently, a target figure in excess of 0% for the share of women on the Supervisory Board is not to be specified for the current tenure of the newly elected Supervisory Board. In the event that a member of the current Supervisory Board should resign from office before the end of tenure, Dr. Hönle AG will propose the most suitable candidate for election to the Supervisory Board.

## Accounting

The German Corporate Governance Code recommends that the Management Board shall discuss the interim financial information with the Supervisory Board or its Audit Committee prior to publication (section 7.1.2, sentence 2). Within the scope of an efficient publishing process, Dr. Hönle AG has already published interim financial information (interim reports) in the past without extensive preliminary discussions with the Supervisory Board, and the company intends to continue this practice in the future also.

Furthermore, the German Corporate Governance Code recommends that the consolidated financial statements and group management report shall be publicly accessible within a period of 90 days from the financial year-end, and the mandatory interim financial information (interim reports) within a period of 45 days from the financial year-end (section 7.1.2, sentence 3). As in the past, Dr. Hönle AG will, in the future also, publish preliminary figures for the financial year within a period of 90 days. However, in accordance with the Stock Exchange Directive regarding Prime Standard Securities of the Frankfurt Stock Exchange, the Annual Report is published within four months after the end of the reporting period. The half-yearly reports and quarterly statements are published within two months after the end of the reporting period, in accordance with the Stock Exchange Directive of the Frankfurt Stock Exchange. The shortening of the publication dates would increase administrative expenses to an inappropriate extent. The publication dates will thus remain unchanged until further notice.