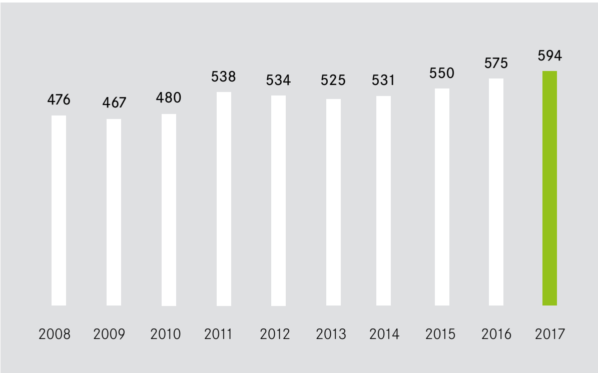
CENTROTEC
Sustainable AG

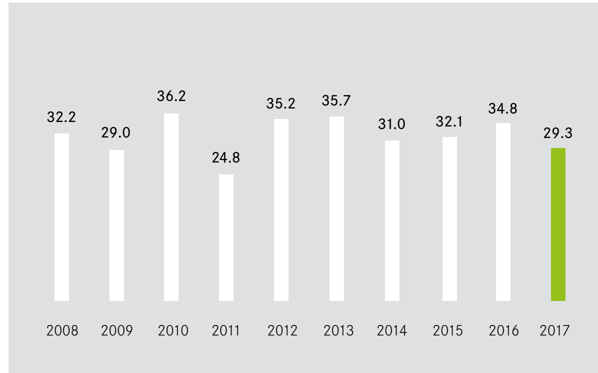
ANNUAL REPORT 2017

CENTROTEC – The European Energy-Saving Company

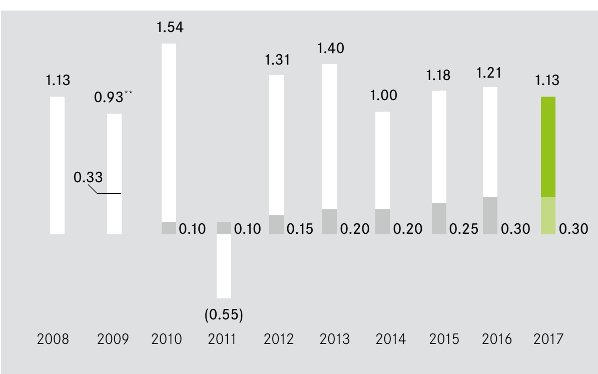
Revenue
[in EUR million]



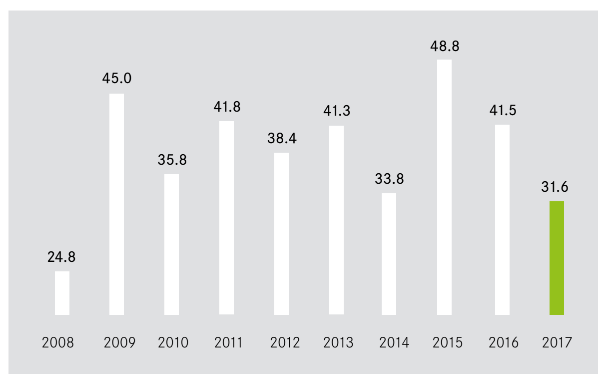
EBIT
[in EUR million]



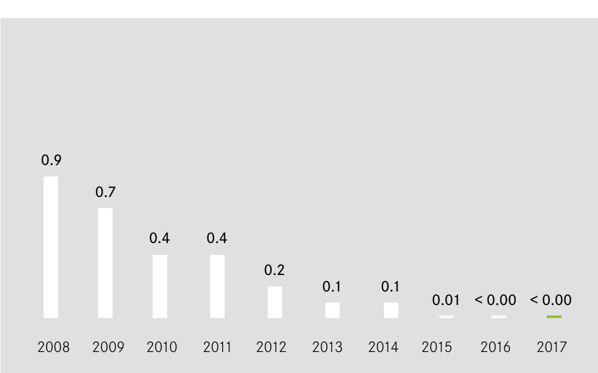
EPS*/Dividend
[in EUR]



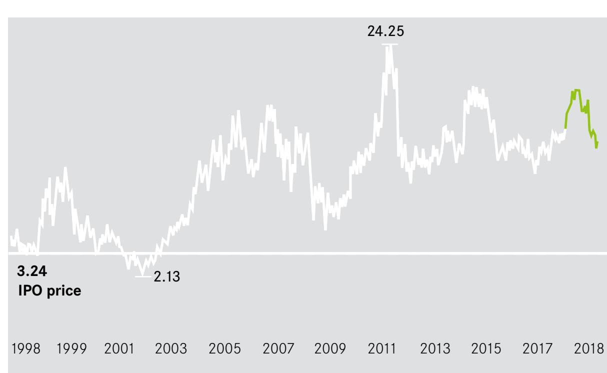
Operative Cash Flow
[in EUR million]



Gearing
[Net interest bearing debt/equity]



Share price
[in EUR]



* Earnings per share, basic

** Excluding the investment results

Ten-Year Comparison

	2017 [EUR '000]	Changes [Percent]	2016 [EUR '000]	2015 [EUR '000]
Total revenue	**594,189**	**3.3**	**575,458**	**549,791**
Climate Systems	423,623	1.6	416,935	399,348
Gas Flue Systems	121,093	7.2	112,980	107,012
Medical Technology & Engineering Plastics	49,473	8.6	45,543	43,431
Earnings				
EBITDA	54,057	(9.2)	59,523	55,602
EBIT	29,321	(15.8)	34,818	32,104
EBIT yield (in %)	4,9		6.1	5.8
EBT	29,038	(6.5)	31,055	28,937
EAT	20,847	(3.4)	21,584	20,657
EPS (in EUR; basic)	1.13	(6.9)	1.21	1.18
Balance sheet structure as of 12/31				
Balance sheet total	580,472	21.0	479,695	452,138
Shareholders' equity	257,481	7.0	240,602	225,962
Equity ratio (%)	44.4		50.2	50.0
Property, plant and equipment	124,017	(1.3)	125,606	119,867
Intangible assets	39,734	0.0	39,747	41,479
Goodwill	77,285	0.1	77,220	77,166
Net financial position*	13,017	98.2	6,568	(1,567)
Net working capital*	70,275	21.2	57,962	51,499
Cash flow statement				
Cash flow I (EAT & depreciation/amortisation)	45,583	(1.5)	46,289	44,155
Cash flow from operating activities	31,634	(23.7)	41,457	48,761
Cash flow from investing activities**	(22,153)	(21.7)	(28,305)	(32,106)
Employees				
Total (in FTE)	2,878	(12.4)	3,285	3,129
Shares				
Number of shares***	17,943		17,811	17,667
Highest quotation****	19.79		15.60	15.25
Lowest quotation****	14.83		11.56	12.85
Year-end quotation****	15.47		15.29	13.21

* taking account for short-term financial assets
** without short-term financial assets
*** weighted average shares outstanding (basic, in thousand)
**** quotation in EUR

2014	2013	2012	2011	2010	2009	2008
[EUR '000]	[EUR '000]	[EUR '000]	[EUR '000]	[EUR '000]	[EUR '000]	[EUR '000]
530,549	**525,431**	**533,781**	**537,841**	**479,650**	**466,613**	**476,081**
386,193	384,799	391,838	381,782	331,769	309,524	319,308
102,618	99,241	102,569	116,347	112,835	128,111	118,822
41,738	41,391	39,374	39,712	35,046	28,978	37,951
53,013	55,512	55,214	46,898	54,582	46,641	48,808
30,983	35,673	35,231	24,770	36,158	29,037	32,171
5.8	6.8	6.6	4.6	7.5	6.2	6.8
26,113	31,105	32,095	(404)	34,541	12,727	25,785
17,366	23,953	22,292	(9,401)	25,572	5,216	18,635
1.00	1.40	1.31	(0.55)	1.54	0.33	1.13
425,583	438,677	419,571	425,690	399,561	379,646	378,384
207,908	200,427	174,665	157,453	160,816	132,674	127,804
48.9	45.7	41.6	37.0	40.2	34.9	33.8
112,488	109,289	95,677	95,180	91,946	91,252	94,702
42,765	43,971	45,044	46,765	39,265	37,542	36,571
72,072	71,951	69,991	69,738	61,074	60,914	60,911
(15,528)	(21,932)	(27,495)	(60,113)	(71,123)	(86,451)	(114,101)
56,328	54,914	55,325	56,030	57,572	53,642	65,124
39,396	43,792	42,275	12,727	43,996	22,820	35,272
33,800	41,332	38,370	41,843	35,840	45,025	24,847
(23,289)	(31,811)	(4,187)	(28,875)	(22,077)	(18,006)	(17,928)
2,955	3,036	2,937	2,906	2,663	2,614	2,605
17,626	17,357	17,289	17,164	16,750	16,610	16,525
20.20	19.79	14.35	24.25	17.50	10.80	16.14
12.91	12.56	10.75	10.61	9.15	6.05	6.85
14.28	18.60	13.47	11.28	16.00	9.44	10.60

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Letter to Shareholders

Dear Shareholders,

Our verdict on the 2017 financial year is ambivalent. On the one hand we made further headway with the internationalisation of the CENTROTEC Group as announced, and substantially increased the basis for maintaining that development in product and sales terms. We also locked long-term into historically favourable interest rates with the successful placement of the promissory note loan, which for example significantly expanded our scope for further organic and external growth. On the other hand we cannot be satisfied with our performance in the German heating market over the course of the financial year.

With 3.3% revenue growth to EUR 594.2 million (previous year EUR 575.5 million) driven by progress in international business and the strong performance of commercial ventilation solutions, the forecast made at the start of the year was achieved. The reduced margins associated with this shift in the revenue mix prompted us to downgrade our forecast for the operating result (EBIT) in-year by 15.8% to EUR 29.3 million (previous year EUR 34.8 million). CENTROTEC achieved earnings per share (EPS) of EUR 1.13 (previous year EUR 1.21). This provides a sound basis on which to propose a dividend of EUR 0.30 to the Annual General Meeting, marking no change from the previous year.

The generally improving overall economic framework worldwide means CENTROTEC is well placed to implement its expansion strategy with the aim of cementing the growth in its international business. In addition, in the period under review action was taken to stabilise business in the German heating market; the measures should begin to take effect in the course of this year. After the falling energy prices of recent years, gradual rises now support growth in the markets relevant to CENTROTEC for energy-efficient building services engineering for the industrial and private sector. However the commodity markets and forthcoming negotiated pay increases are also likely to weigh on earnings in the current financial year.

CENTROTEC thus expects organic revenue growth to EUR 600 to 620 million for 2018, with a slightly higher operating result (EBIT) of EUR 30 to 32 million.

The current, medium-term and long-term positive environment with the global trends in the areas of energy efficiency, climate protection and health as well as the general, cross-sectoral trend towards greater comfort will promote the growth of the market for heating and climate control solutions in 2018 and beyond. CENTROTEC is in a position to exploit these developments nationally and increasingly also internationally so that it and its stakeholders profit from the sustained growth being targeted.

With best wishes,

Dr Thomas Kneip
[Management Board]

Dr Christoph Traxler
[Management Board]

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1 Dr Thomas Kneip

2 Dr Christoph Traxler

The Management Board

Dr Thomas Kneip

Dr Thomas Kneip (born 1971) is the Chief Financial Officer (CFO) of CENTROTEC Sustainable AG since January 2014. Before joining CENTROTEC the PhD in business studies gained extensive management experience in the fields of finance and strategy at Centrosolar and Siemens VDO. Furthermore he was Senior Consultant and Project Manager at McKinsey & Company for many years. In addition to his function as CFO, Dr Kneip is also responsible for the business areas Gas Flue Systems and Climate Systems, where he puts his focus on the Wolf Group. In their management board he took the chair on July 1, 2016.

Dr Christoph Traxler

Dr Christoph Traxler, Ph.D., (born 1968) has been a member of the CENTROTEC Sustainable Management Board since 2004. A physicist by education, he started his career at McKinsey & Company before joining CENTROTEC, where he was initially responsible for the segment Medical Technology & Engineering Plastics. Together with his team, he transformed this business area into an innovative medical devices developer and manufacturer. Also, the Engineering Plastics division was further developed, restructured and prepared for the future. Dr Traxler is also responsible for the business area Climate Systems, where he puts his focus on the Brink Group.

Guido A. Krass,

Guido A. Krass (born 1957), industrial lawyer and entrepreneur, has been focusing on high-growth mid-cap companies since 1986. As the founder and a major shareholder of CENTROTEC, he is closely involved in strategic and personnel management matters. He is able to draw on a worldwide network of contacts for developing new business ideas and identifying acquisition options.

Report of the Supervisory Board

Dear Shareholders, The Supervisory Board of CENTROTEC Sustainable AG performed the tasks resting upon it in accordance with the law, the articles of incorporation and the rules of internal procedure with utmost care during the 2017 financial year. It regularly advised the Management Board on the running of the company and continuously monitored its activities.

CENTROTEC achieved the revenue target for the 2017 financial year that it communicated to the capital market, but the earnings target had to be reduced in-year. This reduced forecast was ultimately achieved. In addition the strategy drawn up by the Management Board in close consultation with the Supervisory Board to tap existing potential, specifically in the international market for heating and climate control technology, received a further push.

The Supervisory Board held a total of four regular and five extraordinary meetings in the 2017 financial year. The Management Board regularly informed the Supervisory Board through detailed, prompt written and oral reports on the current business progress of the companies and the group, and in particular on the development in its revenue, orders, financial performance and financial position, along with the company's discernible opportunities and risks of future development. The Supervisory Board was involved directly and promptly in all decisions of fundamental importance for the company and discussed important decisions and occurrences at length. Annual financial statements, the Interim Report and quarterly financial communications were discussed with the Board of Management by the Supervisory Board prior to their publication. Decisions of the Management Board requiring approval were examined and discussed at length by the Supervisory Board prior to their approval.

Outside the context of the aforementioned meetings, too, the members of the Supervisory Board discussed forthcoming projects and matters of substantive importance with the Management Board and management employees of the company in face-to-face discussions and by means of telephone conferences. Written reports were furthermore submitted on specific projects and issues. The Management Board satisfied the information and reporting requirements laid down by the Supervisory Board in every respect. As the Supervisory Board has only three members, no committees were formed. All matters were discussed by the full board.

In the 2017 financial year there were again no conflicts of interest among Management Board and Supervisory Board members that are to be disclosed to the Supervisory Board without delay and of which the Annual General Meeting is to be informed.

The topics discussed at the Supervisory Board meetings comprised fundamental and strategic matters concerning the holding company, segments and individual companies, and in particular the further expansion of markets and technologies, but also individual matters of major importance and with far-reaching consequences from the viewpoint of the group. The individual matters discussed comprised:

- The strategic direction and business policy of the group, the segments and the group companies
- General business performance
- Content and scope of the financial reports for publication
- Major or strategically highly significant investment decisions
- Direction and options in the sphere of mergers & acquisitions projects
- Strategic options for business development, e.g. market entry strategies or product development concepts
- Strategy of the Wolf Group for the German heating market
- The risk position, in particular strategic, operating and financial risks as well as risk management
- The financial reporting process and internal system of control
- The strategic direction of group financing and of the financial assets
- Structuring of the promissory note loan
- The group's budget and medium-term planning
- IT and information security
- Observance and innovations of the Corporate Governance Code and CSR reporting
- Changes to regulatory and negotiable instruments law
- Remuneration structures of the Management Board and key management employees
- The efficiency of the Supervisory Board's own activities

The Supervisory Board and Management Board discussed corporate governance within the company at length during the year under review and, most recently in March 2017, jointly issued an updated Declaration of Compliance on the German Corporate Governance Code (DCGK) in accordance with Section 161 of the German Stock Corporation Act, and made it permanently available on the company's website. According to Article 3.10. of the German Corporate Governance Code, the Management Board simultaneously reports on corporate governance on behalf of the Supervisory Board, in the Corporate Governance Report and in the declaration on corporate governance. That report is published together with the declaration on corporate governance in the Annual Report and also on the company's website. Other topics of detailed consultations included issuing the audit mandate to the auditors following their election by the Annual General Meeting, monitoring their independence as well as the services provided by them, and determining their fee.

The accounting, annual financial statements, management report, Consolidated Financial Statements and Group Management Report at December 31, 2017 have been examined by the auditors Pricewaterhouse-Coopers AG Wirtschaftsprüfungsgesellschaft, Kassel, who have issued unqualified audit opinions. The above documents and the proposal by the Management Board on the appropriation of the accumulated profit were made available to each member of the Supervisory Board in a timely manner. These were discussed at length with the auditors at the Supervisory Board meeting on March 28, 2018, when the auditors reported on the principal findings of their audit. The auditors of the accounts furthermore reported on their findings on the internal control and risk management system in respect of the financial reporting process and established that the Management Board has set up a suitable internal system of control and risk management.

The Supervisory Board has considered at length the disclosures made in the management report and group management report. Reference is therefore made to the corresponding comments in the management report and Group Management Report, which the Supervisory Board has examined and supports.

The Supervisory Board has examined the annual financial statements, Management Report and Consolidated Financial Statements, including Group Management Report, as prepared by the Management Board, together with the dependency report drawn up by the Management Board as a precautionary measure. The Supervisory Board concurs with the findings of the audit of the financial statements. The concluding finding of the examination by the Supervisory Board has revealed no cause for objection. The annual financial statements prepared by the Management Board and the Consolidated Financial Statements at December 31, 2017 were approved by the Supervisory Board. The annual financial statements of the group parent are hereby established. The proposal by the Management Board on the appropriation of the accumulated profit was approved by the Supervisory Board.

In addition, disclosures on non-financial aspects are to be reported on from the 2017 year under review. The management has decided to fulfil that obligation through the publication of a non-financial report outside the framework of the Group Management Report, and to publish it in the Annual Report. The Supervisory Board, which has the responsibility of examining the content of non-financial reporting, has carefully considered the separate non-financial group report of CENTROTEC Sustainable AG prepared by the Management Board at December 31, 2017. On the basis of its own examination, the Supervisory Board raised no objections following explanatory remarks by the Management Board and the auditors. The auditing firm PricewaterhouseCoopers GmbH conducted a limited assurance engagement and issued an unqualified audit opinion.

The Supervisory Board assumes that CENTROTEC Sustainable AG will be able to extend its position in the worldwide growth market for energy-saving building technology, and serve the interests of the CENTROTEC Group’s stakeholders.

Particular thanks are due to the employees of the CENTROTEC Group, who have made a major contribution to the success of the company through their commitment, knowledge and inventiveness.

Kind regards,

Guido Krass

Guido A. Krass

[Supervisory Board Chairman]

On behalf of the Supervisory Board, Brilon, March 2018

System supplier for home ventilation, condensing boilers and heat pumps

RESIDENTAL BUILDINGS

The highly efficient Wolf heat pumps open the way for a pioneering form of heating technology for buildings that taps the potential of renewable energies. For the energy renovation of the existing building stock, condensing systems for oil and gas are recommended. They make optimum use of these fossil fuels and thus conserve scant resources. Both alternatives, in combination with a ventilation system with heat recovery of up to 95%, ensure permanently high indoor air quality with maximum energy efficiency.

1 ***Wolf condensing gas boiler with integrated home ventilation system of Brink***

2 ***Wolf heat pump program***


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Core Values

Integrity

For CENTROTEC, integrity means a consistently fair, transparent, honest and incorruptible way of behaving, both for the enterprise and for the individual. For us, that means we have to say what we think, and do what we say!

Social responsibility

CENTROTEC bears social responsibility both for its employees and for its wider corporate environment. It is important for us to regard employees as human beings, not merely as a resource, and to address their individual needs as effectively as possible. In addressing the corporate environment, CENTROTEC operates ethically and responsibly, and furthermore shows independent initiative in promoting living conditions and social cohesion within its direct sphere of influence (good corporate citizenship).

Sustainable action

This means meeting today's needs without endangering the scope of future generations to do likewise. The way energy is used and the consequences of its use are of key importance for a sustainable society. To achieve that goal, CENTROTEC supplies affordable solutions for saving energy and putting renewable energies to a wide range of uses in buildings.
In developing, manufacturing and selling our solutions, we strive for the highest possible standards of resource efficiency and sustainability. For each individual, this action begins with a sense of personal responsibility towards the wider community.

Entrepreneurial action

For every employee, entrepreneurial action means treating the company as if it were his or her own, and demonstrating the responsibility and foresight that that would entail. Thisoffers opportunities for both the company and the individual. CENTROTEC promotes this entrepreneurial spirit by granting its employees and subsidiaries the maximum possible freedom of scope.

Separate Non-Financial Group Report

(pursuant to German CSR Directive Implementation Act)

In the separate Non-Financial Group Report – for the sake of simplicity referred to in the following as "Non-Financial Report" – CENTROTEC Sustainable AG – hereinafter also CENTROTEC or the CENTROTEC Group – reports outside the framework of the Group Management Report for the 2017 financial year in accordance with the current statutory requirements of the German CSR Directive Implementation Act on the reporting of non-financial information. Pursuant to Section 315b (1) third sentence of 3 the German Commercial Code (HGB) as amended, on individual aspects reference is also made to non-financial disclosures contained in the Group Management Report. The business model of the CENTROTEC Group is described in the Group Management Report from page 35 in line with HGB Section 289c.

Because of the highly non-central, heterogeneous corporate structure combined with generally locally organised management of the relevant topics, the adoption of a uniform reporting framework appears very cumbersome and for that reason is avoided. Consequently no reporting framework was adopted for this Non-Financial Report.

To support the audit of the Non-Financial Report, the Supervisory Board commissioned a business audit to ISAE 3000 (Revised) from the auditing firm PricewaterhouseCoopers GmbH (PwC) to obtain limited assurance.

Reporting scope and reporting boundaries

For the 2017 reporting year, the separate Non-Financial Group Report for the first time covers disclosures on all active, comprehensively consolidated CENTROTEC companies and their respective locations. The data is submitted using the "Tagetik" financial reporting system established within the group, starting with the data recorded for the departments of the individual companies that is ultimately consolidated at group level.

CENTROTEC started to record non-financial data for the manufacturing units of the group from the 2010 financial year because the data was intended to help provide transparency on the development of the uniform core values of the group introduced in 2011.

In light of the introduction of mandatory non-financial reporting, from the 2017 reporting year the CENTROTEC Management Board, in consultation with the Supervisory Board, has resolved to prepare a separate Non-Financial Group Report. Because comparative figures are available only for the manufacturing group companies for the previous years, the present report features the one-off particularity that the prior-year figures are not exactly comparable to those for the year under review. These changes, which arise from the first-time consideration of non-manufacturing units in 2017 as well as a newly added subsidiary in Macedonia, are however not material in every area.

References to disclosures outside the Group Management Report constitute further information and are not part of the Non-Financial Report.

Materiality analysis and selection of report contents

Pursuant to Section 289 (3) of HGB, disclosable non-financial aspects are to be identified according to the double materiality qualifier. Under this approach, those disclosures that are required for understanding the business progress, business result, situation and the impact of activity on these aspects are material.

The non-financial aspects were selected by the Management Board. Its decisions were based on the criteria of the aforementioned double materiality qualification and in particular the criteria of industry relevance, own corporate structure plus the core values of the group.

The topic of CO_2 emissions was identified as especially material, with the need to differentiate between product-related emissions and company-related emissions. With regard to the impact of the activities of the CENTROTEC Group, we assess the product-related CO_2 emissions to be especially material, specifically with regard to the impact at customers, where considerable reductions in CO2 emissions can be achieved through the use of efficient systems. This is because the modern systems that CENTROTEC produces and sells often consume lower amounts of energy or ventilate buildings more efficiently than their predecessor models did. However CENTROTEC does not report on a concept for this matter in line with the German CSR Directive Implementation Act because it does not follow any central management approach here, and it does not appear feasible to collect data on emissions at customers with reasonable effort. While the company-specific CO_2 emissions of the CENTROTEC Group are comparatively speaking less relevant in terms of their environmental impact, we do see them as having high relevance for our business and adopt an active management approach, which we present in the concept description under Environmental matters. Sections of the supply chains of the group companies are also covered here, because we also include preliminary stages for the commodities used when calculating emissions.

Another area of focus in our non-financial reporting is “employee matters”, because employees are often exposed to high burdens in manufacturing companies and our employees are very important for the further development of the company specifically at a time when there is a growing shortage of specialist labour. Within the materiality analysis, the matter of occupational safety was identified as material in line with the German CSR Directive Implementation Act. In addition, the aspect of “combating bribery and corruption” contains an explanation of the relevant CENTROTEC concept, identified as the third material aspect. Above and beyond that, CENTROTEC was not able to identify any further mandatory disclosures as material based on the double materiality qualifier. In view of the assessment under the double materiality qualification, it does not separately consider the aspects of social matters and respect for human rights because the overwhelming bulk of the group’s activities take place in regions where there are high standards in place for social matters and human rights.

Risks

Reportable risks are those that are associated with the company's own business activities, business relationships, products or services, and very probably have or will have a serious negative impact on the material aspects.

The risk management system described in the Group Management Report from page 54 assures the recording and evaluation of corresponding risks in the financial sphere while enabling the inclusion of risks from the non-financial sphere. Starting with the gross recording of the risks, including the measures, a net assessment of the risk exposure is made and risks are managed on the basis of these net values.

CENTROTEC is not aware of any reportable risks taken by CENTROTEC companies or associated with the business relationships, products and services of the companies that very probably have or will have a serious negative impact on the reportable aspects.

Environmental matters

CENTROTEC regards the use of resources and the associated carbon footprint as a material non-financial aspect for the company and its environment. Out of a commitment to protect the environment through its core values, but also for business reasons, CENTROTEC has set itself the goal of keeping its own consumption of resources and therefore the direct and indirect CO_2 emissions as low as possible, to the extent that is economically justifiable. In keeping with this objective and in a reflection of the group's non-central organisation, CENTROTEC places the emphasis on individual measures that can be implemented by the individual companies. The time horizon for target attainment equally depends on the measures selected in each case, and is not laid down group-wide. The material effects in the sphere of emissions reduction are achieved through the consumption of material and are in the core interests of all group companies in view of the major business significance of this topic. Examples of other specific measures to reduce CO_2 emissions within operating processes are the use of internally produced co-generation plants (CHPs/Mainburg, Germany), the targeted buying of electricity (Brilon, Germany/Doesburg, Netherlands) from renewable sources and the implementation or partial implementation of the internal guideline on the construction of carbon-neutral buildings (Fulda, Brilon, Germany/Staphorst, Netherlands). These measures are part of a continuous improvement drive that is not enshrined in a group-wide formal set of rules. No systematic tracking of target attainment is performed. However the executive management of the individual companies as well as the Group Management Board are informed of the individual measures and their impact.

The CO_2 emission figures for the CENTROTEC Group in 2017 are fundamentally higher than in the previous year due to the first-time inclusion of the non-manufacturing units and the addition of the subsidiary in Macedonia as well as the increased business volume. In the sphere of resource consumption, the units covered for the first time in 2017 accounted for approximately 5% of total group consumption. The change in the product mix also impacts CO_2 emissions. For greater ease of comparison, CENTROTEC therefore also reports relative CO_2 emissions. To that end, total emissions are placed in the context of revenue in euros.

The direct business processes and the procurement of electricity result in CO_2 emissions amounting to 16.8 Kt (thousand tonnes) for the year under review of 2017 (previous year 14.2 Kt). This increase is attributable on the one hand to the increased business volume and on the other hand the widening of the reporting scope to include all subsidiaries.

However the influence of other indirect emissions, in particular from transport and the use of materials, for which it is much more difficult to determine values, was incomparably higher. The consumption of consumables alone within the production processes of the CENTROTEC Group produced indirect CO_2 emissions of 101 Kt for the 2017 year under review (previous year 98 Kt). For indirect emissions, the calculation is often based on estimates and assumptions.

Overall, CENTROTEC caused 130 Kt (previous year 124 Kt) of CO_2 emissions directly and indirectly. Relative to consolidated revenue, specific emissions rose only marginally from 0.215 t CO_2 per thousand euros of revenue in 2016 to 0.219 t CO_2 per thousand euros of revenue in the period under review, despite the wider reporting boundaries in 2017.

		2017	**2016**
Direct and indirect CO_2 emissions (from direct business processes, the procurement of electricity, transport and use of materials)	Tonnes	129,836	123,849
Consolidated revenue	EUR ’000	594,189	575,458
CO_2 emissions to revenue	t CO2/EUR ’000	0.219	0.215

Employee matters

In its dealings with people, CENTROTEC attaches considerable importance to sustainable action, as specified in the core values. Its aim here is to provide a safe and healthy place of work in order to protect all employees against harm and promote their health. To achieve this, the CENTROTEC companies have implemented health and safety programmes, rules and regulations at the various locations. CENTROTEC supports its employees and expects them to comply with the health and safety regulations. The same applies to the planning of workplaces, operating equipment and processes as well as to safety and personal behaviour in day-to-day work. Every CENTROTEC employee and every CENTROTEC manager is responsible for caring for others. The well-being sought for the individual also has a lasting positive impact on the development of all the different areas of CENTROTEC Sustainable AG, with the aim that it will ultimately yield economic success.

Safety and health protection for employees provide an absolute basis for a successful market presence for all companies of the group, but especially for the manufacturing ones. The issue of occupational safety is especially important for industrial companies with a manufacturing focus. At a time when the shortage of skilled labour is a growing issue especially in trade and industry, occupational safety provides a basis for holding onto employees or attracting new ones. Furthermore, working conditions that endanger employees would also significantly undermine cooperation with the company's other stakeholders. The aim is to reduce work related injuries. Unfortunately this target could not be achieved in the period under review.

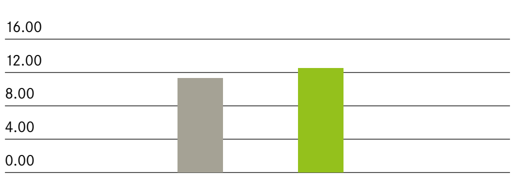
To provide fundamentally greater ease of comparison, CENTROTEC also reports a relative figure for occupational safety. This expresses the total number of work related injuries relative to the total number of working hours. The period under review brought a rise in the total number of reported work related injuries that resulted in temporary incapacity for work from 53 in 2016 to 67 in 2017. Relative to the increased number of working hours, the figures of 12.5 (11.1) work related injuries per million working hours was comparatively low for an industrial enterprise. However the figures should be interpreted more as benchmarks because CENTROTEC has previously only given the group companies a general definition of the term "work related injuries", so the key figure can be interpreted in a variety of ways.

Because of the non-central group structure, there are a large number of different measures to increase occupational safety at the subsidiaries of the CENTROTEC Group. They are based on consistent compliance with the statutory minimum standards as well as the customarily higher industry standards, and in almost every case satisfy the latest certifications in each industry affected. Furthermore, additional measures such as traffic training for apprentices (Mainburg, Germany), financing of health training, participation in smoking cessation courses (Brilon, Germany), the free provision of fruit at the workplace (Brilon, Germany) and the creation of ergonomic workplaces tailored to employees contribute to occupational safety and employee health. The executive management of the individual companies as well as indirectly, above them, the Group Management Board are regularly informed of the respective measures and their impact.

Health and safety		**2017 Sustainability Report**	**2016 Sustainability Report**
Working hours	h	5,338,839	4,767,678
Reported work related injuries ((´no specific definition)		67	53

WORK RELATED INJURIES

[per 1 million working hours]



Combating corruption and bribery

Derived from the core values, integrity is a material feature of CENTROTEC's entrepreneurial action. For CENTROTEC, integrity means a comprehensively fair, transparent, honest and incorruptible way of behaving, both for the enterprise and by each individual. What this means for CENTROTEC is that its actions are compelling and transparent. This applies to all divisions, departments and companies of the CENTROTEC Group.

By way of a uniform situation analysis of the existing management tools and risk exposure in the CENTROTEC Group, initial surveys were conducted a few years ago to identify structures that are susceptible to bribery and corruption. The areas considered to be at risk, e.g. Purchasing and Sales, were then addressed in a targeted, systematic way. The existing processes, safeguards and methods were categorised and divided into risk areas. For the sphere of "corruption and bribery" concerned here, the risk areas such as money laundering, gifts, entertainment and sponsoring were particularly in our sights. In response to these surveys, the results were analysed and recommended actions developed.

Various regulations and guidelines were updated in the year under review. These include in particular:

- Code of Conduct
- Guideline on Business Conduct
- Guideline on Gifts and Invitations
- Rules of Internal Procedure for the Group.

Other measures involve training courses for employees and training courses for new employees upon joining the CENTROTEC Group. These are held predominantly in traditional training classrooms, with the employees present. In subdivisions of the CENTROTEC Group, individual modules are also already available as webinars or using e-learning. Once the digitalised training options have been trialled adequately, they are to be rolled out to a wider circle.

No incidents or suspected cases in the sphere of corruption, bribery or money laundering came to light in the group in the year under review of 2017. The Group Management Board was informed via the Legal department if such incidents occur or if measures are initiated to combat corruption and bribery.

Corporate Governance Report

Appropriate corporate governance has been a central component of CENTROTEC Sustainable AG's corporate philosophy for many years. The Supervisory Board and Management Board have considered the German Corporate Governance Code at length in each amended version and incorporated the recommendations into their actions. As a result, CENTROTEC Sustainable AG complies in all key respects with the recommendations of the Code. The Declaration of Compliance below indicates and clarifies the departures.

Management and governance structure

In keeping with the German Stock Corporation Act, CENTROTEC Sustainable AG has a dual management and governance structure that comprises a two-member Management Board (at the reporting date of December 31, 2017) and, in accordance with its articles of incorporation, a three-member Supervisory Board. The Management Board and Supervisory Board work together closely in the interests of the company. The Management Board coordinates both the strategic direction and principal transactions with the Supervisory Board.

The Management Board is independently responsible for the running of the company and conducts its business. In doing so, it focuses on achieving a lasting improvement in the value of the company. It is bound by the law, the provisions of the articles of incorporation and the rules of internal procedure for the Management Board, as well as by the resolutions of the Annual General Meeting. The Management Board informs the Supervisory Board regularly and promptly of all relevant topics concerning the strategy and its implementation, the targets, the company's current performance, the risk exposure, and risk management.

The Supervisory Board monitors and advises the Management Board. It specifies the duties of the Management Board to report and inform. The Supervisory Board issues and amends the rules of internal procedure for the Management Board. It in addition appoints and dismisses the members of the Management Board. It may appoint a Chairman of the Management Board. It regularly monitors the effectiveness of the internal control and risk management system, as well as the auditing of the financial statements. The members of the Supervisory Board are appointed until the Annual General Meeting that gives discharge for the fourth financial year after the start of their term of office. The financial year in which the term of office commences is discounted.

Supervisory Board

Taking account of the company's specific situation, the Supervisory Board has identified specific targets in respect of its composition, such as a company-specific limit on a member's length of service and an age limit, the appropriate participation of members with international experience and efforts to ensure that women are adequately represented. The Supervisory Board is moreover to include an adequate number of independent members. The Supervisory Board will take account of these targets when proposing candidates to the electoral bodies, and in particular the Annual General Meeting.

There were no cases of conflicts of interest concerning Management Board or Supervisory Board members, which are to be disclosed to the Supervisory Board without delay.

Shareholders and Annual General Meeting

The shareholders exercise their rights through the Annual General Meeting and make use of their voting rights there. Each share carries one vote. Every shareholder is entitled to take part in the Annual General Meeting. The Annual General Meeting takes decisions concerning in essence the appropriation of profits, discharge of the Management Board and Supervisory Board, the articles of incorporation and amendments thereto, key entrepreneurial measures, and measures that change the capital such as the issuance of new shares, the acquisition of treasury stock and the conditional capital. The participants of the Annual General Meeting elect the Supervisory Board members and determine their remuneration.

Remuneration system of the Management Board and Supervisory Board

The Supervisory Board is responsible for determining the remuneration of the Management Board, including the principal contractual features. The remuneration system of the Management Board and Supervisory Board is presented in detail in the remuneration report, which forms part of this report.

Third-party financial loss insurance (D&O cover) has been taken out for the company's Management Board and Supervisory Board members, incorporating an appropriate excess for the Management Board members in accordance with the statutory provisions. An appropriate excess has also been agreed for the members of the Supervisory Board, in agreement with the Corporate Governance Code. The managing directors and supervisory/administrative board members of subsidiaries are included in this D&O cover.

Transparency

CENTROTEC Sustainable AG has acted openly and responsibly ever since its establishment, and was therefore already doing so before the company undertook to observe the Corporate Governance Code. The overriding objective of CENTROTEC's corporate communications is to provide prompt, continuous, comprehensive and consistent information to all target groups and to maintain a relationship with its shareholders that is characterised by transparency. In addition to financial data, the financial calendar listing all key dates for CENTROTEC Sustainable AG, ad hoc information and press releases, the latest developments regarding the Corporate Governance Code and notifiable securities transactions (proprietary traders) according to Article 19 of Regulation (EU) No. 596/2014 of the European Parliament and Council on market abuse (Market Abuse Regulation) as well as changes in the principal investments and in the overall voting rights pursuant to Sections 26 and 26a of German WpHG are published on the CENTROTEC homepage, following disclosure to the German Financial Supervisory Authority and the stock market.

Article 19 of the Market Abuse Regulation specifies the immediate disclosure obligation for transactions by Management Board or Supervisory Board members or by related parties involving shares or debt instruments of CENTROTEC or related financial instruments if the value of the transactions reaches or exceeds the amount of EUR 5 thousand within one calendar year. CENTROTEC Sustainable AG has passed on notices of all such transactions reported to it to BaFin without delay and published them on its homepage.

Legal transactions with companies in which members of the Supervisory Board and management hold or might hold an interest were also conducted in the financial year. As presented in detail in the Declaration of Compliance, these did not give rise to any conflict of interests.

The mandates held by the Management Board and Supervisory Board members on statutorily constituted supervisory boards or similar regulatory bodies are listed on page 121.

As in previous years, a dependency report was issued by the Management Board as a precautionary measure. We refer to the contents of the dependency report for details.

At December 31, 2017 the current members of the Management Board held no (previous year no) shares. At that date the members of the Supervisory Board held 2,477,340 (previous year 2,477,340) shares.

The current holdings of shares and options by the Management Board and Supervisory Board are documented on the homepage and are updated continuously.

Financial reporting and auditing of financial statements

The Consolidated Financial Statements are prepared by the Management Board, audited by the independent auditors and approved by the Supervisory Board. The Consolidated Financial Statements and interim reports are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, and published in both German and English.

The continuous, systematic management of entrepreneurial opportunities and risks is part of corporate governance for CENTROTEC. The Management Board reports regularly to the Supervisory Board on the latest developments in material risks within the group. This process helps to identify risks promptly and to manage them. The Management Board and Supervisory Board therefore regularly monitor the effectiveness of the financial reporting process and the internal control and risk management system.

Declaration by the Management Board and Supervisory Board of CENTROTEC Sustainable AG, Brilon, on the German Corporate Governance Code (Section 161 of German Stock Corporation Act)

The background

On February 26, 2002 the "Government Commission on the German Corporate Governance Code" first presented a code of practice for listed companies. This Code was last updated on February 7, 2017.

Pursuant to Section 161 of the German Stock Corporation Act, the Management Board and Supervisory Board of a company listed on the stock exchange are obliged to declare once a year whether and to what extent the code has been and is complied with:

Declaration of Compliance

The Management Board and Supervisory Board of CENTROTEC Sustainable AG declare that the recommendations of the "Government Commission on the German Corporate Governance Code" as amended on June 24, 2014 and subsequently as amended on May 5, 2016 are and have been complied with since the last Declaration of Conformity, dated April 2015, with the exceptions stated below.

1) Article 4.2.1 of the Code recommends that the Management Board should have a Chairman or CEO. Since April 3, 2014 our Management Board has comprised two members, who conduct the duties of the Management Board jointly and with equal rights. We believe that in view of the size of the Management Board and its structure, it is not appropriate or in the interests of the company to appoint a CEO or Chairman.

2) Article 5.3 of the Code recommends the formation of committees on the Supervisory Board. These shall, however, be dependent on the specific circumstances of the company and the number of members of the Supervisory Board. Our Supervisory Board consists of three members, who consider all matters concerning the company jointly. Consequently, we do not regard the creation of committees to be appropriate in our case. We believe that our view is compatible with the Code, but supply this information as a precautionary measure by way of clarification.

3) Under 5.4.1 the Code recommends that the Supervisory Board, when determining the goals for its composition, should also specify a limit to the period for which a member may serve on it. Bearing in mind the number of Supervisory Board members and the shareholder structure, we consider the introduction of a limit to the period of service to be inappropriate in our case.

4) Article 5.4.2 of the Code recommends that the Supervisory Board includes an adequate number of members who – in the board's own opinion – are deemed to be independent. A member is to be regarded as independent if they have no business or personal relations with the company, its corporate bodies, a controlling shareholder or an affiliated company that could constitute a substantial and not merely temporary conflict of interests. In its own opinion, our Supervisory Board includes an adequate number of independent members. Although individual members of the Supervisory Board are shareholders and occasionally have business relations with the company, this does not constitute a conflict of interests.

Brilon, March 20, 2017

The Management Board:

On behalf of the Supervisory Board:

Dr Thomas Kneip
[Management Board]

Dr Christoph Traxler
[Management Board]

Guido A. Krass
[Chairman]

Responsibility Statement pursuant to Section 297 (2) fourth sentence and Section 315 (1) sixth sentence of German Commercial Code

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Brilon, March 28, 2018

Dr Thomas Kneip
Dr Christoph Traxler

Section 289f

LINK to CENTROTEC homepage:
http://www.centrotec.de/en/investor-relations.html

Remuneration report

The remuneration report of CENTROTEC Sustainable AG is based on the requirements of the International Financial Reporting Standards (IFRS) as adopted by the EU, as well as the German Commercial Code (HGB), while also incorporating the recommendations of the German Corporate Governance Code.

Remuneration of the Management Board

The remuneration system for the Management Board including the key contractual elements is agreed by the Supervisory Board and regularly examined. The remuneration of the members of the Management Board comprises a non-performance-related fixed salary, a performance-related and thus variable remuneration component, as well as miscellaneous remuneration. The level of the remuneration of the Management Board members reflects the size as well as the economic and financial position of the company, together with how typical the remuneration is when measured against its peer companies. Task areas, personal performance and experience as well as attainment of targets by the Management Board members are moreover taken into account in determining their remuneration. The remuneration system regularly sets long-term behavioural incentives and focuses on sustainable development of the company, taking organic, profitable growth as the benchmark.

Remuneration granted

The Management Board of CENTROTEC Sustainable AG comprised two members in the 2017 financial year. The non-performance-related Management Board remuneration is paid in the form of a fixed monthly salary. In the 2017 financial year these fixed salaries, including the employer's social contributions on them, totalled EUR 650 thousand (previous year EUR 610 thousand).

In the past, the greater portion of the variable remuneration with long-term behavioural incentives was granted in the form of stock options via the CENTROTEC stock options scheme. As was already the case in the years 2013 to 2016, no further new options were granted to the Management Board in the year under review of 2017 due to the withdrawal of this scheme. The value of the total number of stock options issued to Management Board members up until 2012 has been determined using a binominal model in accordance with the rules in IFRS 2 "Share-based Payments". It led to EUR 0 thousand (previous year EUR 0 thousand) being booked as an expense in the Income Statement in 2017.

Since the 2013 financial year, a monetary bonus has been granted; its granting and level are dependent on attainment of certain targets specified at the start of the financial year. This bonus, which features both a short-term (one-year variable remuneration) and a long-term (multi-year variable remuneration/LTI) component, was offered prospectively and granted in compensation for the stock options previously granted. The monetary bonuses granted in 2017 totalled EUR 537 thousand (previous year EUR 537 thousand).

No additional pension benefits were granted in the 2017 financial year.

The non-cash benefit of the use of company cars in 2017 is reflected in the fringe benefits and amounted to EUR 32 thousand in 2017 (previous year EUR 31 thousand). The total remuneration upon full attainment of targets is EUR 1,219 thousand (previous year EUR 1,178 thousand). The minimum remuneration corresponds to the fixed salary. The maximum remuneration corresponds to the total remuneration granted as shown in the table, with a possible fluctuation in the variable remuneration between 0 and the granted amount stated, depending target attainment.

The following table shows the Management Board remuneration granted:

	Dr Thomas Kneip since January 1, 2014		**Dr Christoph Traxler since April 1, 2004**	
	2017	**2016**	**2017**	**2016**
Fixed salary	320	290	330	320
Fringe benefits	22	21	10	10
Total	**342**	**311**	**340**	**330**
One-year variable remuneration	235	235	182	182
Multi-year variable remuneration:				
- LTI scheme 2017 (3-year term)[1]	60	0	60	0
- LTI scheme 2016 (3-year term)[1]	0	60	0	60
Total	**295**	**295**	**242**	**242**
Pension benefits	0	0	0	0
Total remuneration	**637**	**606**	**582**	**572**

[1] The figure for 100% target attainment is shown.

Remuneration received

The following table shows the Management Board remuneration paid. The main difference compared with the above table is the amounts paid out from variable remuneration, the payout of which is either spread over several years (e.g. stock options, LTI programme) or takes place in the year following the year of granting (one-year variable remuneration). The amounts are broken down according to the individual plans and terms. For stock options and other share-based payments, the applicable date and value under German tax law are considered to be the date on which a payment is paid and the amount that is paid.

The actual remuneration paid for the members of the Management Board of CENTROTEC Sustainable AG in the 2017 financial year amounted to EUR 1,328 thousand (previous year EUR 1,203 thousand). Retired members of the Management Board received benefits totalling EUR 57 thousand in the 2017 financial year (previous year EUR 56 thousand).

	Dr Thomas Kneip since January 1, 2014		**Dr Christoph Traxler since April 1, 2004**	
	2017	**2016**	**2017**	**2016**
Fixed salary	320	290	330	320
Fringe benefits	22	21	10	10
Total	**342**	**311**	**340**	**330**
One-year variable remuneration	235	200	182	180
Multi-year variable remuneration:				
- Stock options (term 2011-2018 (prev. year 2010-2017))[1]	0	0	196	182
- LTI scheme 2014[2]	15	0	18	0
Total	**250**	**200**	**396**	**362**
Pension benefits	0	0	0	0
Total remuneration	**592**	**511**	**736**	**692**

[1] The first two years of the term are restricted, i.e. options may not be exercised during this period.
[2] Of the original EUR 50 and 60 thousand respectively from the LTI scheme 2014 granted, EUR 15 and 18 thousand respectively was paid out.

At December 31, 2017 neither the Management Board nor the Supervisory Board holds stock options. In the previous year, Dr Traxler held 32,159 stock options, which he exercised in the 2017 financial year (previous year 25,000). The weighted average share price at the time of exercise of the stock options exercised was EUR 17.65 (previous year EUR 14.76).

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is regulated by Section 18 of the articles of incorporation of CENTROTEC Sustainable AG and was last adjusted at the Annual General Meeting on May 20, 2014. As well as reimbursement of their out-of-pocket expenses, the members of the Supervisory Board receive a fixed annual remuneration, a variable performance-related remuneration and also attendance fees. The fixed remuneration amounts to EUR 20 thousand per member of the Supervisory Board for each full year of service. The Chairman receives double and the Deputy Chairman one and a half times the amount due to a member of the Supervisory Board. This remuneration of members of the Supervisory Board of CENTROTEC Sustainable AG consequently amounted to EUR 90 thousand in the past financial year (previous year EUR 90 thousand). In addition other expenses amounting to EUR 14 thousand (previous year EUR 28 thousand) were claimed, in particular for travel. The statutory level of sales tax due on this remuneration is furthermore paid by the company to the extent that it is billed by a Supervisory Board member. No separate remuneration is paid for service on committees, because the three-member Supervisory Board of CENTROTEC Sustainable AG does not form separate sub-committees in view of its size. By way of variable and performance-related remuneration, in accordance with the articles of incorporation, each member of the Supervisory Board receives remuneration amounting to 0.1% of the dividend payable for a given financial year. Like the fixed basic remuneration, this dividend-dependent remuneration is double the amount received by an ordinary Supervisory Board member in the case of the Chairman, and one and a half times in the case of the Deputy Chairman. In the 2017 financial year the total amount of this remuneration was EUR 24 thousand (previous year EUR 20 thousand) as a result of the increased dividend. The attendance fees granted for each Supervisory Board meeting have the basic amount of EUR 2 thousand. The Supervisory Board Chairman receives double this basic amount, and the Deputy Chairman one and a half times. Attendance fees totalling EUR 81 thousand (previous year EUR 45 thousand) were paid to the Supervisory Board in the year under review.

Shares

The market environment

2017 was the sixth year in a row in which almost all relevant indices worldwide showed gains. Most indices in fact grew by clear double-digit rates.

Share price performance

Until the second half of the year under review, the trading price of CENTROTEC shares outperformed the relevant indices. From an opening price for the year of EUR 15.30, the 2017 year-low closing price of EUR 14.83 was touched in mid-January, after which the shares rose to a year-high of EUR 19.79 at the end of July. As a result of the disappointing business performance in the second half, the trading price then lost ground to end the year under review at EUR 15.47. This represented higher volatility than in previous years.

After the period under review, up until mid-March 2018 the trading price of CENTROTEC shares hovered around EUR 14 to 15, with moderate trading volumes.

Share statistics

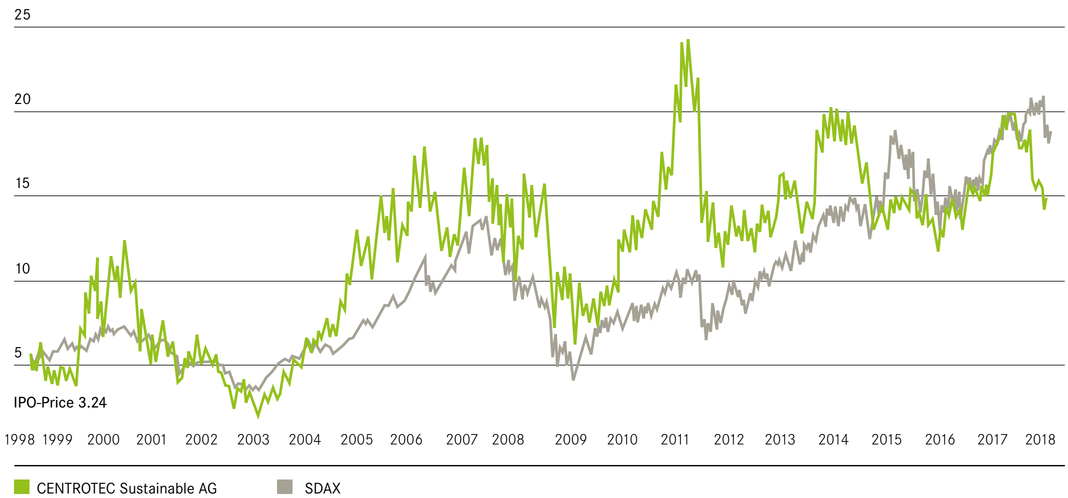
Since the initial public offering in 1998 the shares of CENTROTEC Sustainable AG have been listed at Deutsche Börse under securities identification number WKN 540 750, the international number ISIN DE0005407506 and the stock exchange code CEV. The shares are listed in the Prime All Share and other subindices of the German Share Index (DAX).

Share price 2017

[in EUR]

Share price since IPO

[in EUR]

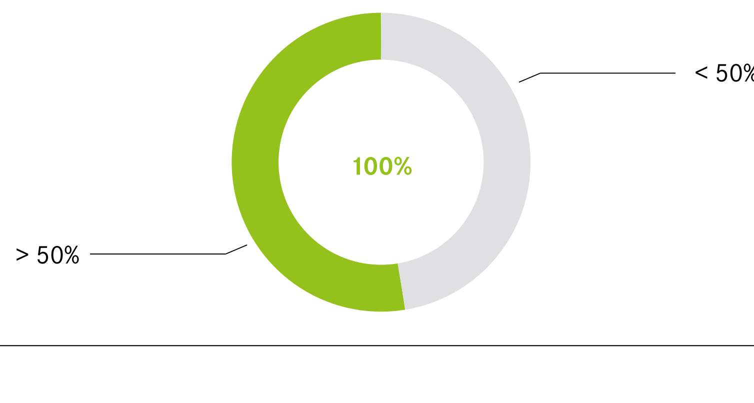


The capital stock of CENTROTEC Sustainable AG at December 31, 2017 amounted to EUR 18,020,923, divided into 18,020,923 no par value bearer ordinary shares carrying full voting rights, each representing an arithmetical nominal share of EUR 1 of the capital stock. Compared with the position at December 31, 2016 the capital stock rose by EUR 129,222. The number of CENTROTEC shares outstanding likewise rose correspondingly by 129,222. This change is exclusively attributable to the exercising of stock options by employees and corporate bodies of the CENTROTEC Group, who had been granted these options in the past as remuneration components with a long-term incentivising effect. No new stock options were granted in the period under review. Nor were any prospects of new stock options offered. No further exercising of options from the stock options schemes is expected. For further particulars, please refer to Section 10 of the Notes, under “Shareholder’s equity”.

CENTROTEC intends to pay an unchanged dividend for the past financial year. The Management Board, with the consent of the Supervisory Board, will propose to the Annual General Meeting on May 15, 2018 that a dividend of EUR 0.30 per dividend-bearing no par value share be distributed for the 2017 financial year (previous year EUR 0.30). This move is designed to allow the shareholders to continue sharing directly in the group’s fundamentally positive development. However in keeping with the successful past practice, the bulk of the group’s available profits will continue to be invested in further organic, acquisition-led growth.

Shareholder structure

[in %]



Since the IPO in 1998 the family of Supervisory Board Chairman Guido A Krass has remained the principal shareholder of CENTROTEC with a holding of more than 50% to the best of the company's knowledge. Over and above that, the company has no indication that there are other shareholders holding interests that run into double figures. One notice that an investor's holding had fallen below the reporting thresholds pursuant to Section 26 (1) of German Securities Trading Act was received in 2017. The threshold in question was 5%. In addition, two instances of investors' holdings falling below the 3% threshold were reported. Detailed information on this topic is available on the website of CENTROTEC Sustainable AG (www.centrotec.de). Information on changes in the voting rights held is also provided in the Notes, under "Other particulars". All shares outstanding are not subject to any restrictions with regard to transferability and voting rights.

All prices quoted from XETRA trading	2013	2014	2015	2016	2017
Total shares at Dec 31, '000 (units)	17,627	17,647	17,733	17,892	18,021
Capital stock at Dec 31, EUR	17,627	17,647	17,733	17,892	18,021
Market capitalisation at Dec 31, EUR million	327.9	252.0	234.3	273.6	279
Year-end price, EUR	18.60	14.28	13.21	15.29	15.47
Year-low, EUR	12.56	12.91	12.85	11.56	14.83
Year-high, EUR	19.79	20.20	15.25	15.60	19.79
Daily trading volume average in '000 (units)	30.8	27.3	28.3	14.0	23.8
Earnings per share, EUR	1.40	1.00	1.18	1.21	1.13
Dividend per share	0.20	0.20	0.25	0.30	0.30
Price-to-earnings ratio at Dec 31	13.3	14.3	11.2	12.6	13.7

Over 2017 as a whole, 5.9 million CENTROTEC shares were traded on all German stock exchanges. This represents a substantial increase in unit terms compared with the previous year (3.5 million shares). The trading volume of EUR 102 million was well above the prior-year figure of EUR 48.6 million, among other reasons because of the markedly higher average trading price over the year. The average daily trading volume was consequently 23,400 shares or EUR 408 thousand (previous year 14,000 shares or EUR 194 thousand). The proportion of the total German trading volume processed via XETRA declined to 86% (previous year 89%).

Investor Relations

CENTROTEC maintains open, prompt and reliable communications with interested financial market participants in an effort to do justice to the confidence that investors show in the company. The transparency guidelines required by law, such as the German Securities Trading Act, the German Stock Corporation Act, the Market Abuse Regulation, the additional post-admission obligations of Deutsche Börse and the national and international accounting standards including IFRS (International Financial Reporting Standard) and the German Commercial Code, as well as the rules of the Corporate Governance Code, represent a minimum standard that has become steadily more demanding in recent years.

CENTROTEC again maintained direct contact with various financial market participants in 2017 at a large number of telephone conferences, at individual roadshows, an investors' event at the ISH and at the Annual General Meeting. A large number of one-to-one and group talks were moreover held at the German Equity Forum in Frankfurt. Finally, the Investor Relations area posted the latest information on the homepage of the group website, and was available throughout to handle enquiries by phone, correspondence or electronic means.

CENTROTEC's performance is monitored by analysts from the following financial institutions:

Coverage

Hauck & Aufhäuser	M.M.Warburg
HSBC	Montega

CENTROTEC regularly posts the core statements from their analyses on the group homepage soon after their publication.

System supplier for air handling units and combined heat and power solutions

COMMERCIAL BUILDINGS

Ultra-efficient climate control solutions of Wolf create a healthy interior climate. Through heat recovery, they significantly help to save energy and cut heating energy requirements and CO_2 emissions.

Combined heat and power plants (CHP) of Wolf form the basis for energy-efficient and non-central generation of power and heat by means of co-generation at the point of use. Energy sources thus achieve an overall energy efficiency of up to 90%.

1 ***Wolf large-scale air handling unit***

2 ***Wolf combined heat and power system***


1
2

Group Management Report

Business and underlying situation

Overview

The CENTROTEC Group – hereinafter also referred to as CENTROTEC – is Europe's only listed full-service supplier of heating and climate control technology for buildings. The product range encompasses mainly system solutions for the areas of heating, ventilation and climate control technology, as well as solar thermal, heat pump technology and co-generation. It supplies and optimises solutions both for the new-build sector and also for the steadily growing renovation market.

CENTROTEC enjoys a presence in over 50 different countries through subsidiaries and sales partners. Its thirteen production plants are located predominantly in Europe. At December 31, 2017 the group employed almost 3,000 employees at locations in Europe, North America and Asia. Between them, they generated total revenue of EUR 594 million in 2017, with the German market contributing 53% of this amount.

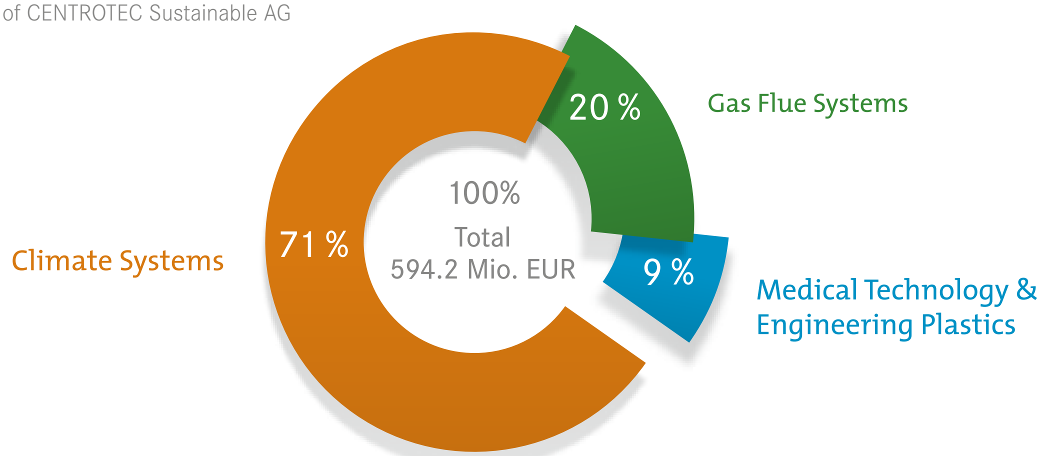
Group structure

The business operations of the CENTROTEC Group are divided into three segments. The largest segment in revenue terms, Climate Systems, along with the Gas Flue Systems segment, constitutes the core business area with its energy-saving, sustainable heating and climate control technology for buildings. There is considerable overlap between the customer groups and application scenarios served, but the products differ. Climate Systems focuses on active equipment and complete systems, while the companies in the Gas Flue Systems segment concentrate on accessories. The third segment Medical Technology & Engineering Plastics, which is the smallest by revenue, develops, produces and sells medical technology solutions and high-performance plastics.

CENTROTEC Sustainable AG with its registered office in Brilon, Germany, acts as the listed holding company for all subsidiaries and supports them in the strategic, financial and administrative areas. All operating activities in the product markets are handled via the subsidiaries. The major companies for core business are Wolf GmbH and Brink Climate Systems B.V. (Climate Systems segment) as well as Ubbink B.V. and Centrotherm Systemtechnik GmbH (Gas Flue Systems segment). These companies have their own subsidiaries in Germany and internationally. Möller Medical GmbH is the largest company in the Medical Technology & Engineering Plastics segment.

Net sales by segment

of CENTROTEC Sustainable AG



Business activities

Business areas

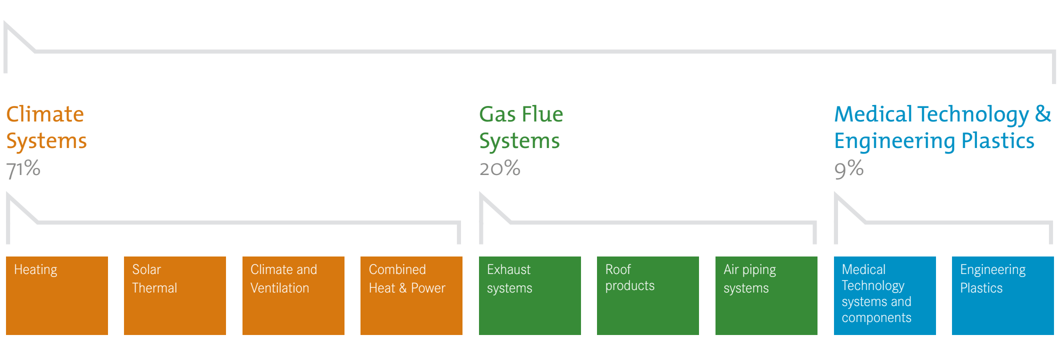
The companies brought together under the umbrella of the **Climate Systems** segment provide a healthy interior climate in all kinds of buildings. To that end, they develop, produce and sell a comprehensive portfolio of heating, climate control and ventilation systems. The heating systems made by Wolf GmbH and its subsidiaries focus mainly on modern condensing boilers for oil and gas-fired heating systems, as well as various systems for the use of renewable energies and for co-generation. In addition, the company offers an extensive range of solutions for climate control in commercial buildings. The Dutch company Brink Climate Systems B.V. has specialised in air heating systems, but especially the growing market segment of home ventilation systems with heat recovery. The major production locations of this segment are situated in Germany, the Netherlands and Croatia. Sales activities in the core markets are handled by group-owned sales and service offices, and focus increasingly on products purpose-designed for these markets. In many other countries, there are also agreements with sales partners, some of which are CENTROTEC's exclusive local representatives. The sales channels vary according to product type and sales market. In the case of heating systems, orders are processed mainly via wholesalers. The existing good, direct links with the trade are nevertheless crucial to market success. Meanwhile architects and general contractors are usually the key contacts in the climate control area.

The **Gas Flue Systems segment** specialises mainly in the areas of gas flue systems for condensing boilers and air piping systems for home ventilation with heat recovery, through the companies Ubbink B.V. and Centrotherm Systemtechnik GmbH. The passive systems developed and manufactured by this segment often serve as complementary components to the active systems made by the Climate Systems segment. In this segment, too, the main production locations are in Germany and the Netherlands. Components are in addition produced at the locations in the USA and China. There is moreover a pan-European and increasingly worldwide network of local sales subsidiaries. Depending on product group, sales are channelled either via the wholesale trade or directly to other manufacturers of heating and ventilation systems.

The **Medical Technology & Engineering Plastics** segment manufactures medical technology solutions and high-performance plastics at locations in Germany and Denmark, for sale internationally.

Business fields

of CENTROTEC Sustainable AG



Management and governance

The management and governance structure of CENTROTEC Sustainable AG and the group is based on the requirements of the Corporate Governance Code and the German Stock Corporation Act. The Supervisory Board is elected and overseen by the Annual General Meeting, and advises the Management Board on the operational management of the entire group. Since 2014, the Management Board has comprised two members of equal status. Targets are drawn up for the individual companies at annual budget negotiations, with the involvement of the Management Board. These then serve as the basis for defining individual targets for Management Board members, managing directors and executive staff, and for establishing their variable pay components. The basic features of the system of remuneration as well as particulars of the group remuneration of individual Management Board and Supervisory Board members are summarised in the remuneration report for the 2017 financial year. The remuneration report, which includes the particulars of the remuneration of the corporate bodies, is published in the Annual Report and is to be regarded as part of this management report.

CENTROTEC's corporate philosophy is fundamentally based on granting considerable entrepreneurial freedom to the individual operating units as well as to employees and executive staff. This approach enables the operating subsidiaries to act in a swift, innovative and market-led way, which enhances the appeal of working for them. However in recent years the group has also been actively promoting the use of synergies; this remains a focus of its strategy while not signalling a departure from the fundamentally non-central corporate philosophy.

The group-wide planning and budgeting system, along with the risk management system which was extensively revised in recent years, serves as the basis for the operational management of the group. This is accomplished with the help of operational management indicators that are considered on a weekly, monthly or quarterly basis as target/actual and year-on-year comparisons. The revenue and the operating result (EBIT) are of particular help here, especially for the management of the segments. In addition, other indicators that shed light on liquidity, net working capital and the financial situation are used (please refer also to the relevant tables in the economic report below). These indicators are explained and evaluated in regular discussions held at various levels. They allow departures from the targets and changes in the general parameters to be identified early on so that appropriate corrective action can be taken. Furthermore, the ongoing programmes to improve efficiency and cut costs play a fundamental part in setting up the organisation and processes to address the challenges presented by target markets that are changing ever more rapidly.

Declaration on corporate governance pursuant to Section 289f of German Commercial Code

The declaration on corporate governance to be submitted pursuant to Section 289f of the German Commercial Code (HGB) and the Corporate Governance Report published by the company annually can be found on the website of the CENTROTEC Group, under Investor Relations.

Pursuant to Section 317 (2) sixth sentence of HGB, the disclosures pursuant to Section 289f of HGB do not fall within the scope of the review by the company's auditors.

Remuneration report

The remuneration report summarises the principles that are applied in determining the overall remuneration of the members of the Board of Management of CENTROTEC Sustainable AG, and explains the structure and level of the Management Board members' remuneration. It furthermore describes the principles for and the level of the Supervisory Board members' remuneration. The remuneration report is a component of the Group Management Report. It can be found on pages 18 to 21 of this Annual Report.

People at CENTROTEC

The workforce of the CENTROTEC Group is a major success factor in the ongoing development of the individual companies and the group. Keeping its employees motivated and continuing to encourage them is central to the corporate philosophy. This approach is substantiated by the group guidelines, which advocate social responsibility, entrepreneurial action and sustainable action coupled with absolute integrity. These fundamental principles are put into practice in the individual entities in a variety of ways which reflect the existence of diverse corporate cultures at the companies that have been brought into the group through past acquisitions. To accompany the fundamentally high level of freedom given to the operating units and individual employees, there is a group-wide system of targets which, specifically at management level, forms an important part of the performance-based management, pay and incentives system of the Group and its member companies.

An apprentices quota of 4% as well as the growing number of individually tailored working hours models and other company-specific arrangements are evidence of how the companies of the CENTROTEC Group focus strongly on personnel development and employee loyalty. In addition, the groundwork for the continued development of the group in that domain was performed in the period under review.

At the end of the 2017 financial year the comprehensively consolidated companies of the CENTROTEC Group had a total of 2,990 employees (previous year 3,435 employees). This figure included 153 temporary workers (previous year 184). Expressed as full-time equivalents (FTE) the figure was 2,878 (including 123 FTE temporary workers; previous year 3,285 FTE, including 149 FTE temporary workers). CENTROTEC carried out a reorganisation of individual subdivisions in the 2017 financial year and transferred human resources management to external enterprises, leading to the fall in the employee figures at the reporting date. As an average for the year, the CENTROTEC Group employed 3,407 (previous year 3,376) people. This corresponded to 3,277 full-time equivalents (previous year 3,237 FTE).

The CENTROTEC Group saw personnel expenses increase by 5.5% in 2017 to EUR 184.4 million (previous year EUR 174.8 million). Including the lower costs of temporary workers, the personnel expenses ratio thus rose to 32.1% (previous year EUR 31.7%).

Research and development

CENTROTEC treats research and development (R&D) as a high priority. In keeping with the corporate philosophy, this area is organised non-centrally and is therefore based at the individual production locations. As a result of the growing convergence of the individual systems into complex all-in solutions, cooperation is becoming increasingly common in this area, too, including to some extent across the segments.

The non-central structure allows changing customer requirements or new regulatory controls to be optimally reflected at the product development stage. The various development projects are taken forward in close consultation with the Sales area and address the requirements of the individual national companies. It is a key concern of R&D work to gradually improve the energy efficiency and operating convenience of the component systems that are increasingly converging into all-purpose systems spanning the areas of heating, ventilation and climate control for buildings.

In addition to the ongoing optimisation of the product portfolio and its expansion to include extra services, in the past year – as in previous years – one focal area of R&D work in the **Climate Systems** segment involved the development of products specially designed to access international markets.

The significant development projects completed within the segment in 2017 included the following:

- New Smartset app for the remote control and monitoring of building services engineering systems. Previously for heating systems and home ventilation, now extended to encompass the full range of climate control systems and combined heat and power units.
- Introduction of high-efficiency compact climate control units using the rotating heat exchanger principle for the lower air volume range
- Compact central storage units for heat pumps
- Addition of more performance categories to split heat pump range
- Expansion of the gas condensing boiler range at the top end up to 1000 kW

In the **Gas Flue Systems** segment, capacities for corrugated tubing manufacturing in Germany were stepped up to keep pace with increased demand. Manufacturing capacity was upped further in the USA to reduce that market's dependence on European production locations. The product portfolio was also optimised and new – in some cases patent-pending – detailed solutions were added. For example, new components were developed specifically for the Chinese market.

The development focus for the **Medical Technology & Engineering Plastics** segment, in the Engineering Plastics area, was again on the development of functional plastics. In the Medical Technology sub-area, activities in the year under review centred on overhauling and refining proprietary products e.g. in the field of liposuction. One notable development is the granting of FDA approval for the BiopC® product segment.

The CENTROTEC Group employed a total of 156 individuals (previous year 166 individuals) on research and development projects in the 2017 financial year, and invested EUR 16.8 million (previous year EUR 16.0 million) in this area.

Sustainability

With regard to sustainability, we refer here to the separate Non-Financial Group Report, which is published in the Annual Report of CENTROTEC from page 13 and is to be regarded as part of the Group Management Report.

Systems supplier for collective flue and heating systems

APPARTMENT BUILDINGS

Centrotherm and Ubbink have developed collective flue systems that enable multiple-floor connections to one common vertical flue exhaust liner. Other collective flue solutions include in-cascade installations where several centrally installed heating systems again share one common flue exhaust liner.

Large heating capacities of several 1000 kW are covered by the Wolf medium and large boiler series.

1 ***Multiple floor solutions for de-central heating purposes***

2 ***In-cascade heating installation, including flue solution***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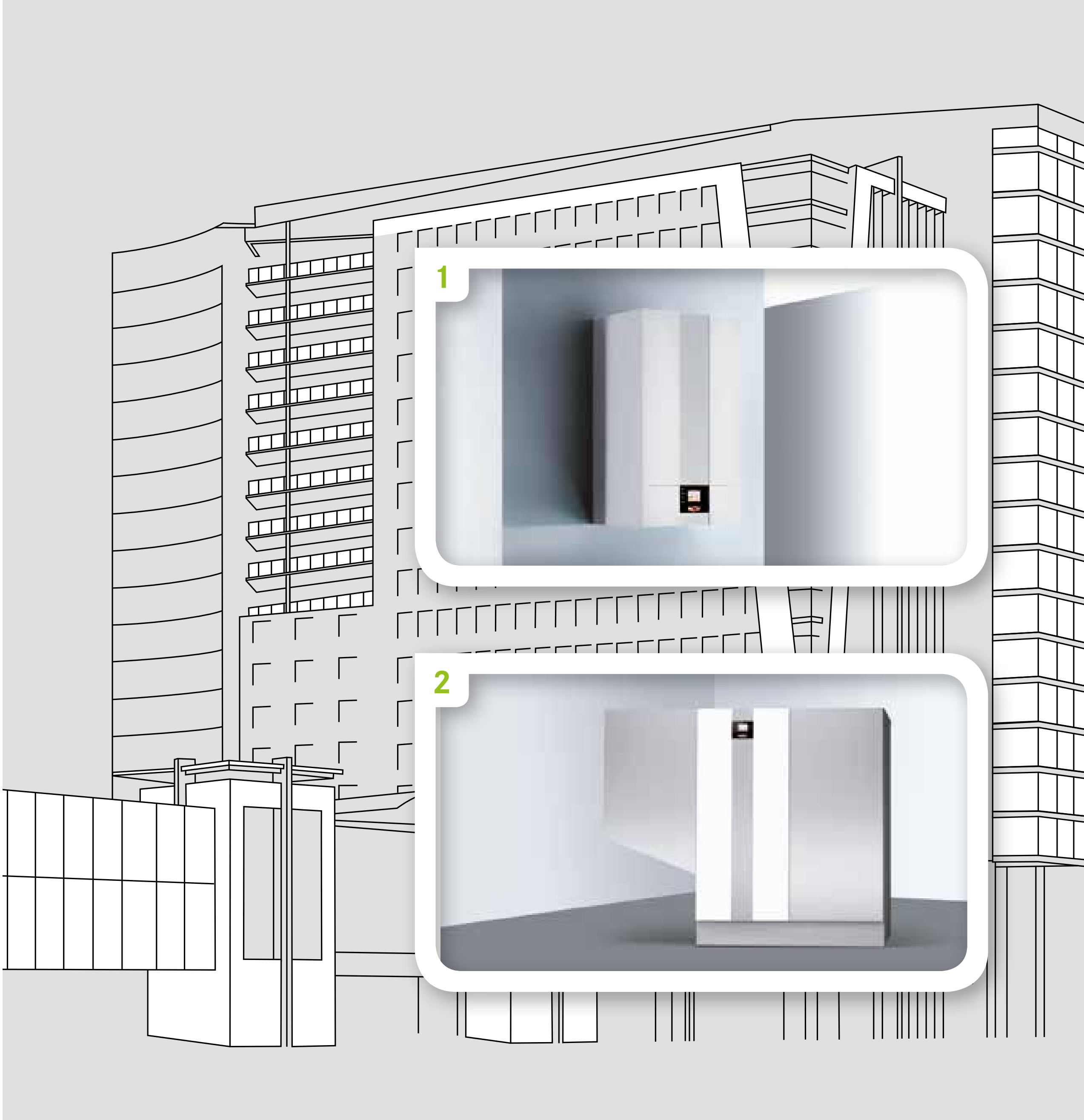
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Economic report

Overview

The CENTROTEC Group achieved purely organic revenue growth of 3.3% in the 2017 financial year, taking the total to EUR 594.2 million (previous year EUR 575.5 million). The operating result fell by 15.8% to EUR 29.4 million (previous year EUR 34.8 million). The company therefore achieved the revenue targets that it communicated to the capital market for the 2017 financial year, but the earnings target had to be reduced in-year. This reduced forecast was ultimately achieved. Because of the extension of the balance sheet through the placement of a promissory note loan for EUR 90 million, the equity ratio fell to 44.0% (previous year 50.2%). The net financial position of the group amounted to EUR 13.0 million at the end of the year (previous year EUR 6.6 million). The cash flow from operating activities totalled EUR 31.6 million (previous year EUR 41.5 million).

Business performance

Due to industry-specific factors the development in revenue and earnings at CENTROTEC exhibits a typical seasonal pattern with a fundamentally weaker first half and a stronger second half. This was again in evidence in 2017. The first quarter brought a revenue and earnings performance that was well up on the previous year, in part also by virtue of the fact that the Easter break fell in April. The second and third quarters, as well as the month of October, fell short of expectations. The business performance then stabilised towards the end of the year.

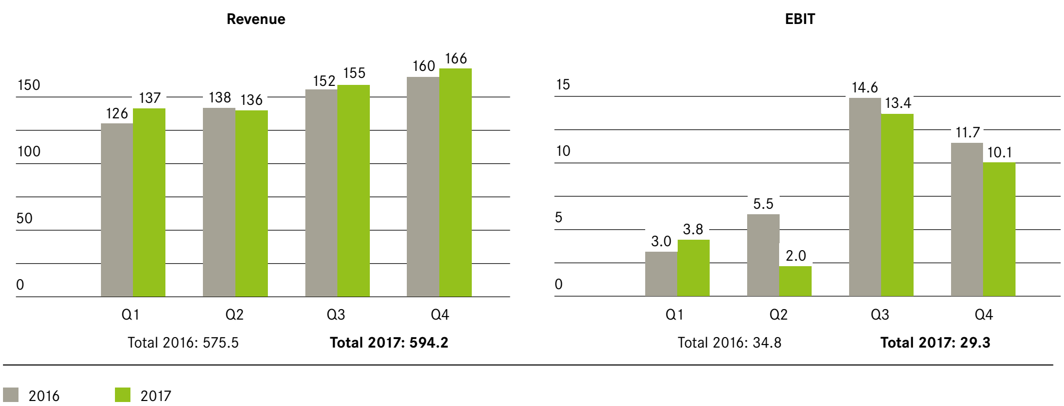
Economic environment

The markets in which the CENTROTEC Group conducts its core business are influenced mainly by construction activity, energy prices and regulatory requirements concerning the energy efficiency of buildings. From a group perspective the development of the renovation market is of greater significance than that of the new-build market.

The construction sector showed a fundamentally positive development in 2017 in all relevant markets for CENTROTEC. The growth rate for the European construction industry reached 3.5% in real terms (previous year 2.5% / figures refer to the countries affiliated to the EUROCONSTRUCT industry federation). This was the first year since the 1990s that growth was achieved across the board in Europe. In the core market Germany, the construction sector’s revenue volume grew by 2.6% (previous year 2.5%). In the housing construction sector, growth was again higher, as in the previous year. It should be noted in this regard that the renovation sector continues to account for the bulk of housing construction activity despite the higher new housing construction figure.

Quarterly Revenue and EBIT Development 2016 - 2017

[in million EUR]



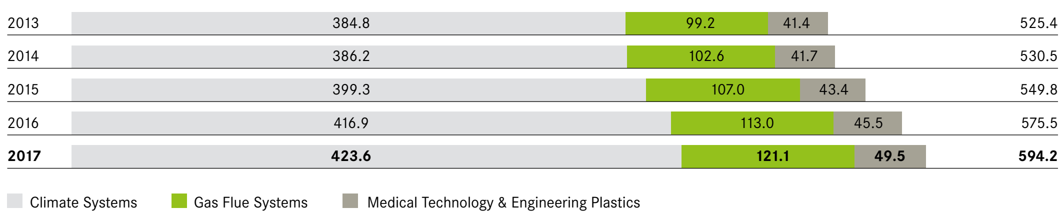
The level of this activity that constitutes energy-related modernisation more or less tracks the movement in energy prices. That is true of private, but especially commercial, customers. The first upward movement in prices in 2017 for energy production and imports, after four years of declining prices, should be viewed through this prism. For example, the crude oil barrel price averaged USD 55 over the year (previous year USD 44), and this filters through directly into heating oil prices then, with some delay, also into gas prices for consumers.

CENTROTEC's main markets for heating and climate control technology in Europe, but also the increasingly significant Chinese market, enjoyed growth across the board in 2017 after a rather slack 2016. The German heating market achieved slightly lower-than-forecast growth of just below 3%. Solar thermal again suffered a sharp decline of 16% in Germany. Most other European countries, too, mirrored the weak trend of recent years in solar thermal. By contrast, the home ventilation area delivered revenue growth in most European markets. In Germany, it reached a high single-digit percentage that was consequently well up on the previous year's growth.

The activities of the companies in the Medical Technology & Engineering Plastics segment take place in predominantly highly fragmented markets for which no comprehensive market information is available. The market for medical technology fundamentally exhibits a stable long-term growth trend that is being supported by demographic change.

REVENUE BY SEGMENT

[in EUR million]



Financial performance

Revenue

CENTROTEC achieved group-wide organic revenue growth of 3.3% to EUR 594.2 million in the 2017 financial year (previous year EUR 575.5 million). The revenue volume from outside Germany rose to 47% (previous year 45%). With 53% (previous year 55%) of consolidated revenue, Germany remained by some distance the most important national market, followed by the Netherlands and France on ten and eight percent respectively. The period under review brought high rates of growth in the focal markets in the Netherlands, China, Spain, Italy, Russia and the USA.

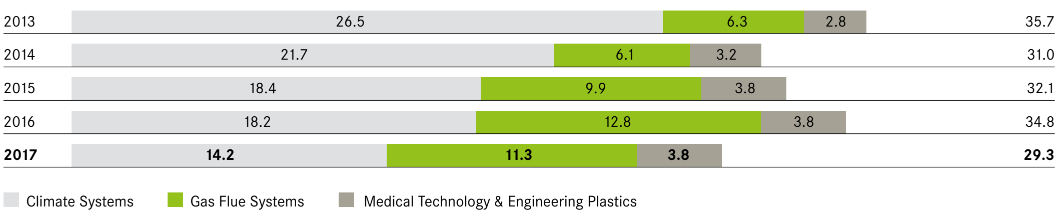
- In the **Climate Systems** segment, organic revenue was increased by 1.6% to EUR 423.6 million (previous year EUR 416.9 million). This growth was underpinned by increased international business that was spread across all product areas. Especially high growth rates were achieved in China, Spain and Russia. German ventilation and climate control business also yielded growth. On the other hand German heating business failed to live up to expectations latterly. The sales stimulus programme launched at the start of the year, encompassing aspects such as the further expansion of the service structure, the increased scope of warranties and improvements to the discounts system, is in the launch phase and is expected to achieve an impact in the course of 2018.

- In the **Gas Flue Systems** segment, a 7.2% increase in revenue to EUR 121.1 million was registered in the 2017 financial year (previous year EUR 113.0 million). Growth was contributed by all major product areas such as flue gas ducting and air piping, and also the roof products. Regionally, the highest growth was achieved in the USA and the Netherlands. France remains the largest national market in this segment, followed by the Netherlands and Germany.

- Revenue for the **Medical Technology & Engineering Plastics** segment came to EUR 49.5 million (previous year EUR 45.5 million). This 8.6% revenue growth was underpinned especially by the Medical Technology area, with growth in its fields of neurosurgery and aesthetics. The CENTROTEC companies in Germany's engineering plastics segment also enjoyed significant growth.

EBIT by segment

[in EUR million]



Earnings

Earnings before interest, taxes, depreciation and amortisation (EBITDA) came to EUR 54.1 million and were therefore 9.1% down on the prior-year figure of EUR 59.5 million. With regard to earnings before interest and taxes (EBIT), the percentage drop of 15.7% to EUR 29.4 million (previous year EUR 34.8 million) was slightly higher because of a depreciation and amortisation volume on a par with the previous year. The EBIT margin consequently declined to 4.9% (previous year 6.1%). In the three individual CENTROTEC segments, the margin ranged from 3.4% to 9.3%.

- The **Climate Systems** segment saw a 21.5% reduction in earnings before interest and taxes (EBIT) of EUR 14.3 million in the 2017 financial year (previous year EUR 18.2 million). The EBIT margin was consequently 3.4% (previous year 4.4%). Because of the costs of the further expansion of the international sales and service infrastructure, a slight reduction in the EBIT margin had already been expected in the course of the year. The weak sales performance in the highly profitable German heating market also weighed on earnings. This decrease was only partially made good by growth in less profitable international business and in the area of commercial climate control and ventilation. The virtually constant cost of purchased materials ratio of 48.3% (previous year 48.2%), reflecting the intensive activities to expand business and the negotiated pay increases, contrasts with a further rise in the personnel expenses ratio to 32.0% (previous year 30.5%).

- In the **Gas Flue Systems** segment, EBIT of EUR 11.3 million was 11.9% down on the prior-year figure of EUR 12.8 million. This reduced the EBIT margin to 9.3% (previous year 11.3%) among other reasons because of slightly higher depreciation and amortisation (EUR 6.6 million, previous year EUR 6.2 million). In addition, less profitable revenue from OEM (original equipment manufacturer) customers ate into the segment's profitability.

- As in the previous two years, the **Medical Technology & Engineering Plastics** segment achieved an EBIT of EUR 3.8 million. The EBIT margin consequently fell to 7.7% (previous year 8.4%). The companies in this segment again paved the way for further growth through company-specific measures in the areas of R&D, infrastructure and sales. This led, among other things, to a fall in the personnel expenses ratio to 40.4% in 2017 (previous year 41.5%) in conjunction with a rise in the cost of purchased materials ratio to 32.2% (previous year 30.6%). Depreciation and amortisation rose in proportion to revenue to EUR 3.2 million (previous year EUR 2.9 million).

EPS*

[in EUR]

* Earnings per share

The financial result improved to EUR -0.3 million (previous year EUR -3.8 million) mainly thanks to income from the current investments. This figure includes earnings from current investments of EUR 3.0 million. Earnings before tax (EBT) fell by 6.5% to EUR 29.0 million (previous year EUR 31.1 million). A fall in the effective tax rate to 28.2% (previous year 30.5%) produced earnings after tax (EAT) of EUR 20.8 million for the 2017 financial year (previous year EUR 21.6 million). For a slightly higher number of shares, this represented basic earnings per share (EPS) of EUR 1.13 (previous year EUR 1.21).

Net worth and financial position

Principles and aims of financial management

Financial management within the CENTROTEC Group is designed to secure the company's long-term future. It seeks to uphold the interests and entitlements of the employees, owners, other lenders and other stakeholders. In addition, the aim is to assure a capital and risk structure that supports the pursuit of the corporate objective of sustainable, profitable growth. This means ensuring that not only are there adequate liquid funds available to the group companies to finance organic growth, but also that the company enjoys access to adequate financial resources whenever it wishes to seize suitable opportunities for external growth. Financing has until now taken place predominantly at the level of the operating subsidiaries: in keeping with CENTROTEC's corporate philosophy, whenever it has raised borrowed capital it has given preference to ring-fenced structures for the assets and companies to be financed. The still-favourable financing situation was moreover used in the period under review to secure long-term financing on attractive terms for the group, at the level of the holding company, by means of a promissory note loan for EUR 90 million.

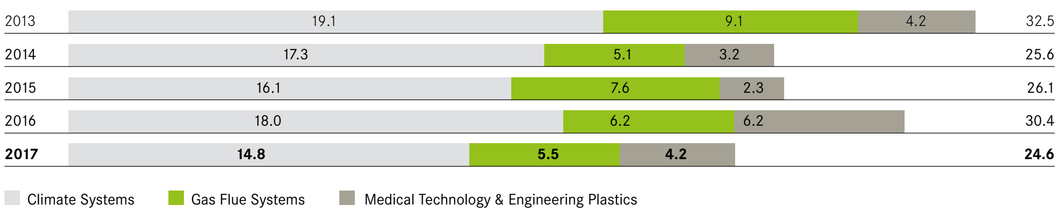
The CENTROTEC holding company is financed by charging for the services it provides, and also by dividends from subsidiaries as well as by external financing.

Acquisitions and divestments

2017 brought no acquisitions or divestments that were of material significance for the net worth, financial position and financial performance of the CENTROTEC Group.

Investment

[in EUR million (without acquisitions)]



Investment

The objective of the companies of the CENTROTEC Group is to use investment so that the modern, highly efficient development, production, logistics, sales and administrative units are able to access further growth opportunities and actively to realise these.

The companies of the CENTROTEC Group invested EUR 24.6 million in property, plant and equipment and in intangible assets in the 2017 financial year. That is a reduction of 19.2% compared with the much higher prior-year figure of EUR 30.4 million. The investment volume was consequently slightly above the level of depreciation and amortisation, but in all three segments below the respective prior-year figures and also below the planned level. This is attributable to such factors as postponed investments in building extensions and modernisations, which are now only expected to be realised in 2018 and 2019.

In the **Climate Systems** segment, the investment volume in the period under review amounted to EUR 14.8 million (previous year EUR 18.0 million). Various locations of the Wolf Group accounted for the biggest single investment items as well as the bulk of the overall volume. The investment priorities lay in product development and reengineering, the preservation and expansion of the production infrastructure, and the business applications. The only single investment with a volume in excess of one million euros concerned the acquisition of an extension building.

The investment volume in the **Gas Flue Systems** segment came to EUR 5.5 million in 2017 (previous year EUR 6.2 million) and was used overwhelmingly for expanding the production infrastructure. There were no single investments with a volume of more than one million euros in this segment in the period under review.

The **Medical Technology & Engineering Plastics** saw much a lower EUR 4.2 million invested in the 2017 financial year than the previous year's record total (EUR 6.2 million). All major investments that were made in the various companies of the segment involved either the production infrastructure or product development. No single investment projects had a volume of over one million euros.

Key financial figures

[EUR million]	2017	2016
Balance sheet total	580.5	479.7
Non-current assets	244.3	247.6
(of which goodwill)	77.3	77.2
Shareholders' equity	257.5	240.6
Equity ratio (percent)	44.4	50.2
Equity ratio (percent)*	13.0	6.6
Net Working Capital**	70.3	58.0

* Cash and cash equivalents + current investments – current and non-current borrowings
** Current assets – cash and cash equivalents – current investments – current, non-interest-bearing borrowed capital

Balance sheet structure

At December 31, 2017 the balance sheet total of the CENTROTEC Group was EUR 580.5 million. This meant the balance sheet was stretched by 21.0% compared with the end of fiscal 2016.

On the assets side, current investments of EUR 95 million represented the biggest change within other financial assets. There was also an increase in inventories and a higher level of receivables. This translated into a rise of EUR 12.3 million in net working capital to EUR 70.3 million. The main factors behind this change were the increased business volume and the higher export ratio.

On the equity and liabilities side, particularly the raising of a promissory note loan prompted a rise in non-current borrowings of EUR 86.1 million to EUR 149.5 million. The EUR 17.0 million increase in shareholders' equity to EUR 257.5 million and the change in the equity ratio to 44.4% (previous year 50.2%) were the main movements on the equity and liabilities side.

Financing

At December 31, 2017 the borrowings of the CENTROTEC Group amounted to EUR 171.0 million and were well above the prior-year figure of EUR 85.8 million as a result of the raising of the promissory note loan. Taking into account cash and cash equivalents as well as attributable current investments, the net financial position of EUR 13.0 million (previous year EUR 6.6 million) remained positive.

That aside, there were only minor changes in the financing structure of the CENTROTEC Group.

The reported financial debt was made up as follows at the balance sheet date:

FINANCIAL KEY FIGURES Borrowings maturities schedule as of 31.12.2017 [in EUR '000]	Total outstanding amount	Of which maturity less than 1 year	Of which maturity 1 to 5 years	Of which maturity over 5 years	Interest rate spread
Real estate loans	54,702	3,837	13,461	37,403	1.4% - 5.4%
Other loans	99,114	2,376	5,969	90,769	0.8% - 5.3%
General credit facilities	14,595	14,595	0	0	0.3% - 6.3%
Borrowings excluding leases	**168,411**	**20,808**	**19,430**	**128,173**	
Finance leases	2,606	725	1,656	225	1.3% - 7.6%
Total	**171,017**	**21,533**	**21,086**	**128,398**	

The overwhelming portion of financial debt is denominated in euros. In contrast to the predominantly variable interest rates for general credit facilities, other financial debt is for the most part either at a fixed rate or is hedged long-term through interest rate swaps.

There are operating leases e.g. for fixtures and office equipment and for cars. These assets are not reported under fixed assets due to the contractual agreements in place.

Liquidity position

At the end of the 2017 financial year CENTROTEC had financial resources, defined as cash and cash equivalents less the general credit facilities drawn, plus the attributable current investments, amounting to EUR 44.9 million (previous year EUR 48.0 million).

The cash flow from operating activities declined by EUR 10.1 million to EUR 31.4 million, mainly as a result of the higher working capital and the reduced earnings. Within the negative cash flow from investing activities, the significantly higher allocation to current investments was the reason for the sharp rise to EUR -115.3 million (previous year EUR -57.5 million). On the other hand cash used for investments in property, plant and equipment was lower. Conversely, as a result of raising the promissory note loan, the cash flow from financing activities of EUR 81.0 million was clearly positive, in a turnaround from EUR -2.6 million in the previous year.

At December 31, 2017 CENTROTEC had cash and cash equivalents plus attributable current investments of EUR 184.0 million (previous year EUR 92.4 million). Together with the unutilised credit lines (EUR 37.4 million/ previous year EUR 44.3 million) the group therefore had access to adequate cash and cash equivalents to actively shape its own future.

General statement on the economic development of the group

CENTROTEC was able to achieve in full the revenue forecast made at the start of the year. Because of a shift in revenue towards less profitable products, the comparatively weak performance in the German heating market and continuing extensive activities to expand the international market position, earnings (EBIT) came in below the original forecast range. The focus on international growth again bore fruit in the past financial year and therefore played a major part in cushioning the weaker performance in the German home market.

The CENTROTEC Group has plans for further substantial growth over the coming years. The scope for organic and external growth has been steadily improved in recent years, and specifically in the period under review. It is based on fundamentally high profitability, very sound financial metrics and the substantially broader scope created in 2017 by the use of historically low-cost debt financing.

Report on post-balance sheet date events

There were no events of material significance after the balance sheet date.

Takeover-relevant disclosures pursuant to Sections 315a and 289f of German Commercial Code

Provisions on the appointment and dismissal of the members of the Management Board and on changes to the articles of incorporation

The Management Board of the company is appointed and dismissed by the Supervisory Board, which is also responsible for nominating a member of the Management Board as Management Board Chairman. The Annual General Meeting resolves amendments to the articles of incorporation. The resolutions of the Annual General Meeting require a simple majority of votes cast and, if a majority of shares is required, a simple majority of shares, unless a greater majority or further requirements are stated in law. The same applies to amendments to the articles of incorporation.

No other disclosures pursuant to Section 315a of German Commercial Code are required.

Authorisation of the Management Board to issue or buy back shares

Share buy-back
Pursuant to the resolution of the Annual General Meeting of May 20, 2015 the company is authorised until May 19, 2020 to acquire treasury stock which, together with existing treasury stock, represents up to ten percent of the capital stock at the time of the authorisation taking effect. The price for the acquisition of these shares may not be more than 10% higher or more than 10% lower than the closing price in XETRA trading on the Frankfurt Stock Exchange (or in a successor system) for shares of the same class and features on the three trading days preceding the acquisition. The Management Board has been authorised to offer all or some of the shares thus acquired to third parties in (part) payment of the acquisition of companies or investments in companies, excluding the shareholders' right of subscription. The Management Board has furthermore been authorised to retire the company's treasury stock without the need for a further resolution to be adopted by the Annual General Meeting. Retirement may be restricted to part of the purchased shares.

Authorised capital

By the resolution of the Annual General Meeting of May 31, 2017, the Management Board is authorised, with the consent of the Supervisory Board, to increase the capital stock by up to a total of EUR 3,000,000 (Authorised Capital 2017) up until May 30, 2022 for cash or non-cash contributions through the issuance of new no par value bearer shares on one or more occasions. The Management Board was also authorised, with the consent of the Supervisory Board, to specify the details of the share issue and, in defined conditions, to exclude the subscription right (a) for residual amounts, (b) for capital increases for cash if the issuing price of the new shares does not significantly undercut the market price of the shares of the same class and features already listed at the time when the issuing price is finally fixed by the Management Board, in keeping with Section 186 (3), fourth sentence of the German Stock Corporation Act, (c) for capital increases for contributions in kind for the granting of shares for the purpose of acquiring (including indirectly) businesses, business units or participations in businesses or assets of other businesses, (d) for issuance to employees of the company or of domestic and international affiliated companies (Section 202 (4) of the German Stock Corporation Act) and (e) to run a scrip dividend.

Conditional capital

Conditional Capital I remained unchanged at December 31, 2017 and amounts to EUR 21,984, divided into 21,984 no par value shares (previous year EUR 21,984, divided into 21,984 no par value shares).

Conditional Capital II remained unchanged at December 31, 2017 and amounts to EUR 69,900, divided into 69,900 no par value shares (previous year EUR 69,900, divided into 69,900 no par value shares).

By resolution of the Annual General Meeting on May 29, 2008 the capital stock is conditionally increased by a further EUR 756,000, divided into 756,000 no par value shares (Conditional Capital III). The Management Board is authorised to issue warrants – on one or more occasions – for subscription to new bearer shares in the company until December 31, 2014. Employees of CENTROTEC Sustainable AG as well as employees of affiliated companies as defined by Section 17 of the German Stock Corporation Act are entitled to subscribe. The managing directors or Management Board members of the above companies are furthermore entitled to subscribe. New shares are created where the options are exercised. These pay dividends from the beginning of the financial year in which the options are exercised. Conditional Capital III at December 31, 2017 amounted to EUR 61,551, divided into 61,551 no par value shares (previous year 190,773 EUR, divided into 190,773 no par value shares).

In future years there will be no exercising from conditional capital from stock options already issued because the exercise deadlines have passed or all options with later exercise deadlines have already been exercised.

Other particulars

Further takeover-relevant information such as the composition of the issued capital as well as direct and indirect participations in the capital can be found on page 93 in the Notes to the Consolidated Financial Statements.

Component supplier for other system integrators

RESIDENTAL & COMMERCIAL BUILDINGS

CENTROTEC is a system supplier, but also offers key components for other system integrators. These include Holmak heat exchangers for building ventilation warranting heat recovery up to 95%. For condensing heating systems, both Ubbink and Centrotherm offer flue exhaust systems that are preferred by leading boiler manufacturers for their integrated solutions. The Ubbink Centrotherm Group also offers a complete range of system components for residential building ventilation as well as construction ventilation.

1 ***Air-to-air heat exchangers***

2 ***Gas flue systems***

3 ***Residential ventilation components***


1
2
3
2
3
1

Risk report

Disclosures on the internal control and risk management system for financial reporting purposes, pursuant to Section 289 (4) of German Commercial Code and Section 315 (4) of German Commercial Code

The internal control and risk management system for financial reporting by the CENTROTEC Group aims to identify potential internal sources of error and to limit or eliminate the risks arising from them. In addition to optimising internal processes and procedures, it above all encompasses the financial reporting of the CENTROTEC Group. One core function of financial reporting is to steer the group as a whole. Target and deviation analyses are conducted on the basis of the budget and mid-range planning approved by the supervisory bodies. Regular forecasts are made to monitor the changing framework for ongoing business operations.

CENTROTEC's financial statements are based on a group-wide reporting system. This constitutes the basis for a standardised data reporting process throughout the group. The operating companies' accounting functions are organised non-centrally but are harmonised by means of a group-wide accounting manual that regulates how IFRS accounting standards as adopted in the EU are to be applied in group-wide financial reporting, and on the basis of a group-wide, uniform, digital reporting system.

The information obtained within a narrow time frame from this comprehensive reporting system provides the basis for active, prompt group steering. The holding of regular Management Board and Supervisory Board meetings and the close support provided for managing directors by the Management Board guarantee that the information obtained in reporting is suitably evaluated and leads to appropriate remedial measures, as necessary. Together with the provisions in the articles of incorporation and the individual rules of internal procedure for the Supervisory Board, Management Board and managing directors, this portfolio of reporting and analytical measures creates a coherently functioning overall system. The system's efficiency and effectiveness are examined by the Management Board and Supervisory Board at regular intervals, and the system is then revised or widened as necessary.

The group's Legal department helps to draft or cross-checks all materially significant contracts of group companies. The auditors of the individual companies, sub-groups and Consolidated Financial Statements examine the internal system of control for financial reporting purposes and the risk early warning system to the extent that is necessary based on the audit standards and chosen audit strategy, and they report on their findings to the Supervisory Board. Suggested improvements are taken up by the Management Board and management in order to continually develop and improve the system.

To monitor and control the various risk areas, CENTROTEC implements a group-wide risk management system. To increase efficiency and comply with the changing regulations, the uniform, recognised, professional risk management tool created by an external provider in accordance with the requirements of Section 317 (4) of the German Commercial Code and auditing standard IDW 340 implemented group-wide in the previous year was refined in the period under review in line with the requirements of the CENTROTEC Group. The aim of the risk management system and the central task of risk reporting is to identify and evaluate material, existential risks within and outside the group companies, and to define or initiate appropriate risk management measures so that the management of each company has a sound basis for its management decisions. Risk management is run by a risk committee. It manages the group-wide non-central network in which each individual company is represented by at least one risk manager. Taking account of the existing guidelines, a quarterly report is issued presenting the risk type, likelihood and potential impact of identified risks, along with risk management measures.

The risks are evaluated primarily in quantitative terms, taking account of their respective probability of occurrence and loss level according to a gross and net assessment, based on the change in earnings (EBIT) compared with the budget figure. The net assessment already takes risk-reducing measures into account and is the basis for risk reporting. However provisions already formed are not considered as risk-reducing factors; they are instead included in a separate list. Blanket risks such as natural disasters or risks normally encountered in the course of business, such as the fundamental possibility of bad debts, are not taken into account unless there is specific evidence of an increased probability of occurrence.

Within the context of this risk report, group-level risks are classified as "very low" if their net risk expectation value is below EUR 300 thousand, as "low" if the effect is up to one million euros, as "moderate" if the effect is below two million euros, as "high" if it is up to five million euros, and as "very high" if it is over five million euros,

Operating business is moreover closely monitored by the Management Board. With this as the basis, an early response within the risk management system is initiated and various escalation hierarchies are involved, right up to the Management Board and Supervisory Board, depending on the value of the risk, in order to avoid or hedge risks. The risk management system serves as the basis for the following description of the risk areas and exposure of the group.

Risk areas

Risks from the economic environment and the industry

The business performance of CENTROTEC is fundamentally dependent on the **wider economic environment** and on general cyclical developments, especially in Europe. Germany remains by far the most significant individual market from the group perspective. This high dependency continues to represent a high risk in the event of a deterioration in the economic situation in Germany. This risk continues to be addressed by concerted efforts to internationalise.

CENTROTEC fundamentally operates in the industry environment of building investment. Falling building investment can fundamentally adversely affect the sales performance of the group. CENTROTEC addresses the sales risk that is fundamentally assessed as high for example by focusing on particularly energy-efficient solutions for heating and climate control of buildings: such solutions are becoming ever more relevant in light of the increasingly tough national regulations on the energy efficiency of buildings, as well as long-term rises in energy prices. The probability of a fall in building investment is currently comparatively low as a result of the further improvement in construction activity throughout Europe in 2017, together with the growth rates forecast for the coming years.

Statutory framework conditions and public funding programmes nevertheless continue to have a clear influence. For instance a scaling-back of subsidies if the general conditions otherwise remain unchanged could lead to falling revenue or slower revenue growth. In the past there have been a large number of changes made at various points throughout the year, often causing considerable uncertainty among end customers Specifically in the area of subsidies, certain countries could moreover be prompted to freeze subsidies or suspend state measures designed to promote construction activity and protect the climate if they encounter financial constraints. This risk is currently classified as low on account of the stable economic development across Europe and the positive outlook. Protracted negotiations about possible improvements to the terms of such subsidies, too, could temporarily prompt an investment backlog. Nevertheless, the political commitment to a more consistent policy on subsidies and the corresponding measures recently passed specifically in Germany, but also in other countries, fundamentally render this low risk less acute.

Finally, the development in **prices of fossil fuels** has a major influence on readiness to invest in efficient heating, ventilation and climate technology and the use of renewable energies. The fact that gas and oil prices remain low in spite of the slight rise in energy prices registered in the period under review reduces the pressure to invest in modernising existing heating systems, many of which specifically in Germany are obsolete and inefficient. Notwithstanding such short-term economic benefits, the increased use of fossil fuels will seriously aggravate the problem of climate change. Nevertheless, the comparatively low price level currently reached still offers more potential for a rise than for a decline in energy prices, and therefore in the long term more opportunities than risks from the company's perspective. All in all, the risk presented by the development in energy prices is assessed as moderate.

In addition, in the long term there is the possibility that still-dominant fossil fuels such as gas and oil could be banished from the heating market by regulatory means. CENTROTEC addresses this risk, which still lies well into the future and will initially probably be limited to the new-build market, by practising active strategic planning and suitably adjusting the product portfolio.

Corporate strategy risks

Alongside organic growth, another fundamental dimension of CENTROTEC's strategy is **growth through acquisitions**. One key challenge here is to adapt the internal organisation and processes swiftly to the new, larger entity each time and to integrate the acquired or newly established, predominantly foreign businesses into the corporate structure. If ties between new entities and the existing group are too weak, a loss of transparency and control can ensue. Forcing the corporate culture onto new entities can cause employees to lose their ability to identify with products and companies, ultimately leading to a weakening of the market position and thus of the market value. CENTROTEC therefore strives for a balance between control and entrepreneurial freedom at its group companies. The dovetailing of acquired or newly established entities with the group is promoted by an overarching integration management approach and continually monitored until the entity is finally fully integrated into the group-wide mechanisms of control and steering. The structure of the group as a whole is continually scrutinised for potential for improvements that are implemented by reorganisation projects in the individual segments, in order to establish a workable basis for the continuing sustained development of the group. The overall corporate strategy risks arising from acquisitions continue to be rated as low.

A growing **international spread** furthermore entails wide-ranging risks which are cumulatively of increased significance for CENTROTEC, arising e.g. from changing political and legal frameworks, exchange rate fluctuations, the development of special products for international markets, transport and processing risks, and cultural differences. For its further expansion, in the future CENTROTEC will fundamentally also rely on strong local partners with extensive market-end and logistics expertise and knowledge of their local context. Markets that are the focus of the internationalisation strategy are tapped with the help of group-owned subsidiaries. By monitoring and examining the risk positions on an ongoing basis in the course of risk management and business operations, the market opportunities and risks that arise are kept under control and this growing risk that is still classified as low is clearly limited.

Risks from operating business

Procurement risks

The production and delivery capability of the CENTROTEC companies depends to a great extent on reliable supplies of raw materials and consumables. The risk resulting from the area of procurement is rated as low because it is contained on the one hand through close technical cooperation with important suppliers and on the other hand by regularly maintaining at least two sources of supplies in each case. However the healthy level of business activity across the industry is leading to longer lead times and isolated supply bottlenecks, for example for electronic components, and this could also affect the CENTROTEC companies. A possible rise in procurement prices constitutes another potential risk at the procurement end that could become relevant from a group perspective. Depending on the segment and product area, the recurrence of this problem as a result of market developments is controlled by methods such as shoring up long-term supplier relations and corresponding price agreements, and by continually observing the market and optimising procurement sources. Price developments in the commodity and supply markets are actively monitored. At the same time potential for compensating for price increases is being identified through the group-wide profitability improvement programmes and suitable improvements implemented. As currently looming procurement price increases for raw materials such as steel are at least to some extent already factored into the budget, CENTROTEC currently rates the risk of rising procurement prices as moderate. In addition, there is fundamentally the risk that service companies especially in the IT or staffing areas could fail to meet their contractual obligations or could terminate existing contracts. This specific risk is assessed as low overall; the effects would be limited to the individual company concerned and therefore slight for the group as a whole. Nevertheless, we see a rising tendency in these potential risks, not least as a result of the spread of the “software as a service” approach. Mid to long-term, the risks resulting from the entire procurement process are a significant risk group for the CENTROTEC Group.

Technical and quality risks

Risks may arise from product defects and quality problems. These are addressed for example through internal guidelines at the individual companies and certification to international quality standards such as ISO 9001, ISO 14001 and ISO TS 16949. The individual group companies always take the most rigorous quality standards in their specific sectors as the benchmark. To safeguard product quality and minimise the associated risks, quality-critical components of CENTROTEC products are subjected to comprehensive quality checks both during the entire production process and in the end products. The methods and systems used to this end are examined and regularly updated in line with current standards. The effect is to significantly reduce the overall impact of this continuing risk, which is fundamentally present in all corporate divisions. Furthermore, appropriate provisions in the amount of the anticipated warranty risks are created. There nevertheless remains a low risk because the companies of the group extensively use modern, high-efficiency technologies in their products so product defects and quality risks cannot be excluded altogether.

The risk of accidents and plant breakdowns is countered by providing suitable training for customers and employees, and implementing accident prevention regulations and task instructions.

The biggest single risk to this area is the possible failure of production plant. This risk is addressed by preventive maintenance and ongoing monitoring of the operating parameters. Plant itself, along with the possibility of a business interruption, is insured for potential forms of loss in line with its value. Together, the technical and quality risks in the 2017 financial year are assessed as low.

Innovation risks
The development of innovative products fundamentally entails the risk that the desired outcome may not be achieved despite the expending of considerable resources. To minimise this fundamental development risk, intensive exchanges and peer reviews of product development activities take place between the individual group companies, as does intensive market analysis. The internationally growing sales and service organisations are also increasingly called upon to contribute their market knowledge. This helps to identify off-target developments early on and limit the possible consequences of the risk that is rated as low by making swift adjustments to decisions. All capital investments and development projects are in addition evaluated intensively and promptly in the context of group-wide development activities, looking at the overall portfolio and the individual opportunities and risks involved.

Sales risks
At the sales end, there is the potential risk of losing important customer relationships, in particular with key accounts. Dependence on individual customers is fundamentally reduced by focusing predominantly on products for end users, despite sales via wholesalers. For example CENTROTEC's biggest customer accounted for less than four percent of consolidated revenue, with all other customers well below that figure. At the level of the group companies, this threshold is nevertheless exceeded in exceptional cases. The loss of contact with a wholesale or key account fundamentally always has a palpable impact on revenue and earnings for both the group and the group company. This risk of dependence, which is rated as low from a group perspective, is countered by active management of customer relations and by diversifying the sales channels in the various markets. To that end the sales channels in the individual segments and countries have recently undergone steady expansion and will continue to be examined for scope for expansion in line with the strategy. Revenue dependence on individual customers has furthermore fallen along with the growth already realised, and will continue to decline hand in hand with the future international growth that is being targeted.

There is a further moderate risk in the sales sphere from the growing pressure on the prices of CENTROTEC products, in particular from existing or, in individual instances, new competitors. CENTROTEC believes it is in a strong position in its various segments thanks to its rigorous focus on customer requirements and the market position it has already achieved. The product portfolio is moreover regularly scrutinised for potential to innovate and for scope to improve customer centricity, as a means of safeguarding and extending its competitive position. Furthermore, the growth being targeted internationally is designed to gradually reduce the diseconomies of scale compared with large competitors. None the less, overall the sales risks stated above constitute a significant risk group for the group of companies.

Personnel risks
There is fundamentally the potential risk of losing managers and employees in key positions. CENTROTEC addresses this real risk, but one where the impact is considered to be low from a group perspective, by broadening the personnel base as part of developing the group organisation as a whole. The further development and regular training of employees in their individual specialist areas are supported, and employees are encouraged to show independent initiative in developing and implementing new approaches and methods. In addition, the topic of human resources development is increasingly coming into focus as part of the business strategy at a growing number of group companies. As a result, CENTROTEC is able to offer its employees further improvements in their long-term development perspectives and thus helps to minimise fluctuation in key positions. These are important measures for guarding against a generally observed risk of shortages of specialists; this risk is also specifically addressed through training measures for young people that are tailored to the needs of the individual group companies.

In addition, specifically at times of general economic buoyancy there is the risk of excessive rises in costs in the personnel area as a result of high wage and salary increases. This regularly recurring risk is countered by active personnel costs management and trust-based partnership between the workforce and the management in a spirit of mutuality. The consequences of potentially high pay settlements are also cushioned by planned revenue increases and the ongoing optimisation of processes throughout the group, but may fundamentally put pressure on earnings. In summary, the risks in the personnel area from a group perspective continue to be classified as low, because this increasingly important issue is already addressed within the group companies.

Information technology risks

In the domain of information technology, it is fundamentally impossible to exclude the possibility that problems will arise with existing systems or future extensions to existing systems, such as introductions of new software releases, or that system failures will hamper business operations. The customary precautions and security measures in the IT sector are adopted to limit these risks. The appropriateness of the security measures in information technology is regularly checked. The systems and processes in use are adapted to changing requirements if necessary. In addition, a cautious migration approach is adopted for the integration of new business units to avoid major risks to business operations, for instance as a result of incompatibility between systems or inadequate reflection of specific business features. Furthermore, the number of ERP systems used throughout the group is progressively being reduced to avoid possible errors or incompatibility and further optimise systems maintenance. The operating units are increasingly integrated at systems level in line with their business requirements.

It is also to be noted that the risks from cybercrime are growing in significance. Within the context of its IT strategy, CENTROTEC strives for a balance between the use of modern IT solutions and retaining full control over the central business data needed for business operations in order to limit this risk that it still considers to be low.

Finally, the demands of digitalisation are increasing at all value creation stages. The number of IT solutions used in the group above and beyond classic ERP systems is steadily growing. In implementing these solutions, a balance must regularly be sought between the objectives of unrestricted system stability on the one hand and the swiftest possible implementation on the other.

In summary, the risks from the sphere of information technology are classified as moderate from a group perspective despite the growing dependence on information technology systems.

Financial risks

Financial risks for CENTROTEC result largely from the partial use of borrowed capital for financing its growth and potential acquisitions. The opportunities successfully taken in the past to generate high, steadily rising earnings in this way go hand in hand with the potential risk of earnings falling or even not being achieved, with the corresponding financial consequences. For financing its operating subsidiaries, CENTROTEC limits the risk it bears by generally restricting this to the entities or corporate divisions in question (ring-fenced financing) and conducts comprehensive profit and earnings controlling on the current and future profitability of all corporate entities as well as on compliance with the relevant financial ratios at both individual company and group level. Deviations are thus rapidly identified. Any corrective measures required are then implemented promptly and thoroughly. For financing, the interest rate risks for the partly variable-rate loans are hedged to some extent by means of interest rate derivatives with banks. The risks remaining in this area are to be classified as low; they diminished further in the past year thanks to the restructuring of financing, because the new, non-current loans are collateralised predominantly by existing land and buildings and it was largely possible to avoid financial covenants. In addition, a promissory note loan was placed in the period under review to lock long-term into the attractive interest rates currently available. Furthermore, in the past CENTROTEC has always paid back borrowings according to schedule in order to minimise the resulting financial burdens and maintain sufficient financial leeway.

Adjustments to financing are made as required within the individual financing groups, in line with the needs arising from those financing groups' business operations and the funding requirements. The marked scaling-back of the group's gearing over recent years has produced a further significant reduction in the financial risks from debt financing, but it nevertheless remains relevant from a group perspective not least against the backdrop of the promissory note loan raised in the period under review. For more detailed information on the financial situation of the CENTROTEC Group, we refer to the Notes to the Consolidated Financial Statements.

Until now, the focus of business has been on core European countries, specifically in Western Europe. The overwhelming proportion of revenue is generated in the eurozone. This emphasis gives rise to merely limited exposure to risks from **changes in foreign exchange rates**. Business outside the eurozone and in other countries outside Europe will also become increasingly important. The aim here is to build on the pattern of recent years in further broadening the sales basis and thus to reduce dependence on the German market. However this development leads to increased risks from transactions in foreign currencies. In the past, the hitherto low risks to the group from possible exchange rate movements were hedged selectively within the group by means of appropriate instruments. As well as these risks of a devaluation of foreign currencies, there is also the risk of a devaluation of the euro. This nevertheless goes hand in hand with increased opportunities for exports to countries outside the eurozone. On the other hand an appreciation in the value of the euro could harm the sales prospects of the group's products, which are made predominantly in the eurozone. In that respect the goal is to reduce this risk by spreading sales markets more widely through internationalisation.

Possible financial risks from debt defaults are minimised for example by means of payment in advance, credit insurance, flat-rate export guarantees (Hermes export credit guarantees), credit processing, ongoing receivables management, general creditworthiness checks as well as through existing del credere liability, so as to limit their possible consequences for the group. However there remains a low risk from possible debt defaults. The recent current investments taken out within other financial investments represent a balance sheet item that is fundamentally exposed to fluctuations in the financial market. However this form of investment was selected to minimise the effects and to allow the resulting risk to be classified as low from a group perspective.

The risk from the fiscal area, which results substantially from the growing requirements to document transfer prices and occurs in several countries, is rated as moderate from a group perspective. The risks arisen from the measurement of inventories are rated as low from a group perspective.

In summary, the risks from the financial sphere are estimated as moderate.

Miscellaneous risks
The supply and sale of products, plant and services may expose the CENTROTEC Group and its individual companies to legal risks which stem for example from the possibility of deliveries not being as per agreement, from product liability claims, product defects, quality problems, breaches of intellectual property or from the failure to comply with fiscal regulations. Despite comprehensive quality management activities and the corresponding regularly optimised organisational structures, such risks cannot be ruled out altogether but their level is normal for an industrial enterprise. To guard against this exposure, lump-sum warranty provisions are created to the customary extent for our business operations and corresponding product liability insurance cover is taken out, based on figures from experience of failures and corresponding warranties for potential customer claims, and to reflect potential accountability. All customer complaints are moreover systematically checked and processed, then investigated with a view to identifying scope for internal optimisation. To the extent that specific warranty risks are identified, additional one-off provisions in the amount of the expected risk are created.

In addition, further insurance policies were taken out to minimise the general risks from business operations in order to reduce the possible impact of such risks that are a fundamental part of business operations to a low level. Such insurance policies mainly comprise business interruption, business liability, legal protection, business and property, credit sale, loss of earnings and serial losses insurance, as well as D&O cover for Management Board members, managing directors and non-executive directors. There is in addition special property insurance cover (damage by the elements) for warehouses.

There are currently no cases of litigation pending that lead the group to expect high financial obligations beyond the levels already reflected in the provisions created.

Directors' assessment of the risk situation

While the sales market situation should show a positive development in the long term, subject to stable underlying conditions, the still-high number of uncertainties that stem from mainly political but also economic crises represents a risk to overall economic development for the industry, and therefore also for CENTROTEC, that is difficult to quantify. For as long as energy prices remain low, they too weigh on the sales market.
The substantially improved net financial position has however given the group additional room for manoeuvre: on the one hand for international expansion through organic growth but possibly also through acquisitions, and by boosting its competitiveness further by investing in innovations as well as the sales and service organisation. On the other hand it is well equipped to respond to potential risks that may arise, or to deteriorating market conditions. Operationally, too, the group has achieved a comparatively flexible costs structure at its main production establishments by engaging temporary workers, buying in other staffing services and adopting working hours models, giving it scope to adjust its production capacities to temporary cyclical and seasonal fluctuations. Considered in this light, the management regards the opportunities and risks profile as balanced, with no individual risks to the company as a going concern in the 2018 financial year.

Report on expected developments

Direction of the group

CENTROTEC will continue to focus on the area of heating and climate control technology for buildings. The spotlight here is on the continuing optimisation of the already comprehensive product portfolio to facilitate access to international markets, and on expanding the sales and service structures. Cost effectiveness for consumers and fitters, evidenced by ease of installation, operation and maintenance, along with operating efficiency, are top priorities in the development of new products. In future, these megatrends that are likewise in evidence in other sectors in the industry will necessitate the efficient interaction of component systems. The necessary expertise already resides within the group. To build on it, CENTROTEC will systematically pursue its research and development work, promote increased collaboration between the group companies and also draw on external knowledge. In addition, it develops appropriate product solutions to meet demand from the growing market for renovation as well as for the energy-efficient modernisation of building stock.

Internationalisation is major priority in CENTROTEC's strategy. This is all the more important because it will reduce dependence on the German home market, especially in the Climate Systems segment. In addition, it should equip CENTROTEC to participate in an increasingly apparent recovery in the main international sales markets in Europe. Internationalisation will also be at the heart of the group strategy in the coming year. In addition, particular emphasis will be placed on stabilising and growing German heating business. Finally, optimising and professionalising internal processes as well as exploiting digital solutions at all value creation stages will be priority topics for the management of the group.

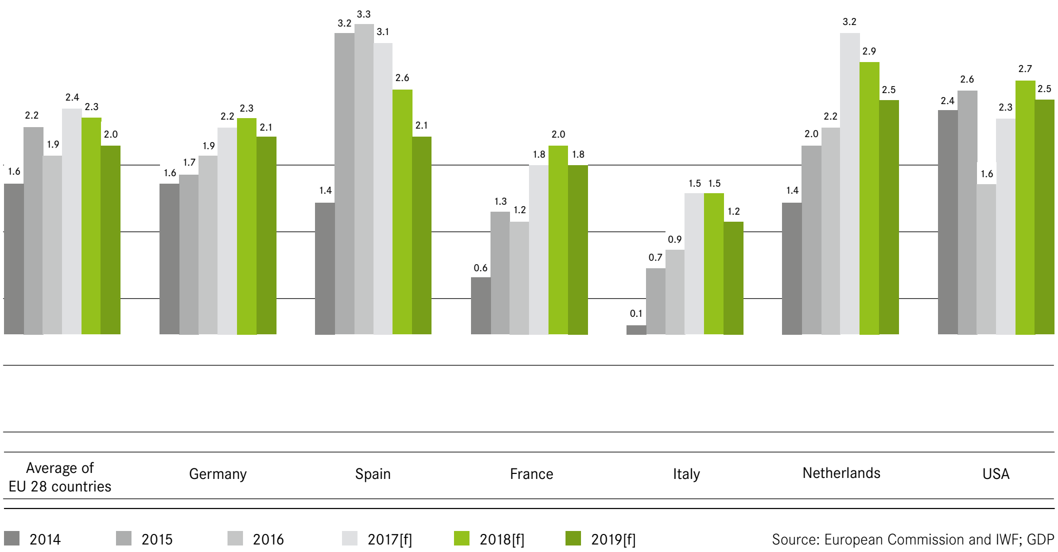
The CENTROTEC companies' largest production locations are situated in Germany and the Netherlands. In those locations CENTROTEC is in a position to manufacture the range and quality of products that customers expect, at reasonable cost. There are also logistical advantages. None the less, as part of its internationalisation strategy the group continues to examine economic opportunities for setting up local production plants to help it access internationally relevant markets, and for adopting appropriate structures that will give it a broader production base. Initial steps in that direction have so far been taken in the Gas Flue Systems segment with the activities in China and the USA.

Expected economic environment

With almost all markets of significance for CENTROTEC having performed positively in 2017, the framework conditions currently observed likewise point to this development continuing in 2018. Following on from a weaker 2016 due to regulatory changes, the German heating market was not quite able to fulfil the expectations of a recovery in the past financial year, despite its growth; however that means it offers extra potential to make up ground in 2018. Internationally, while most of the conflicts around the globe have not been resolved, generally speaking there are no indications that they have worsened or spread. In addition, the change in US policy has not yet had the impact on world trade that some have feared. Nevertheless, this issue as well as still-unresolved problems concerning Brexit, the Russia/Ukraine conflict and major tension in the Arab world still need to be monitored closely. CENTROTEC does so with care and, if in doubt, adopts a conservative market development strategy in the countries that are directly affected.

Development of GDP in selected countries

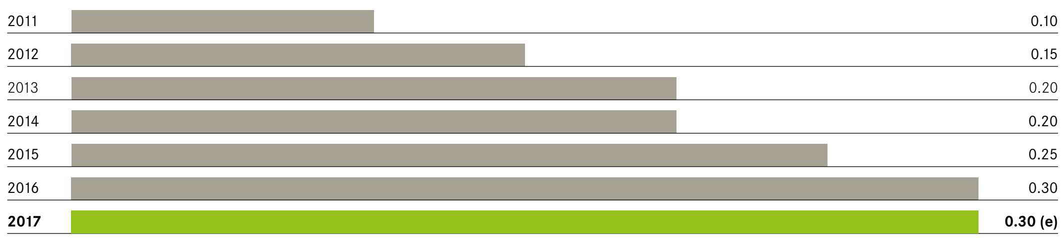
[Year-on-year change (%)]



Source: European Commission and IWF; GDP
f = forecast

CENTROTEC fundamentally views the economic environment for 2018 in a positive light. The European construction industry is again forecast to grow palpably in 2018 that is supported by all relevant markets. On that basis, a positive development in heating and climate control technology markets is also expected. The tougher regulatory requirements planned or already introduced in almost all European countries for energy-efficient designs of new buildings, as well as the extensive availability of financial incentives for energy-efficient refurbishment, likewise support these positive market developments. The Ecodesign Directive implemented throughout Europe at the end of 2015 effectively made condensing boiler technology the norm in the heating sector, and moreover enshrines the principle of efficiency in building services engineering. What is more, there have already been signs since 2017 that the deterioration in energy prices that started in 2014 is being reversed; if this tendency becomes firmer, it should fundamentally have a positive effect on demand for efficient heating and climate control technology and for systems that make use of renewable energies. This would also help promote climate protection in the medium term, provide a safeguard against sharp energy cost increases and moreover reduce dependence on energy suppliers from certain regions of the world that are suffering from political instability. The coalition agreement in Germany points towards a continuation in the funding policy to promote more efficient heat generation and co-generation plants. However CENTROTEC does not expect any palpable stimulus in 2018 from that direction. In fact, the need to pay the full levy under the Renewable Energies Act (German EEG) on internally consumed power from CHP units from January 1, 2018 is likely to result in substantially lower revenue in that area.

Dividend distributed for financial year
[in EUR]



Anticipated financial performance and financial position

Based on the framework conditions stated above, CENTROTEC expects further organic revenue growth to EUR 600 to 620 million in the 2018 financial year. The strategic measures actioned in the period under review to expand primarily the international business volume sustainably will continue in 2018, but will not translate immediately into a positive contribution to earnings. Furthermore, the measures to stabilise German heating business will as announced only develop their full positive effect on earnings with some delay. The developments on the commodity markets, too, will if anything weigh on earnings in 2018 rather than lift them. The same applies to the forthcoming negotiated pay increases. On this basis, an operating result (EBIT) of EUR 30 to 32 million, slightly up on the previous year, is expected.

Beyond 2018, CENTROTEC anticipates continuing organic revenue growth combined with a recovery in the profit margins. The Supervisory Board and Management Board of CENTROTEC Sustainable AG will propose to the Annual General Meeting that, in a reflection of the continuing sound financial position of the Group, an unchanged dividend of EUR 0.30 per dividend-bearing no par value share be distributed for the 2017 financial year.

Opportunities report

The market position achieved in the previous principal sales markets and the progress made with implementing the internationalisation strategy as well as the measures to stabilise the position in the German heating market offer ample scope to profit from global growth in the market for building efficiency and fundamentally to increase the group’s revenue and earnings.

- Positive development of the economic environment:
  The further stabilisation of the positive overall economic performance of the relevant markets in Germany and internationally as well as the more rigorous building efficiency requirements that are already having an impact in many countries offer a sustainable basis for a positive development in the business performance. This trend may be accelerated by even tighter statutory requirements governing the energy efficiency of buildings and the availability of improved financial incentives as well as by further rises in energy prices.

- Capitalising on market position:
  CENTROTEC has a unique combination of competitive group companies operating in the field of energy-efficient solutions for commercial and private buildings. By integrating its expertise in the adjacent areas of heating, climate control and ventilation, it is able to develop and offer coordinated system solutions that

reflect the requirements of each target market. The significance of such integrated system solutions will rise steadily in the medium term, especially in light of the increasingly interconnected nature of building services engineering.

- Sound financial position:
  The scope for further organic and external growth has steadily increased over the past few years despite the high investment volume. The complete elimination of net debt, the sound equity ratio as well as the constantly high cash flow, plus the fresh scope created by the promissory note loan raised in 2017, provide a broad basis on which to consistently exploit the prospects for growth, including in markets that have not previously been the focus of attention.

General statement on the expected development of the group

In the medium to long term there are distinctly positive prospects for the industry-specific economic environment because the markets for heating and climate control solutions benefit from the global megatrends of energy efficiency and climate protection, and should grow more strongly than the economy as a whole. The trend towards more comfort and growing health awareness, specifically as reflected in how living space is used, offers the CENTROTEC Group a generally good basis for sustained growth. For the short term, too, the important underlying data is fundamentally positive despite the still-high number of elements of uncertainty worldwide. The German heating market should perform better in 2018 than in the period under review and CENTROTEC should consolidate the position it has built up there over the years. Furthermore, CENTROTEC's success in developing international business serves to endorse the path it has chosen to position itself as an international group.

These developments give the group reason to expect an increase in revenue to EUR 600 to 620 million in 2018 and a slight year-on-year rise in the operating result (EBIT) to EUR 30 to 32 million.

Rendering of accounts

Some of the particulars provided in the management report, including statements on anticipated revenues, earnings and capital expenditures, as well as potential changes in the framework conditions of markets and of the financial position, contain forward-looking statements. These have been formulated on the basis of expectations and estimates by the Management Board with regard to future occurrences that could affect the group. Such future-related statements are intrinsically open to risks, uncertainties, exceptions and other factors that could result in the actual revenues and earnings of CENTROTEC significantly departing from or falling short of those explicitly indicated or implicitly assumed or described in these statements.

In the rendering of the accounts, the potential for leeway in measurements in the Consolidated Financial Statements was analysed, assessed and handled in such a way as to present figures that the Management Board believes are as fair and reliable as possible. Open, timely and continual communication with the capital market moreover forms part of CENTROTEC's philosophy, which the rendering of accounts satisfies.

Financial Statements

2017

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Assets in EUR thousand	[Notes]	31/12/2017	31/12/2016
Non-current assets			
Goodwill	1	77,285	77,220
Intangible assets	2	39,734	39,747
Property, plant and equipment	3	124,017	125,606
Financial investments accountend for using the equity method	4	39	0
Loans and investments	4, 15	1,076	1,134
Other financial assets	5, 15	9	106
Other assets	5	78	79
Deferred tax assets	6	2,108	3,707
		244,346	**247,599**
Current assets			
Inventories	7	71,639	68,425
Trade Receivables	8, 15	67,684	57,947
Income tax receivable		3,219	3,156
Cash and cash equivalents	9, 15	59,492	63,202
Other financial assets	5, 15	128,237	32,500
Other assets	5	5,855	6,866
		336,126	**232,096**
Assets		**580,472**	**479,695**

Equity and Liabilities in EUR thousand	[Notes]	31/12/2017	31/12/2016
Shareholders' equity	10		
Share Capital		18,021	17,892
Capital reserves		40,659	38,037
Retained earnings and profit carryforward		179,155	164,259
Profit attributable to shareholders of CENTROTEC Sustainable AG		20,205	21,591
		258,040	**241,779**
Non-controlling interests		(559)	(1,177)
		257,481	**240,602**
Non-current liabilities			
Pension provisions	11	46,231	45,832
Other provisions	12	16,079	17,418
Financial liabilities	13, 15	149,484	63,371
Other financial liabilities	14, 15	960	1,047
Other liabilities	14	25	108
Deferred tax liabilities	6	6,862	7,122
		219,641	**134,898**
Current liabilities			
Other provisions	12	3,571	5,062
Income tax payable		1,781	2,616
Financial liabilities	13, 15	21,533	22,439
Trade liabilities	15	28,856	31,258
Other financial liabilities	14, 15	14,068	10,363
Other liabilities	14	33,541	32,457
		103,350	**104,195**
Equity and Liabilities		**580,472**	**479,695**

Consolidated Statement of Financial Position

Consolidated Income Statement

in EUR thousand	[Notes]	01/01/2017 31/12/2017	01/01/2016 31/12/2016
Revenues	25	**594,189**	**575.458**
Cost of purchased materials and services	16	(269,230)	(258,333)
Changes in inventories of finished goods and work in progress	16	(856)	2,368
Production for own fixed assets capitalised		3,871	3,678
Other income	17	9,474	11,046
Personnel expenses	18	(184,442)	(174,775)
Other expenses	19	(98,949)	(99,919)
EBITDA		**54,057**	**59,523**
Depreciation and amortisation	2, 3	(24,736)	(24,705)
Operating income (EBIT)		**29,321**	**34,818**
Interest income	20	291	121
Interest expense	20	(3,553)	(3,895)
Other financial income	21	2,979	11
Result before income taxes (EBT)		**29,038**	**31,055**
Income taxes	22	(8,191)	(9,471)
Net income (EAT)		**20,847**	**21,584**
Attributable to:			
Non-controlling interest	23	642	(7)
Shareholders of CENTROTEC Sustainable AG		20,205	21,591
EPS (Earnings per share in EUR)			
Earnings per share (basic)	24	1.13	1.21
Earnings per share (diluted)	24	1.13	1.21
Weighted average shares outstanding (in thousand units; basic)	10, 24	17,943	17,811
Weighted average shares outstanding (in thousand units; diluted)	10, 24	17,951	17,864

Consolidated Statement of Comprehensive Income

in EUR thousand	[Notes]	01/01/2017 31/12/2017	01/01/2016 31/12/2016
Net income (EAT)		**20,847**	**21,584**
Items that may be reclassified subsequently to profit or loss			
Exchange Rate differences on translation		270	(57)
Derivative financial instruments		204	(180)
Available-for-sale financial assets		(737)	903
Income tax relating to components of other comprehensive income	6	(88)	72
Other comprehensive income for items that may be reclassified subsequently to profit or loss		**(351)**	**738**
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans	11	166	(4,987)
Income tax relating to components of other comprehensive income	6	(55)	1,454
Other comprehensive income for items that will not be reclassified to profit or loss		**111**	**(3,533)**
Other comprehensive income		**(240)**	**(2,795)**
Total comprehensive income		**20,607**	**18,789**
Attributable to:			
Non-controlling interests		652	74
Shareholders of CENTROTEC Sustainable AG		19,955	18,715

Consolidated Statement of Cash Flows

in EUR thousand	[Notes]	01/01/2017 31/12/2017	01/01/2016 31/12/2016
Net income before interest and taxes (EBIT)		29,321	34,818
Depreciation and amortisation	2, 3	24,736	24,705
Gain/loss on disposal of fixed assets		125	94
Other non-cash items		425	(655)
Increase/decrease in provisions		(2,241)	1,175
Increase/decrease in inventories, trade receivables and other assets that cannot be allocated to investing or financing activities		(11,983)	(8,764)
Increase/decrease in trade payables and other liabilities that cannot be allocated to investing or financing activities		1,793	3,584
Interest received		291	122
Interest paid		(1,465)	(3,588)
Income tax paid		(9,368)	(10,045)
Cash flow from operating activities	26	**31,634**	**41,446**
Purchase of property, plant and equipment/intangible assets/ investments/finanical assets/loans receivable	2, 3, 4	(23,315)	(30,027)
Proceeds from disposal of property, plant and equipment/intangilbe assets/loans receivable		1,162	1,722
Investments in short-term financial assets		(93,430)	(29,176)
Dividend received		2	11
Cash flow from investing activities	26	**(115,581)**	**(57,470)**
Proceeds from issuance of shares	10	1,674	1,359
Proceeds from financial liabilities		91,543	18,852
Repayment of financial liabilities		(6,867)	(17,300)
Cash payments to minority shareholders		0	(1,100)
Dividend payment		(5,368)	(4,433)
Cash flow from financing activities	26	**80,982**	**(2,622)**
Change in financial resources		**(2,965)**	**(18,646)**
Foreign currency exchange gain/ loss of the financial resources		(163)	10
Financial resources at the beginning of the financial year*		48,025	66,661
Financial resources at the end of the financial year*	26	44,897	48,025

* Cash and cash equivalents deducted of credits current account

Consolidated Statement of Changes in Equity

in EUR thousand [Note 10]	Share Capital	Capital reserve	Stock option reserve	Income tax relating to components of other comprehensive income	Exchange Rate differences on translation
January 1, 2017	**17,892**	**38,037**	**1,077**	**224**	**(167)**
Transfer to revenue reserves					
Change from exercise of options	129	1,545			
Stock option plan		1,077	(1,077)		
Dividend payment					
Net income (EAT)					
Other comprehensive income, net of tax				(87)	259
Total comprehensive income				**(87)**	**259**
Other changes					
December 31, 2017	**18,021**	**40,659**	**0**	**137**	**92**
January 1, 2016	**17,733**	**36,290**	**1,624**	**127**	**(4)**
Transfer to revenue reserves					
Change from exercise of options	159	1,200			
Stock option plan		547	(547)		
Dividend payment					
Net income (EAT)					
Other comprehensive income, net of tax				97	(163)
Total comprehensive income				**97**	**(163)**
Other changes					
December 31, 2016	**17,892**	**38,037**	**1,077**	**224**	**(167)**

Derivative financial instruments	Available-for-sale financial assets	Retained earnings and profit/loss carryforward	Sum other retained earnings and profit/loss carryforward	Profit attributable to shareholders of CENTROTEC Sustainable AG	Total capital to shareholders of CENTROTEC Sustainable AG	Non-controlling interests	Consolidated equity
(534)	**903**	**162,756**	**164,259**	**21,591**	**241,779**	**(1,177)**	**240,602**
		21,591	21,591	(21,591)	0		0
					1,674		1,674
			(1,077)		0		0
		(5,368)	(5,368)		(5,368)		(5,368)
				20,205	20,205	642	20,847
204	(737)	111	(250)		(250)	10	(240)
204	**(737)**	**111**	**(250)**	**20,205**	**19,955**	**652**	**20,607**
					0	(34)	(34)
(330)	**166**	**179,090**	**179,155**	**20,205**	**258,040**	**(559)**	**257,481**
(354)	**0**	**148,924**	**150,317**	**20,795**	**225,135**	**827**	**225,962**
		20,795	20,795	(20,795)	0		0
					1,359		1,359
			(547)		0		0
		(4,433)	(4,433)		(4,433)		(4,433)
				21,591	21,591	(7)	21,584
(180)	903	(3,533)	(2,876)		(2,876)	81	(2,795)
(180)	**903**	**(3,533)**	**(2,876)**	**21,591**	**18,715**	**74**	**18,789**
		1,003	1,003		1,003	(2,078)	(1,075)
(534)	**903**	**162,756**	**164,259**	**21,591**	**241,779**	**(1,177)**	**240,602**

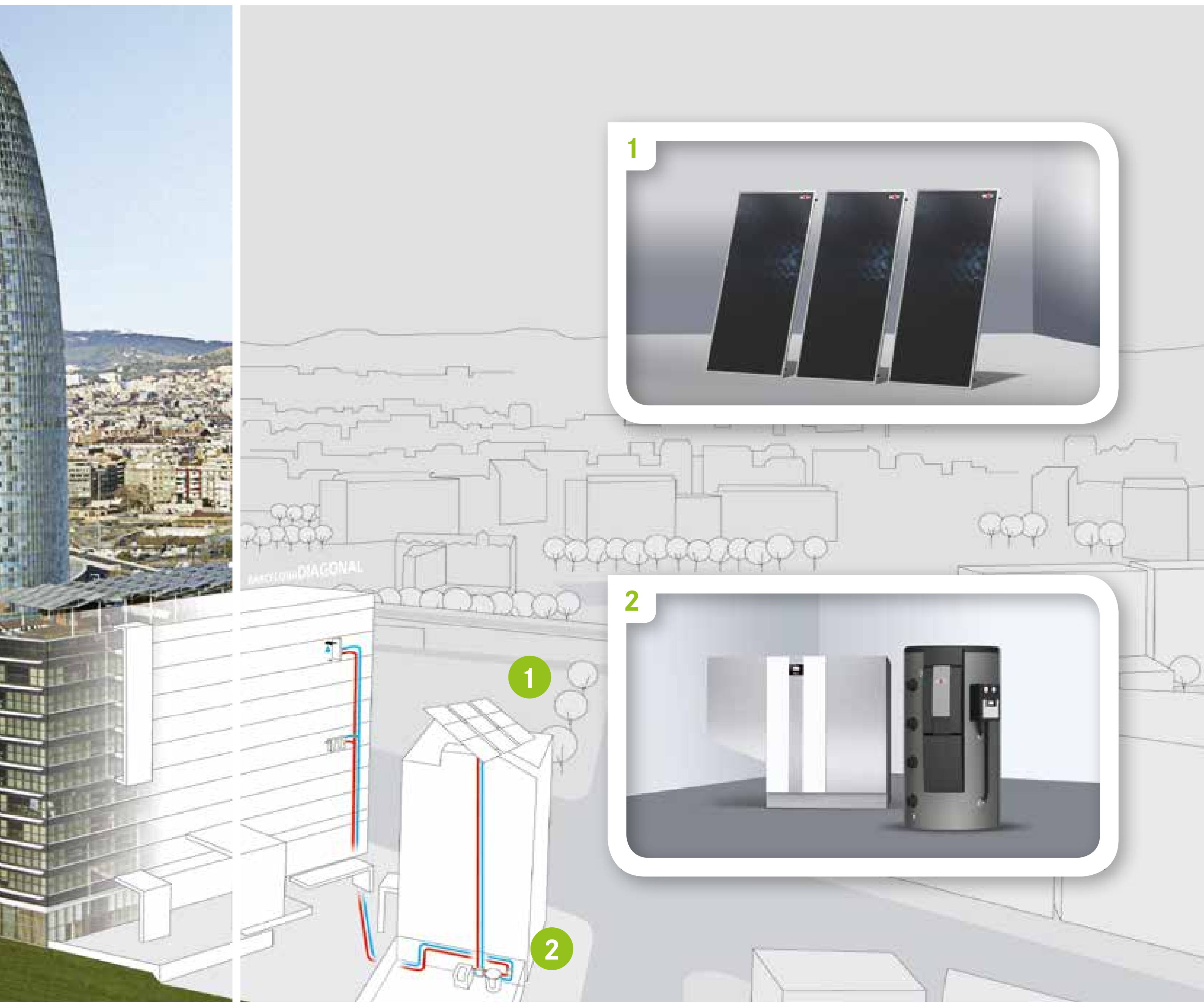
Solar thermal – at the heart of modern heating systems

COMMERCIAL BUILDINGS

Innovative solar thermal systems of Wolf with highly effective solar collectors, a well-insulated hot water tank and an intelligent control system are at the very heart of a modern heating system. By harnessing the sun's energy, and with no climate-harming emissions, they can cover as much as 60% of he annual energy requirements for hot water.

1 ***Wolf solar thermal collectors***

2 ***Wolf heat accumulator and condensing boiler technology***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Consolidated Segment Reporting

Segment Structure

in EUR thousand ***Income Statement*** [Note 25]	Climate Systems **01/01/2017 31/12/2017**	 01/01/2016 31/12/2016
Revenue from third parties	423,623	416,935
Revenue from other segments	1,601	1,563
Cost of purchased materials	(203,225)	(203,595)
Changes in inventories of finished goods and work in progress	(2,053)	1,808
Personnel expenses	(133,079)	(124,476)
Other expenses and income	(57,651)	(58,484)
EBITDA	**29,216**	**33,751**
Depreciation and amortisation	(14,974)	(15,588)
Segment result (EBIT)	**14,242**	**18,163**
Interest income	208	117
Interest expense	(2,212)	(2,735)
Other financial income	385	11
EBT	**12,623**	**15,556**
Balance sheet key figures		
Assets*	281,292	274,713
Financial investments accounted for using the equity method	0	0
Loans and investments	1,066	1,124
Net Working Capital	39,533	32,989
Investments		
Total investments in property, plant, equipment and intangible assets**	14,796	17,986

Regional Structure

in EUR thousand	European euro countries **2017**	 2016
Revenue from third parties	498,752	490,696
thereof Germany	308,655	311,784
Assets*	543,029	442,057
thereof Germany	247,065	258,090
Total investments in property, plant, equipment and intangible assets**	23,372	27,666

* Excl. financial investments accounted for using the equity method, loans and investments, entitlement to income tax rebates as well as deferred tax

** Incl. goodwill and figures out of business combinations

Gas Flue Systems		Medical Technology & Engineering Plastics		Consolidation		Total	
01/01/2017 31/12/2017	01/01/2016 31/12/2016	**01/01/2017 31/12/2017**	01/01/2016 31/12/2016	**01/01/2017 31/12/2017**	01/01/2016 31/12/2016	**01/01/2017 31/12/2017**	01/01/2016 31/12/2016
121,093	112,980	49,473	45,543	0	0	594,189	575,458
8,024	8,591	228	550	(9,853)	(10,704)	0	0
(59,047)	(50,767)	(16,805)	(14,665)	9,847	10,694	(269,230)	(258,333)
392	4	805	556	0	0	(856)	2,368
(32,073)	(32,136)	(19,290)	(18,163)	0	0	(184,442)	(174,775)
(20,524)	(19,658)	(7,429)	(7,053)	0	0	(85,604)	(85,195)
17,865	**19,014**	**6,982**	**6,768**	**(6)**	**(10)**	**54,057**	**59,523**
(6,576)	(6,192)	(3,186)	(2,925)	0	0	(24,736)	(24,705)
11,289	**12,822**	**3,796**	**3,843**	**(6)**	**(10)**	**29,321**	**34,818**
387	311	1	0	(305)	(307)	291	121
(1,070)	(867)	(576)	(600)	305	307	(3,553)	(3,895)
2,977	0	0	0	(383)	0	2,979	11
13,583	**12,266**	**3,221**	**3,243**	**(389)**	**(10)**	**29,038**	**31,055**
243,390	149,280	49,413	47,598	(65)	107	574,030	471,698
0	0	39	0	0	0	39	0
0	0	10	10	0	0	1,076	1,134
13,420	10,474	17,390	14,561	(68)	(62)	70,275	57,962
5,532	6,215	4,246	6,211	0	0	24,574	30,412

European non-euro countries		Rest of world		Consolidation		Total	
2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
63,712	59,811	31,725	24,951	0	0	594,189	575,458
						308,655	311,784
22,944	23,867	9,708	7,471	(1,651)	(1,697)	574,030	471,698
						247,065	258,090
789	1,254	413	1,492	0	0	24,574	30,412

A_Basic data for the group

The CENTROTEC Group – hereinafter also referred to as CENTROTEC – is an international group with subsidiaries in Europe, Asia and the USA with annual revenue of EUR 594 million (previous year EUR 575 million). The focus of CENTROTEC's activities is the development, production and sale of the following product areas:

- Heating systems, in particular condensing-boiler technology for gas, oil and biomass as the energy source, together with solar thermal systems
- Gas flue and air piping systems made predominantly from plastic components
- Construction materials for airtight and watertight, sustainable building
- Ventilation systems with and without heat recovery
- Climate control systems
- Heat pumps
- Combined heat and power units, in particular fuelled by natural gas, sewage gas and biogas
- Medical technology components and equipment, as well as
- Plastic semi-finished and prefabricated products.

In addition to the existing businesses, the CENTROTEC Group defines its business purpose as creating and acquiring new business areas and companies in which energy-saving products are developed and sold, and/or the expertise of which lies in the domain of medical technology products, innovative plastic-based products or gas flue and ventilation systems.

CENTROTEC Sustainable AG has been listed on the Frankfurt Stock Exchange as a public limited liability company since December 8, 1998. Many of the companies included in the Consolidated Financial Statements nevertheless go back further. The group parent, CENTROTEC Sustainable AG, Brilon, Germany, is listed in the Prime Standard under the codes CEV, WKN 540750 and ISIN DE0005407506. CENTROTEC Sustainable AG is entered on the Commercial Register of the Local Court of Arnsberg, Germany, under the number HRB 2161. That group parent's registered offices are located at Am Patbergschen Dorn 9, 59929 Brilon, Germany. CENTROTEC Sustainable AG is not part of a superordinate group, and is the ultimate parent company of the group presented in these Notes and Consolidated Financial Statements. Further financial and corporate information on CENTROTEC is available from the above address, or on the homepage www.centrotec.de.

The financial year of CENTROTEC corresponds to the calendar year. The income statement therefore covers the period from January 1 to December 31, 2017 and has been prepared using the nature of expenditure method. The Consolidated Financial Statements are prepared based on a historical cost approach, with the exception that certain financial instruments are accounted for at market value and the pension obligations are accounted for using the projected unit credit method. The Consolidated Financial Statements have been prepared in euros. Unless otherwise indicated, the amounts quoted here are in thousand euros (EUR thousand). For mathematical reasons, there may be rounding differences of +/- one unit.

B_ Standards applied

The Consolidated Financial Statements at December 31, 2017 have been prepared in accordance with the “International Financial Reporting Standards” (IFRS) and their interpretations by the International Accounting Standards Board (IFRIC) issued by the International Accounting Standards Board (IASB), as adopted within the European Union (EU), taking account of Section 315e (1) of German Commercial Code. All IFRS standards the adoption of which is mandatory for the financial year from January 1, 2017 have been adopted.

CENTROTEC Sustainable AG, as the parent company of the CENTROTEC Group, is required to prepare annual financial statements in accordance with the requirements of German Commercial Code.

Accounting standards adopted for the first time

The following new standards and interpretations or amendments to existing standards and interpretations were to be adopted for the financial year from January 1, 2017:

Amendments to IAS 7	Cash Flow Statement
Amendments to IAS 12	Taxes on income
Amendments to IFRS 12	Disclosures on investments in other companies

The objective of the amendment to IAS 7 is to improve the information provided to users of financial statements about an entity’s financing activities. The disclosure obligations focus on liabilities that currently generate, or will in the future generate, payment streams that are attributable to the financing activities of an entity within the meaning of IAS 7. The disclosure has been made in the Notes, under Note 26 Cash flow statement The amended standards had no on material influence on the Consolidated Financial Statements of the company.

Accounting standards applicable from the 2018 financial year or later

A large number of new or amended standards and interpretations are only to be adopted from the 2018 financial year or later and were not adopted in these Consolidated Financial Statements. None of these standards has a material effect on the net worth, financial position and financial performance except for the following:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases

IFRS 9

IFRS 9 Financial Instruments includes requirements for recognition and measurement, derecognition and general hedge accounting. The IASB published the final version of the standard following the completion of the various phases of its extensive project on financial instruments on July 24, 2014. Accounting for financial instruments, which was previously handled under IAS 39 ‘Financial Instruments: Recognition and Measurement’, can therefore now be entirely replaced by accounting under IFRS 9. The version of IFRS 9 now published replaces all previous versions. According to IFRS 9 all financial assets are divided into two classifications – those measured at amortised cost, and those measured at fair value. Where assets are measured at fair value, gains and losses can be recognised either entirely in the result for the period or in other comprehensive income. IFRS 9 does not alter the fundamental accounting model for financial liabilities from IAS 39. The principal changes in the rules on hedge accounting mainly relate to application and effectiveness conditions, permissible underlying transactions, and recognition, disclosure and the notes. First-time mandatory adoption is envisaged for financial years beginning on or after January 1, 2018; earlier adoption is permissible. CENTROTEC will adopt IFRS 9 for the first time starting from the financial year beginning on January 1, 2018. We expect no significant changes.

IFRS 15

IFRS 15 specifies how and when an IFRS reporter will recognise revenue. It also requires preparers to provide users of financial statements with more informative and relevant disclosures than before. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The five-step framework model comprises the following points:

- Identify the contract(s) with a customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contract,
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 was published in May 2014 and is to apply for accounting periods beginning on or after January 1, 2018; earlier adoption is permissible. CENTROTEC will adopt IFRS 15 for the first time starting from the financial year beginning on January 1, 2018 (simplified first-time adoption). Based on our findings and analyses to date, there were only minimal effects from the amendments to IFRS 15. Particularly for selected full maintenance contracts and bonus programmes, growth in revenue arises with a corresponding increase in the cost of purchased materials in the 2018 financial year. Taking into account the above contracts, we expect a positive influence on the result for the year of EUR 0.3 million. The various business models of the CENTROTEC companies are fundamentally based on matched maturities between performance and invoicing.

IFRS 16

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases in its financial statements.
The standard provides a single lessee accounting model. This model requires lessees to recognise assets and liabilities for all leases on the balance sheet unless the lease term is twelve months or less or the underlying asset has a low value. For accounting purposes the lessor continues to distinguish between finance and operating leases. The accounting model of IFRS 16 does not differ significantly here from that of IAS 17, Leases.
IFRS 16 was published in January 2016 and is to apply for the first time for financial years beginning on or after January 1, 2019; earlier adoption is permissible. CENTROTEC will adopt IFRS 16 starting from the financial year beginning on January 1, 2019. This is likely to have an influence on the net worth, financial position and financial performance because we recognise our assets and liabilities from (finance) leases on the balance sheet. As matters stand, CENTROTEC expects the balance sheet total to rise as a result of the capitalisation of the lease obligations and their corresponding recognition as liabilities of approx. EUR 11 million. Under the new rules of IFRS 16, the rental expense according to the current rules of IAS 17 will be reflected in the depreciation and amortisation (approx. EUR 3.2 million) and in interest (EUR 0.3 million).

C_Consolidation methods

The balance sheet date of the companies included in the Consolidated Financial Statements is December 31, 2017. The annual financial statements of the domestic and foreign subsidiaries that are prepared in accordance with local law are prepared according to uniform group recognition and measurement principles.

Unless indicated to the contrary, the consolidation methods applied in these accounts have remained unchanged from the previous year.

a_Subsidiaries

Subsidiaries are included in the Consolidated Financial Statements insofar as controlling influence is exercised by the group. Controlling influence is exercised if the group is exposed to fluctuating returns from its involvement in the affiliated company or has entitlements to these and has the capacity to influence these returns by way of its power of disposal over the affiliated company. The date of first or last inclusion in the Consolidated Financial Statements within the context of full consolidation is fundamentally based on the date on which controlling influence is achieved or lost.

Business combinations are reported according to the purchase method. For this purpose, all assets and liabilities as well as contingent liabilities of the acquired company in existence at the time of acquisition are measured at fair value, irrespective of the existence of minority interests. For each corporate acquisition, CENTROTEC decides on a case by case basis whether the non-controlling interests in the acquired enterprise are measured at fair value or based on the proportion of net assets held in the acquired enterprise. The transaction costs directly attributable to the acquisition are offset immediately through profit or loss. The difference in amount between the cost of acquisition and the pro rata net equity is initially allocated to the assets, liabilities and contingent liabilities where its fair value differs from the carrying amount at the time of first-time consolidation. The deferred tax effects resulting from a business combination are likewise taken into account. Any remaining balance in the cost of acquisition over the fair value measurement of the net assets acquired is reported as goodwill. This is then tested for impairment at least once a year and, if necessary, written down to the lower value determined. Shares in the equity of subsidiaries that are not attributable to the group parent are reported within equity as a non-controlling interest. Where the cost of acquisition falls below the fair value measurement of the net assets acquired, the remaining difference is recognised in the income statement.

Where acquisitions occur over a period of time, the interests already held are measured at fair value at the date of acquisition. The difference between the carrying amount and the fair value is recognised in the Consolidated Income Statement.

Conditional purchase price components are included in the determination of the purchase price at their fair value at the time of the acquisition based on their probability of occurrence. The conditional purchase price components may be both equity instruments and financial liabilities. Depending on category, changes in the fair value are taken into account upon subsequent measurement.

Intra-group transactions, balances, revenues, expenses and earnings, gains, losses as well as accounts receivable and payable between consolidated companies are eliminated. For consolidation measures with an effect on income, the effects on income taxes are accounted for and deferred taxes are recognised. Any intercompany profits from trade are eliminated on a pro rata basis if the companies concerned had not left the group as at the balance sheet date. In each case the data of the company managing the inventory has been taken as the basis here.

b_Associated companies

Investments in associated companies are included in the Consolidated Financial Statements by the equity method if the ownership interest is between 20% and 50% or if the group exercises considerable influence, but no control, by another means. Under the equity method, shares in associated companies are measured initially at cost. The carrying amount is increased or decreased to recognise the investor's profit share of the investee's earnings for the period after the date of acquisition. The share also includes goodwill arisen at the date of acquisition. At each balance sheet date the investment is then tested for impairment and, if impairment is established, written down to the lower value determined.

Unrealised gains from business transactions between the group and its associated companies are eliminated in proportion to the company's ownership interest; unrealised losses are likewise eliminated proportionally, unless the value of the transferred asset has been diminished. Where the group's share of the loss of an associated company exceeds the carrying amount of its investment, the group does not record any further losses, unless it has assumed liabilities on behalf of the associated company or made payments for obligations of the associated company.

c_Miscellaneous investments

Investments over which the CENTROTEC Group exercises no control or no significant influence and where its ownership interest is generally not in excess of 20% are recognised as available-for-sale financial assets. Moreover, certain economically insignificant investments are likewise classified as financial assets available for sale.

D_ Foreign currency translation

The Consolidated Financial Statements are prepared in euros (EUR), as this is the functional currency of CENTROTEC Sustainable AG.

As part of the consolidation process, the financial statements of foreign group companies are translated into EUR where they have been prepared in a different currency. Assets and liabilities are translated at closing rates, and expense and income items are translated at average exchange rates for the period under review. Any currency translation differences from this translation into the group reporting currency are recognised within equity with no effect on income. In the event of the disposal of business operations, translation differences hitherto recognised income-neutrally within equity are recognised through profit or loss. Where necessary, shareholders' equity is translated at historical rates. Goodwill having arisen from business combinations as well as adjustments of valuations to fair values are attributed to the respective units, reassessed in their currency and, if necessary, translated at the exchange rates valid at the reporting date. None of the companies included in the Consolidated Financial Statements is based in a hyperinflationary economy.

The following table shows the exchange rates used for these accounts:

Foreign currency translation

	Rate at reporting date		Average rate	
ISO code	**31/12/2017**	**31/12/2016**	**2017**	**2016**
CHF	1.1702	1.0739	1.1117	1.0902
CNY	7.8044	7.3202	7.6290	7.3522
DKK	7.4449	7.4344	7.4386	7.4452
GBP	0.8872	0.8562	0.8767	0.8195
HKD	9.3720	8.1751	8.8045	8.5922
HRK	7.4400	7.5597	7.4637	7.5333
PLN	4.1770	4.4103	4.2570	4.3632
RUB	69.3920	64.3000	65.9383	74.1446
SGD	1.6024	1.5234	1.5588	1.5275
USD	1.1993	1.0541	1.1297	1.1069

E_Accounting policies

a_Goodwill

Goodwill is the excess of the cost of an investment over the market value of the acquiree's assets (on a time proportion basis) less liabilities and contingent liabilities. For the purpose of testing for impairment, goodwill must be allocated to a cash generating unit or group of cash generating units where it is assumed that they will benefit from the merger. Every unit or group of units to which goodwill is allocated must reflect the lowest level within the company at which goodwill is monitored for internal management purposes, and may not be larger than an operating segment.

Goodwill is assessed for impairment (value in use) once a year by means of an impairment test, irrespective of whether or not there is evidence of impairment. If necessary, an impairment loss is applied. Goodwill is recognised at cost, less accumulated impairment. If the reasons for a reduction for impairment applied to an asset on the basis of an impairment test have wholly or partly ceased to exist in a subsequent period, that impairment is not reversed accordingly.

b_Intangible assets

Intangible assets: acquired brand rights, customer bases, software and licences are capitalised at cost and amortised in accordance with their anticipated useful lives. To the extent that acquired brand rights have an indeterminate useful life, they are included in the annual impairment test. In the same way, software developments and other development work are capitalised at cost and likewise amortised in accordance with their respective anticipated useful lives, provided the following criteria are met:

- Completion of the intangible asset is technically feasible to the extent that it can be used or sold.
- The management intends to complete the intangible asset and use or sell it.
- The capability exists to use or sell the intangible asset.
- It can be demonstrated that the intangible asset will probably yield future economic benefits.
- Adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset.
- The expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs that do not meet the above criteria and research costs are recognised directly as expense.

The following table shows the useful lives serving as the basis for depreciation and amortisation by the straight-line method for intangible assets:

	Years
Brand rights, licences and customer bases	3 - 20
Patents and technologies	3 - 25
Software and software developments	2 - 10
Capitalised development costs	3 - 10

c_Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated regular depreciation occasioned by use and impairment. Subsequent costs are capitalised where these are associated with future economic benefit that can reliably be measured. Self-created plant includes shares of overheads in addition to the production-related direct costs. Provided borrowing costs are in connection with the production, construction and acquisition of qualifying assets that necessarily take a substantial period of time to get ready for their intended use or sale, they are capitalised as part of the cost of the asset pursuant to IAS 23. Depreciation is applied according to the straight-line method. If necessary, a reduction for impairment is recognised for property, plant and equipment down to the recoverable amount. All expenses arising in conjunction with the maintenance of property, plant and equipment are recorded in the income statement for the period in which they are incurred.

The following table shows the useful lives serving as the basis for depreciation and amortisation by the straight-line method for property, plant and equipment:

	Years
Buildings	10 - 50
Technical equipment and machinery	3 - 20
Fixtures and office equipment	3 - 15

d_Impairment of non-monetary assets such as property, plant and equipment and intangible assets:

Assets that are subject to depreciation and amortisation are tested for impairment if corresponding occurrences or changes in circumstances indicate that the carrying amount may possibly no longer be realisable. Assets that have an indeterminate useful life are tested annually for impairment unless indications are detected earlier that impairment may have occurred. The amount by which the carrying amount exceeds the recoverable amount is recognised as an impairment loss. The recoverable amount is the higher of the fair value of the asset less the costs of disposal, or the value in use. For the impairment test, assets are combined at the lowest level for which independent cash flows can be identified (cash generating units). For the determination of the value in use, forecast cash flows are discounted at the WACC (weighted average cost of capital) at the balance sheet date. Non-financial assets where impairment has been applied are in subsequent years examined for a recovery in value to the recoverable amount, but to no more than the scheduled values, i.e. without impairment loss. The reversal of impairment losses recognised in previous periods is recognised through profit or loss immediately.

e_Associated companies accounted for using the equity method, loans originated by the enterprise and investments

The balance sheet items comprise investments in associated companies, non-associated companies (investments), other loans originated by the enterprise, and securities. Investments in associated companies are recognised using the equity method. The other non-consolidated investments as well as securities are allocated to the category “Available-for-sale financial assets” and loans originated by the enterprise to the category “Loans and receivables”.

f_Inventories

Inventories are measured at the lower of cost or net realisable value. Raw materials and supplies are valued at the average cost. Work in progress, finished goods and merchandise are measured at average values or on the basis of cost, using the FIFO method. The cost of conversion for work in progress and finished goods consists of direct costs of materials, direct labour, other direct costs as well as appropriate shares of production-related indirect materials and indirect labour which have arisen as a result of bringing the inventories to their current location and current state. It is determined on the basis of normal capacity utilisation. Appropriate discounts are performed for sales-related risks. The net realisable value constitutes the estimated selling price in the ordinary course of business less the estimated costs of completion and sale yet to be incurred.

g_Trade receivables

Trade receivables and other non-derivative financial assets are considered to be current assets provided their maturity date is no more than twelve months from the balance sheet date. They are allocated to the category “Loans and receivables” and are recognised at amortised cost. Appropriate impairment has been recognised for identified risks, as indicated by experience.

h_Deferred tax

Deferred tax relates to tax deferrals resulting from temporally diverging stated amounts between the balance sheet prepared in accordance with IFRS and the tax balance sheets of the individual companies, as well as from consolidation processes. The deferred tax assets also include tax rebate claims resulting from the anticipated use of existing loss carryforwards in subsequent years and which are to be realised with reasonable certainty. Deferred tax is determined on the basis of the tax rates which are likely to apply in the individual countries at the time of reversal of the departures. It is furthermore based on current legislation and ordinances. Deferred tax assets and liabilities are not discounted. Deferred tax resulting from temporary differences in connection with investments in subsidiaries and associated companies is reported unless differences cannot be reversed within a foreseeable time frame or the timing of the reversal can be controlled by the company. The deferred tax assets on temporary differences are tested for impairment at each reporting date. Deferred tax is fundamentally classified as non-current on the balance sheet. Deferred tax assets and liabilities are offset if a corresponding legally enforceable right to offsetting exists and if the deferred tax assets and liabilities are in respect of income taxes levied by the same taxation authority either for the same taxable entity or for different taxable entities that intend to settle on a net basis.

The tax expense for the period comprises current and deferred tax. Tax is reported in the income statement, unless it refers to items that have been recognised directly within equity or within the other result. In that instance, the tax is likewise recognised within equity or within the other result. The current tax expense is calculated using the tax regulations applicable at the balance sheet date (or being introduced shortly) of the countries in which the company and its subsidiaries are active and generate taxable income. The management examines tax declarations regularly, above all in respect of matters that are open to interpretation, and if appropriate creates provisions based on the amounts that are expected to be payable to the tax authorities.

i_Cash and cash equivalents

Cash and cash equivalents comprises cash in hand, demand deposits, and deposits with a maturity of up to three months. Amounts owed to banks repayable on demand form an integral part of the group’s cash management. For the purpose of the cash flow statement, they are therefore included in the financial resources alongside cash and cash equivalents with a maturity of three months. These amounts owed to banks and due at any time are shown on the balance sheet as short-term financial debt.

j_Shareholders' equity

The issued capital (capital stock) comprises all no par value shares issued by CENTROTEC Sustainable AG. These are reported as shareholders' equity. Each individual share represents a pro rata amount of the capital stock of one euro.

The change in the additional paid-in capital is attributable to the premiums from the issuance of shares through the stock option scheme. Transaction costs incurred directly in connection with the issuing of new shareholders' equity are recognised as a deduction from equity including all associated income tax benefits. If a group company acquires treasury stock, the costs including ancillary costs and potential income tax effects are deducted from the shareholders' share of equity in the treasury stock reserve until the treasury stock has been withdrawn from circulation, reissued or sold. In the event of the reissue or sale of treasury stock, the purchase prices received, including all associated transaction costs and income tax benefits, are recognised in the shareholders' share of equity.

The other reserves and the profit carryforward essentially comprise the profit carryforward as well as the values of changes from currency translation recognised with no income effect, and changes in interest rate hedging instruments, remeasurements from pension plans and reserves for stock options.

The non-controlling interests comprise the equity portions attributable to non-controlling interests, including shares of profits and losses, as well as possible amounts attributable to these from currency translation.

k_Share-based forms of payment

CENTROTEC used share-based forms of payment counterbalanced by equity instruments. Stock options were granted to employees, members of the management and Management Board members on the basis of a stock option scheme. Their recognition and measurement are based on the provisions of IFRS 2. Under IFRS 2, share-based forms of payment are to be reported at the fair value of the consideration received. As the fair value of the consideration received cannot be estimated reliably, CENTROTEC calculates the changes to shareholders' equity indirectly, using the fair value of the stock options granted. In the absence of market prices, this fair value is determined with the aid of a binominal model. This model estimates the price that could be achieved between knowledgeable, willing parties in an arm's length transaction for the stock options concerned at the relevant measurement date. All factors and assumptions that market players would take into consideration in determining the price and that are specified by IFRS are observed. Insofar as applicable, it is assumed when determining the factors and assumptions on which the calculation is based that historical values and developments will likewise apply to future developments and can serve as a point of reference or starting point for calculation parameters. The value of an option is determined on a once-only basis at the time it is granted. Subsequent changes to the parameters are disregarded.

The expense from share-based forms of payment is distributed over the vesting period by the straight-line method as a personnel expense and recognised in the additional paid-in capital for stock options until the option is exercised or lapses. Changes after the end of the vesting period have no effect on income and are only recognised within shareholders' equity. If there are tax effects from share-based forms of payment, the tax effects are shown as a proportion of the personnel expense recognised under tax expense. The excess shares are deferred within equity via deferred tax assets as a surplus amount and recognised directly within equity in a separate reserve for deferred tax.

Income accrued by the company at the time of exercise of stock options, less direct expenses, is allocated to the issued capital and the premium to the additional paid-in capital. Option-related reserves created are moreover allocated pro rata to the additional paid-in capital for the consideration received and for their tax effects. Cash flows from tax effects for share-based forms of payment are recorded in the cash flow statement as allocations to the additional paid-in capital as soon as the cash flow from the relevant tax return has been settled with the tax authorities. All schemes involving share-based forms of remuneration ended in 2017.

l_Pension provisions

The pension provisions are created for defined benefit pension obligations to management and other employees, and calculated on the basis of the present value of future commitments pursuant to IAS 19 using the projected unit credit method, taking into account future pay and pension increases and the mortality tables currently available. A variety of pension plans exist within the group. The pension obligations are disclosed netted against the plan assets on the equity and liabilities side of the balance sheet. The remeasurements from pension plans are reflected in equity, under the retained earnings, with no income effect. They may not be reclassified to profit or loss at a later date (recycling).

For further information on the pension obligation and plan assets, please refer to Note [11].

In many countries in which CENTROTEC employees are engaged, there exists a contribution-based statutory basic pension scheme that pays out a pension on the basis of income and contributions made. In the case of defined contribution plans, fixed amounts are paid to funds outside the group. In paying the contributions to public pension schemes, CENTROTEC has no further benefit obligations. In addition, individual employees in the group have taken out policies with private insurance companies which are subsidised in certain respects on the basis of company agreements. Apart from the personnel expenses for subsidies that are included in employee benefit costs, the group has no further benefit obligations. This applies in particular if a fund outside the group does not maintain sufficient assets to settle the claims made against it from current and previous financial years.

m_Other provisions

Other provisions are created for all present obligations at the balance sheet date resulting from previous business transactions or past occurrences, where the amount and due date are uncertain. These accruals and provisions are stated at the present value of the most likely, reliably estimable amount of settlement and are not netted against revenue and gains. The likelihood of the cash outflow must be more than 50% ("more likely than not" criterion). Provisions are created only where a legal or factual obligation to third parties exists and the level of the provisions could be reliably determined. In the event of a wide range of obligations of a similar nature resulting for instance from statutory warranty obligations, they are determined on the basis of this group of obligations. Provisions may in certain circumstances be recognised as a liability if the likelihood of an isolated obligation materialising within the underlying overall group is slight.

The provision for warranties should likewise be created for free-of-charge reworking, substitute deliveries, price reductions or compensation payments for nonfulfilment. It may be based on statutory obligations or on an independent warranty commitment. Within the CENTROTEC Group, as well as individual provisions, general provision should be created if a warranty claim must be expected on the basis of past events. The flat rate is to be determined independently by each group company on the basis of past experience and updated annually.

n_Borrowings and trade payables

Borrowings and trade payables are allocated to the category "Financial liabilities measured at amortised cost". They are subsequently measured at amortised cost using the effective interest rate method. Liabilities from loans are classified as current if they are repayable within the next twelve months.

o_Leases

Leases where all opportunities and risks are attributable in substance to the group are classified as finance leases. They are measured at the fair value of the asset at the start of the lease term or at the lower present value of the future leasing instalments. A lease liability for an equivalent same amount is recognised under non-current liabilities. Every lease payment is divided up into a capital and an interest portion. Leases where significant portions of the opportunities and risks rest with the lessor are classified as operating lease obligations. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease.

p_Financial instruments

A financial instrument is any contract that gives rise to both a financial asset at one enterprise and a financial liability or equity instrument at another enterprise. The balance sheet includes both primary and derivative financial instruments. Normal market purchases and sales of financial assets are recognised at the settlement date.

Classification of financial assets

When reported for the first time, a financial asset is fundamentally to be classified in one of the following categories: loans and receivables, held-to-maturity investments, financial assets at fair value through profit or loss, distinguishing between those that are held for trading and those that have been designated as belonging to this category upon initial recognition, and available-for-sale financial assets.

The classification depends on the respective purpose for which the financial assets have been acquired. The management determines the classification of financial assets upon recognition for the first time and re-examines the classification at each reporting date.

Loans and receivables include non-derivative financial assets that have determinable cash flows and are not traded on an active market. If there is the intention to hold investments with a maturity date (e.g. bonds) that are traded on an active market until maturity, they can be categorised as held-to-maturity investments. Financial assets held for trading are to be allocated to the category "Financial assets at fair value through profit or loss". Financial instruments are allocated to the category "Available-for-sale financial assets" if they are designated as such or if allocation to another category is not possible.

Derivatives are to be classified as financial assets at fair value through profit or loss unless they are designated as an effective hedging instrument for hedge accounting (hedging derivatives). The latter do not fall into any of the above four categories.

Measurement of financial assets

Loans and receivables as well as held-to-maturity investments are measured at fair value upon initial recognition, taking account of any transaction costs. They are subsequently measured at amortised cost using the effective interest rate method and taking account of any impairment necessary.

Financial assets at fair value through profit or loss and available-for-sale financial assets are generally recognised at fair value both initially and upon subsequent measurement, without the deduction of any transaction costs. In the case of available-for-sale financial assets, gains or losses from subsequent measurement (except for impairment losses) are reported income-neutrally in a separate item under equity ("financial assets available for sale" reserve) until the financial asset is derecognised. When the financial asset is sold, the accumulated measurement result reported in the reserve is liquidated and recognised in the income statement. In the event of impairment, the reserve is adjusted by the impairment and the surplus amount reflected in the income statement. Reversals are performed income-neutrally in the case of equity instruments, but otherwise with an effect on income. If the fair value of equity instruments that have been categorised as available-for-sale financial assets cannot be reliably determined, they are measured at cost. No reversals are performed in this instance.

Reductions for impairment are applied if, following recognition of the financial asset upon its receipt, there is objective evidence of impairment that affects the anticipated future cash flows from the financial instrument. The amount of the impairment loss is the difference between the carrying amount and the present value of the anticipated cash flows.

The categories loans and receivables, financial assets at fair value through profit or loss as well as available-for-sale financial assets are of relevance for the CENTROTEC Group. Furthermore, the derivatives that are used in hedge accounting are designated effective hedging instruments (hedging derivatives).

The loans and receivables category comprises substantially loans, cash and cash equivalents, and trade receivables. Essentially current investments as well as financial derivatives that are used as economic hedging transactions, but not for hedge accounting, are reported in the category fair value through profit or loss. The available-for-sale financial assets mainly comprise securities.

Accounting of hedging relationships

Derivative financial instruments are used within the group for hedging the interest and exchange rate risks resulting from operating activities, financial transactions and investments, and are designated through cash flow hedges. Initial and subsequent measurement is at the fair value. The measurement result is broken down into an effective and an ineffective portion. The effective portion is recognised income-neutrally under a separate item within equity. The ineffective portion of the measurement result, on the other hand, is recognised in the income statement. The accumulated measurement results within equity are liquidated with an income effect if the hedged item starts to affect income. The measurement result from derivative financial instruments that are classified as an economic hedge, and not for hedge accounting, is recognised through profit or loss.

Classification of financial liabilities

Financial liabilities are to be classified as belonging to one of the following categories upon initial recognition: financial liabilities at fair value through profit or loss, distinguishing between those that are held for trading and those that have been designated as belonging to this category upon initial recognition as well as financial liabilities measured at amortised cost.

As with financial assets, the classification here again depends on the respective purpose. If a liability is held for trading, it is to be allocated to the category "Financial liabilities at fair value through profit or loss". All other financial liabilities are to be classified as "Financial liabilities recognised at amortised cost".

Derivatives are classified as financial liabilities at fair value through profit or loss unless they have been designated as an effective hedging instrument for hedge accounting (hedging derivatives). The latter does not fall into either of the above two categories.

Measurement of financial liabilities

Financial liabilities at fair value through profit or loss are measured both initially and subsequently at fair value. Financial liabilities measured at amortised cost are measured at fair value, including discounts, upon initial recognition, taking account of any transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.

Essentially the financial liabilities measured at amortised cost are of relevance for the CENTROTEC Group. Derivatives that are used in hedge accounting are designated effective hedging instruments for hedge accounting (hedging derivatives). Derivatives that serve as economic hedging transactions but are not used for hedge accounting are reported at fair value through profit or loss. The financial liabilities measured at amortised cost mainly originate from trade payables and from the financing of the group.

Determination of the fair values of financial instruments

An enterprise is to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. This hierarchy comprises three levels: a) the prices quoted in active markets for identical assets or liabilities (and adopted unchanged) (Level 1); b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and c) inputs for the asset or liability that are not based on observable market data (non-observable inputs) (Level 3).

The fair values carried on the balance sheet generally correspond to the market prices of the financial assets and liabilities (Level 1). If no market prices are available, they are calculated with the aid of accepted valuation models (Level 2). In the CENTROTEC Group, securities that are measured at market prices come under Level 1. The financial derivatives for which the fair value is determined with the aid of the DCF method come under Level 2. The relevant market prices, interest rates and interest rate volatilities observed at the balance sheet dates and obtained from accepted external sources serve as the input parameters for this method. There are no other financial instruments that are carried at fair value, i.e. there are no financial instruments to be classified as Level 3. CENTROTEC determines disclosure of the fair value of bank liabilities by discounting the expected future payment streams (Level 2).

q_Government grants

Government grants for costs are recognised as income-effective over the period in which the corresponding costs which they are intended to cover arise.

r_Revenue recognition

Revenue from the sale of goods is recognised in accordance with the criteria of IAS 18. In other words, if the significant risks and rewards of ownership of the goods and products have been transferred to the buyer, if the amount of revenue can be reliably determined, if the costs incurred or to be incurred in respect of the transaction can be reliably determined, if the group retains neither continuing managerial involvement nor an effective power of disposal over the sold goods, and if it is probable that the economic benefits associated with the transaction will flow to the group. For the sale of goods, this is regularly the point of delivery, when the risk has passed to the customer.
Revenue for services is recorded if the services have been rendered.
The percentage of completion method is not applied.
Revenue is recognised net of VAT and discounts, and after elimination of intra-group transactions.
Interest income is recognised using the effective interest rate method. Dividend income is recognised when the shareholder's right to receive payment is established. Interest and dividend income is reported in the financial result.

s_Financing costs

Financing costs such as interest are recognised as income or expense time-proportionally and on an accrual basis that reflects the terms of the asset or liability, using the effective interest rate method.

t_Dividends

Dividends such as dividend revenue from investments and shareholders' entitlements to dividend payments are recognised as payments when the right to receive payment arises.

F_Financial risk management

a_Financial risk factors

Financial risk management objectives and policies

The CENTROTEC Group operates internationally. In view of the variety of its activities, the group is exposed to a large number of financial risks. We take risk to mean unexpected occurrences and possible developments that adversely affect the attainment of set targets and expected progress. Risks that have a material influence on the net worth, financial position and financial performance are of relevance. The group's risk management system analyses various risks and attempts to minimise negative effects on the financial position of the group. Risk management is practised on the basis of existing guidelines. Risk managers identify, measure, assess and support the steering of potential sources of risks.

In measuring and controlling significant individual risks, a distinction is made between credit, market and liquidity risks.

Credit risk

We take credit risk to mean the risk of a loss following the defaulting or deterioration in creditworthiness of a business partner. The maximum credit risk corresponds to the aggregate of the carrying amounts of financial assets on the balance sheet which are recognised net of reductions for impairment, plus these same reductions for impairment.

Impairment of trade receivables is applied according to uniform rules and covers all discernible creditworthiness risks. Portfolio impairment was created for losses that have materialised but not yet been identified. For further disclosures on impairment and the maturities structure of receivables, we refer to the disclosures on trade receivables.

Credit risks regarding accounts receivable are in essence limited by the application of credit approvals, credit insurance, credit limits and monitoring procedures. The level of a credit limit reflects the creditworthiness of a counterparty and the typical size of the transaction volume with that counterparty. The assessment of creditworthiness is based on the one hand on information from external credit reporting agencies and on the other hand on internally acquired past experience in dealing with the counterparty in question. With regard to receivables that are neither overdue nor impaired, there is no evidence at the reporting date that the debtors will not meet their commitments from these receivables.

As a result of the large number of customers in various customer groups and their international structure and the application of credit insurance, the credit risk of trade receivables is diversified. CENTROTEC has no significant concentration of credit risk with any single customer. The largest customer in the group accounts for around 4% of revenue (previous year around 4%).

Liquidity risk

We take the liquidity risk in the narrower sense to mean the risk of being unable to meet current or future payment commitments or only being able to meet them on unfavourable terms. The group generates financial resources predominantly through its business operations. The liquidity risk is controlled by maintaining adequate levels of cash and unutilised credit lines with banks. All contractual loan arrangements are continuously monitored. The following table shows the contractually agreed, undiscounted cash flows from financial instruments. Variable interest payments were stated at the rates determined at the reporting date. Foreign currency amounts were translated using the spot rate at the reporting date.

Liquidity analysis (including forecast on interest payments as well as the revolving credit lines)

in EUR '000	Total outstanding amount	Of which maturity less than 1 year	Of which maturity 1 to 2 years	Of which maturity 2 to 5 years	Of which maturity over 5 years
2017	**231,644**	**66,620**	**9,298**	**20,903**	**134,823**
2016	139,114	65,729	7,824	19,746	45,815

There are moreover the following anticipated outflows of liquidity from the derivatives concluded:

in EUR '000	Total outstanding amount	Of which maturity less than 1 year	Of which maturity 1 to 2 years	Of which maturity 2 to 5 years	Of which maturity over 5 years
2017	**254**	**43**	**41**	**103**	**67**
2016	184	62	27	74	21

Market risk

We take the market risk to mean the risk of a loss that may arise as a result of a change in market parameters that have a bearing on measurement (exchange rate, interest rate, price).

The market risks from currency translation within CENTROTEC are limited, as the transactions take place principally in eurozone countries. However, a growing portion of business activities is taking place in European countries outside the eurozone, particularly Eastern Europe, but the markets outside Europe are also coming increasingly into focus. This geographical expansion gives rise to limited, manageable exposure to market risks from changes in interest and exchange rates. The group therefore uses instruments for hedging foreign currency risks only selectively.

If the euro had gained 10% in value against the principal foreign currencies for CENTROTEC at December 31, 2017, EBIT would have been lower by EUR 15 thousand (previous year EUR 11 thousand higher). If the euro had lost 10% in value, EBIT would have been higher by EUR 17 thousand (previous year EUR 9 thousand lower).

Currency sensitivity

in EUR '000 Curren-cy	Reporting date rate	Rate if EUR gains 10% in value	Sensitivity if EUR gains 10% in value	Rate if EUR loses 10% in value	Sensitivity if EUR loses 10% in value
CHF	1.1702	1.29	1	1.05	(2)
CNY	7.8044	8.58	31	7.02	(39)
DKK	7.4449	8.19	76	6.70	(92)
GBP	0.8872	0.98	(73)	0.80	86
HKD	9.3720	10.31	0	8.43	0
HRK	7.4400	8.18	(85)	6.70	104
PLN	4.1770	4.59	(103)	3.76	127
RUB	69.3920	76.33	18	62.45	(21)
SGD	1.6024	1.76	0	1.44	0
USD	1.1993	1.32	120	1.08	(146)
Total			**(15)**		**17**

If the euro had gained 10% in value at December 31, 2017, shareholders' equity would have been EUR 494 thousand (previous year EUR 601 thousand) higher or, if the euro had lost 10% in value, EUR 750 thousand (previous year EUR 768 thousand) lower. The determination of currency sensitivities took account of all significant financial instruments where the currency of the contract is not the same as the functional currency of the CENTROTEC Group. The calculations do not contain currency translation risks, nor deferred and actual taxes.

The market risks from interest rate changes stem predominantly from rate-sensitive financial assets and liabilities as well as cash and cash equivalents where interest rate changes result in changes in the anticipated cash flows. To hedge against adverse interest rate movements, mainly interest rate swaps have been concluded in order to hedge against the cash flow risks of loans with variable interest rates; they can be designated cash flow hedges in accordance with IAS 39. For further particulars of the hedging instruments used, please refer to the disclosures on the derivative financial instruments.

If market interest rates had been 100 base points higher or lower at December 31, 2017, earnings would have been EUR 419 thousand (previous year EUR 398 thousand) higher or EUR 96 thousand (previous year EUR 184 thousand higher) lower. Shareholders' equity would correspondingly have been EUR 1,601 thousand (previous year EUR 662 thousand) higher or EUR 735 thousand (previous year EUR 81 thousand) lower at December 31, 2017.

Capital structure

Figures in EUR '000	31/12/2017	31/12/2016	31/12/2015	31/12/2014	31/12/2013
Shareholders' equity	257,481	240,602	225,962	207,908	200,427
Long-term debt	219,641	134,898	125,375	122,068	121,935
Short-term debt	103,350	104,195	100,801	95,607	116,315
Balance sheet total	580,472	479,695	452,138	425,583	438,677
Equity ratio	44.4%	50.2%	50.0%	48.9%	45.7%
Debt ratio	55.6%	49.8%	50.0%	51.1%	54.3%

All significant variable-interest receivables and liabilities from primary financial instruments of the CENTROTEC Group as well as cash flows from derivative financial instruments were taken into account in determining the sensitivity of earnings to interest rates. Equity sensitivity was calculated on the basis of hypothetical changes in the market value of the derivatives designated as hedges.

Other risks affecting the prices of financial instruments exist for the CENTROTEC Group above all in the form of trading prices and redemption prices that may affect the current investments. As a result of the conservative investment policy, this risk is assessed as low. The fair value of the current investments would increase or decrease by EUR 12,454 thousand as a result of a fluctuation of plus/minus 10%.

Operating risks

Through its operating activities, the group is exposed to market price risks in the form of commodity price risks. These may have a negative effect on the net worth, financial position and financial performance. CENTROTEC assesses these risks on a regular basis by monitoring changes in key indicators as well as market information. These market price risks are controlled predominantly via routine business operations and financing activities.

Credit risks on the procurement side are limited in the case of CENTROTEC. There are a great many suppliers for many raw materials and supplies. In critical areas of procurement, at least two sources of supply exist in virtually every case.

b_Capital risk management

The group's aims with regard to capital management are to maintain the company as a going concern, in order to protect the interests and expectations of our shareholders, employees and other stakeholders. Another aim is to maintain an optimum capital structure in order to reduce the capital costs and control the risks, building in a premium for maintaining financial flexibility. To minimise risks, a financing structure is being established in which the financing of the individual parts of the group is ring-fenced, i.e. they are kept strictly separate. It is necessary to ensure that both internal and external growth prospects and opportunities can be realised by parts of the group at any time.
Potential measures for influencing the capital structure may concern both equity (e.g. ploughback) and debt (e.g. through the raising/repayment of loans). The target equity ratio should not normally be below 20%.

G_Critical assumptions and estimates

The preparation of the Consolidated Financial Statements in agreement with IFRS requirements as adopted in the EU renders it necessary to make assumptions and estimates that influence the net worth, financial position and financial performance. These include expectations regarding the likelihood of events occurring, formed in the prevailing circumstances. Estimates relate to affairs that are uncertain at the time of recognition or up until the preparation of the financial statements

The assumptions and estimates that can materially influence the net worth, financial position and financial performance are explained below.

CENTROTEC carries out an impairment test at least once a year on its goodwill-bearing cash generating units. To estimate the value in use, the management must estimate the anticipated future cash flows of the cash generating units and in addition select an appropriate discount rate to determine the present value of these cash flows. The management's expectations consequently have an indirect impact on the measurement of goodwill and other assets. Conducting sensitivity analyses yields the following results: if the estimates of the underlying free cash flow had been 10% lower, there would have been no impairment of goodwill. If an interest rate 100 base points higher had been taken as the basis for discounting of the cash flows, this would likewise not have led to any reduction in goodwill.

The recognition and measurement of provisions are equally influenced by the assumptions made on the probability of occurrence, timing, discount factor applied and absolute amount of the risk. In the case of pension entitlements in particular, actuarial calculations and estimates are indispensable.

Other key estimates concern determining the useful lives of intangible assets and property, plant and equipment, estimating the collectability of receivables and other assets, measuring inventories as well as the scope for realising tax receivables and deferred tax assets on temporary differences in accounting entries and tax loss carryforwards. In addition, at initial consolidation there are estimation uncertainties and areas of judgement in determining the fair values of the assets acquired and liabilities assumed.

H_Segment reporting

The operating segments are reported on in agreement with internal reporting to the principal decision-makers. The principal decision-maker is responsible for decisions regarding the allocation of resources to the operating segments and for examining their profitability. The principal decision-maker is the Management Board, which controls the following three segments:

1_**"Climate Systems"**: in this segment, heating, ventilation and climate control systems together with systems for using renewable energies for detached and semi-detached houses as well as for utility buildings such as public amenities, schools etc. are developed, produced and sold. The main focus of the product range is on a high degree of energy-saving and on interlinking heating, ventilation and climate control systems. In this market segment, CENTROTEC is among the leading companies in Europe.
2_**"Gas Flue Systems"**: here, gas flue systems for heating units and air piping systems as well as construction materials for airtight and watertight, sustainable construction are developed, produced and marketed. The emphasis of these systems is on plastic gas flue systems for condensing boiler systems. In this segment, CENTROTEC is one of the leading companies in Europe.
3_**"Medical Technology & Engineering Plastics"**: this segment develops, manufactures and sells medical technology and diagnostic articles and instruments. This segment also comprises the manufacture and sale of semi-finished plastic articles, prefabricated products and assemblies for small series in various sectors.

Segment reporting is based on the same accounting policies as for the other sections of the Consolidated Financial Statements. Income and expenditure are directly attributable to the segments on the basis of source or origin. The data is taken from the accounting systems of the companies that are allocated to the respective segments.

The key indicators used for managing the segments are revenue and EBIT, which are shown in segment reporting.

I_Particulars of the consolidated companies

The following companies, which simultaneously constitute the CENTROTEC Group, were consolidated within CENTROTEC Sustainable AG at December 31, 2017:

Company

	Place and country of incorporation	Share of capital	Subscribed capital	Currency (ISO code)	Founded/ acquired
Fully consolidated					
CENTROTEC Sustainable AG	Brilon, DE	–	18,020,923.00	EUR	*17/07/1998
Climate Systems segment					
Brink Climate Systems B.V.	Staphorst, NL	100 %	20,004.00	EUR	02/01/2002
Brink Climate Systems France S.A.S.	Nantes, FR	100 %	10,000.00	EUR	02/01/2014
Air Instal Group B.V.	Deventer, NL	100 %	18,152.00	EUR	02/01/2002
Air Instal B.V.	Deventer, NL	100 %	10,000.00	EUR	01/12/2015
ComfortExpert B.V.	Deventer, NL	100 %	10,000.00	EUR	25/06/2015
CENTROTEC Real Estate B.V.	Doesburg, NL	100 %	1.00	EUR	30/01/2014
Ned Air Holding Deutschland GmbH	Brilon, DE	100 %	25,000.00	EUR	08/04/2014
Ned Air Holding B.V.	Ijsselmuiden, NL	100 %	54,454.00	EUR	05/06/2003
Ned Air B.V.	Ijsselmuiden, NL	100 %	54,454.00	EUR	05/06/2003
Holmak HeatX B.V.	Sassenheim, NL	100 %	38,500.00	EUR	08/09/2005
Innosource B.V.	Sassenheim, NL	100 %	18,000.00	EUR	08/09/2005
HOLMAK D.O.O.E.L.	Bitola, MK	100 %	816,623.00	MKD	13/06/2013
CENTROTEC Energy Solutions B.V.	Staphorst, NL	100 %	18,000.00	EUR	08/09/2005
CENTROTEC Energy Solutions Nederland B.V.	Staphorst, NL	100 %	18,000.00	EUR	19/11/2010
Brink Climate Systems Deutschland GmbH	Ahaus, DE	100 %	450,000.00	EUR	29/11/2005
Wolf Holding GmbH	Mainburg, DE	100 %	25,000.00	EUR	22/09/2006
Wolf GmbH	Mainburg, DE	100 %	20,000,000.00	EUR	05/10/2006
Wolf France S.A.S.	Massy, FR	100 %	1,040,000.00	EUR	05/10/2006
Wolf Iberica S.A.	Madrid, ES	100 %	1,181,315.74	EUR	05/10/2006
Wolf Technika Grzewcza Sp.z.o.o.	Warschau, PL	100 %	3,189,100.00	PLN	05/10/2006
Kuntschar & Schlüter GmbH	Wolfhagen, DE	100 %	250,000.00	EUR	01/11/2008
Wolf Power Systems GmbH	Gorleben, DE	100 %	500,000.00	EUR	09/08/2011
Wolf Sustainable AG	Zürich, CH	100 %	100,000.00	CHF	24/06/2011
OOO Wolf Energiesparsysteme	Moskau, RU	100 %	113,200,000.00	RUB	25/11/2011
Wolf Klimaatechniek B.V.	Kampen, NL	100 %	150,000.00	EUR	05/10/2006
Wolf Italia S.R.L.	San Donato Melansese, IT	100 %	100,000.00	EUR	01/07/2013
PRO-KLIMA d.o.o.	Samobor, HR	100 %	9,107,600.00	HRK	01/07/2015
Wolf HVAC Systems Co. Ltd	Shanghai, CN	100 %	7,692,755.00	CNY	01/02/2016
Wolf HVAC HK Limited	Hong Kong	100 %	10,000.00	HKG	31/08/2015
CENTROTEC Energy Solutions GmbH	Brilon, DE	100 %	25,000.00	EUR	23/07/2008

Company

	Place and country of incorporation	Share of capital	Subscribed capital	Currency (ISO code)	Founded/ acquired
Gas Flue Systems segment					
Ubbink B.V.	Doesburg, NL	100 %	46,290.00	EUR	21/12/1999
Ubbink N.V./ S.A.	Gentbrugge, BE	100 %	592,117.00	EUR	21/12/1999
Ubbink UK Ltd.	Brackley, UK	100 %	2,485,000.00	GBP	21/12/1999
Ubbink France S.A.S.	La Chapelle sur Erdre, FR	100 %	310,000.00	EUR	21/12/1999
Centrotherm Systemtechnik GmbH	Brilon, DE	100 %	108,360.00	EUR	15/12/1993
Centrotherm Gas Flue Technologies Italy S.R.L.	Verona, IT	100 %	119,000.00	EUR	19/10/2000
Centrotherm Eco Systems, LLC	Albany, USA	65 %	300,000.00	USD	22/04/2009
Centrotherm Gas Flue Technology (Jiangsu) Co., Ltd.	Nantong, CN	100 %	2,740,639.52	CNY	11/02/2015
Ubbink Deutschland GmbH	Brilon, DE	100 %	25,000.00	EUR	14/07/2008
CENTROTEC Composites GmbH	Brilon, DE	100 %	27,000.00	EUR	01/08/1990
CENTROTEC International GmbH	Brilon, DE	100 %	25,000.00	EUR	18/12/2002
CENTROTEC Finance BV	Staphorst, NL	100 %	20,000.00	EUR	03/12/2015
CENTROTEC Finance BV & Co.KG	Brilon, DE	100 %	14,876.00	EUR	16/12/2015
FIS CENTROTEC Finance	Luxemburg	100 %	126,713,647.17	EUR	27/01/2016
Medical Technology & Engineering Plastics segment					
medimondi AG	Fulda, DE	100 %	11,640,000.00	EUR	*16/10/2006
Möller GmbH	Fulda, DE	100 %	60,000.00	EUR	28/08/2003
Möller Medical GmbH	Fulda, DE	100 %	1,400,000.00	EUR	28/08/2003
Möller Medical USA Inc.	Saratoga Springs, USA	100 %	10.00	USD	27/05/2014
Centroplast Engineering Plastics GmbH	Marsberg, DE	100 %	250,000.00	EUR	01/08/1990
Rolf Schmidt Industriplast A/ S	Kolding, DK	100 %	3,000,000.00	DKK	16/03/2001
Companies consolidated using the equity method					
Industrial Solar GmbH	Freiburg, DE	51 %	161,290.00	EUR	25/08/2011
VAC-Stent Medtec AG	Kantons Zug, CH	25 %	100,000.00	CHF	01/08/2017
Companies recognised as available-for-sale financial assets (non-consolidated companies), as they are of no material significance:					
Wolf (Schweiz) AG	Kilchberg, CH	9 %	100,000.00	CHF	18/02/2014

* Date of creation by modifying conversion

The following small, non-operational companies were wound up in the 2017 financial year: Stiller Wonen BV, Soundscape BV, Centrotgulf Ltd. and Wolf Klimatechnik SARL. The company Centrotec JI Asia Pte. Ltd., which was equally no longer operational, is no longer a consolidated company.

The company Dreyer & Bosse GmbH has been renamed Wolf Power Systems GmbH.

J Explanatory notes on components of the consolidated financial statements

1 Goodwill

The classification and movements of goodwill are shown in the following schedule:

in EUR '000	
2017	
Accumulated cost Jan 1	79,483
Exchange differences	88
Additions	0
Disposals	(23)
Accumulated cost Dec 31	79,548
Accumulated impairment Jan 1	(2,263)
Exchange differences	0
Additions	0
Disposals	0
Accumulated impairment Dec 31	(2,263)
Net carrying amount 31/12/2017	**77,285**
2016	
Accumulated cost Jan 1	79,429
Exchange differences	54
Additions	0
Disposals	0
Accumulated cost Dec 31	79,483
Accumulated impairment Jan 1	(2,263)
Exchange differences	0
Additions	0
Disposals	0
Accumulated impairment Dec 31	(2,263)
Net carrying amount 31/12/2016	**77,220**

The goodwill totalling EUR 77,220 thousand reported at December 31, 2016 rose by an amount of EUR 65 thousand in the 2017 financial year to EUR 77,285 thousand. This increase is in essence attributable to exchange rate fluctuations.

In the CENTROTEC Group a distinction is made between four cash generating units to which goodwill is allocated. The impairment test was performed on the basis of value in use. The calculations were based on a cash flow oriented model. The calculations are based on the approved plans for 2018. The average growth over the past five years has been assumed for the years 2019 to 2022. Growth is 1.6% for the Wolf CGU, 2.9% for the Brink CGU, 3.6% for the Ubbink CGU and 4.7% for the medimondi CGU. A perpetual pension is in addition calculated on the basis of the fifth year of the planning period for cash flow. The perpetual pension was assumed to have a growth rate in cash flow of 1.0% (previous year 1.0%) for all CGUs. The discount rate was formed from the weighted costs of borrowed capital and equity capital, with the equity capital costs derived using CAPM. The discount rate before tax is 4.64% for the Wolf CGU, 4.71% for the Brink CGU, 4.76% for the Ubbink CGU and 5.23% for the medimondi CGU (previous year 4.03% to 4.53%).

The impairment tests revealed no need for impairment of goodwill in either the 2017 financial year or in the comparative period 2016.

The following table shows the distribution of goodwill between the cash generating units:

Cash generating units

	31/12/2017	31/12/2016
Wolf Group	36,458	36,366
Brink Group	25,433	25,433
Ubbink Group	11,092	11,117
Medimondi Group	4,302	4,304
Total	**77,285**	**77,220**

2 Intangible assets

The classification and movements of intangible assets are shown in the following schedule:

in EUR '000	Industrial rights and similar rights	Software	Capitalised development costs	Assets in course of construction	Total intangible assets Total
2017					
Accumulated cost Jan 1	24,654	22,323	53,100	3,861	103,938
Exchange differences	14	(8)	(2)	0	4
Additions	48	1,797	1,905	4,033	7,783
Reclasses	0	1,943	994	(2,937)	0
Disposals	(16)	(567)	(165)	(20)	(768)
Deconsolidation	0	0	0	0	0
Accumulated cost Dec 31	24,700	25,488	55,832	4,937	110,957
Accumulated depreciation/ amortisation and impairment Jan 1	(8,144)	(16,649)	(39,398)	0	(64,191)
Exchange differences	(1)	1	1	0	1
Additions	(649)	(2,703)	(4,370)	0	(7,722)
Disposals	16	508	165	0	689
Deconsolidation	0	0	0	0	0
Accumulated depreciation/ amortisation and impairment Dec 31	(8,778)	(18,843)	(43,602)	0	(71,223)
Net carrying amount 31/12/2017	**15,922**	**6,645**	**12,230**	**4,937**	**39,734**
2016					
Accumulated cost Jan 1	24,898	19,494	47,747	5,783	97,922
Exchange differences	12	(41)	0	0	(29)
Additions	83	1,252	2,477	3,428	7,240
Reclasses	0	1,791	3,546	(5,337)	0
Disposals	(339)	(165)	(670)	(13)	(1,187)
Deconsolidation	0	(8)	0	0	(8)
Accumulated cost Dec 31	24,654	22,323	53,100	3,861	103,938
Accumulated depreciation/ amortisation and impairment Jan 1	(7,387)	(14,495)	(34,561)	0	(56,443)
Exchange differences	(2)	15	0	0	13
Additions	(1,044)	(2,302)	(5,249)	0	(8,595)
Disposals	289	125	412	0	826
Deconsolidation	0	8	0	0	8
Accumulated depreciation/ amortisation and impairment Dec 31	(8,144)	(16,649)	(39,398)	0	(64,191)
Net carrying amount 31/12/2016	**16,510**	**5,674**	**13,702**	**3,861**	**39,747**

The industrial rights and similar rights include the “Wolf” brand (EUR 11.5 million). The Wolf brand has no specified useful life because we have secured the exclusive right to use the “Wolf” brand under trademark rights; its useful life is therefore indefinite from a legal perspective. Even taking the economic perspective as a basis, we are unable to forecast for how long the company and therefore the “Wolf” brand will exist; as a result, based on an analysis of all relevant factors we are unable to express any foreseeable limit to the period in which the asset is likely to generate net cash flows for the company. No amortisation takes place in view of the indefinite useful life. The Wolf brand is therefore subjected to a yearly impairment test, which has hitherto revealed no need for impairment. The parameters used for this correspond to the parameters for the impairment test of goodwill in Note 1. Expenses for predominantly internal research and development (incl. expenditure that may be recognised as an asset) in the financial year amounted to EUR 16,835 thousand (previous year EUR 16,049 thousand). The development activities focused mainly on the Smartset app for remote control and monitoring, compact climate control units, compact central storage units for heat pumps as well as medical technology products. The intangible assets include software in the amount of EUR 0 thousand (previous year EUR 719 thousand), reported as finance leases. Borrowing costs of EUR 0 thousand (previous year EUR 0 thousand) were recognised as an intangible asset. There in addition exist commitments amounting to EUR 210 thousand (previous year EUR 109 thousand) for intangible assets.

3 Property, plant and equipment

The classification and movements of property, plant and equipment are shown in the following schedule:

in EUR '000	Land and buildings	Technical equipment and machinery	Furniture, fixtures and office-equipment	Assets in course of construction	Total property, plant and equipment
2017					
Accumulated cost Jan 1	112,888	101,899	66,184	5,463	286,434
Exchange differences	39	(168)	(41)	(59)	(229)
Additions	1,383	5,182	5,660	4,567	16,792
Reclasses	20	3,614	2,311	(5,945)	0
Disposals	(41)	(2,825)	(2,050)	0	(4,916)
Deconsolidation	0	0	0	0	0
Accumulated cost Dec 31	114,289	107,702	72,064	4,026	298,081
Accumulated depreciation/ amortisation and impairment Jan 1	(43,965)	(68,984)	(47,879)	0	(160,828)
Exchange differences	(2)	47	15	0	60
Additions	(4,198)	(7,035)	(5,781)	0	(17,014)
Disposals	41	1,829	1,848	0	3,718
Reclasses	0	143	(143)	0	0
Deconsolidation	0	0	0	0	0
Accumulated depreciation/ amortisation and impairment Dec 31	(48,124)	(74,000)	(51,940)	0	(174,064)
Net carrying amount 31/12/2017	**66,165**	**33,702**	**20,124**	**4,026**	**124,017**
2016					
Accumulated cost Jan 1	108,084	98,293	61,083	6,538	273,998
Exchange differences	27	57	1	43	128
Additions	4,057	6,261	5,747	7,122	23,187
Reclasses	1,147	4,489	1,512	(7,148)	0
Disposals	(427)	(6,794)	(2,144)	(1,092)	(10,457)
Deconsolidation	0	(407)	(15)	0	(422)
Accumulated cost Dec 31	112,888	101,899	66,184	5,463	286,434
Accumulated depreciation/ amortisation and impairment Jan 1	(40,025)	(69,575)	(44,531)	0	(154,131)
Exchange differences	0	(14)	5	0	(9)
Additions	(4,367)	(6,371)	(5,373)	0	(16,111)
Disposals	427	6,569	2,005	0	9,001
Deconsolidation	0	407	15	0	422
Accumulated depreciation/ amortisation and impairment Dec 31	(43,965)	(68,984)	(47,879)	0	(160,828)
Net carrying amount 31/12/2016	**68,923**	**32,915**	**18,305**	**5,463**	**125,606**

Land and buildings comprise mainly the production and office buildings in Brilon (Germany), Mainburg (Germany), Doesburg (Netherlands), Kampen (Netherlands), Staphorst (Netherlands), La Chapelle sur Erdre (France), Fulda (Germany), Marsberg (Germany), Wolfhagen (Germany), Gorleben (Germany), Kolding (Denmark), San Donato Milanese (Italy), Madrid (Spain) and Samobor (Croatia).

Technical equipment and machinery at the production plants was extended and technologically upgraded. Other furniture, fixtures and office equipment consists of various items in production, warehouses and administration. Property, plant and equipment includes assets to the value of EUR 2,744 thousand (previous year EUR 2,581 thousand) reported as finance leases. The bulk of these comprises technical equipment and machinery amounting to EUR 2,639 thousand (previous year EUR 2,435 thousand) and other furniture, fixtures and office equipment amounting to EUR 105 thousand (previous year EUR 146 thousand).
In addition there exist commitments amounting to EUR 2,230 thousand for property, plant and equipment.

4 Investments accounted for using the equity method, investments and loans originated by the enterprise

These assets comprise investments accounted for using the equity method, other investments that are not included in consolidation as they are of no material significance (see Section I. Particulars of the consolidated companies), as well as loans originated by the enterprise, and securities.

Associated companies accounted for using the equity method:

Industrial Solar GmbH was already written off at EUR 0 in 2013, so no further impairment was to be recorded this year. As in the previous year, CENTROTEC exercises no controlling influence over the company despite holding a 51% share. The non-recognised portion of the losses/gains for equity investments amounted to EUR 0.0 million in 2017 (previous year accumulated loss EUR 1.3 million). There is also a new investment of Möller Medical GmbH by the name of VAC-Stent Medtec AG. Möller Medical holds a 25% participating interest in this company. The cost of acquisition for this investment totalled EUR 39 thousand. No annual financial statements are available for this company for the latest reporting date, so no further disclosures can be made on VAC-Stent Medtec AG. However the effects from these financial statements for the CENTROTEC Group are insignificant.

5 Other financial assets and other assets

The following table shows a breakdown of other financial assets and non-financial assets according to maturity. The prepaid expenses largely comprise insurance premiums and service expenses.

Other financial assets and other assets

in EUR '000	31/12/2017	31/12/2016
Miscellaneous financial assets	9	106
Other non-current financial assets	**9**	**106**
Prepaid expenses	65	62
Other assets	13	17
Other non-current non-financial assets	**78**	**79**
Current investments	124,542	29,176
Derivative assets	578	10
Miscellaneous financial assets	3,117	3,314
Other current financial assets	**128,237**	**32,500**
Receivables from VAT	2,611	3,417
Prepaid expenses	2,374	2,450
Payments on account for inventories	229	380
Other assets	641	619
Other current non-financial assets	**5,855**	**6,866**

The current investments have risen by EUR 95,366 thousand. These mainly comprise available-for-sale funds, which are to be regarded like liquidity. Thanks to the diversification of financial instruments across various priority investments and professional asset management, the overall risk position is regarded as limited.

6 Deferred tax assets and tax liabilities

Pursuant to IAS 12 the deferred tax assets and deferred tax liabilities are calculated on the temporary difference between the stated amounts of assets and liabilities in the IFRS balance sheet and the tax balance sheet, and also from tax loss carryforwards. These differences in the stated amounts result among other things from adjustments to stated amounts in the context of business combinations. The net values shown represent the netted values of deferred tax assets and deferred tax liabilities of a group company in respect of a taxation authority.

The deferred tax assets result principally from other provisions and pension provisions, and are comprised as follows:

Deferred tax assets on temporary differences and tax loss carryforwards

		Gross		After netting
In EUR '000	**31/12/2017**	**31/12/2016**	**31/12/2017**	**31/12/2016**
Reversal expected within 12 months	940	1,143	802	761
Reversal expected after more than 12 months	10,223	12,127	1,306	2,946
Total	**11,163**	**13,270**	**2,108**	**3,707**

The deferred tax assets from loss carryforwards are comprised as follows:

Tax loss carryforwards

in EUR '000	**31/12/2017**	**31/12/2016**
Loss carryforwards	18,022	21,681
Deferred tax assets from loss carryforwards	4,778	5,949
Reductions for impairment	(4,227)	(4,319)
Deferred tax assets from loss carryforwards	**551**	**1,630**

Of the deferred tax assets on loss carryforwards, EUR 189 thousand (previous year EUR 11 thousand) relates to companies which also posted a loss in the current year. The deferred tax assets in question were tested for impairment on the basis of earnings forecasts. No deferred tax assets were recognised on loss carryforwards amounting to EUR 15,907 thousand (previous year EUR 15,736 thousand).
Except for an amount of EUR 3,942 thousand, the loss carryforwards can be carried forward indefinitely. Of the losses for which carryforward is restricted, EUR 1,460 thousand expires in over five years, EUR 1,305 thousand within five years, EUR 397 thousand within four years, EUR 144 thousand within three years, EUR 436 thousand within two years and EUR 200 thousand within one year.

The composition of deferred tax liabilities is as follows:

Deferred tax liabilities on temporary differences

Deferred tax liabilities		**Gross**		**After netting**
in EUR '000	**31/12/2017**	**31/12/2016**	**31/12/2017**	**31/12/2016**
Reversal expected within 12 months	435	1,001	298	618
Reversal expected after more than 12 months	15,482	15,685	6,564	6,504
Total	**15,917**	**16,686**	**6,862**	**7,122**

The composition of deferred tax assets and deferred tax liabilities by balance sheet item is as follows:

Deferred tax

in EUR '000	**2017**	**2016**
Deferred tax assets (gross)		
Intangible assets	143	241
Property, plant and equipment	609	611
Inventories	564	542
Pension provisions	7,077	7,333
Other provisions	1,054	1,587
Other liabilities	823	795
Other	342	531
Tax loss carryforwards	551	1,630
	11,163	**13,270**
Deferred tax liabilities (gross)		
Intangible assets	9,159	9,511
Property, plant and equipment	5,957	5,811
Inventories	69	502
Other provisions	22	26
Other liabilities	240	199
Other	470	637
	15,917	**16,686**

Of the deferred tax assets and deferred tax liabilities, EUR (5,686) thousand (previous year EUR (5,829) thousand) was netted directly with equity. Exchange differences represent EUR 51 thousand of this amount (previous year EUR 90 thousand), and interest rate derivatives EUR 84 thousand (previous year EUR 134 thousand). Pension provisions account for EUR 5,551 thousand (previous year EUR 5,605 thousand).

Deferred tax balance sheet items

in EUR '000	**31/12/2017**	**31/12/2016**
Deferred tax assets	2,108	3,707
Deferred tax liabilities	(6,862)	(7,122)
Balance	**(4,754)**	**(3,415)**
Of which: from netting against shareholders' equity	5,686	5,829

Development in deferred tax

in EUR '000	**31/12/2017**	**31/12/2016**
Recognition of deferred tax (balance)	(4,754)	(3,415)
Difference year on year	(1,339)	1,854
Of which:		
Through profit or loss	(1,174)	359
Netted against shareholders' equity (incl. exchange differences)	(143)	1,526
Other	(22)	(31)

No deferred tax liabilities were recognised on temporary differences resulting from shares in subsidiaries (outside basis differences) amounting to EUR 9,697 thousand (previous year EUR 9,743 thousand), because these differences will probably not be reversed in the foreseeable future and the parent is in the position to control the timing of the reversal of the temporary differences.

7 Inventories

Group inventories are broken down as follows:

Inventories by category

in EUR '000	31/12/2017	31/12/2016
Raw materials and supplies	27,984	25,857
Work in progress	12,934	14,252
Finished goods and merchandise	30,721	28,316
Total	**71,639**	**68,425**

Inventories in the amount of EUR 1.4 million are recognised at their lower net realisable value.

Impairment of inventories developed as follows:

iin EUR '000	31/12/2017
Impairment at the start of the financial year	6,313
Additions recognised as an expense	1,200
Reversal/utilisations	(1,651)
Currency translation effects	(25)
Impairment at end of financial year	**5,837**

The reinstatements occurred as a result of the rise in the net realisable value and also due to lower stock levels.

8 Trade receivables

Trade receivables

in EUR '000	31/12/2017	31/12/2016
Carrying amount	**67,684**	**57,947**
of which: not overdue	48,725	46,097
of which: overdue by		
up to 30 days	11,059	6,286
between 31 and 90 days	5,557	4,527
between 91 and 180 days	1,519	457
over 181 days	824	580

The carrying amounts of the trade receivables are denominated in the following currencies:

in EUR '000	31/12/2017	31/12/2016
EUR	64,150	55,940
GBP	1,092	1,260
HKR	1,553	1,220
DKK	1,138	872
USD	1,390	750
PLN	877	725
Other currencies	518	291
Total	**70,718**	**61,058**
Impairment	3,034	3,111
Trade receivables	**67,684**	**57,947**

Adequate impairment for losses on receivables has been applied on a case by case basis to cover identified risks. Where there was no objective evidence of impairment in individual cases, specific allowances for collectively assessed financial assets were formed. The following table shows the changes in impairment:

in EUR '000	31/12/2017	31/12/2016
Impairment at the start of the financial year	3,111	4,093
Income-effective changes in impairment during the period under review	691	640
Derecognition of receivables/ deconsolidation	(704)	(1,364)
Payments received and recovery in value		
of receivables originally written off	(71)	(237)
Currency translation effects	7	(21)
Impairment at end of financial year	**3,034**	**3,111**

The credit quality of financial assets that are neither overdue nor impaired is determined on the basis of past experience of default rates among our business partners.

9 Cash and cash equivalents

Cash and cash equivalents

in EUR '000	31/12/2017	31/12/2016
Cash in hand	33	32
Cash and cash equivalents	59,459	63,170
Total	**59,492**	**63,202**

10 Shareholders' equity

General

The issued capital of the company amounted to EUR 18,020,923 at December 31, 2017 (at December 31, 2016: EUR 17,891,701). It is divided into 18,020,923 no par value shares with a notional value of EUR 1.00 per share. The capital stock is fully paid in. With additional paid-in capital of EUR 40,659 thousand, other retained earnings and profit carryforward of EUR 179,155 thousand and net income for the year of EUR 20,205 thousand, the group had shareholders' equity attributable to the shareholders of CENTROTEC Sustainable AG of EUR 258,040 thousand (previous year EUR 241,779 thousand) at December 31, 2017. Shareholders' equity was reduced mainly by the dividend of EUR 0.30 per share distributed in 2017. Conversely, the issued capital and the additional paid-in capital were increased by payments received from the exercising of stock options in 2017 and by the net income generated in 2017.

Development of number of shares

in thousand	2017	2016
Total, January 1	17,892	17,733
Addition through the exercising of options	129	159
Total, December 31	**18,021**	**17,892**

The additions through the exercising of options correspondingly led to an increase in subscribed capital of EUR 129 thousand (previous year EUR 159 thousand) and an addition to the additional paid-in capital of EUR 1,545 thousand (previous year EUR 1,200 thousand).

Proposal for the distribution of accumulated profit

According to German commercial and stock corporation requirements, the annual financial statements of the group parent CENTROTEC Sustainable AG constitute the basis for the appropriation of profit for the 2017 financial year. A distributable dividend therefore depends, among other things, on the profit available for distribution reported by that company in the separate financial statements at December 31, 2017. The net income for the year reported there is EUR 87 thousand and the reported retained earnings EUR 47,912 thousand. The Supervisory Board and Management Board of CENTROTEC Sustainable AG will propose to the Annual General Meeting that a dividend of EUR 0.30 per dividend-bearing no par value share be distributed for the 2017 financial year. The balance of the profit available for distribution is to be carried forward for new account.

Treasury stock

No shares were sold or acquired in the financial year.

Pursuant to the resolution of the Annual General Meeting of May 20, 2015 the company is authorised until May 19, 2020 to acquire treasury stock which, together with existing treasury stock, represents up to ten percent of the capital stock at the time of the authorisation taking effect. The price for the acquisition of these shares may not be more than 10% higher or more than 10% lower than the closing price in Xetra trading on the Frankfurt Stock Exchange (or in a successor system) for shares of the same class and features on the three trading days preceding the acquisition. The Management Board has been authorised to offer all or some of the shares thus acquired to third parties in (part) payment of the acquisition of companies or investments in companies, excluding the shareholders' right of subscription. The Management Board has furthermore been authorised to retire the company's treasury stock without the need for a further resolution to be adopted by the Annual General Meeting. Retirement may be restricted to part of the purchased shares.

Authorised capital

Pursuant to the resolution of the Annual General Meeting on May 31, 2017 the Management Board is, with the consent of the Supervisory Board, authorised to increase the capital stock on one or more occasions by up to EUR 3,000,000 (in words: three million euros) by May 30, 2022 for cash and/or contributions in kind through the issuance of new no par value bearer shares.

The new shares are fundamentally to be offered to the shareholders for subscription; they may also be accepted by banks or enterprises within the meaning of Section 186 (5) first sentence of the German Stock Corporation Act (AktG) with the obligation to offer them for subscription to the shareholders.

The Management Board is, with the consent of the Supervisory Board, authorised to exclude the shareholders' statutory subscription right in the following instances:

- In order to exclude residual amounts from the subscription right;
- For a capital increase for cash, if the issuing price of the new shares does not significantly undercut the market price of the shares of the company already listed at the time when the issuing price is finally fixed by the Management Board and the number of new shares as an arithmetic proportion of the capital stock issued excluding the subscription right pursuant to Section 186 (3) fourth sentence of the German Stock Corporation Act does not exceed the limit of 10% of the capital stock of the company, either at the time of this authorisation becoming effective or at the time of its exercising; this limiting authorisation shall include those shares that, during the term of Authorised Capital 2017 (i), were issued or sold excluding the subscription right in direct or analogous application of Section 186 (3) fourth sentence of the German Stock Corporation Act or (ii) that can or must be issued to service debt instruments (including participating bonds) with conversion or option rights or a conversion obligation, provided the debt instrument or participating bonds are issued during the term of Authorised Capital 2017 in analogous application of Section 186 (3) fourth sentence of the German Stock Corporation Act, excluding subscription right of shareholders;
- For a capital increase for cash for the purpose of acquiring (including indirectly) businesses, operations, business units, participations in other businesses or other assets or entitlements to acquire assets, including receivables from the company or its group companies;
- For issuance to employees of the company or of domestic and international affiliated companies (Section 202 (4) of the German Stock Corporation Act); as well as
- For running a scrip dividend where the shareholders are given the offer to contribute their dividend entitlement to the company in whole or part by way of a contribution in kind in return for the granting of new shares.

The Management Board is authorised, with the approval of the Supervisory Board, to specify the further details of the effecting of capital increases from the Approved Capital 2017.

Conditional capital and share-based payments

Conditional Capital I

Conditional Capital I can no longer be exercised due to expiry. Conditional Capital I therefore remained unchanged at December 31, 2017 and amounts to EUR 21,984, divided into 21,984 no par value shares (previous year EUR 21,984, divided into 21,984 no par value shares).

Conditional Capital II

Conditional Capital II can no longer be exercised due to expiry. Conditional Capital II therefore remained unchanged at December 31, 2017 and amounts to EUR 69,900, divided into 69,900 no par value shares (previous year EUR 69,900, divided into 69,900 no par value shares).

Conditional Capital III

By resolution of the Annual General Meeting on May 29, 2008 the capital stock is conditionally increased by a further EUR 756,000, divided into 756,000 no par value shares (Conditional Capital III). The Management Board is authorised to issue warrants – on one or more occasions – for subscription to new bearer shares in the company until December 31, 2014. Employees of CENTROTEC Sustainable AG as well as employees of affiliated companies as defined by Section 17 of the German Stock Corporation Act are entitled to subscribe. The managing directors/Management Board members of the above companies are furthermore entitled to subscribe. New shares are created where the options are exercised. These pay dividends from the beginning of the financial year in which the options are exercised. Conditional Capital III at December 31, 2017 amounted to EUR 61,551.00, divided into 61,551 no par value shares (previous year 190,773.00 EUR, divided into 190,773 no par value shares).

Share-based payment

CENTROTEC used share-based payment transactions counterbalanced by equity instruments. Because no new Conditional Capital was created by the Annual General Meeting for the issuance of stock options and the existing Conditional Capital was used almost in entirety through the issuance of stock options, no further stock options will be issued in future. The last options were issued in the 2012 financial year.

The granting of the stock options is linked to the fulfilment of individual performance targets. Employees, managing directors and Management Board members must achieve individually agreed targets. Attainment of targets leads to the granting of the stock options. The vesting period until the earliest possible time the options may be exercised is two years from the date of issue of the option. This simultaneously necessitates a two-year period of service, so that the option does not lapse. The maximum term of the options is seven years from the time of their granting. Exercise of options is moreover tied to the fulfilment of market conditions. They may accordingly only be exercised if the market price on the day on which the options may first be exercised or at a later time during the term of the options has risen by 30% on the exercise price. Exercise is moreover permitted only during certain periods of the year. These exercise periods run from the third to the eighth stock market trading day following the day on which annual and quarterly results are announced, and following the day on which it is announced that annual press conferences have been held. New shares are created at the time an option is exercised. The new shares pay dividends from the beginning of the financial year in which the options are exercised. The exercise price per share (subscription price) to be paid upon exercising of the options is currently 90% of the average closing price in Xetra trading on the Frankfurt Stock Exchange (or in an equivalent successor system), calculated from the prices on the 30 trading days – for Conditional Capital I – or on the 10 trading days – for Conditional Capital II and Conditional Capital III – preceding the day of issue of the option, but at least one euro.

The following table shows the development of the stock option tranches:

Stock option tranches

Stock option tranches	Issue date	Exercise price*	Date of expiry	Options at end 2017	Options at end 2016	Changes
Granted 2010	11/01/2010	7.20	10/01/2017	0	4,200	(4,200)
Granted 2011	24/01/2011	14.50	23/01/2018	7,360	81,223	(73,863)
Granted 2012	21/03/2012	10.90	20/03/2019	0	55,359	(55,359)
Total				**7,360**	**140,782**	**(133,422)**

* As a result of dividend payments of EUR 0.10 in each of the years 2011 and 2012, EUR 0.15 in 2013, EUR 0.20 in each of 2014 and 2015, 0.25 in 2016 as well as EUR 0.30 in 2017, the exercise price fell by EUR 1.30 for all tranches up to and including 2011, and by EUR 1.20 for the 2012 tranche.

The following table indicates additions and disposals of options outstanding, together with the average exercise prices of movements and reporting-date totals:

		2017		**2016**
Units/price in EUR	**Options**	**Avg. exercise price**	**Options**	**Avg. exercise price**
Start of year	**140,782**	**13.17**	**327,271**	**11.18**
Exercised	(129,222)	12.96	(158,461)	8.65
Expired	(4,200)	7.20	(28,028)	13.02
End of year	**7,360**	**14.50**	**140,782**	**13.17**
of which exercisable*	7,360	14.50	140,782	13.17

* Although the 7,360 options can be exercised, there will no longer be any exercise window, with the result that these options will lapse.

The weighted average share price at the time of exercise of the stock options exercised is EUR 17.50.

Non-controlling interests

This item includes the shareholders' equity attributable to the minority interests of EUR (559) thousand (previous year EUR (1,177) thousand).

11 Pension provisions

Employees' entitlements to defined benefit plans are based on statutory or contractual arrangements and direct commitments. The pension liabilities in Germany stem from company agreements or individual contractual arrangements. They comprise defined benefits (direct commitments) based on the guidelines on the granting of company pensions and, building on that, on a company agreement. There in addition exist defined benefits in the form of direct commitments based on the benefit regulation of the Essener Verband pension plan. It is furthermore possible to participate in a defined benefit plan on the basis of individual contractual agreements. In addition, the company offers defined contribution plans. The obligations comprise the payment of retirement benefits, payable upon reaching pensionable age. The level of the payments depends in essence on the number of years' service completed and the pensionable salary prior to the start of benefit payments or the converted amount. In Germany, they are financed principally by means of pension provisions.
The existing benefit obligations in the Netherlands consist of individual contractual arrangements for a limited number of management employees, who will receive life-long retirement benefit payments from the time their employed relationship ceases as a result of reaching pensionable age. The level of the payments depends in essence on the qualifying number of years' service and the (average) pensionable salary. This defined benefit obligation is financed through Delta Lloyd Levensverzekering N.V., an outside insurer.
The entitlements of the Italian employees are based on statutory arrangements. The level of the payments depends in essence on the qualifying number of years' service and the pensionable salary.

The pension provision is calculated using the projected unit credit method pursuant to IAS 19, which also takes account of anticipated pay and retirement benefit increases. The provision amount has been calculated using actuarial methods and the latest mortality tables (Germany: G Heubeck 2005; Netherlands: AG Prognosetafel 2014).

The calculation parameters for calculating the provisions for pension entitlements have changed as follows:

				2017			2016
%	**Germany**	**Netherlands**	**Belgium**	**Italy**	**Germany**	**Netherlands**	**Italy**
Discounting rate	1.60	1.30	1.70	1.20	1.60	1.10	1.30
Assumed salary increases	2.50	2.00	2.20	1.00	2.50	2.50	1.00
Assumed pension increase	1.30	2.00	0.00	2.60	1.30	0.00	2.70

Retirement benefit payments

in EUR '000	31/12/2017	31/12/2016
Fund-financed obligations	10,577	10,440
Fair value of plan assets	(10,445)	(10,321)
Subtotal	132	119
Present value of non-fund-financed obligation	46,099	45,713
Influence of the upper assets threshold	0	0
Pension provisions reported	**46,231**	**45,832**

The following table shows the development of pension obligations and plan assets:

Development of pension obligations and plan assets

in EUR '000	Present value of the defined benefit obligation	External plan assets	Total	Influence of the upper assets threshold	Total
01/01/2017	**56,152**	**(10,320)**	**45,832**	**0**	**45,832**
Service cost	1,022	0	1,022	0	1,022
Past service cost	0	0	0	0	0
Interest expense/interest income (incl. expected return on plan assets)	843	(119)	724	0	724
Payments made	(1,193)	193	(1,000)	0	(1,000)
Contributions paid by employer	12	(86)	(74)	0	(74)
Contributions paid by employee	0	(60)	(60)	0	(60)
Gains and losses from compensation	0	(48)	(48)	0	(48)
Remeasurement effects:					
from plan assets	0	(5)	(5)	0	(5)
from changes in financial assumptions	3	0	3	0	3
from changes in demographic assumptions	16	0	16	0	16
from experience adjustments	(179)	0	(179)	0	(179)
changes in the upper assets threshold	0	0	0	0	0
Total of remeasurement effects	**(160)**	**(5)**	**(165)**	**0**	**(165)**
31/12/2017	**56,676**	**(10,445)**	**46,231**	**0**	**46,231**

in EUR '000	Present value of the defined benefit obligation	External plan assets	Total	Influence of the upper assets threshold	Total
01/01/2016	**50,703**	**(10,524)**	**40,179**	**0**	**40,179**
Service cost	830	0	830	0	830
Past service cost	0	0	0	0	0
Interest expense/interest income (incl. expected return on plan assets)	993	(120)	873	0	873
Payments made	(1,373)	406	(967)	0	(967)
Contributions paid by employer	13	(17)	(4)	0	(4)
Contributions paid by employee	0	(62)	(62)	0	(62)
Gains and losses from compensation	(3)	0	(3)	0	(3)
Remeasurement effects:					
from plan assets	0	(3)	(3)	0	(3)
from changes in financial assumptions	4,570	0	4,570	0	4,570
from changes in demographic assumptions	14	0	14	0	14
from experience adjustments	405	0	405	0	405
changes in the upper assets threshold	0	0	0	0	0
Total of remeasurement effects	**4,989**	**(3)**	**4,986**	**0**	**4,986**
31/12/2016	**56,152**	**(10,320)**	**45,832**	**0**	**45,832**

The plan assets are comprised as follows:

in EUR '000	31/12/2017	31/12/2016
Insurance	10,445	10,320
Total	**10,445**	**10,320**

The bulk of the plan assets are managed by the pension insurer Delta Lloyd, Netherlands. Delta Lloyd invests in a variety of portfolios, such as government bonds, corporate bonds, mortgages, shares and real estate. Once a year a payment is made to Delta Lloyd, as calculated by Delta Lloyd using various parameters such as age. The cash outflow for 2018 will be approx. EUR 30 thousand. Delta Lloyd makes the payments to the employees.

The average weighted term of the existing pension obligations is 17 years. The pension payments for the coming year are expected to amount to EUR 1,619 thousand.

The following table shows the sensitivity analysis for pension obligations to reflect changes in the various assumptions made during measurement:

			31/12/2017		31/12/2016
% Change	**%**	**Increase in parameters**	**Decrease in parameters**	**Increase in parameters**	**Decrease in parameters**
Interest rate	0.5	(8.2)	9.4	(8.4)	9.6
Pension trend	0.5	6.5	(5.9)	6.7	(6.1)
Salary trend	0.5	0.5	(0.5)	0.6	(0.5)

The effects of the sensitivity analysis were calculated in the same way to measure the pension obligation.

12 Other provisions

The following table shows the movements in provisions in the year under review:

in EUR '000	Warranty obligations	Legal claims and court proceedings	Personnel-related costs	Miscellaneous provisions	Total
01/01/2017	**15,495**	**563**	**4,650**	**1,772**	**22,480**
Added	1,081	200	1,825	1,968	5,074
Used	(2,171)	(110)	(2,653)	(2,138)	(7,072)
Reversed	(16)	(160)	(214)	(474)	(864)
Exchange differences	1	0	1	(26)	(24)
Compounding	34	0	22	0	56
31/12/2017	**14,424**	**493**	**3,631**	**1,102**	**19,650**
Of which use expected < 1 year	363	493	1,865	850	3,571

A distinction between short-term and long-term provisions was made on the balance sheet, based on the estimated timing of their use. The provisions for warranty obligations are calculated for each type of revenue according to values indicted by experience, as well as for specific individual cases. The warranty obligations were created for general and individual warranty risks on the basis of various warranty factors. The warranty periods generally last between two and six years, possibly varying upwards for goodwill reasons. The outflow of resources for legal claims and court proceedings is expected substantially within the next year.

The personnel-related provisions relate e.g. to provisions for long-service payments made after employment by the company for a specified number of years' service.

13 Borrowings

The following table shows bank liabilities and other loans, broken down according to real estate loans, general credit facilities and other loans.

Borrowings maturities schedule

in EUR '000	Total outstanding amount	Of which maturity less than 1 year	Of which maturity 1 to 5 years	Of which maturity over 5 years	Interest rate spread
31/12/2017					
Real estate loans	54,702	3,837	13,461	37,404	1.4 – 5.4 %
Other loans	99,114	2,376	5,969	90,769	0.8 – 5.3 %
General credit facilities	14,595	14,595	0	0	0.3 – 6.3 %
Borrowings excluding leases	**168,411**	**20,808**	**19,430**	**128,173**	
Finance leases	2,606	725	1,656	225	1.3 – 7.6 %
Total	**171,017**	**21,533**	**21,086**	**128,398**	
31/12/2016					
Real estate loans	56,734	3,582	13,453	39,699	1.4 – 5.8 %
Other loans	11,092	2,319	6,903	1,870	1.1 – 5.3 %
General credit facilities	15,177	15,177	0	0	0.3 – 6.3 %
Borrowings excluding leases	**83,003**	**21,078**	**20,356**	**41,569**	
Finance leases	2,807	1,361	1,326	120	1.3 – 8.7 %
Total	**85,810**	**22,439**	**21,682**	**41,689**	

The increase in borrowings is attributable to the placement of the promissory note loan. Bayerische Landesbank arranged the promissory note loan of EUR 90 million. The issue volume is made up of two fixed-interest and two variable tranches with maturities of seven and ten years. CENTROTEC has thus been able to use the current low interest rates to secure long-term financing on attractive terms. The funds are earmarked for general refinancing and corporate development.

The carrying amounts of the liabilities are denominated in the following currencies:

in EUR '000	31/12/2017	31/12/2016
EUR	167,559	82,558
DKK	1,780	1,555
USD	1,619	1,634
PLN	56	56
HRK	3	7
Total	**171,017**	**85,810**

In the case of the real estate loans, the fixed interest rates in the individual loan agreements expire at various times between 2018 and 2028, with the result that the risk is adequately diversified. The same applies to the other loans, where the fixed interest rates expire between 2018 and 2027. The fair value of the financial debt that was determined by discounting future cash flows is approx. EUR 3 million above the carrying amounts.

Security for liabilities to credit institutions

in EUR '000	31/12/2017	31/12/2016
Property, plant and equipment	42,298	54,794
Intangible assets	23	19
Inventories	13,692	15,773
Receivables	5,097	4,919
Other assets	302	233
Total	**61,412**	**75,738**

Pledged interest in companies	Ownership interest
Brink Climate Systems B.V.	100 %

Security was furnished on the customary commercial terms for lending.

Finance leases

Lease agreements are entered into only to a limited extent. The decision on whether to finance an investment measure by bank loan or by lease agreement is reached on a case-by-case basis and depends primarily on the prevailing terms available at the time of deciding. The majority of finance lease agreements pursuant to IAS 17 (Finance Leases) incorporate a purchase option at a price of either EUR nil or well below the anticipated market value. It is therefore to be expected that the assets in question will pass into the ownership of the CENTROTEC Group at the end of the lease's term. The following table shows the lease obligations with corresponding discounted and nominal leasing instalments including the interest component, broken down according to term.

Finance leases

in EUR '000	Total	Of which maturity less than 1 year	Of which maturity 1 to 5 years	Of which maturity more than 5 years
31/12/2017				
Minimum lease payments	2,751	770	1,741	240
Of which interest portion	145	45	85	15
Present value	**2,606**	**725**	**1,656**	**225**
31/12/2016				
Minimum lease payments	2,894	1,399	1,371	124
Of which interest portion	87	38	45	4
Present value	**2,807**	**1,361**	**1,326**	**120**

14 Other financial liabilities and other liabilities

The following table shows the breakdown of other financial liabilities and other liabilities on both an item by item basis and by maturity:

in EUR '000	31/12/2017	31/12/2016
Purchase price liability	420	420
Derivative liabilities	467	547
Miscellaneous financial liabilities	73	80
Other non-current financial liabilities	**960**	**1,047**
Miscellaneous liabilities	25	108
Other non-current liabilities	**25**	**108**
Bonus payments to customers	7,690	5,045
Outstanding invoices	3,792	3,555
Credits outstanding	335	441
Interest deferrals	563	58
Miscellaneous financial liabilities	1,688	1,264
Other current financial liabilities	**14,068**	**10,363**
Employee remuneration	7,979	6,671
Vacation and overtime	8,711	8,023
Advances received	3,205	5,913
Taxation and social premiums	4,679	4,235
VAT	2,187	1,926
Partial retirement	1,948	2,210
Miscellaneous liabilities	4,832	3,479
Other current liabilities	**33,541**	**32,457**

The actuarially determined obligations for partial retirement were discounted at 1.26% and recognised as a liability at their present value. The liabilities, which relate to current partial retirement obligations, were netted against assets from securities amounting to EUR 2,265 thousand (previous year EUR 2,264 thousand). The securities were acquired via a trusteeship in order to fulfil statutory requirements in respect of statutory insolvency insurance for partial retirement obligations entered into. The greater portion of derivative financial instruments is due in the next five years.

15 Additional disclosures on financial instruments

The following tables show the carrying amounts of financial assets and liabilities according to measurement category, as well as their fair values:

Financial assets

	At amortised cost		At acquisition cost	At fair value			Total	
in EUR '000	Financial liabilitie	Loans and receivables	Available-for-sale financial instruments	Through profit or loss	Available-for-sale financial instruments	Derivative financial instruments used for hedging purposes	Carrying amount	Fair value
Balance sheet item at December 31, 2017								
Loans originated by the enterprise		99					99	99
Financial investments			127				127	127
Securities					850		850	850
Cash and cash equivalents		59,492					59,492	59,492
Trade receivables		67,684					67,684	67,684
Derivative financial instruments				449		129	578	578
Current investments				112,816	11,726		124,542	124,542
Miscellaneous financial assets		3,126					3,126	3,126
Total financial assets, December 31, 2017	**0**	**130,401**	**127**	**113,265**	**12,576**	**129**	**256,498**	**256,498**
Borrowings excluding finance leases	168,411						168,411	171,583
Trade payables	28,856						28,856	28,856
Derivative financial instruments				93		467	560	560
Miscellaneous financial liabilities	14,468						14,468	14,468
Total financial liabilities, December 31, 2017	**211,735**	**0**	**0**	**93**	**0**	**467**	**212,295**	**215,467**
Balance sheet item at December 31, 2016								
Loans originated by the enterprise		119					119	119
Financial investments			147				147	147
Securities					868		868	868
Cash and cash equivalents		63,202					63,202	63,202
Trade receivables		57,947					57,947	57,947
Derivative financial instruments						10	10	10
Current investments					29,176		29,176	29,176
Miscellaneous financial assets		3,420					3,420	3,420
Total financial assets, December 31, 2016	**0**	**124,688**	**147**	**0**	**30,044**	**10**	**154,889**	**154,889**
Borrowings excluding finance leases	83,003						83,003	83,391
Trade payables	31,258						31,258	31,258
Derivative financial instruments						547	547	547
Miscellaneous financial liabilities	10,863						10,863	10,863
Total financial liabilities, December 31, 2016	**125,124**	**0**	**0**	**0**	**0**	**547**	**125,671**	**126,059**

The category of loans originated by the enterprise includes long-term loans that are measured at amortised cost. The fair value of the loans corresponds approximately to the carrying amount.

Interests in companies not included in consolidation and not accounted for by the equity method are summarised in the investments category. These are exclusively non-listed corporate enterprises. The investments are measured at acquisition cost as no publicly listed market prices exist and the fair value cannot be reliably determined due to the uncertainty of future cash flows. The fair value could only be reliably determined through specific sales negotiations.

The carrying amounts of the assets in the securities category correspond to the respective market prices.

The assets in the categories cash and cash equivalents, trade receivables and miscellaneous assets have predominantly short maturity dates, with the result that their carrying amounts at the balance sheet date correspond to the fair values.

The categories derivative assets and liabilities include financial derivatives that are designated both as cash flow hedges and as derivatives serving as economic hedging transactions, but not for hedge accounting, which are recognised at fair value.

Current investments include investment funds recognised at fair value.

The categories trade payables and miscellaneous financial liabilities fundamentally contain liabilities with regularly short maturities. The carrying amounts therefore correspond to the fair values.

The borrowings categories excluding finance leases contain liabilities predominantly with maturities of more than one year. The fair values are determined by discounting the cash flows associated with the liabilities, taking account of the current interest rate parameters. The individual creditworthiness ratings within the group are taken into account in the form of market creditworthiness and liquidity spreads when determining the present value.

Net gains or losses from financial instruments by measurement category

The following table shows the net gains or losses on financial instruments taken into account in the income statement, by measurement category. Interest, currency translation, impairment, reversals and results from disposals were taken into account in determining the net results.

in EUR ’000	Loans and receivables	Financial liabilities measured at amortised cost	Available-for-sale financial instruments	Financial assets at fair value through profit or loss	Total
2017	(841)	(2,068)	53	2,979	123
2016	362	(2,220)	0	0	(1,858)

Derivative financial instruments

The group uses interest rate swaps for hedging interest rate risks. To hedge against exchange rate fluctuations, forward contracts are also concluded as required. They comprise cash flow hedges.

There are in addition other derivatives that are to be regarded as economic hedging transactions but are not designated for hedge accounting. The following table shows the contracts concluded.

In EUR ’000 Financial derivatives	2017 Contract volume	Total assets	2017 Total liabilities	Total assets	2016 Total liabilities
Interest rate swap	18,023	0	467	0	547
Forward contracts	6,550	129	0	10	0
Other derivatives	777	449	93	0	0
Total		**578**	**560**	**10**	**547**
of which short-term		*578*	*93*	*10*	*0*

The full fair value of a derivative hedging instrument is classified as a non-current asset/liability provided its maturity exceeds 12 months; it is otherwise classified as a current asset/liability.

The ineffective portion of cash flow hedges recognised in the income statement amounts to EUR 0 thousand (previous year EUR 9 thousand).

At December 31, 2017 the fixed interest rates for interest rate swaps varied between 0.66% and 3.99% (previous year 1.39% and 3.99%). The gains and losses from interest rate hedging instruments recognised within equity (reserve for cash flow hedges) are continually recognised through profit or loss until the bank loans have been repaid (Note 13). Of the forward contracts, USD and GBP are hedged.

The other derivatives are economic hedging transactions that are, however, not designated for hedge accounting. Unrealised and realised measurement results are recognised at fair value through profit or loss, under the result from financial assets/liabilities

16 Cost of purchased materials and services as well as change in inventories

Cost of purchased materials

in EUR '000	**2017**	**2016**
Cost of purchased materials	260,140	254,653
Cost of purchased services	10,259	4,789
Supplier discounts	(1,169)	(1,109)
Total	**269,230**	**258,333**
Change in inventories of finished goods and work in progress	856	(2,368)
Adjusted cost of purchased materials	270,086	255,965

17 Other income

The breakdown of other income is as follows:

Other income

in EUR '000	**2017**	**2016**
Foreign exchange gains	1,677	1,998
Reversal of provisions	1,111	827
Costs passed on/costs refunded	863	1,113
Government grants	535	434
Liquidation/reversal of impairment of receivables	509	270
Insurance and other compensation	170	195
Sales proceeds from the disposal of fixed assets	58	247
Other	4,551	5,962
Total	**9,474**	**11,046**

Government grants

in EUR '000	**2017**	**2016**
Personnel-related	151	154
Other	384	280
Total	**535**	**434**

18 Personnel expenses and total employees

Personnel expenses

in EUR '000	**2017**	**2016**
Wages and salaries	152,118	144,827
Social insurance	21,388	19,087
Expenses for defined benefit plans	288	208
Expenses for defined contribution plans	10,648	10,653
Share-based payment	0	0
Total	**184,442**	**174,775**

Total employees

	2017 Average	2017 At reporting date	2016 Average	2016 At reporting date
Individuals	3,407	2,990	3,376	3,435
FTE	3,277	2,878	3,237	3,285
of which office staff	1,726	1,640	1,620	1,661
of which industrial workers	1,551	1,238	1,617	1,624

The figures at the reporting date include 123 temporary workers expressed as FTE (previous year 149) as well as 153 temporary workers expressed as individuals (previous year 184). The averages include 153 FTE temporary workers (previous year 186) as well as 173 individuals employed as temporary workers (previous year 220).

The reporting-date employee figures are lower compared with the previous year because CENTROTEC reorganised individual subdivisions in the 2017 financial year. In certain areas, personnel along with personnel responsibilities and personnel management were transferred to external companies.

19 Other expenses

Other expenses are made up as follows:

Other expenses

in EUR '000	2017	2016
Outward freight	15,415	14,885
Travel expenses and fleet	13,467	12,614
Promotional costs	11,907	12,176
Temporary employees	6,332	7,501
Legal and consultancy costs	5,307	5,911
Energy	4,759	4,730
Maintenance costs	4,744	4,810
Sales commissions	3,887	4,217
IT expenses	3,830	3,659
Rent for buildings/other rent	3,662	3,357
Other personnel expenses	3,364	3,043
Guarantee expenses	3,180	4,774
Exchange rate losses	2,262	1,676
General running costs	1,948	2,436
Insurance	1,884	1,768
Communication	1,296	1,286
Impairment of receivables	988	171
Bad debt losses	12	57
Other	10,705	10,848
Total	**98,949**	**99,919**

20 Interest income and expense

Interest income and expense is broken down as follows:

in EUR '000	2017	2016
Interest income	291	121
Interest expense on loans	(2,615)	(2,647)
Other interest expense	(938)	(1,248)
Total	**(3,262)**	**(3,774)**
of which Retirement benefit obligations	(724)	(873)

The total interest income and total interest expense for financial assets and financial liabilities that are not measured at fair value through profit or loss amount to EUR (2,368) thousand (previous year EUR (2,453) thousand).

21 Other financial result

EUR 2,979 thousand (previous year EUR 11 thousand) is reported in the financial result. This results from the measurement of the current investments.

22 Income tax

Income tax is composed as follows:

in EUR '000	2017	2016
Actual income tax expense for the current financial year	7,225	9,704
Actual income tax expense for previous financial years	(209)	126
Deferred tax for the current financial year	1,144	(440)
Deferred tax for prior periods	31	81
Total	**8,191**	**9,471**

Deferred tax expense developed as follows:

in EUR ’000	2017	2016
From temporary differences	95	(892)
From loss carryforwards	1,079	533
Deferred tax expense (previous year tax income)	**1,174**	**(359)**

The relationship between actual tax expense and anticipated tax expense is as follows:

in EUR ’000	2017	2016
Result before income taxes (EBT)	29,038	31,055
Anticipated tax expense (on basis of respective corporate tax rates)	**7,956**	**9,161**
Anticipated tax rate (in %)	27.4	29.5
Adjustments to anticipated tax expense		
Effects from non-deductible expenses and tax-exempt income	(175)	(242)
Effects from loss carryforwards	106	(361)
Adjustments for earlier financial years (actual income tax expense and deferred tax)	(178)	409
Other tax effects	482	504
Tax expense according to income statement	**8,191**	**9,471**
Effective tax rate (in %)	28.2	30.5

The reported tax expense of EUR 8.2 million (previous year EUR 9.5 million) differs by EUR 0.2 million (previous year EUR 0.3 million) from the anticipated tax expense of EUR 8.0 million (previous year EUR 9.2 million) that is obtained if a weighted anticipated average tax rate is applied to EBT. This average rate was determined on the basis of the respective local corporate tax rates and was 27.4% in 2017 (previous year 29.5%). The effective tax rate is 28.2% (previous year 30.5%).

23 Non-controlling interests

A share of gains and losses is due to the other shareholders of CENTROTEC, as stated separately under non-controlling interests. The net earnings at the reporting date come to EUR 642 thousand (previous year (7) thousand). These comprise shares of profits amounting to EUR 729 thousand (previous year EUR 110 thousand) and shares of losses amounting to EUR (87) thousand (previous year EUR (117) thousand).

24 Earnings per share

The earnings per share (basic) and the diluted earnings per share are illustrated in the following table. The basic earnings per share are calculated on the basis of the profit or loss for the period attributable to the shareholders of CENTROTEC Sustainable AG in relation to the weighted number of shares issued throughout the year, less treasury stock (0).

Basic earnings per share

	31/12/2017	31/12/2016
Consolidated net income (net loss) of shareholders in EUR ’000	20,205	21,591
Weighted average ordinary shares issued, ’000	17,943	17,811
Basic earnings per share in EUR	**1.13**	**1.21**

The diluted figure includes potential shares from stock options in the number of shares to be taken into account, over and above the number of shares in the basic figure. The diluted earnings per share are based on the assumption that all stock options granted through stock option schemes that could be exercised if the balance sheet date were the end of the contingency period had actually been exercised. Due to the fact that the exercising of stock options is tied to the fulfilment of individual and corporate targets, it is expected that only a smaller number of options than the maximum number granted will be exercised. The dilutive effect is calculated on the assumption that the issue of shares on the basis of potential exercise of options is made at fair value, being the average quoted price of the shares during the financial year in question. The number of dilutive options thus determined is treated as an issue of ordinary shares for no consideration. Such ordinary shares generate no proceeds and have no effect on the net profit attributable to ordinary shares outstanding. Such shares are dilutive and are consequently added to the number of ordinary shares outstanding in the computation of diluted earnings per share.

Diluted earnings per share

	31/12/2017	31/12/2016
Consolidated net income (net loss) of shareholders in EUR ’000	20,205	21,591
Weighted average ordinary shares issued, ’000	17,943	17,811
Assumed exercise of stock options granted (weighted average), ’000	8	53
Weighted average diluted ordinary shares, ’000	17,951	17,864
Diluted earnings per share in EUR	**1.13**	**1.21**

25 Segment report and revenues

The CENTROTEC Group has identified three reportable segments, which are organised and run largely independently in accordance with the type of products and services they offer: Climate Systems, Gas Flue Systems, and Medical Technology & Engineering Plastics. The three segments are distinguished essentially by their product ranges. The Climate Systems segment encompasses extensive products portfolios of equipment for heating, ventilation and cooling in order to maintain a healthy home climate in every interior. One particular focal area is integrated systems incorporating solutions that use renewable energies. The Gas Flue Systems segment manufactures and sells plastic and metal gas flue systems. The product range is rounded off by components for gas flue systems engineering and innovative roof products. The smallest segment Medical Technology & Engineering Plastics develops and sells proprietary and OEM products from the sphere of medical technology systems and comprehensive solutions as well as semi-finished products, prefabricated parts and assemblies made from engineering plastics for medical technology and plant engineering. One officer is in charge of each segment. The subsidiaries are allocated to one of the three segments in line with their product range and the management responsible for them, and consolidated accordingly. Details of which fully consolidated companies in the Consolidated Financial Statements are allocated to which individual segments are indicated in the presentation of the consolidated companies. The key indicators used for managing the segments are revenue and EBIT.

The revenues relate principally to deliveries of goods. They are reported net of VAT, returns, discounts and price reductions. The “Gas Flue Systems” segment also includes the figures for CENTROTEC Sustainable AG. Inter-segmental business is priced according to the arm’s length principle. Pricing is comparable to third party transactions less cost items (in particular distribution costs), which do not occur in inter-segmental transactions. Income and expenditure are allocated directly to the individual companies within the individual segments. The segment expenses and income also include apportioned expenses for the holding company.

Inter-segmental relationships, i.e. relationships and transactions between the individual segments, are eliminated from the consolidation column. This simultaneously reconciles the figures with those in the Consolidated Financial Statements.

The depreciation and amortisation for the segments represents the loss of value by the segments’ long-term assets: the investments, the respective additions to the fixed assets as well as the intangible assets of the segments.

The segment assets include the fixed assets and current assets for each segment. Entitlements to income tax rebates and deferred tax assets capitalised are not included.

Reconciliation of assets

in EUR ’000	2017	2016
Total assets	574,030	471,698
Loans originated by the enterprise and investments (incl. at equity)	1,115	1,134
Income tax receivable as well as deferred tax assets	5,327	6,863
Total (ASSETS):	**580,472**	**479,695**

The net working capital includes the current assets as well as the current liabilities less the interest-bearing assets and liabilities.

26 Cash flow statement

The Consolidated Cash Flow Statement shows how the group's cash and cash equivalents changed in the course of the financial year under review as a result of cash inflows and outflows. The financial resources consist almost exclusively of demand deposits and the drawing on current accounts with commercial banks. The financial resources are composed as follows:

Breakdown of financial resources

in EUR '000	31/12/2017	31/12/2016
Cash in hand	33	32
Cash and cash equivalents	59,459	63,170
Bank overdrafts repayable on demand (included in "Short-term financial debt" item)	(14,595)	(15,177)
Total	**44,897**	**48,025**

At the end of the 2017 financial year financial resources amounted to EUR 44,897 thousand, a decrease of EUR 3,128 thousand compared with the previous year. The cash flow from operating activities declined by EUR 9,812 thousand to EUR 31,634 thousand, mainly as a result of the higher working capital and the reduced earnings. Within the negative cash flow from investing activities, the significantly higher allocation to current investments was the reason for the sharp rise to EUR -115,581 thousand (previous year EUR -57,470 thousand). On the other hand cash used for investments in property, plant and equipment was lower. As a result of raising the promissory note loan, the cash flow from financing activities of EUR 80,982 thousand was clearly positive, in a turnaround from EUR -2,622 thousand in the previous year.

Short-term credit facilities to secure constant liquidity have been arranged with several credit institutions that are independent of each other. At the balance sheet date, the available borrowing facilities from current overdraft facilities amounts to EUR 37.4 million (previous year EUR 44.3 million).

Substantial non-cash transactions result e.g. from exchange rate fluctuations.

Reconciliation for borrowed capital excluding bank overdrafts repayable on demand

	01.01.	Changes in cash		Non-cash changes		31/12/2017
		Repayments	New loans	Exchange rate fluctuations	Reclassifi-cation	
Non-current borrowings	61,925	(3)	91,543	(183)	(5,678)	147,604
Non-current lease obligations	1,446	(23)	1,294	0	(836)	1,881
Current borrowings	5,900	(5,356)	0	(10)	5,678	6,212
Current lease obligations	1,361	(1,485)	11	2	836	725
Total	**70,632**	**(6,867)**	**92,848**	**(191)**	**0**	**156,422**

K_OTHER PARTICULARS

1_Contingent liabilities and miscellaneous particulars

The customary warranty obligations are assumed, for which provisions have been formed where claims are probable. In the context of its ordinary business activities, the company moreover regularly enters into contingent liabilities from guarantees, cheques and bills of exchange, among other things. Furthermore, contingent liabilities may arise from areas of the group in which there exist statutory arrangements on partial retirement but for which no provisions have been recognised, as it is unlikely that employees in those areas will call upon the existing statutory arrangements. Provisions were formed for areas in which the probability of use is greater than 50%.

Overall, it is assumed that over and above the situations described here, no substantial liabilities arose as a result of the contingent liabilities during the period under review, or only to the extent evident in these Notes.

The following table shows the non-capitalised operating lease obligations at the balance sheet date, with the corresponding lease instalments broken down by maturity or minimum remaining term.

Operating leases

in EUR '000	Total	Of which maturity less than 1 year	Of which maturity 1 to 5 years	Of which maturity more than 5 years
31/12/2017				
Minimum lease payments	10,883	4,858	5,170	855
Of which interest portion	469	74	306	89
Present values	**10,414**	**4,784**	**4,864**	**766**
31/12/2016				
Minimum lease payments	12,647	3,153	8,557	937
Of which interest portion	450	47	288	115
Present values	**12,197**	**3,106**	**8,269**	**822**

The operating leases result mainly from lease agreements with a term of between one and five years for passenger cars that are used principally by our field service employees. We in addition have tenancy agreements for buildings at various locations. No purchase option exists.

2_Significant events occurring after the balance sheet date

There were no significant events at and after the balance sheet date.

3_Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party's financial and operating decisions. Pursuant to IAS 24, the members of the Management Board and Supervisory Board, close members of their families as well as subsidiaries that are not fully consolidated and equity investments can fundamentally be considered to be related parties in the case of the CENTROTEC Group.

Legal transactions with Management Board members and Supervisory Board members

The Management Board members did not hold any other high-ranking positions with other companies in the past year. A number of members of the Supervisory Board work in high-ranking positions at other companies with which CENTROTEC maintains relationships in the normal course of business. Transactions with such companies are conducted in the same manner as arm's length transactions. The goods and services received from these companies amounted to EUR 5,592 thousand in the financial year (previous year EUR 62 thousand), and comprised mainly production-related and other services. They are balanced out by company expenses saved elsewhere of roughly the same amount. The business volume of services provided to these companies by CENTROTEC in the financial year came to EUR 710 thousand (previous year EUR 1 thousand).

Relations between the parent company and the subsidiaries

The activities of CENTROTEC Sustainable AG focus essentially on performing strategic and financial holding functions for the operating affiliated companies, on advising and supporting them for individual projects, and on providing services on behalf of group companies in the areas of accounts, taxes, payroll accounting and data processing. CENTROTEC in addition steers the group finances, coordinates investor relations and provides support for projects at the subsidiaries, including particularly mergers and acquisitions activities.

Total remuneration of the Management Board and Supervisory Board

The members of the Management Board received remuneration pursuant to the German Commercial Code totalling EUR 1,132 thousand (previous year EUR 1,021 thousand). The remuneration of the members of the Management Board, including travel expenses, came to EUR 209 thousand (previous year EUR 183 thousand). As in the previous year, there were no loans or advances to Management Board and Supervisory Board members in the 2017 financial year. The expenses reported for the financial year for short-term benefits amounted to EUR 1,099 thousand (previous year EUR 1,058 thousand), and EUR 120 thousand for long-term benefits (previous year EUR 120 thousand). The provisions for the variable remuneration came to EUR 887 thousand at the end of the financial year (previous year EUR 767 thousand).

Retired members of the Management Board received benefits totalling EUR 57 thousand in the 2017 financial year (previous year EUR 56 thousand). The provisions for pension commitments to former Management Board members came to EUR 992 thousand (previous year EUR 792 thousand).

The Management Board and Supervisory Board remuneration is shown by member in a separate remuneration report. The remuneration report forms part of the group management report.

Directors' holdings

The following table shows directors' holdings at the balance sheet date

		31/12/2017		31/12/2016
Management Board	**Shares (total)**	**Options (total)**	**Shares (total)**	**Options (total)**
Dr. Thomas Kneip	0	0	0	0
Dr. Christoph Traxler	0	0	0	32,159
Supervisory Board				
Guido A. Krass	2,400,000	0	2,400,000	0
Dr. Bernhard Heiss	77,340	0	77,340	0
Christian C. Pochtler	0	0	0	0
CENTROTEC				
Ordinary shares	18,020,923	0	17,891,701	0
Treasury stock	0	0	0	0

Members of the Management Board:
Dr Thomas Kneip,
Regensburg, Germany, merchant
Since January 2014 Management Board member of CENTROTEC Sustainable AG and, since April 2014, responsible for the Gas Flue Systems segment and jointly responsible for the Climate Systems segment

Dr Christoph Traxler,
Fulda, Germany, physicist
Since April 2004 Management Board member of CENTROTEC Sustainable AG, since which responsible for Medical Technology & Engineering Plastics segment and, since April 2014, jointly responsible for the Climate Systems segment

Members of the Supervisory Board:
Guido A Krass, Oberwil-Lieli, Switzerland,
entrepreneur (Chairman)
Dr Bernhard Heiss, Munich, Germany,
lawyer (Deputy Chairman)
Christian C Pochtler, MA, Vienna, Austria,
entrepreneur

The following members of the Management and Supervisory Boards also hold other non-executive directorships as defined in Section 125 (1), fifth sentence of the German Stock Corporation Act:

Guido A. Krass	Wolf GmbH, Mainburg, Germany medimondi AG, Fulda, Germany (Chairman)
Dr. Bernhard Heiss	Altium Capital AG, Munich, Germany artnet AG, Berlin Schoeller Holding SE & Co. KGaA, Pullach Bauwert AG, Kötzting
Mag. Christian C. Pochtler	Denzel AG, Vienna, Austria Schoeller Holding SE & Co. KGaA, Pullach
Dr. Thomas Kneip	Wolf France S.A.S., Massy, France Wolf Sustainable (Schweiz) AG, Kilchberg, Switzerland Wolf Energiesparsysteme OOO, Moscow, Russia Wolf HVAC Systems Co. Ltd., Shanghai, China
Dr. Christoph Traxler	Rolf Schmidt Industriplast A/S, Kolding, Denmark (Chairman)

4_Corporate Governance Code

Pursuant to Section 161 of the German Stock Corporation Act, the Management Board and Supervisory Board of a company listed on the stock exchange are obliged to declare once a year whether and to what extent the code has been and is complied with.

The Management Board and Supervisory Board of CENTROTEC Sustainable AG have declared the extent to which the recommendations of the Government Commission on the German Corporate Governance Code are complied with by the respective companies. The regularly submitted declarations and explanations are available to the public on the website of CENTROTEC Sustainable AG at www.centrotec.com.

5_Independent auditors’ fees

The auditors of CENTROTEC are PricewaterhouseCoopers GmbH WPG, Germany. The amounts shown below do not contain the fees for other independent auditors of group subsidiaries, nor do they contain the amounts for international subsidiaries of the group.

in EUR ’000	2017	2016
Auditing services for the financial statements	429	429
Tax consultancy services	106	202
Other services	0	34
Total expenses	**535**	**665**

The tax consultancy services relate to the preparation of tax returns and to support for tax audits by the tax authorities.

6_Date and approval of the financial statements

The financial statements were approved by the Management Board and authorised as a whole for issue on March 28, 2018.

Once approved and ratified by the corporate bodies and following their publication, these financial statements may only be amended to the extent that is permissible by law.

Brilon, March 28, 2018

Dr. Thomas Kneip

Dr. Christoph Traxler

Independent auditors' report

Reproduction Auditor's Report
On the basis of the final conclusion of our audit, we have issued the following unqualified Auditor's Report dated March 28, 2018:

INDEPENDENT AUDITOR'S REPORT

To CENTROTEC Sustainable AG, Brilon

Note on the auditing of the consolidated financial statements and group management report

Audit opinions
We have audited the Consolidated Financial Statements of CENTROTEC Sustainable AG, Brilon, and its subsidiaries (the group) – comprising the Consolidated Balance Sheet at December 31, 2017, the Consolidated Statement of Comprehensive Income, the Consolidated Income Statement, the Consolidated Statement of Movements in Equity and the Consolidated Cash Flow Statement for the financial year from January 1 to December 31, 2017 as well as the Notes to the Consolidated Financial Statements, including a summary of significant accounting policies. In addition we have audited the Group Management Report of CENTROTEC Sustainable AG for the financial year from January 1 to December 31, 2017. In accordance with the requirements of German law, we have not examined the content of the components of the Group Management Report stated in the "Other information" section of our Auditor's Report.

In our opinion, based on the findings of our audit,

- the enclosed Consolidated Financial Statements comply in all material respects with the IFRS as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) of the German Commercial Code (HGB), and in accordance with these requirements give a true and fair view of the net worth and financial position of the group at December 31, 2017 as well as of its financial performance for the financial year from January 1 to December 31, 2017, and

- the enclosed Group Management Report as a whole provides a suitable view of the group's position. In all material respects this Group Management Report is consistent with the Consolidated Financial Statements, complies with the requirements of German law and suitably presents the opportunities and risks of future development. Our audit opinion of the Group Management Report does not extend to the contents of the Combined Management Report components stated in the "Other information" section.

Pursuant to Section 322 (3) first sentence of HGB, we declare that our audit has not led to any objections regarding the correctness of the Consolidated Financial Statements and Group Management Report.

Basis for the audit opinions
We conducted our audit of the Consolidated Financial Statements and Group Management Report in accordance with Section 317 of HGB and the EU Regulation on specific requirements regarding statutory audit of public-interest entities (hereinafter: "Regulation (EU) No. 537/2014") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, IDW). Under those regulations and principles our responsibility is described further in the section "Responsibility of the auditor for the auditing of the Consolidated Financial Statements and Group Management Report" of our Auditor's Report. We are independent of the Group companies, as is consistent with the regulations under European law, German commercial law and professional law, and have fulfilled our other German professional duties in accordance with these requirements. In addition, we declare that, pursuant to Article 10 (2) letter f) of Regulation (EU) No. 537/2014 we did not perform any prohibited non-audit services within the meaning of Article 5 (1) of Regulation (EU) No. 537/2014. We are of the opinion that the audit evidence we obtained is adequate and suitable to serve as a basis for our audit opinions on the Consolidated Financial Statements and Group Management Report.

Key audit matters in the auditing of the Consolidated Financial Statements
Key audit matters are those matters which, according to our sound judgment, were of most significance in our audit of the Consolidated Financial Statements for the financial year from January 1 to December 31, 2017. Those matters were taken into account as a whole with regard to our audit of the Consolidated Financial Statements and the forming of our audit opinion on them; we do not provide any separate audit opinion on those matters.

In our opinion the following matter was of key importance in our audit:

1. Intrinsic value of goodwill

We have structured our presentation of this key audit matter as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

We present the key audit matter below:

1. Intrinsic value of goodwill

1. The Consolidated Financial Statements of the company report goodwill with an overall amount of € 77.3 million under the balance sheet item "Goodwill". Goodwill is tested for impairment by the company once a year or ad hoc to identify a possible need for amortisation. The impairment test is performed at the level of the groups of cash-generating units to which the respective goodwill is allocated. In the impairment test, the carrying amount of the respective cash-generating units including goodwill is compared with the appropriate recoverable amount. The recoverable amount is fundamentally determined on the basis of the value in use. The basis of the valuation is regularly the present value of future payment streams of the respective group of cash-generating units. The present values are determined using discounted cash flow models. Here the approved medium-range planning of the group serves as the starting point, which is reassessed using assumptions on long-term growth rates. Expectations regarding the future market development and assumptions on the development of macroeconomic factors are also taken into account here. Discounting is performed using the weighted average capital costs of the respective group of cash-generating units. No need for impairment was established as the result of testing for impairment.

   The result of this evaluation depends to a high degree on management's assessment of the future cash inflows of the respective group of cash-generating units, the discount rate applied, the growth rate as well as other assumptions, and therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

2. In the course of our audit, among other things we evaluated the methodological procedures for testing for impairment. After comparing the future cash inflows used in the calculation with the approved medium-range planning of the group, we assessed the appropriateness of the calculation in particular by reconciling it with general and industry-specific market expectations. Supplementary adjustments to the medium-range planning for purposes of impairment testing were discussed by us with the company employees responsible and evaluated. We also evaluated whether the costs for group functions were properly reflected. With the knowledge that even relatively small changes in the discount rate applied can have material effects on the enterprise value determined in this way, we considered in depth the parameters used to determine the discount rate applied, and evaluated the measurement model.

   To reflect the existing forecast uncertainty, we evaluated the sensitivity analyses prepared by the company and performed our own sensitivity analyses. As a result, we established that the carrying amounts of the cash-generating units including the allocated goodwill, taking account of the available information, are adequately covered by the discounted future cash surpluses.

   The measurement parameters and assumptions used by management as a whole agree with our expectations and are also within the ranges that we consider to be reasonable.

3. The Company's disclosures on goodwill are contained in Sections E and J of the Notes to the Consolidated Financial Statements.

Other Information

Management is responsible for the other information. The other information comprises the following components of the Group Management Report, the content of which has not been examined:

- The Corporate Management Declaration pursuant to Section 289f of HGB and Section 315d of HGB contained in the section "Business activities" of the Group Management Report
- The Corporate Governance Report according to No. 3.10 of the German Corporate Governance Code
- The separate Non-Financial Group Report pursuant to Section 315b (3) of HGB

The other information also comprises the remaining sections of the Annual Report – disregarding further cross-references to external information – with the exception of the audited Consolidated Financial Statements, audited Group Management Report as well as our Auditor's Report.

Our audit opinions of the Consolidated Financial Statements and Group Management Report do not extend to the other information, and we accordingly express neither an audit opinion nor any other form of audit conclusion in that regard.

In connection with our audit, it is our responsibility to read the other information and to assess whether the other information

- exhibits material discrepancies with the Consolidated Financial Statements, Group Management Report or our knowledge obtained in the course of the audit, or
- appears in any other respects to be misrepresented.

Responsibility of management and the supervisory body for the Consolidated Financial Statements and Group Management Report

The management is responsible for the preparation of the Consolidated Financial Statements, which comply in all material respects with the IFRS as adopted in the EU, and the additional requirements of German law pursuant to Section 315e (1) of HGB, and for ensuring that in accordance with these requirements the Consolidated Financial Statements give a true and fair view of the net worth, financial position and financial performance of the group. The management is also responsible for the internal controls that it has determined to be necessary to enable the preparation of Consolidated Financial Statements that are free from material – intentional or unintentional – misrepresentations.

In preparing the Consolidated Financial Statements, the management is responsible for assessing the group's ability to remain a going concern. In addition it has the responsibility to state matters, where relevant, in connection with remaining a going concern. Furthermore, it is responsible for preparing the accounts based on the going concern accounting principle, unless there is the intention to liquidate the group or cease business operations or no realistic alternative to such a course exists.

The management is also responsible for the preparation of the Group Management Report, which as a whole provides a suitable view of the group's position and is consistent in all material respects with the Consolidated Financial Statements, complies with the requirements of German law and suitably presents the opportunities and risks of future development. The management is in addition responsible for the precautions and measures (systems) that it has deemed necessary to enable the preparation of a Group Management Report that is consistent with the applicable requirements of German law, and to enable it to furnish sufficient suitable evidence for the statements made in the Group Management Report.

The Supervisory Board is responsible for overseeing the group's accounting process for the preparation of the Consolidated Financial Statements and Group Management Report.

Responsibility of the auditor for the auditing of the Consolidated Financial Statements and Group Management Report

Our objective is to obtain reasonable assurance whether the Consolidated Financial Statements or Group Management Report are as a whole free from material – intentional or unintentional – misrepresentations, and whether the Group Management Report as a whole provides a suitable view of the group's position and is consistent in all material respects with the Consolidated Financial Statements as well as with the findings of our audit, complies with the requirements of German law and suitably presents the opportunities and risks of future development, as well as to provide an audit report that contains our audit opinions on the Consolidated Financial Statements and Group Management Report.

Reasonable assurance means a high degree of assurance, but no guarantee that an audit conducted in accordance with Section 317 of HGB, Regulation (EU) No. 537/2014 and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer will always reveal a material misrepresentation. Misrepresentations may result from infringements or misstatements and are regarded as material if it could reasonably be expected that they might individually or as a whole influence the economic decisions of the reader made on the basis of these Consolidated Financial Statements and this Group Management Report.

During the audit we exercise sound judgment and maintain a critical basic stance. In addition

- we identify and assess the risks of material – intentional and unintentional – misrepresentations in the Consolidated Financial Statements and Group Management Report, plan and conduct audit procedures in response to those risks, and obtain audit evidence that is sufficient and suitable to serve as the basis for our audit opinions. The risk that material misrepresentations are not identified is greater for infringements than for misstatements, because infringements may involve fraudulent collaboration, forgeries, intentional incompleteness, misleading representations and bypassing of internal controls.
- we acquire an understanding of the relevant Internal Control System for the audit of the Consolidated Financial Statements and the relevant precautions and measures for the audit of the Group Management Report in order to plan audit procedures that may be appropriate in the circumstances, but not with the aim of submitting an audit opinion on the effectiveness of those systems.
- we assess the appropriateness of the accounting methods used by the management as well as the justifiability of the value estimates presented by the management and of related disclosures.
- we draw conclusions on the appropriateness of the going concern accounting principle used by the management and, based on the audit evidence obtained, on whether a material

uncertainty exists in connection with events or circumstances that may raise significant doubts about the ability of the group to remain a going concern. If we reach the conclusion that a material uncertainty exists, we are obliged to point out the affected disclosures contained in the Consolidated Financial Statements and Group Management Report in the Auditor's Report or, if those disclosures are inappropriate, to modify our audit opinion on the matter in question. We draw our conclusions on the basis of the audit evidence obtained up until the date of our audit report. However future events or circumstances may result in the group no longer being able to operate as a going concern.

- we assess the overall presentation, structure and content of the Consolidated Financial Statements including the disclosures, as well as whether the Consolidated Financial Statements present the underlying transactions and events such that, taking account of the IFRS as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) of HGB, the Consolidated Financial Statements give a true and fair view of the net worth, financial position and financial performance of the group
- we obtain sufficient, suitable audit evidence for the accounting information of the enterprises or business activities within the group to be able to provide audit opinions on the Consolidated Financial Statements and Group Management Report. We are responsible for instructing, overseeing and executing the audit of the Consolidated Financial Statements. We bear sole responsibility for our audit opinions.
- we assess whether the Group Management Report is consistent with the Consolidated Financial Statements, and also its compliance with the legal requirements and the impression it gives of the situation of the group.
- we conduct audit procedures on the future-related statements by management in the Group Management Report. Based on sufficient, suitable audit evidence we in particular seek to comprehend the material assumptions which underlie the future-related statements by management and assess whether the future-related statements have been derived properly from those assumptions. We do not give a separate audit opinion on the future-related statements as well as on their underlying assumptions. There is a considerable unavoidable risk that future events will deviate materially from the future-related statements.

We discuss for example the planned scope and timetable of the audit with the officers responsible for monitoring, as well as significant audit findings, including any shortcomings that we identify in the Internal Control System in the course of our audit.

We make a declaration to the officers responsible for monitoring that we have complied with the relevant independence requirements, and discuss with them all relationships and other matters that can reasonably be assumed to affect our independence, as well as the precautions taken in that regard.

Of the matters that we have discussed with the officers responsible for monitoring, we identify those that were of greatest significance for the period in question in the audit of the Consolidated Financial Statements and therefore constitute the key audit matters. We describe these matters in the Auditor's Report, unless laws or other regulations stipulate that the matter cannot be stated publicly.

Miscellaneous statutory and other legal requirements

Other disclosures pursuant to Article 10 of Regulation (EU) No. 537/2014

We were appointed as Group auditor by the Annual General Meeting on May 31, 2017. We were issued with our mandate by the Supervisory Board on December 20, 2017. We have served as group auditor of CENTROTEC Sustainable AG, Brilon, without interruption since the 2001 financial year.

We declare that the audit opinions contained in this Auditor's Report are consistent with the supplementary report to the Audit Committee pursuant to Article 11 of Regulation (EU) No. 537/2014 (audit report).

Responsible auditor

The auditor responsible for the audit is Holger Plaum.

Kassel, March 28, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Holger Plaum (German Public Auditor)	ppa. Markus Küfner (German Public Auditor)

Independent Practitioner’s Report on a Limited Assurance Engagement on Non-financial Reporting

To CENTROTEC Sustainable AG, Brilon

We have performed a limited assurance engagement on the separate Non-financial Group Report pursuant to § (Article) 315b Abs. (paragraph) 3 HGB (“Handelsgesetzbuch”: “German Commercial Code”) of Centrotec Sustainable AG, Brilon, (hereinafter the “Company”) for the period from 1 January to 31 December 2017 (hereinafter the “Non-financial Report”).

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB].

This responsibility of Company’s executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Fur-thermore, the executive directors are responsible for such internal control as they have considered necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors (“Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer“: “BS WP/vBP”) as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Quali-tätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis - IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner´s Responsibility

Our responsibility is to express a limited assurance conclusion on the Non-financial Report based on the assurance engagement we have performed.

Within the scope of our engagement we did not perform an audit on external sources of in-formation or expert opinions, referred to in the Non-financial Report.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB.

This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2017 has not been prepared, in all material aspects, in accordance with: §§ 315b and 315c in conjunction with 289c to 289e HGB.

In a limited assurance engagement the assurance procedures are less in extent than for a rea-sonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- Inquiries of personnel involved in the preparation of the Non-financial Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-financial Report
- Identification of the likely risks of material misstatement of the Non-financial Report
- Analytical evaluation of selected disclosures in the Non-financial Report
- Comparison of selected disclosures with corresponding data in the consolidated financial statements and in the group management report
- Evaluation of the presentation of the non-financial information

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2017 has not been prepared, in all material aspects, in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Frankfurt am Main, 28 March 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

ppa. Nicolette Behncke
Wirtschaftsprüfer
[German public auditor]

ppa. Pia Schnück

Financial calendar 2018

March 28	Analysts Meeting/Publication of 2017 accounts
May 14	Publication of Q1 2018 Quarterly Report
May 15	Annual General Meeting of Shareholders, Brilon
August 10	Publication of Q2 2018 Quarterly Report
November 14	Publication of Q3 2018 Quarterly Report

Imprint

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