# Worldwide. On site.

ANNUAL REPORT 2016

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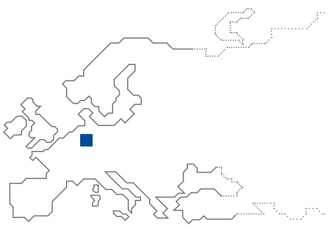
## EUROPE



PAGE 2

Talking with Executive Board member Dr. Reiner Piske, sales engineer Dörte Gellrich describes how Dräger worked together with customers from the university hospital in Marburg to come up with the ideal design solution for the workspace in a new intensive care unit.

## AMERICAS

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Executive Board member Rainer Klug and Edwin Coombs, marketing manager for intensive care in the United States, discuss the ‘Zenith Award’ from the American Association for Respiratory Care (AARC), which Dräger received in San Antonio, Texas.

## AFRICA / ASIA / AUSTRALIA

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Executive Board member Anton Schrofner listens to project coordinator Mick Hopewell describe the close collaborative partnership with a refinery in the greater Melbourne area, where Dräger has established itself as a rental and safety services partner.

Three employees talk to their respective regional Executive Board member about important customer projects and what customer intimacy means for Dräger in the regions.

# Technology for Life

## COMPANY PROFILE

Dräger is an international leader in the fields of medical and safety technology. The family-run company was founded in Lübeck, Germany, in 1889. Over the past five generations, Dräger has evolved into a publicly traded, worldwide group. The company's long-term success is based on the four key strengths of its value-driven corporate culture: customer intimacy, professional employees, continuous innovation and a commitment to outstanding quality.

"Technology for Life" is the guiding philosophy of the company. Whether in the operating room, in intensive care or in fire and emergency response services, Dräger products protect, support and save lives.

The company has more than 13,000 employees worldwide and is currently represented in over 190 countries. Dräger has sales and service subsidiaries in about 50 countries. Its development and production facilities are based in Germany, the United Kingdom, Norway, Sweden, the Czech Republic, South Africa, the United States, Brazil, Chile and China.

## SELECTED KEY FIGURES DRÄGER GROUP

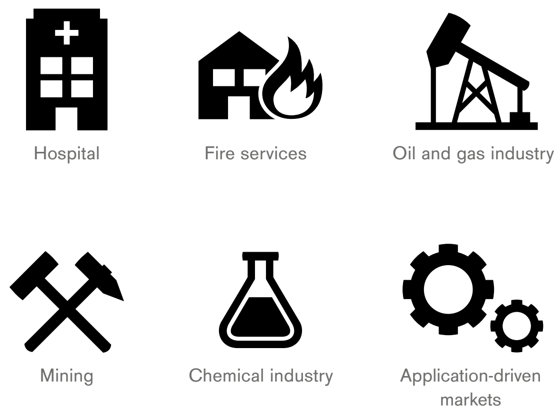
| | | Twelve months | | |
|---|---|---|---|---|
| | | 2016 | 2015 | Changes in % |
| Order intake | € million | 2,538.7 | 2,532.2 | +0.3 |
| Net sales | € million | 2,523.8 | 2,608.9 | −3.3 |
| Gross profit | € million | 1,135.4 | 1,171.7 | −3.1 |
| in % of net sales (gross margin) | % | 45.0 | 44.9 | |
| EBIT[1] | € million | 136.9 | 66.7 | >+100.0 |
| in % of net sales (EBIT margin) | % | 5.4 | 2.6 | |
| Net profit | | 81.7 | 33.3 | >+100.0 |
| Earnings per share on full distribution[2] | | | | |
| per preferred share | € | 3.46 | 1.46 | >+100.0 |
| per common share | € | 3.40 | 1.40 | >+100.0 |
| Cash flow from operating activities | € million | 195.3 | 39.9 | >+100.0 |
| Net financial debt[3] / EBITDA[4,5] | Factor | 0.16 | 0.96 | |
| Equity ratio[3] | % | 43.4 | 40.9 | |
| DVA[5,6] | € million | 49.8 | −46.3 | >+100.0 |
| Headcount on 31. December | | 13,263 | 13,936 | −4.8 |

[1] EBIT = earnings before net interest result and income taxes
[2] Based on an imputed actual full distribution of earnings attributable to shareholders
[3] Value as of reporting date
[4] EBITDA = earnings before net interest result, income taxes, depreciation and amortization
[5] Value of the last twelve months
[6] Dräger Value Added = EBIT less cost of capital of average invested capital (through 2015: 9 %, from 2016: 7 %)

## MARKETS

Dräger offers its hospital customers anesthesia workstations, ventilators for intensive and emergency care, patient monitoring solutions as well as neonatal care equipment for premature babies and newborns. With its supply units, operating room IT solutions, gas management systems, technical services and accessories, Dräger is at the customer's side throughout the entire hospital.

In the field of safety technology, fire services, emergency response services, law and regulatory enforcement and industry customers all place their trust in Dräger's integrated hazard management systems, in particular for personal protection and plant safety. This includes respiratory protection equipment, stationary and mobile gas detection systems, professional diving equipment and systems as well as alcohol and drug testing devices. Dräger also develops customized solutions, such as entire fire training systems, training and service concepts as well as workshops, in collaboration with its customers.




## DRÄGER WORLDWIDE

**Headquarters, sales and service organizations, production sites, logistic centers**


Headquarters · Sales and service organizations · Production sites · Logistic centers

**DÖRTE GELLRICH**
Sales engineer, Dräger Medical ANSY GmbH

# "Customers value our expertise and experience in the development of custom system solutions."

**GERMANY** | **POPULATION:** 82.2 million

**11.2 %**

Health is a high priority: Totaling EUR 328 billion, health expenditure as a percentage of gross domestic product stood at 11.2 percent in 2014. This amounted to an average of EUR 4,050 per person in Germany. Statutory health insurers shouldered the largest part, with expenditures of EUR 191.8 billion.

**DR. REINER PISKE**
Executive Board member, Region Europe, Lübeck

# “This is a key competitive advantage for us and constitutes a strength of the Dräger brand.”

From Portugal to Siberia, and from Greece to Svalbard, the Europe region includes Dräger subsidiaries in over 25 countries outside of Germany. More than 3,800 sales and service employees across this broad geographical area look after our customers on the ground, whether at a hospital located in a district town within the Netherlands, on an oil rig off the Norwegian coast, at a professional fire department in Austria, or at a clinic in Tajikistan.


1

“MY AREA OF RESPONSIBILITY: AROUND 100 HOSPITALS. MY OBJECTIVE: FINDING TAILORED SOLUTIONS FOR THEM.”

Creating something new – there is a certain allure each time, but it also comes with risk. Will everything turn out as expected or as the customer wants – or even better? Dörte Gellrich knows what it feels like to face such challenges. The industrial engineer took the adventurous step of assuming responsibility early on. Soon after the 28-year-old had successfully begun her career at Dräger (“I found a lot of mentors in Lübeck who helped me to specialize in medical equipment engineering”), she set out into the world to meet with customers and users. Her destination: the hospitals where ‘Technology for Life’ by Dräger is put to – and passes – real-life tests, day and night. As a sales engineer at the Frankfurt am Main location, Dörte Gellrich now oversees an area of responsibility with a 100-kilometer radius, putting more than 100 hospitals – customers and potential customers – within her purview.

In Marburg, one hour’s drive to the north, Gellrich and colleagues from many trades are creating something new and big, which is currently under construction. An intensive care unit is being completely updated in an elaborate remodeling job at the university hospital situated on the ‘Lahnberge’ hilltop outside Marburg. “University hospitals provide maximum care. As a result, they equip their intensive care units and operating rooms with appropriately sophisticated technology,” Dörte Gellrich says. “At the same time, however, they want a uniform design and optimum ergonomics, because university medical facilities have a large number of different specialists that they can flexibly deploy.” Gellrich notes that such hospitals therefore expect room-to-room standardization, a high degree of connectivity, and optimum interoperability for their generally extensive fleet of devices and equipment.

In contrast, the needs of a smaller hospital with particular areas of therapeutic focus centered around compact teams might look very different. “In such cases, as a sales engineer, I can team up with the technical staff and the users to develop a tailored solution that precisely meets the users’ specific workflows and particular wishes.” In terms of technology, physicians also have

3

"UNIVERSITY HOSPITALS PROVIDE MAXIMUM CARE. AS A RESULT, THEY EQUIP THEIR INTENSIVE CARE UNITS AND OPERATING ROOMS WITH APPROPRIATELY SOPHISTICATED AND ERGONOMIC TECHNOLOGY."


1 **Marburg:** The district capital located on the Lahn River in the state of Hesse is home to the world's oldest university that was originally founded as a Protestant center of education and which is still in existence today.

2 **University hospital:** The university hospitals of Gießen and Marburg combined to form the UKGM. This clinic group is the third largest university hospital in Germany.

3 **Customer workshop:** Dörte Gellrich explains the technical details of an accessory for intensive care workstations at the Dräger Design Center in Lübeck.


2

something of a personal style for the setup of equipment. But how does one go about honing a sure instinct for what a hospital wants and needs? Dörte Gellrich completed her industrial engineering degree with an emphasis in electrical engineering, marketing, and medical technology in Braunschweig. That, together with in-depth training at Dräger, prepared Gellrich excellently for her work, she says.

"When I decided what I wanted to study after finishing my exams to qualify for university, I told myself that it needed to be something interdisciplinary. It should provide me with deep scientific insights, but also give me a general overview. And that's how I made my choice: we industrial engineers are technology experts, but we also learn how to assess and penetrate commercial matters." Dörte Gellrich has brought along a technical drawing as one example of how Dräger devices and system solutions will fit into the new intensive care unit.

You get the sense that it could just as well be a business plan, tender, or construction schedule. Gellrich would be able to assess them all. "Here we see the ceiling supply unit," she says. Support arms position the intensive care devices so they do not touch the ground. In addition, they can be rotated in nearly a complete circle, and users can move about the whole room. Even

4 **3D drawing:** A three-dimensional computer rendering of the future workplace's design helps customers to make detailed plans later on.

5 **Under construction:** There is hardly any indication yet that a state-of-the-art intensive care unit will soon commence operations here.

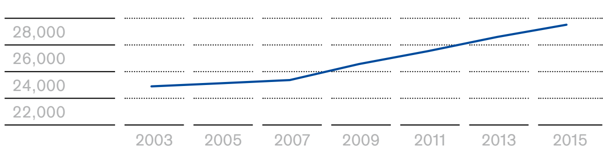
"THE JOINT PLANNING PROCESS WITH CUSTOMERS HAS BECOME MORE CONVENIENT. 3D TOOLS SHOW THEM ALREADY DURING THE DRAFTING STAGE HOW THEY WILL MOVE AROUND THEIR NEW SPACE."

hygiene is made easier. This is applied ergonomics, created from the user's point of view. "Here is the patient's bed. This is the ventilation technology and the monitoring station." Everything has been planned in detail – the connectivity of the devices; easy docking for their tubes, wires, and cables; and storage space for the power supply. The unavoidable complexity in state-of-the-art medicine has to be reined in through clever means so that people can safely maintain the upper hand even under great stress – a key principle at Dräger. "And once a project finally is put into operation, we are called upon once again – and often on site," Gellrich says. "A tube is still in the way? Put a clip here. It stays. Optimize device settings once more? We'll demonstrate how." Then the day comes when everyone says, "It works." That is the common objective.

Isn't there an enormous contrast between a recently gutted structure and the vision of a finished, state-of-the-art intensive care unit? "You stand there in the dust between bare walls, but you know: right here, right now, we are creating the skeleton for what physicians and hospital staff will use to perform their work smoothly in the future," Gellrich says. Copper pipes for gases have to be put in, the power supply has to be installed, and the substructure for the ceiling needs to be dimensioned in a way that it can support the technology. But doesn't it take an engineer's eye to be able to see the future when looking at the raw materials? "And also empathy for those who view the project as users and decision makers," Dörte Gellrich says. She explains that this is why it always makes sense – and is a real joy – to visit the Dräger Design Center in Lübeck with her customers to look at the planned solutions together before detailed specifications are made. "It enables us to set up and reconfigure everything. We can simulate and discuss design options, demonstrate different possibilities, plus identify what a customer wants and needs." It is therefore a good idea to schedule a generous amount of time for the workshop at the Dräger Design Center, Gellrich says. "But on the whole, the joint planning process with customers has become much more convenient from a technical point of view. There is now 3D visualization technology, for example, that allows

**INTENSIVE CARE BEDS IN GERMAN HOSPITALS**

**Number**




Source: Information System of the Federal Health Monitoring (www.gbe-bund.de)

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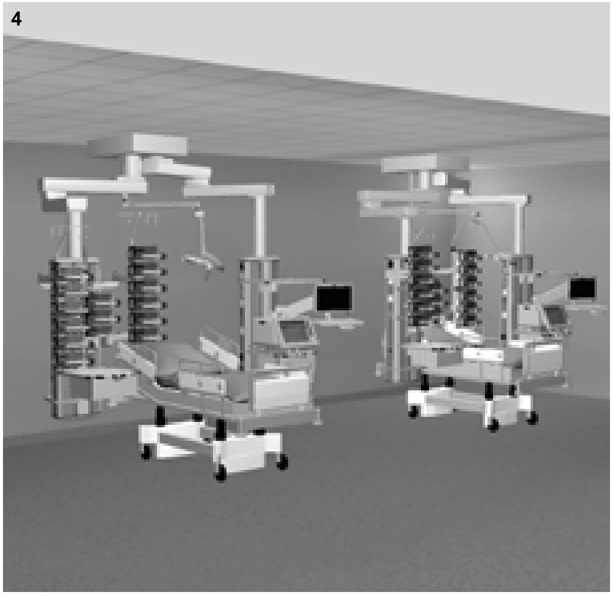

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you already during the drafting stage to move around a new ward as if you were 1.6 meters tall. Or 1.95 meters." For Gellrich, the 3D technology is an important tool that enables her to meaningfully include hospital contacts, who are not used to dealing with technical drawings, in the planning and decision-making process.

Of course, for a layperson, the thought of a highly complicated construction project involving many trades does not call to mind the image of a smooth process without any hiccups. "It doesn't for engineers, either," Gellrich says, "but it's normal for us to talk with each other frequently over the course of a major project. A process needs adapting, problems have to be solved. A pipe is 15 centimeters too far to the left? A solution will be found so the patient lift system can still work. The construction manager hears of the issue, something is done about it, and the problem is fixed."

Dialog is essential, both for acquisition and project management. Communication is as important for technology as it is for sales. It maintains balance, Gellrich says. During dialog, customers are exposed to new ideas, while they in turn provide suggestions that often reach all the way to the development departments. The sales engineer also grows with each project: "I finished my studies in 2013. And so far, I have completely acquired, carried out, and finished a major project by myself. Three are in progress. And I have assisted with four or five." It is a track record to be proud of.

"WE OPTIMIZE THE SETUP TOGETHER. AND FINALLY THE DAY COMES WHEN WE ALL SAY, 'IT WORKS!'"

From Dörte Gellrich's perspective, it has been rewarding, because she is absolutely proud to work for Dräger, she says.

Why? Because of 'Technology for Life'. Because of its aim and purpose. And because of the company's culture. "In Lübeck, I can sit down at the table where 'my' Executive Board member is having lunch in the cafeteria without feeling shy," she says. "But if something is on my mind, I can also find a solution with my direct supervisor, and I can get advice and assistance with technical matters in all departments." That is how things are here, Gellrich says, explaining that corporate culture was something she had in mind when choosing her employer, just like her growing fascination for the medical technology industry: "I can do something here that I have seen help people I know in concrete ways." Yes, one should feel proud of all that.

**EDWIN COOMBS**
Marketing manager for intensive care, Dräger Inc., United States

# “More and more, hospitals are striving to improve their efficiency and processes. To do so, they need innovative technology and expert advice.”

**UNITED STATES OF AMERICA**

**POPULATION** 322.7 million

# No. 1

The health system in the United States is the international leader when it comes to responsiveness to patients and their rights, according to the World Health Report 2000. The assessment criteria in this survey included respect towards patients (dignity, autonomy, and confidentiality), speed of assistance provided, and the freedom to choose doctors and hospitals.

**RAINER KLUG**
Executive Board member, Region Americas, Lübeck

# "I am delighted that our innovative ventilation technology has enjoyed an excellent reputation among users in the United States for years."

The Americas region extends from the northernmost reaches of Alaska to the southern tip of Patagonia, covering the entirety of the two American continents. While business in North America is managed largely from Telford, Pennsylvania, the headquarters for Central and South America are located in Panama City. The employees of our respective national companies are there for our customers in ten countries. We serve Dräger customers outside of these countries by teaming up with qualified sales channel partners.

1

“WE ARE SUSTAINABLY EQUIPPED TO ASSIST OUR CUSTOMERS IN TIMES WHEN THEIR BASIC PARAMETERS CHANGE.”

Ed Coombs finds himself traveling to Lübeck in November 2016, just two weeks after Election Day back home in the United States. For months, all eyes across the world were on the United States. Everyone wondered what path the superpower would decide to take moving forward, following a year of serious, but also highly controversial debates among Americans. Not least among these issues, the future of the healthcare sector was once again at the heart of heated exchange. “It was therefore clear to me that our meetings in Lübeck often revolve around what general conditions will shape the medical technology industry in our region in the years ahead,” Coombs says. “The message that I am bringing with me to Germany for ‘my’ Executive Board member Rainer Klug is this: regardless of how a new administration in Washington decides to structure health insurance, for example, here at Dräger, we are sustainably equipped to assist our customers in changing times and create new value for them because all health care practitioners will strive towards enhancing quality, improving clinical and financial outcomes, and eliminating sources of errors to increase patient safety. In every conceivable scenario, hospitals must improve their efficacy and processes. Overall hospitals will keep a close eye on the bottom line: working with a high degree of professionalism and cost-efficiency. To do so, they need innovative technology.”

According to Coombs, common objectives and shared convictions unite his team and his customers on these issues: “At Dräger, we share these goals and support our customers through executing best practices. This is evident to us in our routine interactions with administrators and clinicians who use our products.” Today, customers have long recognized Dräger’s exceptional support. In October, Ed Coombs and Lothar Thielen, Dräger CEO-North America accepted the 2016 Zenith Award from the American Association for Respiratory Care (AARC) in San Antonio, Texas, for the eighth consecutive



"OUR CUSTOMERS WILL CONTINUE TO WORK ON ENHANCING QUALITY, ELIMINATING SOURCES OF ERRORS, AND INCREASING PATIENT SAFETY – TOGETHER WITH US."

1 **San Antonio:** With a population of about 1,4 million, San Antonio represents the second largest city in the state of Texas.
2 **Award ceremony:** Never before in the history of the AARC a company received the Zenith Award in eight consecutive years.
3 **Convention Center:** The AARC Congress 2016 took place at the Henry B. Gonzalez Convention Center.


time. The Zenith Award is a very special honor as only the top five respiratory companies in the United States receive this distinction, Coombs says. The recipients of the award are determined by the nearly 50,000 members of this association of Respiratory Therapists; no other company has achieved this distinction for eight consecutive years. This level of sustained commitment therefore represents a shared view among clinical specialists who are able to make an uncompromising assessment of Dräger technology in everyday situations. Coombs himself also worked with the technology at a University Hospital setting for over 12 years. He thus unites a strategic overview of business in the most important market in North America, one that is at the forefront of technological innovation, with hands-on knowledge. Anyone looking to get ahead in the ventilator business in the U.S. has to have intimate knowledge of practice in the field. Coombs and the management team demands this of his team – and every member of the team performs with a high degree of excellence.

Coombs received his training and degree as a respiratory specialist. He has been in the profession since 1986 and boasts expertise in neonatal, pediatric, and adult critical-care. He holds

**4 Talking experts:** The discussions were focussing the exchange of knowledge and experience.
**5 Industry showroom:** Dräger presented the current product range of respiratory care devices on a booth.

## “WE WERE PROVIDED WITH OUR NEW GENERATION OF DEVICES FOR THE VENTILATION BUSINESS IN NORTH AMERICA AT JUST THE RIGHT TIME. THEY HELPED US ACHIEVE GREAT SUCCESS.”

a master's degree from New York State University in Stony Brook. Coombs himself is representative of a special feature of business in the U.S., where respiratory therapists have a prominent role. They are the key players in ventilation technology, bear responsibility only ascribed to physicians in other markets, and therefore have a significant influence in purchasing decisions. Ed Coombs spent a dozen years in this challenging field working at hospitals before deciding to continue his career in the medical technology industry. He joined Dräger in 2007. “Since then, the decision has made every day of work a real joy for me,” Coombs says.

Coombs notes that Dräger is also a well-known name in North America – a fact that he does not have to highlight in Lübeck. The company is proud that the 'Draegermen' – brave crews with respiratory protective devices trained to rescue miners in distress – have been cultural icons in America for decades. The company also had a good foothold at hospitals, especially in anesthesia, when Coombs joined Dräger. However, in terms of ventilation – his area of expertise – it was clear that Dräger would still be able to improve considerably in a field marked by strong competition. “From 2007 to 2016, we significantly increased our market share, as external market analyses show,” Coombs says. How was this possible? The story's success has strong roots here in Lübeck, Coombs explains: “With the introduction of the 'Evita Infinity V500'[1] and the 'Babylog VN500'[2], we were provided with a generation of devices whose progressive innovation which will continue to address a future needs and continue to provide value for our customers” he says. “Since the initial release, our new flagships, have been well received in the marketplace.” Continuing to provide best in class clinical and technical support as well as having an outstanding product will be key to our continued success.

“The level of support required involves several points to consider,” Coombs says. A traditional approach of personally talking to potential customers is one aspect. Exact knowledge of technology cycles in the various regions and supply structures is another. However, sensitivity to the human factor is also very important: “Our users know, for example, that we provide a comprehensive support service which includes online and a live 24/7 hotline in cooperation with 'Intensive Care Online (ICON)'. The staff at ICON includes a multi-disciplinary team of health care

[1] Infinity Acute Care System Workstation Critical Care
[2] Infinity Acute Care System Workstation Neonatal Care

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providers who are experts in critical care. The hotline offers advice and support in specific clinical situations, complicated cases, and also helps young professionals to adjust to new routines. Having this resource which is exclusive to Dräger customers, provides a sense of security." On top of this, there is broad-based understanding for the way in which investment decisions are made in America, such as which committees provide advice, which voices are heard, and their importance. Coombs notes that a "We sell you equipment, then you use it" mentality will not be accepted it in this market today. "You have to have a specific plan of how Dräger can broadly lend added value to the hospital based on questions such as 'How will our processes improve?', 'How can our quality be enhanced?', 'How will our IT efficiently integrate the new technology?', 'How will optimum service be continuously guaranteed?', and 'How will we maintain good cost-efficiency in all this?'" Balancing these many dimensions and creating the best offer is an art that puts the skills of the USA team to the test every day.

The big picture? The way that Ed Coombs describes healthcare reforms and policy shifts in the US in recent years is more carefully considered than all the harsh talk heard during the election campaign. He notes that the changes have fostered greater quality awareness in the market because the benchmarking of clinical results has become more important. At the same time, there are large-scale cost management difficulties that have added stress to the system. "Some aspects of the law should be continued, while other aspects should be improved," Coombs summarizes with an air of firm conviction that, together with the team at Dräger and his many reliable business contacts, the Dräger US organization remains well equipped to tackle the challenges that will in the market for the years ahead.

"YOU ALWAYS HAVE TO HAVE A SPECIFIC PLAN OF HOW DRÄGER CAN BROADLY DELIVER ADDED VALUE TO THE HOSPITAL. AND DRÄGER CONSISTENTLY DELIVERS."

**MICK HOPEWELL**
Project coordinator, Dräger Safety Pacific Pty. Ltd., Australia

# “As a service provider, we are an essential part of operations on the ground. The customer has entrusted us with crucial tasks and relies on our expertise.”

**AUSTRALIA**

**POPULATION:** 24.3 million

**3.1 %**

Australia's economy grew by 3.1 percent in 2016. Raw material extraction and processing play a significant role, especially in the export sector. The most important exports include coal, iron ore, gold, petroleum and petroleum products, as well as natural gas. Plans call for greatly expanding exports of liquefied natural gas in the years ahead. People expect that Australia could become the world's largest exporter of liquefied natural gas in the next five years

**ANTON SCHROFNER**
Executive Board member, Region Africa, Asia and Australia, Lübeck

# “The various services we offer greatly accommodate the changing requirements of our industrial customers.”

From the savannas and deserts of Africa to the tropical rainforests in the Far East, the Africa, Asia, and Australia region covers a very wide range of different climates and markets. It includes industrial nations such as Japan and Australia, rapidly growing emerging markets, as well as a number of poorer developing countries. Dräger has its own subsidiaries in fourteen countries, while it cooperates in many others with sales channel partners.

1

## "THE REFINERY'S INSTALLATIONS EXTEND OVER 4 SQUARE KILOMETERS."

"It's big!" is the first thought people have when visiting a modern oil refinery. This is further enhanced by the immense complexity of the installations, with their distillation columns, standing as high as church towers, for separating the different crude oil products, and with all the treaters, crackers, cokers, and blowers. It is immediately clear that the refinery is a world of its own, a place for specialists. "The refinery's installations extend over 4 square kilometers here," Mick Hopewell says. "But this does not include the extensive external tank farms and the dock where ships unload their crude oil." The distance from there to the actual refinery complex on the southern coast of Victoria, Australia, is 7 kilometers.

This world where specialists rule is manned at all times with 400 experts from a wide range of fields. Mick Hopewell is one of them, but he is also a Dräger employee. Before joining the company, he worked as a firefighter in the aerospace industry and served in a volunteer fire department as well. Now, together with other Dräger colleagues at the site, he is responsible for ensuring that "safety first" does not remain a good intention at the huge refinery, but is rather put into practice every day. "As a service provider, Dräger is an essential part of operations on the ground. The refinery has given us crucial tasks and relies on our expertise," Mick Hopewell says. The experienced firefighter starting working part-time for Dräger in 2011 before switching to full-time in 2014 as a project coordinator.

Among the key on-site tasks that Mick Hopewell mentions is being constantly equipped to handle the unavoidable risks that come with dealing with large quantities of hazardous materials on a daily basis: "The refinery produces petroleum naphtha, several natural gas products, engine fuels, aviation fuel, and kerosene." Each one of the flammable products, including the numerous intermediate stages in the processing chain, has its own risk profile, and every production step must be continuously monitored using sensors. And if an incident occurs, the response has to go off without a hitch on the first try: intervention, evacuation, safeguarding, and rescue.

As a result, Mick Hopewell and his colleagues have a wide range of daily tasks to perform year-round. "This includes preparing the portable devices. We issue all personal equipment at our fire station and use special management software for this. We also see to daily testing of the stationary gas detectors, the cleaning of the face masks, and the filling of the SCBA cylinders. In addition, Dräger provides safety logistics, such as the coordination and monitoring of high-risk activities at the refinery, which may include working at great heights or in confined spaces. On top of this, we regularly conduct safety inspections, and we check the gas vents and their technology. Finally, we also lead the rescue exercises at the refinery to ensure best practice on site."

Mick Hopewell and his colleagues therefore stand for a culture of complete trust between Dräger and its customers.

3

2


1 **Melbourne:** The capital of the state of Victoria, Australia, has a population of more than 4 million.
2 **Teamwork:** The refinery staff and Dräger employees work together in a close partnership.
3 **Dräger Safety Shop:** On customer demand, Dräger operates a range of occupational safety products in a warehouse on site of the refinery.

"WE ISSUE ALL PERSONAL EQUIPMENT AT OUR FIRE STATION. WE CONDUCT CHECKS AND TESTS, PROVIDE SAFETY LOGISTICS, AND LEAD THE RESCUE EXERCISES."

**4 Detailed preparation:** The planing of a shut-down takes several months in advance.

**5 Attention:** A shut-down demands a professional planing process and high-level attention by each involved person.

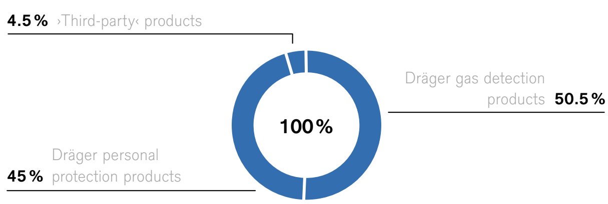
“WE HAVE TO BE FULLY FOCUSED WHENEVER IT IS TIME FOR ONE OF THE REFINERY’S REGULARLY SCHEDULED SHUTDOWNS. WE CALL IN SPECIALISTS FROM ALL ACROSS AUSTRALIA TO ASSIST.”

But their work also represents an expansion of the business model, which is not limited to the petroleum sector: Rental and safety services (RSS) are in demand. Large companies see an alternative to purchasing their own equipment and hiring their own specialists in a scalable package offered by Dräger. As part of this solution, Dräger integrates its technology and services into the companies’ own processes. In Germany, for example, Deutsche Telekom has decided to rent a large fleet of gas detection devices for safeguarding underground work on their grids. The model at the major refinery goes even further, as it relies on the constant presence of a team of Dräger specialists. And even that is highly flexible. “We have to be fully focused whenever it is time for one of the refinery’s regularly scheduled shutdowns,” Mick Hopewell says. The refinery must undergo cyclical maintenance, and regular inspections are legally required. It is always a moment when the highest demands are placed on personnel – and precision: Downtime is naturally very costly for large plants, and the work entails tremendous safety and logistics requirements.

“Handling days like these has long been one of Dräger’s strengths,” Mick Hopewell says. “We put together a shutdown team, calling in many specialists specifically from other projects across Australia. My colleagues and I relish this challenge, since it provides us with major opportunities. It builds good, strong relationships with our customer and the customer’s employees because everything depends on optimum teamwork, from the success of the shutdown to the personal safety of each one of us.”

The assortment of Dräger products used on site is correspondingly wide. In fact, it involves practically the entire safety line, from the previously mentioned range and stationary and portable gas detection technology to personal protective equipment and even products such as the Alcotest, which also contributes to safety. “The ‘total care package’ is what we call the value that we create here for our customer,” says Mick Hopewell, who balances the demands of his work with cycling and fitness training in his spare time. “My message to Lübeck is this: Here is an offer with potential for the future. I firmly believe our team at the refinery meets the demands of our customer every day, and that there are many opportunities for expanding business for our division in Australia and the entire Pacific region.”

## PRODUCT RANGE OF A DRÄGER SAFETY SHOP



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# Content



↗ Reference to figures and tables
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Possible rounding differences may lead to slight discrepancies.

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# SHAREHOLDER INFORMATION

# 29

## SHAREHOLDER INFORMATION

Dear Shareholders, dear Employees, dear Readers,

As eventful as the past year was from a political point of view, the global economy completely lacked momentum. In 2016, it grew slower than it had since the 2008 – 2009 financial crisis. Emerging economies barely delivered any momentum. With many of them suffering from the lower commodity prices, the growth seen there in the past two decades has stalled. Growth also remained subdued in industrialized economies, including the eurozone. Global trade reflects this slow momentum as well. Although global trade volume has grown significantly faster than the global economy in the past, its growth rate was even slower than that of the global economy last year.

The year got off to a less-than-dynamic start for Dräger, too. Orders on hand were low, and net sales were accordingly weak at the beginning of the year. Net of currency effects, sales proceeds were also down year on year in the second and third quarters. However, we ended the year with a strong finish in the final quarter, especially in December. As a result, net sales in the fourth quarter almost matched the record set in the same quarter in the prior year. In fact, it beat the record by a small margin net of currency effects. Still, net sales development was disappointing when viewed over the course of the full year. Our sales proceeds fell for the first time since 2009. Net sales development was particularly weak in the Africa, Asia, and Australia segment – and especially in the Middle East. Europe fared better, which was due solely to the strong performance in the core market of Germany, Austria, and Switzerland. Thanks to a year-end sprint, the Americas segment still managed to post a slight increase in net sales, net of currency effects.

This makes it all the more remarkable that we succeeded in significantly increasing our earnings last year, despite the decline in net sales, and generated an EBIT margin of over 5 percent. Following the negative value in the prior year, our Dräger Value Added was also positive once again. Our “Fit for Growth” efficiency program made a substantial contribution to this result. Thanks to strict cost management, we were able to reduce both the cost of materials and personnel expenses. But this also meant that we had to make personnel adjustments. Both in Lübeck and at the regional organizations, we cut headcount by 5 percent. The high net sales at the end of the year was already achieved with this leaner organization . I am particularly delighted that we succeed in doing so.

Stefan Dräger

For this, I would like to thank our employees from the bottom of my heart. Thank you for helping support and shape these changes – and thank you for your loyalty and dedication! My thanks also go out to our managers in the countries, regions, and functions, as well as to my colleagues on the Executive Board. Under the new governance structure, they have taken on more responsibility for the business and played an instrumental role in reducing costs.

Our new "factory of the future" in Lübeck, which commenced operation on schedule last year and has stood the test, also made a contribution. This investment is making our production more flexible and efficient. There is also positive news to report with regard to our efforts in research and development. In 2016, we already succeeded in launching our first products with a shortened development time. Through new innovation structures, in which small units act like start-ups within the Company, we are also looking to take the road less traveled. In doing so, we hope to do an even better job of seizing the potential in our employees and giving them space to network and make new ideas a reality.

Globalization has led to the formation of more cross-border interconnections worldwide in recent decades, and the countries of the world have grown closer together. This has accelerated the development process in emerging economies, resulting in growing prosperity and purchasing power. The provision of food and healthcare has improved for billions of people. Industrialized countries have benefited both from demand from emerging economies and from their inexpensive products. Still, dissatisfaction is growing among millions of people. Populism and protectionist tendencies are on the rise. They are being fed by a feeling among some of the populace of losing out on economic and technological advancement and falling behind while others, including the so-called elites, benefit. The Brexit vote in the United Kingdom and the outcome of the presidential election in the US are an expression of this dissatisfaction.

At present I think it is premature to talk of the demise of globalization. However, it is quite apparent that a period of greater uncertainty lies ahead of us. It is unclear what is next when it comes to economic integration and trade relations. Migration and the rising risk of terrorist attacks are also issues.

These are major challenges to which we too must rise. Since its founding, Dräger has survived quite a few phases of uncertainty and even sweeping changes, developing into a successful, globally operating company with subsidiaries in some 50 countries. Our "Technology for Life" is in demand worldwide. The medical and safety technology markets remain markets of the future. To be successful, we must remain competitive. We will therefore continue to work on our innovative strength in 2017 and systematically look for sales opportunities internationally without losing sight of the costs in the process. Our goal for 2017 is to grow again, despite the greater uncertainty and economic weakness of some markets. Net of currency effects, we expect a rise in net sales of 0 to 3 percent. We are experiencing tailwind from our orders on hand at the start of the new fiscal year, which are higher than they were 12 months ago. We also want to continue improving our earnings. However, until they have stabilized at a high level, we will continue distributing the minimum dividend, just as we did last year.

We are confident that things will keep looking up for Dräger. That is because we have faith in our strengths, in our experience, and in our employees' abilities – and because we believe that the countries of the world will remember that they are able to achieve more together than on their own. Thank you for accompanying us on our path, and thank you for your trust!

Best regards, Stefan Dräger

# Executive Board

Since more than 125 years, responsible leadership has been fundamental to Dräger's corporate culture. Stefan Dräger and his Executive Board team are dedicated to realizing a sustainable increase in company value.

## Stefan Dräger

Stefan Dräger joined the Company in 1992 and has been Chairman of the Executive Board since 2005. He is representing the fifth generation of the Dräger family to lead the Company, and his term runs until the end of February 2020.

## Gert-Hartwig Lescow

As Vice-Chairman of the Executive Board, Gert-Hartwig Lescow is responsible for Finance. He has been with Dräger since 2008, and his term runs until the end of March 2021.

## Rainer Klug

Rainer Klug is in charge of Purchasing, Production and Logistics as well as for the Americas region. He has been with Dräger since 2015, and his term runs until the end of July 2018.

## Dr. Reiner Piske

Dr. Reiner Piske is responsible for Human Resources and the Europe region. He has been with Dräger since 2015, and his term runs until the end of October 2018.

## Anton Schrofner

Anton Schrofner is responsible for Innovation as well as the Africa, Asia and Australia regions. He has been with the Company since 2010, and his term runs until the end of August 2018.

# Report of the Supervisory Board

The Supervisory Board continued its trusting working relationship with the Executive Board in fiscal year 2016, dealing in detail with the Company's economic situation and prospects. The Supervisory Board was promptly and directly involved in all decisions.

Dear Shareholders,

Your Company developed well overall in fiscal year 2016 from the perspective of the Supervisory Board. The global economy's low level of growth and the decline in purchasing power in emerging economies caused by lower commodity prices had a particular impact. As a result, your Company's net sales decreased in 2016 and fell short of the original forecast. The measures planned as part of the "Fit for Growth" efficiency program were systematically implemented; the Executive Board reported on the progress of these efforts to the Supervisory Board continuously throughout the year. The Company successfully reduced its costs in terms of materials as well as personnel, which made it possible to significantly increase earnings despite the decline in net sales. The EBIT margin came in at the upper end of the forecast range. Dräger Value Added developed favorably for fiscal year 2016.

The Executive Board anticipates net sales growth (net of currency effects) of 0 to 3.0 percent and an EBIT margin of between 5.0 and 7.0 percent for 2017. The higher volume of orders compared to the prior year provides a sound starting point for achieving slight net sales growth in 2017. The Executive Board also intends to invest further in Dräger's future potential in 2017. At the same time, it will place greater focus on taking advantage of sales opportunities without losing sight of cost development. The Supervisory Board believes the expectations of the Executive Board regarding net sales and earnings growth, even with a view to further cost planning, are realistic.

In fiscal year 2016, the Supervisory Board carefully and regularly monitored the work of the Executive Board of the general partner in accordance with the law and the articles of association, and provided advice on the strategic development of the Company as well as all major measures. The Supervisory Board was involved in all decisions of importance to the Company. The extensive written and oral reports by the Executive Board formed the basis for these decisions. The Chairman of the Supervisory Board was regularly informed about current business developments and major transactions by the Chairman of the Executive Board also outside of the Supervisory Board meetings.

### MEETINGS

At four regular meetings and one extraordinary meeting, the Supervisory Board dealt in detail with the business and strategic development of the Dräger Group, the segments, and the German and foreign subsidiaries, and intensively advised the Executive Board on such matters. It was not deemed necessary to discuss meetings or individual items on the agenda without the Executive Board. All Supervisory Board members each attended more than half of the Supervisory Board's general meetings and meetings of the committees to which they belong.

**Prof. Dr. Nikolaus Schweickart**

### FOCAL POINTS OF THE SUPERVISORY BOARD DELIBERATIONS

In the past fiscal year, discussions focused on the Company's organizational structure, segment reporting in the regional structure that has been in effect since January 1, 2016, and the Company's long-term strategic targets. The Supervisory Board received updates at all of its meetings on the implementation of the cost reduction program and the volunteer redundancy program for reducing headcount at the Lübeck site. Another key topic was Research and Development and strengthening innovativeness. Carrying out an employee share program once again was also discussed.

At its extraordinary meeting on July 19, 2016, the Supervisory Board dealt in depth with the half-yearly result and the current financial outlook, updated on a rolling basis.

The plan for fiscal year 2017 was presented to the Supervisory Board at a meeting held on December 15, 2016, and approved by the Joint Committee, which is responsible for resolutions concerning transactions requiring approval. Discussions at this meeting were focused on cost development, the development of relevant markets, and the development of market share.

At its meeting on December 15, 2016, the Supervisory Board also covered the German Corporate Governance Code in the version dated May 5, 2015. The Company fully complies with the recommendations of the German Corporate Governance Code. The declaration of conformity from the Supervisory Board and Executive Board pursuant to Sec. 161 German Stock Corporation Act (AktG) is permanently available on the Company website and in the corporate governance report.

### ACTIVITIES OF THE AUDIT COMMITTEE

The Audit Committee held three meetings and two conference calls in the year under review. The CFO, the manager of the Accounting department, the manager of the Internal Audit department and representatives of the auditor took part in all meetings.

At its meetings, the Audit Committee reviewed the single entity and Group financial statements, the quarterly reports, the half-yearly report, as well as the profit appropriation proposal. In addition, the Committee audited and assessed the financial reporting process, the risk reporting system, as well as the audit activities of the Internal Audit department and the auditors. The organization of Compliance and its activities, as well as the risk management system, were also discussed at the meetings. The Chairman of the Audit Committee also informed the plenary Supervisory Board of the results of its deliberations.

### ACTIVITIES OF THE NOMINATION COMMITTEE

The Nomination Committee did not meet in the year under review.

## CORPORATE GOVERNANCE AND EFFICIENCY AUDIT

The Supervisory Board regularly deals with the application and enhancement of corporate governance principles within the Dräger Group. The declaration of conformity has been reproduced on pages xx et seq. of this annual report. The Supervisory Board also evaluated its activities in fiscal year 2016 and conducted an internal efficiency audit.

## SINGLE ENTITY AND GROUP FINANCIAL STATEMENTS

The Supervisory Board commissioned the statutory auditor elected by the annual shareholders' meeting, Frankfurt-based PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, to audit the single entity and Group financial statements for fiscal year 2016. Subject of the audit were the single entity financial statements of Drägerwerk AG & Co. KGaA, prepared in accordance with the German Commercial Code (HGB), as well as the Group financial statements, prepared in accordance with the International Financial Reporting Standards (IFRS), and the combined management report of Drägerwerk AG & Co. KGaA and the Dräger Group.

The auditor examined the single entity financial statements of Drägerwerk AG & Co. KGaA, prepared in accordance with the provisions of the German Commercial Code, the Group financial statements, prepared in accordance with IFRS, as well as the combined management report of both Drägerwerk AG & Co. KGaA and the Group, and issued an unqualified audit opinion. The auditor confirmed that the Group financial statements prepared in accordance with IFRS and the Group management report conform with IFRS as adopted by the EU.

The members of the Supervisory Board carefully examined the single entity and Group financial statements, the combined management report, as well as the audit reports. Representatives of the statutory auditor attended the Audit Committee's meeting on February 27, 2017, during which Dräger's single entity and Group financial statements were deliberated on, as well as the Supervisory Board's meeting on February 28, 2017, to discuss the financial statements. These representatives reported on the performance of the audit and were available to provide additional information. At these meetings, the Executive Board explained the single entity financial statements of Drägerwerk AG & Co. KGaA and the Group financial statements, along with the risk management system. On the basis of the audit reports on the single entity and Group financial statements and the combined management report, the Audit Committee came to the conclusion that both sets of financial statements with their respective management reports give a true and fair view of the net assets, financial position, and results of operations in accordance with the applicable financial reporting framework. To do so, the Audit Committee deliberated on material asset and liability items and their valuation, as well as the presentation of the earnings position and the development of certain key figures. The Chairman of the Audit Committee reported on the discussions to the Supervisory Board. Further questions by members of the Supervisory Board led to a more detailed discussion of the results. The Supervisory Board intensively discussed the adjustment to the dividend policy. The Supervisory Board was convinced that the dividend proposed by the general partner was appropriate considering the net assets, financial position, and results of operations, and approved it. The liquidity of the Company and the interests of the shareholders were taken into account in equal measure. There were no reservations concerning the economic efficiency of the Executive Board's actions.

After the preliminary review by the Audit Committee, the Supervisory Board reviewed and approved the single entity and Group financial statements of Drägerwerk AG & Co. KGaA, as well as the combined management report. The single entity financial statements of Drägerwerk AG & Co. KGaA must be approved by the annual shareholders' meeting. The Supervisory Board agreed with the recommendation made by the general partner to approve the single entity financial statements of Drägerwerk AG & Co. KGaA and supports the proposed appropriation of net earnings.

#### CHANGES IN THE EXECUTIVE BOARD

There were no changes in the Executive Board in the year under review.

#### CHANGES IN THE SUPERVISORY BOARD

Ulrike Tinnefeld went into early retirement effective January 31, 2016, leaving the Supervisory Board and the Audit Committee as of this date. Nike Benten joined the Supervisory Board as a substitute member beginning February 1, 2016. The Supervisory Board appointed Daniel Friedrich as a member of the Audit Committee effective February 1, 2016. Klaus-Dieter Fett passed away on February 23, 2016, following a serious illness. Stefan Klein left the Company and resigned from the Supervisory Board effective June 30, 2016. In its ruling from June 7, 2016, the Local Court of Lübeck (Amtsgericht Lübeck) appointed, upon request, Bettina van Almsick and Walter Neundorf as Supervisory Board members, the former with immediate effect and the latter effective July 1, 2016.

#### CONFLICTS OF INTEREST

There were no conflicts of interest involving members of the Executive and Supervisory Boards, which must be disclosed to the Supervisory Board without delay and about which the annual shareholders' meeting must be informed.

The Supervisory Board would like to recognize the Executive Board for its performance and dedicated service in the year under review. Furthermore, it thanks management and all employees, including employee representatives, for their hard work in fiscal year 2016.

Lübeck, Germany, February 28, 2017

Prof. Dr. Nikolaus Schweickart
Chairman of the Supervisory Board

# Report of the Joint Committee

Dear Shareholders,

Since the change in legal form to a partnership limited by shares in 2007, the Company has had a Joint Committee as an additional voluntary body which comprises four members of the Supervisory Board of the general partner, as well as two shareholder and two employee representatives from the Supervisory Board of Drägerwerk AG & Co. KGaA.

The Chairman of the Supervisory Board, Prof. Dr. Nikolaus Schweickart, is the Chairman of the Joint Committee. This Committee is responsible for transactions requiring approval (pursuant to Sec. 111 [4] Sentence 2 AktG). The Joint Committee held four regular meetings in the reporting year, dealing in detail with the business and strategic development of the Dräger Group. The Joint Committee decided on transactions requiring approval after careful consideration of the documents provided by the Executive Board. It approved all transactions.

Lübeck, February 28, 2017

Prof. Dr. Nikolas Schweickart
Chairman of the Joint Committee

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# COMBINED MANAGEMENT REPORT

COMBINED MANAGEMENT REPORT

# The Dräger Shares

Dräger shares performed well in a volatile stock market environment. The price of Dräger common shares rose by 7 percent over the year, while the price of Dräger preferred shares closed the year up 16 percent.

## DEVELOPMENT OF THE DRÄGER SHARES

Dräger shares started the year by falling in price considerably, in line with the overall market, over the first few weeks of 2016. Our share prices then stabilized towards the middle of the first quarter before trading laterally in subsequent months. Prices fell once again towards the end of the second quarter before rising throughout the remainder of the year after the publication of the half-year results. The common share closed the year at EUR 65.11, a year-on-year increase of 7.4 percent, while the preferred share finished 2016 at EUR 79.49, a rise of 15.9 percent. As a result, Dräger shares outperformed both the DAX and the TecDAX. The TecDAX declined by 1.0 percent over the same period. The performance of the DAX, which increased by 6.9 percent over the year, fell just short of that of the Dräger common share and was much lower than the development of the preferred share.

The market capitalization of the roughly 17.8 million Dräger shares came to EUR 1,266 million as of December 31, 2016, up from EUR 1,137 million at the end of 2015.

↗ Please refer chart "Development of the Dräger shares and key indices as of December 31, 2016" on page 46

## PERFORMANCE OF THE DRÄGER SHARES

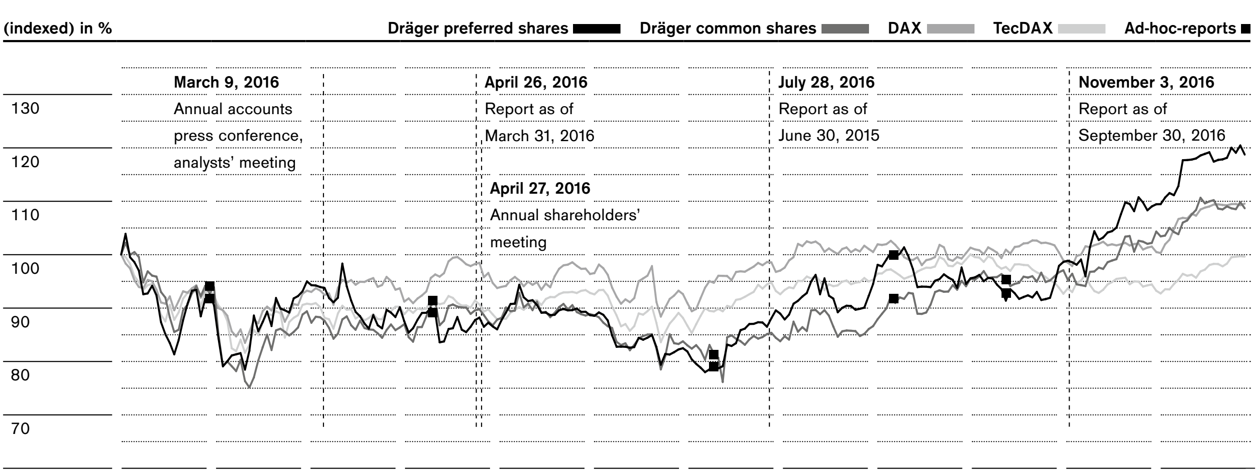
↗ Please refer chart "Share price developments"

## SHAREHOLDER STRUCTURE

The capital stock is divided into common and preferred shares. According to the definition of Deutsche Börse AG, 71.27 percent of common shares are held by the Dräger family. 67.19 percent of common shares are held by Dr. Heinrich Dräger GmbH; in addition, members of the Dräger family hold 4.08 percent of voting rights. 28.73 percent of common shares are in free float.

Please refer to Note 32 in the notes

## SHARE PRICE DEVELOPMENTS

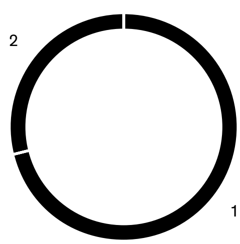


## DEVELOPMENT OF THE DRÄGER SHARES AND KEY INDICES AS OF DECEMBER 31, 2016

| in %, p. a. | 1 year | 3 years | 5 years | 10 years |
|---|---|---|---|---|
| Dräger common shares[1] | 7 | –5 | 6 | – |
| Dräger preferred shares | 16 | –6 | 5 | 4 |
| DAX | 7 | 6 | 14 | 6 |
| TecDAX | –1 | 16 | 22 | 9 |

[1] Dräger common shares have been listed on the stock market since 2010.

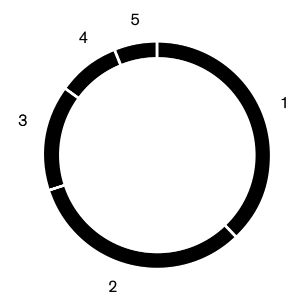
## OWNERSHIP OF COMMON SHARES




in %

| | | | |
|---|---|---|---|
| 1. Dräger family | 71.27 | 2. Free float | 28.73 |

## SHAREHOLDER STRUCTURE[1]




in %

| | | | |
|---|---|---|---|
| 1. Institutional investors from Europe (excluding Germany) | 38 | 4. Private investors and unspecified investors | 9 |
| 2. Institutional investors from the USA | 32 | 5. Institutional investors from the rest of the world | 6 |
| 3. Institutional investors from Germany | 15 | | |

[1] Preferred shares and common shares not including shares owned by the Dräger family; as of January 2016

100 percent of preferred shares, which do not confer voting rights, are in free float. They are included on Deutsche Börse AG's TecDAX index.

↗ Please refer chart "Ownership of common shares"

An analysis of the shareholder structure (common and preferred shares) conducted in the first quarter of 2016, which excluded the Dräger family's shares, showed that institutional investors from the United States account for 32 percent of capital stock. Investors from Germany held 15 percent of capital stock at this time. Roughly 38 percent of capital stock was owned by institutional investors from other European countries. 9 percent of capital stock was held in the UK and Ireland, while 7 percent was held in both Switzerland and Norway respectively. The proportion attributable to private investors and other unidentified investors was around 9 percent of share capital.

↗ Please refer chart "Shareholder structure"

### PROPOSED DIVIDEND

The Executive Board of the general partner and the Supervisory Board will propose a dividend of EUR 0.19 per preferred share and EUR 0.13 per common share to the annual shareholders' meeting on May 10, 2017. This equates to a total dividend of EUR 2.765 million and would result in a distribution rate of 4.5 percent (2015: 10.9 percent) of Group net profit less earnings attributable to non-controlling interests.

Please refer to Note 19 in the notes

## DRÄGER SHARES INDICATORS

| | | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| **Common shares** | | | | |
| No. of shares as of the reporting date | | 10,160,000 | 10,160,000 | 10,160,000 |
| High | € | 66.29 | 88.53 | 78.49 |
| Low | € | 45.04 | 52.19 | 56.13 |
| Share price on the reporting date | € | 65.11 | 60.60 | 63.76 |
| Average daily trading volume [1] | | 4,192 | 5,648 | 4,893 |
| Dividend per share | € | 0.13 [2] | 0.13 | 1.33 |
| Dividend yield | | 0.2 % | 0.2 % | 2.1 % |
| Earnings per common share in the case of a full distribution [3] | € | 3.40 | 1.40 | 4.52 |
| | | | | |
| **Preferred shares** | | | | |
| No. of shares as of the reporting date | | 7,600,000 | 7,600,000 [5] | 7,100,000 |
| High | € | 80.63 | 122.00 | 98.12 |
| Low | € | 52.26 | 59.30 | 63.36 |
| Share price on the reporting date | € | 79.49 | 68.61 | 83.87 |
| Average daily trading volume [1] | | 26,742 | 29,569 | 28,350 |
| Dividend per share | € | 0.19 [2] | 0.19 | 1.39 |
| Dividend yield | | 0.2 % | 0.3 % | 1.7 % |
| Earnings per preferred share on full distribution [3] | € | 3.46 | 1.46 | 4.58 |
| | | | | |
| Total distribution [4] | € thousand | 3,660 [2] | 3,665 | 31,555 |
| Distribution rate [4] | | 4.5 % [2] | 10.9 % | 30.1 % |
| Market capitalization | € thousand | 1,265,642 | 1,137,132 | 1,243,279 |

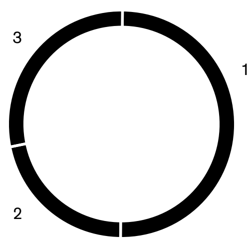
[1] All German stock exchanges (source: designated sponsors)
[2] Pending approval by the annual shareholders' meeting
[3] Based on an imputed actual full distribution of earnings attributable to shareholders ↗ Please refer to Note 19 in the notes
[4] Including distribution to participation certificate holders (less taxes and minimum dividends)
[5] Increase due to the exercising of share options

## DRÄGER SHARES — BASIC FIGURES

| | Common shares | Preferred shares |
|---|---|---|
| Securities identification number (WKN) | 555060 | 555063 |
| ISIN [1] | DE0005550602 | DE0005550636 |
| Ticker symbol | DRW | DRW3 |
| Reuters symbol | DRWG.DE | DRWG_p.DE |
| Bloomberg symbol | DRW8 | DRW3 |
| Main stock exchange | Frankfurt / Xetra | Frankfurt / Xetra |

[1] International Stock Identification Number

**ANALYST RECOMMENDATIONS[1]**




| | | | |
|---|---|---|---|
| 1. Hold | 7 | 3. Buy | 4 |
| 2. Sell | 3 | | |

[1] At the end of 2016

**ANALYSTS**
At the end of 2016, analysts from 14 institutions (2015: 16) regularly assessed Dräger's business performance: Bankhaus Metzler, Berenberg Bank, Deutsche Bank, DZ Bank, Hauck & Aufhäuser, HSBC, Independent Research, Kepler Cheuvreux, LBBW, M.M. Warburg & Co., Main First Bank, Montega, NORD / LB and ODDO Seydler Bank.

↗ Please refer chart "Analyst recommendations"

# Principles of the Group

## Group Structure

Drägerwerk AG & Co. KGaA is the parent company of the Dräger Group, where central functions and jointly used services are also pooled. All shareholdings, which form part of global operative business, are either directly or indirectly owned by the parent company. In addition, Drägerwerk AG & Co. KGaA maintains shareholdings in some companies, which are not part of the operative business of the Dräger Group.

Please refer to Note 53 in the notes

Dräger is represented in over 190 countries on all continents and maintains its own sales and service companies in some 50 countries. Dräger operates development and production sites in Germany (Lübeck), China (Shanghai and Beijing), Great Britain (Blyth), Norway (Oslo), and the US (Andover and Telford) as well as production sites in Germany (Hagen), Brazil (São Paulo), Chile (Santiago de Chile), Great Britain (Plymouth), Sweden (Svenljunga), South Africa (King William's Town), and the Czech Republic (Klášterec). The site in Pittsburgh, USA, was closed in June 2016.

## Management, Planning and Reporting

**NEW ORGANIZATION AND MANAGEMENT SYSTEM**
Until the end of fiscal year 2015, the Company was managed through the two divisions: the medical division and the safety division. An expanded Executive Management Team (EMT) with delegated functions was responsible for these divisions.

At the beginning of fiscal year 2016 we restructured our organization and control system to place our customers in the focus of our activities to a greater extent and to boost the efficiency of internal decision-making processes. The EMT was replaced as the central management by the Executive Board (EB) with five members. Now three Executive Board members are fully responsible for business development in countries and regions.

## EXECUTIVE BOARD RESPONSIBILITIES

| **Stefan Dräger**<br>Chairman of the Executive Board | **Gert-Hartwig Lescow**<br>Vice-Chairman of the Executive Board | **Rainer Klug** | **Dr. Reiner Piske** | **Anton Schrofner** |
|---|---|---|---|---|
| Regional responsibilities | | | | |
| | | **Americas** | **Europe** | **Africa, Asia, Australia** |
| Functional responsibilities | | | | |
| **Corporate Auditing**<br>**Corporate Communications**<br>**Corporate Strategy and Business Development**<br>**Legal, Compliance and Data Protection**<br>**Real Estate** | **Accounting**<br>**Controlling**<br>**Customs and Export Control**<br>**Insurances**<br>**Investor Relations**<br>**IT**<br>**Risk Management**<br>**Taxes**<br>**Treasury** | **Custom Project Business**<br>**Logistics**<br>**Manufacturing**<br>**Purchasing** | **Human Resources** | **Intellectual Property**<br>**Quality**<br>**Research and Development**<br>**Segment- and Product-management** |

Rainer Klug is responsible for the Americas region, while Dr. Reiner Piske heads up the Europe region, and Anton Schrofner is in charge of the Africa, Asia, and Australia region. The three Executive Board members with regional responsibility are in charge of customer business for their respective regions and therefore have full responsibility for operative management, the achievement of net sales and earnings targets, and medium-term development in their respective region. All three Executive Board members are responsible for regional management in addition to their functional responsibilities.

Global functions such as Corporate Strategy and Business Development, Innovation, Supply Chain, Finance, IT, Human Resources, and Legal are based at the Company headquarters in Lübeck and in some cases at other international sites. Production and development are managed globally from the headquarters. Other global functions perform services for the national companies, set Group standards, and are responsible for strategic management. The countries themselves bear overall responsibility for operating business. A member of management is appointed as a Managing Director responsible for each country in which Dräger subsidiaries operate. This Managing Director makes all decisions concerning local issues within the scope of the Company-wide standards and strategy and reports directly or indirectly to the Executive Board member responsible for the relevant region.

This restructuring makes for the clear allocation of responsibilities and functions. It is also a way of fostering the entrepreneurial attitude at Dräger and accelerating our decision-making processes. This all goes hand in hand with our aim of reducing costs and streamlining our administrative structures.

↗ Please refer chart “Executive Board responsibilities”

### CHANGES TO SEGMENT REPORTING

Dräger also changed its segment reporting structure at the start of fiscal year 2016 in accordance with the new management approach. This structure is aligned with the responsibilities of the three Executive Board members with regional responsibility. This means that we continue to meet the requirements of IFRS 8, under which segment reporting in quarterly and annual reports must be based on a company's organization system and management approach.

The changes are as follows:

– Reporting is structured according to the three regions: Europe, Americas, and Africa, Asia, and Australia.
– Some key performance indicators (including order intake, net sales, and EBIT) continue to be reported according to the previous structure with separate figures for the medical division and safety division.
– Cross-regional costs are allocated to the three segments (regions) using a plan-based formula. The majority of these costs are assigned to the regions using a net sales formula.
– Apart from net working capital and its influencing factors (trade receivables, trade payables, inventories including prepayments received), capital employed reported at segment level also includes long-term capital, such as property, plant and equipment. This is also assigned to the segments using a net sales formula.
– Key figures that cannot be reasonably allocated to the regions are only reported at Group level. This includes figures such as net financial debt.

These changes resulted in slight year-on-year variations of order intake and income per region.

In the context of the new segment reporting structure, goodwill was allocated to the segments in the consolidated financial statements at the start of 2016. An impairment test as of December 31, 2016 did not determine any need for goodwill write-downs.

Please refer to Notes 18 and 20 in the notes

On the Dräger website www.draeger.com we have provided an overview of our key figures over the past five years in the new regional segment structure in the Company > Investor Relations section. Figures prior to 2015 are unaudited.

www.draeger.com

### VALUE-DRIVEN MANAGEMENT

In order to achieve long-term success, Dräger has to generate steady growth as well as stable and sustainable economic performance. We use a value-driven management system to increase Company value in the long term, which is based on the performance indicator Dräger Value Added (DVA).

DVA is a central key management figure at Dräger. It is reported both for the Group as a whole and for the three segments (Europe, Americas, and Africa, Asia, and Australia). We use DVA to measure the development of the Company's value and that of its various units. Not only does Dräger base its strategic decision-making on the development of DVA, the variable remuneration of Dräger management is also predominantly aligned with DVA development.

Dräger aims to achieve three main goals through its DVA-based management:

– profitable growth
– increasing operating efficiency
– increasing capital efficiency

DVA is the difference between EBIT over the preceding twelve months and calculated capital costs. Capital costs are determined using average capital employed in the past twelve months, based on the average cost of equity and borrowed capital before taxes. At 7.0 percent, the underlying weighted average cost of capital (WACC) was two percentage points lower in 2016 than in the prior year. We carried out a revaluation for fiscal year 2016 due to the fall in interest rates.

Days working capital (DWC) is another important figure. It is used to measure the coverage of net current assets. To calculate this figure, we add trade receivables to inventories, and then subtract trade payables and prepayments received (respective averages of the past twelve months) from the total. The amount is then displayed as a ratio of net sales.

Besides DVA and DWC, we also use net sales and the EBIT margin as key management indicators. This means that, at the current time, Dräger only uses financial performance indicators as key management figures.

#### ROLLING FINANCIAL FORECAST

The rolling financial forecast comprises our assessment of net sales, gross margin, and functional cost development up until the end of the current year. Based on this forecast, we analyze the latest business developments and introduce countermeasures if development deviates from the plan by a significant margin. We also prepare a detailed plan for the subsequent year towards the end of the third quarter.

#### 'FIT FOR GROWTH' EFFICIENCY PROGRAM

Back in 2014 Dräger launched a broad range of measures as part of its 'Fit for Growth' efficiency program to boost its competitiveness and productivity even further over the next few years. Fit for Growth is divided into three separate programs: SHAPE, Fit!, and Global Footprint. In 2015 we intensified our efforts relating to this efficiency program, and pressed ahead with it in 2016. This is reflected in cost development: Adjusted for currency effects and excluding the one-off effects of the prior year, our functional costs declined by 6.1 percent from 2015 to 2016.

#### SHAPE

The cost-cutting targets we set ourselves as part of the SHAPE program in 2016 were achieved both at the headquarters in Lübeck and across the various regions. In some cases, these goals were even exceeded, with measures taking effect earlier than planned. We had aimed at reducing costs by a total of approximately EUR 100 million in 2016 and 2017 compared to original planning figures. We are likely to achieve this goal.

A portion of these cost savings came in relation to personnel expenses. Here, the volunteer redundancy program, launched at the Lübeck site in the first quarter of 2016, reduced employee numbers in a socially acceptable manner. Personnel numbers were also adjusted accordingly in other regions. In total, the headcount fell from 13,936 to 13,263, or by 4.8 percent.

We were also able to reduce our material expenses worldwide. This was partly achieved by analyzing expenses for external service providers, identifying potential for improvement, and implementing the resulting measures systematically. We are also working closely together with suppliers to cut direct production costs.

#### FIT!

The FIT! program is geared towards helping us to more effectively meet the rising standards of technology and product development against a backdrop of increasingly dynamic markets and ever-stricter regulations. We have formulated this vision into the slogan "Faster. Connected. Innovative." The aim here is to improve the internal and external integration of some of our applications and innovation organization and boost the Company's capacity for innovation in the process. Among other things, we are continuously working towards shortening the "time to market" performance indicator – the time it takes for a product idea or customer request to be launched as a product on the market – by 50 percent and, in doing so, bringing added value to the customer in a shorter space of time. Dräger analyzes all phases of the product life cycle for potential for improvement and optimizes products where necessary. This approach has proven to be so effective that in the meantime we have transferred it into the line organization. We have already successfully launched the first wave of products within a shorter time frame.

#### Global Footprint

In the Global Footprint program, we continually assess our range of sites worldwide with the aim of accelerating the flow of materials and therefore increasing our supply capability while reducing production costs. The "factory of the future," which was opened in Lübeck in the reporting year, is one of the successes of this program. We have created a more efficient production and logistics structure that allows us to manufacture our products more flexibly and at a lower cost. In addition, we also successfully completed the relocation of labor-intensive production processes in the area of masks and protective suits in the safety technology from Lübeck to our site in Klášterec in the Czech Republic in 2016. The closure of the US safety technology site in Pittsburgh was also related to measures within Global Footprint. Customer-relevant activities such as marketing and sales have already been transferred to our site in Houston, while all other tasks are now distributed across other Dräger sites in the US and in Europe.

In summary, we are satisfied with the implementation of our efficiency program. It made a major contribution to the improvement in earnings, particularly in 2016. The measures resolved for 2017 are already included in the 2017 business plan and will be implemented on schedule.

## Strategy and goals

We have been committed to producing "Technology for Life" for over 125 years now – it is a vital part of our corporate identity. Our products protect, support, and save lives. This is the basis from which Dräger has grown in the past and on which we will also build moving forward. In order to retain and expand our outstanding market position, we will continue to do our utmost to combine the interests of all stakeholders in the best possible manner: those of our customers, suppliers, employees, shareholders, banks, and the environment in which we live and work.

The Company's principles are and remain our guidance, and determine a key part of our decision-making. We intend to remain an independent, self-determining, pioneering, value-creating, and attractive company moving forward.

Our four corporate aspirations represent our vision of the Company over the coming years.

### CORPORATE ASPIRATIONS

#### We are first choice for our customers

Across all functions we have a joint focus on our customers who have a positive experience at all Dräger touch points. Customer satisfaction and loyalty is high.

#### We have a truly global footprint

We offer a high level of service to our customers wherever they are located in the world. To serve our global markets, work with our suppliers, and support our sales channel partners in an optimal way, we have implemented the right organization and processes. We encourage our people to bring out their talent wherever they are and in whatever function they operate. Our balanced sales and expenses across the geographies give us greater flexibility, allow us to respond quicker to opportunities, and make us more resilient. We think globally and act locally.

#### We are networking across borders as entrepreneurs

We see the big picture, share our knowledge and expertise, support and collaborate with each other, and learn from each other. We are all part of a highly professional and social network working across departmental, legal entity, and country borders. This goes beyond our company and includes customers, suppliers, and sales channel partners. We manage the challenge to be connected. Our entrepreneurial spirit is based on our individual judgment and common sense.

#### We get things done

We get things done with an entrepreneurial culture in a lean organization. For our customers, we have offerings that no other supplier can match, whether these are innovative products, integrated systems or custom-built solutions. With our innovations, we are the first to fulfill customer needs. Dräger's culture empowers our people to make decisions each and every day.

### MEDIUM-TERM COMPANY GOALS

Our medium-term company goals are based on our corporate aspirations and are aligned with financial and non-financial key figures. We have set ourselves the following medium-term targets:

#### Net sales growth, regional and industry focus

Our medical and safety technology markets are growth markets. Markets in the North and South America and Asia / Pacific regions are experiencing the strongest rates of growth. We intend to increase the share of net sales attributable to these regions significantly in the medium term; we intend to outperform market growth in safety in particular. In mining, the chemical industry and the oil & gas sector, our aim is to boost our market share by a considerable margin in the medium term.

#### EBIT and DVA

Thanks to the strategic initiatives and efficiency programs we launched internally in 2014 and 2015, we successfully increased earnings before interest and taxes and DVA once again in 2016 – despite a decline in net sales.

### Time to market

We want to increase our level of innovation. By making targeted investments in system capabilities and functionalities and cutting innovation and market entry cycles, we are able to strengthen our competitive position on a sustainable basis.

We once again set quantitative targets for a range of these indicators for fiscal year 2017. Please see the “Outlook” section on pages 107 et seqq. of this management report for more details on this, as well as precise forecasts.

## STRATEGIC GOALS IN MARKETS

We support our medical customers all over the world by providing products and solutions for optimal acute care in operating rooms and for intensive-care units, neonatal care, and emergency care. We have three strategic focal points in this area:

### More-effective workflows

With our workstation concepts, we improve workflows in operating rooms and on hospital wards in close collaboration with our customers. This enables us to help hospitals become more efficient, improve patient safety, and raise satisfaction among hospital staff.

### Improving clinical results

Our innovative hospital solutions help customers achieve better results in hospital care. We also keep track of other important criteria, such as compensation policies (diagnosis related groups).

### Appealing to price-conscious customers

In putting together our range of products and solutions, we focus on things that our customers really need. This approach puts us in a position to also reach price-conscious customers too and offer them attractive solutions.

In safety, we orient the Company towards the requirements of selected industries and markets worldwide. This enables us to optimize our sales channels and facilitate access to our customers in line with their needs. At the same time, we continue to develop Dräger as a worldwide partner for integrated system solutions. We consider internationality to be a key factor in the success of the Company, particularly in the oil & gas, chemical, and mining industries.

Our range of products and solutions spans stationary and mobile gas detection devices, personal protective equipment, professional diving equipment, alcohol and drug detection devices, and an array of training and customer service offerings. We also work on project business, including projects involving fire training systems or interchangeable special units for tunnel rescue trains.

### Oil and gas

As a reliable partner for infrastructure projects, we deliver a strategic, all-round service to major global customers. We are consistently expanding our range of services.

### Chemical industry

We provide all-round support for customers’ occupational safety workflows. Our aim is to be the only port of call for our customers. We work with multinational chemical corporations by drawing on our international sales network and continue to develop our range of on-site services, equipment rental business, and shut-down management services.

### Mining

With a wealth of experience in mine rescue, we have a key role to play in establishing and expanding emergency management systems, particularly in emerging markets. Our occupational health and safety and safety management solutions help customers to maintain safe mining operations over the long term.

### Fire services

We know what counts in day-to-day firefighting. This knowledge and our wealth of experience makes us a skilled partner for our customers. We support fire service operating workflows prior to, during, and after deployment with tailored products and services. Moving forward, we intend to strengthen our focus on training and maintenance.

#### Application-driven markets

We also have a great many industrial and public-sector customers which cannot be targeted effectively through the offerings referred to above. Instead, we offer solutions based on selected safety technology applications. The keys to success here are efficient market cultivation and the selection of optimal sales channels.

# Business performance

## General economic conditions

### STAGNATING GROWTH

The global economy only grew moderately in 2016. According to forecasts by the Institute for the World Economy (IfW), growth stood at 3.1 percent. The IfW believes that this low rate of growth not only reflects weak economic growth momentum, it is also the result of the structural slowdown in potential growth – the long-term increase of production potential – both in developed countries and in emerging markets. Furthermore, the IfW believes that the need to abandon the policy of widespread fiscal expansion, as well as the arrival of increasingly protectionist tendencies, also pose risks to the external economic environment.

In its annual report published in June 2016, the Bank for International Settlements (BIS) warned that the high-risk combination of record debt, low growth, and limited scope for action could see the global economy spiral into a new crisis. The UK's decision to leave the European Union (EU) has also heralded the start of a new phase of uncertainty in the BIS' eyes. The BIS considers it vital that the pressure be taken off monetary policy, which has been burdened too much for too long. It warns that a new economic strategy is needed with greater attention paid to regulatory, fiscal, and structural policy.

### FED CONTINUES REVERSAL OF INTEREST RATE POLICY, ECB EXTENDS BOND-BUYING PROGRAM

After the European Central Bank (ECB) cut benchmark rates to a record low of 0.0 percent, it then raised the penalty rate for banks to deposit excess liquidity to 0.4 percent. As part of the bank's quantitative easing program, the ECB is also buying up bonds from public issuers worth EUR 80 billion per month. In addition, it expanded this program in June 2016 to include purchasing corporate bonds. In December, the ECB decided to extend the program through to the end of 2017 but reduce monthly buying to EUR 60 billion from April. By contrast, the US central bank, the Federal Reserve (Fed), ended its monthly bond-buying program in October 2014. In mid-December 2015, the Fed raised benchmark rates slightly for the first time since the

2008 financial crisis, but decided not to increase them further in summer 2016. The Fed then raised benchmark rates again in December by a small margin. The fiscal policy of the Fed and of the ECB are going in increasingly opposite directions.

### INFLATION EXTREMELY LOW

Rates of inflation remained at a low level in 2016, but rose again towards the end of the year. Prices in Germany increased year on year by 0.5 percent in 2016 (2015: 0.3 percent). Price increases in the eurozone stood at 0.2 percent, up from 0.0 percent in the prior year. The euro has once again lost value against the US dollar over the past year. At the start of the year, the euro was trading in a relatively small range initially. The Brexit vote in June 2016 caused major volatility and weakened not only the British pound in particular, but also the euro against the US dollar. The results of the US presidential elections in November increased the euro's downward slide against the dollar. A range of emerging market currencies fell in value against the euro over the course of the year.

### MARKET AND SEGMENT PERFORMANCE

The relevant industries in the Europe segment recorded moderate growth trends overall in 2016. All told, the expansion of healthcare systems continued, primarily as a result of demographic developments and modernization. In Germany, the market for medical technology equipment grew slightly despite cost pressure. The medical technology market in Southern Europe continued to recover to a certain extent. New projects to improve the provision of hospital services were started in Russia. Europe's industrial markets were largely stable when it came to safety technology. The year in Germany was characterized by a rise in employment and a thoroughly robust domestic economy. According to our findings, demand for safety technology products in application-oriented markets was predominantly driven by the implementation of legal requirements. The chemical industry achieved lower growth rates in Europe than in the past. In light of budget pressure, we believe that sales in the European fire service market were limited to replacement investments and investments in additional equipment.

Development in the relevant industries in the Americas segment varied widely in 2016. The market for medical technology equipment in the US continued to grow slightly, supported by the higher number of people insured as a result of healthcare reforms. In Canada, sales developed positively in the medical technology market. Cost pressure and inflation continued to make investments in the healthcare system difficult in Central and South America. Fluctuations in the price of oil continued to have an overall negative impact on sales of safety technology products in North America. The provision of safety-relevant equipment to the chemical industry also managed to post only moderate growth in the US. Due to Brazil's weakness, Central and South America once again recorded a decline in personal protective equipment despite an overall economic turnaround according to our experiences. In the Americas segment, the development of the corresponding commodity prices continued to have a negative impact on demand in mining.

The relevant industries in the Africa, Asia, and Australia segment posted a slight increase overall in 2016. According to our observations, the segment's emerging economies saw moderate industry growth for medical technology products. Growth slowed overall in China, both for medical and safety technology. As in other countries, China continued to strive to replace imports with products from local manufacturers in many areas of the economy. Development in the Indian medical technology market was influenced by construction and investing activities. The private sector is the driving force behind the modernization of the healthcare system. In the Middle East and Africa, the medical technology benefited to a lesser extent from government and private investment. Chemical markets held slower growth rates in store for the safety technology in larger Asian countries according to our observations. In the Middle East and Africa, demand was largely unchanged as a result of the economic conditions. The oil and gas industry reduced its capacities over the course of the year. The Australian economy has been seeing a decline in investments in mining for a few years now.

### TRENDS WITH AN INFLUENCE ON OUR BUSINESS PERFORMANCE

Aside from economic aspects, important megatrends – globalization, health, and connectivity – are the main factors that influence our business.

**MAJOR CURRENCY CHANGES SORTED BY THEIR IMPACT ON DRÄGER'S EARNINGS**

| Average rates compared to the euro | 12 months 2015 | 12 months 2016 | Changes in % | Dräger exposure | Earnings effect for Dräger (EBIT) |
|---|---|---|---|---|---|
| Mexican peso | 17.67 | 20.68 | 17.0 | Long | ↓ |
| Chinese yuan | 6.95 | 7.34 | 5.7 | Long | ↓ |
| Argentinian peso | 10.41 | 16.49 | 58.4 | Long | ↓ |
| Japanese yen | 133.63 | 120.44 | –9.9 | Long | ↑ |
| Turkish lira | 3.04 | 3.34 | 10.0 | Long | ↓ |

### Globalization

Globalization continues to refer to the closer linkage of markets across the world. The global supply of goods and services increases competitive and price pressure and ultimately leads to a relocation of production sites to less expensive emerging economies. The rising standard of living in these countries is making it possible for more and more people to gain access to medical services. This is also fueling new occupational health and safety standards. Both of these factors are encouraging a long-term increase in the demand for medical and safety products. Protectionist tendencies aimed at preventing the supposed migration of jobs have increased in some industrialized countries. In this respect, a weakening of free trade against the backdrop of growing uncertainty is becoming apparent.

### Health

Today, health refers all-embracingly to physical, mental, and social well-being. The desire for quality of life that lasts as long as possible, coupled with population growth and the issue of aging populations in many societies, is also boosting demand for medical care. This new awareness also affects the working world and is raising legal requirements for safe workplaces. These influences result in good long-term prospects for the medical and safety technology industries.

### Connectivity

The growing state of digital connectivity is changing the economy. Connected devices and rapid internet connections promise a wealth of opportunities for businesses, but also entail numerous challenges. This makes it possible to simplify and enhance clinical processes and their management at hospitals, for example; in industry, smart products and solutions and the wireless transfer of safety-relevant data are becoming increasingly important.

### OVERALL ASSESSMENT OF FRAMEWORK CONDITIONS

The global economy continues to only experience moderate growth. Growth rates in industrialized economies and in particular in emerging economies are still falling short of historical figures. Both the referendum in the United Kingdom to leave the EU and the results of the US presidential election are an expression of increasingly protectionist tendencies and have led to uncertainty over further political and economic development. Geopolitical risks such as the Syrian conflict and general instability in the Middle East are an added burden on the economic environment.

↗ see table "Major currency changes sorted by their impact on Dräger's earnings"

## Business performance of the Dräger Group

↗ see table "Business performance of the Dräger Group"

### OVERALL MANAGEMENT ASSESSMENT OF BUSINESS PERFORMANCE

The slow growth of the global economy and declining purchasing power in emerging economies on account of low commodity prices offered a tough environment in the past fiscal year. Our order intake increased slightly in fiscal year 2016, supported by a significant increase in the fourth quarter. By contrast, our net sales declined by 3.3 percent in nominal terms, even though we nearly matched the prior-year figure in the fourth quarter.

The US dollar stabilized against the euro over the course of the year, and the currencies of some emerging economies also gained value. All told, negative currency effects decreased somewhat in fiscal year 2016. In this environment, order intake rose 2.1 percent year on year (net of currency effects). Especially in the fourth quarter, we achieved a sig-

## BUSINESS PERFORMANCE OF THE DRÄGER GROUP

| | | Twelve months | | |
|---|---|---|---|---|
| | | 2016 | 2015 | Changes in % |
| **Order intake** | **€ million** | **2,538.7** | **2,532.2** | **+0.3** |
| **Net sales** | **€ million** | 2,523.8 | 2,608.9 | –3.3 |
| **Gross profit** | **€ million** | 1,135.4 | 1,171.7 | –3.1 |
| **EBITDA**[1] | **€ million** | 222.7 | 150.9 | +47.6 |
| **EBIT**[2] | **€ million** | 136.9 | 66.7 | > +100.0 |
| **Net profit** | **€ million** | 81.7 | 33.3 | > +100.0 |
| **Earnings per share on full distribution**[3] | | | | |
| per preferred share | € | 3.46 | 1.46 | > +100.0 |
| per common share | € | 3.40 | 1.40 | > +100.0 |
| Research and development costs | € million | 219.0 | 231.1 | –5.2 |
| Equity ratio[4] | % | 43.4 | 40.9 | |
| Cash flow from operating activities | € million | 195.3 | 39.9 | > +100.0 |
| Net financial debt[4] | € million | 34.7 | 145.3 | –76.1 |
| Investments | € million | 99.9 | 196.8 | –49.2 |
| Capital employed[4,5] | € million | 1,247.0 | 1,269.3 | –1.8 |
| Net working capital[4,6] | € million | 563.2 | 582.3 | –3.3 |
| Gross profit / net sales | % | 45.0 | 44.9 | |
| EBIT[2] / Net sales | % | 5.4 | 2.6 | |
| EBIT[2,7] / Capital employed[4,5] (ROCE) | % | 11.0 | 5.3 | |
| Net financial debt[4] / EBITDA[1,7] | Factor | 0.16 | 0.96 | |
| Gearing[8] | Factor | 0.03 | 0.15 | |
| DVA[7,9] | € million | 49.8 | –46.3 | > +100.0 |
| Headcount on December 31 | | 13,263 | 13,936 | –4.8 |

[1] EBITDA = earnings before net interest result, income taxes, depreciation and amortization
[2] EBIT = earnings before net interest result and income taxes
[3] Based on an imputed actual full distribution of earnings attributable to shareholders
[4] Value as of reporting date
[5] Capital employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
[6] Net working capital = current, non-interest-bearing assets plus noncurrent trade receivables less current, non-interest-bearing debt
[7] Value of the last twelve months
[8] Gearing = Net financial debt / equity
[9] Dräger Value Added = EBIT less cost of capital of average invested capital (through 2015: 9 %, from 2016: 7 %)

nificant increase in orders of 9.1 percent (net of currency effects). Net sales decreased by 1.5 percent in 2016 (net of currency effects). In the fourth quarter, we managed a slight rise in net sales year on year (net of currency effects).

Our earnings benefited, on the one hand, from the systematic implementation of cost-cutting measures. On the other hand, fewer one-off expenses, which had a pronounced negative effect on the prior year's earnings, were incurred in fiscal year 2016. In addition, negative currency effects

### COMPARISON OF FORECAST FIGURES AND ACTUAL FIGURES

| | **Forecast 2016** According to the 2015 annual report | **Forecast 2016** Last published | **Fiscal year 2016** Results achieved |
|---|---|---|---|
| Net sales | 0.0 – 3.0% (net of currency effects) | Lower end of range | –1.5% (net of currency effects) |
| EBIT margin | 3.5 – 5.5%[1] | 3.5 – 5.5%[1] | 5.4% |
| DVA | Improvement (2015: EUR –46.3 million) | Improvement | EUR 49.8 million |
| **Other forecast figures:** | | | |
| Gross margin | Down year on year (2015: 44.9%) | Down year on year | 45.0% |
| Research and development costs | EUR 225 – 235 million | EUR 215 – 225 million | EUR 219.0 million |
| Interest result | On par with prior year (2015: EUR –17.2 million) | Slightly down year on year | EUR –15.5 million |
| Effective tax rate | 30 – 33% | 30 – 33% | 32.7% |
| Days working capital (DWC) | 119 – 121 days | 119 – 121 days | 121.7 days |
| Operating cash flow | >60% of EBIT | >60% of EBIT | 143% of EBIT |
| Investment volume | EUR 110 – 120 million | EUR 90 – 100 Mio. EUR | EUR 99.9 million |
| Equity ratio | Increase (2015: 40.9%) | Increase | 43.4% |
| Net financial debt | Improvement (2015: EUR 145.3 million) | Improvement | EUR 34.7 million |

[1] Based on exchange rates at the start of fiscal year 2016

initially decreased over the course of the year before increasing somewhat again in the fourth quarter. For the year as a whole, they remained down somewhat year on year. Despite the drop in net sales, we raised earnings before interest and taxes (EBIT) to EUR 136.9 million (2015: EUR 66.7 million), and the EBIT margin increased significantly to 5.4 percent (2015: 2.6 percent). Dräger Value Added (DVA) improved greatly to EUR 49.8 million (2015: EUR –46.3 million).

In light of the reliability of our forecast, the following conclusions can be drawn when comparing forecast figures with actual figures:

Demand failed to meet expectations in fiscal year 2016. After nine months, we limited the net sales forecast to the lower end of the forecast range. The recovery of order intake and net sales expected for the fourth quarter materialized almost as anticipated. However, it was unable to completely close the net sales gap, meaning that net sales declined (net of currency effects). As a result of the significant rise in order intake in the fourth quarter, we were able to increase orders on hand slightly year on year at the end of the year.

Our EBIT margin came in at the upper end of the forecast range and benefited, despite the slight drop in net sales, from cost-cutting measures that were implemented more quickly than originally planned. In addition, the negative currency effects were somewhat less pronounced than anticipated at the start of the year.

Our other forecast figures developed as follows:

Our gross margin benefited from improved product margins and cost reductions. As a result, it remained stable overall and therefore developed somewhat better than expected despite negative currency effects. The effects from our cost reduction program took effect earlier than anticipated in some cases. Furthermore, we reduced our forecasts for investment volume and R&D costs over the course of the year. In both cases, the result achieved in the fiscal year was within the adjusted forecast. We also adjusted our forecast for the interest result during the year on account of the continuing low level of interest rates.

Days working capital (DWC) was slightly above the forecast range. Average inventories, receivables, and liabil-

## ORDER INTAKE

| in € million | 2016 | 2015 | Changes in % | Net of currency effects in % |
|---|---|---|---|---|
| | | | | Twelve months |
| Europe[1] | 1,382.5 | 1,391.0 | –0.6 | +0.9 |
| Americas[1] | 515.0 | 496.8 | +3.7 | +7.2 |
| Africa, Asia, Australia[1] | 641.2 | 644.5 | –0.5 | +0.9 |
| **Total** | **2,538.7** | **2,532.2** | **+0.3** | **+2.1** |
| thereof medical business | 1,662.6 | 1,646.0 | +1.0 | +2.9 |
| thereof safety business | 876.1 | 886.2 | –1.1 | +0.7 |

[1] Value for 2015 adjusted due to new segmentation

ities remained approximately stable in proportion to net sales; the average prepayments received fell relative to net sales. Our operating cash flow relative to EBIT increased significantly. The main factors were: Trade receivables decreased, whereas they increased in the prior year; inventories were reduced, whereas they grew in the prior year; trade payables fell less sharply than in the prior year. Our tax rate, the equity ratio, and net financial debt developed as expected.

↗ see table “Comparison of forecast figures and actual figures”

The development of Dräger’s business is considered in detail as follows.

### ORDER INTAKE

Our order intake rose by 2.1 percent (net of currency effects) in fiscal year 2016. The main driving force was the Americas segment, where order volume grew by 7.2 percent (net of currency effects). Both medical and safety products made a contribution to this development. This promising development was supported by strong order growth in the fourth quarter. In the Europe segment, we recorded a slight rise in orders of 0.9 percent (net of currency effects) in fiscal year 2016. The 5.2 percent increase in order intake in Germany made a significant contribution to this development. In the Africa, Asia and Australia segment, order intake rose by 0.9 percent (net of currency effects) in 2016. Higher demand for medical products was offset by a decline in orders for safety products.

In the medical product areas, order intake was up year on year in hospital infrastructure systems, the service business, anesthesia devices, and business with hospital consumables. Demand for respiratory care and thermoregulation products remained approximately stable, whereas we recorded a drop in orders in patient monitoring and clinical data management in all sectors.

In the safety product areas, we concluded major orders for engineered solutions. Demand also rose significantly in the service business, especially in our rental and safety service business. We recorded a decline in orders in industrial occupational health and safety, business with government agencies, and in plant safety equipment.

↗ see table “Order intake”

### NET SALES

Net sales decreased by 1.5 percent in fiscal year 2016 (net of currency effects). The increase in net sales in the fourth quarter was no longer able to compensate for the decline in the first three quarters. Net sales in 2016 were up year on year only in the Americas segment (net of currency effects: +2.1 percent) due, in particular, to the sharp rise in deliveries in the fourth quarter. In the Europe segment, Dräger recorded a 1.1 percent decline in net sales (net of currency effects). By contrast, net sales rose by 4.5 percent in Germany compared to 2015. We saw a sharp decline in net sales of 5.1 percent (net of currency effects) in the Africa, Asia, and Australia segment. Deliveries in both product areas failed to match the prior year’s levels.

In the medical business, we generated a rise in net sales in service business, whereas sales proceeds in business with hospital consumables remained approximately the same as

## NET SALES

| in € million | 2016 | 2015 | Changes in % | Twelve months Net of currency effects in % |
|---|---|---|---|---|
| Europe[1] | 1,384.3 | 1,420.7 | –2.6 | –1.1 |
| Americas[1] | 503.7 | 509.1 | –1.0 | +2.1 |
| Africa, Asia, Australia[1] | 635.8 | 679.1 | –6.4 | –5.1 |
| **Total** | **2,523.8** | **2,608.9** | **–3.3** | **–1.5** |
| thereof medical business | 1,647.4 | 1,698.8 | –3.0 | –1.3 |
| thereof safety business | 876.5 | 910.1 | –3.7 | –2.0 |

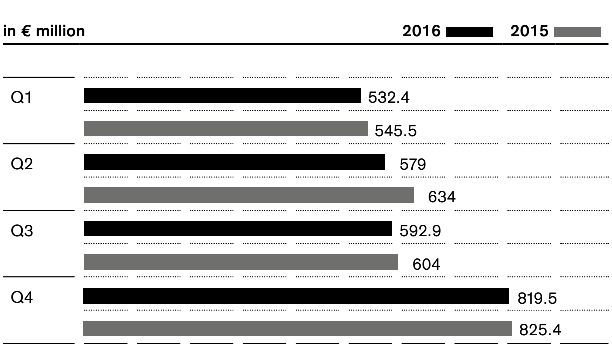
[1] Value for 2015 adjusted due to new segmentation

in the prior year. Net sales fell in all other medical product areas. Net sales declined – in some cases significantly – especially in respiratory care and thermoregulation equipment, patient monitoring and clinical data management, and business with hospital infrastructure systems. Deliveries of anesthesiology products also fell slightly.

In the safety business, we recorded a significant increase in net sales in service business, especially in maintenance service and business with rental devices. By contrast, deliveries declined in business with government agencies, especially alcohol testing devices, as well as in plant safety equipment and business with engineered solutions. Net sales were also down slightly year on year in industrial occupational health and safety.

↗ see table “Net sales” and chart “Strong net sales performance in final quarter”

## STRONG NET SALES PERFORMANCE IN FINAL QUARTER




### EARNINGS

Due mainly to lower net sales volume, our gross profit fell by EUR 36.2 million to EUR 1,135.4 million in fiscal year 2016. At 45.0 percent, our gross margin was up slightly year on year (2015: 44.9 percent). Although lower quality costs, higher product margins, and cost reductions raised the gross margin, currency effects had a negative impact. In particular, various Latin American currencies and the Chinese yuan lost value against the euro. While the gross margin improved slightly in the Americas and Africa, Asia, and Australia segments, it was somewhat lower in Europe year on year.

However, we succeeded in raising the margin in all segments year on year in the fourth quarter. We recorded particularly favorable development in the Americas segment. Higher net sales volume and lower quality costs had a positive impact, especially in the fourth quarter.

Our functional costs fell by 8.2 percent (net of currency effects) in the fiscal year, mainly due to cost-saving measures from our “Fit for Growth” efficiency program. One-off expenses, particularly in the fourth quarter, raised costs in the prior year. In fiscal year 2016, one-off expenses for our efficiency program came to EUR 10.0 million (2015: EUR 34.8 million). Furthermore, currency effects – in relation to the British pound, for example – provided relief for functional costs. The decline in functional costs amounted to 9.0 percent in nominal terms. Net of these one-off expenses and currency effects, functional costs declined by 6.1 percent.

**INVESTMENTS / DEPRECIATION AND AMORTIZATION**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| in € million | Investments | Depreciation / amortization | Investments | Depreciation / amortization |
| Intangible assets | 7.2 | – 12.2 | 67.9 | – 12.1 |
| Property, plant and equipment | 92.7 | – 73.6 | 128.9 | – 72.1 |

Net of relief effects related to currency, selling and marketing costs were down 8.2 percent year on year. Cost-saving measures are continuing to have an effect in all three segments. Research and development (R&D) costs fell by 4.8 percent net of the change in exchange rates (– 5.2 percent in nominal terms). The ratio of R&D costs to net sales (R&D ratio) therefore stood at 8.7 percent (2015: 8.9 percent). Net of currency effects and one-off expenses for our efficiency program, our administration costs fell by 7.6 percent. Personnel expenses within the Group (net of currency effects) decreased year on year by 3.4 percent (– 4.2 percent in nominal terms) due primarily to the creation of provisions for the personnel measures taken in 2016 in the prior year.

At EUR 0.2 million, the other financial result increased by a significant margin year on year (2015: EUR – 6.8 million). The improvement is due primarily to the fact that, unlike in the prior year, overall currency-related gains were recorded instead of valuation losses.

Thanks to the lower functional costs and the improvement in the financial result, our Group earnings before interest and taxes (EBIT) increased to EUR 136.9 million (2015: EUR 66.7 million), even though gross profit was lower on account of net sales. The EBIT margin rose from 2.6 percent to 5.4 percent.

The interest result improved to EUR –15.5 million (2015: EUR –17.2 million). At 32.7 percent (2015: 32.8 percent), the tax rate remained roughly stable year on year, while earnings after income taxes came to EUR 81.7 million (2015: EUR 33.3 million).

**INVESTMENTS**

In fiscal year 2016, we invested EUR 92.7 million in property, plant and equipment (2015: EUR 128.9 million) and EUR 7.2 million in intangible assets (2015: EUR 67.9 million). Within the scope of the “factory of the future” project for modernizing the production site in Lübeck, we invested EUR 20.8 million in property, plant and equipment (2015: EUR 45.9 million for the “factory of the future” and the new administrative building). The sharp drop in investments compared to the prior year is due primarily to the fact that the acquisition of the company GasSecure AS, Oslo, Norway (total investment in 2015: EUR 60.5 million), and higher investments for the “factory of the future” and the new administrative building in Lübeck were included in the prior-year figure. The investments for the “factory of the future” project have now been completed.

Depreciation and amortization totaled EUR 85.8 million in fiscal year 2016 (2015: EUR 84.2 million). Investments covered 116.4 percent of depreciation, meaning that non-current assets rose by EUR 14.1 million net.

↗ see table “Investments / depreciation and amortization”

## Cash flow statement[1]

In fiscal year 2016, the Dräger Group’s cash inflow from operating activities amounted to EUR 195.3 million (2015: EUR 39.9 million). The primary factor in this development was the fact that trade receivables decreased by EUR 31.3 million, whereas they increased by EUR 44.6 million in the prior-year period. In addition, inventories were reduced by EUR 17.4 million following an increase of EUR 5.4 million in the prior-year period. The decrease in other assets (EUR 18.7 million year on year) and the increase in other liabilities (EUR 18.9 million year on year) also had a positive impact on cash inflow from operating activities. At the same time, the decrease in trade payables slowed to EUR 10.2 million (2015: decline of EUR 22.8 million). By

[1] Due to the elimination of exchange rate effects, the underlying changes recognized in the cash flow statement cannot be directly reconciled with the items of the published balance sheet.

contrast, earnings before net interest result, income taxes, depreciation, and amortization (EBITDA) – adjusted for cash-neutral changes to provisions and other non-cash earnings / expenses – increased from EUR 186.7 million by just EUR 0.5 million to EUR 187.2 million, since the improved EBITDA were neutralized mainly by the decrease in provisions. Substantial provisions had been created for personnel measures in the prior year.

At EUR 77.3 million, cash outflow from investing activities decreased (2015: EUR 167.0 million). These mainly consisted of replacement investments. The decrease was primarily due to the fact that the purchase price payment for the shares in GasSecure AS, Oslo, Norway, in the amount of EUR 58.1 million was included in the prior-year period. In addition, investments in the "factory of the future" project, at EUR 20.8 million, were lower than in the prior year (2015: EUR 45.9 million).

The higher cash outflow from financing activities totaling EUR 70.0 million (2015: EUR 1.3 million) resulted primarily from the repayment of bank loans and liabilities to banks totaling EUR 66.5 million.

Cash and cash equivalents as of December 31, 2016 exclusively comprised cash, of which EUR 5.4 million (December 31, 2015: EUR 8.9 million) was subject to restrictions.

Unused credit lines came to EUR 343.3 million as of the balance sheet date (December 31, 2015: EUR 271.6 million) and are subject to restrictions applicable in the market.

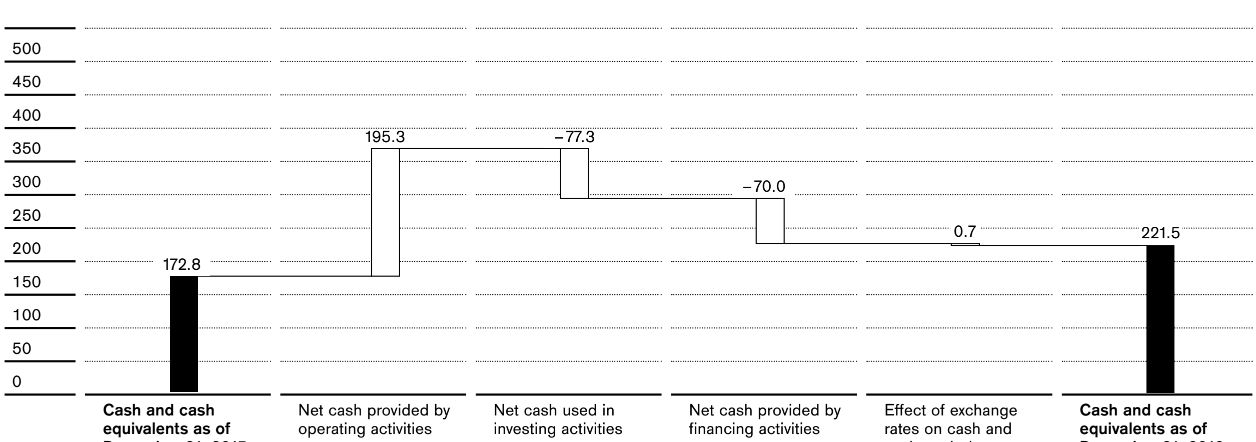
↗ see table "Financial position of the Dräger Group" as well as charts "Cash flow reconciliation" and "Added value statement of the Dräger Group"

## FINANCIAL POSITION OF THE DRÄGER GROUP

| in € million | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Cash flow from operating activities | 176.8 | 68.3 | 188.0 | 39.9 | 195.3 |
| Cash flow from investing activities | –65.5 | –86.5 | –102.6 | –167.0 | –77.3 |
| Free cash flow | 111.3 | –18.2 | 85.4 | –127.1 | 118.1 |
| Cash flow from financing activities | –192.0 | –70.8 | –26.3 | –1.3 | –70.0 |
| Change in liquidity (excluding exchange rate effects) | –80.7 | –88.9 | 59.0 | –128.4 | 48.1 |

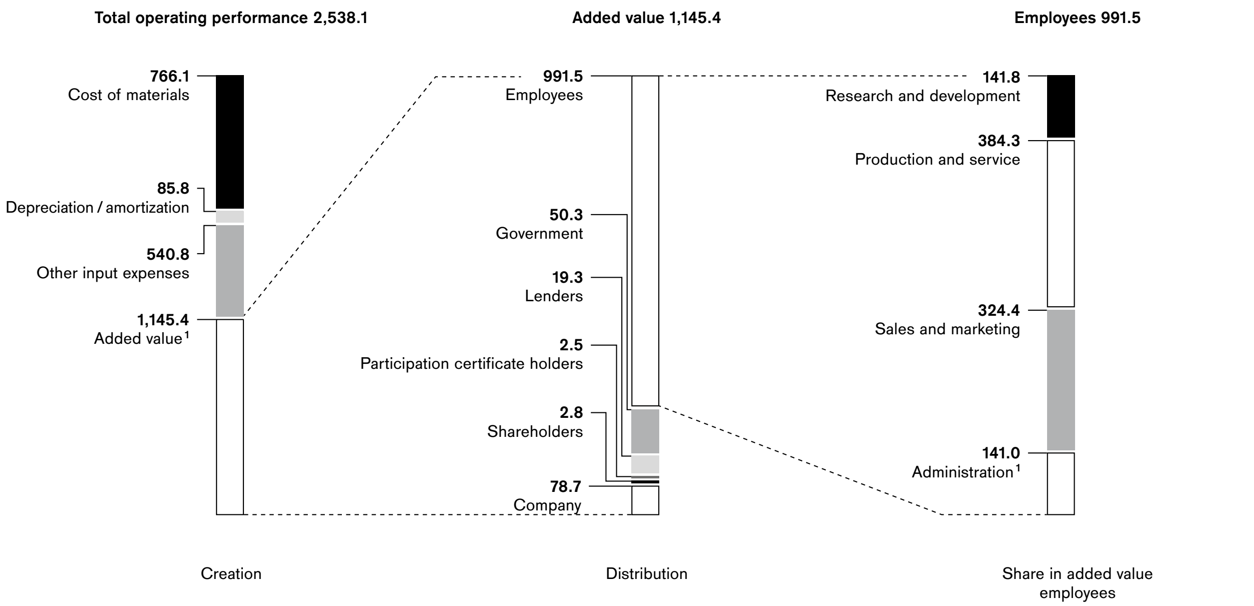
## CASH FLOW RECONCILIATION

**January to December 2016** **in € million**



**ADDED VALUE STATEMENT OF THE DRÄGER GROUP**

in € million




[1] Excluding restructuring costs

## Financial management

**BORROWING**

Our existing bilateral credit lines to secure working capital requirements over the medium term stood at EUR 355.5 million at the end of the reporting year. The terms of these credit lines remain until October 30, 2018. These credit lines were utilized as sureties in Germany and abroad and as cash facilities.

In addition, internal Group cash pools exist in several different currencies through which liquidity is equalized within the Group. On December 31, 2016, short-term loans amounted to EUR 57.0 million (December 31, 2015: EUR 169.7 million). This reduction was the result of a fall in short-term borrowing and the repayment of the note loan due in the reporting year of EUR 57.5 million.

Dräger uses note loans in addition to bilateral credit lines for its medium and long-term financing. In the reporting year, Dräger repaid due note loans totaling EUR 57.5 million. A new note loan of EUR 60.0 million was also taken out. As of December 31, 2016, total note loans amounted to EUR 98.4 million (December 31, 2015: EUR 95.9 million).

At present, Dräger does not have a rating from agencies such as Standard & Poor's, Moody's, or Fitch.

**BILATERAL CREDIT LINES WITH TERMS UNTIL OCTOBER 30, 2018**

The bilateral credit line of EUR 35.0 million with the Royal Bank of Scotland was canceled by mutual consent. Current core banks increased their bilateral credit lines by EUR 32.5 million. As a result, bilateral credit lines totaled EUR 355.5 million (2015: EUR 358.0 million). The credit agreements with the other parties continue to exist unchanged.

↗ see table "Bilateral credit lines with terms until October 30, 2018" on page 64

Please refer to Notes 37 and 41 of the notes for details on the Dräger Group's loans and liabilities

## BILATERAL CREDIT LINES WITH TERMS UNTIL OCTOBER 30, 2018

| Type of credit | € million | Intended use | Lender |
|---|---|---|---|
| Cash | 204.0 | Secure working capital requirements | Commerzbank, Deutsche Bank, HSBC, Helaba, SEB, Svenska Handelsbanken, Sparkasse zu Lübeck, Deutsche Apotheker- und Ärztebank |
| Sureties | 151.5 | Within the context of conducting business activities | Commerzbank, Deutsche Bank, HSBC, Svenska Handelsbanken |
| **Total** | **355.5** | | |

## NET ASSETS OF THE DRÄGER GROUP

| | | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Noncurrent assets | € million | 710.4 | 717.2 | 781.5 | 907.2 | 918.6 |
| Current assets | € million | 1,389.8 | 1,347.8 | 1,452.6 | 1,400.9 | 1,393.8 |
| thereof cash and cash equivalents | € million | 332.4 | 232.1 | 296.9 | 172.8 | 221.5 |
| Equity | € million | 729.7 | 816.0 | 896.6 | 945.9 | 1,003.5 |
| Debt | € million | 1,370.4 | 1,249.0 | 1,337.5 | 1,365.5 | 1,308.8 |
| thereof liabilities to banks | € million | 387.2 | 332.8 | 296.2 | 307.8 | 245.7 |
| Total assets | € million | 2,100.1 | 2,065.0 | 2,234.1 | 2,311.4 | 2,312.3 |
| Long-term equity-to-fixed-assets ratio [1] | % | 239.2 | 233.7 | 230.4 | 196.8 | 213.7 |

[1] Long-term equity-to-fixed-assets ratio = total equity and long-term debt divided by intangible assets and property, plant and equipment

### LIQUIDITY FORECAST

Liquidity came to EUR 221.5 million at the end of the year (December 31, 2015: EUR 172.8 million). For its medium and long term planning, Dräger forecasts a positive development of cash and cash equivalents. This will be influenced by a planned increase in operating cash flow – reflecting expected business developments – and solid financing, which has already been arranged for the coming years as a prudent measure. Future payment obligations from note loans falling due, which will result in payments of EUR 38.5 million in 2018 and EUR 60.0 million in 2021, will have a negative impact on liquidity. The Dräger Group's short- and medium-term liquidity is secured by existing cash in hand and bank balances as well as the existing credit lines, of which most have a term of more than one year.

### TASKS AND ORGANIZATION OF THE TREASURY DEPARTMENT

The treasury department is responsible for treasury management, secures the Group's liquidity and credit facilities, and monitors its interest and currency risks. The department acts as a service center with a focus on corporate risks. The organizational structures and processes and the Group's internal treasury policy ensure transparency and security. Responsibilities for trading and completing financial transactions are separated. For example, the treasury back office reviews and approves all financial transactions that were traded in the treasury front office. Controlling calculates Group-wide currency exposure as the basis for hedging transactions.

### DERIVATIVE FINANCIAL INSTRUMENTS

We generally use financial instruments for hedging purposes and not to optimize earnings, although the principles of economic efficiency are also applied to such decisions.

## FINANCIAL FIGURES

| in € million | December 31, 2016 | December 31, 2015 | Changes in % |
|---|---|---|---|
| Total assets | 2,312.3 | 2,311.4 | 0.0 |
| Equity | 1,003.5 | 945.9 | 6.1 |
| Equity ratio | 43.4 % | 40.9 % | |
| Capital employed | 1,247.0 | 1,269.3 | – 1.8 |
| Net financial debt | 34.7 | 145.3 | – 76.1 |

Transactions of this type are selected and concluded in a uniform manner throughout the Group. From the fourth quarter of 2016 on, Dräger has accounted for the derivative financial instruments used on the basis of IFRS hedge accounting.

Please refer to Note 44 in the notes

The introduction of hedge accounting means that the earnings effects from derivative financial instruments are reported with the corresponding effects from operating activities in the correct period, reducing the volatility of the quarterly results from currency-related valuation effects.

### NET ASSETS

In fiscal year 2016, equity rose by EUR 57.6 million to EUR 1,003.5 million. The equity ratio came to 43.4 percent as of December 31, 2016, up on the figure as of December 31, 2015 (40.9 percent). Equity increased mainly as a result of improved earnings. Provisions for pension obligations and similar obligations reduced equity. The adjustment of the calculation parameters for German pension provisions, particularly the reduction of the underlying interest rate from 2.25 percent to 1.75 percent, increased pension provisions by EUR 30.7 million; the net amount of this adjustment of EUR 21.0 million after deferred tax liabilities reduced reserves from retained earnings recognized in equity.

↗ see tables “Net assets of the Dräger Group” as well as “Financial figures”

In fiscal year 2016, total assets rose marginally by EUR 0.9 million to EUR 2,312.3 million. On the assets side, noncurrent assets increased by EUR 11.4 million, due in part to further investments in the “factory of the future”. Current assets decreased by EUR 7.1 million. A sharp decline in trade receivables (EUR –29.6 million), inventories (EUR –15.2 million), and notes receivable (EUR –6.6 million) stood in contrast to an increase in cash and cash equivalents (EUR +48.7 million). In addition, the assets held for sale in the prior year in the amount of EUR 3.3 million were sold.

On the liabilities side, interest-bearing loans and liabilities to banks were reduced by EUR 62.1 million in total, with a new note loan of EUR 60.0 million replacing short-term bank loans. Noncurrent provisions rose by EUR 31.4 million, due mainly to higher provisions for pensions and similar obligations. Current provisions fell by EUR 21.8 million, primarily as a result of the use of provisions for our efficiency program.

### DRÄGER VALUE ADDED

Our Dräger Value Added increased year on year to EUR 49.8 million (2015: EUR –46.3 million) as of December 31, 2016. Our EBIT rose by EUR 70.2 million year on year. Although average capital employed declined only marginally, capital costs fell by EUR 25.9 million. To take into account the lower interest rates, we have been using a lower weighted average cost of capital of 7 percent to calculate average capital employed since 2016. Average capital employed fell by 0.9 percent to EUR 1,244.5 million. A reduction in current assets – in particular, a reduction in trade receivables and inventories – overcompensated for an investment-related increase in noncurrent assets. However, average current assets fell somewhat less than proportionally to net sales. As a result, days working capital (coverage of current assets) increased marginally by 0.5 days to 121.7 days.

**BUSINESS PERFORMANCE OF EUROPE SEGMENT**

| | | | | Twelve months | |
|---|---|---|---|---|---|
| | | 2016 | 2015 | Changes in % | Net of currency effects in % |
| **Order intake with third parties**[1] | **€ million** | **1,382.5** | **1,391.0** | **–0.6** | **+0.9** |
| thereof Germany | € million | **529.5** | **503.6** | **+5.2** | **+5.2** |
| **Net sales with third parties**[1] | **€ million** | **1,384.3** | **1,420.7** | **–2.6** | **–1.1** |
| thereof Germany | € million | **539.6** | **516.3** | **+4.5** | **+4.5** |
| **EBITDA**[2] | **€ million** | **125.3** | **101.4** | **+23.6** | |
| **EBIT**[3] | **€ million** | **84.5** | **59.4** | **+42.2** | |
| Capital employed[4,5] | € million | 559.7 | 568.4 | –1.5 | |
| EBIT[3]/net sales | % | 6.1 | 4.2 | | |
| EBIT[3,6]/capital employed[4,5] (ROCE) | % | 15.1 | 10.5 | | |
| DVA[6,7] | € million | 44.5 | 6.7 | > +100.0 | |

1 Value for 2015 adjusted due to new segmentation
2 EBITDA = Earnings before net interest result, income taxes, depreciation and amortization
3 EBIT = Earnings before net interest result and income taxes
4 Capital employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
5 Value as of reporting date
6 Value of the last twelve months
7 Dräger Value Added = EBIT less cost of capital of average invested capital (through 2015: 9 %, from 2016: 7 %)

## Business performance of the Europe segment

↗ see table “Business performance of Europe segment”

### ORDER INTAKE

In the Europe segment, our order intake was up 0.9 percent year on year (net of currency effects) last year. With an increase of 5.2 percent, order intake posted particularly positive development in Germany.

Furthermore, order volume also rose in Switzerland, Russia, and Belgium, in contrast to declines in demand – some of them major – in France, the United Kingdom, Turkey, Poland, and the Czech Republic.

In particular, the medical and safety technology service business, business with hospital infrastructure systems, and business with engineered solutions recorded considerable growth in order intake. Demand also rose in the hospital consumables business, whereas it remained approximately stable in plant safety and in industrial occupational health and safety. By contrast, demand fell significantly in respiratory care and thermoregulation equipment, in business with government agencies, and in patient monitoring and clinical data management. Orders for anesthesia products were also down.

### NET SALES

Our net sales in Europe fell by 1.1 percent (net of currency effects) in fiscal year 2016 despite the significant increase in Germany. In the fourth quarter, we recorded a substantial rise in net sales, especially in the medical product areas, whereas deliveries in the safety product areas were down.

We recorded net sales growth in Germany, Switzerland, Norway, and Russia, whereas we faced declines – some of them significant – in the United Kingdom, Spain, the Netherlands, and the Czech Republic, as well as in some southeastern European countries.

Net sales in the medical and safety service business, in hospital infrastructure systems, in industrial occupational health and safety, and in business with hospital consumables developed positively. We had to cope with some significant declines in respiratory care and thermoregulation

**BUSINESS PERFORMANCE OF AMERICAS SEGMENT**

| | | | | | Twelve months |
|---|---|---|---|---|---|
| | | 2016 | 2015 | Changes in % | Net of currency effects in % |
| **Order intake with third parties[1]** | **€ million** | **515.0** | **496.8** | **+3.7** | **+7.2** |
| **Net sales with third parties** | **€ million** | **503.7** | **509.1** | **–1.0** | **+2.1** |
| **EBITDA[2]** | **€ million** | **34.0** | **4.1** | **> +100.0** | |
| **EBIT[3]** | **€ million** | **10.3** | **–18.6** | **> +100.0** | |
| Capital employed[4,5] | € million | 312.0 | 291.7 | +7.0 | |
| EBIT[3] / net sales | % | 2.0 | –3.7 | | |
| EBIT[3,6] / capital employed[4,5] (ROCE) | % | 3.3 | –6.4 | | |
| DVA[6,7] | € million | –10.5 | –43.7 | +75.9 | |

[1] Value for 2015 adjusted due to new segmentation
[2] EBITDA = Earnings before net interest result, income taxes, depreciation and amortization
[3] EBIT = Earnings before net interest result and income taxes
[4] Capital employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
[5] Value as of reporting date
[6] Value of the last twelve months
[7] Dräger Value Added = EBIT less cost of capital of average invested capital (through 2015: 9 %, from 2016: 7 %)

equipment, in anesthesia devices, in business with government agencies, and in plant safety equipment business. Deliveries were also down in patient monitoring and clinical data management.

### EARNINGS

Gross profit fell by EUR 24.2 million in fiscal year 2016 due mainly to negative currency and volume effects. The gross margin decreased year on year by 0.6 percentage points despite a stronger final quarter compared to the same period in the prior year.

Functional costs fell by 8.5 percent (net of currency effects: –7.6 percent) due primarily to savings related to sales and marketing costs, a favorable development of exchange rates.

In total, earnings before interest and taxes (EBIT) for the Europe segment amounted to EUR 84.5 million (2015: EUR 59.4 million). The EBIT margin increased from 4.2 percent in the prior-year period to 6.1 percent.

Thanks to the increase in EBIT and the reduction in the cost of capital, DVA for the Europe segment improved to EUR 44.5 million (2015: EUR 6.7 million). The reduction in the weighted average cost of capital to 7.0 percent (2015: 9.0 percent) was the reason for the reduction in the cost of capital.

## Business performance of the Americas segment

↗ see table “Business performance of Americas segment”

### ORDER INTAKE

In fiscal year 2016, order intake in the Americas segment rose by 7.2 percent (net of currency effects). Demand for both medical and safety products increased significantly in the fourth quarter.

Demand developed positively in the US, Argentina, Canada, and Peru. By contrast, it fell in Venezuela, Paraguay, Colombia, and Chile.

We recorded a significant rise in orders for anesthesia devices, respiratory care and thermoregulation equipment, and in business with government agencies, where personal protective equipment for fire services was in particularly high demand. Order volume was also higher year on year in service business and business with hospital consumables; demand for plant safety equipment remained stable. By contrast, order intake in hospital infrastructure systems and in patient monitoring and clinical data management declined significantly. We also did not match the prior year's order volume in industrial occupational health and safety.

#### NET SALES

In fiscal year 2016, net sales increased by 2.1 percent (net of currency effects). We succeeded in increasing deliveries of both medical and safety products year on year. The fourth quarter was particularly positive. Net sales rose significantly, especially for medical products (net of currency effects).

We recorded net sales growth in Canada, Argentina, Peru, and Brazil. By contrast, our sales proceeds were down in Venezuela, Chile, Paraguay, and Mexico. In the US, net sales posted stable development overall year on year due to increased deliveries of medical products in the fourth quarter.

Net sales developed positively, especially in service business, in respiratory care and thermoregulation equipment, and in business with hospital consumables. In business with government agencies, the sharp rise in deliveries of personal protection equipment for fire services was more than able to offset the decline in net sales of alcohol testing devices. Our net sales also increased in anesthesia devices and plant safety equipment. Deliveries were down in patient monitoring and data management, industrial occupational health and safety, and hospital infrastructure systems.

#### EARNINGS

Gross profit increased by EUR 5.5 million in 2016. Higher volume and improved product margins made it possible to compensate for negative exchange rate effects. The gross margin improved by 1.6 percentage points, especially on account of the year-on-year improvement in product margins in the fourth quarter.

Functional costs for the full year fell by 8.3 percent (net of currency effects: –7.0 percent) primarily caused by lower personnel costs and further targeted cost savings resulting from savings related to sales and marketing costs and a favorable development of exchange rates.

Earnings before interest and taxes (EBIT) for the Americas segment rose to EUR 10.3 million (2015: EUR –18.6 million). The EBIT margin improved to 2.0 percent (2015: –3.7 percent).

Thanks to the increase in EBIT and the reduction in the cost of capital, DVA for the Americas segment improved to EUR –10.5 million (2015: EUR –43.7 million). The reduction in the weighted average cost of capital to 7.0 percent (2015: 9.0 percent) was the reason for the reduction in the cost of capital.

## Business performance of the Africa, Asia, and Australia segment

↗ see table "Business performance of the Africa, Asia, and Australia segment"

#### ORDER INTAKE

In the Africa, Asia, and Australia segment, we recorded a rise in order intake of 0.9 percent (net of currency effects) in 2016. The significantly higher demand in the fourth quarter for both medical and safety products was able to compensate for the weak development in the preceding quarters.

Higher order volume in China, Egypt, India, and South Africa was able to compensate for the slump in demand in Saudi Arabia, Singapore, the United Arab Emirates, and Indonesia. Brisk demand for medical products in the fourth quarter played a major role in the rise in order intake in China.

We registered growth in order intake primarily in hospital infrastructure systems and anesthesia devices, as well as in our service business. Orders were stable for respiratory care and thermoregulation equipment. By contrast, demand in business with hospital consumables, in plant safety equipment, and in patient monitoring and clinical data management was down significantly. Orders also declined in industrial occupational health and safety and business with government agencies.

#### NET SALES

Our net sales fell by 5.1 percent (net of currency effects) in fiscal year 2016. The drop (net of currency effects) was even somewhat more pronounced in the fourth quarter.

## BUSINESS PERFORMANCE OF AFRICA, ASIA, AND AUSTRALIA SEGMENT

| | | | | | Twelve months |
|---|---|---|---|---|---|
| | | 2016 | 2015 | Change in % | Net of currency effects in % |
| **Order intake with third parties[1]** | **€ million** | **641.2** | **644.5** | **–0.5** | **+0.9** |
| **Net sales with third parties[1]** | **€ million** | **635.8** | **679.1** | **–6.4** | **–5.1** |
| **EBITDA[2]** | **€ million** | **63.3** | **45.4** | **+39.7** | |
| **EBIT[3]** | **€ million** | **42.1** | **25.8** | **+63.1** | |
| Capital employed[4,5] | € million | 375.3 | 409.2 | –8.3 | |
| EBIT[3]/net sales | % | 6.6 | 3.8 | | |
| EBIT[3,6]/Capital employed[4,5] (ROCE) | % | 11.2 | 6.3 | | |
| DVA[6,7] | € million | 15.8 | –9.3 | > +100.0 | |

[1] Value for 2015 adjusted due to new segmentation
[2] EBITDA = Earnings before net interest result, income taxes, depreciation and amortization
[3] EBIT = Earnings before net interest result and income taxes
[4] Capital employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
[5] Value as of reporting date
[6] Value of the last twelve months
[7] Dräger Value Added = EBIT less cost of capital of average invested capital (through 2015: 9 %, from 2016: 7 %)

The sharp decline in net sales in Saudi Arabia, the United Arab Emirates, Singapore, and Qatar stood in contrast to, at times, strong growth in India, Thailand, Vietnam, South Africa, and Egypt. In China, net sales were down slightly despite a significant rise in the fourth quarter.

Net sales developed better than in the prior year in medical service business and in anesthesia devices. Demand remained approximately stable in patient monitoring and clinical data management. By contrast, deliveries in hospital infrastructure systems and hospital consumables were down significantly. Our net sales also declined in industrial occupational health and safety, plant safety equipment, respiratory care and thermoregulation equipment, and business with government agencies.

### EARNINGS

Gross profit fell by EUR 17.5 million year on year in 2016. The lower volume and a negative currency effect played a major role in this development. Nevertheless, the gross profit margin rose slightly by 0.5 percentage points thanks to improved product margins. Gross profit saw a volume-related decline in the fourth quarter.

Functional costs fell by 10.6 percent (net of currency effects: –10.1 percent) due primarily to the lower sales and marketing costs.

EBIT in the Africa, Asia, and Australia segment stood at EUR 42.1 million (2015: EUR 25.8 million). The EBIT margin rose from 3.8 percent to 6.6 percent.

Thanks to the rise in EBIT and the reduction in the cost of capital, DVA for the Africa, Asia, and Australia segment improved to EUR 15.8 million (2015: EUR –9.3 million). The reduction in the weighted average cost of capital to 7.0 percent (2015: 9.0 percent) and the lower capital employed were the reasons for the reduction in the cost of capital.

# Additional information on the medical and safety business

## INFORMATION ON THE MEDICAL BUSINESS

| | | Twelve months | | | |
|---|---|---|---|---|---|
| | | 2016 | 2015 | Changes in % | Net of currency effects in % |
| **Order intake with third parties** | **€ million** | **1,662.6** | **1,646.0** | **+1.0** | **+2.9** |
| Europe[1] | € million | 835.8 | 842.3 | −0.8 | +0.7 |
| Americas[1] | € million | 359.5 | 347.7 | +3.4 | +7.2 |
| Africa, Asia, Australia[1] | € million | 467.2 | 456.0 | +2.5 | +3.7 |
| **Net sales with third parties** | **€ million** | **1,647.4** | **1,698.8** | **−3.0** | **−1.3** |
| Europe[1] | € million | 829.2 | 849.0 | −2.3 | −0.9 |
| Americas[1] | € million | 353.5 | 358.2 | −1.3 | +2.3 |
| Africa, Asia, Australia[1] | € million | 464.7 | 491.6 | −5.5 | −4.5 |
| | | | | | |
| **EBIT[2, 3]** | **€ million** | **85.3** | **46.2** | **+84.5** | |
| Research and development costs | € million | 156.1 | 165.9 | −5.9 | |
| EBIT[2] / net sales | % | 5.2 | 2.7 | | |

[1] Value for 2015 adjusted due to new segmentation
[2] EBIT = Earnings before net interest result and income taxes
[3] Business figures are determined on the basis of products' allocation to the medical business. Non-product-related costs, including costs for the headquarters, are distributed using a plan-based net sales formula.

## INFORMATION ON THE SAFETY BUSINESS

| | | Twelve months | | | |
|---|---|---|---|---|---|
| | | 2016 | 2015 | Changes in % | Net of currency effects in % |
| **Order intake with third parties** | **€ million** | **876.1** | **886.2** | **−1.1** | **+0.7** |
| Europe[1] | € million | 546.7 | 548.7 | −0.4 | +1.1 |
| Americas[1] | € million | 155.5 | 149.0 | +4.3 | +7.1 |
| Africa, Asia, Australia[1] | € million | 174.0 | 188.5 | −7.7 | −5.8 |
| **Net sales with third parties** | **€ million** | **876.5** | **910.1** | **−3.7** | **−2.0** |
| Europe[1] | € million | 555.0 | 571.7 | −2.9 | −1.5 |
| Americas[1] | € million | 150.3 | 150.9 | −0.4 | +1.9 |
| Africa, Asia, Australia[1] | € million | 171.2 | 187.5 | −8.7 | −6.9 |
| | | | | | |
| **EBIT[2, 3]** | **€ million** | **51.6** | **20.5** | **> +100.0** | |
| Research and development costs | € million | 62.9 | 65.2 | −3.5 | |
| EBIT[2] / net sales | % | 5.9 | 2.2 | | |

[1] Value for 2015 adjusted due to new segmentation
[2] EBIT = Earnings before net interest result and income taxes
[3] Business figures are determined on the basis of products' allocation to the medical business. Non-product-related costs, including costs for the headquarters, are distributed using a plan-based net sales formula.

# Functional areas

## Research and development

↗ see table "Research and development"

We attach a great deal of importance to our research and development (R&D) activities. This is also reflected in the fact that we have consistently increased the scope of our R&D activities over the past few years. However, in 2016, we reduced our R&D expenses by a small margin to account for the temporary deterioration in the earnings situation.

Our research and development costs declined by EUR 12.1 million to EUR 219.0 million in the reporting year (2015: EUR 231.1 million); this equates to an 8.7 percent share in net sales (2015: 8.9 percent). This was primarily due to the fall in costs in the area of patient monitoring.

As of December 31, 2016, 1,295 employees worked in medical and safety technology's research and development departments worldwide (December 31, 2015: 1,416). In 2016, patent and trademark offices around the world issued 234 new patents to Dräger (2015: 147). We applied for another 86 patents at international patent and trademark offices (2015: 93). Our basic research experts analyzed over 180 new technologies in 2016 in 27 technological fields and evaluated their relevance to Dräger. In a number of projects these new technologies laid the foundations for future product innovations.

Innovation management at Dräger is breaking new ground under the slogan: make space, test out, learn, implement, or start again. Small, agile networks will complement our established structures and massively increase the speed with which an idea is turned into a finished product. This is our means of fostering the sense of innovation and entrepreneurship among our employees. These small and agile units, which operate in the same way as start-ups, can draw on existing structures such as quality, production, marketing, sales, customers, and suppliers. We use programs such as the Kickbox ideas program and have turned a former factory hall at the heart of the Dräger site into the Dräger Garage. We give interdisciplinary employee teams the chance to develop ideas for new products and business models and acquire sponsors and put together budgets in a form of internal competition. We intend to use these innovative processes, which are housed outside of the normal innovation organization, to leverage, foster, and bring to life the potential hidden in its employees and in the Company itself.

**MEDICAL TECHNOLOGY PRODUCTS**

We developed numerous existing products and produced a number of new innovations in the medical technology in 2016, including 7 new and extended devices (2015: 8) and 5 new accessory products (2015: 4). Dräger devoted particular attention to the development of new systems and therapy device components and products.

In the second quarter of the year, we launched Infinity MView, the latest member of our patient monitoring portfolio. The system monitors patients' vital signs and gathers clinical data at the "point of care," narrowing the gap in terms of features and price between the Infinity M540 stand-alone monitor for patients requiring less-acute care and during transport and the IACS (M540 plus Medical Cockpit) for intensive-care patients. It not only offers hospital employees better access to patient data, it also enables greater process flexibility by mapping parameters and stored patient data on standard medical PCs.

Market approval for our Infinity Delta VF 10.0 was an important step in implementing our strategy of greater con-

**RESEARCH AND DEVELOPMENT**

| R&D costs in € million | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Dräger Group | 197.3 | 201.5 | 212.0 | 231.1 | 219.0 |
| in % of net sales | 8.3 | 8.5 | 8.7 | 8.9 | 8.7 |
| Headcount | 1,267 | 1,423 | 1,406 | 1,416 | 1,295 |

nectivity between devices. The entire Infinity Delta series functions on the basis of the Medibus.X communication protocol and can therefore be linked to other Dräger equipment via the hospital network. Above all, this improves connectivity to our newer range of treatment equipment, such as the Perseus A500.

A significant portion of our Infinity monitoring system portfolio is certified according to DIACAP (US Department of Defense Information Assurance Certification and Accreditation Process) standards. This shows that Dräger's products help to protect the privacy of individual patients and the integrity of both large government networks and corporate networks.

With version 9 of the Integrated Care Manager (ICM) information management system, we further enhanced integration with existing hospital information systems to improve processes primarily in cost-intensive areas such as anesthesiology, intensive care, and neonatology. To further assist users, the system uses decision-making trees in its user navigation to depict standard processes. It also features a notification system for clinical and administrative events. The ICM offers customers a modern data transfer interface for personalized usage and research purposes. In addition, an assessment tool (ICMiq) has been added for clinical personnel and system administrators, which enables complex, multi-patient assessment of ICM data in clinical, administrative, or scientific matters. This way, users can draw on all the available data for clinical management and to optimize patient treatment.

Improvements were made to the anesthesia workstation software Zeus IE in version 2.0, with screen display and operation being simplified and more closely oriented to typical anesthesia processes to ease new customers' introduction to this advanced anesthesia device. Additional functions were also added in the form of two new options, Smart Ventilation Control and the integrated SmartPilot View, which underline the cutting-edge status of the Zeus IE product. Smart Ventilation Control is a clinical assistance system focusing on lung-friendly respiratory care and facilitating spontaneous breathing. The integrated SmartPilot View visualizes the depth of anesthesia using the volatile and intravenous drugs given to the patient.

Babyleo TN500, an incubator for premature babies, is Dräger's first IncuWarmer that provides optimal thermoregulation in both open and closed care and also during the transition between these two forms of care. Babyleo also offers a combination of three synchronized heat sources, allowing newborn babies to develop healthily while making workflows in the hospital simpler, quicker, and more comfortable. Family plays a vital role in the development of premature babies. The family-friendly design and array of functions help parents be included in caring for their baby. For example, the Babyleo supports the "kangaroo position," in which premature babies lie on their parents' upper bodies and establish skin-to-skin contact. When in "parent mode," the device monitors the baby's body temperature and automatically re-adjusts it when the baby is laid back into the IncuWarmer.

Dräger launched the next generation of its non-invasive respiratory support system for premature babies and newborns in 2016 in the shape of the BabyFlow Plus system. This system uses high-tech components to minimize the effort newborns require for breathing and guarantees particularly protective therapy that promotes child development. An important new feature of the BabyFlow Plus is its unique new mask design with flexible bellows, which allow the mask to find a natural position over the infant's face. User-friendliness was a particular focus in developing the BabyFlow Plus.

### SAFETY TECHNOLOGY PRODUCTS

In 2016, we launched 18 new products or product developments in the safety technology, most of which related to gas detection (2015: 13).

We introduced two new breath alcohol measuring devices at the start of the year, each developed for different customer groups and accounting for the groups' respective needs. Alcotest 5820 is a breath alcohol testing device for professional users such as the police or other authorities, while Alcotest 3820 is aimed at private users who want to test their breath alcohol level themselves.

There are also four new members of the Dräger Tubes family, each of which is calibrated to detect specific types of alcohol. The new Dräger Tubes are more sensitive and, in some cases, have shorter detection times. They are intended for use in various industries, including at technical workstations, for performing measurements as part of process monitoring, and for leak testing.

Our PSS 5000 Sentinel 7000 and PSS 7000 Sentinel 7000 self-contained breathing apparatus (SCBA) were certified according to SCBA NFPA 1981:2013 in 2016. The 2013 SCBA standard for emergency services superseded the 2007 standard and raises the technical requirements for Dräger devices and those of other manufacturers. This is aimed at further improving user safety, in this case for North American fire fighters.

The new XXS 2in1H2S-LC / CO-LC dual sensor, designed to detect a combination of hydrogen sulfide and carbon monoxide, brings together the special features and low detection thresholds of the respective sensors in a single unit. It is intended for use in portable gas detection instruments in a wide variety of industrial settings.

We also launched a new modular analysis system in the area of stationary gas detection systems. The Dräger REGARD 7000 is suitable for use with gas detection systems of varying degrees of complexity and with different numbers of transmitters. What's more, it is also backward compatible with the previous REGARD® system.

Our new four-electrode sensor for ammonia detection is the centerpiece of the Polytron C300 ($NH_3$). A high level of resilience to long-term exposure to gas sets the Polytron C300 apart from competitors' products and means it is predestined for use in environments where high concentrations of ammonia can occur for extended periods of time. The Polytron C300 measuring head was developed in intensive livestock farming as an integral component of air conditioning and waste air purification systems and allows farmers to objectively measure $NH_3$ concentration and control the air conditioning in their barns on the basis of the measurement values – a practical application only made possible in livestock farming due to the outstanding measurement properties of Dräger's four-electrode sensor. The Dräger Polytron C300 won the Innovation Award for animal welfare at the 2016 EuroTier, the world's largest trade fair for animal production and management.

The Polytron 8000 FB is a new stationary gas detection instrument with its own digital communication interface, which makes it possible to integrate transmitters into digital networks and provides support for industrial automation.

The Pointgard 2000 stationary gas detector combines all the functions of a gas detection system – gas detection, assessment, and alarms – in a single device. Its integrated design minimizes planning and installation costs for customers. Once again the number of measurable toxic gases has been increased compared to the preceding device, and a model measuring explosive gases was added to the product family. Thanks to the use of existing platform elements, the device only took 16 months to develop. The preceding device, Pointgard II, had previously only been marketed in North America, whereas Pointgard 2000 is now available worldwide.

We launched our Dräger Flame 2xx0 series in the fourth quarter of 2016. The Dräger Flame 2xx0 series offers radiant-energy-based flame detectors that capture visual radiation in their fields of view and identify flames and fires on the basis of flicker frequency and the intensity of the radiated energy. This series encompasses a variety of detector types, including double-spectrum ultraviolet and infrared detectors or single-spectrum ultraviolet detectors. The range also includes a new, rapid flame detector in the shape of the Dräger Flame 2570. Its unique selling points are its extremely short response time and high reliability against false alarms. What is more, it is capable of detecting hydrogen based fires from a distance of up to 90 meters.

## Purchasing, Production, and Logistics

### PURCHASING

At Dräger, Purchasing is responsible for obtaining all of the materials and services required at the Company, from plastic and machining parts to modules and complex mechatronic systems and IT services, fleet management, and development services. In fiscal year 2016, our purchasing volume came to EUR 1,100 million (2015: EUR 1,178 million), roughly half of which can be attributed to production materials.

Purchasing is responsible for ensuring that we operate in the right purchasing markets with the right partners over the long term and, in so doing, remain competitive. This is the only way for Dräger to achieve its targets in terms of innovation, quality, reliability, and costs. In 2016, Dräger conducted annual price negotiations for the first time as part of a global project structure with centralized management. By focusing price negotiations this way, Dräger was able to achieve a significant increase in the earnings contributions from purchasing production materials and non-production materials.

We systematically involve strategic suppliers at an early stage of product development. By selecting and monitoring the quality of these suppliers, Purchasing played an important role in the launching of new products once again in 2016 as the gateway to the purchasing market. At the same time, it laid the foundations for the achievement of important cost targets in development projects.

Once again Dräger achieved some major improvements in terms of supplier quality last year. This enabled the Company to significantly reduce supplier-caused defects in incoming goods and in production. The continuous improvement program and day-to-day work with suppliers continues to pay off. Thanks to this intensive cooperation, Dräger successfully implemented and further optimized new delivery concepts together with its suppliers last year. This resulted in the reliability of delivery dates and material availability both stabilizing at a very high level, making the entire value chain safer and more efficient in the process.

#### PRODUCTION AND LOGISTICS

In 2016, the focus of Dräger's efforts in Production and Logistics was on increasing the efficiency of its processes.

At the Lübeck site, Dräger completed the construction of its "factory of the future" for configurable medical technology devices and moved in in the first half of 2016. The renovation of the existing production buildings will be completed in the first half of 2017. The "factory of the future" allows Dräger to better orientate its production and logistics in line with demand. We have introduced multi-product lines on which a variety of devices can be manufactured with short changeover times. The right quantity of materials are brought to the production lines at the right time using tugger carts. Overall, we have established the best possible basis for a standardized production system spanning all of our product lines. The "factory of the future" is able to manufacture products at low lead times and the highest standard of quality in line with actual demand. We raised productivity in production, lowered logistics costs, and increased inventory turnover rate in the fourth quarter of 2016 as a direct result of the "factory of the future". Thanks to efficient insulation, high-tech ventilation systems, and intelligent lighting, we also succeeded in significantly reducing energy consumption and therefore also operating costs. A 250 kWp solar power plant on the roof of the production hall generates renewable energy. Heating is provided through district heat generated from landfill gas, the use of which was made worthwhile through our connection.

The relocation of mask and chemical protection suits production from Lübeck to Klášterec in the Czech Republic was successfully completed in early 2016. We will also relocate the production of helmet parts previously located at the neighboring site of Chomutov to Klášterec in the first quarter of 2017 and concentrate production activities in the Czech Republic there. In addition, we also successfully moved production lines from Pittsburgh to Telford, Blyth, and Lübeck and closed this production site in the US on schedule in mid 2016.

We also pressed ahead with our efforts to increase efficiency at all production and logistics sites and further standardized processes and IT systems.

## Quality

People entrust Dräger products with their most valuable possession: their lives. As a result, they have to be able to trust in our products and their quality at all times. We focus on quality across all process steps – from development and production to delivery, sales, and service.

#### CONTINUOUS IMPROVEMENT IN QUALITY

Ambitious quality requirements apply to all of our products and product groups. In fact, constantly improving the quality of products from year to year is part of Dräger's very fabric as a business. Our standardized processes and quality control systems ensure that all Company functions involved in a particular activity work together constructively. We also place great value on involving suppliers in quality processes in a friendly and in-depth manner. We implement quality-related measures collectively and consistently work towards enhancing product quality over the long term. All of these measures are geared towards the requirements of our customers. By staying in touch with the people who operate and use Dräger products, we are able to make adjustments to positively influence product quality for the benefit of customers at early stages of development. In this regard, we not only test our components and sub-systems, we also measure the quality of various product combinations as they are used by different customer groups across the entire life cycle. These kinds of preventative measures allow us to make products even more reliable and reduce overall quality costs. The total produce defect rate at customers was cut once again in 2016.

#### DEVELOPMENT OF THE INTEGRATED MANAGEMENT SYSTEM

Dräger's integrated management system meets the international standards ISO 9001, ISO 13485, ISO 14001, and OHSAS 18001. We pooled together our production, sales and service sites into two certification groups for reasons of efficiency in the external certification process. As a result, we have not only cut ongoing costs, 2016 also demonstrated that defined standardized processes required for this Group certification resulted in the establishment of an efficient, sustainably certified, and integrated management system at all companies. This was also confirmed in audits performed by external certification companies, in which we achieved extremely positive results.

You will find more information on our certifications on our company website at www.draeger.com/certificates.
↗ see table "Quality management certificates for 80 Dräger companies"

#### QUALITY MANAGEMENT CERTIFICATES FOR 80 DRÄGER COMPANIES

| Certificates | Number |
|---|---|
| ISO 9001 | 79 |
| ISO 13485 | 47 |
| ISO 14001 | 39 |
| OHSAS 18001 | 37 |
| | **202** |

# Sustainability

## Employees

Dräger takes responsibility: not simply for people who rely on its technology for life day after day, but also for those who help create technology for life. As a family-run company, this is a matter very close to our hearts. After all, our success is based on the commitment and competency of our employees. When it comes to human resources, our goal is simple: "Attracting the right candidates for the right roles – keeping our people motivated, committed and healthy for Dräger over the long term."

#### DEVELOPMENT OF EMPLOYEE FIGURES

In December 2015 the Executive Board decided to reduce the number of personnel in Lübeck, with the exception of direct employees in Production and Logistics, by 5 percent by December 31, 2016. We were able to structure this reduction in personnel in a socially acceptable manner by not filling vacant positions, offering further partial retirement opportunities, and concluding mutual terminations. Terminations for operating reasons were not necessary.

The Dräger volunteer redundancy program, which was established in February and ran until the end of April, played a major role in this respect. It gave employees the opportunity to initiate a termination agreement themselves and receive a calculable settlement. We also offered employees the chance to conclude a termination agreement and receive compensation. The most important element in both of these approaches was the principle of "mutual consent," in other words the employment relationship was only terminated if both Dräger and the employee decided to do so. To make this step a little easier, Dräger also offered all employees the chance to receive advice from an external service provider on their career prospects and their options on the labor market. A total of 300 employees took Dräger up on this offer. Those who concluded a termination agreement as part of the volunteer redundancy program were also given the opportunity to receive comprehensive outplacement advice. This was aimed at ensuring that outgoing employees made a smooth transition into a new employment relationship.

### IMPLEMENTATION OF THE DRÄGER FUTURE COLLECTIVE AGREEMENT

The Dräger Future Collective Agreement II, which was concluded in December 2015, became effective as of January 1, 2016. It applies until the end of 2020. Dräger, employer association NORDMETALL, and trade union IG Metall have retained and enhanced a majority of the provisions already included in the successful collective agreement from 2010. They are particularly relevant to the Lübeck site. Issues such as working hours, pay, and flexibility were a particular focus in this round of negotiations. The contractual parties have laid solid foundations for Dräger to remain successful at its base in Lübeck.

### TRAINING AND TALENT-SPOTTING

In order to guarantee a long-term stream of highly talented employees, we take responsibility for training young people ourselves. We offer young people a wide range of career opportunities in the form of eleven vocational training subjects and seven dual study courses. At the end of 2016, 273 trainees and dual students were completing their professional training at one of Dräger's German sites.

A needs-based focus in professional training is becoming increasingly important to secure the right skilled workers. The career opportunities we offer are specifically selected in conjunction with the specialist departments and adjusted to the requirements of the Company.

We secure access to high-potential young people in relevant employment markets by positioning the Company as an attractive employer and systematically developing the employer brand. We offer school students the chance to find out in-depth information about traineeships and dual studies courses at Dräger through a wide range of trainee marketing activities. This ensures that Dräger appeals to applicants who fit in with its value-oriented corporate culture – people who are interested in work that makes a difference.

2012 marked the launch of our Starter Project vocational training concept, in which four "starters" (young people from disadvantaged backgrounds) are given a chance to complete an entry-level qualification for a standard vocational training course. Three of these young people were then integrated into the vocational training for electronics engineering, mechanical engineering, and product design. Thanks to ongoing care and assistance during the course, two of the participants are set to complete their vocational training in 2017.

Dräger is a key supporter of an economic initiative to promote bilingual schools, allowing the city of Lübeck to become more attractive and enabling young people to broaden their horizons at an early age. As part of this initiative, state schools funded by the city are supported to allow students who only speak English to participate in lessons.

### REFUGEES

Dräger supports employees in their commitment to helping refugees in various ways and is also a member of the "Wir zusammen" initiative set up by German businesses. From fiscal year 2017, Dräger will be offering training courses and traineeships for refugees.

### OCCUPATIONAL HEALTH AND SAFETY

The working conditions at the Company and the health of all employees worldwide are very important issues at Dräger. Our comprehensive medical care scheme, measures for preventing accidents and illness, a wide range of Company sporting activities, and systematic occupational health management by far exceed minimum statutory obligations. All of these things have a positive impact on job satisfaction, employee motivation, absences, and the accident rate.

Our above-average level of commitment in this area was recognized in 2016, with Dräger winning the Corporate Health Award for the occupational health management concept in its industry. Under the stewardship of the Federal Ministry for Economic Affairs and Energy, this award is given to companies in Germany that go the extra mile for the health and safety of their employees.

The occupational health management concept was put under close scrutiny before the award in a comprehensive audit. The audit focused on the structure and strategy of the concept as well as the specific health services offered by Dräger for its employees. Besides an in-house health center and comprehensive range of preventative, sporting, and leisure activities, Dräger's occupational health management system is also focused on certain target groups.

For example, Dräger offers special prevention programs for production and sales employees, but also for employees at a higher risk of heart and circulatory diseases.

The audit report included the following summary: “The Company has established an outstanding occupational health management system that is considered as one of the best in Germany. (...) Employees benefit from extensive health services precisely tailored to their needs and receive long-term support in terms of performance and motivation.”

In 2016, 2,807 employees took part in one of Dräger’s prevention or health promotion programs. At 4.9, Dräger’s ratio of reportable accidents per one million working hours was higher than in the prior year (2015: 3.9) and, at the same time, one of the lowest in the entire industry (Employer’s Liability Insurance Association for the Energy, Textile, Electronic, and Media Industries 2015: 11.7; 2014: 11.8). Dräger has set itself the target of reducing this ratio by 20 percent over the next five years. Health-related absences again remained low in Germany in 2016 at 5.6 percent of work days (2015: 5.4 percent).

## LEADERSHIP AND COOPERATION

We focused on the issues of leadership and cooperation in 2016, two themes that we believe play a decisive role in achieving our targets. After intensive dialog with managers and employees worldwide, Dräger developed its new vision for leadership and cooperation: WeLEAD.

Trust is a key tenet at Dräger. It is a common theme in every aspect of how we work together, which should be based on openness and respect. To us, leadership means offering employees an environment in which they can perform to the best of their abilities. This includes giving them space to work independently and offering a clear strategic orientation that helps create value for our customers. Through WeLEAD, we continuously address this issue and constantly develop our understanding.

## SUPPORT AND DEVELOPMENT

Dräger operates on a worldwide scale. Customer orientation, an entrepreneurial approach, flexibility, and an international focus are the principles for our employees’ day-to-day work. That is why we teach and reinforce these principles and professional expertise in individual and group-based training courses and also draw on other formats such as e-learning on an increasing basis. We clarify the areas in which employees can develop and define development targets in a regular dialog between employees and managers – particularly during employee apppraisals. In our view, employees’ own desire to play an active role in their development at Dräger, and the support offered by the respective managers, are absolutely key to employee development.

Our personnel development costs came to EUR 13.8 million in the reporting year (2015: EUR 16.7 million). Costs for further training amounted to EUR 5.1 million (2015: EUR 7.9 million).

## KEY WORKFORCE TREND FIGURES

| | | Headcount as of the balance sheet date | |
|---|---|---|---|
| | | December 31, 2016 | December 31, 2015 |
| Number of employees | | 13,263 | 13,936 |
| Percentage of female employees | % | 28.8 | 28.9 |
| Part-time employees | | 757 | 775 |
| Average years with Dräger in Germany | Years | 14 | 14 |
| Average age of employees | Years | 43 | 42 |
| Turnover of employees | % | 7.5 | 5.0 |
| Sick days of work days in Germany | % | 5.6 | 5.4 |
| Accidents in Germany (accidents at work and while commuting to work), Time off sick > 3 days | | 50 | 40 |

**WORKFORCE TREND**

| | | Headcount as of the balance sheet date | | Headcount (average) | |
|---|---|---|---|---|---|
| | | December 31, 2016 | December 31, 2015 | 2016 | 2015 |
| Germany | | 6,227 | 6,473 | 6,309 | 6,376 |
| Other countries | | 7,036 | 7,463 | 7,162 | 7,479 |
| **Dräger Group total** | | **13,263** | **13,936** | **13,472** | **13,855** |
| | | | | | |
| Women | | 3,820 | 4,033 | 3,890 | 4,017 |
| Men | | 9,443 | 9,903 | 9,581 | 9,838 |
| **Dräger Group total** | | **13,263** | **13,936** | **13,472** | **13,855** |
| | | | | | |
| **Personnel development costs** | **€ million** | **13.8** | **16.7** | | |
| thereof training expenses | € million | 5.1 | 7.9 | | |

**EMPLOYEE SHARE PROGRAM**

As in the prior year, Dräger organized an employee share program in November 2016 on the basis of the preferred share. This was aimed not only at raising employees' identification with the Company, but also giving them a way to actively participate in the success of the Company and increase their interest in the development of the business. Participating employees each received a bonus share for every three preferred shares they acquired. Dräger purchased the bonus shares in regular trading on the stock market. A total of 1,023 employees purchased an average of 20 shares for a total of 21,312 shares. Dräger contributed 7,104 bonus shares.

**EMPLOYEES IN NUMBERS**

As of December 31, 2016, a total of 13,263 employees worked for the Dräger Group worldwide, 673 fewer than in the prior year (December 31, 2015: 13,936); this equates to a 4.8 percent decline in the headcount. In Germany, the number of people working for the Dräger Group declined by 246 year on year, while the number of people working abroad fell by 427. As of December 31, 2016, 53.0 percent (December 31, 2015: 53.6 percent) of employees were working outside of Germany.

Of the 13,263 employees worldwide, 54.9 percent work in sales, marketing, and service, while 24.6 percent work in production, quality assurance, logistics, and purchasing, 9.8 percent in research and development, and 10.7 percent in administration.

The decline in the number of employees in Germany was primarily due to the volunteer redundancy program at the Lübeck site. In a global context, the number of employees in administration was reduced in particular, while the number of sales and service employees remained largely stable.

Personnel expenses within the Group fell year on year by 4.0 percent (net of currency effects: by 3.2 percent) to EUR 999.2 million. This was particularly due to the reduction in the number of employees, but was also the result of a fall in personnel costs. These costs fell year on year by an average of 1.3 percent (net of currency effects: –0.4 percent) despite increases in wages and salaries abroad and the raise in accordance with wage agreements in the metal and electrical industries in Germany. The personnel cost ratio in fiscal year 2016 was 39.6 percent (2015: 39.9 percent). However, adjusted for one-off effects, this ratio rose by 0.6 percentage points from 38.7 percent to 39.3 percent.

↗ see tables "Key workforce trend figures" (page 77) and "Workforce trend"

## Environment

Protecting the environment is a core element of Dräger's corporate strategy, which is geared towards increasing value in the long term. Dräger has laid down its guiding principles in the internal directive "We take responsibility – quality, environment, employees, society." This directive has been published in 21 languages across the Group to enable as many employees as possible to understand and apply it every single day.

We have also anchored our principles of quality, environmental protection, and occupational health and safety in Company processes by means of an integrated management system. This ensures that we not only comply with legal requirements, but that we also systematically identify and seize potential for improvement. In 2016, TÜV Nord once again validated the effectiveness of Dräger's environmental and occupational health and safety management system in accordance with ISO 14001 and OHSAS 18001. For smaller, non-certified units, we have also defined appropriate worldwide Dräger standards.

### ENVIRONMENTALLY FRIENDLY PRODUCT DESIGN

Dräger products are subject to the strict regulatory requirements applicable to medical and safety products. Our customers expect long periods of use and low operating costs from their Dräger devices. That is why we design products to be safe and functional while remaining low on energy and resources. We once again conducted comprehensive training courses and workshops on environmentally friendly product development in 2016. We systematically use the Life Cycle Assessment instrument so that we are able to consider the impact of our products on the environment throughout their entire life cycle at the development stage.

We offer professional maintenance and repair services through Dräger Service all across the world and ensure a long-term supply of replacement parts and software updates so that our customers can make full use of their Dräger devices' long service life. We pursue a policy of safe recycling and disposal of used devices through specific recycling passports and an in-house disassembly center in Lübeck, which is a certified waste management company. We also take back consumables such as filters, Dräger Tubes (pollutant analysis system), and soda lime for recycling wherever this makes logistic sense.

All electrical and electronic medical devices in the European Union must comply with the substance-related restrictions of the RoHS[1] II Directive (2011/65/EU). We implemented these requirements within the given time frame. The majority of electronic safety devices have to comply with the regulations stipulated in the RoHS II Directive by July 22, 2017 at the earliest. However, all new developments and changes are already designed to meet RoHS II requirements, securing the long-term availability of devices. We have assessed existing devices in cooperation with our suppliers and revise them as and when necessary. All materials considered to be Substances of Very High Concern under the EU REACH[2] regulation, which will be subject to mandatory approval in the future, and contained in Dräger Tubes have been replaced by alternative materials, even though special regulations apply to such applications.

In order to continue to meet stricter requirements relating to product ingredients at a global level in the future, too, we have introduced a systematic monitoring system for materials on which restrictions are foreseeable or currently being debated, and take this "early warning system" into consideration in the product development process.

### ENVIRONMENTAL PROTECTION IN PRODUCTION, SALES, AND SERVICE

Dräger business processes are classified as having a low impact on the environment overall. The largest impact on the environment results from direct and indirect carbon dioxide emissions through the use of electricity, heating, and transportation.

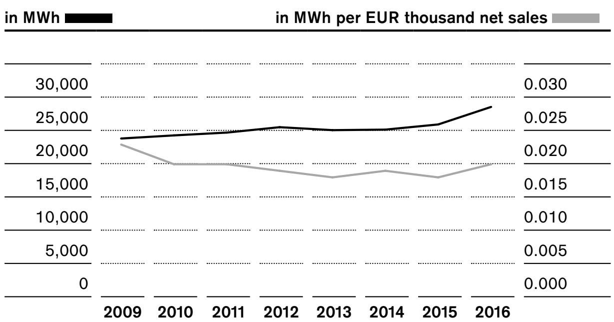
#### Energy

Direct $CO_2$ emissions occur predominantly in the generation of heat and power. At our central production site in Lübeck, we operate a highly efficient gas-powered combined heat and power plant and use district heat generated from landfill gas and biogas. Energy audits were conducted in accordance with the European Energy Efficiency Directive (2012/27/EU) at German companies as well as those in the UK, France, and the Czech Republic and potential for improvement determined.

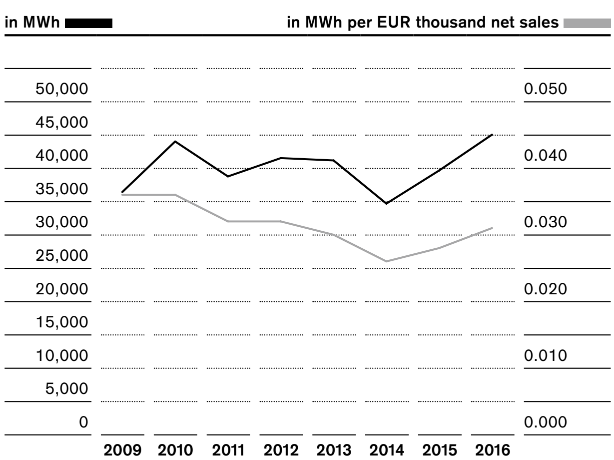
↗ Please refer charts "Electricity consumption" and "Heating" on page 80

[1] EU regulation "Restriction of the use of certain hazardous substances in electrical and electronic equipment"
[2] EU regulation "Registration, Evaluation, Authorisation and Restriction of Chemicals"

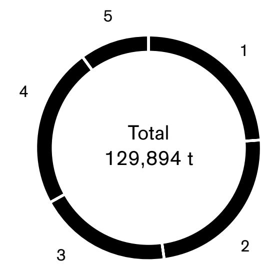
## ELECTRICITY CONSUMPTION




## HEATING




## GLOBAL $CO_2$ EMISSIONS (2015)[1]




in %

| | | | |
|---|---|---|---|
| 1. Electricity | 24 | 4. Vehicle use | 23 |
| 2. Central sales logistics | 24 | 5. Heating and production gas | 10 |
| 3. Air / rail travel | 19 | | |

[1] Data for each period become available in the middle of the following year.

Dräger has invested some EUR 70 million over the past few years in the construction of its “factory of the future” at the Lübeck site, which boasts a number of major environmental advantages: The new building’s energy consumption values are 20 percent lower than those stipulated in statutory energy standards. A heat recovery plant reduces exhaust losses by approximately 75 percent. The new factory also has a photovoltaic system, which generates up to 250 kWp (kilowatt peak) in renewable power. Buildings are fitted with LED lighting, which can be controlled depending on the time of day and occupancy of rooms. The high-bay warehouse has the latest conveyor technology, making it particularly energy-efficient. In addition, there will no longer be a need for any transport between two previously separate production sites. Energy-efficient ventilation has also been installed in existing production buildings as part of the project. The energy savings generated by these measures will only be quantifiable towards the end of 2017. The new buildings will result in a temporary increase in electricity and heating requirements, as the old buildings have not yet been renovated or decommissioned.

Indirect $CO_2$ emissions are mainly generated through transport processes; we are moving an increasing volume of our overseas deliveries from air freight to sea freight. Dräger has invested in the Skype for Business video conference system, which is used by over 10,000 employees around the world, in order to eliminate the need for business-related travel. In an annual survey conducted by Deutsche Umwelthilfe of how environmentally friendly the company car fleets of listed firms as well as small and medium sized enterprises are, Dräger was among the front-runners once again in 2016. In addition, all Executive Board members drive fully electric company vehicles; managers are also able to select electric vehicles as their company cars. In 2016, ten new charging stations were built at the Company headquarters. The vehicle fleet at Dräger’s Lübeck site also includes electric vehicles and electric bicycles.

We measure and assess the $CO_2$ emissions of our most important production, service, and sales processes across the Company and once again voluntarily disclosed our emissions data to the “CDP Supply Chain Program” of the Carbon Disclosure Project.

↗ Please refer chart “Global $CO_2$ emissions (2015)”

### Water

We mainly use water for sanitary purposes. Larger quantities of process water are used regularly in only a handful of production areas, such as for manufacturing soda lime and particle filters. Over the past few years, we have succeeded in reducing the ratio of water consumption to net sales considerably by introducing extensive closed-loop circulation and implementing measures to boost efficiency.

↗ Please refer chart “Water”

### Waste

Most of the waste from our production processes and other activities is considered harmless and can be recycled for the most part. The main waste categories are cardboard / paper, metals, soda lime, and typical household rubbish. We regularly review our waste disposal processes in internal and external audits to ensure compliance with the law. Certified waste-disposal companies recycle or dispose of all waste locally. At our most important production site in Lübeck, Waste Management is a certified waste management company. In 2016, a total of 4,082 tons of waste (76 tons or 1.9 percent more than in the prior year) was produced in Lübeck. This rise is not considered significant due to the provisional nature of the waste data at the time this report is being prepared. The recycling rate came to 97.1 percent (2015: 97.7 percent).

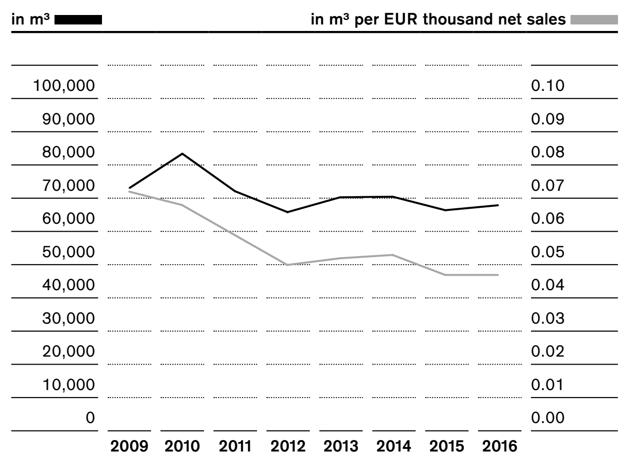
↗ Please refer chart “Waste”

### Air emissions

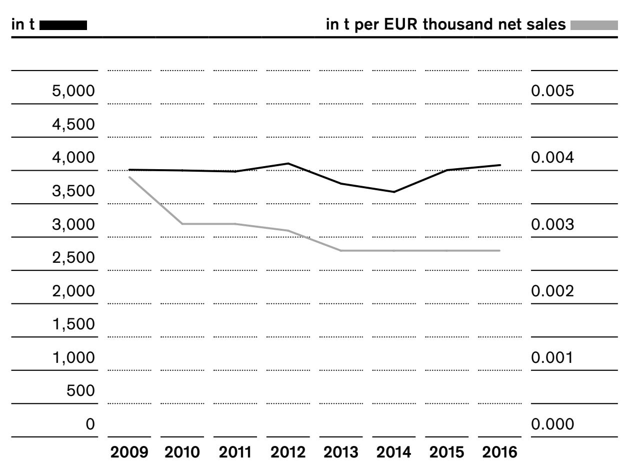
Air emissions from Dräger sites are primarily the result of the power supply. Dräger does not produce hazardous air emissions that would have to be recorded in the European Pollutant Emission Register (EPER). The installation and service work carried out in most areas of production does not release any harmful materials into the air. Only at a handful of production sites are cleaning agents, adhesives and coatings containing solvents used.

At our production site in Blyth, we paint compressed gas containers. Electrostatic paint robots have been installed here with UV curing, which allow us to reduce paint consumption and as a consequence also solvent emissions and energy consumption. As part of the relocation of chemical protection suits production from Lübeck to Klášterec (Czech Republic), we were also able to reduce solvent emissions even further thanks to the thermal exhaust cleaning system installed at the new site. Dräger employs highly efficient technology to scrub the exhaust air from soda lime and activated carbon production in Lübeck. Residual emissions (non-carbon pollutants) here are well below one ton per year, meaning that concentration levels are 95 percent below the statutory maximum limit.

**WATER / WASTEWATER**




**WASTE**



## Corporate Social Responsibility

We regularly fulfill our corporate social responsibility by donating medical and safety equipment, and we continued to do so last year.

The three-year project to help children with heart conditions in Bolivia receive medical care, which was organized in collaboration with the GIZ, came to a successful conclusion in 2016. All project goals were achieved, and some were even exceeded. Over 30 heart operations have been performed on children in La Paz already – all with positive outcomes. This figure is set to climb steadily, significantly improving quality of life for the children concerned.

The “develoPPP” project in Rwanda, initiated in 2015 for a period of three years in partnership with DEG and the Federal Ministry for Economic Cooperation and Development, is also progressing well, albeit with a few teething problems. As part of this project, Dräger installed an aircraft fire training simulator and is training Rwandan fire services on how to fight these kinds of fires.

In January, we supported the Rescue Care Worldwide e.V. association by donating a number of helmets and gas detection devices. This association continues to help develop emergency services in Albania together with its partners in the country. Volunteers from the German Red Cross in Warendorf have also organized emergency care courses in Albania. This project is part of the model being pursued by the Albanian Ministry of Health.

In June we received an urgent request from LifeBoat gGmbH i.G. They were short of equipment for their rescue cruiser Minden, which is currently deployed in the Mediterranean Sea to save refugees at sea. We sent a number of protective masks to the association in August 2016 so that they could continue their work.

We also support the valuable work of the First Responder Überherrn e.V. association. The first-aid organization, based in Saarland, aims to bridge the time between emergency calls and the arrival of emergency services by providing professional, voluntary first aid. This increases the chances of survival of seriously ill or severely injured people. We donated a variety of medical equipment to ensure that the volunteer first-aiders are able to act effectively when they are called upon.

In addition to material donations, we continue to provide financial support to a number of different causes in Northern Germany. Here are just a few examples of our financial commitments:

Last year, we expanded the discovery workshop of the Puan Klent youth holiday center on the island of Sylt by donating binoculars. This allows the young scientists to take an even closer look at the creatures they find in the mudflats.

We also support the Förderverein für Lübecker Kinder e.V. association and its Kidzcare project. This project helps children from the ages of six to eighteen who are new to Germany to integrate by offering homework assistance and the chance to make friends as well as organizing leisure activities.

We made a donation to the Arbeitsgemeinschaft Betrieblicher Brandschutz e.V. association to support its Kontaktfeuer Berlin 2016 benefit event. The aim of this event was to foster the common understanding between fire fighters and their partners and, in doing so, promote the welfare of citizens, the protection of our environment, and the safety of businesses.

# Corporate Governance Report

At Dräger, “corporate governance” stands for a responsible and transparent management and control process that focuses on a long-term increase in the value of the Company. It fosters the trust of investors, customers, employees and the public. The recommendations of the Government Commission of the German Corporate Governance Code are applied in all areas.

Dräger attaches great importance to corporate governance. In an effort to emphasize this, we apply the German Corporate Governance Code – which is aimed at stock corporations – to Drägerwerk AG & Co. KGaA. Our corporate governance report describes the features of the management and control structure of Drägerwerk AG & Co. KGaA as well as the significant rights of our shareholders and explains the special features compared to a stock corporation.

## PARTNERSHIP LIMITED BY SHARES

“A partnership limited by shares (KGaA) is a company with a separate legal personality where at least one partner is fully liable to the Company’s creditors (general partner) and the remaining shareholders have a financial interest in the capital stock, which is divided into shares, without being personally liable for the company’s liabilities (limited shareholders)” – according to the definition of Sec. 278 (1) German Stock Corporation Act (AktG). Hence, a partnership limited by shares is a hybrid between a stock corporation and a limited partnership, with the character of a stock corporation predominating. As is the case at a stock corporation, a partnership limited by shares has a two-tier management and oversight structure by law. The general partner manages the company and its operations, and the supervisory board oversees the company’s management. The main differences compared to a stock corporation are that a partnership limited by shares has a general partner (which essentially manages operations) instead of an executive board and that the rights and obligations of the supervisory board are restricted. While a supervisory board at a stock corporation appoints the executive board, in a partnership limited by shares the supervisory board does not appoint the general partner (or rather its management bodies) and also does not determine the contractual terms. The supervisory board is also not permitted to issue rules of procedure to the management or establish a catalog of transactions requiring approval. There are also differences relating to the annual shareholders’ meeting. Certain resolutions must be approved by the general partner (Sec. 285 (2) AktG), in particular the resolution to approve the financial statements (Sec. 286 (1) AktG). Many of the recommendations of the German Corporate Governance Code (hereinafter also referred to as the “Code”), which is designed for stock corporations, can therefore only be applied to a limited extent to a partnership limited by shares.

The sole general partner of Drägerwerk AG & Co. KGaA is Drägerwerk Verwaltungs AG, which is a wholly owned company of Stefan Dräger GmbH. Drägerwerk Verwaltungs AG manages the operations of Drägerwerk AG & Co. KGaA and represents it, although it acts through its Executive Board. Drägerwerk Verwaltungs AG does not hold an equity interest in Drägerwerk AG & Co. KGaA.

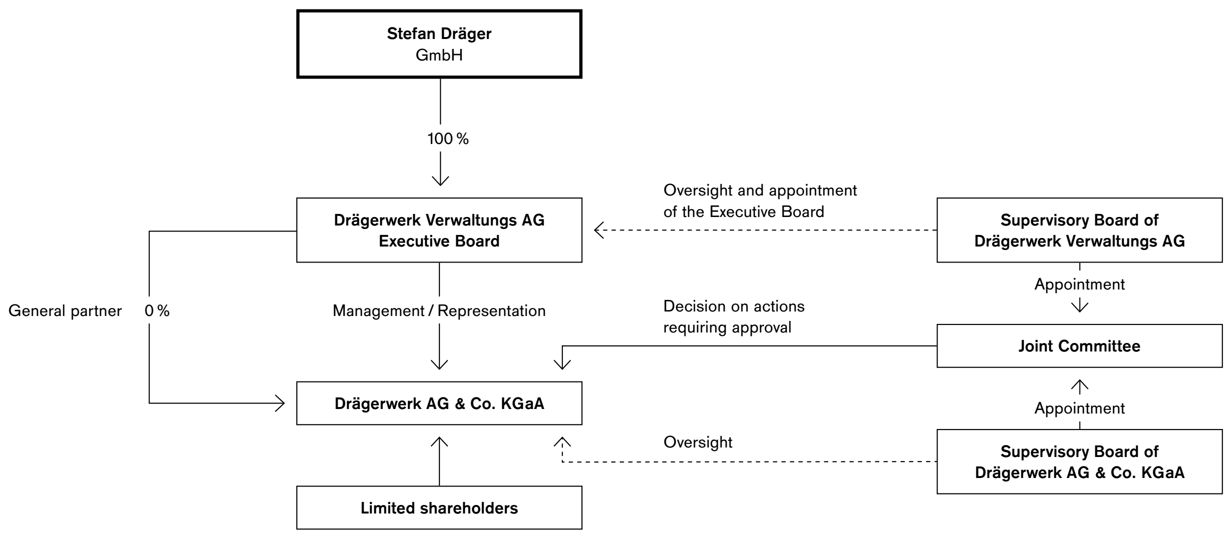
↗ Please refer chart “Drägerwerk AG & Co. KGaA” on page 84

## DECLARATION OF CONFORMITY

The joint declaration of conformity by the general partner and the Supervisory Board of Drägerwerk AG & Co. KGaA was discussed and approved in the meeting of the Supervisory Board on December 15, 2016. It states that the Company applied the recommendations of the Government Commission of the German Corporate Governance Code in all areas.

The declaration was published on December 19, 2016, with the following wording:

## DRÄGERWERK AG & CO. KGAA




"The recommendations of the German Corporate Governance Code Government Commission were designed with stock corporations in mind. Dräger applies these recommendations to Drägerwerk Verwaltungs AG wherever they are relevant to the general partner and bodies of the AG & Co. KGaA according to the requirements specific to this legal form.

The general partner, represented by its Executive Board, and the Supervisory Board declare that Drägerwerk AG & Co. KGaA since the date of the issue of its previous declaration of conformity on December 18, 2015, has acted and will continue to act on the recommendations of the German Corporate Governance Code Government Commission, as amended on May 5, 2015."

### OVERSIGHT BODIES

The Supervisory Board of Drägerwerk AG & Co. KGaA has twelve members, half of whom are elected by shareholders and half by employees in accordance with the German Co-determination Act. The chief purpose of the Supervisory Board is to oversee the management by the general partner. It cannot appoint or remove the general partner or its Executive Board, nor is it authorized to define a catalog of management transactions. The annual shareholders' meeting, not the Supervisory Board, is responsible for approving the financial statements of Drägerwerk AG & Co. KGaA. Several members of the Supervisory Board hold or held high-ranking positions at other companies. However, all of the shareholder representatives on the Supervisory Board are independent of the Company in the sense defined by the Corporate Governance Code. Where business relationships with Supervisory Board members exist, transactions are conducted on an arm's length basis as between unrelated parties and do not affect the independence of the members. The Supervisory Board of Drägerwerk Verwaltungs AG has six members who are elected by Stefan Dräger GmbH and are also the shareholder representatives on the Supervisory Board of Drägerwerk AG & Co. KGaA. The Supervisory Board of Drägerwerk Verwaltungs AG therefore does not have any employee representatives. It appoints the Executive Board of Drägerwerk Verwaltungs AG.

Pursuant to Sec. 22 of the Company's articles of association, Drägerwerk AG & Co. KGaA has set up a Joint Committee as a voluntary, additional body. It comprises eight members: four members each from the Supervisory Boards of Drägerwerk Verwaltungs AG and Drägerwerk AG & Co.

KGaA, which must include two shareholder representatives and two employee representatives from the Supervisory Board of Drägerwerk AG & Co. KGaA. The Joint Committee decides on the extraordinary management transactions by the general partner which require approval as set out in Sec. 23 (2) of the articles of association of Drägerwerk AG & Co. KGaA.

The Supervisory Board of Drägerwerk AG & Co. KGaA resolved that, when selecting its members pursuant to 5.4.1 of the Code, it would be guided by the following criteria that take into account diversity:

– professional and personal qualifications
– business management experience in German and foreign companies with a worldwide presence in various cultural regions
– experience as a representative of family-owned as well as listed companies
– a proven track record in finance and accounting as well as in financing and capital market communication
– experience in marketing and sales in diversified technology companies
– intellectually and financially independent persons with a high degree of personal integrity who do not have a conflict of interest with the Company
– the majority of shareholder representatives are independent members
– must be under 70 years of age for new election or re-election
– usually no more than three terms on the Supervisory Board

The last elections for shareholders' representatives took place at the annual shareholders' meeting on May 3, 2013. The criteria described above were taken into account and fulfilled without exception. It was ensured that a high proportion of Supervisory Board members have experience in representing family-run companies and listed companies as well as in marketing and sales at technology-led companies. According to the assessment of the Supervisory Board, all shareholder representatives are independent as defined by 5.4.2 of the German Corporate Governance Code.

The Supervisory Board of Drägerwerk AG & Co. KGaA monitors and advises the Executive Board of the general partner in the management of the partnership limited by shares. The Supervisory Board regularly discusses business performance and plans as well as the implementation of the business strategy based on written and oral reports by the Executive Board of the general partner. It reviews the financial statements of Drägerwerk AG & Co. KGaA and the Dräger Group. In doing so, it takes into account the audit reports of the statutory auditors and the results of the review by the Audit Committee. The Supervisory Board makes its recommendation to the annual shareholders' meeting for a resolution to approve the financial statements and the group financial statements.

Appointing and removing members of the Executive Board of Drägerwerk Verwaltungs AG, which manages the operations of Drägerwerk AG & Co. KGaA as the legal representative of the general partner, is the task of the Supervisory Board of Drägerwerk Verwaltungs AG.

In an effort to improve its effectiveness and efficiency, the Supervisory Board of Drägerwerk AG & Co. KGaA established an Audit Committee in accordance with 5.3.2 of the Code and a Nomination Committee in accordance with 5.3.3 of the Code. The Audit Committee consists of the Chairman of the Supervisory Board as well as four further members, of which two are shareholder representatives and two are employee representatives. The Supervisory Board ensures that the Committee members are independent and places great emphasis on their particular knowledge and experience in applying accounting standards and internal control processes. The Audit Committee monitors the adequacy and functionality of the Company's external and internal financial reporting system. Together with the statutory auditors, the Audit Committee discusses the reports drawn up by the Executive Board during the year, the Company's financial statements and audit reports. On this basis, the Audit Committee draws up recommendations for the approval of the financial statements by the annual shareholders' meeting. It deals with the Company's internal control system and with the procedure for recording risks, for risk control and risk management as well as compliance. The internal audit department reports regularly to the Audit Committee, and is engaged by this Committee to carry out audits as is deemed necessary. Reference is also made to the report of the Supervisory Board.

The Chairman of the Supervisory Board as well as two shareholder representatives are members of the Nomination Committee. It is charged with proposing suitable candidates for election to the Supervisory Board. On this basis, the Supervisory Board compiles appropriate suggestions for the annual shareholders' meeting.

### MANAGEMENT

Drägerwerk Verwaltungs AG manages the operations of Drägerwerk AG & Co. KGaA as its general partner.

It acts through its Executive Board, which determines the policy of the Company in its function as the managing body of Drägerwerk AG & Co. KGaA and of the Dräger Group. It determines the Company's strategic focus, plans and sets budgets, is responsible for resource allocation and monitors business performance. It also compiles the quarterly reports and the financial statements of Drägerwerk AG & Co. KGaA and the Group. It works closely with the bodies of the Supervisory Boards. The Chairman of the Executive Board maintains a close working relationship with both Supervisory Boards – both of the Company and of the general partner. He regularly provides the Supervisory Board with up-to-date and comprehensive information on the status of all issues relevant to the Company: strategy and its implementation, planning, business performance, financial position, and results of operations as well as business risk.

The Supervisory Board of Drägerwerk Verwaltungs AG approved the rules of procedure and its allocation of responsibilities for the Executive Board at its meeting on December 10, 2015.

### RELATIONSHIP TO SHAREHOLDERS

The annual shareholders' meeting is held in the first eight months of the fiscal year. It approves the financial statements of Drägerwerk AG & Co. KGaA, among other things, and votes on profit appropriation, the approval of the general partner's and the supervisory board's actions, and the appointment of the auditor. Furthermore, it also elects the shareholder representatives to the Supervisory Board and approves amendments to the articles of association and changes in capital, which the general partner implements. The shareholders exercise their rights at the annual shareholders' meeting in accordance with the legal requirements and the Company's articles of association. Insofar as the resolutions of the annual shareholders' meeting relate to extraordinary transactions and core business, they also require the approval of the general partner.

Dräger reports to its shareholders on business performance, net assets, financial position, and results of operations in three interim reports and the annual report.

### COMPLIANCE

Dräger has stood for "Technology for Life" for over 125 years. The highest degree of professionalism and reliability also determine Dräger's conduct and values. The Company's Principles of Business and Conduct provide the framework for this. In terms of risk, we supplement and review these principles with business-specific rules, such as on the topics of corruption, antitrust law, or conflicts of interest. We encourage our employees to become actively involved in discussions with managers and colleagues on the issue of compliance and integrity and voice their concerns.

The Executive Board is responsible for determining the structure of Dräger's compliance function; it also makes strategic decisions on the structure of compliance at the Dräger Group.

Employee training was regularly carried out on compliance issues such as anti-corruption and antitrust law in 2016 in the form of online training courses able to be accessed worldwide. These courses were supplemented by on-site events on selected compliance issues. The training management process supported by all of our country organizations has proven its worth: All relevant employees have been trained in these issues.

Last year we stocked up on resources in the compliance function, enabling assistance and advice to be provided on a needs-oriented and prompt basis on national and international compliance issues alike. Besides obtaining information, employees can also ask questions or voice their concerns over a certain business transaction by telephone via the Dräger Compliance Helpline – anonymously if they choose. In addition, cross-department expert groups (compliance reviews) have been set up at the request of individual business areas which shed light on compliance-related issues and questions in regular meetings. We use the results of their work to determine measures and update processes collectively to minimize compliance risks in the course of our business.

Besides compliance reviews, compliance audits have also been conducted at our sites with the aim of continuously monitoring and improving the compliance program. This process involves reviewing the quality and effectiveness of internal controls and the local maturity of the compliance program. We use these compliance reviews and audits to determine areas of focus. We then regularly review the extent to which improvements have been made. We will continue to develop and adapt the Dräger Compliance Program in the future in order to meet updated legal and ethical demands at all times.

## Remuneration report

This remuneration report also forms part of the combined management report of Drägerwerk AG & Co. KGaA and the Dräger Group.

### EXECUTIVE BOARD REMUNERATION

Dräger places great value on providing detailed information on the remuneration of the Executive Board as this forms part of exemplary governance and transparency for its shareholders.

This report provides an overview of the amount and structure of Executive Board remuneration at Dräger and outlines the joint remuneration system for the Executive Board members and the top management levels in the Group (Top Management Incentive, TMI). Dräger's remuneration system complies with the requirements of the German Stock Corporation Act (AktG) and the German Corporate Governance Code (DCGC):

- The remuneration structure is designed to support sustainable business performance.
- The remuneration consists of fixed and variable components.
- The variable remuneration component is based on a long-term measurement period over several years.
- Positive and negative developments in Company value are taken into account.
- Remuneration is designed to appropriately reflect the function, the Company, and the industry and is also in proportion to that of the the top management.
- Incentives for entering into disproportionate risks are avoided.
- Upper limits on total remuneration and variable remuneration components.

The remuneration system for the members of the Executive Board was first presented to the annual shareholders' meeting on May 6, 2011 and approved by a majority of 95.5 percent. The revised remuneration system for members of the Executive Board, which has applied since fiscal year 2015, was approved by the annual shareholders' meeting on April 30, 2015 by a majority of 99.8 %.

### CONTRACTS AND RESPONSIBILITIES

All members of the Executive Board have concluded service contracts with Drägerwerk Verwaltungs AG. The Supervisory Board of Drägerwerk Verwaltungs AG is responsible for determining their remuneration. The Executive Board members' contracts run for three to five years.

### DRÄGER VALUE ADDED AS A KEY MANAGEMENT FIGURE

Since 2010, Dräger has geared the management of the Company towards a long-term, sustainable increase in Company value. We introduced the Company-related key figure Dräger Value Added (DVA) as a key performance indicator to measure this. DVA is the result of EBIT in the past twelve months less calculated cost of capital (basis: average capital employed in the past twelve months). DVA management has been integrated into all management processes. The maxim of value added is particularly important for the definition of strategies, planning, regular reporting and when making investment and business decisions. Consequently, performance-related variable remuneration of the Dräger management also reflects DVA. Dräger has adjusted the existing management and Executive Board remuneration systems accordingly by setting all quantitative targets so as to have a direct and positive impact on DVA or operating cash flow. Individual targets are not agreed to ensure that the variable remuneration of the Executive Board and all other TMI participants is based on the success of Dräger as a whole or in the respective regions or countries.

**EXECUTIVE BOARD REMUNERATION – GRANTED ALLOCATIONS**

| in € | 2016 | 2016 Minimum | 2016 Maximum | 2015 |
|---|---|---|---|---|
| **Stefan Dräger, Chairman of the Executive Board since March 1, 2005** | | | | |
| Fixed remuneration | 600,000 | 600,000 | 600,000 | 600,000 |
| Additional benefits | 11,129 | 11,129 | 11,129 | 10,963 |
| **Total fixed remuneration** | **611,129** | **611,129** | **611,129** | **610,963** |
| One-year variable remuneration | 1,400,000 | – | 2,800,000 | 1,400,000 |
| Share-based remuneration | 633 | 633 | 633 | 1,409 |
| Long-term variable remuneration | – | – | 700,000 | – |
| **Total fixed and variable remuneration** | **2,011,762** | **611,762** | **4,111,762** | **2,012,372** |
| Pension cost | 125,167 | 125,167 | 125,167 | 171,234 |
| **Total remuneration** | **2,136,929** | **736,929** | **4,236,929** | **2,183,606** |
| **Gert-Hartwig Lescow, Finance and IT since April 1, 2008** | | | | |
| Fixed remuneration | 400,000 | 400,000 | 400,000 | 400,000 |
| Additional benefits | 22,679 | 22,679 | 22,679 | 24,374 |
| **Total fixed remuneration** | **422,679** | **422,679** | **422,679** | **424,374** |
| One-year variable remuneration | 700,000 | – | 1,400,000 | 702,500 |
| Share-based remuneration | 633 | 633 | 633 | 1,409 |
| Long-term variable remuneration | – | – | 350,000 | – |
| **Total fixed and variable remuneration** | **1,123,312** | **423,312** | **2,173,312** | **1,128,283** |
| Pension cost | 84,706 | 84,706 | 84,706 | 31,102 |
| **Total remuneration** | **1,208,018** | **508,018** | **2,258,018** | **1,159,385** |
| **Anton Schrofner, Research and Development, Innovation and IP since September 1, 2010** | | | | |
| Fixed remuneration | 400,000 | 400,000 | 400,000 | 400,000 |
| Additional benefits | 44,623 | 44,623 | 44,623 | 40,419 |
| **Total fixed remuneration** | **444,623** | **444,623** | **444,623** | **440,419** |
| One-year variable remuneration | 700,000 | – | 1,400,000 | 700,000 |
| Share-based remuneration | – | – | – | – |
| Long-term variable remuneration | – | – | 350,000 | – |
| **Total fixed and variable remuneration** | **1,144,623** | **444,623** | **2,194,623** | **1,140,419** |
| Pension cost | 27,508 | 27,508 | 27,508 | 29,858 |
| **Total remuneration** | **1,172,131** | **472,131** | **2,222,131** | **1,170,277** |

## REMUNERATION STRUCTURE

The absolute amount of remuneration for Executive Board members and top managers is based on each person's range of tasks, responsibilities, and required abilities.

Since fiscal year 2015, monetary remuneration comprises three components: (i) fixed annual remuneration, (ii) an annual bonus based on the annual DVA target and a KPI-based annual bonus and (iii) a long-term bonus based on DVA development over a three-year period. The DVA-based bonus therefore represents the core component of variable

## EXECUTIVE BOARD REMUNERATION – GRANTED ALLOCATIONS (CONTINUED)

| in € | 2016 | 2016 Minimum | 2016 Maximum | 2015 |
|---|---|---|---|---|
| **Rainer Klug<br>Purchasing, Production and Logistics<br>since August 1, 2015** | | | | |
| Fixed remuneration | 400,000 | 400,000 | 400,000 | 166,667 |
| Additional benefits | 25,079 | 25,079 | 25,079 | 83,685 |
| **Total fixed remuneration** | **425,079** | **425,079** | **425,079** | **250,352** |
| One-year variable remuneration | 700,000 | – | 1,400,000 | 291,667 |
| Share-based remuneration | 633 | 633 | 633 | – |
| Long-term variable remuneration | – | – | 350,000 | – |
| **Total fixed and variable remuneration** | **1,125,713** | **425,713** | **2,175,713** | **542,019** |
| Pension cost | 29,840 | 29,840 | 29,840 | – |
| **Total remuneration** | **1,155,553** | **455,553** | **2,205,553** | **542,019** |
| **Dr. Reiner Piske<br>HR since November 1, 2015** | | | | |
| Fixed remuneration | 300,000 | 300,000 | 300,000 | 50,000 |
| Additional benefits | 26,009 | 26,009 | 26,009 | 53,322 |
| **Total fixed remuneration** | **326,009** | **326,009** | **326,009** | **103,322** |
| One-year variable remuneration | 600,000 | – | 1,200,000 | 100,000 |
| Share-based remuneration | 633 | 633 | 633 | – |
| Long-term variable remuneration | – | – | 300,000 | – |
| **Total fixed and variable remuneration** | **926,642** | **326,642** | **1,826,642** | **203,322** |
| Pension cost | 22,695 | 22,695 | 22,695 | – |
| **Total remuneration** | **949,337** | **349,337** | **1,849,337** | **203,322** |

remuneration for all Executive Board members. Upper limits are defined for all remuneration components, ensuring that the absolute value of the remuneration is limited. A long-term measurement limit applies to the majority of variable salary components.

- **Fixed remuneration** is paid as a monthly salary. The fixed remuneration of existing Executive Board members was determined upon their appointments or at the time their contracts were extended and has remained unchanged since.
- Of the **variable target remuneration**, 50 percent comprises an **annual bonus** and 50 percent a **long-term bonus.**
- In turn, half of the **annual bonus** is based on **a DVA target** and the other half on one or more **KPI targets.** Both targets are defined every year by the Supervisory Board. Target achievement of 0 to 200 percent is possible for the annual bonus and its component targets.
- The **DVA target** is at least EUR 50 million for 100 percent target achievement; in the case of 200 percent target achievement, the target is at least EUR 50 million above the 100 percent DVA target. If DVA is negative, there is no bonus payment for the DVA target.
- For 2016, **KPI targets** were based on four component targets: (i) business development in North America, (ii) the expansion of global business with customers in the oil, gas, chemical, and mining industries, (iii) the development of working capital, and (iv) the achievement of the cost targets set for 2016.
- The **long-term bonus** is based on the average achievement of DVA targets for the last three fiscal years and the achievement of a fixed DVA target figure defined at the start of a three-year period. For the long-term bonus, target achievement of 0 percent to 300 percent is possible.

## EXECUTIVE BOARD REMUNERATION – CONTRIBUTION

| in € | 2016 | 2015 |
|---|---|---|
| **Stefan Dräger, Chairman of the Executive Board since March 1, 2005** | | |
| Fixed remuneration | 600,000 | 600,000 |
| Additional benefits | 11,129 | 10,963 |
| **Total** | **611,129** | **610,963** |
| One-year variable remuneration | –[1] | 154,000 |
| Share-based remuneration | 633 | 1,409 |
| Long-term variable remuneration Mid-term target 2015 – 2017 | – | – |
| **Total variable remuneration** | **633** | **155,409** |
| Pension cost | 125,167 | 171,234 |
| **Total remuneration** | **736,929** | **937,606** |

| | 2016 | 2015 |
|---|---|---|
| **Gert-Hartwig Lescow Finance and IT since April 1, 2008** | | |
| Fixed remuneration | 400,000 | 400,000 |
| Additional benefits | 22,679 | 24,374 |
| **Total** | **422,679** | **424,374** |
| One-year variable remuneration | 348,600 | 88,750 |
| Share-based remuneration | 633 | 1,409 |
| Long-term variable remuneration Mid-term target 2015 – 2017 | – | – |
| **Total variable remuneration** | **349,233** | **90,159** |
| Pension cost | 84,706 | 31,102 |
| **Total remuneration** | **856,618** | **545,635** |

| | | |
|---|---|---|
| **Anton Schrofner Research and Development, Innovation and IP since September 1, 2010** | | |
| Fixed remuneration | 400,000 | 400,000 |
| Additional benefits | 44,623 | 40,419 |
| **Total** | **444,623** | **440,419** |
| One-year variable remuneration | 348,600 | 256,923 |
| Share-based remuneration | – | – |
| Long-term variable remuneration Mid-term target 2015 – 2017 | – | – |
| **Total variable remuneration** | **348,600** | **256,923** |
| Pension cost | 27,508 | 29,858 |
| **Total remuneration** | **820,731** | **727,200** |

| | | |
|---|---|---|
| **Rainer Klug Purchasing, Production and Logistics since August 1, 2015** | | |
| Fixed remuneration | 400,000 | 166,667 |
| Additional benefits | 25,079 | 83,685 |
| **Total** | **425,079** | **250,352** |
| One-year variable remuneration | 145,250 | – |
| Share-based remuneration | 633 | – |
| Long-term variable remuneration Mid-term target 2015 – 2017 | – | – |
| **Total variable remuneration** | **145,883** | **0** |
| Pension cost | 29,840 | – |
| **Total remuneration** | **600,803** | **250,352** |

| | | |
|---|---|---|
| **Dr. Reiner Piske HR since November 1, 2015** | | |
| Fixed remuneration | 300,000 | 50,000 |
| Additional benefits | 26,009 | 53,322 |
| **Total** | **326,009** | **103,322** |
| One-year variable remuneration | 49,800 | – |
| Share-based remuneration | 633 | – |
| Long-term variable remuneration Mid-term target 2015 – 2017 | – | – |
| **Total variable remuneration** | **50,433** | **0** |
| Pension cost | 22,695 | – |
| **Total remuneration** | **399,137** | **103,322** |

[1] Stefan Dräger irrevocably waived his entitlement to variable remuneration from fiscal year 2015 in April 2016.

The aforementioned remuneration system, including its long-term bonuses, takes full effect from fiscal year 2017. Until then, the one-year remuneration component of 100 percent is used as a basis for the calculation of the variable remuneration for fiscal year 2016. The variable remuneration is restricted to 250 percent of the variable target remuneration.

The variable remuneration target system also forms the basis for roughly 200 managers at the Company. Remuneration is primarily based on the achievement of one-year DVA and KPI targets and only to a lesser extent on the defined DVA target of the three-year period. This variable remuneration system will also be applied to approximately 450 employees not covered by the collective agreement on

## EXECUTIVE BOARD REMUNERATION – DRS 17

| in € | 2016 | 2015 |
|---|---|---|
| **Stefan Dräger, Chairman of the Executive Board since March 1, 2005** | | |
| Fixed remuneration | 600,000 | 600,000 |
| Additional benefits | 11,129 | 10,963 |
| **Total** | **611,129** | **610,963** |
| One-year variable remuneration | 1,360,170 | 700,000 |
| Waived | – | – 700,000[1] |
| Share-based remuneration | 633 | 1,409 |
| **Total variable remuneration** | **1,360,803** | **1,409**[1] |
| **Total remuneration** | **1,971,932** | **612,372**[1] |

| | 2016 | 2015 |
|---|---|---|
| **Gert-Hartwig Lescow Finance and IT since April 1, 2008** | | |
| Fixed remuneration | 400,000 | 400,000 |
| Additional benefits | 22,679 | 24,374 |
| **Total** | **422,679** | **424,374** |
| One-year variable remuneration | 680,085 | 350,540 |
| Waived | – | – |
| Share-based remuneration | 633 | 1,409 |
| **Total variable remuneration** | **680,718** | **351,949** |
| **Total remuneration** | **1,103,397** | **776,323** |

| | 2016 | 2015 |
|---|---|---|
| **Anton Schrofner Research and Development, Innovation and IP since September 1, 2010** | | |
| Fixed remuneration | 400,000 | 400,000 |
| Additional benefits | 44,623 | 40,419 |
| **Total** | **444,623** | **440,419** |
| One-year variable remuneration | 680,085 | 350,350 |
| Waived | – | – |
| Share-based remuneration | – | – |
| **Total variable remuneration** | **680,085** | **350,350** |
| **Total remuneration** | **1,124,708** | **790,769** |

| | 2016 | 2015 |
|---|---|---|
| **Rainer Klug Purchasing, Production and Logistics since August 1, 2015** | | |
| Fixed remuneration | 400,000 | 166,667 |
| Additional benefits | 25,079 | 83,685 |
| **Total** | **425,079** | **250,352** |
| One-year variable remuneration | 680,902 | 145,833 |
| Waived | – | – |
| Share-based remuneration | 633 | – |
| **Total variable remuneration** | **681,535** | **145,833** |
| **Total remuneration** | **1,106,614** | **396,185** |

| | 2016 | 2015 |
|---|---|---|
| **Dr. Reiner Piske HR since November 1, 2015** | | |
| Fixed remuneration | 300,000 | 50,000 |
| Additional benefits | 26,009 | 53,322 |
| **Total** | **326,009** | **103,322** |
| One-year variable remuneration | 583,930 | 50,000 |
| Waived | – | – |
| Share-based remuneration | 633 | – |
| **Total variable remuneration** | **584,563** | **50,000** |
| **Total remuneration** | **910,572** | **153,322** |

[1] Stefan Dräger irrevocably waived his entitlement to variable remuneration from fiscal year 2015 in April 2016.

wages and salaries in 2017. The aforementioned one-year targets are the sole basis for this, with no medium-term components included in the system.

### EMPLOYEE SHARE PROGRAM

The employee share program, offered for the first time in 2013, was once again offered by Dräger in fiscal year 2016. Four Executive Board members of Drägerwerk Verwaltungs AG took part in the employee share program. Using their own funds, each of these Executive Board members acquired nine packages of three shares at a purchase price of EUR 65.00 per share previously fixed in the terms and conditions of the program. For every three preferred shares, participants received one preferred share worth EUR 70.34 on the date of entry free of charge from Dräger. The holding period for these preferred shares – including those that participants acquired themselves – runs until December 31, 2018. This is reported in the tables as share-based remuneration.

### ADDITIONAL BENEFITS AND REMUNERATION COMPONENTS

Additional benefits, which Executive Board members receive in addition to the aforementioned remuneration, include contributions for pension, care and health insurance premiums, and preventative health care as well as a company car for business and private use. The use of the company car is calculated using the 1 percent method plus the benefit for trips between home address and place of work, and taxed individually. The Executive Board members are responsible for paying the incurred payroll tax. The Company has also taken out group accident insurance for Executive Board members and pays the premium for the D&O for members of the Executive Board; these policies do not constitute part of the Executive Board's remuneration. The financial loss liability insurance includes a deductible, which has been set since 2010 at one-and-a-half times the amount of gross fixed annual remuneration in accordance with the Act on the Appropriateness of Executive Board Remuneration (VorstAG).

#### REMUNERATION TABLES

In accordance with the requirements of the German Corporate Governance Code and German Accounting Standard 17, individual Executive Board remuneration has been presented in the form of three separate tables to ensure sufficient clarity.

Fixed remuneration and additional benefits are based on the agreed fixed amount. In terms of the variable remuneration, the "Granted allowances" table includes a target value for achieving 100 percent as well as minimum and maximum remuneration.

Stefan Dräger irrevocably waived his entitlement to variable remuneration for fiscal year 2015.

↗ see tables "Executive Board remuneration – Granted allocations", "Executive Board remuneration – Contribution" and "Executive Board remuneration – DRS 17" on page 88 et seqq.

#### SEVERANCE PAYMENTS

The employment contracts of all active Executive Board members contain regulations for the early termination of their contracts without good cause. They limit compensation to the total remuneration for one fiscal year (compensation cap) and may never exceed total remuneration including additional benefits for the remaining term of the respective employment contract.

#### THIRD-PARTY PAYMENTS AND CLAIM REIMBURSEMENTS

In the fiscal year, no payments were made or promised by a third party to any member of the Executive Board in relation to duties as member of the Executive Board. If Executive Board remuneration is paid by Drägerwerk Verwaltungs AG, it is entitled to claim reimbursement from Drägerwerk AG & Co. KGaA monthly pursuant to Sec. 11 (1) and (3) of the articles of association of Drägerwerk AG & Co. KGaA. Pursuant to Sec. 11 (4) of the Company's articles of association, the general partner receives a fee, independent of profit and loss, of 6 percent of the equity disclosed in its financial statements, payable one week after the general partner prepares its financial statements, for the management of the Company and the assumption of personal liability. For fiscal year 2016, this remuneration amounted to EUR 90,195.28 (2015: EUR 86,761.84) plus any incurred VAT.

#### DEFINED BENEFIT PLANS

Obligations to the Executive Board members from the pension plan remain unchanged at Drägerwerk AG & Co. KGaA pursuant to the terms and conditions of individual contracts. They are based on the "Führungskräfteversorgung 2005" scheme, which has been in effect within the Group since January 1, 2006.

The defined benefits under the pension plans offered to the members of the Executive Board are based on the basic annual salary and years of service on the Executive Board. It is calculated on the basis of an annual contribution of up to 15 percent of the basic annual salary. Under the deferred compensation option, an additional annual contribution of up to 20 percent of the basic annual remuneration is possible. These personal contributions were as follows in fiscal year 2016: Stefan Dräger: EUR 120,000 (2015: EUR 120,000); Gert-Hartwig Lescow: EUR 36,000 (2015: EUR 24,000); and Dr. Reiner Piske: EUR 9,000 (2015: EUR 0). In years in which the Group EBIT margin exceeds 5 percent of net sales, Stefan Dräger receives a further contribution of 50 percent on deferred compensation, but no more than 8 percent of his basic annual salary. Gert-Hartwig Lescow also receives a further contribution which is just as high as his deferred compensation but no more than 5 percent of his basic annual salary.

EUR 3,059,113.40 was paid to former members of the Executive Board and their surviving dependents as of the end of the reporting year (2015: EUR 3,144,049.45). Pension obligations to former members of the Executive Board and

## PENSION OBLIGATIONS FOR ACTIVE EXECUTIVE BOARD MEMBERS

| | Allocation | Obligation | Allocation | Obligation |
|---|---|---|---|---|
| in € | 2016 | December 31, 2016 | 2015 | December 31, 2015 |
| Dräger, Stefan | 778,563 | 3,903,618 | 242,525 | 3,125,055 |
| Lescow, Gert-Hartwig | 303,777 | 1,211,903 | 123,707 | 908,126 |
| Schrofner, Anton | 101,364 | 561,422 | 10,702 | 460,058 |
| Klug, Rainer | 34,962 | 47,711 | 12,749 | 12,749 |
| Piske, Dr. Reiner | 41,472 | 45,418 | 3,946 | 3,946 |
| **Executive Board members** | **1,260,138** | **5,770,072** | **393,629** | **4,509,934** |

## SUPERVISORY BOARD REMUNERATION

| | | | | 2016 | | | | 2015 |
|---|---|---|---|---|---|---|---|---|
| in € | Fixed | Variable | Other | Total | Fixed | Variable | Other | Total |
| Schweickart, Prof. Dr. Nikolaus (Chairman) | 60,000 | 22,410 | 10,000 | 92,410 | 60,000 | – | 10,000 | 70,000 |
| Kasang, Siegfrid (Vice-Chairman) | 30,000 | 11,205 | 10,000 | 51,205 | 30,000 | – | 10,000 | 40,000 |
| Fett, Klaus-Dieter | 3,333 | 1,245 | – | 4,578 | 20,000 | – | – | 20,000 |
| Friedrich, Daniel | 20,000 | 7,470 | 9,167 | 36,637 | 20,000 | – | – | 20,000 |
| Grenz, Prof. Dr. Thorsten | 20,000 | 7,470 | 20,000 | 47,470 | 20,000 | – | 20,000 | 40,000 |
| Klein, Stefan | 10,000 | – | – | 10,000 | 20,000 | – | – | 20,000 |
| Lauer, Stefan | 20,000 | 7,470 | – | 27,470 | 20,000 | – | – | 20,000 |
| Lüders, Uwe | 20,000 | 7,470 | – | 27,470 | 20,000 | – | – | 20,000 |
| Rauscher, Prof. Dr. Klaus | 20,000 | 7,470 | 10,000 | 37,470 | 20,000 | – | 10,000 | 30,000 |
| Rickers, Thomas | 20,000 | 7,470 | – | 27,470 | 20,000 | – | – | 20,000 |
| Tinnefeld, Ulrike | 1,667 | 623 | 833 | 3,123 | 20,000 | – | 10,000 | 30,000 |
| Zinkann, Dr. Reinhard | 20,000 | 7,470 | – | 27,470 | 20,000 | – | – | 20,000 |
| Benten, Nike | 18,333 | 6,848 | – | 25,181 | – | – | – | – |
| van Almsick, Bettina | 11,667 | 4,358 | – | 16,024 | – | – | – | – |
| Neundorf, Walter | 10,000 | 3,735 | – | 13,735 | – | – | – | – |
| **Total** | **285,000** | **102,715** | **60,000** | **447,715** | **290,000** | **0** | **60,000** | **350,000** |

their surviving dependents amounted to EUR 44,883,967 (2015: EUR 44,969,123).

↗ see table “Pension obligations for active Executive Board members”

### REMUNERATION OF THE SUPERVISORY BOARD

The annual shareholders’ meeting of Drägerwerk AG & Co. KGaA has specified the remuneration of members of the Supervisory Board of Drägerwerk AG & Co. KGaA in the articles of association with effect from fiscal year 2011.

In accordance with Sec. 21 (1) of the articles of association of Drägerwerk AG & Co. KGaA, each Supervisory Board member receives compensation for expenses incurred plus annual remuneration, which is composed of fixed remuneration of EUR 20,000 (2015: EUR 20,000) and variable remuneration. The variable component is 0.015 percent of DVA, but no more than EUR 20,000 (2015: EUR 20,000).

Pursuant to Sec. 21 (2) and (3) of the articles of association of Drägerwerk AG & Co. KGaA, the remuneration of members of the Supervisory Board is distributed according to the following principles: Its chairman is entitled to three times and the vice chairman to one and a half times the amount. The members of the Audit Committee receive an additional fixed annual remuneration of EUR 10,000 and the Chairman of the Audit Committee an additional EUR 20,000. The members of the Nomination Committee do not receive any additional remuneration. Since fiscal year 2009, the Company no longer pays Supervisory Board members a per diem. The Company concludes a D&O financial loss liability insurance policy, liability insurance policy and a legal expense insurance policy for Supervisory Board members; it is not part of the Supervisory Board's remuneration. The deductible for Supervisory Board members is one and a half times their fixed annual remuneration.

In fiscal year 2016, the total remuneration of the six members of the Supervisory Board of the general partner, Drägerwerk Verwaltungs AG, amounted to EUR 135,000 (2014: EUR 135,000) as well as additional flat fees for out-of-pocket expenses totaling EUR 55,000 (2015: EUR 55,000). No remuneration was paid to Supervisory Board members of Group companies.

↗ see table "Supervisory Board remuneration" on page 93

### SHARES OWNED BY THE EXECUTIVE AND SUPERVISORY BOARDS

As of December 31, 2016, the members of the Executive Board of Drägerwerk Verwaltungs AG and their related parties directly held 6,288 preferred shares in Drägerwerk AG & Co. KGaA, equivalent to less than 0.04 percent of the Company's total shares, and 114,605 common shares, corresponding to 0.65 percent of the Company's total shares.

Dr. Heinrich Dräger GmbH held 67.19 percent of common shares of Drägerwerk AG & Co. KGaA. Chairman of the Executive Board Stefan Dräger held 68.31 percent of voting rights, of which 67.19 percent are attributable to him through Dr. Heinrich Dräger GmbH in accordance with the terms of Sec. 22 (1) Sentence 1 No. 1 WpHG (German Securities Trading Act).

As of December 31, 2016, the members of the Supervisory Board and their related parties directly or indirectly held a total of 779 preferred shares and 292 common shares, equivalent to less than 0.01 percent of the Company's total shares).

### DIRECTORS' DEALINGS

In fiscal year 2016, the Company was not informed about any business transactions with executive employees pursuant to Sec. 15a WpHG (German Securities Trading Act).

Announcements of transactions with executive employees pursuant to Sec. 15a WpHG (German Securities Trading Act) (until July 2, 2016) or rather Article 19 Market Abuse Regulation (EU) No. 596/2014 (from July 3, 2016) are published at www.dgap.de in the Directors' Dealings section.

# Potential

## Risks and opportunities for the future development of the Dräger Group and of Drägerwerk AG & Co. KGaA

### RISK AND OPPORTUNITY MANAGEMENT

Dräger's risk and opportunity management system has two aims: to systematically take advantage of opportunities and to identify risks at an early stage and manage them with concrete measures. Dräger intends to utilize this approach to permanently increase the value of the Company.

Dräger regularly updates its risk assessments, especially with regard to developments that could threaten the existence of the Company. Dräger's opportunity and risk management comprises long-term as well as medium and short-term analysis.

Dräger takes relevant opportunities and risks into consideration in its strategic corporate planning. This, together with our knowledge of our strengths and weaknesses, forms the basis of product development and positioning products on markets.

### IDENTIFYING AND CONSIDERING RISKS

An essential element of Dräger's risk management is the early identification of potential strategic and operating risks, determining the scope of these risks, and monitoring and managing them. The basis of Dräger's risk management system is strategic corporate planning: The Dräger risk reporting process is integrated into the planning process and into the financial rolling forecast. Dräger specifies potential uncertainties in its assumptions at the planning stage and reports on both negative (risks) and positive (opportunities, see page 101 et seqq.) deviations from the plan or from the rolling financial forecast. All operating areas of the Company report at least twice a year on risks and opportunities using specified criteria; Group Controlling then summarizes these at Company level. Risk reporting is complemented by ad-hoc reporting, so that Dräger can act upon material risks as quickly as possible. The risk committee supports the responsible risk owners, usually the departments, in assessing and managing risks. The Risk Committee is the link between the Chief Risk Officer and the departments. The members of the committee have an in-depth knowledge of each department and the risk situation of the Company as a whole. In addition, the Risk Committee is also tasked with improving the risk management system by monitoring it across all departments.

Essentially, risks may not be entered into if they threaten the existence of Dräger, if they could lead to significant damage to Dräger's reputation, or if the risk is greater than the associated opportunity. In terms of risk recording, EBIT risks are given priority. However, material cash flow risks are also reported on, as are strategic or reputation risks, which are difficult to quantify.

Thanks to the exchange of information on risks and opportunities between the respective process owners, the Executive and Supervisory Boards, countermeasures can be taken at short notice. The internal audit department and the Supervisory Board are also involved in the risk management process and are responsible for reviewing its effectiveness. As an element of our risk management system, our early risk identification system is also part of the annual audit.

## Internal control and risk management system in respect of the (Group) accounting process

### DEFINITION AND ELEMENTS

The internal control system in place at the Dräger Group ensures the correctness, reliability, and efficiency of the financial reporting system and that business transactions are recorded completely and promptly and in compliance with International Financial Reporting Standards (IFRS). It comprises control as well as a monitoring system. The Group Controlling and Group Accounting functions of Drägerwerk AG & Co. KGaA, as well as the commercial managers of the subsidiaries, are responsible for the internal control system.

Dräger's internal control system provides for both process-integrated and process-independent measures. Process-integrated measures include automated and manual controls (such as a system of checks and balances). In addition, bodies like the Corporate Compliance Committee and Group functions like the Group tax and Group legal departments ensure process-integrated monitoring. The Supervisory Board of Drägerwerk AG & Co. KGaA, particularly its Audit Committee, and the internal audit department are also part of the internal monitoring system. The internal audit department also regularly audits Dräger's national and international subsidiaries. The auditor of the financial statements performs the audit of the internal control system. The auditor of the Group financial statements also audits the major financial statements of Dräger subsidiaries consolidated in the Group's results.

The internal control system in the Dräger Group is supplemented by a risk management system. It comprises operational risk management and a systematic early-warning system for detecting business risks. In relation to the financial reporting process, risk management is also aimed at ensuring the use of correct information in the consolidated financial statements and external reports.

### USE OF IT SYSTEMS

At Dräger, the consolidated subsidiaries prepare individual financial statements on the basis of the relevant accounting information. Consolidated subsidiaries mainly use SAP and Microsoft standard software. This ensures that each month, the single entity financial statements and additional, standardized reporting information are consolidated in the SAP SEM-BCS system. For financial reporting, Dräger transfers data from SAP SEM-BCS to the SAP Business Warehouse. To do this, it uses a Group-wide, standardized accounts structure, which also stipulates which reconciliation methods are to be used for the financial statements. Local accounting methods are adjusted to comply with IFRS either in the local accounting systems or by reporting adjustments on a Group level. Once the data has been translated into the Group currency, euros, all internal business transactions are consolidated. Dräger assesses the IT environment, identifies potential risks and reports them at least two times a year to the Executive Board within the scope of the risk management system. In addition, the auditors of the Group financial statements carry out an audit of the IT control system, change management, IT operations, access to programs and data, and system development once a year.

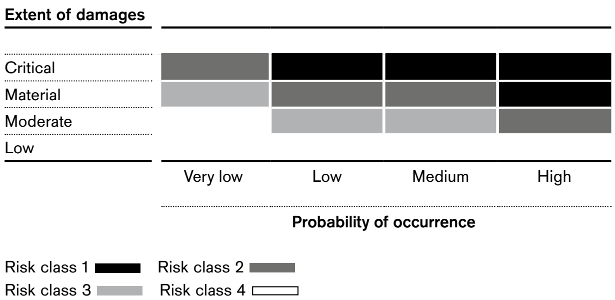
### ESSENTIAL REGULATORY MEASURES AND CONTROLS

The Dräger internal control system is used to check whether amounts reported in the balance sheet, income statement, and the statement of comprehensive income are recognized in the correct period and fully assigned, and whether the record contains reliable and traceable documentation regarding the business transactions. To do this, it clearly allocates responsibilities and control mechanisms, provides transparent accounting and reporting guidelines, and uses highly reliable IT accounting systems in the Group companies. The consolidated financial statements, which are prepared monthly, are subject to a system of constant technical review. They are also checked by Controlling and compared with the plans and the latest financial forecast. The Dräger accounting policies are applied throughout the Group to ensure that all German and foreign subsidiaries consolidated in the Group financial statements use the same standard. These apply to general accounting policies, balance sheet, income statement, consolidated statement of comprehensive income and notes. The accounting policies are regularly updated to comply with current EU legislation.

Regular alignment meetings and institutionalized reporting requirements within the Finance function guarantee that Group-wide restructuring and changes are recorded promptly in the Group financial statements. When a new company has been acquired or founded, Dräger trains the new employees in the Accounting department on the preparation of the financial statements according to IFRS, which is the authoritative reporting standard in the Dräger Group, including both the reporting system and reporting dates. Every year, Dräger also trains the managers of the Accounting departments of all subsidiaries on the reporting processes as well as amendments to the Dräger accounting policies and all relevant IFRS and therefore ensures the quality of our financial reporting.

Dräger's accounting systems have separate administrative, executive, and authorization functions thanks to different access profiles. This allows the Company to reduce the potential for fraudulent acts against Dräger by employees. Group accounting determines the scope of consolidation and the reporting packages prepared by Group companies. The Group companies and local auditors, who examine and comment on compliance with Dräger accounting policies, are provided with additional information, schedules, and

### RISK MATRIX




### KEY TO PROBABILITY OF OCCURRENCE

| Probability of occurrence | | Occurrence |
|---|---|---|
| Very low | ≤ 5 % | No more frequently than once in 20 years |
| Low | > 5 % – 25 % | No more frequently than once in 4 years / more frequently than once in 20 years |
| Medium | > 25 % – 50 % | No more frequently than once in 2 years / more frequently than once in 4 years |
| High | > 50 % | More frequently than once in 2 years |

### KEY TO EXTENT OF DAMAGES

| Extent of damages | | Definition of extent of damages |
|---|---|---|
| Critical | ≥ EUR 25 million | Significant negative impact on earnings |
| Material | EUR 10 million to < EUR 25 million | Negative impact on earnings |
| Moderate | EUR 5 million to < EUR 10 million | Limited negative impact on earnings |
| Low | < EUR 5 million | Immaterial negative impact on earnings |

deadlines for the financial statements by October of the reporting year at the latest. This ensures that the Group financial statements can be prepared in good time and in accordance with all applicable reporting standards and laws. Dräger subsidiaries enter their local financial statements into the SAP SEM-BCS consolidation system, where validation rules guarantee a high degree of data quality. Subsidiaries send other reporting packages in electronic form to Group Accounting in Lübeck, where the data are reviewed on the basis of internal checklists and passed on to the auditor of the Group financial statements for final approval.

### RISK ASSESSMENT

Dräger forms risk classes for both quantitative and qualitative risks in order to assess the significance of the implications of the risks for the Company. Risks in risk classes 1 and 2 are considered material risks.

For the purposes of risk classification in the risk matrix, both the probability of occurrence and the potential extent of damages are taken into consideration. These factors are described in more detail in the following tables.

The due date for reported risks is December 31, 2016. The risk assessment is based on the update of the internal risk report. While the earnings forecast period is one year, Dräger assesses quantitative risk over a period of two years.

The risks and the impact they may have on the Company as described below are not necessarily the only risks Dräger is exposed to. Risks that were not known or have been considered immaterial as of the reporting date may also affect the business activities of Dräger in the future. In the opinion of the Company, the risks referred to here in risk classes 1 and 2 are material risks. Immaterial risks from financing instruments are also reported in accordance with IFRS 7.

↗ Please refer charts “Risik matrix”, “Key to probability of occurrence”, “Key to extent of damages” and table “Material risks”

### RISKS CATEGORIES

### MATERIAL RISKS

| Risk category | Risk class | Development |
|---|---|---|
| Political, financial, and social development | 1 | → |
| Information security and IT risks | 1 | → |
| Procurement | 2 | → |
| Research and development | 2 | → |
| Compliance and legal | 1 | ↗ |
| Currency risks | 1 | → |
| Risks from financial instruments | 4 | → |
| Risks of receivable losses | 2 | → |
| Other risks | 2 | → |

### POLITICAL, FINANCIAL, AND SOCIAL DEVELOPMENT

The global economy grew moderately by 3.1 percent in 2016, putting the rate of growth roughly at the same level as the prior year (2015: +3.2 percent). The International Monetary Fund (IMF) slightly lowered its forecast for 2017, but still expects year-on-year growth to rise to 3.4 percent.

Various geopolitical developments pose risks that Dräger will not be able to achieve its planned net sales targets. In some countries, economic policy that can lead to the isolation of national markets and priority to local competitors is gaining ground. The UK's decision to leave the European Union (Brexit), the results of the US presidential election, and the increasing shares of the vote being won by populist parties in European countries point to this kind of protectionism. The politically unstable situation in the Middle East and Turkey and a potential deterioration of economic output in Latin America could also slow down growth at Dräger. In addition, low commodity prices and a lack of financing opportunities in certain emerging markets, cuts to public budgets for medical and safety technology, particularly in Europe, and continued fierce competition could also negatively impact Dräger's net sales and margin.

For more details on the overall economic outlook see page 107 et seq.

A number of other factors, including regional political, religious, or cultural conflicts can affect macroeconomic factors and international capital markets and therefore shape demand for Dräger's products and services. The Dräger Group depends on the investment budgets of public authorities in all of its segments around the world, since a large proportion of its customer base is made up of public institutions such as public hospitals, fire services, the police force, and disaster management. Public spending volume has already been cut in numerous industrialized countries over the last few years, for example in the US and Europe. This trend could continue given the current market environment. Dräger is meeting these challenges through customer orientation, innovation, high product, and service quality and reliability as well as, when the opportunity arises, through cooperation agreements and acquisitions. This is how we intend to reinforce and expand our market position.

Dräger operates in future-oriented, high-growth industries, which are also expected to consolidate in the future with implications for the structure and intensity of competition. Hospitals and other customer groups that are important to Dräger are being consolidated or forming purchasing cooperatives, thereby pooling purchasing volumes and gaining increased market power. Large, diversified conglomerates among other primary competitors have strong market positions in certain segments and regions due to the wide range of products and services they offer. New competitors, particularly from Asia, are also a factor; the quality of their products has increased significantly over the past few years, meaning that they are now competing with Dräger in the lower and middle performance and price segment. Dräger needs to expand its product portfolio, sales channels, and range of services to remain successful in these market segments over the long term. There is a certain amount of risk that, in doing so, we will jeopardize products from higher performance segments (risk class 1).

### INFORMATION SECURITY AND IT RISKS

Information, and the processing of this information, plays a pivotal role in Dräger's business. Strategic and operative functions and tasks are usually IT-supported. However, Dräger also processes information in other ways (on paper, in meetings). The loss, unavailability, or misuse of information could cause serious problems for Dräger. System failure through overloading or external disruption (such as a hacker attack) can impair critical processes and lead to short-term production outages. Reliable IT systems are therefore key.

To enable access to IT systems and system availability for its day-to-day business, Dräger requires a standardized infrastructure. Devices not managed centrally or subject to regular maintenance can cause security vulnerabilities. That is why Dräger works with network segmentations and uses standardized software worldwide as well as a standard basic installation for notebooks and desktop PCs.

Database security is also important in minimizing IT risks. Read and write authorizations are essential for the security of data relating to customers, production, and suppliers. That is why defined workflows have been installed to safeguard the central systems; when necessary, these safeguards are improved through the use of electronic systems. These improvements are subject to defined standards and are gradually being rolled out across all of our sites (Risk class 1).

### PURCHASING

Purchasing risks at Dräger primarily span supplier and material price risks. Dräger works closely with reliable and competent suppliers to coordinate its current and future product portfolio. It integrates suppliers into its internal processes as the level of vertical integration in its business model has been reduced to the necessary core technologies and the assembly of purchased parts and components. Strict quality standards apply to supplier selection and purchasing processes. Dräger has concluded binding price agreements with all of its strategic suppliers, which usually apply for a period of one year and guarantee planning security for a certain period of time.

In the case of components and modules that suppliers stop manufacturing as standard, Dräger purchases the estimated number of components or modules required for the remaining product life cycle and stores these components and modules either at Dräger or at the supplier. In medical technology, we analyze potential risks relating to purchased module components across multiple functions. In some cases, Dräger will purchase these from a single supplier. As module components are used in a number of Dräger products, bottlenecks in the supply of these parts can cause production to be interrupted for a certain period of time. In such cases, established crisis management processes – for example the deployment of a task force – are implemented to limit the effects. Potential supply disruptions through to supplier insolvency can lead to production outages and additional costs (Risk class 2).

### RESEARCH AND DEVELOPMENT

It is important for our profitability that the product portfolios are kept up to date. Experience has shown that new products are more profitable than products in a later phase of the product life cycle. This is why we continuously invest in research and development in order to keep the proportion of new products as high as possible. To achieve this, we must develop leading technological solutions and also products that appeal to the requirements of a broad section of the market. Dräger enhances its operating processes constantly – from development, sales and order fulfillment through to maintenance of the product portfolio. This approach ensures that we have a market-appropriate product portfolio that is high in quality. Risks may arise from factors such as the unexpectedly high complexity of development projects, delayed product launches, and changes in market requirements. Quality issues with our products can lead to increased costs and loss of net sales in future (Risk class 2).

### COMPLIANCE AND LEGAL

Dräger companies are subject to various legal provisions that frequently change in all countries in which Dräger operates. Obligations can arise from public law, such as tax law, or from civil law. Laws to protect intellectual property and third-party concessions, varying approval and licensing regulations for products, competition rules, regulations in connection with awarding of contracts, export control regulations, and many more besides are also relevant to business operations. Drägerwerk AG & Co. KGaA is also subject to legal regulations governing capital markets. The measures Dräger has to take to be aware of, adhere to, and comply with all of these regulations can result in significant operating costs.

Dräger companies are currently involved in legal disputes and may be involved in legal disputes within the scope of their business activities in the future. In some regions, legal uncertainty could result from only having limited possibilities to assert its rights.

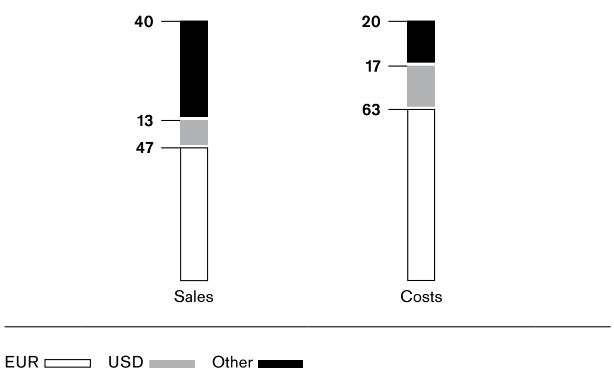
Our business policies and code of conduct are intended to ensure that business is conducted responsibly and in accordance with legal requirements. We have also a Company-wide compliance program in place. Despite the control and prevention mechanisms in our compliance structure, there remains a risk that we are in breach of certain regulations. In addition, the increasing connectivity of our devices also raises the issue of data protection and the resulting risk of cyber attacks. In the international exchange of data, there is also a residual risk that data protection laws are violated, as these vary from country to country and are constantly changing. Sales partners may assert compensation or equalization claims pursuant to respective applicable laws. Such claims are excluded in the sales agreements to the extent permitted by law.

see Compliance section in the Corporate Governance Report, page 86 et seq.

Even though Dräger has concluded liability insurance with coverage that the Executive Board of the general partner considers appropriate and typical of the industry, there is

**NET SALES AND COSTS BY CURRENCIES (2016)**

in %




still a residual – and albeit low – risk that claims exceed the coverage or claims are not covered under the terms and conditions of the insurance.

Additional regulatory requirements and rising local standards result in greater expenses for product licensing. Further risks in relation to this arise from the ongoing renewal of necessary, but time-limited licensing certificates and national adjustments. Furthermore, there is also the possibility that, despite extensive quality management processes, licensing authorities auditing our products or processes do not consider the licensing requirements to have been met. In these cases, it is possible for licensing authorities to revoke the license, impose import bans on certain products or product areas, or order installed devices to be changed. Dräger combats risks that arise in line with licensing requirements by adapting the respective organizational structures and processes in the product and quality management areas (Risk class 2).

### CURRENCY RISK

We conduct our business in a variety of currencies whose exchange rates to the euro vary greatly. As a result, our payment flows are exposed to currency risks. In addition, changes in exchange rates when converting earnings not generated in euros into the Group's operating currency (euro) can have a major impact on Group earnings. Risks arise in particular due to the fact that products are manufactured and sold in different currencies and volumes: Over half of the costs at Dräger are incurred in euros, while a large share of sales is generated in other currencies. The devaluation of the euro in 2012 had a positive effect on earnings, while the broad increase in the value of the euro in 2013 impacted earnings negatively. Development throughout 2014 and 2015 was a mixed bag. Effects over the course of fiscal year 2016 were negative.

↗ Please refer charts "Net sales and costs by currencies (2016)" and "Development of the sales-weighted currency basket (weighted according to net sales)"

Currency risks are hedged at Group level, some of which through currency forwards. The hedging strategy is redefined on an annual basis. Planned net payment flows in foreign currencies are hedged to a maximum of 75 percent for the subsequent fiscal year. The introduction of hedge accounting in 2016 means that price hedges are initially recognized directly in equity until they are recognized in net profit or loss in the correct period together with the associated underlying transaction (Risk class 1).

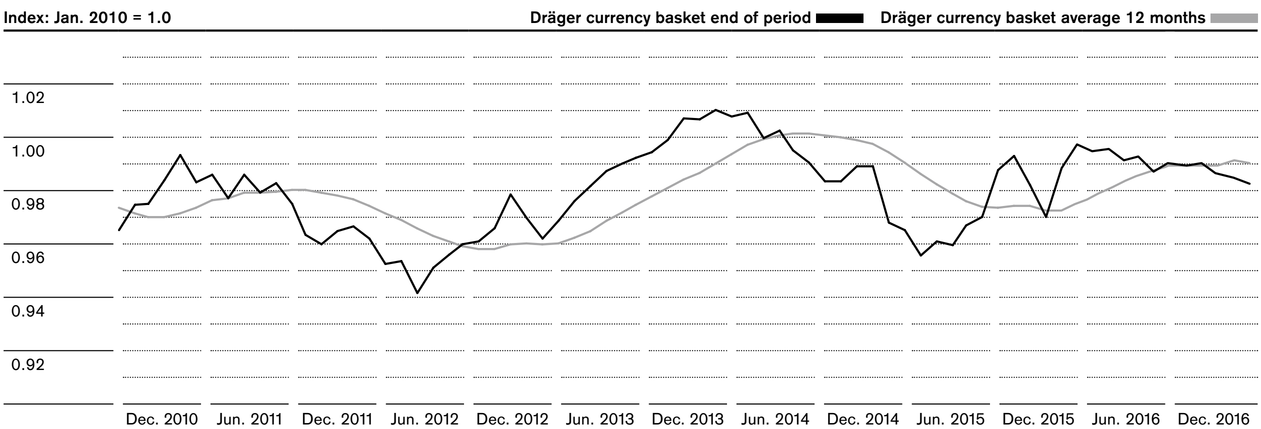
### RISKS FROM FINANCIAL INSTRUMENTS

Our aim is to minimize liquidity risk and risk from financial instruments, i.e. interest rate, currency, and credit risk. We hedge liquidity risk, currency risk, and interest risk centrally at Drägerwerk AG & Co. KGaA. We mitigate credit risk with regard to cash investments and derivatives centrally. Credit risk due to receivables from operating activities is managed partly centrally, partly decentrally by Group companies and is hedged by instruments such as letters of credit or guarantees.

The only financial derivatives Dräger uses are marketable hedging instruments contracted with reputable banks as counterparties. Members of the Dräger Group may only employ such derivatives if they are covered by the Company's treasury guidelines or have been approved by the Executive Board.

The Dräger Group uses note loans with various residual terms of up to five years in order to reduce liquidity risk. As of December 31, 2016, we have agreed on bilateral credit lines of EUR 355.5 million due on October 30, 2018 to secure liquidity. We plan to renegotiate these credit lines for a subsequent term over the course of fiscal year 2017. The framework agreement for the bilateral credit lines stip-

**DEVELOPMENT OF THE SALES-WEIGHTED CURRENCY BASKET (WEIGHTED ACCORDING TO NET SALES)**




ulates target values based on certain financial covenants. Should Dräger not comply with these, the banks are entitled to terminate the bilateral credit lines. The values have been specified so that we would only run the risk of being unable to meet them if our financial position was to deteriorate drastically. It is also possible for Dräger to obtain the banks' approval to exceed or undercut these key figures at an early stage. We continuously monitor key financial performance figures.

Dräger is also exposed to interest rate risk, primarily in the eurozone. We combat these risks through a combination of fixed- and variable-rate liabilities. We also hedge against part of the variable interest rates through standard interest hedging products. Dräger only invests cash and cash equivalents over the short-term at commercial banks with high credit ratings.

Dräger manages currency risks associated with currencies other than the euro through forward and swap hedging transactions with selected banking partners, wherein the payment streams are hedged on a transaction-specific basis. Due to the limited and conservative use of financial instruments, these risks are classed as immaterial. Despite the low risk involved, risks from financial instruments are reported in accordance with IFRS 7 (Risk class 4).

Please refer to Note 44 of the notes for more information on the management of financial risks

**RISKS OF RECEIVABLE LOSSES**

In principle, Dräger is exposed to a very minor risk of financial crises, political upheaval or other events leading to large-scale receivable losses or defaults on payments. There is an increased risk of default associated with significantly overdue receivables. Specifically, such a risk of receivable losses currently exists in relation to our business activities in Saudi Arabia at the current time (Risk class 2).

**OTHER RISKS**

The positive reputation of our brand is extremely important for the trust of our stakeholders, particularly our customers, in the Company and our products. Damage to our reputation could have long-term negative implications for the success of the business. Customers, business partners, employees and other stakeholders share information and experiences on an increasing number of channels. This also increases the risk of negative information spreading more quickly and damaging our reputation. We have set up an early warning system and introduced a crisis communications policy to minimize this risk. By doing so, we want to counteract any potential damage to our reputation promptly and respond to criticism in a coordinated manner.

## Recognizing opportunities

We observe opportunities within the scope of our strategic planning process, which involves identifying trends, determining strategic focuses, and defining measures. In doing so, we use established planning tools, sales information systems, and the customer relationship management (CRM) system to map and pursue all opportunities and generate as many customer orders as possible out of them. The potential use of these market opportunities is also included in our rolling forecast.

see also the “Management system” section, on page 48 et seqq.

We also report on opportunities, as we do on risks, in our integrated risk reporting process. Information on opportunities is integrated into the consolidated risk report.

#### ACTIVITIES IN GROWTH MARKETS

The medical and safety markets in which Dräger operates are growth markets. Megatrends such as globalization, health, and the ever-expanding digital network foster this growth. Many opportunities can be created by leveraging our strengths. For example, Dräger uses the basis of installed Dräger equipment in order to expand its service and accessories business. We are also able to further optimize our range of products thanks to our persistent innovation efforts.

see also the “Trends with an influence on business performance” section on page 55 et seq.

At the moment, Dräger has opportunities from three global developments:

- Growing and aging population: Increasing life expectancy and structural changes are causing rising demand for medical products not just in many industrialized countries, but also in a number of emerging markets. Population growth in many countries all over the world is also boosting demand for quality medical care.
- Growing affluence in emerging markets: Increasing incomes in emerging markets are coupled with higher demands of healthcare and workplace safety. Thanks to our broad range of products in corresponding segments and market presence, we are in the right position to take advantage of these effects.
- Growing importance of system business: The increasing extent of digital networking is raising the standards devices must meet. In hospitals, networked devices support medical workflows and administrative processes. The real-time transfer of sensitive data to IT systems is also becoming increasingly important in industry. Holistic treatment procedures and an associated focus on patient outcomes are important targets of our customers worldwide, both in a clinical and in a financial respect. Our therapy devices and solutions, such as the TN 500 Babyleo, help hospitals achieve these targets. Noise avoidance and reduction, for instance, is an important factor in the long-term development of premature and newborn babies. Dräger has already taken this requirement into account in the development of the TN 500 Babyleo.

#### HIGH MARKET ENTRY BARRIERS FOR COMPETITORS

The medical technology and safety technology markets both feature high market entry barriers. These include approval requirements from government regulation, complex and often patented technology, and a wealth of customers who prefer to put their faith in tried and tested solutions. As an established manufacturer, these barriers give Dräger the freedom to maintain long-term customer relationships.

#### LEADING MARKET POSITIONS

We consider Dräger to be one of the global market leaders in many market and product segments. Its extensive expertise, high product quality, competent and committed employees, and long-term customer relationships are a good basis to further expand our market share. In doing so, we focus on attractive market segments, which we believe offer promising profitability and growth opportunities. At the same time, we are also developing new products for new markets.

#### EXPANSION OF THE SERVICE AND ACCESSORIES BUSINESS

We are striving to increase the share of net sales we generate in our leading-edge service and accessories business. In order to achieve this goal, we are improving after-sales customer support by offering services and products in the accessories and consumables business. Here, we benefit from the large number of Dräger devices already in use around the world.

#### PROJECT BUSINESS

In the hospital business, an increasing number of opportunities are emerging from so-called turnkey projects, which comprise the construction of finished hospitals or hospital departments including medical equipment. As a supplier of important medical devices, systems, and components, Dräger can participate in this trend in selected countries in conjunction with its turnkey partners. There are also an increasing number of opportunities for the marketing of medical technology across all manufacturers in one or more hospitals through to pay-per-use models.

As a global player in the industrial business, we have a great number of opportunities to become involved in major oil and gas, chemical, and mining projects and, in doing so, contribute to sustained positive business performance. The Middle East is seeing a particularly high number of oil and gas projects with high demand for safety technology. We also see opportunities to acquire new projects relating to the construction of training facilities for rescue services all over the world.

#### CHANGES TO THE PRODUCT PORTFOLIO

Changes to the product portfolio come with both risks and rewards. We want to increase the share of new products in our product portfolio and thus increase our profitability with an eye to the future. At the same time, we are working towards optimizing our product portfolio in order to better meet demand, particularly from emerging markets.

#### SYNERGY EFFECTS AND PLATFORM STRATEGY

Synergy effects also present opportunities. We can take particular advantage of synergies at our sales and service companies, for example through shared administrative units. In our purchasing activities, we aim to achieve even more favorable terms and conditions through Group-wide processes, such as in the case of fleet and travel management.

We are also striving to further reduce material costs through our platform strategy, which involves the use of common components in different models. We take subsequent manufacturing costs for the product into account at the development stage.

The initiation and fulfillment of customer orders is supported by a customer relationship management (CRM) system. This enables us to reinforce the integration of marketing, sales, and service and provide an all-round service to customers. In the past fiscal year we took a number of further measures to link up customer and partner management at specialist retailers, meaning that more integrated information is now available to the Company as a basis for successful customer acquisition and relationship management.

#### DEVELOPMENT OF THE MACROECONOMIC SITUATION AND EXCHANGE RATES

Macroeconomic development and fluctuating exchange rates can bring both risks and rewards. The positive development of the described factors can also result in opportunities. For example, there are indications that business may be favorable in Iran.

see also the “Currency risk” section on page 100

## Overall assessment of risks and opportunities

Overall, the most significant risks in Dräger’s risk portfolio are risks resulting from economic and political developments in some regions, currency risks, and regulatory risks. We can mitigate these risks through regional variation and diversification of our range of products and services. We also limit performance risks from the completion of orders through a good diversification of strategies. Risks related to the issue of information security are increasing consistently.

In total, the risks the Dräger Group is exposed to are manageable; the existence of the Company is not at risk on the basis of known factors.

In our view, the Dräger Group’s opportunities, especially those resulting from demographic changes, developments in emerging markets and the increasing importance of system business, outweigh the risks it is exposed to. As a result, the outlook for the future is optimistic.

Please refer chart “SWOT Analysis – Dräger Group” on page 104

## SWOT ANALYSIS – DRÄGER GROUP

**Company-specific**

| Strengths | Weaknesses |
|---|---|
| – High degree of diversification with some unused growth potential<br>– Detailed understanding of all relevant markets and competitors<br>– Strong direct sales model with close-knit sales network<br>– High innovation intensity (R&D ratio)<br>– Close cooperation with suppliers, some joint development activities<br>– Wide range of products and services<br>– Strong brand and long-term customer relationships<br>– Established presence in important growth markets in Asia, Central America and South America<br>– High installed device basis in many markets<br>– Wealth of experience with complex product and service offerings<br>– Stable ownership structure<br>– Solid, long-term financing framework and good equity base | – High complexity through broad product portfolio<br>– Partial dependency on sales partners<br>– Low diversification of products for economic buyers<br>– High cost base in euros and disproportionately high US dollar cost position<br>– Strong reliance on the European market; some market-leading positions in markets where growth is slow<br>– Niche provider status in some segments |

**Market / sector-specific**

| Opportunities | Risks |
|---|---|
| – Continual increase in safety requirements for employees at hazardous workplaces<br>– Progress in medical industry and aging society driving forward expenditure on medical technology<br>– High market entry barriers for new competitors as a result of regulation, technology, patent protection<br>– Low impact of economic fluctuations thanks to the breadth of the product portfolio and the markets in which Dräger operates<br>– Expansion of healthcare systems in emerging markets (as a result of increasing incomes) | – Increasing complexity and requirements for local licensing and the ongoing certification of products<br>– Pressure on margins from increasing local competition<br>– Declining rates of economic growth in Asia and a trend towards the purchasing of medical technology equipment from domestic producers in China<br>– Central purchasing strategy and increased purchasing power of companies operating worldwide<br>– Restrictions on domestic budgets and trend towards public companies forming purchasing cooperatives<br>– Economic risks from the financial crisis in various emerging economies (Americas region)<br>– Increasing level of global instability with potential effects on the purchasing strategies of our customers<br>– Some reliance on key suppliers<br>– Information security and IT risks<br>– Foreign currency losses due to exchange rate fluctuations |

The aim of the SWOT analysis is to provide an overview of important aspects in Dräger's strategic environment. Not all risks and opportunities referred to in the report are considered in the SWOT analysis. The manner in which the issues are listed does not reflect any kind of weighting; related issues are simply listed together.

## Disclosures pursuant to Secs. 289 (4) and 315 (4) of the German Commercial Code (HGB) and explanations of the general partner

The following disclosures reflect circumstances on the balance sheet date.

### COMPOSITION OF CAPITAL STOCK

The subscribed capital of Drägerwerk AG & Co. KGaA amounts to EUR 45,465,600. It consists of 10,160,000 voting bearer common shares and 7,600,000 non-voting bearer preferred shares, each with a EUR 2.56 share in capital stock. Shares of the same type carry the same rights and obligations. The rights and obligations of the shareholders are laid down in the German Stock Corporation Act, in particular in Sec. 12, 53a et seq., 118 et seq. and 186 AktG, as well as in the articles of association of the Company. As compensation for the lack of voting rights, an advance dividend of EUR 0.13 per preferred share is distributed from net earnings. If sufficient net earnings are available, a dividend of EUR 0.13 per common share is then paid. Any profit in excess of this amount, if distributed, is allocated so that preferred shareholders receive EUR 0.06 more than common shareholders. If the net earnings are not sufficient for an advance dividend for preferred shares in one or more years, the amounts are paid from the net earnings of subsequent fiscal years before a dividend is paid on common shares. If amounts in arrears are not paid in the next year along with the full preferred dividend for that year, the preferred shareholders have voting rights until the arrears have been paid. In the event of liquidation, the preferred shareholders receive 25 percent of net liquidation proceeds in advance. The remaining liquidation proceeds are distributed evenly among all shares.

### RESTRICTIONS RELATING TO VOTING RIGHTS OR THE TRANSFER OF SHARES

The legal structures of Dr. Heinrich Dräger GmbH mean that neither Stefan Dräger nor Stefan Dräger GmbH, which he controls, have any influence on the exercise of the voting rights of those common shares held by Dr. Heinrich Dräger GmbH in terms of the annual shareholders' meeting of Drägerwerk AG & Co. KGaA passing resolutions on agenda items within the meaning of Sec. 285 (1) Sentence 2 AktG. There are no further restrictions that relate to voting rights or the transfer of shares, even though they could arise from agreements between shareholders.

### DIRECT OR INDIRECT SHAREHOLDINGS EXCEEDING 10 PERCENT

67.19 percent of the common shares of Drägerwerk AG & Co. KGaA, equivalent to 6,826,000 common shares or 38.43 percent of the total capital stock, belong to Dr. Heinrich Dräger GmbH, Lübeck. Its shares are mainly owned by members and shareholders of the Dräger family, so that the voting rights associated with the common shares are held by the Dräger family. 59.23 percent of Dr. Heinrich Dräger GmbH, Lübeck, is held by Stefan Dräger GmbH. Stefan Dräger GmbH is wholly owned by Stefan Dräger, Lübeck. The voting rights of Stefan Dräger GmbH are to be allocated to its partner, Stefan Dräger, pursuant to Sec. 22 of the German Securities Trading Act (WpHG). Through Stefan Dräger GmbH, Stefan Dräger also holds all shares in Drägerwerk Verwaltungs AG, Lübeck, the general partner of Drägerwerk AG & Co. KGaA. This means that Stefan Dräger is a shareholder for the general partner as well as common shareholder of Drägerwerk AG & Co. KGaA. In cases covered by Sec. 285 (1) Sentence 2 AktG, he would therefore not be entitled to vote. The legal structure of Dr. Heinrich Dräger GmbH ensures that, for such resolutions, Stefan Dräger cannot exert any influence on the exercise of the voting rights of common shares held by Dr. Heinrich Dräger GmbH.

### SHARES WITH SPECIAL RIGHTS CONFERRING CONTROL

There are no shares with special rights conferring control or special controls over voting rights.

### NATURE OF CONTROL OVER VOTING RIGHTS BY EMPLOYEE SHAREHOLDERS WHO DO NOT DIRECTLY EXERCISE THEIR CONTROL RIGHTS

Employees of the Company or the Dräger Group can purchase common shares in the Company with voting rights on the stock exchange. They can directly exercise the control rights to which they are entitled through the ownership of common shares with voting rights like other shareholders, subject to the applicable legal regulations and the provisions of the articles of association.

### APPOINTMENT AND REMOVAL OF MANAGEMENT AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In the legal form of a partnership limited by shares (KGaA), the general partner is authorized to manage and represent the Company, a regulation derived from partnership law. Drägerwerk Verwaltungs AG is the general partner of Drägerwerk AG & Co. KGaA, and acts through its Executive Board. The Supervisory Board of Drägerwerk AG & Co. KGaA, which has half of its members elected by employees, is not authorized to appoint or remove the general partner or its Executive Board. The general partner joined the Company with a corresponding declaration; it withdraws from the Company in the cases defined under Article 14 (1) of the articles of association.

The general partner's Executive Board, which is authorized to manage and represent Drägerwerk AG & Co. KGaA, is appointed and removed pursuant to Secs. 84 and 85 AktG and Art. 8 of the articles of association of Drägerwerk Verwaltungs AG. The Executive Board of the general partner comprises at least two persons, the Supervisory Board of the general partner determines how many other members there are. The Supervisory Board of the general partner, elected by its annual shareholders' meeting, is responsible for appointing and removing members of the Executive Board. It appoints members of the Executive Board for a maximum of five years. Repeat appointments or extensions of the term of office are permissible.

The Supervisory Board of Drägerwerk AG & Co. KGaA is not authorized to adopt rules of procedure for management or to define a catalog of management transactions requiring approval. The Joint Committee – comprising four members of each of the Supervisory Boards of the Company and its general partner – and not the annual shareholders' meeting, decides on the management transactions that require approval as set out in Article 23 (2) of the articles of association of Drägerwerk AG & Co. KGaA. The Supervisory Board of Drägerwerk AG & Co. KGaA represents the Company in dealings with the general partner.

Pursuant to Secs. 133, 179 AktG, amendments to the articles of association must be approved by the annual shareholders' meeting. Such a resolution requires a majority of at least three quarters of the capital stock represented at the time of the vote. The articles of association may stipulate a different majority of capital stock, but for changes in the purpose of the Company this can only be a majority of more than three quarters of capital (Sec. 179 (2) Sentence 2 AktG). At Drägerwerk AG & Co. KGaA, pursuant to Art. 30 (3) of the articles of association, resolutions by the annual shareholders' meeting are adopted by a simple majority of votes cast (simple voting majority) if this does not conflict with any legal provisions and, if the law additionally requires a majority of capital, by a simple majority of the capital stock represented upon adoption of the resolution (simple capital majority). The Company has not made use of the possibility pursuant to Sec. 179 (2) Sentence 3 AktG to set further requirements in the articles of association for amendments to the same agreement. In addition to the relevant majority of limited shareholders, amendments to the articles of association also require the approval of the general partner (Sec. 285 (2) AktG). Pursuant to Article 20 (7) of the articles of association of the Company, the Supervisory Board is authorized to make amendments and additions to the articles of association which relate only to its wording.

### POWER OF THE GENERAL PARTNER TO ISSUE OR BUY BACK SHARES

In accordance with the resolution agreed upon at the annual shareholders' meeting on April 27, 2016, the general partner is entitled to increase the Company's capital until April 26, 2021, with the approval of the Supervisory Board, by up to EUR 11,366,400.00 (approved capital) by issuing new bearer common and / or preferred shares (no-par value shares) in return for cash and / or contributions in kind, in either one or several tranches. The authorization includes the approval to issue new common shares and / or preferred shares, which carry the same status as the previously issued preferred shares with regard to the distribution of profits and / or Company assets. The statutory maximum as stipulated in Sec. 139 (2) AktG is to be taken into account: No more than half of the capital stock may be issued as preferred shares. Shareholders are principally given a subscription right in the case of a capital increase – unless the Company excludes subscription rights with the approval of the Supervisory Board. In the case of common and preferred shares being issued together, the right of holders of one share type to subscribe to the other type of shares ("crossed exclusion of subscription rights") can be excluded. The entitlement issued to the general partner at the annual shareholders' meeting on May 6, 2011 to increase the Company's share capital by May 5, 2016 was not used and therefore expired.

In accordance with the resolution agreed upon at the annual shareholders' meeting on April 27, 2016, the general partner is entitled, until April 26, 2021 and upon consent of the Supervisory Board, to acquire up to 10 percent of the share capital, irrespective of the type (common and / or preferred shares), and to use it for all legal purposes. The entitlement issued to the general partner at the annual shareholders' meeting on May 4, 2012 to acquire own shares by May 3, 2017 was annulled in the extent to which it had not already been utilized by April 27, 2016.

#### MATERIAL ARRANGEMENTS MADE BY THE COMPANY SUBJECT TO A CHANGE OF CONTROL IN THE WAKE OF A TAKEOVER BID

The Company has not made any material arrangements subject to a change of control in the wake of a takeover bid.

#### COMPENSATION AGREEMENTS MADE BY THE COMPANY WITH MEMBERS OF THE EXECUTIVE BOARD OF THE GENERAL PARTNER OR EMPLOYEES IN THE EVENT OF A TAKEOVER BID

There are no compensation agreements in place in the Dräger Group with members of the Executive Board of the general partner or employees in the event of a takeover bid.

## Outlook

#### FUTURE MARKET ENVIRONMENT

The International Monetary Fund (IMF) successively downgraded its global economic growth forecast for 2016 over the course of the past year. At 3.1 percent, global economic growth in 2016 remained slightly below the level seen in the prior year, according to the most recently published estimate. This would be the smallest increase since 2008–2009. For the current year, the IMF expects global growth to accelerate slightly to 3.4 percent, with a further increase to 3.6 percent the next year. Economic momentum is slowly gathering speed in many industrialized countries. By contrast, the situation in emerging markets remains varied. Although the IMF believes that China appears to be headed toward somewhat stronger growth in 2017 than recently

#### IMF – JANUARY 2017 GROSS DOMESTIC PRODUCT (GDP) GROWTH FORECAST

| in % | 2016 | 2017 | 2018 |
|---|---|---|---|
| Global economy | 3.1 | 3.4 | 3.6 |
| USA | 1.6 | 2.3 | 2.5 |
| Eurozone | 1.7 | 1.6 | 1.6 |
| Germany | 1.7 | 1.5 | 1.5 |
| China | 6.7 | 6.5 | 6.0 |

Source: International Monetary Fund (IMF)

expected on account of government measures to stimulate the economy, growth rates in China continue to decline overall due to structural adjustments in the country.

↗ see table "IMF – January 2017 gross domestic product (GDP) growth forecast"

The opportunity / risk ratio for the global economy remains negative, according to the IMF. The most recent political developments reveal a crumbling consensus on the advantages of closer economic cooperation across borders and reveal a strengthening of protectionist tendencies. Global trade restrictions would of course have a negative impact on global economic activity. The risk of geopolitical tensions also remains high. The IMF therefore argues in favor of enhancing the prospects for growth through the implementation of structural reforms that should be supported by fiscal policy. The IMF views the maintenance of loose monetary policy in many industrialized countries as important, but insufficient; additional measures need to be taken.

The Bundesbank believes that the German economy is in the midst of a solid upturn that is being supported by brisk domestic demand in particular, whereas foreign business has been suffering in recent times from the subdued growth in global trade. For 2017, the Bundesbank expects growth of 1.8 percent and 1.6 percent in the following year – somewhat more than the IMF.

#### FUTURE MARKET AND SEGMENT SITUATION

In the Europe segment, we expect subdued growth overall in the relevant industries in 2017, since the customers in these markets are for the most part already well equipped. There is currently uncertainty as to how Brexit and the new

US economic policy will impact Europe in the medium and long term. In the medical technology industry, greater formal effort is expected for providers on account of the European medicinal product directive (MDR), which is set to enter into effect. The investment backlog in the healthcare sector continues in Germany and is slowing growth in the medical technology industry. In other European countries, such as France and Italy, demand for medical technology is likely to rise – despite high cost pressure and closer scrutiny of procurement orders. We continue to view developments in Russia as challenging given contradicting influences between announced investments, the envisaged strengthening of the domestic medical technology industry, and actual investments in hospital equipment. Safety technology markets in Europe are likely to develop positively overall. The chemical industry will see stable growth. In western and central Europe, we believe that fire services will report greater investment needs and invest more extensively. We expect slight growth in safety-relevant goods across industries in Germany. Employment will continue to increase in Spain, which we believe will have a positive overall effect on sales opportunities for safety technology. According to our information, we expect stable, high demand for safety technology products in the application-oriented markets in Europe. We also believe that Russia has a more favorable growth position for safety technology equipment on account of higher commodity prices.

In the Americas segment, we expect markets to stabilize in 2017 and forecast slight growth in market volume in the industries relevant to us. Only slight increases are to be expected in medical technology markets in North America. The US healthcare market will probably be strongly influenced by decisions from the new administration. The ability of less market regulation and other financial stimulus to balance out the potentially lower number of people insured and reduced government spending will depend on the extent to which the government reverses healthcare reforms (the Affordable Care Act) or replaces them with a new system. In Canada, we expect moderate growth in demand in light of the policy of further expanding hospitals and nursing homes as well as demographic development. In Central and South America, we expect better sales opportunities for medical technology equipment than last year thanks to numerous hospital construction projects. Encouraged by higher demand, new business opportunities, and greater interest from foreign investors, Brazil is showing signs of a gradual turnaround in the medical technology market. As a result of budget cuts for the healthcare sector and a weak exchange rate, the medical technology market in Mexico will only see modest growth. Sales of safety technology products will probably develop positively in North America. Rising commodity prices as a result of the consolidation of global oil production is likely to strengthen the American economy. A growth trend is emerging in the US: New chemical plants will commence operation, and we believe that fire services will be able to make additional investments. In Central and South America, the price and demand trend indicate increasing investment activities in mining. In Brazil, the various industrial promotion measures and the relaxed rules for equipment in the private sector in oil and gas, infrastructure, and application-oriented markets could stimulate demand for safety technology.

In the Africa, Asia, and Australia segment, we expect somewhat greater momentum in the relevant industries in 2017. Investments in the healthcare system will offer a wide range of opportunities for medical technology in this region's emerging markets. Despite its efforts to replace imports with products from local manufacturers, China remains an attractive sales market for medical products. In Hong Kong, a long-term hospital development plan that will lead to an expansion of capacities in the years ahead was presented in 2016. Given the still underdeveloped healthcare infrastructure and large number of hospital projects, we believe that growth in India will be favorable. In the Middle East and Africa, we expect opportunities for medical technology in countries with a wide range of different starting conditions and a great deal of pent-up demand, such as Iran, Egypt, or South Africa. The medical technology market will also be able to benefit from an aging society in Australia. We see good marketing opportunities overall for products from the safety technology in this segment. In China, the chemical industry will grow faster than the overall manufacturing sector, even if the economy slows down. We also consider the cap on oil production to be advantageous for the oil and gas industry in the Middle East and Africa: The associated rise in prices makes it possible for them to invest more money in safety technology products again. In addition, previously closed markets are becoming accessible. Shell and Total, for example, are active in Iran again. In Asia, we expect slight growth in the fire services sector.

**EXPECTATIONS FOR FISCAL YEAR 2017**

| | Results achieved fiscal year 2016 | Forecast fiscal year 2017 |
|---|---|---|
| Net sales | –1.5% (net of currency effects) | 0.0 – 3.0% (net of currency effects) |
| EBIT margin | 5.4% | 5.0 – 7.0%[1] |
| DVA | EUR 49.8 million | EUR 40 – 90 million |
| **Other forecast figures:** | | |
| Gross margin | 45.0% | 44.0 – 46.0% |
| Research and development costs | EUR 219.0 million | EUR 230 – 245 million |
| Interest result | EUR –15.5 million | EUR –13 to –17 million |
| Days working capital (DWC) | 121.7 days | Slight improvement |
| Investment volume[2] | EUR 99.9 million | EUR 90 –105 million |
| Net financial debt | EUR 34.7 million | Improvement |

[1] Based on exchange rates at the start of fiscal year 2017
[2] Excluding company acquisitions

The Australian market for safety equipment remains dependent on the development of global market prices for certain mineral commodities.

**FUTURE SITUATION OF THE COMPANY**

The following table presents an overview of how various forecast figures will develop, according to our expectations. The forecast period is generally based on a fiscal year.

↗ see table “Expectations for fiscal year 2017”

Following the disappointing net sales development in 2016, we expect an improvement in fiscal year 2017. Orders on hand at the start of the new fiscal year, which are over 4 percent higher than at the beginning of the prior year, give us confidence. On the basis of our planning, we expect improved net sales development in all three segments. We expect the smallest improvement in Europe and the strongest growth in the Africa, Asia, and Australia region. For the Group, we anticipate a rise in net sales (net of currency effects) of between 0 and 3.0 percent. Exchange rates could provide some support of net sales development of around one percentage point on the basis of the rates at the start of 2017.

The exchange rates at the start of the year would be neutral overall for our expected earnings trend. Our EBIT may also be negatively impacted by restructuring expenses of up to EUR 10 million in fiscal year 2017. Increases on account of upcoming pay raises stand in contrast to additional positive effects from cost-cutting measures. In addition, we are planning higher research and development expenses to safeguard future competitiveness. Against this backdrop, we anticipate an EBIT margin of between 5.0 percent and 7.0 percent.

We forecast Dräger Value Added (DVA) of between EUR 40 million and EUR 90 million in fiscal year 2017. We expect the Europe segment to deliver the largest DVA contribution, while the Americas segment is likely to contribute the smallest DVA share.

We believe that our gross margin in 2017 will approximately match the prior-year level. Measures to boost margins from our efficiency program will stand in contrast to potential negative effects, such as price and competitive pressure, as well as changes in the product mix.

We plan to invest more in the future sustainability of our Company in 2017. We plan to launch a total of 16 new products or upgrades in the medical technology and 15 new products or upgrades in the safety technology.

Assuming interest rates remain stable, our interest result is set to total between EUR –13 million and EUR –17 million in 2017.

Based on a reduction in inventories, stable days sales outstanding, and the anticipated development of net sales, we expect days working capital to improve slightly.

Investments are likely to stand at between EUR 90 million and EUR 105 million in 2017. Among other things, we intend to further expand rental and shutdown services business and are constructing a new building in Krefeld, Germany, in connection with this.

In view of the anticipated investment volume and an improvement in cash inflow from operating activities, we expect a further improvement in net financial debt.

### DRÄGER MANAGEMENT ESTIMATE

Global economic growth is only slowly gaining momentum. The outlook has improved somewhat in some industrialized countries recently, whereas the situation in emerging markets remains mixed overall. The increase in populist movements and protectionist tendencies in some countries presents a risk for the further development of global trade and the growth of the global economy. In addition, geopolitical risks that strengthen uncertainty over future development continue to exist.

Our medical and safety technology markets remain growth markets worldwide. To be successful, we must remain competitive. We will therefore continue to work on our innovative strength in 2017 and systematically look for sales opportunities worldwide without losing sight of the costs in the process.

## Business performance of Drägerwerk AG & Co. KGaA

The business performance and the net profit or loss of Drägerwerk AG & Co. KGaA have been largely determined by the medical business transactions and by the various different activities as the parent company since the merger with Dräger Medical GmbH in August 2015. In fiscal year 2016, the net profit of EUR 35.1 million (2015: net loss of EUR –69.8 million) resulted in particular from:

### EARNINGS EFFECTS FROM OPERATING ACTIVITIES

In fiscal year 2016, Drägerwerk AG & Co. KGaA's profit from the operating activities – excluding income from investments, interest result, and taxes – stood at EUR 26 thousand (2015: EUR –95.4 million less merger loss).

Drägerwerk AG & Co. KGaA generated net sales from medical business of EUR 1,006.2 million in fiscal year 2016 (2015: EUR 880.6 million), which stood in contrast to cost of materials of EUR 537.0 million (2015: EUR 506.8 million). Personnel expenses fell year on year from EUR 260.7 million to EUR 236.6 million. Other operating expenses amounted to EUR 279.9 million (2015: EUR 400 million).

Earnings rose as a result of the implementation of the efficiency program launched in the prior year, the decrease in headcount, and the lower pension expenses due to the rise in the underlying interest rate according to the German Commercial Code (HGB) to 4.01 percent in 2016 (2015: 3.89 percent) in the calculation of pension provisions according to the German Commercial Code (HGB). Increases in wages and salaries resulting from the raises in accordance with wage agreements in the metal and electrical industries in Germany offset this effect.

The members of the Executive Board of Drägerwerk Verwaltungs AG receive their remuneration directly from Drägerwerk Verwaltungs AG, whereas the Executive Board members' pension obligations are held by Drägerwerk AG & Co. KGaA.

### RESULTS OF GROUP COMPANIES

The rise in earnings from profit and loss transfer agreements was mainly attributable to Dräger Medical International GmbH (EUR +16.9 million), Dräger Medical Deutschland GmbH (EUR +3.0 million), and Dräger Safety AG & Co. KGaA (EUR +2.2 million). The rise in expenses from profit and loss transfer agreements was mainly due to the depreciation of Dräger Holding International GmbH's shares in GasSecure AS of EUR 45.2 million and the subsequent assumption of losses by Drägerwerk AG & Co. KGaA.

#### DISTRIBUTION FOR PARTICIPATION CAPITAL

Based on the proposed dividend for preferred shares of EUR 0.19, the distribution for participation capital for fiscal 2016 amounts to EUR 1.90 per participation certificate, as in the prior year.

#### INVESTMENTS

In fiscal year 2016, the Company invested EUR 5.3 million (2015: EUR 6.4 million) in software and intangible assets. Investments in property, plant and equipment came to EUR 42.6 million (2015: EUR 76.4 million). Investments were focused on the completion of the "factory of the future", including plant, inspection, and office equipment, as well as on IT hardware and replacements.

#### NET ASSETS AND FINANCIAL POSITION

After deducting cash and cash equivalents, net financial liabilities to banks as of December 31, 2016 amounted to EUR 160.8 million (2015: EUR 201.0 million); Group financing of Group companies came to EUR 107.3 million (2015: EUR 163.4 million).

Drägerwerk AG & Co. KGaA's equity stood at EUR 908.7 million and increased by a total of EUR 32.3 million year on year. Drägerwerk AG & Co. KGaA's equity ratio as of the reporting date therefore came to 58.2 percent (2015: 56.4 percent).

#### COMPARISON OF FORECAST FIGURES AND ACTUAL FIGURES

Drägerwerk AG & Co. KGaA's earnings in 2016 were principally impacted by net sales in Germany and abroad, income from services, investments, and profit and loss transfers. As announced in 2015, dividends in the amount of EUR 4.3 million were paid on common and preferred shares and participation certificates. In fiscal year 2016, net financial debt came to EUR 47.8 million; the equity ratio stood at 58.2 percent.

#### FORECAST FOR FISCAL YEAR 2017

Drägerwerk AG & Co. KGaA is expected to improve its net profit from the amount of EUR 35.1 million generated in fiscal year 2016. The equity ratio, which stood at 58.2 percent as of December 31, 2016, is also expected to improve slightly.

#### DECLARATION OF CORPORATE GOVERNANCE

The Company management prepared the single entity financial statements and combined management report of Drägerwerk AG & Co. KGaA and is responsible for the contents of both documents and the objectivity of the information provided therein. The same applies to the management report associated with the single-entity financial statements.

The financial statements were prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB).

#### DECLARATION PURSUANT TO SEC. 161 AKTG

Our declaration of conformity is available on the Company website www.draeger.com in the Investor Relations/Corporate Governance section and is also printed in this Annual Report on pages 83 et seq.

#### DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES

The Executive Board has implemented effective internal control systems and relevant employee training measures to ensure that the Group's financial reporting system is correct and complies with legal requirements. The Company's principles are based on integrity and social responsibility in all areas such as environmental protection, quality, product and process safety, and compliance with local laws and regulations. The Internal Audit department continuously monitors the implementation of these principles as well as the reliability and functionality of the control systems. The Executive Board of Drägerwerk Verwaltungs AG governs the Group in the interest of its shareholders and is aware of its responsibility to employees, society, and the environment. We have made it our goal to use the resources entrusted to us in a manner that increases the value of the Dräger Group. According to the resolution passed by the annual shareholders' meeting on April 27, 2016, the Supervisory Board appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as the independent auditor of the single entity financial statements of Drägerwerk AG & Co. KGaA for fiscal year 2016.

The auditing firm also examined the existing risk management system with regard to the Control and Transparency in Business Act (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – KonTraG). Representatives of the statutory auditor attend the Audit Committee's meeting as well as the Supervisory Board's meeting to discuss the financial statements, during which the management report and auditor's report are deliberated on. The Supervisory Board has issued a separate report on this subject in the report of the Supervisory Board in the annual report 2016.

### WORKING METHODS OF THE EXECUTIVE AND SUPERVISORY BOARDS

Drägerwerk Verwaltungs AG manages the operations of Drägerwerk AG & Co. KGaA.

In its role as managing body of Drägerwerk AG & Co. KGaA and of the Dräger Group, the Executive Board of Drägerwerk Verwaltungs AG makes decisions on corporate policy. It determines the Company's strategic focus, plans and sets budgets, is responsible for resource allocation, and monitors business performance. It also compiles the quarterly reports and the financial statements of Drägerwerk AG & Co. KGaA and the Group. It works closely with the oversight bodies. The Chairman of the Supervisory Boards of the Company and of the general partner works closely with the Chairman of the Executive Board of the general partner. He regularly provides up-to-date and comprehensive information on all issues relevant to the Company: strategy and its implementation, planning, business performance, financial position and results of operations, as well as business risk. The Supervisory Board of Drägerwerk Verwaltungs AG approved the rules of procedure and its allocation of responsibilities for the Executive Board at the meeting on December 10, 2015.

### TARGET INDICATORS PURSUANT TO SECS. 76 (4) AND 111 (5) AKTG

In its meeting on September 7, 2015, the Executive Board of the general partner defined a quota of 27 percent in relation to female participation in the first level of management below the Executive Board and a quota of 19 percent for the second level of management below the Executive Board. These quotas must be achieved by June 30, 2017.

### FORWARD-LOOKING STATEMENTS

This combined management report contains forward-looking statements. The statements are based on the current expectations, presumptions, and forecasts of the Executive Board of Drägerwerk Verwaltungs AG as well as the information available to it to date. The forward-looking statements do not provide any warranty for the future developments and results contained therein. Rather, the future developments and results are dependent on a number of factors. They entail various risks and uncertainties and are based on assumptions that could prove to be incorrect. Dräger does not assume any responsibility for updating the forward-looking statements made in this report.

Lübeck, February 16, 2017

The general partner
Drägerwerk Verwaltungs AG,
represented by its Executive Board

Stefan Dräger
Rainer Klug
Gert-Hartwig Lescow
Dr. Reiner Piske
Anton Schrofner

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# ANNUAL FINANCIAL STATEMENTS

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ANNUAL FINANCIAL STATEMENTS

# Annual Financial Statements 2016 of the Dräger Group

## CONSOLIDATED INCOME STATEMENT OF THE DRÄGER GROUP – JANUARY 1 TO DECEMBER 31

| in € thousand | Note | 2016 | 2015 |
|---|---|---|---|
| Net sales | 9 | 2,523,838 | 2,608,920 |
| Cost of sales | 10 | – 1,388,410 | – 1,437,249 |
| **Gross profit** | | **1,135,428** | **1,171,670** |
| | | | |
| Research and development costs | 11 | – 219,022 | – 231,097 |
| Marketing and selling expenses | 12 | – 554,682 | – 610,980 |
| General administrative costs | 13 | – 207,417 | – 250,200 |
| Other operating income | 14 | 9,267 | 7,703 |
| Other operating expenses | 14 | – 27,389 | – 13,784 |
| | | **– 999,244** | **– 1,098,358** |
| | | **136,184** | **73,313** |
| | | | |
| Profit from investments in associates | | 321 | 55 |
| Profit from other investments | | 229 | 161 |
| Other financial result | | 179 | – 6,842 |
| **Financial result (before interest result)** | **15** | **729** | **– 6,625** |
| | | | |
| **EBIT** | | **136,914** | **66,687** |
| Interest result | 15 | – 15,543 | – 17,166 |
| **Earnings before income taxes** | | **121,371** | **49,521** |
| Income taxes | 16 | – 39,635 | – 16,233 |
| **Net profit** | | **81,736** | **33,288** |
| | | | |
| | | | |
| **Net profit** | | **81,736** | **33,288** |
| Non-controlling interests in net profit | | 345 | – 287 |
| Earnings attributable to participation certificates (excluding minimum dividend, after taxes)[1] | | 20,537 | 8,530 |
| Earnings attributable to shareholders[1] | | 60,855 | 25,044 |
| **Undiluted / diluted earnings per share on full distribution** | **19** | | |
| per preferred share (in €) | | 3.46 | 1.46 |
| per common share (in €) | | 3.40 | 1.40 |

[1] Earnings attributable to participation certificate holders are determined on the basis of an imputed actual full distribution. Prior year's figures were adjusted accordingly.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE DRÄGER GROUP

| in € thousand | 2016 | 2015 |
|---|---|---|
| **Net profit** | **81,736** | **33,288** |
| | | |
| **Items that cannot be reclassified into the income statement** | | |
| Remeasurements of defined benefit pension plans | –31,287 | 11,019 |
| Deferred taxes on remeasurements of defined benefit pension plans | 9,724 | –3,099 |
| | | |
| **Items that may be reclassified into the income statement in the future** | | |
| Currency translation adjustment for foreign subsidiaries | –519 | 14,529 |
| Change in the fair value of financial assets designated as available for sale recognized directly in equity | –99 | 3 |
| Deferred taxes on changes in the fair value of financial assets designated as available for sale recognized directly in equity | 4 | –11 |
| Change in the fair value of derivative financial instruments recognized directly in equity | 2,580 | 473 |
| Deferred taxes on changes in the fair value of derivative financial instruments recognized directly in equity | –813 | –116 |
| | | |
| **Other comprehensive income (after taxes)** | **–20,409** | **22,799** |
| | | |
| **Total comprehensive income** | **61,327** | **56,086** |
| of which earnings attributable to non-controlling investments | 506 | –423 |
| of which earnings attributable to participation certificates (excluding minimum dividend, after taxes) [1] | 20,537 | 8,530 |
| of which earnings attributable to shareholders [1] | 40,285 | 47,979 |

[1] Earnings attributable to participation certificate holders are determined on the basis of an imputed actual full distribution. Prior year's figures were adjusted accordingly.

## CONSOLIDATED BALANCE SHEET OF THE DRÄGER GROUP

| in € thousand | Note | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 20 | 347,579 | 351,776 |
| Property, plant and equipment | 21 | 420,851 | 406,355 |
| Investments in associates | 22 | 373 | 231 |
| Other noncurrent financial assets | 23 | 13,937 | 11,613 |
| Deferred tax assets | 24 | 133,702 | 135,322 |
| Other noncurrent assets | 25 | 2,126 | 1,881 |
| **Noncurrent assets** | | **918,568** | **907,177** |
| Inventories | 26 | 386,759 | 401,978 |
| Trade receivables and receivables from construction contracts | 27 | 681,743 | 711,323 |
| Other current financial assets | 28 | 37,236 | 47,708 |
| Cash and cash equivalents | 29 | 221,481 | 172,767 |
| Current tax refund claims | | 15,111 | 19,386 |
| Other current assets | 30 | 51,427 | 47,724 |
| | | **1,393,757** | **1,400,885** |
| Assets held for sale | 31 | 0 | 3,334 |
| **Current assets** | | **1,393,757** | **1,404,220** |
| **Total assets** | | **2,312,325** | **2,311,397** |
| **Equity and liabilities** | | | |
| Capital stock | | 45,466 | 45,466 |
| Capital reserves | | 234,028 | 234,028 |
| Reserves retained from earnings, incl. Group result | | 682,803 | 626,634 |
| Participation capital | 34 | 29,497 | 29,497 |
| Other comprehensive income | | 9,683 | 8,691 |
| Non-controlling interests | 33 | 2,039 | 1,614 |
| **Equity** | **32** | **1,003,516** | **945,929** |
| Liabilities from participation certificates | 34 | 22,687 | 21,779 |
| Provisions for pensions and similar obligations | 35 | 318,325 | 288,147 |
| Other noncurrent provisions | 36 | 57,824 | 56,646 |
| Noncurrent interest-bearing loans | 37 | 188,635 | 138,118 |
| Other noncurrent financial liabilities | 38 | 27,994 | 27,604 |
| Noncurrent income tax liabilities | | 5,578 | 4,392 |
| Deferred tax liabilities | 39 | 1,471 | 3,431 |
| Other noncurrent liabilities | 40 | 15,726 | 5,762 |
| **Noncurrent liabilities** | | **638,240** | **545,880** |
| Other current provisions | 36 | 211,203 | 232,984 |
| Current interest-bearing loans and liabilities to banks | 41 | 57,025 | 169,662 |
| Trade payables | 42 | 179,773 | 186,405 |
| Other current financial liabilities | 42 | 25,336 | 25,343 |
| Current income tax liabilities | | 31,996 | 37,751 |
| Other current liabilities | 43 | 165,236 | 167,442 |
| **Current liabilities** | | **670,569** | **819,588** |
| **Total equity and liabilities** | | **2,312,325** | **2,311,397** |

## CONSOLIDATED CASH FLOW STATEMENT OF THE DRÄGER GROUP

| in € thousand | | 2016 | 2015 |
|---|---|---|---|
| **Operating activities** | | | |
| | Group net profit | 81,736 | 33,288 |
| + | Write-down / write-up of noncurrent assets | 85,802 | 84,202 |
| + | Interest result | 15,543 | 17,166 |
| + | Income taxes | 39,635 | 16,233 |
| + / – | Increase / decrease in provisions | –28,982 | 35,989 |
| – | Other non-cash expenses / income | –6,580 | –223 |
| + / – | Loss / gain from the disposal of noncurrent assets | –351 | 592 |
| + / – | Decrease / increase in inventories | 17,387 | –5,384 |
| – | Increase in leased equipment | –13,076 | –13,730 |
| + / – | Decrease / increase in trade receivables | 31,269 | –44,647 |
| + / – | Decrease / increase in other assets | 12,555 | –6,146 |
| – | Decrease in trade payables | –10,236 | –22,756 |
| + / – | Increase / decrease in other liabilities | 6,934 | –11,981 |
| + | Received dividends | 179 | 102 |
| – | Cash outflow for income taxes | –28,833 | –29,214 |
| – | Cash outflow for interest | –12,098 | –18,336 |
| + | Cash inflow from interest | 4,436 | 4,706 |
| | **Cash inflow from operating activities** | **195,322** | **39,861** |
| **Investing activities** | | | |
| – | Cash outflow for investments in intangible assets | –6,462 | –4,240 |
| + | Cash inflow from the disposal of intangible assets | 8 | 187 |
| – | Cash outflow for investments in property, plant and equipment | –73,298 | –110,149 |
| + | Cash inflow from disposals of property, plant and equipment | 2,569 | 5,680 |
| – | Cash outflow for investments in noncurrent financial assets | –403 | –692 |
| + | Cash inflow from the disposal of noncurrent financial assets | 326 | 290 |
| – | Cash outflow from the acquisition of subsidiaries | – | –58,063 |
| | **Cash outflow from investing activities** | **–77,259** | **–166,987** |
| **Financing activities** | | | |
| – | Distribution of dividends (including dividends for participation certificates) | –4,001 | –34,601 |
| + | Cash inflow from the exercise of option rights to preferred shares | – | 31,548 |
| – | Cash outflow from the acquisition of treasury shares for the employee share program | –554 | –1,143 |
| + | Cash provided by raising loans | 60,074 | 48,087 |
| – | Cash used to redeem loans | –65,173 | –105,472 |
| + / – | Net balance of other liabilities to banks | –58,843 | 66,082 |
| – | Net balance of finance lease liabilities repaid / incurred | –1,430 | –1,761 |
| – | Cash outflow from the change in shareholdings in subsidiaries without a change in the method of accounting | – | –4,000 |
| – | Profit distributed to non-controlling interests | –80 | –42 |
| | **Cash outflow from financing activities** | **–70,007** | **–1,303** |
| | **Change in cash and cash equivalents in the fiscal year** | **48,055** | **–128,429** |
| + / – | Effect of exchange rates on cash and cash equivalents | 659 | 4,342 |
| + | Cash and cash equivalents at the beginning of the fiscal year | 172,767 | 296,855 |
| | **Cash and cash equivalents as of December 31 of the fiscal year** | **221,481** | **172,767** |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE DRÄGER GROUP

| | | | | | | Other comprehensive income | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **in € thousand** | **Capital stock** | **Capital reserves** | **Reserves retained from earnings incl. Group result** | **Participation capital** | **Treasury shares** | **Currency translation differences** | **Derivative financial instruments** | **Available-for-sale financial assets** | **Total other comprehensive income** | **Total equity of shareholder Drägerwerk AG & Co. KGaA** | **Non-controlling interests** | **Equity** |
| **Jan. 1, 2015** | **44,186** | **203,760** | **622,342** | **29,497** | **0** | **–2,970** | **–2,405** | **51** | **–5,325** | **894,459** | **2,146** | **896,606** |
| Net profit | – | – | 33,574 | – | – | – | – | – | 0 | 33,574 | –287 | 33,288 |
| Other comprehensive income | – | – | 7,920 | – | – | 14,665 | 357 | –7 | 15,015 | 22,935 | –136 | 22,799 |
| **Total comprehensive income** | – | – | **41,494** | – | – | **14,665** | **357** | **–7** | **15,015** | **56,509** | **–423** | **56,086** |
| Distributions | – | – | –34,601 | – | – | – | – | – | 0 | –34,601 | –42 | –34,643 |
| Acquisition of treasury shares | – | – | – | – | –1,143 | – | – | – | 0 | –1,143 | – | –1,143 |
| Employee share program | – | – | – | – | 1,143 | – | – | – | 0 | 1,143 | – | 1,143 |
| Exercise of option rights to preferred shares | 1,280 | 30,268 | – | – | – | – | – | – | 0 | 31,548 | – | 31,548 |
| Change in the shares in subsidiaries, excluding loss of control | – | – | –3,086 | – | – | –846 | – | – | –846 | –3,932 | –68 | –4,000 |
| Miscellaneous | – | – | 485 | –- | – | – | –153 | – | –153 | 332 | – | 332 |
| **Dec. 31, 2015 / Jan. 1, 2016** | **45,466** | **234,028** | **626,634** | **29,497** | **0** | **10,849** | **–2,201** | **43** | **8,691** | **944,315** | **1,614** | **945,929** |
| Net profit | – | – | 81,391 | – | – | – | – | – | 0 | 81,391 | 345 | 81,736 |
| Other comprehensive income | – | – | –21,563 | – | – | –680 | 1,767 | –94 | 993 | –20,570 | 161 | –20,409 |
| **Total comprehensive income** | – | – | **59,829** | – | – | **–680** | **1,767** | **–94** | **993** | **60,821** | **506** | **61,327** |
| Distributions | – | – | –4,001 | – | – | – | – | – | 0 | –4,001 | –80 | –4,081 |
| Acquisition of treasury shares | – | – | – | – | –1,939 | – | – | – | 0 | –1,939 | – | –1,939 |
| Employee share program | – | – | – | – | 1,939 | – | – | – | 0 | 1,939 | – | 1,939 |
| Miscellaneous | – | – | 341 | – | – | – | – | – | 0 | 341 | – | 341 |
| **Dec. 31, 2016** | **45,466** | **234,028** | **682,803** | **29,497** | **0** | **10,169** | **–434** | **–51** | **9,684** | **1,001,476** | **2,039** | **1,003,516** |

# Notes of the Dräger Group for 2016

## 1 GENERAL

The Dräger Group is managed by Drägerwerk AG & Co. KGaA, Moislinger Allee 53 – 55, D 23542 Lübeck, Germany, the ultimate parent company. Drägerwerk AG & Co. KGaA is entered in the commercial register of the Local Court of Lübeck under HR B No. 7903 HL.

On March 8, 2017, the Executive Board is approving the publication of the Group financial statements of Drägerwerk AG & Co. KGaA for fiscal year 2016. The Group financial statements are published in electronic form in the Federal Gazette.

The Group's business activities and structure are described in the segment reporting as well as management report of this annual report.

## 2 BASIS OF PREPARATION OF THE GROUP FINANCIAL STATEMENTS

Drägerwerk AG & Co. KGaA prepared its Group financial statements for fiscal year 2016 in accordance with International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Boards (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). Drägerwerk AG & Co. KGaA applied all the IFRSs adopted by the IASB as of December 31, 2016 to its 2016 Group financial statements, provided that these standards were endorsed by the European Commission and published in the Official Journal of the European Union by the date of publication of the Group financial statements and that application of such standards is mandatory for fiscal year 2016.

On their effective dates, Dräger has applied the following revised standards issued by the IASB for the first time in fiscal year 2016 in particular:

- The "Annual Improvements to IFRSs 2012 – 2014 Cycle (issued September 2014)" resulted in slight adjustments or corrections to IFRS 5, IFRS 7, IAS 19, and IAS 34. This does not have a material impact on Dräger's Group financial statements.
- The IASB published clarifications on IAS 1 in line with the "Disclosure Initiative – Amendments to IAS 1 (issued December 2014)." In addition to assessing the materiality of information in the financial statements, the presentation of additional line items in the balance sheet and the statement of comprehensive income, and the structure of disclosures in the notes, these also relate to the presentation of significant accounting policies. They also relate to the presentation of the other comprehensive income of associates and joint ventures accounted for using the equity method. This does not have a material impact on Dräger's Group financial statements.
- The amendments to IFRS 10, IFRS 12, and IAS 28 (issued December 2014) govern the application of the consolidation exception for investment companies. This does not impact Dräger's Group financial statements.
- The amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations (issued May 2014)" mean that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. This does not impact Dräger's Group financial statements.

- The amendment to IAS 27 “Equity Method in Separate Financial Statements (issued August 2014)” again allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The option to apply the equity method had been removed during the 2003 revision of IAS 27 “Consolidated and Separate Financial Statements pursuant to IFRS.” This does not impact Dräger’s Group financial statements.
- The amendments “Clarification of Acceptable Methods of Depreciation and Amortization (issued in May 2014)” adjust IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” to clarify that, in the case of property, plant and equipment, a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate, as the revenue reflects the generation of economic benefits, rather than its consumption. A rebuttable presumption applies, however, in the case of intangible assets, meaning that revenue-based amortization methods may continue to be used for intangible assets where there is high correlation with actual consumption or where revenue is the decisive limiting factor of the asset in question. This does not impact Dräger’s Group financial statements.

Additional accounting provisions have already been adopted into European law by the EU and apply to fiscal years beginning on or after January 1, 2018. Dräger did not voluntarily apply this interpretation prematurely. These accounting provisions relate in particular to the following standards:

- IFRS 15 “Revenue from Contracts with Customers (issued May 2014)” specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with additional relevant information. The standard replaces IAS 18 “Revenue”, IAS 11 “Construction Contracts” and revenue-related interpretations IFRIC 13, IFRIC 15, IFRIC 18, and SIC-31. Dräger performed an impact analysis to examine revenue realization and revenue recognition processes. The analysis started by determining Dräger’s key revenue realization business models. An analysis was then performed to determine whether and to what extent the provisions of IFRS 15’s 5-step model will impact current revenue realization on the basis of the individual business models. The analysis identified the contractual issues concerned, and additional areas of activity were then determined to adjust guidelines, reporting processes, and IT processes. This also applies to contracts that include two or more contractual obligations for Dräger (so-called multiple element arrangements; such multiple element arrangements may arise at Dräger in the medical products portfolio from sales and service, as well as in the project business). At present, it is impossible to determine the extent of the material restatement effects of the required adjustments in the individual business models as an analysis is currently being performed to determine the extent and the timing of the effects of the first-time application of IFRS 15 on revenue realization. Dräger assumes that the scope of qualitative and quantitative information provided in financial statements will be enhanced. Dräger will transition to IFRS 15 effective January 1, 2018 using the modified retrospective approach.
- IFRS 9 “Financial Instruments (issued July 2014)” complets the IASB’s 3-phase project to replace IAS 39 (financial instrument accounting). IFRS 9 was published as a complete standard, combining all previously published regulations with the new regulations on the recognition of impairment (particularly the expected credit loss model) and amendments to the classification and measurement of financial assets. The balance sheet presentation of hedging relationships

was also changed in favor of improving the presentation of operational risk management. An analysis is currently being performed of the impact of the first-time application of IFRS 9 on Dräger's Group financial statements. At present, it is impossible to determine the extent of the restatement effects.

Further standards were published and existing standards amended, which become effective for fiscal years starting on or after January 1, 2017 and which had not yet been endorsed by the balance sheet date. These accounting provisions include, in particular, the following:

- The "Annual Improvements to IFRSs 2014–2016 Cycle (issued December 2016)" resulted in slight adjustments to IFRS 1, IFRS 12, and IAS 28 and specifications to existing standards. These do not have any material impact on Dräger's Group financial statements.
- The amendments to the regulations of IAS 28 and IFRS 10 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued September 2014)" address a conflict between these standards and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. This does not have a material impact on Dräger's Group financial statements.
- The new IFRS 16 "Leases (issued January 2016)" supersedes the current standard on lease-accounting IAS 17 as well as the interpretations IFRIC 4, SIC-15, and SIC-27. IFRS 16 defines leases as an agreement in which the right to control the use of an identifiable asset is transferred and that during the term of use the customer has the right to both define the use of this asset as well as to benefit from the use of this asset. The material changes affected by IFRS 16 relate to how the lessee accounts for these leases. The lessee is required to recognize assets and liabilities for the rights and obligations arising under leases. Recognition exemptions are granted for low-value assets and short-term leases. The accounting principles for lessors largely correspond to the existing regulations under IAS 17. Dräger is currently in the process of selecting a suitable technical support system for the management and accounting of the contracts in question pursuant to IFRS 16. Once the selection has been made in fiscal year 2017 and the subsidiaries trained in its use, the contracts in question will be uploaded to the selected system and the results analyzed. The impact on Dräger's Group financial statements cannot be conclusively assessed until this analysis has been performed. Please refer to the disclosures in Note 45 for details of the current scope of the minimum lease payments outstanding (operating leases).

↗ Note 45

- The amendments to IAS 7 "Statement of Cash Flows (issued January 2016)" within the scope of the "Disclosure Initiative" stipulate additional disclosures in the notes that should help users of financial statements to evaluate changes in liabilities arising from the entity's financing activities. This does not have a material impact on Dräger's Group financial statements.
- The amendments to IAS 12 "Recognition of Deferred Tax Assets (issued January 2016)" clarify how to account for deferred tax assets for unrealized losses related to debt instruments measured at fair value and recognized in other comprehensive income. This does not have a material impact on Dräger's Group financial statements.
- The clarification in respect of IFRS 2 "Classification and Measurement of Share-based Payment Transactions (issued June 2016)" pertains to issues relating to the accounting of equity-settled share-based payments. The amendment or addition also relates to the approach used when modifying certain underlying conditions as well as the classification of transactions with specific fulfillment conditions. Dräger does not currently use any equity-settled share-based payment models, meaning that this does not have an impact on Dräger's Group financial statements.

- The amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued September 2016)” mainly relate to companies with predominant insurance activities that have expressed concerns pertaining to the application of IFRS 9 before the standard to replace IFRS 4 becomes effective. The amendments are designed to reduce the impact from the varying dates of initial application of these standards for these companies as a result of the use of two alternative approaches (the overlay approach and the deferral approach). As Dräger is not a company with predominant insurance activities, this does not have a material impact on Dräger’s Group financial statements.
- The adjustments to IFRS 15 “Clarifications to IFRS 15 – Revenue from Contracts with Customers (issued April 2016)” serve to clarify the identification of performance obligations, the principles of principal versus agent considerations, and determining the type of licenses as well as sales or usage-based royalty revenue. The standard also offers transition relief for modified contracts and concluded contracts. The impact on Dräger’s Group financial statements is in line with the impact from IFRS 15 as specified above.
- IFRIC Interpretation 22 (issued December 2016) clarifies for IAS 21 that the date of the transaction, for the purpose of determining the exchange rate used at the initial recognition of assets, expenses, or income, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability by an entity. This does not have a material impact on Dräger’s Group financial statements.

The provisions of Art. 4 EC Regulation No. 1606 / 2002 of the European Parliament in conjunction with Sec. 315a (1) HGB (Handelsgesetzbuch – German Commercial Code) governing a company’s exemption from its obligation to prepare group financial statements in accordance with German commercial law have been met.

To ensure that the Group financial statements are equivalent to consolidated financial statements prepared in accordance with the German Commercial Code, all disclosures and explanations required by German commercial law above and beyond the provisions of the IFRSs have been provided in accordance with Sec. 315a (1) HGB.

The Group financial statements were prepared in euros. Unless stated otherwise, all figures were disclosed in thousands of euros (EUR thousand); rounding differences may arise as a result. The balance sheet is classified according to the current / noncurrent distinction; the income statement was prepared according to the cost of sales method. Where certain items of the financial statements have been grouped with a view to enhancing the transparency of presentation, they are disclosed separately in the notes. The single entity financial statements of the companies included in consolidation were prepared as of the balance sheet date of the Group financial statements on the basis of uniform accounting policies.

## 3 AMENDMENTS TO SEGMENT REPORTING

Segment reporting in the annual reports is geared towards the organizational and management system (pursuant to IFRS 8). Until the end of fiscal year 2015, the Company was managed through the two divisions: the medical division and the safety division. An expanded functional Executive Management Team (EMT) was responsible for the operating management of the two divisions.

We have realigned our organizational, management, and reporting system to put the spotlight on the customer even more and make our internal decision-making processes more efficient. Since fiscal year 2016, the Executive Board is managing the operating business by means of the three regions: Europe, Americas, and Africa, Asia, and Australia. The operating business includes both medical and safety equipment as well as the associated services. One member of the Executive Board is fully responsible for the business performance of the Company in each of these three regions. The respective Executive Board member assumes this regional responsibility in addition to his functional tasks.

Segment reporting will also change beginning in 2016 with the change to the management approach. The new segment reporting is geared towards the business responsibility of the three Executive Board members with regional responsibilities. It is in line with the changed internal reporting structure and is broken down into the regions Europe (Dr. Reiner Piske), Americas (Rainer Klug), and Africa, Asia, and Australia (Anton Schrofner).
This regional management approach results in the following changes to our segment reporting:

- Reporting is structured according to the regions Europe, Americas, and Africa, Asia, and Australia.
- For reporting EBIT, cross-regional costs are now allocated to the three segments with a plan-based formula. A large portion of these costs will be assigned to the regions using a net sales formula.
- Apart from the key influencing factors of net working capital (trade receivables, trade payables, inventories including prepayments received), reported capital employed also includes long-term capital, such as property, plant and equipment. This is assigned to the segments using a net sales formula.
- Key figures that cannot be reasonably allocated to the regions, such as net financial debt, are only reported at Group level.

The change in segment reporting results in slight variations of the order intake and net sales per region, compared to the figures reported in the previous year.

## 4 SCOPE OF CONSOLIDATION

The consolidated group of Drägerwerk AG & Co. KGaA is composed of the following entities:

**SCOPE OF CONSOLIDATION**

| | Germany | Abroad | Total |
|---|---|---|---|
| **Drägerwerk AG & Co. KGaA and fully consolidated companies** | | | |
| January 1, 2016 | 23 | 91 | 114 |
| Established | – | 1 | 1 |
| Mergers | – | 5 | 5 |
| **December 31, 2016** | **23** | **87** | **110** |
| **Associates** | | | |
| January 1 / December 31, 2016 | 1 | – | 1 |
| **Total** | **24** | **87** | **111** |

Besides Drägerwerk AG & Co. KGaA, fully consolidated companies include all subsidiaries controlled by Drägerwerk AG & Co. KGaA within the meaning of IFRS 10 (including structured companies). Drägerwerk AG & Co. KGaA controls a company when it has power over the company, exposure, or rights, to variable returns from its involvement with the company, and the ability to use its power over the company to affect the amount of the company's returns. Those of the company's activities that significantly influence its returns are classified as relevant activities.

Control can also exist without a majority of voting rights if Drägerwerk AG & Co. KGaA has other means of controlling a company's relevant activities. These means can result from, for example, other contractual agreements, potential voting rights, or the size of its voting rights relative to the size and dispersion of holdings of the remaining voting rights.

The consolidated group includes six (2015: six) real estate companies and a further special purpose entity as structured companies. The activities of these companies are limited, because they were each only founded for a specific purpose. Dräger controls these structured companies not exclusively through voting rights or comparable rights, but partially only through other contractual agreements (please refer to our comments on the use of assumptions and estimates in Note 8). Dräger does not provide these companies with any financing or guarantees, nor does it intend to do so in the future.

↗ Note 8

Controlled companies are included in the Group financial statements as subsidiaries from the date on which Dräger obtains control, and are removed from the Group financial statements as subsidiaries from the date on which Dräger no longer has control.

Dräger leases land and buildings from two companies, whose only purpose is leasing these properties while Dräger does not hold any interests in nor has any influence over these companies by means of other contracts. These companies are not included in Dräger's consolidated group, as Dräger does not exercise any control over these companies within the meaning of IFRS 10 as a result of the firm contractual commitments. The companies do not receive any financing or guarantees from Dräger, nor does Dräger plan any such support. Provisions for potential losses are recognized, as Dräger does not use these properties to their full extent (please refer to our comments in Note 36).

↗ Note 36

Joint arrangements where Dräger has joint control together with one or more parties are accounted for in accordance with IFRS 11. A difference is made here between joint operations and joint ventures.

A joint operation exists when the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities. In the case of investments in joint operations, only a proportionate share of the assets, liabilities, income, and expenses are recognized. Dräger is not involved in any material joint operations.

Joint ventures, on the other hand, occur when the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Dräger is currently contractually involved in four joint ventures in the form of working groups accounted for using the equity method. These companies are not presented in the notes, as their business in and of itself is not material, their shares have no costs, and these companies, as in the prior year, do not generate any earnings of their own. Drägerwerk AG & Co. KGaA directly and indirectly exerts a significant influence on an associate. In accordance with IAS 28, associates are accounted for according to the equity method.

The consolidated companies of the Dräger Group as of December 31, 2016 are listed under Note 53.

↗ Note 53

## 5 EFFECTS OF THE CHANGES IN THE SCOPE OF CONSOLIDATION

The newly established subsidiary Draeger Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia, was included in the consolidated financial statements for the first time in May 2016. The company is responsible for the sale of Dräger's medical and safety equipment in Malaysia, which had previously been the responsibility of the subsidiaries in Singapore. Draeger Safety Asia Pte Ltd., Singapore, was merged with Draeger Singapore Pte Ltd., Singapore, (formerly: Draeger Medical South East Asia Pte Ltd.) in October 2016.

US subsidiary Draeger Safety Inc., Pittsburgh, USA, was merged with US subsidiary Draeger Medical Systems Inc., Telford, USA, also in May 2016.

Danish subsidiary Dräger Medical Danmark A/S, Allerod, Denmark, was merged with Danish subsidiary Dräger Danmark A/S, Herlev, Denmark, (formerly: Dräger Safety Danmark A/S) in May 2016.

Another two mergers were carried out in November 2016: Swedish subsidiary Dräger Safety Sverige AB, Partille, Sweden, was merged with Swedish subsidiary Dräger Sverige AB, Kista, Sweden, (formerly: Dräger Medical Sverige AB), while Norwegian subsidiary Dräger Medical Norge AS, Drammen, Norway, was merged with Norwegian subsidiary Dräger Norge AS, Oslo, Norway, (formerly: Dräger Safety Norge AS).

## 6 CONSOLIDATION PRINCIPLES

Purchases are accounted for according to the acquisition method. On initial consolidation of acquired subsidiaries, the identifiable assets and liabilities (including contingent liabilities) are measured at their fair values at the date on which control of the subsidiary is obtained. The excess of the cost of the investment over the acquirer's share in the net fair value of the identifiable assets and liabilities is recognized as goodwill. All incidental purchase costs relating to the acquired company are recognized as expenses at the time they are incurred, with the exception of the costs of issuing debt instruments or shares. Adjustments to components of the contingent purchase price are recognized as expenses, provided that these are recognized as a liability at the time of acquisition. Non-controlling interests have to be measured either at fair value ("full goodwill method") or at the proportional fair value of the acquired assets and assumed liabilities. Pursuant to IAS 36, goodwill is subject to an impairment test to be performed at least once a year (impairment-only approach). Any excess of the Group's share in equity over the cost of the investment is recognized in profit or loss at the date of acquisition.

Successively acquired shares that do not affect the controlled status of an entity are treated as transactions between equity providers ("entity concept"). The carrying amounts of assets and liabilities remain the same. The value shift between Dräger and the non-controlling interests is recorded directly in equity. Any non-controlling interests in equity are shown in the consolidated balance sheet as such (see also Note 33).

↗ Note 33

When swapping or exchanging shares or engaging in similar transactions, the fair value of the shares given is attributed to the shares received.

Associates and joint ventures are accounted for using the equity method at cost on the date of acquisition. The acquisition costs are adjusted to reflect their share in net profit or loss for the period and dividend distributions. The goodwill is included in the carrying values of the investments. Impairments are accounted for separately. At each balance sheet date Dräger determines whether there are indications that the shares in the associates are impaired. If this is the case, the difference between the carrying value and the recoverable amount is calculated as the impairment loss and recognized in profit or loss as "profit/loss from investments in associates."

Intercompany receivables and liabilities are netted (elimination of intercompany balances). The carrying amounts of assets from intercompany transactions are adjusted for unrealized intercompany profits and losses (elimination of intercompany profits and losses); therefore, these assets are measured at Group cost. For associates, elimination of intercompany profits and losses is waived due to immateriality. Internal net sales are eliminated. Any other intercompany income and expenses are mutually offset (elimination of income and expenses). Deferred tax assets or liabilities from consolidation entries that affect profit or loss are recognized whenever differences in tax expenses or income are expected to reverse in subsequent years.

## 7 CURRENCY TRANSLATION

In the single entity financial statements of Drägerwerk AG & Co. KGaA and its subsidiaries, foreign currency transactions are translated at the average exchange rate at the transaction date.

Exchange differences from the settlement of monetary items in foreign currencies during the year as well as the measurement of open foreign currency positions at the rate on the balance sheet date are realized in profit or loss.

The foreign consolidated subsidiaries prepare their financial statements in the local currency in which they mainly operate (functional currency). These financial statements are translated into the Group reporting currency, the euro, at the mean exchange rate on the balance sheet date (closing rate) for assets and liabilities and at the annual average exchange rate for income statement positions. All resulting translation differences are recognized directly under other comprehensive income.

The financial statements and comparative figures of economically independent foreign entities operating in a hyperinflationary environment and reporting in a currency of a hyperinflationary economy shall be restated in terms of the measuring unit current on the balance sheet date using a general price index for the country in question. As in the prior year, one subsidiary in Venezuela had its registered office in a hyperinflationary economy in the year under review. The effects of inflation were not recognized as the subsidiary is of only minor importance to the Group.

The exchange gains / losses on operating foreign currency items included in cost of sales and in functional expenses result in a total loss of EUR −2,543 thousand (2015: loss of EUR −7,245 thousand).

The exchange gains / losses on foreign currency items disclosed in the financial result led to a total profit of EUR 129 thousand (2015: loss of EUR −6,874 thousand).

Currency translation for foreign subsidiaries gave rise to a decrease in other comprehensive income by EUR 680 thousand as of the balance sheet date (2015: increase of EUR 14,665 thousand).

The major group currencies by third-party net sales and their exchange rates developed as follows:

### CURRENCIES / EXCHANGE RATES

| | | Closing rate | | Average rate | |
|---|---|---|---|---|---|
| | 1 € = | Dec. 31, 2016 | Dec. 31, 2015 | 2016 | 2015 |
| USA | USD | 1.05 | 1.09 | 1.10 | 1.10 |
| People's Republic of China | CNY | 7.32 | 7.06 | 7.34 | 6.95 |
| UK | GBP | 0.86 | 0.73 | 0.82 | 0.72 |
| Australia | AUD | 1.46 | 1.49 | 1.49 | 1.48 |

## 8 ACCOUNTING POLICIES

The single entity financial statements of Drägerwerk AG & Co. KGaA and its consolidated German and foreign subsidiaries as of December 31 of the fiscal year are prepared on the basis of uniform accounting and valuation policies and included in the Group financial statements. The following accounting policies are applied:

### General

The Group financial statements have been prepared on a historical cost basis. Dräger does not utilize the option of remeasuring intangible assets and property, plant and equipment. The historical cost basis does not apply for derivative financial instruments and financial investments available for sale, which are measured at fair value.

The historical costs are determined on the basis of the fair value of the consideration transferred on the date of acquisition. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. This fair value measurement method does not apply to the following at Dräger:

– Leasing transactions within the scope of IAS 17; and
– Measurements that have some similarities to fair value but are not fair value.

When determining fair value, a differentiation has to be made and must be disclosed between the dependence on observable market data in the following hierarchies:

Level 1: In the event of an active market for the asset to be measured to which the entity has access, the fair value shall be the value determined and published on this market (mark to market).

Level 2: In the event that there is no active market for the financial instrument to be measured, the timely and observable market or transaction prices for assets that are substantially the same shall be used where these exist.

Level 3: In the event that neither an active market nor timely market or transaction prices exist for the financial instrument to be measured, the fair value shall be determined using accepted valuation techniques. These also include methods that derive prices from past market transactions.

### Net sales recognition

Net sales are recognized when control, for instance the risks and rewards incident to ownership, has been transferred to the buyer. Net sales include the income that can be determined reliably, if it is probable that the economic benefit will flow to the entity.

Net sales from services are recognized when the service has been rendered, if the amount of income can be measured reliably and it is probable that the economic benefit will flow to the entity. Net sales that cannot be reliably estimated are only recognized to the extent that expenses incurred can be recovered.

If several deliveries and / or services are provided to the same customer at the same time or within a short time frame and are included in a single civil law contract with a single price (multiple-element contracts), this transaction is split into a number of different elements and the regulations pertaining to net sales recognition are applied to the individual components of the transaction to reflect the economic content of the transaction appropriately.

Net sales are reduced by sales deductions, where applicable.

In accordance with IAS 11, construction contracts are recognized using the stage of completion method. The stage of completion which has to be determined in the case of fixed price contracts is calculated using the cost-to-cost method (input-based method). This method determines the stage of completion based on the costs incurred as of the balance sheet date in relation to the estimated total cost. If the outcome of a construction contract can be estimated reliably, the revenues are recorded at the amount of contract costs incurred plus a profit margin. The contracts are recognized as receivables from construction contracts or, if a loss is expected, as liabilities from construction contracts. Partial payments received are deducted from the receivables. If the partial payments received exceed the receivables, the balance is recognized as liability.

#### Intangible assets

Group-controlled intangible assets from which future economic benefits are expected to flow to the Group and which can be reliably measured are recognized at cost, provided that these are clearly identifiable and are therefore to be distinguished from goodwill.

In the event of the acquisition of intangible assets within the scope of a business combination, the cost corresponds to the fair value on the date of acquisition.

The intangible assets are amortized on a straight-line basis over their expected useful lives. Borrowing costs that are material and directly attributable to the acquisition, construction, or production of a qualifying asset are capitalized as part of the cost of that asset in accordance with IAS 23.

Purchased software for internal use is capitalized as a separate asset unless it is an integral part of the related hardware. Costs incurred in connection with the installation and implementation of purchased software are recognized as incidental purchase costs of the same.

Expenses required for maintaining the original use of the software (functionality) as well as updates via hot packages shall be expensed as incurred.

Dräger's research costs include direct research costs as well as the attributable overheads and are charged as expenses in the period in which they are incurred.

Internal development costs for products, including their software, as well as software for internal use are capitalized if the following conditions are met:

- The completion of the product is technically feasible.
- Management intends to complete the product in order to use or sell it.
- The ability to use or sell the product.
- It can be proven that the product will likely generate future economic benefits.
- Adequate technical, financial, and other resources are available to complete the development and use or sell the product.
- The development costs attributable to the product can be measured reliably.

However, due to strict legal and safety requirements for Dräger Group products, this means that the product must have already been approved for sale in the major markets. If not all criteria for capitalization are met, internal development costs for products, including their software, are expensed as incurred (as in the case of research costs).

Intangible assets generally have a useful life of four years, patents and trademarks are amortized over their term (eleven years on average) using the straight-line method.

Goodwill recognized as an intangible asset is disclosed at cost less accumulated impairment losses. Under IAS 36, amortization is no longer charged on a systematic basis (please also refer to our comments under “Impairment losses on intangible assets and property, plant and equipment”).

### Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of purchase of an item of property, plant and equipment includes its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Production costs comprise attributable direct and overhead costs as well as depreciation attributable to the production process. Borrowing costs that are material and directly attributable to the acquisition, construction, or production of a qualifying asset are capitalized as part of the cost of that asset in accordance with IAS 23. Subsequent expenditure incurred after the assets have been put into operation, such as ongoing repairs and maintenance and overhaul costs, is charged as expense in the period in which the costs are incurred.

Whenever it is probable that the expenditure will result in future economic benefits in excess of the originally assessed standard of performance of the existing asset flowing to the Company, the expenditure is recognized as an additional purchasing cost of property, plant and equipment.

Depreciation is computed on a straight-line basis over the following estimated useful lives:

| | |
|---|---|
| – Office and factory buildings | 20 to 40 years |
| – Other buildings | 15 to 20 years |
| – Production plant and machinery | 5 to 8 years |
| – Other plant, factory and office equipment (excluding low-value assets) | 2 to 15 years |

Land is not depreciated.

Where significant parts of property, plant and equipment contain components with substantially different useful lives, such components are recorded separately and depreciated over their useful lives.

The useful life and depreciation methods used for property, plant and equipment are reviewed annually to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Assets under construction are stated at cost.

### Investment allowances

When determining the carrying amount of the relevant asset, investment allowances (government grants) for assets are deducted from the cost. Grants are therefore recognized in profit or loss through a reduced depreciation charge over the useful life of the depreciable asset.

### Impairment losses on intangible assets and property, plant and equipment

If there are external or internal indicators of impairment of intangible assets or property, plant and equipment on the balance sheet date, these items are subjected to an impairment test pursuant to IAS 36. If the carrying value of the asset exceeds its recoverable amount (the higher of its value in use and net realizable value), an impairment loss is charged. If no future cash flows independently generated from other assets can be attributed to individual assets, the recoverable amount is tested for impairment on the basis of the cash-generating unit to which the asset belongs.

An impairment test is to be performed on goodwill and intangible assets with indeterminable useful lives annually and whenever there are indications that it may be impaired. The impairment test for goodwill is performed on the basis of the cash-generating unit to which the asset belongs; this is expected to benefit from the underlying business combination.

Goodwill is tested for impairment using the discounted cash flow method based on the operational five-year plan and, as in the prior year, an assumed sustained growth of 1 percent in the subsequent period is used to test the goodwill of the individual cash generating units. A risk-adjusted interest rate is used for discounting. Goodwill is based on the operating business segments in accordance with IFRS 8.

If the reasons for an impairment loss cease to apply, write-ups are performed, except in the case of goodwill.

### Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Dräger Group holds the following financial assets:

- Other investments,
- Securities,
- Loans and other receivables,
- Derivative financial assets,
- Other financial assets, and
- Cash and cash equivalents.

The Dräger Group reports the following financial liabilities:

- Liabilities to banks and loan liabilities,
- Trade payables,
- Derivative financial liabilities, and
- Other financial liabilities.

### Financial assets

Financial assets are divided into the following categories:

- Financial assets measured at fair value through profit or loss,
- Loans and receivables,
- Held-to-maturity investments, and
- Available-for-sale financial assets.

Financial assets are initially recognized at fair value. Incidental purchase costs (transaction fees), such as commission, agents' costs, notary costs, or taxes and fees, are only to be allocated to financial assets or liabilities whose changes in value are not recognized in profit or loss.

For purchases or sales of financial assets at normal market conditions, the settlement date is relevant, i.e. the date on which the asset is delivered to or supplied by Dräger. Purchases or sales at normal market conditions are when assets have to be delivered within the statutory or conventional time scale applicable to the location where the transaction took place.

Financial assets may be classified, upon initial recognition, at fair value through profit or loss if they fulfill the requirements of the IASB (fair value option). This option has not been exercised by the Dräger Group to date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are recognized at amortized cost less any impairment losses and discounting (effective interest method).

Securities with fixed or determinable payments and fixed maturities that the Dräger Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments and recognized at amortized cost using the effective interest method.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale and are not classified as belonging to any of the other categories. This category comprises other investments and securities, which are measured at fair value, or, if not determinable, at amortized cost. Unrealized gains and losses from the change in fair value are recorded in equity, taking the tax effects into account.

Changes in fair value are not recognized in profit or loss until the asset is sold, or if it is permanently impaired.

Financial assets held for or due in more than twelve months are disclosed as noncurrent financial assets.

In subsequent measurements, financial assets are subject to an impairment test. As part of a two-stage method, the first step is to examine whether there is substantial evidence of impairment following the initial recognition (i.e. it is highly probable that the borrower will become insolvent or the obligor is in considerable financial difficulties). The second step is to determine the extent of the impairment on the basis of expected future cash flows. The carrying values of loans and receivables are generally adjusted through the use of allowance accounts. Assets and allowances are written off if it is established that the financial assets are determined to be impaired. In the event of the unforeseeable impairment of receivables, these receivables are written off directly, not using the allowance account.

The effects of the impairment loss and of the subsequent measurement by applying the effective interest method are recognized in profit or loss.

A financial asset shall be removed from the seller's balance sheet when the rights to cash flows from the asset have expired or the rights to cash flows and significant opportunities and risks have been transferred and the seller no longer has any control over the asset.

### Financial liabilities

Financial liabilities are divided into the following categories: fair value through profit or loss or other financial liabilities.

Financial liabilities are initially recognized at fair value. Transaction fees directly attributable to the issue of the liability are deducted on the initial measurement of the liabilities when changes in value are not recognized in profit or loss.

The subsequent measurement of liabilities held for trading, as they were acquired with the intention of repurchasing them in the short term, is always recognized in profit or loss.

Other financial liabilities are disclosed at amortized cost in subsequent periods, taking into account repayment amounts as well as premiums and discounts. Any differences between the payment (less transaction fees) and repayment are recognized in the income statement over the term of the loan, using the effective interest method.

Financial assets and liabilities are offset and reported at net amounts if there is a right at the present time to set off the reported amounts against each other and the intention is to settle on a net basis or to settle the associated liability simultaneously with the realization of the asset.

Noncurrent liabilities that do not bear interest or bear interest at a rate substantially below market rates are disclosed at present value. Premiums and discounts are allocated over the term of the liability using the effective interest method.

Financial liabilities held for, or due in more than twelve months, are disclosed as noncurrent financial liabilities.

Financial liabilities are derecognized when the corresponding obligation has been settled, cancelled, or expired.

### Derivative financial instruments

The Dräger Group uses derivatives as part of its risk management to hedge currency and interest rate risks.

Derivatives are recognized at fair value. For derivative financial instruments that meet the hedge accounting criteria of IAS 39, the changes in fair value are recognized depending on the type of hedge.

In a hedge of the exposure to changes in fair value of a recognized asset or liability (fair value hedge), the changes in the fair value of both the hedged item and the derivative are recognized in profit or loss. Changes in the fair value of the exposure to variability in future cash flows (cash flow hedge) are recognized directly in equity under other comprehensive income if the hedge is effective. These amounts are reclassified to profit or loss once the hedged item affects profit or loss.

Since fiscal year 2016, Dräger has been using cash flow hedge accounting to account for future cash flows from currency hedging transactions. Temporary differences in currency futures are recognized directly in equity under other comprehensive income until such time as they are transferred to the income statement, at which time the hedged item affects profit or loss.

In hedging foreign currency risks posed by recognized assets or recognized liabilities, the Dräger Group does not use hedge accounting in accordance with IAS 39 to recognize hedges as the profit or loss from the currency translation of the hedged item pursuant to IAS 21 affects the income statement at the same time as the profit or loss from the measurement of the hedging instrument.

Derivative financial instruments that are not designated as effective hedging instruments in accordance with IAS 39 are classified as held for trading and recognized at fair value. The fair value of listed derivatives is the positive or negative market value. In the absence of a market value, the fair value is determined according to generally accepted methods of financial mathematics such as the discounting of expected future cash flows.

↗ Note 36

We refer to Note 44 for details of the nature and scope of the Dräger Group's existing financial instruments.

### Inventories

Inventories comprise raw materials, consumables, and supplies, work in progress, and finished goods and merchandise. They are measured at the lower of cost and net realizable value. Costs are measured using the average cost method. Cost comprises production-related full costs calculated on the basis of normal capacity utilization. In addition to direct materials and production costs, it includes materials and production overheads as well as special direct production costs allocable to the production process. Depreciation on items classified as property, plant and equipment used in the production process is also included. Borrowing costs that are material and directly attributable to the acquisition, construction, or production of a qualifying asset are capitalized as part of the cost of that asset in accordance with IAS 23.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Unrealizable inventories are written off.

The finished goods and merchandise item also includes rental and demo equipment, which is taken over by the customers after a short period of time. The net realizable value declines by 25 percent per year over the period during which rental and demo equipment is used.

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank balances, including short-term deposits; the availability of these is restricted in some cases.

### Participation capital

In accordance with IAS 32 and IAS 39, the individual Dräger participation certificate series are recognized pursuant to the commercial value of their contractual agreements. Series A certificates are classified as equity. However, they include an obligation with a value to the amount of the minimum return which is recognized as liability.

Series K and D certificates are classified as debt, but the premium on the issue price exceeding Dräger's obligation is recognized as equity.

Effects recognized in equity reflect the participation certificates' equity component (including tax effects) and corresponding past compounding effects.

↗ Note 34

The components recognized as debt are measured at amortized cost using the effective interest method (present value of repayment obligation). Please refer to Note 34 for further information on the individual Dräger participation certificate series.

The compounding of liabilities from participation certificates and the minimum dividend for series A and K are included in the interest expense of the respective period. The dividend for series D certificates and the amount exceeding the minimum dividend for series A and K certificates are paid with equity capital.

### Dividends

Dividends are recognized in profit or loss once a legal right exists to receive payment.

### Provisions for pension obligations and similar obligations

The Dräger Group's provisions for pension obligations and similar obligations are calculated annually by actuaries in compliance with IAS 19 (revised) using the projected unit credit method allowing for future adjustments to salaries and pensions and employee turnover.

Remeasurements due to changes in demographic and / or financial assumptions and experience based adjustments are immediately recognized directly in equity under other comprehensive income taking account of deferred taxes. These are not subsequently recognized in Group profit or loss.

The net interest expense is calculated by multiplying the chosen interest rate by the performance-oriented net liability or net asset at the beginning of the year. The performance-oriented net liability or net asset is the balance of defined benefit obligations and plan assets.

With effect as of December 2007, funds from the German pension plan were paid into a new fund including a settlement account and secured in favor of the employees via a contractual trust arrangement (CTA), meaning that they only serve to cover and finance the Company's direct pension obligations in Germany.

Any excess of plan assets over the pension obligations is recognized as an asset at a maximum of the present value of the economic benefit to the Company (due to a refund of contributions or reduction of future contributions) plus any past service cost not yet recognized (asset ceiling).

Public pension schemes, which are classified as public plans pursuant to IAS 19, are also defined contribution plans. The Group does not accrue any other payment obligations once the due payments have been made. The amounts are recognized as pension expenses when the payments are due. Paid amounts are recognized as other receivables if these advance payments result in a reimbursement or a reduction in future payments.

### Other provisions

A provision is recognized when the entity has a present obligation (legal or constructive) to a third party as a result of a past event and it is probable that an outflow of resources representing economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are stated at the amount expected to be required to settle the obligation. This settlement amount also includes cost increases that have to be taken into account on the balance sheet date. Noncurrent provisions are discounted to the balance sheet date using appropriate pre-tax market rates. These interest rates are determined taking into account the risk and the term of the provision, if the risk had not already been recognized when determining future payments. Provisions are not offset against rights of recourse.

Other provisions include long-term employee benefits (other than provisions for pension obligations and similar obligations). These are measured based on the net balance of the present value of the obligation at the reporting date less the fair value at the reporting date of plan assets out of which the obligations are to be settled directly. The present value of the obligation and plan assets are determined in the same way as provisions for pensions and similar obligations.

Other provisions additionally include post-employment benefits, which are employee benefits (not including pensions) that are mainly paid in connection with personnel-related restructuring, e. g. one-time payments, periodic payments over a number of years, as well as salary payments during leaves of absence. An entity shall recognize termination benefits as a liability and an expense when the entity is demonstrably committed to either terminate the employment of an employee or group of employees before the normal retirement date or provide termination benefits as a result of an offer made in order to encourage voluntary resignation. In the case of an offer made to encourage voluntary resignation, the measurement of termination benefits should be based on the number of employees expected to accept the offer. Additional payments as part of a pre-retirement part-time work agreement shall be recognized periodically from the time the obligation arises (if necessary taking into account minimum periods of service) until the end of the employment phase.

### Income taxes

The tax expense for the period was made up of current and deferred taxes. Taxes are reported in the income statement, unless they relate to items recognized in other comprehensive income. In this case, the taxes are also recognized in other comprehensive income.

The Dräger Group companies are required to pay income taxes in several countries. Current tax expenses are determined using the tax regulations applicable on the balance sheet date in the individual countries. When determining global income tax receivables and liabilities, the interpretation of tax regulations in particular can carry a degree of uncertainty. It cannot be ruled out that the various fiscal authorities have different perspectives with regards to the correct interpretation of tax standards. The associated uncertainty is taken into account that uncertain tax receivables and liabilities are estimated as soon as management is of the view that the probability of occurrence exceeds 50 percent. Changes in the assumptions as to the correct interpretation of tax standards such as on account of amended prevailing jurisdiction are consolidated in the accounting of uncertain tax receivables and liabilities accordingly in the corresponding fiscal year. The likely estimated tax payment is taken as the best estimate when accounting for uncertain income tax positions.

Pursuant to IAS 12, deferred taxes are determined using the balance sheet-based liability method. Deferred taxes on loss carryforwards and temporary differences between the Group financial statements and the tax accounts of the consolidated companies are recognized. Deferred tax liabilities are not recognized if they result from the initial recognition of goodwill.

Deferred tax assets are only recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be offset. Deferred tax assets and liabilities are only offset if they relate to the same taxation authority.

Deferred tax liabilities resulting from temporary differences in connection with investments in subsidiaries are recognized unless the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred taxes are measured using the tax rates (and tax laws) enacted at the balance sheet date that are expected to apply to the period when the deferred tax asset is realized or the deferred tax liability is settled.

### Share-based payment

In fiscal year 2016, as in fiscal years 2013 and 2015, Dräger offered all Dräger employees in Germany share-based compensation in the form of an employee share program. This is designed to increase employees' identification with the Company and Dräger's attractiveness as an employer.

This program allows employees who acquire Dräger preferred shares within a specified period of time within the fiscal year to receive one preferred share as a bonus for every three Dräger preferred shares purchased (matching model). These Dräger preferred shares are subject to a two-year holding period. The employee does not need to remain at Dräger during this period. The bonus preferred shares are not new shares but treasury preferred shares repurchased by Dräger on the capital market and transferred to the employee's securities account.

These bonus preferred shares are measured at fair value on the entry date (grant date). The entry date is the date on which Dräger and the employees conclude the share-based payment agreement. The fair value of the bonus preferred shares is the price of Dräger's preferred shares on the stock exchange.

### Leases

Leases are all agreements whereby the lessor conveys to the lessee in return for payment the right to use an asset for an agreed period of time.

#### A) FINANCE LEASES

**Dräger Group as lessee**

Leases of assets under which substantially all the risks and rewards of ownership are effectively transferred to the lessee are classified as finance leases.

At inception of the lease, finance leases are recognized as assets and liabilities in the balance sheet at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor is the interest rate implicit in the lease if this is practicable to determine. If this is not the case, the lessee's incremental borrowing rate is used. Initial direct costs are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding interest expense is recognized in the interest result.

A finance lease gives rise to a depreciation expense for the capitalized asset as well as a finance expense for each period. The depreciation policy for leased assets is consistent with that for corresponding depreciable assets which are owned by the Company.

**Dräger Group as lessor**

Assets held under a finance lease are recognized in the balance sheet and presented as a receivable at an amount equal to the net investment (present value of the gross investment) in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease. The corresponding interest income is recognized in the interest result. Initial direct costs are capitalized and allocated as an expense over the term of the lease.

#### B) OPERATING LEASES

**Dräger Group as lessee**

Leases of assets under which substantially all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under this lease are recognized as an expense in the function in which they are incurred.

**Dräger Group as lessor**

Assets subject to operating leases are presented in the balance sheet according to the nature of the asset. Lease income from these leases is recognized in profit or loss on a straight-line basis over the lease term and, depending on the lease object, reported in net sales (Dräger products) or other operating income (e.g. buildings).

### Use of estimates and assumptions

In preparing the Group financial statements in accordance with IFRS, assumptions and estimates have to be made which have an effect on the recognition of assets and liabilities, the disclosure of contingent liabilities as of the balance sheet date and the recognition of income and expenses. Actual amounts may differ from these assumptions and estimates.

The estimates pertain to the following areas in particular:

Beside Dräger's voting rights, other matters and circumstances need to be taken into account when determining whether a special purpose entity or a company is controlled to such an extent that it should be included as a subsidiary in the Group financial statements. Assumptions need to be taken into account in particular in those cases in which other contractual rights or constructive circumstances exist so as to determine whether Dräger can use its power over the company to influence the company's variable returns. Changes to contractual agreements or facts or circumstances are monitored with regard to their potential impact on the assumptions made.

In the case of two real estate companies, many corporate measures are predetermined on account of their narrow business purposes, meaning that they do not need to be consolidated on the basis of voting rights. However, Dräger has contractual purchasing options for these properties, which are integrated in Dräger's premises. As a result, by managing the residual value of these properties Dräger exercises control over the variable returns of these companies and therefore over the own returns from the investments. As in the prior year, these real estate companies therefore need to be included in Dräger's scope of consolidation as subsidiaries. Rational expectations as to the development of real estate prices were used when assessing the management of the residual values.

As part of the annual assessment of the recoverable amount of capitalized goodwill, Dräger's management uses estimates to arrive at its conclusions. Management uses data from internal analyses and forecasts with regards to anticipated earnings trends and data from external information sources with regards to other analysis parameters.

Other assumptions and estimates mainly relate to the determination of useful lives throughout the Group. At least once a year, the Group assesses the applied useful lives and carries out adjustments if necessary. Useful lives are determined on the basis of market observations and empirical values.

The recoverability of receivables is subject to the assessment and valuation of individual customers and their creditworthiness. This takes into account current economic developments as well as experience from past receivable losses.

Customer-specific construction contracts are recognized using the stage of completion method. The most important measurements used for the careful determination of the stage of completion include total costs, total revenues, and risks related to the contract as well as other estimates. Management continuously assesses all estimates made in connection with such construction contracts.

Defined benefit pension plans and similar obligations are recognized in accordance with actuarial methods. These methods are based on actuarial assumptions such as the discount rate, wage and salary trends, increases in pensions, and employee turnover. The used discount factors are calculated on the basis of the effective market return on high-quality corporate bonds. Deviations of actuarial assumptions from actual developments could have serious implications for the measurement of defined pension plans and similar obligations. The results of sensitivity analyses for the discount rate, future increases in pensions and life expectancy as stated in Note 35 provide indications of these effects.

↗ Note 35

The Group has set aside provisions for various risks. The likelihood of these provisions being used is assessed on the basis of prior experience and assessments of individual business transactions. Adjusting events were taken into account accordingly.

Assets and liabilities recognized at fair value are measured on the basis of available market data. In the event that such data do not exist, Dräger also refers to the assessments of qualified external experts.

The Group has to pay income taxes in several countries. This involves a specific calculation of the expected actual income tax exposure for each tax object and an assessment of temporary differences resulting from the different treatment of certain items for IFRS and tax reporting purposes. Management has to make assumptions when calculating effective and deferred taxes. Tax estimates are made in accordance with local laws.

# Notes to the income statement

## 9 NET SALES

↗ Note 47

For the breakdown of net sales by sales types, please see the table below. A detailed segment report, including net sales by regions, is provided in Note 47.

**NET SALES**

| in € thousand | 2016 | 2015 | Change in % |
|---|---|---|---|
| Net sales from the sale of products and goods | 1,570,611 | 1,671,836 | −6.1 |
| Net sales from the sale of services and accessories (including replacement parts) | 867,884 | 846,006 | 2.6 |
| Net sales from construction contracts | 85,343 | 91,078 | −6.3 |
| **Net sales** | **2,523,838** | **2,608,920** | **−3.3** |

Net sales of EUR 539.5 million were generated in Germany during the fiscal year (2015: EUR 516.3 million).

In the reporting year, as in the prior year, there were no customers whose share of net sales exceeded 10 percent of Group net sales.

## 10 COST OF SALES

Cost of sales include the following:

**COST OF SALES**

| in € thousand | 2016 | 2015 |
|---|---|---|
| Direct materials | 765,915 | 741,054 |
| Direct labor | 271,517 | 274,542 |
| **Direct costs** | **1,037,431** | **1,015,596** |
| Material overheads | 80,972 | 77,518 |
| Production overheads | 224,818 | 231,186 |
| Other indirect costs | 45,188 | 112,950 |
| **Indirect costs** | **350,979** | **421,653** |
| **Cost of sales** | **1,388,410** | **1,437,249** |

Production overheads comprise amortization on production-related intangible assets and depreciation of property, plant and equipment, as well as costs of internal transportation until delivery to the distribution warehouse.

Cost of warranties and inventory allowances, among others, are recognized in other indirect costs.

Costs of sales include inventory variances, measurement differences, and scrapping. Income from the reversal of previously impaired inventories reduces the cost of sales.

↗ Note 7

Please refer to our comments in Note 7 for information on the effects from currency translation included in the cost of sales.

Any borrowing costs included in the valuation of inventories are contained in the cost of sales at the time of delivery or performance.

## 11 RESEARCH AND DEVELOPMENT COSTS

Research and development costs comprise all costs incurred during the research and development process, also including registration costs, costs of prototypes, and the costs of the first series, if they are not capitalized as separate development costs.

## 12 MARKETING AND SELLING EXPENSES

Marketing expenses comprise all costs associated with corporate marketing and product marketing, including, among other things, expenses for advertising and trade shows. Selling expenses include the costs of sales management, logistics costs, where they relate to the sales depot or shipping, and the costs of the internal and external sales force, including order processing. Income arising in direct connection with the costs is netted.

## 13 GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses comprise the costs of administrative activities not related to other functions. This includes in particular the cost of the Executive Board, corporate controlling, the tax, customs, insurance and treasury departments, legal, accounting and consulting fees, audit fees, and general infrastructure costs. Income arising in direct connection with the costs is netted. The costs comprise the material costs and personnel expenses arising from administration as well as depreciation and amortization.

## 14 OTHER OPERATING INCOME / EXPENSES

**OTHER OPERATING INCOME / EXPENSES**

| in € thousand | 2016 | 2015 |
|---|---|---|
| Reversal of bad debt allowances | 4,405 | 3,491 |
| Rental income | 1,743 | 1,864 |
| Gains on the disposal of noncurrent assets and property, plant and equipment | 2,367 | 971 |
| Income from the derecognition of liabilities | 752 | 1,378 |
| **Other operating income** | **9,267** | **7,703** |
| | | |
| Allocations to bad debt allowances and write-downs on receivables | 25,015 | 11,817 |
| Expenses for leased assets | 704 | 783 |
| Losses on the disposal of noncurrent assets and property, plant and equipment | 1,670 | 1,184 |
| **Other operating expenses** | **27,389** | **13,784** |

Write-downs on receivables amount to EUR 2,754 thousand (2015: EUR 608 thousand).

## 15 FINANCIAL RESULT

### FINANCIAL RESULT (BEFORE INTEREST RESULT)

| in € thousand | 2016 | 2015 |
|---|---|---|
| Share in the profits from investments in associates | 179 | 102 |
| Other expenses from investments in associates | – | –46 |
| Other income from investments in associates | 142 | – |
| **Profit from investments in associates** | **321** | **55** |
| Income from other investments | 229 | 161 |
| **Profit from other investments** | **229** | **161** |
| Net result from foreign exchange transactions | 129 | –6,874 |
| Earnings from the disposal of other financial assets and securities | – | –12 |
| Write-downs on other financial assets | – | –10 |
| Write-ups on other financial assets | – | 3 |
| Other financial income | 56 | 82 |
| Other financial expenses | –7 | –31 |
| **Other financial result** | **179** | **–6,842** |
| **Financial result (before interest result)** | **729** | **–6,625** |

### INTEREST RESULT

| in € thousand | 2016 | 2015 |
|---|---|---|
| Other interest and similar income | 3,346 | 3,752 |
| Interest income from bank balances | 1,386 | 1,125 |
| Interest contained in lease payments | 60 | 243 |
| Income from other securities and loans | 200 | 114 |
| Income from interest hedges | – | 4 |
| **Interest and similar income** | **4,991** | **5,238** |
| Interest expenses from bank liabilities | –7,395 | –10,072 |
| Interest portion contained in pension provisions | –5,945 | –5,632 |
| Other interest and similar expenses | –4,747 | –4,211 |
| Compounding of participation certificates | –908 | –908 |
| Interest contained in lease payments | –640 | –669 |
| Expenses from interest hedges | –555 | –568 |
| Distribution for participation certificates | –345 | –345 |
| **Interest and similar expenses** | **–20,534** | **–22,404** |
| **Interest result** | **–15,543** | **–17,166** |

↗ Note 36

Other interest and similar expenses include expenses incurred from the compounding of other provisions (see also Note 36).

## 16 INCOME TAXES

### COMPOSITION OF TAX EXPENSE

| in € thousand | 2016 | 2015 |
|---|---|---|
| **Germany** | **–3,621** | **–2,707** |
| **Abroad** | **–26,567** | **–32,558** |
| **Current tax expense** | **–30,188** | **–35,265** |
| | | |
| **Germany** | | |
| Deferred tax expense / income from temporary differences | –1,718 | 22,450 |
| Deferred tax expense from loss carryforwards | –4,291 | –3,471 |
| **Deferred tax expense / income (Germany)** | **–6,009** | **18,979** |
| | | |
| **Abroad** | | |
| Deferred tax expense / income from temporary differences | –5,310 | 1,619 |
| Deferred tax income / expense from loss carryforwards | 1,872 | –1,566 |
| **Deferred tax expense / income (abroad)** | **–3,438** | **53** |
| | | |
| **Deferred tax expense / income** | **–9,447** | **19,032** |
| **Income taxes** | **–39,635** | **–16,233** |

Deferred tax expenses include an effect of EUR 473 thousand (2015: EUR 5 thousand) from the change in tax rates.

A deferred tax liability of EUR 3,344 thousand (2015: EUR 3,891 thousand) was recognized for temporary differences in connection with retained profits of foreign subsidiaries. No deferred tax liabilities are recognized for temporary differences associated with investments in subsidiaries to the amount of EUR 12,270 thousand (2015: EUR 9,944 thousand) as the sale of these companies or a distribution of retained profits is unlikely in the foreseeable future.

Payment of dividends to the shareholders of the parent company does not have any income tax consequences.

## RECONCILIATION OF EXPECTED INCOME TAX EXPENSE TO RECOGNIZED INCOME TAX EXPENSE

| in € thousand | 2016 | 2015 |
|---|---|---|
| **Earnings before income taxes** | **121,371** | **49,521** |
| **Expected income tax expenses (tax rate: 31.5 %; 2015: 31.0 %)** | **–38,232** | **–15,352** |
| | | |
| **Reconciliation:** | | |
| Effects from other periods and non-deductible withholding tax | –773 | –3,014 |
| Effect from change in tax rates | –473 | –5 |
| Effect from different tax rates | 6,122 | 7,993 |
| Tax effect of non-deductible expenses and tax-free income | –6,660 | –5,646 |
| Recognition and measurement of deferred tax assets | 315 | –299 |
| Other tax effects | 66 | 90 |
| | | |
| **Recognized income tax expenses** | **–39,635** | **–16,233** |
| | | |
| Tax rate (%) overall | 32.7 | 32.8 |

The parent company's tax rate of 31.5 percent (2015: 31.0 percent) was used as the expected tax rate. The expected tax rate is composed of a corporate income tax component of 15.83 percent, including the 5.5 percent solidarity surcharge (2015: 15.83 percent), and a trade tax component of 15.67 percent (2015: 15.17 percent). The increase was due to a change in the composition of the trade tax rate.

Domestic deferred taxes are determined on the basis of a 31.5 percent tax rate (2015: 31.5 percent).

The following deferred tax assets and deferred tax liabilities relate to recognition and measurement differences in the individual balance sheet items:

## DEFERRED TAX ASSETS / DEFERRED TAX LIABILITIES

| | Deferred tax assets | | Deferred tax liabilities | |
|---|---|---|---|---|
| in € thousand | 2016 | 2015 | 2016 | 2015 |
| Intangible assets | 4,931 | 6,012 | 7,399 | 6,536 |
| Property, plant and equipment | 8,693 | 4,681 | 14,768 | 13,511 |
| Other noncurrent financial assets | – | 294 | 506 | 516 |
| Other noncurrent assets | – | – | 62 | 93 |
| **Noncurrent assets** | **13,624** | **10,987** | **22,735** | **20,656** |
| Inventories[1] | 15,281 | 17,360 | 2,925 | 3,409 |
| Trade receivables and receivables from construction contracts[1] | 4,866 | 4,159 | 2,697 | 1,523 |
| Other current financial assets[1] | 1,011 | 1,037 | 4,302 | 3,460 |
| Other current assets[1] | 232 | 189 | 1,275 | 1,222 |
| **Current assets[1]** | **21,390** | **22,745** | **11,199** | **9,614** |
| Liabilities from participation certificates | – | – | 6,969 | 7,268 |
| Provisions for pensions and similar obligations[1] | 68,943 | 57,423 | – | – |
| Other noncurrent provisions[1] | 7,080 | 6,978 | – | – |
| Noncurrent interest-bearing loans | – | – | 13 | 20 |
| Other noncurrent financial liabilities | 4,036 | 4,108 | – | – |
| Other noncurrent liabilities | 2,509 | 1,794 | – | – |
| **Noncurrent liabilities[1]** | **82,568** | **70,303** | **6,982** | **7,288** |
| Other current provisions[1] | 13,086 | 23,559 | – | – |
| Current interest-bearing loans and liabilities to banks | – | – | 3 | 20 |
| Trade payables | 282 | 422 | 2 | 78 |
| Liabilities from construction contracts[1] | – | – | 29 | – |
| Other current financial liabilities[1] | 3,446 | 5,784 | 358 | 35 |
| Other current liabilities[1] | 4,010 | 2,624 | 111 | 325 |
| **Current liabilities[1]** | **20,824** | **32,389** | **503** | **458** |
| Capitalized tax loss carryforwards | 9,561 | 10,128 | – | – |
| **Gross amount[1]** | **147,967** | **146,552** | **41,419** | **38,016** |
| Valuation allowance on temporary differences | –615 | –852 | – | – |
| Offset[1] | –65,783 | –63,904 | –65,783 | –63,904 |
| Deferred taxes from consolidation entries | 52,133 | 53,526 | 25,835 | 29,319 |
| **Carrying amount** | **133,702** | **135,322** | **1,471** | **3,431** |

[1] Deferred tax liabilities are offset with deferred tax assets on the balance sheet items where these refer to the same taxable entity.

The recoverable amount of the recognized deferred tax assets on recognized tax loss carryforwards and temporary differences at the consolidated companies is tested for valuation allowances once a year on the basis of the future taxable profit, which was determined on the basis of a five-year operating plan. A loss from valuation allowances is recognized where a realization of the deferred tax assets is unlikely. Deductible temporary differences of EUR 1,859 thousand (2015: EUR 2,458 thousand) are not accounted for as these are not expected to be utilized during the planning period.

The deferred taxes on consolidation entries mainly relate to deferred taxes from the elimination of intercompany profits in inventories as well as in intangible assets and in property, plant and equipment.

Deferred taxes are determined on the basis of the tax rates which, under the legislation in force, apply in the individual countries at the time of realization or which are expected.

In the prior year, the acquisition of GasSecure AS, Oslo, Norway, in March 2015 resulted in deferred tax assets of EUR 1,913 thousand and deferred tax liabilities of EUR 4,434 thousand on the acquisition date.

Tax loss carryforwards were as follows at the end of the year:

### CAPITALIZED TAX LOSS CARRYFORWARDS

| in € thousand | 2016 | 2015 |
|---|---|---|
| Corporate income tax | 27,131 | 31,917 |
| Trade tax and state tax USA | 81,562 | 81,179 |
| | **108,693** | **113,096** |

### NON-CAPITALIZED TAX LOSS CARRYFORWARDS

| in € thousand | 2016 | 2015 |
|---|---|---|
| Corporate income tax | 38,348 | 36,395 |
| of which will expire in the next 12 months | – | 23 |
| of which will expire after more than 12 months | – | 40 |
| of which does not expire | 38,348 | 36,332 |
| Trade tax and state tax USA | 14,072 | 14,047 |
| of which does not expire | 14,072 | 14,047 |
| | **52,420** | **50,442** |

Deferred taxes are recognized on loss carryforwards of EUR 65,298 thousand (2015: EUR 51,201 thousand) of the US companies which are subject to an average state tax of between 2.16 percent and 2.48 percent (2015: between 1.74 percent and 2.70 percent).

Theoretically, deferred taxes of EUR 10,088 thousand (2015: EUR 9,353 thousand) would have been recognized for unrecognized corporate income and trade tax losses.

Despite losses in the current and / or prior year, deferred tax assets of EUR 74,725 thousand (2015: EUR 72,119 thousand) were recognized for loss carryforwards and temporary differences. The amounts are recognized on the basis of the tax planning for the German fiscal unit or the approved budget for the foreign subsidiaries. Management assumes that the companies in question will generate sufficient taxable profits in the future.

The expense from the valuation allowance on deferred tax assets amounted to EUR 71 thousand (2015: EUR 1,069 thousand). The income from the reversal of a previous valuation allowance on deferred tax assets came to EUR 386 thousand in fiscal year 2016 (2015: EUR 770 thousand).

Current income taxes of EUR 341 thousand (2015: EUR 336 thousand) are recognized directly in equity and relate to the share of the dividend for participation certificates relating to the equity component.

The deferred tax assets recognized in other comprehensive income increased by EUR 8,915 thousand (2015: decreased by EUR 3,226 thousand) during the period and mainly concerned the recognition of the effects from the remeasurements of pension plans directly in equity.

## 17 PERSONNEL EXPENSES / HEADCOUNT

### PERSONNEL EXPENSES

| in € thousand | 2016 | 2015 |
|---|---|---|
| Wages and salaries | 824,864 | 859,793 |
| Social security | 150,641 | 150,155 |
| Pension expenses and related employee benefits | 23,691 | 30,848 |
| | **999,195** | **1,040,796** |

Personnel expenses include the remuneration of the members of the Executive Board of the general partner Drägerwerk Verwaltungs AG, Lübeck, Germany. Please refer to our comments in the remuneration report (Note 49).

↗ Note 49

Depending on function, personnel expenses are taken into account in the cost of sales, research and development costs, marketing and selling expenses, as well as administrative expenses.

Personnel expenses included severance payments of EUR 3,520 thousand (2015: EUR 28,357 thousand).

### HEADCOUNT AS OF THE BALANCE SHEET DATE

| | 2016 | 2015 |
|---|---|---|
| Germany | 6,227 | 6,473 |
| Abroad | 7,036 | 7,463 |
| **Total headcount** | **13,263** | **13,936** |
| | | |
| Production: manufacturing, service, exterior fitting | 5,527 | 5,666 |
| Other | 7,736 | 8,270 |
| **Total headcount** | **13,263** | **13,936** |

**HEADCOUNT (AVERAGE)**

| | 2016 | 2015 |
|---|---|---|
| Germany | 6,309 | 6,376 |
| Abroad | 7,162 | 7,479 |
| **Total headcount** | **13,472** | **13,855** |
| | | |
| Production: manufacturing, service, exterior fitting | 5,571 | 5,637 |
| Other | 7,901 | 8,218 |
| **Total headcount** | **13,472** | **13,855** |

Please see the comments in the management report for more information on the development of headcount.

## 18 AMORTIZATION ON INTANGIBLE ASSETS AND DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Amortization on intangible assets and depreciation of property, plant and equipment of EUR 85,817 thousand (2015: EUR 84,229 thousand) were incurred in the following functional areas:

**DISTRIBUTION OF DEPRECIATION / AMORTIZATION ON THE FUNCTIONAL AREAS**

| in € thousand | 2016 | 2015 |
|---|---|---|
| Cost of sales | 39,045 | 36,622 |
| Research and development costs | 3,167 | 3,274 |
| Marketing and selling expenses | 6,346 | 8,007 |
| General administrative expenses | 37,259 | 36,326 |
| | **85,817** | **84,229** |

Pursuant to IAS 36, checks were performed as of the reporting date to establish whether there are any indications that assets may be impaired. An asset impairment test was performed for these cash generating units on account of evidence from internal reporting indicating that the economic earning power of some companies in the Americas may be impaired. For the purpose of this test, the individual companies were identified as cash generating units.

The following two tables show the cash generating units with a need for impairment identified for the asset impairment test. The tables include the significant planning assumptions, the input factors used for the valuation, the amount of the calculated fair value less selling costs of the cash generating units, as well as the recognized need for impairment.

## SIGNIFICANT PLANNING ASSUMPTIONS

| | Planning assumptions | | Net sales growth rate | | | |
|---|---|---|---|---|---|---|
| in € thousand<br>Cash Generating Unit[1] | Discount rate | Growth rate for perpetual annuity | 2017 | 2018 | 2019 | 2020 |
| Dräger do Brasil Ltda., São Paulo, Brazil | 13.5% | 1.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Dräger Industria e Comércio Ltda., São Paulo, Brazil | 13.5% | 1.0% | 3.5% | 1.2% | 1.2% | 1.2% |
| Dräger Medical Mexico S.A. de C.V., Mexico D.F.D. | 8.0% | 1.0% | 3.5% | 3.8% | 3.8% | 3.8% |
| Dräger Safety do Brasil Equipamentos de Segurança Ltda., São Paulo, Brazil | 10.6% | 1.0% | 2.9% | 2.5% | 3.3% | 3.3% |
| Draeger Safety Diagnostics Inc., Durango, USA | 14.5% | 1.0% | 6.8% | 5.9% | 7.7% | 7.7% |
| Draeger Peru S.A.C., Piso Miraflores-Lima | 9.9% | 1.0% | 3.3% | 2.9% | 3.8% | 3.8% |
| Draeger Panama Comercial, S. de R.L. | 11.7% | 1.0% | 9.8% | 8.4% | 11.1% | 11.1% |

[1] Cash Generating Units for the purpose of the asset impairment test

## RECOGNIZED NEED FOR IMPAIRMENT

| in € thousand<br>Cash Generating Unit[1] | Fair value less selling costs | Recognized need for impairment |
|---|---|---|
| Dräger do Brasil Ltda., São Paulo, Brazil | 3 | –489 |
| Dräger Industria e Comércio Ltda., São Paulo, Brazil | 2,054 | –124 |
| Dräger Medical Mexico S.A. de C.V., Mexico D.F.D. | 7,087 | –32 |
| Dräger Safety do Brasil Equipamentos de Segurança Ltda., São Paulo, Brazil | 4,779 | –142 |
| Draeger Safety Diagnostics Inc., Durango, USA | 12,421 | –53 |
| Draeger Peru S.A.C., Piso Miraflores-Lima | 4,777 | –59 |
| Draeger Panama Comercial, S. de R.L. | 345 | –22 |
| | **31,465** | **–922** |

[1] Cash Generating Units for the purpose of the asset impairment test

The cash generating units are part of the Americas segment.

Fair value less selling costs is calculated on the basis of a future performance indicator, which is based on the discounting of excesses that are obtainable in the future from the operational five-year plan for the respective cash generating units. The selling costs were assumed to amount to 1.0 percent. The assessment corresponds to level 3 of the measurement hierarchy.

The main planning assumptions are market growth, development of market shares, and market price trends. The estimations of these parameters are included in the planning of country organizations.

These assumptions are validated by external sources of information on market development.

The need for impairment is generally allocated in relation to the carrying amount as well as under consideration of IAS 36.105, which states that the carrying amount of an asset may not sink below its fair value less costs of disposal. Market prices and internal estimates are used to derive the fair value less selling costs of the significant items of property, plant and equipment. The impairment of the CGUs' property, plant and equipment resulting from the impairment test was mainly attributable to office and factory equipment as well as leasehold improvements.

The impairment was recorded under general administrative expenses. No impairment losses were charged on property, plant and equipment in fiscal year 2015.

## 19 EARNINGS / DIVIDEND PER SHARE

Dräger determines and reports earnings per share in the case of a full dividend distribution. The method used for calculating earnings per share in the case of a full distribution assumes an actual full distribution of net profit less the share in net profit of non-controlling interests to common and preferred shareholders as well as to holders of participation certificates. If an actual full distribution of net profit is assumed, earnings per share are calculated as follows in the case of a full distribution due to the effects on earnings attributable to participation certificates with an unchanged average number of shares outstanding:

### EARNINGS / DIVIDEND PER SHARE ON FULL DISTRIBUTION

| | | 2016 | 2015 |
|---|---|---|---|
| Net profit | in € thousand | 81,736 | 33,288 |
| Earnings attributable to non-controlling interests | in € thousand | 345 | – 287 |
| Earnings attributable to participation certificates (excluding minimum dividend, after taxes) | in € thousand | 20,537 | 8,530 |
| **Earnings attributable to shareholders** | **in € thousand** | **60,855** | **25,044** |
| | | | |
| Weighted average of outstanding preferred shares | | 7,600,000 | 7,454,167 |
| Weighted average of outstanding common shares | | 10,160,000 | 10,160,000 |
| | | | |
| **Undiluted / diluted earnings per common share** | **in €** | **3.40** | **1.40** |
| Preference per preferred share | in € | 0.06 | 0.06 |
| **Undiluted / diluted earnings per preferred share** | **in €** | **3.46** | **1.46** |

The proposed distribution is based on the annual financial statements of Drägerwerk AG & Co. KGaA in accordance with German commercial law and is as follows:

### CALCULATION OF PROPOSED DISTRIBUTION

| | Number of shares | Dividend per share in € | Dividends in € | less taxes and minimum dividends | Total in € |
|---|---|---|---|---|---|
| Common shares | 10,160,000 | 0.13 | 1,320,800.00 | | 1,320,800.00 |
| Preferred shares | 7,600,000 | 0.19 | 1,444,000.00 | | 1,444,000.00 |
| | | | | | |
| Participation certificates | 831,951 | 1.90 | 1,580,706.90 | – 685,570.14 | 895,136.76 |
| | | | | | |
| | | | | | **3,659,936.76** |

The proposed distribution corresponds to 4.50 percent (2015: 10.91 percent) of Group net profit less the share in net profit of non-controlling interests.

As in the prior year, 831,951 Drägerwerk AG & Co. KGaA participation certificates were issued as of December 31, 2016. In accordance with the terms and conditions of participation certificates, Drägerwerk AG & Co. KGaA will grant the holders either ten common or preferred shares per certificate or ten times the current stock market price of preferred shares upon termination. The factor ten is used due to the share split, which did not apply to the participation certificates (please refer to the information on participation certificates provided in Note 34).

↗ Note 34

A dilution of earnings per share does not have to be calculated, as the owners of the participation certificates do not have the right to exchange their participation certificates against shares and Drägerwerk AG & Co. KGaA irrevocably relinquished its right to exchange its participation certificates against shares in favor of the holders of participation certificates and their legal successors by way of Executive Board resolution.

Likewise, the possibility of acquiring treasury shares cannot lead to dilution due to the provisions governing the use of such shares.

# Notes to the consolidated balance sheet

## 20 INTANGIBLE ASSETS

### INTANGIBLE ASSETS AS OF DECEMBER 31, 2016

| in € thousand | Goodwill | Patents, trademarks and licenses | Purchased software | Internally generated intangible assets | Leased assets (finance lease) | Payments made | 2016 Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| January 1, 2016 | 313,579 | 37,408 | 113,541 | 12,859 | 2,585 | 5,694 | 485,665 |
| Additions | – | 18 | 4,970 | – | – | 2,222 | 7,210 |
| Disposals | – | –900 | –5,313 | – | – | –6 | –6,219 |
| Reclassifications | – | – | 4,367 | – | – | –4,367 | 0 |
| Currency translation effects | 654 | 705 | 429 | 28 | – | – | 1,816 |
| **Dec. 31, 2016** | **314,233** | **37,232** | **117,993** | **12,887** | **2,585** | **3,543** | **488,472** |
| **Accumulated amortization and impairment losses** | | | | | | | |
| January 1, 2016 | 4,947 | 21,041 | 94,395 | 12,859 | 646 | – | 133,889 |
| Additions | – | 1,503 | 10,163 | – | 517 | – | 12,183 |
| Disposals | – | –900 | –5,312 | – | – | – | –6,212 |
| Currency translation effects | 79 | 671 | 256 | 28 | – | – | 1,033 |
| **Dec. 31, 2016** | **5,026** | **22,314** | **99,503** | **12,887** | **1,163** | **0** | **140,893** |
| **Net carrying value** | **309,207** | **14,917** | **18,490** | **0** | **1,422** | **3,543** | **347,579** |

## INTANGIBLE ASSETS AS OF DECEMBER 31, 2015

| in € thousand | Goodwill | Patents, trademarks and licenses | Purchased software | Internally generated intangible assets | Leased assets (finance lease) | Payments made | 2015 Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| January 1, 2015 | 268,170 | 17,864 | 111,040 | 17,632 | 2,585 | 3,400 | 420,691 |
| Additions | – | 105 | 3,190 | – | – | 4,165 | 7,460 |
| Disposals | – | –108 | –3,050 | –4,860 | – | –62 | –8,079 |
| Reclassifications | – | 512 | 1,306 | – | – | –1,818 | 0 |
| Change in the scope of consolidation | 43,980 | 16,431 | – | – | – | – | 60,411 |
| Currency translation effects | 1,429 | 2,605 | 1,054 | 87 | – | 8 | 5,183 |
| **Dec. 31, 2015** | **313,579** | **37,408** | **113,541** | **12,859** | **2,585** | **5,694** | **485,665** |
| **Accumulated amortization and impairment losses** | | | | | | | |
| January 1, 2015 | 4,976 | 16,722 | 86,990 | 17,632 | 129 | – | 126,449 |
| Additions | – | 1,326 | 10,239 | – | 517 | – | 12,082 |
| Disposals | – | –2 | –3,043 | –4,860 | – | – | –7,906 |
| Currency translation effects | –29 | 2,995 | 210 | 87 | – | – | 3,263 |
| **Dec. 31, 2015** | **4,947** | **21,041** | **94,395** | **12,859** | **646** | **0** | **133,889** |
| **Net carrying value** | **308,632** | **16,367** | **19,145** | **0** | **1,939** | **5,694** | **351,776** |

Goodwill mainly resulted from the transfer in fiscal year 2003 of the "Electromedical Systems" business unit of Siemens Medical Solutions to Dräger Medical GmbH (now: Drägerwerk AG & Co. KGaA). Goodwill increased further on account of the buyback of Siemens' 35 percent share in Dräger Medical GmbH (now: Drägerwerk AG & Co. KGaA) in fiscal years 2007 and 2009.

The assets used under finance leases consist exclusively of software.

Amortization is contained in the cost of sales and the other functional costs.

### Goodwill impairment

↗ Note 44

↗ Note 3

The discounted cash flow method is used for measuring the recoverable amount of goodwill by determining fair value less selling costs, based on the operational five-year plan for the business segments which, in the case of goodwill, represent the cash generating units. The determination is assigned to level 3 (see Note 44) as there are unobservable input factors that significantly influence the measurement. A reconciliation of goodwill can be found in the statement of changes for intangible assets. Please refer to Note 3 for details of the change in segment reporting and, therefore, the cash generating units. As part of this change, goodwill was allocated on the basis of the relative values of the new segments, although no goodwill was allocated to the Americas segment on account of a negative value. The goodwill allocated to the previous medical division (EUR 260.5 million) was allocated as follows: EUR 192.0 million for the Europe segment and EUR 68.5 million for the Africa, Asia, and Australia segment. The goodwill allocated to the previous safety division (EUR 48.1 million) was allocated as follows: EUR 35.4 million for the Europe segment and EUR 12.7 million for the Africa, Asia, and Australia segment.

As of December 31, 2016, goodwill of EUR 309 million was made up of EUR 228 million for the Europe segment and EUR 81 million for the Africa, Asia, and Australia segment. No goodwill was attributable to the Americas segment.

The main planning assumptions are market growth, development of market shares, and market price trends. The estimations of these parameters are included in the planning of country organizations. The resulting “bottom-up” planning on the part of the countries is validated and, when necessary, adjusted at Group headquarters. Based on these assumptions, sales growth of 1.4 percent is expected for the Europe segment between 2017 and 2021, 4.1 percent for the Americas segment, and 4.0 percent for the Africa, Asia, and Australia segment, resulting in overall growth for the Group of 2.7 percent between 2017 and 2021. The calculation was also based on discounting rate assumptions:

In the current planning, a discount rate of 7.3 percent after taxes and a growth rate of 1 percent were taken into account for perpetual annuity of the Europe segment. In the planning, a discount rate of 9.7 percent after taxes and a growth rate of 1 percent were taken into account for perpetual annuity of the Americas segment. A discount rate of 9.4 percent after taxes and a growth rate of 1 percent were taken into account for perpetual annuity of the Africa, Asia, and Australia segment.

The underlying assumptions are validated by external sources of information on market development. No impairment loss was required on the basis of this multi-year plan. Even if the perpetual annuity was to grow by 0 percent and the discount rate were to increase by another 2 percentage points, no impairment loss would have to be recognized. In a further “lower case scenario,” we performed an additional impairment test with negative currency effects and more conservative growth assumptions; this impairment test also did not indicate a need for impairment.

## 21 PROPERTY, PLANT AND EQUIPMENT

### PROPERTY, PLANT AND EQUIPMENT AS OF DECEMBER 31, 2016

| in € thousand | Land, equivalent titles and buildings | Production plant and machinery | Other plant, factory and office equipment | Leased equipment | Leased assets (finance lease) | Prepayments made and assets under construction | 2016 Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| January 1, 2016 | 410,154 | 121,240 | 333,326 | 69,488 | 13,450 | 74,383 | 1,022,041 |
| Additions | 19,222 | 2,907 | 27,081 | –3,272 | 1,603 | 28,352 | 75,893 |
| Disposals | –5,947 | –5,759 | –20,654 | –5,560 | –91 | –84 | –38,094 |
| Reclassifications | 39,272 | 1,687 | 20,486 | 630 | – | –62,076 | 0 |
| Reclassifications of rental and demo equipment | – | – | –2,623 | 16,943 | – | – | 14,319 |
| Currency translation effects | –924 | –1,778 | 886 | 1,926 | 190 | –141 | 159 |
| **December 31, 2016** | **461,778** | **118,297** | **358,501** | **80,156** | **15,152** | **40,435** | **1,074,319** |
| **Accumulated depreciation and impairment losses** | | | | | | | |
| January 1, 2016 | 217,287 | 97,424 | 246,911 | 50,303 | 3,752 | 11 | 615,686 |
| Additions | 16,125 | 6,966 | 36,952 | 12,844 | 748 | – | 73,634 |
| Disposals | –5,119 | –5,684 | –19,400 | –5,336 | –91 | – | –35,631 |
| Reclassifications | 139 | –807 | 305 | 363 | – | – | 0 |
| Reclassifications of rental and demo equipment | – | – | –2,406 | –54 | – | – | –2,460 |
| Currency translation effects | 614 | –1,121 | 1,073 | 1,552 | 120 | 3 | 2,241 |
| **December 31, 2016** | **229,046** | **96,778** | **263,430** | **59,672** | **4,528** | **14** | **653,468** |
| **Net carrying value** | **232,732** | **21,520** | **95,071** | **20,483** | **10,624** | **40,422** | **420,851** |

## PROPERTY, PLANT AND EQUIPMENT AS OF DECEMBER 31, 2015

| in € thousand | Land, equivalent titles and buildings | Production plant and machinery | Other plant, factory and office equipment | Leased equipment | Leased assets (finance lease) | Prepayments made and assets under construction | 2015 Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| January 1, 2015 | 380,905 | 120,602 | 298,314 | 60,199 | 13,177 | 52,651 | 925,847 |
| Additions | 14,100 | 4,336 | 33,469 | 14,925 | 767 | 61,268 | 128,864 |
| Disposals | –15,408[1] | –5,610 | –17,457 | –8,155 | –452 | –356 | –47,439 |
| Reclassifications | 25,593 | –988 | 15,042 | 20 | 3 | –39,670 | 0 |
| Reclassifications of rental and demo equipment | – | – | 382 | –1,649 | – | – | –1,267 |
| Change in the scope of consolidation | – | – | 35 | – | – | – | 35 |
| Currency translation effects | 4,965 | 2,900 | 3,541 | 4,148 | –44 | 491 | 16,001 |
| **December 31, 2015** | **410,154** | **121,240** | **333,326** | **69,488** | **13,450** | **74,383** | **1,022,041** |
| **Accumulated depreciation and impairment losses** | | | | | | | |
| January 1, 2015 | 212,039 | 96,433 | 220,821 | 43,127 | 3,406 | 86 | 575,911 |
| Additions | 15,147 | 8,743 | 34,762 | 12,776 | 718 | – | 72,147 |
| Disposals | –11,365[1] | –5,299 | –16,161 | –6,987 | –295 | – | –40,108 |
| Reclassifications | –101 | –4,580 | 4,751 | 0 | 3 | –74 | 0 |
| Reclassifications of rental and demo equipment | – | – | 207 | –1,639 | – | – | –1,432 |
| Currency translation effects | 1,566 | 2,126 | 2,530 | 3,025 | –80 | –1 | 9,168 |
| **December 31, 2015** | **217,287** | **97,424** | **246,911** | **50,303** | **3,752** | **11** | **615,686** |
| **Net carrying value** | **192,867** | **23,816** | **86,415** | **19,186** | **9,698** | **74,373** | **406,355** |

[1] Includes historical costs of EUR 10,032 thousand as well as accumulated depreciation of EUR 6,698 thousand from the reclassification to assets held for sale (see also Note 31)

Property, plant and equipment includes additions of EUR 20,828 thousand from the modernization of the Lübeck production site within the scope of the “factory of the future” project (2015: EUR 42,035 thousand).

As in the prior year, additions to property, plant and equipment are not reduced by government grants.

Amortization and impairment losses are contained in the cost of sales and the other functional costs (see also Note 18).

↗ Note 18

The assets leased under finance leases comprise real estate (EUR 9,857 thousand; 2015: EUR 8,627 thousand) as well as factory and office equipment (EUR 767 thousand; 2015: EUR 1,071 thousand) (also see Note 45).

↗ Note 45

Borrowing costs of EUR 131 thousand (2015: EUR 623 thousand) for additions for new buildings were recognized in the fiscal year. Interest rates of between 0.75 percent and 1.85 percent were used as a basis for the recognition (2015: between 0.75 percent and 1.85 percent).

## 22 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

As in prior years, the associate in question is MAPRA Assekuranzkontor GmbH, Lübeck, an insurance broker, in which Dräger holds 49 percent of the shares and over which Dräger exercises significant influence. MAPRA Assekuranzkontor GmbH continues to be included in the Group financial statements and accounted for using the equity method; its fiscal year ends on December 31.

As this company in and of itself is not material, Dräger exercises the option to use the simplified consolidated method.

The following figures are based on the most recently published annual financial statement of the company.

### FINANCIAL INFORMATION ON ASSOCIATES

| in € thousand | 2016 | 2015 |
|---|---|---|
| Carrying value of the Group shares of associates | 373 | 231 |
| Share in the profits from continued operations / total profits of the associates | 244 | 203 |

In working groups (unlisted companies) together with other partners, Dräger Engineered Solutions offers fire training facilities for firefighters. As of the balance sheet date, Dräger is involved in four (2015: four) working groups, which are accounted for as joint ventures using the equity method. As in the prior year, the interests in these amount to between 51 percent and 74 percent. These working groups do not generate any income of their own and their shares were not purchased. As a result, these do not need to be presented in the consolidated balance sheet nor does any financial information need to be presented. As their business in and of itself is not material, Dräger exercises the option to use the simplified consolidated method.

There are no obligations to associates and joint ventures to provide financing or resources that are not accounted for; nor are there any contingent liabilities.

## 23 OTHER NONCURRENT FINANCIAL ASSETS

### OTHER NONCURRENT FINANCIAL ASSETS

| in € thousand | 2016 | 2015 |
|---|---|---|
| Security deposits paid | 5,308 | 4,968 |
| Trade receivables | 2,944 | 2,346 |
| Finance lease receivables (lessor) | 1,936 | 1,142 |
| Other loans | 1,408 | 1,363 |
| Positive fair values of derivatives | 1,126 | 383 |
| Sundry noncurrent financial assets | 1,215 | 1,411 |
| | **13,937** | **11,613** |

The noncurrent receivables do not carry any discernible risks nor have they been impaired by any bad debt allowances.

Where other noncurrent financial assets do not bear interest, fair value is determined by discounting future cash flows.

Sundry noncurrent financial assets include investments and other noncurrent securities of EUR 1,078 thousand (2015: EUR 1,059 thousand).

↗ Note 44

For further details of the long-term positive fair values of derivative financial instruments, please refer to the table of derivative financial instruments in the Dräger Group (Note 44).

↗ Note 45

For further details of finance lease receivables, please refer to our comments on recognition of finance leases by the lessor (Note 45).

## 24 DEFERRED TAX ASSETS

↗ Note 16

Deferred tax assets are explained in Note 16.

## 25 OTHER NONCURRENT ASSETS

**OTHER NONCURRENT ASSETS**

| in € thousand | 2016 | 2015 |
|---|---|---|
| Fund assets from pension plans | 73 | 59 |
| Sundry noncurrent assets | 2,053 | 1,822 |
| | **2,126** | **1,881** |

↗ Note 35

Fund assets relating to pension plans contain the available excess of plan assets (see also Note 35).

Sundry noncurrent assets include receivables from taxes of two foreign subsidiaries of EUR 1,537 thousand (2015: EUR 1,107 thousand).

## 26 INVENTORIES

**INVENTORIES**

| in € thousand | 2016 | 2015 |
|---|---|---|
| Finished goods and merchandise | 208,525 | 218,647 |
| Work in progress | 48,768 | 49,514 |
| Raw materials, consumables, and supplies | 126,999 | 131,152 |
| Payments made | 2,467 | 2,665 |
| | **386,759** | **401,978** |

The carrying value of inventories written down to their net realizable value as of December 31, 2016, is EUR 129,280 thousand (2015: EUR 91,852 thousand).

Impairment losses of EUR 23,918 thousand (2015: EUR 24,006 thousand) were charged on inventories in the fiscal year and recognized in cost of sales. However, EUR 12,894 thousand (2015: EUR 11,931 thousand) of impairments recognized in prior years were reversed.

Finished goods and merchandise comprise loan equipment and demo equipment lent to customers in the short term worth EUR 17,322 thousand (2015: EUR 15,994 thousand). Loan and demo equipment is usually taken over by the customers after a short period of time and is therefore disclosed in inventories. Appropriate allowances were made for wear and tear over the period of use.

During this period, inventories with a carrying value of EUR 892,467 thousand (2015: EUR 947,618 thousand) were recognized in cost of sales.

As in the prior year, no interest on debt was included in the measurement of inventories.

## 27 TRADE RECEIVABLES AND RECEIVABLES FROM CONSTRUCTION CONTRACTS

### TRADE RECEIVABLES AND RECEIVABLES FROM CONSTRUCTION CONTRACTS

| in € thousand | 2016 | 2015 |
|---|---|---|
| Trade receivables | 645,058 | 670,964 |
| Receivables from construction contracts | 36,685 | 40,359 |
| | **681,743** | **711,323** |

The risks associated with trade receivables are adequately accounted for by bad debt allowances. Bad debt allowances developed as follows:

### SPECIFIC BAD DEBT ALLOWANCES

| in € thousand | 2016 | 2015 |
|---|---|---|
| January 1 | 31,929 | 26,378 |
| Allocation | 22,261 | 11,209 |
| Utilization | –5,267 | –1,707 |
| Reversal | –4,405 | –3,491 |
| Currency translation effects | 534 | –460 |
| **December 31** | **45,052** | **31,929** |

The aging of trade receivables is as follows:

### AGING OF OVERDUE RECEIVABLES NOT SUBJECT TO BAD DEBT ALLOWANCES

| in € thousand | 2016 | 2015 |
|---|---|---|
| Receivables neither impaired nor overdue | 470,704 | 496,517 |
| Receivables subject to bad debt allowances | 16,626 | 2,731 |
| Overdue receivables not subject to bad debt allowances | | |
| – less than 30 days | 71,492 | 87,657 |
| – between 30 and 59 days | 32,720 | 28,212 |
| – between 60 and 89 days | 17,920 | 16,688 |
| – between 90 and 119 days | 13,826 | 15,067 |
| – more than 120 days | 58,454 | 64,434 |
| | 194,412 | 212,075 |
| **Carrying amount** | **681,743** | **711,323** |

Letters of credit and bank guarantees were secured on trade receivables of EUR 9,588 thousand on December 31, 2016 (2015: EUR 10,350 thousand). The fair value largely corresponds to the nominal value. In addition, the maximum credit risk on the reporting date corresponds to the carrying amount of the aforementioned receivables.

The credit quality of those receivables that are neither impaired nor overdue is determined on the basis of external credit ratings or historical experience regarding the default rates of the respective business partners. Our analysis indicates that no allowance is required.

In the case of overdue receivables of approximately EUR 5,645 thousand (2015: EUR 2,784 thousand), which are not subject to bad debt allowances, payment is expected after a period of more than 365 days. A payment period of less than one year was initially agreed for these receivables within the scope of the company's normal operating cycle. As such, they are still disclosed as current receivables and are not discounted.

In addition to costs incurred for the contracts, receivables from construction contracts include the corresponding profit and were offset against part payments received.

The cost of production incurred for the contracts in progress plus the corresponding profit amount to EUR 53,622 thousand (2015: EUR 59,733 thousand) as of the balance sheet date and were offset against partial payments received of EUR 16,937 thousand (2015: EUR 19,374 thousand). This leads to receivables from construction contracts of EUR 36,685 thousand (2015: EUR 40,359 thousand).

No specific bad debt allowances were recognized on receivables from construction contracts. There are no overdue trade receivables or receivables from construction contracts which require additional bad debt allowances.

## 28 OTHER CURRENT FINANCIAL ASSETS

**OTHER CURRENT FINANCIAL ASSETS**

| in € thousand | 2016 | 2015 |
|---|---|---|
| Notes receivable | 14,489 | 21,045 |
| Receivables from commissioning agents | 9,148 | 9,430 |
| Security deposits paid | 2,687 | 7,175 |
| Creditors with debit balances | 1,854 | 2,512 |
| Positive fair values of derivatives | 6,425 | 2,188 |
| Receivables from employees | 1,537 | 1,754 |
| Finance lease receivables (lessor) | 508 | 451 |
| Receivables from associates | 4 | 2 |
| Sundry | 584 | 3,150 |
| | **37,236** | **47,708** |

Notes receivable chiefly stem from the Chinese and Japanese subsidiaries where the bill of exchange is a common method of payment.

For the derivative financial instruments recognized as other financial assets, please refer to the table of derivative financial instruments in the Dräger Group (Note 44).

↗ Note 44

For details of finance lease receivables, please refer to our comments on recognition of finance leases by the lessor (Note 45).

↗ Note 45

Of the receivables from commissioning agents, EUR 9,148 thousand (2015: EUR 7,019 thousand) are overdue by more than 120 days. No allowance is required.

As in the prior year, all other current financial assets are neither impaired nor overdue.

## 29 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and balances at various banks in different currencies. Cash and cash equivalents which were subject to restrictions as of the balance sheet date amount to EUR 5,398 thousand (2015: EUR 8,933 thousand), and mainly comprise limits on exporting hard currencies and other contractual or statutory limits.

## 30 OTHER CURRENT ASSETS

### OTHER CURRENT ASSETS

| in € thousand | 2016 | 2015 |
|---|---|---|
| Prepaid expenses | 22,487 | 23,210 |
| Other tax refund claims | 24,054 | 19,285 |
| Receivables from investment allowances | 852 | 820 |
| Sundry | 4,033 | 4,409 |
| | **51,427** | **47,724** |

As in the prior year, no specific bad debt allowances are required for other current assets.

Other tax refund claims primarily result from VAT claims.

## 31 ASSETS HELD FOR SALE

In November 2015, Dräger sold the land and building of the subsidiary in Pittsburgh, USA, which was part of the safety division. The buyer could select either May 1, 2016 or September 1, 2016 as the transfer date. The buyer also had the right to rescind the contract until 120 days after the signing.

The land and building were transferred to the buyer on September 1, 2016.

## 32 EQUITY

For the breakdown and changes in equity in fiscal years 2016 and 2015, please see the statement of changes in equity of the Dräger Group.

### Capital stock

The capital stock of Drägerwerk AG & Co. KGaA amounts to EUR 45,466 thousand (2015: EUR 45,466 thousand).

April and early May 2015 saw the last ten of originally 25 options that Dräger had issued in the form of warrants on August 30, 2010 being exercised. The issuing of these 500,000 new preferred shares resulted in capital stock increasing by a total of EUR 1,280 thousand in the prior year.

As in the prior year, this capital stock is divided into 10,160,000 limited no-par bearer common shares and 7,600,000 limited no-par preferred shares.

The nominal value of both share types is EUR 2.56. Drägerwerk Verwaltungs AG, the general partner, holds no shares in capital.

The capital stock has been fully paid in. As before, the preferred and common shares are traded on the capital market.

Other than voting rights, the preferred shares have the same rights as those attached to the common shares. As compensation for the lack of voting rights, an advance dividend of EUR 0.13 per preferred share is distributed from net earnings.

If sufficient profits are available, a dividend of EUR 0.13 per common share is then paid. Any profit in excess of this amount, if distributed, is allocated so that preferred shares receive EUR 0.06 more than common shares.

If the profit is not sufficient to distribute the advance dividend for preferred shares in one or more years, the amounts are paid from the profit of subsequent fiscal years before a dividend is paid on common shares.

If amounts in arrears are not paid in the next year along with the full preferred dividend for that year, the preferred shareholders have voting rights until the arrears have been paid.

In the event of liquidation, the preferred shareholders receive 25 percent of net liquidation proceeds in advance. The remaining liquidation proceeds are distributed evenly among all shares.

The authorization granted to the general partner by the Company's annual shareholders' meeting on May 6, 2011 to increase the share capital pursuant to Article 6 (4) of the articles of association (approved capital) was cancelled by resolution of the annual shareholders' meeting on April 27, 2016.

Instead, by resolution of the annual shareholders' meeting on April 27, 2016, the general partner was authorized to increase the capital stock of the Company, with the approval of the Supervisory Board, until April 26, 2021, by issuing new bearer common shares and / or preferred shares (no-par shares) in return for cash and / or contributions in kind by up to EUR 11,366,400.00 (authorized share capital) in one or several tranches. The authorization includes the entitlement to optionally issue new common shares and / or non-voting preferred shares up to the statutory maximum as stipulated in Sec. 139 (2) AktG, which carry the same status as the previously issued non-voting preferred shares with regard to the distribution of profits and / or Company assets.

In the case of common and preferred shares being issued at the same time while maintaining the ratio of both share types at the time of issuance, the general partner is authorized, subject to approval by the Supervisory Board to exclude the subscription right of holders of one category of shares of the other category ("crossed exclusion of subscription rights"). Also in this case, the general partner is entitled to exclude further subscription rights under the terms of the regulations stated below.

The general partner is further authorized, subject to the approval of the Supervisory Board, to exclude the subscription rights of the shareholders:

(I) in order to compensate for any fractional amounts;

(II) if the shares are issued in exchange for contributions in kind, especially in the context of company mergers or the acquisition of companies, business units, or equity interests in companies or of other assets or of claims to the acquisition of other assets, including receivables from the Company or from companies controlled by it within the meaning of Sec. 17 AktG;

(III) if the shares of the Company are issued in exchange for cash and the issue price per share does not significantly fall below the stock market price of an essentially similarly structured, already listed share of the same class at the time the shares are issued. The exclusion of the subscription right can in this event be conducted, however, only if the number of the shares issued in this way together with the number of other shares that are issued or sold during the term of this authorization subject to an exclusion of subscription right in direct application or application mutatis mutandis of Sec. 186 (3) sentence 4 AktG, and with the number of shares that may be created as the result of the exercise or fulfillment of option and / or conversion rights or obligations arising from warrant and / or convertible bonds and / or participation rights that are issued during the term of this authorization subject to an exclusion of subscription right in application mutatis mutandis of Sec. 186 (3) sentence 4 AktG does not exceed 10 percent of the share capital either at the time that this authorization comes into effect or at the time the new shares are issued;

(IV) if this is necessary in order to grant holders or creditors of warrant and / or convertible bonds with option and / or conversion rights and obligations that are issued by the Company or one of the companies in which it holds a majority interest a right to subscribe to new shares in the extent to which they would be entitled after exercising the option or conversion rights or after fulfilling option or conversion obligations.

The proportion of the share capital attributed in total to new shares for which the subscription right is excluded on the basis of this authorization may, together with the proportion of the share capital that is attributed to treasury shares or to new shares from other authorized capital or that relates to the option or conversion rights or obligations arising from options, warrant and / or convertible bonds and / or participation rights that have been sold or issued during the term of this authorization subject to the exclusion of subscription rights, not exceed 20 percent of the share capital. Shares issued under a crossed exclusion of subscription rights are excluded from the limitation to 20 percent of capital stock. The key factor for calculating the 20 percent limit is the existing share capital at the time that this authorization comes into effect or is exercised, on whichever of these dates the share capital is at its lowest.

The general partner is authorized, subject to the approval of the Supervisory Board, to determine the details of the share rights and of the capital increase as well as the terms and conditions of the share issue, in particular the issue price. The Supervisory Board is entitled to adjust the wording of the articles of association in line with the utilization of the authorized capital or after the authorization period expires.

### Reports regarding voting rights

Sec. 160 (1) No. 8 AktG requires disclosure of the existence of investments that have been notified to the Company in accordance with Sec. 21 (1) or (1a) WpHG.

The following table shows the reportable investments disclosed during the Drägerwerk AG & Co. KGaA's fiscal year. Please note that the disclosures may since have changed.

## DISCLOSED REPORTABLE INVESTMENTS

| Reporter | Date that thresholds were reached, exceeded, or undercut | Reporting threshold | Allocation pursuant to WpHG | Investment in % | Investment in voting rights |
|---|---|---|---|---|---|
| Norges Bank, Oslo, Norway | Feb. 9, 2016 | 3% undercut | Sec. 22 in conjunction with Sec. 25 (1) Sentence 1 | 2.98% | 302,957 |
| Brandes Investment Partners, L.P., San Diego, USA | Feb. 12, 2016 | 3% exceeded | Sec. 22 | 3.11% | 316,195 |

### Capital reserves

The capital reserves until the prior year originated from share premiums from the 25 option rights exercised in the period from 2013 to 2015, Drägerwerk AG & Co. KGaA's establishment (transformation) in 1970 and from capital increases in 1979, 1981, 1991, and 2010.

A total of EUR 30,267 thousand (the portion of the exercise price that exceeds the nominal value, less transaction fees) relates to the ten options exercised in fiscal year 2015.

### Retained earnings

Retained earnings comprise the earnings generated until fiscal year 2016 by the companies included in the Group financial statements, where they were not attributed to minority interests or paid as a dividend by Drägerwerk AG & Co. KGaA. The actual tax benefit from the tax deductibility of the participation certificates, which relates to the participation capital recognized in equity, was recognized directly in retained earnings. Effects from the remeasurements of the Company's pension provisions, including deferred taxes, are also included in retained earnings.

Total comprehensive income increased retained earnings.

Other effects, which reduced retained earnings, mainly comprise the distribution to shareholders and participation certificate holders (EUR 4,001 thousand; 2015: EUR 34,601 thousand).

Reserves retained from earnings, including Group result, therefore changed as follows:

**RESERVES RETAINED FROM EARNINGS, INCL. GROUP RESULT**

| in € thousand | 2016 | 2015 |
|---|---|---|
| Reserves retained from earnings, incl. Group result as of January 1 | 626,634 | 622,342 |
| Changes from remeasurements of pension plans (after taxes) | –21,563 | 7,920 |
| Net profit for the year (excluding non-controlling interests) | 81,391 | 33,574 |
| Other effects | –3,660 | –37,202 |
| **Reserves retained from earnings, incl. Group result as of Dec. 31** | **682,803** | **626,634** |

### Own shares within the scope of the employee share program

In fiscal year 2016, the Executive Board once again resolved to enable Dräger employees in Germany to participate in the Company through an employee share program. This was designed to increase employees' identification with the Company and Dräger's attractiveness as an employer.

One bonus share was issued for every three investment shares bought by the employee. The maximum purchase price per investment share for the employees amounted to EUR 65.00 (which corresponded to the closing price of the preferred shares in Xetra trading on the last trading day before the start of the acquisition period, meaning on November 4, 2016). The shares are subject to a two-year holding period and may not be sold or otherwise transferred during this period. Employees do not have to continue their employment with the Company during the holding period.

The participation period, during which employees could acquire the share parcels, started on November 7, 2016 and ended on November 16, 2016. During this period, 7,104 bonus shares resulted from the shares acquired by employees, including Executive Board members, during this period. An account was opened with Deutsche Bank Privat- und Geschäftskunden AG (paying agent), Frankfurt am Main, Germany, for the entry and custody of bonus shares for participating employees.

The 7,104 bonus shares were acquired for Dräger on the stock exchange in the period from November 7, 2016 and November 16, 2016 by the paying agent on a commission basis in the form of a share buyback at a total cost of EUR 485 thousand. The price on the stock exchange amounted to an average of EUR 68.24. The total price for investment and bonus shares, acquired for and on behalf of Dräger, totals EUR 1,939 thousand. Of this amount, EUR 1,385 thousand was passed on to the employees. The shares were transferred directly to the respective employee's securities accounts. The contractually agreed benefits for the employees arising from this program, consisting of bonus shares and the maximum purchase price, were recognized in personnel expenses at EUR 554 thousand. Aside from the price paid on the stock exchange, no other expectations for future dividends or other characteristics were included in the fair value of the bonus shares.

The acquisition of own shares to pass on to participating employees in the form of bonus shares is covered by the resolution of the annual shareholders' meeting on April 27, 2016, according to which the general partner is authorized to acquire until April 26, 2021 up to 10 percent of the own shares of both types (common and / or preferred shares) of the Company's capital stock as of the date of resolution or – if this value is lower – as of the date on which the authorization is exercised. Together with all other shares held by the Company or attributable to it according to Sec. 71a et seq. AktG, shares purchased under this provision may at no time equal more than 10 percent of capital stock. The authorization may not be used for the purpose of trading in treasury shares. The authorization may be exercised in whole or in part, on one or more occasions and for one or more purposes by the Company or by dependent Group companies or enterprises in which the Company has a majority shareholding, or by third parties for its or their account. The purchase may be limited in part or in full to a single class of shares by excluding, in part or in full, the shareholders' right to sell the other class of share.

The purchase may, at the discretion of the general partner, be effected by the stock exchange, or by means of a public purchase offer to all holders of the respective type of share or by means of a public invitation to all holders of the respective type of share to submit offers for sale.

If the shares are acquired on the stock market, the purchase price paid by the Company per share of the same class (excluding incidental acquisition costs) may not be more than 10 percent higher or lower than the price of the shares of the class in question ascertained on the relevant trading day by the opening auction in Xetra trading (or on a functionally comparable successor system replacing the Xetra system) on the Frankfurt Stock Exchange.

If the shares are acquired on the basis of a public purchase offer directed to all shareholders of a class or on the basis of a public solicitation of offers directed to all shareholders of a class,

- the purchase price offered per share of the class in question (excluding incidental acquisition costs) in the event of a public purchase offer directed to all shareholders of a class or
- the threshold values of the purchase price spread defined by the Company (excluding incidental acquisition costs) in the event of a public solicitation of offers directed to all shareholders of a class may

not be more than 10 percent higher or lower than the volume-weighted average of the closing auction prices for shares of the class in question in Xetra trading (or on a functionally comparable successor system replacing the Xetra system) on the Frankfurt Stock Exchange during the last five stock exchange trading days before the date that the public purchase offer or the public solicitation of offers is publicly announced.

If significant deviations in the relevant price arise after a public purchase offer directed to all shareholders of a class or a public solicitation of offers directed to all shareholders of a class is published, then the purchase offer or the public solicitation of offers can be adjusted. In this event, the volume-weighted average of the closing auction prices for shares of the class in question in Xetra trading (or on a functionally comparable successor system replacing the Xetra system) on the Frankfurt Stock Exchange during the last five stock exchange trading days before the adjustment is publicly announced will be taken as the basis.

The volume of the purchase offer or of the public solicitation of offers can be limited. If in a public purchase offer or a public solicitation of offers, the volume of the tendered shares exceeds the intended buyback volume, the acquisition can be conducted in proportion to the shares subscribed and offered in each case; the right of the shareholders to offer their shares for sale in proportion to their shareholding ratio is excluded in this respect. A preferential acceptance of small lots of up to 100 tendered shares per shareholder as well as commercial rounding in order to avoid mathematical fractions of shares can be stipulated. Any more extensive option to sell of the shareholders is excluded in this respect.

The public purchase offer or the public solicitation of offers can stipulate further terms and conditions.

The general partner is authorized to use treasury shares acquired on the basis of this authorization for any lawful purposes.

The authorization to use treasury shares subject to the exclusion of the subscription right of the shareholders is limited, however, in so far as the sum of the treasury shares used subject to the exclusion of the subscription right of the shareholders together with the number of other shares that are issued from authorized capital during the term of this authorization subject to the exclusion of the subscription right or have to be issued on account of options, warrant and / or convertible bonds or participation rights issued during the term of this authorization subject to the exclusion of the subscription right may not exceed 20 percent in total of the share capital after the authorization is exercised; the key factor is either the share capital at the time that this authorization comes into effect or the share capital present at the time this authorization is exercised, depending on which value is lower.

The purchase of treasury shares by the general partner may be initiated only with the approval of the Supervisory Board.

On the other hand, the authorization granted to the general partner by the annual shareholders' meeting on May 4, 2012 to acquire own shares by May 3, 2017 was cancelled by resolution of the annual shareholders' meeting on April 27, 2016.

### Participation capital

↗ Note 34

Please refer to Note 34 for details on participation capital.

### Other comprehensive income

**OTHER COMPREHENSIVE INCOME**

| in € thousand | 2016 | 2015 |
|---|---|---|
| Currency translation adjustment | 10,169 | 10,849 |
| Derivative financial instruments | –633 | –3,213 |
| Available-for-sale financial assets | 31 | 130 |
| Deferred taxes recognized directly in equity | 117 | 925 |
| | **9,683** | **8,691** |

The year-on-year change resulting from currency translation was mainly due to the translation of income statement items at average prices as well as the historical rates from the consolidation of investments.

In fiscal year 2016, derivative financial instruments to the amount of EUR 2,043 thousand (2015: EUR –92 thousand) were recognized directly in equity. In addition, EUR 555 thousand (2015: EUR 565 thousand) were reclassified from equity to the interest result due to interest hedging. A total of EUR –18 thousand (2015: EUR 0 thousand) was reclassified from equity to gross profit within the scope of currency hedging in fiscal year 2016.

### Capital management

One of Dräger's most important goals is to increase the business's value. The key function of capital management in this respect is to minimize the cost of capital while ensuring solvency at all times by coordinating the due dates of financial liabilities with the expected free cash flow and creating sufficient liquidity reserves.

Capital is monitored regularly using various key metrics, which include gearing and the equity ratio.

The Dräger Group's equity and liabilities were as follows as of the balance sheet date:

**EQUITY AND LIABILITIES**

| in € million | 2016 | 2015 |
|---|---|---|
| Equity interest held by shareholders of Drägerwerk AG & Co. KGaA | 1,001.5 | 944.3 |
| + Non-controlling interests | 2.0 | 1.6 |
| Equity of the Dräger Group | 1,003.5 | 945.9 |
| Share of total equity and liabilities | 43.4 % | 40.9 % |
| | | |
| Noncurrent liabilities | 638.2 | 545.9 |
| Current liabilities | 670.6 | 819.6 |
| Total liabilities | 1,308.8 | 1,365.5 |
| Share of total equity and liabilities | 56.6 % | 59.1 % |
| **Total equity and liabilities** | **2,312.3** | **2,311.4** |

The Dräger Group's gearing had developed as follows as of the balance sheet date:

**GEARING**

| in € million | 2016 | 2015 |
|---|---|---|
| Noncurrent interest-bearing loans | 188.6 | 138.1 |
| + Current interest-bearing loans and liabilities to banks | 57.0 | 169.7 |
| + Noncurrent and current liabilities from finance lease | 10.5 | 10.3 |
| – Cash and cash equivalents | –221.5 | –172.8 |
| **Net financial debt** | **34.7** | **145.3** |
| Equity | 1,003.5 | 945.9 |
| **Gearing (= net financial debt / equity)** | **0.03** | **0.15** |

On December 31, 2016, the Dräger Group also agreed on bilateral credit lines of EUR 355.5 million due on October 30, 2018 to secure liquidity. The framework agreement for the bilateral credit lines stipulates target values based on certain financial covenants. Should the Dräger Group not comply with these, the banks are entitled to terminate the bilateral credit lines. The values have been specified so that the Dräger Group would only run the risk of being unable to meet them if the Company's financial position was to deteriorate drastically. It is also possible for the Dräger Group to obtain the banks' approval to exceed or undercut these key figures at an early stage. Key financial performance figures are monitored continuously.

## 33 NON-CONTROLLING INTERESTS

Non-controlling interests are as follows:

**NON-CONTROLLING INTERESTS**

| | Non-controlling interests | | thereof net profit | |
|---|---|---|---|---|
| in € thousand | 2016 | 2015 | 2016 | 2015 |
| Dräger-Simsa S.A. | 919 | 855 | –14 | 7 |
| Dräger South Africa Pty. Ltd. | 648 | 353 | 214 | –412 |
| Draeger Safety Korunma Teknolojileri Ltd. Sirketi | 472 | 406 | 145 | 119 |
| Dräger Finance Services GmbH & Co. KG | 0 | 0 | 0 | –1 |
| | **2,039** | **1,614** | **345** | **–287** |

Non-controlling interests are of minor importance for the Group.

In the statement of changes in equity, other comprehensive income from non-controlling interests of EUR 161 thousand (2015: EUR –136 thousand) only include exchange rate differences.

The articles of incorporation of Draeger Arabia Co. Ltd. include a right of termination for the shareholders. The resulting payment obligation to minority shareholders constitutes a financial liability that is recognized as debt, rather than recognized in equity.

In January 2015, Dräger acquired the remaining shares of Draeger Medikal Ticaret ve Servis Anonim Sirketi, Istanbul, Turkey, (11.25 percent) at a total cost of EUR 4,000 thousand. This means that Dräger is this subsidiary's sole shareholder.

**TRANSACTIONS WITH NON-CONTROLLING INTEREST WITHOUT A LOSS OF CONTROL**

| in € thousand | 2016 | 2015 |
|---|---|---|
| Carrying amount of the acquired non-controlling interest | – | 68 |
| Purchase price of the acquired non-controlling interest | – | –4,000 |
| **Difference between the purchase price and the carrying amount** | **0** | **–3,932** |

## 34 PARTICIPATION CAPITAL / LIABILITIES FROM PARTICIPATION CERTIFICATES

**PARTICIPATION CAPITAL / LIABILITIES FROM PARTICIPATION CERTIFICATES 2016**

| | Number | Par value | Premium | Payments received | thereof recognized as debt | thereof recognized in equity |
|---|---|---|---|---|---|---|
| | | € | € | € | € | € |
| Series A until June 1991 | 195,245 | 4,990,462.20 | 7,642,509.00 | 12,632,971.20 | 4,230,928.03 | 8,402,043.17 |
| Series K until June 27, 1997 | 69,887 | 1,786,311.72 | 1,168,305.27 | 2,954,616.99 | 1,765,413.90 | 1,189,203.09 |
| Series D from June 28, 1997 | 566,819 | 14,487,893.64 | 14,023,388.96 | 28,511,282.60 | 5,262,183.29 | 23,249,099.31 |
| | **831,951** | **21,264,667.56** | **22,834,203.23** | **44,098,870.79** | **11,258,525.22** | **32,840,345.57** |

| | | |
|---|---|---|
| Accumulated interest effect until 2015 (for remaining participation certificates after buyback) | 10,520,934.35 | – |
| Compensation for participation certificate holders in 2010 (for remaining participation certificates after buyback) | – | –3,343,471.88 |
| Compounding 2016 | 907,602.63 | – |
| **Recognition as of December 31, 2016** | **22,687,062.20** | **29,496,873.69** |

**PARTICIPATION CAPITAL / LIABILITIES FROM PARTICIPATION CERTIFICATES 2015**

| | Number | Par value | Premium | Payments received | thereof recognized as debt | thereof recognized in equity |
|---|---|---|---|---|---|---|
| | | € | € | € | € | € |
| Series A until June 1991 | 195,245 | 4,990,462.20 | 7,642,509.00 | 12,632,971.20 | 4,230,928.03 | 8,402,043.17 |
| Series K until June 27, 1997 | 69,887 | 1,786,311.72 | 1,168,305.27 | 2,954,616.99 | 1,765,413.90 | 1,189,203.09 |
| Series D from June 28, 1997 | 566,819 | 14,487,893.64 | 14,023,388.96 | 28,511,282.60 | 5,262,183.29 | 23,249,099.31 |
| | **831,951** | **21,264,667.56** | **22,834,203.23** | **44,098,870.79** | **11,258,525.22** | **32,840,345.57** |

| | | |
|---|---|---|
| Accumulated interest effect until 2014 (for remaining participation certificates after buyback) | 9,613,331.72 | – |
| Compensation for participation certificate holders in 2010 (for remaining participation certificates after buyback) | – | –3,343,471.88 |
| Compounding 2015 | 907,602.63 | – |
| **Recognition as of December 31, 2015** | **21,779,459.57** | **29,496,873.69** |

## FAIR VALUE

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Number | Price Dec. 31 | Fair value | Number | Price Dec. 31 | Fair value |
| | | € | € | | € | € |
| Series A until June 1991 | 195,245 | 429.00 | 83,760,105.00 | 195,245 | 370.00 | 72,240,650.00 |
| Series K until June 27, 1997 | 69,887 | 402.00 | 28,094,574.00 | 69,887 | 395.00 | 27,605,365.00 |
| Series D from June 28, 1997 | 566,819 | 430.00 | 243,732,170.00 | 566,819 | 375.00 | 212,557,125.00 |
| | **831,951** | | **355,586,849.00** | **831,951** | | **312,403,140.00** |

## PARTICIPATION CAPITAL CONDITIONS

| | Termination right of Drägerwerk AG & Co. KGaA | Termination right of participation certificate owner | Loss share | Minimum return | Dividend for participation certificates |
|---|---|---|---|---|---|
| | | | | € | |
| Series A | yes | no | no | 1.30 | Dividend on preferred share x 10 |
| Series K | yes | yes | no | 1.30 | Dividend on preferred share x 10 |
| Series D | yes | yes | yes | – | Dividend on preferred share x 10 |

In fiscal year 2016 as well as in the prior year, no participation certificates were issued or bought back.

Drägerwerk AG & Co. KGaA does not intend to terminate the participation certificates. If the participation certificate holder exercises the calling right, the amount repayable shall equal the average mean rate of the last three months at the Hamburg Exchange or a maximum of the weighted average issue price of the corresponding tranche. Series K may be terminated for the first time as of December 31, 2021, with five years' notice; the period of termination thereafter is again five years.

Series D may be terminated for the first time as of December 31, 2026. Series D participation certificates share in losses. The proportionate loss attributable to the participation capital is offset by future profits.

The cases in which the minimum return is not paid are the same as those in which the preferred dividend is not paid. As with the subsequent payment of preferred dividends, the dividend for participation certificates is paid in arrears.

The dividend for participation certificates is ten times the preferred share dividend, as the par value of the securities was originally identical, but the arithmetic par value of the preferred share has since been reduced to one tenth of the original par value.

For details, please refer to the schedule with the terms and conditions of series A, K, and D participation certificates.

## 35 PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

As of December 31, 2016, the Dräger Group mainly had defined benefit pension plans and similar obligations in addition to defined contribution pension plans.

### Defined benefit pension plans and similar obligations

Under the Group's defined benefit pension plans, provisions for pensions and similar obligations have been accrued for benefits payable in the form of old-age, disability, and surviving dependents' pensions. The amount of the obligations is determined using the projected unit credit method. The obligations are partly funded by plan assets.

The defined benefit pension plans of the German companies, which use the 2005G Heubeck mortality tables as a basis of calculation, account for some 90 percent (2015: 90 percent) of the provisions for pensions and similar obligations disclosed as of the balance sheet date. As of January 1, 2005, the new company pension plans "Rentenplan 2005" for almost all employees of the Dräger Group's German subsidiaries and "Führungskräfteversorgung 2005" for management came into effect, superseding the former "Versorgungsordnung '90" and "Ruhegeldordnung '90" schemes.

Under the old pension plan, employees received pensions based on their salaries and period of employment. As part of the transition to the new plan, employees were guaranteed a pension based on the old plan for their years of service prior to the transition. The new plan is now composed of the employer-funded basic level, the employee-funded top-up level (deferred compensation), and the employer-funded supplementary level.

The pension cost for the employer-funded basic level is based on the respective employee's income. The employee funded top-up level allows employees to increase their pension entitlement through deferred compensation.

The contribution made at the employer-funded supplementary level depends on the employee contribution through deferred compensation and on the Company's business performance (EBIT).

Since December 2007, these funds from the pension plan as well as the employee contributions from the respective fiscal year have been paid into a new fund (WKN [securities identification number] AOHG1B) and secured in favor of the employees via a contractual trust arrangement (CTA), meaning that they only serve to cover and finance the Company's direct pension obligations. The employees' pension accounts have a minimum guaranteed return of 2.75 percent. Hence, the assets of this fund fulfill the criteria of plan assets pursuant to IAS 19, the EUR 118,658 thousand (2015: EUR 105,630 thousand) in assets secured by the CTA were offset against the gross pension obligations in fiscal year 2016. Additions to the CTA of EUR 11,111 thousand are expected for fiscal year 2017 (in 2015 for fiscal year 2016: EUR 8,870 thousand).

↗ Note 25

The available excess of plan assets over the relevant pension obligations totaling EUR 73 thousand (2015: EUR 59 thousand) is disclosed under other noncurrent assets (see Note 25).

The defined benefit pension plans of the Swiss company, which uses the BVG 2010 generation tables as a basis of calculation, account for some 4 percent (2015: approximately 5 percent) of the provisions for pensions and similar obligations disclosed as of the balance sheet date. The Swisscanto Collective Foundation provides occupational pension plans which cover the economic consequences of old age, invalidity, and death. Employees can decide for themselves how much they want to save, picking from one of three options. The employer's contributions equal the amounts contributed by the employees. The employer and employee contributions are defined as a percentage of the insured salary. The pension amount is derived from the retirement assets accumulated on the date of retirement multiplied by the conversion rates stipulated in the regulations. Employees have the option to withdraw their retirement benefits as capital. Savings contributions are also paid on employee bonuses. The assets are invested by the Swisscanto Collective Foundation.

Under the Group's defined benefit pension plans, Dräger is exposed to the following risks:

- Due to the specific benefits, defined benefit pension plans are particularly long-term employee benefits, the measurement of which includes making long-term assumptions that are subject to an increased risk in view of actual realization.
- The underlying discount rate in the recognition of pension obligations reflects the effective market return on high-quality corporate bonds (calculated on the basis of modified Bloomberg indices) with the same term as the pension obligations as of the balance sheet date. If the actual return on plan assets is less than the calculated return, this creates a shortfall.
- Reducing the effective market return of high-quality corporate bonds leads to an increase in the projected benefit obligation. If the projected benefit obligation is counteracted by plan assets, some of this effect is compensated for.
- If benefit obligations are not covered by plan assets, Dräger has to generate pension payments within the course of its operating activities in the respective year.
- Due to the minimum guaranteed return of 2.75 percent, Dräger must compensate for the actual return of the plan assets should this fall below the minimum guaranteed return.
- According to Sec. 16 (1) of the German Act to Improve Occupational Pensions (BetrAVG), an employer that has guaranteed company pension plan obligations must consider adjusting these obligations in line with the rate of inflation every three years. The employer's decision regarding such adjustments must consider the needs of the pension recipient and, above all, the economic situation of the company.

The net obligation from defined benefit pension plans is recognized in the balance sheet as follows:

### NET OBLIGATION FROM DEFINED BENEFIT PENSION PLANS

| in € thousand | 2016 | 2015 |
|---|---|---|
| Carrying amount of benefit obligations with plan assets | 267,196 | 230,441 |
| Present value of plan assets | –189,678 | –176,780 |
| **Underfunded pension plans** | **77,518** | **53,661** |
| | | |
| Carrying amount of benefit obligations without plan assets | 240,734 | 234,427 |
| **Net obligation as of December 31** | **318,252** | **288,088** |
| | | |
| Available excess of plan assets | 73 | 59 |
| **Provisions for pension obligations and similar obligations** | **318,325** | **288,147** |

Changes in the net obligation are as follows:

**CHANGES IN THE PROJECTED BENEFIT OBLIGATIONS AND PLAN ASSETS**

| in € thousand | 2016 Projected benefit obligation | 2016 Fair value of plan assets | 2016 Total | 2015 Projected benefit obligation | 2015 Fair value of plan assets | 2015 Total |
|---|---|---|---|---|---|---|
| **January 1** | 464,868 | –176,780 | 288,088 | 447,807 | –150,799 | 297,008 |
| Service costs | 13,348 | – | 13,348 | 17,434 | – | 17,434 |
| Interest income (–)/interest expense (+) | 8,987 | –3,042 | 5,945 | 8,584 | –2,952 | 5,632 |
| Past service costs | –902 | – | –902 | –15 | – | –15 |
| Other effect on profit or loss | –4,619 | 3,891 | –727 | 7 | –33 | –27 |
| **Changes recognized in profit or loss** | **16,815** | **849** | **17,664** | **26,009** | **–2,985** | **23,024** |
| Return on plan assets excluding amounts included in interest | – | –4,084 | –4,084 | – | 62 | 62 |
| Revaluations from changes to demographic assumptions | –103 | – | –103 | 2,018 | – | 2,018 |
| Revaluations from changes to financial assumptions | 38,436 | – | 38,436 | –12,015 | – | –12,015 |
| Revaluations from adjustment to empirical values | –2,962 | – | –2,962 | –1,084 | – | –1,084 |
| **Changes in other comprehensive income** | **35,371** | **–4,084** | **31,287** | **–11,080** | **62** | **–11,019** |
| Benefits paid | –15,181 | 3,624 | –11,558 | –8,978 | –2,576 | –11,554 |
| Employee contributions | 3,855 | –3,855 | 0 | 3,765 | –3,873 | –108 |
| Employer contributions | – | –7,991 | –7,991 | – | –9,839 | –9,839 |
| Transfer of obligations and other effects | 1,167 | –816 | 351 | 35 | –752 | –717 |
| Currency changes | 1,035 | –625 | 411 | 7,310 | –6,017 | 1,293 |
| **Other changes** | **–9,124** | **–9,662** | **–18,787** | **2,132** | **–23,057** | **–20,925** |
| **December 31** | **507,930** | **–189,678** | **318,252** | **464,868** | **–176,780** | **288,088** |
| **Net obligation as of December 31** | | | **318,252** | | | **288,088** |

Service costs and past service costs are included under personnel expenses.

Plan assets are composed as follows:

**COMPOSITION OF PLAN ASSETS**

| in € thousand | 2016 Active market | 2016 No active market | 2016 Total | 2015 Active market | 2015 No active market | 2015 Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 9,222 | 176 | 9,399 | 5,018 | 169 | 5,188 |
| Equity instruments | 17,902 | – | 17,902 | 19,238 | – | 19,238 |
| Securities | 26,379 | 1,116 | 27,495 | 21,494 | – | 21,494 |
| Debt instruments | 118,443 | – | 118,443 | 112,042 | – | 112,042 |
| Real estate | 8,220 | – | 8,220 | 7,582 | – | 7,582 |
| Other | 8,220 | – | 8,220 | 11,236 | – | 11,236 |
| | | | **189,678** | | | **176,780** |

Plan assets do not contain Dräger shares or land used by Dräger itself.

For the next fiscal year, additions to plan assets are expected to amount to EUR 12,683 thousand (2015: EUR 11,130 thousand).

The following actuarial assumptions were made in measuring the projected benefit obligation (weighted averages):

## ACTUARIAL ASSUMPTIONS

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Germany | Abroad | Germany | Abroad |
| Discount rate | 1.75 % | 0.56 % | 2.25 % | 1.02 % |
| Future wage and salary increases | 3.00 % | 1.64 % | 3.00 % | 1.68 % |
| Future pension increases | 1.75 % | 0.28 % | 1.49 % | 0.14 % |

The weighted average term of the defined benefit obligation in the fiscal year is 19 years (2015: 18 years).

The effect of changes in fundamental assumptions on the projected benefit obligation is as follows:

## EFFECT OF FUNDAMENTAL ASSUMPTIONS ON THE PROJECTED BENEFIT OBLIGATION

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Discount rate | Future pension increases | Life expectancy | Discount rate [1] | Future pension increases | Life expectancy |
| Change in assumption | 1.00 % | 0.25 % | 1 year | 1.00 % | 0.25 % | 1 year |
| Effect on the projected benefit obligation if the assumption increases | 16.0 % decrease | 0.8 % increase | 4.4 % increase | 15.3 % decrease | 0.9 % increase | 4.2 % increase |
| Effect on the projected benefit obligation if the assumption decreases | 21.4 % increase | 0.8 % decrease | 4.4 % decrease | 19.8 % increase | 0.9 % decrease | 4.3 % decrease |

[1] The sensitivity of the discount rate was increased from 0.50 percent to 1.00 percent. Prior year's figures were adjusted accordingly.

The sensitivity analyses were performed using the same calculation methods; one assumption was changed in each analysis while all other assumptions remained constant (ceteris paribus); this means that possible correlation effects between the individual assumptions are not taken into account.

The following pension payments are expected to be due:

**EXPECTED PENSION PAYMENTS 2016**

| in € thousand | 2017 | 2018 | 2019 – 2021 | > 2021 | Total |
|---|---|---|---|---|---|
| Expected pension payments | 15,212 | 15,300 | 49,139 | 864,945 | 944,596 |

**EXPECTED PENSION PAYMENTS 2015**

| in € thousand | 2016 | 2017 | 2018 – 2020 | > 2020 | Total |
|---|---|---|---|---|---|
| Expected pension payments | 15,312 | 14,845 | 48,029 | 639,508 | 717,694 |

Expenses for additional benefits to pensioners of EUR 2,126 thousand (2015: EUR 2,740 thousand) were recognized in fiscal year 2016.

### Defined contribution plans

In addition to the defined benefit plans and similar obligations described above, Dräger pays voluntary or statutory contributions to government and private pension insurers (defined contribution plans).

The cost of other defined contribution plans came to EUR 9,846 thousand in fiscal year 2016 (2015: EUR 10,716 thousand). Dräger also paid statutory pension contributions in Germany of EUR 35,624 thousand (2015: EUR 34,411 thousand).

## 36 OTHER NONCURRENT AND CURRENT PROVISIONS

**OTHER NONCURRENT AND CURRENT PROVISIONS**

| in € thousand | Provisions for personnel and welfare obligations | Warranty provisions | Provisions for potential losses | Provisions for commissions | Provisions for other obligations in the normal course of business | 2016 Total |
|---|---|---|---|---|---|---|
| January 1 | 154,369 | 35,445 | 8,187 | 10,389 | 81,241 | 289,631 |
| Allocation | 94,276 | 12,635 | 1,695 | 3,806 | 63,250 | 175,662 |
| Accumulation of interest | 261 | 2 | 118 | – | 62 | 444 |
| Utilization | –99,874 | –17,935 | –997 | –6,394 | –46,613 | –171,814 |
| Reversal | –14,484 | –2,953 | –335 | –324 | –8,677 | –26,773 |
| Reclassifications | 339 | – | – | 39 | –377 | 0 |
| Change in the scope of consolidation | 6 | 0 | – | – | 3 | 9 |
| Currency translation effects | 975 | 36 | 30 | 232 | 595 | 1,868 |
| **December 31** | **135,867** | **27,230** | **8,698** | **7,747** | **89,484** | **269,027** |

Provisions for personnel and welfare obligations were largely recognized to cover bonuses and sales compensation; the basis on which these are calculated had not been finalized as of the balance sheet date, meaning that the obligations are not yet reported as a liability. This item also includes provisions for phased retirement and long-service awards.

The warranty provisions were measured by reference to the warranty claims made in the past and specific known risks.

Provisions for potential losses mainly resulted from long-term leases of unused or not fully used business premises.

Provisions for commissions relate to those contractual commission entitlements where the underlying intermediary transaction had not been finalized as of the balance sheet date, meaning that the obligation is not yet reported as a liability.

Provisions for other obligations in the normal course of business contain provisions for unpaid invoices for services received amounting to EUR 38,213 thousand (2015: EUR 31,789 thousand), the amount of which is not sufficiently certain. These mainly relate to provisions for services received that have not yet been settled; as a result, the amount of these provisions has not been finalized. In addition, obligations for the audit of financial statements of EUR 2,028 thousand (2015: EUR 2,923 thousand) were set aside, as were obligations for customer bonuses of EUR 6,210 thousand (2015: EUR 5,068 thousand). Obligations in the normal course of business also include obligations from expected credit notes, for litigation costs and risks, purchase guarantees, and other taxes.

The expected utilization of other provisions is as follows:

**MATURITIES**

| in € thousand | Up to 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Provisions for personnel and welfare obligations | 96,775 | 24,348 | 14,745 | 135,867 |
| Warranty provisions | 22,079 | 3,741 | 1,410 | 27,230 |
| Provisions for potential losses | 2,205 | 3,605 | 2,889 | 8,698 |
| Provisions for commissions | 7,747 | – | – | 7,747 |
| Provisions for other obligations in the normal course of business | 82,398 | 7,086 | – | 89,484 |
| | **211,203** | **38,780** | **19,043** | **269,027** |

## 37 NONCURRENT INTEREST-BEARING LOANS

**NONCURRENT INTEREST-BEARING LOANS**

| | | | 2016 | | | 2015 |
|---|---|---|---|---|---|---|
| in € thousand | 1 to 5 years | Over 5 years | Total | 1 to 5 years | Over 5 years | Total |
| Noncurrent liabilities to banks | 48,252 | 41,975 | 90,227 | 47,421 | 52,259 | 99,681 |
| Note loans (issued 2011 and 2016) | 98,407 | – | 98,407 | 38,437 | – | 38,437 |
| | **146,660** | **41,975** | **188,635** | **85,859** | **52,259** | **138,118** |

The noncurrent note loans in place as of the balance sheet date are not subject to any contractually agreed termination options.

A new note loan totaling EUR 60.0 million was taken out in March 2016.

The terms and conditions and the interest on noncurrent interest-bearing loans are as follows:

**TERMS AND CONDITIONS AND INTEREST RATES FOR NONCURRENT INTEREST-BEARING LOANS**

| | | | 2016 | | | 2015 |
|---|---|---|---|---|---|---|
| | Interest conditions | Interest rate in % | Total in € thousand | Interest conditions | Interest rate in % | Total in € thousand |
| **Liabilities to banks** | | | | | | |
| EUR | fixed | 0.75 – 5.1 | 71,465 | fixed | 0.75 – 6.0 | 80,122 |
| EUR | variable | 1.46 | 15,836 | variable | 1.46 – 1.54 | 16,250 |
| ZAR | fixed | 8.8 | 2,781 | fixed | 8.8 | 3,162 |
| INR | fixed | 2.5 – 9.45 | 131 | fixed | 5.0 | 40 |
| Other | fixed | 14.0 – 17.0 | 15 | fixed | 0.13 – 17.0 | 107 |
| | | | **90,228** | | | **99,681** |
| **Note loans** | | | | | | |
| EUR | fixed | 0.8 – 3.88 | 98,407 | fixed | 3.88 | 38,437 |
| | | | **98,407** | | | **38,437** |
| | | | **188,635** | | | **138,118** |

↗ Note 44

Variable interest rates are partly hedged. Please see our information on derivative financial instruments and interest rate risks (Note 44).

Liabilities to banks arising from the construction of the medical division's new office and laboratory building that was completed in fiscal year 2008 have been collateralized by a mortgage of EUR 55 million. The finance for the new production and logistics building for the Infrastructure Projects segment in Lübeck, which was completed in fiscal year 2011, has been secured with a mortgage of EUR 10.8 million. There are no other mortgages on land and buildings or assignments as security for recognized liabilities.

## 38 OTHER NONCURRENT FINANCIAL LIABILITIES

**OTHER NONCURRENT FINANCIAL LIABILITIES**

| | | | 2016 | | | 2015 |
|---|---|---|---|---|---|---|
| in € thousand | 1 to 5 years | Over 5 years | Total | 1 to 5 years | Over 5 years | Total |
| Repayment obligation Draeger Arabia Co. Ltd. | – | 13,106 | 13,106 | – | 12,463 | 12,463 |
| Finance lease liabilities (lessee) | 2,428 | 6,597 | 9,026 | 2,914 | 5,660 | 8,574 |
| Negative fair values of derivative financial instruments | 1,110 | 3,074 | 4,184 | 766 | 3,213 | 3,979 |
| Sundry noncurrent financial liabilities | 1,679 | – | 1,679 | 2,303 | 286 | 2,589 |
| | **5,217** | **22,777** | **27,994** | **5,982** | **21,622** | **27,604** |

The repayment obligation to the non-controlling shareholder of Draeger Arabia Co. Ltd. results from the amended agreements that came into force effective from February 2014 and allow the shareholders to offer their shares to the other shareholder from January 1, 2024, or to bring about the company's liquidation in the event that the other shareholder does not consent to purchase the shares. The non-controlling shareholder's puttable shares were initially accounted for as a liability at fair value of the expected payment obligation for Dräger as of the date of termination. They are subsequently accounted for at amortized cost.

For an explanation of finance lease liabilities, please refer to our comments on recognition of finance leases by the lessee (Note 45).

↗ Note 45

## 39 DEFERRED TAX LIABILITIES

Deferred tax liabilities are explained in Note 16.

↗ Note 16

## 40 OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities mainly include deferred income for accrued service contracts of EUR 12,618 thousand (2015: EUR 5,306 thousand).

## 41 CURRENT INTEREST-BEARING LOANS AND LIABILITIES TO BANKS

**CURRENT INTEREST-BEARING LOANS AND LIABILITIES TO BANKS**

| in € thousand | 2016 | 2015 |
|---|---|---|
| Liabilities to banks | 57,025 | 112,205 |
| Note loans | – | 57,457 |
| | **57,025** | **169,662** |

In fiscal year 2016, note loans of EUR 57.5 million (2015: EUR 86.5 million) were paid and no note loans (2015: EUR 57.5 million) were reclassified from noncurrent to current liabilities.

The terms and conditions and the interest on current interest-bearing loans and liabilities to banks are as follows:

**TERMS AND CONDITIONS AND INTEREST RATES FOR CURRENT INTEREST-BEARING LOANS AND LIABILITIES TO BANKS**

| | | | 2016 | | | 2015 |
|---|---|---|---|---|---|---|
| | Interest conditions | Interest rate in % | Total in € thousand | Interest conditions | Interest rate in % | Total in € thousand |
| **Liabilities to banks** | | | | | | |
| EUR | variable | 0.8 – 7.0 | 21,462 | variable | 0.01 – 8.0 | 60,961 |
| EUR | fixed | 0.75 – 5.1 | 8,531 | fixed | 0.01 – 5.1 | 5,485 |
| SAR | fixed | 3.3 – 3.4 | 2,276 | fixed | 1.55 – 3.4 | 17,868 |
| JPY | variable | 0.85 – 1.6 | 6,014 | variable | 1.1 – 1.6 | 12,106 |
| USD | fixed | – | 0 | fixed | 1.53 – 1.6 | 7,807 |
| USD | variable | 2.1 – 2.23 | 14,704 | variable | – | 0 |
| INR | fixed | 2.5 – 9.45 | 16 | fixed | 3.0 – 5.0 | 6,313 |
| Other | fixed | 0.65 – 17.0 | 1,416 | fixed | 0.13 – 17.0 | 1,496 |
| Other | variable | 1.0 – 9.45 | 2,606 | variable | 0.5 – 5.0 | 169 |
| | | | **57,025** | | | **112,205** |
| **Note loans** | | | | | | |
| EUR | fixed | – | – | fixed | 3.21 | 57,457 |
| | | | **0** | | | **57,457** |
| | | | **57,025** | | | **169,662** |

↗ Note 44

Variable interest rates are partly hedged. Please also see our information on derivative financial instruments (Note 44).

## 42 OTHER CURRENT FINANCIAL LIABILITIES

**OTHER CURRENT FINANCIAL LIABILITIES**

| in € thousand | 2016 | 2015 |
|---|---|---|
| **Trade payables to third parties** | **179,773** | **186,405** |
| **Other current financial liabilities** | | |
| Liabilities to employees | 6,840 | 7,982 |
| Debtors with credit balances | 5,678 | 5,862 |
| Liabilities to Drägerwerk Verwaltungs AG | 1,172 | 3,787 |
| Negative fair values of derivative financial instruments | 5,879 | 3,104 |
| Finance lease liabilities (lessee) | 1,511 | 1,726 |
| Liabilities to commissioning agents | 1,297 | – |
| Liabilities from accrued loan interest | 613 | 368 |
| Distribution for participation capital | 345 | 345 |
| Liabilities to associates | 7 | – |
| Other financial liabilities | 1,994 | 2,168 |
| | **25,336** | **25,343** |
| | **205,108** | **211,748** |

↗ Note 44

↗ Note 45

For the derivative financial instruments recognized as other financial liabilities, please refer to the table of derivative financial instruments in the Dräger Group presented in Note 44.

For an explanation of finance lease liabilities, please refer to our comments on recognition of finance leases by the lessee (Note 45).

## 43 OTHER CURRENT LIABILITIES

**OTHER CURRENT LIABILITIES**

| in € thousand | 2016 | 2015 |
|---|---|---|
| Prepayments received | 43,136 | 43,560 |
| Deferred income | 46,990 | 52,113 |
| Other tax liabilities | 42,269 | 35,967 |
| Other liabilities to employees and for social security | 32,394 | 35,221 |
| Liabilities from construction contracts | 25 | 500 |
| Other current liabilities | 423 | 81 |
| | **165,236** | **167,442** |

Prepayments received include prepayments on construction contracts of EUR 6,728 thousand (2015: EUR 5,608 thousand) in accordance with IAS 11 which exceeded the respective recognized value of the contract.

Deferred income primarily includes accrued service contracts.

## 44 FINANCIAL INSTRUMENTS

### Structure of financial instruments and their measurement

The structure of financial instruments in the Group and their categorization according to IFRS 7 as well as their reconciliation to the Group balance sheet, was as follows as of the balance sheet date:

**FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2016 – ASSETS**

| in € thousand | Measurement in accordance with IAS 39 | | | | | Measurement in accordance with other IAS | Total |
|---|---|---|---|---|---|---|---|
| | Fair Value (held for trading) | Fair value (available for sale) | Amortized cost (loans and receivables) | Amortized cost (held to maturity) | Fair Value (recognized in equity) | (Amortized) cost in accordance with IAS 17 | |
| Other noncurrent financial assets | 197 | 960 | 9,797 | 118 | 929 | 1,936 | 13,937 |
| Trade receivables and construction contracts | – | – | 681,743 | – | – | – | 681,743 |
| Other current financial assets | 1,079 | – | 30,303 | – | 5,346 | 508 | 37,236 |
| Cash and cash equivalents | – | – | 221,481 | – | – | – | 221,481 |
| | **1,276** | **960** | **943,323** | **118** | **6,275** | **2,444** | **954,396** |

**FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2016 – EQUITY AND LIABILITIES**

| in € thousand | Measurement in accordance with IAS 39 | | | Measurement in accordance with other IAS | Total |
|---|---|---|---|---|---|
| | Fair Value (held for trading) | Amortized cost (other liabilities) | Fair Value (recognized in equity) | (Amortized) cost in accordance with IAS 17 | |
| Liabilities from participation certificates | – | 22,687 | – | – | 22,687 |
| Noncurrent interest-bearing loans | – | 188,635 | – | – | 188,635 |
| Other noncurrent financial liabilities | 490 | 14,785 | 3,694 | 9,026 | 27,994 |
| Current interest-bearing loans and liabilities to banks | – | 57,025 | – | – | 57,025 |
| Trade payables | – | 179,773 | – | – | 179,773 |
| Other current financial liabilities | 3,658 | 17,946 | 2,221 | 1,511 | 25,336 |
| | **4,148** | **480,850** | **5,915** | **10,537** | **501,450** |

## FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2015 – ASSETS

| | | | | Measurement in accordance with IAS 39 | Measurement in accordance with other IAS | Total |
|---|---|---|---|---|---|---|
| in € thousand | Fair Value (held for trading) | Fair Value (available for sale) | Amortized cost (loans and receivables) | Amortized cost (held to maturity) | (Amortized) cost in accordance with IAS 17 | |
| Other noncurrent financial assets | 383 | 941 | 9,029 | 118 | 1,142 | 11,613 |
| Trade receivables and construction contracts | – | – | 711,323 | – | – | 711,323 |
| Other current financial assets | 2,188 | – | 45,069 | – | 451 | 47,708 |
| Cash and cash equivalents | – | – | 172,767 | – | – | 172,767 |
| | **2,570** | **941** | **938,187** | **118** | **1,594** | **943,410** |

## FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2015 – EQUITY AND LIABILITIES

| | | | Measurement in accordance with IAS 39 | Measurement in accordance with other IAS | Total |
|---|---|---|---|---|---|
| in € thousand | Fair Value (held for trading) | Amortized cost (other liabilities) | Fair Value (recognized in equity) | (Amortized) cost in accordance with IAS 17 | |
| Liabilities from participation certificates | – | 21,779 | – | – | 21,779 |
| Noncurrent interest-bearing loans | – | 138,118 | – | – | 138,118 |
| Other noncurrent financial liabilities | 766 | 15,051 | 3,213 | 8,574 | 27,604 |
| Current interest-bearing loans and liabilities to banks | – | 169,662 | – | – | 169,662 |
| Trade payables | – | 186,405 | – | – | 186,405 |
| Other current financial liabilities | 3,104 | 20,512 | – | 1,726 | 25,343 |
| | **3,870** | **551,529** | **3,213** | **10,300** | **568,912** |

↗ Note 8

The measurement categories are explained in our comments on the measurement of financial assets and liabilities in Note 8.

Other noncurrent financial assets include investments with a carrying value of EUR 281 thousand (2015: EUR 274 thousand). These investments are not quoted in any active market. Other methods for calculating an objective market value rendered no reliable result. The investments are therefore carried at cost.

### Regular fair value measurement of financial instruments

Financial instruments recognized at fair value were allocated to the following three levels of the fair value hierarchy:

**FAIR VALUE MEASUREMENT**

| in € thousand | Level | 2016 | 2015 |
|---|---|---|---|
| **Assets measured at fair value** | | | |
| Derivatives with positive fair value (noncurrent) | 2 | 1,126 | 383 |
| thereof with a hedging relationship | | 929 | – |
| Derivatives with positive fair value (current) | 2 | 6,425 | 2,188 |
| thereof with a hedging relationship | | 5,346 | – |
| Securities (noncurrent) | 1 | 679 | 667 |
| **Liabilities measured at fair value** | | | |
| Derivatives with negative fair value (noncurrent) | 2 | 4,184 | 3,979 |
| thereof with a hedging relationship | | 3,694 | 3,213 |
| Derivatives with negative fair value (current) | 2 | 5,879 | 3,104 |
| thereof with a hedging relationship | | 2,221 | – |

**Level 1:**
Prices in the active markets are assumed in unchanged form for identical financial assets or financial liabilities. The fair values of noncurrent securities are based on current stock market prices.

**Level 2:**
Uses largely observable input factors that can be directly (i.e. price) or indirectly (i.e. derived from prices) observed for financial assets or financial liabilities; these do not include any listed prices taken into consideration in level 1.

Dräger applies the discounted cash flow method when measuring derivatives. Expected cash flows are determined on the basis of secured prices and / or interest rates and the observable closing rates and / or interest rates, which are then discounted using an interest rate that takes into account Dräger's Company-related risks.

**Level 3:**
Uses factors not based on observable market data for the measurement of financial assets and financial liabilities (unobservable input factors). These are classified as level 3 when there is an unobservable input factor present that significantly influences the measurement. The Dräger Group does not hold any level 3 financial instruments.

No reclassifications between the levels were carried out in the past two fiscal years.

**Fair value of financial instruments not regularly recognized at fair value**
In the following table, the carrying values of financial assets and liabilities not regularly recognized at fair value are compared with their fair values:

## CARRYING VALUES AND FAIR VALUES OF FINANCIAL ASSETS / LIABILITIES

| in € thousand | Level | 2016 Carrying value | 2016 Fair value | 2015 Carrying value | 2015 Fair value |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Finance lease receivables | 2 | 2,444 | 2,600 | 1,594 | 1,547 |
| **Financial liabilities** | | | | | |
| Loans and liabilities to banks | 2 | 245,660 | 247,626 | 307,780 | 308,475 |
| Finance lease liabilities | 2 | 10,537 | 10,580 | 10,300 | 10,045 |

The fair value of level 2 financial assets and liabilities measured at amortized cost was determined using the discounted cash flow method by replacing the interest rates used in the initial calculation of noncurrent financial assets and liabilities with interest rates derived from current Company-related interest rate curves on the balance sheet date. These interest rates are between 0.63 percent for cash flows in 2017 and 1.39 percent for cash flows in 2025. An increase in the interest rates taken into account would result in a decrease in fair values. No adjustments were made to the interest rates of 8.28 percent and 6.19 percent for the leasehold agreements recognized in fiscal years 2013 and 2016 (terms into fiscal year 2103).

Trade receivables, the remaining other financial assets, trade payables, and the remaining other financial liabilities are not listed, as the carrying amount is a reasonable approximation of fair value.

Investments are also not indicated, as there is no active market price for any identical equity instruments.

### Net profit / loss from financial instruments

The net profit / loss from financial instruments recognized in profit or loss in fiscal year 2016 is summarized below (by measurement category):

## NET PROFIT / LOSS BY MEASUREMENT CATEGORY

| in € thousand | 2016 | 2015 |
|---|---|---|
| Financial assets and financial liabilities held for trading | –9,444 | –13,490 |
| Loans and receivables | –19,335 | –5,229 |
| Available-for-sale assets | –9 | –9 |
| Other liabilities | –821 | –2,293 |
| | **–29,609** | **–21,021** |

The net profit / loss of the financial assets and liabilities in the held for trading category comprises profit and loss from changes in fair value as well as interest income / expenses for these assets and liabilities. The net profit / loss in the category loans and receivables contains losses from receivables of EUR 25,015 thousand (2015: EUR 11,817 thousand).

### Interest income / expenses from financial instruments

In fiscal year 2016, interest income / expenses from financial instruments not measured at fair value through profit or loss was as follows:

**INTEREST INCOME / EXPENSES FROM FINANCIAL INSTRUMENTS**

| in € thousand | 2016 | 2015 |
|---|---|---|
| **Interest income** | | |
| Loans and receivables | 1,522 | 1,462 |
| Held-to-maturity investments | 2 | 4 |
| Available-for-sale assets | 351 | 176 |
| | **1,875** | **1,643** |
| **Interest expenses** | | |
| Other liabilities | −9,287 | −11,993 |
| | **−7,412** | **−10,350** |

### Financial risk management

As an international company, the Dräger Group is especially exposed to exchange rate and interest rate risks, in addition to liquidity risks.

The aim of financial risk management is to uncover and mitigate financial risks posed to the Dräger Group through ongoing operating and finance-oriented processes. A systematic recognition, control, and monitoring of market risks is designed to counter developments that could jeopardize the existence of Dräger early on and ensure Dräger's continued existence in the long term. Derivative financial instruments are used to hedge the currency and interest exposure of current and forecast transactions. These derivatives are used exclusively as hedging instruments and are generally not concluded for speculative purposes. In order to decrease credit risks, derivatives are only transacted with banks with an investment grade rating.

A committee, which is comprised of the CFO as well as participants from the treasury, accounting, and controlling departments, determines and monitors the basic features of Dräger's financial policies. The members of this committee meet at least once per quarter to decide on possible hedging strategies on the basis of current developments as well as the existing risk positions.

Financial risk management is based on the annually revised strategic plans of the Group and divisions and the resultant short- and medium-term plans. The financial policies as well as financial risk management for liquidity, currency, and interest rate risks are implemented centrally by the treasury department. Please see our comments in the management report for more general information on risk management.

### Liquidity risk

Drägerwerk AG & Co. KGaA mitigates its liquidity risk by diversifying the maturity structure of its financing instruments so as to ensure the Dräger Group's solvency and financial flexibility at all times. These include in particular participation certificates and note loans due in one to five years. Drägerwerk AG & Co. KGaA also has various noncurrent and current liabilities to banks as well as a liquidity reserve comprising freely available credit facilities with numerous banks with which it has concluded bilateral agreements. Due to the maturity structure of these financing instruments, Drägerwerk AG & Co. KGaA has only a limited prolongation risk.

The following analysis of the maturities of financial liabilities (contractually agreed, non-discounted payments) shows the influence on the Group's liquidity situation:

**MATURITIES OF FINANCIAL LIABILITIES 2016**

| in € thousand | 2017 | 2018 | 2019 to 2021 | From 2022 | Total |
|---|---|---|---|---|---|
| **Derivative financial liabilities** | | | | | |
| Foreign currency derivatives – cash outflow | 293,996 | 51,883 | – | – | 345,879 |
| Foreign currency derivatives – cash inflow | –287,138 | –49,499 | – | – | –336,637 |
| Interest rate swap – cash outflow | 540 | 529 | 1,393 | 450 | 2,912 |
| | **7,398** | **2,913** | **1,393** | **450** | **12,154** |
| **Non-derivative financial liabilities** | | | | | |
| Liabilities from participation certificates | 345 | 345 | 3,989 | 32,741 | 37,420 |
| Interest-bearing loans and liabilities to banks | 58,125 | 52,860 | 98,688 | 45,818 | 255,491 |
| Trade payables | 179,773 | – | – | – | 179,773 |
| Finance lease liabilities | 2,115 | 2,535 | 1,889 | 31,450 | 37,990 |
| Other financial liabilities | 18,699 | 2,371 | 3,928 | 15,559 | 40,557 |
| | **259,057** | **58,112** | **108,494** | **125,568** | **551,230** |
| | **266,455** | **61,025** | **109,887** | **126,018** | **563,384** |

**MATURITIES OF FINANCIAL LIABILITIES 2015**

| in € thousand | 2016 | 2017 | 2018 to 2020 | From 2021 | Total |
|---|---|---|---|---|---|
| **Derivative financial liabilities** | | | | | |
| Foreign currency derivatives – cash outflow | 153,093 | 3,692 | 3,692 | – | 160,477 |
| Foreign currency derivatives – cash inflow | –148,706 | –3,354 | –3,378 | – | –155,438 |
| Interest rate swap – cash outflow | 555 | 540 | 1,490 | 848 | 3,433 |
| | **4,942** | **878** | **1,804** | **848** | **8,472** |
| **Non-derivative financial liabilities** | | | | | |
| Liabilities from participation certificates | 345 | 345 | 1,035 | 35,787 | 37,512 |
| Interest-bearing loans and liabilities to banks | 172,702 | 13,032 | 81,258 | 66,927 | 333,919 |
| Trade payables | 186,405 | – | – | – | 186,405 |
| Finance lease liabilities | 2,353 | 2,576 | 2,385 | 26,254 | 33,568 |
| Other financial liabilities | 20,817 | 2,398 | 4,052 | 19,945 | 47,212 |
| | **382,623** | **18,351** | **88,729** | **148,914** | **638,616** |
| | **387,565** | **19,229** | **90,533** | **149,762** | **647,088** |

Cash outflow from currency hedges of EUR 345.9 million (2015: EUR 160.5 million) faced cash inflow of EUR 336.6 million (2015: EUR 155.4 million) as of December 31, 2016.

### Currency risk

The Group's currency risks within the meaning of IFRS 7 relate to the financial instruments used in connection with operating activities or investing and financing activities. The Dräger Group mainly counters this risk that remains after offsetting cash inflows and outflows in the same foreign currency by entering into derivatives. Currency management aims to limit the effect of exchange rate fluctuations on the Dräger Group's results of operations and net assets.

Treasury and controlling are responsible for determining and analyzing currency risk positions as well as developing and implementing the hedging strategy. As a general rule, only those currency risks that impact the Group's cash flows are hedged. However, risks resulting from the translation of assets and liabilities of foreign subsidiaries into the Group's reporting currency are generally not hedged. The hedging strategy aims to reduce currency risks as far as possible by using natural hedges, whereby the revenues and cost structure are denominated in the respective currencies. Furthermore, hedges are entered into for the remaining currency risks, provided that the costs of the hedges are economically commensurate with the expected hedging success. The US dollar (USD), Chinese yuan (CNY), Japanese yen (JPY), Australian dollar (AUD), as well as a number of European and Asian currencies are the currencies for which hedges are chiefly entered into. Dräger uses currency forwards to hedge forecast transactions in these currencies to reduce the risk from fluctuations in currencies from planned and pending transactions. 75 percent of the planned transactions are hedged in the currencies concerned. Since fiscal year 2016, Dräger has been using cash flow hedge accounting to account for future cash flows from currency hedging transactions. Temporary differences in currency futures are recognized directly in equity under other comprehensive income until they are transferred to the income statement, when the hedged item affects profit or loss.

In order to better illustrate existing currency risks, the effects of hypothetical changes in relevant currencies on net profit and equity are discussed below on the basis of a currency sensitivity analysis. For this purpose, it was assumed that most monetary financial instruments are already denominated in the functional currency or have been converted into the functional currency using derivative financial instruments. Currency risks therefore lie in the remaining unhedged financial instruments in foreign currencies in respect of which currency fluctuations affect profit or loss. If the euro was up / down 10 percent against the main foreign currencies in the Dräger Group, the US dollar and the Chinese yuan, as of the balance sheet date, with all other variables remaining the same, earnings after taxes (pursuant to IFRS 7) and other comprehensive income in equity would be impacted as follows:

**EXCHANGE RATE SENSITIVITY**

| | | 2016 | | 2015 |
|---|---|---|---|---|
| | | Influence over | | Influence over |
| in € million | Earnings after taxes | Other comprehensive income in equity | Earnings after taxes | Other comprehensive income in equity |
| **US dollar** | | | | |
| Euro up 10 percent | 1.0 | 7.1 | –2.2 | – |
| Euro down 10 percent | –1.2 | –3.5 | 2.6 | – |
| | | | | |
| **Chinese yuan** | | | | |
| Euro up 10 percent | –0.9 | 4.3 | –2.6 | – |
| Euro down 10 percent | 1.1 | –5.2 | 3.2 | – |

### Interest rate risk

As well as variable rate noncurrent receivables and liabilities from operations, variable rate noncurrent loan liabilities also give rise to an interest rate risk due to changes in market rates. The treasury department conducts monthly risk analyses to determine the risk potential. These analyses are based on the maturity and interest rate lock-down structure of the existing financial portfolio as well as liquidity planning. Drägerwerk AG & Co. KGaA counters interest rate risks with a combination of fixed and variable rate financial liabilities and by using normal market hedging instruments. Changes in the market interest rates for primary financial instruments with fixed interest only affect the Group's profit or loss if such instruments are recognized at fair value. Thus none of the fixed-interest financial instruments recognized at amortized cost poses an interest rate risk that would affect cash flows. In order to better illustrate existing interest rate risks, the effects of hypothetical changes in market interest rates on net profit and equity are discussed below on the basis of an interest rate sensitivity analysis. For this purpose, it was assumed that interest rate changes affect primary financial instruments measured at fair value and derivative financial instruments that are not part of a hedging relationship, whose changes in value are recognized in profit or loss. Derivative financial instruments that are part of a cash flow hedge are also affected by interest rate changes, with the changes in value recognized directly in equity.

A hypothetical increase of 50 basis points in market interest rates as of the balance sheet date, with all other variables remaining the same, would increase earnings after taxes by EUR 619 thousand (2015: EUR 185 thousand) and equity by EUR 426 thousand (2015: EUR 494 thousand). A hypothetical decrease of 25 basis points in market interest rates as of the balance sheet date, with all other variables remaining the same, would increase earnings after taxes by EUR 70 thousand (2015: increase by EUR 206 thousand) and decrease equity by EUR 148 thousand (2015: EUR 239 thousand).

### Credit risk

The maximum exposure to credit risk is represented by the carrying value of each financial asset, including financial derivatives, in the balance sheet. The Dräger Group does not expect any counterparties to derivatives to fail to meet their obligations as they consist exclusively of financial institutions with investment grade ratings. Consequently, the Group considers that its maximum exposure is reflected by the amount of trade receivables and other current assets, net of valuation adjustments, and received collateral recognized as of the balance sheet date. There are no significant risk concentrations relating to default risks in connection with trade receivables. Trade receivables are mainly attributable to a very large number of customers.

### Derivative financial instruments

Like the hedged items, derivative financial instruments are recognized at fair value, and resulting unrealized gains and losses are recognized in profit or loss as part of the cost of sales or the financial result providing the instruments are not part of a cash flow hedge. If a derivative financial instrument serves as a cash flow hedge, the unrealized gains and losses are recognized directly in equity.

The following positions were held as of the balance sheet date:

**DERIVATIVE FINANCIAL INSTRUMENTS**

| | Nominal volume | | | | | | Fair value |
|---|---|---|---|---|---|---|---|
| in € thousand | | Noncurrent | Current | Assets Total | Noncurrent | Current | Equity and liabilities Total |
| **2016** | | | | | | | |
| Currency hedges | | | | | | | |
| Without a hedging relationship recognized in the balance sheet | 306,300 | 197 | 1,079 | 1,276 | 490 | 3,658 | 4,148 |
| In conjunction with cash flow hedges | 324,720 | 929 | 5,346 | 6,275 | 620 | 2,221 | 2,841 |
| Interest rate swaps | | | | | | | |
| In conjunction with cash flow hedges | 13,275 | – | – | – | 3,074 | – | 3,074 |
| | **644,295** | **1,126** | **6,425** | **7,551** | **4,184** | **5,879** | **10,063** |
| **2015** | | | | | | | |
| Currency hedges | | | | | | | |
| Without a hedging relationship recognized in the balance sheet | 280,630 | 383 | 2,188 | 2,570 | 766 | 3,104 | 3,870 |
| Interest rate swaps | | | | | | | |
| In conjunction with cash flow hedges | 13,600 | – | – | – | 3,213 | – | 3,213 |
| | **294,230** | **383** | **2,188** | **2,570** | **3,979** | **3,104** | **7,083** |

The positive fair values of the derivatives are disclosed as current and noncurrent financial assets, the negative fair values as current and noncurrent financial liabilities.

Concluding currency forwards hedge selected foreign currency cash flows from operating activities, dividend payments, and noncurrent loan liabilities within the Group against exchange rate fluctuations.

In order to offset the effects of future changes to interest rates on cash flows, the Group concluded interest rate swaps caps. The interest rate swap has a remaining term of seven years. For the swap, for which the Group uses hedge accounting, the Group pays variable interest and in return receives fixed interest. It is used for hedging variable interest rates from a real estate lease agreement. The interest rate swap is recognized at fair value.

The ineffective part of the changes in fair value is recognized in income if ineffectivities from currency and interest hedges exist as of the balance sheet date. As in the prior year, ineffectiveness in fiscal year 2016 only resulted from taking into account the counterparty risk; the amounts were therefore not recorded.

### Netting of financial assets and liabilities

The following financial assets and liabilities are subject to netting due to contractually agreed offsetting procedures:

## NETTING OF FINANCIAL ASSETS 2016

| in € thousand | Gross amounts of financial assets | Amount of netted financial liabilities | Recognized net amount 2016 | Unnetted amount of a netting agreement | Net amount 2016 |
|---|---|---|---|---|---|
| Positive derivative financial instruments | 7,551 | – | 7,551 | –909 | 6,642 |
| Cash and cash equivalents | 221,481 | – | 221,481 | – | 221,481 |
| | **229,032** | **0** | **229,032** | **–909** | **228,123** |

## NETTING OF FINANCIAL LIABILITIES 2016

| in € thousand | Gross amounts of financial liabilities | Amount of netted financial assets | Recognized net amount 2016 | Unnetted amount of a netting agreement | Net amount 2016 |
|---|---|---|---|---|---|
| Negative derivative financial instruments | 10,063 | – | 10,063 | –2,623 | 7,440 |
| Liabilities to banks | 147,253 | – | 147,253 | 16,638 | 163,891 |
| | **157,315** | **0** | **157,315** | **14,015** | **171,330** |

## NETTING OF FINANCIAL ASSETS 2015

| in € thousand | Gross amounts of financial assets | Amount of netted financial liabilities | Recognized net amount 2015 | Unnetted amount of a netting agreement | Net amount 2015 |
|---|---|---|---|---|---|
| Positive derivative financial instruments | 2,570 | – | 2,570 | –243 | 2,327 |
| Cash and cash equivalents | 172,767 | – | 172,767 | – | 172,767 |
| | **175,337** | **0** | **175,337** | **–243** | **175,094** |

## NETTING OF FINANCIAL LIABILITIES 2015

| in € thousand | Gross amounts of financial liabilities | Amount of netted financial assets | Recognized net amount 2015 | Unnetted amount of a netting agreement | Net amount 2015 |
|---|---|---|---|---|---|
| Negative derivative financial instruments | 7,083 | – | 7,083 | –1,355 | 5,728 |
| Liabilities to banks | 211,886 | – | 211,886 | 21,109 | 232,995 |
| | **218,969** | **0** | **218,969** | **19,754** | **238,723** |

The netting capabilities result, on the one hand, from the general offsetting claims of the respective banks in the event of liquidity problems. On the other hand, groups of banks have offsetting claims within the scope of agreements regarding credit lines that were concluded with these banks. No netting has been applied so far as the necessary criteria have not been fulfilled.

No offsetting claims exist from operating activities within the scope of supply and service relationships. Letters of credit and bank guarantees were secured on trade receivables of EUR 9,588 thousand (2015: EUR 10,350 thousand) (see Note 27); there are no other financial assets or liabilities that are covered by financial collateral (including cash collateral).

↗ Note 27

## 45 LEASING

The contracts recognized under IAS 17 and IFRIC 4 as leases are explained below.

### Lessee – finance leases

Property leased by the Dräger Group primarily includes real estate as well as office equipment and machinery. The most significant obligations assumed under the lease terms comprise rental payments, the upkeep of the facilities and equipment, insurance, and taxes on capital. Lease terms generally range from one to five years with options to renew at varying conditions.

The Group had no finance leases with conditional payments in the fiscal year or the prior year.

For details of the development of assets used under finance leases, please see our explanations in connection with the statement of noncurrent assets in Note 21.

↗ Note 21

Minimum lease payments for the above finance leases are as follows:

**MINIMUM LEASE PAYMENTS**

| in € thousand | 2016 | 2015 |
|---|---|---|
| During the first year | 2,115 | 2,353 |
| From the second to the fifth year | 4,424 | 4,961 |
| After five years | 31,450 | 26,254 |
| **Minimum lease payments** | **37,990** | **33,568** |
| | | |
| During the first year | 1,511 | 1,726 |
| From the second to the fifth year | 2,428 | 2,914 |
| After five years | 6,597 | 5,660 |
| **Present value of minimum lease payments** | **10,537** | **10,300** |
| **Interest portion contained in the minimum lease payments** | **27,453** | **23,267** |

As in the prior year, no future income from noncancelable subleases was expected as of December 31, 2016.

Minimum lease payments include two leasehold agreements (2015: one leasehold agreement), which stipulate payments into fiscal year 2103.

### Lessee – operating leases

Drägerwerk AG & Co. KGaA and its subsidiaries have various operating lease agreements for buildings, machinery, office equipment, and other facilities and equipment. Most leases contain renewal options.

Some of the leases contain escalation clauses and provide for contingent rents based on fixed percentages of net sales derived from assets held under operating leases. Lease conditions do not contain restrictions concerning dividends, additional debt, or further leasing.

Lease expenses comprise the following:

**LEASING EXPENSES**

| in € thousand | 2016 | 2015 |
|---|---|---|
| Basic lease costs | 53,674 | 55,164 |
| Contingent costs | 98 | 99 |
| Income from subleases | – 369 | – 88 |
| | **53,403** | **55,175** |

Future minimum lease payments outstanding under noncancelable operating leases are as follows:

**MINIMUM LEASE PAYMENTS**

| in € thousand | 2016 | 2015 |
|---|---|---|
| During the first year | 41,209 | 43,714 |
| From the second to the fifth year | 56,844 | 65,961 |
| After five years | 14,381 | 21,587 |
| **Minimum lease payments** | **112,434** | **131,262** |

Total expected future minimum income from subleases under noncancelable operating leases amounted to EUR 8 thousand as of December 31, 2016 (2015: EUR 0 thousand).

### Lessor – finance leases

The Dräger Group's main finance leases relate to medical equipment, as well as solutions and personal protection products. A receivable was recognized equal to the present value of the minimum lease payments.

Receivables from future lease payments outstanding are shown below:

**RECEIVABLES FROM FUTURE LEASE PAYMENTS OUTSTANDING**

| in € thousand | 2016 | 2015 |
|---|---|---|
| During the first year | 575 | 494 |
| From the second to the fifth year | 1,260 | 825 |
| After five years | 879 | 411 |
| **Total gross investments in finance leases** | **2,714** | **1,730** |
| | | |
| During the first year | 508 | 451 |
| From the second to the fifth year | 1,108 | 754 |
| After five years | 828 | 388 |
| **Present value of minimum lease payments outstanding as of the balance sheet date** | **2,444** | **1,594** |
| **Unearned finance income** | **270** | **136** |

As in the prior year, bad debt allowances for uncollectible minimum lease payments were not required as of December 31, 2016.

### Lessor – operating leases

The Dräger Group's main operating leases relate to medical equipment, solutions and gas detection products as well as building space.

EUR 17,859 thousand (2015: EUR 16,513 thousand) in leased building space is contained in the Group's property, plant and equipment at historical cost as well as EUR 14,666 thousand (2015: EUR 13,545 thousand) in accumulated depreciation charges. The depreciation charged in the fiscal year amounts to EUR 1,121 thousand (2015: EUR 933 thousand).

↗ Note 21

Dräger reports equipment leased out separately under property, plant and equipment. For information on assets leased under operating leases, we also refer to our comments in Note 21.

Future minimum lease payments outstanding under noncancelable operating leases are as follows:

**MINIMUM LEASE PAYMENTS**

| in € thousand | 2016 | 2015 |
|---|---|---|
| During the first year | 12,421 | 9,308 |
| From the second to the fifth year | 20,043 | 17,198 |
| After five years | 653 | 1,005 |
| | **33,117** | **27,511** |

As in the prior year, no contingent rents were recognized in profit or loss in fiscal year 2016.

## 46 CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

As in the prior year, the Dräger Group did not have any contingent liabilities.

### Other financial obligations

As of December 31, 2016, other financial obligations amounted to a total of EUR 199,956 thousand (2015: EUR 187,815 thousand) and are structured as follows:

### a) Rental and lease agreements

↗ Note 45

For other financial obligations from rental and lease agreements of EUR 150,424 thousand (2015: EUR 164,830 thousand), please refer to our comments in Note 45 (lessee – operating leases).

### b) Purchase obligations

In line with the usual requirements, the Dräger Group has also entered into purchase obligations with other service providers in order to guarantee the availability of IT services. Due to the centralization of IT activities at Drägerwerk AG & Co. KGaA, the Company assumed all existing long-term obligations to IT service providers of the medical and safety. As a result of outstanding orders, the Group had obligations to purchase intangible assets of EUR 4,026 thousand (2015: EUR 159 thousand) and items of property, plant and equipment of EUR 45,506 thousand (2015: EUR 20,596 thousand) as of December 31, 2016.

### c) Investment allowance for DRENITA

Based on the decision of Investitionsbank Schleswig-Holstein (IB.SH) on August 18, 2010, Drägerwerk AG & Co. KGaA (formerly: Dräger Medical GmbH) and DRENITA Grundstücks-Vermietungsgesellschaft mbH & Co. KG, both jointly and severally liable, were granted an allowance for investment costs of a maximum of EUR 2,230 thousand for the new production and logistics building for the Infrastructure Projects business in Lübeck, which was completed in fiscal year 2011. EUR 1,780 thousand was paid out in 2013 and EUR 450 thousand in 2012. The grant can only be used for this specific purpose and is subject to the fulfillment of specific conditions, all of which relate to Dräger's use of the building. If these conditions are not fulfilled within the contractually stipulated period of five years (ended in 2016), the amount paid out must be repaid.

### d) Litigation

Companies of the Dräger Group were involved in litigation and claims for damages in connection with business activities as of December 31, 2016. The Executive Board of the general partner believes that the outcome of such litigation and claims will not have any further material adverse effect on the Company's net assets, financial position, or results of operations over and above the provisions which have already been recognized.

It is not to be expected that these contingent liabilities will become actual liabilities for which no provision has been recognized yet.

## 47 SEGMENT REPORT

### BUSINESS PERFORMANCE OF THE SEGMENTS

| | | Europe | | Americas | | Africa, Asia, and Australia | | Dräger Group | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Order intake with third parties[1] | € million | 1,382.5 | 1,391.0 | 515.0 | 496.8 | 641.2 | 644.5 | 2,538.7 | 2,532.2 |
| Net sales with third parties[1] | € million | 1,384.3 | 1,420.7 | 503.7 | 509.1 | 635.8 | 679.1 | 2,523.8 | 2,608.9 |
| EBITDA[2] | € million | 125.3 | 101.4 | 34.0 | 4.1 | 63.3 | 45.4 | 222.7 | 150.9 |
| Depreciation / amortization | € million | –40.8 | –42.0 | –23.8 | –22.7 | –21.2 | –19.5 | –85.8 | –84.2 |
| EBIT[3] | € million | 84.5 | 59.4 | 10.3 | –18.6 | 42.1 | 25.8 | 136.9 | 66.7 |
| Capital employed[4,5] | € million | 559.7 | 568.4 | 312.0 | 291.7 | 375.3 | 409.2 | 1,247.0 | 1,269.3 |
| EBIT[3] / net sales | % | 6.1 | 4.2 | 2.0 | –3.7 | 6.6 | 3.8 | 5.4 | 2.6 |
| EBIT[3,6] / capital employed[4,5] (ROCE) | % | 15.1 | 10.5 | 3.3 | –6.4 | 11.2 | 6.3 | 11.0 | 5.3 |
| DVA[6,7] | € million | 44.5 | 6.7 | –10.5 | –43.7 | 15.8 | –9.3 | 49.8 | –46.3 |

[1] Value for 2015 adjusted due to new segmentation
[2] EBITDA = Earnings before interest, taxes, depreciation and amortization
[3] EBIT = Earnings before net interest result and income taxes
[4] Capital employed in segments = trade receivables, inventories incl. prepayments received;
Capital employed Group = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
[5] Value at end of period
[6] Value of the last twelve months
[7] Dräger Value Added = EBIT less cost of capital of average invested capital (until 2015: 9 percent, from 2016: 7 percent)

Segment reporting in the annual reports is geared towards the organizational and management system (pursuant to IFRS 8). Until the end of fiscal year 2015, the Company was managed through the two divisions: the medical division and the safety division. An expanded functional Executive Management Team (EMT) was responsible for the operating management of the two divisions.

We have realigned our organizational and management system to put the spotlight on the customer even more and make our internal decision-making processes more efficient. Since fiscal year 2016, the Executive Board is managing the operating business by means of the three regions: Europe, Americas, and Africa, Asia, and Australia. One member of the Executive Board is fully responsible for the business performance in each of these three regions. The respective Executive Board member assumes this regional responsibility in addition to his functional tasks.

Dräger also changed its segment reporting structure at the start of fiscal year 2016 in accordance with the new management approach. The main changes are as follows:

- Reporting is structured according to the segments Europe, Americas, and Africa, Asia, and Australia.
- Cross-regional costs are allocated to the three segments using a plan-based formula. A large portion of these costs will be assigned using a net sales formula.
- Apart from net working capital and its influencing factors (trade receivables, trade payables, inventories including prepayments received), capital employed reported at segment level also includes long-term capital, such as property, plant and equipment. This is also assigned to the segments using a net sales formula.
- Key figures that cannot be reasonably allocated to the segments are only reported at Group level. This includes figures such as net financial debt.

These adjustments resulted in slight year-on-year variations of order intake and income per region.

Net sales are broken down by segment on the basis of the customers' geographical locations. Net sales of EUR 539.6 million were generated in Germany during the reporting year (2015: EUR 516.3 million).

Dräger develops, produces, and markets system solutions, equipment, and services for the optimization of processes at the acute point of care. These include emergency care, perioperative care (in connection with the operation), critical care, and also perinatal care (in connection with childbirth).

Dräger also develops, produces, and markets products, system solutions, and services for personal protection, gas detection technology, and integrated hazard management. Its customers come from industry, mining, and public sectors such as fire departments, police, and disaster protection.

The segment reports were prepared in accordance with IFRS as applied in the Group financial statements.

At Group level, the key figures from the segment report are as follows:

### EBIT

| in € million | 2016 | 2015 |
|---|---|---|
| Net profit | 81.7 | 33.3 |
| + Interest result | 15.5 | 17.2 |
| + Income taxes | 39.6 | 16.2 |
| **EBIT** | **136.9** | **66.7** |

### CAPITAL EMPLOYED

| in € million | 2016 | 2015 |
|---|---|---|
| Total assets | 2,312.3 | 2,311.4 |
| – Deferred tax assets | –133.7 | –135.3 |
| – Cash and cash equivalents | –221.5 | –172.8 |
| – Non-interest-bearing liabilities | –710.1 | –734.0 |
| **Capital employed** | **1,247.0** | **1,269.3** |

**DVA**

| in € million | 2016 | 2015 |
|---|---|---|
| EBIT (of the last twelve months) | 136.9 | 66.7 |
| – Cost of capital (Basis: average of capital employed in the past twelve months) | –87.1 | –113.0 |
| **DVA** | **49.8** | **–46.3** |

Noncurrent assets are broken down by region on the basis of the assets' geographical locations:

**NONCURRENT ASSETS BY REGION**[1]

| in € million | 2016 | 2015 |
|---|---|---|
| Europe | 599.4 | 653.4 |
| thereof Germany | –[2] | 573.8 |
| Americas | 39.4 | 52.6 |
| Africa, Asia, and Australia | 131.8 | 53.9 |
| | **770.6** | **760.0** |

[1] Noncurrent assets = intangible assets, property, plant and equipment, and other noncurrent assets (excluding the fund assets relating to plan assets reported under this balance sheet item)
[2] It is no longer possible to allocate all noncurrent assets to Germany following the change in segment reporting in 2016; this is because goodwill is only allocated to the Europe segment, and not the individual countries.

↗ Notes 3, 20

As a result of the change in segment reporting (see also Notes 3 and 20), the allocation of noncurrent assets to the individual regions has changed year on year, mainly due to the reallocation of goodwill to the regions.

The business performance of the individual segments is detailed in the management report. Services rendered between the divisions follow the arm's length principle.

## 48 NOTES TO THE CASH FLOW STATEMENT

Due to the elimination of exchange rate effects, the underlying changes recognized in the cash flow statement cannot be directly reconciled with the items of the published balance sheet.

In fiscal year 2016, Dräger Group's cash inflow from operating activities amounted to EUR 195.3 million (2015: EUR 39.9 million). The primary factor in this development was the fact that trade receivables decreased by EUR 31.3 million, after having climbed by EUR 44.6 million in the prior-year period. Inventories also declined by EUR 17.4 million, after having risen by EUR 5.4 million in the prior-year period. The EUR 18.7 million year-on-year decrease in other assets and the EUR 18.9 million year-on-year increase in other liabilities also had a positive impact on operating cash inflows. The decline in trade payables decreased to EUR 10.2 million year on year (2015: decrease of EUR 22.8 million). Earnings before net interest result, income taxes, depreciation, and amortization (EBITDA) – adjusted for cash-neutral changes to provisions and other non-cash earnings / expenses – only rose by EUR 0.5 million, from EUR 186.7 million to EUR 187.2 million; this was due to the increase in EBITDA mainly being neutralized by the decline in provisions.

Cash outflow from investing activities fell to EUR 77.3 million (2015: EUR 167.0 million) and mainly comprises replacement investments. The decrease was primarily due to the fact that the EUR 58.1 million purchase price payment for the shares in GasSecure AS, Oslo, Norway, were included in the prior-year period. In addition, investments in the factory of the future project declined to EUR 20.8 million (2015: EUR 45.9 million).

The increase in cash outflow from financing activities totaling EUR 70.0 million (2015: EUR 1.3 million) was primarily due to the repayment of bank loans and liabilities to banks totaling EUR 66.5 million.

Cash and cash equivalents as of December 31, 2016 exclusively comprised cash, of which EUR 5.4 million (December 31, 2015: EUR 8.9 million) was subject to restrictions.

Unused credit lines amounted to EUR 343.3 million as of the balance sheet date (December 31, 2015: EUR 271.6 million) and are subject to restrictions applicable in the market.

## 49 REMUNERATION OF THE EXECUTIVE AND SUPERVISORY BOARDS

### Executive Board remuneration

Total remuneration for active Executive Board members amounted to EUR 6,217,223 in fiscal year 2016 (2015: EUR 2,728,971). This amount is made up of non-performance related payments of EUR 2,229,519 (2015: EUR 1,829,430), performance related short-term payments of EUR 3,985,172 (2015: EUR 896,723) as well as share-based remuneration with long-term incentives in the amount of EUR 2,532 (2015: EUR 2,818).

If Executive Board remuneration is paid by Drägerwerk Verwaltungs AG, it is entitled to claim reimbursement from Drägerwerk AG & Co. KGaA monthly pursuant to Sec. 11 (1) and (3) of the articles of association of Drägerwerk AG & Co. KGaA. Pursuant to Sec. 11 (4) of the Company's articles of association, the general partner receives a fee, independent of profit and loss, of 6 percent of the equity disclosed in its financial statements, payable one week after the general partner prepares its financial statements, for the management of the Company, and the assumption of personal liability. For fiscal year 2016, this remuneration amounts to EUR 90,195 (2015: EUR 86,762) plus potentially incurred VAT.

Obligations to active Executive Board members under pension plans are stated in the financial statements 2016 at EUR 5,770,072 (2015: EUR 4,509,934).

In fiscal year 2016, the Company made pension provisions contributions of EUR 1,260,138 for active members of the Executive Board (2015: EUR 393,629).

EUR 3,059,113 was paid to former members of the Executive Board and their surviving dependents (2015: EUR 3,144,050). Pension commitments to former members of the Executive Board and their surviving dependents amounted to EUR 44,883,967 (2015: EUR 44,969,123).

If an Executive Board member dies during his or her active service on the Board, the surviving spouse is entitled to the Dräger widow's and widower's pension and any remaining children have claim to the Dräger orphan's pension. The annual Dräger widow's and widower's pension amounts to 55 percent of the Dräger pension received by or which would have been received by the deceased executive if said executive would have been unable to work when he or she died (notional invalidity pension). The amount of the Dräger orphan's pension is 10 percent of the notional invalidity pension or the current Dräger pension of the deceased management member.

### Supervisory Board remuneration

The annual shareholders' meeting of Drägerwerk AG & Co. KGaA has defined Supervisory Board remuneration in the articles of association since fiscal year 2011. Supervisory Board remuneration for fiscal year 2016 came to EUR 447,715 (2015: EUR 350,000).

In fiscal year 2016, the total remuneration of the six members of the Supervisory Board of the general partner, Drägerwerk Verwaltungs AG, amounted to EUR 135,000 (2015: EUR 135,000) as well as additional flat fees for out-of-pocket expenses totaling EUR 55,000 (2015: EUR 55,000). No remuneration was paid to Supervisory Board members of Group companies.

Further information on the itemized remuneration of the Executive Board and the Supervisory Board can be found in the combined management report.

## 50 SHARES OWNED BY THE EXECUTIVE AND SUPERVISORY BOARDS

As of December 31, 2016, the members of the Executive Board of Drägerwerk Verwaltungs AG and their related parties directly held 6,288 preferred shares in Drägerwerk AG & Co. KGaA, equivalent to 0.038 percent of the Company's total shares, and 114,605 common shares, corresponding to 0.694 percent of the Company's total shares.

Dr. Heinrich Dräger GmbH held 67.19 percent of common shares of Drägerwerk AG & Co. KGaA with 68.31 percent of voting rights attributable to the Chairman of the Executive Board Stefan Dräger, whereby 67.19 percent are attributable to him in accordance with the terms of Sec. 22 (1) Sentence 1 No. 1 WpHG (Wertpapierhandelsgesetz – German Securities Trading Act).

On December 31, 2016, the members of the Supervisory Board and their related parties directly or indirectly held a total of 779 preferred shares, equivalent to 0.005 percent of the Company's total shares, and 292 common shares, equivalent to 0.002 percent of the Company's total shares.

## 51 RELATED PARTY TRANSACTIONS

Services were rendered for Stefan Dräger and companies and persons related to Stefan Dräger, the Dräger-Stiftung, and the Dräger-Familienstiftung (Dräger Foundation and Dräger Family Foundation) totaling EUR 134 thousand (2015: EUR 143 thousand) in fiscal year 2016. Receivables in this respect amounted to EUR 14 thousand on December 31, 2016 (2015: EUR 13 thousand).

Drägerwerk AG & Co. KGaA rendered rental services and other services totaling EUR 133 thousand (2015: EUR 124 thousand) for associate MAPRA Assekuranzkontor GmbH in fiscal year 2016.

Receivables in this respect amounted to EUR 11 thousand on December 31, 2016 (2015: EUR 2 thousand); there were no liabilities.

Claudia Dräger, the wife of Stefan Dräger, is actively employed by the Dräger Group. Her employment contract was concluded at arm's length terms and conditions.

The remuneration of the employee representatives on the Supervisory Board for work performed in addition to the Supervisory Board activities was also concluded at arm's length terms and conditions. Overall, remuneration is of immaterial importance for the Dräger Group.

Drägerwerk Verwaltungs AG is the general partner of Drägerwerk AG & Co. KGaA and holds 0 percent of the capital. Only a few transactions are conducted with the general partner, as it only exercises administrative functions. The general partner is entitled to compensation for all expenses incurred in association with the management of Drägerwerk AG & Co. KGaA.

These include the contractually agreed remuneration for its executive bodies. These expenses comprise the remuneration of the Executive Board, the remuneration of its Supervisory Board, liability remuneration, as well as other expenses.

Liabilities to Drägerwerk Verwaltungs AG amounted to EUR 6.6 million as of December 31, 2016 (2015: EUR 3.8 million). Drägerwerk AG & Co. KGaA's expenses for Drägerwerk Verwaltungs AG services amounted to EUR 5,794 thousand in the fiscal year (2015: EUR 3,970 thousand).

Four members of the Executive Board of Drägerwerk Verwaltungs AG participated in the 2016 employee share program. All four Executive Board members purchased nine sets of three shares at a cost of EUR 65.00 per share using their own funds. For every three preferred shares, participants received one preferred share worth EUR 70.34 free of charge from Dräger. The holding period for these preferred shares – including those that participants acquired themselves – runs until December 31, 2018.

All transactions with related parties were conducted at arm's length terms and conditions.

## 52 ADDITIONAL INFORMATION

### Auditor's fee

The total fee charged by the auditor – PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft – in fiscal year 2016 for the audit of the Group financial statements amounted to EUR 1,177 thousand (2015: EUR 1,116 thousand) for the audit of the financial statements, EUR 78 thousand (2015: EUR 140 thousand) for other audit services, EUR 86 thousand (2015: EUR 28 thousand) for other services, and EUR 154 thousand (2015: EUR 134 thousand) for tax consultancy.

The audit report was signed by Dr. Peter Bartels and Marko Schipper from PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. The audit opinion for fiscal year 2016 was the third one that Dr. Peter Bartels has signed in a row. Marko Schipper signed his first audit report for the Dräger Group.

### Corporate governance declaration

Drägerwerk AG & Co. KGaA's declaration of conformity under the terms of Sec. 161 AktG (Aktiengesetz – German Stock Corporation Act) has been issued and made permanently available to the shareholders in December 2016 at www.draeger.com

## 53 CONSOLIDATED COMPANIES

## 54 SUBSEQUENT EVENTS

### CONSOLIDATED COMPANIES

| | Name and registered office | Capital stock in LCU thousand | Shareholding in % |
|---|---|---|---|
| **Germany** | | | |
| | Dräger Safety AG & Co. KGaA, Lübeck | 25,739 EUR | 100[1] |
| | Dräger Medical Deutschland GmbH, Lübeck | 2,000 EUR | 100[1] |
| | Dräger Electronics GmbH, Lübeck | 2,000 EUR | 100 |
| | Dräger Medizin System Technik GmbH, Lübeck | 1,023 EUR | 100 |
| | Dräger Safety Verwaltungs AG, Lübeck | 1,000 EUR | 100[1] |
| | Dräger TGM GmbH, Lübeck | 767 EUR | 100[1] |
| | Dräger MSI GmbH, Hagen | 1,000 EUR | 100[1] |
| | Dräger Medical ANSY GmbH, Lübeck | 500 EUR | 100[1] |
| | Dräger Interservices GmbH, Lübeck | 256 EUR | 100[1] |
| | Dräger Gebäude und Service GmbH, Lübeck | 250 EUR | 100[1] |
| | Dräger Medical International GmbH, Lübeck | 112 EUR | 100[1] |
| | MAPRA Assekuranzkontor GmbH, Lübeck | 55 EUR | 49[2] |
| | Fachklinik für Anästhesie und Intensivmedizin Vahrenwald GmbH, Lübeck | 26 EUR | 100 |
| | Dräger Energie GmbH, Lübeck | 25 EUR | 100 |
| | FIMMUS Grundstücks-Vermietungs GmbH, Lübeck | 25 EUR | 100[1,3] |
| | Dräger Finance Services GmbH & Co. KG, Bad Homburg v. d. Höhe | 511 EUR | 95[3] |
| | OPTIO Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Lübeck | 26 EUR | 100[3] |
| | FIMMUS Grundstücks-Vermietungs Gesellschaft mbH & Co. Objekt Lübeck KG, Lübeck | 10 EUR | 100[3] |
| | MOLVINA Vermietungsgesellschaft mbH & Co. Objekt Finkenstraße KG, Düsseldorf | 5 EUR | 100[3] |
| | DRENITA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Fertigung Dräger Medizintechnik KG, Düsseldorf | 10 EUR | 100[3] |
| | Dräger Grundstücksverwaltungs GmbH, Lübeck | 25 EUR | 100 |
| | Dräger Holding International GmbH, Lübeck | 25 EUR | 100[1] |
| | FUNDUS Grundstücksverwaltungs-GmbH & Co. KG, Lübeck | 3,985 EUR | 100[3] |
| | | | |
| **Europe** | | | |
| **Belgium** | Dräger Medical Belgium NV, Wemmel | 1,503 EUR | 100 |
| | Dräger Safety Belgium NV, Wemmel | 789 EUR | 100 |
| **Bulgaria** | Draeger Medical Bulgaria EOOD, Sofia | 705 BGN | 100 |
| | Draeger Safety Bulgaria EOOD, Sofia | 500 BGN | 100 |
| **Denmark** | Dräger Danmark A/S, Herlev | 5,000 DKK | 100 |
| **Finland** | Dräger Suomi Oy, Helsinki | 802 EUR | 100 |
| **France** | Dräger Médical SAS, Antony | 8,000 EUR | 100 |
| | Draeger Safety France SAS, Strasbourg | 1,470 EUR | 100 |
| | AEC SAS, Antony | 70 EUR | 100 |
| **Greece** | Draeger Hellas A.E. for Products of Medical and Safety Technology, Athens | 1,500 EUR | 100 |
| **Great Britain** | Draeger Safety UK Ltd., Blyth | 7,589 GBP | 100 |
| | Draeger Medical UK Ltd., Hemel Hempstead | 4,296 GBP | 100 |

[1] Relief in accordance with Sec. 264 (3) HGB
[2] This company is treated as an associate as defined by IAS 28.
[3] Special purpose entities in accordance with IFRS 10

## CONSOLIDATED COMPANIES

| | Name and registered office | Capital stock in LCU thousand | Share-holding in % |
|---|---|---|---|
| **Europe (continued)** | | | |
| **Ireland** | Draeger Ireland Ltd., Dublin | 25 EUR | 100 |
| **Italy** | Draeger Medical Italia S.p.A., Corsico-Milan | 7,400 EUR | 100 |
| | Draeger Safety Italia S.p.A., Corsico-Milan | 1,033 EUR | 100 |
| **Croatia** | Dräger Medical Croatia d.o.o., Zagreb | 4,182 HRK | 100 |
| | Dräger Safety d.o.o., Zagreb | 2,300 HRK | 100 |
| **Netherlands** | Dräger Nederland B.V., Zoetermeer | 10,819 EUR | 100 |
| **Norway** | Dräger Norge AS, Oslo | 1,129 NOK | 100 |
| | GasSecure AS, Oslo | 139 NOK | 100 |
| **Austria** | Dräger Austria GmbH, Vienna | 2,000 EUR | 100 |
| **Poland** | Dräger Polska sp. zo.o., Bydgoszcz | 4,655 PLN | 100 |
| | Dräger Safety Polska sp. zo.o., Katowice | 1,000 PLN | 100 |
| **Portugal** | Dräger Portugal, LDA, Lisbon | 1,000 EUR | 100 |
| **Romania** | Dräger Medical Romania SRL, Bucharest | 205 RON | 100 |
| | Dräger Safety Romania SRL, Bucharest | 3,740 RON | 100 |
| **Russia** | Draeger OOO, Moscow | 3,600 RUB | 100 |
| **Sweden** | Dräger Sverige AB, Kista | 2,000 SEK | 100 |
| | ACE Protection AB, Svenljunga | 100 SEK | 100 |
| **Switzerland** | Dräger Schweiz AG, Liebefeld-Bern | 3,000 CHF | 100 |
| **Serbia** | Draeger Tehnika d.o.o., Belgrade | 21,385 RSD | 100 |
| **Slovakia** | Dräger Slovensko s.r.o., Piestany | 597 EUR | 100 |
| **Slovenia** | Dräger Slovenija d.o.o., Ljubljana-Crnuce | 344 EUR | 100 |
| **Spain** | Dräger Medical Hispania SA, Madrid | 3,606 EUR | 100 |
| | Dräger Safety Hispania SA, Madrid | 2,404 EUR | 100 |
| **Czech Republic** | Dräger Medical s.r.o., Prague | 18,314 CZK | 100 |
| | Dräger Safety s.r.o, Prague | 29,186 CZK | 100 |
| | Dräger Chomutov s.r.o., Chomutov | 65,435 CZK | 100 |
| **Turkey** | Draeger Medikal Ticaret ve Servis Anonim Sirketi, Istanbul | 25,040 TRY | 100 |
| | Draeger Safety Korunma Teknolojileri Limited Sirketi, Ankara | 70 TRY | 90 |
| **Hungary** | Dräger Safety Hungaria Kft., Budapest | 66,300 HUF | 100 |
| | Dräger Medical Hungary Kft., Budapest | 94,800 HUF | 100 |
| | | | |
| **Africa** | | | |
| **Marocco** | Draeger Maroc SARLAU, Casablanca | 8,720 MAD | 100 |
| **South Africa** | Dräger Safety South Africa (Pty.) Ltd., Bryanston | 4,000 ZAR | 69 |
| | Dräger South Africa (Pty.) Ltd., Johannesburg | 200 ZAR | 69[4] |
| | Dräger Safety Zenith (Pty.) Ltd., King William's Town | 5,000 ZAR | 100 |
| | | | |
| **Americas** | | | |
| **Argentina** | Dräger Argentina SA, Buenos Aires | 18,206 ARS | 100 |
| **Brazil** | Dräger do Brasil Ltda., São Paulo | 27,021 BRL | 100 |
| | Dräger Industria e Comércio Ltda., São Paulo | 8,132 BRL | 100 |
| | Dräger Safety do Brasil Equipamentos de Segurança Ltda., São Paulo | 18,660 BRL | 100 |

[4] Capital stock in local currency (not in LCU thousand)

## CONSOLIDATED COMPANIES

| | Name and registered office | Capital stock in LCU thousand | Share-holding in % |
|---|---|---|---|
| **Americas (continued)** | | | |
| **Chile** | Dräger Chile Ltda., Santiago | 1,284,165 CLP | 100 |
| | Dräger-Simsa S.A., Santiago | 499,000 CLP | 51 |
| **Canada** | Draeger Safety Canada Ltd., Mississauga / Ontario | 2,280 CAD | 100 |
| | Draeger Medical Canada Inc., Richmond Hill / Ontario | 2,000 CAD | 100 |
| **Colombia** | Draeger Colombia SA, Bogota D.C. | 2,350,000 COP | 100 |
| **Mexico** | Draeger Safety S.A. de C.V., Querétaro | 50 MXN | 100 |
| | Dräger Medical Mexico S.A.de C.V., Mexico D.F.D. | 50 MXN | 100 |
| **Panama** | Draeger Panama S. de R.L., Panama | 180 USD | 100 |
| | Draeger Panama Comercial, S. de R.L., Panama | 700 USD | 100 |
| **Peru** | Draeger Peru S.A.C., Piso Miraflores-Lima | 9,809 PEN | 100 |
| **USA** | Draeger, Inc., Telford | 356 USD | 100 |
| | Draeger Safety Diagnostics, Inc., Durango | 2 USD | 100[4] |
| | Draeger Medical Systems, Inc., Telford | 100 USD | 100[4] |
| | Draeger Interservices, Inc., Pittsburgh | 40 USD | 100 |
| **Venezuela** | Draeger Medical Venezuela S.A., Caracas | 460 VEF | 100 |
| | | | |
| **Asia / Australia** | | | |
| **P. R. China** | Shanghai Dräger Medical Instrument Co., Ltd., Shanghai | 22,185 CNY | 100 |
| | Draeger Safety Equipment (China) Co., Ltd., Beijing | 50,000 CNY | 100 |
| | Dräger Medical Equipment (Shanghai) Co., Ltd., Shanghai | 8,287 CNY | 100 |
| | Draeger Hong Kong Limited, Wanchai | 500 HKD | 100 |
| | Draeger Medical Systems (Shanghai) Co., Ltd., Shanghai | 70,000 CNY | 100 |
| **India** | Draeger India Private Limited, Mumbai | 202,600 INR | 100 |
| | Draeger Safety India Pvt. Ltd., Mumbai | 60,000 INR | 100 |
| **Indonesia** | PT Draegerindo Jaya, Jakarta | 3,764,741 IDR | 100 |
| | PT Draeger Medical Indonesia, Jakarta | 18,321,000 IDR | 100 |
| **Japan** | Draeger Medical Japan Ltd., Tokyo | 499,500 JPY | 100 |
| | Draeger Safety Japan Ltd., Tokyo | 81,000 JPY | 100 |
| **Malaysia** | Draeger Malaysia Sdn. Bhd., Kuala Lumpur | 6,000 MYR | 100 |
| **Saudi Arabia** | Draeger Arabia Co. Ltd., Riyadh | 40,000 SAR | 51 |
| **Singapore** | Draeger Singapore Pte Ltd., Singapore | 8,360 SGD | 100 |
| **South Korea** | Draeger Korea Co., Ltd., Seoul | 2,100,020 KRW | 100 |
| **Taiwan** | Draeger Safety Taiwan Co., Ltd., Hsinchu City | 50,000 TWD | 100 |
| | Draeger Medical Taiwan Ltd., Taipei | 10,000 TWD | 100 |
| **Thailand** | Draeger Medical (Thailand) Ltd., Bangkok | 103,000 THB | 100 |
| | Draeger Safety (Thailand) Ltd., Bangkok | 15,796 THB | 100 |
| **Vietnam** | Draeger Medical Vietnam Co., Ltd., Ho Chi Minh City | 22,884,372 VND | 100 |
| **Australia** | Draeger Safety Pacific Pty. Ltd., Notting Hill | 5,875 AUD | 100 |
| | Draeger Medical Australia Pty. Ltd., Notting Hill | 3,800 AUD | 100 |

[4] Capital stock in local currency (not in LCU thousand)

**Distribution**

The general partner and the Supervisory Board of Drägerwerk AG & Co. KGaA, Lübeck, plan to propose to distribute out of the net earnings of Drägerwerk AG & Co. KGaA of EUR 398,300 thousand for fiscal year 2016 a cash dividend of EUR 0.13 per common share and EUR 0.19 per preferred share, totaling EUR 2,765 thousand. The remaining amount of EUR 395,535 thousand will be carried forward to new account. The preferred share dividend also governs the dividend for participation certificates, which will amount to EUR 1.90 each – ten times the preferred share dividend.

Lübeck, February 16, 2017

The general partner
Drägerwerk Verwaltungs AG
represented by its Executive Board

Stefan Dräger
Rainer Klug
Gert-Hartwig Lescow
Dr. Reiner Piske
Anton Schrofner

# Management compliance statement

We confirm to the best of our knowledge that, in accordance with the applicable financial reporting framework, the Group financial statements give a true and fair view of the net assets, financial position, and results of operations of the Group, the Group management report presents business performance including business results and the situation of the Group so as to give a true and fair view, and that the material opportunities and risks relating to the Group's development have been described.

Lübeck, February 16, 2017

The general partner
Drägerwerk Verwaltungs AG
represented by its Executive Board

Stefan Dräger
Rainer Klug
Gert-Hartwig Lescow
Dr. Reiner Piske
Anton Schrofner

# Auditor's Report

We have audited the consolidated financial statements prepared by the Drägerwerk AG & Co. KGaA, Lübeck, comprising the statement of financial position, the income statement, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of Drägerwerk AG & Co. KGaA, Lübeck, for the business year from January 1, 2016 to December 31, 2016. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined 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 Institut der Wirtschaftsprüfer (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 combined 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 combined 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 the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors as well as evaluating the overall presentation of the consolidated financial statements and the combined 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 the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements, complies with legal requirements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, February 20, 2017

**PricewaterhouseCoopers**
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Dr. Peter Bartels | Marko Schipper |
| (German Public Auditor) | (German Public Auditor) |

# The Company's Boards

## Supervisory Board of Drägerwerk AG & Co. KGaA

Chairman

### Prof. Dr. Nikolaus Schweickart

Lawyer, Bad Homburg
Former Chairman of the Executive Board of ALTANA AG, Bad Homburg
Chairman of the Board of Trustees, Städel Museum Foundation, Frankfurt
Supervisory Board memberships:
– Drägerwerk Verwaltungs AG, Lübeck (Chairman)
– Dräger Safety AG & Co. KGaA, Lübeck (Chairman)
– Dräger Safety Verwaltungs AG, Lübeck (Chairman)

Memberships on comparable boards of German or foreign companies:
– Diehl-Stiftung & Co. KG, Nuremberg (Chairman of the Advisory Board)

Vice-Chairman

### Siegfrid Kasang

Group Works Council Chairman of Dräger, Lübeck
Dräger Lübeck Works Council Chairman, Lübeck

### Bettina van Almsick (from June 7, 2016)

Chairperson of Works Council Dräger Sales and Service Germany, Essen
Member of Works Council Dräger Sales and Service Germany, Lübeck
Member of Group Works Council of Dräger, Lübeck
Supervisory Board memberships:
Dräger Medical Deutschland GmbH, Lübeck (Vice-Chairperson)

### Nike Benten (from February 1, 2016)

Member of Dräger Lübeck Works Council, Lübeck
Member of Group Works Council of Dräger, Lübeck
Supervisory Board memberships:
– Dräger Safety AG & Co. KGaA, Lübeck

### Klaus-Dieter Fett (until February 23, 2016)

Works Council Chairman, Germany
Member of Group Works Council of Dräger, Lübeck
Supervisory Board memberships:
– Dräger Medical Deutschland GmbH, Lübeck (until February 23, 2016)

### Daniel Friedrich

1st Delegate of the metalworkers' union IG Metall, Lübeck-Wismar administrative office, Lübeck
Supervisory Board memberships:
– Dräger Safety AG & Co. KGaA, Lübeck

### Prof. Dr. Thorsten Grenz

Managing Partner of KIMBRIA Gesellschaft für Beteiligung und Beratung mbH, Berlin
Professor of Economics and Social Sciences at Christian-Albrechts University, Kiel
Supervisory Board memberships:
– RNTS Media N. V., Amsterdam (Vice-Chairman), since June 15, 2016
– Gpredictive GmbH, Hamburg
– Drägerwerk Verwaltungs AG, Lübeck
– Dräger Safety AG & Co. KGaA, Lübeck
– Dräger Safety Verwaltungs AG, Lübeck

### Stefan Klein (until June 30, 2016)

Officer of Drägerwerk AG & Co. KGaA, Lübeck (until June 30, 2016)

### Stefan Lauer

Former Executive Board member of Deutsche Lufthansa AG, Frankfurt
Supervisory Board memberships:
– Lufthansa Cargo AG, Frankfurt
– People at Work Systems AG, Munich
– Drägerwerk Verwaltungs AG, Lübeck
– Dräger Safety AG & Co. KGaA, Lübeck

### Uwe Lüders

Chairman of the Executive Board of L. Possehl & Co. mbH, Lübeck
Supervisory Board memberships:
– Lübecker Hafen-Gesellschaft mbH (LHG), Lübeck, Chairman
– Drägerwerk Verwaltungs AG, Lübeck
– Dräger Safety AG & Co. KGaA, Lübeck

### Walter Neundorf (from July 1, 2016)

Officer of Drägerwerk AG & Co. KGaA, Lübeck

### Prof. Dr. Klaus Rauscher

Former Chairman of the Management Board of Vattenfall Europe AG, Berlin
Supervisory Board memberships:
– Vonovia SE, Düsseldorf
– Drägerwerk Verwaltungs AG, Lübeck
– Dräger Safety AG & Co. KGaA, Lübeck
– Dräger Safety Verwaltungs AG, Lübeck

Memberships on comparable boards of German or foreign companies:
– Board of Trustees of Berliner Philharmoniker, Berlin

### Thomas Rickers

Officer for the Dräger Group, the metalworkers' union IG Metall, Lübeck-Wismar administrative office, Lübeck
Supervisory Board memberships:
– Dräger Safety AG & Co. KGaA, Lübeck

### Ulrike Tinnefeld (until January 31, 2016)

Group Works Council Vice-Chairperson of Dräger, Lübeck
Member of Dräger Lübeck Works Council, Lübeck
Supervisory Board memberships:
Dräger Safety AG & Co. KGaA (Vice-Chairperson), until January 31, 2016

### Dr. Reinhard Zinkann

Managing Partner of Miele & Cie. KG, Gütersloh
Supervisory Board memberships:
– Falke KGaA, Schmallenberg (Chairman)
– Drägerwerk Verwaltungs AG, Lübeck
– Dräger Safety AG & Co. KGaA, Lübeck

Memberships on comparable boards of German or foreign companies:
– Hipp & Co., Pfaffenhofen (President of the Board of Directors)
– Krombacher Brauerei GmbH & Co. KG, Kreuztal-Krombach (Advisory Board), until June 30, 2016
– Nobilia-Werke J. Stickling GmbH & Co. KG, Verl (Advisory Board)

### Members of the Audit Committee:

Prof. Dr. Thorsten Grenz (Chairman)
Siegfrid Kasang
Prof. Dr. Klaus Rauscher
Prof. Dr. Nikolaus Schweickart
Daniel Friedrich (from February 1, 2016)
Ulrike Tinnefeld (until January 31, 2016)

### Members of the Nomination Committee:

Prof. Dr. Nikolaus Schweickart (Chairman)
Uwe Lüders
Dr. Reinhard Zinkann

### Members of the Joint Committee:

Representatives of Drägerwerk Verwaltungs AG:
Prof. Dr. Thorsten Grenz
Stefan Lauer
Uwe Lüders
Prof. Dr. Klaus Rauscher

Representatives of Drägerwerk AG & Co. KGaA:
Prof. Dr. Nikolaus Schweickart (Chairman)
Dr. Reinhard Zinkann
Siegfrid Kasang
Thomas Rickers

## Members of the Executive Board of Drägerwerk Verwaltungs AG, acting for Drägerwerk AG & Co. KGaA

### Stefan Dräger

Chairman of the Executive Board
Chairman of the Executive Board of Drägerwerk Verwaltungs AG, Lübeck
(general partner of Drägerwerk AG & Co. KGaA)
Chairman of the Executive Board of Dräger Safety Verwaltungs AG, Lübeck
(general partner of Dräger Safety AG & Co. KGaA)

Supervisory Board memberships:
– Sparkasse zu Lübeck AG, Lübeck

### Gert-Hartwig Lescow

Chief Financial Officer and Executive Board member for IT
Vice-Chairman of the Executive Board
Member of the Executive Board of Drägerwerk Verwaltungs AG, Lübeck
(general partner of Drägerwerk AG & Co. KGaA)
Member of the Executive Board of Dräger Safety Verwaltungs AG, Lübeck
(general partner of Dräger Safety AG & Co. KGaA)

Supervisory Board memberships:
– AXA Corporate Solutions S.A., Paris

### Rainer Klug

Executive Board member for Production, Logistics, and Purchasing
Regional responsibility for the Americas
Member of the Executive Board of Drägerwerk Verwaltungs AG, Lübeck
(general partner of Drägerwerk AG & Co. KGaA)
Executive Board member of Dräger Safety Verwaltungs AG, Lübeck
(general partner of Dräger Safety AG & Co. KGaA)

### Dr. Reiner Piske

Executive Board member for Human Resources
Regional responsibility for Europe
Member of the Executive Board of Drägerwerk Verwaltungs AG, Lübeck
(general partner of Drägerwerk AG & Co. KGaA)
Executive Board member of Dräger Safety Verwaltungs AG, Lübeck
(general partner of Dräger Safety AG & Co. KGaA)

Supervisory Board memberships:
– Dräger Medical Deutschland GmbH, Lübeck, since January 1, 2016

### Anton Schrofner

Executive Board member for Innovation
Regional responsibility for Africa, Asia, and Australia
Member of the Executive Board of Drägerwerk Verwaltungs AG, Lübeck
(general partner of Drägerwerk AG & Co. KGaA)
Executive Board member of Dräger Safety Verwaltungs AG, Lübeck
(general partner of Dräger Safety AG & Co. KGaA)

# Imprint

**Drägerwerk AG & Co. KGaA**
Corporate Communications
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www.draeger.com

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This Annual Report has been set up in German and English language. In case of any discrepancy between the German and English version, the German version shall prevail.

## FINANCIAL CALENDAR 2017

| | |
|---|---|
| Annual accounts press conference | March 8, 2017 |
| Analysts' meeting | March 8, 2017 |
| Report as of March 31, 2017, conference call | May 4, 2017 |
| Annual shareholders' meeting, Lübeck, Germany | May 10, 2017 |
| Report as of June 30, 2017, conference call | July 27, 2017 |
| Report as of September 30, 2017, conference call | November 2, 2017 |

## THE SEGMENTS OVER THE PAST FIVE YEARS

| | | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| **EUROPE SEGMENT** | | | | | | |
| **Order intake with third parties [1,2]** | **€ million** | 1,396.8 | 1,322.4 | 1,357.0 | 1,391.0 | 1,382.5 |
| **Net sales with third parties [1,2]** | **€ million** | 1,367.8 | 1,333.5 | 1,362.2 | 1,420.7 | 1,384.3 |
| **EBIT [3]** | **€ million** | 142.4 | 131.2 | 128.5 | 59.4 | 84.5 |
| EBIT [3] / net sales | % | 10.4 | 9.8 | 9.4 | 4.2 | 6.1 |
| **AMERICAS SEGMENT** | | | | | | |
| **Order intake with third parties [1,2]** | **€ million** | 453.2 | 465.2 | 461.5 | 496.8 | 515.0 |
| **Net sales with third parties [1,2]** | **€ million** | 455.8 | 458.7 | 471.2 | 509.1 | 503.7 |
| **EBIT [3]** | **€ million** | 16.3 | 8.5 | – 0.4 | – 18.6 | 10.3 |
| EBIT [3] / net sales | % | 3.6 | 1.8 | – 0.1 | – 3.7 | 2.0 |
| **AFRICA, ASIA, AND AUSTRALIA SEGMENT (AAA)** | | | | | | |
| **Order intake with third parties [1,2]** | **€ million** | 555.5 | 597.0 | 597.0 | 644.5 | 641.2 |
| **Net sales with third parties [1,2]** | **€ million** | 549.8 | 581.9 | 601.3 | 679.1 | 635.8 |
| **EBIT [3]** | **€ million** | 71.5 | 61.2 | 50.5 | 25.8 | 42.1 |
| EBIT [3] / net sales | % | 13.0 | 10.5 | 8.4 | 3.8 | 6.6 |

[1] The years 2012 – 2014 were adjusted pro-forma due to the change in segment reporting.
[2] Value for 2015 adjusted due to new segmentation
[3] EBIT = earnings before net interest result and income taxes

## THE DRÄGER GROUP OVER THE PAST FIVE YEARS

| | | | | | | Twelve months |
|---|---|---|---|---|---|---|
| | | 2012 | 2013 | 2014 | 2015 | 2016 |
| Order intake | € million | 2,405.5 | 2,384.6 | 2,415.5 | 2,532.2 | 2,538.7 |
| Net sales | € million | 2,373.5 | 2,374.2 | 2,434.7 | 2,608.9 | 2,523.8 |
| | | | | | | |
| Gross profit | € million | 1,167.0 | 1,147.6 | 1,138.0 | 1,171.7 | 1,135.4 |
| in % of net sales (gross margin) | % | 49.2 | 48.3 | 46.7 | 44.9 | 45.0 |
| | | | | | | |
| EBITDA[1,8] | € million | 296.0 | 270.3 | 255.6 | 150.9 | 222.7 |
| EBIT[2,8] | € million | 230.3 | 200.8 | 178.6 | 66.7 | 136.9 |
| in % of net sales (EBIT margin) | % | 9.7 | 8.5 | 7.3 | 2.6 | 5.4 |
| | | | | | | |
| Interest result[8] | € million | −32.8 | −23.5 | −25.0 | −17.2 | −15.5 |
| Income taxes[8] | € million | −61.8 | −57.5 | −48.9 | −16.2 | −39.6 |
| Net profit[8] | € million | 135.7 | 119.9 | 104.7 | 33.3 | 81.7 |
| Earnings per share on full distribution[3,8] | | | | | | |
| per preferred share | € | 5.90 | 5.30 | 4.58 | 1.46 | 3.46 |
| per common share | € | 5.84 | 5.24 | 4.52 | 1.40 | 3.40 |
| | | | | | | |
| Equity[4,8] | € million | 729.7 | 816.0 | 896.6 | 945.9 | 1,003.5 |
| Equity ratio[4,8] | % | 34.7 | 39.5 | 40.1 | 40.9 | 43.4 |
| Capital employed[4,5,8] | € million | 901.9 | 1,052.9 | 1,107.2 | 1,269.3 | 1,247.0 |
| EBIT[2,6]/Capital employed[4,5,8] (ROCE) | % | 25.5 | 19.1 | 16.1 | 5.3 | 11.0 |
| Net financial debt[4] | € million | 56.8 | 110.0 | 10.7 | 145.3 | 34.7 |
| DVA[6,7,8] | € million | 150.0 | 113.9 | 81.6 | −46.3 | 49.8 |
| | | | | | | |
| Headcount as of 31. December | | 12,516 | 13,334 | 13,737 | 13,936 | 13,263 |

[1] EBITDA = earnings before net interest result, income taxes, depreciation and amortization
[2] EBIT = earnings before net interest result and income taxes
[3] Based on an imputed actual full distribution of earnings attributable to shareholders
[4] Value as of reporting date
[5] Capital employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
[6] Value of the last twelve months
[7] Dräger Value Added = EBIT less cost of capital of average invested capital (through 2015: 9 %, from 2016: 7 %)
[8] Due to the first-time application of IAS 19 (2011) in fiscal year 2013, values for 2012 were adjusted in accordance with IAS 8

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