HARTMANN

Going further for health –
for everyone, everywhere, at all times

Inform

Information for our shareholders for the third quarter of 2016

Dear Sir or Madam,

So far, in the 2016 financial year the HARTMANN GROUP has again brought a series of innovations to the market. A good and far-sighted investment when you look at how sales have developed in the core medical segments, where product and service innovation have gained in significance as a growth driver. No matter whether we are talking about HydroTherapy and Vivano in our Wound Management segment, or MoliCare in our Incontinence Management range or the Evolution Concept for hand disinfection, it is clear that solutions and products that combine better healthcare with a particularly high level of cost-effectiveness are always in great demand.

The most recent example of this can be seen in the case of Veroval® self-testing kits, pharmacy sales starting positivley. That is no coincidence because more and more people these days are actively concerning themselves with their health and placing their trust in reliable medical self-testing kits as an extra precaution in addition to consulting a doctor. In future, too, we will continue to carefully monitor trends in the healthcare market and develop customized solutions.

That is what makes us successful: In the first nine months of 2016, the HARTMANN GROUP achieved a 2.2% increase in sales revenues to EUR 1,468 million, with organic growth amounting to 3.5%. EBIT rose by 4.9% to EUR 103.5 million while the Group's consolidated net income came to EUR 68.2 million, having increased by as much as 14.1% compared to the same nine-month period in 2015. With our equity ratio remaining high and net liquidity increasing by almost EUR 50 million in the third quarter, we can look towards the future challenges ahead with confidence.

Yours sincerely,

PAUL HARTMANN AG

Andreas Joehle

Stephan Schulz

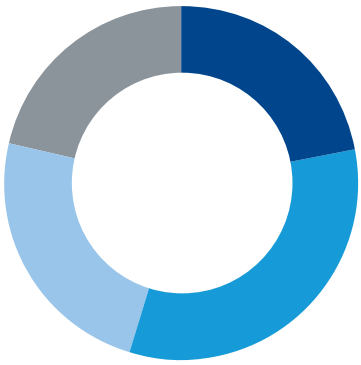
HARTMANN is a leading international manufacturer of medical and hygiene products. In a world that addresses and manages health matters ever more comprehensively and professionally, we offer our customers simple and effective solutions for the benefit of patients. This is expressed in our brand promise of "Going further for health". At the core of our portfolio, we offer professional systems for wound treatment, incontinence care and infection prevention, supplemented by a range of consumer-oriented medical lines as well as care and cosmetic products.

Key performance indicators of the HARTMANN GROUP as of September 30

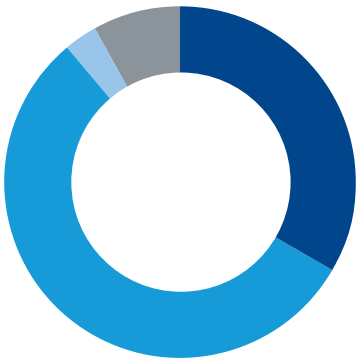
in EUR million	**2015**	**2016**	**Changes compared to previous year** absolute	in %
Sales revenues	1,435.8	1,467.7	31.9	2.2
of which outside Germany in %	66.6	66.4		
EBITDA	140.0	147.2	7.2	5.2
Return on EBITDA in %	9.7	10.0		
EBIT	98.7	103.5	4.8	4.9
Return on EBIT in %	6.9	7.1		
Consolidated net income	59.8	68.2	8.4	14.1
Net return on sales in %	4.2	4.6		
Equity ratio in %	56.4	56.8	+0.4% points	0.7
Net financial position	19.7	71.8	52.1	264.6

Financial performance in the first three quarters of 2016

Share of total sales by business segment
in EUR million and percent



Share of total sales by region
in EUR million and percent



Innovative products bolster sales growth

The HARTMANN GROUP has again continued to achieve growth in the third quarter. In the first nine months of 2016, compared to the same period in the prior year, gross sales revenues grew by 2.2% to EUR 1,467.7 million. Without taking into account the effect of exchange rates, divestments and acquisitions, the Group achieved organic growth of 3.5%.

Compared to the same nine months last year, the Wound Management segment achieved revenues of EUR 323.2 million. The segment's organic growth of 3.7% was mainly due to the continuing success of our HydroTherapy treatment concept and much higher sales of our negative-pressure wound therapy system (Vivano). In Personal Health Care, the Veroval® self-testing kits that we launched in April 2016 made a contribution to the growth in sales. Sales of thermometers also exceeded the previous year's figures.

The Incontinence Management segment saw a sales rise of 0.3% to EUR 480.9 million which was therefore in the same region as last year. Although there was organic growth of 1.9%, this was offset by the adverse effects of currency factors. There were positive developments in unit sales of medical skincare products in particular and of MoliCare Mobile and MoliMed incontinence briefs.

The Infection Management segment achieved an increase of 2.3% in sales revenues to EUR 352.0 million. The segment's organic growth came to 3.3% which was somewhat higher than in the first six months of the year. With its surgical dressing materials and disposable surgical instruments, the segment continued along its successful path. Otherwise, products for hand disinfection – boosted by the active marketing of our Evolution Concept, a program aimed at increasing hand hygiene compliance in hospitals – and for surface disinfection also contributed to the rise in sales revenues.

The Other Group Activities segment saw sales climb by 6.1% to EUR 311.6 million, with organic growth amounting to 6.3%. In the period under review, the core medical business segments accounted for 78.8% of the HARTMANN GROUP's total sales revenues.

Organic growth in all key sales regions

In Europe, the HARTMANN GROUP's sales went up by 2.8%. The German market, which with a volume of EUR 492.8 million accounts for a good third of the Group's total sales, grew at a rate parallel to the rest of Europe (2.8%). Outside of Germany, sales correspondingly increased by 2.7% to EUR 811.6 million. The western and southern European countries grew at a faster pace than the European average rate, while much of the organic growth in Eastern Europe was eroded by the unfavorable trend in exchange rates. In the sales markets outside of Europe, exchange rate developments actually even outweighed the organic growth achieved, with the result that sales revenues here went down by 1.8%. Whereas sales in the Africa, Asia and Oceania region remained practically the same (developing by 0.7%), the Americas on the other hand recorded a drop of of 7.5%, related to portfolio adjustment of EUR 47.5 million. This nevertheless shows a positive tendency compared to the development seen in this region in the first six months of the year.

Disproportionately high growth in EBIT and consolidated net income

The HARTMANN GROUP's EBIT came to EUR 103.5 million, which is 4.9% higher than for the equivalent nine-month period in 2015. EBITDA also showed a distinct upward trend, rising by 5.2% to EUR 147.2 million. This was mainly because the rise in the cost of materials was disproportionately low, reflecting the success of the measures taken to improve efficiency all the way along the value-added chain. At EUR 68.2 million, the consolidated net income was 14.1% higher than for the same period in 2015.

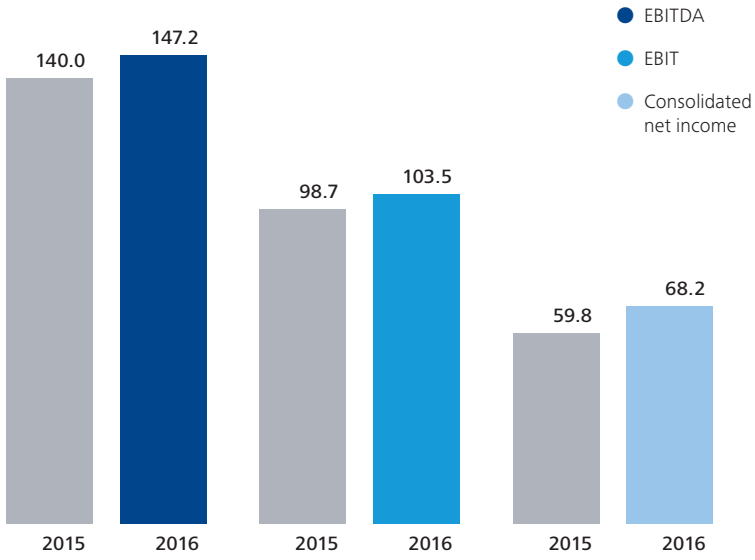
Greater net liquidity and a high equity ratio

The HARTMANN GROUP shows positive net liquidity of EUR 71.8 million as of September 30, 2016. The equity ratio amounted to 56.8%.

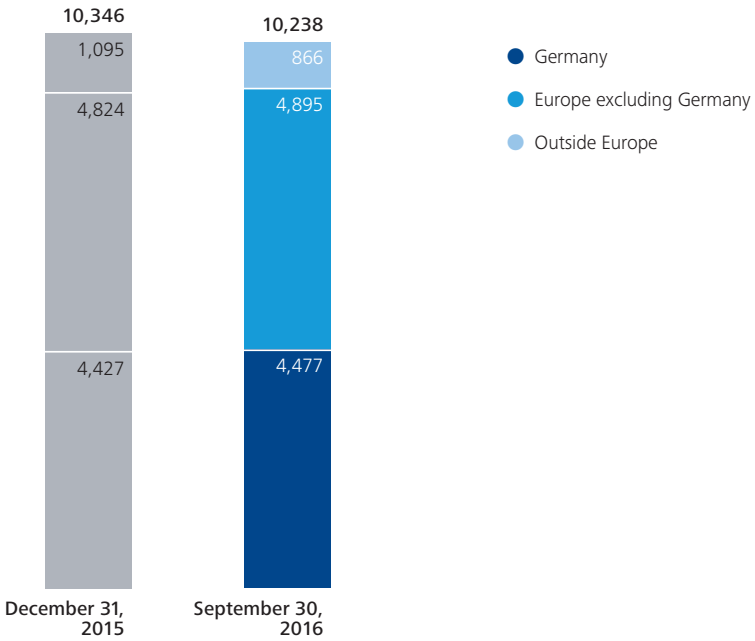
Slight drop in the number of employees

Compared to the 2015 year-end figure (10,346), the number of employees at the HARTMANN GROUP went down by 108 to 10,238. In Europe there was an increase in staff numbers because of the scheduled sales expansion in the core markets as well as the selective expansion of capacity. Outside of Europe, adjustments in production led to a reduction in staff numbers. At the end of the quarter, 56.3% of the total number of staff were employed outside of Germany.

Development of EBITDA, EBIT and consolidated net income of the HARTMANN GROUP as of September 30 in EUR million

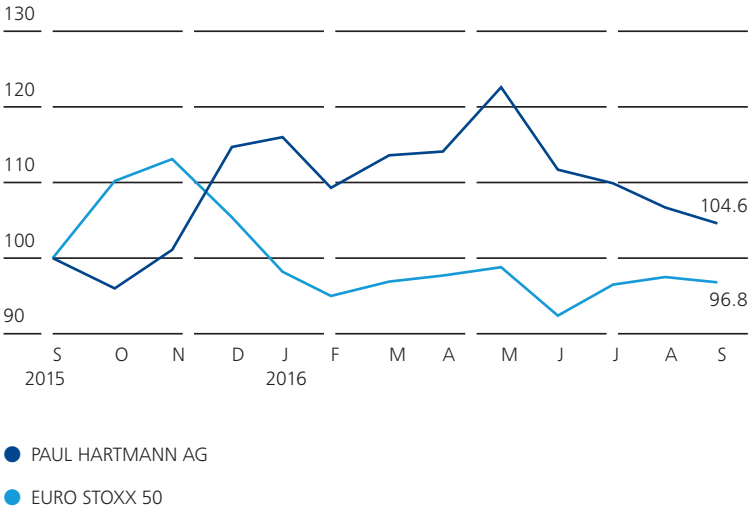


Number of employees of the HARTMANN GROUP



Performance of the HARTMANN share price compared to EURO STOXX 50

September 30, 2015 (= 100 percent) to September 30, 2016 in percent



Performance of the HARTMANN share

The HARTMANN share was listed at EUR 392.05 per share at the end of September 2016, in other words EUR 37.95 down on the 2015 year-end share price (EUR 430.00).

Basic information on the HARTMANN share

WKN	747404
ISIN	DE0007474041
Exchange	Frankfurt Stock Exchange
Segment	Open Market (Entry Standard)
Type of share	Registered unit shares held in collective safe custody
Capital stock	EUR 91.3 million
Number of shares	3,572,424 units, of which 20,682 units are held as own shares

Continuing moderate growth expected in sales and a slight rise in earnings

In its October forecast, the International Monetary Fund made slight downward adjustments to its growth expectations for the developed countries' economies because of the consequences of the Brexit vote and because of somewhat weaker growth in the USA. However, the brighter picture it paints for the emerging and developing nations – especially Asia – partly makes up for the above. The outlook for Germany and the euro zone remained practically unchanged.

Assuming that general economic conditions largely remain stable, the HARTMANN GROUP continues to be on a good footing for maintaining its profitable growth path. Its focus will still be on actively managing the volatile prices of raw materials and exchange rates, safeguarding the Group's organic growth through targeted investments and continually tapping into productivity reserves. In its core medical business the HARTMANN GROUP will also continue to focus on acquisitions and strategic partnerships, with a view to expanding its portfolio sensibly while at the same time improving its market position in the sales regions.

For the remaining weeks of the business year 2016, we assume that the priority programs and measures described will have a positive impact on sales and earnings. After carefully considering all relevant factors, we are still cautiously optimistic that in the year 2016 as a whole, in a volatile market environment, we will achieve a slight increase in EBIT with moderate growth in sales revenues and that on the basis of this we will also achieve a moderate improvement in our net financial position. The risks and opportunities described in the group management report 2015 also remain the same.

We still perceive the demographic trend – above all, in emerging countries such as Brazil or China – to be an opportunity for us to use broad sections of our product portfolio to meet the foreseeable rise in demand for medical and healthcare products. We avoid an accumulation of risks by diversifying our business activities over a variety of segments and through sales-driven expansion into a variety of markets.

Going further for health – for everyone, everywhere, at all times

Sales 1.5 billion EUR – a plus of 2.2 percent. EBIT 103.5 million EUR – a plus of 4.9 percent. Renewed growth in all business segments. The figures at the end of the third quarter of 2016 show clearly that HARTMANN is still continuing on a growth path. But even if the figures are good: further efforts are needed to bring HARTMANN closer to its goal – of taking global healthcare further forward. Andreas Joehle, discussed with the global management team at this year's Conference of the Regions (annual leadership meeting of the HARTMANN GROUP) in Amsterdam in July, revealed how the Group will set about achieving that goal.

Conference of the Regions: Andreas Joehle presents Dr. Claus Martini, CEO of IVF HARTMANN Switzerland and Michal Krejsa, CEO of HARTMANN Austria (from left to right), with the CEO Award 2016 for particularly successful collaboration.

The groundwork has been laid

Since 2013 – when Andreas Joehle first became CEO of HARTMANN – a series of activities in the markets led to continous increase in turnover. By the end of 2015, EBIT was already up to EUR 133 million, compared to EUR 91 million back in 2012. The measures performed include projects in the field of pricing and procurement (see the article "Change Process: 'Procurement Transformation@ HARTMANN' brings about productivity gains" on page 11 of Inform), steps to strengthen and expand the sales organization and further strategic investments. These all help towards taking global healthcare further forwards.

The future holds great challenges in store for the healthcare market

Because of demographic changes and an increase in non-communicable diseases such as diabetes, the number of people in need of care is on the increase. This in turn leads to a greater demand for doctors and nursing staff. However, there is already a shortage of these in today's healthcare sector. Together with a rising number of people in need of care and a shortage of resources, it can also be assumed that healthcare budgets will stay static or even be subject to cuts. In order to withstand the resulting price pressure in the healthcare markets, HARTMANN takes a holistic approach to healthcare, placing emphasis on direct practical benefits for patients and the medical staff treating them. "If, every day, we consciously think about what needs and difficulties our customers have, this will enable us to continuously improve healthcare," explained Andreas Joehle at this year's Conference of the Regions. This notion is firmly anchored in the Group's vision and mission. Keeping close to users and consumers is the key to healthcare concepts that are innovative and successful over the long term. The Group's focus is not, however, on high-tech medicine but instead on developing and marketing products and services of broad benefit to patients and users.

Strategic focus of the product portfolio

As always, the core business areas of wound treatment, incontinence management, surgical management and disinfection continue to play the leading role within the target groups of medical and healthcare professionals. Tying in with these areas, we have the KOB Group's medical textiles and the portfolio of NOGE group for institutional care and in the area of home supply. With this set-up, HARTMANN considers itself well placed for further strengthening the established position it already holds as a supplier of medical solutions.

Kneipp is a strong brand whose care products and cosmetics appeal to health-conscious private users. The CMC Group is a leader in the production of private-label products for retail in the sectors of cosmetics, hygiene or wound treatment. In the private customer sector, too, people can count on HARTMANN's medical expertise: Its diagnostic and incontinence products are available from pharmacies.

By partially restructuring our product ranges to gear them towards the private user target group we are seizing the opportunities of a growing market for health-conscious self-pay patients and reducing our financial risks by expanding the portfolio beyond purely medical core product ranges.

How does HARTMANN ensure the success of its strategy?

Through a whole series of measures:

- internal production and procurement programs that ensure profitability and guarantee speed
- customer loyalty incentive programs and a clear focus on customer-oriented innovations that are practical in real-life use and have genuine added value
- greater centralized services that increase cost-effectiveness and ensure quality and compliance; and
- business units that hold responsibility for the product and solution strategies, and that develop and implement these together with the national subsidiaries.

In doing so – as Andreas Joehle reiterated – it is important to always maintain a balance between centralization and close contact with the customer.

- Operations Management, which is responsible for the entire production business area, controls product costs and their transparency – throughout the whole Group
- Group headquarters and the national subsidiaries collectively decide on sales and marketing concepts and cost levels
- the functional units synchronize targets with each other and adapt these so that employees are able to make the right decisions.

We asked Andreas Joehle some further questions

What do you see as being the key to the success of this strategy?
Our employees. None of these measures would be successful if they were not developed and implemented by the right people in the right places – which just goes to show how significant the L.A.C.E. concept is. L.A.C.E. stands for Leadership, Accountability, Commitment and Execution, and constitutes group-wide rules and criteria for HARTMANN's corporate culture.

How can these be applied in everyday work?
HARTMANN needs employees who embrace and embody L.A.C.E. Managers, who think strategically and can implement on the operational side. Only if we ourselves embody the qualities that are expected will we truly be successful together.

You pointed out the importance of L.A.C.E. for HARTMANN's success. But how important is the Management Board's role in setting a good example for the employees?
It is essential that the Management Board puts its messages across with one voice – even though the instances differ, the essence is one and the same. Information must not be simply passed on to employees; instead, it must be designed and presented in a way that they are able to comprehend and apply in each individual work situation. It is up to the managers – and therefore also the Management Board – to communicate their thoughts and ideas clearly and thoroughly.

At the Conference of the Regions, over 250 employees from more than 35 HARTMANN national subsidiaries met to exchange ideas, listen to talks and prepare themselves for a common future.

News from the HARTMANN GROUP

The incontinence product is tried out on a model of a human torso to emulate and test its capacity for absorbing realistic volumes of urine.

Absorption Before Leakage (ABL): a test method co-developed by HARTMANN that improves the practicality and quality of incontinence products

The MDS (medical advisory service of the central association of German health insurance providers) applies a number of criteria when it assesses whether an incontinence aid is even allowed to be described as such, whether it can be included in the catalog of medical aids and whether it is eligible for reimbursement by the German health insurance companies. The main considerations for the assessment of the product are, above all, the amount of fluid such as urine it can hold, how quickly the fluid is drawn into the product and to what extent there is any re-wetting. There are various test methods available for determining these criteria. What they all have in common is the use of a urine substitute solution to test the incontinence products.

"Absorption Before Leakage" (ABL) is a new test method for determining the quality of incontinence products. It was developed over a period of ten years by a working group from the EDANA Association (European Disposables and Non-Wovens Association, an international alliance of the non-wovens industry), in which HARTMANN representatives were also actively involved. In the first quarter of 2015, Germany laid the ABL test method down as a DIN standard. In March of this year, the afore-mentioned MDS ultimately included it in its catalog of criteria for the reimbursement of medical aids. This can be seen to be a successful step forwards in the assessment of incontinence products. Apart from the practical relevance of products, the revised catalog of medical aids now also takes account of their constantly improving properties. The manufacturers of incontinence products are now called upon to re-register their products for inclusion in the catalog listing. They have been given a one-year period in which to do so.

ABL is the only test method which takes into account such factors as the patient's body shape, weight and position, and urine volumes. First, the incontinence product is weighed while still dry and then put in place on a model of a human torso. Gradually, realistic quantities of urine substitute are discharged into the product. The test is over as soon as the product begins to leak. It is then weighed again in its wet condition. The ABL test thus assesses under realistic conditions how much fluid an incontinence product is able to absorb before it starts to leak.

"The MDS's inclusion of the ABL test method shows that more and more attention is being paid to the quality of incontinence products." It is not just a matter of providing products with the greatest possible absorption capacity, but also considering the aspects of user-friendliness, efficiency and conservation of resources. We have thus come a huge step nearer to the goal of having health insurers pay even more attention to the quality of incontinence products in their considerations over reimbursement. The next goal that we are striving for is that of an internationally recognized standard," explains Dr. Rüdiger Kesselmeier, Vice President for Product Development in Incontinence Management.

HydroClean plus – proudly presenting our award-winning product

At a congress in Florence at the end of September 2016, the World Union of Wound Healing Societies (WUWHS) and the Journal of Wound Care (JWC) selected HydroClean plus as one of the world's three most innovative wound dressings. The accolade, which was given at the WUWHS Congress which only takes place every four years, represents a notable achievement. And that gives us one more good reason to proudly present and showcase this innovative product through targeted sales-promoting publicity measures.

HARTMANN will launch the new generation of HydroClean plus at the beginning of 2017. These wound dressings are unique in the way that they are absorbent while nevertheless irrigating the wound, thus cleansing it thoroughly of necrosis and minimizing germs. Furthermore, they also stand out through being more flexible, more lightweight and easier for nursing staff and doctors to handle. These additional benefits are therefore perfectly tailored to suit customer requirements.

Through the uniform planning and implementation of our publicity campaigns in all countries, we are able to synchronize our customer communications on the launch of products.

The newly designed communications activities are made up of three phases: before, during and after the product launch. The activities in the target markets planned for the first phase are currently already being implemented.

HydroClean plus dressings stand out because of the unique way in which they are absorbent while nevertheless irrigating the wound, and also through being more flexible, more lightweight and easier to drape over the wound.

The aim here is to draw the attention of core target groups – for example, doctors and specialized nursing professionals for wound treatment – to the topic of autolytic debridement through new formats such as expert groups and targeted media activities. Autolytic debridement is the term used for the process of softening and liquefying necrotic tissue and fibrin coating using moist dressings. The new HydroClean plus, with its patented features, is a unique product for this purpose. The above-mentioned expert groups allow it to be discussed among selected opinion leaders, enabling people to find out more about the new HydroClean plus and test it ahead of its official launch, within the framework of case studies and application examples.

The pre-launch events are accompanied by further publicity measures such as giving training sessions to sales representatives, directly approaching customers or performing press and P.R. activities. Our objective is to increase overall awareness of the two brands HydroClean plus and HydroTac, which are the components that make up our two-stage wound treatment concept, HydroTherapy. The publicity measures are designed centrally and adapted accordingly by the markets concerned.

We have been producing the new HydroClean plus since September 2016 and it is therefore now about to be launched on the market.

Change Process: "Procurement Transformation@ HARTMANN" brings about productivity gains

At the beginning of 2016, in order to further improve its profitability, HARTMANN launched the "Procurement Transformation@HARTMANN" project. Dr. Raymund Heinen, the Management Board's Chief Process Officer, is in charge of this project, the aim of which is to make procurement even more professional and design the entire procurement process to be even more efficient in the long term.

In a test phase that lasted from April to June this year, we reorganized our collaboration with existing suppliers and trained the HARTMANN employees concerned in the latest techniques in tendering processes. Above all, the main component of the procurement transformation process is to ensure the long-term training and further advancement of our team, as well as making use of direct savings potential through re-negotiations.

"The first three months already provided impressive evidence of the success of the project," Dr. Heinen confirmed in his assessment of the pilot phase.

Thomas-Garry Stiller, who joined HARTMANN in July 2016 as the new Vice President for Global Procurement, sums up the project's future prospects as follows: "Our goal is to increase productivity further and sustainably strengthen HARTMANN's economic performance."

With the pilot phase already having been completed, the process of transforming the procurement organizational structure will be accompanied by three commercial "waves" lasting several months at a time. In this way, the ongoing further development of our procurement organization will directly help to maximize the results of our negotiations.

The KOB Group: More growth in the US through our own sales company

The KOB Group has already been active in the USA for many decades as a supplier of all the relevant branded companies in the healthcare business sector. As part of the 2020 KOB growth strategy, the HARTMANN Management Board and the management of KOB decided to further strengthen their position in the world's largest healthcare market and establish their own sales company specifically for that purpose. The latter was founded in July. It is called KOB USA Corporation and its headquarters are in Tucker, Atlanta (in the US state of Georgia).

The leading companies in the US market for medical products are under price pressure from changes in the refunding of medical products and the higher healthcare expenditure and individual payment methods of state or private health insurance companies. This, in turn, leads to greater demand for private labels. While HARTMANN USA concentrates on business with HARTMANN brands, KOB USA will focus on the private label business. The two companies will work closely together in a joint effort to strengthen the market position of the HARTMANN GROUP.

Darrell Jenkins from KOB USA and Deborah Delisi, a medical trainer at McKesson, at a customer showroom in Tucker, Georgia.

The continued market success of KOB in the USA will be based on market-/customer-specific product solutions in the fields of wound treatment, sports medicine and orthopedics, lymphology and phlebology in conjunction with cost-efficient production at its facilities in Wolfstein (Germany) and Coimbatore (India).

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Going further for health

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This report contains forward-looking statements. Actual results may be different from the ones implied by the forward-looking statements. Rounding discrepancies not balanced out.

Performance of the HARTMANN share price
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