Annual Report 2017

Technology for Life

COMPANY PROFILE

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

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

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

SELECTED KEY FIGURES DRÄGER GROUP

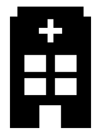
		Twelve months		
		2017	**2016**	**Changes in %**
Order intake	€ million	2,614.7	2,538.7	+3.0
Net sales	€ million	2,572.3	2,523.8	+1.9
Gross profit	€ million	1,152.2	1,135.4	+1.5
in % of net sales (gross margin)	%	44.8	45.0	
EBIT[1]	€ million	155.7	136.9	+13.7
in % of net sales (EBIT margin)	%	6.1	5.4	
Net profit		98.5	81.7	+20.5
Earnings per share on full distribution[2]				
per preferred share	€	4.18	3.46	+20.8
per common share	€	4.12	3.40	+21.2
Cash flow from operating activities	€ million	143.3	195.3	−26.6
Net financial debt[3]/EBITDA[4,5]	Factor	−0.12	0.16	
Equity ratio[3]	%	45.4	43.4	
DVA[5,6]	€ million	70.7	49.8	+42.0
Headcount as of December 31		13,739	13,263	+3.6

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

MARKETS

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

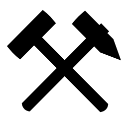
In the field of safety technology, fire services, emergency response services, law and regulatory enforcement and industry customers all place their trust in Dräger's integrated hazard management systems, in particular for personal protection and plant safety. This includes respiratory protection equipment,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



Hospital

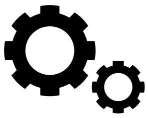
Fire services

Oil and gas industry



Mining

Chemical industry



Application-driven markets

DRÄGER WORLDWIDE

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

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

Dear Shareholders, dear Employees, dear Readers,

The global economy grew faster in 2017 than in the previous years. One factor driving this trend was greater economic momentum in some industrialized countries and in many emerging economies. Dräger also posted growth again in 2017. Thanks to the positive development of order intake over the course of the year, orders on hand increased further. Altogether, order intake rose by 4.4 percent (net of currency effects) in 2017, which makes it the strongest gain in recent years. After the dip in growth in fiscal year 2016, we managed to achieve a proper increase in net sales once again. At slightly more than 3 percent, the rise in net sales (net of currency effects) even somewhat surpassed the forecast from the beginning of the year.

Earnings also benefited from the positive development of net sales. Despite negative currency effects due to the appreciation of the euro, which intensified over the course of the year, we were able to further increase earnings before interest and taxes (EBIT). Dräger Value Added also went up.

The focus in 2017 was not on new programs and reorganization, but on continuation and implementation, which applies in particular to our new governance model that grants greater entrepreneurial freedom, and with it greater responsibility, to our organizational structures at regional and country level.

We brought our “Fit for Growth” efficiency program to a successful conclusion at the end of 2017. Through this program, we have addressed key issues for safeguarding the future of Dräger and reduced our cost base over the past several years. As compared with the original plans from 2015, we have saved more than EUR 100 million and achieved our cost-cutting target. We have reduced the selling, general, and administrative expenses (SG&A) ratio to 30 percent of net sales, as forecast. Our “factory of the future” in Lübeck completed its first full fiscal year in 2017 and, in the process, exceeded the expectations of it – and not just with regard to increased efficiency. As of the end of the year, the “factory of the future” had set new production records. Overall, we have optimized our global

Stefan Dräger

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

"We plan to achieve a slight growth increase in 2018. While continuing to practice cost discipline, we will be investing more in safeguarding our future, because as a family-run company in the hands of the fifth generation, we know that our future is based on innovation."

production structure in recent years through relocations and closings, and we are now well positioned. We have also made good progress in terms of research and development (R&D). Over the past two years, we have restructured our innovation organization and made it more powerful. While we have increased the speed of innovation, we are not yet where we want to be. By making additional investments in R&D, we aim to advance key projects and boost our rate of innovation, meaning the percentage of new products in net sales.

I would specifically like to thank our employees. They have gone along with the changes wrought by our efficiency program in recent years in good faith. We also have their dedication to thank for the fact that we saw proper growth once more in 2017 and set a new net sales record in the fourth quarter, despite adversities with the procurement for components and logistics. The high level of participation in and results from last year's employee survey also nicely capture the dedication of our team. As a result, it is only logical that we make it possible for our employees to share in the company's success and thereby further increase their interest in the development of business. Through an employee share program, we facilitate the purchase of Dräger shares. This program has been received very well; in fact, employees purchased more shares in 2017 than in the previous years.

In the past two years, we distributed only the minimum dividend. Now that we have concluded the efficiency program, we would like to increase the distribution of dividends again. I would like to thank our shareholders for their support with our restructuring activities. We are planning on a target distribution rate of at least 10 percent for the future.

So what is next for us in the short to medium term? Orders on hand increased further in 2017, providing us with a sound foundation for our slightly higher net sales forecast of 2 percent to 5 percent (net of currency effects) in fiscal year 2018. At 4 percent to 6 percent, the range for our expected EBIT margin is slightly lower for 2018 than in the prior year. However, this is due to greater investments in sales and R&D in particular. By increasing our rate of innovation, especially with regard to medical products, we aim to strengthen our medium-term growth prospects.

Our markets harbor good growth prospects for us in the short term as well, for example in business areas that we have not yet fully established all over the world. Our service business is still heavily focused on our domestic German market and on Europe, which is true of the still relatively young “Rental & Safety Services” business, for example. Over the past year, we constructed a new building at our Krefeld site to accommodate the double-digit growth rates being seen in this business field at the moment. I also see major opportunities in system solutions and accessories, for both in medical and safety products. These areas, which are partially subject to unique business mechanisms, are a key element in Dräger’s diversity.

To our shareholders, I would like to say this: We have brought our “Fit for Growth” efficiency program, which included some painful measures, to a successful conclusion. We have capped off a good fiscal year 2017 with a return to growth. We plan to increase this growth in 2018. And we will continue to adhere to the cost discipline practiced in recent years so we can simultaneously invest more heavily in safeguarding the future of Dräger. After all, our future will be built on investments, and I am certain that this is also in your best interests.

Best regards, Stefan Dräger

Executive Board

Forward-looking, responsible leadership has been fundamental to Dräger's corporate culture for more than 125 years. Stefan Dräger and his Executive Board team are dedicated to realizing a sustainable increase in corporate value, pursuing that objective with openness, passion and high standards.

Stefan Dräger

Chairman of the Executive Board

Gert-Hartwig Lescow

CFO and Executive Board member for IT
Vice-Chairman of the Executive Board

Rainer Klug

Executive Board member for Production, Logistics, Purchasing
Regional responsibility for the Americas

Dr. Reiner Piske

Executive Board member for Human Resources
Regional responsibility for Europe

Anton Schrofner

Executive Board member for Innovation
Regional responsibility for Africa, Asia and Australia

Gert-Hartwig Lescow

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

"We achieved our financial goals in fiscal year 2017. We were able to increase our earnings before interest and taxes as well as our Dräger Value Added. Our "days sales outstanding" also improved significantly. With a healthy balance-sheet structure, Dräger is well equipped for the years to come."

Rainer Klug

Rainer Klug is in charge of Purchasing, Production and Logistics as well as for the Americas region. He has been with Dräger since 2015, and his term runs until the end of July 2023.

"Overall, we recorded good net sales growth in the Americas segment in 2017. We were successful in North America and significantly increased our net sales there, especially in the largest market, the U.S. In Central and South America, however, we only grew in a few countries; overall, the region recorded a decline."

Dr. Reiner Piske

Dr. Reiner Piske is responsible for Human Resources and the Europe region. He has been with Dräger since 2015, and his term runs until the end of October 2023.

"In 2017, we achieved solid net sales growth in the Europe segment. We made considerable gains, especially in some countries where we have not been performing so well in recent years. This shows that our business is subject to healthy long-term trends."

Anton Schrofner

Anton Schrofner is responsible for Innovation as well as the Africa, Asia and Australia region. He has been with the Company since 2010, and his term runs until the end of August 2023.

"We had good growth in the Africa, Asia and Australia segment in 2017. In important Middle Eastern markets, we significantly increased net sales compared with the prior year. We also performed well in Asia, and special mention in this regard must be made of the good growth recorded in China."

Report of the Supervisory Board

The Supervisory Board continued its trusting working relationship with the Executive Board in fiscal year 2017, dealing in detail with the Company's economic situation and prospects. The Supervisory Board was promptly and directly involved in all decisions.

Dear Shareholders,

Your Company developed well overall in fiscal year 2017 from the perspective of the Supervisory Board, meeting the forecasts made at the start of the fiscal year. The increased growth of the global economy, particularly in important industrialized countries, and the improved outlook in the emerging markets had a noticeable effect on the development of net sales. Following a decrease in the prior year, the Company was able to increase net sales by more than three percent net of currency effects, which was slightly more than forecast. The EBIT margin for fiscal year 2017 improved further, along with Dräger Value Added.

The Executive Board has set a currency-adjusted net sales growth target of 2.0 to 5.0 percent. The prospect of a further increase in the growth of the global economy, together with a rise in the number of orders on hand, provides a solid starting point for achieving the forecast net sales development. The Executive Board will increase investment in Dräger's future potential in 2018, particularly in the areas of research and development and sales. That could lead to a slight temporary decrease in profitability despite ongoing cost management. Overall, the Executive Board expects an earnings before interest and taxes margin of between 4.0 and 6.0 percent in relation to net sales. The Supervisory Board believes the expectations of the Executive Board regarding net sales and earnings growth are realistic.

In fiscal year 2017, the Supervisory Board carefully and regularly monitored the work of the Executive Board of the general partner in accordance with the law and the articles of association, and provided advice on the strategic development of the Company as well as all major measures. The Supervisory Board was involved in all decisions of importance to the Company. The extensive written and oral reports by the Executive Board formed the basis for these decisions. The Chairman of the Supervisory Board was regularly informed about current business developments and major transactions by the Chairman of the Executive Board also outside of the Supervisory Board meetings.

MEETINGS

In four regular meetings, the Supervisory Board dealt in detail with the business and strategic development of the Dräger Group, the divisions and their German and foreign subsidiaries, and intensively advised the Executive Board on such matters. It was not deemed necessary to discuss meetings or individual items on the agenda without the Executive Board. Apart from Dr. Reinhard Zinkann, who attended two of the Supervisory Board's general meetings, all Supervisory Board members each attended more than half of the Supervisory Board's general meetings and meetings of the committees to which they belong.

FOCAL POINTS OF THE SUPERVISORY BOARD DELIBERATIONS

In the past fiscal year, discussions focused on segment reporting in the regional structure, the Company's long-term strategic targets and cost development. Another key topic was the possible transformation of the product and service offering as a result of digitalization. Carrying out an employee share program once again was also discussed. The Supervisory Board received updates at several meetings on the new obligation for the preparation and publication of a non-financial statement (sustainability report) pursuant to Secs. 289b et seq. German Commercial Code (HGB) and determined the approach to the audit of the non-financial statement.

The plan for fiscal year 2018 was presented to the Supervisory Board in a meeting held on December 14, 2017 and approved by the Joint Committee, which is responsible for resolutions concerning transactions requiring approval. Discussions at this meeting were focused on cost development and the development of relevant markets.

In its meeting on December 14, 2017, the Supervisory Board also covered the German Corporate Governance Code in the version dated February 7, 2017. The Company fully complies with the recommendations of the German Corporate Governance Code. The declaration of conformity from the Supervisory Board and Executive Board pursuant to Sec. 161 German Stock Corporation Act (AktG) is permanently available on the Company website and in the corporate governance report.

ACTIVITIES OF THE AUDIT COMMITTEE

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

Prof. Dr. Nikolaus Schweickart

"From the perspective of the Supervisory Board, Dräger developed well overall in fiscal year 2017 and met the forecasts made at the start of the year. The Supervisory Board considers the expectations of the Executive Board regarding net sales and earnings growth in fiscal year 2018 to be realistic."

At its meetings, the Audit Committee reviewed the single entity and Group financial statements, the quarterly results, the half-yearly report, the audit of the non-financial statement (sustainability report), as well as the profit appropriation proposal. In addition, the Committee audited and assessed the financial reporting process, the risk reporting system, as well as the audit activities of the Internal Audit department and the auditors. The organization of Compliance and its activities, the risk management system, and the preparation of the tender process for the annual audits from fiscal year 2019 onwards were also discussed at the meetings. The Chairman of the Audit Committee also informed the plenary Supervisory Board of the results of its deliberations.

In January and February 2018, the Internal Audit department and Legal department audited the sustainability report on behalf of the Audit Committee. The Audit Committee relied on this internal audit report in its audit of, and for its approval of, the sustainability report. According to that audit, there are no indications of failure to comply with the law, or that legally required content is missing.

ACTIVITIES OF THE NOMINATION COMMITTEE

The Nomination Committee met twice in the year under review.

CORPORATE GOVERNANCE AND EFFICIENCY AUDIT

The Supervisory Board regularly deals with the application and enhancement of corporate governance principles within the Dräger Group. The declaration of conformity has been reproduced on pages 56 et seq. of this annual report. The Supervisory Board also evaluated its activities in fiscal year 2017 and conducted an internal efficiency audit.

SINGLE ENTITY AND GROUP FINANCIAL STATEMENTS

The Supervisory Board commissioned the statutory auditor elected by the annual shareholders' meeting, Frankfurt-based PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, to audit the single entity and Group financial statements for fiscal year 2017. Subject of the audit were the single entity financial statements of Drägerwerk AG & Co. KGaA, prepared in accordance with the German Commercial Code (HGB), as well as the Group financial statements, prepared in accordance with the International Financial Reporting Standards (IFRS), and the combined management report of Drägerwerk AG & Co. KGaA and the Dräger Group. The auditor examined the single entity financial statements of Drägerwerk AG & Co. KGaA, prepared in accordance with the provisions of the German Commercial Code, the Group financial statements, prepared in accordance with IFRS, as well as the combined management report of both Drägerwerk AG & Co. KGaA and the Group, and issued an unqualified audit opinion. The auditor confirmed that the Group financial statements prepared in accordance with IFRS and the combined management report conform to IFRS as adopted by the EU.

The members of the Supervisory Board carefully examined the single entity and Group financial statements, the combined management report, as well as the audit reports. Representatives of the statutory auditor attended the Audit Committee's meeting on February 27, 2018, during which Dräger's single entity and group financial statements were deliberated on, as well as the Supervisory Board's meeting on February 28, 2018, to discuss the financial statements. These representatives reported on the performance of the audit and were available to provide additional information. At these meetings, the Executive Board explained the single entity financial statements of Drägerwerk AG & Co. KGaA and the Group financial statements, along with the risk management system. On the basis of the audit reports on the single entity and Group financial statements and the combined management report, the Audit Committee came to the conclusion that both sets of financial statements with their respective management reports give a true and fair view of the net assets, financial position, and results of operations in accordance with the applicable financial reporting framework. To do so, the Audit Committee deliberated on material asset and liability items and their valuation, as well as the presentation of the earnings position and the development of certain key figures. The Chairman of the Audit Committee reported on the discussions to the Supervisory Board. Further questions by members of the Supervisory Board led to a more detailed discussion of the results. The Supervisory Board intensively discussed the adjustment to the dividend policy. The Supervisory Board was convinced that the dividend proposed by the general partner was appropriate considering the net assets, financial position, and results of operations, and approved it. The liquidity of the Company and the interests of the shareholders were taken into account in equal measure. There were no reservations concerning the economic efficiency of the Executive Board's actions.

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

CHANGES IN THE EXECUTIVE BOARD

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

By resolution of the Supervisory Board of Drägerwerk Verwaltungs AG on December 13, 2017, Rainer Klug's appointment as a member of the Executive Board was extended by five years, effective August 1, 2018.

Dr. Reiner Piske and Anton Schrofner were also appointed as members of the Executive Board for a further five years, effective November 1, 2018 and September 1, 2018 respectively.

CHANGES IN THE SUPERVISORY BOARD

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

CONFLICTS OF INTEREST

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

The Supervisory Board would like to recognize the Executive Board for its performance and dedicated service in the year under review. Furthermore, it thanks management and all employees, including employee representatives, for their hard work in fiscal year 2017.

Lübeck, February 28, 2018

Schweickart

Prof. Dr. Nikolaus Schweickart
Chairman of the Supervisory Board

Report of the Joint Committee

Dear Shareholders,

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

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

Lübeck, February 28, 2018

Prof. Dr. Nikolaus Schweickart
Chairman of the Joint Committee

The Dräger shares

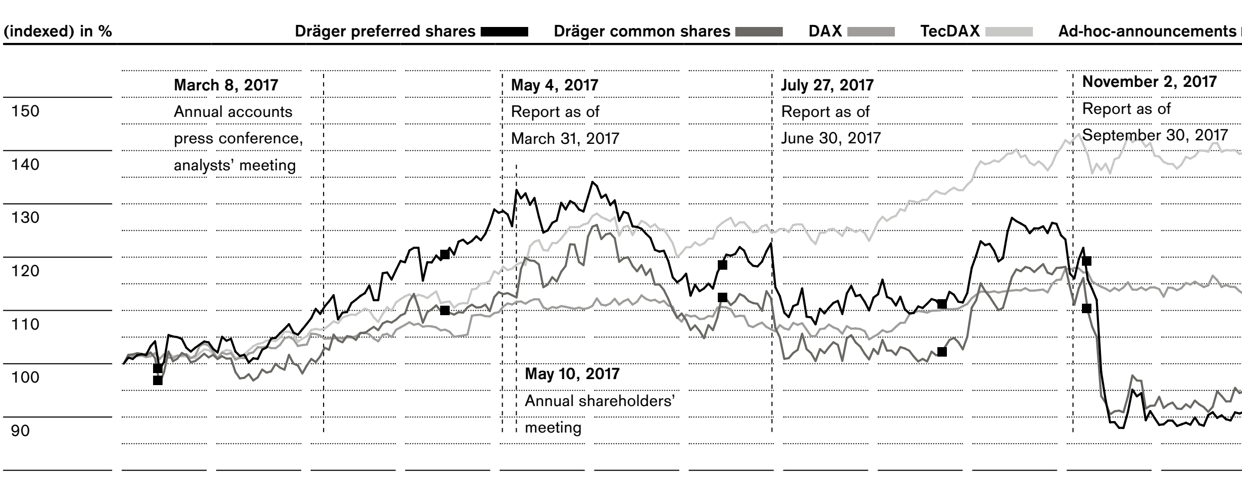
The performance of Dräger shares in 2017 was disappointing on the whole. After a good performance in the first three quarters, things changed in the fourth quarter. Triggered by the forecast for fiscal year 2018, they significantly lost value. The price of Dräger common shares decreased by 6 percent over the year, while the price of Dräger preferred shares fell by 9 percent.

DEVELOPMENT OF THE DRÄGER SHARES

In the first half of the year, the Dräger shares performed very positively initially and reached their highest point of the year at EUR 106.60 (preferred share) and EUR 81.21 (common share) at the beginning of June. Up to this point, our shares were able to keep pace with the good performance of the TecDAX and even outperform the DAX. Towards the end of the second quarter, however, the prices of Dräger shares first declined and then spent the subsequent period in a volatile lateral movement. After an interim recovery at the start of the fourth quarter, the forecast for fiscal years 2018 and 2019 published on November 10, 2017, created disappointment. As a result, Dräger shares suffered a substantial fall in price.

The Dräger common shares ended the year at a price of EUR 61.09, and Dräger preferred shares at a price of EUR 72.30. This corresponds to a share trend of –6.2 percent and –9.0 percent over the course of the year. The stock market performed better in comparison. The DAX ended the year at 12,918 points, which corresponds to a performance of 12.5 percent for the year. The TecDAX closed at the end of December at 2,529 points and thereby increased in value by 39.6 percent over the course of the year.

SHARE PRICE DEVELOPMENTS 2017

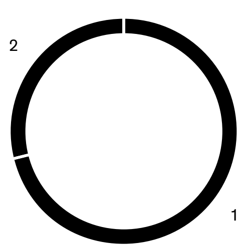


DEVELOPMENT OF THE DRÄGER SHARES AND KEY INDICES IN 2017

in %, p. a.	1 year	3 years	5 years	10 years
Dräger common shares [1]	–6	–1	1	–
Dräger preferred shares	–9	–5	–1	4
DAX	13	10	11	5
TecDAX	40	23	25	10

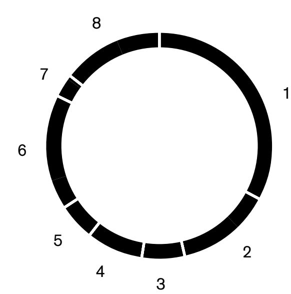
[1] Dräger common shares have been listed on the stock market since 2010.

OWNERSHIP OF COMMON SHARES



in %			
1. Dräger family	71.32	2. Free float	28.68

SHAREHOLDER STRUCTURE [1]



in %			
1. USA	32	5. France	5
2. Germany	13	6. Rest of Europe	16
3. Great Britain	6	7. Rest of the world	3
4. Switzerland	8	8. Private investors and unspecified investors	17

[1] Preferred shares and common shares not including shares owned by the Dräger family; as of January 2017

The market capitalization of the roughly 17.8 million Dräger shares came to EUR 1,170 million as of December 31, 2017, up from EUR 1,266 million at the end of 2016.

↗ Please refer to “Development of the Dräger shares and important indices in 2017”

SHARE PRICE DEVELOPMENTS

↗ Please refer to chart “Share price developments” on page 13

SHAREHOLDER STRUCTURE

The capital stock is divided into common and preferred shares. According to the definition of Deutsche Börse AG, 71.32 percent of common shares are held by the Dräger family; 67.19 percent of common shares are held by Dr. Heinrich Dräger GmbH. In addition, members of the Dräger family hold 4.13 percent of voting rights. Of the common shares, 28.68 percent are in free float.

↗ Please refer to chart “Ownership of common shares”
Please refer to the “Direct or Indirect Shareholdings Exceeding 10 Percent” section on page 67 et seq.
Please refer to number 32 in the Notes to the Annual Financial Statements

The free float of the non-voting preferred shares is 100 percent. The Dräger preferred shares are included in the TecDAX share index of Deutsche Börse AG.

DRÄGER SHARES INDICATORS

		2017	2016	2015
Common shares				
No. of shares as of the reporting date		10,160,000	10,160,000	10,160,000
High	€	81.21	66.29	88.53
Low	€	58.30	45.04	52.19
Share price on the reporting date	€	61.09	65.11	60.60
Average daily trading volume [1]		5,083	4,192	5,648
Dividend per share	€	0.40[2]	0.13	0.13
Dividend yield		0.70%	0.20%	0.20%
Earnings per common share in the case of a full distribution[3]	€	4.12	3.40	1.40
Preferred shares				
No. of shares as of the reporting date		7,600,000	7,600,000	7,600,000
High	€	106.60	80.63	122.00
Low	€	69.89	52.26	59.30
Share price on the reporting date	€	72.30	79.49	68.61
Average daily trading volume [1]		34,335	26,742	29,569
Dividend per share	€	0.46[2]	0.19	0.19
Dividend yield		0.60%	0.20%	0.30%
Earnings per preferred share on full distribution [3]	€	4.18	3.46	1.46
Effective total distribution [4]	€ thousand	11,387[2]	4,346	4,346
Effective distribution rate [4]		11.56%[2]	5.34%	12.94%
Market capitalization	€ thousand	1,170,154	1,265,642	1,137,132

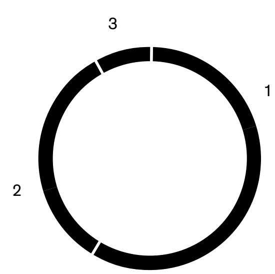
[1] All German stock exchanges (source: designated sponsor)
[2] Pending approval by the annual shareholders' meeting
[3] Based on an imputed actual full distribution of earnings attributable to shareholders ↗ Please refer to Note 19 in the notes
[4] Including distribution to participation certificate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

DRÄGER SHARES — BASIC FIGURES

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

[1] International Stock Identification Number

ANALYST RECOMMENDATIONS[1]



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

[1] At the end of 2017

An analysis of the shareholder structure (common and preferred shares) conducted in the first quarter of 2017, which excluded the Dräger family's shares, showed that institutional investors from Europe accounted for 47 percent of the associated capital stock. Shareholders from Germany represented the largest portion, at 13 percentage points. Other strongly represented groups from Europe were shareholders from Switzerland, at 8 percentage points; shareholders from the UK, at 6 percentage points; and shareholders from France, at 5 percentage points. Some 32 percent of the shares, excluding those held by the Dräger family, were held by investors from the US. The proportion attributable to private investors and other unidentified investors was around 17 percent of capital stock.

↗ Please refer to chart "Shareholder structure" on page 14

DIVIDEND POLICY AND PROPOSAL

Following the successful completion of the cost reduction program, we want to increase dividends again and plan to distribute at least 10 percent of Group net profit (less earnings attributable to non-controlling interests) in 2017 and the following years.

The Executive Board of the general partner and the Supervisory Board will propose a dividend of EUR 0.46 per preferred share and EUR 0.40 per common share to the annual shareholders' meeting on May 4, 2018. Taking into account the tax advantage and the minimum dividend for participation certificates, the proposed effective distribution rate is 11.56 percent (2016: 5.34 percent).

↗ Please refer to number 19 in the Notes to the Annual Financial Statements

ANALYSTS

At the end of 2017, analysts from 12 institutions (2016: 14) regularly assessed Dräger's business performance: Bankhaus Metzler, Berenberg Bank, Deutsche Bank, DZ Bank, Hauck & Aufhäuser, HSBC, Independent Research, Kepler Cheuvreux, LBBW, M.M. Warburg & Co., Main First Bank and NORD/LB.

↗ Please refer to chart "Analyst recommendations"

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COMBINED MANAGEMENT REPORT

Principles of the Group

Group structure

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

Please refer to number 52 in the Notes to the Annual Financial Statements.

Dräger is represented in over 190 countries on all continents and maintains its own sales and service companies in some 50 countries. Dräger operates development and production sites in Germany (Lübeck), China (Shanghai and Beijing), the United Kingdom (Blyth), Norway (Oslo), and the US (Andover and Telford), as well as production sites in Germany (Hagen), Chile (Santiago de Chile), the United Kingdom (Plymouth), Sweden (Svenljunga), South Africa (King William's Town), and the Czech Republic (Klášterec). We stopped production at our site in São Paulo (Brazil) in the summer of 2017.

Management, planning, and reporting

ORGANIZATION AND MANAGEMENT SYSTEM

The Executive Board manages the operating business by means of the three regions: Europe, Americas, and Africa, Asia and Australia. Our segment reporting is also based on those regions. One member of the Executive Board is responsible for business performance in each of these three regions. The respective Executive Board member is also responsible for other functional tasks, in addition to their regional responsibility. Rainer Klug is responsible for the Americas region, Dr. Reiner Piske for Europe, and Anton Schrofner for the Africa, Asia and Australia regions. The three Executive Board members with regional responsibilities are each responsible for business with customers in their respective region, and are therefore fully responsible for operational management, achieving net sales and earnings targets and the medium-term development of their region.

Global functions such as Corporate Strategy and Business Development, Innovation, Supply Chain, Finance, IT, Human Resources, and Legal are located at the Group headquarters in Lübeck and partially at other international locations. Production and development are managed globally from headquarters. The other global functions in Lübeck provide services to the national companies, set group standards, and are responsible for strategic management. The countries themselves are fully responsible for operational business. In each country with Dräger subsidiaries, a manager acts as responsible Managing Director. They make all local decisions within the scope of corporate standards and strategy and report directly or indirectly to the regional Executive Board member.

This structure promotes an entrepreneurial attitude and the acceleration of decision-making processes, and is consistent with our goal of streamlined management structures.

That also ensures the clearer allocation of tasks and responsibilities.

↗ Please refer to chart “Executive Board responsibilities” on page 20

VALUE-DRIVEN MANAGEMENT

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

DVA is the central key management figure at Dräger. It is reported for the Group and for the three segments (Europe, America, and Africa, Asia and Australia). We thereby measure the development of the company's added value and that of its various units. That development is not only used as the basis for strategic decisions. In addition, the major portion of management's variable remuneration is primarily based on DVA.

We want to achieve three key goals with the help of management via DVA:

- profitable growth,
- increasing operating efficiency, and
- increasing capital efficiency.

DVA is the difference between EBIT over the preceding twelve months and calculated capital costs. Capital costs

EXECUTIVE BOARD RESPONSIBILITIES

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

are equal to the average capital employed over the previous twelve months based on the average cost of equity and debt before taxes. The weighted average cost of capital (WACC) for fiscal year 2017 was 7.0 percent.

Another important figure is days working capital (DWC). We use this metric to measure average coverage of net current assets over twelve months. This is composed of days of sales outstanding (DSO), days of inventory on hand (DIH), days of payables outstanding (DPO), and days of prepayments received (DPR), which are each measured individually.

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

FINANCIAL FORECAST

The financial forecast provides an assessment of net sales, gross margin, and functional cost development up until the end of the respective current year. Current business performance is analyzed based on this forecast and appropriate countermeasures are taken whenever performance deviates significantly from plan. We also prepare a detailed plan for the subsequent year towards the end of the third quarter.

“FIT FOR GROWTH” EFFICIENCY PROGRAM

In 2014 we launched our efficiency program “Fit for Growth” comprising a wide range of measures to boost competitiveness and productivity in the following years. “Fit for Growth” is divided into the three partial programs, “SHAPE,” “FIT!,” and “Global Footprint.” In fiscal year 2017 we consistently continued and successfully completed our efficiency program.

"SHAPE" partial program

In the scope of the "SHAPE" partial program we set ourselves an overall cost reduction target of approximately EUR 100 million, compared to the original plan. We exceeded that goal in the period. Both, the cost of materials and personnel expenses contributed to that development. In fiscal year 2017, we also achieved the costs target for Lübeck and the envisioned personnel expenses target.

We have also continued working on the global reduction of the cost of materials. We have analyzed our expenses for external service providers, identified possible improvements, and consistently implemented the resulting measures. We are also working closely together with suppliers to cut direct production costs.

"FIT!" partial program

The "FIT!" partial program is intended to help us better meet growing future demands in terms of technological and product development in light of increasingly dynamic markets and stricter regulations. Our motto is: "Faster. Connected. Innovative." We want to network applications and our innovation organization even more strongly, both internally and externally, to enhance our innovative strength. We want to reduce time to market – the period between the initial idea for a product and market launch – by 50 percent by 2019, and thereby bring customer benefits to market more rapidly. To that end, all phases of the product life cycle will be analyzed to identify possible improvements and, where applicable, optimized. We were able to achieve some initial progress in this area in 2017. We expect to be able to bring further products to market more rapidly in the coming years.

"Global Footprint" partial program

In the Global Footprint program, we continually assess our range of sites worldwide with the aim of accelerating the flow of materials and therefore increasing our supply capability while reducing production costs. In 2017 we ceased production at our site in São Paulo, Brazil. We moved the production of filters for light respiratory protection that was carried out there to other existing production sites, including to South Africa. The factory of the future at our Lübeck site, which commenced operation mid-2016, also met all expectations set out in the overall plan for 2017 in the first complete fiscal year.

Strategy and goals

We have been committed to producing "Technology for Life" for over 125 years now – it is a vital part of our corporate identity. Our products protect, support, and save lives. That is the foundation of our past development, which we will continue to build on in the future. In order to maintain and further strengthen our outstanding market position, in the future we will continue to do everything we can to optimally reconcile the interests of all stakeholders – customers, suppliers, employees, shareholders, banks, and those in our direct vicinity.

Our company principles are and remain the guiding philosophy for all our actions; they determine our decisions: We want to and will remain an independent, self-determining, pioneering, value-creating, and attractive company.

Our four Corporate Aspirations represent our vision of Dräger in the coming years.

CORPORATE ASPIRATIONS

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

We have a truly global footprint
We offer a high level of service to our customers wherever they are located in the world. To serve our global markets, work with our suppliers, and support our sales channel partners, we have implemented the right organization and processes. We encourage our people to bring out their talent wherever they are and in whatever function they operate. Our balanced sales and expenses across the geographies give us greater flexibility. That makes us fast, able to react to opportunities, and robust in the face of crises. We think globally and act locally.

We are networking across borders as entrepreneurs
We see the big picture, share our knowledge and expertise, support and collaborate with each other, and learn from each other. We are all part of

a highly professional and social network working across departmental, legal entity, and country borders. This goes beyond our company and includes customers, suppliers, and sales channel partners. We manage the challenge to be connected. Our entrepreneurial spirit is based on our individual judgment and common sense.

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

MEDIUM-TERM COMPANY GOALS

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

- **Net sales growth, regional focus, and industry focus**
  Our two markets, medical and safety technology, are global growth markets. With regard to the regional distribution of net sales, our medium-term aim is to achieve a stronger weighting of the American and Asian markets, compared to our European core markets. In particular, we want our safety technology to achieve stronger growth than the market. That growth should preferably be achieved by increasing market share in our strategic target markets: mining, the chemical industry, and the oil & gas sector.

- **EBIT and DVA**
  In order to meet our medium-term growth goals, in the coming years we will accelerate our investment in Development and Sales. Meanwhile, we also want to increase earnings and DVA through consistently strict cost control.

- **Time to market**
  We want to demonstrate our innovative strength through even shorter innovation cycles and time to market. In operational implementation we will increasingly rely on agile project structures and cooperation with external development partners.

We have again set quantitative targets for several of the goals named for fiscal year 2018. Please see the "Outlook" section on page 55 et seq. of this management report for more details and a more precise forecast.

STRATEGIC GOALS IN MARKETS

In medical technology we are specialized in the provision of products and services for improved acute care in the operating room, in ICUs, for care for premature babies, and for emergency care in hospitals. Our strategic priorities in this area are:

More effective workflows
Our design concepts for hospitals create ergonomic workstations, improve the efficiency of internal processes, and increase the satisfaction of hospital staff. Remote services and integrated device management offerings increase the availability and utilization of the delivered devices.

Improving clinical results
Increasing so-called interoperability is a key tool here: The constant availability of relevant patient data throughout the process chain helps our customers improve work processes and the results of therapy by means of decision-making support and therapy automation.

Breaking the chain of infection
We help increase patient and employee safety through appropriate hygienic measures. That not only involves the development of appropriate products, but also recommending suitable preparation and cleaning processes to our customers, and advising them on the creation of hygiene plans.

In safety technology our portfolio of products and solutions includes stationary and mobile gas detection systems, personal protective equipment, professional diving systems, alcohol and drug testing devices, and a varied range of training and services. We are also engaged in project businesses, such as the provision of fire training systems and interchangeable special units for tunnel rescue trains.

Our company is oriented towards the specific requirements of selected industries and markets. In these markets, we position ourselves as a partner for integrated system solutions. Our broad international presence is particularly valuable to our global clients in the oil & gas sector, chemical industry, and in mining. Our strategic priorities in the various markets and industries are as follows:

Oil and gas
We are focused on expanding our service offering for the large infrastructure projects of our major global customers. Topics such as data connectivity and IT system integration play an increasingly important role in this environment.

Chemical industry
Multinational chemical companies require holistic safety technology solutions that can be integrated into their operational safety processes and can be implemented across a number of countries. Here we are continuously supplementing our offering with on-location services, equipment rental business, the management of production stops due to maintenance, and key account management structures.

Mining
With more than 100 years' experience and a profound understanding of customer requirements in mining operations and rescue, we develop solutions for all aspects of occupational health and safety and safety management, thereby contributing to the safe operation of mines.

Fire services
Many years' experience mean we know what counts in day-to-day firefighting. That knowledge makes us a competent partner for our customers. We comprehensively support fire service operational processes before, during and after actual operations with requirements-based products and services. In the future we plan to focus more strongly on the areas of training and maintenance.

Application-driven markets
We offer our diverse range of industrial and public sector customers in all sectors solutions based on selected safety technology applications. Here the primary factors for success are efficient market cultivation and optimal sales channels.

Research and development

Dräger attaches a great deal of importance to its research and development (R&D) activities. That is reflected by the fact that we have continually increased our R&D spending in recent years. The same applies to 2017: Compared to the prior year, our expenditure increased by EUR 15.7 million to EUR 234.7 million (2016: EUR 219.0 million) – equivalent to 9.1 percent of net sales (2016: 8.7 percent).

As of December 31, 2017, 1,377 employees worked in Research and Development in medical and safety products worldwide (December 31, 2016: 1,295). In 2017, patent and trademark offices around the world issued 223 new patents to Dräger (2016: 234). We applied for another 76 patents at international patent and trademark offices (2016: 86). In fiscal year 2017 our technology development experts analyzed 165 new technologies in 27 technological fields and evaluated their relevance to Dräger. In a number of projects these new technologies laid the foundations for future product innovations.

MEDICAL TECHNOLOGY PRODUCTS

We developed numerous existing products and produced a number of new innovations in medical technology in the reporting year as well, including 17 new and extended devices (2016: 7) and 5 new accessory products (2016: 5). Dräger's main focus in 2017 was on the development of new systems and therapy device components and products.

For example, we expanded the functionality of our "Infinity Acute Care System (IACS)" with the introduction of the new generation "IACS VG6." The "Infinity M-Cable Microstream CO_2" allows improved monitoring of exhaled CO_2 for both intubated and non-intubated patients. This reduces the need for blood gas analysis, an invasive procedure with significant negative effects on patients. The "IACS" also supports Scio Four gas measurement: Gases and volatile anesthetics can now be continuously monitored, even with anesthesia workstations that do not have integrated gas management. Overall, “IACS VG6” enhances the clinical value of the “IACS” solution in all critical care units – from the emergency room and operating room to the ICU.

The new “Vista 120 S” expands our portfolio in the low-price segment of the patient monitoring market. Along with the 12 inch color touch display, it has a range of important and valuable features. Via connectivity to Dräger devices like “Savina”, “Fabius Plus and XL,” and “Primus / IE” it offers customers a system solution.

The new “Savina 300 Select” ventilator is the first device to offer functions such as oxygen therapy and Automatic Tube Compensation, which were previously only included on high-end intensive care ventilators. Its turbine only requires ambient air and with its integrated and external batteries the device can be used independently of a central power supply for up to five hours. That allows flexible use in hospitals.

The new “ClassicStar plus” is an addition to Dräger’s range of non-invasive ventilation masks. It is available as a nasal or oronasal mask. The mask features a soft anatomically shaped silicone lip seal that adapts to the patient’s face, which increases patient comfort.

The two new “VentStar Helix heated (N) plus” breathing hoses for premature and newborn babies extend our product range in the area of “active humidification.” That closes a gap in our range and means we now cover all patient groups in the category “heated breathing hoses,” from newborns to adult patients. The breathing hoses can be used in numerous respiratory care modes. Together with the “Babylog VN500” ventilator they achieve optimal high-frequency ventilation. The double helix heating wire supports uniform heating and prevents condensation buildup.

In the third quarter of 2017, we launched the “Oxylog VE300” on the market. It is the first emergency ventilator with an integrated oxygen cylinder. Its intuitive menu structure featuring a color touch screen, its light weight, and its robustness make it simple and ergonomic to use. The reliable ventilation technology, with up to nine hours battery life and efficient documentation options with wireless data transfer, is the perfect combination for emergency response services and the emergency room.

We have extended our product portfolio in the thermoregulation segment with the “BiliLux” thermoregulation lamp. It helps to reduce the concentration of serum bilirubin in premature babies and newborns with hyperbilirubinemia using photo-therapeutic radiation. The lamp can be used with infants aged up to three months or weighing up to 10 kg. We also offer a radiometer that measures the level of radiation, thereby allowing optimal settings for each individual baby. BiliLux can be integrated into neonatal workstations in numerous ways, while offering the data connectivity required for improved workflows.

The new software version for our “Perseus A500” anesthesia workstation helps optimize the quality of ventilation treatment and generally increase the efficiency of the OR. We have also improved the ventilation performance of the “Perseus A500” by including intensive care ventilation functions, so the device can now also support lung-protective ventilation strategies in the OR. In particular, that includes an innovative lung recruitment function that supports two widely used methods for opening collapsed alveoli. Together with comprehensive patient and ventilation monitoring, these functions support the anesthesiologist in the execution of safe, effective, and evaluable anesthesia – and the functions can be intuitively set and adapted to the individual patient’s needs.

Our new “DualBrake E” – an electromagnetic brake – expands our offering in the area of “ceiling supply units” and is used in the rotational joints of the arms. We launched it together with the new ceiling supply unit “Movita Lift Strong.” Our tried-and-tested “DualBrake P” electro-pneumatic brake and our friction brake will remain in the portfolio. “DualBrake” complements the friction brake as a second brake. In some countries it is requested as a standard brake, in others it offers an alternative for hospitals with an insufficient compressed air supply.

SAFETY TECHNOLOGY PRODUCTS

In 2017 we launched 12 (2016: 18) new safety technology products, most of which are for gas detection.

RESEARCH AND DEVELOPMENT

R&D costs in € million	2013	2014	2015	2016	2017
Dräger Group	201.5	212.0	231.1	219.0	234.7
in % of net sales	8.5	8.7	8.9	8.7	9.1
Headcount	1,423	1,406	1,416	1,295	1,377

For example we developed “Alcotest 5000,” a professional alcohol testing device that proves the presence and not the concentration of alcohol. The alcohol test is conducted without touching the tested individuals at all: For the sample they blow into a special funnel – the “Alcotest 5000.” Thanks to its unique design, it prevents the reverse flow of exhaled air, thereby preventing contact with pathogens. The funnel attachment can be effortlessly replaced after use. The device is particularly efficient: It can test up to twelve people per minute. That addresses an urgent requirement of public and private security services, because alcohol testing of large groups in a short time – for example large-scale police operations and entry controls at workplaces or stadiums – is currently a major challenge.

We introduced the new free “Dräger-Tubes” app, which closes the gap that existed between analog and digital documentation of gas measurement values using Dräger Tubes: In the future it will no longer be necessary to create paper records – that task can be carried out in just a few steps using a smartphone.

In the fourth quarter of 2017 we launched a further innovation in mobile gas detection technology: the “Dräger X-am 8000.” This portable device can detect up to seven gases. Its internal pump and practical assistance functions mean it is optimized for clearance measurements in confined spaces. Further useful product features include the inductive charging function and the new high-performance photoionization detectors for the detection of carcinogenic hydrocarbons at very low concentrations. The “Dräger X-am 8000” can be equipped with a Bluetooth interface, which can be used in combination with the software offering “Dräger CSE Connect” to significantly improve the important customer process “clearance measurement” in numerous industrial applications. The detection instrument can be tested using the “Dräger X-dock” high-performance testing station, for which we offer the necessary module.

In the area of stationary gas detection technology, the new “Pulsar 7000” range replaces the tried-and-tested previous models of the “Dräger Polytron Pulsar” range. The new platform for open-path gas detection is an important system component and already fulfills future requirements in terms of reliability and functional safety in explosion protection. Intelligent software and the redundant flashbulb design of the transmitter not only increases reliability, but also extends its service life.

↗ Please refer to chart “Research and development”

Employees

Every day many people around the world rely on our “Technology for Life.” We are responsible for them, but also for the people who work to create “Technology for Life.” As a family-run company, this is a matter very close to our hearts. After all, the success of our company is based on the commitment and competence of our employees. The goal of our work in human resources is: “Attracting the right candidates for the right tasks – keeping our people motivated, committed, and healthy for Dräger over the long term.” In the past year we again consistently pursued that goal and made good progress in this regard.

LEADERSHIP AND COOPERATION

Over the course of 2017 we have worked intensively to further strengthen our culture of leadership and cooperation. The basis for that process is “WeLEAD”, our guiding principle for leadership and cooperation, which we extended in the prior year. A variety of measures for employees and managers have helped create impetus for the implementation of this guiding principle at the company. In order to intensify dialog on the topic of leadership and cooperation around the world, we oriented the global employee survey to the competencies described in “WeLEAD”. We were satisfied by the very high participation rate of 81 percent. We will also continue to consistently work on the results of the survey in 2018 – in the company as whole, and in the teams and departments – so that the culture of leadership and cooperation spreads even further through our company.

EMPLOYEE SHARE PROGRAM

As in the prior year, we again conducted an employee share program in November 2017 in Germany. We thereby support direct investment in our company by employees. This was aimed at raising employees’ identification with the company, giving them a way to actively participate in the success of the company, and thereby increasing their interest in the development of the business. Participating employees in Germany each received a bonus share for every three preferred shares they acquired. This year the employee share program allowed employees to buy 60, rather than 27, shares. Dräger purchased the bonus shares in regular trading on the stock market. A total of 1,025 employees (prior year: 1,023) purchased an average of around 30 shares for a total of 30,402 shares (prior year: 21,312). Dräger contributed 10,134 bonus shares.

EMPLOYEES IN NUMBERS

↗ Please refer to charts “Workforce trend” and “Key workforce trend figures”

WORKFORCE TREND

		Headcount as of the balance sheet date		Headcount (average)	
		December 31, 2017	December 31, 2016	2017	2016
Germany		6,434	6,227	6,346	6,309
Other countries		7,305	7,036	7,182	7,162
Dräger Group total		**13,739**	**13,263**	**13,528**	**13,472**
Women		3,919	3,820	3,881	3,890
Men		9,820	9,443	9,647	9,581
Dräger Group total		**13,739**	**13,263**	**13,528**	**13,472**
Personnel development costs	**€ million**	**14.8**	**13.8**		
thereof training expenses	€ million	6.2	5.1		

KEY WORKFORCE TREND FIGURES

		Headcount as of the balance sheet date	
		December 31, 2017	December 31, 2016
Number of employees		13,739	13,263
Percentage of female employees	%	28.5	28.8
Part-time employees		803	757
Average years with Dräger in Germany	Years	14	14
Average age of employees	Years	43	43
Turnover of employees	%	5.1	7.5
Sick days of work days in Germany	%	5.8	5.6
Accidents in Germany (accidents at work and while commuting to work), Time off sick > 3 days		51	50

As of December 31, 2017, 13,739 people worked for the Dräger Group worldwide, 476 (+3.6 percent) more than in the prior year (December 31, 2016: 13,263). In Germany, the number of people working for the Dräger Group rose by 207 year on year (+3.3 percent), while the number of people working abroad rose by 269 (+3.8 percent). As of December 31, 2017, 53.2 percent of Dräger's employees worked outside Germany (December 31, 2016: 53.0 percent).

Of the 13,739 employees worldwide, 58.2 percent (December 31, 2016: 58.0 percent) worked in Sales, Marketing, and Service; 21.1 percent (December 31, 2016: 21.5 percent) worked in Production, Quality Assurance, Logistics, and Purchasing; 10.0 percent (December 31, 2016: 9.8 percent) worked in Research and Development; and 10.6 percent (December 31, 2016: 10.7 percent) worked in General Administration.

Personnel expenses within the Group rose by 0.8 percent year on year (net of currency effects: 1.7 percent) to EUR 1,007.1 million. That increase was due to both the increase in employee numbers and the higher average cost per employee. The cost per employee increased by an average of 0.4 percent (net of currency effects: 1.3 percent). That was due to raises in accordance with the wage agreements in the metal and electrical industries in Germany, increased pension expenses in Germany, and increases in wages and salaries abroad. The personnel cost ratio in fiscal year 2017 was 39.2 percent (2016: 39.6 percent). Adjusted for one-off effects in the prior year, this ratio fell by 0.1 percentage points from 39.3 to 39.2 percent.

Sustainability

Sustainability is very important at Dräger. In past years we have used this section to provide information about occupational safety, training, the supply chain, environmental matters and other factors relating to sustainability. We will continue to report on those subjects. The information is consolidated in a separate sustainability report[1] and published on our website.

www.draeger.com / sustainability

Business performance

General economic conditions

RECOVERY OF THE GLOBAL ECONOMY

According to the Institute for the World Economy (IfW), the global economy is in a phase of recovery. For the first time in years, the economies of almost all the major economic areas are trending upwards simultaneously. Economic sentiment, particularly in industrialized countries, is good, and in many emerging markets the economic situation has improved noticeably. Global economic growth is expected to have increased to 3.8 percent in 2017, and could rise to 3.9 percent in 2018. There is a sustainable economic recovery in the eurozone: Here the IfW expects growth of 2.2 percent in 2017 and 2.1 percent in 2018. That particularly benefits the German economy, for which the IfW again increased its forecasts in December: It is expected to grow by 2.3 percent in 2017 and 2.5 percent in 2018, and according to the IfW is rapidly heading for a boom.

According to the Bank for International Settlements (BIS), the prevailing economic conditions are the best seen since the financial crisis. However, in its annual report the BIS also warns of a move away from globalization. The institute argues that protectionism would significantly worsen the chances of sustainable and robust economic growth.

FED CONTINUES TO RAISE INTEREST RATES, ECB SIGNALS MINOR CHANGE OF COURSE

In mid-December the U.S. Federal Reserve (the Fed) increased its benchmark rates for the third time in 2017. At the same time, since October it has not replaced some of the expiring bonds in its inventory, so there has been a gradual decrease in the total. Meanwhile, in December the ECB left its benchmark rate at the record low, but in October announced that it would reduce its bond-buying activities: From January 2018 it will only buy bonds with a value of EUR 30 billion per month – rather than EUR 60 billion at present. At the same time, the ECB extended the purchase period by a further nine months, to the end of September 2018.

[1] From March 8, 2018, the non-financial statement pursuant to Secs. 289b et seq. HGB will be published on the company's website as a separate non-financial report (sustainability report) pursuant to Sec. 289b (3) HGB outside the scope of this combined management report.

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

Average rates compared to the euro	12 months 2016	12 months 2017	Change in %	Impact on Dräger's earnings (EBIT)
Turkish lira	3.34	4.14	23.9	↓
Chinese yuan	7.34	7.66	4.3	↓
US dollar[1]	1.10	1.14	3.1	↓
Russian ruble	73.31	66.18	–9.7	↑
Mexican peso	20.68	21.43	3.6	↓

[1] Please refer to the comments on the earnings of the Dräger Group on page 33.

INFLATION REMAINS LOW, EURO INCREASES ITS VALUE

The inflation rate in the eurozone remained low in 2017, below the target set by the ECB. In November prices had increased by 1.5 percent compared to the same month in the prior year. In the same period in Germany prices were 1.8 percent higher than in November 2016. The value of the euro increased consistently over the course of the year, compared to the USD. The euro also gained value compared to a range of emerging economy currencies.

↗ Please refer to table "Major currency changes sorted by their impact on Dräger's earnings"

MARKET AND INDUSTRY PERFORMANCE

The areas of the Europe segment that are relevant to Dräger grew slightly in 2017. Demand for medical products developed positively overall. That was due to demographic developments, increasing life expectancies, and high demands in terms of technical equipment for hospitals. In Germany the social and economic conditions also led to an increase in net sales in the sector – despite continuing cost pressure. Medical technology also developed positively in Southern Europe. In the United Kingdom the industry is suffering from the effects of the planned withdrawal from the EU and the resulting enormous uncertainty. In Russia increasing protectionism made market access more difficult for German exporters. With regard to safety technology, Europe's industrial markets saw moderately positive development. In Germany there was a moderate increase in demand; according to our information the application-oriented markets in this area developed in tandem with the economy. The European chemical industry achieved a slight increase in production. According to our assessment, sales in the fire service market continued to be limited to replacement and expansion investment, due to budget pressure.

In the Americas segment the sales markets of relevance to Dräger were again characterized by uneven development in 2017. The market for medical technology devices in the USA again grew slightly, while the health care sector in Latin America continued to be problematic: In Brazil the market for medical technology continued to be characterized by cost pressure and a lack of resources. In Mexico, the second largest market, cuts in government subsidies had a negative effect on investment in medical technology products. In the USA sales of safety technology products reflected improved sentiment in the industry as a whole; investment in the US chemical industry had a positive effect on business. The oil & gas sector also saw a slight increase in sales following a weaker prior year; companies increased their investment. Overall market growth in Latin America and the countries of the Caribbean was relatively slow. Demand in the mining industry was also subdued. In the chemical industry investment in the expansion and modernization of existing facilities had a positive effect on business.

And the development of the most important sectors was also very heterogeneous in the Africa, Asia and Australia segment. There was no decrease in the growth of the market for medical technology in China, although the product registration requirements for foreign manufacturers continued to increase. In India – a market still characterized by a very high investment backlog – demand for medical technology developed very positively. Growth slowed in the Middle East: Public and private sector spending decreased, probably as a result of low oil prices. Demand for medical technology increased in Africa, and in Australia, where the increase even exceeded the rate of economic growth. The chemical industry developed positively in the large Asian countries, above all China and Japan. Demand in the Middle East and Africa remained almost unchanged. Investment in the oil & gas industry remained low despite a slight recovery in the oil price. The Australian mining industry saw another year with decreasing investment.

TRENDS WITH AN INFLUENCE ON OUR BUSINESS PERFORMANCE

We are currently observing an overall intensification of the three megatrends that are particularly relevant to Dräger – globalization, health, and connectivity.

Globalization

Recent years were characterized by the networking of markets across borders, accompanied by constantly increasing international trade and stronger competition at the global level. However, opposing protectionist tendencies have also been recently observed. That has resulted in global trade growing more slowly, less dynamism with regard to the development of global value chains, and dampened development in a number of emerging economies (above all China). For a number of months those developments have been compounded by increased "rhetoric against free trade." Stronger isolationist tendencies in a number of industrialized countries – including trade barriers – have led to increasing economic and political separatism. Increasing uncertainty – and dealing with it – will be a dominant theme in the coming years.

Health

The desire to stay healthy as long as possible, or to become healthy – and for bodily, mental, and social wellbeing – is constantly growing. In our private lives that is, for example, reflected by that fact that people are collecting and analyzing increasing amounts of health and fitness data using personal devices and apps. Not least, the constant growth of the middle class in the emerging economies is contributing to increasing global demand for medical care. In the working world, growing health awareness is leading to higher demands on employers. Considering all these developments, the outlook for medical and safety technology continues to be positive.

Connectivity

The digitalization of trade is a key topic for many companies. We also expect a significant shift in our distribution structures in coming years. On the one hand, platform-based models will become more important, on the other, there will be increasing demands in terms of direct sales. The digital networking of devices results in increasing quantities of personal data being collected in a range of areas – both personal and professional. That means there will be an increasing focus on data security and ownership. Uncertainty about what happens to such data is increasing. That question, along with the resulting technical developments and business opportunities are central to our approach.

OVERALL ASSESSMENT OF UNDERLYING CONDITIONS

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

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

Business performance of the Dräger Group

↗ see table "Business performance of the Dräger Group"

OVERALL MANAGEMENT ASSESSMENT OF BUSINESS PERFORMANCE

Global economic growth has increased as a result of synchronous economic development in important industrialized countries. The prospect of economic growth has also improved in the emerging markets.

Our orders increased significantly in the last quarter of 2016, and that trend continued with regard to incoming orders in fiscal year 2017, which rose by 3.0 percent over the year. In 2017 we increased net sales by 1.9 percent.

BUSINESS PERFORMANCE OF THE DRÄGER GROUP

				Twelve Month
		2017	2016	Change in %
Order intake	**€ million**	**2,614.7**	**2,538.7**	**+3.0**
Net sales	**€ million**	**2,572.3**	**2,523.8**	**+1.9**
Gross profit	**€ million**	**1,152.2**	**1,135.4**	**+1.5**
EBITDA [1]	**€ million**	**240.0**	**222.7**	**+7.7**
EBIT [2]	**€ million**	**155.7**	**136.9**	**+13.7**
Net profit	**€ million**	**98.5**	**81.7**	**+20.5**
Earnings per share on full distribution [3]				
per preferred share	€	4.18	3.46	+20.8
per common share	€	4.12	3.40	+21.2
Research and development costs	€ million	234.7	219.0	+7.1
Equity ratio [4]	%	45.4	43.4	
Cash flow from operating activities	€ million	143.3	195.3	–26.6
Net financial debt [4]	€ million	–29.2	34.7	> –100.0
Investments	€ million	106.2	99.9	+6.3
Capital employed [4,5]	€ million	1,243.6	1,247.0	–0.3
Net working capital [4,6]	€ million	557.2	563.2	–1.1
Gross profit / net sales	%	44.8	45.0	
EBIT [2] / Net sales	%	6.1	5.4	
EBIT [2,7] / Capital employed [4,5] (ROCE)	%	12.5	11.0	
Net financial debt [4] / EBITDA [1,7]	Factor	–0.12	0.16	
Gearing [8]	Factor	–0.03	0.03	
DVA [7,9]	€ million	70.7	49.8	+42.0
Headcount on December 31		13,739	13,263	+3.6

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

The US dollar weakened against the euro over the course of the year, and the currencies of some emerging economies also lost value. That had the effect of successively increasing negative currency effects over the course of fiscal year 2017. In this environment, order intake rose by 4.4 percent year on year (net of currency effects). In the fourth quarter, the increase in orders, net of currency effects, was 3.3 percent. In fiscal year 2017, net sales increased by 3.3 percent (net of currency effects), in the fourth quarter they increased by 5.0 percent year on year.

Despite increasing negative currency effects, our earnings profited from the positive development of net sales. Unlike

COMPARISON OF FORECAST AND ACTUAL FIGURES

	Forecast 2017 According to the annual report	Fiscal year 2017 Results achieved
Net sales	0.0 to 3.0 % (net of currency effects)	+3.3 % (net of currency effects)
EBIT margin	5.0 to 7.0 % [1]	6.1 %
DVA	EUR 40 to 90 million	EUR 70.7 million
Other forecast figures:		
Gross margin	44.0 to 46.0 %	44.8 %
Research and development costs	EUR 230 to 245 million	EUR 234.7 million
Net Interest result	EUR –13 to –17 million	EUR –12.8 million
Days Working Capital (DWC)	Slight improvement (2016: 121.7 days)	111.7 days
Investment volume	EUR 90 to 105 million [2]	EUR 106.2 million [3]
Net financial debt	Improvement (2016: EUR 34.7 million)	EUR –29.2 million

[1] Based on exchange rates at the start of fiscal year 2017
[2] Excluding company acquisitions
[3] Including the acquisition of bentekk GmbH

in the prior year, no restructuring costs were incurred in fiscal year 2017. We raised earnings before interest and taxes (EBIT) to EUR 155.7 million (2016: EUR 136.9 million), and the EBIT margin increased to 6.1 percent (2016: 5.4 percent). Dräger Value Added (DVA) improved further to EUR 70.7 million (2016: EUR 49.8 million).

With regard to the reliability of our forecast, after the fourth quarter, which is traditionally our strongest, the following conclusions can be drawn: The forecasts made at the start of 2017 have been confirmed over the course of the year.

In terms of demand, there was constant positive development over the course of fiscal year 2017, which allowed us to successively increase net sales. Due to the strong development in the fourth quarter, the net sales achieved slightly exceeded the original forecast.

Our EBIT margin improved slightly year on year, and was within the forecast range. EBIT profited from the positive development of net sales, while currency effects had a negative effect on earnings for the year.

Dräger Value Added (DVA) of EUR 70.7 million was also within the forecast range. The year-on-year increase was the result of net sales and earnings growth, while cost of capital decreased slightly.

Our gross margin decreased slightly due to negative currency effects, and despite positive mix and other margin effects, but was within the forecast range.

Our research and development costs were within the predicted range. In terms of investment volume, due to the acquisition of bentekk GmbH we were slightly above the forecast range, which did not include any acquisitions.

The interest result improved and was slightly below the forecast range as a result of the continuing low level of interest rates and lower debt.

Days working capital (DWC) improved significantly in 2017 due to the decrease in receivables and increased liabilities.

Our net financial debt decreased further. In net terms, our company is effectively debt free.
↗ Please refer to table "Comparison of forecast and actual figures"

The development of Dräger's business is considered in detail as follows:

ORDER INTAKE

Our order intake rose by 4.4 percent (net of currency effects) in fiscal year 2017. All regions contributed to that trend, although their development was uneven: In the Europe segment, we recorded a rise in orders of 5.6 percent

ORDER INTAKE

			Twelve months	
in € million	2017	2016	Changes in %	Net of currency effects in %
Europe	1,447.8	1,382.5	+4.7	+5.6
Americas	509.2	515.0	−1.1	+1.0
Africa, Asia, Australia	657.6	641.2	+2.6	+4.5
Total	**2,614.7**	**2,538.7**	**+3.0**	**+4.4**
thereof medical business	1,683.7	1,662.6	+1.3	+2.6
thereof safety business	931.0	876.1	+6.3	+7.7

NET SALES

			Twelve months	
in € million	2017	2016	Changes in %	Net of currency effects in %
Europe	1,415.5	1,384.3	+2.3	+3.1
Americas	510.4	503.7	+1.3	+3.5
Africa, Asia, Australia	646.4	635.8	+1.7	+3.5
Total	**2,572.3**	**2,523.8**	**+1.9**	**+3.3**
thereof medical business	1,668.0	1,647.4	+1.3	+2.6
thereof safety business	904.3	876.5	+3.2	+4.6

(net of currency effects) in fiscal year 2017. Incoming orders increased in safety technology in particular, while there was only slight growth in medical technology. In the Africa, Asia and Australia segment, order intake rose by 4.5 percent (net of currency effects) in 2017. That was primarily the result of demand in safety technology, although growth in medical technology also contributed to this development. Order intake in the Americas segment increased only slightly (net of currency effects). Higher demand for medical products was offset by a slight decline in orders for safety products. In North America, and the USA in particular, we recorded a higher order intake, while there was a decrease in Central and South America.

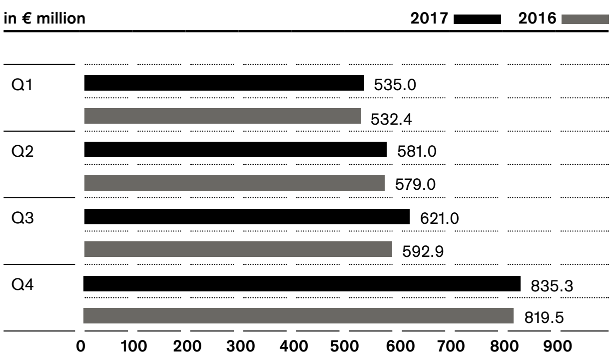
Order intake for the Group as a whole increased in fiscal year 2017, particularly in safety products, but also in medical products.

Demand for medical technology products was primarily driven by the areas of thermoregulation equipment, hospital consumables and accessories, and hospital infrastructure systems. Demand for patient monitoring and clinical data management products, as well as demand for ventilation products increased. There was slight growth in the service business, while order intake for anesthesia devices decreased.

In the safety product areas, demand for respiratory and personal protection products, safety accessories, and safety services rose significantly. Order intake in gas detection technology also developed positively. There was a decrease in demand for engineered solutions over the course of the year. However, it was largely offset by large orders in the fourth quarter. Orders for alcohol detection devices decreased.

↗ Please refer to table “Order intake”

STRONG NET SALES PERFORMANCE IN FINAL QUARTER



NET SALES

In fiscal year 2017, net sales increased by 3.3 percent (net of currency effects). The strong net sales performance in the fourth quarter made a significant contribution to that increase. All regions contributed to the growth in net sales in 2017. We achieved an increase in net sales of 3.5 percent (net of currency effects) in the Africa, Asia and Australia segment. In the Americas segment, net sales were also 3.5 percent higher compared to the prior year (net of currency effects). In the Europe segment, Dräger recorded a 3.1 percent increase in net sales (net of currency effects).

↗ Please refer to table "Net sales" on page 32 and chart "Strong net sales performance in final quarter"

EARNINGS

Due mainly to higher net sales volume, our gross profit grew by EUR 16.7 million to EUR 1,152.2 million in fiscal year 2017. At 44.8 percent, our gross margin fell slightly year on year (2016: 45.0 percent). Positive mix and other margin effects largely compensated for negative currency effects. While the gross margin improved slightly in the Europe segment, it was slightly lower year on year in Africa, Asia and Australia, as well as the Americas, primarily as a result of currency effects.

However, in the fourth quarter the margin in all segments remained lower than in the same quarter of 2016. We recorded a particular decrease in the Americas segment. The fourth quarter was more strongly affected by negative currency effects than the preceding quarters.

Net of currency effects, in fiscal year 2017 functional costs increased slightly year on year (+0.2 percent). However, currency effects reduced those costs, resulting in a nominal decrease of 0.7 percent. Unlike in the prior year, no restructuring costs were incurred in 2017 (2016: EUR 10.0 million). Allocations to specific bad debt allowances and write-downs on receivables of EUR 10.3 million were significantly lower than in the prior year (2016: EUR 25.0 million). More than in the prior year, in 2017 functional costs were reduced by revenue from the sale of non-current assets, primarily real estate. These costs increased by EUR 6.5 million in the reporting year due to realized profits from land sales. Meanwhile higher wages and salaries due to the

FUNCTIONAL COSTS

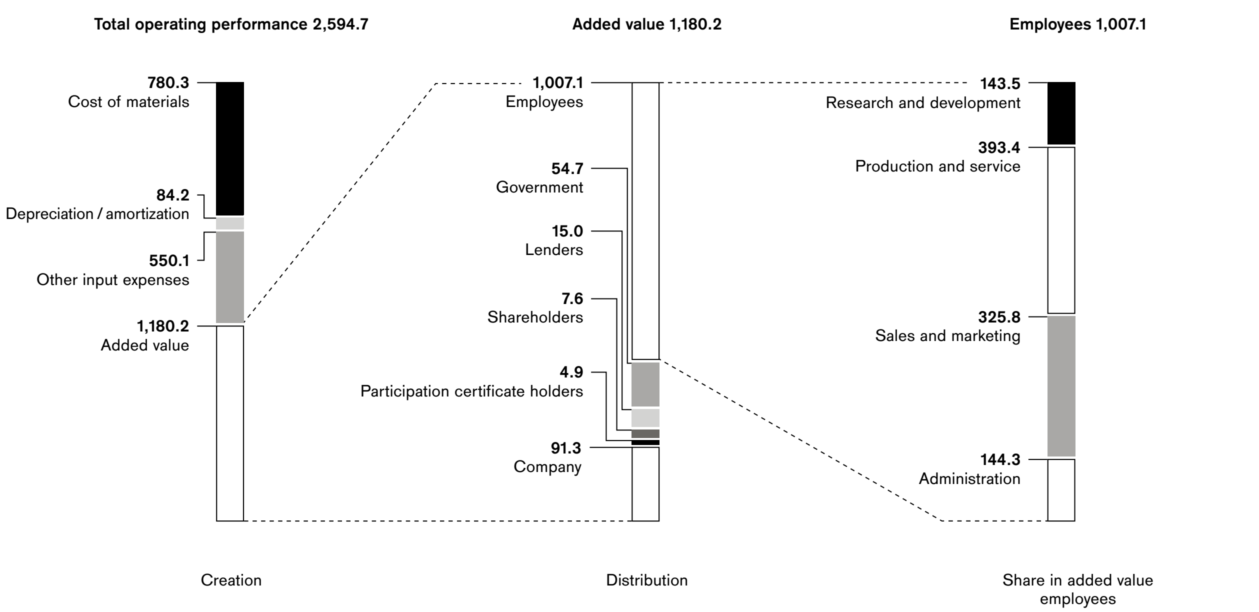
in € million	2017	2016	Change in %
Research and development expenses	–234.7	–219.0	+7.1
in % of net sales	9.1	8.7	
Marketing and selling expenses	–566.3	–554.7	+2.1
in % of net sales	22.0	22.0	
General administrative expenses	–197.7	–207.4	–4.7
in % of net sales	7.7	8.2	
Sales and administrative costs	**–764.0**	**–762.1**	**+0.2**
in % of net sales	29.7	30.2	
Other operating earnings	6.7	–18.1	>–100.0

INVESTMENTS / DEPRECIATION AND AMORTIZATION

in € million	2017 Investments	2017 Depreciation / amortization	2016 Investments	2016 Depreciation / amortization
Intangible assets	9.3	– 12.4	7.2	– 12.2
Property, plant and equipment	96.8	– 71.9	92.7	– 73.6

ADDED VALUE STATEMENT OF THE DRÄGER GROUP

in € million



collective pay rise in the metal and electrical industries in Germany, increased costs.

For more information on personnel costs, please refer to page 26 et seq.

Net of relief effects related to currency, selling and marketing costs in 2017 were 3.3 percent higher year on year. That increase was due to higher volume related freight costs, increased factor costs and targeted investment in sales. Among other things, we expanded our sales activities somewhat in China, Germany, and India, compared to the prior year. Research and development (R&D) costs increased by 8.1 percent net of the change in exchange rates (+ 7.1 percent in nominal terms). The ratio of R&D costs to net sales (R&D ratio) therefore stood at 9.1 percent (2016: 8.7 percent). Net of currency effects and restructuring costs in the prior year, our administrative costs increased slightly year on year (+ 1.0 percent).

↗ Please refer to table "Functional costs" on page 33

At EUR – 4.7 million, other financial income decreased by a significant margin year on year (2016: EUR + 0.2 million). The main reason is that, unlike in the prior year, overall currency-related valuation losses were recorded. They include, for example, financial receivables and liabilities denominated in foreign currencies.

FINANCIAL POSITION OF THE DRÄGER GROUP

in € million	2013	2014	2015	2016	2017
Cash flow from operating activities	68.3	188.0	39.9	195.3	143.3
Cash flow from investing activities	–86.5	–102.6	–167.0	–77.3	–65.5
Free cash flow	–18.2	85.4	–127.1	118.1	77.8
Cash flow from financing activities	–70.8	–26.3	–1.3	–70.0	–41.9
Change in liquidity (excluding exchange rate effects)	–88.9	59.0	–128.4	48.1	35.9

Overall, net profit for fiscal year 2017 was negatively affected by exchange rate losses. The exchange rate losses were driven by the increase in the euro's value compared to most of the foreign currencies that are relevant to Dräger. They primarily related to the Turkish lira, Chinese yuan, and the Mexican peso. An unusually high loss was recorded with regard to the development of the US dollar. Unlike the other currencies listed above, we have a negative currency balance with regard to the US dollar, meaning costs in this currency exceed revenue. That is due to costs from our production and development locations in the USA and procurement costs in US dollars. In 2017 the seasonally fluctuating costs and revenue in US dollars led to unplanned positive net balances, which resulted in exchange rate losses due to the decrease in the value of the US dollar.

Due in particular to the volume-related improvement in gross profit, Group earnings before interest and taxes (EBIT) rose to EUR 155.7 million (2016: EUR 136.9 million). The EBIT margin increased from 5.4 percent to 6.1 percent.

The interest result improved to EUR –12.8 million (2016: EUR –15.5 million). At 31.1 percent (2016: 32.7 percent), the tax rate decreased year on year. Earnings after income taxes came to EUR 98.5 million (2016: EUR 81.7 million).

INVESTMENTS

In fiscal year 2017, we invested EUR 96.8 million in property, plant and equipment (2016: EUR 92.7 million) and EUR 9.3 million in intangible assets (2016: EUR 7.2 million). They largely related to replacement investments. EUR 12.6 million were spent on a construction project in Krefeld, Germany, for sales and service activities relating to safety products. The consolidation of land at the Lübeck location involved an addition to non-current assets of EUR 7.2 million. In the United Kingdom, approximately EUR 2.3 million were invested in the scope of an infrastructure development project at the Blyth location (overall project: approximately EUR 3.3 million). The increased inventory of devices in the rental business also affected the investment volume in fiscal year 2017.

The acquisition of the gas detection technology company "bentekk GmbH" led to an increase of EUR 2.7 million in the Dräger Group's intangible assets, of which EUR 1.1 million was attributed to goodwill.

Depreciation and amortization totaled EUR 84.2 million in fiscal year 2017 (2016: EUR 85.8 million). Investments covered 126.0 percent of depreciation.

Cash flow statement [1]

↗ see table "Financial position of the Dräger Group"

In fiscal year 2017, Dräger Group's cash inflow from operating activities amounted to EUR 143.3 million (2016: EUR 195.3 million). Although EBITDA [2] increased, cash inflow from operating activities fell year on year. A significant factor in this year-on-year decrease was the fact that trade receivables increased by EUR 22.4 million, after having fallen by EUR 31.3 million in the prior-year period. Inventories also grew by EUR 30.0 million (2016: fall of EUR 17.4 million) and other assets increased by EUR 15.0 million (2016: decrease of EUR 12.6 million). EBITDA adjusted for cash-neutral changes to provisions and other non-cash earnings / expenses increased by EUR 59.7 million from EUR 187.2 million to EUR 246.9 million. The EUR 22.2

[1] Due to the elimination of exchange rate effects and transactions that have not, or not yet, had an effect on cash, the underlying changes recognized in the cash flow statement cannot be directly reconciled with the items of the published balance sheet.
[2] EBITDA: earnings before interest, taxes, depreciation and amortization

million increase in prepayments received (2016: decrease of EUR 10.2 million) also had a positive effect on cash flow.

Cash outflow from investing activities fell to EUR 65.5 million (2016: EUR 77.3 million). In fiscal year 2017 Dräger invested EUR 12.6 million in the new construction project for sales and service activities relating to safety products in Krefeld. Meanwhile the prior-year's investments included EUR 20.8 million for investments in the "factory of the future" in Lübeck, which was largely completed in fiscal year 2016.

Cash outflow from financing activities of EUR 41.9 million (2016: EUR 70.0 million) was mainly due to the repayment of bank loans and current account liabilities of EUR 34.3 million (2016: EUR 66.5 million), although a note loan in the amount of EUR 60.0 million was taken out at the same time in the prior-year period.

Cash and cash equivalents as of December 31, 2017 exclusively comprised cash, of which EUR 4.9 million (December 31, 2016: EUR 5.4 million) was subject to restrictions.

Unused credit lines amounted to EUR 423.6 million as of the balance sheet date (December 31, 2016: EUR 343.3 million) and are subject to standard market restrictions.

Financial management

BORROWING

In June 2017 the master loan agreement for existing bilateral credit lines to secure working capital requirements over the medium term was increased from EUR 355.5 million to EUR 377.0 million and extended prematurely by a further five years to June 2022. In relation to this, BNP Paribas is participating in the master loan agreement for the first time, while Svenska Handelsbanken left the agreement. These credit lines were utilized as sureties in Germany and abroad and as cash facilities.

Further bilateral surety credit lines totaling EUR 20.8 million outside the scope of the master loan agreement were agreed with DZ Bank, Svenska Handelsbanken, and Bank Melli in 2017.

Internal Group cash pools exist in several different currencies through which liquidity is balanced within the Group. On December 31, 2017, short-term loans amounted to EUR 71.5 million (December 31, 2016: EUR 57.0 million).

Dräger uses note loans in addition to bilateral credit lines for its medium and long-term financing. As of December 31, 2017, total note loans amounted to EUR 98.4 million (December 31, 2016: EUR 98.4 million). A note loan in the amount of EUR 38.5 million has a term to December 2018 and is expected to be repaid from cash and cash equivalents.

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

↗ Please refer to table "Bilateral credit lines with terms until June 30, 2022"
Please refer to the numbers 36 and 40 in the Notes to the Annual Financial Statements for details on the Dräger Group's loans and liabilities.

LIQUIDITY FORECAST

Liquidity came to EUR 247.6 million at the end of the year (December 31, 2016: EUR 221.5 million). For its medium and long term planning, Dräger forecasts a positive development of cash and cash equivalents. This will be influenced

BILATERAL CREDIT LINES UNDER THE MASTER LOAN AGREEMENT WITH TERMS UNTIL JUNE 30, 2022

Type of credit	€ million	Intended use	Lender
Cash	220.0	Secure working capital requirements	Commerzbank, Deutsche Bank, HSBC, Helaba, SEB, BNP Paribas, Sparkasse zu Lübeck, Deutsche Apotheker- und Ärztebank
Sureties	157.0	Within the context of conducting business activities	Commerzbank, Deutsche Bank, HSBC, BNP Paribas
Total	**377.0**		

NET ASSETS OF THE DRÄGER GROUP

		2013	2014	2015	2016	2017
Non-current assets	€ million	717.2	781.5	907.2	918.6	928.8
Current assets	€ million	1,347.8	1,452.6	1,400.9	1,393.8	1,425.5
thereof cash and cash equivalents	€ million	232.1	296.9	172.8	221.5	247.6
Equity	€ million	816.0	896.6	945.9	1,003.5	1,068.3
Debt	€ million	1,249.0	1,337.5	1,365.5	1,308.8	1,286.0
thereof liabilities to banks	€ million	332.8	296.2	307.8	245.7	209.3
Total assets	€ million	2,065.0	2,234.1	2,311.4	2,312.3	2,354.4
Long-term equity-to-fixed-assets ratio [1]	%	233.7	230.4	196.8	213.7	213.9

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

FINANCIAL FIGURES

in € million	December 31, 2017	December 31, 2016	Changes in %
Total assets	2,354.4	2,312.3	1.8
Equity	1,068.3	1,003.5	6.5
Equity ratio	45.4 %	43.4 %	
Capital employed [1,2]	1,243.6	1,247.0	–0.3
Net financial debt	–29.2	34.7	> –100.0

[1] Capital employed = total assets less deferred tax assets, current securities, liquid funds and non-interest-bearing liabilities
[2] Value as of reporting date

by a planned increase in cash flow from operating activities – reflecting expected business developments – and solid financing, which has already been arranged for the coming years as a prudent measure. Future payment obligations from note loans falling due, which will result in payments of EUR 38.5 million in 2018 and EUR 60.0 million in 2021, will have a negative impact on liquidity. The Dräger Group's short- and medium-term liquidity is secured by existing cash in hand and bank balances as well as the existing credit lines, of which most have a term of more than one year.

DERIVATIVE FINANCIAL INSTRUMENTS

We generally use financial instruments for hedging purposes and not to optimize earnings, although the principles of economic efficiency are also applied to such decisions. Transactions of this type are selected and concluded in a uniform manner throughout the Group. From the fourth quarter of 2016 on, Dräger has accounted for the derivative financial instruments used on the basis of IFRS hedge accounting.

↗ Please refer to number 43 in the Notes to the Annual Financial Statements

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

NET ASSETS

In fiscal year 2017, equity rose by EUR 64.8 million to EUR 1,068.3 million. The equity ratio stood at 45.4 percent as of December 31, 2017, higher than the figure from December 31, 2016 (43.4 percent). The increase is mainly due to higher net profit. Meanwhile, exchange rate differences reduced equity.

In fiscal year 2017, total assets rose by EUR 42.0 million to EUR 2,354.4 million. On the assets side, non-current assets increased by EUR 10.3 million, due in part to investments in the Krefeld property relating to safety products. Current assets increased by EUR 31.8 million. A decrease in trade receivables (EUR –12.6 million) was offset by an increase in cash and cash equivalents (EUR +26.1 million), higher prepayments made (EUR +4.0 million), and higher tax receivables (EUR +11.8 million).

On the liabilities side of the balance sheet, interest-bearing loans and liabilities to banks decreased by a total of EUR 36.4 million. Non-current provisions were reduced by EUR 12.1 million. Among other things, that was due to lower provisions for pension obligations and the reversal of a provision for potential losses that was no longer required. Current provisions decreased by EUR 16.1 million, primarily as a result of lower provisions for personnel costs including those for variable remuneration. Meanwhile, there was an increase in trade payables (EUR +23.1 million) and other current liabilities (EUR +7.3 million).

↗ Please refer to tables “Net assets of the Dräger Group” and “Financial figures” on page 37

DRÄGER VALUE ADDED

In 2017, our Dräger Value Added increased year on year to EUR 70.7 million (2016: EUR 49.8 million). Our EBIT rose by EUR 18.8 million year on year. Cost of capital fell by EUR 2.1 million because average capital employed decreased by 2.4 percent to EUR 1,214.6 million. The reduction in capital employed was due to lower average current assets due to a reduction in trade receivables and higher payables. The lower average current assets and simultaneously higher net sales led to a significant improvement in days working capital (coverage of current assets) by 10.0 days to 111.7 days.

Business performance of the Europe segment

↗ Please refer to table “Business performance of the Europe segment”

ORDER INTAKE

In fiscal year 2017, order intake in the Europe segment rose by 5.6 percent (net of currency effects). With an increase of 1.8 percent, order intake also developed positively in Germany. In the fourth quarter, order intake in the Europe segment rose by 7.9 percent (net of currency effects).

There was a particular increase in demand for our products in Poland, the United Kingdom, Austria, and Germany, and

BUSINESS PERFORMANCE OF EUROPE SEGMENT

					Twelve months
		2017	2016	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**1,447.8**	**1,382.5**	**+4.7**	**+5.6**
thereof Germany	€ million	538.9	529.5	+1.8	+1.8
Net sales with third parties	**€ million**	**1,415.5**	**1,384.3**	**+2.3**	**+3.1**
thereof Germany	€ million	533.0	539.6	–1.2	–1.2
EBITDA [1]	**€ million**	**148.6**	**125.3**	**+18.5**	
EBIT [2]	**€ million**	**108.1**	**84.5**	**+27.9**	
Capital employed [3,4]	€ million	575.9	559.7	+2.9	
EBIT [2] / net sales	%	7.6	6.1		
EBIT [2,5] / capital employed [3,4] (ROCE)	%	18.8	15.1		
DVA [5,6]	€ million	68.8	44.5	+54.5	

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

it also increased in Romania, Russia, and Turkey. That contrasted with declines in demand in Switzerland, France, the Netherlands, and Hungary.

High demand for safety products, in particular, contributed to the positive development, while order intake for medical products also increased.

In particular, respiratory and personal protection products, the accessories and service business for safety products, and the area of hospital infrastructure systems recorded considerable growth in order intake. Order intake also increased for ventilation products and hospital consumables and accessories. On the other hand, there was a decrease in demand for anesthesia devices, alcohol testing devices, in the area of patient monitoring and clinical datamanagement, and in business with engineered solutions.

NET SALES

In fiscal year 2017, net sales in Europe increased by 3.1 percent (net of currency effects). That was due, in particular, to an increase in demand for safety products. In Germany deliveries decreased slightly following strong development in the prior year. In the fourth quarter, net sales in the Europe segment increased by 5.3 percent (net of currency effects).

EARNINGS

Accompanied by a rise in sales volume, gross profit improved by 3.6 percent in fiscal year 2017. The gross margin increased by 0.6 percentage points, mainly due to favorable mix and other margin effects, as well as lower cross-segment costs. Negative currency effects had only a minor influence on the gross margin.

Net of currency effects, functional costs in fiscal year 2017 decreased slightly year on year (nominal: −1.1 percent) and in the fourth quarter even decreased by 2.1 percent (nominal: −2.9 percent). This was primarily due to lower cross-segment functional costs.

EBIT for the Europe segment stood at EUR 108.1 million in 2017 as a whole, improving significantly year on year (2016: EUR 84.5 million). The EBIT margin rose from 6.1 to 7.6 percent. In the fourth quarter, the EBIT margin was as high as 14.5 percent (fourth quarter 2016: 13.5 percent).

In the Europe segment in 2017 Dräger Value Added increased by EUR 24.3 million to EUR 68.8 million (2016: EUR 44.5 million). EBIT rose year on year by EUR 23.6 million to EUR 108.1 million, while capital costs declined by EUR 0.7 million to EUR 39.2 million due to lower average capital employed.

Business performance of the Americas segment

↗ Please refer to table “Business performance of the Americas segment” on page 40

ORDER INTAKE

In fiscal year 2017, order intake in the Americas segment increased year on year (net of currency effects). Within the region, there was a significant increase in demand in North America, and a decrease in Central and South America.

Demand developed positively in the USA, Brazil, Columbia, and Argentina, while it decreased in Chile, Cuba, Mexico, and Ecuador.

While medical products recorded growth, demand for safety products stagnated.

In this segment, there was a significant increase in order intake in the area of patient monitoring and clinical data management, for thermoregulation equipment, in the area of hospital infrastructure systems, and in the safety products accessories business. Meanwhile, demand for ventilation products, in the area of engineered solutions, and for gas detection technology decreased.

NET SALES

In fiscal year 2017, net sales in the Americas segment increased by 3.5 percent (net of currency effects). Deliveries of both medical products and safety products increased. The fourth quarter was particularly positive, with an increase of 5.6 percent (net of currency effects) driven by higher demand for medical products.

EARNINGS

Gross profit increased by 0.9 percent in 2017 as a whole, mainly due to the higher volume of net sales. With a decline of 0.2 percentage points, the gross margin was only

BUSINESS PERFORMANCE OF AMERICAS SEGMENT

					Twelve months
		2017	2016	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**509.2**	**515.0**	**–1.1**	**+1.0**
Net sales with third parties	**€ million**	**510.4**	**503.7**	**+1.3**	**+3.5**
EBITDA[1]	**€ million**	**25.6**	**34.0**	**–24.7**	
EBIT[2]	**€ million**	**4.0**	**10.3**	**–61.4**	
Capital employed[3,4]	€ million	294.4	312.0	–5.7	
EBIT[2] / net sales	%	0.8	2.0		
EBIT[2,5] / capital employed[3,4] (ROCE)	%	1.3	3.3		
DVA[5,6]	€ million	–16.6	–10.5	–57.8	

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

just below the figure from 2016. The slightly weaker gross margin was caused by negative currency effects driven by the price decline of the U.S. dollar compared to the euro. Mix and other margin effects, as well as the slight reduction in cross-segment costs, had no significant impact.

Net of currency effects, functional costs rose by 4.5 percent in 2017 as a whole (nominal: 3.1 percent). They included increased provisions for legal expenses, which were partially offset by lower cross-segment costs. Net of currency effects, functional costs decreased slightly in the fourth quarter, by 0.1 percent (nominal: –4.9 percent), primarily as a result of a decrease in cross-segment functional costs.

In 2017, EBIT in the Americas segment came to EUR 4.0 million (2016: EUR 10.3 million), and the EBIT margin was 0.8 percent (2016: 2.0 percent). The EUR 6.3 million decrease in EBIT is a result of the increase in functional costs. In the fourth quarter EBIT amounted to EUR 13.4 million (fourth quarter 2016: EUR 19.0 million). The EBIT margin was 8.1 percent (fourth quarter 2016: 11.3 percent).

The reduction in EBIT led to a year-on-year decrease in Dräger Value Added 2017 of EUR 6.1 million to EUR –16.6 million (2016: EUR –10.5 million). Average capital employed was slightly reduced (–1.1 percent) and capital costs of EUR 20.5 million were EUR 0.2 million lower than in the prior year (2016: EUR 20.8 million).

Business performance of the Africa, Asia and Australia segment

↗ Please refer to table “Business performance of the Africa, Asia, and Australia segment” on page 41

ORDER INTAKE

In the Africa, Asia and Australia segment, we recorded a rise in order intake of 4.5 percent (net of currency effects) in 2017.

Particularly in Saudi Arabia, China, Pakistan, Qatar, and Thailand, we were able to significantly increase order intake, while it decreased in Iran, Egypt, Japan, and Vietnam.

The increase in demand largely related to safety products, but demand for medical products also increased year on year.

The increase in order intake was primarily recorded with regard to thermoregulation equipment, the business with hospital consumables, respiratory and personal protection products, and gas detection technology. Order intake also

BUSINESS PERFORMANCE OF AFRICA, ASIA AND AUSTRALIA SEGMENT

					Twelve months
		2017	2016	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**657.6**	**641.2**	**+2.6**	**+4.5**
Net sales with third parties	**€ million**	**646.4**	**635.8**	**+1.7**	**+3.5**
EBITDA[1]	**€ million**	**65.8**	**63.3**	**+3.8**	
EBIT[2]	**€ million**	**43.7**	**42.1**	**+3.7**	
Capital employed[3,4]	€ million	373.3	375.3	−0.5	
EBIT[2] / net sales	%	6.8	6.6		
EBIT[2,5] / capital employed[3,4] (ROCE)	%	11.7	11.2		
DVA[5,6]	€ million	18.5	15.8	+17.1	

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

rose in the area of engineered solutions and the medical and safety product service business. Meanwhile, there was a fall in demand for anesthesia devices, in the area of hospital infrastructure systems, and for respiratory care equipment.

NET SALES

In fiscal year 2017, net sales increased by 3.5 percent (net of currency effects), and deliveries of both medical and safety products rose.

EARNINGS

Gross profit in the Africa, Asia and Australia segment fell by 2.0 percent year on year in 2017, despite a slight rise in sales volume. The gross margin decreased by 1.8 percentage points, mainly due to negative currency effects. Mix effects and slightly lower cross-segment costs had only a minor influence on the development of the gross margin.

Year on year, functional costs fell by 2.4 percent net of currency effects (nominal: −3.5 percent). In the fourth quarter they even decreased by 9.8 percent net of currency effects (nominal: −12.4 percent), with approximately half of the decrease relating to cross-segment functional costs.

EBIT in the Africa, Asia and Australia segment was EUR 43.7 million (2016: EUR 42.1 million). The EBIT margin rose from 6.6 percent to 6.8 percent. In the fourth quarter, the EBIT margin was as high as 15.4 percent (fourth quarter 2016: 14.4 percent).

Thanks to the rise in EBIT and the reduction in the cost of capital, DVA for the Africa, Asia and Australia segment rose to EUR 18.5 million (2016: EUR 15.8 million). Capital costs fell by EUR 1.1 million, since average capital employed decreased by 4.3 percent to EUR 360.6 million.

Additional information on the medical and safety business

INFORMATION ON THE MEDICAL BUSINESS

					Twelve months
		2017	2016	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**1,683.7**	**1,662.6**	**+1.3**	**+2.6**
Europe	€ million	859.1	835.8	+2.8	+3.3
Americas	€ million	356.9	359.5	–0.7	+1.5
Africa, Asia, Australia	€ million	467.7	467.2	+0.1	+2.3
Net sales with third parties	**€ million**	**1,668.0**	**1,647.4**	**+1.3**	**+2.6**
Europe	€ million	842.9	829.2	+1.6	+2.1
Americas	€ million	358.6	353.5	+1.5	+3.7
Africa, Asia, Australia	€ million	466.5	464.7	+0.4	+2.5
EBIT [1, 2]	**€ million**	**92.9**	**85.3**	**+9.0**	
Research and development costs	€ million	161.2	156.1	+3.3	
EBIT [1] / net sales	%	5.6	5.2		

[1] EBIT = Earnings before net interest result and income taxes

[2] Business figures are determined on the basis of products' allocation to the medical business. Non-product-related costs, including costs for the headquarters, are distributed using a plan-based net sales formula.

INFORMATION ON THE SAFETY BUSINESS

					Twelve months
		2017	2016	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**931.0**	**876.1**	**+6.3**	**+7.7**
Europe	€ million	588.7	546.7	+7.7	+9.1
Americas	€ million	152.3	155.5	–2.0	–0.2
Africa, Asia, Australia	€ million	190.0	174.0	+9.2	+10.3
Net sales with third parties	**€ million**	**904.3**	**876.5**	**+3.2**	**+4.6**
Europe	€ million	572.6	555.0	+3.2	+4.5
Americas	€ million	151.8	150.3	+1.0	+2.9
Africa, Asia, Australia	€ million	180.0	171.2	+5.2	+6.2
EBIT [1, 2]	**€ million**	**62.8**	**51.6**	**+21.7**	
Research and development costs	€ million	73.5	62.9	+16.8	
EBIT [1] / net sales	%	6.9	5.9		

[1] EBIT = Earnings before net interest result and income taxes

[2] Business figures are determined on the basis of products' allocation to the safety business. Non-product-related costs, including costs for the headquarters, are distributed using a plan-based net sales formula.

Potential

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

Our risk and opportunity management system has two aims: To identify risks at an early stage and to systematically take advantage of opportunities. Dräger intends to utilize this approach to permanently increase the value of the company.

We regularly update our risk assessments, especially with regard to developments that could threaten the existence of the company. Dräger's risk and opportunity management comprises long-term as well as medium and short-term perspective.

Dräger takes relevant risks and opportunities into consideration in its strategic corporate planning. Together with knowledge of our strengths and weaknesses, it is the basis for the development of products and their market positioning.

In the following we discuss our risk management processes, our internal controls and risk management with regard to financial reporting, the evaluation of risks, the material risks we face, and opportunities and opportunity management. We will end the section with a SWOT analysis.

RECOGNIZING, MANAGING, AND REPORTING RISKS

An essential element of Dräger's risk management is the early identification of strategic and operating risks, determining the scope of these risks, and monitoring and managing them. The basis of our risk assessment system is strategic corporate planning: Our risk reporting process is integrated into the planning process and into the financial forecast. We specify potential uncertainties in our assumptions at the planning stage and report on both negative (risks) and positive (opportunities, see page 50 et seq.), deviations from the plan or from the financial forecast. All operating areas of the company report at least twice a year on risks and opportunities using specified criteria; Group Controlling then summarizes these at Group level. This risk reporting is complemented by ad-hoc reporting, so that Dräger can act upon material risks as quickly as possible. The risk committee supports the responsible risk owners, usually employees from the departments, in assessing and managing risks. The Risk Committee is the link between the Chief Risk Officer (CFO) and the departments. Its members are generally heads of departments or financial experts from the functions who have detailed knowledge of the departments and the company's risk situation. In addition, the Risk Committee is also tasked with improving the risk management system by monitoring it across all departments.

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

Thanks to the exchange of information on risks and opportunities between the respective process owners, and the Executive and Supervisory Board, countermeasures can be taken at short notice when required. The internal audit department and Supervisory Board are further participants, who monitor the effectiveness of risk management. As our early risk identification system is an element of our risk management system, it is also subject to the annual audit by an auditor.

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

DEFINITION AND ELEMENTS

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

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

The internal control system in the Dräger Group is supplemented by a risk management system. It comprises operational risk management and a systematic early-warning system for detecting business risks. In relation to the financial reporting process, risk management is also aimed at ensuring that the circumstances are presented correctly in the Group's accounts and external reports.

USE OF IT SYSTEMS

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

ESSENTIAL REGULATORY MEASURES AND CONTROLS

Our internal control system, the internal audit department, and the auditor of the financial statements check whether amounts reported in the balance sheet, income statement, and the statement of comprehensive income are recognized in the correct period and fully assigned, and whether the record contains reliable and traceable documentation regarding the business transactions. To do this, we clearly allocate responsibilities and control mechanisms, provide transparent accounting and reporting guidelines, and use highly reliable IT accounting systems in the Group companies. The consolidated financial statements, which are prepared monthly, always undergo comprehensive system checks. They are also checked by Controlling and compared with the plans and the latest financial forecast. The Dräger accounting policies are applied throughout the Group to ensure that all German and foreign subsidiaries consolidated in the Group financial statements use the same standard. These apply to general accounting policies, balance sheet, income statement, consolidated statement of comprehensive income and notes. We regularly update the accounting policies to comply with current EU legislation.

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

In our accounting systems we have separated administrative, executive, and authorization functions from each other by issuing different access profiles. This allows us to reduce the potential for fraudulent acts against the company by employees. Group accounting determines the scope of consolidation and the reporting packages prepared by Group companies. The Group companies and local auditors, who examine and comment on compliance with Dräger accounting policies, are provided with additional information, schedules, and deadlines for the financial statements at the latest by October of the reporting year. This ensures that the Group financial statements can be prepared in a timely manner and in accordance with all applicable reporting standards and laws. Our subsidiaries enter their local financial statements into the SAP SEM-BCS consolidation system, where validation rules guarantee a high degree of data quality. Subsidiaries send other reporting packages in electronic form to Group Accounting in Lübeck, where the data are reviewed on the basis of internal checklists and passed on to the auditor of the Group financial statements for final approval.

The treasury department is responsible for treasury management, secures the Group's liquidity and credit facilities, and monitors its interest and currency risks. The organizational structures and processes and the Group's internal treasury policy ensure transparency and security. Responsibilities for trading and completing financial transactions are separated. For example, the treasury back office reviews and approves all financial transactions that were traded in the treasury front office.

RISK ASSESSMENT

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

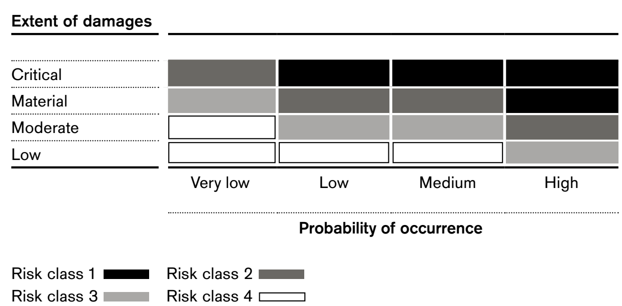
For the purposes of risk classification in the risk matrix, both the probability of occurrence and the potential extent of damages are taken into consideration. These factors are described in more detail in the following tables.

The due date for reported risks is December 31, 2017, whereby the risk assessment is based on the update to the internal risk report. While the earnings forecast period is one year, Dräger assesses quantitative risk over a period of two years.

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

↗ Please refer to charts "Risk matrix", "Key to probability of occurrence", "Key to extent of damages" and table "Material risks" on page 46

RISK MATRIX



KEY TO PROBABILITY OF OCCURRENCE

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

KEY TO EXTENT OF DAMAGES

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

RISKS CATEGORIES

MATERIAL RISKS

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

POLITICAL, FINANCIAL AND SOCIAL DEVELOPMENT

In 2017, according to the International Monetary Fund (IMF), the global economy grew 3.7 percent, which represented an upturn (2016: +3.2 percent): For 2018, the IMF forecasts growth of 3.9 percent.

A number of geopolitical developments put us at risk of not achieving our planned net sales goals. Economic policy that could lead to the isolation of national markets and a preference for local competitors is gaining traction in several countries. That includes the decision by the British to leave the European Union (Brexit), the political uncertainty emanating from the USA, and the increasing number of votes for populist parties in a number of European countries. Political tension in the Middle East, on the Korean peninsula, and in Turkey, as well as the possible further deterioration of Latin America's economic performance, could also dampen our growth. Low raw material prices and the lack of finance offerings in certain emerging markets, reductions in public sector budgets for medical and safety technology, particularly in Europe, and continuing strong competition could also have a negative effect on Dräger's net sales and margins.

Please refer to page 53 et seq. for more details on the overall economic outlook

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

Dräger operates in future-oriented industries with strong growth in which it can expect further consolidation processes that are likely to affect the structure and intensity of competition: Hospitals and other relevant customer groups are being consolidated or forming purchasing cooperatives, thereby pooling purchasing volumes and gaining increased market power. Large, diversified conglomerates among other primary competitors have strong market positions in certain segments and regions due to the wide range of products and services they offer. New competitors, particularly from Asia, are also a factor; the quality of their products has increased significantly over the past few years, meaning that they are now competing with Dräger in the lower and middle performance and price segment. Therefore, we must enhance our product portfolio, sales channels, and service offering in order to remain successful in these market segments over the long term. There is a certain risk that such developments could adversely affect net sales from products in higher performance and price segments (Risk class 1).

INFORMATION SECURITY AND IT RISKS

Information, and the processing of this information, plays a pivotal role in Dräger's business. Usually, strategic and operative functions and tasks are IT-supported. However, Dräger also processes information in other ways (paper, meetings). The loss, unavailability or misuse of information could cause serious problems for Dräger. A breakdown of IT systems caused by factors such as over-load or external hazards (such as a hacker attack) could compromise critical business processes and lead to temporary production shutdown, for instance. Reliable IT systems are therefore decisive.

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

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

PROCUREMENT AND LOGISTICS

Procurement risks at Dräger consist of supplier and material price risks in particular. We cooperate extensively with reliable and competent suppliers to minimize procurement risks for our current product portfolio and ensure they are on board for future products. As the level of vertical integration in its business model has been reduced to the necessary core technologies and the assembly of purchased parts and components, Dräger integrates suppliers into its internal processes. Strict quality standards apply to supplier selection and purchasing processes. Dräger has concluded binding price agreements with all of its strategic suppliers, which usually apply for a period of one year and guarantee planning security for a certain period of time.

In the case of components and modules for which our suppliers cease series production, we purchase the estimated number of components or modules required for the remaining product life cycle and store these components and modules, either with Dräger or with the supplier. In medical products, we analyze potential risks relating to purchased module components across multiple functions. In some cases, Dräger will purchase these from a single supplier. As module components are used in a number of Dräger products, bottlenecks in the supply of these parts can cause production to be interrupted for a certain period of time. There is currently a bottleneck in the market for electronic components, which could represent a future risk for us. In such cases, established crisis management processes – for example the deployment of a task force – are implemented to limit the effects. Possible interruptions to supply or the bankruptcy of suppliers could also lead to production outages and additional costs.

Also with regard to logistics, the goal of rapid, complete, high-quality, and timely delivery of products and accessories to our customers places high demands on our supply chain. Due to the continuing growth of our business and our cooperation with various logistics service providers, the possibility of temporary disruptions to our supply chain cannot be completely excluded (Risk class 2).

QUALITY

We apply the highest quality standards in our business. Despite extensive quality management processes across the entire value chain, there is a risk that individual products will not meet the applicable quality requirements. Quality issues can be caused by us or one of our suppliers. That could result in a loss of net sales and higher quality costs. As quality is highly relevant to our business, we have included an additional strategic quality risk in our report. However, our overall quality risks have not increased (risk class 2).

RESEARCH AND DEVELOPMENT

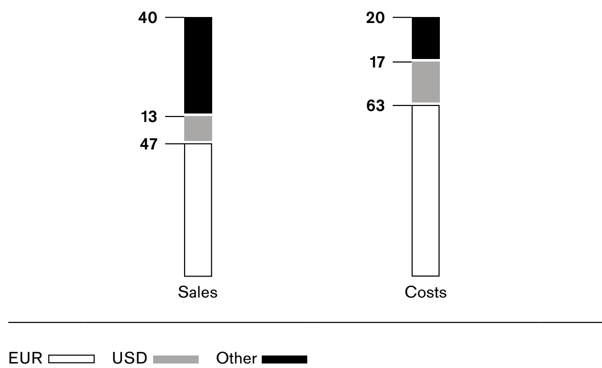
It is important for our profitability that our product portfolios are kept up to date. Experience has shown that new products are more profitable than products in a later phase of the product life cycle. This is why we want to continuously invest in research and development in order to keep the proportion of new products as high as possible or increase it, particularly in medical products. To achieve this, we must develop leading technological solutions and also products that appeal to the requirements of a broad section of the market. Regulatory and constantly increasing local standards mean the approval requirements for our products are becoming stricter. Risks may arise from factors such as the unexpectedly high complexity of development projects, delayed product launches, and changes in market requirements. Different requirements on the part of licensing authorities can also lead to delayed product launches (Risk class 1).

COMPLIANCE AND LEGAL

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

NET SALES AND COSTS BY CURRENCIES (2017)

in %



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

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

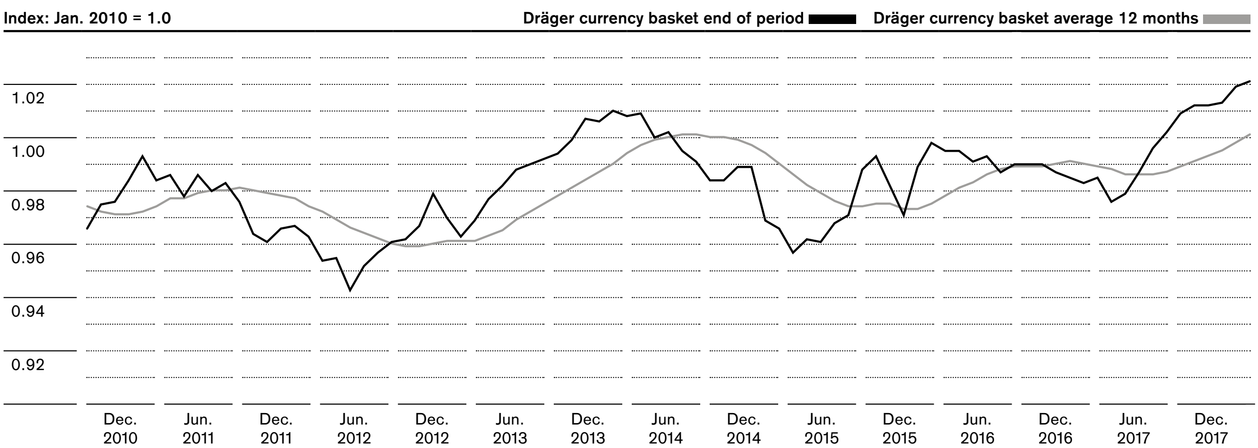
Please refer to the "Compliance" section of the Corporate Governance Report on page 59

Additional regulatory requirements and rising local standards result in greater expenses for product licensing. Further risks in relation to this arise from the ongoing renewal of necessary, but time-limited licensing certificates and national adjustments. Furthermore, there is also the possibility that, despite extensive quality management processes, licensing authorities auditing our products or processes do not consider the licensing requirements to have been met. In such cases, it is possible for licensing authorities to revoke the license, impose import bans on certain products or product areas or order installed devices to be changed. Dräger combats risks that arise in line with licensing requirements by adapting the respective organizational structures and processes in the product and quality management areas (Risk class 1).

CURRENCY RISKS

Dräger conducts its business in a variety of currencies whose exchange rates to the euro vary greatly. As a result, Dräger's payment flows are exposed to currency risks. In addition, changes in exchange rates when converting earnings not generated in euros into the Group's operating currency (euro) can have a major impact on Group earnings. Risks develop in particular due to the fact that products are manufactured and sold in different currencies and volumes: Significantly more than half of the costs at Dräger are incurred in euros, while the majority of net sales are generated in other currencies. The devaluation of the euro in 2012 had a positive impact on earnings, while the sustained increase in the euro's value in 2013 had a negative effect. Development throughout 2014 and 2015 was a mixed

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



bag. The effect of currency conversion in fiscal years 2016 and 2017 was negative.

↗ Please refer to charts “Net sales and costs by currency (2017)” on page 48 and “Development of the sales-weighted currency basket (weighted according to net sales)”

Currency risks are partially hedged at the group level using currency forwards. The hedging strategy is redefined on an annual basis. The planned net cash flows from foreign currencies for the following fiscal year are thereby hedged up to a maximum of 75 percent. Since the introduction of hedge accounting in fiscal year 2016, currency hedges are initially recognized directly in equity, until they are realized in the correct period together with the respective underlying transaction (Risk class 1).

RISKS FROM FINANCIAL INSTRUMENTS

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

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

The Dräger Group uses note loans with various residual terms of up to four years in order to reduce liquidity risk. As of December 31, 2017 we had bilateral credit lines of EUR 377.0 million to secure liquidity. They were renegotiated in 2017 and currently have terms until June 30, 2022. The framework agreement for the bilateral credit lines stipulates target values based on certain financial covenants. Should Dräger not comply with these, the banks are entitled to terminate the bilateral credit lines. The values have been specified so that we would only run the risk of being unable to meet them if our financial position was to deteriorate drastically. It is also possible for Dräger to obtain the banks’ approval to exceed or undercut these key figures at an early stage. We continuously monitor key financial performance figures.

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

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

Please refer to number 43 in the Notes to the Annual Financial Statements for details on the management of financial risks

RISKS OF RECEIVABLE LOSSES

In principle, Dräger is exposed to the risk of financial crises, political upheaval or other events leading to receivable losses or late payments. Significantly overdue receivables represent an increased default risk. The specific risk of significant receivable losses is very low. Specifically, such a risk of receivable losses currently exists in relation to our business activities in Saudi Arabia (risk class 2).

OTHER RISKS

The positive reputation of our brand is extremely important for the trust of our stakeholders, particularly our customers, in the company and our products. Damage to our reputation could have long-term negative implications for the success of the business. Customers, business partners, employees and other stakeholders share information and experiences on an increasing number of channels. This also increases the risk of negative information spreading more quickly and damaging our reputation. We have set up an early warning system and established a crisis communication policy to minimize this risk. By doing so, we want to counteract any potential damage to our reputation promptly and respond to criticism in a coordinated manner (risk class 2).

Recognizing, reporting, and taking advantage of opportunities

We observe opportunities within the scope of our strategic planning process, which involves identifying trends, determining strategic focuses, and defining measures. We thereby make use of our established planning tools, and our sales information and customer relationship management (CRM) systems. The potential use of these market opportunities also flows into our financial forecast.

Please refer to the “Organization and management system” section on page 19 et seq.

We also report on opportunities, along with risks, in the scope of our integrated risk reporting process, and information on opportunities is integrated into the consolidated risk report.

ACTIVITIES IN GROWTH MARKETS

The medical and safety markets in which Dräger operates are growth markets. Megatrends such as globalization, health, and the ever-expanding digital network foster this growth. Mobilization of our strengths creates numerous opportunities. For example, we use the basis of installed Dräger equipment in order to expand our service and accessories business. And thanks to our constant drive for innovation, we are able to continuously optimize our range of products.

Please refer to the “Trends with an influence on our business performance” section on page 29

Three global developments currently result in opportunities for Dräger:

- Increasing and aging population: Structural changes and increasing life expectancy are causing rising demand for medical products in many industrialized countries and a number of emerging markets. Population growth in many countries all over the world is also boosting demand for good medical care.
- Growing affluence in emerging markets: Increasing incomes in emerging markets are coupled with higher standards of healthcare and workplace safety. Our broad product portfolio in the appropriate segments and our market presence put us in a good position to benefit from these effects.
- Growing importance of system business: The growing extent of digital networking is increasing the requirements that devices must fulfill in use. Networked equipment in hospitals supports both medical and administrative processes. The secure, real-time data transfer of safety-related data is also becoming increasingly important in industrial markets. Holistic therapeutic processes and the associated focus on treatment results from both a

SWOT ANALYSIS DRÄGER GROUP

Company-specific

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

Market / sector-specific

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

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

clinical and economic perspective are important goals of our customers worldwide. Our therapeutic devices and solutions, such as the "Babyleo TN 500," which protects the smallest patients from heat loss, among other things, help hospitals to achieve those goals.

HIGH BARRIERS TO MARKET ENTRY FOR COMPETITORS

There continue to be high barriers to market entry in both the medical and safety technology sectors: Approval requirements through government regulation, complex and often patented technologies, as well as the fact that many customers continue to prefer tried-and-tested solutions. These barriers give Dräger, an established provider, freedom to achieve stable customer relationships.

LEADING MARKET POSITIONS
Dräger considers itself one of the global market leaders in many market segments and product groups. Its comprehensive technological expertise, high product quality, competent and committed employees, and long-term customer relationships put it in a strong position to further increase its market share. We are thereby focused on attractive segments which, in our view, offer promising opportunities in terms earnings and growth. We are also developing new products for new markets. We use our leading market position to place new products and services in established markets and successfully defend the market positions of established products.

EXPANSION OF THE SERVICE AND ACCESSORIES BUSINESS
We are striving to increase the share of net sales we generate in our cutting-edge service and accessories business. To achieve that goal we are improving customer service after the purchase of a device by offering additional services, accessories, and consumables. Here, we benefit from the large number of Dräger devices already in use around the world.

PROJECT BUSINESS
In the hospital business, an increasing number of opportunities are emerging from so-called turnkey projects, in which finished hospital departments are realized together with all medical equipment. As a supplier of important medical devices, systems, and components, Dräger can participate in this development in selected countries with its turnkey partners. There are also increasingly opportunities for the overall management of medical technology from all manufacturers in one or more hospitals, including in the scope of so-called pay-per-use models.

As a global player in the industrial sector, we have a great number of opportunities to become involved in major oil, gas, chemical, and mining projects and thereby contribute to sustained, positive business development. Particularly in the Middle East, projects in oil and gas extraction with high requirements in terms of safety technology are being launched. We also see global opportunities to acquire new projects for the construction of training systems for emergency responders.

CHANGES TO THE PRODUCT PORTFOLIO
Changes to the product portfolio come with both risks and rewards. We want to increase the number of new products and thereby sustainably increase our profitability. At the same time, we are working towards the optimization of our product portfolio in order to meet demand, particularly from emerging markets.

SYNERGY EFFECTS AND PLATFORM STRATEGY
Synergy effects also result in opportunities. We can take particular advantage of synergies at our sales and service companies, for example through shared administrative units. In terms of procurement, we want to achieve even more favorable purchasing conditions through Group-wide processes, for example with regard to fleet and travel management.

We are also striving to further reduce material costs through our platform strategy, which refers to the use of common components in different models.

The preparation and execution of customer orders at Dräger is supported by a customer relationship management (CRM) system. That strengthens the link between marketing, sales, and service to achieve comprehensive customer service. In the past fiscal year we implemented further measures to integrate customer and partner management via specialist retailers, giving Dräger access to more networked information as a basis for successful customer acquisition and service.

DEVELOPMENT OF THE MACROECONOMIC SITUATION AND EXCHANGE RATES
Macroeconomic development and fluctuating exchange rates can bring both risks and rewards. The positive development of the described factors can also result in advantages.

Please also refer to section “Currency risk” on page 48 et seq.

Overall assessment of risks and opportunities

Overall, the most significant risks in Dräger’s risk portfolio are risks resulting from economic and political developments in some regions, currency risks, and regulatory risks. We reduce these risks by means of regional management and diversification of our product and service offering. We also limit performance risks from the completion of orders through good diversification strategies. However, risks around the topic of information security are constantly increasing, as are general requirements for software solutions in development, which can have a negative effect on project timelines.

Overall, the risks facing the Dräger Group were addressed appropriately. In particular, the existence of the company as a going concern is not at risk on the basis of currently known factors. In Dräger's view, the number of opportunities outweighs the number of risks, especially the opportunities resulting from demographic changes, developments in emerging markets, and the future importance of system business. As a result, the outlook for the future is optimistic.

↗ Please refer to chart "SWOT analysis – Dräger Group" on page 51

Outlook

FUTURE MARKET ENVIRONMENT

The International Monetary Fund (IMF) successively upgraded its global economic growth forecast over the course of the year. Based on the most recently published forecast from early 2018, growth of 3.7 percent in 2017 was significantly higher than in the prior year (2016: 3.2 percent). The global upturn increased over the course of 2017, and while it was driven by the industrialized countries in particular, the economic growth prospects have also improved in the emerging markets. In the current year, the IMF expects the global economy to grow slightly faster, by 3.9 percent, and to maintain that rate of growth in 2019.

↗ Please refer to table "IMF January 2018 Gross domestic product (GDP) growth forecast"

IMF JANUARY 2018 GROSS DOMESTIC PRODUCT (GDP) GROWTH FORECAST

in %	2017	2018	2019
Global economy	3.7	3.9	3.9
USA	2.3	2.7	2.5
Eurozone	2.4	2.2	2.0
Germany	2.5	2.3	2.0
China	6.8	6.6	6.4

Source: International Monetary Fund (IMF)

The stronger expansion of the global economy, after several years of disappointing growth, was driven by parallel development in the important economies. In the view of the IMF, this cyclical recovery offers the opportunity for important structural reforms. Multilateral cooperation thereby remains decisive to safeguarding the global recovery. That is because, according to the IMF, the medium-term opportunity and risk profile for the global economy is still negative. The IMF considers a potential rapid and pronounced tightening of the global financial environment and market turbulence as risks to growth. Inward-looking policy could also further exacerbate protectionist tendencies. Global trade restrictions would have a negative impact on global economic activity. Furthermore, the risk of geopolitical tensions remains high.

According to the Bundesbank, the German economy will continue its strong upturn. Foreign demand remains brisk and the growth in commercial investment continues. Private consumption and investment in residential construction profited from the outstanding situation in the employment market, the Bundesbank noted. In the view of the Bundesbank, in 2017 the German economy grew by approximately 2.6 percent and it expects growth of 2.5 percent in 2018, with both figures significantly higher than forecast in mid-2017.

FUTURE MARKET AND SEGMENT SITUATION

Europe segment

In the Europe segment, we expect positive growth overall in the relevant industries in 2018, resulting in good business opportunities. There is continued uncertainty about the effects of Brexit. In Southern Europe, medical products depend strongly on public spending, and will therefore continue to be affected by pressure to save in 2018. We consider the opportunities in Central Europe to be positive, despite the existing costs pressures. In Northern Europe, the focus in 2018 will be on the modernization and new construction of hospitals. Russia is planning to invest more strongly in medical products in 2018. However the policy of import substitution limits the sales opportunities of foreign manufacturers of medical products.

Safety technology markets are also likely to develop positively in the Europe segment. We continue to see strong impetus in the chemical industry for 2018, following a good year in 2017. According to our assessment, sales in the fire service market will continue to be limited to replacement and expansion investment, due to budget pressure. We expect stable, high demand for safety technology products in the application-oriented markets in Europe.

Americas segment

In the Americas segment we expect positive overall development in the industries of relevance to us. However, there will be differences between North and South America. The healthcare market in the USA should offer strong business opportunities in the coming year, despite ongoing uncertainty regarding health reform. Public and private health spending will continue to rise constantly in Canada. According to our information, the situation in Central and South America will be heterogeneous. The significant political uncertainty in Brazil will continue in 2018. The market for medical technology there will also continue to be determined by efficiency measures. In Mexico in 2018, chronic illnesses, an aging population, higher numbers of individuals insured by the public system, and the emergence of private health insurance will further strengthen demand for healthcare services.

In North America the market for safety products is expected to develop positively: for example, the outlook in the chemical industry is very good. Demand in the oil and gas industry in the USA will also continue to grow in 2018. According to our information, the fire service market will keep pace with overall economic development. In Central and South America, as with medical products, the market for safety products will be determined by uncertainty regarding the development of the major economies. Mexico's development in 2018 depends on the future of NAFTA, with negotiations currently proceeding slowly. The chemical industry will be characterized by investment in expansion and modernization. While Brazil is an important location for mining, it is unattractive to investors because the licensing process remains protracted and there are strict environmental regulations. However, investment in the oil and gas industry in Brazil will increase significantly in 2018, as will its competitiveness. That makes this sector one of the few with clear prospects of growth.

Africa, Asia and Australia segment

In the Africa, Asia and Australia segment, we expect positive development in the relevant industries in 2018. According to our information, the market for medical products in this segment will develop positively. The current growth phase will largely continue in the Chinese health sector, for example. However it will remain a challenging environment for foreign companies. Demand for medical products is currently growing rapidly in India, and that trend is likely to continue in 2018 as a whole. That benefits foreign manufacturers as there is a high level of dependence on imports. Japan's aging population ensures demand for technical, innovative solutions, which is why, according to our information, the Japanese market for medical products will develop positively. The outlook for the Australian market for medical products suggests stable growth in 2018. In the Middle East and Africa, there could be opportunities for medical products in countries with a wide range of different starting conditions and a great deal of pent-up demand, such as Egypt. Here the expansion of the public health system and three planned private "medical cities" mean we expect further high demand for medical products.

We also see good development opportunities for safety products in this segment. In China the upward trend in the price of oil and the strong overall economic situation should generate significant impetus for growth in the chemical industry. There are also major opportunities for the development of the chemical industry in India. However, technological deficits, the scarcity of raw materials, an opaque and complicated tax system, and insufficient infrastructure all represent limits to progress there. The development of the oil and gas industry in the Middle East will be determined by the OPEC agreement to limit oil production in 2018. The expansion of gas production will therefore be prioritized. Demand for Australian raw materials will increase in 2018 and the outlook for the Australian chemical industry indicates opportunities for growth in the current year. According to our information, that will result in good opportunities for safety products.

FUTURE SITUATION OF THE COMPANY

The following table provides an overview of the expectations regarding the development of various forecast figures. The forecast horizon is one fiscal year.

↗ Please refer to table "Expectations for fiscal year 2018" on page 55

Against the backdrop of the improved environment in the global economy and the further strengthening of our global sales and service network, we expect a slight increase in the development of net sales during the fiscal year. Net of currency effects, we predict net sales growth in the range of 2.0

EXPECTATIONS FOR FISCAL YEAR 2018

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

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

to 5.0 percent. That expectation is also supported by the high number of orders on hand at the start of the new fiscal year.

Based on exchange rates at the start of 2018, we expect currency effects to have a negative effect on earnings. Our EBIT will also be negatively impacted by higher investments in research and development and the strengthening of our global sales and service network in 2018. We also plan a year-on-year increase in IT expenses. These investments will strengthen the future net sales and profitability of our company and ensure that it remains competitive. In this environment, we expect an EBIT margin of between 4.0 and 6.0 percent.

We expect Dräger Value Added (DVA) of between EUR 15 million and EUR 65 million in fiscal year 2018. That assumes an unchanged calculated cost of capital of 7.0 percent.

In 2018, we expect our gross margin to be largely stable, in a range between 44.0 and 46.0 percent.

We plan to invest more in the future sustainability of our company in 2018. Our expenditure on research and development will therefore be higher than in the prior year. We plan to launch a total of approximately 20 new products or upgrades in medical technology and approximately 15 new products or upgrades in safety technology.

Assuming interest rates remain stable or increase slightly, our interest result should improve slightly in 2018.

Following a significant reduction in days working capital in fiscal year 2017, we expect this key figure to remain stable in 2018.

Our investment volume should be in the range between EUR 85 and EUR 100 million.

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

DRÄGER MANAGEMENT ESTIMATE

The global economy became significantly more dynamic in 2017. The industrialized economies, in particular, contributed to that development, while the prospects of the emerging markets also improved. However, there are also significant risks to the current synchronized economic environment. The increase in populist movements and protectionist tendencies in some countries represents a risk for the further development of global trade and the growth of the global economy. There are also other geopolitical risks.

Our medical and safety technology markets remain growth markets worldwide. To be successful, we must remain competitive. That is why we will work to strengthen our capacity for innovation, in particular, and expand our global sales and service network in 2018. Not least, we thereby plan to consistently utilize international sales opportunities and strengthen our market position.

Corporate Governance Report

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

Dräger attaches great importance to corporate governance. To underline that, the German Corporate Governance Code, which is actually oriented towards stock corporations, is applied at Drägerwerk AG & Co. KGaA. Our corporate governance report describes the features of the management and control structure at Drägerwerk AG & Co. KGaA as well as the significant rights of our shareholders, and explains the special features compared to a stock corporation.

PARTNERSHIP LIMITED BY SHARES

"A partnership limited by shares (KGaA) is a company with a separate legal personality where at least one partner is fully liable to the company's creditors (general partner) and the remaining shareholders have a financial interest in the capital stock, which is divided into shares, without being personally liable for the company's liabilities (limited shareholders)" – according to Sec. 278 (1) AktG. Hence, a partnership limited by shares is a hybrid between a stock corporation and a limited partnership, with the character of a stock corporation predominating. As is the case at a stock corporation, a partnership limited by shares also has a two-tier management and oversight structure by law. The general partner manages the company and its operations, while the supervisory board oversees the company's management. The primary difference to a stock corporation is that, on the one hand, rather than an executive board a KGaA has general partners represented by the executive board (who also generally manage its business) and, on the other, the rights and responsibilities of the supervisory board are limited. In a stock corporation the executive board is appointed by the supervisory board, while in a KGaA it does not appoint the general partner (or their management bodies) and does not determine their contractual conditions. It is also not authorized to adopt rules of procedure for management or to define a catalog of management transactions requiring approval. There are also differences relating to the annual shareholders' meeting: Certain resolutions must be approved by the general partner (Sec. 285 [2] AktG), in particular the resolution to approve the financial statements (Sec. 286 [1] AktG). Many of the recommendations of the German Corporate Governance Code (hereinafter also referred to as the "Code"), which is designed for stock corporations, can therefore only be applied to a limited extent to a partnership limited by shares.

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

↗ Please refer to chart "Drägerwerk AG & Co. KGaA" on page 57

DECLARATION OF CONFORMITY

The joint declaration of conformity by the general partner and the Supervisory Board of Drägerwerk AG & Co. KGaA was discussed and approved in the meeting of the Supervisory Board on December 14, 2017. It states that the company applied the recommendations of the Government Commission of the German Corporate Governance Code in all areas.

The declaration was published on December 19, 2017, with the following wording:

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

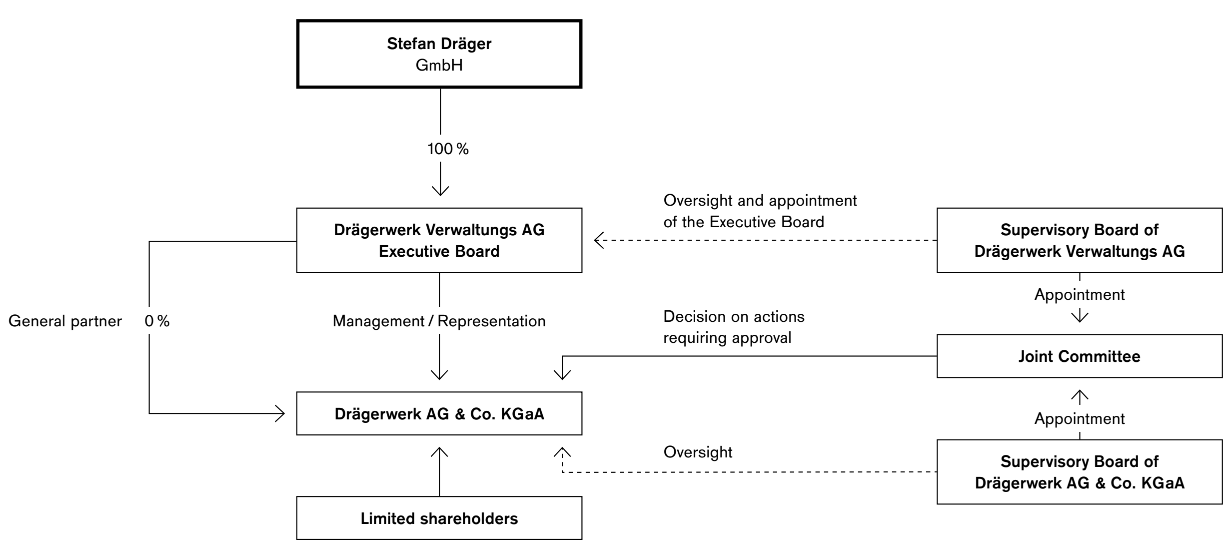
The general partner, represented by its Executive Board, and the Supervisory Board declare that Drägerwerk AG & Co. KGaA acted on the recommendations of the German Corporate Governance Code Government Commission as amended on May 5, 2015 from the date of the issue of its previous declaration of conformity on December 19, 2016 to April 23, 2017, and, since April 24, 2017, has acted and will continue to act on the recommendations as amended on February 7, 2017."

OVERSIGHT BODIES

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

Pursuant to Sec. 22 of the company's articles of association, Drägerwerk AG & Co. KGaA has set up a Joint Committee as a voluntary, additional body. It comprises eight members:

DRÄGERWERK AG & CO. KGAA



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

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

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

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

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

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

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

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

MANAGEMENT

As general partner, Drägerwerk Verwaltungs AG manages the business of Drägerwerk AG & Co. KGaA.

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

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

RELATIONSHIP TO SHAREHOLDERS

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

In addition, Dräger reports to its shareholders on business performance, net assets, financial position, and results of operations in two quarterly reports, in its half-yearly financial report, and in the annual report.

COMPLIANCE

Dräger has stood for "Technology for Life" for over 125 years. The highest degree of professionalism and reliability also determine Dräger's conduct and values. The company's Principles of Business and Conduct provide the framework for this. They are supplemented with business-specific rules, such as on the topics of corruption, antitrust law or conflicts of interest, which are regularly updated to avoid risk in these areas. Our corporate compliance system is an essential element that helps us meet our high standards. For example, it sets out the principles for our global compliance organization, which are fleshed out with appropriate management and further development measures, as well as training concepts.

We encourage our employees to actively engage in discussions with their managers and colleagues on the subject of "compliance and integrity," and to voice their concerns. Along with advice from our compliance experts, employees can also report any concerns relating to specific business practices by telephone via the Dräger Compliance Hotline – anonymously if they wish. As in the prior year, in 2017 additional compliance experts were appointed globally to ensure that advice is tailored to the local markets while remaining within the guidelines of the corporate compliance system. The members of our global compliance organization are in constant contact with each other. In 2017 they met at headquarters in Lübeck to ensure that their knowledge around the topic of compliance is up to date and to further improve their networking.

Please refer to our Sustainability Report for further details on our corporate compliance system

Remuneration report

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

EXECUTIVE BOARD REMUNERATION

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

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

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

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

To take account of one of the central challenges facing the Executive Board area of responsibility Innovation, a multi-year bonus with two primary goals relating to future business development in certain product areas in medical technology for the period 2019 to 2025 was added to the Executive Board remuneration of Mr. Anton Schrofner. The first primary goal relates to a timely product launch in the period from 2020 to 2022 and carries a bonus of up to EUR 700 thousand. The second primary goal relates to the earnings contributions of certain product areas in medical technology for the period from 2019 to 2025 and carries a bonus of up to EUR 1.4 million. The bonuses will not be paid until the end of the reference period in 2025. No other individual goals have been agreed with the Executive Board and members of the top level of management.

CONTRACTS AND RESPONSIBILITIES

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

By resolution of the Supervisory Board of Drägerwerk Verwaltungs AG on December 13, 2017, Rainer Klug's appointment as a member of the Executive Board was extended by five years, effective August 1, 2018. Dr. Reiner Piske and Anton Schrofner were also appointed as members of the Executive Board for an additional five years, effective November 1, 2018 and September 1, 2018 respectively.

DRÄGER VALUE ADDED AS A KEY MANAGEMENT FIGURE

Since 2010, Dräger has geared the management of the company towards a long-term, sustainable increase in company value. We introduced the company-related key figure Dräger Value Added (DVA) as a key performance indicator to measure this. DVA is the result of EBIT in the last twelve months less calculated cost of capital (basis: average capital employed in the last twelve months). DVA management has been integrated into all relevant management processes. The maxim of value added is particularly important for the definition of strategies, planning, regular reporting and when making investment and business decisions. Consequently, performance-related variable remuneration of the Dräger management also primarily reflects DVA. Dräger has adjusted the existing management and Executive Board remuneration systems accordingly by setting all quantitative targets so as to have a direct and positive impact on DVA or operating cash flow. That generally ensures that the variable remuneration of the Executive Board and all other TMI participants is based on the success of Dräger as a whole or in the respective regions or countries.

REMUNERATION STRUCTURE

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

Since fiscal year 2015, monetary remuneration comprises three components: (i) fixed annual remuneration, (ii) an annual bonus based on the annual DVA target and a KPI-based annual bonus and (iii) a long-term bonus based on DVA development over a three-year period. The DVA-based bonus therefore represents the core component of variable remuneration for all Executive Board members. Upper limits are defined for all remuneration components, ensuring that the absolute value of the remuneration is limited. A future-oriented long-term measurement limit applies to the majority of variable salary components.

- **Fixed remuneration** is paid as a monthly salary. The fixed remuneration of existing Executive Board members was determined upon their appointments or at the time their contracts were extended and has remained unchanged since.
- Of the **variable target remuneration,** 50 percent comprises an **annual bonus** and 50 percent a **long-term bonus.**
- In turn, half of the **annual bonus** is based on a **DVA target** and the other half on one or more **KPI targets.** Both targets are defined every year by the Supervisory Board. Target achievement of 0 to 200 percent is possible for the annual bonus and its component targets.
- The **DVA target** is at least EUR 50 million for 100 percent target achievement; in the case of 200 percent target achievement, the target is at least EUR 50 million above the 100 percent DVA target. If DVA is negative, there is no bonus payment for the DVA target.
- For 2017, **KPI targets** were based on three component targets: (i) achievement of the cost targets set for 2017, (ii) achievement of sales goals for selected new products, and (iii) expansion of global business with customers in the area of monitoring.
- The **long-term bonus** is based on the cumulative achievement of DVA targets set by the Supervisory Board for the fiscal years 2015, 2016, and 2017. For the long-term bonus, target achievement of 0 percent to a maximum of 300 percent is possible.

The aforementioned remuneration system, including its long-term bonuses, takes full effect from this fiscal year. The variable remuneration is restricted to 250 percent of the variable target remuneration.

The variable remuneration target system also forms the basis for roughly 200 managers at the company. Remuneration is primarily based on the achievement of one-year DVA and KPI targets and only to a lesser extent on the defined DVA target of the three-year period. From 2017, this variable remuneration system will also be applied to approximately 450 employees not covered by the collective agreement on wages and salaries for the first time. The aforementioned one-year targets are the sole basis for this, with no medium-term components included in the system.

EMPLOYEE SHARE PROGRAM

The employee share program, offered for the first time in 2013, was once again offered by Dräger in fiscal year 2017. Four Executive Board members of Drägerwerk Verwaltungs AG took part in the employee share program. One Executive Board member purchased 13 sets and three Executive Board members purchased 20 sets, each consisting of three shares, at a price of EUR 69.60 per share using their own funds. For every three preferred shares, participants received one preferred share worth EUR 69.60 on the date of entry free of charge from Dräger. The holding period for these preferred shares – including those that participants acquired themselves – runs until December 31, 2019. This is reported in the tables as share-based remuneration.

ADDITIONAL BENEFITS AND REMUNERATION COMPONENTS

Additional benefits, which Executive Board members receive in addition to the aforementioned remuneration, include contributions for pension, care and health insurance premiums, and preventative health care as well as a company car for business and private use. The use of the company car is calculated using the 1 percent method plus the benefit for trips between home address and place of

EXECUTIVE BOARD REMUNERATION – GRANTED ALLOCATIONS

in €	2016	2017	2017 Minimum	2017 Maximum
Stefan Dräger, Chairman of the Executive Board since March 1, 2005				
Fixed remuneration	600,000	600,000	600,000	600,000
Additional benefits	11,129	11,738	11,738	11,738
Total fixed remuneration	**611,129**	**611,738**	**611,738**	**611,738**
One-year variable remuneration	1,400,000	650,738	–	1,400,000
Share-based remuneration	633	1,392	1,392	1,392
Long-term variable remuneration	–	290,246	–	2,100,000
Long-term success bonus	–	–	–	–
Total fixed and variable remuneration	**2,011,762**	**1,554,114**	**613,130**	**4,113,130**
Service costs	125,167	175,241	175,241	175,241
Total remuneration	**2,136,929**	**1,729,355**	**788,371**	**4,288,371**
Gert-Hartwig Lescow Finance and IT since April 1, 2008				
Fixed remuneration	400,000	450,000	450,000	450,000
Additional benefits	22,679	23,749	23,749	23,749
Total fixed remuneration	**422,679**	**473,749**	**473,749**	**473,749**
One-year variable remuneration	700,000	371,850	–	800,000
Share-based remuneration	633	1,392	1,392	1,392
Long-term variable remuneration	–	165,855	–	1,200,000
Long-term success bonus	–	–	–	–
Total fixed and variable remuneration	**1,123,312**	**1,012,847**	**475,141**	**2,475,141**
Service costs	84,706	136,619	136,619	136,619
Total remuneration	**1,208,018**	**1,149,466**	**611,760**	**2,611,760**
Anton Schrofner Innovation since September 1, 2010				
Fixed remuneration	400,000	400,000	400,000	400,000
Additional benefits	44,623	55,703	55,703	55,703
Total fixed remuneration	**444,623**	**455,703**	**455,703**	**455,703**
One-year variable remuneration	700,000	325,369	–	700,000
Share-based remuneration	–	–	–	–
Long-term variable remuneration	–	145,123	–	1,050,000
Long-term success bonus	–	–	–	2,100,000
Total fixed and variable remuneration	**1,144,623**	**926,195**	**455,703**	**4,305,703**
Service costs	27,508	30,663	30,663	30,663
Total remuneration	**1,172,131**	**956,858**	**486,366**	**4,336,366**

work, and taxed individually. The Executive Board members are responsible for paying the incurred payroll tax. The company has also taken out group accident insurance for Executive Board members and pays the premium for the Directors & Officers Insurance (D&O) for members of the Executive Board; these policies do not constitute part of the Executive Board's remuneration. The financial loss liability insurance includes a deductible, which has been

EXECUTIVE BOARD REMUNERATION – GRANTED ALLOCATIONS (CONTINUED)

in €	2016	2017	2017 Minimum	2017 Maximum
Rainer Klug Purchasing, Production and Logistics since August 1, 2015				
Fixed remuneration	400,000	400,000	400,000	400,000
Additional benefits	25,079	28,340	28,340	28,340
Total fixed remuneration	**425,079**	**428,340**	**428,340**	**428,340**
One-year variable remuneration	700,000	325,369	–	700,000
Share-based remuneration	633	1,392	1,392	1,392
Long-term variable remuneration	–	240,506	–	1,050,000
Long-term success bonus	–	–	–	–
Total fixed and variable remuneration	**1,125,713**	**995,607**	**429,732**	**2,179,732**
Service costs	29,840	32,908	32,908	32,908
Total remuneration	**1,155,553**	**1,028,515**	**462,640**	**2,212,640**
Dr. Reiner Piske HR since November 1, 2015				
Fixed remuneration	300,000	300,000	300,000	300,000
Additional benefits	26,009	26,214	26,214	26,214
Total fixed remuneration	**326,009**	**326,214**	**326,214**	**326,214**
One-year variable remuneration	600,000	278,888	–	600,000
Share-based remuneration	633	905	905	905
Long-term variable remuneration	–	259,009	–	900,000
Long-term success bonus	–	–	–	–
Total fixed and variable remuneration	**926,642**	**865,015**	**327,118**	**1,827,118**
Service costs	22,695	25,285	25,285	25,285
Total remuneration	**949,337**	**890,300**	**352,403**	**1,852,403**

set since 2010 at one-and-a-half times the amount of gross fixed annual remuneration in accordance with Sec. 93 (2) Sentence 3 German Stock Corporation Act (AktG).

REMUNERATION TABLES

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

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

For Executive Board members Rainer Klug and Dr. Reiner Piske, the long-term bonus is awarded on a pro rata basis according to the period of their Executive Board membership.

↗ Please refer to the tables "Executive Board remuneration – Granted allocations", "Executive Board remuneration – Contribution and Executive Board remuneration – DRS 17" on page 64 et seq.

SEVERANCE PAYMENTS REGULATIONS

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

EXECUTIVE BOARD REMUNERATION – CONTRIBUTION

in €	2017	2016
Stefan Dräger, Chairman of the Executive Board since March 1, 2005		
Fixed remuneration	600,000	600,000
Additional benefits	11,738	11,129
Total	**611,738**	**611,129**
One-year variable remuneration	1,359,890	–
Share-based remuneration	1,392	633
Long-term variable remuneration	–	–
Total variable remuneration	**1,361,282**	**633**
Pension cost	175,241	125,167
Total remuneration	**2,148,261**	**736,929**

	2017	2016
Gert-Hartwig Lescow Finance and IT since April 1, 2008		
Fixed remuneration	450,000	400,000
Additional benefits	23,749	22,679
Total	**473,749**	**422,679**
One-year variable remuneration	679,945	348,600
Share-based remuneration	1,392	633
Long-term variable remuneration	–	–
Total variable remuneration	**681,337**	**349,233**
Pension cost	136,619	84,706
Total remuneration	**1,291,705**	**856,618**

Anton Schrofner Innovation since September 1, 2010		
Fixed remuneration	400,000	400,000
Additional benefits	55,703	44,623
Total	**455,703**	**444,623**
One-year variable remuneration	679,945	348,600
Share-based remuneration	–	–
Long-term variable remuneration	–	–
Total variable remuneration	**679,945**	**348,600**
Pension cost	30,663	27,508
Total remuneration	**1,166,311**	**820,731**

Rainer Klug Purchasing, Production and Logistics since August 1, 2015		
Fixed remuneration	400,000	400,000
Additional benefits	28,340	25,079
Total	**428,340**	**425,079**
One-year variable remuneration	679,945	145,250
Share-based remuneration	1,392	633
Long-term variable remuneration	–	–
Total variable remuneration	**681,337**	**145,883**
Pension cost	32,908	29,840
Total remuneration	**1,142,585**	**600,803**

Dr. Reiner Piske HR since November 1, 2015		
Fixed remuneration	300,000	300,000
Additional benefits	26,214	26,009
Total	**326,214**	**326,009**
One-year variable remuneration	582,810	49,800
Share-based remuneration	905	633
Long-term variable remuneration	–	–
Total variable remuneration	**583,715**	**50,433**
Pension cost	25,285	22,695
Total remuneration	**935,213**	**399,137**

THIRD-PARTY PAYMENTS AND CLAIM REIMBURSEMENTS

In the fiscal year, no payments were made or promised by a third party to any member of the Executive Board in relation to duties as member of the Executive Board. If Executive Board remuneration is paid by Drägerwerk Verwaltungs AG, it is entitled to claim reimbursement from Drägerwerk AG & Co. KGaA monthly pursuant to Sec. 11 (1) and (3) of the articles of association of Drägerwerk AG & Co. KGaA. Pursuant to Sec. 11 (4) of the company's articles of association, the general partner receives a fee, independent of profit and loss, of 6 percent of the equity disclosed in its financial statements, payable one week after the general partner prepares its financial statements, for the management of the company, and the assumption of personal liability. For fiscal year 2016, this remuneration amounted to EUR 93,797.94 (2016: EUR 90,195.28) plus any incurred VAT.

DEFINED BENEFIT PLANS

Obligations to the Executive Board members from the pension plan remain unchanged at Drägerwerk AG & Co. KGaA pursuant to the terms and conditions of individual

EXECUTIVE BOARD REMUNERATION – DRS 17

in €	2017	2016
Stefan Dräger, Chairman of the Executive Board since March 1, 2005		
Fixed remuneration	600,000	600,000
Additional benefits	11,738	11,129
Total	**611,738**	**611,129**
One-year variable remuneration	647,658	1,360,170
Long-term variable remuneration	290,246	–
Share-based remuneration	1,392	633
Total variable remuneration	**939,296**	**1,360,803**
Total remuneration	**1,551,034**	**1,971,932**
Anton Schrofner Innovation since September 1, 2010		
Fixed remuneration	400,000	400,000
Additional benefits	55,703	44,623
Total	**455,703**	**444,623**
One-year variable remuneration	323,829	680,085
Long-term variable remuneration	145,123	–
Share-based remuneration	–	–
Total variable remuneration	**468,952**	**680,085**
Total remuneration	**924,655**	**1,124,708**
Dr. Reiner Piske HR since November 1, 2015		
Fixed remuneration	300,000	300,000
Additional benefits	26,214	26,009
Total	**326,214**	**326,009**
One-year variable remuneration	277,568	583,930
Long-term variable remuneration	259,009	–
Share-based remuneration	905	633
Total variable remuneration	**537,482**	**584,563**
Total remuneration	**863,695**	**910,572**

	2017	2016
Gert-Hartwig Lescow Finance and IT since April 1, 2008		
Fixed remuneration	450,000	400,000
Additional benefits	23,749	22,679
Total	**473,749**	**422,679**
One-year variable remuneration	370,310	680,085
Long-term variable remuneration	165,855	–
Share-based remuneration	1,392	633
Total variable remuneration	**537,557**	**680,718**
Total remuneration	**1,011,307**	**1,103,397**
Rainer Klug Purchasing, Production and Logistics since August 1, 2015		
Fixed remuneration	400,000	400,000
Additional benefits	28,340	25,079
Total	**428,340**	**425,079**
One-year variable remuneration	323,829	680,902
Long-term variable remuneration	240,506	–
Share-based remuneration	1,392	633
Total variable remuneration	**565,727**	**681,535**
Total remuneration	**994,067**	**1,106,614**

contracts. The pension entitlements of Executive Board members are agreed on the basis of performance. Defined benefit plans for members of the Executive Board are performance-based and are agreed individually, based on “Führungskräfteversorgung 2005”, which has been in effect within the Group since January 1, 2006.

The defined benefits under the pension plans offered to the members of the Executive Board are based on the basic annual salary and years of service on the Executive Board. It is calculated on the basis of an annual contribution of up to 15 percent of the basic annual salary. Under the deferred compensation option, an additional annual contribution of up to 20 percent of the basic annual remuneration is possible. These personal contributions were as follows in the fiscal year 2017: Stefan Dräger: EUR 120,000 (2016: EUR 120,000); Gert-Hartwig Lescow: EUR 90,000 (2016: EUR 36,000); and Dr. Reiner Piske: EUR 6,000 (2016: EUR 9,000). In years in which the Group EBIT margin exceeds 5 percent of net sales, Stefan Dräger receives a further contribution of 50 percent on deferred compensation, but no more than 8 percent of his basic annual salary. Gert-Hartwig Lescow also receives a further contribution which is just as high as his deferred compensation but no more than 5 percent of his basic annual salary.

PENSION OBLIGATIONS FOR ACTIVE EXECUTIVE BOARD MEMBERS

in €	Addition 2017	Obligation December 31, 2017	Addition 2016	Obligation December 31, 2016
Dräger, Stefan	442,081	4,345,699	778,563	3,903,618
Lescow, Gert-Hartwig	323,570	1,535,473	303,777	1,211,903
Klug, Rainer	34,056	81,767	34,962	47,711
Piske, Dr. Reiner	36,461	81,879	41,472	45,418
Schrofner, Anton	42,058	603,480	101,364	561,422
Executive Board members	**878,226**	**6,648,298**	**1,260,138**	**5,770,072**

SUPERVISORY BOARD REMUNERATION

				2017				2016
in €	Fixed	Variable	Other	Total	Fixed	Variable	Other	Total
Schweickart, Prof. Dr. Nikolaus (Chairman)	60,000	31,824	10,000	101,824	60,000	22,410	10,000	92,410
Kasang, Siegfrid (Vice-Chairman)	30,000	15,912	10,000	55,912	30,000	11,205	10,000	51,205
Benten, Nike	20,000	10,608	–	30,608	18,333	6,848	–	25,181
Fett, Klaus-Dieter	–	–	–	–	3,333	1,245	–	4,578
Friedrich, Daniel	20,000	10,608	10,000	40,608	20,000	7,470	9,167	36,637
Grenz, Prof. Dr. Thorsten	20,000	10,608	20,000	50,608	20,000	7,470	20,000	47,470
Klein, Stefan	–	–	–	–	10,000	–	–	10,000
Lauer, Stefan	20,000	10,608	–	30,608	20,000	7,470	–	27,470
Lüders, Uwe	20,000	10,608	–	30,608	20,000	7,470	–	27,470
Neundorf, Walter	20,000	10,608	–	30,608	10,000	3,735	–	13,735
Rauscher, Prof. Dr. Klaus	20,000	10,608	10,000	40,608	20,000	7,470	10,000	37,470
Rickers, Thomas	20,000	10,608	–	30,608	20,000	7,470	–	27,470
Tinnefeld, Ulrike	–	–	–	–	1,667	623	833	3,123
Van Almsick, Bettina	20,000	10,608	–	30,608	11,667	4,358	–	16,024
Zinkann, Dr. Reinhard	20,000	10,608	–	30,608	20,000	7,470	–	27,470
Total	**290,000**	**153,816**	**60,000**	**503,816**	**285,000**	**102,715**	**60,000**	**447,715**

The amount of EUR 3,099,854.77 was paid to former members of the Executive Board and their surviving dependents as of the end of the reporting year (2016: EUR 3,059,113.40). Pension obligations to former members of the Executive Board and their surviving dependents amounted to EUR 43,400,440 (2016: EUR 44,883,967).

↗ Please refer to table "Pension obligations for active Executive Board members"

REMUNERATION OF THE SUPERVISORY BOARD

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

In accordance with Sec. 21 (1) of the articles of association of Drägerwerk AG & Co. KGaA, each Supervisory Board member receives compensation for expenses incurred plus annual remuneration, which is composed of fixed remuneration of EUR 20,000 (2016: EUR 20,000) and variable remuneration. The variable component is 0.015 percent of DVA, but no more than EUR 20,000 (2016: EUR 20,000).

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

In fiscal year 2017, the total remuneration of the six members of the Supervisory Board of the general partner, Drägerwerk Verwaltungs AG, amounted to EUR 135,000 (2016: EUR 135,000) as well as additional flat fees for out-of-pocket expenses totaling EUR 55,000 (2016: EUR 55,000). No remuneration was paid to Supervisory Board members of Group companies.

↗ Please refer to table "Supervisory Board remuneration" on page 66

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

The following disclosures reflect circumstances on the balance sheet date.

COMPOSITION OF CAPITAL STOCK

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

RESTRICTIONS RELATING TO VOTING RIGHTS OR THE TRANSFER OF SHARES

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

DIRECT OR INDIRECT SHAREHOLDINGS EXCEEDING 10 PERCENT

67.19 percent of the common shares of Drägerwerk AG & Co. KGaA, equivalent to 6,826,000 common shares or 38.43 percent of the total capital stock, belong to Dr. Heinrich Dräger GmbH, Lübeck. Its shares are mainly owned by members and shareholders of the Dräger family, so that the voting rights associated with the common shares are held by the Dräger family. 59.72 percent of Dr. Heinrich Dräger GmbH, Lübeck, is held by Stefan Dräger GmbH.

Stefan Dräger GmbH is wholly owned by Stefan Dräger, Lübeck. The voting rights of Stefan Dräger GmbH are to be allocated to its partner, Stefan Dräger, pursuant to Sec. 22 of the German Securities Trading Act (WpHG). Through Stefan Dräger GmbH, Stefan Dräger also holds all shares in Drägerwerk Verwaltungs AG, Lübeck, the general partner of Drägerwerk AG & Co. KGaA. This means that Stefan Dräger is a shareholder in the general partner as well as common shareholder of Drägerwerk AG & Co. KGaA. In cases covered by Sec. 285 (1) Sentence 2 AktG, he would therefore not be entitled to vote. The legal structure of Dr. Heinrich Dräger GmbH ensures that, for such resolutions, Stefan Dräger cannot exert any influence on the exercise of the voting rights of common shares held by Dr. Heinrich Dräger GmbH.

SHARES WITH SPECIAL RIGHTS CONFERRING CONTROL

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

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

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

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

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

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

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

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

POWER OF THE GENERAL PARTNER TO ISSUE OR BUY BACK SHARES

In accordance with the resolution agreed upon at the annual shareholders' meeting on April 27, 2016, the general partner is entitled to increase the company's capital until April 26, 2021, with the approval of the Supervisory Board, by up to EUR 11,366,400.00 (approved capital) by issuing new bearer common and / or preferred shares (no-par value shares) in return for cash and / or contributions in kind, in either one or several tranches. The authorization includes the approval to issue new common shares and / or preferred shares, which carry the same status as the previously issued preferred shares with regard to the distribution of profits and / or company assets. The statutory maximum capital as stipulated in Sec. 139 (2) AktG is to be taken into account: No more than half of the capital stock may be issued as preferred shares. Shareholders are principally given a subscription right in the case of a capital increase – unless the company excludes subscription rights with the approval of the Supervisory Board. In the case of common and preferred shares being issued together, the right of holders of one share type to subscribe to the other type of shares ("crossed exclusion of subscription rights") can be excluded.

In accordance with the resolution agreed upon at the annual shareholders' meeting on April 27, 2016, the general partner is entitled, until April 26, 2021 and upon consent of the Supervisory Board, to acquire own shares of up to 10 percent of capital stock, regardless of type (common and / or preferred shares) and to use them for all legally permissible purposes. The authorization of the general partner to purchase own shares by May 3, 2017 issued on May 4, 2012 was canceled to the extent that it had not yet been used.

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

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

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

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

Business performance of Drägerwerk AG & Co. KGaA

Drägerwerk AG & Co. KGaA is the parent company of the Dräger Group. The following comments relate to this company's financial statements, prepared in accordance with the German Commercial Code (HGB).

In fiscal year 2017, Drägerwerk AG & Co. KGaA's net profit amounted to EUR 148.3 million (2016: EUR 35.1 million). Over the course of the year, the company had 2,754 employees on average (2016: 2,762 employees), of which 719 worked in Production (2016: 723 employees) and 2,035 worked in other areas (2016: 2,039 employees).

EARNINGS EFFECTS FROM OPERATING ACTIVITIES

In fiscal year 2017, Drägerwerk AG & Co. KGaA's result from the operating activities – excluding income from investments, interest result and taxes – stood at EUR 6.5 million (2016: EUR −3.4 million.)

Drägerwerk AG & Co. KGaA generated net sales from medical business of EUR 1,067.1 million in fiscal year 2017 (2016: EUR 1,006.2 million), which was offset by the cost of materials of EUR 554.5 million (2016: EUR 537.0 million). Personnel expenses rose year on year from EUR 236.6 million to EUR 256.8 million. Other operating expenses amounted to EUR 278.7 million (2016: EUR 279.9 million).

Earnings rose further as a result of the implementation of the efficiency program launched in 2015 as well as lower write-downs of receivables than in the prior year. That was offset by increases in wages and salaries resulting from the raises in accordance with wage agreements in the metal and electrical industries in Germany and higher pension expenses due to the decline in the underlying interest rate according to the German Commercial Code (HGB) to 3.68 percent (2016: 4.01 percent) in the calculation of pension provisions.

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

RESULTS OF GROUP COMPANIES

The rise in earnings from profit and loss transfer agreements was mainly attributable to Dräger Safety AG & Co. KGaA (EUR +40.3 million), Dräger Medical International GmbH (EUR +19.5 million), and Dräger Medical Deutschland GmbH (EUR +1.1 million).

DISTRIBUTION FOR PARTICIPATION CAPITAL

Based on the proposed dividend for preferred shares of EUR 0.46 (2016: EUR 0.19), the distribution for participation capital amounts to EUR 4.60 per participation certificate for fiscal year 2017 (2016: EUR 1.90).

INVESTMENTS

In fiscal year 2017, the company invested EUR 5.6 million (2016: EUR 5.3 million) in software and intangible assets. Investments in property, plant and equipment came to EUR 42.6 million (2016: EUR 42.6 million). Investments were focused on a new building at the Krefeld location, as well as on IT hardware and replacements.

NET ASSETS AND FINANCIAL POSITION

After deducting cash and cash equivalents, net financial liabilities to banks as of December 31, 2017 amounted to EUR 74.9 million (2016: EUR 160.8 million); Group financing of Group companies came to EUR 163.0 million (2016: EUR 107.3 million).

Drägerwerk AG & Co. KGaA's equity stood at EUR 1,054.3 million and increased by a total of EUR 145.6 million year on year. Drägerwerk AG & Co. KGaA's equity ratio as of the reporting date therefore came to 62.1 percent (2016: 58.2 percent).

COMPARISON OF FORECAST FIGURES AND ACTUAL FIGURES

Drägerwerk AG & Co. KGaA's earnings in 2017 were principally impacted by net sales in Germany and abroad, income from services, investments, and profit and loss transfers. As announced in 2016, dividends in the amount of EUR 4.3 million were paid on common and preferred shares and participation certificates. In fiscal year 2017, net financial debt came to EUR −72.2 million; the equity ratio stood at 62.1 percent.

FORECAST FOR FISCAL YEAR 2018

Drägerwerk AG & Co. KGaA's net profit is expected to decrease slightly, among other things due to the planned increase in research and development costs. In fiscal year 2017 we achieved net profit of EUR 148.3 million. We do not expect any significant change to the equity ratio, which stood at 62.1 percent as of December 31, 2017.

Declaration / Group declaration of corporate governance (secs. 289f and 315d of the German Commercial Code (HGB))

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

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

DECLARATION PURSUANT TO SEC. 161 AKTG

Our declaration of conformity is available on the company website www.draeger.com in the "Investor Relations / Corporate Governance" section
and is also printed in this Annual Report on page 57

DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES

The Executive Board has implemented effective internal control systems and relevant employee training measures to ensure that the Group's financial reporting system is correct and complies with legal requirements. The company's principles are based on integrity and social responsibility in all areas such as environmental protection, quality, product and process safety, and compliance with local laws and regulations. The internal Audit department continuously monitors the implementation of these principles as well as the reliability and functionality of the control systems. The Executive Board of Drägerwerk Verwaltungs AG governs the Group in the interest of its shareholders and is aware of its responsibility to employees, society, and the environment. We have made it our goal to use the resources entrusted to us in a manner that increases the value of the Dräger Group. According to the resolution passed by the annual shareholders' meeting on May 10, 2017, the Supervisory Board appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as the independent auditor of the single entity financial statements of Drägerwerk AG & Co. KGaA for fiscal year 2017.

The auditing firm also examined the existing risk management system with regard to the Control and Transparency in Business Act (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – KonTraG). Representatives of the statutory auditor attend the Audit Committee's meeting as well as the Supervisory Board's meeting to discuss the financial statements, during which the management report and auditor's report are deliberated on. The Supervisory Board has issued a separate report on this subject in the report of the Supervisory Board in the annual report 2017.

WORKING METHODS OF THE EXECUTIVE AND SUPERVISORY BOARDS

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

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

MINIMUM QUOTAS FOR THE COMPOSITION OF THE SUPERVISORY BOARD

The company follows the regulations according to Sec. 96 (2) AktG regarding the minimum quotas to be observed. It thereby made use of the protections for members of the Supervisory Board with current terms to the annual shareholders' meeting on May 4, 2018.

DIVERSITY CONCEPT REGARDING THE COMPOSITION OF THE EXECUTIVE BOARD OF THE GENERAL PARTNER AND THE SUPERVISORY BOARD

In its goals the Supervisory Board has established criteria for its composition that take diversity into account. They are printed in the Corporate Governance Report in this Annual Report on page 56 et seq. In the view of the Supervisory Board its current composition fully meets all goals. The composition of the Supervisory Board continues to take the minimum quotas set by Sec. 96 (2) AktG.

The composition of the general partner's Executive Board is based on the regulations of Sec 76 AktG for large stock corporations and the recommendations of the German Corporate Governance Code. The Executive Board is made up of five individuals selected for their responsibilities only by the respective necessary qualifications. No diversity concept beyond these criteria has been determined for the Executive Board.

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

In its meetings on September 7, 2015, the Executive Board of the general partner defined a quota of 27 percent in relation to female participation in the first level of management below the Executive Board and a quota of 19 percent for the second level of management below the Executive Board. Those values relate to Drägerwerk AG & Co KGaA. These quotas had to be achieved by June 30, 2017. As of June 30, 2017 female participation in the first and second levels of management below the Executive Board was 12 percent and 23 percent respectively. The reasons for failure to comply with the target set for the first level of management below the Executive Board include the change to the governance structure effective January 1, 2016 and the related organizational restructuring. Female managers appointed to individual positions were also subsequently replaced by male managers.

In its meeting on November 27, 2017, the Executive Board of the general partner defined a quota of 12 percent in relation to female participation in the first level of management below the Executive Board and a quota of 23 percent for the second level of management below the Executive Board. These quotas must be achieved by June 30, 2022. The quotas, targets, and reasons provided above fulfill the legal reporting requirements. Please refer to the Sustainability Report for more information about the topic of women in management positions.

www.draeger.com / sustainability

FORWARD-LOOKING STATEMENTS

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

Lübeck, February 16, 2018

The general partner
Drägerwerk Verwaltungs AG
represented by its Executive Board

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

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ANNUAL FINANCIAL STATEMENTS

Annual Financial Statements 2017 of the Dräger Group

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

in € thousand	Note	2017	2016
Net sales	9	2,572,256	2,523,838
Cost of sales	10	–1,420,096	–1,388,410
Gross profit		**1,152,160**	**1,135,428**
Research and development costs	11	–234,674	–219,022
Marketing and selling expenses	12	–566,292	–554,682
General administrative expenses	13	–197,710	–207,417
Other operating income	14	18,840	9,267
Other operating expenses	14	–12,145	–27,389
		–991,981	**–999,244**
		160,179	**136,184**
Profit from investments in associates		263	321
Profit from other investments		1	229
Other financial result		–4,703	179
Financial result (before interest result)	**15**	**–4,440**	**729**
EBIT		**155,739**	**136,914**
Interest result	15	–12,819	–15,543
Earnings before income taxes		**142,920**	**121,371**
Income taxes	16	–44,420	–39,635
Net profit		**98,500**	**81,736**
Net profit		**98,500**	**81,736**
Earnings to non-controlling interests		–30	345
Earnings attributable to shareholders and holders of participation certificates	19	98,530	81,391
Undiluted / diluted earnings per share on full distribution	**19**		
per preferred share (in €)		4.18	3.46
per common share (in €)		4.12	3.40

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE DRÄGER GROUP

in € thousand	2017	2016
Net profit	**98,500**	**81,736**
Items that cannot be reclassified into the income statement		
Remeasurements of defined benefit pension plans	3,916	–31,287
Deferred taxes on remeasurements of defined benefit pension plans	–862	9,724
Items that may be reclassified into the income statement in the future		
Currency translation adjustment for foreign subsidiaries	–31,495	–519
Change in the fair value of financial assets designated as available for sale recognized directly in equity	24	–99
Deferred taxes on changes in the fair value of financial assets designated as available for sale recognized directly in equity	–6	4
Change in the fair value of derivative financial instruments recognized directly in equity	–1,375	2,580
Deferred taxes on changes in the fair value of derivative financial instruments recognized directly in equity	410	–813
Other comprehensive income (after taxes)	**–29,388**	**–20,409**
Total comprehensive income	**69,112**	**61,327**
of which attributable to non-controlling interests	–127	506
of which attributable to shareholders and holders of participation certificates	69,239	60,821

CONSOLIDATED BALANCE SHEET OF THE DRÄGER GROUP

in € thousand	Note	December 31, 2017	December 31, 2016
Assets			
Intangible assets	20	342,485	347,579
Property, plant and equipment	21	432,294	420,851
Investments in associates	22	420	373
Other non-current financial assets	23	17,068	13,937
Deferred tax assets	24	133,563	133,702
Other non-current assets	25	2,996	2,126
Non-current assets		**928,827**	**918,568**
Inventories	26	387,720	386,759
Trade receivables and receivables from construction contracts	27	669,175	681,743
Other current financial assets	28	39,281	37,236
Cash and cash equivalents	29	247,568	221,481
Current tax refund claims		24,295	15,111
Other current assets	30	57,500	51,427
Current assets		**1,425,539**	**1,393,757**
Total assets		**2,354,366**	**2,312,325**
Equity and liabilities			
Capital stock		45,466	45,466
Capital reserves		234,028	234,028
Reserves retained from earnings, incl. Group result		780,913	682,803
Participation capital	33	29,497	29,497
Other comprehensive income		–22,822	9,683
Non-controlling interests	32	1,262	2,039
Equity	**31**	**1,068,343**	**1,003,516**
Liabilities from participation certificates	33	23,761	22,687
Provisions for pensions and similar obligations	34	312,977	318,325
Other non-current provisions	35	51,108	57,824
Non-current interest-bearing loans and liabilities to banks	36	137,788	188,635
Other non-current financial liabilities	37	25,251	27,994
Non-current income tax liabilities		21,523	5,578
Deferred tax liabilities	38	1,263	1,471
Other non-current liabilities	39	14,904	15,726
Non-current liabilities		**588,575**	**638,240**
Other current provisions	35	195,081	211,203
Current interest-bearing loans and liabilities to banks	40	71,485	57,025
Trade payables	41	202,917	179,773
Other current financial liabilities	41	21,599	25,336
Current income tax liabilities		33,784	31,996
Other current liabilities	42	172,581	165,236
Current liabilities		**697,448**	**670,569**
Total equity and liabilities		**2,354,366**	**2,312,325**

CONSOLIDATED CASH FLOW STATEMENT OF THE DRÄGER GROUP

in € thousand	2017	2016
Operating activities		
Group net profit	98,500	81,736
+ Write-down / write-up of non-current assets	84,210	85,802
+ Interest result	12,819	15,543
+ Income taxes	44,420	39,635
– Decrease in provisions	–20,976	–28,982
+ / – Other non-cash expenses / income	27,882	–6,580
– Gain from the disposal of non-current assets	–7,484	–351
+ / – Decrease / increase in inventories	–29,961	17,387
– Increase in leased equipment	–10,641	–13,076
+ / – Decrease / increase in trade receivables	–22,357	31,269
+ / – Decrease / increase in other assets	–15,036	12,555
+ / – Increase / decrease in trade payables	22,246	–10,236
+ Increase in other liabilities	5,078	6,934
+ Received dividends	215	179
– Cash outflow for income taxes	–39,409	–28,833
– Cash outflow for interest	–9,258	–12,098
+ Cash inflow from interest	3,087	4,436
Cash inflow from operating activities	**143,336**	**195,322**
Investing activities		
– Cash outflow for investments in intangible assets	–4,728	–6,462
+ Cash inflow from the disposal of intangible assets	1	8
– Cash outflow for investments in property, plant and equipment	–65,997	–73,298
+ Cash inflow from disposals of property, plant and equipment	5,923	2,569
– Cash outflow for investments in non-current financial assets	–115	–403
+ Cash inflow from the disposal of non-current financial assets	360	326
– Cash outflow from the acquisition of subsidiaries	–980	0
Cash outflow from investing activities	**–65,534**	**–77,259**
Financing activities		
– Distribution of dividends (including dividends for participation certificates)	–4,001	–4,001
– Cash outflow from the acquisition of treasury shares for the employee share program	–1,226	–554
+ Cash provided by raising loans	400	60,074
– Cash used to redeem loans	–10,365	–65,173
– Net balance of other liabilities to banks	–23,973	–58,843
– Net balance of finance lease liabilities repaid / incurred	–1,390	–1,430
– Cash outflow from the change in shareholdings in subsidiaries without a change in the method of accounting	–1,137	0
– Profit distributed to non-controlling interests	–161	–80
Cash outflow from financing activities	**–41,853**	**–70,007**
Change in cash and cash equivalents in the fiscal year	**35,948**	**48,055**
+ / – Effect of exchange rates on cash and cash equivalents	–9,861	659
+ Cash and cash equivalents at the beginning of the fiscal year	221,481	172,767
Cash and cash equivalents as of December 31 of the fiscal year	**247,568**	**221,481**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE DRÄGER GROUP

						Other comprehensive income						
in € thousand	Capital stock	Capital reserves	Reserves retained from earnings incl. Group result	Participation capital	Treasury shares	Currency translation differences	Derivative financial instruments	Available-for-sale financial assets	Total other comprehensive income	Total equity of shareholder Drägerwerk AG & Co. KGaA	Non-controlling interests	Equity
Jan. 1, 2016	**45,466**	**234,028**	**626,634**	**29,497**	**0**	**10,849**	**–2,201**	**43**	**8,691**	**944,315**	**1,614**	**945,929**
Net profit	–	–	81,391	–	–	–	–	–	0	81,391	345	81,736
Other comprehensive income	–	–	–21,563	–	–	–680	1,767	–94	993	–20,570	161	–20,409
Total comprehensive income	**–**	**–**	**59,829**	**–**	**–**	**–680**	**1,767**	**–94**	**993**	**60,821**	**506**	**61,327**
Distributions	–	–	–4,001	–	–	–	–	–	0	–4,001	–80	–4,081
Acquisition of treasury shares	–	–	–	–	–1,939	–	–	–	0	–1,939	–	–1,939
Employee share program	–	–	–	–	1,939	–	–	–	0	1,939	–	1,939
Miscellaneous	–	–	341	–	–	–		–	0	341	–	341
Dec. 31, 2016 / Jan. 1, 2017	**45,466**	**234,028**	**682,803**	**29,497**	**0**	**10,169**	**–434**	**–51**	**9,684**	**1,001,476**	**2,039**	**1,003,516**
Net profit	–	–	98,530	–	–	–	–	–	0	98,530	–30	98,500
Other comprehensive income	–	–	3,054	–	–	–31,399	–964	18	–32,345	–29,291	–97	–29,388
Total comprehensive income	**–**	**–**	**101,584**	**–**	**–**	**–31,399**	**–964**	**18**	**–32,345**	**69,239**	**–127**	**69,112**
Distributions	–	–	–4,001	–	–	–	–	–	0	–4,001	–161	–4,162
Acquisition of treasury shares	–	–	–	–	–3,342	–	–	–	0	–3,342	–	–3,342
Employee share program	–	–	–	–	3,342	–	–	–	0	3,342	–	3,342
Change in the scope of consolidation	–	–	82	–	–	–27	–	–	–27	54	–	54
Change in the shares in subsidiaries, excluding loss of control	–	–	–411	–	–	–237	–	–	–237	–648	–489	–1,137
Miscellaneous	–	–	856	–	–	–	–	104	104	960	–	960
Dec. 31, 2017	**45,466**	**234,028**	**780,913**	**29,497**	**0**	**–21,494**	**–1,399**	**71**	**–22,822**	**1,067,081**	**1,262**	**1,068,343**

Notes of the Dräger Group for 2017

1 GENERAL

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

On March 8, 2018, the Executive Board is approving the publication of the Group financial statements of Drägerwerk AG & Co. KGaA for fiscal year 2017. The Group financial statements are published in electronic form in the Federal Gazette.

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

2 BASIS OF PREPARATION OF THE GROUP FINANCIAL STATEMENTS

Drägerwerk AG & Co. KGaA prepared its Group financial statements for fiscal year 2017 in accordance with International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Boards (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). Drägerwerk AG & Co. KGaA applied all the IFRSs adopted by the IASB as of December 31, 2017, to its 2017 Group financial statements, provided that these standards were endorsed by the European Commission and published in the Official Journal of the European Union by the date of publication of the Group financial statements and that application of such standards is mandatory for fiscal year 2017.

On their effective dates, Dräger has applied the following revised standards issued by the IASB for the first time in fiscal year 2017 in particular:

- The amendments to IAS 7 "Statement of Cash Flows" (issued in January 2016) as part of the Disclosure Initiative govern additional disclosures in the notes to financial statements, in particular the breakdown of changes in financing liabilities into cash and non-cash changes. This is aimed at allowing recipients of the financial statements to assess the changes of these liabilities. The required disclosures are included in Dräger's Group financial statements.
- The amendments to IAS 12 "Recognition of Deferred Tax Assets (issued January 2016)" clarify diverse questions with respect to deferred tax assets on unrealized losses related to changes in debt instruments measured at fair value and recognized in other comprehensive income. This does not have a material impact on Dräger's Group financial statements.

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

- IFRS 15 "Revenue from Contracts with Customers (issued May 2014)" specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide recipients of financial statements with additional relevant information. The standard replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and revenue-related interpretations IFRIC 13, IFRIC 15, IFRIC 18, and SIC-31. Dräger performed an impact analysis to examine revenue realization and revenue recognition processes. The analysis started by determining Dräger's key revenue realization business models. An analysis was then performed to determine whether and to what extent the provisions of IFRS 15's five-step model will impact current revenue realization on the basis of the individual business models. The analysis identified the contractual issues concerned, and additional potential areas of activity for those issues were then determined to adjust guidelines, reporting processes, and IT processes. Among other issues, this concerns contracts that entail several different service obligations on the part of Dräger (known as multiple element arrangements, as can arise in the case of Dräger's medical product portfolio through sale and service as well as in the case of project business). In order to clearly identify the individual obligations in a multiple element arrangement, Dräger has included separate material numbers with stipulated prices in the system for all key services (including extended warranties that have been granted) at least at product group level, in addition to the separate material numbers of pieces of equipment held for sale. This method ensures that every service to be rendered is recorded in the system. Prices of goods and services are set individually in line with the customer. The customization of pricing in the equipment business results from the fact that the key products sold generally involve freely configurable equipment tailored to customers' specific needs in terms of hardware and software. The organizational separation of equipment sales from the service area has been carried out, even in supporting departments such as Marketing. Equipment prices and service prices are set independently of each other. The prices obtainable for the different products on the market always serve as the basis for this. Organizational separation and the individual incentives provided by variable remuneration in the individual sales units ensure that the agreed prices are standalone selling prices, so that a reallocation between the equipment and service business is not necessary. Dräger's project business is also affected by the amendments to IFRS 15. However, project business at Dräger accounts for only approximately 3 percent of Dräger's total net sales. In addition, Dräger either mainly manufactures locally on the customer's premises, or provisions under the terms of a contract or civil law ensure that Dräger has a right at all times to a portion of the fee agreed – including a margin – in accordance with current performance. IFRS 15 has no material impact on Dräger's net assets or results of operations in any of the matters examined. However, Dräger does assume that the scope of qualitative and quantitative information provided in financial statements will be enhanced. Dräger will transition to IFRS 15 effective January 1, 2018, using the modified retrospective approach.

- The adjustments to IFRS 15 "Clarifications to IFRS 15 – Revenue from Contracts with Customers (issued April 2016)" serve to clarify the identification of performance obligations, the principles of principal versus agent considerations, and determining the type of licenses granted as well as sales or usage-based royalty revenue. The standard also offers transition relief for modified contracts and concluded contracts. The impact on Dräger's Group financial statements is in line with the impact from IFRS 15 as specified above.
- IFRS 9 "Financial Instruments (issued July 2014)" completes the IASB's three-phase project to replace IAS 39 (financial instrument accounting). IFRS 9 was published as a complete standard, bringing together all previously published regulations and the new regulations on the calculation and recognition of impairment (particularly the expected credit loss model) and amendments to the classification and measurement of financial assets. The balance sheet presentation of hedging relationships was also changed in favor of improving the presentation of operational risk management. Dräger made the decision to continue to apply IAS 39 to hedge accounting in fiscal year 2018 as the effects of a switch to IFRS 9 would not be signif-

icant. Dräger is not expected to suffer any material consequences from the changes to the classification and recognition of financial assets. The majority of financial assets at Dräger consist of debt instruments, which continue to be measured at amortized cost. Dräger only holds equity instruments as financial assets, the subsequent measurements of which continue to be recognized in other comprehensive income as Dräger exercises the corresponding option to do so. The introduction of the expected credit loss model is likely to result in an additional impairment of EUR 2 million to EUR 3 million after tax, which Dräger will reconcile as part of the restatement presentation in fiscal year 2018.

- The new IFRS 16 "Leases (issued January 2016)" supersedes the current standard on lease accounting (IAS 17) as well as the interpretations IFRIC 4, SIC-15, and SIC-27. IFRS 16 defines a lease as an agreement under which the right to control the use of an identifiable asset is transferred and under which the customer has the right to both define the use of this asset and benefit from the use of this asset during the term of use. The material changes affected by IFRS 16 relate to how the lessee accounts for these leases. The lessee is required to recognize assets and liabilities for the rights and obligations arising under all existing leases. This will increase Dräger's total assets while reducing the share of total equity and liabilities attributable to equity. In addition, the change in recognition in the income statement will result in an improvement to EBITDA. Recognition exemptions are granted for low-value assets and short-term leases. The accounting principles for lessors largely correspond to the existing provisions under IAS 17. Dräger has completed the process of selecting a suitable technical support system for the management and accounting of the contracts in question pursuant to IFRS 16. It is currently preparing the system's implementation. Once finished, subsidiaries will load the contracts in question into the selected system for analysis. The impact on Dräger's Group financial statements cannot be conclusively assessed until this analysis has been performed. ↗ Note 45 Please refer to the disclosures in Note 45 for details of the current scope of the minimum lease payments outstanding (operating leases).
- The amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued September 2016)" mainly relate to companies with predominant insurance activities that have expressed concerns pertaining to the application of IFRS 9 before the standard to replace IFRS 4 is to be applied. The amendments are designed to reduce the impact from the varying dates of initial application of these standards for these companies as a result of the use of two alternative approaches (the overlay approach and the deferral approach). As Dräger is not a company with predominant insurance activities, this does not have a material impact on Dräger's Group financial statements.

The amendments from the "Annual Improvements to IFRSs 2014 – 2016 Cycle (issued December 2016)" were actually supposed to be adopted from January 1, 2017; however, they had not yet been endorsed as of the end of fiscal year 2017. These amendments make minor adjustments to IFRS 1, IFRS 12, and IAS 28 and clarify existing regulations. This does not have a material impact on Dräger's Group financial statements.

Further standards were published and existing standards amended, which become mandatory for fiscal years starting on or after January 1, 2018, and which had not yet been endorsed by the balance sheet date. These accounting provisions include, in particular, the following:

- The amendments to the requirements of IAS 28 and IFRS 10 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued September 2014)” address a conflict between these requirements and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. This does not have a material impact on Dräger’s Group financial statements.
- The clarification in respect of IFRS 2 “Classification and Measurement of Share-based Payment Transactions (issued June 2016)” pertains to issues relating to the accounting of equity-settled share-based payments. The amendment or addition also relates to the approach used when modifying certain underlying conditions as well as the classification of transactions with specific fulfillment conditions. Dräger does not currently use any equity-settled share-based payment models, meaning that this does not have an impact on Dräger’s Group financial statements.
- IFRIC 22 (issued December 2016) clarifies for IAS 21 that the date of the transaction, for the purpose of determining the exchange rate used at the initial recognition of assets, expenses, or income, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability by an entity. This does not have a material impact on Dräger’s Group financial statements.
- IFRIC Interpretation 23 (issued June 2017) clarifies the accounting of uncertain deferred and current tax liabilities. In assessing uncertainty, Dräger must judge the likelihood that the tax authorities concerned will follow the relevant applied or planned tax assessment. This does not have a material impact on Dräger’s Group financial statements.
- The amendments to IAS 40 (issued December 2016) stipulate that a company can transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use. This does not impact Dräger’s Group financial statements.
- The amendments to IFRS 9 Prepayment Features with Negative Compensation (issued October 2017) govern how certain financial instruments with prepayment features are classified under IFRS 9 Financial Instruments. In addition, it also clarifies the recognition of financial liabilities as a result of modification. This has no material impact on Dräger’s Group financial statements.
- The new IFRS 17 Insurance Contracts (issued May 2017) governs the recognition, measurement and disclosure of insurance contracts, reinsurance contracts and capital investment contracts with discretionary participation features. This has no impact on Dräger’s Group financial statements.

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

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

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

3 CALCULATING EARNINGS PER SHARE PURSUANT TO IAS 33

In June 2017, the International Financial Reporting Standards Interpretations Committee (IFRS IC) stated its position regarding the consideration and calculation of participating equity instruments and the resulting tax effects when calculating "earnings per share" pursuant to IAS 33. This confirmed the manner in which participation certificates are taken into account by the Dräger Group when calculating earnings per share and, therefore, the earnings per share previously reported.

The IFRS IC stated that future tax benefits, which would result in the case of a hypothetical full distribution on participating equity instruments (in the form of participation certificates at Dräger), are to be taken into account when calculating earnings per share. Where the participating equity instruments also participate in the tax benefits, the tax benefits are to be allocated to the shareholders and the holders of participating equity instruments using an iterative process.

4 SCOPE OF CONSOLIDATION

The consolidated group of Drägerwerk AG & Co. KGaA is composed of 110 fully consolidated entities as of December 31, 2017 (2016: 110 entities) and, as in the prior year, one associated entity.

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

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

The consolidated group includes six (2016: six) real estate companies and a further special purpose entity as structured companies. The activities of these companies are limited, because they were each only founded for a specific purpose. Dräger controls these structured companies not exclusively through voting rights or comparable rights, but partially only through other contractual agreements (please refer to our comments on the use of assumptions and estimates in Note 8). Dräger does not provide these companies with any financing or guarantees, nor does it intend to do so in the future.

↗ Note 8

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

Dräger leases land and buildings from two companies whose only purpose is leasing these properties; Dräger does not hold any interests in or has any influence over these companies by means of other contracts. These companies are not included in Dräger's consolidated group, as Dräger does not exercise any control over these companies within the meaning of IFRS 10 on account of the firm contractual commitments. The companies do not receive any additional financing or guarantees from Dräger, nor does Dräger plan any such support. Provisions for potential losses are recognized, as Dräger does not currently use these properties to their full extent (please refer to our comments in Note 35).

↗ Note 35

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

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

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

The consolidated companies of the Dräger Group as of December 31, 2017, are listed under Note 52.

↗ Note 52

5 EFFECTS OF THE CHANGES IN THE SCOPE OF CONSOLIDATION

The scope of consolidation of Drägerwerk AG & Co. KGaA developed as follows in fiscal year 2017:

SCOPE OF CONSOLIDATION

	Germany	Abroad	Total
Drägerwerk AG & Co. KGaA and fully consolidated companies			
January 1, 2017	23	87	110
Acquisition	1	–	1
Established	–	2	2
Mergers	–	1	1
Liquidation	–	2	2
December 31, 2017	**24**	**86**	**110**
Associates			
January 1 / December 31, 2017	1	–	1
Total	**25**	**86**	**111**

In the first half of 2017, Dräger acquired 51 percent of the shares in bentekk GmbH, Hamburg, Germany, and added this company to the scope of consolidation. bentekk GmbH develops gas detection instruments designed to quickly and accurately measure the presence of benzene and other carcinogenic substances in the atmosphere. These devices are mobile and handheld and allow very low concentrations, which could previously only be measured in a stationary laboratory environment, to be detected and measured quickly. The devices are predominantly used for clearance measurements during maintenance work and indicate if thresholds are being exceeded. The acquisition of shares enables Dräger to expand its portfolio of gas detection systems.

The agreed purchase price of the shares in bentekk GmbH amounted to EUR 1,000 thousand and has already been paid in full. The parties also agreed a put option for the minority shareholders as well as an identical call option for the remaining shares (49 percent) in bentekk GmbH in four equal tranches of EUR 250 thousand (for a total of EUR 1,000 thousand). The options have a term of no more than five years. Dräger fully includes bentekk GmbH in the scope of consolidation as a result of the form of these options. The options have a net present value of EUR 848 thousand and are recognized under non-current other financial liabilities.

The present value of the total purchase price of EUR 1,946 thousand, which is included within the scope of the provisional purchase price allocation, impacted the consolidated balance sheet as follows:

EFFECT OF THE ACQUISITION ON THE CONSOLIDATED BALANCE SHEET

in € thousand	Assumed carrying values	Purchase price allocation	Assumed fair values
Intangible assets	14	1,592	1,606
Property, plant and equipment	3	–	3
Other non-current financial assets	1	–	1
Deferred tax assets	141	–	141
Inventories	27	–	27
Cash and cash equivalents	20	–	20
Other current assets	12	–	12
Total purchased assets	**218**	**1,592**	**1,811**
Other non-current financial liabilities	440	–	440
Deferred tax liabilities	–	514	514
Other current provisions	8	–	8
Trade payables	14	–	14
Other current liabilities	3	–	3
Total assumed liabilities	**465**	**514**	**979**
Equity = net balance of purchased assets and assumed liabilities	**–246**	**1,078**	**832**
Purchase price paid			–1,000
+ Incidental purchase costs			–98
+ Present value of the right to sell / purchase option			–848
Present value of total purchase price			**–1,946**
Goodwill			**1,114**

The current net outflow of funds in the Group financial statements totaled EUR 1,078 thousand on account of the simultaneous takeover of cash in the amount of EUR 20 thousand.

The goodwill remaining after the provisional purchase price allocation relates to expected synergy effects that cannot be capitalized as well as to the expected income related to future innovations to maintain competitiveness. Goodwill is calculated from the purchase price, less the acquired assets and assumed liabilities, and attributed to the Europe segment (EUR 822 thousand) and the Africa, Asia and Australia segment (EUR 292 thousand). Goodwill is not deductible for tax purposes.

Since joining the scope of consolidation, the net sales of bentekk GmbH of EUR 31 thousand, as well as corresponding earnings after income taxes of EUR –171 thousand, are included in the consolidated income statement of the Dräger Group. Had bentekk GmbH joined the scope of consolidation effective January 1, 2017, net sales of EUR 59 thousand, as well as corresponding earnings after income taxes of EUR 378 thousand, would have been included in the consolidated income statement of the Dräger Group.

Further changes to the consolidation group resulted from the foundation of Draeger Philippines Corporation, Pasig City, Philippines, in July and Draeger New Zealand Ltd., Auckland, New Zealand, in September of the fiscal year. In addition, Draeger Safety Diagnostics Inc., Durango, USA, was merged with Draeger Inc., Telford, USA, in July of the fiscal year. US subsidiary Draeger Interservices Inc., Pittsburgh, USA, was liquidated in June 2017. The company's assets were transferred to other Group companies prior to its liquidation. In December 2017 Draeger Medical Venezuela S.A., Venezuela, was also liquidated.

In July 2017, Dräger also acquired the shares of the non-controlling shareholder of Draeger Safety Korunma Teknolojileri A.S., Ankara, Turkey, of 10.0 percent at a total cost of EUR 1,137 thousand. This means that Dräger is now this subsidiary's sole shareholder. As a result, non-controlling interests fell by EUR 489 thousand. The statement of changes in equity shows the overall effect on equity.

6 CONSOLIDATION PRINCIPLES

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

Successively acquired shares that do not affect the controlled status of an entity are treated as transactions between providers of equity capital ("entity concept"). The carrying amounts of assets and liabilities remain the same. The value shift between Dräger and the non-controlling interests is recorded directly in equity. Any non-controlling interests in equity are shown in the consolidated balance sheet as such (see also Note 32).

↗ Note 32

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

Associates and joint ventures are accounted for using the equity method at cost on the date of acquisition. The cost of investments is adjusted to reflect their share in net profit or loss for the period and dividend distributions. The goodwill is included in the carrying values of the investments. Impairments are accounted separately. At each balance sheet date, Dräger determines whether there are indications that the shares in the associates are not recoverable. If this is the case, the difference between the carrying value and the recoverable amount is calculated as the impairment loss and recognized in profit or loss as "profit from investments in associates."

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

7 CURRENCY TRANSLATION

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

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

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

The financial statements and comparative figures of economically independent foreign entities operating in a hyperinflationary environment and reporting in a currency of a hyperinflationary economy shall be restated in terms of the measuring unit current on the balance sheet date using a general price index for the country in question. As in the prior year, only the subsidiary in Venezuela had its registered office in a hyperinflationary economy during the fiscal year up until its liquidation in December 2017. The effects of inflation were not recognized as the subsidiary is of only minor importance to the Group.

The exchange gains / losses on operating foreign currency items included in cost of sales and in functional costs gave rise to a total loss of EUR −17,352 thousand (2016: loss of EUR −2,543 thousand).

The exchange gains / losses on foreign currency items disclosed in the financial result led to total losses of EUR −4,673 thousand (2016: gains of EUR 129 thousand).

Currency translation for foreign subsidiaries gave rise to a decrease in other comprehensive income of EUR 31,399 thousand as of the balance sheet date (2016: decrease of EUR 680 thousand).

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

CURRENCIES / EXCHANGE RATES

			Closing rate		Average rate
	1 € =	Dec. 31, 2017	Dec. 31,2016	2017	2016
USA	USD	1.20	1.05	1.14	1.10
People's Republic of China	CNY	7.81	7.32	7.66	7.34
UK	GBP	0.89	0.86	0.88	0.82
Australia	AUD	1.53	1.46	1.48	1.49

8 ACCOUNTING POLICIES

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

General

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

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

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

A differentiation is also made between the dependence on observable market data in the following hierarchies when determining fair value; this differentiation must be disclosed:

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

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

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

Net sales recognition

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

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

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

Net sales are reduced by sales deductions, if any arise.

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

With regard to the upcoming amendments to net sales realization, including the realization of construction contracts, implemented by the new IFRS 15 from fiscal year 2018, we refer to our disclosures in Note 2.

↗ Note 2

Intangible assets

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

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment

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

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

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

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

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

Land is not depreciated.

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

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

Assets under construction are stated at cost.

Investment allowances

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

Impairment losses on intangible assets and property, plant and equipment

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

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

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

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

Financial instruments

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

The Dräger Group holds the following financial assets:

- other shareholdings,
- securities,
- loans and other receivables,
- derivative financial assets,
- other financial assets, and
- cash and cash equivalents.

The Dräger Group reports the following financial liabilities:

– liabilities to banks and loan liabilities,
– trade payables,
– derivative financial liabilities, and
– other financial liabilities.

Financial assets

Financial assets are divided into the following categories:

– financial assets measured at fair value through profit or loss,
– loans and receivables,
– held-to-maturity investments, and
– available-for-sale financial assets.

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

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

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

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

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

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

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

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

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

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

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

Financial liabilities

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

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

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

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

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

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

Financial liabilities held for or due in more than twelve months are disclosed as non-current financial liabilities.

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

Derivative financial instruments

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

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

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

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

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

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

↗ Note 43

We refer to Note 43 for details of the nature and scope of the Dräger Group's existing financial instruments.

Inventories

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

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

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

Cash and cash equivalents

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

Participation capital

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

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

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

↗ Note 33

The components recognized as debt are measured at amortized cost using the effective interest method (present value of repayment obligation). Please refer to Note 33 for further information on the individual Dräger participation certificate series.

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

Dividends

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

Provisions for pension obligations and similar obligations

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

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

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

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

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

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

Other provisions

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

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

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

Other provisions additionally include post-employment benefits, which are employee benefits (not including pensions) that are mainly paid in connection with personnel-related restructuring, (e.g., one-time payments, periodic payments over a number of years, as well as salary payments during leaves of absence). An entity shall recognize termination benefits as a liability and an expense when the entity is demonstrably committed to either terminate the employment of an employee or group of employees before the normal retirement date or provide termination benefits as a result of an offer made in order to encourage voluntary resignation. In the case of an offer made to encourage voluntary resignation, the measurement of termination benefits should be based on the number of employees expected to accept the offer. Additional payments as part of a pre-retirement part-time work agreement shall be recognized periodically from the time the obligation arises (if necessary taking into account minimum periods of service) until the end of the employment phase.

Income taxes

The tax expense for the period was made up of current and deferred taxes. Taxes are reported in the income statement, unless they relate to items recognized in other comprehensive income. In this case, the taxes are also recognized in other comprehensive income.

The Dräger Group companies are required to pay income taxes in several countries. Current tax expenses are determined using the tax regulations applicable on the balance sheet date in the individual countries. When determining global income tax receivables and liabilities, the interpretation of tax regulations in particular can carry a degree of uncertainty. It cannot be ruled out that the various fiscal authorities have different perspectives with regards to the correct interpretation of tax standards. The associated uncertainty is taken into account in that uncertain tax receivables and liabilities are estimated as soon as management is of the view that the probability of occurrence exceeds 50 percent. Changes in the assumptions as to the correct interpretation of tax standards such as on account of amended prevailing jurisdiction are consolidated in the accounting of uncertain tax receivables and liabilities accordingly in the corresponding fiscal year. The likely estimated tax payment is taken as the best estimate when accounting for uncertain income tax positions.

Pursuant to IAS 12, deferred taxes are determined using the balance sheet-based liability method. Deferred taxes on loss carryforwards and temporary differences between the Group financial statements and the tax accounts of the consolidated companies are recognized. Deferred tax liabilities are not recognized if they result from the initial recognition of goodwill.

Deferred tax assets are only recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be offset. Deferred tax assets and liabilities are only offset if they relate to the same taxation authority.

Deferred tax liabilities resulting from temporary differences in connection with investments in subsidiaries are recognized unless the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not be reversed in the foreseeable future as a result of this influence.

Deferred taxes are measured using the tax rates (and tax laws) enacted at the balance sheet date that are expected to apply to the period when the deferred tax asset is realized or the deferred tax liability is settled.

Share-based payment

In fiscal year 2017, as in fiscal years 2013, 2015, and 2016, Dräger offered all Dräger employees in Germany share-based compensation in the form of an employee share program. This was designed to increase employees' identification with the company and Dräger's attractiveness as an employer.

This program allows employees who acquire Dräger preferred shares within a specified period of time within the fiscal year to receive one preferred share as a bonus for every three Dräger preferred shares purchased (matching model). These Dräger preferred shares are subject to a two-year holding period. The employee does not need to remain at Dräger during this period. The bonus preferred shares are not new shares but treasury preferred shares repurchased by Dräger on the capital market and transferred to the employee's securities account.

These bonus preferred shares are measured at fair value on the entry date (grant date). The entry date is the date on which Dräger and the employees conclude the share-based payment agreement. The fair value of the bonus preferred shares is the price of Dräger's preferred shares on the stock exchange.

Leases

Leases are all agreements whereby the lessor conveys to the lessee in return for payment the right to use an asset for an agreed period of time.

A) FINANCE LEASES

Dräger Group as lessee

Leases of assets under which substantially all the risks and rewards of ownership are effectively transferred to the lessee are classified as finance leases.

At inception of the lease, finance leases are recognized as assets and liabilities in the balance sheet at equal amounts at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor is the interest rate implicit in the lease if this is practicable to determine. If this is not the case, the lessee's incremental borrowing rate is used. Initial direct costs are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding interest expense is recognized in the interest result.

A finance lease gives rise to a depreciation expense for the capitalized asset as well as a finance expense for each period. The depreciation policy for leased assets is consistent with that for corresponding depreciable assets which are owned by the company.

Dräger Group as lessor

Assets held under a finance lease are recognized in the balance sheet and presented as a receivable at an amount equal to the net investment (present value of the gross investment) in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease. The corresponding interest income is recognized in the interest result. Initial direct costs are capitalized and allocated as an expense over the term of the lease.

B) OPERATING LEASES

Dräger Group as lessee

Leases of assets under which substantially all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under this lease are recognized as an expense in the function in which they are incurred.

Dräger Group as lessor

Assets subject to operating leases are presented in the balance sheet according to the nature of the asset. Lease income from these leases is recognized in profit or loss on a straight-line basis over the lease term and, depending on the lease object, reported in net sales (Dräger products) or other operating income (e.g., buildings).

Use of estimates and assumptions

In preparing the Group financial statements in accordance with IFRS, assumptions and estimates have to be made which have an effect on the recognition of assets and liabilities, the disclosure of contingent liabilities as of the balance sheet date, and the recognition of income and expenses. Actual amounts may differ from these assumptions and estimates.

The estimates pertain to the following areas in particular:

Beside Dräger's voting rights, other matters and circumstances need to be taken into account when determining whether a special purpose entity or a company is controlled to such an extent that it should be included as a subsidiary in the Group financial statements. Assumptions need to be taken into account in particular in those cases in which other contractual rights or constructive circumstances exist so as to determine whether Dräger can use its power over the company to influence the company's variable returns. Changes to contractual agreements or facts or circumstances are monitored with regard to their potential impact on the assumptions made.

In the case of two real estate companies, many corporate measures are predetermined on account of their narrow business purposes, meaning that they do not need to be consolidated on the basis of voting rights. However, Dräger has contractual purchasing options for these properties, which are integrated in Dräger's premises. As a result, by managing the residual value of these properties Dräger exercises control over the variable returns of these companies and therefore over the own returns from the investments. As in the prior year, these real estate companies therefore need to be included in Dräger's scope of consolidation as subsidiaries. Rational expectations as to the development of real estate prices were used when assessing the management of the residual values.

As part of the annual assessment of the recoverable amount of capitalized goodwill, Dräger's management uses estimates to arrive at its conclusions. Management uses data from internal analyses and forecasts with regards to anticipated earnings trends.

Management draws on data from external information sources with regards to other analysis parameters.

Other assumptions and estimates mainly relate to the determination of useful lives throughout the Group. At least once a year, the Group assesses the applied useful lives and carries out adjustments if necessary. Useful lives are determined on the basis of market observations and empirical values.

The recoverability of receivables is subject to the assessment and valuation of individual customers and their creditworthiness. This takes into account current economic developments as well as experience from past receivable losses.

Customer-specific construction contracts are recognized using the stage of completion method. The most important measurements used for the careful determination of the stage of completion include total costs, total revenues, and risks related to the contract as well as other estimates. Management continuously assesses all estimates made in connection with such construction contracts.

Defined benefit pension plans and similar obligations are recognized in accordance with actuarial methods. These methods are based on actuarial assumptions such as the discount rate, wage and salary trends, increases in pensions, and employee turnover. The discount factors used are calculated on the basis of the effective market return on high-quality corporate bonds. Deviations of actuarial assumptions from actual developments could have serious implications for the measurement of defined benefit pension plans and similar obligations. The results of sensitivity analyses for the discount rate, future increases in pensions, and life expectancy as stated in Note 34 provide indications of these effects.

↗ Note 34

The Group has set aside provisions for various risks. The likelihood of these provisions being used is assessed on the basis of prior experience and assessments of individual business transactions. Adjusting events were taken into account accordingly.

Assets and liabilities recognized at fair value are measured on the basis of available market data. In the event that such data do not exist, Dräger also refers to the assessments of qualified external experts.

The Group has to pay income taxes in several countries. This involves a specific calculation of the expected actual income tax exposure for each tax object and an assessment of temporary differences resulting from the different treatment of certain items for IFRS and tax reporting purposes. Management has to make assumptions when calculating effective and deferred taxes. Tax estimates are made in accordance with local laws.

Notes to the income statement

9 NET SALES

For the breakdown of net sales by sales types, please see the table below.

NET SALES

in € thousand	2017	2016	Change in %
Net sales from the sale of products and goods[1]	1,559,340	1,531,307	1.8
Net sales from the sale of services and accessories (including replacement parts)[1]	938,158	907,188	3.4
Net sales from construction contracts	74,757	85,343	–12.4
Net sales	**2,572,256**	**2,523,838**	**1.9**

[1] The device accessories report has been changed. Prior year's figures were adjusted accordingly.

↗ Note 46

A detailed segment report, including net sales by regions, is provided in Note 46.

Net sales of EUR 533.0 million were generated in Germany during the reporting year (2016: EUR 539.6 million).

In the reporting year, as in the prior year, there were no customers whose share of net sales exceeded 10 percent of Group net sales.

10 COST OF SALES

Cost of sales include the following:

COST OF SALES

in € thousand	2017	2016
Direct materials	784,361	765,915
Direct labor	281,402	271,517
Direct costs	**1,065,763**	**1,037,431**
Material overheads	75,651	80,972
Production overheads	228,675	224,818
Other indirect costs	50,007	45,188
Indirect costs	**354,333**	**350,979**
Cost of sales	**1,420,096**	**1,388,410**

Production overheads comprise amortization on production-related intangible assets and depreciation of property, plant and equipment, as well as costs of internal transportation until delivery to the distribution warehouse.

Cost of warranties and inventory allowances, among others, are recognized in other indirect costs.

Costs of sales include inventory variances, measurement differences, and scrapping. Income from the reversal of previously impaired inventories reduces the cost of sales.

↗ Note 7

Please refer to our comments in Note 7 for information on the effects from currency translation included in the cost of sales.

Any borrowing costs included in the valuation of inventories are contained in the cost of sales at the time of delivery or performance.

11 RESEARCH AND DEVELOPMENT COSTS

Research and development costs comprise all costs incurred during the research and development process, also including registration costs, costs of prototypes, and the costs of the first series, if they are not capitalized as separate development costs.

12 MARKETING AND SELLING EXPENSES

Marketing expenses comprise all costs associated with corporate marketing and product marketing, including, among other things, expenses for advertising and trade shows. Selling expenses include the costs of sales management, logistics costs, where they relate to the sales depot or shipping, and the costs of the internal and external sales force, including order processing. Income arising in direct connection with the costs is netted.

13 GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses comprise the costs of administrative activities not related to other functions. This includes in particular the cost of the Executive Board, corporate controlling, tax, customs, insurance and treasury departments, legal, accounting and consulting fees, audit fees, and general infrastructure costs. Income arising in direct connection with the costs is netted. The costs comprise the material costs and personnel expenses arising from administration as well as depreciation and amortization.

14 OTHER OPERATING INCOME / EXPENSES

OTHER OPERATING INCOME / EXPENSES

in € thousand	2017	2016
Reversal of bad debt allowances	7,807	4,405
Rental income	1,993	1,743
Gains on the disposal of non-current assets and property, plant and equipment	8,823	2,367
Income from the derecognition of liabilities	218	752
Other operating income	**18,840**	**9,267**
Allocations to bad debt allowances	9,320	22,261
Write-downs on receivables	1,025	2,754
Expenses for leased assets	682	704
Losses on the disposal of non-current assets and property, plant and equipment	1,118	1,670
Other operating expenses	**12,145**	**27,389**

Gains on the disposal of property, plant and equipment include the consolidation at the Lübeck site in the amount of EUR 5,265 thousand.

15 FINANCIAL RESULT

FINANCIAL RESULT (BEFORE INTEREST RESULT)

in € thousand	2017	2016
Share in the profits from investments in associates	215	179
Other expenses from investments in associates	48	142
Profit from investments in associates	**263**	**321**
Losses from the disposal of subsidiaries	1	–
Income from other investments	0	229
Profit from other investments	**1**	**229**
Net result from foreign exchange transactions	–4,673	129
Earnings from the disposal of other financial assets and securities	0	–
Other financial income	48	56
Other financial expenses	–79	–7
Other financial result	**–4,703**	**179**
Financial result (before interest result)	**–4,440**	**729**

INTEREST RESULT

in € thousand	2017	2016
Other interest and similar income	1,750	3,346
Interest income from bank balances	1,737	1,386
Interest contained in lease payments	75	60
Income from other securities and loans	66	200
Interest and similar income	**3,628**	**4,991**
Interest expenses from bank liabilities	–4,418	–7,395
Interest portion contained in pension provisions	–5,033	–5,945
Other interest and similar expenses	–4,339	–4,747
Compounding of participation certificates	–1,074	–908
Interest contained in lease payments	–699	–640
Expenses from interest hedges	–540	–555
Distribution for participation certificates	–345	–345
Interest and similar expenses	**–16,447**	**–20,534**
Interest result	**–12,819**	**–15,543**

Other interest and similar expenses include expenses incurred from the compounding of provisions (see also Note 35).

↗ Note 35

16 INCOME TAXES

COMPOSITION OF INCOME TAXES

in € thousand	2017	2016
Germany	**–25,226**	**–3,621**
Abroad	**–22,534**	**–26,567**
Current tax expense	**–47,760**	**–30,188**
Germany		
Deferred tax income / expense from temporary differences	9,432	–1,718
Deferred tax expense from loss carryforwards	–2,696	–4,291
Deferred tax income / expense (Germany)	**6,736**	**–6,009**
Abroad		
Deferred tax expense from temporary differences	–2,089	–5,310
Deferred tax expense / income from loss carryforwards	–1,307	1,872
Deferred tax expense (abroad)	**–3,396**	**–3,438**
Deferred tax income / expense	**3,340**	**–9,447**
Income taxes	**–44,420**	**–39,635**

Deferred tax expenses include an effect of EUR 4,026 thousand (2016: EUR 473 thousand) from the change in tax rates.

A deferred tax liability of EUR 2,123 thousand (2016: EUR 3,344 thousand) was recognized for temporary differences in connection with retained profits of foreign subsidiaries. No deferred tax liabilities are recognized for temporary differences associated with investments in subsidiaries to the amount of EUR 10,725 thousand (2016: EUR 12,270 thousand) as the sale of these companies or a distribution of retained profits is unlikely in the foreseeable future.

Payment of dividends to the shareholders of the parent company does not have any income tax consequences.

RECONCILIATION OF EXPECTED INCOME TAX EXPENSE TO RECOGNIZED INCOME TAX EXPENSE

in € thousand	2017	2016
Earnings before income taxes	**142,920**	**121,371**
Expected income tax expenses (tax rate: 31,5 %; 2016: 31.5 %)	**–45,020**	**–38,232**
Reconciliation:		
Effects from other periods and non-deductible withholding tax	8,152	–773
Effect from change in tax rates	–4,026	–473
Effect from different tax rates	2,681	6,122
Tax effect of non-deductible expenses and tax-free income	–5,069	–6,660
Recognition and measurement of deferred tax assets	–1,487	315
Other tax effects	349	66
Recognized income tax expenses	**–44,420**	**–39,635**
Tax rate (%) overall	31.1	32.7

The parent company's tax rate of 31.5 percent (2016: 31.5 percent) was used as the expected tax rate. The expected tax rate is composed of a corporate income tax component of 15.83 percent, including the 5.5 percent solidarity surcharge (2016: 15.83 percent), and a trade tax component of 15.67 percent (2016: 15.67 percent).

Domestic deferred taxes are determined on the basis of a 31.5 percent tax rate (2016: 31.5 percent).

The following deferred tax assets and deferred tax liabilities relate to recognition and measurement differences in the individual balance sheet items:

DEFERRED TAX ASSETS / DEFERRED TAX LIABILITIES

	Deferred tax assets		Deferred tax liabilities	
in € thousand	2017	2016	2017	2016
Intangible assets	6,281	4,931	5,512	7,399
Property, plant and equipment	6,813	8,693	11,787	14,768
Other non-current financial assets	21	–	2,047	506
Other non-current assets	500	–	0	62
Non-current assets	**13,615**	**13,624**	**19,346**	**22,735**
Inventories [1]	15,947	15,281	3,753	2,925
Trade receivables and receivables from construction contracts [1]	4,471	4,866	2,928	2,697
Other current financial assets [1]	4,488	1,011	9,449	4,302
Other current assets [1]	270	232	837	1,275
Current assets [1]	**25,176**	**21,390**	**16,967**	**11,199**
Liabilities from participation certificates	–	–	6,616	6,969
Provisions for pensions and similar obligations [1]	69,004	68,943	607	–
Other non-current provisions [1]	5,658	7,080	–	–
Non-current interest-bearing loans	–	–	12	13
Other non-current financial liabilities	3,741	4,036	–	–
Other non-current liabilities	2,643	2,509	–	–
Non-current liabilities [1]	**81,046**	**82,568**	**7,235**	**6,982**
Other current provisions [1]	12,859	13,086	–	–
Current interest-bearing loans and liabilities to banks	–	–	1	3
Trade payables	487	282	438	2
Liabilities from construction contracts [1]	62	–	191	29
Other current financial liabilities [1]	2,833	3,446	401	358
Other current liabilities [1]	5,275	4,010	1,755	111
Current liabilities [1]	**21,516**	**20,824**	**2,786**	**503**
Capitalized tax loss carryforwards	5,041	9,561	–	–
Gross amount [1]	**146,394**	**147,967**	**46,334**	**41,419**
Valuation allowance on temporary differences	–1,166	–615	–	–
Offset [1]	–64,873	–65,783	–64,873	–65,783
Deferred taxes from consolidation entries	53,208	52,133	19,802	25,835
Carrying amount	**133,563**	**133,702**	**1,263**	**1,471**

[1] Deferred tax liabilities are offset with deferred tax assets on the balance sheet items where these refer to the same taxable entity.

The recoverable amount of the recognized deferred tax assets on recognized tax loss carryforwards and temporary differences at the consolidated companies is tested for valuation allowances once a year on the basis of the future taxable profit, which was determined on the basis of a five-year operating plan. A loss from valuation allowances is recognized where a realization of the deferred tax assets is unlikely. Deductible temporary differences of EUR 4,645 thousand (2016: EUR 1,859 thousand) are not accounted for as these are not expected to be utilized during the planning period.

The deferred taxes on consolidation entries mainly relate to deferred taxes from the elimination of intercompany profits in inventories as well as in intangible assets and in property, plant and equipment.

Deferred taxes are determined on the basis of the tax rates which, under the legislation in force, apply in the individual countries at the time of realization or which are expected.

Tax loss carryforwards were as follows at the end of the year:

CAPITALIZED TAX LOSS CARRYFORWARDS

in € thousand	2017	2016
Corporate income tax	18,865	27,131
Trade tax and state tax USA	15,180	81,562
	34,045	**108,693**

NON-CAPITALIZED TAX LOSS CARRYFORWARDS

in € thousand	2017	2016
Corporate income tax	41,731	38,348
of which does not expire	41,731	38,348
Trade tax and state tax USA	14,109	14,072
of which does not expire	14,109	14,072
	55,840	**52,420**

Deferred taxes are recognized on loss carryforwards of EUR 13,541 thousand (2016: EUR 65,298 thousand) of the US companies which are subject to an average state tax of between 3.46 and 4.15 percent (2016: between 2.16 and 2.48 percent).

Theoretically, deferred taxes of EUR 10,459 thousand (2016: EUR 10,088 thousand) would have been recognized for unrecognized corporate income and trade tax losses. However, these deferred taxes were not recognized as the recoverability of the loss carryforwards could not be assumed.

Despite losses in the current and / or prior year, deferred tax assets of EUR 83,335 thousand (2016: EUR 74,725 thousand) were recognized for loss carryforwards and temporary differences. The amounts are recognized on the basis of the tax planning for the German fiscal unit or the approved budget for the foreign subsidiaries. Management assumes that the companies in question will generate sufficient taxable profits in the future.

The expense from the valuation allowance on deferred tax assets amounted to EUR 1,812 thousand (2016: EUR 71 thousand). The income from the reversal of a previous valuation allowance on deferred tax assets came to EUR 325 thousand in fiscal year 2017 (2016: EUR 386 thousand).

Current income taxes of EUR 960 thousand (2016: EUR 341 thousand) are recognized directly in equity and relate to the share of the distribution on participation certificates relating to the equity component.

The deferred tax assets recognized in other comprehensive income decreased by EUR 458 thousand (2016: increased by EUR 8,915 thousand) during the period and mainly concerned the recognition of the effects from the remeasurements of pension plans directly in equity.

17 PERSONNEL EXPENSES / HEADCOUNT

PERSONNEL EXPENSES

in € thousand	2017	2016
Wages and salaries	827,002	824,864
Social security	150,020	150,641
Pension expenses and related employee benefits	30,033	23,691
	1,007,055	**999,195**

Personnel expenses include the remuneration of the members of the Executive Board of the general partner Drägerwerk Verwaltungs AG, Lübeck, Germany. Please refer to our comments in the remuneration report (Note 48).

↗ Note 48

Depending on function, personnel expenses are taken into account in the cost of sales, research and development costs, marketing and selling expenses, as well as administrative expenses.

Personnel expenses included severance payments of EUR 1,603 thousand (2016: EUR 3,520 thousand).

HEADCOUNT AS OF THE BALANCE SHEET DATE

	2017	2016
Germany	6,434	6,227
Other countries	7,305	7,036
Total headcount	**13,739**	**13,263**
Production [1]	2,113	2,094
Other [1]	11,626	11,169
Total headcount	**13,739**	**13,263**

[1] Values for 2016 adjusted due to amended allocation

HEADCOUNT (AVERAGE)

	2017	2016
Germany	6,346	6,309
Other countries	7,182	7,162
Total headcount	**13,528**	**13,472**
Production [1]	2,087	2,112
Other [1]	11,441	11,360
Total headcount	**13,528**	**13,472**

[1] Values for 2016 adjusted due to amended allocation

Please see the comments in the management report for more information on the development of headcount.

18 AMORTIZATION ON INTANGIBLE ASSETS AND DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Amortization on intangible assets and depreciation of property, plant and equipment of EUR 84,234 thousand (2016: EUR 85,817 thousand) were incurred in the following functional areas:

DISTRIBUTION OF DEPRECIATION / AMORTIZATION ON THE FUNCTIONAL AREAS

in € thousand	2017	2016
Cost of sales	37,586	39,045
Research and development costs	4,525	3,167
Marketing and selling expenses	4,735	6,346
General administrative expenses	37,387	37,259
	84,234	**85,817**

Pursuant to IAS 36, checks were performed as of the reporting date to establish whether there are any indications that assets may be impaired. Impairment losses of EUR 27 thousand were recognized on office and factory equipment in fiscal year 2017.

The impairment loss on the property, plant and equipment of the cash-generating units of EUR 922 thousand resulting from the impairment test in the financial year 2016 was primarily attributable to office and factory equipment and leasehold improvements and was recognized under general administrative expenses.

19 EARNINGS / DIVIDEND PER SHARE

Dräger determines and reports earnings per share in the case of a full dividend distribution. The method used for calculating earnings per share in the case of a full distribution assumes an actual full distribution of net profit less the share in net profit of non-controlling interests to common and preferred shareholders as well as to holders of participation certificates. Here, the future tax benefits, which would result in the case of a hypothetical full distribution on participating equity instruments (in the form of participation certificates at Dräger), are to be taken into account when calculating earnings per share and distributed to shareholders and holders of participating equity instruments. This approach was confirmed by IFRIC in June 2017. If an actual full distribution of net profit is assumed, earnings per share are calculated as follows in the case of a full distribution due to the effects on earnings attributable to participation certificates with an unchanged average number of shares outstanding:

EARNINGS / DIVIDEND PER SHARE ON FULL DISTRIBUTION

		2017	2016
Net profit	€ thousand	98,500	81,736
less the share of earnings attributable to non-controlling interests	€ thousand	–30	345
Earnings attributable to shareholders and holders of participation certificates	**€ thousand**	**98,530**	**81,391**
plus future tax benefits resulting from the hypothetical case of a full distribution on participating equity instruments	€ thousand	9,493	7,888
Earnings attributable to shareholders and holders of participation certificates, including the tax benefit	**€ thousand**	**108,023**	**89,280**
less earnings attributable to holders of participation certificates (excluding the minimum dividend of EUR 345 thousand)	€ thousand	34,420	28,425
Earnings attributable to shareholders	**€ thousand**	**73,603**	**60,855**
Weighted average of outstanding preferred shares	**(unit)**	**7,600,000**	**7,600,000**
Weighted average of outstanding common shares	**(unit)**	**10,160,000**	**10,160,000**
Undiluted / diluted earnings per common share	**€**	**4.12**	**3.40**
Preference per preferred share	€	0.06	0.06
Undiluted / diluted earnings per preferred share	**€**	**4.18**	**3.46**

The proposed distribution is based on the annual financial statements of Drägerwerk AG & Co. KGaA in accordance with German commercial law and is as follows:

CALCULATION OF PROPOSED DISTRIBUTION

	Number of shares (piece)	Dividend per share in €	Dividend in €
Common shares	10,160,000	0.40	4,064,000.00
Preferred shares	7,600,000	0.46	3,496,000.00
Participation certificates	831,951	4.60	3,826,974.60
			11,386,974.60

Considering the tax benefit and the minimum dividend on participation certificates, the proposed distribution rate is effectively 11.56 percent (2016: 5.34 percent).

As in the prior year, 831,951 Drägerwerk AG & Co. KGaA participation certificates were issued as of December 31, 2017. In accordance with the terms and conditions of participation certificates, Drägerwerk AG & Co. KGaA will grant the holders either ten common or preferred shares per certificate or ten times the current stock market price of preferred shares upon termination.

↗ Note 33

The factor ten is used due to the share split, which did not apply to the participation certificates (please refer to the information on participation certificates provided in Note 33).

A dilution of earnings per share does not have to be calculated, as the owners of the participation certificates do not have the right to exchange their participation certificates against shares and Drägerwerk AG & Co. KGaA irrevocably relinquished its right to exchange its participation certificates against shares in favor of the holders of participation certificates and their legal successors by way of Executive Board resolution.

Likewise, the possibility of acquiring treasury shares cannot lead to dilution due to the provisions governing the use of such shares.

Notes to the consolidated balance sheet

20 INTANGIBLE ASSETS

INTANGIBLE ASSETS AS OF DECEMBER 31, 2017

in € thousand	Goodwill	Patents, trademarks and licences	Purchased software	Internally generated intangible assets	Leased assets (finance lease)	Payments made	2017 Total
Cost							
January 1, 2017	314,233	37,232	117,993	12,887	2,585	3,543	488,472
Additions	–	3	5,017	–	–	1,589	6,609
Disposals	–	–2,390	–1,046	–31	–	–	–3,467
Reclassifications	–	–	3,734	–	–	–3,733	0
Change in the scope of consolidation	1,114	1,609	–	–	–	–	2,723
Currency translation effects	–2,040	–2,597	–1,269	–106	–	23	–5,989
December 31, 2017	**313,307**	**33,857**	**124,428**	**12,750**	**2,585**	**1,421**	**488,348**
Accumulated amortization and impairment losses							
January 1, 2017	5,026	22,314	99,503	12,887	1,163	–	140,893
Additions	–	1,577	10,263	–	517	–	12,357
Disposals	–	–2,389	–1,042	–31	–	–	–3,462
Change in the scope of consolidation	–	3	–	–	–	–	3
Currency translation effects	–113	–2,510	–1,200	–106	–	–	–3,929
December 31, 2017	**4,913**	**18,996**	**107,524**	**12,750**	**1,680**	**0**	**145,863**
Net carrying value	**308,394**	**14,861**	**16,903**	**0**	**905**	**1,421**	**342,485**

INTANGIBLE ASSETS AS OF DECEMBER 31, 2016

in € thousand	Goodwill	Patents, trademarks and licences	Purchased software	Internally generated intangible assets	Leased assets (finance lease)	Payments made	2016 Total
Cost							
January 1, 2016	313,579	37,408	113,541	12,859	2,585	5,694	485,665
Additions	–	18	4,970	–	–	2,222	7,210
Disposals	–	–900	–5,313	–	–	–6	–6,219
Reclassifications	–	–	4,367	–	–	–4,367	0
Currency translation effects	654	705	429	28	–	0	1,816
December 31, 2016	**314,233**	**37,232**	**117,993**	**12,887**	**2,585**	**3,543**	**488,472**
Accumulated amortization and impairment losses							
January 1, 2016	4,947	21,041	94,395	12,859	646	–	133,889
Additions	–	1,503	10,163	–	517	–	12,183
Disposals	–	–900	–5,312	–	–	–	–6,212
Currency translation effects	79	671	256	28	–	–	1,033
December 31, 2016	**5,026**	**22,314**	**99,503**	**12,887**	**1,163**	**0**	**140,893**
Net carrying value	**309,207**	**14,917**	**18,490**	**0**	**1,422**	**3,543**	**347,579**

Goodwill mainly resulted from the transfer in fiscal year 2003 of the “Electromedical Systems” business unit of Siemens Medical Solutions to Dräger Medical GmbH (now: Drägerwerk AG & Co. KGaA). Goodwill increased further on account of the buyback of Siemens’ 35 percent share in Dräger Medical GmbH (now: Drägerwerk AG & Co. KGaA) in fiscal years 2007 and 2009.

The assets used under finance leases consist exclusively of software.

Amortization is contained in the cost of sales and the other functional costs.

Goodwill impairment

↗ Note 43

The discounted cash flow method is used for measuring the recoverable amount of goodwill by determining fair value less selling costs, based on the operational five-year plan for the business segments which, in the case of goodwill, represent the cash generating units. The determination is assigned to level 3 (see Note 43) as there are unobservable input factors that significantly influence the measurement. A reconciliation of goodwill can be found in the statement of changes for intangible assets. Goodwill is attributed to the relevant segment on the basis of the relative values of the segments. As of December 31, 2017, goodwill of EUR 308.4 million (2016: EUR 309.2 million) was made up of EUR 227.6 million for the Europe segment (2016: EUR 228.0 million), and EUR 80.8 million for the Africa, Asia and Australia segment (2016: EUR 81.2 million). No goodwill was attributable to the Americas segment, as in the prior year.

The main planning assumptions are market growth, development of market shares, and market price trends. The estimations of these parameters are included in the planning of country organizations. The resulting "bottom-up" planning on the part of the countries is validated and, when necessary, adjusted at Group headquarters. Based on these assumptions, sales growth of 3.9 percent is expected for the Europe segment (2016: 1.4 percent) between 2018 and 2022 (2016: 2017 to 2021), and 5.7 percent for the Africa, Asia and Australia segment (2016: 4.0 percent), resulting in overall growth for the Group of 5.0 percent (2016: 2.7 percent) between 2018 and 2022 (2016: 2017 to 2021). The calculation was also based on the following discounting rate assumptions:

In the current planning, a discount rate of 6.6 percent (2016: 7.3 percent) after taxes and a growth rate of 1.0 percent (2016: 1.0 percent) were taken into account for perpetual annuity of the Europe segment. A discount rate of 7.9 percent (2016: 9.4 percent) after taxes and a growth rate of 1.0 percent (2016: 1.0 percent) were taken into account for perpetual annuity of the Africa, Asia and Australia segment.

The underlying assumptions are validated by external sources of information on market development. No impairment loss was required on the basis of this multi-year plan. Even if the perpetual annuity was to grow by 0 percent and the discount rate were to increase by another 2 percentage points, no impairment loss would have to be recognized. In a further "lower case scenario," we performed an additional impairment test with negative currency effects and more conservative growth assumptions; this impairment test also did not indicate a need for impairment.

21 PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT AS OF DECEMBER 31, 2017

in € thousand	Land, equivalent titles and buildings	Production plant and machinery	Other plant, factory and office equipment	Leased equipment	Leased assets (finance lease)	Prepayments made and assets under construction	2017 Total
Cost							
January 1, 2017	461,778	118,297	358,501	80,156	15,152	40,435	1,074,319
Additions	16,974	2,921	20,681	2,208	92	34,228	77,104
Disposals	–18,620	–2,904	–19,995	–10,276	–225	–485	–52,506
Reclassifications	14,594	23	21,754	–1,134	–	–35,237	0
Reclassifications of rental and demo equipment	–	–	26,119	10,066	–	–	36,185
Change in the scope of consolidation	–	–	4	–	–	–	4
Currency translation effects	–7,488	–3,092	–6,781	–8,382	–137	–55	–25,935
December 31, 2017	**467,237**	**115,245**	**400,282**	**72,637**	**14,882**	**38,886**	**1,109,171**
Accumulated depreciation and impairment losses							
January 1, 2017	229,046	96,778	263,430	59,672	4,528	14	653,468
Additions	17,355	6,250	36,464	11,139	668	–	71,877
Disposals	–16,518	–2,683	–18,036	–9,853	–151	–	–47,241
Reclassifications	–11	–1,445	2,128	–671	–	–	0
Reclassifications of rental and demo equipment	–	–	15,540	913	–	–	16,452
Currency translation effects	–4,076	–2,651	–5,430	–5,431	–91	–1	–17,679
December 31, 2017	**225,796**	**96,248**	**294,096**	**55,770**	**4,955**	**13**	**676,877**
Net carrying value	**241,442**	**18,997**	**106,187**	**16,867**	**9,928**	**38,874**	**432,294**

PROPERTY, PLANT AND EQUIPMENT AS OF DECEMBER 31, 2016

in € thousand	Land, equivalent titles and buildings	Production plant and machinery	Other plant, factory and office equipment	Leased equipment	Leased assets (finance lease)	Prepayments made and assets under construction	2016 Total
Cost							
January 1, 2016	410,154	121,240	333,326	69,488	13,450	74,383	1,022,041
Additions	19,222	2,907	27,081	−3,272	1,603	28,352	75,893
Disposals	−5,947	−5,759	−20,654	−5,560	−91	−84	−38,094
Reclassifications	39,272	1,687	20,486	630	–	−62,076	0
Reclassifications of rental and demo equipment	–	–	−2,623	16,943	–	–	14,319
Currency translation effects	−924	−1,778	886	1,926	190	−141	159
December 31, 2016	**461,778**	**118,297**	**358,501**	**80,156**	**15,152**	**40,435**	**1,074,319**
Accumulated depreciation and impairment losses							
January 1, 2016	217,287	97,424	246,911	50,303	3,752	11	615,686
Additions	16,125	6,966	36,952	12,844	748	–	73,634
Disposals	−5,119	−5,684	−19,400	−5,336	−91	–	−35,631
Reclassifications	139	−807	305	363	–	–	0
Reclassifications of rental and demo equipment	–	–	−2,406	−54	–	–	−2,460
Currency translation effects	614	−1,121	1,073	1,552	120	3	2,241
December 31, 2016	**229,046**	**96,778**	**263,430**	**59,672**	**4,528**	**14**	**653,468**
Net carrying value	**232,732**	**21,520**	**95,071**	**20,483**	**10,624**	**40,422**	**420,851**

Additions in fiscal year 2017 amounted to EUR 12,591 thousand and concerned the construction project in Krefeld for sales and service activities relating to safety products. Property, plant and equipment in the prior year included additions of EUR 20,828 thousand from the modernization of the Lübeck production site within the scope of the "factory of the future" project.

As in the prior year, Dräger did not receive any government grants that would have led to a reduction in additions to property, plant and equipment.

↗ Note 18

Amortization and impairment losses are contained in the cost of sales and the other functional costs (see also Note 18).

↗ Note 44

The assets leased under finance leases comprise real estate (EUR 9,486 thousand; 2016: EUR 9,857 thousand) as well as factory and office equipment (EUR 442 thousand; 2016: EUR 767 thousand) (also see Note 44).

No borrowing costs (2016: EUR 131 thousand) for additions for new buildings were recognized in the fiscal year. Interest rates of between 0.75 and 1.85 percent were used in the prior year as a basis for the recognition.

22 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

As in prior years, the associate in question is MAPRA Assekuranzkontor GmbH, Lübeck, an insurance broker, in which Dräger holds 49 percent of the shares and over which Dräger exercises significant influence. MAPRA Assekuranzkontor GmbH continues to be included in the Group financial statements and accounted for using the equity method; its fiscal year ends on December 31.

As this company in and of itself is not material, Dräger exercises the option to use the simplified consolidated method.

The following figures are based on the most recently published annual financial statement of the company.

FINANCIAL INFORMATION ON ASSOCIATES

in € thousand	2017	2016
Carrying value of the Group shares of associates	420	373
Share in the profits from continued operations / total profits of the associates	292	244

In working groups together with other partners, Dräger Engineered Solutions offers fire training facilities for firefighters. As of the balance sheet date, Dräger is involved in four (2016: four) working groups, which are accounted for as joint ventures using the equity method. As in the prior year, the interests in these amount to between 51 percent and 74 percent. These working groups do not generate any income of their own and their shares were not purchased. As a result, these do not need to be presented in the consolidated balance sheet nor does any financial information need to be presented. As their business in and of itself is not material, Dräger exercises the option to use the simplified consolidated method.

There are no obligations to associates and joint ventures to provide financing or resources that are not accounted for; nor are there any contingent liabilities.

23 OTHER NON-CURRENT FINANCIAL ASSETS

OTHER NON-CURRENT FINANCIAL ASSETS

in € thousand	2017	2016
Security deposits paid	5,628	5,308
Trade receivables	3,954	2,944
Other investments	3,257	281
Finance lease receivables (lessor)	1,715	1,936
Other loans	1,137	1,408
Positive fair values of derivatives	558	1,126
Sundry non-current financial assets	820	934
	17,068	**13,937**

The non-current receivables do not carry any discernible risks nor have they been impaired by any bad debt allowances.

Where other non-current financial assets do not bear interest, fair value is determined by discounting future cash flows.

Sundry non-current financial assets include other non-current securities of EUR 694 thousand (2016: EUR 797 thousand).

For further details of the long-term positive fair values of derivative financial instruments, please refer to the table of derivative financial instruments in the Dräger Group (Note 43).

↗ Note 43

For further details of finance lease receivables, please refer to our comments on recognition of finance leases by the lessor (Note 44).

↗ Note 44

24 DEFERRED TAX ASSETS

↗ Note 16

Deferred tax assets are explained in Note 16.

25 OTHER NON-CURRENT ASSETS

OTHER NON-CURRENT ASSETS

in € thousand	2017	2016
Fund assets from pension plans	82	73
Sundry non-current assets	2,914	2,053
	2,996	**2,126**

↗ Note 34

Fund assets relating to pension plans contain the available excess of plan assets (see also Note 34).

Sundry non-current assets include receivables from taxes of two foreign subsidiaries of EUR 2,558 thousand (2016: EUR 1,537 thousand).

26 INVENTORIES

INVENTORIES

in € thousand	2017	2016
Finished goods and merchandise	206,798	208,525
Work in progress	52,847	48,768
Raw materials, consumables, and supplies	125,965	126,999
Payments made	2,111	2,467
	387,720	**386,759**

The carrying value of inventories written down to their net realizable value as of December 31, 2017, is EUR 151,202 thousand (2016: EUR 129,280 thousand).

Impairment losses of EUR 26,777 thousand (2016: EUR 23,918 thousand) were charged on inventories in the fiscal year and recognized in cost of sales. However, EUR 8,640 thousand (2016: EUR 12,894 thousand) of impairments recognized in prior years were reversed through profit or loss.

Finished goods and merchandise comprise loan equipment and demo equipment lent to customers in the short term worth EUR 10,350 thousand (2016: EUR 17,322 thousand). Loan and demo equipment is usually taken over by the customers after a short period of time and is therefore disclosed in inventories. Appropriate allowances were made for wear and tear over the period of use.

During the fiscal year, inventories with a carrying value of EUR 907,123 thousand (2016: EUR 892,467 thousand) were recognized in cost of sales.

As in the prior year, no interest on debt was included in the measurement of inventories.

27 TRADE RECEIVABLES AND RECEIVABLES FROM CONSTRUCTION CONTRACTS

TRADE RECEIVABLES AND RECEIVABLES FROM CONSTRUCTION CONTRACTS

in € thousand	2017	2016
Trade receivables	641,696	645,058
Receivables from construction contracts	27,479	36,685
	669,175	**681,743**

The risks associated with trade receivables are adequately accounted for by bad debt allowances. Bad debt allowances developed as follows:

SPECIFIC BAD DEBT ALLOWANCES

in € thousand	2017	2016
January 1	45,052	31,929
Allocation	9,320	22,261
Utilization	–3,808	–5,267
Reversal	–7,807	–4,405
Currency translation effects	–2,334	534
December 31	**40,423**	**45,052**

The aging of trade receivables is as follows:

AGING OF OVERDUE RECEIVABLES NOT SUBJECT TO BAD DEBT ALLOWANCES

in € thousand	2017	2016
Receivables neither impaired nor overdue	474,569	470,704
Receivables subject to bad debt allowances	14,210	16,626
Overdue receivables not subject to bad debt allowances		
– less than 30 days	77,251	71,492
– between 30 and 59 days	28,585	32,720
– between 60 and 89 days	14,627	17,920
– between 90 and 119 days	12,938	13,826
– more than 120 days	46,995	58,454
	180,396	194,412
Carrying amount	**669,175**	**681,743**

Letters of credit and bank guarantees were secured on trade receivables of EUR 6,384 thousand on December 31, 2017 (2016: EUR 9,588 thousand). The fair value largely corresponds to the nominal value. In addition, the maximum credit risk on the reporting date corresponds to the carrying amount of the aforementioned receivables.

The credit quality of those receivables that are neither impaired nor overdue is determined on the basis of external credit ratings or historical experience regarding the default rates of the respective business partners. Our analysis indicates that no allowance is required.

In the case of overdue receivables of approximately EUR 3,598 thousand (2016: EUR 5,645 thousand), which are not subject to bad debt allowances, payment is expected after a period of more than 365 days. A payment period of less than one year was initially agreed for these receivables within the scope of the company's normal operating cycle. As such, they are still disclosed as current receivables and are not discounted.

In addition to costs incurred for the contracts, receivables from construction contracts include the corresponding profit and were offset against part payments received.

The cost of production incurred for the contracts in progress plus the corresponding profit amounted to EUR 45,900 thousand (2016: EUR 53,622 thousand) as of the balance sheet date and were offset against partial payments received of EUR 18,421 thousand (2016: EUR 16,937 thousand). This leads to receivables from construction contracts of EUR 27,479 thousand (2016: EUR 36,685 thousand).

No specific bad debt allowances were recognized on receivables from construction contracts. There are no overdue trade receivables or receivables from construction contracts which require additional bad debt allowances.

28 OTHER CURRENT FINANCIAL ASSETS

OTHER CURRENT FINANCIAL ASSETS

in € thousand	2017	2016
Notes receivable	13,771	14,489
Receivables from commissioning agents	8,949	9,148
Positive fair values of derivatives	8,176	6,425
Real estate sale receivables	2,640	–
Security deposits paid	2,298	2,687
Creditors with debit balances	1,463	1,854
Receivables from employees	1,059	1,537
Finance lease receivables (lessor)	366	508
Receivables from associates	4	4
Sundry	555	584
	39,281	**37,236**

Notes receivable chiefly stem from the Chinese and Japanese subsidiaries where the bill of exchange is a common method of payment.

Of the receivables from commissioning agents, EUR 8,949 thousand (2016: EUR 9,148 thousand) are overdue by more than 120 days. No allowance is required.

For the derivative financial instruments recognized as other financial assets, please refer to the table of derivative financial instruments in the Dräger Group (Note 43).

↗ Note 43

↗ Note 44

For details of finance lease receivables, please refer to our comments on recognition of finance leases by the lessor (Note 44).

As in the prior year, all other current financial assets are neither impaired nor overdue.

29 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and balances at various banks in different currencies. Cash and cash equivalents which were subject to restrictions as of the balance sheet date amount to EUR 4,935 thousand (2016: EUR 5,398 thousand). These restrictions primarily concerned currency export restrictions and other contractual and legal limitations.

30 OTHER CURRENT ASSETS

OTHER CURRENT ASSETS

in € thousand	2017	2016
Prepaid expenses	26,523	22,487
Other tax refund claims	26,659	24,054
Receivables from investment allowances	701	852
Sundry	3,617	4,033
	57,500	**51,427**

As in the prior year, no specific bad debt allowances are required for other current assets.

Other tax refund claims largely consist of VAT claims.

31 EQUITY

For the breakdown and changes in equity in fiscal years 2017 and 2016, please see the statement of changes in equity of the Dräger Group.

Capital stock

The capital stock of Drägerwerk AG & Co. KGaA amounts to EUR 45,466 thousand (2016: EUR 45,466 thousand).

As in the prior year, this capital stock is divided into 10,160,000 limited no-par bearer common shares and 7,600,000 limited no-par preferred shares.

The nominal value of both share types is EUR 2.56. Drägerwerk Verwaltungs AG, the general partner, holds no shares in capital.

The capital stock has been fully paid in. As before, the preferred and common shares are traded on the capital market.

Other than voting rights, the preferred shares have the same rights as those attached to the common shares. As compensation for the lack of voting rights, an advance dividend of EUR 0.13 per preferred share is distributed from net earnings.

If sufficient profits are available, a dividend of EUR 0.13 per common share is then paid. Any profit in excess of this amount, if distributed, is allocated so that preferred shares receive EUR 0.06 more than common shares.

If the profit is not sufficient to distribute the advance dividend for preferred shares in one or more years, the amounts are paid from the profit of subsequent fiscal years before a dividend is paid on common shares.

If amounts in arrears are not paid in the next year along with the full preferred dividend for that year, the preferred shareholders have voting rights until the arrears have been paid.

In the event of liquidation, the preferred shareholders receive 25 percent of net liquidation proceeds in advance. The remaining liquidation proceeds are distributed evenly among all shares.

By resolution of the annual shareholders' meeting on April 27, 2016, the general partner is authorized to increase the capital stock of the company, with the approval of the Supervisory Board, until April 26, 2021, by issuing new bearer common shares and / or preferred shares (no-par shares) in return for cash and / or contributions in kind by up to EUR 11,366,400.00 (authorized share capital) in one or several tranches. The authorization includes the entitlement to optionally issue new common shares and / or non-voting preferred shares up to the statutory maximum as stipulated in Sec. 139 (2) AktG, which carry the same status as the previously issued non-voting preferred shares with regard to the distribution of profits and / or company assets.

In the case of common and preferred shares being issued at the same time while maintaining the ratio of both share types at the time of issuance, the general partner is authorized, subject to approval by the Supervisory Board to exclude the subscription right of holders of one category of shares of the other category ("crossed exclusion of subscription rights"). Also in this case, the general partner is entitled to exclude further subscription rights under the terms of the regulations stated below.

The general partner is further authorized, subject to the approval of the Supervisory Board, to exclude the subscription rights of the shareholders:

(i) in order to compensate for any fractional amounts;

(ii) if the shares are issued in exchange for contributions in kind, especially in the context of company mergers or the acquisition of companies, business units, or equity interests in companies or of other assets or of claims to the acquisition of other assets, including receivables from the company or from companies controlled by it within the meaning of Sec. 17 AktG;

(iii) if the shares of the company are issued in exchange for cash and the issue price per share does not significantly fall below the stock market price of an essentially similarly structured, already listed share of the same class at the time the shares are issued. The exclusion of the subscription right can in this event be conducted, however, only if the number of the shares issued in this way together with the number of other shares that are issued or sold during the term of this authorization subject to an exclusion of subscription right in direct application or application mutatis mutandis of Sec. 186 (3) sentence 4 AktG, and with the number of shares that may be created as the result of the exercise or fulfillment of option and / or conversion rights or obligations arising from warrant and / or convertible bonds and / or participation rights that are issued during the term of this authorization subject to an exclusion of subscription right in application mutatis mutandis of Sec. 186 (3) sentence 4 AktG does not exceed 10 percent of the share capital either at the time that this authorization comes into effect or at the time the new shares are issued;

(iv) if this is necessary in order to grant holders or creditors of warrant and / or convertible bonds with option and / or conversion rights and obligations that are issued by the company or one of the companies in which it holds a majority interest a right to subscribe to new shares in the extent to which they would be entitled after exercising the option or conversion rights or after fulfilling option or conversion obligations.

The proportion of the share capital attributed in total to new shares for which the subscription right is excluded on the basis of this authorization may, together with the proportion of the share capital that is attributed to treasury shares or to new shares from other authorized capital or that relates to the option or conversion rights or obligations arising from options, warrant and / or convertible bonds and / or participation rights that have been sold or issued during the term of this authorization subject to the exclusion of subscription rights, not exceed 20 percent of the share capital. Shares issued under a crossed exclusion of subscription rights are excluded from the limitation to 20 percent of capital stock. The key factor for calculating the 20 percent limit is the existing share capital at the time that this authorization comes into effect or is exercised, on whichever of these dates the share capital is at its lowest.

The general partner is authorized, subject to the approval of the Supervisory Board, to determine the details of the share rights and of the capital increase as well as the terms and conditions of the share issue, in particular the issue price. The Supervisory Board is entitled to adjust the wording of the articles of association in line with the utilization of the authorized capital or after the authorization period expires.

Reports regarding voting rights

Sec. 160 (1) No. 8 AktG requires disclosure of the existence of investments that have been notified to the company in accordance with Sec. 21 (1) or (1a) WpHG.

The following table shows the reportable investments disclosed during the Drägerwerk AG & Co. KGaA's fiscal year. Please note that the disclosures may have changed following the preparation of this report.

DISCLOSED REPORTABLE INVESTMENTS

Reporter	Date that thresholds were exceeded or undercut	Reporting threshold	Allocation pursuant to WpHG	Investment	Investment in voting rights
Norwegian government, Oslo, Norway	March 30, 2017	3 % exceeded	sec. 34	3.01 %	305,354
Norwegian government, Oslo, Norway	April 3, 2017	3 % undercut	sec. 34	1.41 %	142,876
Norwegian government, Oslo, Norway	April 10, 2017	3 % exceeded	sec. 34	3.05 %	309,920

Capital reserves

The capital reserves originated from share premiums from the 25 option rights exercised in the period from 2013 to 2015, Drägerwerk AG & Co. KGaA's establishment (transformation) in 1970 and from capital increases in 1979, 1981, 1991, and 2010.

Retained earnings

Retained earnings comprise the earnings generated until fiscal year 2017 by the companies included in the Group financial statements, where they were not attributed to minority interests or paid as a dividend by Drägerwerk AG & Co. KGaA. The actual tax benefit from the tax deductibility of the distribution on participation certificates, which relates to the participation capital recognized in equity, was recognized directly in retained earnings. Effects from the remeasurements of the company's pension provisions, including deferred taxes, are also included in retained earnings.

Other effects, which reduced retained earnings, mainly comprise the distribution to shareholders and participation certificate holders (EUR 4,001 thousand; 2016: EUR 4,001 thousand).

Retained earnings, including Group result, therefore changed as follows:

RETAINED EARNINGS, INCL. GROUP RESULT

in € thousand	2017	2016
Retained earnings, incl. Group result as of January 1	682,803	626,634
Changes from remeasurements of pension plans (after taxes)	3,054	−21,563
Net profit for the year (excluding non-controlling interests)	98,530	81,391
Other effects	−3,474	−3,660
Retained earnings, incl. Group result as of December 31	**780,913**	**682,803**

Own shares within the scope of the employee share program

In fiscal year 2017, the Executive Board once again resolved to enable Dräger employees in Germany to participate in the company through an employee share program. This was designed to increase employees' identification with the company and Dräger's attractiveness as an employer.

One bonus share was issued for every three investment shares bought by the employee. The maximum purchase price per investment share for the employees amounted to EUR 92.21 (which corresponded to the closing price of the preferred shares in Xetra trading on the last trading day before the start of the acquisition period, meaning on November 3, 2017). The shares are subject to a two-year holding period and may not be sold or otherwise transferred during this period. Employees do not have to continue their employment with the company during the holding period.

The participation period, during which employees could acquire the share parcels, started on November 6, 2017 and ended on November 15, 2017. During this period, 10,134 bonus shares resulted from the shares acquired by employees, including Executive Board members. An account was opened with Deutsche Bank Privat- und Geschäftskunden AG (paying agent), Frankfurt am Main, Germany, for the entry and custody of bonus shares for participating employees.

The 10,134 bonus shares were acquired for Dräger on the stock exchange in the period from November 6 to November 15, 2017 by the paying agent on a commission basis in the form of a share buyback at a total cost of EUR 836 thousand. The price on the stock exchange amounted to an average of EUR 82.46. The total price for investment and bonus shares, acquired for and on behalf of Dräger, totals EUR 3,342 thousand. Of this amount, EUR 2,116 thousand was passed on to the employees. The shares were transferred directly to the respective employee's securities accounts. The contractually agreed benefits for the employees arising from this program consist of the lower average price compared to the maximum purchase price plus the values of the bonus shares. This benefit was recognized in personnel expenses in the amount of EUR 1,226 thousand. Aside from the price paid on the stock exchange, no other expectations for future dividends or other characteristics were included in the fair value of the bonus shares.

The acquisition of own shares to pass on to participating employees in the form of bonus shares is covered by the resolution of the annual shareholders' meeting on April 27, 2016, according to which the general partner is authorized to acquire until April 26, 2021 up to 10 percent of the own shares of both types (common and / or preferred shares) of the company's capital stock as of the date of resolution or – if this value is lower – as of the date on which the authorization is exercised. Together with all other shares held by the company or attributable to it according to

Sec. 71a et seq. AktG, shares purchased under this provision may at no time equal more than 10 percent of capital stock. The authorization may not be used for the purpose of trading in treasury shares. The authorization may be exercised in whole or in part, on one or more occasions and for one or more purposes by the company or by dependent Group companies or enterprises in which the company has a majority shareholding, or by third parties for its or their account. The purchase may be limited in part or in full to a single class of shares by excluding, in part or in full, the shareholders' right to sell the other class of share.

The purchase may, at the discretion of the general partner, be effected by the stock exchange, or by means of a public purchase offer to all holders of the respective type of share or by means of a public invitation to all holders of the respective type of share to submit offers for sale.

If the shares are acquired on the stock market, the purchase price paid by the company per share of the same class (excluding incidental acquisition costs) may not be more than 10 percent higher or lower than the price of the shares of the class in question ascertained on the relevant trading day by the opening auction in Xetra trading (or on a functionally comparable successor system replacing the Xetra system) on the Frankfurt Stock Exchange.

If the purchase is effected by means of a public purchase offer to all holders of the respective type of share or by means of a public invitation to all holders of the respective type of share to submit offers for sale,

- the offered purchase price per share of the respective type (excluding incidental acquisition costs) in the case of a public purchase offer to all holders of the respective type of share, or rather
- the threshold values of the purchase price spread defined by the company (excluding incidental acquisition costs) in the case of a public invitation to all holders of the respective type of share to submit offers for sale,

may not be more than 10 percent higher or lower than the volume-weighted average of the closing auction prices for shares of the class in question in Xetra trading (or on a functionally comparable successor system replacing the Xetra system) on the Frankfurt Stock Exchange during the last five stock exchange trading days before the date that the public purchase offer or the public invitation to submit offers for sale is publicly announced.

If significant deviations in the relevant price arise after a public purchase offer directed to all shareholders of a class or a public invitation to submit offers for sale directed to all shareholders of a class is published, then the purchase offer or the public invitation to submit offers for sale can be adjusted. In this event, the volume-weighted average of the closing auction prices for shares of the class in question in Xetra trading (or on a functionally comparable successor system replacing the Xetra system) on the Frankfurt Stock Exchange during the last five stock exchange trading days before the adjustment is publicly announced will be taken as the basis.

The volume of the purchase offer or of the public solicitation of offers can be limited. If in a public purchase offer or a public solicitation of offers, the volume of the tendered shares exceeds the intended buyback volume, the acquisition can be conducted in proportion to the shares subscribed or offered in each case; the right of the shareholders to offer their shares for sale in proportion to their shareholding ratio is excluded in this respect. A preferential acceptance of small lots of up to 100 tendered shares per shareholder as well as commercial rounding in order to avoid mathematical fractions of shares can be stipulated. Any more extensive option to sell of the shareholders is excluded in this respect.

The public purchase offer or the public solicitation of offers can stipulate further terms and conditions.

The general partner is authorized to use treasury shares acquired on the basis of this authorization for any lawful purposes.

The authorization to use treasury shares subject to the exclusion of the subscription right of the shareholders is limited, however, in so far as the sum of the treasury shares used subject to the exclusion of the subscription right of the shareholders together with the number of other shares that are issued from authorized capital during the term of this authorization subject to the exclusion of the subscription right or have to be issued on account of options, warrant and / or convertible bonds or participation rights issued during the term of this authorization subject to the exclusion of the subscription right may not exceed 20 percent in total of the share capital after the authorization is exercised. The key factor is either the share capital at the time that this authorization comes into effect or the share capital present at the time this authorization is exercised, depending on which value is lower.

The purchase of treasury shares by the general partner may be initiated only with the approval of the Supervisory Board.

Participation capital

↗ Note 33

Please refer to Note 33 for details on participation capital.

Other comprehensive income

OTHER COMPREHENSIVE INCOME

in € thousand	2017	2016
Currency translation adjustment	–21,494	10,169
Derivative financial instruments	–2,008	–633
Available-for-sale financial assets	59	31
Deferred taxes recognized directly in equity	621	117
	–22,822	**9,683**

The year-on-year change in the adjustment item for foreign currency transactions was mainly due to the translation of income statement items at average prices as well as the historical rates from the consolidation of investments.

Due to interest hedging, an amount of EUR 1,252 thousand (2016: EUR 2,043 thousand) was recognized directly in equity in the fiscal year and an amount of EUR 540 thousand (2016: EUR 555 thousand) was reclassified from equity to the interest result. A total of EUR –75 thousand (2016: EUR –18 thousand) was reclassified from equity to gross profit within the scope of currency hedging in fiscal year 2017.

Capital management

One of Dräger's most important goals is to increase the business's value. The key function of capital management in this respect is to minimize the cost of capital while ensuring solvency at all times by coordinating the due dates of financial liabilities with the expected free cash flow and creating sufficient liquidity reserves.

Capital is monitored regularly using various key metrics, which include gearing and the equity ratio.

The Dräger Group's equity and liabilities were as follows as of the balance sheet date:

EQUITY AND LIABILITIES

in € million	2017	2016
Equity interest held by shareholders of Drägerwerk AG & Co. KGaA	1,067.1	1,001.5
+ Non-controlling interests	1.3	2.0
Equity of the Dräger Group	1,068.3	1,003.5
Share of total equity and liabilities	45.4 %	43.4 %
Non-current liabilities	588.6	638.2
Current liabilities	697.4	670.6
Total liabilities	1,286.0	1,308.8
Share of total equity and liabilities	54.6 %	56.6 %
Total equity and liabilities	**2,354.4**	**2,312.3**

The Dräger Group's gearing had developed as follows as of the balance sheet date:

GEARING

in € million	2017	2016
Non-current interest-bearing loans	137.8	188.6
+ Current interest-bearing loans and liabilities to banks	71.5	57.0
+ Non-current and current liabilities from finance lease	9.1	10.5
– Cash and cash equivalents	–247.6	–221.5
Net financial debt	**–29.2**	**34.7**
Equity	1,068.3	1,003.5
Gearing (= net financial debt / equity)	**–0.03**	**0.03**

On December 31, 2017, the Dräger Group also agreed on bilateral credit lines of EUR 377.0 million due on June 30, 2022 to secure liquidity. The framework agreement for the bilateral credit lines stipulates target values based on certain financial covenants. Should the Dräger Group not comply with these, the banks are entitled to terminate the bilateral credit lines. The values have been specified so that the Dräger Group would only run the risk of being unable to meet them if the company's financial position was to deteriorate drastically. It is also possible for the Dräger Group to obtain the banks' approval to exceed or undercut these key figures at an early stage. Key financial performance figures are monitored continuously.

32 NON-CONTROLLING INTERESTS

Non-controlling interests are as follows:

NON-CONTROLLING INTERESTS

	Non-controlling interests		thereof net profit	
in € thousand	**2017**	**2016**	**2017**	**2016**
Dräger-Simsa S.A.	658	919	–221	–14
Dräger South Africa Pty. Ltd.	601	648	132	214
Draeger Safety Korunma Teknolojileri A.S.	–	472	56	145
Other	3	–	3	0
	1,262	**2,039**	**–30**	**345**

Non-controlling interests are of minor importance for the Group.

In the statement of changes in equity, other comprehensive income from non-controlling interests of EUR –97 thousand (2016: EUR 161 thousand) only include exchange rate differences.

In July 2017, Dräger acquired the remaining shares of Draeger Safety Korunma Teknolojileri A.S., Ankara, Turkey, (10 percent) at a total cost of EUR 1,137 thousand. This means that Dräger is this subsidiary's sole shareholder.

TRANSACTIONS WITH NON-CONTROLLING INTEREST WITHOUT A LOSS OF CONTROL

in € thousand	**2017**	**2016**
Carrying amount of the acquired non-controlling interest	489	–
Purchase price of the acquired non-controlling interest	–1,137	–
Difference between the purchase price and the carrying amount	**–648**	**0**

33 PARTICIPATION CAPITAL / LIABILITIES FROM PARTICIPATION CERTIFICATES

PARTICIPATION CAPITAL / LIABILITIES FROM PARTICIPATION CERTIFICATES 2017

	Number	Par value	Premium	Payments received	thereof recognized as debt	thereof recognized in equity
		€	€	€	€	€
Series A until June 1991	195,245	4,990,462.20	7,642,509.00	12,632,971.20	4,230,928.03	8,402,043.17
Series K until June 27, 1997	69,887	1,786,311.72	1,168,305.27	2,954,616.99	1,765,413.90	1,189,203.09
Series D from June 28, 1997	566,819	14,487,893.64	14,023,388.96	28,511,282.60	5,262,183.29	23,249,099.31
	831,951	**21,264,667.56**	**22,834,203.23**	**44,098,870.79**	**11,258,525.22**	**32,840,345.57**

Accumulated interest effect until 2016 (for remaining participation certificates after buyback)	11,428,536.98	–
Compensation for participation certificate holders in 2010 (for remaining participation certificates after buyback)	–	–3,343,471.88
Compounding 2017	1,073,932.75	–
Recognition as of December 31, 2017	**23,760,994.95**	**29,496,873.69**

PARTICIPATION CAPITAL / LIABILITIES FROM PARTICIPATION CERTIFICATES 2016

	Number	Par value	Premium	Payments received	thereof recognized as debt	thereof recognized in equity
		€	€	€	€	€
Series A until June 1991	195,245	4,990,462.20	7,642,509.00	12,632,971.20	4,230,928.03	8,402,043.17
Series K until June 27, 1997	69,887	1,786,311.72	1,168,305.27	2,954,616.99	1,765,413.90	1,189,203.09
Series D from June 28, 1997	566,819	14,487,893.64	14,023,388.96	28,511,282.60	5,262,183.29	23,249,099.31
	831,951	**21,264,667.56**	**22,834,203.23**	**44,098,870.79**	**11,258,525.22**	**32,840,345.57**

Accumulated interest effect until 2015 (for remaining participation certificates after buyback)	10,520,934.35	–
Compensation for participation certificate holders in 2010 (for remaining participation certificates after buyback)	–	–3,343,471.88
Compounding 2016	907,602.63	–
Recognition as of December 31, 2016	**22,687,062.20**	**29,496,873.69**

FAIR VALUE

			2017			2016
	Number	Price Dec. 31	Fair value	Number	Price Dec. 31	Fair value
		€	€		€	€
Series A until June 1991	195,245	385.00	75,169,325.00	195,245	429.00	83,760,105.00
Series K until June 27, 1997	69,887	374.99	26,206,926.13	69,887	402.00	28,094,574.00
Series D from June 28, 1997	566,819	380.00	215,391,220.00	566,819	430.00	243,732,170.00
	831,951		**316,767,471.13**	**831,951**		**355,586,849.00**

PARTICIPATION CAPITAL CONDITIONS

	Termination right of Drägerwerk AG & Co. KGaA	Termination right of participation certificate owner	Loss share	Minimum return	Dividend for participation certificates
				€	
Series A	yes	no	no	1.30	Dividend on preferred share x 10
Series K	yes	yes	no	1.30	Dividend on preferred share x 10
Series D	yes	yes	yes	–	Dividend on preferred share x 10

In fiscal year 2017 as well as in the prior year, no participation certificates were issued or bought back.

Drägerwerk AG & Co. KGaA does not intend to terminate the participation certificates.

If the participation certificate holder exercises the calling right, the amount repayable shall equal the average mean rate of the last three months at the Hamburg Exchange or a maximum of the weighted average issue price of the corresponding tranche. Series K may be terminated for the first time as of December 31, 2021, with five years' notice as of the end of a calendar year; the period of termination thereafter is again five years.

Series D may be terminated for the first time as of December 31, 2026. Series D participation certificates share in losses. The proportionate loss attributable to the participation capital is offset by future profits.

The cases in which the minimum return is not paid are the same as those in which the preferred dividend is not paid. As with the subsequent payment of preferred dividends, the distribution on participation certificates is paid in arrears.

The distribution on participation certificates is ten times the preferred share dividend, as the par value of the securities was originally identical, but the arithmetic par value of the preferred share has since been reduced to one tenth of the original par value.

34 PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

As of December 31, 2017, the Dräger Group mainly had defined benefit pension plans and similar obligations in addition to defined contribution pension plans.

Defined benefit pension plans and similar obligations

Under the Group's defined benefit pension plans, provisions for pensions and similar obligations have been accrued for benefits payable in the form of old-age, disability, and surviving dependents' pensions. The amount of the obligations is determined using the projected unit credit method. The obligations are partly funded by plan assets.

The defined benefit pension plans of the German companies, which use the 2005G Heubeck mortality tables as a basis of calculation, account for some 92.5 percent (2016: 90 percent) of the provisions for pensions and similar obligations disclosed as of the balance sheet date. As of January 1, 2005, the new company pension plans "Rentenplan 2005" for almost all employees of the Dräger Group's German subsidiaries and "Führungskrafteversorgung 2005" for management came into effect, superseding the "Versorgungsordnung '90" and "Ruhegeldordnung '90" schemes.

Under the old pension plan, employees received pensions based on their salaries and period of employment. As part of the transition to the new plan, employees were guaranteed a pension based on the old plan for their years of service prior to the transition.

The new plan is now composed of the employer-funded basic level, the employee-funded top-up level (deferred compensation), and the employer-funded supplementary level. The pension cost for the employer-funded basic level is based on the respective employee's income. The employee-funded top-up level allows employees to increase their pension entitlement through deferred compensation. The contribution made at the employer-funded supplementary level depends on the employee contribution through deferred compensation and on the company's business performance (EBIT).

Since December 2007, these funds from the pension plan as well as the employee contributions from the respective fiscal year have been paid into a new fund (WKN [securities identification number] A0HG1B) and secured in favor of the employees via a contractual trust arrangement (CTA), meaning that they only serve to cover and finance the company's direct pension obligations. The employees' pension accounts have a minimum guaranteed return of 2.75 percent. Hence, the assets of this fund fulfill the criteria of plan assets pursuant to IAS 19, the EUR 132,961 thousand (2016: EUR 118,658 thousand) in assets secured by the CTA were offset against the gross pension obligations in fiscal year 2017. Additions to the CTA of EUR 11,595 thousand are expected for fiscal year 2018 (in 2016 for fiscal year 2017: EUR 11,111 thousand).

↗ Note 25

The available excess of plan assets over the relevant pension obligations totaling EUR 82 thousand (2016: EUR 73 thousand) is disclosed under other non-current assets (see Note 25).

The defined benefit pension plans of Dräger Schweiz AG, which uses the BVG 2010 generation tables as a basis of calculation, account for some 3 percent (2016: approximately 4 percent) of the provisions for pensions and similar obligations disclosed as of the balance sheet date. The Swisscanto Collective Foundation provides occupational pension plans which cover the economic consequences of old age, invalidity, and death. Employees can decide for themselves how much they want to save, picking from one of three options. The employer's contributions equal the amounts contributed by the employees. The employer and employee contributions are defined as a percentage of the insured salary. The pension amount is derived from the retirement assets accumulated on the date of retirement multiplied by the conversion rates stipulated in the regulations. Employees have the option to withdraw their retirement benefits as capital. Savings contributions are also paid on employee bonuses. The assets are invested by the Swisscanto Collective Foundation.

Under the Group's defined benefit pension plans, Dräger is exposed to the following risks:

- Due to the specific benefits, defined benefit pension plans are particularly long-term employee benefits, the measurement of which includes making long-term assumptions that are subject to an increased risk in view of actual realization.
- The underlying discount rate in the recognition of pension obligations reflects the effective market return on high-quality corporate bonds (calculated on the basis of modified Bloomberg indices) with the same term as the pension obligations as of the balance sheet date. If the actual return on plan assets is less than the calculated return, this creates a shortfall.
- Reducing the effective market return of high-quality corporate bonds leads to an increase in the projected benefit obligation. If the projected benefit obligation is counteracted by plan assets, some of this effect is compensated for.

- If benefit obligations are not covered by plan assets, Dräger has to generate pension payments within the course of its operating activities in the respective year.
- Due to the minimum guaranteed return of 2.75 percent, Dräger must compensate for the actual return of the plan assets should this fall below the minimum guaranteed return.
- According to Sec. 16 (1) of the German Act to Improve Occupational Pensions (BetrAVG), an employer that has guaranteed company pension plan obligations must consider adjusting these obligations in line with the rate of inflation every three years. The employer's decision regarding such adjustments must consider the needs of the pension recipient and, above all, the economic situation of the company.

The net obligation from defined benefit pension plans is recognized in the balance sheet as follows:

NET OBLIGATION FROM DEFINED BENEFIT PENSION PLANS

in € thousand	2017	2016
Carrying amount of benefit obligations with plan assets	276,114	267,196
Present value of plan assets	–196,099	–189,678
Underfunded pension plans	**80,015**	**77,518**
Carrying amount of benefit obligations without plan assets	232,881	240,734
Net obligation as of December 31	**312,895**	**318,252**
Available excess of plan assets	82	73
Provisions for pension obligations and similar obligations	**312,977**	**318,325**

Changes in the net obligation are as follows:

CHANGES IN THE PROJECTED BENEFIT OBLIGATIONS AND PLAN ASSETS

			2017			2016
in € thousand	Projected benefit obligation	Fair value of plan assets	Total	Projected benefit obligation	Fair value of plan assets	Total
January 1	**507,930**	**–189,678**	**318,252**	**464,868**	**–176,780**	**288,088**
Service costs	18,662	–	18,662	13,348	–	13,348
Interest income (–) / interest expense (+)	7,514	–2,481	5,033	8,987	–3,042	5,945
Past service costs	–467	–	–467	–902	–	–902
Other effect on profit or loss	16	–	16	–4,619	3,891	–727
Changes recognized in profit or loss	**25,725**	**–2,481**	**23,243**	**16,815**	**849**	**17,664**
Return on plan assets excluding amounts included in interest	–	–2,191	–2,191	–	–4,084	–4,084
Revaluations from changes to demographic assumptions	–3,636	–	–3,636	–103	–	–103
Revaluations from changes to financial assumptions	–3,310	–	–3,310	38,436	–	38,436
Revaluations from adjustment to empirical values	5,221	–	5,221	–2,962	–	–2,962
Changes in other comprehensive income	**–1,725**	**–2,191**	**–3,916**	**35,371**	**–4,084**	**31,287**
Benefits paid	–19,678	6,476	–13,202	–15,181	3,624	–11,558
Employee contributions	4,190	–4,190	0	3,855	–3,855	0
Employer contributions	–	–9,837	–9,837	–	–7,991	–7,991
Transfer of obligations and other effects	–	0	0	1,167	–816	351
Currency changes	–7,446	5,801	–1,646	1,035	–625	411
Other changes	**–22,935**	**–1,749**	**–24,684**	**–9,124**	**–9,662**	**–18,787**
December 31	**508,995**	**–196,099**	**312,895**	**507,930**	**–189,678**	**318,252**
Net obligation as of December 31			**312,895**			**318,252**

Service costs and past service costs are included under personnel expenses.

Benefits paid include payments from settlements of a foreign subsidiary in the amount of EUR 1,605 thousand (2016: EUR 0 thousand).

Plan assets are composed as follows:

COMPOSITION OF PLAN ASSETS

			2017			2016
in € thousand	Active market	No active market	Total	Active market	No active market	Total
Cash and cash equivalents	13,375	–	13,375	9,222	176	9,399
Equity instruments	22,178	–	22,178	17,902	–	17,902
Securities	36,481	871	37,352	26,379	1,116	27,495
Debt instruments	104,389	–	104,389	118,443	–	118,443
Real estate	8,127	–	8,127	8,220	–	8,220
Other	10,678	–	10,678	8,220	–	8,220
			196,099			**189,678**

Plan assets do not contain Dräger shares or properties used by Dräger itself.

The investment strategy for the plan assets in the German pension plan is defined by an investment committee on the basis of reports prepared by external fund managers. The investment strategy takes into account anticipated pension payment structures as well as risk assessments (asset-liability matching).

For the next fiscal year, additions to plan assets are expected to amount to EUR 13,207 thousand (2016: EUR 12,683 thousand).

The following actuarial assumptions were made in measuring the projected benefit obligation (weighted averages):

ACTUARIAL ASSUMPTIONS

	2017		2016	
	Germany	Abroad	Germany	Abroad
Discount rate	1.75 %	0.86 %	1.75 %	0.56 %
Future wage and salary increases	3.00 %	1.66 %	3.00 %	1.64 %
Future pension increases	1.39 %	0.33 %	1.43 %	0.28 %

The weighted average term of the defined benefit obligation in the fiscal year is 19 years (2016: 19 years).
The effect of changes in fundamental assumptions on the projected benefit obligation is as follows:

EFFECT OF FUNDAMENTAL ASSUMPTIONS ON THE PROJECTED BENEFIT OBLIGATION

	2017			2016		
	Discount rate	Future pension increases	Life expectancy	Discount rate	Future pension increases	Life expectancy
Change in assumption	1.00 %	0.25 %	1 year	1.00 %	0.25 %	1 year
Effect on the projected benefit obligation if the assumption increases	decrease 15.9 %	increase 1.1 %	increase 4.4 %	decrease 16.0 %	increase 0.8 %	increase 4.4 %
Effect on the projected benefit obligation if the assumption decreases	increase 21.3 %	decrease 0.7 %	decrease 4.5 %	increase 21.4 %	decrease 0.8 %	decrease 4.4 %

The sensitivity analyses were performed using the same calculation methods; one assumption was changed in each analysis while all other assumptions remained constant (ceteris paribus); this means that possible correlation effects between the individual assumptions are not taken into account.

The following pension payments are expected to be due:

EXPECTED PENSION PAYMENTS 2017

in € thousand	2018	2019	2020 – 2022	> 2022	Total
Expected pension payments	15,347	16,029	48,772	857,243	937,391

EXPECTED PENSION PAYMENTS 2016

in € thousand	2017	2018	2019 – 2021	> 2021	Total
Expected pension payments	15,212	15,300	49,139	864,945	944,596

Expenses for additional benefits to pensioners of EUR 1,940 thousand (2016: EUR 2,126 thousand) were recognized in fiscal year 2017.

Defined contribution plans

In addition to the defined benefit plans and similar obligations described above, Dräger pays voluntary or statutory contributions to government and private pension insurers (defined contribution plans).

Dräger also paid statutory pension contributions in Germany of EUR 36,253 thousand (2016: EUR 35,624 thousand) in fiscal year 2017. In addition, the cost of other defined contribution plans came to EUR 9,883 thousand (2016: EUR 9,846 thousand).

35 OTHER NON-CURRENT AND CURRENT PROVISIONS

OTHER NON-CURRENT AND CURRENT PROVISIONS

in € thousand	Provisions for personnel and welfare obligations	Warranty provisions	Provisions for potential losses	Provisions for commissions	Provisions for other obligations in the normal course of business	2017 Total
January 1	135,867	27,230	8,698	7,747	89,484	269,027
Allocation	85,751	13,824	689	3,436	61,183	164,884
Accumulation of interest	248	18	71	–	5	342
Utilization	–83,716	–10,912	–764	–4,716	–47,118	–147,225
Reversal	–5,994	–3,442	–5,631	–419	–16,019	–31,505
Reclassifications	–207	–	–	–	207	0
Change in the scope of consolidation	–13	–	–	–	21	8
Currency translation effects	–5,268	–1,292	–	–549	–2,232	–9,341
December 31	**126,669**	**25,427**	**3,062**	**5,499**	**85,532**	**246,189**

Provisions for personnel and welfare obligations were largely recognized for bonuses and sales compensation; the basis on which these are calculated had not been finalized as of the balance sheet date, meaning that the obligations are not yet reported as a liability. This item also includes provisions for phased retirement and long-service awards.

The warranty provisions were measured by reference to the warranty claims made in the past and specific known risks.

Provisions for potential losses mainly resulted from long-term leases of unused or not fully used business premises.

Provisions for commissions relate to those contractual commission entitlements where the underlying intermediary transaction had not been finalized as of the balance sheet date, meaning that the obligation is not yet reported as a liability.

Provisions for other obligations in the normal course of business contain provisions for unpaid invoices for services received amounting to EUR 37,136 thousand (2016: EUR 38,213 thousand), the amount of which is not sufficiently certain. These mainly relate to provisions for services received that have not yet been settled; as a result, the amount of these provisions has not been finalized. In addition, obligations for the audit of financial statements of EUR 1,932 thousand (2016: EUR 2,028 thousand) were set aside, as were obligations for customer bonuses of EUR 5,843 thousand (2016: EUR 6,210 thousand). Obligations in the normal course of business also include obligations from expected credit notes, for litigation costs and risks, purchase guarantees, and other taxes.

The expected utilization of other provisions is as follows:

MATURITIES

in € thousand	Up to 1 year	1 to 5 years	Over 5 years	Total
Provisions for personnel and welfare obligations	86,377	30,038	10,254	126,669
Warranty provisions	23,599	1,828	–	25,427
Provisions for potential losses	1,362	1,009	692	3,062
Provisions for commissions	5,499	–	–	5,499
Provisions for other obligations in the normal course of business	78,244	7,288	–	85,532
	195,081	**40,162**	**10,945**	**246,189**

36 NON-CURRENT INTEREST-BEARING LOANS AND LIABILITIES TO BANKS

NON-CURRENT INTEREST-BEARING LOANS AND LIABILITIES TO BANKS

			2017			2016
in € thousand	1 to 5 years	Over 5 years	Total	1 to 5 years	Over 5 years	Total
Non-current liabilities to banks	44,817	33,009	77,826	48,252	41,975	90,227
Note loans (issued 2011 and 2016)	59,962	–	59,962	98,407	–	98,407
	104,779	**33,009**	**137,788**	**146,660**	**41,975**	**188,635**

The non-current note loans in place as of the balance sheet date are not subject to any contractually agreed termination options.

A note loan totaling EUR 38.5 million is due within the next twelve months and was therefore reclassified to current interest-bearing loans.

The terms and conditions and the interest on non-current interest-bearing loans and liabilities to banks are as follows:

TERMS AND CONDITIONS AND INTEREST RATES FOR NON-CURRENT INTEREST-BEARING LOANS

			2017			2016
	Interest conditions	Interest rate in %	Total in € thousand	Interest conditions	Interest rate in %	Total in € thousand
Liabilities to banks						
EUR	fixed	0.75 – 5.1	60,287	fixed	0.75 – 5.1	71,465
EUR	variable	1.46	15,415	variable	1.46	15,836
ZAR	fixed	8.8	1,809	fixed	8.8	2,781
INR	fixed	9.45	20	fixed	2.5 – 9.45	131
Other	variable	0.23 – 2.34	75	variable	–	0
Other	fixed	14.0 – 17.0	220	fixed	14.0 – 17.0	15
			77,826			**90,228**
Note loans						
EUR	fixed	0.8	59,962	fixed	0.8 – 3.88	98,407
			59,962			**98,407**
			137,788			**188,635**

↗ Note 43

Variable interest rates are partly hedged. Please see our information on derivative financial instruments and interest rate risks (Note 43).

Liabilities to banks arising from the construction of the medical division's new office and laboratory building that was completed in fiscal year 2008 have been collateralized by a mortgage of EUR 55 million. The finance for the new production and logistics building for the Infrastructure Projects segment in Lübeck, which was completed in fiscal year 2011, has been secured with a mortgage of EUR 10.8 million. There are no other mortgages on land and buildings or assignments as security for recognized liabilities.

37 OTHER NON-CURRENT FINANCIAL LIABILITIES

OTHER NON-CURRENT FINANCIAL LIABILITIES

			2017			2016
in € thousand	1 to 5 years	Over 5 years	Total	1 to 5 years	Over 5 years	Total
Repayment obligation Draeger Arabia Co. Ltd.	–	13,250	13,250	–	13,106	13,106
Finance lease liabilities (lessee)	1,255	6,649	7,904	2,428	6,597	9,026
Negative fair values of derivative financial instruments	464	2,362	2,826	1,110	3,074	4,184
Sundry non-current financial liabilities	1,271	–	1,271	1,679	–	1,679
	2,990	**22,261**	**25,251**	**5,217**	**22,777**	**27,994**

The repayment obligation to the non-controlling shareholder of Draeger Arabia Co. Ltd. results from the amended agreements that came into force effective from February 2014 and allow the shareholders to offer their shares to the other shareholder from January 1, 2024, or to bring about the company's liquidation in the event that the other shareholder does not consent to purchase the shares. The payment obligation to minority shareholders constitutes a financial liability that is recognized as debt, rather than recognized in equity. The non-controlling shareholder's puttable shares were initially accounted for as a liability at fair value of the expected payment obligation for Dräger as of the date of termination. They are subsequently accounted for at amortized cost.

For an explanation of finance lease liabilities, please refer to our comments on recognition of finance leases by the lessee (Note 44).

↗ Note 44

38 DEFERRED TAX LIABILITIES

↗ Note 16

Deferred tax liabilities are explained in Note 16.

39 OTHER NON-CURRENT LIABILITIES

Other non-current liabilities mainly include deferred income for accrued service contracts of EUR 12,653 thousand (2016: EUR 12,618 thousand).

40 CURRENT INTEREST-BEARING LOANS AND LIABILITIES TO BANKS

CURRENT INTEREST-BEARING LOANS AND LIABILITIES TO BANKS

in € thousand	2017	2016
Liabilities to banks	33,007	57,025
Note loans	38,478	–
	71,485	**57,025**

No note loans were repaid in fiscal year 2017 (2016: EUR 57.5 million). Note loans totaling EUR 38.5 million (2016: none) were reclassified from non-current to current obligations in the fiscal year.

The terms and conditions and the interest on current interest-bearing loans and liabilities to banks are as follows:

TERMS AND CONDITIONS AND INTEREST RATES FOR CURRENT INTEREST-BEARING LOANS AND LIABILITIES TO BANKS

	2017			2016		
	Interest conditions	Interest rate in %	Total in € thousand	Interest conditions	Interest rate in %	Total in € thousand
Liabilities to banks						
EUR	variable	0.8 – 7.0	1,472	variable	0.8 – 7.0	21,462
EUR	fixed	0.75 – 5.75	11,226	fixed	0.75 – 5.1	8,531
SAR	fixed	3.3 – 3.4	2,001	fixed	3.3 – 3.4	2,276
JPY	fixed	0.83	4,444	variable	0.85 – 1.6	6,014
CNY	fixed	4.57	2,562	fixed	–	0
CNY	variable	4.98 – 5.6	3,418	variable	–	0
USD	variable	–	0	variable	2.1 – 2.23	14,704
INR	variable	9.25 – 9.30	6,883	variable	–	0
INR	fixed	9.45	9	fixed	2.5 – 9.45	16
Other	fixed	8.8 – 17.0	987	fixed	0.65 – 17.0	1,416
Other	variable	1.0 – 2.0	5	variable	1.0 – 9.45	2,606
			33,007			**57,025**
Note loans						
EUR	fixed	3.88	38,478	fixed	–	0
			38,478			**0**
			71,485			**57,025**

Variable interest rates are partly hedged. Please also see our information on derivative financial instruments (Note 43).

↗ Note 43

41 OTHER CURRENT FINANCIAL LIABILITIES

OTHER CURRENT FINANCIAL LIABILITIES

in € thousand	2017	2016
Trade payables to third parties	**202,917**	**179,773**
Other current financial liabilities		
Liabilities to employees	6,405	6,840
Debtors with credit balances	4,033	5,678
Liabilities to Drägerwerk Verwaltungs AG	1,413	1,172
Negative fair values of derivative financial instruments	4,450	5,879
Finance lease liabilities (lessee)	1,232	1,511
Liabilities to commissioning agents	–	1,297
Liabilities from accrued loan interest	455	613
Distribution for participation capital	345	345
Liabilities to associates	–	7
Other financial liabilities	3,267	1,994
	21,599	**25,336**
	224,516	**205,108**

For an explanation of finance lease liabilities, please refer to our comments on recognition of finance leases by the lessee (Note 44).

↗ Note 44

For the derivative financial instruments recognized as other financial liabilities, please refer to the table of derivative financial instruments in the Dräger Group presented in Note 43.

↗ Note 43

42 OTHER CURRENT LIABILITIES

OTHER CURRENT LIABILITIES

in € thousand	2017	2016
Prepayments received	46,099	43,136
Deferred income	48,964	46,990
Other tax liabilities	44,475	42,269
Other liabilities to employees and for social security	29,452	32,394
Liabilities from construction contracts	22	25
Other current liabilities	3,569	423
	172,581	**165,236**

Prepayments received include prepayments on construction contracts of EUR 3,589 thousand (2016: EUR 6,728 thousand) in accordance with IAS 11 which exceeded the respective recognized value of the contract.

Deferred income primarily includes accrued service contracts, including extended warranties.

43 FINANCIAL INSTRUMENTS

Structure of financial instruments and their measurement

The structure of financial instruments in the Group and their categorization according to IFRS 7 as well as their reconciliation to the Group balance sheet was as follows as of the balance sheet date:

FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2017 – ASSETS

	Measurement in accordance with IAS 39					Measurement in accordance with other IAS	Total
in € thousand	Fair value (held for trading)	Fair value (available for sale)	Amortized cost (loans and receivables)	Amortized cost (held to maturity)	Fair value (recognized in equity)	(Amortized) cost in accordance with IAS 17	
Other non-current financial assets	226	3,833	10,844	118	332	1,715	17,068
Trade receivables and construction contracts	–	–	669,175	–	–	–	669,175
Other current financial assets	2,719	–	30,739	–	5,456	366	39,281
Cash and cash equivalents	–	–	247,568	–	–	–	247,568
	2,945	**3,833**	**958,326**	**118**	**5,788**	**2,081**	**973,092**

FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2017 – EQUITY AND LIABILITIES

	Measurement in accordance with IAS 39			Measurement in accordance with other IAS	Total
in € thousand	Fair value (held for trading)	Amortized cost (other liabilities)	Fair value (recognized in equity)	(Amortized) cost in accordance with IAS 17	
Liabilities from participation certificates	–	23,761	–	–	23,761
Non-current interest-bearing loans	–	137,788	–	–	137,788
Other non-current financial liabilities	–	14,521	2,826	7,904	25,251
Current interest-bearing loans and liabilities to banks	–	71,485	–	–	71,485
Trade payables	–	202,917	–	–	202,917
Other current financial liabilities	1,270	15,917	3,180	1,232	21,599
	1,270	**466,389**	**6,006**	**9,136**	**482,801**

FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2016 – ASSETS

	Measurement in accordance with IAS 39					Measurement in accordance with other IAS	Total
in € thousand	Fair value (held for trading)	Fair value (available for sale)	Amortized cost (loans and receivables)	Amortized cost (held to maturity)	Fair value (recognized in equity)	(Amortized) cost in accordance with IAS 17	
Other non-current financial assets	197	960	9,797	118	929	1,936	13,937
Trade receivables and construction contracts	–	–	681,743	–	–	–	681,743
Other current financial assets	1,079	–	30,303	–	5,346	508	37,236
Cash and cash equivalents	–	–	221,481	–	–	–	221,481
	1,276	**960**	**943,323**	**118**	**6,275**	**2,444**	**954,396**

FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2016 – EQUITY AND LIABILITIES

	Measurement in accordance with IAS 39			Measurement in accordance with other IAS	Total
in € thousand	Fair value (held for trading)	Amortized cost (other liabilities)	Fair value (recognized in equity)	(Amortized) cost in accordance with IAS 17	
Liabilities from participation certificates	–	22,687	–	–	22,687
Non-current interest-bearing loans	–	188,635	–	–	188,635
Other non-current financial liabilities	490	14,785	3,694	9,026	27,994
Current interest-bearing loans and liabilities to banks	–	57,025	–	–	57,025
Trade payables	–	179,773	–	–	179,773
Other current financial liabilities	3,658	17,946	2,221	1,511	25,336
	4,148	**480,850**	**5,915**	**10,537**	**501,450**

↗ Note 8

The measurement categories are explained in our comments on the measurement of financial assets and liabilities in Note 8.

Other non-current financial assets include investments with a carrying value of EUR 3,257 thousand (2016: EUR 281 thousand). These investments are not quoted in any active market. Other methods for calculating an objective market value rendered no reliable result. The investments are therefore carried at cost.

Regular fair value measurement of financial instruments

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

FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

in € thousand	Level	2017	2016
Assets measured at fair value			
Derivatives with positive fair value (non-current)	2	558	1,126
thereof with a hedging relationship		332	929
Derivatives with positive fair value (current)	2	8,176	6,425
thereof with a hedging relationship		5,456	5,346
Securities (non-current)	1	576	679
Liabilities measured at fair value			
Derivatives with negative fair value (non-current)	2	2,826	4,184
thereof with a hedging relationship		2,826	3,694
Derivatives with negative fair value (current)	2	4,450	5,879
thereof with a hedging relationship		3,180	2,221

Level 1:

Prices in the active markets are assumed in unchanged form for identical financial assets or financial liabilities. The fair values of non-current securities are based on current stock market prices.

Level 2:

Uses largely observable input factors that can be directly (i.e. price) or indirectly (i.e. derived from prices) observed for financial assets or financial liabilities; these do not include any listed prices taken into consideration in level 1.

Dräger applies the discounted cash flow method when measuring derivatives. Expected cash flows are determined on the basis of secured prices and / or interest rates and the observable closing rates and / or interest rates, which are then discounted using an interest rate that takes into account Dräger's company-related risks.

Level 3:

Uses factors not based on observable market data for the measurement of financial assets and liabilities (unobservable input factors). These are classified as level 3 when there is an unobservable input factor present that significantly influences the measurement. The Dräger Group does not hold any level 3 financial instruments.

No reclassifications between the levels were carried out in the past two fiscal years.

Fair value of financial instruments not regularly recognized at fair value

In the following table, the carrying values of financial assets and liabilities not regularly recognized at fair value are compared with their fair values:

CARRYING VALUES AND FAIR VALUES OF FINANCIAL ASSETS / LIABILITIES

		2017		2016	
in € thousand	Level	Carrying value	Fair value	Carrying value	Fair value
Financial assets					
Finance lease receivables	2	2,081	2,180	2,444	2,600
Financial liabilities					
Loans and liabilities to banks	2	209,273	209,345	245,660	247,626
Finance lease liabilities	2	9,136	9,151	10,537	10,580
Other non-current financial liabilities	2	1,271	1,396	1,679	1,679

The fair value of level 2 financial assets and liabilities measured at amortized cost was determined using the discounted cash flow method by replacing the interest rates used in the initial calculation of non-current financial assets and liabilities with interest rates derived from current company-related interest rate curves on the balance sheet date. These interest rates are between 0.67 percent for cash flows in 2018 and 1.60 percent for cash flows in 2025. An increase in the interest rates taken into account would result in a decrease in fair values. No adjustments were made to the interest rates of 8.28 percent and 6.19 percent for the leasehold agreements recognized in fiscal years 2013 and 2016 (terms into fiscal year 2103) (see also Note 44).

↗ Note 44

Trade receivables, the remaining other financial assets, trade payables, and the remaining other financial liabilities are not listed, as the carrying amount is a reasonable approximation of fair value.

Investments are also not indicated, as there is no active market price for any identical equity instruments.

Net profit / loss from financial instruments

The net profit / loss from financial instruments recognized in profit or loss in fiscal year 2017 is summarized below (by measurement category):

NET PROFIT / LOSS BY MEASUREMENT CATEGORY

in € thousand	2017	2016
Financial assets and financial liabilities held for trading	7,381	–9,444
Loans and receivables	–3,708	–19,335
Available-for-sale assets	0	–9
Other financial liabilities	1,775	–821
	5,449	**–29,609**

The net profit / loss of the financial assets and liabilities in the held for trading category comprises profit and loss from changes in fair value as well as interest income / expenses for these assets and liabilities. The net profit / loss in the category loans and receivables contains losses from receivables of EUR 10,346 thousand (2016: EUR 25,015 thousand).

Interest income / expenses from financial instruments

In fiscal year 2017, interest income / expenses from financial instruments not measured at fair value through profit or loss was as follows:

INTEREST INCOME / EXPENSES FROM FINANCIAL INSTRUMENTS

in € thousand	2017	2016
Interest income		
Loans and receivables	1,868	1,522
Held-to-maturity investments	1	2
Available-for-sale assets	9	351
	1,878	**1,875**
Interest expenses		
Other liabilities	–6,535	–9,287
	–4,657	**–7,412**

Financial risk management

As an international company, the Dräger Group is especially exposed to exchange rate and interest rate risks, in addition to liquidity risks.

The aim of financial risk management is to uncover and mitigate financial risks posed to the Dräger Group through ongoing operating and finance-oriented processes. A systematic recognition, control, and monitoring of market risks is designed to counter developments that could jeopardize the existence of Dräger early on and ensure Dräger's continued existence in the long term. Derivative financial instruments are used to hedge the currency and interest exposure of current and forecast transactions. These derivatives are used exclusively as hedging instruments and are generally not concluded for speculative purposes. In order to decrease credit risks, derivatives are only transacted with banks with an investment grade rating.

A committee, which is comprised of the CFO as well as participants from the treasury, accounting, and controlling departments, determines and monitors the basic features of Dräger's financial policies. The members of this committee meet at least once per quarter to decide on possible hedging strategies on the basis of current developments as well as the existing risk positions.

Financial risk management is based on the annually revised strategic plans of the Group and divisions and the resultant short- and medium-term plans. The financial policies as well as financial risk management for liquidity, currency, and interest rate risks are implemented centrally by the treasury department. Please see our comments in the management report for more general information on risk management.

Liquidity risk

Drägerwerk AG & Co. KGaA mitigates its liquidity risk by diversifying the maturity structure of its financing instruments so as to ensure the Dräger Group's solvency and financial flexibility at all times. These include in particular participation certificates and note loans due in one to five years. Drägerwerk AG & Co. KGaA also has various non-current and current liabilities to banks as well as a liquidity reserve comprising freely available credit facilities with numerous banks with which it has concluded bilateral agreements. Due to the maturity structure of these financing instruments, Drägerwerk AG & Co. KGaA has only a limited prolongation risk.

The following analysis of the maturities of financial liabilities (contractually agreed, non-discounted payments) shows the influence on the Group's liquidity situation:

MATURITIES OF FINANCIAL LIABILITIES 2017

in € thousand	2018	2019	2020 to 2022	From 2023	Total
Derivative financial liabilities					
Foreign currency derivatives – cash outflow	213,638	38,756	–	–	252,394
Foreign currency derivatives – cash inflow	–208,172	–37,622	–	–	–245,794
Interest rate swap – cash outflow	529	511	1,257	88	2,385
	5,995	**1,645**	**1,257**	**88**	**8,985**
Non-derivative financial liabilities					
Liabilities from participation certificates	345	345	3,898	32,741	37,329
Interest-bearing loans and liabilities to banks	73,248	14,033	94,041	35,138	216,459
Trade payables	202,917	–	–	–	202,917
Finance lease liabilities	1,987	1,968	2,075	29,640	35,670
Other financial liabilities	16,907	1,292	3,820	12,994	35,013
	295,404	**17,638**	**103,834**	**110,513**	**527,389**
	301,399	**19,283**	**105,091**	**110,601**	**536,374**

MATURITIES OF FINANCIAL LIABILITIES 2016

in € thousand	2017	2018	2019 to 2021	From 2022	Total
Derivative financial liabilities					
Foreign currency derivatives – cash outflow	293,996	51,883	–	–	345,879
Foreign currency derivatives – cash inflow	–287,138	–49,499	–	–	–336,637
Interest rate swap – cash outflow	540	529	1,393	450	2,912
	7,398	**2,913**	**1,393**	**450**	**12,154**
Non-derivative financial liabilities					
Liabilities from participation certificates	345	345	3,989	32,741	37,420
Interest-bearing loans and liabilities to banks	58,125	52,860	98,688	45,818	255,491
Trade payables	179,773	–	–	–	179,773
Finance lease liabilities	2,115	2,535	1,889	31,450	37,990
Other financial liabilities	18,699	2,371	3,928	15,559	40,557
	259,057	**58,112**	**108,494**	**125,568**	**551,230**
	266,455	**61,025**	**109,887**	**126,018**	**563,384**

Cash outflow from currency hedges of EUR 252.4 million (2016: EUR 345.9 million) faced cash inflow of EUR 245.8 million (2016: EUR 336.6 million) as of December 31, 2017.

Currency risk

The Group's currency risks within the meaning of IFRS 7 relate to the financial instruments used in connection with operating activities or investing and financing activities. The Dräger Group mainly counters this risk that remains after offsetting cash inflows and outflows in the same foreign currency by entering into derivatives. Currency management aims to limit the effect of exchange rate fluctuations on the Dräger Group's results of operations and net assets.

Treasury and controlling are responsible for determining and analyzing currency risk positions as well as developing and implementing the hedging strategy. As a general rule, only those currency risks that impact the Group's cash flows are hedged. However, risks resulting from the translation of assets and liabilities of foreign subsidiaries into the Group's reporting currency are generally not hedged. The hedging strategy aims to reduce currency risks as far as possible by using natural hedges, whereby the revenues and cost structure are denominated in the respective currencies. Furthermore, hedges are entered into for the remaining currency risks, provided that the costs of the hedges are economically commensurate with the expected hedging success. The US dollar (USD), Chinese yuan (CNY), Japanese yen (JPY), Australian dollar (AUD), as well as a number of European and Asian currencies are the currencies for which hedges are chiefly entered into. Dräger uses currency forwards to hedge forecast transactions in these currencies to reduce the risk from fluctuations in currencies from planned and pending transactions. 75 percent of the planned transactions are hedged in the currencies concerned. Since fiscal year 2016, Dräger has been using cash flow hedge accounting to account for future cash flows from currency hedging transactions. Temporary differences in currency futures are recognized directly in equity under other comprehensive income until they are transferred to the income statement, when the hedged item affects profit or loss.

In order to better illustrate existing currency risks, the effects of hypothetical changes in relevant currencies on net profit and equity are discussed below on the basis of a currency sensitivity analysis. For this purpose, it was assumed that most monetary financial instruments are already denominated in the functional currency or have been converted into the functional currency using derivative financial instruments. Currency risks therefore lie in the remaining unhedged financial instruments in foreign currencies in respect of which currency fluctuations affect profit or loss. If the euro was up / down 10 percent against the main foreign currencies in the Dräger Group, the US dollar and the Chinese yuan, as of the balance sheet date, with all other variables remaining the same, earnings after taxes (pursuant to IFRS 7) and other comprehensive income in equity would be impacted as follows:

EXCHANGE RATE SENSITIVITY

	2017		2016	
		Influence over		Influence over
in € million	Earnings after taxes	Other comprehensive income in equity	Earnings after taxes	Other comprehensive income in equity
US dollar				
Euro up 10 percent	0.9	4.8	1.0	7.1
Euro down 10 percent	–1.0	–2.6	–1.2	–3.5
Chinese yuan				
Euro up 10 percent	0.3	5.0	–0.9	4.3
Euro down 10 percent	–0.4	–6.0	1.1	–5.2

Interest rate risk

As well as variable rate non-current receivables and liabilities from operations, variable rate non-current loan liabilities also give rise to an interest rate risk due to changes in market rates. The treasury department conducts monthly risk analyses to determine the risk potential. These analyses are based on the maturity and interest rate lock-down structure of the existing financial portfolio as well as liquidity planning. Drägerwerk AG & Co. KGaA counters interest rate risks with a combination of fixed and variable rate financial liabilities and by using normal market hedging instruments. Changes in the market interest rates for primary financial instruments with fixed interest only affect the Group's profit or loss if such instruments are recognized at fair value. Thus none of the fixed-interest financial instruments recognized at amortized cost poses an interest rate risk that would affect cash flows. In order to better illustrate existing interest rate risks, the effects of hypothetical changes in market interest rates on net profit and equity are discussed below on the basis of an interest rate sensitivity analysis. For this purpose, it was assumed that interest rate changes affect primary financial instruments measured at fair value and derivative financial instruments that are not part of a hedging relationship, whose changes in value are recognized in profit or loss. Derivative financial instruments that are part of a cash flow hedge are also affected by interest rate changes, with the changes in value recognized directly in equity.

A hypothetical increase of 50 basis points in market interest rates as of the balance sheet date, with all other variables remaining the same, would increase earnings after taxes by EUR 755 thousand (2016: EUR 619 thousand) and equity by EUR 275 thousand (2016: EUR 426 thousand). A hypothetical decrease of 25 basis points in market interest rates as of the balance sheet date, with all other variables remaining the same, would increase earnings after taxes by EUR 47 thousand (2016: EUR 70 thousand) and decrease equity by EUR 220 thousand (2016: EUR 148 thousand).

Credit risk

The maximum exposure to credit risk is represented by the carrying value of each financial asset, including financial derivatives, in the balance sheet. The Dräger Group does not expect any counterparties to derivatives to fail to meet their obligations as they consist exclusively of financial institutions with investment grade ratings. Consequently, the Group considers that its maximum exposure is reflected by the amount of trade receivables and other current assets, net of valuation adjustments, and received collateral recognized as of the balance sheet date. There are no significant risk concentrations relating to default risks in connection with trade receivables. Trade receivables are mainly attributable to a very large number of customers.

Derivative financial instruments

Like the hedged items, derivative financial instruments are recognized at fair value, and resulting unrealized gains and losses are recognized in profit or loss as part of the cost of sales or the financial result providing the instruments are not part of a cash flow hedge. If a derivative financial instrument serves as a cash flow hedge, the unrealized gains and losses are recognized directly in equity.

The following positions were held as of the balance sheet date:

DERIVATIVE FINANCIAL INSTRUMENTS

	Nominal volume						Fair value
in € thousand		Non-current	Current	Assets Total	Non-current	Current	Equity and liabilities Total
2017							
Currency hedges							
Without a hedging relationship recognized in the balance sheet	192,052	226	2,719	2,945	–	1,270	1,270
In conjunction with cash flow hedges	367,630	332	5,456	5,788	464	3,180	3,644
Interest rate swaps							
In conjunction with cash flow hedges	12,933	–	–	–	2,362	–	2,362
	572,615	**558**	**8,176**	**8,733**	**2,826**	**4,450**	**7,276**
2016							
Currency hedges							
Without a hedging relationship recognized in the balance sheet	306,300	197	1,079	1,276	490	3,658	4,148
In conjunction with cash flow hedges	324,720	929	5,346	6,275	620	2,221	2,841
Interest rate swaps							
In conjunction with cash flow hedges	13,275	–	–	–	3,074	–	3,074
	644,295	**1,126**	**6,425**	**7,551**	**4,184**	**5,879**	**10,063**

The positive fair values of the derivatives are disclosed as current and non-current financial assets, the negative fair values as current and non-current financial liabilities.

The currency hedges cover selected foreign currency cash flows from operating activities over the next two years (2016: two years). Currency hedging mainly relates to operations in US dollars and in Chinese yuan and to a lesser extent to operations in pounds sterling, Australian dollars as well as dividends distributed in Swiss francs.

In order to offset the effects of future changes to interest rates on cash flows, the Group concluded interest rate swap caps. The interest rate swap has a remaining term of six years. For the swap, for which the Group uses hedge accounting, the Group pays variable interest and in return receives fixed interest. It is used for hedging variable interest rates from a real estate lease agreement. The interest rate swap is recognized at fair value.

The ineffective part of the changes in fair value is recognized in income if ineffectivities from currency and interest hedges exist as of the balance sheet date. As in the prior year, ineffectiveness in fiscal year 2017 only resulted from taking into account the counterparty risk; the amounts were therefore not recorded.

Netting of financial assets and liabilities

The following financial assets and liabilities are subject to netting due to contractually agreed offsetting procedures:

NETTING OF FINANCIAL ASSETS 2017

in € thousand	Gross amounts of financial assets	Amount of netted financial liabilities	Recognized net amount 2017	Unnetted amount of a netting agreement	Net amount 2017
Positive derivative financial instruments	8,733	–	8,733	–2,523	6,210
Cash and cash equivalents	247,568	–	247,568	–363	247,205
	256,301	**0**	**256,301**	**–2,886**	**253,415**

NETTING OF FINANCIAL LIABILITIES 2017

in € thousand	Gross amounts of financial liabilities	Amount of netted financial assets	Recognized net amount 2017	Unnetted amount of a netting agreement	Net amount 2017
Negative derivative financial instruments	7,276	–	7,276	–1,036	6,240
Liabilities to banks	110,833	–	110,833	227	111,060
	118,109	**0**	**118,109**	**–809**	**117,300**

NETTING OF FINANCIAL ASSETS 2016

in € thousand	Gross amounts of financial assets	Amount of netted financial liabilities	Recognized net amount 2016	Unnetted amount of a netting agreement	Net amount 2016
Positive derivative financial instruments	7,551	–	7,551	–909	6,642
Cash and cash equivalents	221,481	–	221,481	–	221,481
	229,032	**0**	**229,032**	**–909**	**228,123**

NETTING OF FINANCIAL LIABILITIES 2016

in € thousand	Gross amounts of financial liabilities	Amount of netted financial assets	Recognized net amount 2016	Unnetted amount of a netting agreement	Net amount 2016
Negative derivative financial instruments	10,063	–	10,063	–2,623	7,440
Liabilities to banks	147,253	–	147,253	16,638	163,891
	157,315	**0**	**157,315**	**14,015**	**171,330**

The netting capabilities result, on the one hand, from the general offsetting claims of the respective banks in the event of liquidity problems. On the other hand, groups of banks have offsetting claims within the scope of agreements regarding credit lines that were concluded with these banks. No netting has been applied so far as the necessary criteria have not been fulfilled.

No offsetting claims exist from operating activities within the scope of supply and service relationships. Letters of credit and bank guarantees were secured on trade receivables of EUR 6,384 thousand (2016: EUR 9,588 thousand) (see Note 27). There are no other financial assets or liabilities that are covered by financial collateral (including cash collateral).

↗ Note 27

44 LEASING

The contracts recognized under IAS 17 and IFRIC 4 as leases are explained below.

Lessee – finance leases

Property leased by the Dräger Group primarily includes real estate as well as office equipment and machinery. The most significant obligations assumed under the lease terms comprise rental payments, the upkeep of the facilities and equipment, insurance, and taxes on capital. Lease terms generally range from one to five years with options to renew at varying conditions.

The Group had no finance leases with conditional payments in the fiscal year or the prior year.

For details of the development of assets used under finance leases, please see our explanations in connection with the statement of non-current assets in Note 21.

↗ Note 21

Minimum lease payments for the above finance leases are as follows:

MINIMUM LEASE PAYMENTS

in € thousand	2017	2016
During the first year	1,987	2,115
From the second to the fifth year	4,043	4,424
After five years	29,640	31,450
Minimum lease payments	**35,670**	**37,990**
During the first year	1,232	1,511
From the second to the fifth year	1,255	2,428
After five years	6,649	6,597
Present value of minimum lease payments	**9,136**	**10,537**
Interest portion contained in the minimum lease payments	**26,534**	**27,453**

As in the prior year, no future income from non-cancelable subleases was expected as of December 31, 2017.

Minimum lease payments continue to include two leasehold agreements, which stipulate payments into fiscal year 2103.

Lessee – operating leases

Drägerwerk AG & Co. KGaA and its subsidiaries have various operating lease agreements for buildings, machinery, office equipment, and other facilities and equipment. Most leases contain renewal options.

Some of the leases contain escalation clauses and provide for contingent rents based on fixed percentages of net sales derived from assets held under operating leases. Lease conditions do not contain restrictions concerning dividends, additional debt, or further leasing.

Lease expenses comprise the following:

LEASING EXPENSES

in € thousand	2017	2016
Basic lease costs	49,467	53,674
Contingent costs	234	98
Income from subleases	–101	–369
	49,601	**53,403**

Future minimum lease payments outstanding under non-cancelable operating leases are as follows:

MINIMUM LEASE PAYMENTS

in € thousand	2017	2016
During the first year	42,273	41,209
From the second to the fifth year	53,694	56,844
After five years	11,750	14,381
Minimum lease payments	**107,717**	**112,434**

Total expected future minimum income from subleases under non-cancellable operating leases amounted to EUR 445 thousand as of December 31, 2017 (2016: EUR 8 thousand).

Lessor – finance leases

The Dräger Group's main finance leases relate to medical equipment, as well as solutions and personal protection products. A receivable was recognized equal to the present value of the minimum lease payments.

Receivables from future lease payments outstanding are shown below:

RECEIVABLES FROM FUTURE LEASE PAYMENTS OUTSTANDING

in € thousand	2017	2016
During the first year	416	575
From the second to the fifth year	1,197	1,260
After five years	669	879
Total gross investments in finance leases	**2,281**	**2,714**
During the first year	366	508
From the second to the fifth year	1,077	1,108
After five years	637	828
Present value of minimum lease payments outstanding as of the balance sheet date	**2,081**	**2,444**
Unearned finance income	**200**	**270**

As in the prior year, bad debt allowances for uncollectible minimum lease payments were not required as of December 31, 2017.

Lessor – operating leases

The Dräger Group's main operating leases relate to medical equipment, solutions and gas detection products as well as building space.

EUR 19,278 thousand (2016: EUR 17,859 thousand) in leased building space is contained in the Group's property, plant and equipment at historical cost as well as EUR 14,258 thousand (2016: EUR 14,666 thousand) in accumulated depreciation charges. The depreciation charged in the fiscal year amounts to EUR 408 thousand (2016: EUR 1,121 thousand).

↗ Note 21

Dräger reports equipment leased out separately under property, plant and equipment. For information on assets leased under operating leases, we also refer to our comments in Note 21.

Future minimum lease payments outstanding under non-cancelable operating leases are as follows:

MINIMUM LEASE PAYMENTS

in € thousand	2017	2016
During the first year	23,025	12,421
From the second to the fifth year	13,243	20,043
After five years	194	653
	36,461	**33,117**

As in the prior year, no contingent rents were recognized in profit or loss in fiscal year 2017.

45 CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

As in the prior year, the Dräger Group did not have any contingent liabilities.

Other financial obligations

As of December 31, 2017, other financial obligations amounted to a total of EUR 154,113 thousand (2016: EUR 199,956 thousand) and are structured as follows:

a) Rental and lease agreements

↗ Note 44

For other financial obligations from rental and lease agreements of EUR 143,253 thousand (2016: EUR 150,424 thousand), please refer to our comments in Note 44 (Lessee – operating leases).

b) Purchase obligations

In line with the usual requirements, the Dräger Group has also entered into purchase obligations with other service providers in order to guarantee the availability of IT services. Due to the centralization of IT activities at Drägerwerk AG & Co. KGaA, the company assumed all existing long-term obligations to IT service providers of the medical and safety. As a result of outstanding orders, the Group had obligations to purchase intangible assets of EUR 91 thousand (2016: EUR 4,026 thousand) and items of property, plant and equipment of EUR 10,769 thousand (2016: EUR 45,506 thousand) as of December 31, 2017.

c) Litigation

Companies of the Dräger Group were involved in litigation and claims for damages in connection with business activities as of December 31, 2017. The Executive Board of the general partner believes that the outcome of such litigation and claims will not have any further material adverse effect on the company's net assets, financial position, or results of operations over and above the provisions which have already been recognized.

It is not to be expected that these contingent liabilities will become actual liabilities for which no provision has been recognized yet.

46 SEGMENT REPORT

BUSINESS PERFORMANCE OF THE SEGMENTS

		Europe		Americas		Africa, Asia and Australia		Dräger Group	
		2017	2016	2017	2016	2017	2016	2017	2016
Order intake with third parties	€ million	1,447.8	1,382.5	509.2	515.0	657.6	641.2	2,614.7	2,538.7
Net sales with third parties	€ million	1,415.5	1,384.3	510.4	503.7	646.4	635.8	2,572.3	2,523.8
EBITDA[1]	€ million	148.6	125.3	25.6	34.0	65.8	63.3	240.0	222.7
Depreciation / amortization	€ million	–40.5	–40.8	–21.7	–23.8	–22.1	–21.2	–84.2	–85.8
EBIT[2]	€ million	108.1	84.5	4.0	10.3	43.7	42.1	155.7	136.9
Capital employed[3,4]	€ million	575.9	559.7	294.4	312.0	373.3	375.3	1,243.6	1,247.0
EBIT[2] / net sales	%	7.6	6.1	0.8	2.0	6.8	6.6	6.1	5.4
EBIT[2,5] / capital employed[3,4] (ROCE)	%	18.8	15.1	1.3	3.3	11.7	11.2	12.5	11.0
DVA[5,6]	€ million	68.8	44.5	–16.6	–10.5	18.5	15.8	70.7	49.8

[1] EBITDA = Earnings before interest, taxes, depreciation and amortization
[2] EBIT = Earnings before net interest result and income taxes
[3] Capital employed in segments = trade receivables, inventories incl. prepayments received;
Capital employed Group = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
[4] Value at end of period
[5] Value of the last twelve months
[6] Dräger Value Added = EBIT less cost of capital of average invested capital

Segment reporting in the annual report is geared towards the organizational and management system (pursuant to IFRS 8).

The Executive Board is managing the operating business by means of the three regions: Europe, Americas, and Africa, Asia and Australia. One member of the Executive Board is fully responsible for the business performance in each of these three regions. The respective Executive Board member assumes additional functional tasks in addition to the regional responsibility.

Net sales are broken down by segment on the basis of the customers' geographical locations.

Dräger develops, produces, and markets system solutions, equipment, and services for the optimization of processes at the acute point of care. These include emergency care, perioperative care (in connection with the operation), critical care, and also perinatal care (in connection with childbirth).

Dräger also develops, produces, and markets products, system solutions, and services for personal protection, gas detection technology, and integrated hazard management. Its customers come from industry, mining, and public sectors such as fire departments, police, and disaster protection.

The segment reports were prepared in accordance with IFRS as applied in the Group financial statements.

At Group level, the key figures from the segment report are as follows:

EBIT

in € million	2017	2016
Net profit	98.5	81.7
+ Interest result	12.8	15.5
+ Income taxes	44.4	39.6
EBIT	**155.7**	**136.9**

CAPITAL EMPLOYED

in € million	2017	2016
Total assets	2,354.4	2,312.3
– Deferred tax assets	–133.6	–133.7
– Cash and cash equivalents	–247.6	–221.5
– Non-interest-bearing liabilities	–729.6	–710.1
Capital employed	**1,243.6**	**1,247.0**

DVA

in € million	2017	2016
EBIT (of the last twelve months)	155.7	136.9
– Cost of capital (Basis: average of capital employed in the last twelve months)	–85.0	–87.1
DVA	**70.7**	**49.8**

Non-current assets are broken down by region on the basis of the assets' geographical locations:

NON-CURRENT ASSETS BY REGION[1]

in € million	2017	2016
Europe[2]	613.7	599.4
Americas	34.9	39.4
Africa, Asia and Australia	127.4	131.8
	776.0	**770.6**

[1] Non-current assets = intangible assets, property, plant and equipment, and other non-current assets (excluding the fund assets relating to plan assets reported under this balance sheet item)

[2] It is no longer possible to allocate all non-current assets to Germany following the change in segment reporting in 2016; this is because goodwill is only allocated to the Europe segment, and not the individual countries.

↗ Note 20

As a result of the change in segment reporting (see also Note 20), the allocation of non-current assets to the individual regions has changed year on year, mainly due to the reallocation of goodwill to the regions.

The business performance of the individual segments is detailed in the management report. Services rendered between the divisions follow the arm's length principle.

47 NOTES TO THE CASH FLOW STATEMENT

Due to the elimination of exchange rate effects and transactions that have not or have not yet led to a change in cash and cash equivalents, the underlying changes recognized in the cash flow statement cannot be directly reconciled with the items of the published balance sheet.

In fiscal year 2017, Dräger Group's cash inflow from operating activities amounted to EUR 143.3 million (2016: EUR 195.3 million). The primary factor in this development was the fact that trade receivables increased by EUR 22.4 million, after having declined by EUR 31.3 million in the prior-year period. In addition, inventories rose by EUR 30.0 million (2016: decline by EUR 17.4 million) and other assets by EUR 15.0 million (2016: decline by EUR 12.6 million). Earnings before net interest result, income taxes, depreciation, and amortization (EBITDA) – adjusted for cash-neutral changes to provisions and other non-cash earnings / expenses – increased by EUR 59.7 million from EUR 187.2 million to EUR 246.9 million. The EUR 22.2 million increase in trade payables (2016: decline of EUR 10.2 million) had a positive impact on cash flows.

Cash outflow from investing activities fell to EUR 65.5 million (2016: EUR 77.3 million). In addition, Dräger invested a sum of EUR 12.6 million in fiscal year 2017 for the construction project in Krefeld for sales and service activities relating to safety products. Prior-year investments, on the other hand, included EUR 20.8 million for investments in the factory of the future, which was largely completed in fiscal year 2016.

Cash outflow from financing activities of EUR 41.9 million (2016: EUR 70.0 million) was mainly due to the repayment of bank loans and current account liabilities of EUR 34.3 million (2016: EUR 66.5 million), although a note loan in the amount of EUR 60.0 million was taken out at the same time in the prior-year period.

Changes in liabilities from financing activities are divided into cash-effective and cash-neutral matters as follows:

RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES 2017

	January 1	Cash	Non-cash		December 31
			Acquisition	Exchange rate change	
Non-current interest-bearing loans	188,635	– 4,561	– 46,138	– 148	137,788
Current loans	11,113	– 5,403	46,138	– 45	51,802
Current liabilities to banks	45,913	– 23,973	–	– 2,257	19,683
Finance lease liabilities	10,537	– 1,390	–	– 11	9,136
Total liabilities from financing activities	**256,197**	**– 35,327**	**0**	**– 2,460**	**218,409**

Cash and cash equivalents as of December 31, 2017 exclusively comprised cash, of which EUR 4.9 million (December 31, 2016: EUR 5.4 million) was subject to restrictions.

Unused credit lines amounted to EUR 423.6 million as of the balance sheet date (December 31, 2016: EUR 343.3 million) and are subject to restrictions applicable in the market.

48 REMUNERATION OF THE EXECUTIVE AND SUPERVISORY BOARDS

Executive Board remuneration

Total remuneration for active Executive Board members amounted to EUR 5,344,758 in fiscal year 2017 (2016: EUR 6,217,223). This amount is made up of non-performance related payments of EUR 2,295,744 (2016: EUR 2,229,519), performance related short-term payments of EUR 1,943,195 (2016: EUR 3,985,172) as well as share-based remuneration with long-term incentives in the amount of EUR 5,081 (2016: EUR 2,532).

If Executive Board remuneration is paid by Drägerwerk Verwaltungs AG, it is entitled to claim reimbursement from Drägerwerk AG & Co. KGaA monthly pursuant to Sec. 11 (1) and (3) of the articles of association of Drägerwerk AG & Co. KGaA. Pursuant to Sec. 11 (4) of the company's articles of association, the general partner receives a fee, independent of profit and loss, of 6 percent of the equity disclosed in its financial statements, payable one week after the general partner prepares its financial statements, for the management of the company, and the assumption of personal liability. For fiscal year 2017, this remuneration amounts to EUR 93,797.94 (2016: EUR 90,195) plus potentially incurred VAT.

Obligations to active Executive Board members under pension plans are stated in the financial statements 2017 at EUR 6,648,298 (2016: EUR 5,770,072).

In fiscal year 2017, the company made pension provisions contributions of EUR 878,226 for active members of the Executive Board (2016: EUR 1,260,138).

EUR 3,099,855 was paid to former members of the Executive Board and their surviving dependents (2016: EUR 3,059,113). Pension commitments to former members of the Executive Board and their surviving dependents amounted to EUR 43,400,440 (2016: EUR 44,883,967).

If an Executive Board member dies during his or her active service on the Board, the surviving spouse is entitled to the Dräger widow's and widower's pension and any remaining children have claim to the Dräger orphan's pension. The annual Dräger widow's and widower's pension amounts to 55 percent of the Dräger pension received by or which would have been received by the deceased executive if said executive would have been unable to work when he or she died (notional invalidity pension). The amount of the Dräger orphan's pension is 10 percent of the notional invalidity pension or the current Dräger pension of the deceased management member.

Supervisory Board remuneration

The annual shareholders' meeting of Drägerwerk AG & Co. KGaA has defined Supervisory Board remuneration in the articles of association since fiscal year 2011. Supervisory Board remuneration for fiscal year 2017 came to EUR 503,816 (2016: EUR 447,715).

In fiscal year 2017, the total remuneration of the six members of the Supervisory Board of the general partner, Drägerwerk Verwaltungs AG, amounted to EUR 135,000 (2016: EUR 135,000) as well as additional flat fees for out-of-pocket expenses totaling EUR 55,000 (2016: EUR 55,000). No remuneration was paid to Supervisory Board members of Group companies.

Further information on the itemized remuneration of the Executive Board and the Supervisory Board can be found in the combined management report.

49 SHARES OWNED BY THE EXECUTIVE AND SUPERVISORY BOARDS

As of December 31, 2017, the members of the Executive Board of Drägerwerk Verwaltungs AG and their related parties directly held 6,580 preferred shares in Drägerwerk AG & Co. KGaA, equivalent to 0.037 percent of the company's total shares, and 107,105 common shares, corresponding to 0.603 percent of the company's total shares.

On December 31, 2017, the members of the Supervisory Board and their related parties directly or indirectly held a total of 712 preferred shares, equivalent to 0.004 percent of the company's total shares, and 292 common shares, equivalent to 0.002 percent of the company's total shares.

50 RELATED PARTY TRANSACTIONS

Services were rendered for Stefan Dräger and companies and persons related to Stefan Dräger, the Dräger-Stiftung, and the Dräger-Familienstiftung (Dräger Foundation and Dräger Family Foundation) totaling EUR 84 thousand (2016: EUR 134 thousand) in fiscal year 2017. Receivables in this respect amounted to EUR 29 thousand as of December 31, 2017 (2016: EUR 14 thousand).

Drägerwerk AG & Co. KGaA rendered rental services and other services totaling EUR 129 thousand (2016: EUR 133 thousand) for associate MAPRA Assekuranzkontor GmbH in fiscal year 2017. Receivables in this respect amounted to EUR 4 thousand on December 31, 2017 (2016: EUR 11 thousand); there were no liabilities.

Claudia Dräger was employed by the Dräger Group during the fiscal year. Her employment contract was concluded at arm's length terms and conditions. Claudia Dräger left the Dräger Group at the end of fiscal year 2017.

The remuneration of the employee representatives on the Supervisory Board for work performed in addition to the Supervisory Board activities was also concluded at arm's length terms and conditions. Overall, remuneration is of immaterial importance for the Dräger Group.

Dräger Verwaltungs AG is the general partner of Drägerwerk AG & Co. KGaA and holds 0 percent of the capital. Only a few transactions are conducted with the general partner, as it only exercises administrative functions. The general partner is entitled to compensation for all expenses incurred in association with the management of Drägerwerk AG & Co. KGaA.

These include the contractually agreed remuneration for its executive bodies. These expenses comprise the remuneration of the Executive Board, the remuneration of its Supervisory Board, liability remuneration as well as other expenses.

Liabilities to Drägerwerk Verwaltungs AG amount to EUR 8.1 million as of December 31, 2017 (2016: EUR 6.6 million). Drägerwerk AG & Co. KGaA's expenses for Drägerwerk Verwaltungs AG services amounted to EUR 7,630 thousand in the fiscal year (2016: EUR 5,794 thousand).

Four members of the Executive Board of Drägerwerk Verwaltungs AG participated in the 2017 employee share program. All four Executive Board members purchased twenty or rather thirteen sets of three shares at a cost of EUR 69.60 per share using their own funds. For every three preferred shares, participants received one preferred share worth EUR 69.60 free of charge from Dräger. The holding period for these preferred shares – including those that participants acquired themselves – runs until December 31, 2019.

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

51 ADDITIONAL INFORMATION

Auditor's fee

The total fee charged by the auditor – PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft – in fiscal year 2017 for the audit of the Group financial statements amounted to EUR 1,198 thousand (2016: EUR 1,177 thousand) for the audit of the financial statements, EUR

41 thousand (2016: EUR 78 thousand) for other audit services, EUR 36 thousand (2016: EUR 86 thousand) for other services, and EUR 360 thousand (2016: EUR 154 thousand) for tax consultancy.

The fee for the audit of the financial statements primarily includes the fees for the audit of the Group financial statements as well as the statutory audits of Drägerwerk AG & Co. KGaA and of the subsidiaries included in the Group financial statements. The fee for other audit services primarily includes the statutory audit services, including EMIR. The fee for tax consultancy predominantly comprises the fee for tax consultancy relating to transfer prices as well as tax consultancy for current and planned transactions and intra-Group reorganization. The fee for other services primarily consists of project-specific advisory services.

The audit report was signed by Dr. Peter Bartels and Marko Schipper from Pricewaterhouse-Coopers GmbH Wirtschaftsprüfungsgesellschaft. The audit opinion for fiscal year 2017 was the fourth one that Dr. Peter Bartels has signed in a row. Marko Schipper signed his second audit report for the Dräger Group.

Corporate governance declaration

Drägerwerk AG & Co. KGaA's declaration of conformity under the terms of Sec. 161 AktG (Aktiengesetz – German Stock Corporation Act) has been issued and made permanently available to the shareholders online in December 2017.

www.draeger.com

52 CONSOLIDATED COMPANIES

CONSOLIDATED COMPANIES

	Name and registered office	Capital stock in local currency unit thousand	Share-holding in %
Germany			
	Dräger Safety AG & Co. KGaA, Lübeck	25,739 EUR	100[1]
	Dräger Medical Deutschland GmbH, Lübeck	2,000 EUR	100[1]
	Dräger Electronics GmbH, Lübeck	2,000 EUR	100
	Dräger Medizin System Technik GmbH, Lübeck	1,023 EUR	100
	Dräger Safety Verwaltungs AG, Lübeck	1,000 EUR	100[1]
	Dräger TGM GmbH, Lübeck	767 EUR	100[1]
	Dräger MSI GmbH, Hagen	1,000 EUR	100[1]
	Dräger Medical ANSY GmbH, Lübeck	500 EUR	100[1]
	Dräger Interservices GmbH, Lübeck	256 EUR	100[1]
	Dräger Gebäude und Service GmbH, Lübeck	250 EUR	100[1]
	Dräger Medical International GmbH, Lübeck	112 EUR	100[1]
	MAPRA Assekuranzkontor GmbH, Lübeck	55 EUR	49[2]
	Fachklinik für Anästhesie und Intensivmedizin Vahrenwald GmbH, Lübeck	26 EUR	100[1]
	Dräger Energie GmbH, Lübeck	25 EUR	100
	FIMMUS Grundstücks-Vermietungs GmbH, Lübeck	25 EUR	100[1,3]
	Dräger Finance Services GmbH & Co. KG, Bad Homburg v. d. Höhe	511 EUR	95[3]
	OPTIO Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Lübeck	26 EUR	100[3]
	FIMMUS Grundstücks-Vermietungs Gesellschaft mbH & Co. Objekt Lübeck KG, Lübeck	10 EUR	100[3]
	MOLVINA Vermietungsgesellschaft mbH & Co. Objekt Finkenstraße KG, Düsseldorf	5 EUR	100[3]
	DRENITA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Fertigung Dräger Medizintechnik KG, Düsseldorf	10 EUR	100[3]
	Dräger Grundstücksverwaltungs GmbH, Lübeck	25 EUR	100
	Dräger Holding International GmbH, Lübeck	25 EUR	100[1]
	FUNDUS Grundstücksverwaltungs-GmbH & Co. KG, Lübeck	3,985 EUR	100[3]
	bentekk GmbH, Hamburg	29 EUR	51
Europe			
Belgium	Dräger Medical Belgium NV, Wemmel	1,503 EUR	100
	Dräger Safety Belgium NV, Wemmel	789 EUR	100
Bulgaria	Draeger Medical Bulgaria EOOD, Sofia	705 BGN	100
	Draeger Safety Bulgaria EOOD, Sofia	500 BGN	100
Denmark	Dräger Danmark A/S, Herlev	5,000 DKK	100
Finland	Dräger Suomi Oy, Helsinki	802 EUR	100
France	Dräger Médical SAS, Antony	8,000 EUR	100
	Draeger Safety France SAS, Strasbourg	1,470 EUR	100
	AEC SAS, Antony	70 EUR	100
Greece	Draeger Hellas A.E. for Products of Medical and Safety Technology, Athens	1,500 EUR	100
United Kingdom	Draeger Safety UK Ltd., Blyth	7,589 GBP	100
	Draeger Medical UK Ltd., Hemel Hempstead	4,296 GBP	100

[1] Relief in accordance with Sec. 264 (3) of the German Commercial Code (HGB)
[2] This company is treated as an associate as defined by IAS 28.
[3] Special purpose entities in accordance with IFRS 10

CONSOLIDATED COMPANIES

	Name and registered office	Capital stock in local currency unit thousand	Share-holding in %
Europe (continued)			
Ireland	Draeger Ireland Ltd., Dublin	25 EUR	100
Italy	Draeger Medical Italia S.p.A., Corsico-Milano	7,400 EUR	100
	Draeger Safety Italia S.p.A., Corsico-Milano	1,033 EUR	100
Croatia	Dräger Medical Croatia d.o.o., Zagreb	4,182 HRK	100
	Dräger Safety d.o.o., Zagreb	2,300 HRK	100
Netherlands	Dräger Nederland B.V., Zoetermeer	10,819 EUR	100
Norway	Dräger Norge AS, Oslo	1,129 NOK	100
	GasSecure AS, Oslo	139 NOK	100
Austria	Dräger Austria GmbH, Wien	2,000 EUR	100
Poland	Dräger Polska sp. zo.o., Bydgoszcz	4,655 PLN	100
	Dräger Safety Polska sp. zo.o., Katowice	1,000 PLN	100
Portugal	Dräger Portugal, LDA, Lissabon	1,000 EUR	100
Romania	Dräger Medical Romania SRL, Bukarest	205 RON	100
	Dräger Safety Romania SRL, Bukarest	3,740 RON	100
Russia	Draeger OOO, Moscow	3,600 RUB	100
Sweden	Dräger Sverige AB, Kista	2,000 SEK	100
	ACE Protection AB, Svenljunga	100 SEK	100
Switzerland	Dräger Schweiz AG, Liebefeld-Bern	3,000 CHF	100
Serbia	Draeger Tehnika d.o.o., Beograd	21,385 RSD	100
Slovakia	Dräger Slovensko s.r.o., Piestany	597 EUR	100
Slovenia	Dräger Slovenija d.o.o., Ljubljana-Crnuce	344 EUR	100
Spain	Dräger Medical Hispania SA, Madrid	3,606 EUR	100
	Dräger Safety Hispania SA, Madrid	2,404 EUR	100
Czech Republic	Dräger Medical s.r.o., Prag	18,314 CZK	100
	Dräger Safety s.r.o., Prag	29,186 CZK	100
	Dräger Chomutov s.r.o., Chomutov	65,435 CZK	100
Turkey	Draeger Medikal Ticaret ve Servis Anonim Sirketi, Istanbul	25,040 TRY	100
	Draeger Safety Korunma Teknolojileri Anonim Sirketi, Ankara	70 TRY	100
Hungary	Dräger Safety Hungaria Kft., Budapest	66,300 HUF	100
	Dräger Medical Hungary Kft., Budapest	94,800 HUF	100
Africa			
Marocco	Draeger Maroc SARLAU, Casablanca	8,720 MAD	100
South Africa	Dräger Safety South Africa (Pty.) Ltd., Bryanston	4,000 ZAR	69
	Dräger South Africa (Pty.) Ltd., Johannesburg	200 ZAR	69[4]
	Dräger Safety Zenith (Pty.) Ltd., King William's Town	5,000 ZAR	100
Americas			
Argentina	Dräger Argentina SA, Buenos Aires	18,206 ARS	100
Brazil	Dräger do Brasil Ltda., São Paulo	27,021 BRL	100
	Dräger Industria e Comércio Ltda., São Paulo	8,132 BRL	100
	Dräger Safety do Brasil Equipamentos de Segurança Ltda., São Paulo	18,660 BRL	100

[4] Capital stock in local currency (not in local currency unit thousand)

CONSOLIDATED COMPANIES

	Name and registered office	Capital stock in local currency unit thousand	Share-holding in %
Americas (continued)			
Chile	Dräger Chile Ltda., Santiago	1,284,165 CLP	100
	Dräger-Simsa S.A., Santiago	499,000 CLP	51
Canada	Draeger Safety Canada Ltd., Mississauga / Ontario	2,280 CAD	100
	Draeger Medical Canada Inc., Richmond Hill / Ontario	2,000 CAD	100
Colombia	Draeger Colombia SA, Bogota D.C.	2,350,000 COP	100
Mexico	Draeger Safety S.A. de C.V., Querétaro	50 MXN	100
	Dräger Medical Mexico S.A. de C.V., Mexiko D.F.D.	50 MXN	100
Panama	Draeger Panama S. de R.L., Panama	180 USD	100
	Draeger Panama Comercial, S. de R.L., Panama	700 USD	100
Peru	Draeger Peru S.A.C., Piso Miraflores-Lima	9,809 PEN	100
USA	Draeger, Inc., Telford	356 USD	100
	Draeger Medical Systems, Inc., Telford	100 USD	100[4]
Asia / Australia			
P.R. China	Shanghai Dräger Medical Instrument Co., Ltd., Shanghai	22,185 CNY	100
	Draeger Safety Equipment (China) Co., Ltd., Beijing	50,000 CNY	100
	Dräger Medical Equipment (Shanghai) Co., Ltd., Shanghai	8,287 CNY	100
	Draeger Hong Kong Limited, Wanchai	500 HKD	100
	Draeger Medical Systems (Shanghai) Co., Ltd., Shanghai	70,000 CNY	100
India	Draeger India Private Limited, Mumbai	202,600 INR	100
	Draeger Safety India Pvt. Ltd., Mumbai	60,000 INR	100
Indonesia	PT Draegerindo Jaya, Jakarta	3,384,000 IDR	100
	PT Draeger Medical Indonesia, Jakarta	18,321,000 IDR	100
Japan	Draeger Medical Japan Ltd., Tokio	499,500 JPY	100
	Draeger Safety Japan Ltd., Tokio	81,000 JPY	100
Malaysia	Draeger Malaysia Sdn. Bhd., Kuala Lumpur	6,000 MYR	100
Philippines	Draeger Philippines Corporation, Pasig City	10,100 PHP	100
Saudi Arabia	Draeger Arabia Co. Ltd., Riyadh	40,000 SAR	51
Singapore	Draeger Singapore Pte Ltd., Singapore	8,360 SGD	100
South Korea	Draeger Korea Co., Ltd., Seoul	2,100,020 KRW	100
Taiwan	Draeger Safety Taiwan Co., Ltd., Hsinchu City	50,000 TWD	100
	Draeger Medical Taiwan Ltd., Taipei	10,000 TWD	100
Thailand	Draeger Medical (Thailand) Ltd., Bangkok	203,000 THB	100
	Draeger Safety (Thailand) Ltd., Bangkok	15,796 THB	100
Vietnam	Draeger Vietnam Co., Ltd., Ho Chi Minh City	22,884,372 VND	100
Australia	Draeger Safety Pacific Pty. Ltd., Notting Hill	0 AUD	100
	Draeger Australia Pty. Ltd., Notting Hill	3,800 AUD	100
New Zealand	Draeger New Zealand Limited, Auckland	722 NZD	100

[4] Capital stock in local currency (not in local currency unit thousand)

53 SUBSEQUENT EVENTS

Distribution

The general partner and the Supervisory Board of Drägerwerk AG & Co. KGaA, Lübeck, plan to propose to distribute out of the net earnings of Drägerwerk AG & Co. KGaA of EUR 543,878 thousand for fiscal year 2017 a cash dividend of EUR 0.40 per common share and EUR 0.46 per preferred share, totaling EUR 7,560 thousand. The remaining amount of EUR 536,318 thousand will be carried forward to new account. The preferred share dividend also governs the distribution on participation certificates, which will amount to EUR 4.60 each – ten times the preferred share dividend.

Lübeck, Germany, February 16, 2018

The general partner
Drägerwerk Verwaltungs AG
represented by its Executive Board

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

Management compliance statement

We confirm to the best of our knowledge that, in accordance with the applicable financial reporting framework, the Group financial statements give a true and fair view of the net assets, financial position, and results of operations of the Group, the Group management report presents business performance including business results and the situation of the Group so as to give a true and fair view, and that the material opportunities and risks relating to the Group's development have been described.

Lübeck, Germany, February 16, 2018

The general partner
Drägerwerk Verwaltungs AG
represented by its Executive Board

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

Independent Auditor's Report

To Drägerwerk AG & Co. KGaA, Lübeck

Report on the audit of the consolidated financial statements and of the group management report

AUDIT OPINIONS

We have audited the consolidated financial statements of Drägerwerk AG & Co. KGaA, Lübeck, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31 2017, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2017 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Drägerwerk AG & Co. KGaA, which is combined with the Company's management report, for the financial year from January 1, 2017 to December 31, 2017. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § (article) 315e Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from January 1, 2017 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz (sentence) 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537 / 2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated

Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Recoverability of goodwill
❷ Accounting treatment of deferred taxes
❸ Pension provisions

Our presentation of these key audit matters has been structured in each case as follows:

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

Hereinafter we present the key audit matters:

❶ RECOVERABILITY OF GOODWILL

① Goodwill amounting in total to EUR 308.4 billion (representing 13.1 % of total assets) is reported under the "Intangible assets" balance sheet item in the Company's consolidated financial statements. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. Impairment testing is carried out at the level of the groups of cash-generating units to which the relevant goodwill has been allocated. The carrying amount of the relevant cash-generating units, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is generally calculated on the basis of fair value less costs of disposal. The present value of the future cash flows from the respective group of cash-generating units normally serves as the basis of valuation. The present values are calculated using discounted cash flow models. For this purpose, the medium-term business plan adopted by the Group forms the starting point for future projections based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital for the relevant group of cash-generating units. The impairment test determined that no write-downs were necessary. The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective group of cash-generating units, the discount rate used, the rate of growth and other assumptions, and is 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 As part of our audit, we reviewed the methodology employed for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the medium-term business plan adopted by the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. We also assessed whether the basis for including the costs of Group functions was accurate. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated using this method, we focused our testing in particular on the parameters used to determine the discount rate applied, and verified the calculation procedure. We reproduced the sensitivity analyses performed by the Company, in order to reflect the uncertainty inherent in the projections. Taking into account the information available, we determined that the carrying amounts of the cash-generating units, including the respective allocated goodwill, were adequately covered by the discounted future net cash inflows.

Overall, the measurement inputs and assumptions used by the executive directors are in line with our expectations and are within the ranges considered by us to be reasonable.

↗ Note 20

③ The Company's disclosures regarding impairment testing are contained in note 20 of the notes to the consolidated financial statements.

❷ ACCOUNTING TREATMENT OF DEFERRED TAXES

① Deferred tax assets amounting to EUR 133.6 million (5.7 % of total assets) after netting are reported in the Company's consolidated financial statements. Deferred tax assets amounting to EUR 146.4 million were recognized before netting with matching deferred tax liabilities. This item was recognized to the extent that the executive directors consider it probable that taxable profit will be available in the foreseeable future which will enable the deductible temporary differences and unused tax losses and interest carryforwards to be utilized. For this purpose, if insufficient deferred tax liabilities are available, future taxable profits are projected on the basis of the adopted business plan.

From our point of view, the accounting treatment of deferred taxes was of particular importance in the context of our audit, as it depends to a large extent on the estimates and assumptions made by the executive directors and is therefore subject to uncertainties.

② As part of our audit, we reviewed, among other things, the internal processes and controls for recording tax matters as well as the methodology adopted for the determination, accounting treatment and measurement of deferred taxes. We also assessed the recoverability of the deferred tax assets relating to deductible temporary differences and unutilized tax losses and interest carryforwards on the basis of the Company's internal forecasts of its future earnings situation, and we evaluated the appropriateness of the underlying estimates and assumptions.

Based on our audit procedures, we satisfied ourselves that the estimates and assumptions made by the executive directors were justified and adequately documented.

↗ Note 16

③ The Company's disclosures relating to deferred taxes are contained in note 16 of the notes to the consolidated financial statements.

❸ PENSION PROVISIONS

① Pension provisions totaling EUR 313.0 million (13.3 % of total assets) are reported under the "Pension provisions" balance sheet item in the Company's consolidated financial statements. The pension provisions comprise obligations from defined benefit pension plans amounting to EUR 509.0 million and plan assets of EUR 196 million. The obligations from defined benefit pension plans were measured using the projected unit credit method. This requires assumptions to be made in particular about long-term rates of growth in salaries and pensions, average life expectancy, and staff turnover. The discount rate must be determined by reference to market yields on high-quality corporate bonds with matching currencies and consistent maturities. This usually requires the data to be extrapolated, since there is an insufficient number of long-term corporate bonds. The plan assets are measured at fair value, which in turn involves making estimates that are subject to uncertainty.

In our view, these matters were of particular significance in the context of our audit because the recognition and measurement of this item – which is significant in terms of its amount – are based to a large extent on estimates and assumptions made by the Company's executive directors.

② Our audit included evaluating the actuarial expert reports obtained and the professional qualifications of the external experts with respect to the material portion of the pension provisions. We also examined the specific features of the actuarial calculations and reviewed the numerical data, the actuarial parameters and the valuation methods on which the valuations were based for compliance with standards and appropriateness, in addition to other procedures. In addition, we analyzed the changes in the obligation and the cost components in accordance with actuarial expert reports in the light of changes occurring in the valuation parameters and the numerical data, and verified their plausibility. For the purposes of our audit of the fair value of the plan assets, we obtained bank and fund confirmations.

Based on our audit procedures, we satisfied ourselves that the estimates and assumptions made by the executive directors were justified and adequately documented.

↗ Note 34

③ The Company's disclosures regarding pension provisions are contained in note 34 of the notes to the consolidated financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

– the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Declaration/Group declaration of corporate governance" of the group management report

– the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code
– the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

– is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
– otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 10, 2017. We were engaged by the supervisory board on June 28, 2017. We have been the group auditor of the Drägerwerk AG & Co. KGaA, Lübeck, without interruption since the financial year 2009.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Marko Schipper.

Hamburg, February 20, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Peter Bartels	Marko Schipper
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

The Company's Boards

Supervisory Board of Drägerwerk AG & Co. KGaA

Chairman

Prof. Dr. Nikolaus Schweickart

Lawyer, Bad Homburg
Former Chairman of the Executive Board of ALTANA AG, Bad Homburg
Chairman of the Board of Trustees, Städel Museum Foundation, Frankfurt

Supervisory board memberships:
– Drägerwerk Verwaltungs AG, Lübeck (Chairman)
– Dräger Safety AG & Co. KGaA, Lübeck (Chairman)
– Dräger Safety Verwaltungs AG, Lübeck (Chairman)

Memberships on comparable boards of German or foreign companies:
– Diehl-Stiftung & Co. KG, Nuremberg (Chairman of the Advisory Board)

Vice-Chairman

Siegfrid Kasang

Group Works Council Chairman of Dräger, Lübeck
Dräger Lübeck Works Council Chairman, Lübeck

Bettina van Almsick

Chairperson of Works Council Dräger Sales and Service Germany, Essen
Member of Works Council Dräger Sales and Service Germany, Lübeck
Member of Group Works Council of Dräger, Lübeck

Supervisory board memberships:
Dräger Medical Deutschland GmbH, Lübeck (Vice-Chairman)

Nike Benten

Member of Dräger Lübeck Works Council, Lübeck
Member of Group Works Council of Dräger, Lübeck

Supervisory board memberships:
– Dräger Safety AG & Co. KGaA, Lübeck

Daniel Friedrich

1st Delegate of the metalworkers' union IG Metall, Lübeck-Wismar administrative office, Lübeck

Supervisory board memberships:
– Dräger Safety AG & Co. KGaA, Lübeck
– Premium AEROTEC GmbH, Augsburg (until June 30, 2017)

Prof. Dr. Thorsten Grenz

Managing Partner of KIMBRIA Gesellschaft für Beteiligung und Beratung mbH, Berlin
Professor of Economics and Social Sciences at Christian-Albrechts University, Kiel

Supervisory board memberships:
– Fyber N.V. (formerly: RNTS Media N. V.), Amsterdam (Vice-Chairman), until April 5, 2017.
– Gpredictive GmbH, Hamburg
– Drägerwerk Verwaltungs AG, Lübeck
– Dräger Safety AG & Co. KGaA, Lübeck
– Dräger Safety Verwaltungs AG, Lübeck

Stefan Lauer

Former Executive Board member of Deutsche Lufthansa AG, Frankfurt

Supervisory board memberships:
– Lufthansa Cargo AG, Frankfurt
– People at Work Systems AG, Munich
– Drägerwerk Verwaltungs AG, Lübeck
– Dräger Safety AG & Co. KGaA, Lübeck

Uwe Lüders

Chairman of the Executive Board of L. Possehl & Co. mbH, Lübeck (until July 31, 2017)

Supervisory board memberships:
– Lübecker Hafen-Gesellschaft mbH (LHG), Lübeck (Chairman)
– Drägerwerk Verwaltungs AG, Lübeck
– Dräger Safety AG & Co. KGaA, Lübeck

Walter Neundorf,

Officer of Drägerwerk AG & Co. KGaA, Lübeck

Prof. Dr. Klaus Rauscher

Former Chairman of the Board of Directors of Vattenfall Europe AG, Berlin

Supervisory board memberships:
– Vonovia SE, Düsseldorf (Vice-Chairman since September 1, 2017)
– Drägerwerk Verwaltungs AG, Lübeck
– Dräger Safety AG & Co. KGaA, Lübeck
– Dräger Safety Verwaltungs AG, Lübeck

Memberships on comparable boards of German or foreign companies:
– Board of Trustees of Berliner Philharmoniker, Berlin

Thomas Rickers

Officer for Drägerwerk AG & Co. KGaA, the metalworkers' union IG Metall, Lübeck-Wismar administrative office, Lübeck

Supervisory board memberships:
– Dräger Safety AG & Co. KGaA, Lübeck

Dr. Reinhard Zinkann

Managing Partner of Miele & Cie. KG, Gütersloh

Supervisory board memberships:
– Falke KGaA, Schmallenberg (Chairman)
– Drägerwerk Verwaltungs AG, Lübeck
– Dräger Safety AG & Co. KGaA, Lübeck

Memberships on comparable boards of German or foreign companies:
– Hipp & Co., Pfaffenhofen (President of the Board of Directors)
– Nobilia-Werke J. Stickling GmbH & Co. KG, Verl (Advisory Board)

Members of the Audit Committee:

Prof. Dr. Thorsten Grenz (Chairman)
Siegfrid Kasang
Prof. Dr. Klaus Rauscher
Prof. Dr. Nikolaus Schweickart
Daniel Friedrich

Members of the Nomination Committee:

Prof. Dr. Nikolaus Schweickart (Chairman)
Uwe Lüders
Dr. Reinhard Zinkann

Members of the Joint Committee:

Representatives of Drägerwerk Verwaltungs AG:
Prof. Dr. Thorsten Grenz
Stefan Lauer
Uwe Lüders
Prof. Dr. Klaus Rauscher

Representatives of Drägerwerk AG & Co. KGaA
Prof. Dr. Nikolaus Schweickart (Chairman)
Dr. Reinhard Zinkann
Siegfrid Kasang
Thomas Rickers

Members of the Executive Board of Drägerwerk Verwaltungs AG, acting for Drägerwerk AG & Co. KGaA

Stefan Dräger

Chairman of the Executive Board

Chairman of the Executive Board of Drägerwerk Verwaltungs AG, Lübeck (general partner of Drägerwerk AG & Co. KGaA)
Chairman of the Executive Board of Dräger Safety Verwaltungs AG, Lübeck (general partner of Dräger Safety AG & Co. KGaA)

Supervisory board memberships:
– Sparkasse zu Lübeck AG, Lübeck

Gert-Hartwig Lescow

Chief Financial Officer and Executive Board member for IT
Vice-Chairman of the Executive Board

Member of the Executive Board of Drägerwerk Verwaltungs AG, Lübeck (general partner of Drägerwerk AG & Co. KGaA)
Executive Board member of Dräger Safety Verwaltungs AG, Lübeck (general partner of Dräger Safety AG & Co. KGaA)

Supervisory board memberships:
– AXA Corporate Solutions S. A., Paris

Rainer Klug

Executive Board member for Production, Logistics, and Purchasing
Regional responsibility for the Americas

Member of the Executive Board of Drägerwerk Verwaltungs AG, Lübeck (general partner of Drägerwerk AG & Co. KGaA)
Executive Board member of Dräger Safety Verwaltungs AG, Lübeck (general partner of Dräger Safety AG & Co. KGaA)

Dr. Reiner Piske

Executive Board member for Human Resources
Regional responsibility for Europe

Member of the Executive Board of Drägerwerk Verwaltungs AG, Lübeck (general partner of Drägerwerk AG & Co. KGaA)
Executive Board member of Dräger Safety Verwaltungs AG, Lübeck (general partner of Dräger Safety AG & Co. KGaA)

Supervisory board memberships:
– Dräger Medical Deutschland GmbH, Lübeck

Anton Schrofner

Executive Board member for Innovation
Regional responsibility for Africa, Asia and Australia

Member of the Executive Board of Drägerwerk Verwaltungs AG, Lübeck (general partner of Drägerwerk AG & Co. KGaA)
Executive Board member of Dräger Safety Verwaltungs AG, Lübeck (general partner of Dräger Safety AG & Co. KGaA)

THE SEGMENTS OVER THE PAST FIVE YEARS

		2013	2014	2015	2016	2017
EUROPE SEGMENT						
Order intake with third parties [1,2]	**€ million**	1,322.4	1,357.0	1,391.0	1,382.5	1,447.8
Net sales with third parties [1,2]	**€ million**	1,333.5	1,362.2	1,420.7	1,384.3	1,415.5
EBIT [3]	**€ million**	131.2	128.5	59.4	84.5	108.1
EBIT [3]/net sales	%	9.8	9.4	4.2	6.1	7.6
AMERICAS SEGMENT						
Order intake with third parties [1,2]	**€ million**	465.2	461.5	496.8	515.0	509.2
Net sales with third parties [1,2]	**€ million**	458.7	471.2	509.1	503.7	510.4
EBIT [3]	**€ million**	8.5	–0.4	–18.6	10.3	4.0
EBIT [3]/net sales	%	1.8	–0.1	–3.7	2.0	0.8
AFRICA, ASIA AND AUSTRALIA SEGMENT						
Order intake with third parties [1,2]	**€ million**	597.0	597.0	644.5	641.2	657.6
Net sales with third parties [1,2]	**€ million**	581.9	601.3	679.1	635.8	646.4
EBIT [3]	**€ million**	61.2	50.5	25.8	42.1	43.7
EBIT [3]/net sales	%	10.5	8.4	3.8	6.6	6.8

[1] The years 2013 – 2014 were adjusted pro-forma due to the change in segment reporting.
[2] Value for 2015 adjusted due to new segmentation
[3] EBIT = earnings before net interest result and income taxes

FINANCIAL CALENDAR 2018

Annual accounts press conference	March 8, 2018
Analysts' meeting	March 8, 2018
Report as of March 31, 2018, Conference call	April 26, 2018
Annual shareholders' meeting, Lübeck, Germany	May 4, 2018
Report as of June 30, 2018, Conference call	July 26, 2018
Report as of September 30, 2018, Conference call	October 30, 2018

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This Annual Report has been set up in German and English language. In case of any discrepancy between the German and English version, the German version shall prevail.

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THE DRÄGER GROUP OVER THE PAST FIVE YEARS

						Twelve months
		2013	2014	2015	2016	2017
Order intake	€ million	2,384.6	2,415.5	2,532.2	2,538.7	2,614.7
Net sales	€ million	2,374.2	2,434.7	2,608.9	2,523.8	2,572.3
Gross profit	€ million	1,147.6	1,138.0	1,171.7	1,135.4	1,152.2
in % of net sales (gross margin)	%	48.3	46.7	44,9	45,0	44,8
EBITDA[1]	€ million	270.3	255.6	150.9	222.7	240.0
EBIT[2]	€ million	200.8	178.6	66.7	136.9	155.7
in % of net sales (EBIT margin)	%	8.5	7.3	2.6	5.4	6.1
Interest result	€ million	–23.5	–25.0	–17.2	–15.5	–12.8
Income taxes	€ million	–57.5	–48.9	–16.2	–39.6	–44.4
Net profit	€ million	119.9	104.7	33.3	81.7	98.5
Earnings per share on full distribution[3]						
per preferred share	€	5.30	4.58	1.46	3.46	4.18
per common share	€	5.24	4.52	1.40	3.40	4.12
Equity[4]	€ million	816.0	896.6	945.9	1,003.5	1,068.3
Equity ratio[4]	%	39.5	40.1	40.9	43.4	45.4
Capital employed[4,5]	€ million	1,052.9	1,107.2	1,269.3	1,247.0	1,243.6
EBIT[2,6]/Capital employed[4,5] (ROCE)	%	19.1	16.1	5.3	11.0	12.5
Net financial debt[4]	€ million	110.0	10.7	145.3	34.7	–29.2
DVA[6,7]	€ million	113.9	81.6	–46.3	49.8	70.7
Headcount as of December 31		13,334	13,737	13,936	13,263	13,739

[1] EBITDA = earnings before net interest result, income taxes, depreciation and amortization
[2] EBIT = earnings before net interest result and income taxes
[3] Based on an imputed actual full distribution of earnings attributable to shareholders
[4] Value as of reporting date
[5] Capital employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
[6] Value of the last twelve months
[7] Dräger Value Added = EBIT less cost of capital of average invested capital

Content

↗ Reference to figures and tables

Reference to text passages and notes

Reference to further online information

Possible rounding differences may lead to slight discrepancies.

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