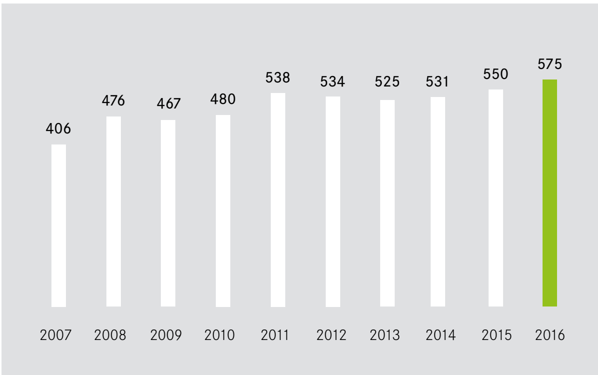
ANNUAL REPORT 2016

CENTROTEC – The European Energy-Saving Company

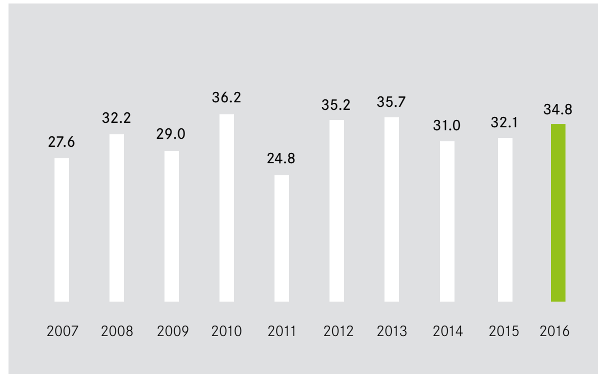
Revenue

[in EUR million]



EBIT

[in EUR million]

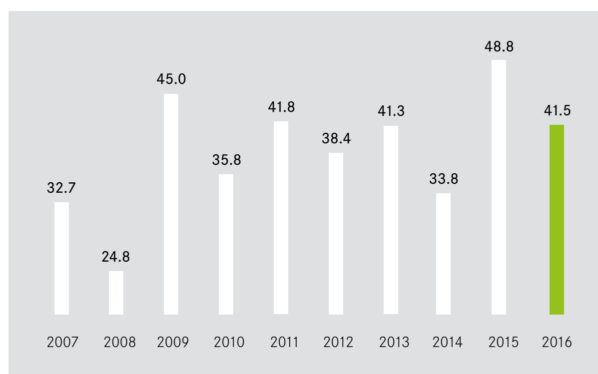


EPS*/Dividend

[in EUR]

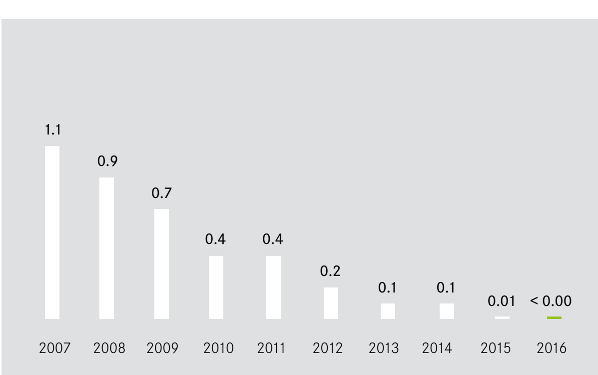
Operative Cash Flow

[in EUR million]



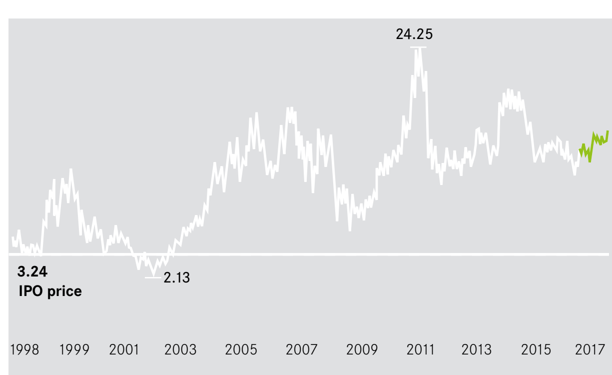
Gearing

[Net interest bearing debt/equity]



Share price

[in EUR]



* Earnings per share, basic

** Excluding the investment results

Ten-Year Comparison

	2016 [EUR '000]	Changes [Percent]	2015 [EUR '000]	2014 [EUR '000]
Total revenue	**575,458**	**4.7**	**549,791**	**530,549**
Climate Systems	416,935	4.4	399,348	386,193
Gas Flue Systems	112,980	5.6	107,012	102,618
Medical Technology & Engineering Plastics	45,543	4.9	43,431	41,738
Earnings				
EBITDA	59,523	7.1	55,602	53,013
EBIT	34,818	8.5	32,104	30,983
EBIT yield (in %)	6.1		5.8	5.8
EBT	31,055	7.3	28,937	26,113
EAT	21,584	4.5	20,657	17,366
EPS (in EUR; basic)	1.21	3.0	1.18	1.00
Balance sheet structure				
Balance sheet total	479,695	6.1	452,138	425,583
Shareholders' equity	240,602	6.5	225,962	207,908
Equity ratio (%)	50.2		50.0	48.9
Property, plant and equipment	125,606	4.8	119,867	112,488
Intangible assets	39,747	(4.2)	41,479	42,765
Goodwill	77,220	0.1	77,166	72,072
Net financial position*	6,568		(1,567)	(15,528)
Net working capital*	57,962	12.6	51,499	56,328
Cash flow statement				
Cash flow I (EAT & depreciation/amortisation)	46,289	4.8	44,155	39,396
Cash flow from operating activities	41,457	(15.0)	48,761	33,800
Cash flow from investing activities**	(28,305)	(11.8)	(32,106)	(23,289)
Employees				
Total (in FTE)	3,285	5.0	3,129	2,955
Shares				
Number of shares***	17,811		17,667	17,626
Highest quotation****	15.60		15.25	20.20
Lowest quotation****	11.56		12.85	12.91
Year-end quotation****	15.29		13.21	14.28

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

2013	2012	2011	2010	2009	2008	2007
[EUR '000]	[EUR '000]	[EUR '000]	[EUR '000]	[EUR '000]	[EUR '000]	[EUR '000]
525,431	**533,781**	**537,841**	**479,650**	**466,613**	**476,081**	**406,417**
384,799	391,838	381,782	331,769	309,524	319,308	274,111
99,241	102,569	116,347	112,835	128,111	118,822	96,359
41,391	39,374	39,712	35,046	28,978	37,951	35,947
55,512	55,214	46,898	54,582	46,641	48,808	43,622
35,673	35,231	24,770	36,158	29,037	32,171	27,552
6.8	6.6	4.6	7.5	6.2	6.8	6.8
31,105	32,095	(404)	34,541	12,727	25,785	18,463
23,953	22,292	(9,401)	25,572	5,216	18,635	16,501
1.40	1.31	(0.55)	1.54	0.33	1.13	1.01
438,677	419,571	425,690	399,561	379,646	378,384	361,773
200,427	174,665	157,453	160,816	132,674	127,804	109,066
45.7	41.6	37.0	40.2	34.9	33.8	30.1
109,289	95,677	95,180	91,946	91,252	94,702	94,128
43,971	45,044	46,765	39,265	37,542	36,571	37,427
71,951	69,991	69,738	61,074	60,914	60,911	60,482
(21,932)	(27,495)	(60,113)	(71,123)	(86,451)	(114,101)	(121,778)
54,914	55,325	56,030	57,572	53,642	65,124	54,497
43,792	42,275	12,727	43,996	22,820	35,272	32,571
41,332	38,370	41,843	35,840	45,025	24,847	32,666
(31,811)	(4,187)	(28,875)	(22,077)	(18,006)	(17,928)	(19,097)
3,036	2,937	2,906	2,663	2,614	2,605	2,390
17,357	17,289	17,164	16,750	16,610	16,525	16,427
19.79	14.35	24.25	17.50	10.80	16.14	18.36
12.56	10.75	10.61	9.15	6.05	6.85	11.00
18.60	13.47	11.28	16.00	9.44	10.60	13.85

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Letter to Shareholders

Dear Shareholders,

The 2016 financial year on the whole progressed according to schedule for CENTROTEC. The focus on international growth started to bear fruit in the past financial year and helped to compensate for a rather tentative market development in the home market Germany. The internationalisation strategy in the Climate Systems segment was extended to China. In the Gas Flue Systems segment, too, we stepped up the activities of our subsidiaries in China and North America. On top of this, we expanded our product range and aligned it even more closely with the requirements of the target markets.

In slightly brighter economic conditions, 2016 saw us achieve increases in revenue (EUR 575.5 million) and the EBIT operating result (EUR 34.8 million) compared with the prior-year figures (revenue EUR 549.8 million/ EBIT EUR 32.1 million). We therefore exceeded the revenue target and met the earnings target communicated at the start of the year. Notwithstanding extensive activities to expand the international market position, the operating result came in at the top end of the forecast range. Earnings per share (EPS) rose to EUR 1.21 (previous year EUR 1.18). On the basis of this solid earnings performance we will propose to the Shareholders' Meeting that the dividend be increased to EUR 0.30 (previous year EUR 0.25).

Revenues in the focal international markets developed positively right across the board. The aim for the coming years is to build on this international growth. Our scope to take the requisite action has steadily increased in recent years. The complete elimination of net debt and the sound equity ratio as well as the constantly high cash flow provide a healthy basis on which to consistently exploit the prospects for growth in new markets internationally. For example there was already a further increase in the investment volume in 2016 to prepare for capitalising on the medium to long-term global megatrends such as energy efficiency and climate protection.

For the short term, too, the important underlying data is fundamentally positive despite the rise in the number of elements of uncertainty worldwide. On the downside there are rising input costs – both in human resources sphere and for key materials such as steel – along with continuing price pressure in the still-consolidating climate control and ventilation market, plus the further contraction of the solar sector.

For 2017, based on the assumption that the group structure remains unchanged, we therefore forecast continuing revenue growth to EUR 575 to 600 million and an operating result (EBIT) on a par with the previous year at EUR 33 to 35 million.

The fundamentally positive macroeconomic situation in almost all target markets, the continuing sound state of the German home market and tougher building efficiency requirements in many countries moreover offer a sustainable basis for a positive business performance in future years. These factors should continue to benefit both the steadily growing number of employees of CENTROTEC Sustainable AG and our shareholders.

With best wishes,

Dr Thomas Kneip
[Management Board]

Dr Christoph Traxler
[Management Board]

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1 Dr Thomas Kneip

2 Dr Christoph Traxler

The Management Board

Dr Thomas Kneip

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

Dr Christoph Traxler

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

Guido A. Krass,

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

Report of the Supervisory Board

Dear Shareholders, The Supervisory Board of CENTROTEC Sustainable AG performed the tasks resting upon it in accordance with the law, the articles of incorporation and the rules of internal procedure with utmost care during the 2016 financial year. It regularly advised the Management Board on the running of the company and continuously monitored its activities.

With regard to the targets communicated to the capital market by CENTROTEC for the 2016 financial year, the revenue target was exceeded and the earnings target achieved. In addition the strategy drawn up by the Management Board in close consultation with the Supervisory Board to tap existing potential, specifically in the international market for heating and climate control technology, received a further push.

The Supervisory Board held a total of five meetings in the 2016 financial year. The Management Board regularly informed the Supervisory Board through detailed, prompt written and oral reports on the current business progress of the companies and the group, and in particular on the development in its revenue, orders, financial performance and financial position, along with the company's discernible opportunities and risks of future development. The Supervisory Board was involved directly and promptly in all decisions of fundamental importance for the company and discussed important decisions and occurrences at length. Annual financial statements, the Interim Report and quarterly financial communications were discussed with the Board of Management by the Supervisory Board prior to their publication. Decisions of the Management Board requiring approval were examined and discussed at length by the Supervisory Board prior to their approval. In addition to the four regular Supervisory Board meetings, there was one extraordinary Supervisory Board meeting in 2016. All Supervisory Board members attended all meetings in person.

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

In the 2016 financial year there were again no conflicts of interest among Management Board and Supervisory Board members that are to be disclosed to the Supervisory Board without delay and of which the Shareholders' Meeting is to be informed.

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

- The strategic direction and business policy of the group, the segments and the group companies
- General business performance and financial reports to be published
- Major or strategically highly significant investment decisions
- Mergers & acquisitions projects
- Strategic options for business development, e.g. market entry strategies or product development concepts
- Structural and strategic adjustments within the Wolf Group
- The personnel management strategy within the group
- The risk position, in particular strategic, operating and financial risks as well as risk management
- The financial reporting process and internal system of control
- The strategic direction of group financing and of the financial assets
- Intercompany financial interrelationships
- The group's budget and medium-term planning
- IT and information security
- Observance and innovations of the Corporate Governance Code
- Changes to regulatory and negotiable instruments law
- Remuneration structures of the Management Board and management employees
- The efficiency of the Supervisory Board's own activities

The Supervisory Board and Management Board discussed corporate governance within the company at length during the year under review and, most recently in April 2016, jointly issued an updated Declaration of Compliance on the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act, and made it permanently available on the company's website. According to Article 3.10. of the German Corporate Governance Code, the Management Board simultaneously reports on corporate governance on behalf of the Supervisory Board, in the Corporate Governance Report and in the declaration on corporate governance. That report is published together with the declaration on corporate governance in the Annual Report and also on the company's website. Other topics of detailed consultations included issuing the audit mandate to the auditors following their election by the Shareholders' Meeting, monitoring their independence as well as the services provided by them, and determining their fee.

The accounting, annual financial statements, management report, Consolidated Financial Statements and Group Management Report at December 31, 2016 have been examined by the auditors Pricewaterhouse-Coopers GmbH Wirtschaftsprüfungsgesellschaft, Kassel, who have given their unqualified certification thereof. The above documents and the proposal by the Management Board on the appropriation of the accumulated profit were made available to each member of the Supervisory Board in a timely manner. These were discussed at length with the auditors at the Supervisory Board meeting on March 20, 2017, when the auditors reported on the principal findings of their audit. The auditors of the accounts furthermore reported on their findings on the internal control and risk management system in respect of the financial reporting process and established that the Management Board has set up a suitable internal system of control and risk management.

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

The Supervisory Board has examined the annual financial statements, Management Report and Consolidated Financial Statements, including Group Management Report, as prepared by the Management Board, together with the dependency report drawn up by the Management Board as a precautionary measure. The Supervisory Board concurs with the findings of the audit of the financial statements. The concluding finding of the examination by the Supervisory Board has revealed no cause for objection. The annual financial statements prepared by the Management Board and the Consolidated Financial Statements at December 31, 2016 were approved by the Supervisory Board. The annual financial statements of the group parent are hereby established. The proposal by the Management Board on the appropriation of the accumulated profit was approved by the Supervisory Board.

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

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

Kind regards,

Guido A. Krass
[Supervisory Board Chairman]

On behalf of the Supervisory Board, Brilon, March 2017

SOLAR THERMAL – AT THE HEART OF MODERN HEATING SYSTEMS

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

1

Wolf solar thermal flat collectors:
high-efficiency solar collectors with an innovative absorber and effective insulation trap thermal solar energy.

2

Solar calorifier and control:
a highly insulated calorifier and an intelligent control system are at the heart of an arrangement that integrates thermal solar energy into modern heating systems.

3

Wolf BlueStream condensing boiler range:
is it possible to improve on condensing boiler technology? Yes! With BlueStream technology for Wolf's newly developed gas and oil-fired condensing boilers. They combines maximum energy efficiency with low power consumption, ease of installation and a comprehensive, smart control and operation system.

4

Condensing boiler gas flue systems:
the innovative plastic gas flue systems from Centrotherm/Ubbink are noted for their environmental compatibility, corrosion resistance and durability. They are moreover versatile to use and easy to install, especially in renovation projects.


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Core Values

Integrity

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

Social responsibility

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

Sustainable action

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

Entrepreneurial action

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

Corporate Governance Report

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

Management and governance structure

In keeping with the German Stock Corporation Act, CENTROTEC Sustainable AG has a two-tier management and governance structure that comprises a two-member Management Board (at the reporting date of December 31, 2016) and, in accordance with its articles of incorporation, a three-member Supervisory Board. The Management Board and Supervisory Board work together closely in the interests of the company. The Management Board coordinates both the strategic direction and principal transactions with the Supervisory Board.

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

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

Supervisory Board

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

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

Shareholders and Shareholders' Meeting

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

Remuneration system of the Management Board and Supervisory Board

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

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

Transparency

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

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

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

The mandates held by the Management Board and Supervisory Board members on statutorily constituted supervisory boards or similar regulatory bodies are listed on page 115.

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

At December 31, 2016 the current members of the Management Board held no (previous year 10,000) shares. At that date the members of the Supervisory Board held 2,477,340 (previous year 2,477,340) shares.

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

Financial reporting and auditing of financial statements

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

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

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

The background

On February 26, 2002 the “Government Commission on the German Corporate Governance Code” first presented a code of practice for listed companies. This Code was last updated on May 5, 2015.

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

Declaration of Compliance

The Management Board and Supervisory Board of CENTROTEC Sustainable AG declare that the recommendations of the “Government Commission on the German Corporate Governance Code” in the version dated May 25, 2015 are and have been complied with since the last Declaration of Compliance, dated April 2016, with the exceptions stated below.

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

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

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

Brilon, April 2016

The Management Board:

On behalf of the Supervisory Board:

Dr Thomas Kneip
[Management Board]

Dr Christoph Traxler
[Management Board]

Guido A. Krass
[Chairman]

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

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

Brilon, March 20, 2017

Dr Thomas Kneip
Dr Christoph Traxler

Section 289a

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

Remuneration report

The remuneration report of CENTROTEC Sustainable AG is based on the requirements of the International Financial Reporting Standards (IFRS) as adopted by the EU, as well as the German Commercial Code (HGB), while also incorporating the recommendations of the German Corporate Governance Code. The report contains disclosures that belong in the Notes to the Annual or Consolidated Financial Statements and Management Report or Group Management Report in accordance with the applicable standards. It is thus an annex to the Management Report or Group Management Report. The matters explained in this report are therefore not presented additionally in the Group Management Report and Notes to the Consolidated Financial Statements.

Remuneration of the Management Board

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

Remuneration granted

The Management Board of CENTROTEC Sustainable AG comprised two members in the 2016 financial year. The non-performance-related Management Board remuneration is paid in the form of a fixed monthly salary. In the 2016 financial year these fixed salaries, including the employer’s social contributions on them, totalled EUR 610 thousand (previous year EUR 580 thousand).

In the past, the greater portion of the variable remuneration with long-term behavioural incentives was granted in the form of stock options via the CENTROTEC stock options scheme. As was already the case in the years 2013 to 2015, no further new options were granted to the Management Board in the year under review of 2016 due to the withdrawal of this scheme. The value of the total number of stock options issued to Management Board members up until 2012 has been determined using a binominal model in accordance with the rules in IFRS 2 “Share-based Payments”. It led to EUR 0 thousand (previous year EUR 0 thousand) being booked as an expense in the Income Statement in 2016.

Since the 2013 financial year, a monetary bonus has been granted; its granting and level are dependent on attainment of certain targets specified at the start of the financial year. This bonus, which features both a short-term and a long-term component, was offered prospectively and granted in compensation for the stock options previously granted. The monetary bonuses granted in 2016 totalled EUR 537 thousand (previous year EUR 500 thousand).

No additional pension benefits were granted in the 2016 financial year.

The non-cash benefit of the use of company cars in 2016 is reflected in the fringe benefits and amounted to EUR 31 thousand in 2016 (previous year EUR 32 thousand).The total remuneration upon full attainment of targets is EUR 1,178 thousand (previous year EUR 1,112 thousand).

The following table shows the Management Board remuneration granted:

	Dr Thomas Kneip since January 1, 2014		**Dr Christoph Traxler since April 1, 2004**	
	2016	**2015**	**2016**	**2015**
Fixed salary	290	270	320	310
Fringe benefits	21	22	10	10
Total	**311**	**292**	**330**	**320**
One-year variable remuneration	235	200	182	180
Multi-year variable remuneration:				
- LTI scheme 2016 (3-year term)[1]	60		60	
- LTI scheme 2015 (3-year term)[1]	0	60	0	60
Total	**295**	**260**	**242**	**240**
Pension benefits	0	0	0	0
Total remuneration	**606**	**552**	**572**	**560**

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

Remuneration received

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

The actual remuneration paid for the members of the Management Board of CENTROTEC Sustainable AG in the 2016 financial year amounted to EUR 1,203 thousand (previous year EUR 1,009 thousand). Retired members of the Management Board received benefits totalling EUR 56 thousand in the 2016 financial year (previous year EUR 59 thousand).

	Dr Thomas Kneip since January 1, 2014		**Dr Christoph Traxler since April 1, 2004**	
	2016	**2015**	**2016**	**2015**
Fixed salary	290	270	320	310
Fringe benefits	21	22	10	10
Total	**311**	**292**	**330**	**320**
One-year variable remuneration	200	160	180	180
Multi-year variable remuneration: - Stock options (2010-2017 (prev. year 2009-2016))[1]	0	0	182	57
Total	**200**	**160**	**362**	**237**
Pension benefits	0	0	0	0
Total remuneration	**511**	**452**	**692**	**557**

[1] The first two years of the term are restricted, i.e. options may not be exercised during this period.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is regulated by Section 18 of the articles of incorporation of CENTROTEC Sustainable AG and was last adjusted at the Shareholders' Meeting on May 20, 2014. As well as reimbursement of their out-of-pocket expenses, the members of the Supervisory Board receive a fixed annual remuneration, a variable performance-related remuneration and also attendance fees. The fixed remuneration amounts to EUR 20 thousand per member of the Supervisory Board for each full year of service. The Chairman receives double and the Deputy Chairman one and a half times the amount due to a member of the Supervisory Board. This remuneration of members of the Supervisory Board of CENTROTEC Sustainable AG consequently amounted to EUR 90 thousand in the past financial year (previous year EUR 90 thousand). In addition other expenses amounting to EUR 28 thousand (previous year EUR 24 thousand) were claimed, in particular for travel. The statutory level of sales tax due on this remuneration is furthermore paid by the company to the extent that it is billed by a Supervisory Board member. No separate remuneration is paid for service on committees, because the three-member Supervisory Board of CENTROTEC Sustainable AG does not form separate sub-committees in view of its size. By way of variable and performance-related remuneration, in accordance with the articles of incorporation, each member of the Supervisory Board receives remuneration amounting to 0.1 % of the dividend payable for a given financial year. Like the fixed basic remuneration, this dividend-dependent remuneration is double the amount received by an ordinary Supervisory Board member in the case of the Chairman, and one and a half times in the case of the Deputy Chairman. In the 2016 financial year the total amount of this remuneration came to EUR 20 thousand (previous year EUR 16 thousand) as a result of the increased dividend. The attendance fees granted for each Supervisory Board meeting have the basic amount of EUR 2 thousand. The Supervisory Board Chairman receives double this basic amount, and the Deputy Chairman one and a half times. Attendance fees totalling EUR 45 thousand (previous year EUR 70 thousand) were paid to the Supervisory Board in the year under review.

Shares

The market environment

Most national and international stock indices again registered growth in 2016. After a tentative start to the year, this growth came largely in the second half and for 2016 as a whole was mostly in the single-digit percentage range. As a result, the past year was the fifth in the row to yield a positive stock market trend.

Share price performance

In a turnaround from the previous two years, CENTROTEC shares outstripped all the relevant indices in 2016 with a 17 % rise in the trading price. Over the course of the year, the shares moved between a low of EUR 11.56 in January and a high of EUR 15.60, which was reached in August. The shares started the year trading at EUR 13.20 and finished 2016 at EUR 15.29. Price movements were consequently slightly more volatile than in the previous year.

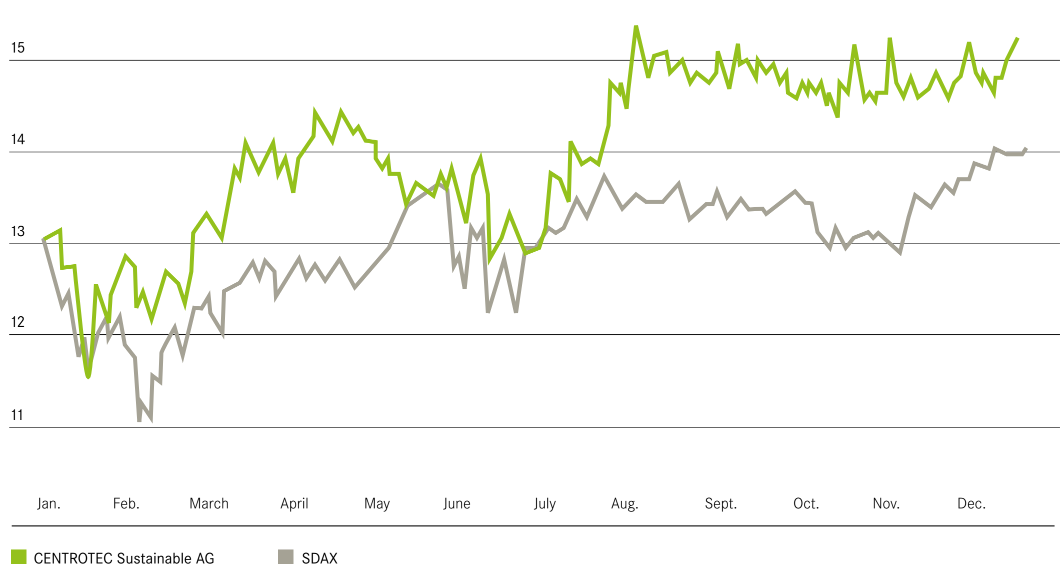
After the period under review the trading price rose above EUR 17 from mid-January with a significantly higher trading volume.

Share statistics

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

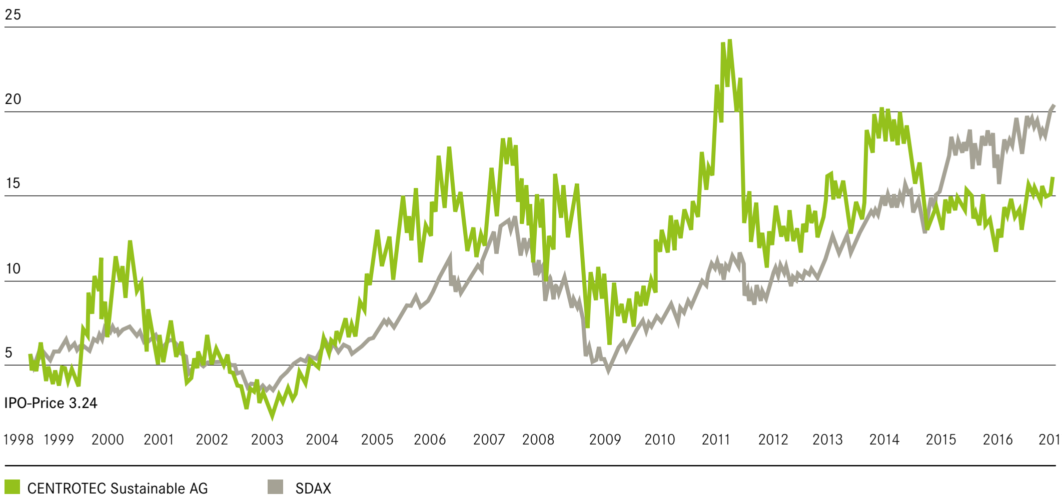
Share price 2016

[in EUR]



Share price since IPO

[in EUR]

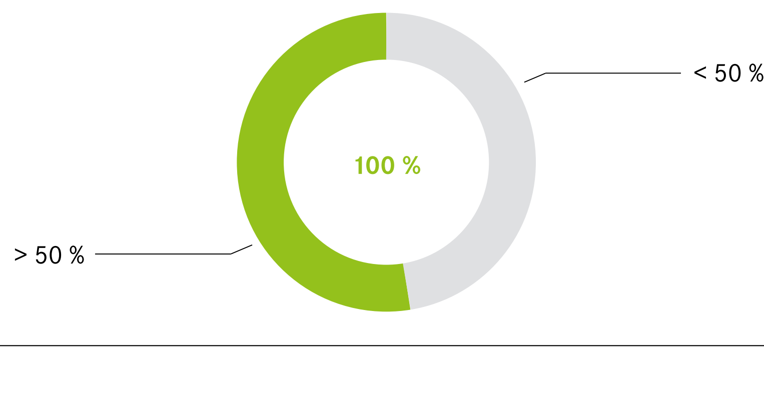


The capital stock of CENTROTEC Sustainable AG at December 31, 2016 amounted to EUR 17,891,701, divided into 17,891,701 no par value bearer ordinary shares carrying full voting rights, each representing an arithmetical nominal share of EUR 1 of the capital stock. Compared with the position at December 31, 2015 the capital stock rose by EUR 158,461. The number of CENTROTEC shares outstanding likewise rose correspondingly by 158,461. This change is exclusively attributable to the exercising of stock options by employees and corporate bodies of the CENTROTEC Group, who had been granted these options in the past as remuneration components with a long-term incentivising effect. No new stock options were granted in the period under review. Nor were any prospects of new stock options offered. For further particulars, please refer to Section 10 of the Notes, under “Shareholder’s equity”.

CENTROTEC intends to pay a dividend of EUR 0.30 for the past financial year. The Management Board, with the consent of the Supervisory Board, will propose to the Shareholders’ Meeting on May 31, 2017 that a dividend of EUR 0.30 per dividend-bearing no par value share be distributed for the 2016 financial year (previous year EUR 0.25). This move is designed to allow the shareholders to continue sharing directly in the group’s positive development. However in keeping with the successful past practice, the bulk of the group’s available profits will continue to be invested in further organic, acquisition-led growth.

Shareholder structure

[in %]



Since the IPO in 1998 the family of Supervisory Board Chairman Guido A Krass has remained the principal shareholder of CENTROTEC with a holding of more than 50 % to the best of the company's knowledge. Over and above that, the company has no indication that there are other shareholders holding interests that run into double figures. One notice that an investor's holding had fallen below the reporting thresholds pursuant to Section 26 (1) of German Securities Trading Act was received in 2016. The threshold in question was 3 %. Detailed information on this topic is available on the website of CENTROTEC Sustainable AG (www.centrotec.de). Information on changes in the voting rights held is also provided in the Notes, under "Other particulars". All shares outstanding are not subject to any restrictions with regard to transferability and voting rights.

Data refer to XETRA Trade	2012	2013	2014	2015	2016
Total shares at Dec 31, '000 (units)	17,307	17,627	17,647	17,733	17,892
Capital stock at Dec 31, EUR '000	17,307	17,627	17,647	17,733	17,892
Market capitalisation at Dec 31, EUR million	233.1	327.9	252.0	234.3	273.6
Year-end price, EUR	13.47	18.60	14.28	13.21	15.29
Year-low, EUR	10.75	12.56	12.91	12.85	11.56
Year-high, EUR	14.35	19.79	20.20	15.25	15.60
Daily trading volume average in '000 (units)	26.2	30.8	27.3	28.3	14.0
Earnings per share, EUR	1.31	1.40	1.00	1.18	1.21
Dividend per share	0.15	0.20	0.20	0.25	0.30
Price-to-earnings ratio at Dec 31	10.4	13.3	14.3	11.2	12.6

Over 2016 as a whole, 3.5 million CENTROTEC shares were traded on all German stock exchanges. This represents a halving in unit terms compared with the previous year (7.1 million shares). The trading volume of EUR 48.6 million was correspondingly down on the prior-year figure of EUR 99.4 million. The average daily trading volume was consequently 14,000 shares or EUR 194 thousand (previous year 28,300 shares or EUR 398 thousand). The proportion of the total German trading volume processed via XETRA remained almost constant at 89 % (previous year 90 %).

Investor relations

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

CENTROTEC again maintained direct contact with various financial market participants in 2016 at a large number of telephone conferences, at individual roadshows and at the Shareholders' Meeting. A large number of one-to-one and group talks were moreover held at the German Equity Forum. Finally, the Investor Relations area posted the latest information on the homepage of the group website, and was available throughout to handle enquiries by phone, correspondence or electronic means.

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

Coverage

HSBC	Montega AG
M.M.Warburg	Solventis
	Hauck & Aufhäuser

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

CLIMATE CONTROL AND VENTILATION

POWER SYSTEMS – IN-HOUSE ELECTRICITY AND HEAT GENERATION

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

Combined heat and power (CHP) plants form the basis for energy-efficient, non-central generation of power and heat by means of co-generation at the point of use. The energy sources thus achieve an overall energy efficiency of up to 90%, cutting primary energy consumption by more than one-third.

1
Wolf KG Top large-scale air handling units:
ultra-efficient climate control solutions with air volume outputs of up to 100,000 m^3/h can be configured to project-specific requirements according to a modular principle.

2
Wolf CHP systems:
the CHP (combined heat and power) systems made by Wolf, Kuntschar+Schlüter and Dreyer & Bosse range in performance up to 2 MW and cover a broad spectrum, running on biogas, sewage gas and natural gas.


1
2

Group Management Report

Business and underlying situation

Overview

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

CENTROTEC enjoys a presence in over 50 different countries through subsidiaries and sales partners. Its thirteen production plants are located predominantly in Europe. At December 31, 2016 the group employed over 3,400 employees at locations in Europe, North America and Asia. Between them, they generated total revenue of EUR 575 million in 2016, with the German market contributing 55% of this amount.

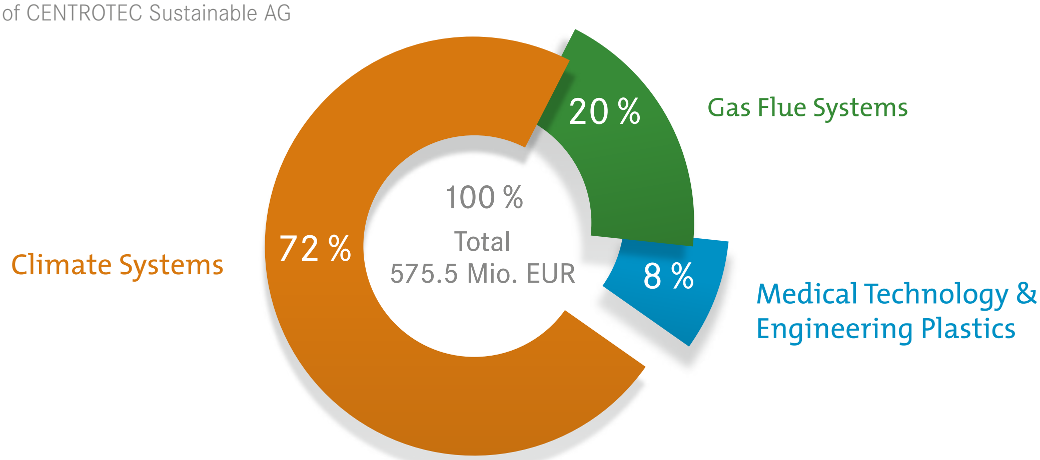
Group structure

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

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

Net sales by segment

of CENTROTEC Sustainable AG



Business activities

Business areas

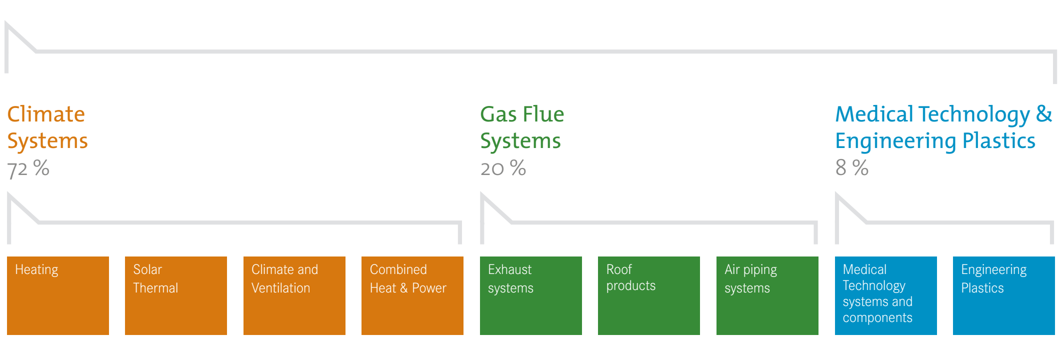
The companies bracketed together in the **Climate Systems** segment develop, produce and sell a comprehensive portfolio of heating, climate control and ventilation systems. The heating systems made by Wolf GmbH and its subsidiaries focus mainly on modern condensing boilers for oil and gas-fired heating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

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

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

Business fields

of CENTROTEC Sustainable AG



Management and governance

The management and governance structure of CENTROTEC Sustainable AG and the group is based on the requirements of the Corporate Governance Code and the German Stock Corporation Act. The Supervisory Board is elected and overseen by the Shareholders' Meeting, and advises the Management Board on the operational management of the entire group. Since 2014, the Management Board has comprised two members of equal status. Targets are drawn up for the individual companies at annual budget negotiations, with the involvement of the Management Board. These then serve as the basis for defining individual targets for Management Board members, managing directors and executive staff, and for establishing their variable pay components. The basic features of the system of remuneration as well as particulars of the group remuneration of individual Management Board and Supervisory Board members are summarised in the remuneration report for the 2016 financial year. The remuneration report, which includes the particulars of the remuneration of the corporate bodies, is published in the Corporate Governance Report and is to be regarded as part of this management report.

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

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

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

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

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

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

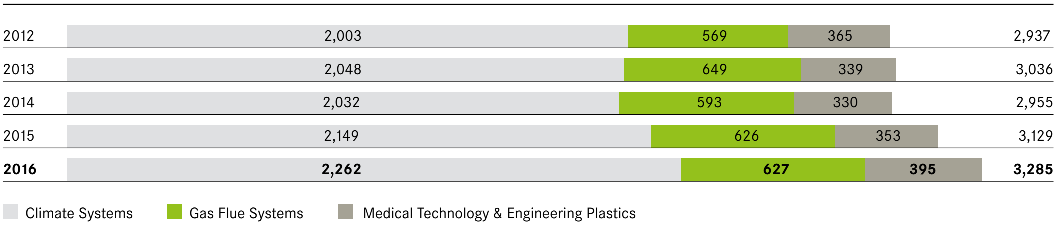
People at CENTROTEC

The workforce of the CENTROTEC Group, now over 3,400 strong, is a major success factor in the ongoing development of the individual companies and the group. Keeping its employees motivated and continuing to encourage them is central to the corporate philosophy. This approach is substantiated by the group guidelines, which advocate social responsibility, entrepreneurial action and sustainable action coupled with absolute integrity. These fundamental principles are put into practice in the individual entities in a variety of ways which reflect the existence of diverse corporate cultures at the companies that have been brought into the group through the buy-and-build strategy. To accompany the fundamentally high level of freedom given to the operating units and individual employees, there is a group-wide system of targets which, specifically at management level, forms an important part of the performance-based management, pay and incentives system of the Group and its member companies.

A high apprentices quota of 6 % as well as the growing number of individually tailored working hours models and other company-specific arrangements are evidence of how the companies of the CENTROTEC Group focus strongly on personnel development and employee loyalty. In addition, the groundwork for the continued development of the group in that domain was performed in the period under review.

At the end of the 2016 financial year the comprehensively consolidated companies of the CENTROTEC Group employed a total of 3,435 people (previous year 3,250 employees). This figure included 184 temporary workers (previous year 191). Expressed as full-time equivalents (FTE) the figure was 3,285 (including 149 FTE temporary workers; previous year 3,129 FTE including 166 FTE temporary workers). This growth of 5.0 % overall stems predominantly from increases in the Climate Systems and Medical Technology & Engineering Plastics segments.

EMPLOYEES BY SEGMENT
[FTE/Full Time Equivalent on 31/12]



In the Climate Systems segment, the number of full-time equivalents at the end of 2016 was up 5.2 % in particular in the wake of the Wolf Group's drive for internationalisation, and reached 2,262 (previous year 2,149). In the Gas Flue Systems segment the total remained roughly constant at 627 (previous year 626 FTE). In the Medical Technology & Engineering Plastics segment the figure rose by 11.9 % to 395 FTE (previous year 353 FTE). To reflect the seasonal variation that occurs in the core segments, the table below shows the full-time equivalents in the group companies averaged out over the year.

The CENTROTEC Group saw personnel expenses increase by 6.4 % in 2016 to EUR 174.8 million (previous year EUR 164.2 million). Including the costs of temporary workers, which likewise rose faster than revenue, the personnel expenses ratio thus rose to 31.7 % (previous year EUR 30.8 %).

Research and development

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

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

In addition to the ongoing optimisation of the product portfolio and its expansion to include extra services, one focal area of R&D work in the past financial year in the **Climate Systems** segment was on the development of products specially tailored towards accessing international markets. Specific development projects completed in 2016 comprise:

- A range of extra-compact gas-fired wall-mounted condensing boilers specifically for international markets,
- New fully integrated system solutions in the field of heat pumps,
- High-efficiency cycle compound heat recovery system solutions,
- Additions to the portfolio in the upper performance range of gas condensing boilers,
- Evolutionary mobile control for various systems for heating and ventilation

In the **Gas Flue Systems** segment, arrangements were put in place for commencing local production of gas flue systems in the USA. In addition, together with a leading international OEM customer the groundwork was performed for producing wall ducts in China. Numerous aspects of the product portfolio were also optimised, in some cases with the introduction of key solutions. For example, products in the flue gas ducting area were optimised for the renovation market, and all-plastic concentric gas flue systems were developed.

The development focus for the **Medical Technology & Engineering Plastics** segment, in the Engineering Plastics sub-area, was on the development of functional plastics. In the Medical Technology area, the spotlight was on revising the proprietary products for liquor drainage. Preparations were also made for securing approval for the American market for this product area.

The CENTROTEC Group employed a total of 166 individuals/FTE (previous year 162 individuals/FTE) on research and development projects in the 2016 financial year, and invested EUR 16.0 million (previous year EUR 15.5 million) in this area.

Sustainability

The sustainability that is part of the group's very name is in evidence not merely in its range of economical products for saving energy and using renewables in climate control and heat recovery systems for buildings. Sustainable action – in other words, the prudent use of resources and a responsible approach to employees and society – constitutes a key tenet of the group's philosophy. In order to unlock the potential of this area, CENTROTEC has been gathering comprehensive sustainability-relevant information across the entire group since 2010 and published the fourth update to the Sustainability Report in 2015. A further update on sustainability is in preparation in the current financial year.

The term "sustainability" is used here in a very broad sense, but its origins and focus concern the environmental impact of the group companies' activities. Specifically the topic of reducing CO_2 emissions is very much in the spotlight, given the highly efficient nature of CENTROTEC's own product range. Social aspects – responsibility towards employees and society – are also incorporated into the report, as is the topic of corporate governance.

Recording information from these areas ensures that in the day-to-day running of the company greater attention is paid to these non-monetary factors, which might otherwise easily be overlooked. To complement the keeping of records, a pool of ideas and measures is available to all group companies. Typical measures include promoting the use of internally generated or renewable energy, how to build environmental aspects into the product development process, and the more extensive use of the communications systems. The emphasis of social activities is on the various measures to reconcile working and family life, and to promote the health.

Further information on the topic of "sustainability" in the CENTROTEC Group is available on the group's website.

COMBINED SYSTEM SOLUTIONS

The product range of the CENTROTEC subsidiary Wolf covers all modern heating, climate control and ventilation systems and provides efficient system solutions for every application. The focus is therefore always on the system as a whole. Control engineering concepts are optimally coordinated; plug-and-play connections and pre-installed programs are the key to keeping the starting-up process quick and therefore economical.

1

Wolf solar thermal flat collectors:
high-efficiency solar collectors with an innovative absorber and effective insulation trap thermal solar energy, especially in the spring and autumn.

2

Wolf domestic technology centre:
the Wolf CWL-T-300 Excellent home ventilation unit and the Wolf heat-generating systems are not only visually matched, they also complement each other technically. The incoming air for living areas is heated up to a comfortable temperature by a hydraulic reheating unit. The required heating output is provided by Wolf heat-generating systems such as heat pumps or condensing boiler centres.

3

Wolf stratification cylinder:
a multifunctional calorifier such as the Wolf BSP stratification cylinder makes it possible to combine systems involving heat pumps, solar energy systems, gas and oil-fired boilers, combi-boilers, wood and pellet boilers, and electric immersion heaters. The stratification plates stabilise the temperature zones inside the tank and significantly improve the yield of the energy captured and stored there. A fresh-water station delivers convenient hot water on demand.

4

Wolf control module:
“smart home” says what the connected, intelligent building control system is all about. The Wolf BM2 control module permits a joined-up approach to using heat-generating systems, integrated Wolf solar energy systems and the CWL Excellent comfort home ventilation units. With the Wolf Smartset control app, the integrated system can also be operated conveniently by smartphone over the ISM interface module, regardless of where the user is currently.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Economic report

Overview

The CENTROTEC Group achieved revenue growth of 4.7 % in the 2016 financial year, taking the total to EUR 575.5 million (previous year EUR 549.8 million). The Croatian subsidiary PRO-KLIMA, which has been comprehensively consolidated since July 2015, contributed its first full year of revenue amounting to EUR 15.2 million in 2016. This compares with EUR 8.5 million for the period during which it was comprehensively consolidated in the second half of 2015. Organic revenue growth thus amounted to 3.3 %. The operating result rose by 8.5 % to EUR 34.8 million (previous year EUR 32.1 million). The forecast range was consequently just exceeded in the case of revenue due to several effects and achieved at its top end for earnings (EBIT). The equity ratio came to 50.2 % (previous year 50.0 %). The net financial position of the group amounted to EUR +6.6 million at the end of the year (previous year EUR -1.6 million). The cash flow from operating activities totalled EUR 41.5 million (previous year EUR 48.8 million).

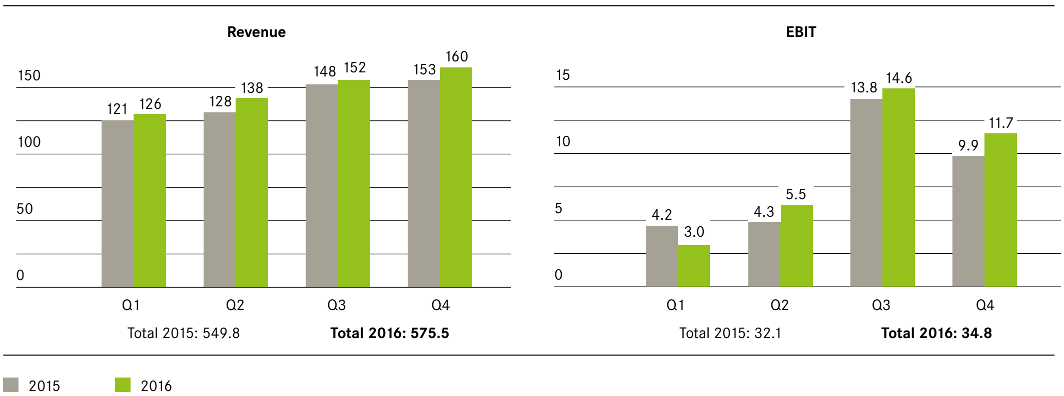
Business performance

Due to industry-specific factors the development in revenue and earnings at CENTROTEC exhibits a typical seasonal pattern with a fundamentally weaker first half and a stronger second half. This was again in evidence in 2016, with year-on-year organic growth slightly more marked in the second half of the year than in the first.

With effect from July 1, 2016 Dr Thomas Kneip also took office as Managing Director of Wolf, the largest CENTROTEC subsidiary. This move was accompanied by major organisational changes within the Wolf Group that are designed to prepare the company systematically for international growth. The change projects kicked off in 2015 with the RISE! 2020 strategic concept are being rolled out methodically and steadily expanded. These also include the new brand identity unveiled in the past financial year and the pooling of combined heat and power plant (CHP) activities within the Wolf Power Systems division.

QUARTERLY REVENUE AND EBIT DEVELOPMENT 2015 - 2016

[in million EUR]



Economic environment

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

The recovery trend that had started in 2014 in the European construction industry continued in 2016. According to the EUROCONSTRUCT industry federation, the overall construction volume in its member countries saw 2.4 % growth (previous year 1.8 %). Growth in Germany of 2.5 % consequently reached the European average. There was a marked rise in growth rates for the housing construction sector across Europe, and as such they significantly outstripped the figures for the construction industry as a whole both for Europe as a whole and for Germany. As in previous years, renovation accounted for the bulk of German construction volume in the housing sector in 2016. However the new-construction volume, too, again delivered higher growth rates in the period under review.

The massive slide in energy prices that had started in mid-2014 continued at the start of 2016. In January the crude oil price touched its lowest point for twelve years, at less than USD 30 per barrel. From that point on, the price rebounded markedly but the average for the year of USD 44 was still below the prior-year figure, and less than half of the price in the years 2011 to 2013. This development is also reflected – albeit to lesser extent – in reduced heating oil and gas prices for consumers.

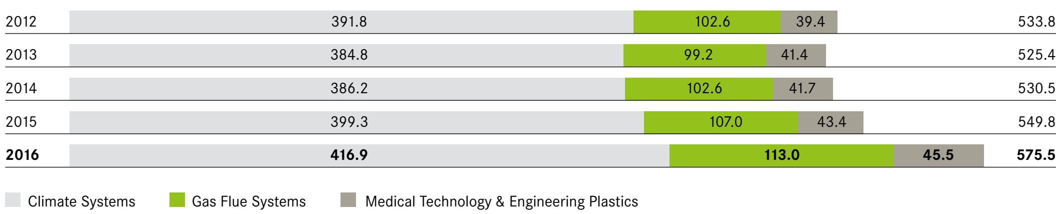
The European markets for efficient heating and climate control technology that are relevant for CENTROTEC exhibited a weak start to 2016 especially in the heating area. This was attributable to the implementation of the Ecodesign Directive introduced Europe-wide in 2015; to a large extent it prohibits the marketing of oil and gas heating appliances that do not feature condensing boiler technology. In some markets, including notably Italy, the change prompted substantial levels of purchases brought forward; these then had a major negative impact on the official statistics for the first half. The second-half figures then compensated to some degree for this negative effect, though not entirely. Overall, the EHI (European Heating Industry) data for Germany reveals a 2.4 % contraction in the sales market for heat-generating systems. In Spain and Italy the effect was even more marked. The sales market there shrank by 6 % and 19 % respectively. Only in France did the sales performance remain flat.

As well as temporarily damping the market environment, the Ecodesign Directive has led to major shifts within the product mix. For example condensing boiler technology and sales of heat pumps enjoyed considerable growth, while calorifier and low-temperature technology was sharply down. The solar thermal market, too, continued along a downward path. By contrast home ventilation systems ended 2016 as a whole with slight growth, after a very weak start.

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

REVENUE BY SEGMENT

[in EUR million]



Financial performance

Revenue

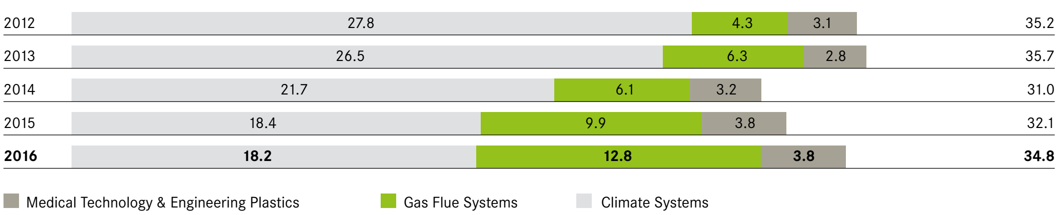
CENTROTEC increased its group-wide revenue by 4.7 % in the 2016 financial year to EUR 575.5 million (previous year EUR 549.8 million). The figure was lifted by a contribution of EUR 15.2 million by the Croatian subsidiary PROKLIMA in its first full financial year, after its comprehensive consolidation in July 2015; this compared with a revenue share of EUR 8.5 million for the fully consolidated second half of 2015. Organic revenue growth in 2016 therefore amounted to 3.3 %. Germany remains by far the largest market, followed by the Netherlands and France, which each account for just under 10 % of consolidated revenue. However, the overall international revenue share was increased from 43 % in the previous year to 45 %. The steepest revenue growth was achieved in China, but Russia, Spain and Italy also delivered above-average rises.

- In the **Climate Systems** segment, revenue was increased by 4.4 % to EUR 416.9 million (previous year EUR 399.3 million). The organic growth amounted to 2.5 %. The hugely ramped-up drive to internationalise started to bear fruit in 2016. Although the products developed for these markets to some extent encountered changeable market conditions, they achieved comfortably above-average revenue growth in the markets in focus, such as Spain, Italy and Russia. Even more emphatic growth was achieved in China, where market work commenced in April through a dedicated sales subsidiary. Overall, international revenue was increased by 15 % (or 9 % disregarding PROKLIMA) though the 35 % share of the segment's revenue was still below the average for the group. In the core market of Germany, on the other hand, revenue retreated slightly in parallel with the market as a whole. The various product areas, too, followed the market trend with growth in condensing boiler technology, home ventilation with heat recovery and heat pumps. By contrast, there was a renewed drop in revenue for calorifier and low-temperature technology and for solar thermal. Revenue from industrial ventilation and climate control equipment grew organically as well as through the first-time consolidation of PROKLIMA. In 2016 the combined heat and power units (CHP) area suffered from uncertainty in the absence of clear commitments of financial support in Germany. After making a good start in the first half, when the order backlog from 2015 in particular still generated plenty of business, revenue for natural-gas CHPs fell substantially in the second half. On the other hand the market for biogas CHPs proved comparatively stable. Overall the CHP product area put in a slightly negative performance (-1.9 %).

- The **Gas Flue Systems** segment achieved the steepest revenue growth rate of all segments, expanding by 5.6 % to EUR 113.0 million (previous year EUR 107.0 million). The highest growth was again achieved by the core products for gas flue and air piping, especially in Germany. There was also revenue growth in the segment's other two large sales markets, France and the Netherlands. France is the largest single market, accounting for a revenue share of approximately 30 %.

EBIT by segment

[in EUR million]



- The **Medical Technology & Engineering Plastics** segment increased its revenue by 4.9 % in 2016 to EUR 45.5 million (previous year EUR 43.4 million). The Medical Technology area in particular was a major contributor to this growth. Revenue for the segment was increased both in the German home market and also especially in France, North America and Asia.

Earnings

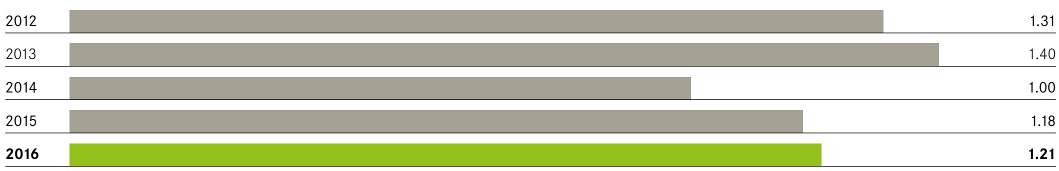
The rise in the operating result in 2016 outstripped the revenue performance. Earnings before interest, taxes, depreciation and amortisation (EBITDA) of EUR 59.5 million were 7.1 % up on the prior-year figure of EUR 55.6 million. Despite a renewed rise in depreciation and amortisation, EBIT too – earnings before interest and taxes – went up by 8.5 % to EUR 34.8 million (previous year EUR 32.1 million). The EBIT margin compared with the previous two years (5.8 %) increased slightly to 6.1 %. At the level of the three individual segments, the EBIT margins ranged between 4.4 % and 11.3 %.

- The **Climate Systems** segment achieved slightly reduced earnings before interest and taxes (EBIT) of EUR 18.2 million in the 2016 financial year (previous year EUR 18.4 million). The EBIT margin was consequently 4.4 % (previous year 4.6 %). This result reflects the increased efforts to create additional growth potential specifically for the Wolf Group. The continuing focus on improved international positioning, the reorganisation of the Wolf Group and the expansion of the service organisation were key factors in the increased personnel expenses ratio of 30.5 % (previous year 29.6 %). Furthermore, the continuing high level of investment along with the roll-out of a new brand identity for Wolf weighed on the result in the form of increased other expenses as well as depreciation and amortisation. The renewed slightly below-average development in cost of purchased materials in relation to revenue did not quite suffice to compensate for this effect.

- In the **Gas Flue Systems** segment EBIT again rose substantially to EUR 12.8 million (previous year EUR 9.9 million). This pushed up the EBIT margin to 11.3 % (previous year 9.2 %) despite slightly higher depreciation and amortisation (EUR 6.2 million, previous year EUR 6.1 million). The improvement in the cost of purchased materials ratio to 41.8 % (previous year 42.8 %) and also the slight improvement in the personnel expenses ratio to 29.2 % (previous year 29.5 %) have been achieved thanks to the restructuring and optimisation programmes of recent years.

EPS*

[in EUR]



* Earnings per share

- As in the previous year, the **Medical Technology & Engineering Plastics** segment achieved an EBIT of EUR 3.8 million. The higher revenue meant the EBIT margin declined to 8.4 %. The companies in this segment again paved the way for further growth through company-specific measures in the areas of R&D, infrastructure and sales. These led, among other things, to an increase in the personnel expenses ratio to 41.5 % in 2016 (previous year 38.6%) and an overproportional rise in depreciation and amortisation to EUR 2.9 million (previous year EUR 2.6 million).

The compounding of provisions and refinancing costs meant the interest result deteriorated to EUR -3.8 million (previous year EUR -3.0 million). Earnings before tax (EBT) nevertheless rose by 7.3 % to EUR 31.1 million (previous year EUR 28.9 million). A normalised effective tax rate of 30.5 % (previous year 28.6 %) reduced earnings after taxes (EAT) for the 2016 financial year. This figure came to EUR 21.6 million and was therefore marginally up on the prior-year figure of EUR 20.7 million. The slightly higher number of shares meant that the basic earnings per share (EPS) remained unchanged from the previous year at EUR 1.21.

Net worth and financial position

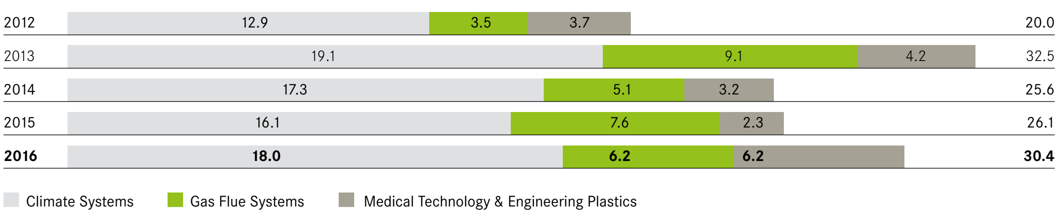
Principles and aims of financial management

Financial management within the CENTROTEC Group is designed to secure the company's long-term future. It seeks to uphold the interests and entitlements of the employees, owners, other lenders and other stakeholders. In addition, the aim is to assure a capital and risk structure that supports the pursuit of the corporate objective of sustainable, profitable growth. This means ensuring that not only are there adequate liquid funds available to the group companies to finance organic growth, but also that the company enjoys access to adequate financial resources whenever it wishes to seize suitable opportunities for external growth. Financing takes place predominantly at the level of the operating subsidiaries: in keeping with the CENTROTEC corporate philosophy, whenever it has raised borrowed capital it has given preference to ring-fenced structures for the assets and companies to be financed. The still-favourable financing situation is being used to secure long-term financing for the group on attractive terms. The focus here is above all on the intrinsic value of the assets serving as the basis for collateral (in particular land and buildings).

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

Investment

[in EUR million (without acquisitions)]



Acquisitions and divestments

2016 brought no acquisitions or divestments that were of material significance for the net worth, financial position and financial performance of the CENTROTEC Group.

Investment

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

To that end, a total amount of EUR 30.4 million was invested in the companies of the CENTROTEC Group in the period under review. This increase of 16.5 % pushed investment significantly above the prior-year figure of EUR 26.1 million and also above the depreciation and amortisation total (EUR 24.7 million). The investment volume in the Climate Systems and Medical Technology & Engineering Plastics segment rose, whereas it was below the prior-year figure in the Gas Flue Systems segment.

Investment in the **Climate Systems** segment climbed to EUR 18.0 million in 2016 (previous year EUR 16.1 million) and centred on the Wolf Group. The purpose of this investment was to lay the foundations for planned further growth. The focus here was on the areas of development, production and sales infrastructure, immobile assets, business applications as well as capitalised development costs incurred with the aim of expanding the product portfolio. Investment was made at a variety of locations. There were three single investment projects each with a volume of more than one million euros.

The **Gas Flue Systems** segment saw investment spending amounting to EUR 6.2 million (previous year EUR 7.6 million). This spending focused on the segment's two production locations, in Germany and the Netherlands. In this area, the emphasis of investment was on optimising the production infrastructure. All individual investment projects had a volume of less than one million euros.

The clear rise in the investment volume in the **Medical Technology & Engineering Plastics** segment to EUR 6.2 million (previous year EUR 2.3 million) was prompted mainly by increased development activities and sharply increased investment in the production infrastructure at the segment’s two German locations. In this segment there were no single investments with a volume of more than one million euros in 2016.

FINANCIAL KEY FIGURES

[in EUR million]	2016	2015
Balance sheet total	479.7	452.1
Non-current assets	247.6	246.1
(of which goodwill)	77.2	77.2
Shareholder's equity	240.6	226.0
Equity ratio (percent)	50.2	50.0
Net financial position*	6.6	(1.6)
Net working capital**	58.0	51.5

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

Balance sheet structure

At December 31, 2016 the balance sheet total of the CENTROTEC Group was EUR 479.7 million. This meant the balance sheet was stretched by 6.1 % compared with the end of fiscal 2015.

The assets side revealed an increase in inventories and a higher level of receivables. This translated into a rise of EUR 6.5 million in net working capital to EUR 58.0 million. The main factors behind this change were the increased business volume and the higher export ratio. In addition property, plant and equipment rose by EUR 5.7 million to EUR 125.6 million as a result of the further increase in the investment volume. The cash and cash equivalents along with current financial investments rose from EUR 77.5 million to EUR 92.4 million.

On the equity and liabilities side, the biggest change was the EUR 14.6 million increase in shareholders' equity to EUR 240.6 million, pushing up the equity ratio to 50.2 % (previous year 50.0 %). Pension provisions were moreover topped up by EUR 5.6 million to EUR 45.8 million mainly in response to the further marked fall in the discount rate. Other areas that showed increases were the trade payables and financial liabilities.

Financing

The borrowings of the CENTROTEC Group came to EUR 85.8 million at December 31, 2016 and were therefore slightly above the prior-year level of EUR 79.0 million. Taking account of cash and cash equivalents, defined as including the attributable other current financial investments, the net financial position was in the positive range at EUR 6.6 million (previous year EUR -1.6 million).

On the other hand the structure of financing at the balance sheet date changed in that the volume of property loans, and more specifically the non-current forms, as well as the general credit lines were up year on year. The volume of other loans was significantly scaled back, current loans in particular. The general downward trend in interest rates continued.

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

FINANCIAL KEY FIGURES BORROWINGS MATURITIES SCHEDULE AS OF 12/31/2016 [in EUR '000]	Total outstanding amount	Of which maturity less than 1 year	Of which maturity less 1 to 5 years	Of which maturity more than 5 years	Interest rate spread
Real estate loans	56,734	3,582	13,453	39,699	1.4 % - 5.8 %
Other loans	11,092	2,319	6,903	1,870	1.1 % - 5.3 %
General credit facilities	15,177	15,177	0	0	0.3 % - 6.3 %
Borrowings excluding leases	**83,003**	**21,078**	**20,356**	**41,569**	
Finance leases	2,807	1,361	1,326	120	1.3 % - 8.7 %
Total	**85,810**	**22,439**	**21,682**	**41,689**	

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

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

Liquidity position

The period under review saw the financial resources of CENTROTEC, defined as cash and cash equivalents less the general credit facilities drawn, reduced by EUR 18.6 million to EUR 48.0 million (previous year EUR 66.7 million). The cash flow from operating activities totalled EUR 41.5 million in 2016. The decrease compared with the prior-year figure of EUR 48.8 million is largely attributable to the rise in net working capital. It was not counterbalanced by the improved earnings and the increased volume of depreciation and amortisation. In a turnaround from the previous year, the cash flow from investing activities did not include any cash payments for acquisitions but the investment in short-term financial assets. The cash flow from investing activities amounted to EUR -57.5 million (previous year EUR -32.1 million). The cash flow from financing activities came to EUR -2.6 million (previous year EUR -4.2 million).

At December 31, 2016 CENTROTEC had cash and cash equivalents plus current financial investments of EUR 92.4 million (previous year EUR 77.5 million). Along with the unutilised credit lines available (EUR 44.3 million; previous year EUR 46.3 million), the group therefore has access to adequate liquidity to actively shape its future.

General statement on the economic development of the group

CENTROTEC was able to just exceed the revenue forecast made at the start of the year. Notwithstanding extensive activities to expand the international market position, earnings (EBIT) came in at the top end of the forecast range. The focus on international growth started to bear fruit in the past financial year and therefore played a major part in cushioning weak market development in the home market.

The aim for the coming years is to remain on a growth pathway. The investment volume was therefore increased yet again in 2016. Thanks to the robust earnings performance, key financial ratios nevertheless showed a further improvement. The basis for organic growth was therefore increased and the capacity to seize external growth options was also used.

Report on post-balance sheet date events

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

Takeover-relevant disclosures pursuant to Sections 315 (4) and 289 (4) of German Commercial Code

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

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

No other disclosures pursuant to Section 315 (4) No. 6 of the German Commercial Code are required.

Authorisation of the Management Board to issue or buy back shares

Share buy-back

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

Authorised capital

By the shareholders' resolution of May 22, 2012, the Management Board is authorised, with the consent of the Supervisory Board, to increase the company's capital stock on one or more occasions by up to EUR 3,000,000 (Authorised Capital 2012) up until May 21, 2017 through the issue of new no par value bearer shares in return for cash or non-cash contributions. The Management Board was also authorised, with the consent of the Supervisory Board, to specify the details of the share issue and, in defined conditions, to exclude the subscription right (a) for residual amounts, (b) for capital increases for cash if the issuing price of the new shares does not significantly undercut the market price of the shares of the same class and features already listed at the time when the issuing price is finally fixed by the Management Board, in keeping with Section 186 (3), fourth sentence of the German Stock Corporation Act, (c) for capital increases for contributions in kind for the granting of shares for the purpose of acquiring (including indirectly) companies, parts of companies or interests in companies or assets of other companies, and (d) for issuance to employees of the company or of domestic and international affiliated companies (Section 202 (4) of the German Stock Corporation Act).

Conditional capital

Conditional Capital I remained unchanged at December 31, 2016 and amounts to EUR 21,984, divided into 21,984 no par value shares (previous year EUR 21,984, divided into 21,984 no par value shares).

Conditional Capital II remained unchanged at December 31, 2016 and amounts to EUR 69,900, divided into 69,900 no par value shares (previous year EUR 69,900, divided into 69,900 no par value shares).

By resolution of the Shareholders' Meeting on May 29, 2008 the capital stock is conditionally increased by a further EUR 756,000, divided into 756,000 no par value shares (Conditional Capital III). The Management Board is authorised to issue warrants – on one or more occasions – for subscription to new bearer shares in the company until December 31, 2014. Employees of CENTROTEC Sustainable AG as well as employees of affiliated companies as defined by Section 17 of the German Stock Corporation Act are entitled to subscribe. The managing directors or Management Board members of the above companies are furthermore entitled to subscribe. New shares are created where the options are exercised. These pay dividends from the beginning of the financial year in which the options are exercised. Conditional Capital III at December 31, 2016 amounted to EUR 190.773, divided into 190,773 no par value shares (previous year 349,234 EUR, divided into 349,234 no par value shares).

In future years, only Conditional Capital III can change through the exercise of stock options already issued. The last opportunity to exercise stock options from Conditional Capital III is in 2019. Conditional Capitals I and II will no longer change now that the exercise deadlines for the stock options issued have passed.

Other particulars

Further takeover-relevant information such as the composition of the issued capital as well as direct and indirect participations in the capital can be found on page 97 in the Notes to the Consolidated Financial Statements.

CONTROLLED VENTILATION WITH HEAT RECOVERY

To save energy and reduce CO_2 emissions, both new and renovated buildings are becoming increasingly well insulated and airtight. Depending on how heavily the rooms are used, an air exchange rate of between 0.3 and 0.7 times per hour is needed. That is where controlled ventilation comes in. It maintains the quality of the air inside a building but also achieves a very high standard of energy efficiency. With heat recovery rates of up to 95%, energy losses through ventilation of highly insulated buildings are reduced by up to two-thirds.

Non-central heat recovery ventilation technology with CO_2 monitoring offers similar advantages to central systems, but can also be retrofitted as part of an energy-focused modernisation project.

1
Wolf range of condensing boilers for oil and gas:
the newly developed range of gas and oil-fired condensing boilers combines maximum energy efficiency with low power consumption, ease of installation and a comprehensive, convenient control and operation system.

2
Brink Renovent Excellent:
central home ventilation systems that recover up to 95 % of the heat, with very energy-efficient fans and convenient control technology, are the state of the art in new buildings.

3
Ubbink Air Excellent:
the innovative air distribution system for hygienic air distribution throughout the entire building.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Risk report

Disclosures on the internal control and risk management system for financial reporting purposes, pursuant to Section 289 (5) of German Commercial Code

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

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

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

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

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

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

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

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

Risk areas

Risks from the economic environment and the industry

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

CENTROTEC fundamentally operates in the industry environment of building investment. Falling building investment can fundamentally adversely affect the sales performance of the group. CENTROTEC addresses this moderate risk by focusing on particularly energy-efficient solutions for heating and climate control of buildings: such solutions are becoming ever more relevant in light of the increasingly tough national regulations on the energy efficiency of buildings, as well as long-term rises in energy prices. The probability of a fall in building investment is currently comparatively low as a result of the continuing low level of construction volume throughout Europe, together with the further improvement in construction activity in 2016 and the growth rates forecast for the coming years.

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

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

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

Corporate strategy risks

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

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

Risks from operating business

Procurement risks

The production and delivery capability of the CENTROTEC companies depends to a great extent on reliable supplies of raw materials and consumables. The risk resulting from this area of procurement is rated as low because it is contained on the one hand through close technical cooperation with important suppliers and on the other hand by regularly maintaining at least two sources of supplies in each case. A possible rise in procurement prices constitutes another potential risk at the procurement end that could become relevant from a group perspective. Depending on the segment and product area, the recurrence of this problem as a result of market developments is controlled by methods such as shoring up long-term supplier relations and corresponding price agreements, and by continually observing the market and optimising procurement sources. Price developments in the commodity and supply markets are actively monitored. At the same time potential for compensating for price increases is being identified through the group-wide profitability improvement programmes and suitable improvements implemented. As procurement price increases for raw materials such as steel are at least to some extent already factored into the budget, CENTROTEC currently rates the risk of rising procurement prices as moderate.

Mid to long-term, the risks resulting from the entire procurement process are a significant risk group for the CENTROTEC Group.

Technical and quality risks

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

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

The biggest single risk to this area is the possible failure of production plant. This risk is addressed by preventive maintenance and ongoing monitoring of the operating parameters. Plant itself, along with the possibility of a business interruption, is insured for potential forms of loss in line with its value. Together, the technical and quality risks in the 2016 financial year are assessed as low.

Innovation risks

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

Sales risks

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

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

Personnel risks

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

In addition, specifically at times of general economic buoyancy there is the risk of excessive rises in costs in the personnel area as a result of high wage and salary increases. This regularly recurring risk is countered by active personnel costs management and trust-based partnership between the workforce and the management in a spirit of mutuality. The consequences of potentially high pay settlements are also cushioned by planned revenue increases and the ongoing optimisation of processes throughout the group, but may fundamentally put pressure on earnings.

Information technology risks
In the domain of information technology, it is fundamentally impossible to exclude the possibility that problems will arise with existing systems or future extensions to existing systems, such as introductions of new software releases, or that system failures will hamper business operations. The customary precautions and security measures in the IT sector are adopted to limit these risks. The appropriateness of the security measures in information technology is regularly checked. The systems and processes in use are adapted to changing requirements if necessary. In addition, a cautious migration approach is adopted for the integration of new business units to avoid major risks to business operations, for instance as a result of incompatibility between systems or inadequate reflection of specific business features. Furthermore, the number of systems used throughout the group is progressively being reduced to avoid possible errors or incompatibility and further optimise systems maintenance. It is also to be noted that the risks from cybercrime are growing in significance. Within the context of its IT strategy, CENTROTEC strives for a balance between the use of modern IT solutions and retaining full control over the central business data needed for business operations in order to limit this risk that it still considers to be low.

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

The operating units are increasingly integrated at systems level in line with their business requirements.

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

Adjustments to financing are made as required within the individual groups, in line with the needs arising from those groups' business operations and the funding requirements. The marked scaling-back of the group's gearing over recent years has produced a further significant reduction in the financial risks from debt financing, which however retain a degree of relevance from a group perspective. For more detailed information on the financial situation of the CENTROTEC Group, we refer to the Notes to the Consolidated Financial Statements.

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

Possible financial risks from debt defaults are minimised for example by means of payment in advance, credit insurance, flat-rate export guarantees (Hermes export credit guarantees), credit processing, ongoing receivables management, general creditworthiness checks as well as through existing del credere liability, so as to limit their possible consequences for the group. However there remains a low risk from possible debt defaults.

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

Miscellaneous risks

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

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

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

Directors' assessment of the risk situation

While the sales market situation should show a positive development in the long term, subject to stable underlying conditions, the growing number of uncertainties that stem from mainly political but also economic crises represent a risk to overall economic development for the industry, and therefore also for CENTROTEC, that is difficult to quantify. The continuing low energy prices are also weighing on the sales market. The substantially improved net financial position has however given the group additional room for manoeuvre: on the one hand for international expansion through organic growth but possibly also through acquisitions, and by boosting its competitiveness further by investing in innovations. On the other hand it is well equipped to respond to potential risks that may arise, or to deteriorating market conditions. Operationally, too, the group has achieved a comparatively flexible costs structure at its main production establishments by engaging temporary workers and adopting working hours models, giving it scope to adjust its production capacities to temporary cyclical and seasonal fluctuations. Considered in this light, the management regards the opportunities and risks profile as balanced, with no individual risks to the company as a going concern in the 2017 financial year.

Report on expected developments

Direction of the group

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

Internationalisation is major priority in CENTROTEC's strategy. It is all the more important because it will reduce dependence on the German home market, especially in the Climate Systems segment. In addition, it should equip CENTROTEC to participate in an increasingly apparent recovery in the main international sales markets, which performed weakly until 2014. The significance of accessing new international markets and achieving greater penetration of existing ones is further emphasised for example by the 'RISE! 2020' strategic concept that the Wolf Group has been implementing since the second half of 2015. Internationalisation will also be at the heart of the group strategy in the coming year. Furthermore, optimising and professionalising internal processes as well as exploiting digital solutions at all value creation stages will be priority topics for the management of the group.

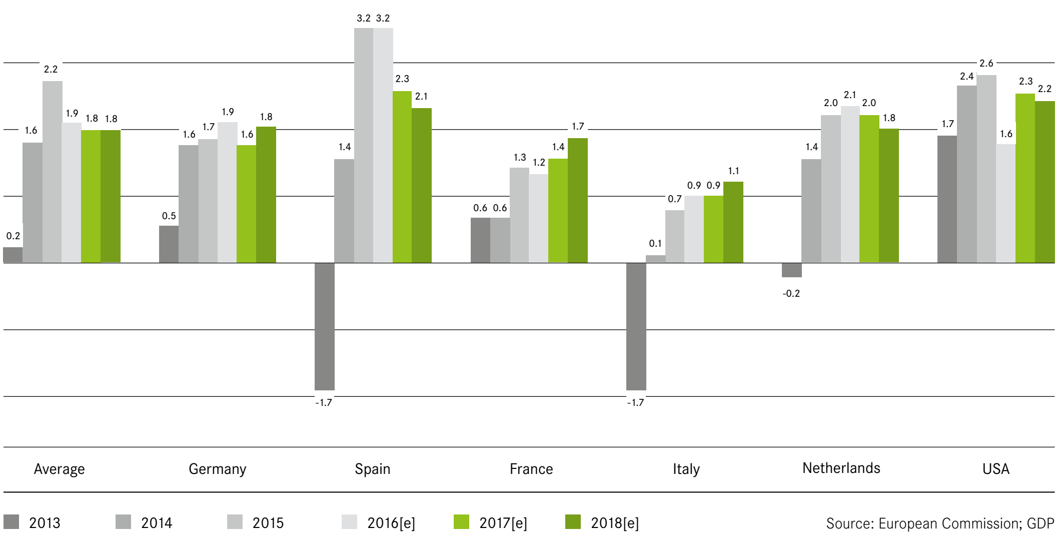
The CENTROTEC companies' largest production locations are situated in Germany and the Netherlands. At those locations CENTROTEC is in a position to manufacture the range and quality of products that customers expect, at reasonable cost. There are also logistical advantages. None the less, as part of its internationalisation strategy the group continues to examine economic opportunities for setting up local production plants to help it access internationally relevant markets, and for adopting appropriate structures that will give it a broader production base. For example, manufacturing penetration at the US location of the Gas Flue Systems segment was further increased in 2016. In China, too, the first assembly line for the Gas Flue Systems segment was commissioned at the end of the year.

Expected economic environment

There was a backward development in 2016 in most markets that are relevant for CENTROTEC. CENTROTEC attributes this mainly to the introduction of the Ecodesign Directive in the previous year, with the result that it should no longer adversely affect the 2017 financial year. However it should be borne in mind that there will be on average three working days fewer in the home market Germany in 2017 compared with 2016, and it is entirely possible that this will work against sales potential given the extensive capacity bottlenecks among trade partners. Internationally, another consideration that must definitely be taken into account is that the geopolitical framework has if anything deteriorated. As well as the unresolved conflicts such as in the Arab world and Ukraine, plus the economic difficulties that are effecting southern European EU members in particular, 2016 brought other challenges that had not been anticipated one year ago in the form of Brexit and the unpredictability of the new American government in terms of its policy on sanctions against Middle Eastern countries, Russia and China. All these flashpoints represent a latent danger to the economy as a whole and make the overall economic development more difficult to foresee than as recently as a few years ago. CENTROTEC is closely

Development of GDP in selected countries

[Year-on-year change (%)]



Source: European Commission; GDP

monitoring the latest developments and, if in doubt, adopts a conservative market development strategy in the countries that are directly affected.

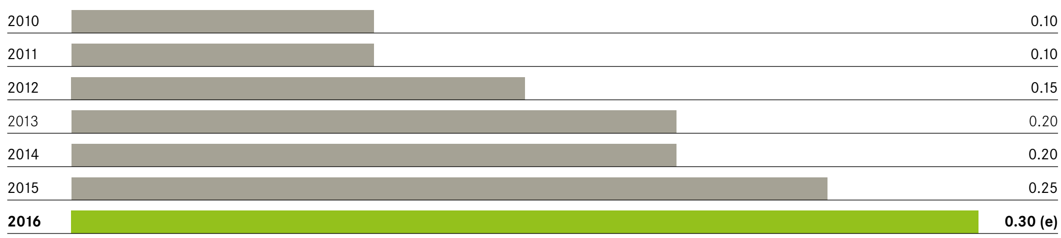
The bottom line is that CENTROTEC nevertheless expects the underlying conditions for 2017 and beyond to be mildly positive.

Palpable growth is again forecast for the European construction industry as a whole in 2017. All relevant markets are expected to contribute to this growth to widely varying degrees. For the fourth year in a row, this would make up for some of the sharp market dips since the economic downturn but most countries will still be far from having regained pre-crisis levels. Up until 2019, volume in the construction industry throughout Europe is forecast to grow by around three percent. Expectations for the German construction sector are slightly below that figure.

The tougher regulatory requirements planned or already introduced in almost all European countries for energy-efficient designs of new buildings, as well as the extensive availability of financial incentives for energy-efficient refurbishment, likewise support these fundamentally positive market assessments. The Ecodesign Directive implemented throughout Europe at the end of 2015 effectively made condensing boiler technology the norm, and moreover enshrines the principle of efficiency in building services engineering.

The sharp decline in prices of fossil fuels since mid-2014 latterly worked against these developments; the long-term price rises that saw the crude oil price quadruple between 1998 and 2012 were interrupted. Even if energy prices on the world market have accelerated again after reaching a low point at the start of 2016, the energy price level is still comparatively low and offers little incentive to save energy. In the medium and long term, however, growing demand for energy will prompt energy prices to rebound. Renewable energy sources will gain in importance but will only make a limited contribution for the foreseeable future in view of the fact that the costs are often still high and they offer inferior base load power. Energy efficiency will therefore be exceptionally important in protecting the climate and keeping the energy supply affordable.

Dividend distributed for financial year
[in EUR]



Anticipated financial performance and financial position

Amid this environment, CENTROTEC expects organic growth for the 2017 financial year to continue the pattern of the past three years and anticipates revenue of EUR 575 to 600 million. The strategic measures to achieve a sustained, international improvement in revenue and earnings will entail above-average expenditure and investment in the development, service and international sales areas in 2017. However the greater part of these measures will not yet produce a profit contribution in 2017 and will diminish the operating result by around four million euros, mainly in the second half of the year. Furthermore, the above-average increase in personnel expenses following negotiated pay increases and reductions in working hours as well as substantial rises in raw material prices, especially steel, will adversely impact the anticipated earnings performance. Overall, CENTROTEC expects to post an operating result (EBIT) in the range of EUR 33 – 35 million for 2017.

For the financial years thereafter, CENTROTEC expects to see a continuation in organic revenue growth and a return to a positive development in the profit margins.

The Supervisory Board and Management Board of CENTROTEC Sustainable AG will propose to the Shareholders' Meeting that, in a reflection of the continuing sound financial position of the Group, a dividend of EUR 0.30 per dividend-bearing no par value share be distributed for the 2016 financial year (previous year EUR 0.25).

Opportunities report

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

- **Positive development of the economic environment:**
  The further stabilisation of the overall economic recovery in key international markets, the continuing sound environment in the German home market and the more rigorous building efficiency requirements that are already having an impact in many countries offer a sustainable basis for a positive development in the business performance. This trend may be accelerated by even tighter statutory requirements for the energy efficiency of buildings and the availability of improved financial incentives as well as rising energy prices.

- Capitalising on market position:
  CENTROTEC has a unique combination of competitive group companies operating in the field of energy-efficient solutions for commercial buildings. By integrating its expertise in the adjacent areas of heating, climate control and ventilation, it is able to develop and offer coordinated system solutions that reflect the requirements of each target market. The significance of such integrated system solutions will rise steadily in the medium term, especially in light of the increasingly interconnected nature of building services engineering.
- Sound financial position:
  The scope for further organic and external growth has steadily increased over the past few years despite the high investment volume. The complete elimination of net debt and the sound equity ratio as well as the constantly high cash flow provide a sound basis on which to consistently exploit the prospects for growth, including in markets that have not previously been the focus of attention.

General statement on the expected development of the group

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

The impact of this further development of the business model will be reflected in the trading figures for 2017 in the form of revenue growth forecast to reach EUR 575 to 600 million and an operating result (EBIT) on a par with the previous year of EUR 33 to 35 million.

Rendering of accounts

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

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

Financial Statements

2016

Assets in EUR thousand	[Notes]	31/12/2016	31/12/2015
Non-current assets			
Goodwill	1	77,220	77,166
Intangible assets	2	39,747	41,479
Property, plant and equipment	3	125,606	119,867
Financial investments accountend for using the equity method	4	0	0
Loans and investments	4, 15	1,134	775
Other financial assets	5, 15	106	180
Other assets	5	79	201
Deferred tax assets	6	3,707	6,451
		247,599	**246,119**
Current assets			
Inventories	7	68,425	62,172
Trade Receivables	8, 15	57,947	53,935
Income tax receivable		3,156	2,121
Cash and cash equivalents	9, 15	63,202	77,451
Other financial assets	5, 15	32,500	3,549
Other assets	5	6,866	6,791
		232,096	**206,019**
Assets		**479,695**	**452,138**

Equity and Liabilities in EUR thousand	[Notes]	31/12/2016	31/12/2015
Shareholders' equity	10		
Share Capital		17,892	17,733
Capital reserves		38,037	36,290
Retained earnings and profit carryforward		164,259	150,317
Profit attributable to shareholders of CENTROTEC Sustainable AG		21,591	20,795
		241,779	**225,135**
Non-controlling interests presented within equity		(1,177)	827
		240,602	**225,962**
Non-current liabilities			
Pension provisions	11	45,832	40,179
Other provisions	12	17,418	17,006
Financial liabilities	13, 15	63,371	55,286
Other financial liabilities	14, 15	1,047	1,064
Other liabilities	14	108	120
Deferred tax liabilities	6	7,122	11,720
		134,898	**125,375**
Current liabilities			
Other provisions	12	5,062	4,928
Income tax payable		2,616	1,574
Financial liabilities	13, 15	22,439	23,732
Trade liabilities	15	31,258	28,763
Other financial liabilities	14, 15	10,363	11,652
Other liabilities	14	32,457	30,152
		104,195	**100,801**
Equity and Liabilities		**479,695**	**452,138**

Consolidated Statement of Financial Position

Consolidated Income Statement

in EUR thousand	[Notes]	01/01/2016 31/12/2016	01/01/2015 31/12/2015
Revenues	25	**575,458**	**549,791**
Cost of purchased materials and services	16	(258,333)	(250,367)
Changes in inventories of finished goods and work in progress	16	2,368	(850)
Production for own fixed assets capitalised		3,678	3,529
Other income	17	11,046	10,845
Personnel expenses	18	(174,775)	(164,232)
Other expenses	19	(99,919)	(93,114)
EBITDA		**59,523**	**55,602**
Depreciation and amortisation	2, 3	(24,705)	(23,498)
Operating income (EBIT)		**34,818**	**32,104**
Interest income	20	121	172
Interest expense	20	(3,895)	(3,156)
Other financial income	21	11	(183)
Result before income taxes (EBT)		**31,055**	**28,937**
Income taxes	22	(9,471)	(8,280)
Net income (EAT)		**21,584**	**20,657**
Attributable to: Non-controlling interest	23	(7)	(138)
Attributable to: Shareholders of CENTROTEC Sustainable AG		21,591	20,795
EPS (Earnings per share in EUR)			
Earnings per share (basic)	24	1.21	1.18
Earnings per share (diluted)	24	1.21	1.17
Weighted average shares outstanding (in thousand units; basic)	10, 24	17,811	17,667
Weighted average shares outstanding (in thousand units; diluted)	10, 24	17,864	17,762

Consolidated Statement of Comprehensive Income

in EUR thousand	[Notes]	01/01/2016 31/12/2016	01/01/2015 31/12/2015
Net income (EAT)		**21,584**	**20,657**
Items that may be reclassified subsequently to profit or loss			
Exchange Rate differences on translation	6	(57)	88
Derivative financial instruments		(180)	(337)
Available-for-sale financial assets		903	0
Income tax relating to components of other comprehensive income		72	44
Other comprehensive income for items that may be reclassified subsequently to profit or loss		**738**	**(205)**
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans	11	(4,987)	257
Income tax relating to components of other comprehensive income	6	1,454	(76)
Other comprehensive income for items that will not be reclassified to profit or loss		**(3,533)**	**181**
Other comprehensive income		**(2,795)**	**(24)**
Total comprehensive income		**18,789**	**20,633**
attributable to:			
Non-controlling interest		74	(159)
Shareholders of CENTROTEC Sustainable AG		18,715	20,792

Consolidated Statement of Cash Flows

in EUR thousand	[Notes]	01/01/2016 31/12/2016	01/01/2015 31/12/2015
Net income before interest and taxes (EBIT)		34,818	32,104
Depreciation and amortisation	2, 3	24,705	23,498
Gain/loss on disposal of fixed assets		94	(20)
Other non-cash items		(655)	1.041
Increase/decrease in provisions		1,175	3,534
Increase/decrease in inventories, trade receivables and other assets that cannot be allocated to investing or financing activities		(8,764)	838
Increase/decrease in trade payables and other liabilities that cannot be allocated to investing or financing activities		3,584	970
Dividend received		11	8
Interest received		122	160
Interest paid		(3,588)	(3,371)
Income tax paid		(10,045)	(10,001)
Cash flow from operating activities	26	**41,457**	**48,761**
Acquisition of shares in participations less net of cash aquired		0	(6,334)
Purchase of property, plant and equipment/intangible assets/investments/finanical assets/loans receivable	2, 3, 4	(30,027)	(26,197)
Proceeds from disposal of property, plant and equipment/intangilbe assets/loans receivable		1,722	425
Investments in short-term financial assets		(29,176)	0
Cash flow from investing activities	26	**(57,481)**	**(32,106)**
Proceeds from issuance of shares	10	1,359	880
Proceeds from financial liabilities		18,852	26,304
Repayment of financial liabilities		(17,300)	(27,826)
Cash payments to minority shareholders		(1,100)	0
Dividend payment		(4,433)	(3,529)
Cash flow from financing activities	26	**(2,622)**	**(4,171)**
Change in financial resources		**(18,646)**	**12,484**
Foreign currency exchange gain/loss of the financial resources		10	113
Financial resources at the beginning of the financial year*		66,661	54,064
Financial resources at the end of the financial year*	26	48,025	66,661

* Cash and cash equivalents deducted of credits current account

Consolidated Statement of Changes in Equity

in EUR thousand	[Note 10]	Share Capital	Capital reserve	Treasury stock	Stock option reserve	Income tax relating to components of other comprehensive income
January 1, 2016		**17,733**	**36,290**	**0**	**1,624**	**127**
Transfer to revenue reserves						
Change from exercise of options		159	1,200			
Stock option plan			547		(547)	
Dividend payment						
Net income (EAT)						
Other comprehensive income, net of tax						97
Total comprehensive income						**97**
Other changes						
December 31, 2016		**17,892**	**38,037**	**0**	**1,077**	**224**
January 1, 2015		**17,647**	**35,290**	**(112)**	**1,943**	**87**
Transfer to revenue reserves						
Change from exercise of options		86	636			
Stock option plan			319		(319)	
Dividend payment						
Net income (EAT)						
Other comprehensive income, net of tax						40
Total comprehensive income						**40**
Other changes			45	112		
December 31, 2015		**17,733**	**36,290**	**0**	**1,624**	**127**

Exchange Rate differences on translation	Derivative financial instruments	Available-for-sale financial assets	Retained earnings and profit/loss carryforward	Sum other retained earnings and profit/loss carryforward	Profit attributable to shareholders of CENTROTEC Sustainable AG	Total capital to shareholders of CENTROTEC Sustainable AG	Non-controlling interest presented within equity	Consolidated equity
(4)	**(354)**	**0**	**148,924**	**150,317**	**20,795**	**225,135**	**827**	**225,962**
			20,795	20,795	(20,795)	0		0
						1,359		1,359
				(547)		0		0
			(4,433)	(4,433)		(4,433)		(4,433)
					21,591	21,591	(7)	21,584
(163)	(180)	903	(3,533)	(2,876)		(2,876)	81	(2,795)
(163)	**(180)**	**903**	**(3,533)**	**(2,876)**	**21,591**	**18,715**	**74**	**18,789**
			1,003	1,003		1,003	(2,078)	(1,075)
(167)	**(534)**	**903**	**162,756**	**164,259**	**21,591**	**241,779**	**(1,177)**	**240,602**
(117)	**(17)**	**0**	**134,511**	**136,407**	**17,690**	**206,922**	**986**	**207,908**
			17,690	17,690	(17,690)	0		0
						722		722
				(319)		0		0
			(3,529)	(3,529)		(3,529)		(3,529)
					20,795	20,795	(138)	20,657
113	(337)		181	(3)		(3)	(21)	(24)
113	**(337)**		**181**	**(3)**	**20,795**	**20,792**	**(159)**	**20,633**
			71	71		228		228
(4)	**(354)**	**0**	**148,924**	**150,317**	**20,795**	**225,135**	**827**	**225,962**

GAS FLUE SYSTEM CASCADES/ MULTI-BOILER SYSTEMS

ENERGY-SAVING LARGE BOILERS

Centrotherm/Ubbink have developed a patented system for connecting multiple condensing boilers on more than one floor to a single vertical gas flue. They also offer unique solutions for cascade arrangements where several heat-generating systems in one installation room are connected to a common gas flue system.

Wolf's range of midsize and large boilers covers high heating outputs in the order of several hundred kW. Ultramodern equipment types have been developed to run on oil or gas, using condensing boiler or low-temperature technology, and for underpressure and overpressure operation. One feature they all have in common is their high energy efficiency.

1

Centrotherm/Ubbink gas flue systems for multi-boiler systems:
a condensate return is integrated into every element connecting with the gas flue pipe in the common flue shaft. This prevents the flue gases from other boilers from reaching the room.

2

Wolf MGK-2 midsize condensing boiler range for gas:
this midsize range of condensing boilers for gas features nine sizes, from 23 to 1,000 kW. Thanks to its quiet running and compact dimensions, the MGK-2 is especially suitable as an part of an efficient refurbishment project or in the renovation of older building stock, and is a very attractive solution in terms of economy.

3

Centrotherm/Ubbink cascade gas flue system:
cascades connect several boilers installed in a single room with acommon gas flue system. Centrotherm/Ubbink offer systems that prevent the flue gas from flowing back into other boilers.


1
2
3
2

Consolidated Segment Reporting

Segment Structure

in EUR thousand ***Income Statement*** [Note 25]	Climate Systems 01/01/2016 31/12/2016	 01/01/2015 31/12/2015
Revenue from third parties	416,935	399,348
Revenue from other segments	1,563	1,789
Cost of purchased materials	(203,595)	(196,661)
Changes in inventories of finished goods and work in progress	1,808	(1,061)
Personnel expenses	(124,476)	(116,539)
Other expenses and income	(58,484)	(53,702)
EBITDA	**33,751**	**33,174**
Depreciation and amortisation	(15,588)	(14,765)
Segment result (EBIT)	**18,163**	**18,409**
Interest income	117	157
Interest expense	(2,735)	(2,174)
Other financial income	11	(260)
EBT	**15,556**	**16,132**
Balance sheet key figures		
Assets*	274,713	279,468
Financial investments accounted for using the equity method	0	0
Loans and investmens	1,124	775
Net Working Capital	32,989	22,517
Investments		
Total investments in property, plant, equipment and intangible assetss**	17,986	25,015

Regional Structure

in EUR thousand	European euro countries 2016	 2015
Revenue from third parties	490,696	476,732
thereof Germany	311,784	309,583
Assets*	442,057	419,684
thereof Germany	258,090	282,088
Total investments in property, plant, equipment and intangible assets**	27,666	23,506

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

** Incl. goodwill and figures out of business combinations

Gas Flue Systems		Medical Technology & Engineering Plastics		Consolidation		Total	
01/01/2016 31/12/2016	01/01/2015 31/12/2015	**01/01/2016 31/12/2016**	01/01/2015 31/12/2015	**01/01/2016 31/12/2016**	01/01/2015 31/12/2015	**01/01/2016 31/12/2016**	01/01/2015 31/12/2015
112,980	107,012	45,543	43,431	0	0	575,458	549,791
8,591	7,878	550	543	(10,704)	(10,210)	0	0
(50,767)	(49,424)	(14,665)	(14,501)	10,694	10,219	(258,333)	(250,367)
4	276	556	(65)	0	0	2,368	(850)
(32,136)	(31,320)	(18,163)	(16,373)	0	0	(174,775)	(164,232)
(19,658)	(18,432)	(7,053)	(6,605)	0	(1)	(85,195)	(78,740)
19,014	**15,990**	**6,768**	**6,430**	**(10)**	**8**	**59,523**	**55,602**
(6,192)	(6,113)	(2,925)	(2,620)	0	0	(24,705)	(23,498)
12,822	**9,877**	**3,843**	**3,810**	**(10)**	**8**	**34,818**	**32,104**
311	312	0	1	(307)	(298)	121	172
(867)	(600)	(600)	(680)	307	298	(3,895)	(3,156)
0	2	0	75	0	0	11	(183)
12,266	**9,591**	**3,243**	**3,206**	**(10)**	**8**	**31,055**	**28,937**
149,280	120,674	47,598	42,699	107	(50)	471,698	442,791
0	0	0	0	0	0	0	0
0	0	10	0	0	0	1,134	775
10,474	15,465	14,561	13,570	(62)	(53)	57,962	51,499
6,215	7,647	6,211	2,323	0	0	30,412	34,985

European non-euro countries		Rest of world		Consolidation		Total	
2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
59,811	54,658	24,951	18,401	0	0	575,458	549,791
						311,784	309,583
23,867	21,662	7,471	2,805	(1,697)	(1,360)	471,698	442,791
						258,090	282,088
1,254	11,340	1,492	139	0	0	30,412	34,985

A_Basic data for the group

The CENTROTEC Group – hereinafter also referred to as CENTROTEC – is an international group with subsidiaries in Europe, Asia and the USA with annual revenue of EUR 575 million (previous year EUR 550 million) and 3,285 employees worldwide (full time equivalents, FTE) (previous year 3,129 FTE). The focus of CENTROTEC's activities is the development, production and sale of the following product areas:

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

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

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

The financial year of CENTROTEC corresponds to the calendar year. The income statement therefore covers the period from January 1 to December 31, 2016 and has been prepared using the nature of expenditure method. The Consolidated Financial Statements are prepared based on a historical cost approach, with the exception that certain financial instruments are accounted for at market value and the pension obligations are accounted for using the projected unit credit method. The Consolidated Financial Statements have been prepared in euros. Unless otherwise indicated, the amounts quoted here are in thousand euros (EUR thousand). For mathematical reasons, there may be rounding differences of +/- one unit.

B_ Standards applied

The Consolidated Financial Statements at December 31, 2016 have been prepared in accordance with the "International Financial Reporting Standards" (IFRS) and their interpretations by the International Accounting Standards Board (IFRIC) issued by the International Accounting Standards Board (IASB), as adopted within the European Union (EU), taking account of Section 315a(1) of German Commercial Code. All IFRS standards the adoption of which is mandatory for the financial year from January 1, 2016 have been adopted.

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

Accounting standards adopted for the first time

The following new standards and interpretations or amendments to existing standards and interpretations are to be adopted for financial years from January 1, 2016:

Amendments to IAS 1	Disclosure Initiative

The amended standard had no on material influence on the Consolidated Financial Statements of the company.

Accounting standards applicable from the 2017 financial year or later

A large number of new or amended standards and interpretations are only to be adopted from the 2017 financial year or later and were not adopted in these Consolidated Financial Statements.

None of these standards has a material effect on the net worth, financial position and financial performance except for the following:

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

IFRS 9

IFRS 9 Financial Instruments includes requirements for recognition and measurement, derecognition and general hedge accounting. The IASB published the final version of the standard following the completion of the various phases of its extensive project on financial instruments on July 24, 2014. Accounting for financial instruments, which was previously handled under IAS 39 'Financial Instruments: Recognition and Measurement', can therefore now be entirely replaced by accounting under IFRS 9. The version of IFRS 9 now published replaces all previous versions. According to IFRS 9 all financial assets are divided into two classifications – those measured at amortised cost, and those measured at fair value. Where assets are measured at fair value, gains and losses can be recognised either entirely in the result for the period or in other comprehensive income. IFRS 9 does not alter the fundamental accounting model for financial liabilities from IAS 39. The principal changes in the rules on hedge accounting mainly relate to application and effectiveness conditions, permissible underlying transactions, and recognition, disclosure and the notes. First-time mandatory adoption is envisaged for financial years beginning on or after January 1, 2018; earlier adoption is permissible. CENTROTEC will adopt IFRS 9 for the first time starting from the financial year beginning on January 1, 2018. It remains to be examined whether this will affect the net worth, financial position and financial performance of the group.

IFRS 15

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

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

IFRS 15 was published in May 2014 and is to apply for accounting periods beginning on or after January 1, 2018; earlier adoption is permissible. CENTROTEC will adopt IFRS 15 for the first time starting from the financial year beginning on January 1, 2018 (simplified first-time adoption). On the basis of current findings and analyses we expect the impact of the adoption of IFRS 15 to be only very slight.

IFRS 16

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases in its financial statements.

The standard provides a single lessee accounting model. This model requires lessees to recognise assets and liabilities for all leases on the balance sheet unless the lease term is twelve months or less or the underlying asset has a low value. For accounting purposes the lessor continues to distinguish between finance and operating leases. The accounting model of IFRS 16 does not differ significantly here from that of IAS 17, Leases.

IFRS 16 was published in January 2016 and is to apply for the first time for financial years beginning on or after January 1, 2019; earlier adoption is permissible. CENTROTEC will adopt IFRS 16 starting from the financial year beginning on January 1, 2019. This is likely to have an influence on the net worth, financial position and financial performance because we recognise our assets and liabilities from (finance) leases on the balance sheet. Under the current rules of IAS 17, the expenditure from operating lease agreements are recognised in the income statement as other operating expenses. The future minimum lease payments are stated in the Notes under K. Other particulars. Under the rules of IFRS 16, the expenditure will be reflected in the depreciation and amortisation and the interest expense.

C_ Consolidation methods

The balance sheet date of the companies included in the Consolidated Financial Statements is December 31, 2016. The annual financial statements of the domestic and foreign subsidiaries that are prepared in accordance with local law are prepared according to uniform group recognition and measurement principles.

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

a_ Subsidiaries

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

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

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

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

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

b_Associated companies

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

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

c_Miscellaneous investments

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

D_Foreign currency translation

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

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

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

Foreign currency translation

	Rate at reporting date		Average rate	
ISO code	**31/12/2016**	**31/12/2015**	**2016**	**2015**
CHF	1.0739	1.0835	1.0902	1.0679
CNY	7.3202	7.0608	7.3522	6.9733
DKK	7.4344	7.4626	7.4452	7.4587
GBP	0.8562	0.7340	0.8195	0.7258
HKD	8.1751	–	8.5922	–
HRK	7.5597	7.6380	7.5333	7.6137
PLN	4.4103	4.2639	4.3632	4.1841
RUB	64.3000	80.6736	74.1446	68.0720
SGD	1.5234	1.5417	1.5275	1.5255
USD	1.0541	1.0887	1.1069	1.1095

E_Accounting policies

a_Goodwill

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

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

b_Intangible assets

Intangible assets: acquired brand rights, customer bases, software and licences are capitalised at cost and amortised in accordance with their anticipated useful lives. In the same way, software developments and other development work are capitalised at cost and likewise amortised in accordance with their respective anticipated useful lives, provided the following criteria are met:

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

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

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

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

c_Property, plant and equipment

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

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

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

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

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

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

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

f_Inventories

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

g_Trade receivables

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

h_Deferred tax

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

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

i_Cash and cash equivalents

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

j_Shareholders' equity

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

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

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

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

k_Share-based forms of payment

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

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

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

l_Pension provisions

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

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

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

m_Other provisions

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

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

n_Borrowings and trade payables

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

o_Leases

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

p_Financial instruments

A financial instrument is any contract that gives rise to both a financial asset at one enterprise and a financial liability or equity instrument at another enterprise. The balance sheet includes both primary and derivative financial instruments. Initial recognition is from the time the company becomes a contracting party to the financial instrument. A financial instrument is derecognised if the rights to payments from the financial instrument have expired or been transferred in full and the group has in essence transferred all risks and rewards associated with its title.

Classification of financial assets

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

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

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

Derivatives are fundamentally to be classified as financial assets held for trading unless they are designated as an effective hedging instrument for hedge accounting (hedging derivatives). The latter do not fall into any of the above four categories.

Measurement of financial assets

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

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

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

The categories loans and receivables and available-for-sale financial assets are of relevance for the CENTROTEC Group. Derivatives are moreover designated as effective hedging instruments for hedge accounting (hedging derivatives).

The loans and receivables category comprises substantially loans, cash and cash equivalents, and trade receivables. The available-for-sale financial assets include investments and securities.

Accounting of hedging relationships

Derivative financial instruments are fundamentally used within the group for hedging the interest and exchange rate risks resulting from operating activities, financial transactions and investments, and are designated as cash flow hedges. Initial and subsequent measurement is at the fair value. The measurement result is broken down into an effective and an ineffective portion. The effective portion is recognised income-neutrally under a separate item within equity. The ineffective portion of the measurement result, on the other hand, is recognised in the income statement. The accumulated measurement results within equity are liquidated with an income effect if the hedged item starts to affect income.

Classification of financial liabilities

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

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

Derivatives are fundamentally considered as financial liabilities held for trading unless they have been designated as an effective hedging instrument for hedge accounting (hedging derivatives). The latter does not fall into either of the above two categories.

Measurement of financial liabilities

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

Essentially the financial liabilities measured at amortised cost are of relevance for the CENTROTEC Group. Derivatives are designated as effective hedging instruments for hedge accounting (hedging derivatives).

The financial liabilities measured at amortised cost mainly originate from trade payables and from the financing of the group.

Determination of the fair values of financial instruments

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

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

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

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

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

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

F_Financial risk management

a_Financial risk factors

Financial risk management objectives and policies

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

In measuring and controlling significant individual risks, the group distinguishes between credit, market and liquidity risks.

Credit risk

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

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

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

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

Liquidity risk

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

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

in EUR '000	Total outstanding amount	Of wich maturity less than 1 Jahr	Of wich maturity 1 to 2 years	Of wich maturity 2 to 5 years	Of wich maturity over 5 years
2016	**139,114**	**65,729**	**7,824**	**19,746**	**45,815**
2015	130,376	65,800	9,223	17,515	37,838

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

in EUR '000	Total outstanding amount	Of wich maturity less than 1 Jahr	Of wich maturity 1 to 2 years	Of wich maturity 2 to 5 years	Of wich maturity over 5 years
2016	**184**	**62**	**27**	**74**	**21**
2015	252	74	62	74	42

Market risk

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

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

If the euro had gained 10 % in value against the principal foreign currencies for CENTROTEC at December 31, 2016, EBIT would have been higher by EUR 11 thousand (previous year EUR 159 thousand). If the euro had lost 10 % in value, EBIT would have been lower by EUR 9 thousand (previous year EUR 198 thousand).

Currency sensitivity

in EUR '000 Currency	Reporting-date rate	Rate if EUR gains 10 % in value	Sensitivity if EUR gains 10 % in value	Rate if EUR loses 10 % in value	Sensitivity if EUR loses 10 % in value
CHF	1.0739	1.18	3	0.97	(3)
CNY	7.3202	8.05	25	6.59	(31)
DKK	7.4344	8.18	75	6.69	(91)
GBP	0.8562	0.94	(82)	0.77	102
HKD	8.1751	8.99	0	7.36	0
HRK	7.5597	8.32	(56)	6.80	69
PLN	4.4103	4.85	(47)	3.97	58
RUB	64.3000	70.73	(45)	57.87	54
SGD	1.5234	1.68	0	1.37	1
USD	1.0541	1.16	138	0.95	(168)
Total			**11**		**(9)**

If the euro had gained 10 % in value at December 31, 2016, shareholders' equity would have been EUR 601 thousand (previous year EUR 159 thousand) higher or, if the euro had lost 10 % in value, EUR 768 thousand (previous year EUR 198 thousand) lower. The determination of currency sensitivities took account of all significant financial instruments where the currency of the contract is not the same as the functional currency of the CENTROTEC Group. The calculations do not contain currency translation risks, nor deferred and actual taxes.

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

If market interest rates had been 100 base points higher or lower at December 31, 2016, earnings would have been EUR 398 thousand (previous year EUR 279 thousand) higher or EUR 184 thousand (previous year EUR 261 thousand) higher. Shareholders' equity would correspondingly have been EUR 662 thousand (previous year EUR 607 thousand) higher or EUR 81 thousand (previous year EUR 73 thousand) lower at December 31, 2016.

Capital structure

Figures in EUR '000	31/12/2016	31/12/2015	31/12/2014	31/12/2013	31/12/2012
Shareholders' equity	240,602	225,962	207,908	200,427	174,665
Long-term debt	134,898	125,375	122,068	121,935	114,042
Short-term debt	104,195	100,801	95,607	116,315	130,864
Balance sheet total	479,695	452,138	425,583	438,677	419,571
Equity ratio	50.2 %	50.0 %	48.9 %	45.7 %	41.6 %
Debt ratio	49.8 %	50.0 %	51.1 %	54.3 %	58.4 %

The table is part of Section b) Capital risk management

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

Other risks affecting the prices of financial instruments exist for the CENTROTEC Group above all in the form of market prices. The current financial investments mainly comprise available-for-sale funds, which are to be treated like liquidity. Thanks to the diversication of financial instruments across various priority investments and the professional management of investments, the overall risk position is regarded as limited.

Operating risks

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

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

b_Capital risk management

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

G_Critical assumptions and estimates

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

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

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

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

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

H_Segment reporting

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

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

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

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

I_Particulars of the consolidated companies

The following companies, which simultaneously constitute the CENTROTEC Group, were consolidated within CENTROTEC Sustainable AG at December 31, 2016:

Company

	Place and country of incorporation	Share of capital	Subscribed capital	Currency (ISO code)	Founded/ acquired
Fully consolidated					
CENTROTEC Sustainable AG	Brilon, DE	–	17,891,701.00	EUR	*17/07/1998
Climate Systems segment					
Brink Climate Systems B.V.	Staphorst, NL	100 %	20,004.00	EUR	02/01/2002
Brink Climate Systems France S.A.S.	Nantes, FR	100 %	10,000.00	EUR	02/01/2014
Air Instal Group B.V.	Deventer, NL	100 %	18,152.00	EUR	02/01/2002
Air Instal B.V.	Deventer, NL	100 %	10,000.00	EUR	01/12/2015
ComfortExpert B.V.	Deventer, NL	100 %	10,000.00	EUR	25/06/2015
Centrotec Real Estate B.V.	Doesburg, NL	100 %	1.00	EUR	30/01/2014
Ned Air Holding Deutschland GmbH	Brilon, DE	100 %	25,000.00	EUR	08/04/2014
Ned Air Holding B.V.	Ijsselmuiden, NL	100 %	54,454.00	EUR	05/06/2003
Ned Air B.V.	Ijsselmuiden, NL	100 %	54,454.00	EUR	05/06/2003
Holmak HeatX B.V.	Sassenheim, NL	100 %	38,500.00	EUR	08/09/2005
Innosource B.V.	Sassenheim, NL	100 %	18,000.00	EUR	08/09/2005
Soundscape B.V.	Sassenheim, NL	100 %	18,000.00	EUR	08/09/2005
HOLMAK D.O.O.E.L.	Bitola, MK	100 %	816,623.00	MKD	13/06/2013
Centrotec Energy Solutions B.V.	Staphorst, NL	100 %	18,000.00	EUR	08/09/2005
Centrotec Energy Solutions Nederland B.V.	Staphorst, NL	100 %	18,000.00	EUR	19/11/2010
Stiller Wonen B.V.	Amstelveen, NL	100 %	18,151.00	EUR	08/09/2005
Brink Climate Systems Deutschland GmbH	Ahaus, DE	100 %	450,000.00	EUR	29/11/2005
Wolf Holding GmbH	Mainburg, DE	100 %	25,000.00	EUR	22/09/2006
Wolf GmbH	Mainburg, DE	100 %	20,000,000.00	EUR	05/10/2006
Wolf France S.A.S.	Massy, FR	100 %	1,040,000.00	EUR	05/10/2006
Wolf Iberica S.A.	Madrid, ES	100 %	1,181,315.74	EUR	05/10/2006
Wolf Technika Grzewcza Sp.z.o.o.	Warsaw, PL	100 %	3,189,100.00	PLN	05/10/2006
Kuntschar & Schlüter GmbH	Wolfhagen, DE	100 %	250,000.00	EUR	01/11/2008
Dreyer & Bosse Kraftwerke GmbH	Gorleben, DE	100 %	500,000.00	EUR	09/08/2011
Wolf Sustainable AG	Zurich, CH	100 %	100,000.00	CHF	24/06/2011
OOO Wolf Energiesparsysteme	Moscow, RU	100 %	113,200,000.00	RUB	25/11/2011
Wolf Klimaatechniek B.V.	Kampen, NL	100 %	150,000.00	EUR	05/10/2006
Wolf Italia s.r.l.	San Donato Milanse, IT	100 %	100,000.00	EUR	01/07/2013
PRO-KLIMA d.o.o.	Samobor, HR	100 %	9,107,600.00	HRK	01/07/2015
Wolf HVAC Systems Co. Ltd	Shanghai, CN	100 %	7,692,755.00	CNY	01/02/2016
Wolf HVAC HK Limited	Hong Kong	100 %	10,000.00	HKG	31/08/2015
Centrotec Energy Solutions GmbH	Brilon, DE	100 %	25,000.00	EUR	23/07/2008

Company

	Place and country of incorporation	Share of capital	Subscribed capital	Currency (ISO code)	Founded/ acquired
Gas Flue Systems segment					
Ubbink B.V.	Doesburg, NL	100 %	46,286.00	EUR	21/12/1999
Ubbink N.V./ S.A.	Gentbrugge, BE	100 %	592,117.48	EUR	21/12/1999
Ubbink UK Ltd.	Brackley, UK	100 %	2,485,000.00	GBP	21/12/1999
Ubbink France S.A.S.	La Chapelle sur Erdre, FR	100 %	310,000.00	EUR	21/12/1999
Centrotherm Systemtechnik GmbH	Brilon, DE	100 %	108,360.00	EUR	15/12/1993
Centrotherm Gas Flue Technologies Italy S.R.L.	Verona, IT	100 %	119,000.00	EUR	19/10/2000
Centrotherm Eco Systems, LLC	Albany, USA	65 %	300,000.00	USD	22/04/2009
Centrotherm Gas Flue Technology (Jiangsu) Co., Ltd.	Nantong, CN	100 %	951,463.00	CNY	11/02/2015
Ubbink Deutschland GmbH	Brilon, DE	100 %	25,000.00	EUR	14/07/2008
Centrotec JI Asia Pte. Ltd.	Singapore, SG	57.5 %	170,000.00	SGD	23/04/2003
Centrotec Composites GmbH	Brilon, DE	100 %	27,000.00	EUR	01/08/1990
Centrotec International GmbH	Brilon, DE	100 %	25,000.00	EUR	18/12/2002
Centrotec Finance BV	Staphorst, NL	100 %	20,000.00	EUR	03/12/2015
Centrotec Finance BV & Co.KG	Brilon, DE	100 %	14,876.00	EUR	16/12/2015
Medical Technology & Engineering Plastics segment					
medimondi AG	Fulda, DE	100 %	11,640,000.00	EUR	*16/10/2006
Möller GmbH	Fulda, DE	100 %	60,000.00	EUR	28/08/2003
Möller Medical GmbH	Fulda, DE	100 %	1,400,000.00	EUR	28/08/2003
Möller Medical USA Inc.	Saratoga Springs, USA	100 %	10.00	USD	27/05/2014
Centroplast Engineering Plastics GmbH	Marsberg, DE	100 %	250,000.00	EUR	01/08/1990
Rolf Schmidt Industriplast A/S	Kolding, DK	100 %	3,000,000.00	DKK	16/03/2001
Companies consolidated using the equity method					
Industrial Solar GmbH	Freiburg, DE	51 %	161,290.00	EUR	25/08/2011
Companies recognised as available-for-sale financial assets (non-consolidated companies), as they are of no material significance:					
Wolf Klimatechnik S.a.r.l.	Junglinster, LU	100 %	15,000.00	EUR	05/10/2006
Wolf (Schweiz) AG	Kilchberg, CH	9 %	100,000.00	CHF	18/02/2014
CentroGulf Limited	Abu Dhabi, UAE	20 %	500,000.00	AED	07/07/2010

* Date of creation by modifying conversion

J Explanatory Notes on components of the consolidated financial statements

1 Goodwill

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

in EUR '000	
2016	
Accumulated cost Jan 1	79,429
Exchange differences	54
Additions	0
Disposals	0
Accumulated cost Dec 31	79,483
Accumulated impairment Jan 1	(2,263)
Exchange differences	0
Additions	0
Disposals	0
Accumulated impairment Dec 31	(2,263)
Net carrying amount 31/12/2016	**77,220**
2015	
Accumulated cost Jan 1	74,341
Exchange differences	(57)
Additions	5,145
Disposals	0
Accumulated cost Dec 31	79,429
Accumulated impairment Jan 1	(2,269)
Exchange differences	6
Additions	0
Disposals	0
Accumulated impairment Dec 31	(2,263)
Net carrying amount 31/12/2015	**77,166**

The goodwill totalling EUR 77,166 thousand reported at December 31, 2015 rose by an amount of EUR 54 thousand in the 2016 financial year to EUR 77,220 thousand. This increase is attributable to exchange rate fluctuations.

In the CENTROTEC Group a distinction is made between four cash generating units to which goodwill is allocated. The impairment test was performed on the basis of value in use. The calculations were based on a cash flow oriented model. The calculations are based on the approved plans for the years 2017 to 2021. A perpetual pension is in addition calculated on the basis of the fifth year of the planning period for cash flow. The perpetual pension was assumed to have a growth rate in cash flow of 1.0 % (previous year 1.0 %) for all CGUs. The discount rate was formed from the weighted costs of borrowed capital and equity capital, with the equity capital costs derived using CAPM. Depending on the cash generating unit, the discount rate before tax ranges between 4.03 % and 4.53 % (previous year 5.18 % and 6.41 %).

The impairment tests revealed no need for impairment of goodwill in either the 2016 financial year or in the comparative period 2015.

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

Cash generating units

	31/12/2016	31/12/2015
Wolf Group	36,366	36,319
Brink Group	25,433	25,433
Ubbink Group	11,117	11,116
Medimondi Group	4,304	4,298
Total	**77,220**	**77,166**

2 Intangible assets

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

in EUR '000	Industrial rights and similar rights	Software	Capitalised development costs	Assets in course of construction	Total intangible assets
2016					
Accumulated cost Jan 1	24,898	19,494	47,747	5,783	97,922
Exchange differences	12	(41)	0	0	(29)
Additions	83	1,252	2,477	3,428	7,240
Reclasses	0	1,791	3,546	(5,337)	0
Disposals	(339)	(165)	(670)	(13)	(1,187)
Deconsolidation	0	(8)	0	0	(8)
Accumulated cost Dec 31	24,654	22,323	53,100	3,861	103,938
Accumulated depreciation/ amortisation and impairment Jan 1	(7,387)	(14,495)	(34,561)	0	(56,443)
Exchange differences	(2)	15	0	0	13
Additions	(1,044)	(2,302)	(5,249)	0	(8,595)
Disposals	289	125	412	0	826
Deconsolidation	0	8	0	0	8
Accumulated depreciation/ amortisation and impairment Dec 31	(8,144)	(16,649)	(39,398)	0	(64,191)
Net carrying amount 31/12/2016	**16,510**	**5,674**	**13,702**	**3,861**	**39,747**
2015					
Accumulated cost Jan 1	23,903	18,423	43,330	5,865	91,521
Exchange differences	(9)	19	(1)	0	9
Additions	12	996	1,756	3,297	6,061
Reclasses	0	358	2,960	(3,318)	0
Disposals	(6)	(349)	(354)	(61)	(770)
Acquisitions	998	42	56	0	1,096
Merger	0	5	0	0	5
Accumulated cost Dec 31	24,898	19,494	47,747	5,783	97,922
Accumulated depreciation/ amortisation and impairment Jan 1	(6,205)	(12,647)	(29,904)	0	(48,756)
Exchange differences	0	(5)	0	0	(5)
Additions	(1,187)	(2,179)	(5,011)	0	(8,377)
Disposals	5	341	354	0	700
Merger	0	(5)	0	0	(5)
Accumulated depreciation/ amortisation and impairment Dec 31	(7,387)	(14,495)	(34,561)	0	(56,443)
Net carrying amount 31/12/2015	**17,511**	**4,999**	**13,186**	**5,783**	**41,479**

The industrial rights and similar rights include the “Wolf” brand (EUR 11.5 million). The Wolf brand has no specified useful life because we have secured the exclusive right to use the “Wolf” brand under trademark rights; its useful life is therefore indefinite from a legal perspective. Even taking the economic perspective as a basis, we are unable to forecast for how long the company and therefore the “Wolf” brand will exist; as a result, based on an analysis of all relevant factors we are unable to express any foreseeable limit to the period in which the asset is likely to generate net cash flows for the company. No amortisation takes place in view of the indefinite useful life. The Wolf brand is therefore subjected to a yearly impairment test, which has hitherto revealed no need for impairment. The parameters used for this correspond to the parameters for the impairment test of goodwill in Note 1. Expenses for predominantly internal research and development (incl. expenditure that may be recognised as an asset) in the financial year amounted to EUR 16,049 thousand (previous year EUR 15,466 thousand). Development activities focused mainly on gas-fired condensing boilers, air distribution systems and medical technology products. The intangible assets include software in the amount of EUR 719 thousand (previous year EUR 1,437 thousand), reported as finance leases. Borrowing costs of EUR 0 thousand (previous year EUR 1 thousand) were recognised as an intangible asset. There in addition exist commitments amounting to EUR 109 thousand (previous year EUR 167 thousand) for intangible assets.

3 Property, plant and equipment

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

in EUR ’000	Land and buildings	Technical equipment and machinery	Furniture, fixtures and office equipment	Assets in course of contruction	Total property, plant and equipment
2016					
Accumulated cost Jan 1	108,084	98,293	61,083	6,538	273,998
Exchange differences	27	57	1	43	128
Additions	4,057	6,261	5,747	7,122	23,187
Reclasses	1,147	4,489	1,512	(7,148)	0
Disposals	(427)	(6,794)	(2,144)	(1,092)	(10,457)
Deconsolidation	0	(407)	(15)	0	(422)
Accumulated cost Dec 31	112,888	101,899	66,184	5,463	286,434
Accumulated depreciation/ amortisation and impairment Jan 1	(40,025)	(69,575)	(44,531)	0	(154,131)
Exchange differences	0	(14)	5	0	(9)
Additions	(4,367)	(6,371)	(5,373)	0	(16,111)
Disposals	427	6,569	2,005	0	9,001
Deconsolidation	0	407	15	0	422
Accumulated depreciation/ amortisation and impairment Dec 31	(43,965)	(68,984)	(47,879)	0	(160,828)
Net carrying amount 31/12/2016	**68,923**	**32,915**	**18,305**	**5,463**	**125,606**
2015					
Accumulated cost Jan 1	105,680	90,879	57,916	2,573	257,048
Exchange differences	(26)	89	89	(4)	148
Additions	2,588	4,694	4,545	8,224	20,051
Reclasses	522	3,667	66	(4,255)	0
Disposals	(3,133)	(1,180)	(1,592)	0	(5,905)
Acquisitions	2,453	144	36	0	2,633
Merger	0	0	23	0	23
Accumulated cost Dec 31	108,084	98,293	61,083	6,538	273,998
Accumulated depreciation/ amortisation and impairment Jan 1	(38,900)	(64,682)	(40,978)	0	(144,560)
Exchange differences	2	(28)	(88)	0	(114)
Additions	(4,342)	(5,767)	(5,012)	0	(15,121)
Reclasses	82	(194)	112	0	0
Disposals	3,133	1,096	1,444	0	5,673
Merger	0	0	(9)	0	(9)
Accumulated depreciation/ amortisation and impairment Dec 31	(40,025)	(69,575)	(44,531)	0	(154,131)
Net carrying amount 31/12/2015	**68,059**	**28,718**	**16,552**	**6,538**	**119,867**

Land and buildings comprise mainly the production and office buildings in Brilon (Germany), Mainburg (Germany), Doesburg (Netherlands), Kampen (Netherlands), Staphorst (Netherlands), La Chapelle sur Erdre (France), Fulda (Germany), Marsberg (Germany), Gorleben (Germany), Kolding (Denmark) and Samobor (Croatia). Land and buildings were acquired in Milan (Italy) and Madrid (Spain) in the 2016 financial year.

Technical equipment and machinery at the production plants was extended and technologically upgraded. Other furniture, fixtures and office equipment consists of various items in production, warehouses and administration. Property, plant and equipment includes assets to the value of EUR 2,581 thousand (previous year EUR 2,265 thousand) reported as finance leases. The bulk of these comprises technical equipment and machinery amounting to EUR 2,435 thousand (previous year EUR 2,037 thousand) and other furniture, fixtures and office equipment amounting to EUR 146 thousand (previous year EUR 228 thousand).

In addition there exist commitments amounting to EUR 460 thousand for property, plant and equipment.

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

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

Associated companies accounted for using the equity method:
Industrial Solar GmbH was already written off at EUR 0 in 2013, so no further impairment was to be recorded this year. As in the previous year, CENTROTEC exercises no controlling influence over the company despite holding a 51 % share. The non-recognized portion of the losses for equity investments amounted to EUR 0.2 million in 2016 (previous year accumulated loss EUR 1.1 million).

5 Other financial assets and other assets

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

Other financial assets and other assets

in EUR '000	31/12/2016	31/12/2015
Miscellaneous financial assets	106	180
Other non-current financial assets	**106**	**180**
Prepaid expenses	62	78
Other assets	17	123
Other non-current assets	**79**	**201**
Current financial investments	29,176	0
Derivative assets	10	0
Miscellaneous financial assets	3,314	3,549
Other current financial assets	**32,500**	**3,549**
Receivables from VAT	3,417	3,739
Prepaid expenses	2,450	1,900
Payments on account for inventories	380	531
Other assets	619	621
Other current assets	**6,866**	**6,791**

The miscellaneous financial assets also include e.g. receivables from suppliers.

6 Deferred tax assets and tax liabilities

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

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

Deferred tax assets on temporary differences and tax loss carryforwards

		Gross		After netting
In EUR '000	**31/12/2016**	**31/12/2015**	**31/12/2016**	**31/12/2015**
Reversal expected within 12 months	1,143	882	761	471
Reversal expected after more than 12 months	12,127	10,979	2,946	5,980
Total	**13,270**	**11,861**	**3,707**	**6,451**

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

Tax loss carryforwards

in EUR '000	**31/12/2016**	**31/12/2015**
Loss carryforwards	21,681	27,290
Deferred tax assets from loss carryforwards	5,949	7,276
Reductions for impairment	(4,319)	(5,113)
Deferred tax assets from loss carryforwards	**1,630**	**2,163**

Of the deferred tax assets on loss carryforwards, EUR 11 thousand (previous year EUR 1,209 thousand) relates to companies which also posted a loss in the current year. The deferred tax assets in question were tested for impairment on the basis of earnings forecasts. No deferred tax assets were recognised on loss carryforwards amounting to EUR 15,736 thousand (previous year EUR 19,280 thousand).
Except for an amount of EUR 7,951 thousand, the loss carryforwards can be carried forward indefinitely. Of the losses for which carryforward is restricted, EUR 4,163 thousand expires in over five years, EUR 2,577 thousand within five years, EUR 367 thousand within four years, EUR 143 thousand within three years, EUR 436 thousand within two years and EUR 265 thousand within one year.

The composition of deferred tax liabilities is as follows:

Deferred tax liabilities on temporary differences

Deferred tax liabilities	Gross		After netting	
in EUR '000	**31/12/2016**	**31/12/2015**	**31/12/2016**	**31/12/2015**
Reversal expected within 12 months	1,001	736	618	325
Reversal expected after more than 12 months	15,685	16,394	6,504	11,395
Total	**16,686**	**17,130**	**7,122**	**11,720**

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

Deferred tax

in EUR '000	2016	2015
Deferred tax assets (gross)		
Intangible assets	241	295
Property, plant and equipment	611	609
Inventories	542	410
Pension provisions	7,333	5,763
Other provisions	1,587	1,246
Other liabilities	795	780
Other	531	595
Tax loss carryforwards	1,630	2,163
	13,270	**11,861**
Deferred tax liabilities (gross)		
Intangible assets	9,511	9,257
Property, plant and equipment	5,811	6,699
Inventories	502	454
Other provisions	26	39
Other liabilities	199	404
Other	637	277
	16,686	**17,130**

Of the deferred tax assets and deferred tax liabilities, EUR 5,829 thousand (previous year EUR 4,303 thousand) was netted directly with equity. Exchange differences represent EUR 90 thousand of this amount (previous year EUR 68 thousand), and interest rate derivatives EUR 134 thousand (previous year EUR 83 thousand). Pension provisions account for EUR 5,605 thousand (previous year EUR 4,151 thousand).

Deferred tax balance sheet items

in EUR '000	31/12/2016	31/12/2015
Deferred tax assets	3,707	6,451
Deferred tax liabilities	(7,122)	(11,720)
Balance	**(3,415)**	**(5,269)**
Of which: from netting against shareholders' equity	5,829	4,303

Development in deferred tax

in EUR '000	31/12/2016	31/12/2015
Recognition of deferred tax (balance)	(3,415)	(5,269)
Difference year on year	1,854	333
Of which:		
Through profit or loss	359	860
Netted against shareholders' equity (incl. exchange differences)	1,526	(32)
Other	(31)	(495)

No deferred tax liabilities were recognised on temporary differences resulting from shares in subsidiaries (outside basis differences) amounting to EUR 9,743 thousand (previous year EUR 7,640 thousand), because these differences will probably not be reversed in the foreseeable future and the parent is in the position to control the timing of the reversal of the temporary differences.

7 Inventories

Group inventories are broken down as follows:

Inventories by category

in EUR '000	31/12/2016	31/12/2015
Raw materials and supplies	25,857	23,281
Work in progress	14,252	12,782
Finished goods and merchandise	28,316	26,109
Total	**68,425**	**62,172**

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

Impairment of inventories developed as follows:

in EUR '000	31/12/2016
Impairment at the start of the financial year	6,512
Additions recognised as an expense	2,054
Reversal/utilisations	(2,009)
Currency translation effects	16
Deconsolidation	(260)
Impairment at end of financial year	**6,313**

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

8 Trade receivables

Trade receivables

in EUR '000	31/12/2016	31/12/2015
Carrying amount	**57,947**	**53,935**
of which: not overdue	46,097	42,942
of which: overdue		
up to 30 days	6,286	6,247
between 31 and 90 days	4,527	3,273
between 91 and 180 days	457	588
over 181 days	580	885

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

in EUR '000	31/12/2016	31/12/2015
EUR	55,940	53,016
GBP	1,260	1,401
HKR	1,220	0
DKK	872	940
USD	750	1,015
PLN	725	715
Other currencies	291	941
Total	**61,058**	**58,028**
Impairment	3,111	4,093
Trade receivables	**57,947**	**53,935**

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

in EUR '000	31/12/2016	31/12/2015
Impairment at the start of the financial year	4,093	3,983
Income-effective changes in impairment during the period under review	640	486
Acquisitions	0	1,108
Derecognition of receivables/deconsolidation	(1,364)	(1,382)
Payments received and recovery in value of receivables originally written off	(237)	(111)
Currency translation effects	(21)	9
Impairment at end of financial year	**3,111**	**4,093**

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

9 Cash and cash equivalents

Cash and cash equivalents

in EUR '000	31/12/2016	31/12/2015
Cash in hand	32	39
Cash and cash equivalents	63,170	77,412
Total	**63,202**	**77,451**

10 Shareholders' equity

General

The issued capital of the company amounted to EUR 17,891,701 at December 31, 2016 (at December 31, 2016: EUR 17,733,240). It is divided into 17,891,701 no par value shares with a notional value of EUR 1.00 per share. The capital stock is fully paid in. With additional paid-in capital of EUR 38,037 thousand, other retained earnings and profit carryforward of EUR 164,259 thousand and net income for the year of EUR 21,591 thousand, the group had shareholders' equity attributable to the shareholders of CENTROTEC Sustainable AG of EUR 241,779 thousand (previous year EUR 225,135 thousand) at December 31, 2016. Shareholders' equity was reduced mainly by the dividend of EUR 0.25 per share distributed in 2015. Conversely, the issued capital and the additional paid-in capital were increased by payments received from the exercising of stock options in 2016 and by the net income generated in 2016.

Development of number of shares

Development of number of shares

in thousand	2016	2015
Total, January 1	17,733	17,647
Addition through the exercising of options	159	86
Total, December 31	**17,892**	**17,733**

The additions through the exercising of options correspondingly led to an increase in subscribed capital of EUR 159 thousand (previous year EUR 86 thousand) and an addition to the additional paid-in capital of EUR 1,200 thousand (previous year EUR 636 thousand).

Proposal for the distribution of accumulated profit

According to German commercial and stock corporation requirements, the annual financial statements of the group parent CENTROTEC Sustainable AG constitute the basis for the appropriation of profit for the 2016 financial year. A distributable dividend therefore depends, among other things, on the profit available for distribution reported by that company in the separate financial statements at December 31, 2016. The net income for the year reported there is EUR 196 thousand and the reported retained earnings EUR 53,193 thousand. The Supervisory Board and Management Board of CENTROTEC Sustainable AG will propose to the Shareholders' Meeting that a dividend of EUR 0.30 per dividend-bearing no par value share be distributed for the 2016 financial year. The balance of the profit available for distribution is to be carried forward for new account.

Treasury stock

No shares were sold or acquired in the financial year.

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

Authorised capital

Pursuant to the resolution of the Shareholders' Meeting on May 22, 2012 the Management Board is, with the consent of the Supervisory Board, authorised to increase the capital stock on one or more occasions by up to EUR 3,000,000 (in words: three million euros) by May 21, 2017 for cash and/or contributions in kind through the issuance of 3,000,000 new no par value bearer shares (Authorised Capital 2012).

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

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

- For residual amounts,
- If the capital increase is for cash and the issuing price of the new shares does not significantly undercut the market price of the shares of the company already listed at the time the issuing price is finally fixed by the Management Board and the number of new shares as a proportion of the capital stock issued excluding the subscription right pursuant to Section 186 (3), fourth sentence of the German Stock Corporation Act does not exceed the limit of 10 % of the capital stock of the company, whether at the time of this authorisation becoming effective or at the time of its exercising. This limit amount shall include those shares (i) that are issued during the term of this authorisation, excluding the subscription right in direct or analogous application of Section 186 (3) fourth sentence of the German Stock Corporation Act, (ii) that were or are yet to be issued to service debt instruments (including participating bonds) with conversion or option rights or a conversion obligation, provided the debt instrument or participating bonds were issued during the term of this authorisation in analogous application of Section 186 (3) fourth sentence of the German Stock Corporation Act, excluding subscription rights; and (iii) that are treasury stock sold, if and insofar as that sale took place for cash during the term of this authorisation on the basis of an authorisation valid at the time of this authorisation becoming effective or an authorisation taking its place, by other means than via the stock exchange or through an offer to all shareholders;
- For a capital increase for contributions in kind for the purpose of acquiring (including indirectly) businesses, business units, participations in other companies or other assets;
- For issuance to employees of the company or of domestic and international affiliated companies (Section 202 (4) of the German Stock Corporation Act).

The Board of Management is, with the consent of the Supervisory Board, authorised to specify the further content of the rights carried by the shares and the conditions of the share issue.

Conditional capital and share-based payments

Conditional Capital I

Conditional Capital I can no longer be exercised due to expiry. Conditional Capital I therefore remained unchanged at December 31, 2016 and amounts to EUR 21,984, divided into 21,984 no par value shares (previous year EUR 21,984, divided into 21,984 no par value shares).

Conditional Capital II

Conditional Capital II can no longer be exercised due to expiry. Conditional Capital II therefore remained unchanged at December 31, 2016 and amounts to EUR 69,900, divided into 69,900 no par value shares (previous year EUR 69,900, divided into 69,900 no par value shares).

Conditional Capital III

By resolution of the Shareholders' Meeting on May 29, 2008 the capital stock is conditionally increased by a further EUR 756,000, divided into 756,000 no par value shares (Conditional Capital III). The Management Board is authorised to issue warrants – on one or more occasions – for subscription to new bearer shares in the company until December 31, 2014. Employees of CENTROTEC Sustainable AG as well as employees of affiliated companies as defined by Section 17 of the German Stock Corporation Act are entitled to subscribe. The managing directors/Management Board members of the above companies are furthermore entitled to subscribe. New shares are created where the options are exercised. These pay dividends from the beginning of the financial year in which the options are exercised. Conditional Capital III at December 31, 2016 amounted to EUR 190.773, divided into 190,773 no par value shares (previous year 349,234 EUR, divided into 349,234 no par value shares).

Share-based payment

CENTROTEC used share-based payment transactions counterbalanced by equity instruments. The last options were issued in the 2012 financial year. The share-based payment agreements are based on corresponding resolutions by Shareholders' Meetings. There accordingly exists conditional capital totalling EUR 190,773 at the reporting date of December 31, 2016 (previous year EUR 349,234), divided into a total of 190,773 (previous year 349,234) no par value shares. The Management Board was authorised to issue stock options for subscription to new bearer shares in the company until December 31, 2014 (on one or more occasions); the Supervisory Board decides on their granting to Management Board members. Employees, managing directors and Management Board members of the company and of its affiliated companies pursuant to Section 17 of the German Stock Corporation Act are entitled to subscribe, on the basis of individual stock option agreements. Because no new Conditional Capital was created by the Shareholders' Meeting for the issuance of stock options and the existing Conditional Capital was used almost in entirety through the issuance of stock options, no further stock options will be issued in future. The granting of the stock options is linked to the fulfilment of individual performance targets. Employees, managing directors and Management Board members must achieve individually agreed targets. Attainment of targets leads to the granting of the stock options. The vesting period until the earliest possible time the options may be exercised is two years from the date of issue of the option. This simultaneously necessitates a two-year period of service, so that the option does not lapse. The maximum term of the options is seven years from the time of their granting.

Exercise of options is moreover tied to the fulfilment of market conditions. They may accordingly only be exercised if the market price on the day on which the options may first be exercised or at a later time during the term of the options has risen by 30 % on the exercise price. Exercise is moreover permitted only during certain periods of the year. These exercise periods run from the third to the eighth stock market trading day following the day on which annual and quarterly results are announced, and following the day on which it is announced that annual press conferences have been held. New shares are created at the time an option is exercised. The new shares pay dividends from the beginning of the financial year in which the options are exercised. The exercise price per share (subscription price) to be paid upon exercising of the options is currently 90 % of the average closing price in Xetra trading on the Frankfurt Stock Exchange (or in an equivalent successor system), calculated from the prices on the 30 trading days – for Conditional Capital I – or on the 10 trading days – for Conditional Capital II and Conditional Capital III – preceding the day of issue of the option, but at least one euro.

The following table shows the stock option tranches with the number of options that may still be exercised:

Stock option

tranches	Issue date	Exercise-price*	Date of-expiry	Options at end 2016	Options at end 2015	Changes
Granted 2009	05/02/2009	7.30	04/02/2016	0	6,640	(6,640)
Granted 2010	11/01/2010	7.50	10/01/2017	4,200	116,882	(112,682)
Granted 2011	24/01/2011	14.80	23/01/2018	81,223	102,611	(21,388)
Granted 2012	21/03/2012	11.20	20/03/2019	55,359	101,138	(45,779)
Total				**140,782**	**327,271**	**(186,489)**

* As a result of dividend payments of EUR 0.10 in each of the years 2011 and 2012, EUR 0.15 in 2013, EUR 0.20 in each of 2014 and 2015 as well as EUR 0.25 in 2016, the exercise price fell by EUR 1.00 for all tranches up to and including 2011, and by EUR 0.90 for the 2012 tranche.

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

		2016		2015
Units/price in EUR	**Options**	**Avg. exercise price**	**Options**	**Avg. exercise price**
Start of year	**327,271**	**11.18**	**416,565**	**10.78**
Exercised	(158,461)	8.65	(86,715)	8.33
Expired	(28,028)	13.02	(2,579)	10.95
End of year	**140,782**	**13.17**	**327,271**	**11.18**
of which exercisable	140,782	13.17	327,271	11.18

The weighted average share price at the time of exercise of the stock options exercised is EUR 14.01.

Non-controlling interests

This item includes the shareholders' equity attributable to the minority interests of EUR (1,177) thousand (previous year EUR 827 thousand). The changes in the 2016 financial year arose mainly from the change in the interest held in the company Dreyer & Bosse GmbH, which was 80 % in the previous year and now 100 % in the year under review.

11 Pension provisions

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

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

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

Main actuarial assumptions

			2016			2015
%	**Germany**	**Netherlands**	**Italy**	**Germany**	**Netherlands**	**Italy**
Discounting rate	1.60	1.10	1.30	2.20	1.70	2.00
Assumed salary increases	2.50	2.50	1.00	2.50	2.50	1.00
Assumed pension increase	1.30	0.00	2.70	1.30	0.00	3.00

Retirement benefit payments

in EUR '000	**31/12/2016**	**31/12/2015**
Fund-financed obligations	10,440	10,578
Fair value of plan assets	(10,321)	(10,524)
Subtotal	119	54
Present value of non-fund-financed obligation	45,713	40,125
Influence of the upper assets threshold	0	0
Pension provisions reported	**45,832**	**40,179**

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

Development of pension obligations and plan assets

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

in EUR '000	Present value of the defined benefit obligation	External plan assets	Total	Influence of the upper assets thershold	Total
01/01/2015	**50,481**	**(10,660)**	**39,821**	**0**	**39,821**
Service cost	894	0	894	0	894
Past service cost	0	0	0	0	0
Interest expense/interest income (incl. expected return on plan assets)	923	(180)	743	0	743
Payments made	(1,357)	403	(954)	0	(954)
Contributions paid by employer	19	(90)	(71)	0	(71)
Gains and losses from compensation	0	3	3	0	3
Remeasurement effects:					
from plan assets	0	0	0	0	0
from changes in financial assumptions	(916)	0	(916)	0	(916)
from changes in demographic assumptions	659	0	659	0	659
from experience adjustments	0	0	0	0	0
changes in the upper assets threshold	0	0	0	0	0
Total of remeasurement effects	**(257)**	**0**	**(257)**	**0**	**(257)**
31/12/2015	**50,703**	**(10,524)**	**40,179**	**0**	**40,179**

The plan assets are comprised as follows:

in EUR '000	31/12/2016	31/12/2015
Insurance	10,320	10,524
Total	**10,320**	**10,524**

The bulk of the plan assets are managed by the pension insurer Delta Lloyd, Netherlands. Delta Lloyd invests in a variety of portfolios, such as government bonds, corporate bonds, mortgages, shares and real estate. Once a year a payment is made to Delta Lloyd, as calculated by Delta Lloyd using various parameters such as age. The cash outflow for 2017 will be approx. EUR 28 thousand. Delta Lloyd makes the payments to the employees.

The average weighted term of the existing pension obligations is 17 years. The pension payments for the coming year are expected to amount to EUR 1,431 thousand.

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

Main actuarial assumptions

			2016		2015
Change	**%**	**Increase in parameters**	**Decrease in parameters**	**Increase in parameters**	**Decrease in parameters**
Interest rate	0.5	(8.4)	9.6	(8.1)	9.3
Pension trend	0.5	6.7	(6.1)	6.3	(5.8)
Salary trend	0.5	0.6	(0.5)	0.6	(0.6)

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

12 Other provisions

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

Other provisions

in EUR '000	Warranty obligations	Legal claims and court proceedings	Personnel-related costs	Miscellaneous provisions	Total
01/01/2016	**15,274**	**997**	**2,659**	**3,004**	**21,934**
Added	2,529	451	4,255	321	7,556
Used	(2,418)	(860)	(1,976)	(1,454)	(6,708)
Reversed	(137)	(25)	(311)	(138)	(611)
Exchange differences	(2)	0	0	39	37
Compounding	249	0	23	0	272
31/12/2016	**15,495**	**563**	**4,650**	**1,772**	**22,480**
Of which use expected < 1 year	326	513	2,859	1,364	5,062

A distinction between short-term and long-term provisions was made on the balance sheet, based on the estimated timing of their use. The provisions for warranty obligations are calculated for each type of revenue according to values indicted by experience, as well as for specific individual cases. The warranty obligations were created for general and individual warranty risks on the basis of various warranty factors. The warranty periods generally last between two and six years, possibly varying upwards for goodwill reasons. The outflow of resources for legal claims and court proceedings is expected substantially within the next year. The personnel-related provisions include, among other things, provisions for long-service payments made after employment by the company for a specified number of years' service. Provisions e.g. for impending losses and agency commission outstanding that will largely be used next year are recognised as a liability in the other accruals and provisions.

13 Borrowings

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

Borrowings maturities schedule

in EUR '000	Total outstanding amount	Of wich maturity less than 1 year	Of wich maturity 1 to 5 years	Of wich maturity over 5 years	Interest rate spread
31/12/2016					
Real estate loans	56,734	3,582	13,453	39,699	1.4 – 5.8 %
Other loans	11,092	2,319	6,903	1,870	1.1 – 5.3 %
General credit facilities	15,177	15,177	0	0	0.3 – 6.3 %
Borrowings excluding leases	**83,003**	**21,078**	**20,356**	**41,569**	
Finance leases	2,807	1,361	1,326	120	1.3 – 8.7 %
Total	**85,810**	**22,439**	**21,682**	**41,689**	
31/12/2015					
Real estate loans	47,226	3,218	12,092	31,916	1.4 – 5.8 %
Other loans	17,440	8,185	7,078	2,177	1.2 – 7.2 %
General credit facilities	10,789	10,789	0	0	0.6 – 5.0 %
Borrowings excluding leases	**75,455**	**22,192**	**19,170**	**34,093**	
Finance leases	3,563	1,540	1,971	52	1.4 – 8.7 %
Total	**79,018**	**23,732**	**21,141**	**34,145**	

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

in TEUR '000	31/12/2016	31/12/2015
EUR	82,558	76,310
DKK	1,555	1,308
USD	1,634	935
PLN	56	455
HRK	7	10
Total	**85,810**	**79,018**

In the case of the real estate loans, the fixed interest rates in the individual loan agreements expire at various times between 2017 and 2028, with the result that the risk is adequately diversified. The same applies to the other loans, where the fixed interest rates expire between 2017 and 2022. The fair value of the financial debt that was determined by discounting future cash flows is approx. EUR 0.4 million above the carrying amounts.

Security for liabilities to credit institutions

in EUR '000	31/12/2016	31/12/2015
Property, plant and equipment	54,794	47,980
Intangible assets	19	0
Inventories	15,773	13,680
Receivables	4,919	3,997
Other assets	233	0
Total	**75,738**	**65,657**

Pledged interest in companies	Ownership interest
Brink Climate Systems B.V.	100 %
Ubbink UK Ltd.	100 %
Ubbink France S.A.S.	100 %
Ubbink N.V./S.A.	100 %
Centrotherm Systemtechnik GmbH	85 %

Security was furnished on the customary commercial terms for lending.

Finance leases

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

Finance leases

in EUR '000	Total	Of which maturity less than 1 year	Of which maturity 1 to 5 years	Of which maturity more than 5 years
31/12/2016				
Minimum lease payments	2,894	1,399	1,371	124
Of which interest portion	87	38	45	4
Present value	**2,807**	**1,361**	**1,326**	**120**
31/12/2015				
Minimum lease payments	3,735	1,610	2,072	53
Of which interest portion	172	70	101	1
Present value	**3,563**	**1,540**	**1,971**	**52**

14 Other financial liabilities and other liabilities

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

in EUR '000	31/12/2016	31/12/2015
Purchase price liability	420	420
Derivative liabilities	547	550
Miscellaneous financial liabilities	80	94
Other non-current financial liabilities	**1,047**	**1,064**
Miscellaneous liabilities	108	120
Other non-current liabilities	**108**	**120**
Bonus payments to customers	5,045	5,339
Outstanding invoices	3,555	3,644
Credits outstanding	441	508
Interest deferrals	58	83
Miscellaneous financial liabilities	1,264	2,078
Other current financial liabilities	**10,363**	**11,652**
Employee remuneration	6,671	7,493
Vacation and overtime	8,023	6,242
Advances received	5,913	5,190
Taxation and social premiums	4,235	3,799
VAT	1,926	2,249
Partial retirement	2,210	1,820
Miscellaneous liabilities	3,479	3,359
Other current liabilities	**32,457**	**30,152**

The actuarially determined obligations for partial retirement were discounted at 1.59 % and recognised as a liability at their present value. The liabilities, which relate to current partial retirement obligations, were netted against assets from securities amounting to EUR 2,264 thousand (previous year EUR 2,281 thousand). The securities were acquired via a trusteeship in order to fulfil statutory requirements in respect of statutory insolvency insurance for partial retirement obligations entered into. The greater portion of derivative financial instruments is due in the next five years.

15 Additional disclosures on financial instruments

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

Financial assets

in EUR '000	Financial liabilities	At amortised cost	At acquisition cost	At fair value		Total	
		Loans and receivables	Available-for-sale financial instruments	Available-for-sale financial instruments	Derivative financial instruments used for hedging purposes	Carrying amount	Fair Value
Balance sheet item at December 31, 2016							
Loans originated by the enterprise		119				119	119
Financial investments			147			147	147
Securities				868		868	868
Cash and cash equivalents		63,202				63,202	63,202
Trade receivables		57,947				57,947	57,947
Derivative financial instruments					10	10	10
Current financial investments				29,176		29,176	29,176
Miscellaneous financial assets		3,420				3,420	3,420
Total financial assets, December 31, 2016	**0**	**124,688**	**147**	**30,044**	**10**	**154,889**	**154,889**
Borrowings excluding finance leases	83,003					83,003	83,391
Trade payables	31,258					31,258	31,258
Derivative financial instruments					547	547	547
Miscellaneous financial liabilities	10,863					10,863	10,863
Total financial liabilities, December 31, 2016	**125,124**	**0**	**0**	**0**	**547**	**125,671**	**126,059**
Balance sheet item at December 31, 2015							
Loans originated by the enterprise		170				170	170
Financial investments			135			135	135
Securities				470		470	470
Cash and cash equivalents		77,451				77,451	77,451
Trade receivables		53,935				53,935	53,935
Derivative financial instruments					0	0	0
Current financial investments				0		0	0
Miscellaneous financial assets		3,729				3,729	3,729
Total financial assets, December 31, 2015	**0**	**135,285**	**135**	**470**	**0**	**135,890**	**135,890**
Borrowings excluding finance leases	75,455					75,455	75,650
Trade payables	28,763					28,763	28,763
Derivative financial instruments					550	550	550
Miscellaneous financial liabilities	12,166					12,166	12,166
Total financial liabilities, December 31, 2015	**116,384**	**0**	**0**	**0**	**550**	**116,934**	**117,129**

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

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

The carrying amounts of the assets in the category of securities as well as current financial investments correspond to the respective market prices.

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

The categories derivative assets and liabilities in hedge accounting include hedging instruments designated as cash flow hedges, which are recognised at their fair value.

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

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

Net gains or losses from financial instruments by measurement category

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

in EUR '000	Loans and receivables	Financial liabilities measured at amortised cost	Available-for-sale financial instruments	Total
2016	362	(2,220)	0	(1,858)
2015	(179)	(1,809)	0	(1,988)

Derivative financial instruments

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

In EUR '000 Financial derivatives	2016 Contract volume	Total assets	2016 Total liabilities	Total assets	2015 Total liabilities
Interest rate swap	6,523	0	547	0	550
Forward contracts	6,696	10	0	0	0
Total		**10**	**547**	**0**	**550**
of which short-term		*10*	*0*	*0*	*0*

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

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

At December 31, 2016 the fixed interest rates for interest rate swaps varied between 1.39 % and 3.99 % (previous year 1.39 % and 3.99 %). The gains and losses from interest rate hedging instruments recognised within equity (reserve for cash flow hedges) are continually recognised through profit or loss until the bank loans have been repaid (Note 13). Of the forward contracts, USD and GBP are hedged.

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

Cost of purchased materials

in EUR '000	2016	2015
Cost of purchased materials	254,653	246,833
Cost of purchased services	4,789	4,672
Supplier discounts	(1,109)	(1,138)
Total	**258,333**	**250,367**
Change in inventories of finished goods and work in progress	(2,368)	850
Adjusted cost of purchased materials	255,965	251,217

17 Other income

The breakdown of other income is as follows:

in EUR '000	2016	2015
Foreign exchange gains	1,998	3,032
Costs passed on/costs refunded	1,113	1,195
Reversal of provisions	827	1,562
Government grants	434	254
Sales proceeds from the disposal of fixed assets	247	211
Liquidation/reversal of impairment of receivables	270	158
Insurance and other compensation	195	91
Other	5,962	4,342
Total	**11,046**	**10,845**

Government grants

in EUR '000	2016	2015
Personnel-related	154	170
Other	280	84
Total	**434**	**254**

18 Personnel expenses and total employees

Personnel expenses

in EUR '000	2016	2015
Wages and salaries	144,827	135,501
Social insurance	19,087	18,076
Expenses for defined benefit plans	208	53
Expenses for defined contribution plans	10,653	10,602
Share-based payment	0	0
Total	**174,775**	**164,232**

Total employees

	2016 Average	2016 At reporting date	2015 Average	2015 At reporting date
Individuals	3,376	3,435	3,164	3,250
FTE	3,237	3,285	3,048	3,129
of which office staff	1,620	1,661	1,531	1,553
of which industrial workers	1,617	1,624	1,517	1,576

The figures at the reporting date include 149 temporary workers expressed as FTE (previous year 166) as well as 184 temporary workers expressed as individuals (previous year 191). The averages include 186 FTE temporary workers (previous year 145) as well as 220 individuals employed as temporary workers (previous year 165).

19 Other expenses

Other expenses are made up as follows:

Other expenses

in EUR '000	2016	2015
Outward freight	14,885	14,780
Travel expenses and fleet	12,614	12,166
Promotional costs	12,176	10,227
Temporary employees	7,501	5,283
Legal and consultancy costs	5,911	4,685
Maintenance costs	4,810	4,307
Guarantee expenses	4,774	7,059
Energy	4,730	4,546
Sales commissions	4,217	3,373
IT expenses	3,659	3,103
Rent for buildings/other rent	3,357	3,082
Other personnel expenses	3,043	2,605
General running costs	2,436	1,962
Insurance	1,768	1,754
Communication	1,286	1,224
Impairment of receivables	171	514
Bad debt losses	57	143
Other	12,524	12,301
Total	**99,919**	**93,114**

20 Interest income and expense

Interest income and expense is broken down as follows:

in EUR '000	2016	2015
Interest income	121	172
Interest expense on loans	(2,647)	(2,273)
Other interest expense	(1,248)	(883)
Total	**(3,774)**	**(2,984)**
of which Retirement benefit obligations	(873)	(743)

The total interest income and total interest expense for financial assets and financial liabilities that are not measured at fair value through profit or loss amount to EUR (2,453) thousand (previous year EUR (2,021) thousand).

21 Other financial result

EUR 11 thousand from a dividend distribution for an investment is shown under the financial result. The prior-year figure includes EUR 76 thousand in income from the sale of investments as well as EUR (268) thousand in expenditure from the writedown of a loan and EUR 9 thousand from a dividend distribution for an investment.

22 Income tax

Income tax is composed as follows:

in EUR '000	2016	2015
Actual income tax expense for the current financial year	9,704	9,235
Actual income tax expense for previous financial years	126	(95)
Deferred tax for the current financial year	(440)	(1,314)
Deferred tax for prior periods	81	454
Total	**9,471**	**8,280**

Deferred tax income developed as follows:

in EUR ’000	2016	2015
From temporary differences	(892)	(826)
From loss carryforwards	533	(34)
Deferred tax income	**(359)**	**(860)**

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

in EUR ’000	2016	2015
Result before income taxes (EBT)	31,055	28,937
Anticipated tax expense (on basis of respective corporate tax rates)	**9,161**	**8,912**
Anticipated tax rate (in %)	29.5	30.8
Adjustments to anticipated tax expense		
Effects from non-deductible expenses and tax-exempt income	(242)	(987)
Effects from loss carryforwards	(361)	(398)
Adjustments for earlier financial years (actual income tax expense and deferred tax)	409	359
Other tax effects	504	394
Tax expense according to income statement	**9,471**	**8,280**
Effective tax rate (in %)	30.5	28.6

The reported tax expense of EUR 9.5 million (previous year EUR 8.3 million) differs by EUR 0.3 million (previous year EUR 0.6 million) from the anticipated tax expense of EUR 9.2 million (previous year EUR 8.9 million) that is obtained if a weighted anticipated average tax rate is applied to EBT. This average rate was determined on the basis of the respective local corporate tax rates and was 29.5 % in 2016 (previous year 30.8 %). The effective tax rate is 30.5 % (previous year 28.6 %).

23 Non-controlling interests

A share of gains and losses is due to the other shareholders of CENTROTEC, as stated separately under non-controlling interests. The net loss shares amount to EUR (7) thousand at the reporting date (previous year net loss share EUR (138) thousand). These comprise shares of profits amounting to EUR 110 thousand (previous year EUR 66 thousand) and shares of losses amounting to EUR (117) thousand (previous year EUR (204) thousand).

24 Earnings per share

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

Basic earnings per share

	31/12/2016	31/12/2015
Consolidated net income (net loss) of shareholders in EUR ’000	21,591	20,795
Weighted average ordinary shares issued, ’000	17,811	17,667
Basic earnings per share in EUR	**1.21**	**1.18**

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

Diluted earnings per share

	31/12/2016	31/12/2015
Consolidated net income (net loss) of shareholders in EUR ’000	21,591	20,795
Weighted average ordinary shares issued, ’000	17,811	17,667
Assumed exercise of stock options granted (weighted average), ’000	53	95
Weighted average diluted ordinary shares, ’000	17,864	17,762
Diluted earnings per share in EUR	**1.21**	**1.17**

25 Segment report and revenues

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

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

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

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

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

Reconciliation of assets

in EUR ’000	2016	2015
Total assets	471,698	442,791
Loans originated by the enterprise and investments	1,134	775
Income tax receivable as well as deferred tax assets	6,863	8,572
Total (ASSETS):	**479,695**	**452,138**

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

26 Cash flow statement

The Consolidated Cash Flow Statement shows how the group's cash and cash equivalents changed in the course of the financial year under review as a result of cash inflows and outflows. A distinction is made between the cash flow from operating activities on the one hand and the cash flow from investing and financing activities on the other. The cash flow from operating activities is determined according to the indirect method. For this, earnings before interest and taxes are taken and adjusted by non-cash items, changes to working capital (receivables and other assets, inventories and receivables) and all changes that cannot be attributed to investing and financing activities. By contrast, the interest result and the income taxes paid are based on actual cash flows. The financial resources consist almost exclusively of demand deposits and the drawing on current accounts with commercial banks. The financial resources are composed as follows:

Breakdown of financial resources

in EUR '000	31/12/2016	31/12/2015
Cash in hand	32	39
Cash and cash equivalents	63,170	77,412
Bank overdrafts (included in "Short-term financial debt" item)	(15,177)	(10,789)
Total	**48,025**	**66,661**

At the end of the 2016 financial year financial resources amounted to EUR 48,025 thousand, a decrease of EUR 18,636 thousand compared with the previous year. The cash flow from operating activities declined in the course of the year from EUR 48,761 in 2015 to EUR 41,457 thousand mainly as a result of higher net working capital. There was an increase in cash flow from investing activities in 2016 compared with the previous year of EUR (25,375) thousand to EUR (57,481) thousand (previous year EUR (32,106) thousand). This is basically due to the fact that the current financial investments for the first time are not shown in the financial resources, but as an investment measure. The negative cash flow from financing activities declined from EUR (4,171) thousand in the previous year to EUR (2,622) thousand.

Financing streams

in EUR '000	2016	2015
Financial resources raised	18,852	26,304
Financial resources repaid	(17,300)	(27,826)
Change in borrowings	**1,552**	**(1,522)**

Cash inflow from asset disposals

in EUR '000	2016	2015
Net residual carrying amounts	1,817	405
Gain/loss on asset disposals	(94)	20
Proceeds from asset disposals	**1,723**	**425**

Short-term credit facilities to secure constant liquidity have been arranged with several credit institutions that are independent of each other. At the balance sheet date, the available borrowing facilities from current account, guarantee/surety or discount lines and from a free credit facility included amounts to EUR 44.3 million (previous year EUR 46.3 million).

Substantial non-cash transactions result from the change in deferred taxes and exchange rate fluctuations.

K_Other particulars

1_Contingent liabilities and miscellaneous particulars

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

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

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

Operating leases

in EUR '000	Total	Of which maturity less than 1 year	Of which maturity 1 to 5 years	Of which maturity more than 5 years
31/12/2016				
Minimum lease payments	12,647	2,810	8,900	937
Of which interest portion	450	47	288	115
Present values	**12,197**	**2,763**	**8,612**	**822**
31/12/2015				
Minimum lease payments	13,592	3,193	9,287	1,112
Of which interest portion	598	66	345	187
Present values	**12,994**	**3,127**	**8,942**	**925**

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

2_Significant events occurring after the balance sheet date

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

3_Related party disclosures

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

Legal transactions with Management Board members and Supervisory Board members

In the event of work remunerated separately, the Supervisory Board regularly checks that services rendered on an ad hoc basis by Supervisory Board members involve substantially more than that which can normally be expected from a Supervisory Board member within the context of their Supervisory Board duties.

The Chairman of the Supervisory Board (Guido A Krass) holds a participating interest in Pari Holding GmbH, Munich ("PH"). PH might therefore be classified as a "related party", even though the Management Board does not believe that control actually exists between the parties. Other companies of the Pari Group could likewise be classified as "related parties", for example Pari Capital AG. Expenditure of EUR 15 thousand (previous year EUR 18 thousand) arose in the financial year for consultancy services, as well as rental expense of EUR 46 thousand to HARDPARK Fürth GmbH.

Relations between the parent company and the subsidiaries

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

Total remuneration of the Management Board and Supervisory Board

The members of the Management Board received remuneration totalling EUR 1,203 thousand (previous year EUR 1,009 thousand). The remuneration granted totalled EUR 1,178 thousand (previous year EUR 1,112 thousand).

The remuneration of the members of the Management Board, including travel expenses, came to EUR 183 thousand (previous year EUR 200 thousand). As in the previous year, there were no loans or advances to Management Board and Supervisory Board members in the 2016 financial year.

Retired members of the Management Board received benefits totalling EUR 56 thousand in the 2016 financial year (previous year EUR 59 thousand).

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

Directors' holdings

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

		31/12/2016		31/12/2015
Management Board	**Shares (total)**	**Options (total)**	**Shares (total)**	**Options (total)**
Dr. Thomas Kneip	0	0	0	0
Dr. Christoph Traxler	0	32,159	10,000	57,159
Supervisory Board				
Guido A. Krass	2,400,000	0	2,400,000	0
Dr. Bernhard Heiss	77,340	0	77,340	0
Christian C. Pochtler	0	0	0	0
CENTROTEC				
Ordinary shares	17,891,701	0	17,733,240	0
Treasury stock	0	0	0	0

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

Dr. Christoph Traxler,
Fulda, Germany, physicist
Since April 2004 responsible for Medical Technology & Engineering Plastics and, since April 2014, jointly responsible for the Climate Systems segment

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

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

Guido A. Krass	Wolf GmbH, Mainburg, Germany medimondi AG, Fulda, Germany (Chairman)
Dr. Bernhard Heiss	Altium Capital AG, Munich, Germany artnet AG, Berlin (since July 15, 2016) Schoeller Holding SE & Co. KGaA, Pullach (since September 15, 2016) Bauwert AG, Kötzting
Christian C. Pochtler, MA	Denzel AG, Vienna, Austria
Dr Thomas Kneip	Wolf France S.A.S., Massy, France (since June 30, 2016) Wolf Sustainable (Schweiz) AG, Kilchberg, Switzerland (since June 30, 2016) Wolf Energiesparsysteme OOO, Moscow, Russia (since June 30, 2016) Wolf HVAC Systems Co. Ltd., Shanghai, China (since August 16, 2016)
Dr Christoph Traxler	Rolf Schmidt Industriplast A/S, Kolding, Denmark (Chairman)

4_Corporate Governance Code

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

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

5_Independent auditors' fees

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

in EUR '000	2016	2015
Auditing services for the financial statements	429	382
Tax consultancy services	202	103
Other services	34	0
Total expenses	**665**	**485**

6_Date and approval of the financial statements

The financial statements were approved by the Management Board and authorised as a whole for issue on March 20, 2017.

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

Brilon, March 20, 2017

Dr Thomas Kneip

Dr Christoph Traxler

Independent Auditors' Report

We have audited the consolidated financial statements prepared by CENTROTEC Sustainable AG, Brilon – comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of movements in equity, the cash flow statement and the notes as well the group management report – for the financial year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) of German Commercial Code, is the responsibility of the company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and financial performance in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) of German Commercial Code, and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with legal requirements, as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Kassel, March 20, 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Holger Plaum
(German Public Auditor)

ppa. Markus Küfner
(German Public Auditor)

Financial calendar 2017

March 30	Analysts Meeting/Publication of 2016 accounts
May 11	Publication of Q1 2017 Quarterly Report
May 31	Annual General Meeting of Shareholders, Brilon
August 10	Publication of Q2 2017 Quarterly Report
November 14	Publication of Q3 2017 Quarterly Report

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