



Non-Financial Statement

2018/2019

**hönle**group

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# Non-Financial Statement

in accordance with the requirements of § 289b in conjunction with § 315b German Commercial Code (HGB)

## 1. Explanation of the Business Model

The Dr. Höhle AG is a listed technology company based in Gräfelfing near Munich. The Höhle Group is divided into the three business units Adhesives, Equipment & Systems and Glass & Lamps. The adhesives segment includes industrial adhesives for a wide range of applications, including electronics, medical technology, optics and the automotive sector. The devices and systems are used in drying inks and coatings, in adhesive and plastic curing as well as in surface disinfection and sunlight simulation. The Glass & Lamps segment comprises quartz glass tubes and rods for the semiconductor, glass fibre and lamp industries as well as spotlights for water sterilization and the drying of coatings and adhesives.

Höhle is an international group of companies with 19 subsidiaries. Höhle has its own locations abroad in those countries that play a key role in operational business. It also has an international network of sales and service partners. Höhle has its own production sites in Germany, Malta and the USA.

The aim of corporate activity is to work towards the sustainable growth of the company's value. The Höhle Group also wants to live up to its responsibility towards the environment, its employees, customers, suppliers and investors. Höhle strives to consolidate and expand its market position in its core business areas, focusing in particular on customer-specific system solutions. We see ourselves as partner of the industry.

The internal company management system essentially consists of regular board meetings, a monthly analysis of business development, strategic corporate planning, quality management, investment, personnel and acquisition planning, risk and opportunity management and regular reporting to the supervisory board. Höhle management's operational goal is to sustainably increase sales, earnings and cash flow, taking into account ecological and social aspects. Key financial figures in this context are the operating margins, in particular the EBIT margin.

Hönle therefore constantly monitors the development of sales and the expense ratios and compares these with the internal planning. Great emphasis is also placed on increasing the operating cash flow of the Hönle Group.

## **2. Environment and Social Aspects**

### **2.1. Environmental Aspects**

The increase of the world population and the growing prosperity contributes to an increasing demand for resources. Therefore it is a central task for companies and consumers to handle resources and our nature with care and responsibility.

In order to protect the environment and to meet our social and legal obligations and to actively shape a sustainable future, Dr. Hönle AG defined the following guiding principles.

The creation of awareness to protect the environment and the careful use of resources is integrated into our processes along our value chain.

We prefer to reduce the environmental impact in the beginning and to avoid the generation of waste as much as possible instead of it later disposal. To implement this, we work closely with our partners such as customers, suppliers, logistics and waste disposal companies.

In our product development, we prefer to use reusable materials for our devices and systems. We want to enable environmentally friendly disposal and reuse of raw materials.

As technological change advances, our company is in a continuous change process, for what reason we are constantly developing our processes and procedures. Our employees are important for the further development of our methods for an active environmental protection.

We maintain an open suggestion system so that they can get involved and actively shape our approach to environmental protection. Every employee should point out measures to improve environmental protection and save resources.

With the introduction of the environmental management system, we are stepping up our efforts for effective and sustainable environmental protection. Dr. Hönle AG has a certified environmental management system in accordance with ISO 14001 since 2018.

By installing a photovoltaic system at our location in Malta, we contribute to environmental protection. The system has an output of 197 kWp and generates electricity from sunlight, which can be used by the user or fed into the public power grid. The emission of greenhouse gases and other air pollutants is significantly reduced compared to the generation of electricity from fossil fuels. With this system, Hönle reduces greenhouse gas emissions by 176,067 kilograms per year<sup>1</sup>.

The new Hönle Group headquarters is currently under construction at the Gilching site near Munich. The real estate complex consists of a logistics as well as an office and production building. The properties should be ready for occupancy in 2020 respectively 2021. When creating the new building, we pay attention to a sustainable construction. The new headquarters is heated with geothermal energy and cooled with groundwater. A special ventilation concept is used to air-condition the production area. A photovoltaic system will be installed on the roof of the logistics building. This has an output of 200 kWp and will realise the saving of 153,527 kg<sup>1</sup> of greenhouse gases each year in the future.

\* ) Source: own calculations; Fraunhofer ISE, [www.solarserver.de](http://www.solarserver.de)

### **2.1.1. Technology and Products**

UV technology is one of the core competencies of the Hönle Group. Hönle UV dryers are used in a wide variety of printing and coating applications. Compared to conventional thermal drying processes, UV technology is usually characterized by a significantly better environmental compatibility. The more favourable energy balance speaks for the use of modern UV dryers compared to conventional infrared and hot air dryers. In addition, the high quality and scratch resistance of the end products contribute to reduce repair work due to mechanical stress.

The use of UV technology also saves a considerable amount of environmentally harmful solvents. The Federal Immission Control Ordinance limits the emission of volatile organic compounds (VOCs). The use of UV inks and coatings is an alternative to comply with the requirements of this directive. The process of further limitation of emissions, for example in the form of the VOC and NEC Directives (the National Emission Ceilings Directive), continues on a transnational basis. Therefore, there are good opportunities for the further spread of UV technology in the areas of printing, paint and coating in the future as well.

In addition to UV discharge lamps, Hönle offers an ever-expanding range of UV LED systems. By using LED lamps the already good energy balance of UV technology increases again. Compared to conventional discharge lamps the power consumption of LED systems is reduced and the life of the lamps is significantly increased at the same time. With its compact dimensions and flexible arrangement they can ideally be adapted to any application. For these reasons, the Hönle Group invests in production facilities as well as in development and production staff for innovative UV LED systems.

Another business area of the Hönle Group is the purification of drinking water and sewage as well as the treatment of ballast water on ships. The ultraviolet rays ensure very high germ killing rates, the use of chemicals is minimized or can be completely eliminated. For example, at the outflow of sewage treatment plants microorganisms are killed without chemicals in an environmentally friendly manner. With the help of UV technology waters are protected and their self-cleaning powers are maintained or restored.

In 2017 the international ballast water convention came into force, which is implemented in national laws, for example in Germany in the ballast water law. The agreement regulates ballast water management in maritime shipping. UV-Technik Speziallampen GmbH and Aladin GmbH offer appropriate UV systems for water purification on ships. They represent an environmentally friendly alternative to the chemical treatment of ballast water.

According to the recent decision of the Maritime Environment Protection Committee (MEPC) and the International Maritime Organization (IMO), all vessels must be equipped with ballast water treatment-systems not later than 2023. This intends to put a stop to the worldwide carry-overs of alien species while charging and discharging ballast water in ships.

In the field of surface disinfection, UV treatment also has been used successfully worldwide for decades in the food industry, for example. It has many advantages compared with chemical disinfection methods. This eliminates the need for transport and storage, and overall the disposal of chemicals. The formation of health-critical disinfection by-products is omitted. In addition, aesthetic characteristics, such as taste, smell or colour of the food, are not impaired.

In the field of industrial adhesives, the Hönle Group also contributes to environmental protection. In addition to the usual adhesives, the product range also includes UV- and light-curing adhesives with which the drying process takes place without emission of solvents. The adhesives react to the radiation, the molecules crosslink and harden in seconds, which makes the use of solvents unnecessary. UV and light-curing adhesives are therefore characterized by good environmental compatibility.

Raesch Quarz (Germany) GmbH produces high quality quartz glass products for industrial applications. In melting furnaces, different quartz sand mixtures are used to create products for the processing industry. Its customers include the lighting, semiconductor, automotive supply, glass fibre and water treatment industries. To melt the sand high temperatures are needed. The energy required for this melting process is correspondingly high.

In the sense of sustainable and environmentally conscious action, the company introduced a certified energy management system (EnMS). Energy management is based on a systematic approach based on the DIN EN ISO 50001 standard. The aim is to increase energy efficiency and thereby increase competitiveness. This not only brings economic benefits, but also makes an important contribution to climate protection. In order to reduce energy consumption, high-quality insulation granulate materials have been used in the energy-intensive melting furnaces of Raesch Quarz (Germany) GmbH since 2014.

### 2.1.2. Research and Development

Developing new products may help increase energy efficiency and reduce energy costs. With our solutions, which are often individually adapted to the requirements of our customers, we contribute to the resource-saving handling and help reducing the carbon footprint of our customers.

The number of employees and research and development expenses developed as follows in the previous three years:

	2016/2017	2017/2018	2018/2019
employees	74	80	87
employees in %*	13.1	12.9	14.1
Development expenses	4,844	5,610	6.087

\* ) Average number of employees in the R & D departments

The following is a selection of R & D activities in the last fiscal year:

#### 2.1.2.1. Adhesives Segment

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

#### 2.1.2.2. Equipment & Systems Segment

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



### *2.1.2.3. Glass & Lamps Segment*

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

## **2.2. Employee Matters**

Our employees are the fundamental and at the same time most important resource for the economic success of our company. Personnel work includes all employee-related measures to achieve the Group's goals. It includes recruitment, promotion of employees, employee protection, personnel development and employee retention.

### **2.2.1. Working Conditions**

Hönle competes for specialists and executives. In particular, the market for skilled workers and engineers is contested. The attractiveness of the employer is of great importance in the decision-making process of the applicants. Hönle therefore attaches great importance to a good working atmosphere, targets further education measures as well as in-house training and offers promising career prospects. Furthermore, Hönle works closely with selected universities and offers bachelor's and master's theses as well as internships. Hönle also counteracts the shortage of skilled workers through its own vocational training. The training offers in the commercial sector have been significantly expanded in recent years. As in the previous year, the number of apprentices was 39. The Hönle Group is currently forming among others office clerks, chemical laboratory technicians, IT specialists, warehouse logistics specialists, electricians, electronic technicians, glassware builders, industrial clerks, industrial mechanics and mechatronics technicians. It also gives interns and undergraduates the opportunity to gain a deeper insight into a technology company. We support the exchange of apprentices within the Group companies. This professional exchange within the group, nationally and internationally, should help to ensure that apprentices can gain valuable experience during their training.

Personnel development is an essential task for the Hönle Group. Employee evaluation and the agreement of target agreements form the basis for the individual promotion and development of our employees.

We offer all employees the opportunity to participate in further education measures. Here we rely on internal experts from the individual departments as well as external service providers. The training courses include, for example, foreign languages, office applications, subject-specific fields of activity, or the subject area of social skills. Through individual support, we increase the motivation of our employees and promote innovation which are the basis for new and competitive products.

We offer promising career prospects to employees. If suitably qualified, employees within the Hönle Group can continue to develop and face new professional challenges. Senior positions are preferably filled internally.

In addition to interesting tasks and good development opportunities, Dr. Hönle AG also offers its employees attractive conditions. In addition to an appropriate salary, this includes, for example, a continuous salary development, a success-oriented employee profit sharing, and an occupational pension scheme. In addition, there are also variable compensation components for some positions.

Satisfied and motivated employees are an essential basis for the long-term success of our company. We value open, fair and respectful communication. Human resources work is aimed at promoting this culture and thus positively influencing the attractiveness as an employer. This also includes structured employee appraisals or joint activities. The Dr. Hönle AG regularly organizes company outings and Christmas parties and, for example, participates in running events in order to strengthen interdisciplinary communication and cooperation.

### **2.2.2. Health and Safety at Work**

The safety and integrity of our employees are important to us. That is why we at our sites make sure that we comply with all legal requirements for occupational safety and fire protection. We implement various measures that help to increase occupational safety and prevent accidents. The basis therefore are risk assessments which are carried out in the various branches and departments and from which, whenever necessary, measures for occupational safety are derived. Especially in the production area, the employees are informed about the dangers at their workplaces and permanently trained individually. In addition to the stress on physical health associated with the individual activity, the risk assessment also includes possible effects on the psychological constitution of the employees.

Also, the design of the workplace is an important criterion to keep the burden on the workers as low as possible. This is about ergonomic issues, the lighting of the workplace and the limitation of noise and emissions in order to keep the physical strain as low as possible.

### **2.2.3. Equal Opportunities and Diversity**

It is our goal to give all employees the same appreciation - regardless of age, nationality, skin colour, gender, religious or political attitude, social origin, disability or sexual orientation. Decisive for the assessment of the employees are rather their professional and personal qualification as well as their work input. In personnel decisions such as recruitment, promotions, compensation and dismissals, we are guided by these principles. We value the differences and diverse qualities of our employees. We cultivate an open, fair and respectful way of dealing with each other.

Unfair treatment or unjustified discrimination of employees will not be tolerated. If necessary, misconduct will be addressed promptly with appropriate measures.

In accordance with paragraphs 4.1.5 and 5.1.2. of the German Corporate Governance Code targets are set for the proportion of women on the Supervisory Board and in the management levels of Dr. Hönle AG. This was done by the Management Board and the Supervisory Board of Dr. Hönle AG in compliance with the provisions of the Act on Equal Participation of Women and Men in Management Positions in the Private Sector and Civil Service of 24th April 2015.

The following target figures for the proportion of women were set:

- at least 0% on the Supervisory Board
- at least 0% on the Management Board
- at least 25% in the first management level below the Management Board until 30th June 2022; this corresponds to the current proportion of women at this level
- at least 0% in the second management level below the Management Board

We believe that personal qualifications and individual ability, but not gender, are crucial in filling governance and leadership positions. The two board members of Dr. Hönle AG, Mr. Haimerl and Mr. Runge, have been successfully managing the Group for many years. The Supervisory Board plans to add another person to the current board to three members then. The Supervisory Board will orientate itself on the qualification and the individual abilities of the candidate both in the selection of the planned third board member as well as in the future selection of board members in general. The Supervisory Board believes that decisions respecting the staffing of vacant Management Board positions should be considered based on suitability alone and not on gender or age. Despite the planned expansion of the board to three people, there are currently no plans to raise the existing target for the proportion of women on the board by at least 0%.

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

### **2.3. Social Aspects**

The Hönle Group consists of several internationally active individual companies. Each location has different framework conditions. The social engagement takes place regionally on own initiative, however in agreement with the company headquarters.

Hönle is involved in professional associations and universities. For example, we work together with Munich University of Applied Sciences and have been sponsors of the annual alumni celebration for many years. We offer school and university internships, giving young people and young adults the opportunity to get to know different occupations and gain relevant experience.

As digitalization and interconnectedness in the world increase, the legal requirements for the protection of personal data have increased. Since 25th February 2018, the requirements of the General Data Protection Regulation (DSGVO) must be complied with. To ensure that the basic European data protection regulation is implemented at Hönle, we have created a comprehensive data protection concept and also appointed an external data protection officer. We are committed to protecting privacy and keeping personal information confidential. To avoid loss or misuse of the information we hold, we take extensive technical and operational safety precautions, which are regularly reviewed and adapted to technological progress. Personal data that we collect and store will be processed in accordance with applicable data protection regulations.

### **2.4. Respect for Human Rights**

We advocate for the protection of human rights and distance ourselves from child and forced labour. We respect the principles of the Global Compact Initiative of the United Nations and also commit our suppliers to comply with them. These mainly concerns the protection of international human rights, the right to collective bargaining, the exclusion of forced labour and child labour, the exclusion of discrimination in recruitment and employment, the responsibility for the environment and the prevention of corruption. Further information on the Global Compact Initiative is available at [www.unglobalcompact.org](http://www.unglobalcompact.org).

It must be the goal of our suppliers that all subcontractors and suppliers of the suppliers also contractually agree to comply with these regulations. Since there is no contractual relationship between Hönle and the subcontractors, direct access is not legally possible and is therefore not under our control.

Furthermore the Dr. Hönle AG insists that its suppliers, only supply products to Dr. Hönle AG and its subsidiaries that do not contain any conflict minerals in the sense of the current version of the Dodd-Frank Act. This applies in particular to tantalum, tin, gold and tungsten from the Democratic Republic of the Congo or its neighbours.

## **2.5. Combating Corruption and Bribery**

The fight against corruption and bribery does not play a significant role for Hönle due to the structure of the business model. Most of our suppliers come from countries that are not vulnerable to corruption and bribery. The relationship with our business partners is based on the quality of our products and services, reliability and market prices, and conditions. Clear transparency and internal control mechanisms ensure adequate protection.

## **3. Explanations**

### **3.1. Concepts and Goals**

Due to its importance and relevance to the Hönle Group, responsibility for the objectives lies directly with the Executive Board. The non-financial goals and rules of conduct are reviewed regularly. This also applies to the significant non-financial performance indicators mentioned in this report. The performance indicators were recorded as part of a systematic analysis and evaluated for their materiality for Hönle.

As an international group of companies, our actions must be consistent with laws and regulations in different countries. In addition, we pay attention to voluntary rules of conduct which are binding for us. These include the environmental policy of Dr. Hönle AG and the principles of the UN Global Compact Initiative. Furthermore, Hönle ensures that their products contain no conflict minerals in the sense of the Dodd-Frank Act.

### **3.2. Non-Financial Performance Indicators**

The most significant non-financial performance indicators relevant to the Hönle Group's business activities are shown below:

- environmental aspects
  - o technology and products
  - o research and development
- labour aspects
  - o working conditions
  - o health and safety at work
  - o equal opportunities and diversity
- social aspects
- respect for human rights
- combating corruption and bribery

### **3.3. Significant Risks**

Entrepreneurial opportunities usually face risks that need to be identified and assessed as early as possible. The risk policy of Dr. Hönle AG defines risk policy principles. Opportunities and risks, in the sense of risk management, mean possible positive or negative deviations from a plan or goal. In order to identify, analyse and assess risks at an early stage, Hönle has established a standardized risk management system. The risk management process envisages, after the identification of risks, whenever appropriate, to take appropriate measures to avoid the risk or to reduce the potential loss amount.

With regard to non-financial aspects, no significant risks could be identified that are related to our own business activity and that are very likely to have or will have a serious negative impact on non-financial performance indicators.



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