Dräger

Half-yearly financial report
January 1 to June 30, 2018
Dräger Group

Dräger. Technology for Life®

THE DRÄGER GROUP OVER THE PAST FIVE YEARS

		Six months 2014	Six months 2015	Six months 2016	Six months 2017	Six months 2018
Order intake	€ million	1,119.4	1,249.3	1,221.1	1,302.0	1,273.8
Net sales	€ million	1,073.2	1,179.5	1,111.4	1,116.0	1,115.8
Gross profit	€ million	490.6	540.8	486.6	498.2	473.7
in % of net sales (gross margin)	%	45.7	45.8	43.8	44.6	42.5
EBITDA [1]	€ million	69.1	62.7	46.5	60.1	5.9
EBIT [2]	€ million	34.0	22.7	5.5	19.1	–36.6
in % of net sales (EBIT margin)	%	3.2	1.9	0.5	1.7	–3.3
Interest result	€ million	–11.6	–11.3	–8.4	–6.8	–6.2
Income taxes	€ million	–7.6	–3.7	1.8	–4.0	13.4
Net profit	€ million	14.9	7.7	–1.1	8.2	–29.3
Earnings per share on full distribution [3,4]						
per preferred share	€	0.66	0.35	–0.05	0.36	–1.59
per common share	€	0.63	0.32	–0.08	0.33	–1.62
Equity [5]	€ million	808.9	931.1	895.0	1,000.2	1,023.0
Equity ratio [5]	%	40.3	41.2	39.5	45.6	44.6
Capital employed [5,6]	€ million	1,081.9	1,310.0	1,259.2	1,229.9	1,299.0
EBIT [2,7]/Capital employed [5,6] (ROCE)	%	14.4	12.8	3.9	12.2	7.7
Net financial debt [5]	€ million	135.7	189.9	150.6	41.8	78.8
DVA [7,8]	€ million	63.5	62.0	–39.4	64.5	13.8
Headcount as of June 30		13,575	13,851	13,412	13,484	14,042

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 Values for 2016 were adjusted due to a data transmission error
5 Value as of reporting date
6 Capital Employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
7 Value of the last twelve months
8 Dräger Value Added = EBIT less cost of capital (through 2015: 9 %, from 2016: 7 %) of average invested capital

Possible rounding differences in this financial report may lead to slight discrepancies.

This Half-yearly financial 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.

Dear Shareholders, dear Readers,

At first glance, the prevailing economic conditions remain favorable. The global economy has returned to stronger growth and is in the midst of a synchronized upturn. Industrialized economies are recording respectable growth rates, and even emerging markets have regained momentum, supported in particular by higher commodity prices. This positive climate has continued so far, albeit accompanied by increasing uncertainty.

The world continues to become increasingly connected, and the associated complexity is proving overwhelming for many people. As a result, we are seeing an increasing ambiguity intolerance. This is bringing people into power who promise simple solutions and no longer abide by old rules or by agreements that their predecessors made, which is poisonous for the global economy. After all, business decisions are based on reliability and trust. The threat of a vicious circle of mutually imposed customs duties looms large when multilateral agreements crumble, and the overall global rise in defense spending associated with each nation being left to fend for itself will lead to a decline in prosperity.

Economically speaking, Germany is still in a boom phase. Signs of overheating are already being felt here. On the labor market, they become noticeable in a growing shortage not only of trained professionals, but of labor in general.

At Dräger, we are already seeing the first signs of such developments. We had a weak start into fiscal year 2018. The development of net sales was disappointing in the first quarter despite a record number of orders on hand and order intake growth (net of currency effects). In the second quarter, we succeeded in increasing net sales significantly and generated double-digit growth year on year (net of currency effects).

Net sales grew by a respectable 4 percent (net of currency effects) in the first half of the year. Unfortunately, earnings growth continued to lag behind this figure on account of negative currency effects related to the increase in the euro's value, especially against emerging economy currencies. Other factors included higher quality costs and a negative product mix. The implementation of planned increases in expenses for R&D and for specific sales capabilities also had an impact. Against this backdrop, earnings before interest and taxes fell in the first half of the year.

So what is next for us in the short to medium term? Thanks to the rise in net sales in the first half of the year, we are well on track to achieving our forecast target of 2 to 5 percent growth (net of currency effects) in fiscal year 2018. In view of the weak earnings performance in the first half of the year, we are more likely to emerge at the lower end of the guidance with regard to the expected EBIT margin of 4 to 6 percent. However, we remain optimistic that we will be able to achieve our forecast. To do so, we are compensating for the unplanned additional costs in the first half of the year with targeted cost savings.

Dear shareholders, we continue to make the increased investments in the future that we announced late last year, and we stand by our plans to work on enhancing our medium-term growth prospects despite short-term fluctuations.

We will keep a close eye on the conditions, as there are dark clouds on the macroeconomic horizon that could rain on the global economic upswing and have an impact on growth in Germany as well. The result would be a lasting change in the climate—one to which we would adapt. For now, we are taking advantage of the good weather and the favorable conditions, and we are on course.

Best regards,

Stefan Dräger

The Dräger shares

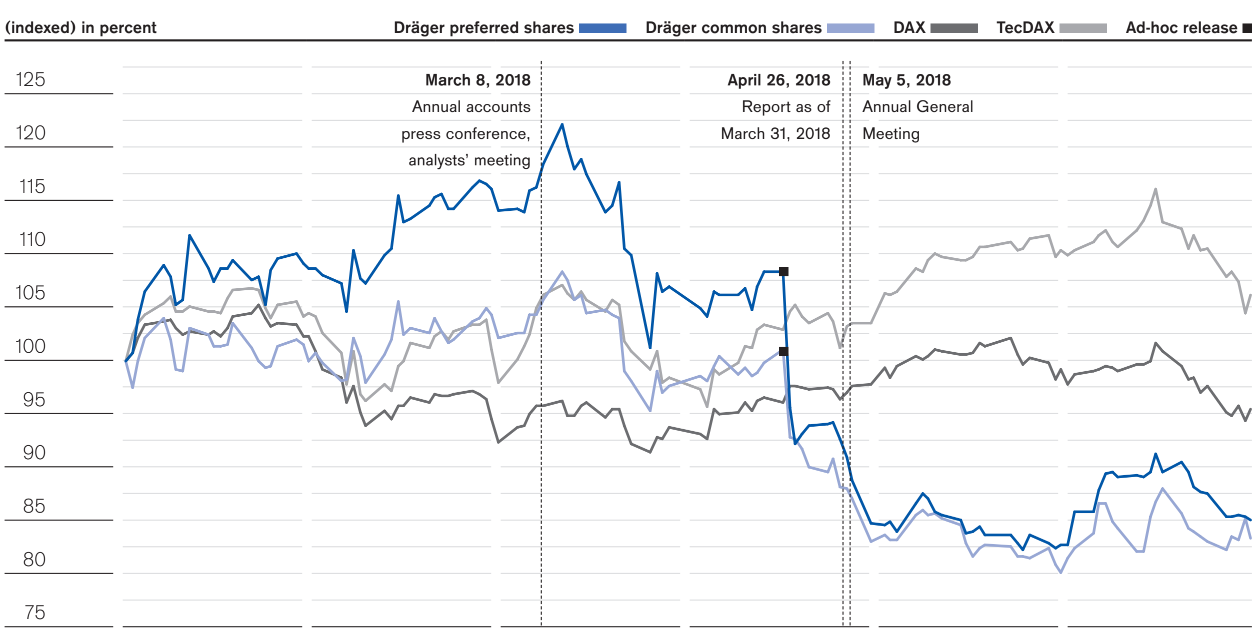
The performance of Dräger shares was unsatisfactory in the first half of the year. Prices for Dräger common shares have fallen by 17 percent over the course of the year so far, while Dräger preferred shares have decreased by 15 percent.

DEVELOPMENT OF THE DRÄGER SHARES

Dräger common shares and preferred shares began the new fiscal year trading at EUR 61.40 and EUR 72.25 respectively. The preferred shares in particular turned in a very favorable performance in the first weeks of the year, recording an increase in value of more than 20 percent by March 12. The Dräger common shares also saw positive development during this period, albeit less pronounced. However, the share prices began to decrease again in the subsequent weeks. Considerable share price losses occurred in particular after the publication of the business figures for the first quarter. Dräger share prices then began trending sideways in May and June below the level at which they were trading at the beginning of the year.

As of the balance sheet date on June 30, 2018, Dräger common shares closed at EUR 51.20, down 17 percent on the beginning of the year. Dräger preferred shares closed the half-year at EUR 61.50, marking a decline of 15 percent. During the same period, the DAX stock market index recorded a 5 percent decrease down to 12,306 points. By contrast, the TecDAX index increased, rising by 6 percent to 2,691 points.

PERFORMANCE OF THE DRÄGER SHARES



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

DRÄGER SHARES KEY FIGURES

	Six months 2018	Six months 2017
Common shares		
No. of shares as of the reporting date	10,160,000	10,160,000
High (in €)	66.50	81.21
Low (in €)	49.20	61.99
Share price on the reporting date (in €)	51.20	70.50
Average daily trading volume [1]	3,846	5,588
Earnings per common share on full distribution (in €) [2]		
Undiluted/diluted (in €)	–1.62	0.33
Preferred shares		
No. of shares as of the reporting date	7,600,000	7,600,000
High (in €)	88.25	106.60
Low (in €)	59.40	78.59
Share price on the reporting date (in €)	61.50	92.11
Average daily trading volume [1]	42,103	31,782
Earnings per preferred share on full distribution (in €) [2]		
Undiluted/diluted (in €)	–1.59	0.36
Market capitalization (in €)	987,592,000	1,416,316,000

1 All German stock exchanges (Source: Designated Sponsor).

2 Based on an imputed actual full distribution of earnings attributable to shareholders.

Management Report of the Dräger Group for the First Half of 2018

General economic conditions

RECOVERY OF THE GLOBAL ECONOMY

According to the Institute for the World Economy (IfW), the global economy continues to find itself in a strong upturn. The growth forecast stands at 3.8 percent for 2018 as well, while it is expected to reach 3.6 percent in 2019. The IfW believes that potential turmoil on financial markets in the wake of the upcoming normalization of monetary policy as well as the escalation of trade conflicts pose serious risks to the global economy's continued growth.

In the eurozone, the upturn is continuing at a slower pace. The IfW anticipates growth of 2.1 percent in 2018 and 2.0 percent in 2019. Germany remains in a boom phase as before. Due to strong domestic economic forces and the robust global economy, the IfW expects to see growth in Germany of 2.0 percent in 2018 and 2.3 percent in 2019.

The Bank for International Settlements (BIS) believes that the global economic upturn has solidified in recent years and that growth rates have begun to approach those from before the financial crisis. However, increasing levels of protectionism and a turning away from globalization pose risks to the economy, according to the BIS. There is the danger of a downturn due to a vicious cycle of reciprocal trade tariffs and currency devaluations.

FED CONTINUES TO RAISE INTEREST RATES, ECB ENDS BOND BUYING

In mid-June, the US Federal Reserve (Fed) increased its benchmark rates slightly for the second time this year. At the same time, it indicated the possibility of two more interest rate hikes in 2018. In light of the strong improvement in growth in the United States, the Fed is no longer talking about an interest rate level meant to stimulate the economy. By contrast, the European Central Bank (ECB) left its benchmark rate at the record low in mid-June, but concurrently announced that it would end its bond-buying activities.

INFLATION RISES, EURO INCREASES IN VALUE

The inflation rate in the eurozone has approached the target set by the ECB. In June, prices increased by 2.0 percent in the eurozone compared to the same month the prior year. In Germany, consumer prices were up by 2.1 percent year on year in the same period. Despite a decrease in value against the US dollar so far over the course of 2018, the euro is trading even higher compared to the US dollar than in the same period of the prior year. In a year-on-year comparison, the euro has also gained in value—in some cases substantially—compared to a range of emerging economy currencies.

MARKET AND INDUSTRY PERFORMANCE

The industries of the Europe segment that are relevant to Dräger turned in a good performance in the first half of 2018. Demand for medical products developed positively despite cost pressure. In the United Kingdom, however, the market for medical technology is continuing to suffer from the planned withdrawal from the EU. In the course of the economic recovery in Southern Europe, the medical technology market is also seeing slightly positive development. One of the reasons for this is the great need there for replacing old equipment. The medical technology market likewise grew in Northern Europe, and demand for medical technology even picked up in Russia following two weaker years.

With regard to safety technology, Europe's industrial markets saw moderately positive development. While Europe's chemical industry recorded growth, it is increasingly being affected by uncertainty regarding international free trade and a subdued economic environment. According to our information, the application-driven markets developed in line with the European economy. In our estimation, sales in the fire service market continued to be largely characterized by replacement and expansion investment, due to budget pressure.

The markets in the Americas also developed positively. The market for medical technology devices increased slightly in North America, while the market in Latin America was shaped by high cost pressure and overloaded public health care systems. Nonetheless, demand for medical technology from abroad increased slightly.

Sales of safety technology products continued to increase in North America. The chemical industry also turned in a favorable performance, as did the mining industry as well as the oil and gas industry. The chemical industry in Latin America recovered. Following economic crises in several countries, demand for chemical products began to rise again. The oil and gas industry as well as the mining industry performed quite positively, with mining safety investments in particular growing in Brazil, for example.

The development of the most important industries was favorable in the Africa, Asia and Australia segment. In our estimation, the medical technology market increased in many Asian markets and even grew substantially in Australia. In the Middle East spending for medical technology increased, but was partially curbed by a weak economy and declining public investments. Based on our information, the African market also grew.

The most important Asian chemical markets delivered a positive performance, despite country-specific dampers on investment and growth. Several investment projects were initiated in the chemical as well as the oil and gas industries in the Middle East. The African market for safety technology developed quite positively in our estimation, although it is characterized by a high level of investment backlog and uncertainty.

OVERALL ASSESSMENT OF UNDERLYING CONDITIONS

Global economic growth gained momentum in 2017 following a number of years of very restrained expansion. This growth was driven by both the industrialized economies and the overall improvement in the situation in many emerging markets. This trend has continued into 2018 as well. Factors of uncertainty, such as stronger protectionist tendencies, Brexit, and hot spots of political conflict, such as the Middle East, have not had a significant impact so far, but pose a risk moving forward.

Medical and safety technology markets remain in robust shape overall and continue on a course of moderate growth, with a degree of difference from region to region.

BUSINESS PERFORMANCE OF THE DRÄGER GROUP

		Second quarter			Six months		
		2018	2017	Changes in %	2018	2017	Changes in %
Order intake	**€ million**	**652.3**	**662.7**	**–1.6**	**1,273.8**	**1,302.0**	**–2.2**
Net sales	**€ million**	**620.2**	**581.0**	**+6.7**	**1,115.8**	**1,116.0**	**–0.0**
Gross profit	**€ million**	**268.5**	**257.7**	**+4.2**	**473.7**	**498.2**	**–4.9**
EBITDA [1]	**€ million**	**24.7**	**37.3**	**–34.0**	**5.9**	**60.1**	**–90.2**
EBIT [2]	**€ million**	**3.2**	**16.8**	**–81.1**	**–36.6**	**19.1**	**> –100.0**
Net profit	**€ million**	**–0.4**	**8.9**	**> –100.0**	**–29.3**	**8.2**	**> –100.0**
Earnings per share on full distribution [3]							
per preferred share	€	0.01	0.40	–97.5	–1.59	0.36	> –100.0
per common share	€	0.00	0.39	> –100.0	–1.62	0.33	> –100.0
Research and development costs	€ million	65.9	55.9	+17.9	127.9	111.9	+14.3
Equity ratio [4]	%	44.6	45.6		44.6	45.6	
Cash flow from operating activities	€ million	–41.8	3.4	> –100.0	–66.7	31.2	> –100.0
Net financial debt [4]	€ million	78.8	41.8	+88.8	78.8	41.8	+88.8
Investments	€ million	14.1	24.1	–41.6	34.8	42.1	–17.3
Capital employed [4,5]	€ million	1,299.0	1,229.9	+5.6	1,299.0	1,229.9	+5.6
Net working capital [4,6]	€ million	626.8	552.5	+13.4	626.8	552.5	+13.4
Gross profit/net sales	%	43.3	44.4		42.5	44.6	
EBIT [2]/net sales	%	0.5	2.9		–3.3	1.7	
EBIT [2,7]/Capital employed [4,5] (ROCE)	%	7.7	12.2		7.7	12.2	
Net financial debt [4]/EBITDA [1,7]	Factor	0.42	0.18		0.42	0.18	
Gearing [8]	Factor	0.08	0.04		0.08	0.04	
DVA [7,9]	€ million	13.8	64.5	–78.5	13.8	64.5	–78.5
Headcount as of June 30		14,042	13,484	+4.1	14,042	13,484	+4.1

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 non-current 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

Business performance of the Dräger Group

ORDER INTAKE

	Second quarter				Six months			
in € million	2018	2017	Changes in %	Net of currency effects in %	2018	2017	Changes in %	Net of currency effects in %
Europe	365.1	359.2	+1.6	+3.3	706.6	706.8	–0.0	+1.5
Americas	117.5	134.4	–12.5	–5.7	228.0	259.1	–12.0	–2.2
Africa, Asia, Australia	169.7	169.1	+0.4	+3.1	339.1	336.2	+0.9	+6.2
Total	**652.3**	**662.7**	**–1.6**	**+1.4**	**1,273.8**	**1,302.0**	**–2.2**	**+2.0**
thereof medical business	413.6	435.7	–5.1	–2.3	815.1	841.0	–3.1	+1.2
thereof safety business	238.7	226.9	+5.2	+8.5	458.7	461.1	–0.5	+3.5

ORDER INTAKE

Order intake (net of currency effects) increased by 2.0 percent in the first half of the year. With the exception of the Americas segment, all segments contributed to this rise. Demand rose by 1.4 percent (net of currency effects) in the second quarter due to higher demand in Europe and in the Africa, Asia, and Australia segment. By contrast, order intake declined in the Americas segment. Demand for safety technology products increased substantially in the second quarter, with gains as well for the first half of the year. Orders for medical technology products decreased in the second quarter (net of currency effects), although we recorded a slight increase here in the first half of the year.

Demand for medical technology products increased in the areas of hospital consumables, service, and thermoregulation equipment in the first half of the year. We also saw a slight rise in orders related to patient monitoring and clinical data management, as well as for anesthesia devices. By contrast, demand for ventilators and hospital infrastructure systems was down.

With regard to safety products, we registered higher demand in gas detection in the first six months. Orders also increased in the safety technology service business and engineered solutions. Order intake was slightly higher than in the prior year for safety technology consumables and alcohol detection devices. However, demand declined for respiratory and personal protection products.

NET SALES

in € million	Second quarter 2018	Second quarter 2017	Changes in %	Net of currency effects in %	Six months 2018	Six months 2017	Changes in %	Net of currency effects in %
Europe	357.1	319.5	+11.8	+13.5	644.7	618.3	+4.3	+5.8
Americas	107.6	120.2	–10.5	–3.3	201.0	227.7	–11.7	–2.1
Africa, Asia, Australia	155.5	141.4	+10.0	+13.7	270.0	270.0	+0.0	+5.2
Total	**620.2**	**581.0**	**+6.7**	**+10.1**	**1,115.8**	**1,116.0**	**–0.0**	**+4.0**
thereof medical business	394.3	370.0	+6.6	+9.9	704.2	706.4	–0.3	+3.8
thereof safety business	226.0	211.0	+7.1	+10.4	411.6	409.6	+0.5	+4.4

NET SALES

Net sales increased by 4.0 percent (net of currency effects) in the first half of the year. An increase (net of currency effects) in the Europe segment and in the Africa, Asia, and Australia segment was offset by a decline (net of currency effects) in the Americas segment. Net sales rose substantially by 10.1 percent (net of currency effects) in the second quarter, driven by positive development in Europe and in Africa, Asia, and Australia. In contrast net sales in the Americas segment were down.

EARNINGS

Gross profit fell in the first half of 2018 by EUR 24.5 million to EUR 473.7 million (6 months 2017: EUR 498.2 million) despite net sales that rose net of currency effects and remained unchanged in nominal terms. At 42.5 percent, our gross margin was 2.2 percentage points lower than in the prior year. The rise in the euro's value compared to other important currencies, unfavorable mix and margin effects, and higher quality-related costs strained the gross margin.

All three segments recorded a decline in their margins, especially the Americas, as well as Africa, Asia, and Australia. Gross profit also declined in absolute terms in these two segments. Despite the weaker margin, gross profit increased in Europe due to higher net sales.

In the second quarter, the gross margin decreased by 1.1 percentage points year on year to 43.3 percent. The decline was caused by unfavorable mix and margin effects, as well as currency changes, in the second quarter as well. All three segments recorded a decline in their margins in the second quarter, especially Africa, Asia, and Australia, as well as the Americas.

Functional costs rose by 9.5 percent in the first half of the year (net of currency effects). Currency effects provided relief for functional costs; as a result, the increase in nominal terms amounted to 6.7 percent. Factors behind this rise included planned increases in expenses for product development and sales, higher freight costs, as well as wage and salary increases.

Net of relief effects related to currency, selling and marketing costs were 8.5 percent higher year on year (+4.6 percent in nominal terms). That increase was highest in the Americas, as well as in the Africa, Asia, and Australia segments, and was largely due to higher freight costs.

Research and development (R&D) costs rose by 16.9 percent net of the impact from changes in exchange rates (+14.3 percent in nominal terms). The ratio of R&D costs to net sales (R&D ratio) therefore stood at 11.5 percent (6 months 2017: 10.0 percent). Net of currency effects, our administrative costs were 12.6 percent (+9.6 percent in nominal terms) higher year on year in the first six months.

The other financial result improved by EUR 0.6 million to EUR –1.6 million (6 months 2017: EUR –2.2 million) due to lower currency-related valuation losses.

Total Group earnings before interest and taxes (EBIT) amounted to EUR –36.6 million in the first half of the year (6 months 2017: EUR 19.1 million). This meant that the EBIT margin fell to –3.3 percent (6 months 2017: 1.7 percent). EBIT fell in the second quarter by EUR 13.6 million year on year to EUR 3.2 million.

The interest result improved slightly to EUR –6.2 million (6 months 2017: EUR -6.8 million). The tax rate in the first six months was 31.4 percent (6 months 2017: 32.8 percent). Earnings after income taxes amounted to EUR –29.3 million, down by EUR –37.6 million year on year (6 months 2017: EUR 8.2 million).

INVESTMENTS

In the first half of 2018, we invested EUR 33.6 million in property, plant, and equipment (6 months 2017: EUR 37.0 million) and EUR 1.2 million in intangible assets (6 months 2017: EUR 5.1 million). These are mainly replacement investments. In addition, a sum of EUR 4.0 million was invested in property, plant, and equipment for the construction project in Krefeld for sales and service activities relating to safety products. The project was thus largely brought to a close in the second quarter. Investments in intangible assets in the prior year also included the acquisition of the gas detection company “bentekk GmbH”.

Depreciation and amortization in the first half of 2018 was higher than in the prior year at EUR 42.5 million (6 months 2017: EUR 41.0 million). Investments covered 81.9 percent of depreciation, meaning that non-current assets saw a net decrease of EUR 7.7 million.

CASH FLOW STATEMENT[1]

In the first six months of fiscal year 2018, the Dräger Group recorded cash outflow from operating activities of EUR 66.7 million compared to cash inflow of EUR 31.2 million in the prior-year period. Key factors in this development were lower profitability and the unfavorable development of trade receivables. At EUR 86.1 million, the increase in inventories was higher than in the prior-year period (EUR 59.0 million). By contrast, other assets saw a smaller increase at EUR 19.4 million (6 months 2017: EUR 33.1 million).

[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.

Cash outflow from investing activities remained virtually constant at EUR 29.4 million (6 months 2017: EUR 29.5 million). At EUR 21.9 million, the significant investments were made at the subsidiaries in Germany.

Cash outflow from financing activities of EUR 11.2 million was mainly due to the EUR 11.0 million dividend distribution to shareholders and participation certificate holders, while the repayment of current account liabilities of EUR 33.3 million had a significant impact on cash outflow of EUR 41.9 million in the prior year.

Cash and cash equivalents as of June 30, 2018 exclusively comprised cash, of which EUR 4.5 million (December 31, 2017: EUR 4.9 million) was subject to restrictions.

Financial management

BORROWING

In June 2017, the existing master loan agreement and the related bilateral credit lines of EUR 377.0 million were extended prematurely by five years to June 2022 in order to secure working capital financing in the medium term. These credit lines were utilized as sureties in Germany and abroad and as cash facilities. Note loans totaled EUR 98.5 million as of June 30, 2018. A note loan of EUR 38.5 million will be repaid as planned in December 2018.

NET ASSETS

Equity declined by EUR 45.4 million to EUR 1,023.0 million in the first six months of 2018. The equity ratio stood at 44.6 percent as of June 30, 2018, down on the figure from December 31, 2017 (45.4 percent). The negative result as well as the dividend payment carried out are mainly responsible for the lower equity ratio.

Total assets decreased by EUR 58.5 million to EUR 2,295.9 million in the first six months of 2018. On the assets side, trade receivables—including contractual assets—fell by EUR 90.1 million and cash and cash equivalents by EUR 108.2 million. By contrast, inventories increased by EUR 83.4 million and other current assets—mainly for deferred taxes—by EUR 47.0 million.

The change on the liabilities side primarily resulted from the change in equity (EUR –45.4 million) as well as lower current provisions (EUR –18.6 million) on account of the payment of variable remuneration, among other reasons.

DRÄGER VALUE ADDED

Dräger Value Added (DVA) decreased by EUR 50.6 million to EUR 13.8 million year on year in the 12 months to June 30, 2018 (12 months to June 30, 2017: EUR 64.5 million). Rolling EBIT fell year on year by EUR 50.4 million. Capital costs rose marginally by EUR 0.2 million, since average capital employed increased by 0.3 percent to EUR 1,231.6 million. In terms of current assets, a rise in deferred taxes more than offset a reduction in trade receivables.

The development of trade receivables is also reflected in days working capital (coverage of current assets on a 12-month rolling basis), which fell by 5.0 days year on year to 112.0 days.

BUSINESS PERFORMANCE OF EUROPE SEGMENT

		Second quarter				Six months			
		2018	2017	Changes in %	Net of currency effects in %	2018	2017	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**365.1**	**359.2**	**+1.6**	**+3.3**	**706.6**	**706.8**	**–0.0**	**+1.5**
thereof Germany	€ million	147.3	132.6	+11.0	+11.0	286.3	264.7	+8.1	+8.1
Net sales with third parties	**€ million**	**357.1**	**319.5**	**+11.8**	**+13.5**	**644.7**	**618.3**	**+4.3**	**+5.8**
thereof Germany	€ million	142.1	127.9	+11.1	+11.1	254.2	244.0	+4.2	+4.2
EBITDA [1]	**€ million**	**31.8**	**24.1**	**+31.7**		**33.3**	**39.0**	**–14.6**	
EBIT [2]	**€ million**	**21.2**	**14.2**	**+48.8**		**12.5**	**19.3**	**–35.4**	
Capital employed [3,4]	€ million	597.9	584.7	+2.2		597.9	584.7	+2.2	
EBIT [2]/Net sales	%	5.9	4.5			1.9	3.1		
EBIT [2,5]/Capital employed [3,4] (ROCE)	%	16.9	16.0			16.9	16.0		
DVA [5,6]	€ million	61.2	54.1	+13.1		61.2	54.1	+13.1	

1 EBITDA = earnings before net interest result, income taxes, depreciation and amortization
2 EBIT = earnings before net interest result and income taxes
3 Capital Employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
4 Value as of reporting date
5 Value of the last twelve months
6 Dräger Value Added = EBIT less cost of capital of average invested capital

Business performance of Europe segment

In Europe, order intake rose by 1.5 percent in the first six months of the year (net of currency effects). This was particularly due to rising demand in Germany, Turkey, Sweden, and Croatia. However, orders declined during the first half of the year in Austria, Switzerland, and Serbia. In the second quarter, orders increased by 3.3 percent (net of currency effects).

In terms of products, demand rose in the first half of the year, especially in patient monitoring and clinical data management, the safety technology service business, for anesthesia devices, and engineered solutions. By contrast, demand declined in the hospital infrastructure business, for respiratory and personal protection products in the safety technology portfolio, and for thermoregulation equipment.

Orders in Germany rose by 8.1 percent in the first half of the year. We registered increased demand in particular in the safety technology service business, in patient monitoring and clinical data management, for engineered solutions, and for anesthesia devices.

Net sales in the Europe segment rose by 5.8 percent (net of currency effects) in the first six months of the year, whereas net sales in Germany saw a gain of 4.2 percent. In the second quarter, we increased net sales in Europe by 13.5 percent, with growth in Germany of 11.1 percent.

EARNINGS

Against the backdrop of higher net sales volume, gross profit improved only slightly by 2.0 percent in the first half of 2018. The gross margin decreased by 0.9 percentage points. With a 13.5 percent net sales increase (net of currency effects; +11.8 percent in nominal terms) in the second quarter, the gross margin fell by 0.4 percentage points due to more unfavorable mix and other margin effects. Currency effects also had a negative impact on the gross margin.

Functional costs in the first half of 2018 were 6.2 percent higher year on year (net of currency effects; +5.3 percent in nominal terms), and even rose by 7.3 percent (net of currency effects; 6.6 percent in nominal terms) in the second quarter. This was primarily due to the higher cross-segment functional costs.

EBIT for the Europe segment stood at EUR 12.5 million in the first half of 2018, deteriorating year on year (6 months 2017: EUR 19.3 million). The EBIT margin fell from 3.1 percent to 1.9 percent. The second quarter improved significantly year on year, with an EBIT margin of 5.9 percent (second quarter 2017: 4.5 percent).

Dräger Value Added in the Europe segment climbed by EUR 7.1 million to EUR 61.2 million year on year in the 12 months to June 30, 2018 (12 months to June 30, 2017: EUR 54.1 million). Rolling EBIT rose year on year by EUR 7.7 million. Against the backdrop of higher capital employed, capital costs increased slightly by EUR 0.6 million to EUR 40.1 million.

BUSINESS PERFORMANCE OF AMERICAS SEGMENT

		Second quarter				Six months			
		2018	2017	Changes in %	Net of currency effects in %	2018	2017	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**117.5**	**134.4**	**–12.5**	**–5.7**	**228.0**	**259.1**	**–12.0**	**–2.2**
Net sales with third parties	**€ million**	**107.6**	**120.2**	**–10.5**	**–3.3**	**201.0**	**227.7**	**–11.7**	**–2.1**
EBITDA [1]	**€ million**	**–9.9**	**6.1**	**> –100.0**		**–22.3**	**6.7**	**> –100.0**	
EBIT [2]	**€ million**	**–15.4**	**0.8**	**> –100.0**		**–33.2**	**–3.9**	**> –100.0**	
Capital employed [3,4]	€ million	305.3	293.5	+4.0		305.3	293.5	+4.0	
EBIT [2]/Net sales	%	–14.3	0.6			–16.5	–1.7		
EBIT [2,5]/Capital employed [3,4] (ROCE)	%	–8.3	5.2			–8.3	5.2		
DVA [5,6]	€ million	–45.6	–5.7	> –100.0		–45.6	–5.7	> –100.0	

1 EBITDA = earnings before net interest result, income taxes, depreciation and amortization
2 EBIT = earnings before net interest result and income taxes
3 Capital Employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
4 Value as of reporting date
5 Value of the last twelve months
6 Dräger Value Added = EBIT less cost of capital of average invested capital

Business performance of Americas segment

Orders in the Americas segment decreased by 2.2 percent in the first six months of the year (net of currency effects). Growth in order intake in Argentina, Canada, Panama, and the Dominican Republic was insufficient to offset the decline in demand in the United States, as well as in Colombia and Ecuador. The decline in order intake in the second quarter stood at 5.7 percent in the second quarter (net of currency effects).

Increases in order intake in the first half of the year with regard to gas detection, engineered solutions, and the hospital consumables business were unable to make up for the decline in demand for anesthesia devices, patient monitoring and clinical data management, hospital infrastructure business, ventilators, and alcohol detection devices.

Net sales in the Americas segment were down by 2.1 percent in the first half of the year (net of currency effects). In the second quarter deliveries decreased by 3.3 percent (net of currency effects) mainly due to weak performance in the United States.

EARNINGS

Gross profit decreased by 18.0 percent due to negative exchange rate effects and lower net sales, resulting in a decline in the gross margin of 3.6 percentage points. Against the backdrop of net sales that declined by 3.3 percent (net of currency effects; –10.5 percent in nominal terms), gross profit in the second quarter was down by 12.8 percent year on year. The gross margin declined by 1.2 percentage points.

Functional costs in the first half of 2018 were up year on year by 13.9 percent (net of currency effects; 7.5 percent in nominal terms). In the second quarter, they rose by 19.5 percent (net of currency effects; 15.1 percent in nominal terms). Higher freight costs and a planned increase in other functional costs were the reasons for this development. Cross-segment functional costs also increased.

EBIT for the Americas segment stood at EUR –33.2 million after the first half of 2018, which is a considerable year-on-year decrease (6 months 2017: EUR -3.9 million). The EBIT margin fell from –1.7 percent in the prior year to –16.5 percent as of June 30, 2018. The EBIT margin in the second quarter of 2018 stood at –14.3 percent (second quarter 2017: 0.6 percent).

Dräger Value Added in the Americas segment fell by EUR 39.9 million to EUR –45.6 million year on year in the 12 months to June 30, 2018 (12 months to June 30, 2017: EUR -5.7 million). Due to a slight reduction in capital employed, capital costs decreased by EUR 0.7 million to EUR 20.3 million.

BUSINESS PERFORMANCE OF AFRICA, ASIA AND AUSTRALIA SEGMENT (AAA)

		Second quarter				Six months			
		2018	2017	Changes in %	Net of currency effects in %	2018	2017	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**169.7**	**169.1**	**+0.4**	**+3.1**	**339.1**	**336.2**	**+0.9**	**+6.2**
Net sales with third parties	**€ million**	**155.5**	**141.4**	**+10.0**	**+13.7**	**270.0**	**270.0**	**+0.0**	**+5.2**
EBITDA [1]	**€ million**	**2.8**	**7.2**	**–61.5**		**–5.1**	**14.4**	**> –100.0**	
EBIT [2]	**€ million**	**–2.7**	**1.7**	**> –100.0**		**–15.9**	**3.7**	**> –100.0**	
Capital employed [3,4]	€ million	395.8	351.6	+12.6		395.8	351.6	+12.6	
EBIT [2]/Net sales	%	–1.7	1.2			–5.9	1.4		
EBIT [2,5]/Capital employed [3,4] (ROCE)	%	6.1	11.8			6.1	11.8		
DVA [5,6]	€ million	–1.7	16.1	> –100.0		–1.7	16.1	> –100.0	

1 EBITDA = earnings before net interest result, income taxes, depreciation and amortization
2 EBIT = earnings before net interest result and income taxes
3 Capital Employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
4 Value as of reporting date
5 Value of the last twelve months
6 Dräger Value Added = EBIT less cost of capital of average invested capital

Business Performance of Africa, Asia, and Australia segment (AAA)

Order intake in the Africa, Asia, and Australia segment increased by 6.2 percent (net of currency effects) in the first half of the year. In addition to a larger project in Botswana, healthy demand in Japan, China, Libya, and South Africa in particular was a key factor in this trend, whereas the number of orders in Pakistan, Kuwait, and Egypt decreased. Orders increased by 3.1 percent (net of currency effects) in the second quarter.

The strongest order growth rates in the first half of the year where products were concerned were registered with the hospital infrastructure business, thermoregulation equipment, gas detection products, and the medical technology service business. There was also demand for ventilators as well as respiratory and personal protection products from the safety technology portfolio. By contrast, order intake decreased for patient monitoring and clinical data management and for engineered solutions.

Net sales in the Africa, Asia, and Australia segment increased by 5.2 percent in the first six months of the year (net of currency effects). Deliveries rose by 13.7 percent (net of currency effects) in the second quarter.

EARNINGS

Gross profit decreased by 7.0 percent in the first half of 2018 from EUR 129.3 million (6 months 2017) to EUR 120.3 million. The gross margin fell by 3.3 percentage points. In the second quarter, the gross margin declined by 1.6 percent, whereas net sales were up year on year by 13.7 percent (net of currency effects; 10.0 percent in nominal terms). Negative currency effects in the first half of 2018 were key reasons behind the decline in the gross margin.

Functional costs in the first half of 2018 were up year on year by 11.6 percent (net of currency effects; 8.6 percent in nominal terms). They rose by 15.4 percent (net of currency effects) in the second quarter (13.7 percent in nominal terms). Higher freight costs and cross-segment functional costs were the main reasons behind this development.

EBIT for the Africa, Asia, and Australia segment stood at EUR –15.9 million after the first half of 2018, deteriorating year on year (6 months 2017: EUR 3.7 million). In the process, the EBIT margin fell from 1.4 percent to –5.9 percent. Although the EBIT margin stood at –11.6 percent in the first quarter, it improved to –1.7 percent in the second quarter.

Dräger Value Added in the Africa, Asia, and Australia segment decreased by EUR 17.8 million to EUR –1.7 million year on year in the 12 months to June 30, 2018 (12 months to June 30, 2017: EUR 16.1 million). Capital costs increased slightly against the backdrop of slightly higher capital employed by EUR 0.3 million to EUR 25.8 million.

Additional Information on the Medical and Safety Business

INFORMATION ON THE MEDICAL BUSINESS

		Second quarter				Six months			
		2018	2017	Changes in %	Net of currency effects in %	2018	2017	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**413.6**	**435.7**	**–5.1**	**–2.3**	**815.1**	**841.0**	**–3.1**	**+1.2**
Europe	€ million	216.1	216.8	–0.3	+1.1	412.5	414.7	–0.5	+0.8
Americas	€ million	78.8	97.7	–19.3	–12.7	153.5	181.4	–15.4	–5.8
Africa, Asia, Australia	€ million	118.7	121.2	–2.1	+0.1	249.1	244.8	+1.8	+7.1
Net sales with third parties	**€ million**	**394.3**	**370.0**	**+6.6**	**+9.9**	**704.2**	**706.4**	**–0.3**	**+3.8**
Europe	€ million	209.6	187.1	+12.0	+13.5	376.8	361.8	+4.1	+5.4
Americas	€ million	73.6	81.4	–9.6	–2.1	135.7	150.2	–9.7	+0.2
Africa, Asia, Australia	€ million	111.1	101.5	+9.4	+12.6	191.7	194.3	–1.4	+3.7
EBIT [1,2]	**€ million**	**–5.4**	**2.7**	**> –100.0**		**–42.1**	**–4.4**	**> –100.0**	
Research and development costs	€ million	45.3	38.9	+16.4		87.4	78.4	+11.5	
EBIT [1]/net sales	%	–1.4	0.7			–6.0	–0.6		

1 EBIT = Earnings before net interest result and income taxes

2 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

		Second quarter				Six months			
		2018	2017	Changes in %	Net of currency effects in %	2018	2017	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**238.7**	**226.9**	**+5.2**	**+8.5**	**458.7**	**461.1**	**–0.5**	**+3.5**
Europe	€ million	149.0	142.4	+4.7	+6.6	294.1	292.0	+0.7	+2.6
Americas	€ million	38.7	36.7	+5.5	+12.8	74.5	77.7	–4.0	+6.3
Africa, Asia, Australia	€ million	51.0	47.9	+6.5	+10.8	90.0	91.4	–1.5	+3.9
Net sales with third parties	**€ million**	**226.0**	**211.0**	**+7.1**	**+10.4**	**411.6**	**409.6**	**+0.5**	**+4.4**
Europe	€ million	147.5	132.3	+11.5	+13.4	267.9	256.5	+4.5	+6.2
Americas	€ million	34.0	38.8	–12.4	–6.0	65.4	77.4	–15.6	–6.6
Africa, Asia, Australia	€ million	44.4	39.9	+11.5	+16.3	78.3	75.7	+3.5	+9.2
EBIT [1,2]	**€ million**	**8.6**	**14.1**	**–38.8**		**5.5**	**23.5**	**–76.5**	
Research and development costs	€ million	20.6	17.0	+21.5		40.5	33.5	+20.9	
EBIT [1]/net sales	%	3.8	6.7			1.3	5.7		

1 EBIT = Earnings before net interest result and income taxes

2 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.

CHANGED CONDITIONS AFTER THE CLOSING OF THE INTERIM REPORTING PERIOD

There were no significant changes between the end of the first half of 2018 and the time this interim financial report was prepared.

Research and development

In the first half of 2018, we invested EUR 127.9 million in research and development (R&D), which was more than in the prior-year period (6 months 2017: EUR 111.9 million). The R&D expenses amounted to 11.5 percent of net sales (6 months 2017: 10.0 percent).

In terms of medical business, the focus remained on expanding the intensive care and operating room product portfolio, as well as on developing customer solutions within the Infinity Acute Care System.

With the “IACS VG7” software version, we have expanded functionality and thus strengthened the position of the “Infinity Acute Care” monitoring system in the intensive care and operating room environments. The main features include additional invasive pressure channels, configurable designations of catheter locations, enhanced invasive pressure measurement alarm management, independent and customizable surgical display support, and the ability to calculate pulse/pressure variations. Configurable temperature displays, device connectivity enabling dual SpO_2 monitoring, and connection of the Scio breathing gas module through the “M500” round out the additional functions. In addition to additional software features, “IACS VG7” supports a new Cockpit platform capable of optimizing monitoring and data processing at the bedside. Together, the new “IACS VG7” features support use in intensive care while ensuring efficient workflows, enhanced ergonomics, and ease of use.

We have further developed key aspects of our “PulmoVista 500” electrical impedance tomograph through the software version 1.20. The new “Diagnostic View” not only makes it possible to observe the ventilation of individual areas in the lungs during the ventilation process, but it now also enables the analysis and subsequent documentation of the lungs’ condition. As a result, the new software helps to optimize ventilation for the respective patient.

With regard to the central supply of medical gases, the “Dräger Gas Management System (GMS),” we have expanded the corresponding alarm system by adding the “Analog Input Module (AIM),” which is a new module for the integration of sensors. The additional data that is available as a result improves monitoring and an understanding of the “GMS” system processes. The alarm system therefore not only serves as a safeguard in an emergency, but also supports normal operations, contributing to the optimization of workflows. With the “AIM,” it is possible to easily integrate up to six sensors, for example for pressure, flow, and temperature, as well as for monitoring the central gas supply with Dräger gas sensors.

We have expanded the functionality of the “Oxylog VE300” emergency ventilator that we launched on the market in 2017. Thanks to pressure-controlled ventilation (BIPAP ventilation mode) and additional pressure and flow curves, it now meets even higher demands on emergency ventilation. The “Oxylog VE300” stands out for its intuitive menu navigation featuring a color touch screen, its light weight, and efficient documentation options with wireless data transfer. Its robustness and up to nine hours of battery life ensure optimum handling when used by first responders and in the emergency room.

The focus of innovation in terms of safety business is on expanding the Dräger product portfolio and developing systems to deliver complete solutions for customers.

We have expanded and enhanced usage of our “DrugCheck 3000” rapid drug test. It is now also capable of providing proof of a sixth substance: benzodiazepines. That means the “DrugCheck 3000” can now also detect a wide range of prescription medications such as Rohypnol and Valium. In addition, we have further improved its handling and significantly reduced the length of the test. Overall, the test is now much more flexible and versatile, for use by police departments in particular, prisons, as well as for workplace inspections in certain industrial segments.

We have redesigned and improved our “Dräger PAC” single-gas detection devices. For example, operating life has been extended, the devices can now be used at an even greater range of temperatures, and a bigger display provides more information at a glance. A new light indicator clearly signals the devices’ operational readiness. Additional sensors, including dual sensors, are expanding the spectrum of “Dräger PAC” single-gas detection devices and opening up new markets.

Our new “Dräger X-plore 8700 (EX)” powered air-purifying respirator protects users against dangerous gases, fumes, and particles. It is robust and combines intuitive handling with intelligent electronics to increase safety and is particularly suitable for use in an industrial environment. Above all, however, it provides additional EX protection—unlike its sister device “Dräger X-plore 8500”—which means that it can be used in potentially explosive atmospheres.

In the first half of 2018, we launched the “Dräger X-am 3500” on the market. Its internal pump means that it is optimized for clearance measurements in confined spaces, and it is able to detect up to four gases simultaneously. Following the launch of the more powerful “Dräger X-am 8000” in 2017, we are thus optimizing our product portfolio of multiple-gas detection devices and offering customers the option to choose the right one for them based on their application needs and budget.

We are digitalizing the exchange of information in the clearance measurement process with the new “CSE Connect” software solution. The “Dräger X-am 8000” gas detection device communicates directly with the smartphone app. Via the cloud backend, the data collected through the smartphone app is available for analysis directly for the “CSE Connect” web application. This ensures efficient workflows and secure, complete documentation.

The “X-dock multigas module” represents the expansion of our “X-dock” system—already successfully positioned on the market—with an additional module. Apart from our new premium “Dräger X-am 8000” gas detector, it also supports the new “Dräger X-am 3500,” as well as the new “Pac 6000,” “Pac 6500,” “Pac 8000,” and “Pac 8500” single-gas detection devices. Thanks to the automated gas exposure test and adjustment function for all new gas detectors, we are supporting efficient and cost-optimized work processes for customers.

Personnel

WORKFORCE TREND

		June 30, 2018	December 31, 2017	June 30, 2017
Germany		6,588	6,434	6,319
Other		7,454	7,305	7,165
Dräger Group total		**14,042**	**13,739**	**13,484**
Turnover of employees (Basis: average of the past twelve months)	%	5.0	5.1	6.1 [1]
Sick days of work days in Germany (Basis: average of the past twelve months)	%	5.9	5.8	5.8 [1]
Temporary staff in Germany (incl. short-term project employment)		603	549	634

[1] Value for 2017 was adjusted due to a data transmission error.

As of June 30, 2018, the Dräger Group employed 14,042 people worldwide, 558 more than in the prior year (June 30, 2017: 13,484); this equates to a 4.1 percent rise in headcount. In Germany, the number of people working for the Dräger Group increased by 269 year on year, and the number of people working abroad grew by 289. As of June 30, 2018, 53.1 percent of employees were working outside of Germany, which is the same as on June 30, 2017.

The number of employees in Germany increased in particular in Service (+117)—predominantly for technicians in Maintenance and Rental Services—as well as in Production (+71). The number of employees also grew in Administration (+27; mainly IT), R&D (+25), and Sales and Marketing.

The increase in personnel abroad also largely pertained to Service (+125). It is spread among numerous sales and service companies in various countries, such as the United States, France, the new company in New Zealand, Spain, and Brazil. We also invested in Sales abroad (+99 employees), primarily in countries in the Africa, Asia, and Australia region, as well as in Latin America.

Personnel expenses within the Group were higher than in the prior year at EUR 515.6 million (6 months 2017: EUR 497.9 million), which equates to a rise of 6.4 percent (net of currency effects; +3.5 percent in nominal terms). In a half-yearly comparison, this rise (net of currency effects) was largely the result of a headcount figure that was higher than in the prior year by 513 employees on average. The collective pay rise in the metal and electrical industries in Germany and salary increases abroad also drove costs up substantially. The personnel cost ratio came to 46.2 percent in the first half of 2018 (6 months 2017: 44.6 percent).

PERSONNEL EXPENSES [1]

in € thousand	Six months 2018	Six months 2017
Wages and salaries	**422,748**	**409,017**
Social security contributions and related employee benefits	77,352	74,296
Pension expenses	15,477	14,634
	515,577	**497,947**

[1] Personnel expenses include the remuneration of the members of the Executive Board of the general partner Drägerwerk Verwaltungs AG, Lübeck

RISKS TO FUTURE DEVELOPMENT

The material risks to our net assets, financial position, and results of operations, as well as the structure of our risk management system, are outlined in the annual report for fiscal year 2017 on pages 43 et seq. The annual report may be downloaded online at **www.draeger.com**.

There were no material changes compared to the 2017 annual report. In addition, Dräger has not currently identified any individual or aggregated risks that could have a material impact on the company’s continued existence as a going concern.

Outlook

FUTURE MARKET ENVIRONMENT

The International Monetary Fund (IMF) expects the global economy to grow by 3.9 percent in 2018, which would mark another slight increase on the, already much improved, prior year. Growth is forecast to reach a similarly high level in 2019 as well. The higher growth rates reflect the strongest consistent economic recovery since 2010. The increase in economic momentum is not confined only to many industrialized nations; emerging markets are also experiencing stronger growth again, which is due in part to the improvement in commodity prices. Global trade has risen sharply most recently.

The IMF believes that the favorable economic environment at the moment provides the perfect opportunity for making structural reforms before the underlying conditions begin to deteriorate. The risk-reward profile has taken a turn for the worse, however, over both the medium and the short term. The tariff increases imposed by the United States and the countermeasures taken by trade partners have increased the risk of a sustained trade conflict subject to escalation. Such a conflict could imperil global economic integration and the international economic order as based on cooperation.

IMF — JULY 2018 GROSS DOMESTIC PRODUCT (GDP) GROWTH FORECAST

in %	2018	2019
Global economy	3.9	3.9
USA	2.9	2.7
Eurozone	2.2	1.9
Germany	2.2	2.1
China	6.6	6.4

In the view of the Bundesbank, the economic boom in Germany will continue, albeit with less momentum. The increasing shortage of skilled workers is poised to increasingly curb employment growth. Trade conflicts and the political insecurity in some EU member states are also a source of uncertainty. Germany's economy is expected to grow by 2.0 percent in 2018 and by 1.9 percent in 2019, according to the Bundesbank.

FUTURE MARKET AND SEGMENT SITUATION

We expect slight growth at best in the medical technology market in Europe. The main reason for the rather subdued forecast is persistent cost pressure in particular. One exception to this is digital healthcare, explicitly regarded as an area of growth, which will account for an ever larger portion of investments in the future. We are seeing quite positive development for the key European industrial markets. Southern Europe is experiencing dynamic growth, although the current political situation represents a risk. Considerable investment growth is evident in Northern and Central Europe as well, which points to a rosy future.

We expect to see positive development for the Americas segment. A positive business environment with high price levels can be found in the medical technology market in North America. Digital healthcare is set to spark rising interest in North America as well. We also expect to see positive development for the market in Latin America. An aging population, better access to products and services, as well as new technologies are all reasons behind the projected increase in demand. We assume that the industrial markets in the Americas will continue to grow, driven by North America in particular. A robust economy that remains on course, rising investments and government spending, as well as tax savings are all slated to spur growth. Increasing protectionism in the United States will remain a source of uncertainty. We regard the most important industrial markets in South America favorably, albeit with reservations. While these markets are experiencing rising levels of industrial production and an economic upturn, structural problems and political instability nonetheless cloud the outlook.

We expect to see positive development for the Africa, Asia, and Australia segment. In our view, the medical technology market in Asia has a positive future ahead. China’s medical technology market is being shaped by the establishment of a new market monitoring system. Among other things, plans call for a new body to improve the difficult marketing authorization conditions for foreign products. After a tough transitional period, the market monitoring system is scheduled for completion by 2020. We also expect to see a substantial increase in growth for the medical technology market in Australia as well. In the Middle East and Africa, we anticipate opportunities for medical products in countries with a wide range of different starting conditions and a great deal of investment backlog. For example, there will be registration requirements for medical technology devices in South Africa in the future, which will likely improve standards. We expect to see positive development for industrial markets in those sectors that are relevant to us. In our estimation, Asia’s key industrial markets are poised for favorable development. Despite slowing momentum, the Chinese economy is likely to continue turning in a robust performance. India’s economy is also on track for recovery. Australia is likewise slated for further economic growth, and the mining industry is picking up as well. We expect slow-growing markets in the Middle East, with higher oil prices leading to a slight uptick in investments. Based on our information, the development of African markets will vary.

FUTURE SITUATION OF THE COMPANY

The following section should be read in conjunction with the “Future situation of the company” section in the management report of the 2017 annual report (pages 53 et seq.), which describes our expectations for 2018 in detail. The following table provides an overview of the expectations regarding the development of various forecast figures. The forecast horizon is the fiscal year.

EXPECTATIONS FOR FISCAL YEAR 2018

	Results achieved Fiscal year 2017	Forecast Fiscal year 2018	Current forecast
Net sales	3.3 % (net of currency effects)	+2.0–5.0 % (net of currency effects)	Confirmed
EBIT margin	6.1 %	4.0–6.0 % [1]	Confirmed*
DVA	EUR 70.7 million	EUR 15–65 million	Confirmed*
Other forecast figures:			
Gross margin	44.8 %	44.0–46.0 %	Confirmed*
Research and development costs	EUR 234.7 million	EUR 245 bis 260 million	Confirmed
Interest result	EUR –12.8 million	Slight improvement	Confirmed
Days working capital (DWC)	111.7 days	On par with prior year	Confirmed
Investment volume	EUR 106.2 million	EUR 85–100 million [2]	Confirmed
Net financial debt	EUR –29.2 million	Slight improvement	Confirmed

1 Based on exchange rates at the start of fiscal year 2018
2 Excluding company acquisitions

* Due to the earnings performance in the first half of the year and currency effects, the figure will probably be at the lower end of the forecast range.

DRÄGER MANAGEMENT ESTIMATE

Global trade and the global economy are experiencing stronger growth again. Economic prospects have improved, both in certain emerging markets and in the eurozone. However, uncertainty surrounding potential protectionist measures and lower economic integration has increased.

With a current increase in net sales in the first half of the year, we are on track to reaching the net sales forecast in fiscal year 2018. In light of the weak earnings performance in the first half of 2018, we will likely come in at the lower end of the range for our expected EBIT margin. However, we remain confident that we will be able to live up to this forecast.

We continue to work tirelessly on strengthening our growth prospects over the medium term. Our aim is to raise our rate of innovation through targeted investments in research and development. By strengthening our sales organization as well, we intend to improve Dräger's market position in select markets.

FORWARD-LOOKING STATEMENTS

This 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, July 25, 2018

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

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

Interim financial statements of the Dräger Group as of June 30, 2018

CONSOLIDATED INCOME STATEMENT OF THE DRÄGER GROUP

in € thousand	Notes	Second quarter 2018	Second quarter 2017	Six months 2018	Six months 2017
Net sales		620,223	581,023	1,115,787	1,115,985
Cost of sales		–351,684	–323,283	–642,127	–617,831
Gross profit		**268,539**	**257,740**	**473,660**	**498,153**
Research and development costs		–65,910	–55,886	–127,895	–111,895
Marketing and selling expenses		–146,807	–134,967	–284,584	–271,961
General administrative costs		–54,200	–45,218	–99,912	–91,122
Result arising from impairment and derecognition of financial assets [1]		869	–	1,902	–
Other operating income		2,982	1,787	4,525	4,845
Other operating expenses		–1,745	–5,274	–2,854	–6,761
		–264,810	**–239,558**	**–508,818**	**–476,895**
		3,729	**18,181**	**–35,157**	**21,258**
Profit from investments in associates		180	–	180	–
Profit from other investments		–	0	–	0
Other financial result		–749	–1,423	–1,615	–2,171
Financial result (before interest result)	**5**	**–569**	**–1,423**	**–1,435**	**–2,170**
EBIT		**3,161**	**16,758**	**–36,593**	**19,088**
Interest result	5	–2,991	–3,614	–6,184	–6,841
Earnings before income taxes		**170**	**13,145**	**–42,777**	**12,247**
Income taxes	6	–532	–4,260	13,450	–4,013
Earnings after income taxes		**–362**	**8,885**	**–29,327**	**8,234**
Earnings after income taxes		**–362**	**8,885**	**–29,327**	**8,234**
Non-controlling interests in net profit		–454	–54	–760	218
Earnings attributable to shareholders and holders of participation certificates [2]		92	8,938	–28,567	8,016
Undiluted/diluted earnings per share on full distribution [3]					
per preferred share (in €)		0.01	0.40	–1.59	0.36
per common share (in €)		0.00	0.39	–1.62	0.33

1 The new item is in accordance with the amendments of IAS 1.82 which result from the application of IFRS 9. The prior year`s figures have not been adjusted.
2 The holders of the participation certificates do not participate in these negative earnings after income taxes for the first six months of the financial year 2018.
3 The dividend premium of EUR 0.06 on preferred shares is recognized pro rata on a quarterly basis.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE DRÄGER GROUP

in € thousand	Six months 2018	Six months 2017
Earnings after income taxes	**–29,327**	**8,234**
Items that cannot be reclassified into the income statement		
Remeasurements of defined benefit pension plans	–2,315	17,876
Deferred taxes on remeasurements of defined benefit pension plans	726	–5,618
Items that may be reclassified into the income statement in the future		
Currency translation adjustment for foreign subsidiaries	–213	–19,524
Change in the fair value of derivative financial instruments recognized directly in equity	–855	–428
Deferred taxes on changes in the fair value of derivative financial instruments recognized directly in equity	294	135
Other comprehensive income (after taxes)	**–2,364**	**–7,559**
Total comprehensive income	**–31,691**	**676**
thereof earnings attributable to non-controlling interests	–853	80
thereof earnings attributable to shareholders and holders of participation certificates [1]	–30,839	596

[1] The holders of the participation certificates do not participate in these negative earnings after income taxes for the first six months of the financial year 2018.

CONSOLIDATED BALANCE SHEET OF THE DRÄGER GROUP

in € thousand	Notes	June 30, 2018	December 31, 2017
Assets			
Intangible assets	7	338,354	342,485
Property, plant and equipment	7	428,835	432,294
Investments in associates		420	420
Other non-current financial assets		16,494	17,068
Deferred tax assets		146,474	133,563
Other non-current assets		2,991	2,996
Non-current assets		**933,568**	**928,827**
Inventories	8	471,166	387,720
Trade receivables and contract assets [1]	9	579,099	669,175
Other current financial assets		39,479	39,281
Cash and cash equivalents		139,391	247,568
Current income tax refund claims		28,722	24,295
Other current assets	10	104,474	57,500
Current assets		**1,362,332**	**1,425,539**
Total assets		**2,295,900**	**2,354,366**

[1] In the prior year the title of the item was “Trade receivables and receivables from construction contracts”.

in € thousand	Notes	June 30, 2018	December 31, 2017
Equity and liabilities			
Capital stock		45,466	45,466
Capital reserves		234,028	234,028
Reserves retained from earnings, incl. group result		737,145	780,913
Participation capital		29,497	29,497
Other comprehensive income		–23,574	–22,822
Non-controlling interests		408	1,262
Equity	**11**	**1,022,968**	**1,068,343**
Liabilities from participation certificates		24,347	23,761
Provisions for pensions and similar obligations		318,336	312,977
Other non-current provisions	12	51,621	51,108
Non-current interest-bearing loans and liabilities to banks		131,077	137,788
Other non-current financial liabilities		24,873	25,251
Non-current income tax liabilities		21,479	21,523
Deferred tax liabilities		1,019	1,263
Other non-current liabilities	13	20,594	14,904
Non-current liabilities		**593,346**	**588,575**
Other current provisions	12	176,493	195,081
Current interest-bearing loans and liabilities to banks		78,561	71,485
Trade payables		172,505	202,917
Other current financial liabilities		25,061	21,599
Current income tax liabilities		35,689	33,784
Other current liabilities	14	191,278	172,581
Current liabilities		**679,586**	**697,448**
Total equity and liabilities		**2,295,900**	**2,354,366**

CONSOLIDATED CASH FLOW STATEMENT OF THE DRÄGER GROUP

	in € thousand	Second quarter 2018	Second quarter 2017	Six months 2018	Six months 2017
Operating activities					
	Earnings after income taxes	–362	8,885	–29,327	8,234
+	Write-down/write-up of non-current assets	21,500	20,587	42,472	41,031
+	Interest result	2,991	3,614	6,184	6,841
+	Income taxes	532	4,260	–13,450	4,013
–	Decrease in provisions	–4,162	–23,598	–17,846	–48,149
+	Other non-cash expenses	3,062	14,501	6,584	11,812
+/–	Losses/gains from the disposal of non-current assets	–833	100	–915	–1,017
–	Increase in inventories	–17,416	–15,137	–86,082	–58,964
–	Increase in leased equipment	–3,009	–2,621	–6,010	–4,815
+/–	Decrease/increase in trade receivables	–22,333	20,103	82,130	133,832
+/–	Decrease/increase in other assets	1,702	–5,371	–19,387	–33,109
+/–	Increase/decrease in trade payables	5,671	–4,553	–28,267	–23,701
+/–	Increase/decrease in other liabilities	–11,311	–7,632	27,651	15,864
+	Dividends received	180	0	180	0
–	Cash outflow for income taxes	–17,020	–8,240	–28,228	–17,630
–	Cash outflow for interests	–1,519	–1,791	–3,289	–4,065
+	Cash inflow from interests	523	308	875	1,045
	Cash outflow/inflow from operating activities	**–41,804**	**3,414**	**–66,724**	**31,223**
Investing activities					
–	Cash outflow for investments in intangible assets	–2,003	–774	–2,400	–1,137
+	Cash inflow from the disposal of intangible assets	–	0	–	1
–	Cash outflow for investments in property, plant and equipment	–11,863	–16,697	–27,712	–29,765
+	Cash inflow from disposals of property, plant and equipment	1,074	890	1,365	2,153
–	Cash outflow for investments in non-current financial assets	–614	–14	–621	–34
+	Cash inflow from the disposal of non-current financial assets	5	237	6	241
–	Cash outflow from the acquisition of subsidiaries	–	–980	–	–980
	Cash outflow from investing activities	**–13,401**	**–17,338**	**–29,362**	**–29,520**
Financing activities					
–	Distribution of dividends (including dividends for participation certificates)	–11,042	–4,001	–11,042	–4,001
+	Cash provided by raising loans	85	7	357	8
–	Cash used to redeem loans	–3,431	–2,241	–6,846	–3,800
+/–	Net balance of other liabilities to banks	5,387	–3,836	6,930	–33,279
–	Net balance of finance lease liabilities repaid/incurred	–292	–328	–553	–671
–	Profit distributed to non-controlling interests	–	–161	–	–161
	Cash outflow from financing activities	**–9,293**	**–10,561**	**–11,153**	**–41,904**
Change in cash and cash equivalents in the reporting period		**–64,498**	**–24,485**	**–107,239**	**–40,202**
–	Effect of exchange rates on cash and cash equivalents	–265	–7,026	–937	–5,628
+	Cash and cash equivalents at the beginning of the reporting period	204,154	207,161	247,568	221,481
	Cash and cash equivalents on reporting date	**139,392**	**175,651**	**139,391**	**175,651**

For notes to the cash flow statement, please see page 13 seq.

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	Financial assets available for sale	Total other comprehensive income	Total equity of shareholder Drägerwerk AG & Co. KGaA	Non-controlling interests	Equity
January 1, 2017	**45,466**	**234,028**	**682,803**	**29,497**	**0**	**10,169**	**–434**	**–51**	**9,684**	**1,001,476**	**2,039**	**1,003,516**
Earnings after income taxes	–	–	8,016	–	–	–	–	–	0	8,016	218	8,234
Other comprehensive income	–	–	12,258	–	–	–19,386	–293	–	–19,679	–7,420	–138	–7,559
Total comprehensive income	**–**	**–**	**20,275**	**–**	**–**	**–19,386**	**–293**	**–**	**–19,679**	**596**	**80**	**676**
Distributions	–	–	–4,001	–	–	–	–	–	0	–4,001	–161	–4,162
Changes in the scope of consolidation/other	–	–	241	–	–	–82	–	–	–82	159	–	159
June 30, 2017	**45,466**	**234,028**	**699,317**	**29,497**	**0**	**–9,299**	**–727**	**–51**	**–10,077**	**998,231**	**1,958**	**1,000,188**
January 1, 2018	**45,466**	**234,028**	**780,913**	**29,497**	**0**	**–21,494**	**–1,398**	**70**	**–22,822**	**1,067,081**	**1,262**	**1,068,343**
Adjustments due to amended accounting standards	–	–	–2,569	–	–	–	–	–70	–70	–2,640	–2	–2,641
January 1, 2018, after adjustments	**45,466**	**234,028**	**778,344**	**29,497**	**0**	**–21,494**	**–1,398**	**0**	**–22,892**	**1,064,441**	**1,261**	**1,065,702**
Earnings after income taxes	–	–	–28,567	–	–	–	–	–	0	–28,567	–760	–29,327
Other comprehensive income	–	–	–1,590	–	–	–120	–562	–	–682	–2,272	–92	–2,364
Total comprehensive income	**0**	**0**	**–30,156**	**0**	**0**	**–120**	**–562**	**0**	**–682**	**–30,839**	**–853**	**–31,691**
Distributions	–	–	–11,042	–	–	–	–	–	0	–11,042	–	–11,042
Changes in the scope of consolidation/other	–	–	0	–	–	–	–	–	0	0	0	0
June 30, 2018	**45,466**	**234,028**	**737,145**	**29,497**	**0**	**–21,615**	**–1,960**	**0**	**–23,574**	**1,022,561**	**408**	**1,022,968**

Notes of the Dräger Group as of June 30, 2018 (condensed)

1 BASIS OF PREPARATION OF THE INTERIM GROUP FINANCIAL STATEMENTS

Drägerwerk AG & Co. KGaA, Lübeck, Germany, prepared its Group financial Statements for fiscal year 2017 in accordance with the International Financial Reporting Standards (IFRS) as defined by the International Accounting Standards Boards (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). In fiscal year 2018, the interim financial statements of the Dräger Group have therefore also been prepared in accordance with IFRS, and the interim reports in compliance with IAS 34 as well as German Accounting Standard No. 16 (GAS 16—Interim Financial Reporting) of the German Accounting Standards Committee (GASC).

The interim report should be read in connection with the disclosures in the Dräger IFRS annual report as of December 31, 2017. It was not audited or reviewed by an auditor.

The interim report was prepared in euros. Unless otherwise stated, all figures are disclosed in thousands of euros (EUR thousand); as a result, differences may occur due to rounding.

2 ACCOUNTING POLICIES

The same accounting principles were applied in preparing the interim financial statements and calculating the comparative figures as in the Group financial statements for 2017. A detailed description of these methods is published in the notes to the Group financial statements in the 2017 annual report in Note 8.

The annual report may also be downloaded online at **www.draeger.com**.

In preparing the interim financial statements, the Group opted to present condensed financial statements with selected explanatory notes. In general, greater use was made of estimates in determining carrying amounts than at fiscal year-end.

Accruals and deferrals were recognized where claims or obligations partially arose in the period under review.

The following new standards and amendments to existing standards published by the IASB, which have already been adopted in EU law, are to be applied for the first time in fiscal year 2018, in the event that transactions fall within the respective scopes of application:

- 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 recipients of financial statements with additional relevant information. The standard replaces IAS 18 “Revenue,” IAS 11 “Construction Contracts,” and revenue-related interpretations IFRIC 13, 15, 18, and SIC-31. In prior years, 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 five-step model will impact current revenue realization on the basis of the individual business models. The analysis identified the contractual issues concerned, and additional potential areas of activity for those issues were then determined to adjust guidelines, reporting processes, and IT processes. Among other issues, this concerns contracts that entail several different service obligations on the part of Dräger (known as multiple element arrangements, as can arise in the case of Dräger's medical product portfolio through sale and service as well as in the case of project business). In order to clearly identify the individual obligations in a multiple element arrangement, Dräger has included separate material numbers with stipulated prices in the system for all key services (including extended warranties that have been granted) at least at product group level, in addition to the separate material numbers of pieces of equipment held for sale. This method ensures that every service to be rendered is recorded in the system. Prices of goods and services are set individually in line with the customer. The customization of pricing in the equipment business results from the fact that the key products sold generally involve freely configurable equipment tailored to customers' specific needs in terms of hardware and software. The organizational separation of equipment sales from the service area has been carried out, even in supporting departments such as Marketing. Equipment prices and service prices are set independently of each other. The prices obtainable for the different products on the market always serve as the basis for this. Organizational separation and the individual incentives provided by variable remuneration in the individual sales units ensure that the agreed prices are stand-alone selling prices, so that a reallocation between the equipment and service business is not necessary. Dräger's project business is also affected by the amendments to IFRS 15. However, project business at Dräger accounts for only approximately 3 percent of Dräger's total net sales. In addition, Dräger either mainly manufactures locally on the customer's premises, or provisions under the terms of a contract or civil law ensure that Dräger has a right at all times to a portion of the fee agreed—including a margin—in accordance with current performance. IFRS 15 has no material impact on Dräger's net assets or results of operations in any of the matters examined. Dräger transitioned to IFRS 15 effective January 1, 2018, using the modified retrospective approach. New balance sheet items such as contract assets and contract liabilities will be reported from fiscal year 2018. In addition, the notes to the financial statements for fiscal year 2018 will contain a greater volume of qualitative and quantitative information for recipients of the 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 granted, 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.
– IFRS 9 "Financial Instruments (issued July 2014)" completes the IASB's three-phase project to replace IAS 39 (financial instrument accounting). IFRS 9 was published as a complete standard, bringing together all previously published regulations and the new regulations on the calculation and 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. Dräger made the decision to continue to apply IAS 39 to hedge accounting in fiscal year 2018, as the effects of a switch to IFRS 9 would not be significant.

The changes to the classification and recognition of financial assets has had little effect on Dräger, as the majority of Dräger's financial assets consist of debt instruments that continue to be measured at amortized cost (see also reconciliation in Note 15). The changes to the classification of debt instruments that were originally recognized directly in equity and are now to be recognized in profit or loss resulted in a slight adjustment effect after tax of EUR 70 thousand, which was reclassified into retained earnings within equity accordingly as of January 1, 2018.

As a result of the introduction of the expected credit loss model, impairment losses on financial assets as of January 1, 2018, were adjusted as follows:

RESTATEMENT IMPAIRMENT - IFRS 9

in € thousand	
Impairment according to IAS 39 as of December 31, 2017	–40,423
Restatement impairment according to IFRS 9	–3,725
Impairment according to IFRS 9 as of January 1, 2018	**–44,148**

The adjustment effect of EUR 3,725 thousand (EUR 2,615 thousand after tax) was recognized in equity under retained earnings as of January 1, 2018.

- 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 is to be applied. 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 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 respectively 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 IAS 40 (issued December 2016) stipulate that a company can transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. This does not impact Dräger's Group financial statements.
- IFRIC 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 amendments in the "Annual Improvements to IFRSs 2014-2016 Cycle (issued December 2016)" make minor changes to IFRS 1, IFRS 12, and IAS 28 and clarify existing guidance. This does not have a material impact on Dräger's Group financial statements.

Further new mandatory standards or amendments of standards that apply only to fiscal years beginning on or after January 1, 2019, and/or that have not yet been endorsed, as well as their impact, can be found in the Dräger IFRS annual report as of December 31, 2017.

3 CHANGES IN THE SCOPE OF CONSOLIDATION

The French subsidiary Draeger Safety France SAS, Strasbourg, was merged with another French subsidiary, Dräger France SAS, Antony (formerly Dräger Medical SAS), in January 2018.

4 SEGMENT REPORT

BUSINESS PERFORMANCE OF THE SEGMENTS

		Europe		Americas		Africa, Asia, Australia		Dräger Group	
		Six months 2018	Six months 2017	Six months 2018	Six months 2017	Six months 2018	Six months 2017	Six months 2018	Six months 2017
Order intake with third parties	**€ million**	**706.6**	**706.8**	**228.0**	**259.1**	**339.1**	**336.2**	**1,273.8**	**1,302.0**
Net sales with third parties	**€ million**	**644.7**	**618.3**	**201.0**	**227.7**	**270.0**	**270.0**	**1,115.8**	**1,116.0**
EBITDA [1]	**€ million**	**33.3**	**39.0**	**–22.3**	**6.7**	**–5.1**	**14.4**	**5.9**	**60.1**
Depreciation/Amortization	€ million	–20.8	–19.7	–10.9	–10.6	–10.8	–10.7	–42.5	–41.0
EBIT [2]	**€ million**	**12.5**	**19.3**	**–33.2**	**–3.9**	**–15.9**	**3.7**	**–36.6**	**19.1**
Capital employed [3,4]	€ million	597.9	584.7	305.3	293.5	395.8	351.6	1,299.0	1,229.9
EBIT [2]/Net sales	%	1.9	3.1	–16.5	–1.7	–5.9	1.4	–3.3	1.7
EBIT [2,5]/Capital employed [3,4] (ROCE)	%	16.9	16.0	–8.3	5.2	6.1	11.8	7.7	12.2
DVA [5,6]	€ million	61.2	54.1	–45.6	–5.7	–1.7	16.1	13.8	64.5

1 EBITDA = earnings before net interest result, income taxes, depreciation and amortization
2 EBIT = Earnings before net interest result and income taxes
3 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
4 Value as of reporting date
5 Value of the last twelve months
6 Dräger Value Added = EBIT less cost of capital of average invested capital

The key figures from the segment report are as follows:

EBIT

in € thousand	Six months 2018	Six months 2017
Earnings after income taxes	–29,327	8,234
+ Interest result	6,184	6,841
+ Income taxes	–13,450	4,013
EBIT	**–36,593**	**19,088**

CAPITAL EMPLOYED

in € thousand	June 30, 2018	June 30, 2017
Total assets	2,295,900	2,195,743
- Deferred tax assets	–146,474	–141,013
- Cash and cash equivalents	–139,391	–175,651
- Non-interest-bearing liabilities	–711,004	–649,165
Capital employed	**1,299,031**	**1,229,914**

DVA

in € thousand	June 30, 2018	June 30, 2017
EBIT (of the last twelve months)	100,058	150,459
– Cost of capital (Basis: average of capital employed in the past twelve months)	–86,210	–85,967
DVA	**13,849**	**64,493**

The business performance of the individual segments is detailed in the management report accompanying these interim financial statements.

Services rendered between the segments follow the arm's length principle.

5 FINANCIAL RESULT

FINANCIAL RESULT

in € thousand	Six months 2018	Six months 2017
Financial result (before interest result)	**–1,435**	**–2,170**
Interest and similar income	1,141	1,318
Interest and similar expenses	–7,325	–8,158
Interest result	**–6,184**	**–6,841**

6 INCOME TAXES

Income taxes for the first half of 2018 were calculated on the basis of an anticipated Group tax rate of 32.5 percent (6 months 2017: 32.5 percent).

7 INTANGIBLE ASSETS/PROPERTY, PLANT, AND EQUIPMENT

INTANGIBLE ASSETS/PROPERTY, PLANT AND EQUIPMENT

in € thousand	Carrying value January 1, 2018	Additions	Disposals/other changes	Depreciation/ amortization	Carrying value June 30, 2018
Intangible assets	342,485	1,238	359	–5,728	338,354
Property, plant and equipment	432,294	33,572	–286	–36,745	428,835

8 INVENTORIES

INVENTORIES

in € thousand	June 30, 2018	December 31, 2017
Finished goods and merchandise	269.860	206.798
Work in progress	65.048	52.847
Raw materials, consumables and supplies	133.311	125.965
Payments made	2.946	2.111
	471.166	**387.720**

9 TRADE RECEIVABLES AND CONTRACT ASSETS

TRADE RECEIVABLES AND CONTRACT ASSETS

in € thousand	June 30, 2018	December 31, 2017
Trade receivables	541,585	641,696
Construction contracts	–	27,479
Contract assets	37,515	0
	579,099	**669,175**

10 OTHER CURRENT ASSETS

OTHER CURRENT ASSETS

in € thousand	June 30, 2018	December 31, 2017
Prepaid expenses	36,166	26,523
Other tax refund claims	34,061	26,659
Receivables from investment allowances	222	701
Remaining other current assets	34,025	3,617
	104,474	**57,500**

The increase in prepaid expenses is largely attributable to deferred expenses in the current year. Other tax refund claims primarily include VAT claims. Remaining other current assets increased as a result of reporting date factors.

11 EQUITY

Retained earnings

Impairment losses on financial assets were adjusted as of January 1, 2018, as a result of the introduction of the expected credit loss model. The adjustment effect of EUR 3,725 thousand (EUR 2,615 thousand after tax) was recognized in equity under retained earnings as of January 1, 2018.

The changes to the classification of debt instruments that were originally recognized directly in equity and are now to be recognized in profit or loss resulted in a slight adjustment effect after tax of EUR 70 thousand, which was reclassified into retained earnings within equity accordingly as of January 1, 2018.

12 OTHER NON-CURRENT AND CURRENT PROVISIONS

As of June 30, 2018, other non-current provisions mainly comprise provisions for personnel obligations of EUR 40,804 thousand (December 31, 2017: EUR 40,292 thousand).

Other current provisions as of June 30, 2018, also included monthly accruals and mainly consisted of provisions for personnel obligations of EUR 57,533 thousand (December 31, 2017: EUR 86,377 thousand), provisions for outstanding invoices of EUR 49,007 thousand (December 31, 2017: EUR 37,136 thousand), and warranty provisions of EUR 25,673 thousand (December 31, 2017: EUR 23,599 thousand).

13 OTHER NON-CURRENT LIABILITIES

Other non-current liabilities include contract assets from prepayments received of EUR 618 thousand (December 31, 2017: EUR 438 thousand) and contract assets from net sales accruals and deferrals of EUR 10,796 thousand (December 31, 2017: EUR 9,593 thousand).

14 OTHER CURRENT LIABILITIES

OTHER CURRENT LIABILITIES

in € thousand	June 30, 2018	December 31, 2017
Contract liabilities	114,069	89,311
Other taxes	38,145	44,475
Liabilities to employees and for social securities	30,761	29,452
Deferred other income	4,792	5,752
Remaining current liabilities	3,511	3,591
	191,278	**172,581**

Current contract liabilities include prepayments received of EUR 53,985 thousand (December 31, 2017: EUR 46,099 thousand) and net sales accruals and deferrals of EUR 60,084 thousand (December 31, 2017: EUR 43,212 thousand).

15 MEASUREMENT OF ASSETS AND LIABILITIES REPORTED AT FAIR VALUE

Reconciliation of the classification and measurement of financial assets (IFRS 9) as of January 1, 2018

The following table shows the reconciliation of the classification and measurement of financial assets pursuant to IAS 39 to the new classification pursuant to IFRS 9, as well as the respective carrying amounts as of January 1, 2018:

RECONCILIATION OF CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS (IFRS 9) AS OF JANUARY 1, 2018

in € thousand	Financial assets according to IAS 39			Financial assets according to IFRS 9	
Item	Category	Measurement	Carrying amount	Classification	Carrying amount
Investments	Available for sale	Fair value through other comprehensive income	3,833	Fair value through profit or loss	3,833
	Held to maturity	Amortized cost	118	Amortized cost	118
Derivatives (without hedging relation)	Held for trading	Fair value through profit or loss	2,945	Fair value through profit or loss	2,945
Derivatives (Cash-Flow-Hedge)	no category assignment	Fair value through other comprehensive income	5,788	Fair value through other comprehensive income	5,788
Trade receivables and receivables from construction contracts/contract assets	Loans and receivables	Amortized cost	669,175	Amortized cost	669,175
Other financial assets	Loans and receivables	Amortized cost	41,584	Amortized cost	41,584
Cash	Loans and receivables	Amortized cost	247,568	Amortized cost	247,568
			971,011		**971,011**

The first-time application of IFRS 9 did not result in any impact through profit or loss on the classification and measurement of financial liabilities. The changes to the classification of investments that were originally recognized directly in equity and are now to be recognized in profit or loss resulted in a slight adjustment effect after tax of EUR 70 thousand, which was reclassified into retained earnings within equity accordingly as of January 1, 2018.

Regular fair value measurement of financial instruments

Financial instruments recognized at fair value are allocated to the following three levels of the fair value hierarchy:

FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

in € thousand	Level	June 30, 2018	December 31, 2017
Assets measured at fair value			
Derivatives with positive fair value (non-current)	2	1,015	558
thereof in a hedging relationship		797	332
Derivatives with positive fair value (current)	2	5,846	8,176
thereof in a hedging relationship		4,060	5,456
Securities (non-current)	1	3,840	576
Liabilities measured at fair value			
Derivatives with negative fair value (non-current)	2	2,690	2,826
thereof in a hedging relationship		2,690	2,826
Derivatives with negative fair value (current)	2	5,680	4,450
thereof in a hedging relationship		4,668	3,180

Level 1:

Prices in the active markets are assumed in unchanged form for identical financial assets or financial liabilities. The fair values of non-current 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 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.

There were no significant changes between valuation levels 1 and 2.

Fair value of financial instruments not regularly recognized at fair value

The fair value of level 2 financial assets and liabilities measured at amortized cost is determined using the discounted cash flow method by replacing the interest rates used in the initial calculation of non-current financial assets and liabilities with interest rates derived from current company-related interest rate curves on the balance sheet date.

The fair value of the note loans and bank loans is approximately EUR 0.2 million up on the corresponding carrying value. The fair value of the remaining assets and liabilities largely corresponds with their carrying value.

16 RELATED PARTY TRANSACTIONS

Services were rendered for Stefan Dräger and companies related to Stefan Dräger, the Dräger-Stiftung, and the Dräger-Familienstiftung (Dräger Foundation and Dräger Family Foundation) totaling EUR 4 thousand (6 months 2017: EUR 11 thousand) in the first half of 2018. Receivables in this respect amounted to EUR 15 thousand as of June 30, 2018 (June 30, 2017: EUR 1 thousand).

Rental services and other services totaling EUR 9 thousand (6 months 2017: EUR 63 thousand) were rendered for associate MAPRA Assekuranzkontor GmbH in the first half of 2018. Receivables in this respect amounted to EUR 63 thousand as of June 30, 2018 (June 30, 2017: EUR 1 thousand); there were no liabilities.

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.

Dräger 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 3,771 thousand as of June 30, 2018 (June 30, 2017: EUR 1,597 thousand); there were no receivables. Expenses for Drägerwerk Verwaltungs AG services amounted to EUR 1,091 thousand in the first half of 2018 (6 months 2017: EUR 2,712 thousand). Services in the amount of EUR 5 thousand were rendered for Drägerwerk Verwaltungs AG in the first half of 2018 (6 months 2017: EUR 4 thousand).

In the first half of 2018, Drägerwerk AG & Co. KGaA granted Drägerwerk Verwaltungs AG an interest-bearing loan of EUR 600 thousand with a term until May 2, 2023. Repayment is made in annual installments.

All transactions with related parties were conducted at arm's length terms and conditions.

17 SUBSEQUENT EVENTS

There were no significant changes between the end of the first six months of 2018 and the time this interim financial report was prepared.

Lübeck, July 25, 2018

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 for the interim financial statements, the Group interim financial statements give a true and fair view of the net assets, financial position, and results of operations of the Group, the group interim 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 in the remaining fiscal year have been described.

Lübeck, July 25, 2018

The general partner
Drägerwerk Verwaltungs AG
represented by its Executive Board

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

FINANCIAL CALENDAR

Report as of June 30, 2018, Conference call	July 26, 2018
Report as of September 30, 2018, Conference call	October 30, 2018

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