Dräger

ANNUAL REPORT 2018

Dräger. Technology for Life®

Content

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Technology for Life

COMPANY PROFILE

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

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

The company has more than 14,000 employees worldwide and is currently represented in over 190 countries. Dräger has sales and service subsidiaries in about 50 countries. Its development and production facilities are based in Germany, Chile, China, Czech Republic, India, Norway, South Africa, Sweden, the United Kingdom and the United States.

SELECTED KEY FIGURES DRÄGER GROUP

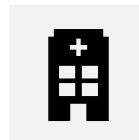
		Twelve months		
		2018	2017	Changes in %
Order intake	**€ million**	**2,686.5**	**2,614.7**	**+2.7**
Net sales	**€ million**	**2,595.0**	**2,572.3**	**+0.9**
Gross profit	**€ million**	**1,108.0**	**1,152.2**	**–3.8**
Gross profit / Net sales	%	42.7	44.8	
EBIT[1]	**€ million**	**62.6**	**155.7**	**–59.8**
EBIT[1] / Net sales	%	2.4	6.1	
Net profit	**€ million**	**34.9**	**98.5**	**–64.6**
Earnings per share on full distribution[2]				
per preferred share	€	1.48	4.18	–64.6
per common share	€	1.42	4.12	–65.5
DVA[3,4]	**€ million**	**–26.5**	**70.7**	**> –100.0**
Cash flow from operating activities	€ million	4.1	143.3	–97.1
Net financial debt[5] / EBITDA[3,6]	Faktor	0.29	–0.12	
Equity ratio[5]	%	44.8	45.4	
Headcount as of December 31		14,399	13,739	+4.8

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

MARKETS

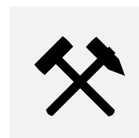
Dräger offers its hospital customers anesthesia workstations, ventilators for intensive and emergency care, patient monitoring solutions as well as neonatal care equipment for premature babies and newborns. With its supply units, operating room IT solutions, gas management systems, technical services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

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

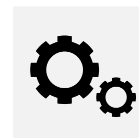

Hospital


Fire services


Oil and gas industry


Mining


Chemical industry


Application-driven markets

DRÄGER WORLDWIDE

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

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

Dear Shareholders, dear Employees, dear Readers,

The global economic upturn appears to have past its peak. The slight acceleration still expected at the start of 2018 failed to materialize. In fact, the economic research institutes have one after the other downgraded their growth forecasts since the second half of 2018 begun. The situation is further complicated by the risks associated with trade conflicts, protectionist trends, and the still uncertain implementation of Brexit. As a result, we find ourselves confronted with a climate of growing uncertainty.

Dräger grew in fiscal year 2018, both nominally and net of currency effects. This proofs that our markets are intact, even if not all regions developed equally as well. Net of currency effects, our order intake increased by over 5 percent. Our net sales rose by nearly 4 percent (net of currency effects), boosted to a decisive extent by another net sales record in the fourth quarter. All told, we were able to meet our growth forecast.

Currency effects once again played an important role last year. The rise in the euro's value, especially against the currencies of various emerging markets, had a more negative impact on earnings than we expected just one year ago.

Our EBIT margin is just at 2.4 percent in fiscal year 2018 – a significant decrease year on year. While we expected to see a fall in earnings due to our investment program for research and development and for specific sales capabilities, the decline was sharper than expected over the course of the year. Both significant negative currency effects and unplanned costs strained earnings, causing us to miss our forecast.

STEFAN DRÄGER

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

»We must return to being more profitable in the years ahead. With this goal in mind, it is of the essence that we work even harder on our competitiveness, especially in the medical business. That is why the steps we plan to take include adapting our organization and allocating responsibility more clearly to ensure that our customers' interests are also better represented at headquarters.«

The result is unsatisfactory in many ways. Higher expenses for quality assurance and logistics became necessary at short notice to continue serving our customers as expected. Since quality affects the core of our brand, there can be no compromises. On-time delivery is another promise that we have to keep throughout our logistics chain, including the service providers we engage. We failed to live up to this promise at the start of the year and were also forced to pay extensive additional costs. Due to our earnings performance, Dräger Value Added stood at roughly EUR –25 million in 2018. In other words, we did not create any value – quite the opposite.

We must return to being more profitable in the years ahead. With this goal in mind, it is of the essence that we work even harder on our competitiveness, especially in the medical business. More innovation and speed are imperative here. That is why the steps we plan to take include adapting our organization and allocating responsibility more clearly to ensure that our customers' interests are also better represented at headquarters.

I would specifically like to thank our employees. Thanks to their dedication we saw good growth in 2018 and were able to cope with the record volumes in Production in the fourth quarter once again, setting a new net sales record. We continue to encourage our employees to participate in the success of the company and facilitate the purchase of Dräger shares. This offer continues to be met with keen interest. Employee development and loyalty play an important role at Dräger. Through our new HR strategy, we aim to increase performance, improve our ability to change, and secure expertise and capacities that will make our company even more fit for the future in a labor market that is set to become even more competitive.

So what is next for us in the short to medium term? Against the backdrop of increasing macroeconomic risks, we anticipate a decline in growth momentum. For 2019, we expect net sales growth of 1 to 4 percent (net of currency effects). Our order intake in the fourth quarter and the record number of orders on hand are providing us with a certain amount of tailwind. We expect an EBIT margin of between 1 and 3 percent. Our investment program is not over yet and will be continued in 2019. The measures introduced to assure quality and logistics performance will also continue to drive expenses in the current year.

To our shareholders, we propose distributing 10 percent of the earnings eligible for distribution in fiscal year 2018, as in the prior year. We need to continue working to strengthen Dräger's future sustainability and competitiveness in 2019. As part of this, we will continue implementing the investment program we launched last year, the main focus of which remains medium-term growth.

For 130 years, the future has been every bit as important to us as the present. We think in terms of generations, not quarters. At the present time, investing in our innovative strength and in sales is the right step for strengthening our prospects for the future, and it is an important one as well. In exchange, we are willing to accept lower profitability in the short term. Addressing the challenges of tomorrow today is part of our corporate responsibility – to ensure the world remains a place worth living in for future generations.

Stefan Dräger

Best regards, Stefan Dräger

Executive Board

Forward-looking, responsible leadership has been fundamental to Dräger's corporate culture for 130 years. Stefan Dräger and his Executive Board team are dedicated to realizing a sustainable increase in corporate value, pursuing that objective with openness, passion and high standards.

STEFAN DRÄGER
Chairman of the Executive Board

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

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

DR. REINER PISKE
Executive Board member for Human Resources
Regional responsibility for Europe and Africa, Asia, and Australia
(since January 1, 2019)

ANTON SCHROFNER
Executive Board member for Innovation
Regional responsibility for Africa, Asia, and Australia
(until January 1, 2019)

GERT-HARTWIG LESCOW

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

»We only partially achieved our financial goals in fiscal year 2018. Our earnings before interest and taxes, as well as our Dräger Value Added, dropped sharper than originally expected. Through our higher expenditures on research, development, and sales, we are investing in safeguarding Dräger's future.«

RAINER KLUG

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

»The Americas segment reported excellent order intake growth. South America in particular was strong. In terms of net sales, development in North America was subdued. We aim to do a better job of seizing the region's opportunities for growth through targeted investments.«

DR. REINER PISKE

Dr. Reiner Piske is responsible for Human Resources, the Europe region and, as of January 1, 2019 the Africa, Asia and Australia regions. He has been with Dräger since 2015, and his term runs until the end of October 2023.

»In the Europe segment, the positive development of net sales continued in 2018, with very solid growth in Germany. In Europe, we achieved good growth with safety products in particular, whereas growth in medical products (net of currency effects) was less impressive.«

ANTON SCHROFNER

Anton Schrofner is responsible for Innovation and, until January 1, 2019, the Africa, Asia and Australia regions. He has been with the Company since 2010, and his term runs until the end of August 2023.

»The Africa, Asia, and Australia segment reported excellent growth, both in order intake and in net sales (net of currency effects). Safety products were in particularly high demand. The growth was widespread overall, with China making another positive contribution.«

Report of the Supervisory Board

The Supervisory Board continued its trusting working relationship with the Executive Board in fiscal year 2018, dealing in detail with the Company's economic situation and prospects. The Supervisory Board was promptly and directly involved in all decisions.

Dear Shareholders,

Your Company developed unsatisfactorily overall in fiscal year 2018 from the perspective of the Supervisory Board, only partly meeting the forecasts made at the start of the fiscal year. The continued solid growth of the global economy supported net sales development. The Company was able to increase net sales by around 4 % net of currency effects, which was within the original forecast. The earnings forecast had to be decreased over the course of the year due to stronger, more negative currency effects and unscheduled expenditures in order to ensure quality and for logistics purposes. The EBIT margin fell significantly in fiscal year 2018. Dräger Value Added was negative.

The Executive Board has set a currency-adjusted net sales growth target of between 1.0 and 4.0 % for fiscal year 2019. The increased volume of orders provides a sound starting point, despite increasing macroeconomic risks. The Executive Board will also increase investment in Dräger's future potential in 2019, particularly in the areas of research and development and sales. Increased expenses for quality assurance and logistics will also become necessary in 2019. This is likely to cause profitability to be low in 2019, as it has been this year. Overall, the Executive Board expects an earnings before taxes and interest margin of between 1.0 and 3.0 % in relation to net sales. The Supervisory Board believes the expectations of the Executive Board regarding net sales and earnings growth are realistic.

In fiscal year 2018, the Supervisory Board carefully and regularly monitored the work of the Executive Board of the general partner in accordance with the law and the articles of association, and provided advice on the strategic development of the Company as well as all major measures. The Supervisory Board was involved in all decisions of importance to the Company. The extensive written and oral reports by the Executive Board formed the basis for these decisions. The Chairman of the Supervisory Board was also regularly informed about current business developments and major transactions by the Chairman of the Executive Board and by individual members of the Executive Board outside of the Supervisory Board meetings.

MEETINGS

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

FOCAL POINTS OF THE SUPERVISORY BOARD DELIBERATIONS

In the past fiscal year, discussions focused on segment reporting in the regional structure, the development of the product portfolio, and the Company's long-term strategic targets, as well as earnings trends and cost development. Carrying out an employee share program once again was also discussed. In its meeting on September 19, 2018, the Supervisory Board determined the approach to the audit of the non-financial statement (sustainability report), which the Company prepares and publishes pursuant to Secs. 289b et seq. German Commercial Code (HGB).

The plan for fiscal year 2019 was presented to the Supervisory Board in a meeting held on December 12, 2018, and approved by the Joint Committee, which is responsible for resolutions concerning transactions requiring approval. Discussions at this meeting were focused on the develop-

STEFAN LAUER

Chairman of the Supervisory Board
of Drägerwerk AG & Co. KGaA
(since May 4, 2018)

»From the perspective of the Supervisory Board, Dräger developed unsatisfactorily in fiscal year 2018 and only partly met the forecasts made at the start of the fiscal year. The Supervisory Board considers the expectations of the Executive Board regarding net sales and earnings growth in fiscal year 2019 to be realistic.«

ment of the relevant markets as well as considerations pertaining to measures, including structural changes, aimed at safeguarding and improving the planned earnings situation. The Supervisory Board also discussed the results of the tender process for selecting the future auditor.

In its meeting on December 12, 2018, the Supervisory Board also covered the German Corporate Governance Code in the version dated February 7, 2017. The Company fully complies with the recommendations of the German Corporate Governance Code. The declaration of conformity from the Supervisory Board and Executive Board pursuant to Sec. 161 German Stock Corporation Act (AktG) is permanently available on the Company website and in the corporate governance report.

ACTIVITIES OF THE AUDIT COMMITTEE

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

At its meetings, the Audit Committee reviewed the single entity and Group financial statements, the quarterly results, the half-yearly report, the audit of the non-financial statement (sustainability report), and the profit appropriation proposal. In addition, the Committee audited and assessed the financial reporting process and the risk reporting system, as well as the audit activities of the Internal Audit department and the auditors. The organization of Compliance and its activities, the risk management system, and the execution of the tender process for the annual audits from fiscal year 2019 onwards were also discussed at the meetings. Following in-depth deliberations that examined the monitoring of the auditor's independence, qualifications, and additional services provided by the auditor, as well as the calculation of its fee, the Audit Committee recommended PricewaterhouseCoopers GmbH as the auditor to the annual shareholders' meeting. The auditors did not participate in these deliberations. The Supervisory Board agreed with the recommendation. The Chairman of the Audit Committee also informed the plenary Supervisory Board of the results of its deliberations.

In January and February 2019, the Internal Audit department and Legal department audited the sustainability report on behalf of the Audit Committee. The Audit Committee relied on this internal audit report in its audit of, and for its approval of, the sustainability report. According to that audit, there are no indications of failure to comply with the law, and / or that legally required content is missing.

ACTIVITIES OF THE NOMINATION COMMITTEE

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

CORPORATE GOVERNANCE AND EFFICIENCY AUDIT

The Supervisory Board regularly deals with the application and enhancement of corporate governance principles within the Dräger Group. The declaration of conformity has been reproduced on page 59 of this annual report. The Supervisory Board evaluates its activities and conducts an internal efficiency audit at regular intervals.

SINGLE ENTITY AND GROUP FINANCIAL STATEMENTS

The Supervisory Board commissioned the statutory auditor elected by the annual shareholders' meeting, Frankfurt-based PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, to audit the single entity and Group financial statements for fiscal year 2018. Subject of the audit were the single entity financial statements of Drägerwerk AG & Co. KGaA, prepared in accordance with the German Commercial Code (HGB), as well as the Group financial statements, prepared in accordance with the International Financial Reporting Standards (IFRS), and the combined management report of Drägerwerk AG & Co. KGaA and the Dräger Group. The auditor examined the single entity financial statements of Drägerwerk AG & Co. KGaA, prepared in accordance with the provisions of the German Commercial Code, the Group financial statements, prepared in accordance with IFRS, as well as the combined management report of both Drägerwerk AG & Co. KGaA and the Group, and issued an unqualified audit opinion. The auditor confirmed that the Group financial statements are prepared in accordance with IFRS and the combined management report is conform to IFRS as adopted by the EU.

The members of the Supervisory Board carefully examined the single entity and Group financial statements, the combined management report, as well as the audit reports. Representatives of the statutory auditor attended the Audit Committee's meeting on February 26, 2019, during which Dräger's single entity and group financial statements were deliberated on, as well as the Supervisory Board's meeting on February 27, 2019, to discuss the financial statements. These representatives reported on the performance of the audit and were available to provide additional information. At these meetings, the Executive Board explained the single entity financial statements of Drägerwerk AG & Co. KGaA and the Group financial statements, along with the risk management system. On the basis of the audit reports on the single entity and Group financial statements and the combined management report, the Audit Committee came to the conclusion that both sets of financial statements with their respective management reports give a true and fair view of the net assets, financial position, and results of operations in accordance with the applicable financial reporting framework. To do so, the Audit Committee deliberated on material asset and liability items and their valuation, as well as the presentation of the earnings position and the development of certain key figures. The Chairman of the Audit Committee reported on the discussions to the Supervisory Board. Further questions by members of the Supervisory Board led to a more detailed discussion of the results. The Supervisory Board was convinced that the dividend proposed by the general partner was in line with Dräger's dividend policy and was appropriate considering the net assets, financial position, and results of operations, and approved it. The liquidity of the Company and the interests of the shareholders were taken into account in equal measure. There were no reservations concerning the economic efficiency of the Executive Board's actions.

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

CHANGES IN THE EXECUTIVE BOARD

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

CHANGES IN THE SUPERVISORY BOARD

Following the conclusion of the five-year term of the previous Supervisory Board, the annual shareholders' meeting of Drägerwerk AG & Co. KGaA on May 4, 2018, elected or re-elected Maria Dietz, Prof. Dr. Thorsten Grenz, Astrid Hamker, Stefan Lauer, Uwe Lüders, and Dr. Reinhard Zinkann to the Supervisory Board in accordance with the recommendations of the Nomination Committee.

Nike Benten, Daniel Friedrich, Siegfrid Kasang, Stephan Kruse, Thomas Rickers, and Bettina van Almsick were appointed or re-appointed as employee representatives on March 14, 2018, in accordance with the German Co-determination Act.

In the constituent meeting of the newly elected Supervisory Board on May 4, 2018, Stefan Lauer was elected Chairman of the Supervisory Board, with Siegfrid Kasang being elected Vice-Chairman of the Supervisory Board. Stefan Lauer is following in the footsteps of Prof. Dr. Nikolaus Schweickart. The Executive Board and Supervisory Board would like to thank Prof. Dr. Nikolaus Schweickart for his many years of loyal service as Chairman of the Supervisory Board. They would also like to thank the other members of the Supervisory Board who have now stepped down for their active cooperation and support in steering the company's development. The six newly appointed shareholders' representatives also constitute the Supervisory Board of the general partner, Drägerwerk Verwaltungs AG, chaired by Stefan Lauer. Due to the rules of procedure of the Supervisory Board, Stefan Lauer also became a member of the Audit Committee as well as member and Chairman of the Nomination Committee by accepting his role as Chairman of the Supervisory Board. Prof. Dr. Thorsten Grenz, Daniel Friedrich, Siegfrid Kasang, and Uwe Lüders were again elected to the Audit Committee, with Prof. Dr. Thorsten Grenz as Chairman. Furthermore, Uwe Lüders and Dr. Reinhard Zinkann were elected or re-elected to the Nomination Committee.

CONFLICTS OF INTEREST

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

The Supervisory Board would like to recognize the Executive Board for its performance and dedicated service in the year under review. Furthermore, it thanks management and all employees, including employee representatives, for their hard work in fiscal year 2018.

Lübeck, February 27, 2019

Stefan Lauer
Chairman of the Supervisory Board

Report of the Joint Committee

Dear Shareholders,

The Company has a Joint Committee as an additional voluntary body that comprises four members of the Supervisory Board of the general partner, as well as two shareholder and two employee representatives from the Supervisory Board of Drägerwerk AG & Co. KGaA.

With regard to the legal form of the Company as a partnership limited by shares, this Committee is responsible for transactions requiring approval (pursuant to Sec. 111 (4) Sentence 2 AktG). The Chairman of the Supervisory Board, Stefan Lauer, is the Chairman of the Joint Committee. The Joint Committee held four regular meetings in the reporting year, dealing in detail with the business and strategic development of the Dräger Group. The Joint Committee decided on transactions requiring approval after careful consideration of the documents provided by the Executive Board. It approved all transactions.

Lübeck, February 27, 2019

Stefan Lauer
Chairman of the Joint Committee

The Dräger shares

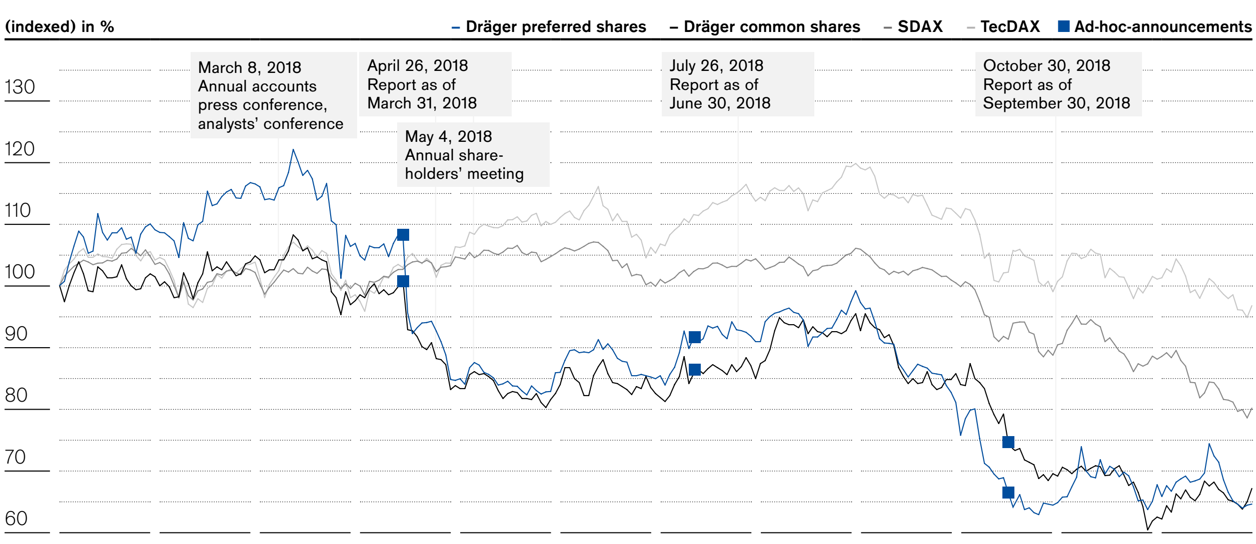
The decline in business results is reflected in a fall in Dräger share prices: The Dräger common shares fell by a total of 33 % in a weak trading year in 2018, whereas the Dräger preferred shares were down by 36 % over the course of the year. Both Dräger shares failed to match the performance of the German SDAX and TecDAX indices, which were also down in 2018.

Development of the Dräger shares

Dräger shares began 2018 in positive shape. They went on to reach their highest points of the year on March 12. The preferred share increased in value by roughly 22 % up to that point, while the common share was up by approximately 8 %. Prices then fell significantly in subsequent weeks, in part due to the disappointing business results in the first quarter of the year. After somewhat of a recovery in July and August, the negative price trend then continued from early September. The Dräger common shares ended the year at a price of EUR 41.20, and Dräger preferred shares at a price of EUR 46.58. This corresponds to performance of –32.6 % respectively –35.6 % over the course of the year. The stock market as a whole performed poorly in 2018 as well. The SDAX ended the year at 9,509 points, which corresponds to a performance of –20.0 % for the year. The TecDAX performed a little better by comparison but ultimately still ended the year down. It closed the year at 2,450 points, which corresponds to a performance of –3.1 % for the year.

In 2018, Deutsche Börse restructured the DAX, MDAX, SDAX, and TecDAX index composition. Previously, the Dräger preferred share appeared in the TecDax, but now the Dräger preferred share appears both in the TecDax and the SDAX.

SHARE PRICE DEVELOPMENTS 2018

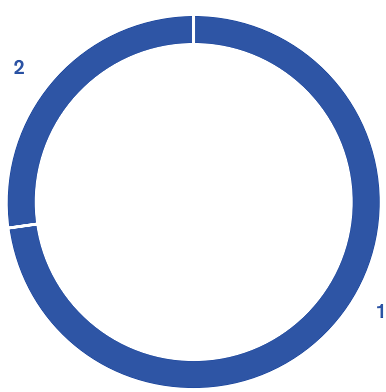


DEVELOPMENT OF THE DRÄGER SHARES AND KEY INDICES AS OF DECEMBER 31, 2018

in %, p. a.	1 year	3 years	5 years	10 years
Dräger common shares[1]	–33	–12	–12	–
Dräger preferred shares	–36	–12	–13	6
SDAX	–20	2	7	13
TecDAX	–3	10	16	17

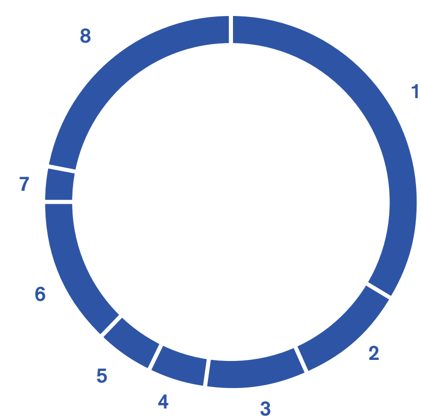
[1] Dräger common shares have been listed on the stock market since 2010.

OWNERSHIP OF COMMON SHARES



in %			
1. Dräger family	71.38	2. Free float	28.62

SHAREHOLDER STRUCTURE[1]



in %			
1. USA	34	5. Norway	5
2. Germany	10	6. Rest of Europe	13
3. Great Britain	9	7. Rest of the world	3
4. France	5	8. Private investors and unspecified investors	22

[1] Preferred shares and common shares not including shares owned by the Dräger family; as of January 2018

The market capitalization of the roughly 17.8 million Dräger shares came to EUR 773 million as of December 31, 2018, down from EUR 1,170 million at the end of 2017.

Shareholder structure

The capital stock is divided into common and preferred shares. According to the definition of Deutsche Börse AG, 71.38 % of common shares are held by the Dräger family: 67.19 % of the common shares are held by Dr. Heinrich Dräger GmbH. In addition, members of the Dräger family hold a further 4.19 % of the common shares. A total of 28.62 % of the common shares are in free float. Of the preferred shares, which do not confer voting rights, 100 % are in free float. The Dräger preferred shares are included in the SDAX and TecDAX share indices of Deutsche Börse AG.

An analysis of the shareholder structure (common and preferred shares) conducted in the first quarter of 2018, which excluded the Dräger family's shares, showed that institutional investors from Europe accounted for 41 % of capital stock in free float at that point in time, while institutional investors from the U.S. accounted for 34 %. Investors from Germany represented the largest portion of European shareholders, at 10 %. They are followed by the United Kingdom, with 9 % and France and Norway with 5 % each. The proportion attributable to private investors and other unidentified investors was around 22 % of capital stock.

DRÄGER SHARES INDICATORS

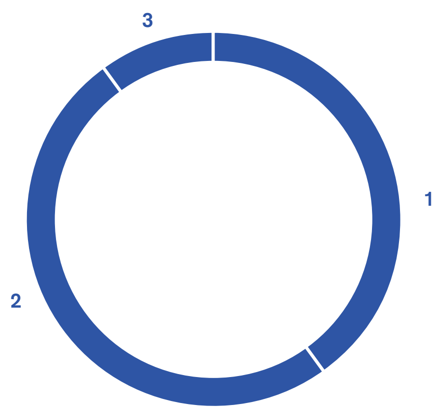
	2018	2017	2016
Common shares			
No. of shares as of the reporting date	10,160,000	10,160,000	10,160,000
High (in €)	66.50	81.21	66.29
Low (in €)	37.00	58.30	45.04
Share price on the reporting date (in €)	41.20	61.09	65.11
Annual share price development	– 32.6 %	– 6.2 %	7.4 %
Average daily trading volume [1]	3,308	5,083	4,192
Dividend per share (in €)	0.13 [2]	0.40	0.13
Dividend yield	0.3 %	0.7 %	0.2 %
Earnings per common share on full distribution (in €) [3]	1.42	4.12	3.40
Preferred shares			
No. of shares as of the reporting date	7,600,000	7,600,000	7,600,000
High (in €)	88.25	106.60	80.63
Low (in €)	45.32	69.89	52.26
Share price on the reporting date (in €)	46.58	72.30	79.49
Annual share price development	– 35.6 %	– 9.0 %	15.9 %
Average daily trading volume [1]	40,332	34,335	26,742
Dividend per share (in €)	0.19 [2]	0.46	0.19
Dividend yield	0.4 %	0.6 %	0.2 %
Earnings per preferred share on full distribution (in €) [3]	1.48	4.18	3.46
Total distribution (in € thousand)	4,346 [2]	11,387	4,346
Distribution rate	12.6 % [2]	11.6 %	5.3 %
Market capitalization (in € thousand)	772,600	1,170,154	1,265,642

[1] All German stock exchanges (source: designated sponsors)
[2] Pending approval by the annual shareholders' meeting
[3] Based on an imputed actual full distribution of earnings attributable to shareholders. Please refer to number 19 in the notes.

DRÄGER SHARES – BASIC FIGURES

	Common shares	Preferred shares
International Securities Identification Number (ISIN)	555060 / DE0005550602	555063 / DE0005550636
Ticker symbol / Reuters / Bloomberg	DRW / DRWG.DE / DRW8	DRW3 / DRWG_p.DE / DRW3
Main stock exchange	Frankfurt / Xetra	Frankfurt / Xetra
Market segment	Prime Standard	Prime Standard
Index	–	TecDAX, SDAX
Initial listing	2010	1979

ANALYST RECOMMENDATIONS[1]



1. Hold	4	3. Buy	1
2. Sell	5		

[1] At the end of 2018

Analyst Coverage

At the end of 2018, analysts from 10 institutions (2017: 12) assessed Dräger's business performance: Bankhaus Metzler, Deutsche Bank, EQUI.TS, Hauck & Aufhäuser, HSBC, Independent Research, Kepler Cheuvreux, LBBW, M.M. Warburg & Co. and Nord / LB.

www.draeger.com/en_corp/Investor-Relations/Share
Please refer to chart ›Analyst recommendations‹

Dividend policy and proposal

The Executive Board of the general partner and the Supervisory Board will propose a dividend of EUR 0.19 per preferred share and EUR 0.13 per common share to the annual shareholders' meeting on May 10, 2019. As a result, the proposed distribution rate is 12.6 % (2017: 11.6 %). This corresponds to the dividend policy introduced last year, whereby at least 10 % of the earnings is distributed.

Please refer to number 46 in the Notes.

Sustainability reporting and rating

Some 14 % of shares in free float are held by sustainable investors. Dräger also publishes a separate sustainability report for the 2018 fiscal year which complies with the GRI standards in the ›Core‹ option. Dräger was also audited by renowned sustainability ratings agencies last year. ISS-oekom awarded us with the ›Prime‹ label in its biennial corporate rating and also classified us as an ›industry leader.‹ In the EcoVadis CSR Assessment, Dräger was awarded with ›silver‹ status among the best 10 % of the industry.

02

COMBINED MANAGEMENT REPORT

Principles of the Group

Group structure

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

Please refer to Note 45

Dräger is represented in over 190 countries on all continents and maintains its own sales and service companies in some 50 countries. Dräger operates development and production sites in Germany (Lübeck, Hagen, Hamburg), Chile (Santiago de Chile), China (Beijing, Shanghai), the United Kingdom (Blyth, Plymouth), India (Vasai), Norway (Oslo), Sweden (Svenljunga), South Africa (King William's Town), Czech Republic (Klášterec) and the U.S. (Andover, Telford).

Management, planning, and reporting

ORGANIZATION AND MANAGEMENT SYSTEM

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

Global functions such as Research & Development, Production, Finance, IT, Human Resources as well as Legal and Compliance are located at the Group headquarters in Lübeck and partially at other international locations. Production and development are managed globally from headquarters. The other global functions in Lübeck provide services to the national companies, set group standards, and are responsible for strategic management. The countries themselves are solely responsible for operational business. In each country with Dräger subsidiaries, the respective Managing Directors have full decision-making authority. They make all local decisions on the basis of the corporate standards and strategy and report directly or indirectly to the regional Executive Board member.

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

↗ Please refer to chart ›Executive Board responsibilities‹ on page 20

VALUE-DRIVEN MANAGEMENT

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

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

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

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

DVA is the difference between EBIT over the preceding twelve months and calculated capital costs. Capital costs are equal to the average capital employed over the previous twelve months based on the average cost of equity and debt

EXECUTIVE BOARD RESPONSIBILITIES

Stefan Dräger Chairman of the Executive Board	**Gert-Hartwig Lescow** Vice-Chairman of the Executive Board	**Rainer Klug**	**Dr. Reiner Piske**	**Anton Schrofner**

Regional responsibilities

		Americas	Europe	Africa, Asia und Australia[1]

Functional responsibilities

Corporate Auditing Corporate Communications Corporate Strategy and Business Development Legal, Compliance and Data Protection Real Estate	Accounting Controlling Customs and Export Control Insurances Investor Relations IT Risk Management Taxes Treasury	Logistics Manufacturing Purchasing Quality	Human Resources	Intellectual Property Research and Development Segment- and Product-management

[1] Anton Schrofner until January 1, 2019; the responsibility of Dr. Reiner Piske since January 1, 2019

before taxes. The weighted average cost of capital (WACC) for fiscal year 2018 was 7.0 %.

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

Besides DVA and DWC, we also use net sales and the EBIT margin as key management indicators. Accordingly, our corporate management control is based solely on financial performance indicators.

If not already defined in footnotes in this report, details on the definition of specific key figures can also be found at:

www.draeger.com/en_corp/Investor-Relations/Publications

FINANCIAL FORECAST

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

Important changes in the fiscal year
After strengthening country organizations in fiscal year 2016, Dräger is now planning to strengthen customer focus at headquarters. To this aim, performance responsibility is being organized in business units which are ordered to Medical and Safety divisions. This will be the basis for future corporate management. The organizational changes will be developed throughout the course of the year and implemented for fiscal year 2020.

Strategy and goals

We have been devoted to developing and producing ›Technology for Life‹ for 130 years now – it is a vital part of our corporate identity. Our products protect, support, and save lives. These are our foundations, which we will continue to build on in the future. In order to maintain and further strengthen our outstanding market position, in the future we will continue to do everything we can to optimally align the interests of our customers, suppliers, employees, shareholders, banks, and those in our direct vicinity.

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

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

CORPORATE ASPIRATIONS

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

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

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

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

MEDIUM-TERM COMPANY GOALS

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

Net sales growth and balanced regional distribution
Our two markets, medical and safety technology, are global growth markets. As a result, we expect these markets to contribute to growth across all regions. We intend to generate stronger growth in the American and Asian markets than in our core market of Europe.

Innovation leadership
Leading technological solutions are the basis for generating a premium price from customers and boosting the profitability of our company. We drive innovation on multiple levels to meet this requirement. We will consistently increase the share of net sales generated with new products by shortening innovation cycles and time to market. Intelligent and networked products serve as a basis for new, digital business models that we develop together with and for our customers.

System business and differentiated sales channels
We respond to dynamic technological developments in the market and systematically expand our range of services and system business lines, including software-based solutions. For our markets, we develop differentiated sales channels and make systematic investments in the digital skills of our sales employees.

We have again set quantitative targets for several of the goals named for fiscal year 2019. Please see the ›Outlook‹ section on page 54 of this combined management report for more details and a more precise forecast.

STRATEGIC GOALS IN OUR MARKETS

STRATEGIC GOALS IN MEDICAL TECHNOLOGY MARKETS

As a specialist in acute point of care, we are focusing on improving acute care in the operating room, in ICUs, in care for premature babies, and in emergency care in hospitals. In addition, we are developing technologies and services to help improve treatment. In the future, this will lead to therapy automation and hospital automation through therapeutic assistance systems.

We pursue four primary goals with our portfolio of products and services:

– improving clinical treatment results
– optimizing treatment costs
– promoting patient well-being, and
– increasing the satisfaction of clinical staff

We focus on the following strategic issues in order to achieve these goals:

Protective therapeutic processes
Holistic solutions, such as patient-customized therapies in the area of anesthesia and ventilation, help our customers achieve targeted clinical outcomes.

Networking system
By connecting different systems at acute care workstations, relevant data can be synchronized, recorded, processed, and applied directly on-site to serve as an optimum decision-making aid. Dräger uses a standardized, non-proprietary communication protocol (IEEE11073-SDC) to ensure that its customers can enjoy the full benefits of this technology.

Care-centered workstations
We aim to reduce the burden for patients and hospital staff across the board. As an example of this, we develop solutions that minimize the number of alarms at a patient's bed and therefore reduce overall noise and stress levels for patients and care personnel alike. Our hygienic measures for simple and safe equipment cleaning help to reduce the number of germs and lower the risk of infection in hospitals.

Wide range of services
Our extensive range of services ensures our customers have optimal access to their medical products. Networked medical technology enables the development of new data-based services and digital business models in the future, which will help our customers achieve their clinical and operating targets, create transparency, and manage their resources optimally.

STRATEGIC GOALS IN SAFETY TECHNOLOGY MARKETS

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

In our target markets and industries of

– oil & gas
– chemical industry
– mining, and
– fire services

we position ourselves as a partner for integrated system solutions.

We offer our diverse range of industrial and public sector customers in all sectors solutions based on selected safety technology applications.

We focus on the following strategic issues in order to develop our position in the safety technology market:

Internationalization of shutdown and rental

Based on our strong market presence in Europe, we will systematically transfer our successful shutdown and rental management business model to the Asian and American markets. It is centered on ensuring occupational health and safety and averting risk in relation to plant shutdowns or inspections.

Overall safety management

Holistic safety and emergency management systems are becoming increasingly important to our customers if they want to enjoy long-term success on the market. We help customers to reduce process risk and be optimally prepared for emergencies. We are systematically expanding our consulting and planning services.

Data-supported services

Increasing digitalization and networking of operating procedures and technical devices opens up a wide range of new opportunities for us to develop new data-based services, such as in the areas of remote services or asset management. This allows our customers to boost the efficiency of their maintenance procedures and optimize the use of their facilities.

Digital sales channels

The addition of digital channels to our sales network is our response to new technological developments. Digital tools allow us to provide even better support to our customers and sales partners along the many touchpoints in the sales process.

Global key account management

Many of our customers operate all over the world, which is why we must direct our activities globally. We have international key account management structures in place to maintain customer intimacy, particularly in our two core strategic markets: oil and gas and the chemical industry.

Research and development

Dräger attaches a great deal of importance to its research and development (R&D) activities. In fiscal year 2018, research and development costs rose year-on-year by EUR 17.5 million to EUR 252.2 million (2017: EUR 234.7 million), which equates to 9.7 % of net sales (2017: 9.1 %).

RESEARCH AND DEVELOPMENT

R&D costs in € million	2014	2015	2016	2017	2018
Dräger Group	212.0	231.1	219.0	234.7	252.2
in % of net sales	8.7	8.9	8.7	9.1	9.7
Headcount	1,406	1,416	1,295	1,377	1,417

As of December 31, 2018, 1,417 employees worked in our development departments worldwide (December 31, 2017: 1,377). Over the course of the fiscal year, patent and trademark offices around the world issued 217 new patents to Dräger (2017: 223). We applied for another 74 patents at international patent and trademark offices (2017: 76). During the reporting year, our technology development experts analyzed 118 new technologies in 23 technological fields and evaluated their relevance to Dräger. In a number of projects these new technologies laid the foundations for future product innovations.

MEDICAL TECHNOLOGY PRODUCTS

We developed numerous new products and improved existing ones, including 13 new devices and device enhancements (2017: 17) as well as 3 new accessory products (2017: 5). Dräger's main focus in 2018 was on the development of new systems and therapy device components and products.

With the ›IACS VG7‹ software version, for instance, we have expanded the functionality of the IACS system and thus strengthened the position of the ›Infinity Acute Care‹ monitoring system in the intensive care and operating room environments. New features in the software include additional invasive pressure channels, configurable designations of catheter locations, enhanced invasive pressure measurement alarm management, independent and customizable surgical display support, and the ability to calculate pulse / pressure variations. Configurable temperature displays, device connectivity enabling ›dual SpO2‹ monitoring, and connection of the ›Scio‹ breathing gas module through the ›M500‹ round out the additional functions. The ›IACS VG7‹ also supports a new Cockpit platform capable of optimizing monitoring and data processing at the bedside. Overall, the new features have resulted in a further improvement in ergonomics, enabling ease of use and efficient workflows.

We launched the new ›Mobile Patient Watch‹ IT product after a development period of just under two years. This software makes data on the Infinity network (patient monitoring and anesthesia / ventilator data) available on smartphones or through a browser on a PC. This allows senior anesthetists and physicians to keep track of their colleagues virtually. This, coupled with existing Infinity products, increases the value of the system and boosts the appeal of the portfolio. ›Mobile Patient Watch‹ is also the first step in a brand-new type of customer relationship in the form of licensing (subscription). We can also transfer this new business model over to other medical technology products.

We have also added a number of new functions to our ›Vista 120‹. This monitor for clinical workstations strengthens our market position in emerging markets. Key new functions include: BISx (measuring the effects of sedation on the brain), additional channel for invasive blood pressure, storage and retrospective display of real-time curves for 96 hours, PPV (pulse pressure variation) calculations, connectivity with other Dräger devices via our Medibus.X interface and increased data security. With these new functions we have significantly extended the product's area of application up to and including highly acute environments.

The new 1.20 version of our software for the Electrical Impedance Tomograph ›PulmoVista 500,‹ which introduced some significant improvements to the device, has been available since last year. The new ›Diagnostic View‹ not only makes it possible to observe the ventilation of individual areas in the lungs during the ventilation process, it now also enables the analysis and subsequent documentation of the lungs' condition. In other words, the new software can be used to customize ventilation for each patient and therefore optimize the ventilation process.

Patients count on a reliable and constant supply of medical gases such as oxygen or compressed air, and this is where the ›Dräger Gas Management System (GMS)‹ comes in. Last year we expanded the corresponding alarm system by adding the ›Analog Input Module (AIM),‹ which is a new module for the integration of sensors. Up to six sensors can be added, such as for pressure and temperature, as well as for monitoring the central gas supply with Dräger gas sensors. These sensors continuously gather data and send them to the system. The resulting pool of data improves the monitoring process. The alarm system therefore not only serves as a safeguard in an emergency, but also supports normal operations, contributing to the optimization of workflows.

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

SAFETY TECHNOLOGY PRODUCTS

In 2018 we launched 17 (2017: 12) new safety technology products, most of which are for gas detection. All in all we have achieved some significant progress when it comes to connectivity and system functionality.

A significant improvement has been made to our ›Drug-Check 3000‹ rapid drug test, for example, which is now able to detect benzodiazepines and therefore a wide range of prescription medicines such as Rohypnol and Valium. We have also made it simpler to use and reduced the duration of the test significantly. This means that our rapid drug test is now significantly more flexible and versatile, particularly for the police, law-enforcement authorities and – in certain industry segments – for conducting checks in the workplace.

Last year we also redesigned and improved our ›Dräger PAC‹ single-gas detection devices, extending their operating lives in the process. The devices can now also be used at an even greater range of temperatures. Another improvement concerns the display: The larger size provides the user with more information at a glance. Furthermore, a new light indicator clearly signals the devices' operational readiness. Additional sensors, including dual sensors, also increase the range of applications for the devices, opening up new opportunities for us in additional markets.

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

In the fourth quarter we launched the ›X-pid 9000 / 9500‹ in the market. The mobile detection instrument, which was developed by our Hamburg-based subsidiary bentekk and manufactured at Dräger MSI in Hagen, sets new standards when it comes to recognizing and identifying volatile organic substances. The system consists of a sensor and operating unit and combines precision measurements of carcinogenic substances with ease of use (including in potentially explosive atmospheres) thanks to an intuitive app. The U.S. launch of the ›X-pid 8500‹ variant is scheduled for 2019.

In 2018, we added a number of new components and functions to our ›REGARD 7000‹ gas warning system, which we launched in 2017. These include an additional display and two other digital interfaces (Profibus and Profinet) to parent systems. The 4-20 mA power input module can also communicate digitally via HART, an industrial communication standard; this ensures that transmitter and controller settings can be permanently compared. Diagnosis information from the transmitter can now be displayed directly on the controller for the first time.

↗ Please refer to table "Research and development" on page 23

Employees

For the past 130 years, Dräger's strengths have always lain in innovation, quality, and established, close customer relationships. Our employees have been the foundations of these strengths since day one.

We rise to growing challenges as a globally active, family-run company in a world that is in a constant state of flux. Boosting Dräger's competitiveness is a key task in this regard. To achieve this, we take three primary approaches:

- We want to increase our performance,
- boost our ability to change,
- and reinforce our culture of leadership and cooperation.

The following four fields of action for HR are derived from these approaches:

– Competitive working conditions
We achieve a balanced cost structure while maintaining Dräger's appeal as an employer.

– Future-oriented skills and capacities
We recognize the personnel required for Dräger's success at an early stage and cover needs both internally and externally.

– Leadership, cooperation, well-being
We continuously develop and shape our culture of leadership and cooperation on the basis of our guiding principle ›WeLEAD.‹ We promote a healthy working environment and encourage our employees to take the initiative, including when it comes to their own wellbeing.

– Organizational development and change management
We increase the sustainability of organizational changes, are involved in the planning process at an early stage, and share responsibility for their successful implementation.

These fields of action are aimed at developing the company and also fostering the skills of its employees.

LEADERSHIP AND COOPERATION

The way in which leadership and cooperation is structured at Dräger and embraced within the company significantly impacts the performance of our employees and therefore also Dräger's overall competitiveness. The systematic development of this culture of good leadership and cooperation has therefore been defined as a primary approach in the 2018 – 2023 HR strategy,

One key milestone in the implementation of the HR strategy in 2018 was the large-scale implementation of Dräger's ›WeLEAD‹ guiding principle, which involved extensive dialog with employees and managers all over the world. ›WeLEAD‹ defines the skills that contribute towards good cooperation and leadership and shape the corporate culture. The central value of ›WeLEAD‹ is trust. Trust shapes the way in which we cooperate and lead at Dräger – openly and respectfully. We join together to commit to customer and results orientation and value the diversity within the company. HR employs a number of measures and advises managers and employees to help implement ›WeLEAD‹ in day-to-day activities and integrate the strategy into leadership and cooperation. The next employee survey will take place in 2019 and will once again be based on ›WeLEAD.‹ We will use this survey and the follow-up work from it to continue to systematically focus on and drive forward the implementation of ›WeLEAD.‹

EMPLOYEE SHARE PROGRAM

Our employee share program is a way to give employees at our German sites the opportunity to invest in the company and directly participate in its success. The purpose of this is to increase employees' interest in the development of business so that they identify even more strongly with the company. The employee share program, offered for the first time in 2013, was once again offered by Dräger in fiscal year 2018. Participating employees each receive a bonus share for every three preferred shares they acquire. For the second year in succession, employees had the chance to acquire a total of up to 60 shares as part of the employee share program. Dräger acquired the preferred shares and the bonus shares ordered by the employees in regular market trading (Xetra trading platform). In fiscal year 2018, we saw increases in both the participation rate and the share volume. A total of 1,172 employees (2017: 1,025) acquired an average of 37 shares (2017: 30 shares). 43,368 shares were purchased in total (2017: 30,402). Dräger contributed 14,456 bonus shares (2017: 10,134 bonus shares).

EMPLOYEES IN NUMBERS

As of December 31, 2018, 14,399 people worked for the Dräger Group worldwide, 660 (4.8 %) more than in the prior year (December 31, 2017: 13,739). In Germany, the number of people working for the Dräger Group rose by 381 year on year (+5.9 %), while the number of people working abroad rose by 279 (+3.8 %). As of December 31, 2018, 52.7 % of Dräger's employees worked outside Germany (December 31, 2017: 53.2 %).

More than two-thirds of those hired (452 employees) were in sales-related functions. We increased employee numbers in Service and other customer-oriented functions by 258. In Rental and Safety Services, a total of around 80 employees have been recruited. This is due in large part to the increase in project business and transitioning employees from part-time contracts. Compared to the prior year, we employed 187 more people in Sales as of December 31. The number of employees in Production, Quality Assurance, Logistics and Purchasing increased by 111. We recruited 57 new people to General Administration, distributed equally in Germany and abroad. As of December 31, the number of employees in Research and development rose by 40.

Of the 14,399 employees worldwide, 58.7 % (December 31, 2017: 58.2 %) worked in Sales, Marketing, and Service; 20.9 % (December 31, 2017: 21.1 %) worked in Production, Quality Assurance, Logistics, and Purchasing; 9.8 % (December 31, 2017: 10.0 %) worked in Research and Development; and 10.6 % (December 31, 2017: 10.6 %) worked in General Administration.

Personnel expenses within the Group rose by 3.9 % year on year (+5.4 % net of currency effects) to EUR 1,045.9 million. That increase was due to both the increase in employee numbers and the higher average cost per employee: The cost per employee, excluding the Executive Board's remuneration, increased by an average of 0.2 % (net of currency effects: 1.8 %). That was due to raises in accordance with the wage agreements in the metal and electrical industries in Germany, increased pension expenses, and increases in wages and salaries abroad. The personnel cost ratio in fiscal year 2018 was 40.3 % (2017: 39.2 %).

↗ Please refer to charts ›Workforce trend‹ and ›Key workforce trend figures‹

Sustainability

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

Please refer to www.draeger.com/sustainability

WORKFORCE TREND

		Headcount as of the balance sheet date		Headcount (average)	
		December 31, 2018	December 31, 2017	2018	2017
Germany		6,815	6,434	6,618	6,346
Abroad		7,584	7,305	7,461	7,182
Dräger Group total		**14,399**	**13,739**	**14,079**	**13,528**
Women		4,084	3,919	4,029	3,881
Men		10,315	9,820	10,050	9,647
Dräger Group total		**14,399**	**13,739**	**14,079**	**13,528**
Personnel development costs	**€ million**	**15.5**	**14.8**		
thereof training expenses	€ million	6.8	6.2		

KEY WORKFORCE TREND FIGURES

		Headcount as of the balance sheet date	
		December 31, 2018	December 31, 2017
Number of employees		14,399	13,739
Percentage of female employees	%	28.4	28.5
Part-time employees		852	803
Average years with Dräger in Germany	Years	14	14
Average age of employees	Years	43	43
Turnover of employees	%	5.0	5.1
Sick days of work days in Germany	%	5.8	5.8
Accidents in Germany (accidents at work and while commuting to work), Time off sick > 3 days		38	51

Business performance

General economic conditions

GLOBAL ECONOMIC UPTURN LOSING MOMENTUM

The Institute for the World Economy (IfW) believes that the global economy is losing momentum. In 2018, growth only matched the prior-year figure of 3.7 %. In 2019, it is forecast to decline year on year to 3.4 %. According to the IfW, the risks posed to further global economy growth have risen. These now include an escalation in trade conflicts and an outflow of capital from emerging markets caused by rising interest rates in the U.S.

The eurozone economy also slowed somewhat over the course of 2018. The IfW anticipates growth of 2.1 % in 2018 and 1.9 % in 2019. Germany continues to experience a booming economy, even though growth rates have now fallen lower than was forecast at the start of the year. The IfW lowered its forecast for Germany in December and now anticipates growth of 1.5 % in 2018 and 1.8 % in 2019. There are also signs of a turnaround in economic development: One important leading indicator, the Ifo Business Climate Index, is pointing to a downturn in economic development. The index declined for the fourth month in succession in December.

FED CONTINUES TO RAISE INTEREST RATES, ECB ENDS BOND-BUYING

The U.S. Federal Reserve (the Fed) increased its benchmark rates slightly on four occasions last year, most recently in December. The Fed has flagged further gradual interest rate increases in 2019. The Fed believes that the risks are relatively well-balanced, but it continues to keep a close eye on developments and potential risks in the global economy and on the financial markets. By contrast, in 2018 the European Central Bank (ECB) left its benchmark rate at the record low, but ended its bond-buying activities at the end of 2018, as announced.

RATES OF INFLATION RISE, INCONSISTENT EURO

The rate of inflation reached the ECB’s target, even though the rate of increase declined slightly at the end of the year. In the eurozone, prices rose by 1.6 % year on year in December. In Germany, consumer prices were up by 1.7 % year on year in the same period, and by 1.9 % over the course of the year. Following an initial rise against the U.S. dollar in the first few months of 2018, the euro gradually lost value against the U.S. currency as the year progressed. On average, the euro was still up year on year. The euro also gained in value compared to various emerging market currencies on a year-on-year basis, in some cases significantly.

↗ Please refer to table ›Major currency changes sorted by their impact on Dräger’s earnings‹

MARKET AND INDUSTRY PERFORMANCE

The sectors that are relevant to us also experienced growth in 2018. Demand for medical products developed positively overall due to the general increase in life expectancy and the high demands in terms of technical equipment for hospitals. These factors also resulted in a slight increase in demand in Germany. Cuts to public health spending by Emmanuel Macron’s administration in 2018 resulted in a further slowdown in investment in France. The medical technology market in Southern Europe also developed positively, whereas German exporters lost some ground in Scandinavia. In the U.K., the construction of multiple hospitals has been delayed for several years due to the liquidation of the second-largest construction company in the country. In addition, the U.K. medical technology sector continues to suffer from uncertainty in relation to the country’s planned

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

Average rates compared to the euro	12 months 2017	12 months 2018	Changes in %	Impact on Dräger’s earnings (EBIT)[1]
Argentinean peso[2]	19.15	34.36	–79.5	↓
Turkish lira	4.14	5.69	–37.3	↓
South African rand	15.06	15.61	–3.6	↓
US dollar	1.14	1.18	–3.7	↑
Brazilian real	3.64	4.33	–18.7	↓

[1] Please refer to the comments on the earnings of the Dräger Group and the segments on pages 33 et seq. for further details of the effects of currencies on the result.
[2] Please refer to number 6 in the Notes to the Annual Financial Statements for further information on the effects of high inflation in Argentina.

departure from the E.U. In Russia, the political situation continues to make market access more difficult for German exporters.

With regard to safety technology, Europe's industrial markets saw positive development overall. Demand in Germany is expected to increase in the medium term in spite of cost pressure on product markets. The European chemical industry experienced mixed development but remains stable overall. Production in France and Portugal declined, whereas solid growth was recorded in Germany, Spain, and Belgium.

The relevant sectors in the Americas segment developed somewhat positively overall in 2018. The rate of growth of the U.S. market for medical technology devices declined due to general market saturation and tightening of spending in the public and private healthcare sectors. The Latin American healthcare sector, on the other hand, experienced a slightly positive trend. The Brazilian market, for instance, expanded once again by a small margin but will continue to be shaped by high cost pressure and political uncertainty for the time being. In Mexico, the second-largest market in Latin America, the medical technology industry is benefiting from new hospital projects and tendering regulations.

Sales of safety technology products in the U.S. were defined by the general push towards more investment in U.S. industry initiated by tax reforms at the end of 2017. Further investment was also initiated in the chemical and oil and gas industries. In Latin America, the underlying conditions for the oil and gas industry improved overall, allowing the market to recover slightly.

Medical technology in the Africa, Asia and Australia segment developed largely positively. The market for medical technology in China continued on its growth course; however, foreign manufacturers are seeing their market positions come under increasing pressure from local competitors. Demand for medical technology in India continued to develop positively, as wealthy customers in the country have high standards when it comes to equipment in their hospitals. Japan and Australia invested to a moderate extent in expanding their medical care. Growth of the healthcare sector in the United Arab Emirates declined due to weak economic development. In Africa, demand for medical technology increased as a result of the growing use of public-private partnership models.

The chemical industry continued to develop positively in the major Asian economies. A number of facilities were rebuilt or modernized due to the introduction of stricter safety requirements in China. Investments in the oil and gas industry in the Middle East rose moderately over the course of the year. Modernization investments were made in the Australian mining sector once again after years of declining investment.

TRENDS WITH AN INFLUENCE ON OUR BUSINESS PERFORMANCE

The megatrends of globalization, health, and connectivity are at the forefront when it comes to Dräger's business.

GLOBALIZATION VERSUS PROTECTIONISM

In spite of the economic connections and intensification of international trade across national borders, the risk of trade conflicts rose significantly last year. Increasingly protectionist tendencies pose a growing risk to global trade and global value chains. Tariffs in the U.S. in particular have in some cases resulted in a ›forestalling‹ of imports and could lead to a significant decline in international trade in the coming years. Nationalistic tendencies in politics and society as a whole in some industrialized nations and emerging markets are causing increasing economic and financial instability. The growing uncertainty, and how this uncertainty is being dealt with, will remain a key issue in the coming years.

HEALTH

As living standards rise in emerging markets and industrialized economies alike, health is increasingly becoming a synonym for a good life. Demand for high-quality medical care both in a private setting and in hospitals is increasing accordingly. Life expectancy also continues to rise. At the same time, awareness of the significance of protecting the environment and workers is also increasing considerably, with companies' investments in occupational health and safety rising accordingly. Considering these developments, the outlook for our medical and safety products continues to be positive.

CONNECTIVITY

The issue of digitalization and automation in industry and retail has become ubiquitous. The combination of man and machine and the implementation of new technical opportunities offer up enormous potential to boost efficiency and also pave the way for brand-new business models. However, we also believe that there are some significant challenges linked with such developments: We must adapt our company to fit these new, platform-oriented sales models and in line with new innovation and production opportunities. Digital connectivity means that devices are collecting more and more data about our professional and private lives. The issue of what happens with this data and how it can be used safely with the customer benefit in mind continues to gain significance from our perspective.

OVERALL ASSESSMENT OF THE UNDERLYING CONDITIONS

The global economy was able to maintain its rate of growth in 2018, however the slight acceleration in growth forecast at the start of the year failed to materialize. Economic development is already slowing in some industrialized nations, and the rising financing costs caused by the increase in the value of the U.S. dollar is having a particularly negative impact on emerging markets. Further factors of uncertainty, such as stronger protectionist tendencies, Brexit, and hot spots of political conflict, such as the Middle East, have so far not had a significant impact on economic development, but do continue to pose a risk moving forward.

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

Business performance of the Dräger Group

↗ Please refer to table ›Business performance of the Dräger Group‹

OVERALL MANAGEMENT ASSESSMENT OF BUSINESS PERFORMANCE

Our incoming orders developed positively in fiscal year 2018 and rose by a nominal 2.7 % over the year. In 2018 we increased net sales by 0.9 %.

The euro lost value against the US dollar as the year progressed, but was still somewhat higher than in 2017 on average. Compared to the currencies of most emerging markets, the value of the euro rose, in some cases significantly. Currency effects therefore played a more important role in 2018 than in the prior fiscal year, apart from toward the end of the year.

In this environment, order intake rose by 6.0 % year on year (net of currency effects) and by 11.9 % in the fourth quarter compared with the same quarter in 2017. In fiscal year 2018, net sales increased by 3.9 % (net of currency effects), in the fourth quarter they increased by 5.8 %.

This growth in net sales was within the originally forecast range, due to the positive development in the fourth quarter. We were forced to adjust our forecasted earnings in the course of the year, including the forecasted EBIT margin. Our earnings were negatively affected by a host of factors, despite the positive development of net sales. The currency effects were much worse than expected, and this, together with unplanned expenses for logistics and quality measures, contributed to the low result. Added to that were investments in innovation and sales, which boosted Dräger's prospects for the future. Earnings before interest and taxes (EBIT) fell to EUR 62.6 million (2017: EUR 155.7 million) as a result, and the EBIT margin decreased to 2.4 % (2017: 6.1 %).

Dräger Value Added (DVA) was below the forecasted range at EUR –26.5 million (2017: EUR 70.7 million). The weighted average cost of capital (WACC) was stable, meaning that the year-on-year decline was primarily due to unfavorable earnings development and in part to the rise in average capital employed.

Our other forecast figures developed as follows:

BUSINESS PERFORMANCE OF THE DRÄGER GROUP

		2018	2017	Twelve months Changes in %
Order intake	**€ million**	**2,686.5**	**2,614.7**	**+2.7**
Net sales	**€ million**	**2,595.0**	**2,572.3**	**+0.9**
Gross profit	**€ million**	**1,108.0**	**1,152.2**	**–3.8**
Gross profit / Net sales	%	42.7	44.8	
EBITDA [1]	**€ million**	**148.0**	**240.0**	**–38.3**
EBIT [2]	**€ million**	**62.6**	**155.7**	**–59.8**
EBIT [2] / Net sales	%	2.4	6.1	
Net profit	**€ million**	**34.9**	**98.5**	**–64.6**
Earnings per share on full distribution [3]				
per preferred share	€	1.48	4.18	–64.6
per common share	€	1.42	4.12	–65.5
DVA [4,5]	**€ million**	**–26.5**	**70.7**	**> –100.0**
Research and development costs	€ million	252.2	234.7	+7.5
Equity ratio [6]	%	44.8	45.4	
Cash flow from operating activities	€ million	4.1	143.3	–97.1
Net financial debt [6]	€ million	43.3	–29.2	> +100.0
Investments	€ million	77.8	106.2	–26.7
Capital employed [6,7]	€ million	1,344.7	1,243.6	+8.1
Net Working Capital [6,8]	€ million	666.5	557.2	+19.6
EBIT [2,4] / Capital employed [6,7] (ROCE)	%	4.7	12.5	
Net financial debt [6] / EBITDA [1,4]	Factor	0.29	–0.12	
Gearing [9]	Factor	0.04	–0.03	
Headcount as of December 31		14,399	13,739	+4.8

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

Our gross margin decreased due to negative currency effects and higher quality costs. At the end of the year, it was below the original forecast but within the adjusted forecast range.

We have met our forecasts for research and development costs and the interest result. The investment volume was slightly below the forecast range.

We were unable to maintain our forecast for Days Working Capital (DWC) in 2018 due to considerably higher inventories.

COMPARISON OF FORECAST AND ACTUAL FIGURES

	Forecast 2018 According to the annual report	**Current forecast** Last published	**in fiscal year 2018** Results achieved
Net sales	+2.0 to 5.0% (net of currency effects)	Confirmed	+3.9% (net of currency effects)
EBIT margin	4.0 to 6.0% [1]	2.0 to 3.5%	2.4%
DVA	EUR 15 to 65 million	EUR –40 to 0 million	EUR –26.5 million
Other forecast figures:			
Gross margin	44.0 to 46.0%	42.5 to 44.0%	42.7%
Research and development costs	EUR 245 to 260 million	Confirmed	EUR 252.2 million
Net interest result	Slight improvement (2017: EUR –12.8 million)	Confirmed	EUR –11.0 million
Days working capital (DWC)	On par with prior year (2017: 111.7 days)	Confirmed	117.4 days
Investment volume	EUR 85 to 100 million [2]	Confirmed	EUR 77.8 million
Net financial Debt	Slight improvement (2017: EUR –29.2 million)	Slight deterioration	EUR 43.3 million

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

ORDER INTAKE

				Twelve months
in € million	**2018**	**2017**	**Changes in %**	**Net of currency effects in %**
Europe	1,450.2	1,447.8	+0.2	+1.9
Americas	526.0	509.2	+3.3	+10.2
Africa, Asia, Australia	710.2	657.6	+8.0	+11.6
Total	**2,686.5**	**2,614.7**	**+2.7**	**+6.0**
thereof medical business	1,723.4	1,683.7	+2.4	+5.7
thereof safety business	963.1	931.0	+3.4	+6.5

The rise in inventories is related to the measures for securing supply capability.

Our net financial debts have deteriorated, in particular cash and cash equivalents, due in part to the drop in earnings.

↗ Please refer to table ›Comparison of forecast and actual figures‹

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

ORDER INTAKE

Our order intake rose by 6.0 % (net of currency effects) in fiscal year 2018. All regions contributed to that trend, although their development was uneven: The Africa, Asia, and Australia segment recorded the strongest rise in order intake of 11.6 % (net of currency effects) in 2018. That was the result of significant growth in both the medical technology market and safety technology market. In the Americas segment, we recorded a rise in order intake of 10.2 % (net of currency effects), driven by the demand in safety products. In the Europe segment, we recorded a rise in orders of 1.9 % (net of currency effects) in fiscal year 2018. Incoming orders increased in safety technology in particular year on year, while growth was also recorded in medical technology.

Order intake for medical products, particularly in business with hospital consumables and anesthesia devices, was up significantly from the prior year. We also recorded increases in the areas of hospital infrastructure systems, patient monitoring and clinical data management, service business, thermoregulation equipment, and ventilators.

In the safety product areas, order intake for gas detection products and service business rose significantly. We also recorded increased orders for alcohol detection devices, respiratory and personal protection products, and safety accessories. Demand for engineered solutions was only slightly higher than in the prior year.

↗ Please refer to table ›Order intake‹

NET SALES

We recorded a rise in net sales of 3.9 % (net of currency effects) in fiscal year 2018. In the traditionally strong fourth quarter alone, net sales rose by 5.8 % (net of currency effects). Net of currency effects, all regions contributed to the growth in net sales. We achieved an increase in net sales of 6.1 % (net of currency effects) in the Africa, Asia, and Australia segment. In the Americas segment, net sales were 4.4 % higher compared to the prior year (net of currency effects). In the Europe segment, Dräger recorded a 2.8 % increase in net sales (net of currency effects).

↗ Please refer to tables ›Net sales‹ and ›Strong net sales performance in final quarter‹

EARNINGS

Gross profit fell in fiscal year 2018 by EUR 44.1 million to EUR 1,108.0 million despite a slight rise in net sales. At 42.7 %, Dräger's gross margin was down on the figure from the prior year (2017: 44.8 %). Negative currency effects from the rise in the euro's value compared to other relevant currencies and higher quality-related costs strained both the gross profit and the gross margin.

All three segments recorded a decline in gross profit and gross margin in absolute terms. The strongest decline in margin was recorded in the Americas, and the smallest was in Europe.

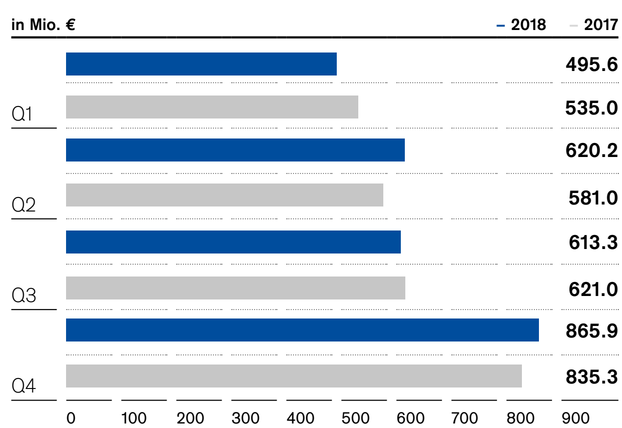
In the fourth quarter, the gross margin in all three segments remained lower than in the same quarter of 2017. However, the margin improved significantly in the Americas in the fourth quarter compared with the first nine months. This improvement in the Americas segment is due in part to the much stronger business result in the final quarter, in the U.S. in particular.

Net of currency effects, in the past fiscal year functional costs increased year on year (+ 7.0 %). However, currency effects reduced those costs, resulting in a nominal increase of only 5.1 %.

For more information on personnel costs, please refer to page 27

Selling and marketing costs in 2018 were 7.0 % higher year on year, net of relief effects related to currency. That increase was highest in the Americas, as well as in the Africa, Asia, and Australia segments. Higher logistics costs and

STRONG NET SALES PERFORMANCE IN FINAL QUARTER



NET SALES

in € million	2018	2017	Changes in %	Twelve months Net of currency effects in %
Europe	1,431.9	1,415.5	+ 1.2	+ 2.8
Americas	499.3	510.4	– 2.2	+ 4.4
Africa, Asia, Australia	663.8	646.4	+ 2.7	+ 6.1
Total	**2,595.0**	**2,572.3**	**+ 0.9**	**+ 3.9**
thereof medical business	1,643.0	1,668.0	– 1.5	+ 1.5
thereof safety business	952.0	904.3	+ 5.3	+ 8.3

FUNCTIONAL EXPENSES

in € million	2018	2017	Changes in %
Research and development expenses	252.2	234.7	7.5
in % of Net sales	9.7	9.1	
Marketing and selling expenses	592.6	566.3	4.7
in % of Net sales	22.8	22.0	
General administrative expenses	198.5	197.7	0.4
in % of Net sales	7.6	7.7	
Selling and general administrative expenses	791.1	764.0	3.5
in % of Net sales	30.5	29.7	
Other operating result	–1.0	–6.7	84.3
Total functional expenses	**1,042.2**	**992.0**	**5.1**
in % of Net sales	40.2	38.6	

INVESTMENTS / DEPRECIATION / AMORTIZATION

	2018		2017	
in € million	Investments	Depreciation / amortization	Investments	Depreciation / amortization
Intangible assets	4.0	–10.7	9.3	–12.4
Property, plant and equipment	73.8	–74.8	96.8	–71.9

targeted investments in sales to selected countries, including the U.S. and China, drove costs up.

Research and development (R&D) costs increased by 8.4 % net of the change in exchange rates (+7.5 % in nominal terms). The ratio of R&D costs to net sales (R&D ratio) therefore stood at 9.7 % (2017: 9.1 %). Net of currency effects, our administrative costs were 3.0 % (+0.4 % in nominal terms) higher year on year.

↗ Please refer to table ›Functional expenses‹

Gains on the disposal of property, plant, and equipment were EUR 7.5 million lower than in 2017. In the prior year, we recorded gains from the consolidation of land and other real estate sales. Costs also increased in the reporting year due to increases in wages and salaries such as the raise in accordance with the collective wage agreements in the metal and electrical industries.

At EUR –3.4 million, the other financial result was higher than in the prior year (2017: EUR –4.7 million). The main reason is that lower overall currency-related valuation losses were recorded. They include, for example, financial receivables and liabilities denominated in foreign currencies.

Overall, net profit for fiscal year 2018 was negatively affected by the largely scheduled rise in functional costs as well as by unfavorable exchange rates and quality costs.

Group earnings before interest and taxes (EBIT) decreased to EUR 62.6 million (2017: EUR 155.7 million). The EBIT margin fell from 6.1 % to 2.4 %. The interest result improved to EUR –11.0 million (2017: EUR –12.8 million). At 32.4 %, the tax rate was marginally higher that in the prior year (2017: 31.1 %). Earnings after income taxes amounted to EUR 34.9 million (2017: EUR 98.5 million).

INVESTMENTS

In fiscal year 2018, we invested EUR 73.8 million in property, plant, and equipment (2017: EUR 96.8 million) and EUR 4.0 million in intangible assets (2017: EUR 9.3 million). These mainly concerned replacements and leasing tools. Following the construction project in Krefeld, Germany, for sales and service activities relating to safety products, EUR 5.8 million was spent on investments in property, plant, and equipment (2017: EUR 12.6 million). The investments for this project have now been completed. Depreciation and amortization for fiscal year 2018 amounted to EUR 85.4 million (2017: EUR 84.2 million). Investments covered 91.1 % of depreciation, meaning that non-current assets saw a decrease of EUR 7.6 million.

↗ Please refer to table ›Investments / Depreciation / Amortization‹

Cash flow statement[1]

↗ Please refer to table ›Financial position of the Dräger Group‹ on page 36

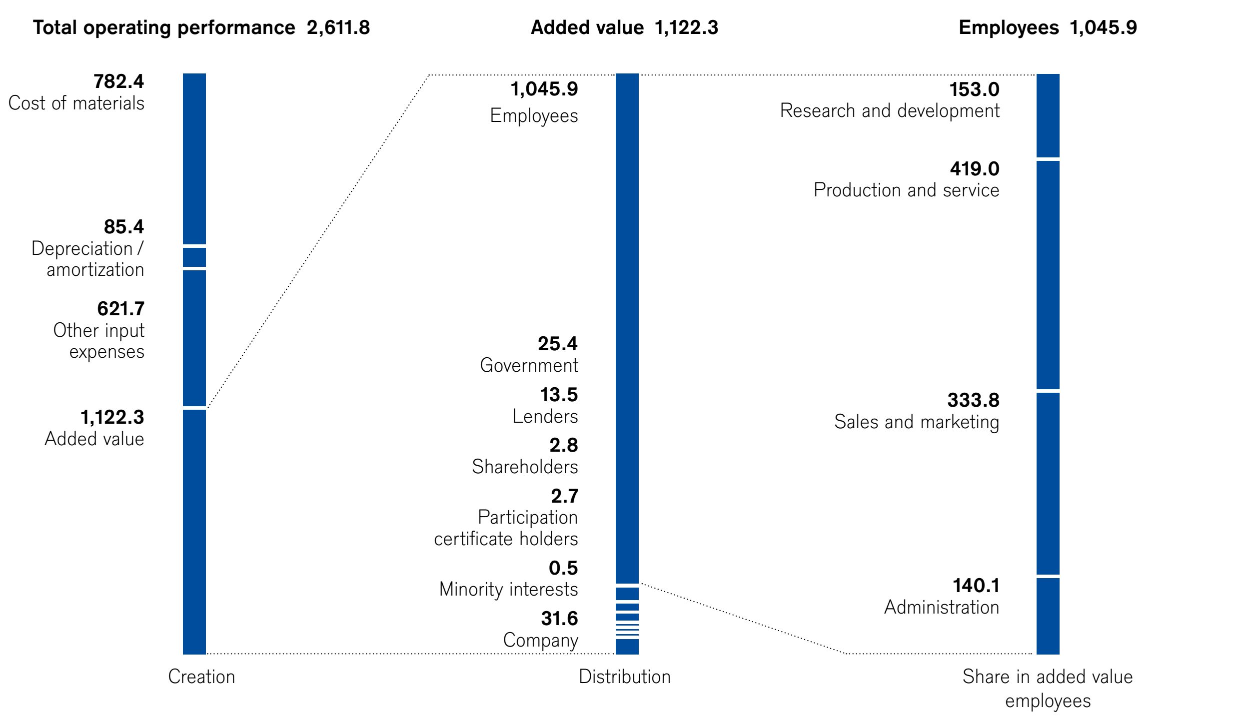
In fiscal year 2018, Dräger Group's cash inflow from operating activities amounted to EUR 4.1 million (2017: EUR 143.3 million). Group net profit fell by EUR 63.6 million, which was the primary contributing factor to the drop in operating cash inflow. Inventories also grew by EUR 76.9 million (2017: by EUR 30.0 million) and trade payables fell by EUR 2.3 million (2017: increase of EUR 22.2 million). By contrast, other liabilities of EUR 28.0 million recorded a much stronger increase than the prior year (EUR 5.1 million).

Cash outflow from investing activities fell to EUR 63.5 million (2017: EUR 65.5 million). Significant investments were made in movable assets, in particular in factory and office equipment. Some investments were also made in real estate, which were primarily attributed to renovation

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

ADDED VALUE STATEMENT OF THE DRÄGER GROUP

in € million



FINANCIAL POSITION OF THE DRÄGER GROUP

in € million	2014	2015	2016	2017	2018
Cash flow from operating activities	188.0	39.9	195.3	143.3	4.1
Cash flow from investing activities	–102.6	–167.0	–77.3	–65.5	–63.5
Free cash flow	85.4	–127.1	118.1	77.8	–59.4
Cash flow from financing activities	–26.3	–1.3	–70.0	–41.9	–6.2
Change in liquidity (excluding exchange rate effects)	59.0	–128.4	48.1	35.9	–65.6

and expansion measures as well as to the new construction project in Krefeld, Germany, completed in fiscal year 2018 for sales and service activities relating to safety products. The share of the investments attributable to the German companies amounted to EUR 46.1 million.

Cash outflow from financing activities of EUR 6.2 million (2017: EUR 41.9 million) was mainly due to the dividend distribution of EUR 11.0 million for fiscal year 2017. The repayment of note loans and bank loans in the amount of EUR 51.6 million have been settled in full through the increase in bank loans and current account liabilities in the amount of EUR 58.0 million.

Cash and cash equivalents as of December 31, 2018 amounted to EUR 179.6 million (December 31, 2017: EUR 247.6 million) and exclusively comprised cash, of which EUR 4.3 million (December 31, 2017: EUR 4.9 million) is subject to use restrictions.

Unused credit lines amounted to EUR 362.6 million as of the balance sheet date (December 31, 2017: EUR 423.6 million) and are subject to restrictions applicable in the market.

Financial management

BORROWING

The term of the master loan agreement for existing bilateral credit lines to secure working capital financing over the medium term of EUR 377.0 million runs until June 2022. These credit lines were utilized as sureties in Germany and abroad and as cash facilities.

Another bilateral surety credit line of EUR 5.0 million outside the scope of the master loan agreement was agreed with DZ Bank.

Internal Group cash pools exist in several different currencies through which liquidity is balanced within the Group. On December 31, 2018, Dräger Group's short-term loans amounted to around EUR 90.1 million (December 31, 2017: EUR 71.5 million).

Dräger uses note loans in addition to bilateral credit lines for its medium and long-term financing. As of December 31, 2018, total note loans amounted to EUR 60.0 million (December 31, 2017: EUR 98.4 million). A note loan in the amount of EUR 38.5 million was repaid from cash and cash equivalents in December 2018. At present, Dräger does not have a rating from agencies such as Standard & Poor's, Moody's, or Fitch.

↗ Please refer to table ›Bilateral credit lines under the master loan agreement with terms until June 30, 2022‹
Please refer to the numbers 33 and 34 in the Notes to the Annual Financial Statements for details on the Dräger Group's loans and liabilities

LIQUIDITY FORECAST

The Dräger Group's liquidity came to EUR 179.6 million at the end of the year (December 31, 2017: EUR 247.6 million). For its short and medium-term planning, Dräger forecasts a stable development of cash and cash equivalents. This will be influenced by a planned increase in cash flow from operating activities – reflecting expected business developments – and solid financing, which has already been arranged for the coming years as a prudent measure. Future payment obligations from note loans of EUR 60.0 million falling due in 2021 will have a negative impact on liquidity. The Dräger Group's short- and medium-term liquidity is secured by existing cash in hand and bank balances as well as the existing credit lines, of which most have a term of more than one year.

DERIVATIVE FINANCIAL INSTRUMENTS

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

Please refer to number 36 in the Notes to the Annual Financial Statements

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

NET ASSETS

In fiscal year 2018, equity rose by EUR 12.3 million to EUR 1,080.7 million. The equity ratio came to 44.8 % as of December 31, 2018, slightly down on the figure as of December 31, 2017 (45.4 %). The equity increase is mainly due to net profit. Provisions for pension obligations and similar obligations reduced equity. Losses from pension plan assets due to fluctuations on the capital market and the adjustment of the calculation parameters for pension provisions increased these provisions by EUR 17.8 million. The adjustment of the calculation parameters concerned in particular the application of the new 2018 G Heubeck mortality tables in Germany. The net amount of this adjustment of EUR 5.9 million after deferred tax liabilities reduced reserves from retained earnings recognized directly in equity.

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

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

NET ASSETS OF THE DRÄGER GROUP

		2014	2015	2016	2017	2018
Non-current assets	€ million	781.5	907.2	918.6	928.8	933.7
Current assets	€ million	1,452.6	1,400.9	1,393.8	1,425.5	1,476.5
thereof cash and cash equivalents	€ million	296.9	172.8	221.5	247.6	179.6
Equity	€ million	896.6	945.9	1,003.5	1,068.3	1,080.7
Debt	€ million	1,337.5	1,365.5	1,308.8	1,286.0	1,329.6
thereof liabilities to banks	€ million	296.2	307.8	245.7	209.3	215.2
Total assets	€ million	2,234.1	2,311.4	2,312.3	2,354.4	2,410.2
Long-term equity-to-fixed assets ratio[1]	%	230.4	196.8	213.7	213.9	220.5

[1] Non-current asset coverage = Total equity and long-term debt divided by intangible assets and property, plant and equipment

FINANCIAL FIGURES

in € million	December 31, 2018	December 31, 2017	Changes in %
Total assets	2,410.2	2,354.4	2.4
Equity	1,080.7	1,068.3	1.2
Equity ratio	44.8 %	45.4 %	
Capital employed	1,344.7	1,243.6	8.1
Net financial debt	43.3	–29.2	> +100.0

In fiscal year 2018, total assets rose by EUR 55.9 million to EUR 2,410.2 million. On the assets side, current assets increased by EUR 51.0 million. Inventories also grew by EUR 71.5 million; trade receivables and contractual assets rose by EUR 34.7 million and current tax receivables rose by EUR 12.3 million, while cash and cash equivalents fell by EUR 68.0 million.

On the liabilities side of the balance sheet, non-current provisions increased by EUR 21.3 million, mainly due to the rise in pension provisions by EUR 26.3 million. Other current financial liabilities rose by EUR 12.7 million, and interest-bearing loans and liabilities to banks by a total of EUR 5.9 million.

↗ Please refer to tables ›Net assets of the Dräger Group‹ and ›Financial figures‹ page 37

DRÄGER VALUE ADDED

Dräger Value Added decreased in fiscal year 2018 by EUR 97.3 million compared to the prior year, to EUR −26.5 million (2017: EUR 70.7 million). EBIT fell year on year by EUR 93.1 million. Capital costs rose by EUR 4.2 million, since average capital employed increased by 4.9 % to EUR 1,274.0 million. In terms of average current assets, a rise in inventories and deferred taxes was only partly offset by a rise in trade payables.

This trend is reflected in part in days working capital (coverage of current assets), which rose by 5.6 days to 117.4 days.

Business performance of Europe segment

↗ Please refer to table ›Business performance of Europe segment‹

ORDER INTAKE

In fiscal year 2018, order intake in the Europe segment rose by 1.9 % (net of currency effects) compared with 2017. Increased demand for safety products, in particular, contributed to this, while order intake for medical products also increased. With an increase of 6.0 %, order intake posted particularly positive development in Germany. In the fourth quarter, order intake in the Europe segment rose by 2.9 % (net of currency effects).

We recorded order intake growth in particular in Germany, Turkey, Sweden, and the Netherlands. However, orders declined in Romania, Poland, Switzerland, Turkmenistan, and Spain.

In particular, the safety technology service business, anesthesia devices, and gas detection products recorded considerable growth in order intake in Europe. Orders also increased in hospital consumables, and patient monitoring and clinical data management. In the safety technology

BUSINESS PERFORMANCE OF EUROPE SEGMENT

					Twelve months
		2018	2017	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**1,450.2**	**1,447.8**	**+0.2**	**+1.9**
thereof Germany	€ million	571.5	538.9	+6.0	+6.0
Net sales with third parties	**€ million**	**1,431.9**	**1,415.5**	**+1.2**	**+2.8**
thereof Germany	€ million	558.0	533.0	+4.7	+4.7
EBITDA [1]	**€ million**	**123.6**	**148.6**	**−16.8**	
EBIT [2]	**€ million**	**82.0**	**108.1**	**−24.1**	
EBIT [2] / Net sales	%	5.7	7.6		
Capital employed [3,4]	€ million	593.8	575.9	+3.1	
EBIT [2,5] / Capital employed [3,4] (ROCE)	%	13.8	18.8		
DVA [5,6]	**€ million**	**41.4**	**68.8**	**−39.8**	

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

accessories and service business as well as the medical technology service business, demand remained at the prior year's level. Orders declined for respiratory and personal protection products, in the area of hospital infrastructure systems, as well as thermoregulation and ventilation equipment.

NET SALES

In fiscal year 2018, net sales increased by 2.8 % (net of currency effects). That was due, in particular, to an increase in safety products. Only slight growth was recorded in medical products. Deliveries in Germany saw a gain of 4.7 %. In the fourth quarter, net sales in the Europe segment increased by 0.1 %, and in Germany by 8.4 % (net of currency effects).

EARNINGS

While sales volumes rose, gross profit declined by 1.4 % in fiscal year 2018. The gross margin decreased by 1.1 percentage points year on year, mainly due to negative currency effects, as well as higher cross-segment costs. Mix and other margin effects had a slightly positive impact. In the fourth quarter, gross profit and gross margin were also below the prior year.

Functional costs in fiscal year 2018 were up year on year by 4.5 % (net of currency effects) (nominal: +3.8 %). Functional costs in the fourth quarter rose by 1.6 % (net of currency effects) (nominal: +0.7 %).

EBIT for the Europe segment stood at EUR 82.0 million in 2018 as a whole, declining significantly year on year (12 months 2017: EUR 108.1 million). The EBIT margin dropped from 7.6 % to 5.7 %. In the fourth quarter, the EBIT margin stood at 12.6 % (fourth quarter 2017: 14.5 %).

Dräger Value Added in the Europe segment fell by EUR 27.4 million to EUR 41.4 million year on year in the twelve months to December 31, 2018 (12 months to December 31, 2017: EUR 68.8 million). EBIT fell year on year by EUR 26.0 million, while capital costs rose by EUR 1.4 million to EUR 40.6 million due to higher capital employed.

Business performance of Americas segment

↗ Please refer to table ›Business performance of Americas segment‹

ORDER INTAKE

In the Americas segment, we recorded an increase in order intake in the period under review by 10.2 % year on year (net of currency effects). Demand for safety products and medical products contributed to this. In fact, orders rose by 28.1 % (net of currency effects) in the fourth quarter.

BUSINESS PERFORMANCE OF AMERICAS SEGMENT

					Twelve months
		2018	2017	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**526.0**	**509.2**	**+3.3**	**+10.2**
Net sales with third parties	**€ million**	**499.3**	**510.4**	**–2.2**	**+4.4**
EBITDA [1]	**€ million**	**–8.2**	**25.6**	**> –100.0**	
EBIT [2]	**€ million**	**–30.2**	**4.0**	**> –100.0**	
EBIT [2] / Net sales	%	–6.0	0.8		
Capital employed [3,4]	€ million	338.2	294.4	+14.9	
EBIT [2,5] / Capital employed [3,4] (ROCE)	%	–8.9	1.3		
DVA [5,6]	**€ million**	**–51.6**	**–16.6**	**> –100.0**	

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

In 2018, demand developed positively in the U.S., Argentina, Mexico, Chile, Canada, and Brazil, while it decreased in Colombia, Ecuador, and Peru.

We recorded a significant rise in orders for anesthesia devices, gas detection products, thermoregulation equipment, and ventilators. Demand also rose in the area of engineered solutions and hospital consumables business, but was down in patient monitoring and data management, and hospital infrastructure systems.

NET SALES

In fiscal year 2018, net sales in the Americas segment increased by 4.4 % (net of currency effects). Deliveries rose for safety products in particular, and also in medical products. The fourth quarter was particularly positive with a growth of 13.6 % (net of currency effects). Safety products contributed to this above all, but demand for medical products was also high.

EARNINGS

Gross profit fell in 2018 overall by 9.7 %. The gross margin was 3.8 percentage points lower than in the prior year. This was mainly due to the negative currency effects across all the relevant currencies of the segment. Negative mix and other margin effects as well as higher cross-segment costs also strained gross profit and the gross margin. In the fourth quarter, gross profit rose by 6.5 % due to a rise in business volume in the U.S. in particular. The gross margin decreased by 1.4 percentage points in the fourth quarter. Positive mix and other margin effects were unable to make up for the negative currency effects and rise in cross-segment costs.

Net of currency effects, functional costs rose by 8.1 % in 2018 as a whole (nominal: +3.8 %). The main drivers for this were investments in the sales structures and higher cross-segment costs. The rise in functional costs (net of currency effects) in the fourth quarter at 5.7 % (nominal: 4.3 %) was lower than in the year as a whole.

In 2018, EBIT in the Americas segment stood at EUR –30.2 million (2017: EUR 4.0 million), and the EBIT margin was –6.0 % (2017: 0.8 %). In the fourth quarter EBIT amounted to EUR 15.8 million (fourth quarter 2017: EUR 13.4 million). The EBIT margin for the quarter stood at 8.7 % (fourth quarter 2017: 8.1 %).

The reduction in EBIT led to a year-on-year decrease in Dräger Value Added 2018 of EUR 35.1 million to EUR –51.6 million (2017: EUR –16.6 million). Average capital employed was slightly increased (+4.6 %) and capital costs of EUR 21.5 million were EUR 1.0 million higher than in the prior year (2017: EUR 20.5 million).

Business performance of Africa, Asia, and Australia segment

↗ Please refer to table ›Business performance of Africa, Asia, and Australia segment (AAA)‹

ORDER INTAKE

In the Africa, Asia, and Australia segment, we recorded a rise in order intake of 11.6 % (net of currency effects) in 2018. Both safety and medical products contributed to this positive development. Orders grew by 21.4 % (net of currency effects) in the fourth quarter. Medical products were in particularly high demand in this period.

We were able to increase order intake in particular in China, Saudi Arabia, Australia, South Africa, and in Sudan, while it fell in Pakistan, the Philippines, in Iran, and in Angola.

We recorded a rise in order intake mainly in the area of hospital infrastructure systems, in hospital consumables, gas detection devices, and respiratory and personal protection products. Demand also rose in patient monitoring and clinical data management, and in thermoregulation products. Demand was down on the prior year in engineered solutions and safety product accessories.

NET SALES

In fiscal year 2018, net sales increased by 6.1 % (net of currency effects). We recorded a rise in deliveries in safety products in particular, but also in medical products. In the fourth quarter, we increased net sales by 11.8 %.

EARNINGS

Gross profit in the Africa, Asia, and Australia segment fell in fiscal year 2018 by 3.5 %, despite increased net sales. The gross margin therefore fell by 2.9 percentage points. The main drivers of this development were currency effects, negative mix and other margin effects, and higher cross-segment costs. In the fourth quarter, gross profit was slightly higher year on year, but the gross margin remained at the level of the first nine months.

Functional costs in 2018 as a whole were up year on year by 10.3 % (net of currency effects) (nominal: 8.7 %). Functional costs in the fourth quarter rose by 7.9 % (net of currency effects) (nominal: 7.7 %). The drivers of this included investments in sales and slightly higher cross-segment functional costs.

EBIT for the Africa, Asia, and Australia segment reached EUR 10.8 million in 2018 as a whole, declining significantly year on year (12 months 2017: EUR 43.7 million). The EBIT margin dropped from 6.8 % to 1.6 %. In the fourth quarter, the EBIT margin stood at 13.2 % (fourth quarter 2017: 15.4 %).

Dräger Value Added in the Africa, Asia, and Australia segment decreased year on year by EUR 34.8 million to EUR −16.3 million in the twelve months to December 31, 2018 (12 months to December 31, 2017: EUR 18.5 million). EBIT fell year on year by EUR 32.9 million, while capital costs rose by EUR 1.8 million to EUR 27.1 million due to higher capital employed.

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

					Twelve months
		2018	2017	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**710.2**	**657.6**	**+8.0**	**+11.6**
Net sales with third parties	**€ million**	**663.8**	**646.4**	**+2.7**	**+6.1**
EBITDA [1]	**€ million**	**32.6**	**65.8**	**−50.4**	
EBIT [2]	**€ million**	**10.8**	**43.7**	**−75.4**	
EBIT [2] / Net sales	%	1.6	6.8		
Capital employed [3,4]	€ million€	412.7	373.3	+10.5	
EBIT [2,5] / Capital employed [3,4] (ROCE)	%	2.6	11.7		
DVA [5,6]	**€ million**	**−16.3**	**18.5**	**> −100.0**	

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

Additional information on medical and safety business

INFORMATION ON THE MEDICAL BUSINESS

					Twelve months
		2018	2017	Changes in %	Net of currency effects in %
Order intake with third parties		**1,723.4**	**1,683.7**	**+2.4**	**+5.7**
Europe	€ million	852.6	859.1	–0.8	+1.1
Americas	€ million	361.4	356.9	+1.3	+8.0
Africa, Asia, Australia	€ million	509.3	467.7	+8.9	+12.4
Net sales with third parties	**€ million**	**1,643.0**	**1,668.0**	**–1.5**	**+1.5**
Europe	€ million	833.5	842.9	–1.1	+0.4
Americas	€ million	343.6	358.6	–4.2	+2.3
Africa, Asia, Australia	€ million	465.8	466.5	–0.1	+3.0
EBIT [1,2]	**€ million**	**6.9**	**92.9**	**–92.6**	
EBIT [1,2] / Net sales	%	0.4	5.6		
Research and development costs	€ million	170.7	161.2	+5.9	

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

INFORMATION ON THE SAFETY BUSINESS

					Twelve months
		2018	2017	Changes in %	Net of currency effects in %
Order intake with third parties		**963.1**	**931.0**	**+3.4**	**+6.5**
Europe	€ million	597.5	588.7	+1.5	+3.2
Americas	€ million	164.6	152.3	+8.1	+15.4
Africa, Asia, Australia	€ million	200.9	190.0	+5.8	+9.6
Net sales with third parties	**€ million**	**952.0**	**904.3**	**+5.3**	**+8.3**
Europe	€ million	598.4	572.6	+4.5	+6.2
Americas	€ million	155.6	151.8	+2.5	+9.5
Africa, Asia, Australia	€ million	198.0	180.0	+10.0	+14.0
EBIT [1,2]	**€ million**	**55.8**	**62.8**	**–11.2**	
EBIT [1,2] / Net sales	%	5.9	6.9		
Research and development costs	€ million	81.5	73.5	+10.8	

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

Potential

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

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

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

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

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

RECOGNIZING, MANAGING, AND REPOTRTING RISKS

An essential element of Dräger's risk management is the early identification of strategic and operating risks, determining the scope of these risks, and monitoring and managing them. The basis of our risk assessment system is strategic corporate planning: Our risk reporting process is integrated into the planning process and into the financial forecast. We specify potential uncertainties in our assumptions at the planning stage and report on both negative (risks) and positive (opportunities, see page 51 et seq.) deviations from the plan or from the financial forecast. All operating areas of the company report at least twice a year on risks and opportunities using specified criteria; Group Controlling then summarizes these at Group level. This risk reporting is complemented by ad-hoc reporting, so that Dräger can act upon material risks as quickly as possible. The risk committee supports the responsible risk owners, usually employees from the functional areas, in assessing and managing risks. The Risk Committee is the link between the Chief Risk Officer (CFO) and the functional areas. It is also tasked with improving the risk management system by monitoring it across all departments. Its members are generally heads of departments or financial experts from the functions who have detailed knowledge of the departments and the company's risk situation.

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

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

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

DEFINITION AND ELEMENTS

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

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

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

USE OF IT SYSTEMS IN ACCOUNTING

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

ESSENTIAL REGULATORY MEASURES AND CONTROLS

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

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

In our accounting systems we have separated administrative, executive, and authorization functions from one another by issuing different access profiles. This allows us to reduce the potential for fraudulent acts against the company by employees. Group accounting determines the scope of consolidation and the reporting packages prepared by Group companies. The Group companies and local auditors, who examine and comment on compliance with Dräger accounting policies, are provided with additional information, schedules, and deadlines for the financial statements at the latest by October of the reporting year.

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

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

RISK ASSESSMENT

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

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

The due date for reported risks is December 31, 2018, whereby the risk assessment is based on the update to the internal risk report. While the earnings forecast period is one year, Dräger assesses quantitative risk over a period of two years.

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

RISKS CATEGORIES

The following table shows our risk categories and their respective risk classes. It also displays the development of each individual risk category in the past year (remained stable, declined or increased).

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

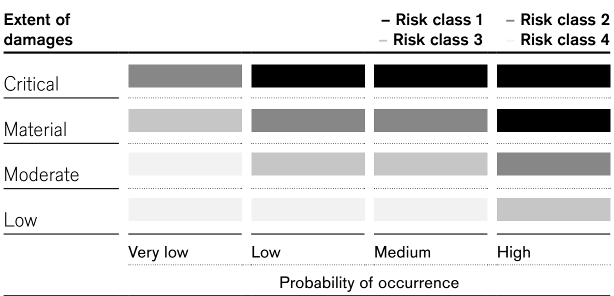
POLITICAL, FINANCIAL AND SOCIAL DEVELOPMENT

According to the International Monetary Fund (IMF), the global economy continued on its upturn in 2018 and grew by 3.7 % (2017: +3.7 %). The IMF is forecasting slightly slower growth of 3.5 % in 2019.

A number of geopolitical developments put us at risk of not achieving our planned net sales goals. Economic policy that could lead to the isolation of national markets and a preference for local competitors is gaining traction in several countries. The disorderly withdrawal of the UK from the EU in particular is capable of negatively impacting our business processes with the UK. Dräger has had a subsidiary in the UK for more than 50 years, with a production location for safety products in the northern English town of Blyth. In order to limit the impact as much as possible, we have already initiated measures and built up affected stocks both in Lübeck and the UK.

That includes the political uncertainty emanating from the U.S., and the increasing number of votes for populist parties in a number of European countries. Political tensions in the Middle East and between Saudi Arabia and Germany could also put the brakes on growth. Political developments on the Korean peninsula as well as the potential for a further deterioration in economic output in Latin America could have a negative impact on our business. Low raw material

RISK MATRIX



KEY TO PROBABILITY OF OCCURRENCE

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

KEY TO EXTENT OF DAMAGES

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

MATERIAL RISKS

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

prices and the lack of finance offerings in certain emerging markets, reductions in public sector budgets for medical and safety technology – particularly in Europe – and continuing strong competition could also have a negative effect on Dräger's net sales and margins.

Please refer to page 54 for more details on the overall economic outlook

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

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

ORGANIZATION AND LEADERSHIP

The dynamic market environment makes it essential for Dräger to constantly assess its competitiveness on sales and labor markets.

Geopolitical changes, increasing digitalization and high innovation pressure require more and more frequent change processes in Dräger's organization. Dräger considers strengthening its ability to adapt to change as a critical success factor when it comes to long-term competitiveness. And so, in the future, the company will focus on viewing change as an opportunity and not just as a risk, among other things. Bolstering the willingness to accept change across all levels of the company, as well as clear and transparent communication are decisive factors in this context (risk class 2).

INFORMATION SECURITY AND IT RISKS

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

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

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

PROCUREMENT

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

In the case of components and modules for which our suppliers cease series production, we have purchased the estimated number of components or modules required for the remaining product life cycle and store these components and modules, either at Dräger or with the supplier. In medical products, we analyze potential risks relating to purchased module components across multiple functions. In some cases, Dräger will purchase these from a single supplier. As these module components are used in a number of Dräger products, supply bottlenecks can cause production to be interrupted for a certain period of time. Possible interruptions to supply or the bankruptcy of suppliers could also lead to production outages and additional costs (Risk class 2).

PRODUCTION AND LOGISTICS

Also with regard to logistics, the goal of rapid, complete, high-quality, and timely delivery of products and accessories to our customers places high demands on our supply chain. Due to the continuing growth of our business and our cooperation with various logistics service providers, the possibility of temporary disruptions to our supply chain cannot be completely excluded. There were delays in relation to one logistics partner in fiscal year 2018, which resulted in loss of net sales and increased costs (Risk class 2).

QUALITY

We apply the highest quality standards in our business. Despite extensive quality management processes across the entire value chain, there is a risk that individual products will not meet the applicable quality requirements. Quality issues can be caused by us or one of our suppliers. That could result in a loss of net sales and higher quality costs (Risk class 2).

RESEARCH AND DEVELOPMENT

It is important for our profitability that our product portfolios are kept up to date. Experience has shown that new products are more profitable than products in a later phase of the product life cycle. This is why we want to continuously invest in research and development in order to keep the proportion of new products as high as possible or increase it, particularly in medical products. To achieve this, we must develop leading technological solutions and also products that appeal to the requirements of a broad section of the market. Increasingly stricter regulatory requirements in many different markets is making it more difficult to obtain approvals for products. The introduction of the new Medical Device Regulation in Europe, for example, means that clinical tests, material components, and documentation are now subject to significantly higher requirements than previously. The increasing networking of Dräger devices and the associated requirements regarding data protection are also leading to increased development expenses. Risks may arise from factors such as the unexpectedly high complexity of development projects, delayed product launches, and changes in market requirements. Different requirements on the part of licensing authorities can also lead to delayed product launches or the loss of product approvals. Dräger is also developing and producing products that contain an increasingly large number of software components, which in turn increases requirements in terms of license management. Risks can also arise from existing software licenses expiring or license terms being unintentionally violated (Risk class 1).

COMPLIANCE AND LEGAL

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

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

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

Please refer to the ›Compliance‹ section of the Corporate Governance Report on page 61 et seq.

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

CURRENCY RISKS

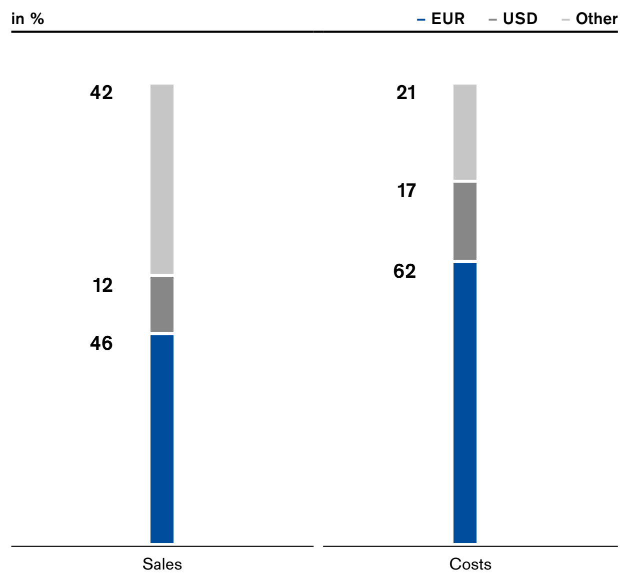
Dräger conducts its business in a variety of currencies whose exchange rates to the euro vary greatly. As a result, Dräger's payment flows are exposed to currency risks, which can arise as a result of exchange rate fluctuations in the period between planning, invoicing and subsequent payment. The group result is also exposed to exchange rate risks when earnings contributions from countries outside the eurozone are translated into the Group's operating currency (euro) at a different exchange rate.

The impact of fluctuations in exchange rates is determined by the balance of income and expenses in the respective foreign currency. Considering all currencies, we generate the vast majority of our net sales in foreign currencies, whereas most costs are incurred in euros. As a result, a general devaluation of the euro has a positive effect on earnings, while a general increase the euro's value has a negative impact. In the past we have experienced both positive and negative effects from currency changes; since 2016, these changes have been negative overall.

Currencies to be hedged for the subsequent fiscal year are determined on an annual basis in order to minimize fluctuations in earnings due to changes in exchange rates in an efficient and cost-effective manner. A total of 75 % of planned netted cash flows for these currencies are hedged through currency futures twelve months in advance. These hedges are concluded on a rolling basis every quarter, with the maximum hedging level being increased through tranches of 25 %. Currency hedges are recognized in accordance with the principles of hedge accounting; in other words, they are initially recognized directly in equity until they are realized in the income statement in the correct period together with the respective underlying transaction (Risk class 2).

↗ Please refer to charts ›Net sales and costs by currency (2018)‹ and ›Development of the sales-weighted currency basket (weighted according to net sales)‹ on page 50

NET SALES AND COSTS BY CURRENCIES (2018)



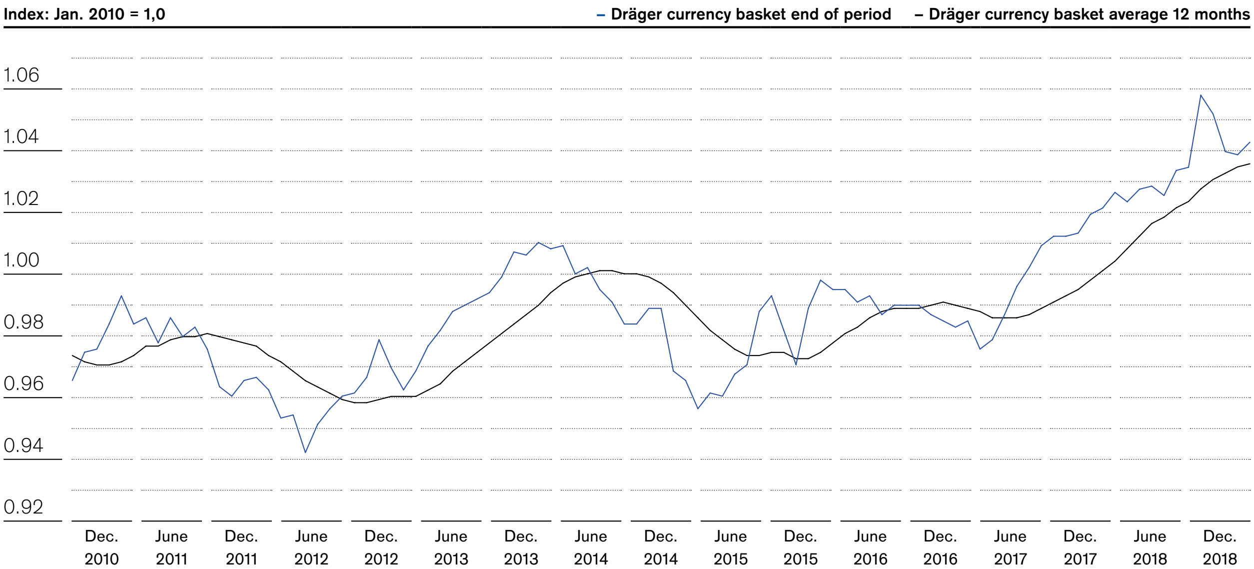
RISKS FROM FINANCIAL INSTRUMENTS

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

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

The Dräger Group uses a note loan with a residual term of three years in order to reduce liquidity risk. As of December 31, 2018, Dräger's bilateral credit lines to ensure its liquidity amounted to EUR 377.0 million. They were renegotiated in 2017 and currently have terms until June 30, 2022. The framework agreement for the bilateral credit lines stipulates target values based on certain financial covenants. Should Dräger not comply with these, the banks are entitled to terminate the credit lines. The values have been

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



specified so that Dräger would only run the risk of being unable to meet them if its financial position was to deteriorate drastically. It is also possible for Dräger to obtain the banks' approval to exceed or undercut these key figures at an early stage. Dräger continuously monitors key financial performance figures.

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

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

FINANCE

Fluctuations on financial markets pose the risk of uncertainty with regard to the future development of capital cost parameters. Higher capital costs may lead to the impairment of assets, especially goodwill (Risk class 2).

RISKS OF RECEIVABLE LOSSES

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

OTHER RISKS

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

Recognizing, reporting, and taking advantage of opportunities

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

Please refer to the ›Management, planning and reporting‹ section on page 19 et seq.

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

ACTIVITIES IN GROWTH MARKETS

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

Please refer to the ›Trends with an influence on our business performance‹ section on page 29 et seq.

Three global developments currently result in opportunities for Dräger:

- **Increasing and ageing population:** Structural changes and increasing life expectancy are causing rising demand for medical products in many industrialized countries and a number of emerging markets. Ongoing population growth in many countries all over the world is also boosting demand for good medical care.

- **Growing affluence in emerging markets:** Increasing incomes in emerging markets are coupled with higher standards of healthcare and workplace safety. Our broad product portfolio in the appropriate segments and our market presence put us in a good position to benefit from these effects.

- **Growing importance of system business:** The growing extent of digital networking is increasing the requirements that devices must fulfill in use. Networked equipment in hospitals supports both medical and administrative processes. The secure, real-time data transfer of safety-related data is also becoming increasingly important in industrial markets. Holistic therapeutic processes and the associated focus on treatment results from both a clinical and economic perspective are important goals of our customers worldwide. Our therapeutic devices and solutions help hospitals to achieve these goals.

DIGITALIZATION IS OPENING UP NEW OPPORTUNITIES

Increasing digitalization and automation in industry and retail is offering potential to boost efficiency and create new business models. In addition, platform-oriented sales models are also becoming increasingly important. All in all, our aim is to quickly recognize these new opportunities and also the challenges that digitalization brings and develop customer-centric solutions.

HIGH BARRIERS TO MARKET ENTRY FOR COMPETITORS

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

LEADING MARKET POSITIONS

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

EXPANSION OF THE SERVICE AND ACCESSORIES BUSINESS

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

PROJECT BUSINESS

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

CHANGES TO THE PRODUCT PORTFOLIO

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

SYNERGY EFFECTS AND PLATFORM STRATEGY

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

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

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

DEVELOPMENT OF THE MACROECONOMIC SITUATION AND EXCHANGE RATES

Macroeconomic development and fluctuating exchange rates can bring both risks and rewards. The positive development of the described factors can also result in advantages.

Please refer to section ›Currency risks‹ on page 49 et seq.

Overall assessment of risks and opportunities

All in all, regulatory risks and resulting risks relating to research and development are the most important in the Dräger risk portfolio. However, risks around the topic of information security are constantly increasing, as are general requirements for software solutions in development, which can have a negative effect on project timelines. In addition, economic and political developments, as well as currency risks, can also have a negative impact on our business. We reduce these risks by means of regional management and diversification of our product and service offering.

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

↗ Please refer to chart ›SWOT analysis – Dräger Group‹

SWOT ANALYSIS – DRÄGER GROUP

Company-specific

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

Market / Sector-specific

Opportunities	Risks
– Continual increase in safety requirements for employees at hazardous workplaces – Progress in medical industry and aging society driving forward expenditure on medical technology – High market entry barriers for new competitors as a result of regulation, technologies, patent protection – Low impact of economic fluctuations thanks to the breadth of the product portfolio and the markets served – Expansion of healthcare systems in emerging markets (as a result of increasing incomes) – New business models made possible through digitalization	– Increasing complexity and requirements for local licensing and the ongoing certification of products – Pressure on margins from increasing local competition – Trend towards the purchasing of medical technology equipment from domestic producers in certain regions, particularly China – Central purchasing strategy on the customer side and increased purchasing power of companies operating worldwide – Restrictions on domestic budgets and trend towards public companies forming purchasing cooperatives – Economic risks due to the financial crisis in certain countries as well as general political uncertainty caused by factors such as increased protectionism – Increasing global instability with possible effects on the purchasing behavior of our customers – Information security and IT risks – Currency losses due to exchange rate fluctuations – New competitors entering established markets with digital business models

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

Outlook

FUTURE MARKET ENVIRONMENT

The International Monetary Fund (IMF) downgraded its global economic growth forecast over the course of 2018. Based on the most recently published forecast from early 2019, growth of 3.7 % in 2018 stood at the same level as in the prior year (2017: 3.7 %). For 2019, the IMF expects global growth to slow down to 3.5 %. As can be seen in the following table, the IMF expects a lower growth rate in the current year in all regions and countries relevant to us.

↗ Please refer to table ›January 2019 Gross domestic product (GDP) growth forecast‹

The global upturn has slowed somewhat. At the same time, there are risks for continued global economic growth. According to the IMF, the main risk for continued development is the escalation of trade conflicts. Another risk is a result of the volume of public and private debt, which is quite restrictive, and of the conditions on the financial markets, which have declined over the course of 2018. According to the IMF, a disorderly withdrawal of the UK from the EU or a sharper downturn in the economy in China in particular could also have a major negative impact on the development of the global economy.

According to the Bundesbank, the German economy will continue its upswing, but it views its prospects with more skepticism now. The risks to continued economic growth will predominate, even if the boom phase in Germany continues on the whole. In the view of the Bundesbank, in 2018 the German economy grew by approximately 1.5 % and it expects growth of 1.6 % in 2019, with both figures lower than forecast in mid-2018.

JANUARY 2019 GROSS DOMESTIC PRODUCT (GDP) GROWTH FORECAST

in %	2018	2019	2020
Global economy	3.7	3.5	3.6
U.S.	2.9	2.5	1.8
Eurozone	1.8	1.6	1.7
Germany	1.5	1.3	1.6
China	6.6	6.2	6.2

Source: International Monetary Fund (IMF)

FUTURE MARKET AND SEGMENT SITUATION

EUROPE SEGMENT

In the Europe segment, we expect subdued growth overall in the relevant industries in 2019. The risk of a disorderly Brexit continues to unsettle almost the whole of the European economy. This applies in particular to the British medical product market. While we continue to regard the UK market as a growth market, the conditions for foreign manufacturers are deteriorating due to the upcoming withdrawal from the EU, with impending customs and extra bureaucracy. In addition, the construction of multiple hospitals has been delayed due in part to the liquidation of the second-largest construction company in the country. The major medical product markets in Germany and the Netherlands remain under significant cost pressure. In spite of this, we view the situation as positive overall. The Netherlands has made it clear that they are currently open to new technologies, in particular in the field of telemedicine. Public spending is also rising slightly in France and Spain, meaning that new hospital construction projects are planned again. The outlook for Italy, on the other hand, is still rather uncertain and it remains to be seen if healthcare projects will be prioritized by the new government. In Northern Europe, we expect a slight drop in growth for 2019. Russia is continuing to invest strongly in the purchase of medical products in 2019, but we believe that the policy of import substitution and the trade barriers continue to limit the sales opportunities in this market.

Safety product markets are likely to continue to develop positively. There should be continued impetus in the chemical industry for 2019. Russia will expand capacities in the chemical industry and in the oil and gas industry. According to our assessment, investments in the fire service market will continue to be limited to replacement investment due to budget pressure. According to our information, we expect stable, high demand for safety products in the application-oriented markets in Europe.

AMERICAS SEGMENT

We expect to see varying development in the Americas segment in those sectors that are relevant to us. The rate of growth of the U.S. healthcare market is likely to slow down in the medium term. The budgetary rigor there is leading to the merging of hospitals and a focus on the efficiency of forms of diagnosis and treatment. We expect business to shift in the direction of services due to the lower sales opportunities. We believe that markets in Central and South America will experience uneven development. In Brazil, the medical product market is edging upward again after years of crisis. Multiple hospital construction projects are planned, but competition from Chinese manufacturers is intensifying here, too. The economic crisis in Argentina is slowing growth in the healthcare market there, but it is also resulting in structural improvements, which offer opportunities in the field of digitalization, among other possibilities. In Mexico, the demand for medical products is continuing due to new hospital projects, but we expect growth rates to slow down.

Safety product markets are likely to develop positively in North America. For example, we expect to see continued stable growth in the chemical industry in the U.S. as economic forecasts for 2019 are also good. The oil and gas industry is currently experiencing a real boom there. The outlook for the North American fire service market suggests that it will keep pace with overall economic development, also supported by new regulatory requirements for self-contained breathing apparatus. The major economies are stabilizing in Central and South America, which will be favorable for safety products. We expect moderate growth in the chemical industry due to expansion and modernization investments in Mexico and Argentina. In the oil and gas industry, both countries are striving to increase output, which is why the economic outlook for providers of safety products is brighter than it has been in recent years. The chemical industry in Brazil is still shaped by major uncertainty, but the oil and gas industry there will invest more in 2019.

THE AFRICA, ASIA, AND AUSTRALIA SEGMENT

In the Africa, Asia, and Australia segment, we expect the relevant sectors to develop well in 2019. A reason for this positive trend in the medical product market is immense demand in China, even if foreign manufacturers are seeing their market positions come under pressure from local competitors there. The brisk demand for medical products in India is likely to continue in 2019, due in part to new governmental impetus. That benefits foreign manufacturers as there is a high level of dependence on imports. Japan's aging population ensures high demand for technical, innovative solutions in connection with artificial intelligence and big data. The Japanese medical product market will develop positively in this field in particular. The medical technology market in Australia is likely to continue to enjoy stable growth. The challenges here are the rise in chronic illnesses and the aging population. In the Middle East and Africa, we anticipate opportunities for medical products in countries with a great deal of pent-up demand and the necessary investment funds. This applies for example to Egypt and Southern Africa; signs of dynamic growth are beginning to show there. A high demand for modernization and rising purchasing power are accompanied by a lack of infrastructure.

We also see good development opportunities for safety products in this segment. Investments in China's chemical industry will grow considerably due in part to the government's stricter safety requirements. We continue to anticipate only sluggish growth in India despite high demand for premium chemical products. This is due to the lack of infrastructure. The oil and gas industry in the Middle East will be shaped in 2019 by the modernization and expansion of gas production. In 2019, the Australian mining industry is likely to invest less and focus on production. However, oil and gas extraction is continuing to expand there and provides good opportunities.

EXPECTATIONS FOR FISCAL YEAR 2019

	Results achieved in fiscal year 2018	Forecast in fiscal year 2019
Net sales	3.9 % (net of currency effects)	1.0 to 4.0 % (net of currency effects)
EBIT margin	2.4 %	1.0 to 3.0 %[1]
DVA	EUR –26.5 million	EUR –60 to –10 million
Other forecast figures:		
Gross margin	42.7 %	On par with prior year (+ / – 1 percentage point)
Research and development costs	EUR 252.2 million	EUR 260 to 275 million
Net interest result	EUR –11.0 million	On par with prior year
Days Working Capital (DWC)[3]	117.4 days	Stable development
Investment volume	EUR 77.8 million[2]	EUR 85 to 100 million[2]
Net financial Debt	EUR 43.3 million	Improvement

[1] Based on exchange rates at the start of fiscal year 2019 excluding restructuring expenses
[2] Excluding acquisitions
[3] Calculation methods for this figure will be adjusted in fiscal year 2019.

FUTURE SITUATION OF THE COMPANY

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

↗ Please refer to table ›Expectations for fiscal year 2019‹

Against the backdrop of increasing macroeconomic risks, we anticipate a decline in economic momentum. Net of currency effects, we predict net sales growth in the range of 1.0 to 4.0 %. We are experiencing tailwind from our high number of orders on hand at the start of the new fiscal year.

Based on exchange rates at the start of 2019, we expect currency effects to have only a slightly negative effect on earnings. We will continue our investment program in research and development and to strengthen our global sales and service network in 2019. We also plan a year-on-year increase in IT expenses. We expect the logistics measures launched in the prior year to have a negative effect on our EBIT in 2019. Against this backdrop, we anticipate an EBIT margin of between 1.0 % and 3.0 %.

We expect Dräger Value Added (DVA) of between EUR –10 million and EUR –60 million in fiscal year 2019. That assumes an unchanged cost of capital of 7 %.

We believe that our gross margin in 2019 will approximately match the prior-year level, adjusted by + / – one percentage point.

We also plan to invest more in the future sustainability of our company in 2019. Our expenditure on research and development will therefore be higher than in the prior year. We plan to launch a total of 18 new medical products or medical product upgrades and 16 new safety products or safety product upgrades.

Assuming interest rates remain stable, our interest result should stay around the level of the prior year in 2019.

Based on a reduction in inventories and the anticipated development of net sales, we expect days working capital to remain stable in 2019.

Our total investment volumes should stand at around the level of depreciation and amortization, between EUR 85 million and EUR 100 million.

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

DRÄGER MANAGEMENT ESTIMATE

The expansion of the global economy has slowed somewhat. Lower growth is forecast for 2019, both in industrial countries and in emerging markets. This situation is further complicated by a series of risks associated with the rise in protectionism and the continuing trade conflicts. The as yet unclear process for the UK's withdrawal from the European Union (Brexit) is still a considerable risk factor for economic development in Europe.

Our medical and safety technology markets remain growth markets, and this is in fact the case worldwide. To be successful, we must remain competitive. That is why we will continue to work to strengthen our capacity for innovation, in particular, and expand our global sales and service network in 2019. Not least, we thereby plan to consistently utilize international sales opportunities and strengthen our market position.

Corporate Governance Report

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

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

PARTNERSHIP LIMITED BY SHARES

»A partnership limited by shares (KGaA) is a company with a separate legal personality where at least one partner is fully liable to the company's creditors (general partner) and the remaining shareholders have a financial interest in the capital stock, which is divided into shares, without being personally liable for the company's liabilities (limited shareholders)« – according to Sec. 278 (1) AktG. Hence, a partnership limited by shares is a hybrid between a stock corporation and a limited partnership, with the character of a stock corporation predominating. As is the case at a stock corporation, a partnership limited by shares also has a two-tier management and oversight structure by law. The general partner manages the company and its operations, while the Supervisory Board oversees the company's management. The primary difference to a stock corporation is that, on the one hand, rather than an executive board a KGaA has general partners represented by the executive board (who also generally manage its business) and, on the other, the rights and responsibilities of the Supervisory Board are limited.

In a stock corporation the executive board is appointed by the Supervisory Board, while in a KGaA it does not appoint the general partner (or their management bodies) and does not determine their contractual conditions. It is also not authorized to adopt rules of procedure for management or to define a catalog of management transactions requiring approval. There are also differences relating to the annual shareholders' meeting: Certain resolutions must be approved by the general partner (Sec. 285 (2) AktG), in particular the resolution to approve the financial statements (Sec. 286 (1) AktG). Many of the recommendations of the German Corporate Governance Code (hereinafter also referred to as the ›Code‹), which is designed for stock corporations, can therefore only be applied to a limited extent to a partnership limited by shares.

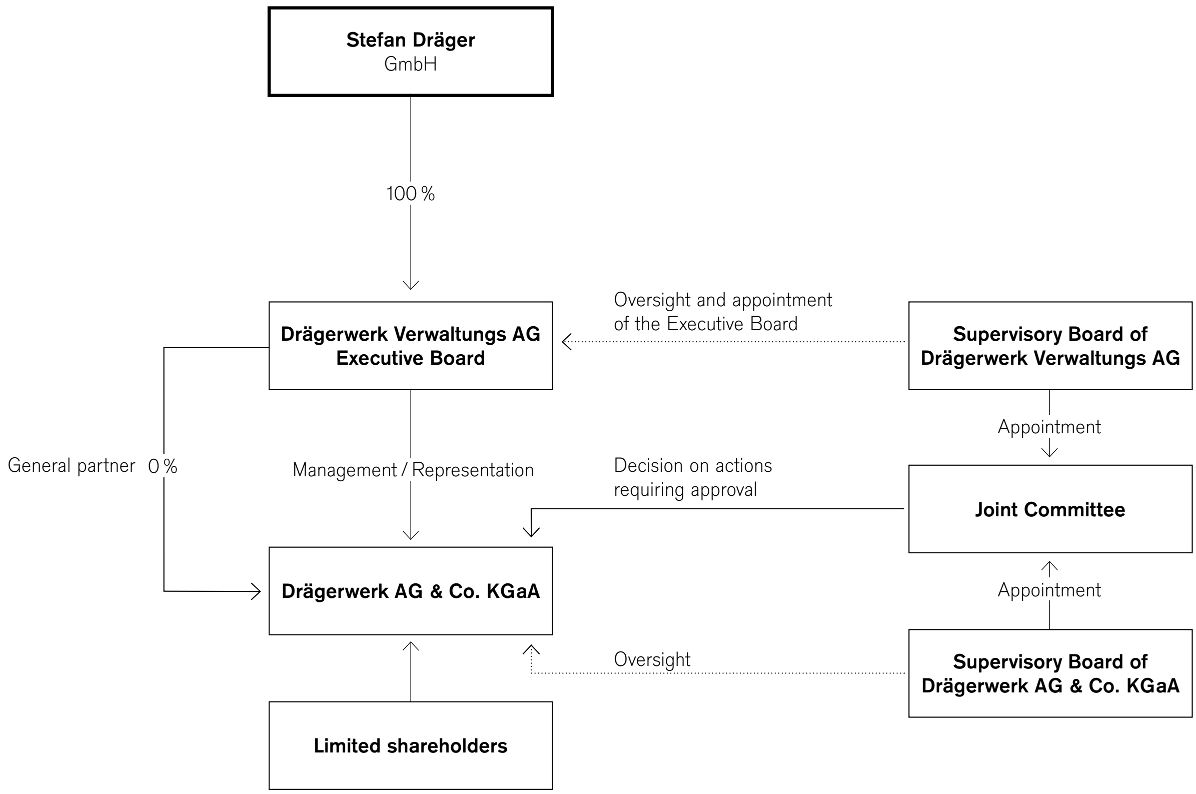
The sole general partner of Drägerwerk AG & Co. KGaA is Drägerwerk Verwaltungs AG, which is a wholly owned company of Stefan Dräger GmbH. Drägerwerk Verwaltungs AG manages the operations of Drägerwerk AG & Co. KGaA and represents it, acting through its Executive Board. Drägerwerk Verwaltungs AG does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

↗ Please refer to chart ›Drägerwerk AG & Co. KGaA‹

DECLARATION OF CONFORMITY

The joint declaration of conformity by the general partner and the Supervisory Board of Drägerwerk AG & Co. KGaA was discussed and approved in the meeting of the Supervisory Board on December 12, 2018. It states that the company applied the recommendations of the Government Commission of the German Corporate Governance Code in all areas.

DRÄGERWERK AG & CO. KGAA



The declaration was published on December 19, 2018, with the following wording:

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

The general partner, represented by its Executive Board, and the Supervisory Board declare that Drägerwerk AG & Co. KGaA acted and will continue to act on the recommendations of the German Corporate Governance Code Government Commission as of February 7, 2017 from the date of the issue of its previous declaration of conformity on December 19, 2017.«

OVERSIGHT BODIES

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

Pursuant to Sec. 22 of the company's articles of association, Drägerwerk AG & Co. KGaA has set up a Joint Committee as a voluntary, additional body. It comprises eight members: four members each from the Supervisory Boards of Drägerwerk Verwaltungs AG and Drägerwerk AG & Co. KGaA, which must include two shareholder representatives and two employee representatives from the Supervisory Board of Drägerwerk AG & Co. KGaA. The Joint Committee decides on the extraordinary management transactions by the general partner which require approval as set out in Sec. 23 (2) of the articles of association of Drägerwerk AG & Co. KGaA.

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

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

The last elections for shareholders' representatives took place at the annual shareholders' meeting on May 4, 2018. The criteria described above were taken into account and fulfilled without exception. It was ensured that a high proportion of Supervisory Board members have experience in representing family-run companies and listed companies as well as in marketing and sales at technology-led companies. According to the assessment of the Supervisory Board, all shareholder representatives, Stefan Lauer, Maria Dietz, Professor Dr. Thorsten Grenz, Astrid Hamker, Uwe Lüders, and Dr. Reinhard Zinkann, are independent as defined by 5.4.2 of the German Corporate Governance Code.

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

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

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

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

MANAGEMENT

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

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

The Supervisory Board of Drägerwerk Verwaltungs AG approved the rules of procedure and its allocation of responsibilities for the Executive Board at its meeting on December 11, 2018.

RELATIONSHIP TO SHAREHOLDERS

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

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

COMPLIANCE

For 130 years, Dräger has stood for ›Technology for Life‹. The highest degree of professionalism and reliability determine Dräger's conduct, and are also part of its values. The company's Principles of Business and Conduct provide the framework for this. They are supplemented with business-specific rules, such as on the topics of corruption, antitrust law or conflicts of interest, which are regularly updated to avoid risk in these areas. Dräger's compliance management system ensures that it can meet its own high standards. This system sets out the principles for Dräger's global compliance organization. Appropriate management and further development measures, as well as training concepts, ensure that compliance principles are clear and applied throughout the Group.

Dräger encourages its employees to engage in discussions with their managers and colleagues on the subject of ›compliance and integrity‹, and to voice any concerns they might have with regard to a business transaction. Employees are able to discuss their concerns with Dräger's compliance experts in special meetings or report them to the Dräger compliance hotline, anonymously if they wish. As in the prior year, in 2018 additional compliance experts were appointed globally to ensure that advice is tailored to the local markets while remaining within the guidelines of the compliance management system. The members of our global compliance organization are in constant contact with each other. In 2018 they met for the second year in succession at headquarters in Lübeck to ensure that their knowledge concerning the topic of compliance is up to date.

Further details on Dräger's compliance management system at www.draeger.com/sustainability

Remuneration report

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

EXECUTIVE BOARD REMUNERATION

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

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

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

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

CONTRACTS

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

DRÄGER VALUE ADDED AS A KEY MANAGEMENT FIGURE

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

REMUNERATION STRUCTURE

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

For fiscal year 2018, monetary remuneration comprised three components:

(i) fixed annual remuneration,
(ii) an annual bonus based on the annual DVA target and a KPI-based annual bonus, and
(iii) a long-term bonus based on DVA development over a three-year period.

The DVA-based bonus therefore represents the core component of variable remuneration for all Executive Board members. Upper limits are defined for all remuneration components, ensuring that the absolute value of the remuneration is limited. A future-oriented long-term measurement limit applies to the majority of variable salary components.

– **Fixed remuneration** is paid as a monthly salary. The fixed remuneration of existing Executive Board members was determined upon their appointments or at the time their contracts were extended and has remained unchanged since.

– Of the **variable target remuneration**, 50 % comprises an **annual bonus** and 50 % a **long-term bonus**.

– In turn, half of the **annual bonus** is based on a **DVA target** and the other half on one or more **KPI targets**. Both targets are defined every year by the Supervisory Board. Target achievement of 0 to 200 % is possible for the annual bonus and its component targets.

– The **DVA target** is at least EUR 50 million for 100 % target achievement; in the case of 200 % target achievement, the target is at least EUR 50 million above the 100 % DVA target. If DVA is negative, there is no bonus payment for the DVA target.

– For 2018, the **KPI targets** were based on three sub-goals:

(i) achievement of the cost targets set for 2018,
(ii) achievement of sales goals for selected new products, and
(iii) expansion of global business with customers in the area of monitoring.

– The **long-term bonus** is based on the cumulative achievement of DVA targets set by the Supervisory Board for the fiscal years 2016, 2017, and 2018. For the long-term bonus, target achievement of 0 % to a maximum of 300 % is possible.

The variable remuneration is restricted to 250 % of the variable target remuneration.

The variable remuneration target system also forms the basis for roughly 180 managers at the company. Remuneration is primarily based on the achievement of one-year DVA and KPI targets and only to a lesser extent on the defined DVA target of the three-year period. This variable remuneration system is also applied to approximately 300 employees not covered by the collective agreement on wages and salaries. The aforementioned one-year targets are the sole basis for this, with no medium- term components included in the system.

EMPLOYEE SHARE PROGRAM

The employee share program, offered for the first time in 2013, was once again offered by Dräger in fiscal year 2018. Two Executive Board members of Drägerwerk Verwaltungs AG took part in the employee share program. Both Executive Board members purchased 20 sets, each consisting of three shares, at a price of EUR 46.78 per share using their own funds. For every three preferred shares, participants received one preferred share worth EUR 46.78 on the date of entry free of charge from Dräger. The holding period for these preferred shares – including those that participants acquired themselves – runs until December 31, 2020. This is reported in the tables as share-based remuneration.

ADDITIONAL BENEFITS AND REMUNERATION COMPONENTS

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

EXECUTIVE BOARD REMUNERATION – GRANTED ALLOWANCES

in €	2017	2018	2018 Minimum	2018 Maximum
Stefan Dräger, Chairman of the Executive Board, since March 1, 2005				
Fixed remuneration	600,000	600,000	600,000	600,000
Additional benefits	11,738	11,807	11,807	11,807
Total fixed remuneration	**611,738**	**611,807**	**611,807**	**611,807**
One-year variable remuneration	650,738	391,823	0	1,400,000
Share-based remuneration	1,392	936	936	936
Long-term variable remuneration	290,246	348,085	0	2,100,000
Total fixed and variable remuneration	**1,554,114**	**1,352,651**	**612,743**	**4,112,743**
Pension cost	175,241	173,638	173,638	173,638
Total remuneration	**1,729,355**	**1,526,289**	**786,381**	**4,286,381**
Gert-Hartwig Lescow Finance and IT, since April 1, 2008				
Fixed remuneration	450,000	450,000	450,000	450,000
Additional benefits	23,749	23,988	23,988	23,988
Total fixed remuneration	**473,749**	**473,988**	**473,988**	**473,988**
One-year variable remuneration	371,850	223,899	0	800,000
Share-based remuneration	1,392	936	936	936
Long-term variable remuneration	165,855	198,906	0	1,200,000
Total fixed and variable remuneration	**1,012,847**	**897,729**	**474,924**	**2,474,924**
Pension cost	136,619	151,436	151,436	151,436
Total remuneration	**1,149,466**	**1,049,165**	**626,360**	**2,626,360**
Anton Schrofner Innovation, since September 1, 2010				
Fixed remuneration	400,000	400,000	400,000	400,000
Additional benefits	55,703	55,788	55,788	55,788
Total fixed remuneration	**455,703**	**455,788**	**455,788**	**455,788**
One-year variable remuneration	325,369	195,912	0	700,000
Share-based remuneration	0	0	0	0
Long-term variable remuneration	145,123	174,043	0	1,050,000
Total fixed and variable remuneration	**926,195**	**825,743**	**455,788**	**2,205,788**
Pension cost	30,663	30,384	30,384	30,384
Total remuneration	**956,858**	**856,127**	**486,172**	**2,236,172**

the benefit for trips between home address and place of work, and taxed individually. The Executive Board members are responsible for paying the incurred payroll tax. The company has also taken out group accident insurance for Executive Board members and pays the premium for the Directors & Officers Insurance (D&O) for members of the Executive Board; these policies do not constitute part of the Executive Board's remuneration. The financial loss liability insurance includes a deductible, which has been set since 2010 at one-and-a-half times the amount of gross fixed annual remuneration in accordance with Sec. 93 (2) Sentence 3 German Stock Corporation Act (AktG).

EXECUTIVE BOARD REMUNERATION – GRANTED ALLOWANCES (CONTINUED)

in €	2017	2018	2018 Minimum	2018 Maximum
Rainer Klug Purchasing, Production, and Logistics, since August 1, 2015				
Fixed remuneration	400,000	400,000	400,000	400,000
Additional benefits	28,340	25,666	25,666	25,666
Total fixed remuneration	**428,340**	**425,666**	**425,666**	**425,666**
One-year variable remuneration	325,369	195,912	0	700,000
Share-based remuneration	1,392	0	0	0
Long-term variable remuneration	240,506	174,043	0	1,050,000
Total fixed and variable remuneration	**995,607**	**795,620**	**425,666**	**2,175,666**
Pension cost	32,908	32,621	32,621	32,621
Total remuneration	**1,028,515**	**828,241**	**458,287**	**2,208,287**
Dr. Reiner Piske Personal, since November 1, 2015				
Fixed remuneration	300,000	316,667	316,667	316,667
Additional benefits	26,214	26,392	26,392	26,392
Total fixed remuneration	**326,214**	**343,059**	**343,059**	**343,059**
One-year variable remuneration	278,888	172,589	0	616,667
Share-based remuneration	905	0	0	0
Long-term variable remuneration	259,009	153,323	0	925,000
Total fixed and variable remuneration	**865,015**	**668,971**	**343,059**	**1,884,725**
Pension cost	25,285	25,063	25,063	25,063
Total remuneration	**890,300**	**694,034**	**368,122**	**1,909,788**

REMUNERATION TABLES

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

Fixed remuneration and additional benefits are based on the agreed fixed amount. In terms of the variable remuneration, the ›Granted allowances‹ table includes the minimum and maximum remuneration achievable and the expected remuneration.

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

SEVERANCE PAYMENTS REGULATIONS

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

THIRD-PARTY PAYMENTS AND REIMBURSEMENTS

In the fiscal year, no payments were made or promised by a third party to any member of the Executive Board in relation to duties as member of the Executive Board. If Executive Board remuneration is paid by Drägerwerk Verwaltungs AG, it is entitled to claim reimbursement from Drägerwerk AG & Co. KGaA monthly pursuant to Sec. 11 (1) and (3) of the articles of association of Drägerwerk AG & Co. KGaA. Pursuant to Sec. 11(4) of the company's articles of association, the general partner receives a fee, independ-

EXECUTIVE BOARD REMUNERATION – CONTRIBUTION

in €	2018	2017
Stefan Dräger, Chairman of the Executive Board, since March 1, 2005		
Fixed remuneration	600,000	600,000
Additional benefits	11,807	11,738
Total	**611,807**	**611,738**
One-year variable remuneration	650,738	1,359,890
Share-based remuneration	936	1,392
Long-term variable remuneration	290,246	0
Total variable remuneration	**941,920**	**1,361,282**
Pension cost	173,638	175,241
Total remuneration	**1,727,365**	**2,148,261**

	2018	2017
Gert-Hartwig Lescow Finance and IT, since April 1, 2008		
Fixed remuneration	450,000	450,000
Additional benefits	23,988	23,749
Total	**473,988**	**473,749**
One-year variable remuneration	371,850	679,945
Share-based remuneration	936	1,392
Long-term variable remuneration	165,855	0
Total variable remuneration	**538,641**	**681,337**
Pension cost	151,436	136,619
Total remuneration	**1,164,065**	**1,291,705**

Anton Schrofner Innovation, since September 1, 2010		
Fixed remuneration	400,000	400,000
Additional benefits	55,788	55,703
Total	**455,788**	**455,703**
One-year variable remuneration	325,369	679,945
Share-based remuneration	0	0
Long-term variable remuneration	145,123	0
Total variable remuneration	**470,492**	**679,945**
Pension cost	30,384	30,663
Total remuneration	**956,664**	**1,166,311**

Rainer Klug Purchasing, Production, and Logistics, since August 1, 2015		
Fixed remuneration	400,000	400,000
Additional benefits	25,666	28,340
Total	**425,666**	**428,340**
One-year variable remuneration	325,369	679,945
Share-based remuneration	0	1,392
Long-term variable remuneration	240,506	0
Total variable remuneration	**565,875**	**681,337**
Pension cost	32,621	32,908
Total remuneration	**1,024,162**	**1,142,585**

Dr. Reiner Piske Personal, since November 1, 2015		
Fixed remuneration	316,667	300,000
Additional benefits	26,392	26,214
Total	**343,059**	**326,214**
One-year variable remuneration	278,888	582,810
Share-based remuneration	0	905
Long-term variable remuneration	259,009	0
Total variable remuneration	**537,897**	**583,715**
Pension cost	25,063	25,285
Total remuneration	**906,019**	**935,213**

ent of profit and loss, of 6 % of the equity disclosed in its financial statements, payable one week after the general partner prepares its financial statements, for the management of the company and the assumption of personal liability. For fiscal year 2018, this remuneration amounted to EUR 96,361.85 (2017: EUR 93,797.94) plus any incurred VAT.

DEFINED BENEFIT PLANS

Obligations to the Executive Board members from the pension plan remain unchanged at Drägerwerk AG & Co. KGaA pursuant to the terms and conditions of individual contracts. The pension entitlements of Executive Board members are agreed on the basis of performance. Defined benefit plans for members of the Executive Board are performance-based and are agreed individually, based on ›Führungskräfteversorgung 2005‹, which has been in effect within the Group since January 1, 2006.

The defined benefits under the pension plans offered to the members of the Executive Board are based on the basic annual salary in the Executive Board. It is calculated for all Executive Board members on the basis of an annual contribution of up to 15 % of the basic annual salary. Depending on the Group EBIT margin, the annual pension contribution of Gert-Hartwig Lescow increases by up to 15 % of the income eligible for retirement benefits. Under the deferred

EXECUTIVE BOARD REMUNERATION – DRS 17

in €	2018	2017
Stefan Dräger, Chairman of the Executive Board, since March 1, 2005		
Fixed remuneration	600,000	600,000
Additional benefits	11,807	11,738
Total	**611,807**	**611,738**
One-year variable remuneration	391,823	647,658
Long-term variable remuneration	348,085	290,246
Share-based remuneration	936	1,392
Total variable remuneration	**740,844**	**939,296**
Total remuneration	**1,352,651**	**1,551,034**

	2018	2017
Gert-Hartwig Lescow Finance and IT, since April 1, 2008		
Fixed remuneration	450,000	450,000
Additional benefits	23,988	23,749
Total	**473,988**	**473,749**
One-year variable remuneration	223,899	370,310
Long-term variable remuneration	198,906	165,855
Share-based remuneration	936	1,392
Total variable remuneration	**423,740**	**537,557**
Total remuneration	**897,729**	**1,011,307**

Anton Schrofner Innovation, since September 1, 2010		
Fixed remuneration	400,000	400,000
Additional benefits	55,788	55,703
Summe	**455,788**	**455,703**
One-year variable remuneration	195,912	323,829
Long-term variable remuneration	174,043	145,123
Share-based remuneration	0	0
Total variable remuneration	**369,954**	**468,952**
Total remuneration	**825,743**	**924,655**

Rainer Klug Purchasing, Production, and Logistics, since August 1, 2015		
Fixed remuneration	400,000	400,000
Additional benefits	25,666	28,340
Total	**425,666**	**428,340**
One-year variable remuneration	195,912	323,829
Long-term variable remuneration	174,043	240,506
Share-based remuneration	0	1,392
Total variable remuneration	**369,954**	**565,727**
Total remuneration	**795,620**	**994,067**

Dr. Reiner Piske Personal, since November 1, 2015		
Fixed remuneration	316,667	300,000
Additional benefits	26,392	26,214
Total	**343,059**	**326,214**
One-year variable remuneration	172,589	277,568
Long-term variable remuneration	153,323	259,009
Share-based remuneration	0	905
Total variable remuneration	**325,912**	**537,482**
Total remuneration	**668,971**	**863,695**

compensation option, an additional annual contribution of up to 20 % of the basic annual remuneration per year is possible. These personal contributions were as follows in fiscal year 2018: Stefan Dräger: EUR 120,000 (2017: EUR 120,000); Gert-Hartwig Lescow: EUR 90,000 (2017: EUR 90,000); Dr. Rainer Klug: EUR 65,000 (2017: EUR 0); and Dr. Reiner Piske: EUR 49,500 (2017: EUR 6,000). In years in which the Group EBIT margin exceeds 5 % of net sales, Stefan Dräger receives a further contribution of 50 % on deferred compensation, but no more than 8 % of his basic annual salary. Gert-Hartwig Lescow also receives a further contribution which is as high as his deferred compensation but no more than 5 % of his basic annual salary.

The amount of EUR 3,152,868.60 was paid to former members of the Executive Board and their surviving dependents as of the end of the reporting year (2017: EUR 3,099,854.77). Pension obligations to former members of the Executive Board and their surviving dependents amounted to EUR 42,201,445 (2017: EUR 43,400,440).

↗ Please refer to table ›Pension obligations for active Executive Board members‹ on page 69

FUTURE REMUNERATION STRUCTURE

For fiscal year 2019, variable remuneration comprises the following components:

(ii) an **annual bonus** based on the annual individual targets and a KPI-based annual bonus, and
(iii) a **long-term bonus** based on DVA development over a three-year and a five-year period.

Of the **annual bonus**, 55 % is based on **individual targets** and 45 % on one or more **KPI targets**. Both targets are defined every year by the Supervisory Board. Target achievement of 0 to 200 % is possible for the annual bonus and its component targets.

For 2019, the **KPI targets** are based on three sub-goals:
(i) achievement of the cost targets set for 2019,
(ii) achievement of a sales goal for selected new products, and
(iii) expansion of global business with customers in the area of monitoring.

Of the **long-term bonus**, 55 % is based on a **three-year DVA target** and 45 % on a **five-year DVA target**.
(i) The **three-year DVA target** is based on the cumulative achievement of DVA targets set by the Supervisory Board for the fiscal years 2017, 2018, and 2019.
(ii) The **five-year DVA target** is based on the cumulative achievement of the DVA target set by the Supervisory Board's plan for the years 2019 – 2023. This bonus will be paid out in 2024 on completion of this five-year period. A partial payment is made when at least the interim targets set have been reached.

For the long-term bonus, target achievement of 0 to a maximum of 250 % is possible.

REMUNERATION OF THE SUPERVISORY BOARD

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

In accordance with Sec. 21 (1) of the articles of association of Drägerwerk AG & Co. KGaA, each Supervisory Board member receives compensation for expenses incurred plus annual remuneration, which is composed of fixed remuneration of EUR 20,000 (2017: EUR 20,000) and variable remuneration. The variable component is 0.015 % of DVA, but no more than EUR 20,000 (2017: EUR 20,000).

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

In fiscal year 2018, the total remuneration of the six members of the Supervisory Board of the general partner, Drägerwerk Verwaltungs AG, amounted to EUR 135,000 (2017: EUR 135,000) as well as additional flat fees for out-of-pocket expenses totaling EUR 55,000 (2017: EUR 55,000). No remuneration was paid to Supervisory Board members of Group companies.

↗ Please refer to table ›Supervisory Board remuneration‹

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

The following disclosures reflect circumstances on the balance sheet date.

COMPOSITION OF CAPITAL STOCK

The subscribed capital of Drägerwerk AG & Co. KGaA amounts to EUR 45,465,600. It consists of 10,160,000 voting bearer common shares and 7,600,000 non-voting bearer preferred shares, each with a EUR 2.56 share in capital stock. Shares of the same type carry the same rights and obligations. The rights and obligations of the shareholders are laid down in the German Stock Corporation Act, in particular in Sec. 12, 53a et seq., 118 et seq. and 186 AktG, as well as in the articles of association of the Company. As compensation for the lack of voting rights, an advance dividend of EUR 0.13 per preferred share is distributed from net earnings. If sufficient net earnings are available, a dividend of EUR 0.13 per common share is then paid. Any profit

PENSION OBLIGATIONS OF THE ACTIVE MEMBERS OF THE EXECUTIVE BOARD

in €	Allocations 2018	Obligation December 31, 2018	Allocations 2017	Obligation December 31, 2017
Dräger, Stefan	525,198	4,870,897	442,081	4,345,699
Lescow, Gert-Hartwig	371,437	1,906,910	323,570	1,535,473
Klug, Rainer	145,314	227,081	34,056	81,767
Piske, Dr. Reiner	114,915	196,794	36,461	81,879
Schrofner, Anton	52,663	656,143	42,058	603,480
Acting Members of the Executive Board	**1,209,527**	**7,857,825**	**878,226**	**6,648,298**

SUPERVISORY BOARD REMUNERATION

				2018				2017
in €	Fixed	Variable	Other	Total	Fixed	Variable	Other	Total
Lauer, Stefan Chairman (since May 4, 2018)	46,667	0	4,167	50,833	20,000	10,608	0	30,608
Schweickhart, Prof. Dr. Nikolaus Chairman (until May 4, 2018)	25,000	0	4,167	29,167	60,000	31,824	10,000	101,824
Kasang, Siegfrid Vice Chairman	30,000	0	10,000	40,000	30,000	15,912	10,000	55,912
Benten, Nike	20,000	0	0	20,000	20,000	10,608	0	30,608
Dietz, Maria (since May 4, 2018)	13,333	0	0	13,333	0	0	0	0
Friedrich, Daniel	20,000	0	10,000	30,000	20,000	10,608	10,000	40,608
Grenz, Prof. Dr. Thorsten	20,000	0	20,000	40,000	20,000	10,608	20,000	50,608
Hamker, Astrid (since May 4, 2018)	13,333	0	0	13,333	0	0	0	0
Kruse, Stephan (since May 4, 2018)	13,333	0	0	13,333	0	0	0	0
Lüders, Uwe	20,000	0	6,667	26,667	20,000	10,608	0	30,608
Neundorf, Walter (until May 4, 2018)	8,333	0	0	8,333	20,000	10,608	0	30,608
Rauscher, Prof. Dr. Klaus (until May 4, 2018)	8,333	0	4,167	12,500	20,000	10,608	10,000	40,608
Rickers, Thomas	20,000	0	0	20,000	20,000	10,608	0	30,608
Van Almsick, Bettina	20,000	0	0	20,000	20,000	10,608	0	30,608
Zinkann, Dr. Reinhard	20,000	0	0	20,000	20,000	10,608	0	30,608
Total	**298,333**	**0**	**59,167**	**357,500**	**290,000**	**153,816**	**60,000**	**503,816**

in excess of this amount, if distributed, is allocated so that preferred shareholders receive EUR 0.06 more than common shareholders. If the net earnings are not sufficient for an advance dividend for preferred shares in one or more years, the amounts are paid from the net earnings of subsequent fiscal years before a dividend is paid on common shares. If amounts in arrears are not paid in the next year along with the full preferred dividend for that year, the preferred shareholders have voting rights until the arrears have been paid. In the event of liquidation, the preferred shareholders receive 25 % of net liquidation proceeds in advance. The remaining liquidation proceeds are distributed evenly among all shares.

RESTRICTIONS RELATING TO VOTING RIGHTS OR THE TRANSFER OF SHARES

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

DIRECT OR INDIRECT SHAREHOLDINGS EXCEEDING 10 %

67.19 % of the common shares of Drägerwerk AG & Co. KGaA, equivalent to 6,826,000 common shares or 38.43 % of the total capital stock, belong to Dr. Heinrich Dräger GmbH, Lübeck. Its shares are mainly owned by members and shareholders of the Dräger family, so that the voting rights associated with the common shares are held by the Dräger family. 59.72 % of Dr. Heinrich Dräger GmbH, Lübeck, is held by Stefan Dräger GmbH. Stefan Dräger GmbH is wholly owned by Stefan Dräger, Lübeck. The voting rights of Stefan Dräger GmbH are to be allocated to its partner, Stefan Dräger, pursuant to Sec. 22 of the German Securities Trading Act (WpHG). Through Stefan Dräger GmbH, Stefan Dräger also holds all shares in Drägerwerk Verwaltungs AG, Lübeck, the general partner of Drägerwerk AG & Co. KGaA. This means that Stefan Dräger is a shareholder in the general partner as well as common shareholder of Drägerwerk AG & Co. KGaA. In cases covered by Sec. 285 (1) Sentence 2 AktG, he would therefore not be entitled to vote. The legal structure of Dr. Heinrich Dräger GmbH ensures that, for such resolutions, Stefan Dräger cannot exert any influence on the exercise of the voting rights of common shares held by Dr. Heinrich Dräger GmbH.

SHARES WITH SPECIAL RIGHTS CONFERRING CONTROL

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

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

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

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

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

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

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

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

POWER OF THE GENERAL PARTNER TO ISSUE OR BUY BACK SHARES

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

In accordance with the resolution agreed upon at the annual shareholders' meeting on April 27, 2016, the general partner is entitled, until April 26, 2021 and upon consent of the Supervisory Board, to acquire own shares of up to 10 % of capital stock, regardless of type (common and / or preferred shares) and to use them for all legally permissible purposes.

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

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

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

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

Business performance of Drägerwerk AG & Co. KGaA

Drägerwerk AG & Co. KGaA is the parent company of the Dräger Group.

Please refer to the ›Principles of the Group‹ on page 19 et. seq.

The following comments relate to this company's financial statements, prepared in accordance with the German Commercial Code (HGB).

In fiscal year 2018, Drägerwerk AG & Co. KGaA's net loss amounted to EUR −0.1 million (2017: EUR +148.3 million). Over the course of the year, the company had 2,862 employees on average (2017: 2,754 employees), of which 746 worked in Production (2017: 719 employees) and 2,116 worked in other areas (2017: 2,035 employees).

EARNINGS EFFECTS FROM OPERATING ACTIVITIES

In fiscal year 2018, Drägerwerk AG & Co. KGaA achieved a result from operating activities – excluding income from investments, interest result and taxes – of EUR −57.0 million (2017: EUR +6.5 million).

Drägerwerk AG & Co. KGaA generated net sales from medical business of EUR 1,064.8 million in fiscal year 2018 (2017: EUR 1,067.1 million), which was offset by the cost of materials of EUR 579.9 million (2017: EUR 554.5 million). Personnel expenses rose year on year from EUR 256.8 million to EUR 282.3 million. Other operating expenses amounted to EUR 289.3 million (2017: EUR 278.7 million).

Increases in the number of employees, the wages and salaries resulting from the raises in accordance with collective wage agreements in the metal and electrical industries in Germany and higher pension expenses due to the decline in the underlying interest rate according to the German Commercial Code (HGB) to 3.21 % (2017: 3.68 %) in the calculation of pension provisions had a negative effect on earnings. In addition, there were sales expenses, in particular freight and logistics costs of the second largest cost pool, which caused the company's negative operating result.

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

RESULTS OF GROUP COMPANIES

The fall in earnings from profit and loss transfer agreements was mainly attributable to Dräger Safety AG & Co. KGaA (EUR −63.2 million), Dräger Medical International GmbH (EUR −37.4 million), and Dräger Medical Deutschland GmbH (EUR −12.4 million).

DISTRIBUTION FOR PARTICIPATION CAPITAL

Based on the proposed dividend for preferred shares of EUR 0.19 (2017: EUR 0.46), the distribution for participation capital amounts to EUR 1.90 per participation certificate for fiscal year 2018 (2017: EUR 4.60).

INVESTMENTS

In fiscal year 2018, the company invested EUR 3.2 million (2017: EUR 5.6 million) in software and intangible assets. Investments in property, plant, and equipment came to EUR 24.0 million (2017: EUR 42.6 million). Investments were primarily focused in connection with the new building at the Krefeld location, renovations of existing buildings and the production of various tools.

NET ASSETS AND FINANCIAL POSITION

After deducting cash and cash equivalents, net financial liabilities to banks as of December 31, 2018 amounted to EUR 107.4 million (2017: EUR 74.9 million); Group financing of Group companies came to EUR 184.9 million (2017: EUR 163.0 million).

Drägerwerk AG & Co. KGaA's equity stood at EUR 1,046.6 million and decreased by a total of EUR 7.6 million year on year. Drägerwerk AG & Co. KGaA's equity ratio as of the reporting date therefore came to 62.6 % (2017: 62.1 %).

COMPARISON OF FORECAST AND ACTUAL FIGURES

Drägerwerk AG & Co. KGaA's earnings in 2018 were principally impacted by net sales in Germany and abroad, income from services, investments, and profit and loss transfers. As announced in 2017, dividends in the amount of EUR 7.6 million were paid on common and preferred shares and participation certificates. In fiscal year 2018, net financial debt came to EUR 88.7 million; the equity ratio stood at 62.6 %.

FORECAST FOR FISCAL YEAR 2019

For Drägerwerk AG & Co. KGaA, we expect a similar net profit as in fiscal year 2018. In fiscal year 2018 we achieved a net loss of EUR −0.1 million. We do not expect any significant change to the equity ratio, which stood at 62.6 % as of December 31, 2018.

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

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

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

DECLARATION PURSUANT TO SEC. 161 AKTG

Our declaration of conformity is available to the public on the company website www.draeger.com in the Investor Relations/Corporate Governance section
and is also printed in this Annual Report on page 59.

DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES

The Executive Board has implemented effective internal control systems and relevant employee training measures to ensure that the Group's financial reporting system is correct and complies with legal requirements. The company's principles are based on integrity and social responsibility in all areas such as environmental protection, quality, product and process safety, and compliance with local laws and regulations. The internal Audit department continuously monitors the implementation of these principles as well as the reliability and functionality of the control systems. The Executive Board of Drägerwerk Verwaltungs AG governs the Group in the interest of its shareholders and is aware of its responsibility to employees, society, and the environment. We have made it our goal to use the resources entrusted to us in a manner that increases the value of the Dräger Group. According to the resolution passed by the annual shareholders' meeting on May 4, 2018, the Supervisory Board appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as the independent auditor of the single entity financial statements of Drägerwerk AG & Co. KGaA for fiscal year 2018.

The auditing firm also examined the existing risk management system with regard to the Control and Transparency in Business Act (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – KonTraG). Representatives of the statutory auditor attend the Audit Committee's meeting as well as the Supervisory Board's meeting to discuss the financial statements, during which the management report and auditor's report are deliberated on. The Supervisory Board has issued a separate report on this subject in the report of the Supervisory Board in the annual report 2018.

WORKING METHODS OF THE EXECUTIVE AND SUPERVISORY BOARDS

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

In its role as managing body of Drägerwerk AG & Co. KGaA and of the Dräger Group, the Executive Board of Drägerwerk Verwaltungs AG makes decisions on corporate policy. It determines the company's strategic focus, plans and sets budgets, is responsible for resource allocation, and monitors business performance. It also compiles the quarterly reports and the financial statements of Drägerwerk AG & Co. KGaA and the Group. It works closely with the oversight bodies. The Chairman of the Supervisory Boards of the company and of the general partner works closely with the Chairman of the Executive Board of the general partner. He regularly provides up-to-date and comprehensive information on all issues relevant to the Company: Strategy and its implementation, planning, business performance, financial position, and results of operations, as well as business risk. The Supervisory Board of Drägerwerk Verwaltungs AG approved the rules of procedure and its allocation of responsibilities for the Executive Board at the meeting on December 11, 2018.

MINIMUM QUOTAS FOR THE COMPOSITION OF THE SUPERVISORY BOARD

The company follows the regulations under Sec. 96 (2) AktG regarding the minimum quotas for women and men for the composition of the Supervisory Board. It thereby made use of the protections for existing members of the Supervisory Board with current terms up until elections to the Supervisory Board at the annual shareholders' meeting on May 4, 2018.

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

In its goals the Supervisory Board has established criteria for its composition that take diversity into account. They are printed in the Corporate Governance Report in this Annual Report on page 60. In the view of the Supervisory Board its current composition fully meets all goals. The composition of the Supervisory Board continues to take the minimum quotas set by Sec. 96 (2) AktG.

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

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

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

www.draeger.com/sustainability

FORWARD-LOOKING STATEMENTS

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

Lübeck, February 19, 2019

The general partner
Drägerwerk Verwaltungs AG
represented by its Executive Board

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

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ANNUAL FINANCIAL STATEMENTS

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Annual Financial Statements 2018 of the Dräger Group

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

in € thousand	Notes	2018	2017
Net sales	8	2,595,010	2,572,256
Cost of sales	9	–1,486,963	–1,420,096
Gross profit		**1,108,046**	**1,152,160**
Research and development costs	10	–252,171	–234,674
Marketing and selling expenses	11	–592,631	–566,292
General administrative costs	12	–198,458	–197,710
Impairment losses on financial and contract assets[1]	13	–648	–
Other operating income	14	3,546	18,840
Other operating expenses	14	–1,850	–12,145
		–1,042,211	**–991,981**
		65,835	**160,179**
Profit from net exposure from monetary items		–63	–
Profit from investments in associates		219	263
Profit from other investments		–	1
Other financial result		–3,346	–4,703
Financial result (before interest result)	**15**	**–3,189**	**–4,440**
EBIT		**62,646**	**155,739**
Interest result	15	–10,994	–12,819
Earnings before income taxes		**51,652**	**142,920**
Income taxes	16	–16,754	–44,420
Net profit		**34,899**	**98,500**
Net profit		**34,899**	**98,500**
Earnings to non-controlling interests		544	–30
Earnings attributable to shareholders and holders of participation certificates	19	34,355	98,530
Undiluted/diluted earnings per share on full distribution	**19**		
per preferred share (in €)		1.48	4.18
per common share (in €)		1.42	4.12

[1] The new item is in accordance with the amendments of IAS 1.82 which result from the application of IFRS 9. The prior year's figures have not been adjusted.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE DRÄGER GROUP

in € thousand	2018	2017
Net profit	**34,899**	**98,500**
Items that cannot be reclassified into the income statement		
Remeasurements of defined benefit pension plans	–17,771	3,916
Deferred taxes on remeasurements of defined benefit pension plans	5,851	–862
Items that may be reclassified into the income statement in the future		
Currency translation adjustment for foreign subsidiaries	–1,127	–31,495
Change in the fair value of financial assets designated as available for sale recognized directly in equity	–	24
Deferred taxes on changes in the fair value of financial assets designated as available for sale recognized directly in equity	–	–6
Changes in the fair value of the cash flow hedge reserve recognized directly in equity	–1,252	–1,375
Deferred taxes on changes in the fair value of the cash flow hedge reserve recognized directly in equity	573	410
Other comprehensive income (after taxes)	**–13,726**	**–29,388**
Total comprehensive income	**21,173**	**69,112**
of which attributable to non-controlling interests	333	–127
thereof earnings attributable to shareholders and holders of participation certificates	20,839	69,239

CONSOLIDATED BALANCE SHEET OF THE DRÄGER GROUP

in € thousand	Notes	December 31, 2018	December 31, 2017
Assets			
Intangible assets	20	336,019	342,485
Property, plant and equipment	21	429,109	432,294
Investments in associates	22	395	420
Non-current trade receivables	23	2,518	3,954
Other non-current financial assets	24	17,946	13,115
Deferred tax assets	16	144,659	133,563
Other non-current assets	27	3,077	2,996
Non-current assets		**933,723**	**928,827**
Inventories	25	459,186	387,720
Trade receivables and contract assets[1]	23	703,882	669,175
Other current financial assets	24	37,383	39,281
Cash and cash equivalents	26	179,561	247,568
Current tax refund claims		36,641	24,295
Other current assets	27	59,851	57,500
Current assets		**1,476,504**	**1,425,539**
Total assets		**2,410,227**	**2,354,366**
Equity and liabilities			
Capital stock		45,466	45,466
Capital reserves		234,028	234,028
Reserves retained from earnings incl. group result		790,039	780,913
Participation capital	30	29,497	29,497
Other comprehensive income		–19,796	–22,822
Non-controlling interests	29	1,426	1,262
Equity	28	**1,080,659**	**1,068,343**
Liabilities from participation certificates	30	24,842	23,761
Provisions for pensions and similar obligations	31	339,295	312,977
Other non-current provisions	32	46,083	51,108
Non-current interest-bearing loans and liabilities to banks	33	125,076	137,788
Other non-current financial liabilities	34	24,866	25,251
Non-current income tax liabilities		15,686	21,523
Deferred tax liabilities	16	1,323	1,263
Other non-current liabilities	35	29,064	14,904
Non-current liabilities		**606,235**	**588,575**
Other current provisions	32	201,267	195,081
Current interest-bearing loans and liabilities to banks	33	90,098	71,485
Trade payables	34	201,438	202,917
Other current financial liabilities	34	34,277	21,599
Current income tax liabilities		23,082	33,784
Other current liabilities	35	173,171	172,581
Current liabilities		**723,332**	**697,448**
Total equity and liabilities		**2,410,227**	**2,354,366**

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

CONSOLIDATED CASH FLOW STATEMENT OF THE DRÄGER GROUP

in € thousand		2018	2017
Operating activities			
	Group net profit	34,899	98,500
+	Write-down / write-up of non-current assets	85,263	84,210
+	Interest result	10,994	12,819
+	Income taxes	16,754	44,420
+ / –	Increase / decrease in provisions	3,349	– 20,976
+ / –	Other non-cash expenses / income	13,697	27,882
–	Gain from the disposal of non-current assets	– 221	– 7,484
–	Increase in inventories	– 76,925	– 29,961
–	Increase in leased equipment	– 11,462	– 10,641
–	Increase in trade receivables	– 40,988	– 22,357
–	Increase in other assets	– 3,425	– 15,036
+ / –	Increase / Decrease in trade payables	– 2,331	22,246
+	Increase in other liabilities	28,042	5,078
+	Received dividends	245	215
–	Cash outflow for income taxes	– 49,878	– 39,409
–	Cash outflow for interests	– 7,360	– 9,258
+	Cash inflow from interest	3,439	3,087
	Cash inflow from operating activities	**4,090**	**143,336**
Investing activities			
–	Cash outflow for investments in intangible assets	– 4,618	– 4,728
+	Cash inflow from the disposal of intangible assets	–	1
–	Cash outflow for investments in property, plant and equipment	– 57,108	– 65,997
+	Cash inflow from disposals of property, plant and equipment	1,802	5,923
–	Cash outflow for investments in non-current financial assets	– 3,754	– 115
+	Cash inflow from the disposal of non-current financial assets	176	360
–	Cash outflow from the acquisition of subsidiaries	–	– 980
	Cash outflow from investing activities	**– 63,503**	**– 65,534**
Financing activities			
–	Distribution of dividends (including dividends for participation certificates)	– 11,042	– 4,001
–	Cash outflow from the acquisition of treasury shares for the employee share program	– 2,791	– 3,342
+	Cash inflow from the transfer of treasury shares from the employee share program	2,029	2,116
+	Cash provided by raising loans	3,731	400
–	Cash used to redeem loans	– 51,581	– 10,365
–	Net balance of other liabilities to banks	54,225	– 23,973
–	Repayment of finance lease liabilities	– 566	– 1,390
–	Cash outflow from the change in shareholdings in subsidiaries without a change in the method of accounting	– 3	– 1,137
–	Profit distributed to non-controlling interests	– 168	– 161
	Cash outflow from financing activities	**– 6,167**	**– 41,853**
	Change in cash and cash equivalents in the fiscal year	**– 65,579**	**35,948**
+ / –	Effect of exchange rates on cash and cash equivalents	– 2,428	– 9,861
+	Cash and cash equivalents at the beginning of the fiscal year	247,568	221,481
	Cash and cash equivalents as of December 31 of the fiscal year	**179,561**	**247,568**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE DRÄGER GROUP

in € thousand	Capital stock	Capital reserves	Reserves retained from earnings incl. group result	Participation capital	Treasury shares	Other comprehensive income	Total equity of shareholder Drägerwerk AG & Co. KGaA	Non-controlling interests	Equity
January 1, 2017	**45,466**	**234,028**	**682,803**	**29,497**	**0**	**9,684**	**1,001,476**	**2,039**	**1,003,516**
Net profit	–	–	98,530	–	–	–	98,530	–30	98,500
Other comprehensive income	–	–	3,054	–	–	–32,345	–29,291	–97	–29,388
Total comprehensive income	**–**	**–**	**101,584**	**–**	**–**	**–32,345**	**69,239**	**–127**	**69,112**
Distributions	–	–	–4,001	–	–	–	–4,001	–161	–4,162
Acquisition of treasury shares	–	–	–	–	–3,342	–	–3,342	–	–3,342
Employee share program	–	–	–	–	3,342	–	3,342	–	3,342
Change in the scope of consolidation	–	–	82	–	–	–27	54	–	54
Change in the shares in subsidiaries excluding change of control	–	–	–411	–	–	–237	–648	–489	–1,137
Miscellaneous	–	–	856	–	–	104	960	–	960
December 31, 2017	**45,466**	**234,028**	**780,913**	**29,497**	**0**	**–22,822**	**1,067,081**	**1,262**	**1,068,343**
Adjustments due to amended accounting standards			–2,604			–70	–2,675	–1	–2,676
January 1, 2018	**45,466**	**234,028**	**778,308**	**29,497**	**0**	**–22,892**	**1,064,406**	**1,261**	**1,065,667**
Net profit	–	–	34,355	–	–	–	34,355	544	34,899
Other comprehensive income	–	–	–11,920	–	–	–1,596	–13,516	–210	–13,726
Total comprehensive income	**–**	**–**	**22,435**	**–**	**–**	**–1,596**	**20,839**	**333**	**21,172**
Distributions	–	–	–11,042	–	–	–	–11,042	–168	–11,210
Acquisition of treasury shares	–	–	–	–	–2,791	–	–2,791	–	–2,791
Employee share program	–	–	–	–	2,791	–	2,791	–	2,791
Change in the shares in subsidiaries excluding change of control	–	–		–	–	4,692	4,692	–	4,692
Miscellaneous	–	–	338	–	–	–	338	–	338
December 31, 2018	**45,466**	**234,028**	**790,039**	**29,497**	**0**	**–19,796**	**1,079,233**	**1,426**	**1,080,659**

Notes of the Dräger Group for 2018

1 GENERAL

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

On March 7, 2019, the Executive Board is approving the publication of the Group financial statements of Drägerwerk AG & Co. KGaA for fiscal year 2018. The Group financial statements are published in electronic form in the Federal Gazette.

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

2 BASIS OF PREPARATION OF THE GROUP FINANCIAL STATEMENTS

Drägerwerk AG & Co. KGaA prepared its Group financial statements for fiscal year 2018 in accordance with International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Boards (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). Drägerwerk AG & Co. KGaA applied all the IFRSs adopted by the IASB as of December 31, 2018, to its 2018 Group financial statements, provided that these standards were endorsed by the European Commission and published in the Official Journal of the European Union by the date of publication of the Group financial statements and that application of such standards is mandatory for fiscal year 2018.

On their effective dates, Dräger has applied the following revised standards issued by the IASB for the first time in fiscal year 2018 in particular:

– IFRS 15 ›Revenue from Contracts with Customers‹ (issued May 2014) specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide recipients of financial statements with additional relevant information. The standard replaces IAS 18 ›Revenue,‹ IAS 11 ›Construction Contracts,‹ and revenue-related interpretations IFRIC 13, IFRIC 15, IFRIC 18, and SIC-31. In prior years, Dräger performed an impact analysis to examine revenue realization and revenue recognition processes. The analysis started by determining Dräger's key revenue realization business models. An analysis was then performed to determine whether and to what extent the provisions of IFRS 15's five-step model will impact current revenue realization on the basis of the individual business models. The analysis identified the contractual issues concerned, and additional potential areas of activity for those issues were then determined to adjust guidelines, reporting processes, and IT processes. Among other issues, this concerns contracts that entail several different service obligations on the part of Dräger (known as multiple element arrangements, as can arise in the case of Dräger's medical product portfolio through sale and service as well as in the case of project business). In order to clearly identify the individual obligations in a multiple element arrangement, Dräger had already included separate material numbers with stipulated prices in the system for all key services (including extended warranties that have been granted) at least at product group level, in addition to the separate material numbers of pieces of equipment held for sale – even prior to fiscal year 2018 and the implementation of IFRS 15. This method has ensured and continues to ensure that every service to be rendered is recorded in the system. Prices of goods and services are set individually in line with the customer. The customization of pricing in the equipment business results from the fact that the key products sold generally involve freely configurable equipment tailored to customers' specific needs in terms of hardware and software. The organizational separation of equipment sales from the service area has been carried out, even in supporting departments such as Marketing. Equipment prices and service prices are set independently of each other. The prices obtainable for the different products on the market always serve as the basis for this. Organizational separation and the individual incentives provided by variable remuneration in the individual sales units ensure that the agreed prices are stand-alone selling prices as defined in IFRS 15, so that a reallocation between the equipment and service business is not necessary. Dräger's project business was also examined in terms of its compliance with the requirements of IFRS 15. Project business at Dräger accounts for only approximately 3 % of total net sales. In addition, Dräger either mainly manufactures locally on the customer's premises, or provisions under the terms of a contract or civil law ensure that Dräger has a right at all times to a portion of the fee agreed – including a margin – in accordance with current performance.

IFRS 15 has no material impact on Dräger's net assets or results of operations in any of the matters examined. As a result, no adjustment effect needed to be reconciled to the statement of changes in equity. Dräger applied the changes in disclosure requirements under IFRS 15 using the modified retrospective approach. New balance sheet items such as contract assets and contract liabilities will be reported from fiscal year 2018. In addition, the following notes to the financial statements also contain a greater volume of qualitative and quantitative information for recipients of the financial statements.

- The adjustments to IFRS 15 ›Clarifications to IFRS 15 – Revenue from Contracts with Customers‹ (issued April 2016) serve to clarify the identification of performance obligations, the principles of principal versus agent considerations, and determining the type of licenses granted, as well as sales or usage-based royalty revenue. The standard also offers transition relief for modified contracts and concluded contracts. The impact on Dräger's Group financial statements is in line with the impact from IFRS 15 as specified above.
- IFRS 9 ›Financial Instruments‹ (issued July 2014) completes the IASB's three-phase project to replace IAS 39 ›Financial Instruments: Recognition and Measurement.‹ IFRS 9 was published as a complete standard, bringing together all previously published regulations and the new regulations on the calculation and recognition of impairment (particularly the expected credit loss model) and amendments to the classification and measurement of financial assets. The balance sheet presentation of hedging relationships was also changed in favor of improving the presentation of operational risk management. Dräger has taken the decision to exercise its option to continue to apply IAS 39 to hedge accounting in fiscal year 2018.

  The changes to the classification and recognition of financial assets has had little effect on Dräger, as the majority of Dräger's financial assets consist of debt instruments that continue to be measured at amortized cost (see also our statements concerning the changes to classification in Note 7 and the reconciliation in Note 36). The change to the classification of one debt instrument that was originally recognized directly in equity and is now to be recognized in profit or loss, due to the assessment of the contractual cash flow properties, resulted in a slight adjustment effect after tax of EUR 70 thousand, which was reclassified into retained earnings within equity accordingly as of January 1, 2018.

Impairment tests were continuously carried out on the probability of default of financial assets that are measured either at amortized cost or directly in equity at fair value as a result of the introduction of the expected credit loss model. Risk provisions are formed for all expected losses. In the previously applied incurred loss model under IAS 39, impairment losses were only recognized if there were indications of default.

In accordance with this change, impairments on financial assets were adjusted as follows as of January 1, 2018:

RESTATEMENT IMPAIRMENT – IFRS 9

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

The adjustment effect of EUR 3,725 thousand (EUR 2,604 thousand after tax) was recognized in equity under retained earnings as of January 1, 2018.

- The amendments to IFRS 4 ›Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts‹ (issued September 2016) mainly relate to companies with predominant insurance activities that have expressed concerns pertaining to the application of IFRS 9 before the standard to replace IFRS 4 is to be applied. The amendments are designed to reduce the impact from the varying dates of initial application of these standards for these companies as a result of the use of two alternative approaches (the overlay approach and the deferral approach). As Dräger is not a company with predominant insurance activities, this does not have a material impact on Dräger's Group financial statements.
- The clarification in respect of IFRS 2 ›Classification and Measurement of Share-based Payment Transactions‹ (issued June 2016) pertains to issues relating to the accounting of equity-settled share-based payments. The amendment respectively addition also relates to the approach used when modifying certain underlying conditions as well as the classification of transactions with specific fulfillment conditions. This does not materially impact Dräger's Group financial statements.
- The amendments to IAS 40 (issued December 2016) stipulate that a company can transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. This does not impact Dräger's Group financial statements.
- IFRIC 22 (issued December 2016) clarifies for IAS 21 that the date of the transaction, for the purpose of determining the exchange rate used at the initial recognition of assets, expenses, or income, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability by an entity. This does not have a material impact on Dräger's Group financial statements.

- The amendments in the ›Annual Improvements to IFRSs 2014 – 2016 Cycle‹ (issued December 2016) make minor changes to IFRS 1, IFRS 12, and IAS 28 and clarify existing guidance. This does not have a material impact on Dräger's Group financial statements.

Additional accounting requirements have already been adopted into European law by the EU and must be applied to fiscal years beginning on or after January 1, 2019. Dräger did not voluntarily apply this interpretation prematurely. These accounting requirements relate in particular to the following standards:

- The new IFRS 16 ›Leases‹ (issued January 2016) supersedes the current standard on lease accounting (IAS 17) as well as the Interpretations IFRIC 4, SIC-15, and SIC-27. IFRS 16 defines a lease as an agreement under which the right to control the use of an identifiable asset is transferred and under which the customer has the right to both define the use of this asset and benefit from the use of this asset during the term of use. The material changes affected by IFRS 16 relate to how the lessee accounts for these leases. The lessee is required to recognize assets and liabilities for the rights and obligations arising under all existing leases. This will increase Dräger's total assets while reducing the share of total equity and liabilities attributable to equity. In addition, the change in recognition in the income statement will result in an improvement to EBITDA. Recognition exemptions are granted for low-value assets and short-term leases. The accounting principles for lessors largely correspond to the existing provisions under IAS 17. Dräger has implemented a suitable technical support system for the management and accounting of the contracts in question pursuant to IFRS 16. Subsidiaries have loaded the contracts in question into the selected system for analysis. At Dräger, the new requirements will have a particular impact on the accounting treatment and measurement of rental and leased properties which are currently classified as operating leases. This particularly concerns leased office space, service areas, and production areas, as well as leased vehicles and other rented factory and office equipment that later leads to the recognition of corresponding right-of-use assets and leasing obligations. The transition to IFRS 16 will be implemented using the modified retrospective approach. The sum of the right-of-use assets thereby equals the sum of the leasing obligations adjusted for the accrued leasing obligations. Based on the leases existing as of the reporting date, we anticipate that changes to leasing expenses will increase Group EBIT by approximately EUR 2 million in 2019. The initial application will result in right-of-use assets of approximately EUR 101 million and leasing obligations totaling roughly EUR 104 million being recognized in the consolidated balance sheet as of January 1, 2019. The difference of approximately EUR 3 million is the result of the correction of accrued lease obligations pursuant to IFRS 16.C8(b)(ii). The change in the recognition of operating lease expenses as impairments on right-of-use assets and interest expenses from lease obligations is expected to result in an improvement to EBITDA in fiscal year 2019. The application of IFRS 16 will have a positive effect on operating cash flow and a negative effect on cash flow from financing.
- IFRIC Interpretation 23 (issued June 2017) clarifies the accounting of uncertain deferred and current tax liabilities. In assessing uncertainty, Dräger must judge the likelihood that the tax authorities concerned will follow the relevant applied or planned tax assessment. This does not have a material impact on Dräger's Group financial statements.

- The amendments to IFRS 9 ›Prepayment Features with Negative Compensation‹ (issued October 2017) govern how certain financial instruments with prepayment features are classified under IFRS 9 ›Financial Instruments.‹ In addition, it also clarifies the recognition of financial liabilities as a result of modification. This does not have a material impact on Dräger's Group financial statements.
- The amendments to IAS 28 ›Long-term Interests in Associates and Joint Ventures (issued October 2017)‹ clarify that an entity must apply IFRS 9 ›Financial Instruments‹ to long-term interests in an associate or joint venture that largely form part of the net investment in the associate or joint venture but to which the equity method is not applied. This does not impact Dräger's Group financial statements.

The following accounting requirements have not yet been adopted into European law by the EU and are to be applied to fiscal years beginning on or after January 1, 2019. Dräger did not voluntarily apply these requirements prematurely.

- The new IFRS 17 ›Insurance Contracts‹ (issued May 2017) governs the recognition, measurement and disclosure of insurance contracts, reinsurance contracts and capital investment contracts with discretionary participation features. This does not impact Dräger's Group financial statements.
- The amendments in the ›Annual Improvements to IFRSs 2015 – 2017 Cycle‹ (issued December 2017) make the following changes to standards:
  - IFRS 3 ›Business Combinations:‹ The amendments clarify that when an entity obtains control of a business that is a joint operation, it applies the requirements of successive business combinations, including the remeasurement of previously held interests in the assets and liabilities of the joint operation at fair value. The acquirer remeasures the entirety of its previously held interests in the joint operation. This does not impact Dräger's Group financial statements.
  - IFRS 11 ›Joint Arrangements:‹ A party that holds an interest in a joint operation but does not have joint control could acquire joint control of a joint operation in which the activity constitutes a business as defined in IFRS 3. The changes clarify that the entity does not remeasure previously held interests in that business. This does not impact Dräger's Group financial statements.
  - IAS 12 ›Income Tax:‹ The changes clarify that the income tax consequences of dividends are recognized in the same way as the items giving rise to those tax consequences. As a result, income taxes are to be recognized in profit or loss unless the underlying transaction was recognized directly in equity. This does not impact Dräger's Group financial statements.
  - IAS 23 ›Borrowing Costs:‹ The amendments clarify that a company must treat any loans originally taken out to develop a qualifying asset as part of the borrowing in a general sense if most activities required to prepare this asset for its intended use or sale have been completed. A company applies these changes to borrowing costs that are incurred at or after the beginning of the annual reporting period in which the entity applies these changes for the first time. This does not have a material impact on Dräger's Group financial statements.

- The amendments to IAS 19 ›Plan Amendment, Curtailment or Settlement (issued February 2018)‹ specifies how companies determine ongoing service costs for the remainder of the period when changes to a defined benefit pension plan occur. The actuarial assumptions used in the remeasurement of net liabilities (assets) from defined benefit pension plans and that reflect the services offered as part of the plan and plan assets following this event are to be included here. It is possible that these amendments will have an effect on Dräger's Group financial statements, however, this depends on whether changes to defined benefit pension plans are made, which rarely happens within the Group.
- The amendment to IFRS 3 ›Business Combinations (issued October 2018)‹ defines the minimum requirements of a business combination. In addition, the previous requirement for an assessment into a market participant's ability to replace missing elements has been removed and the definition of ›output‹ specified in greater detail. This does not have a material impact on Dräger's Group financial statements.
- The amendments to IAS 1 and IAS 8 ›Definition of Material (issued October 2018)‹ introduced changes regarding the definition of materiality in IFRS financial reports. The amendments to IAS 1 ›Presentation of Financial Statements‹ and IAS 8 ›Accounting Policies, Changes in Accounting Estimates and Errors‹ are aimed at making it easier for IFRS reporters to determine material information without making any significant changes to previous requirements. In addition, the amendments ensure that the IFRS framework has a standardized definition of materiality. This does not have a material impact on Dräger's Group financial statements.
- The amendments to the requirements of IAS 28 and IFRS 10 ›Sale or Contribution of Assets between an Investor and its Associate or Joint Venture‹ (issued September 2014) address a conflict between these requirements and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. This does not have a material impact on Dräger's Group financial statements.

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

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

The Group financial statements were prepared in euros. Unless stated otherwise, all figures were disclosed in thousands of euros (EUR thousand); rounding differences may arise as a result. The balance sheet is classified according to the current / non-current distinction; the income statement was prepared according to the cost of sales method. Where certain items of the financial statements have been grouped with a view to enhancing the transparency of presentation, they are disclosed separately in the notes. The single entity financial statements of the companies included in consolidation were prepared as of the balance sheet date of the Group financial statements on the basis of uniform accounting and valuation policies. The financial statements of one company of minor importance with a different fiscal year were not prepared as of the balance sheet date of the Group financial statements; in this case, any material developments are carried forward to the Group balance sheet date.

3 SCOPE OF CONSOLIDATION

The consolidated group of Drägerwerk AG & Co. KGaA is composed of 107 fully consolidated entities as of December 31, 2018 (2017: 110 entities) and, as in the prior year, one associated entity.

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

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

The consolidated group includes five (2017: six) real estate companies and a further special purpose entity as structured companies. The activities of these companies are limited, because they were each only founded for a specific purpose. Dräger controls these structured companies not exclusively through voting rights or comparable rights, but partially only through other contractual agreements (please refer to our comments on the use of assumptions and estimates in Note 7). Dräger does not provide these companies with any financing or guarantees, nor does it intend to do so in the future.

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

Dräger leases land and buildings from two companies whose only purpose is leasing these properties; Dräger does not hold any interests in or have any influence over these companies by means of other contracts. These companies are not included in Dräger's consolidated group, as Dräger does not exercise any control over these companies within the meaning of IFRS 10 on account of the firm contractual commitments. The companies do not receive any additional financing or guarantees from Dräger, nor does Dräger plan any such support. Provisions for potential losses are recognized, as Dräger does not currently use these properties to their full extent (please refer to our comments in Note 32).

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

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

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

The consolidated companies of the Dräger Group as of December 31, 2018 are listed under Note 45.

4 EFFECTS OF THE CHANGES IN THE SCOPE OF CONSOLIDATION

The scope of consolidation of Drägerwerk AG & Co. KGaA developed as follows in fiscal year 2018:

SCOPE OF CONSOLIDATION

	Germany	Abroad	Total
Drägerwerk AG & Co. KGaA and fully consolidated companies			
January 1, 2018	24	86	110
Established	–	1	1
Mergers	1	2	3
Liquidation	–	1	1
December 31, 2018	**23**	**84**	**107**
Associates			
January 1 / December 31, 2018	1	–	1
Total	**24**	**84**	**108**

Dräger founded Dräger Myanmar Ltd. in November 2018. By contrast, French subsidiary Draeger Safety France SAS was merged with another French subsidiary, Dräger France SAS, in January 2018. Japanese subsidiary Draeger Safety Japan Ltd. was merged with another Japanese subsidiary, Draeger Japan Ltd., in November 2018. In addition, German subsidiary FUNDUS Grundstücksverwaltungs-GmbH & Co. KG was merged with the German parent company, Drägerwerk AG & Co. KGaA, in December 2018. Lastly, Dräger Safety South Africa (Pty.) Ltd. was liquidated in fiscal year 2018.

5 CONSOLIDATION PRINCIPLES

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

Successively acquired shares that do not affect the controlled status of an entity are treated as transactions between providers of equity capital (›entity concept‹). The carrying amounts of assets and liabilities remain the same. The value shift between Dräger and the non-controlling interests is recorded directly in equity. Any non-controlling interests in equity attributable to external third parties are shown in the consolidated balance sheet as such (see also Note 28).

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

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

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

6 CURRENCY TRANSLATION

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

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

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

The financial statements and comparative figures of economically independent foreign entities operating in a hyperinflationary environment and reporting in a currency of a hyperinflationary economy shall be restated in terms of the measuring unit current on the balance sheet date using a general price index for the country in question. The subsidiary in Argentina had its registered office in a hyperinflationary economy for the first time in the fiscal year. The applied price index of the Federación Argentina de Consejos Profesionales de Ciencias Económicas (FACPCE) stood at 124.8 as of January 1, 2018 and 184.13 as of December 31, 2018. The effects of inflation amounted to EUR 1.0 million and were recognized as an increase in equity within currency translation differences. The loss from the net exposure from monetary items amounted to EUR 63 thousand. Previous comparison amounts denominated in stable currency have not been adjusted. The subsidiary in Venezuela was also affected by hyperinflation in the prior year until its liquidation in December 2017. However, due to the secondary importance of this subsidiary, the effects of inflation were not recognized.

The exchange gains / losses on operating foreign currency items included in cost of sales and in functional costs gave rise to a total loss of EUR −12,966 thousand (2017: loss of EUR −17,352 thousand).

The exchange gains / losses on foreign currency items disclosed in the financial result led to total losses of EUR −3,305 thousand (2017: loss of EUR −4,673 thousand).

Currency translation for foreign subsidiaries gave rise to a decrease in other comprehensive income of EUR 372 thousand as of the balance sheet date (2017: decrease of EUR 31,399 thousand).

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

CURRENCIES / EXCHANGE RATES

			Closing rate		Average rate
	1 € =	Dec. 31, 2018	Dec. 31, 2017	2018	2017
U.S.	USD	1.15	1.20	1.18	1.14
People's Republic of China	CNY	7.88	7.81	7.82	7.66
United Kingdom	GBP	0.89	0.89	0.89	0.88
Australia	AUD	1.62	1.53	1.58	1.48

7 ACCOUNTING POLICIES

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

GENERAL

The Group financial statements have been prepared on a historical cost basis. Dräger does not utilize the option of remeasuring intangible assets and property, plant and equipment. The historical cost basis does not apply to any financial instrument acquired also for the purpose of generating cash flows through its sale or any financial instrument that is exclusively held for sale. These financial instruments are measured at fair value.

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

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

Net sales recognition

In accordance with the provisions of IFRS 15, net sales should be realized at the time of and in an amount that reflects the contractual service obligations to the customer.

The amount of the net sales is calculated on the basis of the transaction price of the relevant customer contract, in other words the consideration that the company expects to be entitled to in exchange for goods or services provided to the customer. At Dräger, this consideration is in most cases a fixed price. However, Dräger also negotiates variable consideration components, albeit only occasionally. Payment periods are mostly set at 30 days. Payment periods greater than one year are only contractually agreed to a limited extent. In the event that the agreed payment period is longer than one year, financing components are also included in the calculation of the transaction price.

Net sales that cannot be reliably estimated are only recognized to the extent of the expenses that are considered recoverable.

In the event of one or more performance obligations being fulfilled for the same customer at the same time or within a short time frame and included in a single civil-law contract with a single transaction price (multi-element contracts) with different fulfillment dates, the agreed transaction price is split across the respective performance obligations on the basis of the individual sales prices.

Net sales are reduced by sales deductions, if any arise. Anticipated obligations for discounts on sales volumes are measured using empirical values and reduce net sales accordingly. Dräger only issues manufacturer warranties to customers in a handful of exceptional cases. Warranties to protect from faulty deliveries are generally only issued for up to a period of twelve months and are recognized as part of warranty provisions. Dräger does not enter into buyback and reimbursement obligations beyond these warranties as a rule.

IFRS 15 applies the concept of control when it comes to the fulfillment date for performance obligations. This concept stipulates that net sales are recognized as control is passed to the customer. Under IFRS 15, a distinction is drawn between the fulfillment of performance obligations at a single point in time, which is usually the case, and the fulfillment of performance obligations over time provided the criteria for recognition over time are met.

Net sales from the sale of products are recognized at the point in time at which control is passed to the buyer on the condition that the company is likely to receive the agreed transaction price. In the case of products that have to be installed at customers' premises, control is passed to the buyer at the point at which the product is delivered and installed.

Net sales from the provision of services are recognized over the period of time in which the services are rendered if the customer receives the benefits from the provision of the service while the service is being rendered. Services are provided either permanently or periodically.

Net sales from construction contracts (project business) are recognized over the period of time in which the service is rendered provided the customer acquires control of the created asset while the services are rendered or if there is a customer-specific order (the created asset does not have any alternative benefit) and Dräger has a legal entitlement to corresponding payment, including a profit margin, at any point during the provision of the service. The stage of completion which has to be established to this end in the case of fixed price contracts is determined using the cost-to-cost method (input-based method). This method determines the stage of completion based on the costs incurred as of the balance sheet date in relation to the estimated total cost. Due to the extended period of performance, payment plans covering the period of construction are generally agreed in the case of construction contracts.

Costs of initiating and fulfilling the contract would be recognized as expenses as they arise if the useful life is no greater than one year; however such costs are extremely rare.

Dräger exercises its right to initial application in simplified form. Contracts that had not been fully fulfilled by January 1, 2018, are recognized as if they had been subject to IFRS 15 from the start. Comparison figures from prior years have not been adjusted. We refer to our disclosures in Note 2 with regard to the effects of the first-time application of provisions concerning the recognition of net sales under IFRS 15.

Intangible assets

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

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment

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

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

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

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

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

Land is not depreciated.

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

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

Assets under construction are stated at cost.

Investment allowances

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

Impairment losses on intangible assets and property, plant and equipment

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

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

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

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

Financial instruments

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

The Dräger Group holds the following financial assets:

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

The Dräger Group reports the following financial liabilities:

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

Financial assets

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

Financial assets are categorized into one of the following classes for subsequent valuation:

- at amortized cost,
- at fair value through other comprehensive income (with recycling through profit or loss),
- at fair value through other comprehensive income (without recycling through profit or loss) or
- at fair value through profit or loss.

These assets are classified on the basis of:

- the business model applied by the company to manage financial assets and
- the characteristics of the contractual cash flows generated by the financial asset and
- the characteristics of the financial instrument from the perspective of the issuer (equity instrument or debt instrument).

At the Dräger Group, debt instruments are primarily held to generate contractual cash flows and are therefore measured at amortized cost. Trade receivables and contract assets are considered to be material financial instruments. One debt instrument is measured at fair value in profit or loss on the basis of the characteristics of the contractual cash flows.

The option to designate financial assets for fair value measurement through profit or loss is not exercised. In addition, there are no financial assets measured at fair value through other comprehensive income.

Equity instruments are generally measured at fair value through profit or loss as they are held for trading. The option to designate equity instruments for fair value measurement through other comprehensive income is not exercised.

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

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

Generally speaking, the three-level general model to determine expected losses is used for the subsequent valuation of debt instruments as part of the expected credit loss model. Debt instruments are categorized into one of three levels that correspond to the respective risk of default. Depending on the respective risk level, risk provisions are formed either in the amount of the expected losses over a 12-month period (level 1: low credit risk) or in the amount of the expected losses over the entire term in the case of a significant increase in credit risk in the period since initial recognition (levels 2 and 3).

When assessing whether the credit risk of a debt instrument has increased significantly, Dräger compares the credit risk at the point of initial recognition with the credit risk as of the balance sheet date. All available and reliable forward-looking information concerning changes to the economic environment and the economic capabilities of the debtor are taken into account.

Changes to the volume of risk provisions are recognized as a reversal of an impairment loss or an impairment loss in the income statement.

Dräger considers financial assets to be irrecoverable if the contractual payment date has been exceeded by more than 120 days. Irrecoverability can also be determined if additional information indicates that payment default is likely.

In the case of trade receivables, contract assets and leasing receivables, which account for over 95 % of Dräger debt instruments, Dräger exercises its option to apply the simplified method whereby risk provisions are measured in the amount of the expected losses from default for the entire term both at initial recognition and on all subsequent reporting dates.

Trade receivables and contract assets are structured according to credit risk portfolios in order to calculate expected losses. The risk portfolios are based on the customer regions. The payment and past due structure is determined for each risk portfolio using a default matrix. The historical default rates are calculated by allocating average defaults on receivables over the past three years to payment structures. These default rates are then applied to the individual past due structures in order to calculate risk provisions required. In addition to historical defaults, a prospective forward-looking element is also taken into consideration.

Values are usually adjusted through the use of allowance accounts. Assets and allowances are written off if it is established that the financial assets are determined to be impaired. In the event of the unforeseeable impairment of receivables, these receivables are written off directly, not using the allowance account.

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

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

Financial liabilities

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

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

Liabilities held for trading are an exception to this and, because they were acquired with the intention of repurchasing them in the short term, they are always recognized at fair value in profit or loss. At Dräger, this primarily affects derivatives that are not part of a hedge and have a negative market value. Changes to the fair value that are attributable to the company's own credit risk are recognized through other comprehensive income.

Dräger does not exercise its option to voluntarily measure a financial liability at fair value through profit or loss.

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

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

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

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

Derivative financial instruments

The Dräger Group uses derivatives in the form of currency futures and a single interest rate swap as part of its risk management to hedge currency and interest rate risks.

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

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

The effectiveness of the hedge is determined at the start of the hedging relationship and by means of periodic prospective valuations in order to ensure that there is likely to be an economic relationship between the hedged item and the hedging instrument. At the Dräger Group, the prospective valuation is conducted by reviewing the contractual terms and conditions of the hedged item and the hedging transaction. Generally speaking, hedging instruments at Dräger are always concluded at identical terms and conditions to the hedged item, so that it can be assumed that the hedge will be effective in the future.

Furthermore, the hypothetical derivative method is used within the scope of a retrospective effectiveness test to determine whether the hedge was effective in the prior period and to calculate potential inefficiencies that may result from variations regarding the timing and volume of the underlying transactions.

Due to the forward-to-forward designation, the spot and forward components of the hedge are designated to the hedge. The effective portion of the designated components calculated through the retrospective effectiveness test is recognized directly in equity in the cash flow hedge reserve and the ineffective portion of the designated components is recognized in profit or loss. Fair value changes of the non-designated components are also recognized in profit or loss.

The amounts accumulated in the hedge reserve are reclassified to the income statement as a so-called ›reclassification adjustment.‹

Dräger uses cash flow hedge accounting to account for future cash flows from highly likely future currency hedging transactions. Excess cash flows from planned operating net sales and costs denominated in the respective foreign currencies are considered to be the hedged item. Through the use of hedge accounting, temporary differences in currency futures are recognized directly in equity under other comprehensive income until they are transferred to the income statement, when the hedged item affects profit or loss.

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

Derivative financial instruments are recognized at fair value. The fair value of listed derivatives is the positive or negative market value. In the absence of a market value, the fair value is determined according to generally accepted methods of financial mathematics such as the discounting of expected future cash flows.

We refer to Note 36 for details of the nature and scope of the Dräger Group's existing financial instruments.

Inventories

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

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

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

Cash and cash equivalents

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

Participation capital

In accordance with IAS 32 and IFRS 9, the individual Dräger participation certificate series are recognized pursuant to the commercial value of their contractual agreements. Series A certificates are classified as equity. However, they include an obligation with a value to the amount of the minimum return which is recognized as a liability.

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

The components recognized as debt are measured at amortized cost using the effective interest method (present value of repayment obligation). Please refer to Note 30 for further information on the individual Dräger participation certificate series.

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

Dividends

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

Provisions for pension obligations and similar obligations

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

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

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

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

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

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

Other provisions

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

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

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

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

Income taxes

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

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

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

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

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

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

Companies within the group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognized for unclaimed respectively carried forward tax credits.

Share-based payment

In fiscal year 2018, as in fiscal years 2013, 2015, 2016, and 2017, Dräger offered all Dräger employees in Germany share-based compensation in the form of an employee share program. This was designed to increase employees' identification with the company and Dräger's attractiveness as an employer.

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

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

Leases

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

A) FINANCE LEASES

Dräger Group as lessee

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

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

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

Dräger Group as lessor

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

B) OPERATING LEASES

Dräger Group as lessee

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

Dräger Group as lessor

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

Use of estimates and assumptions

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

The estimates pertain to the following areas in particular:

- Beside Dräger's voting rights, other matters and circumstances need to be taken into account when determining whether a special purpose entity or a company is controlled to such an extent that it should be included as a subsidiary in the Group financial statements. Assumptions need to be taken into account in particular in those cases in which other contractual rights or constructive circumstances exist so as to determine whether Dräger can use its power over the company to influence the company's variable returns. Changes to contractual agreements or facts or circumstances are monitored with regard to their potential impact on the assumptions made.
- In the case of two real estate companies, many corporate measures are predetermined on account of their narrow business purposes, meaning that they do not need to be consolidated on the basis of voting rights. However, Dräger has contractual purchasing options for these properties, which are integrated in Dräger's premises. As a result, by managing the residual value of these properties Dräger exercises control over the variable returns of these companies and therefore over the own returns from the investments. As in the prior year, these real estate companies therefore need to be included in Dräger's scope of consolidation as subsidiaries. Rational expectations as to the development of real estate prices were used when assessing the management of the residual values.
- As part of the annual assessment of the recoverable amount of capitalized goodwill, Dräger's management uses estimates to arrive at its conclusions. Management uses data from internal analyses and forecasts with regard to anticipated earnings trends.

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

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

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

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

Defined benefit pension plans and similar obligations are recognized in accordance with actuarial methods. These methods are based on actuarial assumptions such as the discount rate, wage and salary trends, increases in pensions, and employee turnover. The discount factors used are calculated on the basis of the effective market return on high-quality corporate bonds. Deviations of actuarial assumptions from actual developments could have serious implications for the measurement of defined benefit pension plans and similar obligations. The results of sensitivity analyses for the discount rate, future increases in pensions, and life expectancy as stated in Note 31 provide indications of these effects.

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

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

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

Notes to the income statement

8 NET SALES

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

NET SALES

in € thousand	2018	2017	Change in %
Net sales from the sale of products and goods	1,560,003	1,559,340	0.0
Net sales from the sale of services and accessories (including replacement parts)	963,386	938,158	2.7
Net sales from projects (in prior year: from construction contracts)	71,621	74,757	–4.2
Net sales	**2,595,010**	**2,572,256**	**0.9**

A detailed segment report, including net sales by regions, is provided in Note 39.

Net sales of EUR 558.0 million were generated in Germany during the reporting year (2017: EUR 533.0 million). Medical technology products and services generated net sales of EUR 1,643.0 (2017: EUR 1,668.0 million), while safety technology products and services generated net sales of EUR 952.0 million (2017: EUR 904.3 million).

Net sales from the sale of products are recognized at the point in time at which control is passed to the buyer on the condition that the company is likely to receive the agreed transaction price. In the case of products that need to be installed at customers' locations, control is passed to the buyer at the point in time at which the product is delivered and installed.

Net sales from the provision of services are recognized over the period of time in which the services are rendered if the customer receives the benefits from the provision of the service while the service is being rendered. Services are provided either at certain points in time (service / maintenance intervals) or over a certain period (functional warranty). In the case of services performed over a certain period, the performance of the service is measured on a pro-rata basis over the period for which Dräger guarantees the functionality of the device.

Net sales from construction contracts (project business) are recognized over the period of time in which the service is rendered provided the customer acquires control of the created asset while the services are rendered or if there is a customer-specific order (the created asset does not have any alternative benefit) and Dräger has a legal entitlement to corresponding payment, including a profit margin, at any point during the provision of the service.

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

Recognized net sales of EUR 78,406 thousand were still included under contractual liabilities at the start of the reporting period.

Service contracts and construction contracts with original terms of more than one year are likely to result in net sales of EUR 11.3 million in fiscal year 2019 and net sales of EUR 13.6 million in subsequent years.

Net sales of EUR 94 thousand were recorded in the reporting period, which were fully or partially fulfilled in prior fiscal years.

9 COST OF SALES

Cost of sales include the following:

COST OF SALES

in € thousand	2018	2017
Direct materials	780,984	784,361
Direct labor	297,534	281,402
Direct costs	**1,078,518**	**1,065,763**
Material overheads	71,438	75,651
Production overheads	259,636	228,675
Other indirect costs	77,372	50,007
Indirect costs	**408,446**	**354,333**
Cost of sales	**1,486,963**	**1,420,096**

Production overheads comprise amortization on production-related intangible assets and depreciation of property, plant and equipment, as well as costs of internal transportation until delivery to the distribution warehouse. The rise in production overheads in fiscal year 2018 is mainly due to the inclusion of customs duties, freight, and tool costs.

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

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

Please refer to our comments in Note 6 for information on the effects from currency translation included in the cost of sales.

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

10 RESEARCH AND DEVELOPMENT COSTS

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

11 MARKETING AND SELLING EXPENSES

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

12 GENERAL ADMINISTRATIVE EXPENSES

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

13 IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND CONTRACT ASSETS

The impairment losses on financial and contract assets amounted to EUR –648 thousand, of which EUR –9,485 thousand comprise allocations to risk provisions of financial assets. In addition, financial assets of EUR –390 thousand have been written off directly. These expenses are offset by income from the release of risk provisions of EUR 9,227 thousand.

14 OTHER OPERATING INCOME / EXPENSES

OTHER OPERATING INCOME / EXPENSES

in € thousand	2018	2017
Reversal of bad debt allowances[1]	–	7,807
Gains on the disposal of non-current assets and property plant and equipment	1,369	8,823
Rental income	2,101	1,993
Income from the derecognition of liabilities	76	218
Other operating income	**3,546**	**18,840**
Allocations to bad debt allowances[1]	–	9,320
Write-downs on receivables[1]	–	1,025
Expenses for leased assets	783	682
Losses on the disposal of intangible assets and property, plant and equipment	1,067	1,118
Other operating expenses	**1,850**	**12,145**

[1] Values for fiscal year 2018 are included under the separate item ›Impairment losses on financial and contract assets‹ due to the amended requirements of IAS 1.82, which result from the application of IFRS 9. The prior year's figures have not been adjusted.

15 FINANCIAL RESULT

FINANCIAL RESULT (BEFORE INTEREST RESULT)

in € thousand	2018	2017
Profit from net exposure from monetary items	**–63**	**–**
Share in the profits from investments in associates	245	215
Other income from investments in associates	–	48
Profit from investments in associates	**219**	**263**
Gains from the disposal of subsidiaries	–	1
Income from the measurement of financial assets measured at fair value through profit and loss	–	0
Profit from other investments	**0**	**1**
Net result from foreign exchange transactions	–3,305	–4,673
Other financial expenses	–41	–31
Other financial result	**–3,346**	**–4,703**
Financial result (before interest result)	**–3,189**	**–4,440**

INTEREST RESULT

in € thousand	2018	2017
Income from financial assets measured at amortized cost	3,868	3,543
Income from financial assets measured at fair value through profit and loss	10	10
Interest contained in lease payments	89	75
Interest and similar income	**3,968**	**3,628**
Expenses from financial liabilities measured at amortized cost	–7,478	–8,753
Interest portion contained in pension provisions	–5,345	–5,033
Interest contained in lease payments	–634	–699
Expenses from interest hedges	–529	–540
Other interest and similar expenses	–976	–1,422
Interest and similar expenses	**–14,961**	**–16,447**
Interest result	**–10,994**	**–12,819**

Expenses from financial liabilities measured at amortized cost include the compounding of participation certificates of EUR 1,081 thousand (2017: EUR 1,074 thousand) and the distribution of participation certificates of EUR 345 thousand (2017: EUR 345 thousand).

Other interest and similar expenses include expenses incurred from the compounding of other provisions (see also Note 32).

16 INCOME TAXES

COMPOSITION OF INCOME TAXES

in € thousand	2018	2017
Germany	**3,595**	**–25,226**
Abroad	**–23,942**	**–22,534**
Current tax expense	**–20,347**	**–47,760**
Germany		
Deferred tax expense / income from temporary differences	–1,780	9,432
Deferred tax income / expense from loss carryforwards	120	–2,696
Deferred tax expense / income (Germany)	**–1,660**	**6,736**
Abroad		
Deferred tax income / expense from temporary differences	4,256	–2,089
Deferred tax income / expense from loss carryforwards	997	–1,307
Deferred tax income / expense (abroad)	**5,253**	**–3,396**
Deferred tax income	**3,593**	**3,340**
Income taxes	**–16,754**	**–44,420**

Deferred tax income includes a tax-increasing effect of EUR 435 thousand (2017: EUR 4,026 thousand) from the change in tax rates.

A deferred tax liability of EUR 2,008 thousand (2017: EUR 2,123 thousand) was recognized for temporary differences in connection with retained profits of foreign subsidiaries. No deferred tax liabilities are recognized for temporary differences associated with investments in subsidiaries to the amount of EUR 10,034 thousand (2017: EUR 10,725 thousand) as the sale of these companies or a distribution of retained profits is unlikely in the foreseeable future.

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

RECONCILIATION OF EXPECTED INCOME TAX EXPENSE TO RECOGNIZED INCOME TAX EXPENSE

in € thousand	2018	2017
Earnings before income taxes	**51,652**	**142,920**
Expected income tax expense (tax rate: 31.5 %; 2017: 31.5 %)	**–16,270**	**–45,020**
Reconciliation:		
Effects from other periods and non-deductible withholding tax	6,652	8,152
Effect from changes in tax rates	–435	–4,026
Effect from different tax rates	4,561	2,681
Tax effect of non-deductible expenses and tax-free income	–6,819	–5,069
Recognition and measurement of deferred tax assets	–3,600	–1,487
Other tax effects	–843	349
Recognized income tax expense	**–16,754**	**–44,420**
Tax rate (%) overall	32.4	31.1

The parent company's tax rate of 31.5 % (2017: 31.5 %) was used as the expected tax rate. The expected tax rate is composed of a corporate income tax component of 15.83 % (2017: 15.83 %), including the 5.5 % solidarity surcharge, and a trade tax component of 15.67 % (2017: 15.67 %). Domestic deferred taxes are determined on the basis of a 31.5 % tax rate (2017: 31.5 %).

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

DEFERRED TAX ASSETS / DEFERRED TAX LIABILITIES

	Deferred tax assets		Deferred tax liabilities	
in € thousand	2018	2017	2018	2017
Intangible assets	6,051	6,281	5,894	5,512
Property, plant and equipment[1]	7,291	6,813	10,203	11,787
Other non-current financial assets[1]	43	21	4,609	2,047
Other non-current assets	0	500	24	0
Non-current assets[1]	**13,385**	**13,615**	**20,730**	**19,346**
Inventories[1]	21,879	15,947	6,464	3,753
Trade receivables and contract assets[1, 2]	3,778	4,471	2,954	2,928
Other current financial assets[1]	1,065	4,488	4,744	9,449
Other current assets[1]	178	270	516	837
Current assets[1]	**26,900**	**25,176**	**14,678**	**16,967**
Liabilities from participation certificates	–	–	6,135	6,616
Provisions for pensions and similar obligations[1]	73,707	69,004	603	607
Other non-current provisions[1]	5,325	5,658	–	–
Non-current interest-bearing loans	–	–	8	12
Other non-current financial liabilities	3,852	3,741	–	–
Other non-current liabilities	2,988	2,643	–	–
Non-current liabilities[1]	**85,872**	**81,046**	**6,746**	**7,235**
Other current provisions[1]	10,302	12,859	–	–
Current interest-bearing loans and liabilities to banks	–	–	–	1
Trade payables	427	487	23	438
Other current financial liabilities[1]	2,908	2,833	91	401
Other current liabilities[1, 3]	6,242	5,337	135	1,946
Current liabilities[1]	**19,879**	**21,516**	**249**	**2,786**
Capitalized tax loss carryforwards and tax credits	6,222	5,041	–	–
Gross amount[1]	**152,258**	**146,394**	**42,403**	**46,334**
Valuation allowance on temporary differences	–4,059	–1,166	–	–
Offset[1]	–60,640	–64,873	–60,640	–64,873
Deferred taxes from consolidation entries	57,100	53,208	19,560	19,802
Carrying amount	**144,659**	**133,563**	**1,323**	**1,263**

[1] Deferred tax liabilities are offset with deferred tax assets on the balance sheet items where these refer to the same taxable entity.
[2] In the prior year the title of the item was ›Trade receivables and receivables from construction contracts.‹
[3] The prior-year figures included ›Liabilities from construction contracts,‹ which had so far been reported in a separate line.

The recoverable amount of the recognized deferred tax assets on recognized tax loss carryforwards and temporary differences at the consolidated companies is tested for valuation allowances once a year on the basis of the future taxable profit, which was determined on the basis of an operating budget plan. A loss from valuation allowances is recognized where a realization of the deferred tax assets is unlikely. Deductible temporary differences of EUR 15,319 thousand (2017: EUR 4,645 thousand) are not accounted for as these are not expected to be utilized during the planning period.

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

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

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

CAPITALIZED TAX LOSS CARRYFORWARDS

in € thousand	2018	2017
Corporate income tax	16,766	17,822[1]
Trade tax and state tax USA	14,195	15,180
	30,961	**33,002**[1]

[1] Prior-year figures were adjusted downward to account for the tax credits, which are explained separately in the report.

NON-CAPITALIZED TAX LOSS CARRYFORWARDS

in € thousand	2018	2017
Corporate income tax	41,619	41,731
of which does not expire	41,619	41,731
Trade tax and state tax USA	14,870	14,109
of which does not expire	14,870	14,109
	56,489	**55,840**

Deferred taxes are recognized on loss carryforwards of EUR 12,254 thousand (2017: EUR 13,541 thousand) of the US companies which are subject to an average state tax of between 2.00 and 4.00 % (2017: between 3.46 and 4.15 %).

Deferred tax assets are recognized on unclaimed tax credits in the amount of EUR 1,541 thousand (2017: EUR 1,043 thousand).

Theoretically, deferred taxes of EUR 10,712 thousand (2017: EUR 10,459 thousand) would have been recognized for unrecognized corporate income and trade tax losses. However, these deferred taxes were not recognized as the recoverability of the loss carryforwards could not be assumed.

Despite losses in the current and / or prior year, deferred tax assets of EUR 3,972 thousand (2017: EUR 83,335 thousand) were recognized for loss carryforwards and temporary differences. The significant year-on-year decrease was primarily due to deferred tax assets of EUR 81,516 thousand relating to temporary differences in the fiscal unit of Drägerwerk AG & Co. KGaA, which did not make a tax loss in the prior or current year. The amounts are recognized on the basis of tax planning. Management assumes that the companies in question will generate sufficient taxable profits in the future.

The expense from the valuation allowance on deferred tax assets amounted to EUR 3,689 thousand (2017: EUR 1,812 thousand). The income from the reversal of a previous valuation allowance on deferred tax assets came to EUR 89 thousand in fiscal year 2018 (2017: EUR 325 thousand).

Current income taxes of EUR 341 thousand (2017: EUR 960 thousand) are recognized directly in equity and relate to the share of the distribution on participation certificates relating to the equity component.

The deferred tax assets recognized in other comprehensive income increased by EUR 6,424 thousand (2017: decreased by EUR 458 thousand) during the period and mainly concerned the recognition of the effects from the remeasurements of pension plans directly in equity.

17 PERSONNEL EXPENSES / HEADCOUNT

PERSONNEL EXPENSES

in € thousand	2018	2017
Wages and salaries	854,904	827,002
Social security	156,687	150,020
Pension expenses and related employee benefits	34,281	30,033
	1,045,872	**1,007,055**

Personnel expenses include the remuneration of the members of the Executive Board of the general partner Drägerwerk Verwaltungs AG, Lübeck, Germany. Please refer to our comments in the remuneration report. Note 41

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

Personnel expenses included severance payments of EUR 2,027 thousand (2017: EUR 1,603 thousand).

HEADCOUNT AS OF THE BALANCE SHEET DATE

	2018	2017
Germany	6,815	6,434
Abroad	7,584	7,305
Total headcount	**14,399**	**13,739**
Production	2,166	2,113
Other	12,233	11,626
Total headcount	**14,399**	**13,739**

HEADCOUNT (AVERAGE)

	2018	2017
Germany	6,618	6,346
Abroad	7,461	7,182
Total headcount	**14,079**	**13,528**
Production	2,137	2,087
Other	11,942	11,441
Total headcount	**14,079**	**13,528**

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

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

Amortization on intangible assets and depreciation of property, plant and equipment of EUR 85,403 thousand (2017: EUR 84,234 thousand) were incurred in the following functional areas:

DISTRIBUTION OF DEPRECIATION / AMORTIZATION ON THE FUNCTIONAL AREAS

in € thousand	2018	2017
Cost of sales	38,434	37,586
Research and development costs	4,909	4,525
Marketing and selling expenses	4,282	4,735
General administrative costs	37,779	37,387
	85,403	**84,234**

Pursuant to IAS 36, checks were performed as of the reporting date to establish whether there are any indications that assets may be impaired. During these checks, an impairment test was carried out at the level of the smallest cash-generating units, which largely operate independently of other cash-generating units. These mainly concerned the respective legal units.

Impairment losses of EUR 1,331 thousand were charged on intangible assets and property, plant and equipment – factory and office equipment in particular (2017: EUR 27 thousand on property, plant and equipment). The impairment losses concern all segments.

19 EARNINGS / DIVIDEND PER SHARE

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

EARNINGS / DIVIDEND PER SHARE ON FULL DISTRIBUTION

		2018	2017
Net profit	in € thousand	34,899	98,500
less the share of earnings attributable to non-controlling interests	in € thousand	544	–30
Earnings attributable to shareholders and holders of participation certificates	**in € thousand**	**34,355**	**98,530**
plus future tax benefits resulting from the hypothetical case of a full distribution on participating equity instruments	in € thousand	3,302	9,493
Earnings attributable to shareholders and holders of participation certificates including the tax benefit	**in € thousand**	**37,657**	**108,023**
less earnings attributable to holders of participation certificates (excluding the minimum dividend of EUR 345 thousand)	in € thousand	11,973	34,420
Earnings attributable to shareholders	**in € thousand**	**25,685**	**73,603**
Weighted average of outstanding preferred shares	**piece**	**7,600,000**	**7,600,000**
Weighted average of outstanding common shares	**piece**	**10,160,000**	**10,160,000**
Undiluted / diluted earnings per common share	**in €**	**1.42**	**4.12**
Preference per preferred share	in €	0.06	0.06
Undiluted / diluted earnings per preferred share	**in €**	**1.48**	**4.18**

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

CALCULATION OF PROPOSED DISTRIBUTION

	Number of shares (piece)	Dividend per share in €	Dividends in €
Common shares	10,160,000	0.13	1,320,800,00
Preferred shares	7,600,000	0.19	1,444,000,00
Participation certificates	831,951	1.90	1,580,706,90
			4,345,506,90

Taking into account the tax advantage and the minimum dividend for participation certificates, the proposed effective distribution rate is 12.65 % (2017: 11.56 %).

As in the prior year, 831,951 Drägerwerk AG & Co. KGaA participation certificates were issued as of December 31, 2018. In accordance with the terms and conditions of participation certificates, Drägerwerk AG & Co. KGaA will grant the holders either ten common or preferred shares per certificate or ten times the current stock market price of preferred shares upon termination. The factor ten is used due to the share split, which did not apply to the participation certificates (please refer to the information on participation certificates provided in Note 30).

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

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

Notes to the consolidated balance sheet

20 INTANGIBLE ASSETS

INTANGIBLE ASSETS AS OF DECEMBER 31, 2018

in € thousand	Goodwill	Patents, trademarks and licenses	Purchased software	Internally generated intangible assets	Leased assets (finance lease)	Prepayments made	2018 Total
Costs							
January 1, 2018	313,307	33,857	124,428	12,750	2,585	1,421	488,348
Additions	–	17	2,803	–	–	1,177	3,997
Disposals	–	–130	–2,600	–100	–2,585	–	–5,415
Reclassifications	–	22	1,225	100	–	–1,346	0
Change in the scope of consolidation	–2	–	–	–	–	–	–2
Currency translation effects	498	849	181	36	–	104	1,668
December 31, 2018	**313,804**	**34,614**	**126,037**	**12,786**	**0**	**1,356**	**488,597**
Accumulated amortization and impairment losses							
January 1, 2018	4,913	18,996	107,524	12,750	1,680	–	145,863
Additions	–	1,610	8,475	49	517	–	10,651
Disposals	–	–129	–2,553	–57	–2,197	–	–4,937
Currency translation effects	–70	850	176	45	–	–	1,000
December 31, 2018	**4,843**	**21,327**	**113,622**	**12,786**	**0**	**0**	**152,578**
Net carrying value	**308,961**	**13,287**	**12,415**	**0**	**0**	**1,356**	**336,019**

INTANGIBLE ASSETS AS OF DECEMBER 31, 2017

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

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

The assets used under finance leases consist exclusively of software.

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

Goodwill impairment

The discounted cash flow method is used for measuring the value in use based on the operational five-year plan for the business segments which represent the cash-generating units. The determination is assigned to level 3 (see Note 36), as there are unobservable input factors that significantly influence the measurement. A reconciliation of goodwill can be found in the statement of changes for intangible assets. As of December 31, 2018, goodwill of EUR 309.0 million (2017: EUR 308.4 million) was made up of EUR 228.0 million for the Europe segment (2017: EUR 227.6 million), and EUR 81.0 million for the Africa, Asia and Australia segment (2017: EUR 80.8 million). No goodwill was attributable to the Americas segment, as in the prior year.

The main planning assumptions are market growth, development of market shares, and market price trends. Under these assumptions, net sales are planned per region and for selected focus countries. For the period between 2019 to 2023, net sales growth rates of 3.0 % for the Europe region (2017: 3.9 %) and 6.0 % for the Africa, Asia, and Australia region (2017: 5.7 %) are planned, resulting in overall growth for the Group of 4.7 % between 2019 and 2023 (for 2017: 5.0 %).

The consolidated gross margins of the regions and the regional and central functional costs are also planned figures. The average EBIT margin resulting from these figures amounts to 3.8 % for Europe (2017: 6.6 %) and 5.3 % for Africa, Asia and Australia (2017: 8.8 %).

A discount rate of 9.2 % (2017: 9.1 %) before taxes and a growth rate of 1.0 % (2017: 1.0 %) were also taken into account in the current planning for perpetual annuity of the Europe segment. A discount rate of 10.3 % (2017: 10.6 %) before taxes and a growth rate of 1.0 % (2017: 1.0 %) were taken into account for perpetual annuity of the Africa, Asia and Australia segment.

No impairment loss was required on the basis of this multi-year plan. The amount by which the value in use of the cash-generating units (segments) exceeds their carrying amounts is EUR 61.1 million for Europe (2017: EUR 601.5 million) and EUR 40.6 million for Africa, Asia, and Australia (2017: EUR 364.8 million).

The following table shows the sensitivity analysis for the parameters of average EBIT margin, WACC, and the growth rates for perpetual annuity. The table shows the change in those parameters for each region that would result in an impairment.

SENSITIVITY ANALYSIS BY REGION

	Average EBIT margin	WACC	Perpetual growth rate
Europe	Reduction by 0.3 pp	Increase by 0.5 pp	No impairment at zero growth
Africa, Asia, and Australia	Reduction by 0.4 pp	Increase by 0.5 pp	No impairment at zero growth

21 PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT AS OF DECEMBER 31, 2018

in € thousand	Land, equivalent titles and buildings	Production plant and machinery	Other plant, factory and office equipment	Leased equipment	Leased assets (finance lease)	Prepayments made and assets under construction	2018 Total
Costs							
January 1, 2018	467,237	115,245	400,282	72,637	14,882	38,886	1,109,171
Additions	8,632	2,276	24,971	2,800	130	23,886	62,695
Disposals	–3,624	–2,300	–16,947	–2,707	–2,480	–102	–28,161
Reclassifications	16,562	–1,867	18,233	104	–1,344	–31,688	0
Reclassifications of rental and demo equipment	–	–	4,208	9,434	–	–	13,641
Currency translation effects	–100	–71	917	1,571	–97	–117	2,104
December 31, 2018	**488,707**	**113,283**	**431,664**	**83,838**	**11,092**	**30,866**	**1,159,450**
Accumulated depreciation and impairment losses							
January 1, 2018	225,796	96,248	294,096	55,770	4,955	13	676,877
Additions	17,218	5,615	39,666	11,711	542	–	74,752
Write-ups	–192	–	–	–	–	–	–192
Disposals	–3,359	–2,229	–15,898	–2,365	–1,821	–	–25,673
Reclassifications	1,294	–2,453	2,489	13	–1,344	–	0
Reclassifications of rental and demo equipment	–	–	1,993	568	–	–	2,562
Currency translation effects	129	21	849	1,111	–92	–2	2,016
December 31, 2018	**240,886**	**97,201**	**323,195**	**66,809**	**2,240**	**11**	**730,341**
Net carrying value	**247,821**	**16,082**	**108,469**	**17,029**	**8,852**	**30,855**	**429,109**

PROPERTY, PLANT AND EQUIPMENT AS OF DECEMBER 31, 2017

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

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

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

The assets leased under finance leases comprise real estate (EUR 8,611 thousand; 2017: EUR 9,486 thousand) as well as factory and office equipment (EUR 241 thousand; 2017: EUR 442 thousand). Note 37

As in the prior year, no borrowing costs for additions for new buildings were recognized in the fiscal year.

22 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

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

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

FINANCIAL INFORMATION ON ASSOCIATES

in € thousand	2018	2017
Carrying value of the Group shares of associates	395	420
Share in the profits from continued operations / total profits of the associates	266	292

In working groups together with other partners, Dräger Engineered Solutions offers fire training facilities for firefighters. As of the balance sheet date, Dräger is involved in one (2017: four) working group, which is accounted for as a joint venture using the equity method. The holding amount is 64.46 % (2017: between 51 % and 74 %). This working group does not generate any income of its own and its shares were not purchased. As a result, these do not need to be presented in the consolidated balance sheet nor does any financial information need to be presented. As their business in and of itself is not material, Dräger exercises the option to use the simplified consolidated method.

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

23 TRADE RECEIVABLES AND CONTRACT ASSETS

TRADE RECEIVABLES AND CONTRACT ASSETS

			2018			2017
in € thousand	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	706,924	2,518	709,442	682,119	3,954	686,073
Contract assets	33,012	–	33,012	–	–	0
Receivables from construction contracts	–	–	0	27,479	–	27,479
less risk provisions	–36,055	–	–36,055	–40,423	–	–40,423
	703,882	**2,518**	**706,400**	**669,175**	**3,954**	**673,128**

The risks associated with trade receivables and contract assets are adequately accounted for by risk provisions. Please refer to Note 36 for our comments on determining the risk provisions.

Contract assets include all claims for payment from project business, which are recognized over time, and from services rendered, provided the claims are not linked to the time period alone.

In addition to costs incurred for the contracts, receivables reported in fiscal year 2017 from construction contracts included the corresponding profit and were offset against partial payments received. The cost of production incurred for the contracts in progress plus the corresponding profit amounted to EUR 45,900 thousand as of December 31, 2017 and was offset against partial payments received of EUR 18,421 thousand. This led to receivables from construction contracts of EUR 27,479 thousand as of December 31, 2017.

No specific bad debt allowances were recognized on receivables from construction contracts in the prior year.

24 OTHER FINANCIAL ASSETS

OTHER FINANCIAL ASSETS

	2018			2017		
in € thousand	Current	Non-current	Total	Current	Non-current	Total
Notes receivable	13,574	–	13,574	13,771	–	13,771
Receivables from commissioning agents	9,126	–	9,126	8,949	–	8,949
Positive fair values of derivatives	6,859	1,629	8,488	8,176	558	8,733
Security deposits paid	2,562	6,078	8,640	2,298	5,628	7,926
Other investments	–	6,383	6,383	–	3,257	3,257
Finance lease receivables (lessor)	442	1,596	2,038	366	1,715	2,081
Creditors with debit balances	2,038	–	2,038	1,463		1,463
Other loans	–	1,580	1,580	–	1,137	1,137
Receivables from employees	1,339	–	1,339	1,059	–	1,059
Receivables from associates	2	–	2	4	–	4
Real estate sale receivables	–	–	0	2,640	–	2,640
Other financial assets	1,440	679	2,119	555	820	1,375
	37,383	**17,946**	**55,328**	**39,281**	**13,115**	**52,396**

Other financial assets of EUR 182 thousand are impaired (please also see our comments in Note 36).

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

Notes receivable chiefly stem from the Chinese and Japanese subsidiaries where the bill of exchange is a common method of payment.

Of the receivables from commissioning agents, EUR 9,126 thousand (2017: EUR 8,949 thousand) are overdue by more than 120 days.

Sundry non-current financial assets include other non-current securities of EUR 664 thousand (2017: EUR 694 thousand).

For further details of the positive fair values of derivative financial instruments, please refer to the table of derivative financial instruments in the Dräger Group. Note 36

For further details of finance lease receivables, please refer to our comments on recognition of finance leases by the lessor. Note 37

25 INVENTORIES

INVENTORIES

in € thousand	2018	2017
Finished goods and merchandise	252,558	206,798
Work in progress	56,799	52,847
Raw materials, consumables and supplies	146,545	125,965
Prepayments made	3,284	2,111
	459,186	**387,720**

The carrying value of inventories written down to their net realizable value as of December 31, 2018 is EUR 196,994 thousand (2017: EUR 151,202 thousand).

Impairment losses of EUR 28,968 thousand (2017: EUR 26,777 thousand) were charged on inventories in the fiscal year and recognized in cost of sales. However, EUR 6,895 thousand (2017: EUR 8,640 thousand) of impairments recognized in prior years were reversed through profit or loss.

Finished goods and merchandise comprise rental and demo equipment lent to customers in the short term worth EUR 10,544 thousand (2017: EUR 10,350 thousand). Rental and demo equipment is usually taken over by the customers after a short period of time and is therefore disclosed in inventories. Appropriate allowances were made for wear and tear over the period of use.

During the fiscal year, inventories with a carrying value of EUR 951,793 thousand (2017: EUR 907,123 thousand) were recognized in cost of sales.

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

26 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and balances at various banks in different currencies. Cash and cash equivalents which were subject to restrictions as of the balance sheet date amount to EUR 4,347 thousand (2017: EUR 4,935 thousand). These restrictions primarily concerned currency export restrictions and other contractual and legal limitations.

27 OTHER ASSETS

OTHER ASSETS

in € thousand	2018 Current	2018 Non-current	2018 Total	2017 Current	2017 Non-current	2017 Total
Prepaid expenses	27,388	–	27,388	26,523	–	26,523
Other tax refund claims	26,676	–	26,676	26,659	–	26,659
Receivables from investment allowances	–	–	0	701	–	701
Fund assets from pension plans	–	98	98	–	82	82
Sundry	5,787	2,979	8,766	3,617	2,914	6,531
	59,851	**3,077**	**62,928**	**57,500**	**2,996**	**60,496**

As in the prior year, no specific bad debt allowances are required for other current assets.

Other tax refund claims largely consist of VAT claims.

Fund assets relating to pension plans contain the available excess of plan assets (see also Note 31).

Sundry non-current assets include receivables from taxes of two foreign subsidiaries of EUR 2,832 thousand (2017: EUR 2,558 thousand).

28 EQUITY

For the breakdown and changes in equity in fiscal years 2018 and 2017, please see the ›Consolidated statement of changes in equity of the Dräger Group.‹

Capital Stock

The capital stock of Drägerwerk AG & Co. KGaA amounts to EUR 45,466 thousand (2017: EUR 45,466 thousand).

As in the prior year, this capital stock is divided into 10,160,000 limited no-par bearer common shares and 7,600,000 limited no-par preferred shares.

The nominal value of both share types is EUR 2.56. Drägerwerk Verwaltungs AG, the general partner, holds no shares in capital.

The capital stock has been fully paid in. As before, the preferred and common shares are traded on the capital market.

Other than voting rights, the preferred shares have the same rights as those attached to the common shares. As compensation for the lack of voting rights, an advance dividend of EUR 0.13 per preferred share is distributed from net earnings.

If sufficient profits are available, a dividend of EUR 0.13 per common share is then paid. Any profit in excess of this amount, if distributed, is allocated so that preferred shares receive EUR 0.06 more than common shares.

If the profit is not sufficient to distribute the advance dividend for preferred shares in one or more years, the amounts are paid from the profit of subsequent fiscal years before a dividend is paid on common shares.

If amounts in arrears are not paid in the next year along with the full preferred dividend for that year, the preferred shareholders have voting rights until the arrears have been paid.

In the event of liquidation, the preferred shareholders receive 25 % of net liquidation proceeds in advance. The remaining liquidation proceeds are distributed evenly among all shares.

By resolution of the annual shareholders' meeting on April 27, 2016, the general partner is authorized to increase the capital stock of the company until April 26, 2021, with the approval of the Supervisory Board, by up to EUR 11,366,400.00 (authorized capital) by issuing new bearer common shares and / or preferred shares (no-par-value shares) in return for cash and / or contributions in kind, in one or several tranches. The authorization includes the entitlement to optionally issue new common shares and / or non-voting preferred shares up to the statutory maximum as stipulated in Sec. 139 (2) AktG, which carry the same status as the previously issued non-voting preferred shares with regard to the distribution of profits and / or company assets.

In the case of common and preferred shares being issued at the same time while maintaining the ratio of both share types at the time of issuance, the general partner is authorized, subject to approval by the Supervisory Board, to exclude the subscription right of holders of one category of shares to the other category of shares (›crossed exclusion of subscription rights‹). Also in this case, the general partner is entitled to exclude further subscription rights under the terms of the regulations stated below.

The general partner is further authorized, subject to the approval of the Supervisory Board, to exclude the subscription rights of the shareholders:

(i) in order to compensate for any fractional amounts;

(ii) if the shares are issued in exchange for contributions in kind, especially in the context of company mergers or the acquisition of companies, business units, or equity interests in companies or of other assets or of claims to the acquisition of other assets, including receivables from the company or from companies controlled by it within the meaning of Sec. 17 AktG;

(iii) if the shares of the company are issued in exchange for cash and the issue price per share does not significantly fall below the stock market price of an essentially similarly structured, already listed share of the same class at the time the shares are issued. The exclusion of the subscription right can in this event be conducted, however, only if the number of the shares issued in this way together with the number of other shares that are issued or sold during the term of this authorization subject to an exclusion of subscription right in direct application or application mutatis mutandis of Sec. 186 (3) sentence 4 AktG, and with the number of shares that may be created as the result of the exercise or fulfillment of option and / or conversion rights or obligations arising from warrant and / or convertible bonds and / or participation rights that are issued during the term of this authorization subject to an exclusion of subscription right in application mutatis mutandis of Sec. 186 (3) sentence 4 AktG does not exceed 10 % of the capital stock either at the time that this authorization comes into effect or at the time the new shares are issued;

(iv) if this is necessary in order to grant holders or creditors of warrant and / or convertible bonds with option and / or conversion rights and obligations that are issued by the company or one of the companies in which it holds a majority interest a right to subscribe to new shares in the extent to which they would be entitled after exercising the option or conversion rights or after fulfilling option or conversion obligations.

The proportion of the capital stock attributed in total to new shares for which the subscription right is excluded on the basis of this authorization may, together with the proportion of the capital stock that is attributed to treasury shares or to new shares from other authorized capital or that relates to the option or conversion rights or obligations arising from options, warrant and / or convertible bonds and / or participation rights that have been sold or issued during the term of this authorization subject to the exclusion of subscription rights, not exceed 20 % of capital stock. Shares issued under a crossed exclusion of subscription rights are excluded from the limitation to 20 % of capital stock. The key factor for calculating the 20 % limit is the existing capital stock at the time that this authorization comes into effect or is exercised, on whichever of these dates the capital stock is at its lowest.

The general partner is authorized, subject to the approval of the Supervisory Board, to determine the details of the share rights and of the capital increase as well as the terms and conditions of the share issue, in particular the issue price. The Supervisory Board is entitled to adjust the wording of the articles of association in line with the utilization of the authorized capital or after the authorization period expires.

Reports regarding voting rights

Sec. 160 (1) No. 8 AktG requires disclosure of the existence of investments that have been notified to the Company in accordance with Sec. 21 (1) or (1a) WpHG.

The following table shows the reportable investments disclosed during Drägerwerk AG & Co. KGaA's fiscal year. Please note that the disclosures may have changed since the report was prepared.

DISCLOSED REPORTABLE INVESTMENTS

Reporter	Date that thresholds were exceeded or undercut	Reporting threshold	Allocation pursuant to WpHG	Investment	Investment in voting rights
State of Norway, Oslo, Norway	August 30, 2018	3 %[1]	Sec. 34	3.07 %	311,455
State of Norway, Oslo, Norway	August 31, 2018	3 %[1]	Sec. 34	3.07 %	311,455
State of Norway, Oslo, Norway	October 4, 2018	3 %[1]	Sec. 34	3.04 %	308,663

[1] Reported due to a change in directly and indirectly held voting rights

Capital reserves

The capital reserves originated from share premiums from the 25 option rights exercised in the period from 2013 to 2015, Drägerwerk AG & Co. KGaA's establishment (transformation) in 1970 and from capital increases in 1979, 1981, 1991, and 2010.

Retained earnings

Retained earnings comprise the earnings generated until fiscal year 2018 by the companies included in the Group financial statements, where they were not attributed to minority interests or paid as a dividend by Drägerwerk AG & Co. KGaA. The actual tax benefit from the tax deductibility of the distribution on participation certificates, which relates to the participation capital recognized in equity, was recognized directly in retained earnings. Effects from the remeasurements of the company's pension provisions, including deferred taxes, are also included in retained earnings.

Other effects, which reduced retained earnings, mainly comprise the distribution to shareholders and participation certificate holders (EUR 11,042 thousand; 2017: EUR 4,001 thousand).

Retained earnings, including Group result, therefore changed as follows:

RETAINED EARNINGS, INCL. GROUP RESULT

in € thousand	2018	2017
Reserves retained from earnings, incl. Group result as of January 1	780,913	682,803
Adjustments due to amended accounting standards as of January 1	–2,604	–
Changes from remeasurements of pension plans (after taxes)	–11,920	3,054
Net profit for the year (excluding non-controlling interests)	34,355	98,530
Other effects	–10,704	–3,474
Reserves retained from earnings, incl. Group result as of December 31	**790,039**	**780,913**

Own shares within the scope of the employee share program

In fiscal year 2018, the Executive Board once again resolved to enable Dräger employees in Germany to participate in the company through an employee share program. This was designed to increase employees' identification with the company and Dräger's attractiveness as an employer.

One bonus share was issued for every three investment shares bought by the employee. The maximum purchase price per investment share for the employees amounted to EUR 46.78 (which corresponded to the closing price of the preferred shares in Xetra trading on the last trading day before the start of the acquisition period, November 9, 2018). The shares are subject to a two-year holding period and may not be sold or otherwise transferred during this period. Employees do not have to continue their employment with the company during the holding period.

The participation period, during which employees could acquire the share parcels, started on November 12, 2018 and ended on November 18, 2018. During this period, 14,456 bonus shares resulted from the shares acquired by employees, including Executive Board members. An account was opened with Deutsche Bank Privat- und Geschäftskunden AG (paying agent), Frankfurt am Main, Germany, for the entry and custody of bonus shares for participating employees.

The 14,456 bonus shares were acquired for Dräger on the stock exchange in the period from November 12 to November 18, 2018 by the paying agent on a commission basis in the form of a share buyback at a total cost of EUR 698 thousand. The price on the stock exchange amounted to an average of EUR 48.27. The total price for investment and bonus shares, acquired for and on behalf of Dräger, totals EUR 2,791 thousand. Of this amount, EUR 2,029 thousand was passed on to the employees. The shares were transferred directly to the respective employee's securities accounts. The contractually agreed benefits for the employees arising from this program consist of the lower average price compared to the maximum purchase price plus the values of the bonus shares. This benefit was recognized in personnel expenses in the amount of EUR 763 thousand. Aside from the price paid on the stock exchange, no other expectations for future dividends or other characteristics were included in the fair value of the bonus shares.

The acquisition of own shares to pass on to participating employees in the form of bonus shares is covered by resolution of the annual shareholders' meeting on April 27, 2016, according to which the general partner was authorized to acquire until April 26, 2021 up to 10 % in own shares of both types (common and / or preferred shares) of the company's capital stock as of the date of resolution or – if this value is lower – as of the date on which the authorization is exercised. Together with all other shares held by the Company or attributable to it according to Secs. 71a et seq. AktG, shares purchased under this provision may at no time equal more than 10 % of capital stock. The authorization may not be used for the purpose of trading in treasury shares. The authorization may be exercised in whole or in part, on one or more occasions and for one or more purposes by the company or by dependent Group companies or enterprises in which the company has a majority shareholding, or by third parties for its or their account. The purchase may be limited in part or in full to a single class of shares by excluding, in part or in full, the shareholders' right to sell the other class of share.

The purchase may, at the discretion of the general partner, be affected by the stock exchange, or by means of a public purchase offer to all holders of the respective type of share or by means of a public invitation to all holders of the respective type of share to submit offers for sale.

If the shares are acquired on the stock market, the purchase price paid by the company per share of the same class (excluding incidental acquisition costs) may not be more than 10 % higher or lower than the price of the shares of the class in question ascertained on the relevant trading day by the opening auction in Xetra trading (or on a functionally comparable successor system replacing the Xetra system) on the Frankfurt Stock Exchange.

If the purchase is effected by means of a public purchase offer to all holders of the respective type of share or by means of a public invitation to all holders of the respective type of share to submit offers for sale,

- the offered purchase price per share of the respective type (excluding incidental acquisition costs) in the case of a public purchase offer to all holders of the respective type of share, or rather
- the threshold values of the purchase price spread defined by the company (excluding incidental acquisition costs) in the case of a public invitation to all holders of the respective type of share to submit offers for sale

may not be more than 10 % higher or lower than the volume-weighted average of the closing auction prices for shares of the class in question in Xetra trading (or on a functionally comparable successor system replacing the Xetra system) on the Frankfurt Stock Exchange during the last five stock exchange trading days before the date that the public purchase offer or the public invitation to submit offers for sale is publicly announced.

If significant deviations in the relevant price arise after a public purchase offer directed to all shareholders of a class or a public invitation to submit offers for sale directed to all shareholders of a class is published, then the purchase offer or the public invitation to submit offers for sale can be adjusted. In this event, the volume-weighted average of the closing auction prices for shares of the class in question in Xetra trading (or on a functionally comparable successor system replacing the Xetra system) on the Frankfurt Stock Exchange during the last five stock exchange trading days before the adjustment is publicly announced will be taken as the basis.

The volume of the purchase offer or of the public solicitation of offers can be limited. If in a public purchase offer or a public solicitation of offers, the volume of the tendered shares exceeds the intended buyback volume, the acquisition can be conducted in proportion to the shares subscribed or offered in each case; the right of the shareholders to offer their shares for sale in proportion to their shareholding ratio is excluded in this respect. A preferential acceptance of small lots of up to 100 tendered shares per shareholder as well as commercial rounding in order to avoid mathematical fractions of shares can be stipulated. Any more extensive option to sell of the shareholders is excluded in this respect.

The public purchase offer or the public solicitation of offers can stipulate further terms and conditions.

The general partner is authorized to use treasury shares acquired on the basis of this authorization for any lawful purposes.

The authorization to use treasury shares subject to the exclusion of the subscription right of the shareholders is limited, however, in so far as the sum of the treasury shares used subject to the exclusion of the subscription right of the shareholders together with the number of other shares that are issued from authorized capital during the term of this authorization subject to the exclusion of the subscription right or have to be issued on account of options, warrant and / or convertible bonds or participation rights issued during the term of this authorization subject to the exclusion of the subscription right may not exceed 20 % in total of the capital stock after the authorization is exercised. The key factor is either the capital stock at the time that this authorization comes into effect or the capital stock present at the time this authorization is exercised, depending on which value is lower.

The purchase of treasury shares by the general partner may be initiated only with the approval of the Supervisory Board.

Participation capital

Please refer to Note 30 for details on participation capital.

Other comprehensive income

CHANGE IN OTHER COMPREHENSIVE INCOME

in € thousand	Currency translation adjustment	Cash flow hedge reserve	Financial assets available for sale	Total
January 1, 2017	**10,169**	**–434**	**–51**	**9,684**
Currency translation differences	–31,399	–	–	–31,399
Change from remeasurement	–	–1,990	28	–1,962
Reclassification to the income statement	–	615	–	615
Deferred taxes recognized directly in equity	–	410	94	505
Other adjustments	–264	–	–	–264
December 31, 2017 / January 1, 2018	**–21,494**	**–1,399**	**70**	**–22,822**
Reclassification to retained earnings due to changes in accounting standards	–	–	–70	–70
January 1, 2018, after adjustment	**–21,494**	**–1,399**	**0**	**–22,893**
Currency translation differences	–916	–	–	–916
Effect in profit or loss of the final consolidation of a subsidiary	4,692	–	–	4,692
Change from the remeasurement of cash flow hedge instruments	–	–894	–	–894
Reclassification to the income statement	–	–359	–	–359
Deferred taxes recognized directly in equity	–	573	–	573
	–17,718	**–2,078**	**0**	**–19,796**

Dräger does not hold any financial instruments, which are subsequently valued directly in equity via other comprehensive income.

The year-on-year change in the adjustment item for foreign currency transactions was mainly due to the translation of income statement items at average prices as well as the historical rates from the consolidation of investments.
The effect of deconsolidating the subsidiaries related to the recognition of foreign currency effects as part of the liquidation of Dräger Safety South Africa (Pty.) Ltd.

Please see Note 36 for further explanations on cash flow hedge reserve and the distribution of currency and interest hedging.

Capital management

One of Dräger's most important goals is to increase the business's value. The key function of capital management in this respect is to minimize the cost of capital while ensuring solvency at all times by coordinating the due dates of financial liabilities with the expected free cash flow and creating sufficient liquidity reserves.

Capital is monitored regularly using various key metrics, which include gearing and the equity ratio.

The Dräger Group's equity and liabilities were as follows as of the balance sheet date:

EQUITY AND LIABILITIES

in € million	2018	2017
Equity interest held by shareholders of Drägerwerk AG & Co. KGaA	1,079.2	1,067.1
+ Non-controlling interests	1.4	1.3
Equity of the Dräger Group	1,080.7	1,068.3
Share of total equity and liabilities	44.8 %	45.4 %
Non-current liabilities	606.2	588.6
Current liabilities	723.3	697.4
Total liabilities	1,329.5	1,286.0
Share of total equity and liabilities	55.2 %	54.6 %
Total equity and liabilities	**2,410.2**	**2,354.4**

The Dräger Group's gearing had developed as follows as of the balance sheet date:

GEARING

in € million	2018	2017
Non-current interest-bearing loans	125.1	137.8
+ Current interest-bearing loans and liabilities to banks	90.1	71.5
+ Non-current and current liabilities from finance lease	7.7	9.1
– Cash and cash equivalents	–179.6	–247.6
Net financial debt	**43.3**	**–29.2**
Equity	1,080.7	1,068.3
Gearing (= net financial debt / equity)	**0.04**	**–0.03**

On December 31, 2018, the Dräger Group also agreed on bilateral credit lines of EUR 377.0 million due on June 30, 2022 to secure liquidity. The framework agreement for the bilateral credit lines stipulates target values based on certain financial covenants. Should the Dräger Group not comply with these, the banks are entitled to terminate the bilateral credit lines. The values have been specified so that the Dräger Group would only run the risk of being unable to meet them if the company's financial position was to deteriorate drastically. It is also possible for the Dräger Group to obtain the banks' approval to exceed or undercut these key figures at an early stage. Key financial performance figures are monitored continuously.

29 NON-CONTROLLING INTERESTS

Non-controlling interests are as follows:

NON-CONTROLLING INTERESTS

	Non-controlling interests		thereof net profit	
in € thousand	2018	2017	2018	2017
Dräger-Simsa S.A.	691	658	84	–221
Dräger South Africa Pty. Ltd.	732	601	460	132
Draeger Safety Korunma Teknolojileri Ltd. Sirketi	–	–	–	56
Other	3	3	–	3
	1,426	**1,262**	**544**	**–30**

Non-controlling interests are of minor importance for the Group.

In the statement of changes in equity, other comprehensive income from non-controlling interests of EUR –210 thousand (2017: EUR –97 thousand) only include exchange rate differences.

TRANSACTIONS WITH NON-CONTROLLING INTEREST WITHOUT A LOSS OF CONTROL

in € thousand	2018	2017
Carrying amount of the acquired non-controlling interest	–	489
Purchase price of the acquired non-controlling interest	–3	–1,137
Difference between the purchase price and the carrying amount	**–3**	**–648**

30 PARTICIPATION CAPITAL / LIABILITIES FROM PARTICIPATION CERTIFICATES

PARTICIPATION CAPITAL / LIABILITIES FROM PARTICIPATION CERTIFICATES 2018

	Number	Par value	Premium	Payments received	thereof recognized as debt	thereof recognized in equity
		€	€	€	€	€
Series A until June 1991	195,245	4,990,462.20	7,642,509.00	12,632,971.20	4,230,928.03	8,402,043.17
Series K until June 27, 1997	69,887	1,786,311.72	1,168,305.27	2,954,616.99	1,765,413.90	1,189,203.09
Serie D from June 28, 1997	566,819	14,487,893.64	14,023,388.96	28,511,282.60	5,262,183.29	23,249,099.31
	831,951	**21,264,667.56**	**22,834,203.23**	**44,098,870.79**	**11,258,525.22**	**32,840,345.57**

Accumulated interest effect until 2017 (for remaining participation certificates after buyback)	12,502,469.73	–
Compensation for participation certificate holders in 2010 (for remaining participation certificates after buyback)	–	–3,343,471.88
Compounding 2018	1,080,950.92	–
Recognition as of December 31, 2018	**24,841,945.87**	**29,496,873.69**

PARTICIPATION CAPITAL / LIABILITIES FROM PARTICIPATION CERTIFICATES 2017

	Number	Par value	Premium	Payments received	thereof recognized as debt	thereof recognized in equity
		€	€	€	€	€
Series A until June 1991	195,245	4,990,462.20	7,642,509.00	12,632,971.20	4,230,928.03	8,402,043.17
Series K until June 27, 1997	69,887	1,786,311.72	1,168,305.27	2,954,616.99	1,765,413.90	1,189,203.09
Series D from June 28, 1997	566,819	14,487,893.64	14,023,388.96	28,511,282.60	5,262,183.29	23,249,099.31
	831,951	**21,264,667.56**	**22,834,203.23**	**44,098,870.79**	**11,258,525.22**	**32,840,345.57**

Accumulated interest effect until 2016 (for remaining participation certificates after buyback)	11,428,536.98	–
Compensation for participation certificate holders in 2010 (for remaining participation certificates after buyback)	–	–3,343,471.88
Compounding 2017	1,073,932.75	–
Recognition as of December 31, 2017	**23,760,994.95**	**29,496,873.69**

FAIR VALUE

	2018			2017		
	Number	Price on December 31	Fair value	Number	Price on December 31	Fair value
		€	€		€	€
Series A until June 1991	195,245	270.00	52,716,150.00	195,245	385.00	75,169,325.00
Series K until June 27, 1997	69,887	232.00	16,213,784.00	69,887	374.99	26,206,926.13
Series D from June 28, 1997	566,819	265.00	150,207,035.00	566,819	380.00	215,391,220.00
	831,951		**219,136,969.00**	**831,951**		**316,767,471.13**

PARTICIPATION CAPITAL CONDITIONS

	Termination right of Drägerwerk AG & Co. KGaA	Termination right of participation certificate owner	Loss share	Minimum return	Participation certificate distribution
				€	
Series A	yes	no	no	1.30	Dividend on preferred share x 10
Series K	yes	yes	no	1.30	Dividend on preferred share x 10
Series D	yes	yes	yes	–	Dividend on preferred share x 10

In fiscal year 2018 as well as in the prior year, no participation certificates were issued or bought back.

Drägerwerk AG & Co. KGaA does not intend to terminate the participation certificates.

If the participation certificate holder exercises the calling right, the amount repayable shall equal the average mean rate of the last three months at the Hamburg Exchange or a maximum of the weighted average issue price of the corresponding tranche. Series K may be terminated for the first time as of December 31, 2021, with five years' notice as of the end of a calendar year; the period of termination thereafter is again five years.

Series D may be terminated for the first time as of December 31, 2026. Series D participation certificates share in losses. The proportionate loss attributable to the participation capital is offset by future profits.

The cases in which the minimum return is not paid are the same as those in which the preferred dividend is not paid. As with the subsequent payment of preferred dividends, the distribution on participation certificates is paid in arrears.

The distribution on participation certificates is ten times the preferred share dividend, as the par value of the securities was originally identical, but the arithmetic par value of the preferred share has since been reduced to one tenth of the original par value.

31 PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

As of December 31, 2018, the Dräger Group mainly had defined benefit pension plans and similar obligations in addition to defined contribution pension plans.

Defined benefit pension plans and similar obligations

Under the Group's defined benefit pension plans, provisions for pensions and similar obligations have been accrued for benefits payable in the form of old-age, disability, and surviving dependents' pensions. The amount of the obligations is determined using the projected unit credit method. The obligations are partly funded by plan assets.

The defined benefit pension plans of the German companies, which use the 2018G Heubeck mortality tables as a basis of calculation, account for 91.3 % (2017: 92.5 %) of the provisions for pensions and similar obligations disclosed as of the balance sheet date. The effect of the change to the mortality tables amounted to EUR 5.9 million. As of January 1, 2005, the new company pension plans ›Rentenplan 2005‹ for almost all employees of the Dräger Group's German subsidiaries and ›Führungskrafteversorgung 2005‹ for management came into effect, superseding the ›Versorgungsordnung '90‹ and ›Ruhegeldordnung '90‹ schemes.

Under the old pension plan, employees received pensions based on their salaries and period of employment. As part of the transition to the new plan, employees were guaranteed a pension based on the old plan for their years of service prior to the transition.

The new plan is now composed of the employer-funded basic level, the employee-funded top-up level (deferred compensation), and the employer-funded supplementary level. The pension cost for the employer-funded basic level is based on the respective employee's income. The employee-funded top-up level allows employees to increase their pension entitlement through deferred compensation. The contribution made at the employer-funded supplementary level depends on the employee contribution through deferred compensation and on the company's business performance (EBIT).

Since December 2007, these funds from the pension plan as well as the employee contributions from the respective fiscal year have been paid into a new fund (WKN (securities identification number) AOHG1B) and secured in favor of the employees via a contractual trust arrangement (CTA), meaning that they only serve to cover and finance the Company's direct pension obligations. The employees' pension accounts have a minimum guaranteed return of 2.75 %. Hence, the assets of this fund fulfill the criteria of plan assets pursuant to IAS 19, the EUR 137,152 thousand (2017: EUR 132,961 thousand) in assets secured by the CTA were offset against the gross pension obligations in fiscal year 2018. Additions to the CTA of EUR 10,732 thousand are expected for fiscal year 2019 (in 2017 for fiscal year 2018: EUR 11,595 thousand).

The available excess of plan assets over the relevant pension obligations totaling EUR 98 thousand (2017: EUR 82 thousand) is disclosed under other non-current assets. Note 27

The defined benefit pension plans of Dräger Schweiz AG, which uses the BVG 2010 generation tables as a basis of calculation, account for 2.2 % (2017: 3 %) of the provisions for pensions and similar obligations disclosed as of the balance sheet date. The Swisscanto Collective Foundation provides occupational pension plans which cover the economic consequences of old age, invalidity, and death. Employees can decide for themselves how much they want to save, picking from one of three options. The employer's contributions equal the amounts contributed by the employees. The employer and employee contributions are defined as a percentage of the insured salary. The pension amount is derived from the retirement assets accumulated on the date of retirement multiplied by the conversion rates stipulated in the regulations. Employees have the option to withdraw their retirement benefits as capital. Savings contributions are also paid on employee bonuses. The assets are invested by the Swisscanto Collective Foundation.

Under the Group's defined benefit pension plans, Dräger is exposed to the following risks:

- Due to the specific benefits, defined benefit pension plans are particularly long-term employee benefits, the measurement of which includes making long-term assumptions that are subject to an increased risk in view of actual realization.
- The underlying discount rate in the recognition of pension obligations reflects the effective market return on high-quality corporate bonds (calculated on the basis of modified Bloomberg indices) with the same term as the pension obligations as of the balance sheet date. If the actual return on plan assets is less than the calculated return, this creates a shortfall.
- Reducing the effective market return of high-quality corporate bonds leads to an increase in the projected benefit obligation. If the projected benefit obligation is counteracted by plan assets, some of this effect is compensated for.
- If benefit obligations are not covered by plan assets, Dräger has to generate pension payments within the course of its operating activities in the respective year.
- Due to the minimum guaranteed return of 2.75 %, Dräger must compensate for the actual return of the plan assets should this fall below the minimum guaranteed return.
- According to Sec. 16 (1) of the German Act to Improve Occupational Pensions (BetrAVG), an employer that has guaranteed company pension plan obligations must consider adjusting these obligations in line with the rate of inflation every three years. The employer's decision regarding such adjustments must consider the needs of the pension recipient and, above all, the economic situation of the company.

The net obligation from defined benefit pension plans is recognized in the balance sheet as follows:

NET OBLIGATION FROM DEFINED BENEFIT PENSION PLANS

in € thousand	2018	2017
Carrying amount of benefit obligations with plan assets	305,546	276,114
Present value of plan assets	–202,205	–196,099
Underfunded pension plans	**103,342**	**80,015**
Carrying amount of benefit obligations without plan assets	235,856	232,881
Net obligation as of December 31	**339,197**	**312,895**
Available excess of plan assets	98	82
Provisions for pensions and similar obligations	**339,295**	**312,977**

Changes in the net obligation are as follows:

CHANGES IN THE PROJECTED BENEFIT OBLIGATIONS AND PLAN ASSETS

	2018			2017		
in € thousand	Projected benefit obligation	Fair value of plan assets	Total	Projected benefit obligation	Fair value of plan assets	Total
January 1	**508,995**	**–196,099**	**312,895**	**507,930**	**–189,678**	**318,252**
Service costs	19,646	–	19,646	18,662	–	18,662
Interest income (–)/ interest expense (+)	8,251	–2,906	5,345	7,514	–2,481	5,033
Past service costs	1,887	–	1,887	–467	–	–467
Other effect on profit or loss	–25	–	–25	16	–	16
Changes recognized in profit or loss	**29,759**	**–2,906**	**26,853**	**25,725**	**–2,481**	**23,243**
Return on plan assets excluding amounts included in interest	–	10,189	10,189	–	–2,191	–2,191
Revaluations from changes to demographic assumptions	5,700	–	5,700	–3,636	–	–3,636
Revaluations from changes to financial assumptions	–2,241	–	–2,241	–3,310	–	–3,310
Revaluations from adjustment to empirical values	4,124	–	4,124	5,221	–	5,221
Changes in other comprehensive income	**7,582**	**10,189**	**17,771**	**–1,725**	**–2,191**	**–3,916**
Benefits paid	–16,912	4,047	–12,865	–19,678	6,476	–13,202
Employee contributions	4,615	–4,615	0	4,190	–4,190	0
Employer contributions	–	–10,522	–10,522	–	–9,837	–9,837
Transfer from obligations and other effects	4,371	53	4,424	–	0	0
Currency changes	2,991	–2,351	640	–7,446	5,801	–1,646
Other changes	**–4,934**	**–13,388**	**–18,322**	**–22,935**	**–1,749**	**–24,684**
December 31	**541,402**	**–202,205**	**339,197**	**508,995**	**–196,099**	**312,895**
Net obligation as of December 31			**339,197**			**312,895**

Service costs and past service costs are included under personnel expenses.

Benefits paid include payments from settlements of a foreign subsidiary in the amount of EUR 0 thousand (2017: EUR 1,605 thousand).

Plan assets are composed as follows:

COMPOSITION OF PLAN ASSETS

	2018			2017		
in € thousand	Active market	No active market	Total	Active market	No active market	Total
Cash and cash equivalents	11,892	–	11,892	13,375	–	13,375
Equity instruments	22,016	–	22,016	22,178	–	22,178
Securities	37,250	883	38,133	36,481	871	37,352
Debt instruments	108,467	–	108,467	104,389	–	104,389
Real estate	9,344	–	9,344	8,127	–	8,127
Other	12,352	–	12,352	10,678	–	10,678
			202,205			**196,099**

Plan assets do not contain Dräger shares or properties used by Dräger itself.

The investment strategy for the plan assets in the German pension plan is defined by an investment committee on the basis of reports prepared by external fund managers. The investment strategy takes into account anticipated pension payment structures as well as risk assessments (asset-liability matching).

For the next fiscal year, additions to plan assets are expected to amount to EUR 12,974 thousand (2017: EUR 13,207 thousand).

The following actuarial assumptions were made in measuring the projected benefit obligation (weighted averages):

ACTUARIAL ASSUMPTIONS

	2018		2017	
	Germany	Abroad	Germany	Abroad
Discount rate	1.75 %	1.31 %	1.75 %	0.86 %
Future wage and salary increases	3.00 %	1.71 %	3.00 %	1.66 %
Future pension increases	1.36 %	0.31 %	1.39 %	0.33 %

The weighted average term of the defined benefit obligation in the fiscal year is 20 years (2017: 19 years).

The effect of changes in fundamental assumptions on the projected benefit obligation is as follows:

EFFECT OF FUNDAMENTAL ASSUMPTIONS ON THE PROJECTED BENEFIT OBLIGATION

	2018			2017		
	Discount rate	Future pension increases	Life expectancy	Discount rate	Future pension increases	Life expectancy
Change in assumption	1.00 %	0.25 %	1 year	1.00 %	0.25 %	1 year
Effect on the projected benefit obligation if the assumption increases	15.9 % decrease	1.1 % increase	4.5 % increase	15.9 % decrease	1.1 % increase	4.4 % increase
Effect on the projected benefit obligation if the assumption decreases	21.3 % increase	0.7 % decrease	4.5 % decrease	21.3 % increase	0.7 % decrease	4.5 % decrease

The sensitivity analyses were performed using the same calculation methods; one assumption was changed in each analysis while all other assumptions remained constant (ceteris paribus); this means that possible correlation effects between the individual assumptions are not taken into account.

The following pension payments are expected to be due:

EXPECTED PENSION PAYMENTS 2018

in € thousand	2019	2020	2021 to 2023	> 2023	Total
Expected pension payments	16,373	16,148	52,456	863,681	948,658

EXPECTED PENSION PAYMENTS 2017

in € thousand	2018	2019	2020 to 2022	> 2022	Total
Expected pension payments	15,347	16,029	48,772	857,243	937,391

Expenses for additional benefits to pensioners of EUR 2,176 thousand (2017: EUR 1,940 thousand) were recognized in fiscal year 2018.

Defined contribution plans

In addition to the defined benefit plans and similar obligations described above, Dräger pays voluntary or statutory contributions to government and private pension insurers (defined contribution plans).

Dräger also paid statutory pension contributions in Germany of EUR 38,646 thousand (2017: EUR 36,253 thousand) in fiscal year 2018. In addition, the cost of other defined contribution plans came to EUR 10,597 thousand (2017: EUR 9,883 thousand).

32 OTHER NON-CURRENT AND CURRENT PROVISIONS

OTHER NON-CURRENT AND CURRENT PROVISIONS

in € thousand	Provisions for personnel and welfare obligations	Warranty provisions	Provisions for potential losses	Provisions for commissions	Provisions for other obligations in the normal course of business	2018 Total
January 1	126,669	25,427	3,062	5,499	85,532	246,189
Allocation	77,404	26,116	290	3,528	53,664	161,003
Accumulation of interest	205	– 5	23	–	27	251
Utilization	– 83,706	– 12,955	– 287	– 3,350	– 43,679	– 143,977
Reversal	– 3,410	– 2,191	– 329	– 542	– 10,196	– 16,668
Reclassifications	0	– 35	–	237	– 202	0
Currency translation effects	256	22	– 3	– 40	317	552
December 31	**117,418**	**36,380**	**2,757**	**5,332**	**85,463**	**247,350**

Provisions for personnel and welfare obligations were largely recognized for bonuses and sales compensation; the basis on which these are calculated had not been finalized as of the balance sheet date, meaning that the obligations are not yet reported as a liability. This item also includes provisions for phased retirement and long-service awards.

The warranty provisions were measured by reference to the warranty claims made in the past and specific known risks.

Provisions for potential losses mainly resulted from long-term leases of unused or not fully used business premises.

Provisions for commissions relate to those contractual commission entitlements where the underlying intermediary transaction had not been finalized as of the balance sheet date, meaning that the obligation is not yet reported as a liability.

Provisions for other obligations in the normal course of business contain provisions for unpaid invoices for services received amounting to EUR 40,266 thousand (2017: EUR 37,136 thousand), the amount of which is not sufficiently certain. These mainly relate to provisions for services received that have not yet been settled; as a result, the amount of these provisions has not been finalized. In addition, obligations for the audit of financial statements of EUR 2,054 thousand (2017: EUR 1,932 thousand) were set aside, as were obligations for customer bonuses of EUR 6,205 thousand (2017: EUR 5,843 thousand). Obligations in the normal course of business also include obligations from expected credit notes, for litigation costs and risks, purchase guarantees, and other taxes.

The expected utilization of other provisions is as follows:

OTHER PROVISIONS – MATURITIES

in € thousand	up to 1 year	1 year up to 5 years	more than 5 years	Total
Provisions for personnel and welfare obligations	81,248	26,174	9,996	117,418
Warranty provisions	34,014	2,365	–	36,380
Provisions for potential losses	1,468	156	1,134	2,757
Provisions for commissions	5,332	–	–	5,332
Provisions for other obligations in the normal course of business	79,205	6,258	–	85,463
	201,267	**34,953**	**11,130**	**247,350**

33 INTEREST-BEARING LOANS AND LIABILITIES TO BANKS

INTEREST-BEARING LOANS AND LIABILITIES TO BANKS

	2018					2017				
	Current	Non-current			Total	Current	Non-current			Total
in € thousand		1 year to 5 years	more than 5 years	Total			1 year to 5 years	more than 5 years	Total	
Liabilities to banks	90,098	40,836	24,266	65,102	155,199	33,007	44,817	33,009	77,826	110,833
Note loans (issued 2011 and 2016)	–	59,974	–	59,974	59,974	38,478	59,962	–	59,962	98,440
	90,098	**100,810**	**24,266**	**125,076**	**215,173**	**71,485**	**104,779**	**33,009**	**137,788**	**209,273**

The note loans in place as of the balance sheet date are not subject to any contractually agreed termination options.

The terms and conditions and the interest on interest-bearing loans and liabilities to banks are as follows:

TERMS AND CONDITIONS AND INTEREST RATES FOR INTEREST-BEARING LOANS AND LIABILITIES TO BANKS

			2018			2017
	Interest conditions	Interest rate in %	Total in € thousand	Interest conditions	Interest rate in %	Total in € thousand
Non-current liabilities to banks						
EUR	fixed	0.75 – 5.1	49,028	fixed	0.75 – 5.1	60,287
EUR	variable	1.46	14,987	variable	1.46	15,415
ZAR	fixed	8.8	814	fixed	8.8	1,809
INR	fixed	9.45	10	fixed	9.45	20
Other	fixed	14.0 – 17.0	262	fixed	14.0 – 17.0	220
Other	variable	–	–	variable	0.23 – 2.34	75
			65,102			**77,826**
Non-current note loans						
EUR	fixed	0.8	59,974	fixed	0.8	59,962
			59,974			**59,962**
Total non-current loans and liabilities to banks			**125,076**			**137,788**
Current liabilities to banks						
EUR	variable	0.85 – 7.0	30,153	variable	0.8 – 7.0	1,472
EUR	fixed	0.75 – 5.1	11,259	fixed	0.75 – 5.75	11,226
SAR	fixed	3.3 – 3.4	2,095	fixed	3.3 – 3.4	2,001
JPY	fixed	0.83	5,622	fixed	0.83	4,444
CNY	fixed	4.57	2,539	fixed	4.57	2,562
CNY	variable	5.3 – 5.6	5,495	variable	4.98 – 5.6	3,418
USD	variable	3.98	13,096	variable	–	0
INR	variable	9.17 – 9.95	11,841	variable	9.25 – 9.30	6,883
INR	fixed	9.45	10	fixed	9.45	9
PEN	fixed	5.85 – 12.39	3,526	variable	–	0
Other	fixed	6.28 – 17.0	4,462	fixed	8.8 – 17.0	987
Other	variable	–	–	variable	1.0 – 2.0	5
			90,098			**33,007**
Current note loans						
EUR	fixed	–	–	fixed	3.88	38,478
			0			**38,478**
Total current loans and liabilities to banks			**90,098**			**71,485**

Variable interest rates are partly hedged. Please see our information on derivative financial instruments and interest rate risks. ≣ Note 36

Liabilities to banks arising from the construction of the medical product division's new office and laboratory building that was completed in fiscal year 2008 (residual carrying value of the asset: EUR 28.7 million) have been secured with a mortgage of EUR 55 million. The financing of the new production and logistics building for the Infrastructure Projects segment in Lübeck, which was completed in fiscal year 2011, has been secured with a mortgage of EUR 10.8 million (residual carrying value of the asset: EUR 8.4 million). There are no other mortgages on land and buildings or assignments as security for recognized liabilities.

As in the prior year, there were no payment delays or default or any other violations of the loan agreements in fiscal year 2018.

34 OTHER FINANCIAL LIABILITIES

OTHER FINANCIAL LIABILITIES

					2018					2017
	Current			Non-current	Total	Current			Non-current	Total
in € thousand		1 year to 5 years	more than 5 years	Total			1 year to 5 years	more than 5 years	Total	
Trade payables to third parties	**201,438**	**–**	**–**	**0**	**201,438**	**202,917**	**–**	**–**	**0**	**202,917**
Other financial liabilities										
Repayment obligation Draeger Arabia Co. Ltd.	–	13,066	–	13,066	13,066	–	–	13,250	13,250	13,250
Negative fair values of derivative financial instruments	9,434	3,289	–	3,289	12,723	4,450	464	2,362	2,826	7,276
Finance lease liabilities (lessee)	291	803	6,560	7,363	7,654	1,232	1,255	6,649	7,904	9,136
Liabilities to employees	7,422	–	–	0	7,422	6,405	–	–	0	6,405
Debtors with credit balances	5,634	–	–	0	5,634	4,033	–	–	0	4,033
Liabilities to Drägerwerk Verwaltungs AG	3,590	–	–	0	3,590	1,413	–	–	0	1,413
Liabilities from accrued loan interest	500	–	–	0	500	455	–	–	0	455
Distribution for participation capital	345	–	–	0	345	345	–	–	0	345
Liabilities to associates	3	–	–	0	3	0	–	–	0	0
Other financial liabilities	7,057	1,148	–	1,148	8,205	3,267	1,271	–	1,271	4,537
	34,277	**18,306**	**6,560**	**24,866**	**59,142**	**21,599**	**2,990**	**22,261**	**25,251**	**46,850**
	235,715			**24,866**	**260,581**	**224,516**			**25,251**	**249,767**

The repayment obligation to the non-controlling shareholder of Draeger Arabia Co. Ltd. results from the amended agreements that came into force effective from February 2014 and allow the shareholders to offer their shares to the other shareholder from January 1, 2024, or to bring about the company's liquidation in the event that the other shareholder does not consent to purchase the shares. The payment obligation to minority shareholders constitutes a financial liability that is recognized as debt, rather than recognized in equity. The non-controlling shareholder's puttable shares were initially accounted for as a liability at fair value of the expected payment obligation for Dräger as of the date of termination. They are subsequently accounted for at amortized cost.

For an explanation of finance lease liabilities, please refer to our comments on recognition of finance leases by the lessee. Note 37

For the derivative financial instruments recognized as other financial liabilities, please refer to the table of derivative financial instruments in the Dräger Group presented in. Note 36

35 OTHER LIABILITIES

OTHER LIABILITIES

			2018			2017
in € thousand	Current	Non-current	Total	Current	Non-current	Total
Contractual liabilities	94,947	20,101	115,048	–	–	0
Prepayments received	–	–	0	46,099	–	46,099
Deferred other income	913	6,727	7,640	48,964	12,653	61,616
Other tax liabilities	41,810	–	41,810	44,475	–	44,475
Other liabilities to employees and for social security	32,064	–	32,064	29,452	–	29,452
Liabilities from construction contracts	–	–	0	22	–	22
Remaining other liabilities	3,437	2,235	5,672	3,569	2,251	5,820
	173,171	**29,064**	**202,235**	**172,581**	**14,904**	**187,485**

Contractual liabilities are composed of accrued net sales of EUR 69,842 thousand and of prepayments received of EUR 45,206 thousand. The net sales accruals reported separately in the prior year amounted to EUR 51,845 thousand, while prepayments received totaled EUR 46,099 thousand.

Prepayments received in fiscal year 2017 include prepayments on construction contracts of EUR 3,589 thousand in accordance with IAS 11, which exceeded the respective recognized value of the contract.

Other deferred income includes accruals of other income.

36 FINANCIAL INSTRUMENTS

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

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

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

in € thousand	Financial assets according to IAS 39			Reclassifications	Financial assets according to IFRS 9	
Item	Category	Measurement	Carrying amount		Classification	Carrying amount
Investments	Available for sale	Fair value through other comprehensive income	3,951	– 3,951	Fair value through other comprehensive income	–
		Fair value through profit or loss	–	3,951	Fair value through profit or loss	3,951
Derivatives (without hedging relation)	Held for trading	Fair value through profit or loss	2,945		Fair value through profit or loss	2,945
Derivatives (cash flow hedge)	no category assignment	Fair value through other comprehensive income	5,788		Fair value through other comprehensive income	5,788
Trade receivables and receivables from construction contracts/contract assets	Loans and receivables	Amortized cost	669,175		Amortized cost	669,175
Other financial assets	Loans and receivables	Amortized cost	41,584		Amortized cost	41,584
Cash and cash equivalents	Loans and receivables	Amortized cost	247,568		Amortized cost	247,568
			971,011			**971,011**

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

B. Structure of financial instruments and their measurement

The structure of the financial instruments of the Group, their classification, and the resulting measurement are shown below. The measurement classes are explained in our comments on the measurement of financial assets and liabilities in Note 7.

Financial instruments recognized at fair value were allocated to the three levels of the fair value hierarchy shown in the tables below.

The Dräger Group's financial assets were not reclassified in fiscal year 2018.

In the following table, the carrying values of financial assets and liabilities not regularly recognized at fair value are compared with their fair values.

FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2018 – ASSETS

	Carrying amount				Fair value
in € thousand		Level 1	Level 2	Level 3	Total
Financial assets – at amortized cost					
Trade receivables and contract assets	706,400	–	–	–	0
Other financial assets	39,912	–	39,892	–	39,892
Cash and cash equivalents	179,561	–	–	–	–
	925,873	**0**	**39,892**	**0**	**39,892**
Financial assets – at fair value through profit and loss					
Derivatives (with hedging relation)	2,680	–	2,680	–	2,680
Derivatives (without hedging relation)	5,808	–	5,808	–	5,808
Equity instruments	6,383	–	–	6,383	6,383
Debt instruments	546	546	–	–	546
	15,416	**546**	**8,488**	**6,383**	**15,416**
	941,289	**546**	**46,362**	**8,401**	**55,308**

FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2018 – EQUITY AND LIABILITIES

	Carrying amount				Fair value
in € thousand		Level 1	Level 2	Level 3	Total
Financial obligations – at amortized cost					
Trade payables	201,438	–	–	–	0
Loans and liabilities to banks	215,173	–	210,779	–	210,779
Other financial liabilities	71,262	–	71,258	–	71,258
	487,874	**0**	**282,037**	**0**	**282,037**
Financial liabilities – at fair value through profit and loss					
Derivatives (with hedging relation)	3,415	–	3,415	–	3,415
Derivatives (without hedging relation)	9,308	–	9,308	–	9,308
	12,723	**0**	**12,723**	**0**	**12,723**
	500,596	**0**	**287,135**	**7,625**	**294,760**

FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2017 – ASSETS

	Carrying amount				Fair value
in € thousand		Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost					
Trade receivables and receivables from construction contracts	669,175	–	–	–	0
Other financial assets	43,783	–	43,882	–	43,882
Cash and cash equivalents	247,568	–	–	–	0
	960,525	**0**	**43,882**	**0**	**43,882**
Trading derivatives					
Derivatives (with hedging relation)	2,680	–	2,680	–	2,680
Derivatives (without hedging relation)	5,808	–	5,808	–	5,808
	8,488	**0**	**8,488**	**0**	**8,488**
Financial assets held for sale					
Equity instruments	3,833	576	–	3,257	3,833
	3,833	**576**	**0**	**3,257**	**3,833**
	972,846	**576**	**52,369**	**3,257**	**56,203**

FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2017 – EQUITY AND LIABILITIES

	Carrying amount				Fair value
in € thousand		Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost					
Trade payables	202,917	–	–	–	0
Loans and liabilities to banks	209,273	–	209,345	–	209,345
Other financial liabilities	63,335	–	63,475	–	63,475
	475,525	**0**	**272,820**	**0**	**272,820**
Trading derivatives					
Derivatives (with hedging relation)	3,415	–	3,415	–	3,415
Derivatives (without hedging relation)	9,308	–	9,308	–	9,308
	12,723	**0**	**12,723**	**0**	**12,723**
	488,248	**0**	**285,543**	**0**	**285,543**

Level 1:

Prices in the active markets are assumed in unchanged form for identical financial assets or financial liabilities. The fair values of non-current securities are based on current stock market prices.

Level 2:

Uses largely observable input factors that can be directly (i. e., price) or indirectly (i. e., derived from prices) observed for financial assets or financial liabilities; these do not include any listed prices taken into consideration in level 1.

Dräger applies the discounted cash flow method when measuring derivatives. Expected cash flows are determined on the basis of secured prices and / or interest rates and the observable closing rates and / or interest rates, which are then discounted using an interest rate that takes into account Dräger's company-related risks.

The fair value of level 2 financial assets and liabilities measured at amortized cost was determined using the discounted cash flow method by replacing the interest rates used in the initial calculation of non-current financial assets and liabilities with interest rates derived from current Company-related interest rate curves on the balance sheet date. These interest rates are between 2.23 % for cash flows in 2019 and 2.93 % for cash flows in 2025. An increase in the interest rates taken into account would result in a decrease in fair values. No adjustments were made to the interest rates of 8.28 % and 6.19 % for the leasehold agreements recognized in fiscal years 2013 and 2016 (terms into fiscal year 2103).

Level 3:
Uses factors based on not observable market data for the measurement of financial assets and liabilities (unobservable input factors). These are classified as level 3 when there is an unobservable input factor present that significantly influences the measurement. In the Dräger Group, only equity instruments are allocated to level 3. Dräger applies the discounted cash flow method when measuring equity instruments.

No reclassifications between the levels were carried out in the past two fiscal years.

Net profit or loss from financial instruments

Net profit or loss from financial instruments recorded in fiscal year 2018 is composed as follows:

NET PROFIT OR LOSS FROM FINANCIAL INSTRUMENTS

in € thousand

Net profit or loss according to measurement class (IFRS 9)	**2018**
Financial assets measured at amortized cost	– 3,515
Assets measured at fair value through profit or loss	– 30
Derivatives measured at fair value through profit or loss	– 3,495
Financial liabilities measured at amortized cost	– 926
	– 7,966

Net profit or loss according to measurement category (IAS 39)	**2017**
Financial assets / financial liabilities held for trading	7,381
Loans and receivables	– 3,708
Available-for-sale assets	0
Other financial liabilities	1,775
	5,449

In the reporting year, net profit or loss mostly comprised changes in value from allowances, reversals of allowances, and profit or loss from currency futures.

Net interest result from financial instruments

The net interest result from financial instruments recorded in the fiscal year is composed as follows:

INTEREST RESULT FROM FINANCIAL INSTRUMENTS

in € thousand	
Interest result according to measurement class (IFRS 9)	**2018**
Financial assets measured at amortized cost	3,958
Debt instruments measured at fair value through profit or loss	10
Financial liabilities measured at amortized cost	– 8,112
	– 4,144
Interest result according to measurement category (IAS 39)	**2017**
Loans and receivables	3,618
Held-to-maturity investments	1
Available-for-sale assets	9
Other liabilities	– 9,452
	– 5,824

C. Financial risk management

As an international company, the Dräger Group is especially exposed to exchange rate and interest rate risks, in addition to liquidity risks and credit risk.

The aim of financial risk management is to uncover and mitigate financial risks posed to the Dräger Group through ongoing operating and finance-oriented processes. A systematic recognition, control, and monitoring of market risks is designed to counter developments that could jeopardize the existence of Dräger early on and ensure Dräger's continued existence in the long term.

Derivative financial instruments are used to hedge the currency and interest exposure of current and forecast transactions. These derivatives are used exclusively as hedging instruments and are generally not concluded for speculative purposes.

A committee, which is comprised of the CFO as well as participants from the treasury, accounting, and controlling departments, determines and monitors the basic features of Dräger's financial policies. The members of this committee meet at least once per quarter to decide on possible hedging strategies on the basis of current developments as well as the existing risk positions.

Financial risk management is based on the annually revised strategic plans of the Group and divisions and the resultant short- and medium-term plans. The financial policies as well as financial risk management for liquidity, currency, and interest rate risks are implemented centrally by the treasury department. Please see our comments in the management report for more general information on risk management.

Liquidity risk

Drägerwerk AG & Co. KGaA mitigates its liquidity risk by diversifying the maturity structure of its financing instruments so as to ensure the Dräger Group's solvency and financial flexibility at all times. These include in particular participation certificates and note loans due in one to five years. Drägerwerk AG & Co. KGaA also has various non-current and current liabilities to banks as well as a liquidity reserve comprising freely available credit facilities with numerous banks with which it has concluded bilateral agreements. Due to the maturity structure of these financing instruments, Drägerwerk AG & Co. KGaA has only a limited prolongation risk.

The following analysis of the maturities of financial liabilities (contractually agreed, non-discounted payments) shows the influence on the Group's liquidity situation:

MATURITIES OF FINANCIAL LIABILITIES 2018

in € thousand	2019	2020	2021 to 2023	ab 2024	Total
Derivative financial liabilities					
Foreign currency derivatives – cash outflow	331,513	60,337	–	–	391,850
Foreign currency derivatives – cash inflow	– 319,241	– 58,173	–	–	– 377,414
Interest rate swap – cash outflow	512	496	985	–	1,994
	12,784	**2,660**	**985**	**0**	**16,430**
Non-derivative financial liabilities					
Liabilities from participation certificates	345	345	3,807	32,741	37,238
Interest-bearing loans and liabilities to banks	92,543	13,727	89,734	25,914	221,919
Trade payables	201,438	–	–	–	201,438
Finance lease liabilities	879	1,458	2,078	28,985	33,401
Other financial liabilities	25,798	1,287	8,582	0	35,666
	321,004	**16,817**	**104,202**	**87,641**	**529,663**
	333,788	**19,477**	**105,187**	**87,641**	**546,093**

MATURITIES OF FINANCIAL LIABILITIES 2017

in € thousand	2018	2019	2020 to 2022	ab 2023	Total
Derivative financial liabilities					
Foreign currency derivatives – cash outflow	213,638	38,756	–	–	252,394
Foreign currency derivatives – cash inflow	– 208,172	– 37,622	–	–	– 245,794
Interest rate swap – cash outflow	529	511	1,257	88	2,385
	5,995	**1,645**	**1,257**	**88**	**8,985**
Non-derivative financial liabilities					
Liabilities from participation certificates	345	345	3,898	32,741	37,329
Interest-bearing loans and liabilities to banks	73,248	14,033	94,041	35,138	216,459
Trade payables	202,917	–	–	–	202,917
Finance lease liabilities	1,987	1,968	2,075	29,640	35,670
Other financial liabilities	16,907	1,292	3,820	12,994	35,013
	295,404	**17,638**	**103,834**	**110,513**	**527,389**
	301,399	**19,283**	**105,091**	**110,601**	**536,374**

Currency risk

The Group's currency risks within the meaning of IFRS 7 relate to the financial instruments used in connection with operating activities or investing and financing activities. The Dräger Group mainly counters this risk that remains after offsetting cash inflows and outflows in the same foreign currency by entering into foreign currency derivatives. Currency management aims to limit the effect of exchange rate fluctuations on the Dräger Group's results of operations and net assets.

Treasury and controlling departments are responsible for determining and analyzing currency risk positions as well as developing and implementing the hedging strategy. The hedging strategy aims to reduce the impact of exchange rate fluctuations on Group EBIT, taking into account the economic viability of the hedging methods applied. As a general rule, only those currency risks with fluctuations that impact Group EBIT are hedged. However, risks resulting from the translation of assets and liabilities of foreign subsidiaries into the Group's reporting currency are generally not hedged.

The hedging strategy aims to reduce currency risks as far as possible by using natural hedges, whereby the revenues and cost structure are denominated in the respective currencies, or even to pass the currency effects on to the customers. Furthermore, currency futures are entered into for the remaining currency risks, provided that the costs of the hedges are economically commensurate with the expected hedging success. Every effort is made to centralize the currency risk with the German parent company so as to keep hedging costs as low as possible for the subsidiaries.

The following currency futures were held as of the balance sheet date:

CURRENCY FUTURES

	Nominal volume						Fair value
in € thousand		Non-current	Current	Assets Total	Non-current	Current	Equity and liabilities Total
2018							
Currency forwards							
Without a hedging relationship recognized in the balance sheet	434,439	889	4,919	5,808	2,619	6,689	9,308
In conjunction with cash flow hedges	267,755	740	1,940	2,680	670	2,745	3,415
	702,194	**1,629**	**6,859**	**8,488**	**3,289**	**9,434**	**12,723**
2017							
Currency forwards							
Without a hedging relationship recognized in the balance sheet	192,052	226	2,719	2,945	0	1,270	1,270
In conjunction with cash flow hedges	367,630	332	5,456	5,788	464	3,180	3,644
	559,682	**558**	**8,176**	**8,733**	**464**	**4,450**	**4,914**

The nominal volumes of foreign currency hedging instruments are distributed as follows:

NOMINAL VOLUMES OF FOREIGN CURRENCY HEDGING INSTRUMENTS

			Residual terms	Total nominal volumes	Average hedging rate / price
in € million	Up to 1 year	1 to 5 years	Over 5 years	December 31, 2018	December 31, 2018
Hedging the currency risk					
Currency futures AUD	23.6	7.3	–	30.9	1.6
Currency futures BRL	5.4	3.5	–	8.9	4.6
Currency futures CAD	6.5	2.5	–	9.0	1.6
Currency futures CHF	13.5	4.0	–	17.5	1.1
Currency futures CLP	3.3	3.3	–	6.6	799.8
Currency futures CAD	53.4	18.2	–	71.6	8.2
Currency futures HUF	2.6	0.9	–	3.5	325.5
Currency futures INR	6.2	2.7	–	8.8	91.0
Currency futures JPY	14.0	7.5	–	21.5	129.7
Currency futures KRW	4.3	–	–	4.3	1.316.0
Currency futures MXN	7.5	3.8	–	11.3	24.6
Currency futures PEN	2.1	1.6	–	3.7	4.0
Currency futures PLN	9.6	5.0	–	14.6	4.4
Currency futures RUB	15.2	4.4	–	19.6	81.2
Currency futures SEK	11.2	3.5	–	14.7	10.2
Currency futures SGD	5.0	2.8	–	7.7	1.6
Currency futures THB	5.9	2.1	–	8.0	38.4
Currency futures TWD	3.4	2.0	–	5.4	35.5

Dräger uses currency futures to hedge cash flows in the main foreign currencies as result of planned foreign currency net sales and costs to reduce the risk from fluctuations in currencies from planned and pending transactions.

The currencies to be hedged are pre-selected using the cash flow at risk approach, which takes into account the correlation between the individual currency developments and the historical exchange rate fluctuations. Hedging costs are also taken into consideration, meaning that these currencies are only hedged up to the amount which ensures the optimal ratio between possible hedging success and hedging costs.

Dräger uses cash flow hedge accounting to account for future cash flows from currency hedging transactions. The effectiveness of the hedging relationships is measured by the cumulative dollar offset method. In this method, only the change in the currency future attributable to the forward rate is designated as the hedging instrument (forward-to-forward). As a result, the effective part of changes to the forward rate is recognized directly in equity under other comprehensive income until it is reclassified to the income statement (reclassification adjustment), when the hedged part of the item also affects profit or loss.

75 % of the planned transactions are hedged in the currencies concerned. In this respect, the main causes of hedging ineffectiveness are the variation in timing between the hedged transaction and the credit risk.

The effects of these hedging transactions on the consolidated balance sheet are as follows:

DISCLOSURES ON ASSURANCE INSTRUMENTS AS PART OF FOREIGN CURRENCY CASH FLOW HEDGES (DECEMBER 31, 2018)

in € million	Carrying amount	Balance sheet items	Change in fair value to determine ineffectiveness	Nominal volume
Hedging the foreign currency risk				
Currency forwards				
Derivative assets	2.7	Other financial assets	1.8	142.5
Derivative liabilities	3.4	Other financial liabilities	2.8	125.2

The effects of the hedged items on the consolidated balance sheet are as follows:

DISCLOSURES ON UNDERLYING TRANSACTIONS AS PART OF FOREIGN CURRENCY CASH FLOW HEDGES (DECEMBER 31, 2018)

in € million	Value change to the hedging item period to determine ineffectiveness	Status of hedging reserve and currency reserve of active cash flow hedges	Status of hedging reserve and currency reserve of successful cash flow hedges
Hedging the foreign currency risk			
Designated components	11.5	4.1	0.6

The effects of foreign currency cash flow hedges on the income statement and other comprehensive income are as follows:

DISCLOSURES ON GAINS AND LOSSES FROM FOREIGN CURRENCY CASH FLOW HEDGES (DECEMBER 31, 2018)

				Reclassifications from the CFH reserve in the income statement			
in € million	Gain or loss from CFH recognized in equity	Ineffectiveness recognized in the income statement	Items in the statement of comprehensive income containing the recognized ineffectiveness	Due to premature termination of the CFH	Due to the recognition of the hedged item in the income statement	Items in the statement of comprehensive income containing the reclassification	Gain or loss from hedging the net positions
Hedging the foreign currency risk	–1.9	1.4	Cost of sales	–	–1.2	Net sales	–1.2

The effectiveness of the hedge is determined at the start of the hedging relationship and by means of periodic prospective valuations in order to ensure that there is an economic relationship between the hedged item and the hedging instrument. At the Dräger Group, the prospective valuation is conducted by reviewing the contractual terms and conditions of the hedged item and the hedging transaction. Generally speaking, hedging instruments at Dräger are always concluded at identical terms and conditions to the hedged item, so that it can be assumed that the hedge will be effective in the future.

Furthermore, the hypothetical derivative method is used within the scope of a retrospective effectiveness test to determine whether the hedge was effective in the prior period.

Dräger does not typically renew its hedges by changing the hedging instruments and the corresponding hedged items.

There are no planned transactions reflected as part of cash flow hedge accounting, which we are no longer expecting to occur.

The foreign currency cash flow hedges reserves pursuant to IFRS 9 develop as follows:

DEVELOPMENT OF FOREIGN CURRENCY CASH FLOW HEDGE RESERVES

in € million	January 1, 2018	Gain or loss from effective hedge accounting	Reclassifications due to amended expectations regarding the occurrence of the hedged item	Reclassifications due to recognition of hedged item	Reclassifications of presumably irrecoverable losses recorded in other comprehensive income	Reclassifications due to basis adjustment	December 31, 2018
Hedging the foreign currency risk	0.4	–1.6	–	0.2	–	–	–1.1

In hedging foreign currency risks posed by recognized assets or recognized liabilities, the Dräger Group does not use hedge accounting to recognize hedges. The concluded currency futures are categorized as trading derivatives and measured at fair value through profit or loss.

In order to better illustrate existing currency risks, the effects of hypothetical changes in relevant currencies on net profit and equity are discussed below on the basis of a currency sensitivity analysis. For this purpose, it was assumed that most monetary financial instruments are already denominated in the functional currency or have been converted into the functional currency using derivative financial instruments. Currency risks therefore lie in the remaining unhedged financial instruments in foreign currencies in respect of which currency fluctuations affect profit or loss. If the euro was up / down 10 % against the main foreign currencies in the Dräger Group, the US dollar and the Chinese yuan, as of the balance sheet date, with all other variables remaining the same, earnings after taxes (pursuant to IFRS 7) and other comprehensive income in equity would be impacted as follows:

EXCHANGE RATE SENSITIVITY

	2018		2017	
	Influence over		Influence over	
in € million	Earnings after taxes	Other comprehensive income in equity	Earnings after taxes	Other comprehensive income in equity
US dollar				
Euro up 10 %	0.5	0.0	0.9	4.8
Euro down 10 %	–0.6	0.0	–1.0	–2.6
Chinese yuan				
Euro up 10 %	0.1	4.6	0.3	5.0
Euro down 10 %	–0.1	–5.7	–0.4	–6.0

Interest rate risk

As well as variable rate non-current receivables and liabilities from operations, variable rate non-current loan liabilities also give rise to an interest rate risk due to changes in market rates. The treasury department conducts monthly risk analyses to determine the risk potential. These analyses are based on the maturity and interest rate lock-down structure of the existing financial portfolio as well as liquidity planning. Drägerwerk AG & Co. KGaA counters interest rate risks with a combination of fixed and variable rate financial liabilities and by using normal market hedging instruments. Changes in the market interest rates for primary financial instruments with fixed interest only affect the Group's profit or loss if such instruments are recognized at fair value. Thus none of the fixed-interest financial instruments recognized at amortized cost poses an interest rate risk that would affect cash flows.

The Group concluded interest rate swap caps to hedge cash flows from a non-current, variable interest-bearing loan. The interest rate swap has a remaining term of five years. For the swap, which is designated as a cash flow hedge, the Group receives variable interest and in return pays fixed interest. It is used for hedging variable interest rates from a real estate lease agreement. The interest-rate swap is recognized at fair value.

The nominal volume of the interest-rate hedging instrument is:

NOMINAL VOLUME OF INTEREST HEDGING INSTRUMENT

			Residual terms	Total nominal volume	Average hedging rate / price
in € million	Up to 1 year	1 to 5 years	Over 5 years	December 31, 2018	December 31, 2018
Hedging the interest rate risk					
Interest rate swaps	–	12.6	–	12.6	4.1 %

The effectiveness of this interest-rate hedge was determined at the start of the hedging relationship and by means of periodic prospective valuations in order to ensure that there is an economic relationship between the hedged item and the hedging instrument. At the Dräger Group, the prospective valuation is conducted by reviewing the contractual terms and conditions of the hedged item and the hedging transaction. Generally speaking, the interest-rate swap was concluded at identical terms and conditions to the hedged item, so that it can be assumed that the hedge will be effective in the future. There is therefore no ineffectiveness.

The effects of these hedging transactions on the consolidated balance sheet are as follows:

DISCLOSURES ON ASSURANCE INSTRUMENTS AS PART OF FOREIGN CURRENCY CASH FLOW HEDGES (DECEMBER 31, 2018)

in € million	Carrying amount	Balance sheet items	Change in fair value to determine ineffectiveness	Nominal volume
Hedging the foreign currency risk				
Currency forwards				
Derivative assets	–	–	–	–
Derivative liabilities	2.3	Other financial assets	0.7	12.6

The effects of the hedged items on the consolidated balance sheet are as follows:

DISCLOSURES ON UNDERLYING TRANSACTIONS AS PART OF FOREIGN CURRENCY CASH FLOW HEDGES (DECEMBER 31, 2018)

in € million	Value change to the hedging item period to determine ineffectiveness	Status of hedging reserve and currency reserve of active cash flow hedges	Status of hedging reserve and currency reserve of successful cash flow hedges
Hedging the foreign currency risk			
Designated components	0.7	–2.2	–

The effects of foreign currency cash flow hedges on the income statement and other comprehensive income are as follows:

DISCLOSURES ON GAINS AND LOSSES FROM FOREIGN CURRENCY CASH FLOW HEDGES (DECEMBER 31, 2018)

				Reclassifications from the CFH reserve in the income statement			
in € million	Gain or loss from CFH recognized in equity	Ineffectiveness recognized in the income statement	Items in the statement of comprehensive income containing the recognized ineffectiveness	Due to premature termination of the CFH	Due to the recognition of the hedged item in the income statement	Items in the statement of comprehensive income containing the reclassification	Gain or loss from hedging the net positions
Hedging the interest rate risk	0.7	–	–	–	–0.5	Financial result	–

The foreign currency cash flow hedges reserves pursuant to IFRS 9 develop as follows:

DEVELOPMENT OF INTEREST-RATE CASH FLOW HEDGE RESERVES FOLLOWING IFRS 9

in € million	January 1, 2018	Gain or loss from effective hedge accounting	Reclassifications due to amended expectations regarding the occurrence of the hedged item	Reclassifications due to recognition of hedged item	Reclassifications of presumably irrecoverable losses recorded in other comprehensive income	Reclassifications due to basis adjustment	December 31, 2018
Hedging the foreign currency risk	–2.4	0.7	–	–0.5	–	–	–2.2

In order to better illustrate existing interest rate risks, the effects of hypothetical changes in market interest rates on net profit and equity are discussed below on the basis of an interest rate sensitivity analysis. For this purpose, it was assumed that interest rate changes affect primary financial instruments measured at fair value and derivative financial instruments that are not part of a hedging relationship, whose changes in value are recognized in profit or loss. Derivative financial instruments that are part of a cash flow hedge are also affected by interest rate changes, with the changes in value recognized directly in equity.

A hypothetical increase of 50 basis points in market interest rates as of the balance sheet date, with all other variables remaining the same, would increase earnings after taxes by EUR 401 thousand (2017: EUR 755 thousand) and equity by EUR 277 thousand (2017: EUR 275 thousand). A hypothetical decrease of 25 basis points in market interest rates as of the balance sheet date, with all other variables remaining the same, would increase earnings after taxes by EUR 135 thousand (2017: EUR 47 thousand) and decrease equity by EUR 64 thousand (2017: EUR 220 thousand).

Credit risk

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet. In terms of derivatives, the Dräger Group does not expect any counterparties to fail to meet their obligations as they consist exclusively of financial institutions with investment grade ratings. In terms of trade receivables, the medical customer structure at Dräger mainly involves public or private hospitals, while safety customers are public organizations (fire service, police, etc.) as well as companies from the chemical, oil, and gas industries. Consequently, the Group considers that its maximum exposure is reflected by the amount of trade receivables and other current assets, net of valuation adjustments, and received collateral recognized as of the balance sheet date. Letters of credit and bank guarantees were mainly secured on trade receivables of EUR 11,940 thousand (2017: EUR 6,384 thousand). There are no other financial assets or liabilities that are covered by financial collateral (including cash collateral). Dräger does not hold collateral in the form of financial or non-financial assets.

Impairment losses on receivables are already made at the time the receivable arises. Trade and other receivables without material financing components are based on expected payment defaults throughout the whole contractual term. For receivables with material financing components, impairments are generally based on the expected payment defaults in the following twelve months. Expected payment defaults over the whole contractual term are only calculated for these receivables if the credit risk of the receivable increases significantly over time. The expected defaults are generally estimated individually for each receivable, taking into account different factors, in particular the credit rating of the debtor, partly using empirical values of homogeneous groups of receivables.

There are no significant risk concentrations relating to credit risks in connection with trade receivables. Trade receivables are mainly attributable to a very large number of customers.

Trade receivables and contract assets represent more than 90 % of Dräger's financial assets (excluding cash and cash equivalents). Dräger applies the simplified approach for these financial assets, whereby risk provisions are measured in the amount of the expected losses from default for the entire term both at initial recognition and on all subsequent reporting dates. Expected payment defaults in the future are recognized and these risk provisions are adjusted at each reporting date so as to recognize possible credit risks on the balance sheet of trade receivables without material financing components and contract assets.

Since contract assets have the same risk profile as trade receivables, the default rate calculated from trade receivables was also applied to the contract assets. Accordingly, a risk provision in the amount of EUR 50 thousand was recognized for contract assets in the amount of EUR 33,012 thousand.

According to the simplified approach, a risk provision in the amount of EUR 36,055 thousand was recognized for gross carrying values totaling EUR 742,455 thousand. Specific bad debt allowances are made when there is objective evidence that receivables are impaired, and are shown in the table.

Risk provisions for trade receivables and contract assets as of January 1, 2018 and December 31, 2018 were calculated as follows:

CALCULATING RISK PROVISIONS FOR TRADE RECEIVABLES AND CONTRACT ASSETS

in € thousand	not due	due in < 30 days	due in 30 to 59 days	due in 60 to 89 days	due in 90 to 119 days	due in ≥ 120 days	Risk provisions in total	Bad debt allowances	Total
December 31, 2018									
Gross carrying amounts of trade receivables and contract assets	498,049	92,589	32,207	16,410	12,040	91,160			742,455
Risk provisions	1,434	512	182	231	123	644	3,126	32,928	36,055
January 1, 2018									
Trade receivables	451,044	77,251	28,585	14,627	12,938	101,628			686,073
Risk provisions	1,796	419	191	109	108	1,101	3,725	40,423	44,148

The development of specific bad debt allowances according to IAS 39 as of December 31, 2017 for risk provisions pursuant to IFRS 9 as of December 31, 2018 is as follows:

RECONCILIATION OF RISK PROVISIONS FOR TRADE RECEIVABLES AND CONTRACT ASSETS

in € thousand	Specific bad debt allowances	Risk provision	Total
January 1, 2017 (according to IAS 39)	45,052	0	45,052
Addition	9,320	–	9,320
Utilization	–3,808	–	–3,808
Reversal	–7,807	–	–7,807
Currency translation effects	–2,334	–	–2,334
December 31, 2017 (according to IAS 39)	**40,423**	**0**	**40,423**
Adjustment value as of January 1, 2018 (according to IFRS 9)	–	3,725	3,725
January 1, 2018 (after IFRS 9 adjustment)	**40,423**	**3,725**	**44,148**
Addition	8,062	1,241	9,303
Utilization	–7,876	–136	–8,012
Reversal	–7,603	–1,624	–9,227
Currency translation effects	–78	–80	–157
December 31, 2018	**32,928**	**3,126**	**36,055**

Throughout the reporting period, Dräger wrote off trade receivables of EUR 1,286 thousand, for which enforcement proceedings had not yet concluded.

All other Dräger debt instruments classified at amortized cost were measured in the amount of the expected losses from default over 12 months. On this basis, a risk provision in the amount of EUR 85 thousand was recognized for gross carrying values totaling EUR 39,912 thousand.

No reclassifications were made at higher levels of credit due to the unchanged credit risk, which is why levels 2 and 3 have not been reported as separate items. The assets in question mainly involve notes receivable, receivables from commissioning agents, and security deposits, for which no defaults were to be recognized in the past.

The development of the risk provision according to IFRS 9 as of December 31, 2018 is as follows:

RECONCILIATION OF LEVEL 1 RISK PROVISIONS (EXPECTED LOSSES OVER 12 MONTHS)

in € thousand	Specific bad debt allowances	Risk provision	Total
1. Januar 2018	0	0	0
Addition	97	85	182
December 31, 2018	**97**	**85**	**182**

During the reporting period, no material changes were made to estimation procedures or significant assumptions.

Dräger does not hold any financial assets that were already impaired in their credit rating on acquisition or extension.

Netting of financial assets and liabilities

The following financial assets and liabilities are subject to netting due to contractually agreed offsetting procedures:

NETTING OF FINANCIAL ASSETS 2018

in € thousand	Gross amounts of financial assets	Amount of netted financial liabilities	Recognized net amount 2018	Unnetted amount of a netting agreement	Net amount 2018
Positive derivative financial instruments	8,488	–	8,488	–457	8,031
Cash and cash equivalents	179,561	–	179,561	0	179,561
	188,048	**0**	**188,048**	**–457**	**187,591**

NETTING OF FINANCIAL LIABILITIES 2018

in € thousand	Gross amounts of financial liabilities	Amount of netted financial assets	Recognized net amount 2018	Unnetted amount of a netting agreement	Net amount 2018
Negative derivative financial instruments	12,723	–	12,723	–6,867	5,856
Liabilities to banks	155,199	–	155,199	–29,353	125,846
	167,922	**0**	**167,922**	**–36,220**	**131,702**

NETTING OF FINANCIAL ASSETS 2017

in € thousand	Gross amounts of financial assets	Amount of netted financial liabilities	Recognized net amount 2017	Unnetted amount of a netting agreement	Net amount 2017
Positive derivative financial instruments	8,733	–	8,733	–2,523	6,210
Cash and cash equivalents	247,568	–	247,568	–363	247,205
	256,301	**0**	**256,301**	**–2,886**	**253,415**

NETTING OF FINANCIAL LIABILITIES 2017

in € thousand	Gross amounts of financial liabilities	Amount of netted financial assets	Recognized net amount 2017	Unnetted amount of a netting agreement	Net amount 2017
Negative derivative financial instruments	7,276	–	7,276	–1,036	6,240
Liabilities to banks	110,833	–	110,833	227	111,060
	118,109	**0**	**118,109**	**–809**	**117,300**

The netting capabilities result, on the one hand, from the general offsetting claims of the respective banks in the event of liquidity problems. On the other hand, groups of banks have offsetting claims within the scope of agreements regarding credit lines that were concluded with these banks. No netting has been applied so far as the necessary criteria have not been fulfilled.

No offsetting claims exist from operating activities within the scope of supply and service relationships.

37 LEASING

The contracts recognized under IAS 17 and IFRIC 4 as leases are explained below.

Lessee – Finance leases

Property leased by the Dräger Group primarily includes real estate as well as office equipment and machinery. The most significant obligations assumed under the lease terms comprise rental payments, the upkeep of the facilities and equipment, insurance, and taxes on capital. Lease terms generally range from one to five years with options to renew at varying conditions.

The Group had no finance leases with conditional payments in the fiscal year or the prior year.

For details of the development of assets used under finance leases, please see our explanations in connection with the statement of non-current assets in Note 21.

Minimum lease payments for the above finance leases are as follows:

MINIMUM LEASE PAYMENTS

in € thousand	2018	2017
During the first year	879	1,987
From the second to the fifth year	3,537	4,043
After five years	28,985	29,640
Minimum lease payments	**33,401**	**35,670**
During the first year	291	1,232
From the second to the fifth year	803	1,255
After five years	6,560	6,649
Present value of minimum lease payments	**7,654**	**9,136**
Interest portion contained in the minimum lease payments	**25,746**	**26,534**

As in the prior year, no future income from non-cancelable subleases was expected as of December 31, 2018.

Minimum lease payments continue to include two leasehold agreements, which stipulate payments into fiscal year 2103.

Lessee – Operating leases

Drägerwerk AG & Co. KGaA and its subsidiaries have various operating lease agreements for buildings, machinery, office equipment, and other facilities and equipment. Most leases contain renewal options.

Some of the leases contain escalation clauses and provide for contingent rents based on fixed percentages of net sales derived from assets held under operating leases. Lease conditions do not contain restrictions concerning dividends, additional debt, or further leasing.

Lease expenses comprise the following:

LEASING EXPENSES

in € thousand	2018	2017
Basic lease costs	43,878	49,467
Contingent costs	28	234
Income from subleases	–178	–101
	43,728	**49,601**

Future minimum lease payments outstanding under non-cancelable operating leases are as follows:

MINIMUM LEASE PAYMENTS

in € thousand	2018	2017
During the first year	38,861	42,273
From the second to the fifth year	59,279	53,694
After five years	7,842	11,750
Minimum lease payments	**105,982**	**107,717**

Total expected future minimum income from subleases under non-cancelable operating leases amounted to EUR 0 thousand as of December 31, 2018 (2017: EUR 445 thousand).

Lessor – Finance leases

The Dräger Group's main finance leases relate to medical equipment, as well as engineered solutions and personal protection products. A receivable was recognized equal to the present value of the minimum lease payments.

Receivables from outstanding future lease payments are shown below:

RECEIVABLES FROM FUTURE LEASE PAYMENTS OUTSTANDING

in € thousand	2018	2017
During the first year	505	416
From the second to the fifth year	1,195	1,197
After five years	522	669
Total gross investments in finance leases	**2,222**	**2,281**
During the first year	442	366
From the second to the fifth year	1,094	1,077
After five years	502	637
Present value of minimum lease payments outstanding as of the balance sheet date	**2,038**	**2,081**
Unearned finance income	**184**	**200**

As in the prior year, bad debt allowances for uncollectible minimum lease payments were not required as of December 31, 2018.

Lessor – Operating leases

The Dräger Group's main operating leases relate to medical equipment, engineered solutions, and gas detection products, as well as building space.

EUR 22,093 thousand (2017: EUR 19,278 thousand) in leased building space is contained in the Group's property, plant and equipment at historical cost as well as EUR 16,851 thousand (2017: EUR 14,258 thousand) in accumulated depreciation charges. The depreciation charged in the fiscal year amounts to EUR 2,593 thousand (2017: EUR 408 thousand).

Dräger reports equipment leased out separately under property, plant and equipment. Note 21

Outstanding future minimum lease payments under non-cancelable operating leases are as follows:

MINIMUM LEASE PAYMENTS

in € thousand	2018	2017
During the first year	26,735	23,025
From the second to the fifth year	15,722	13,243
After five years	2,961	194
	45,418	**36,461**

As in the prior year, no contingent rents were recognized in profit or loss in fiscal year 2018.

38 CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

As in the prior year, the Dräger Group did not have any contingent liabilities.

Other financial obligations

As of December 31, 2018, other financial obligations amounted to a total of EUR 159,786 thousand (2017: EUR 154,113 thousand) and are structured as follows:

a) Rental and lease agreements

For other financial obligations from rental and lease agreements of EUR 139,383 thousand (2017: EUR 143,253 thousand), please refer to our comments in Note 37 (Lessee – operating leases).

b) Purchase obligations

In line with the usual demand, the Dräger Group has also entered into purchase obligations with other service providers in order to guarantee the availability of IT services. Due to the centralization of IT activities at Drägerwerk AG & Co. KGaA, the company assumed all existing long-term obligations with IT service providers of the medical and safety. As a result of outstanding orders, the Group had obligations to purchase intangible assets of EUR 342 thousand (2017: EUR 91 thousand) and items of property, plant and equipment of EUR 20,062 thousand (2017: EUR 10,769 thousand) as of December 31, 2018.

c) Litigation

Companies of the Dräger Group were involved in litigation and claims for damages in connection with business activities as of December 31, 2018. The Executive Board of the general partner believes that the outcome of such litigation and claims will not have any further material adverse effect on the company's net assets, financial position, or results of operations over and above the provisions which have already been recognized.

It is not to be expected that these contingent liabilities will become actual liabilities for which no provision has been recognized yet.

39 SEGMENT REPORT

BUSINESS PERFORMANCE OF THE SEGMENTS

		Europe		Americas		Africa, Asia and Australia		Dräger Group	
		2018	2017	2018	2017	2018	2017	2018	2017
Order intake with third parties	€ million	1,450.2	1,447.8	526.0	509.2	710.2	657.6	2,686.5	2,614.7
Net sales with third parties	€ million	1,431.9	1,415.5	499.3	510.4	663.8	646.4	2,595.0	2,572.3
EBITDA [1]	€ million	123.6	148.6	–8.2	25.6	32.6	65.8	148.0	240.0
Depreciation / amortization	€ million	–41.6	–40.5	–21.9	–21.7	–21.9	–22.1	–85.4	–84.2
EBIT [2]	€ million	82.0	108.1	–30.2	4.0	10.8	43.7	62.6	155.7
Capital employed [3,4]	€ million	593.8	575.9	338.2	294.4	412.7	373.3	1,344.7	1,243.6
EBIT [2] / net sales	%	5.7	7.6	–6.0	0.8	1.6	6.8	2.4	6.1
EBIT [2, 5] / Capital employed [3, 4] (ROCE)	%	13.8	18.8	–8.9	1.3	2.6	11.7	4.7	12.5
DVA [5, 6]	€ million	41.4	68.8	–51.6	–16.6	–16.3	18.5	–26.5	70.7

[1] EBITDA = Earnings before net interest result, income taxes, depreciation and amortization
[2] EBIT = Earnings before net interest result and income taxes
[3] Capital employed in segments = Trade receivables, inventories incl. prepayments received; Capital employed Group = Total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
[4] Value as of reporting date
[5] Value of the last twelve months
[6] Dräger Value Added = EBIT less cost of capital (through 2015: 9 %, from 2016: 7 %) of average invested capital

Segment reporting in the annual report is geared towards the organizational and management system (pursuant to IFRS 8).

The Executive Board manages the operating business by means of the three regions: Europe, Americas, and Africa, Asia, and Australia. One member of the Executive Board is fully responsible for the business performance in each of these three regions. The respective Executive Board member assumes additional functional tasks in addition to the regional responsibility.

Net sales are broken down by segment on the basis of the customers' geographical locations.

Dräger develops, produces, and markets system solutions, equipment, and services for the optimization of processes at the acute point of care. These include emergency care, perioperative care (in connection with the operation), critical care, and also perinatal care (in connection with childbirth).

Dräger also develops, produces, and markets products, system solutions, and services for personal protection, gas detection technology, and integrated hazard management. Its customers come from industry, mining, and public sectors such as fire departments, police, and disaster protection.

The segment reports were prepared in accordance with IFRS as applied in the Group financial statements.

At Group level, the key figures from the segment report are as follows:

EBIT

in € million	2018	2017
Net profit	34.9	98.5
+ Interest result	11.0	12.8
+ Income taxes	16.8	44.4
EBIT	**62.6**	**155.7**

CAPITAL EMPLOYED

in € million	2018	2017
Total assets	2,410.2	2,354.4
– Deferred tax assets	–144.7	–133.6
– Cash and cash equivalents	–179.6	–247.6
– Non-interest-bearing liabilities	–741.3	–729.6
Capital employed	**1,344.7**	**1,243.6**

DVA

in € million	2018	2017
EBIT (of the last twelve months)	62.6	155.7
– Cost of capital (basis: average of capital employed in the past twelve months)	–89.2	–85.0
DVA	**–26.5**	**70.7**

Non-current assets are broken down by region on the basis of the assets' geographical locations:

NON-CURRENT ASSETS BY REGION [1]

in € million	2018	2017
Europe [2]	608.5	613.7
Americas	34.2	34.9
Africa, Asia and Australia	125.5	127.4
	768.2	**776.0**

[1] Non-current assets = intangible assets, property, plant and equipment, and other non-current assets (excluding the plan assets relating to pension plans reported under this balance sheet item)
[2] It is not possible to allocate all non-current assets to Germany following the change in segment reporting in 2016; this is because goodwill is only allocated to the segments, and not the individual countries.

The business performance of the individual segments is detailed in the management report. Services rendered between the divisions follow the arm's length principle.

40 NOTES TO THE CASH FLOW STATEMENT

Due to the elimination of exchange rate effects and transactions that have not or have not yet led to a change in cash and cash equivalents, the underlying changes recognized in the cash flow statement cannot be directly reconciled with the items of the published balance sheet.

In fiscal year 2018, Dräger Group's cash inflow from operating activities amounted to EUR 4.1 million (2017: EUR 143.3 million). Group net profit fell by EUR 63.6 million, which was the primary contributing factor to the drop in operating cash inflow. Inventories also grew by EUR 76.9 million (2017: EUR 30.0 million) and trade payables fell by EUR 2.3 million (2017: increase by EUR 22.2 million). By contrast, other liabilities of EUR 28.0 million recorded a much stronger increase than the prior year (EUR 5.1 million).

Cash outflow from investing activities fell to EUR 63.5 million (2017: EUR 65.5 million). Significant investments were made in movable assets, in particular in factory and office equipment. Some investments were also made in real estate, which were primarily attributed to renovation and expansion measures as well as to the new construction project in Krefeld, Germany, completed in fiscal year 2018 for sales and service activities relating to safety products. The share of the investments attributable to the German companies amounted to EUR 46.1 million.

Cash outflow from financing activities of EUR 6.2 million (2017: EUR 41.9 million) was mainly due to the dividend distribution of EUR 11.0 million for fiscal year 2017. The repayment of note loans and bank loans in the amount of EUR 51.6 million have been settled in full through the increase in bank loans and current account liabilities in the amount of EUR 58.0 million.

Changes in liabilities from financing activities are divided into cash-effective and cash-neutral matters as follows:

RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES 2018

	January 1	Affecting payment	Not affecting payment			December 31
			Addition	Reclassi-fications	Exchange rate change	
Liabilities from participation certificates (in debts)	23,761	– 345	1,426	–	–	24,842
Non-current interest-bearing loans	137,788	– 4,070	–	– 8,478	– 165	125,076
Current loans	51,802	– 43,780	–	8,478	– 133	16,366
Current liabilities to banks	19,683	54,225	–	–	– 177	73,732
Finance lease liabilities	9,136	– 566	– 913	–	– 2	7,654
Total liabilities from financing activities	**242,170**	**5,464**	**513**	**0**	**– 477**	**247,669**

RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES 2017

	January 1	Affecting payment	Not affecting payment			December 31
			Addition	Reclassi-fications	Exchange rate change	
Liabilities from participation certificates (in debts)	22,687	–345	1,419	–	–	23,761
Non-current interest-bearing loans	188,635	–4,561	–	–46,138	–148	137,788
Current loans	11,113	–5,403	–	46,138	–45	51,802
Current liabilities to banks	45,913	–23,973	–	–	–2,257	19,683
Finance lease liabilities	10,537	–1,390	–	–	–11	9,136
Total liabilities from financing activities	**278,884**	**–35,672**	**1,419**	**0**	**–2,460**	**242,170**

Cash and cash equivalents as of December 31, 2018 exclusively comprised cash, of which EUR 4.3 million (December 31, 2017: EUR 4.9 million) was subject to restrictions.

Unused credit lines amounted to EUR 362.6 million as of the balance sheet date (December 31, 2017: EUR 423.6 million) and are subject to restrictions applicable in the market.

41 REMUNERATION OF THE EXECUTIVE AND SUPERVISORY BOARDS

Executive Board remuneration

Total remuneration for active Executive Board members amounted to EUR 4,540,713 in fiscal year 2018 (2017: EUR 5,344,758). This amount is made up of non-performance related payments of EUR 2,310,309 (2017: EUR 2,295,744), and performance related payments of EUR 2,230,405 (2017: EUR 3,049,014), of which short-term payments in the amount of EUR 1,180,134 (2017: EUR 1,943,195), and share-based remuneration with long-term incentives in the amount of EUR 1,871 (2017: EUR 5,081).

If Executive Board remuneration is paid by Drägerwerk Verwaltungs AG, it is entitled to claim reimbursement from Drägerwerk AG & Co. KGaA monthly pursuant to Sec. 11 (1) and (3) of the articles of association of Drägerwerk AG & Co. KGaA. Pursuant to Sec. 11(4) of the company's articles of association, the general partner receives a fee, independent of profit and loss, of 6 % of the equity disclosed in its financial statements, payable one week after the general partner prepares its financial statements, for the management of the company and the assumption of personal liability. For fiscal year 2018, this remuneration amounted to EUR 96,361.85 (2017: EUR 93,797.94) plus potentially incurred VAT.

Obligations to active Executive Board members under pension plans are stated in the financial statements 2018 at EUR 7,857,825 (2017: EUR 6,648,298).

In fiscal year 2018, the Company made pension provisions contributions of EUR 1,209,527 for active members of the Executive Board (2017: EUR 878,226).

EUR 3,152,868.60 was paid to former members of the Executive Board and their surviving dependents (2017: EUR 3,099,855). Pension commitments to former members of the Executive Board and their surviving dependents amounted to EUR 42,201,445 (2017: EUR 43,400,440).

If an Executive Board member dies during his or her active service on the Board, the surviving spouse is entitled to Dräger widow's pension and any remaining children have claim to Dräger orphan's pension. The annual Dräger widow's and widower's pension amounts to 55 % of the Dräger pension received by or which would have been received by the deceased executive if said executive would have been unable to work when he or she died (notional invalidity pension). The amount of the Dräger orphan's pension is 10 % of the notional invalidity pension or the current Dräger pension of the deceased management member.

Supervisory Board remuneration

The annual shareholders' meeting of Drägerwerk AG & Co. KGaA has defined Supervisory Board remuneration in the articles of association since fiscal year 2011. Supervisory Board remuneration for fiscal year 2018 came to EUR 357,500 (2017: EUR 503,816).

In fiscal year 2018, the total remuneration of the six members of the Supervisory Board of the general partner, Drägerwerk Verwaltungs AG, amounted to EUR 135,000 (2017: EUR 135,000) plus additional flat fees for out-of-pocket expenses totaling EUR 55,000 (2017: EUR 55,000). No remuneration was paid to Supervisory Board members of Group companies.

Further information on the itemized remuneration of the Executive Board and the Supervisory Board can be found in the combined management report.

42 SHARES OWNED BY THE EXECUTIVE AND SUPERVISORY BOARDS

As of December 31, 2018, the members of the Executive Board of Drägerwerk Verwaltungs AG and their related parties directly held 6,740 preferred shares in Drägerwerk AG & Co. KGaA, equivalent to 0.038 % of the company's total shares, and 107,105 common shares, corresponding to 0.603 % of the company's total shares.

On December 31, 2018, the members of the Supervisory Board and their related parties directly or indirectly held a total of 96 preferred shares, equivalent to 0.001 % of the company's total shares, and 72 common shares, equivalent to 0.0004 % of the company's total shares.

43 RELATED PARTY TRANSACTIONS

Services were rendered for Stefan Dräger and companies and persons related to Stefan Dräger, the Dräger-Stiftung, and the Dräger-Familienstiftung (Dräger Foundation and Dräger Family Foundation) totaling EUR 44 thousand (2017: EUR 84 thousand) in fiscal year 2018. Receivables in this respect amounted to EUR 1 thousand as of December 31, 2018 (2017: EUR 29 thousand).

Services in the amount of EUR 389 thousand were rendered for the working group in fiscal year 2018 (see Note 22). This resulted in receivables in the amount of EUR 16 thousand.

Group companies rendered rental services and other services totaling EUR 119 thousand (2017: EUR 129 thousand) for associate MAPRA Assekuranzkontor GmbH in fiscal year 2018. Receivables in this respect amounted to EUR 5 thousand as of December 31, 2018 (2017: EUR 4 thousand). As in the prior year, there were no liabilities.

The remuneration of the employee representatives on the Supervisory Board for work performed in addition to the Supervisory Board activities was also concluded at arm's length terms and conditions. Overall, remuneration is of immaterial importance for the Dräger Group.

Drägerwerk Verwaltungs AG is the general partner of Drägerwerk AG & Co. KGaA and holds 0 % of the capital. Only a few transactions are conducted with the general partner, as it only exercises administrative functions. The general partner is entitled to compensation for all expenses incurred in association with the management of Drägerwerk AG & Co. KGaA.

These include the contractually agreed remuneration for its executive bodies. These expenses comprise the remuneration of the Executive Board, the remuneration of its Supervisory Board, liability remuneration as well as other expenses.

Liabilities to Drägerwerk Verwaltungs AG amounted to EUR 5.0 million as of December 31, 2018 (2017: EUR 8.1 million). Expenses for Drägerwerk Verwaltungs AG services amounted to EUR 3,285 thousand in the fiscal year (2017: EUR 7,630 thousand). Services in the amount of EUR 6 thousand were rendered for Drägerwerk Verwaltungs AG in fiscal year 2018 (2017: EUR 26 thousand). Receivables in this respect amounted to EUR 1 thousand (2017: EUR 11 thousand).

Two members of the Executive Board of Drägerwerk Verwaltungs AG participated in the 2018 employee share program. Both Executive Board members purchased twenty sets each of three shares at a cost of EUR 46.78 per share using their own funds. For every three preferred shares, participants received one preferred share worth EUR 46.78 free of charge from Dräger. The holding period for these preferred shares – including those that participants acquired themselves – runs until December 31, 2020.

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

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

Management in key positions includes members of the Executive Board of Drägerwerk Verwaltungs AG, the Supervisory Board of Drägerwerk AG & Co. KGaA, and the Supervisory Board of Drägerwerk Verwaltungs AG. Executive Board remuneration within the meaning of IAS 24 is as follows:

EXECUTIVE BOARD REMUNERATION TABLE

in € thousand	2018	2017
Payments due in the short term	3,429,055	2,295,744
Post-employment benefits	413,142	400,716
Other payments due in the long term	0	3,059,962
Total remuneration	**3,842,197**	**5,756,422**

The members the Supervisory Board of Drägerwerk AG & Co. KGaA received payments due in the short term of EUR 357,500 (2017: EUR 503,816). The members of the Supervisory Board of Drägerwerk Verwaltungs AG received payments due in the short term of EUR 190,000 (2017: EUR 190,000).

44 FURTHER INFORMATION

Auditor's fee

The total fee charged by the auditor – PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft – in fiscal year 2018 for the audit of the Group financial statements amounted to EUR 1,032 thousand (2017: EUR 1,198 thousand) for the audit of the financial statements, EUR 70 thousand (2017: EUR 41 thousand) for other audit services, EUR 64 thousand (2017: EUR 36 thousand) for other services, and EUR 204 thousand (2017: EUR 360 thousand) for tax consultancy.

The fee for the audit of the financial statements primarily includes the fees for the audit of the Group financial statements as well as the statutory audits of Drägerwerk AG & Co. KGaA and of the subsidiaries included in the Group financial statements. The fee for other audit services primarily includes the statutory audit services, including EMIR. The fee for tax consultancy predominantly comprises services relating to transfer prices as well as tax consultancy for current and planned transactions and intra-Group reorganization. The fee for other services primarily consists of project-specific advisory services.

The audit report was signed by Dr. Peter Bartels and Marko Schipper from PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft. The audit opinion for fiscal year 2018 was the fifth one that Dr. Peter Bartels has signed in a row. Marko Schipper signed his third audit report for the Dräger Group.

Corporate governance declaration

Drägerwerk AG & Co. KGaA's declaration of conformity under the terms of Sec. 161 AktG (Aktiengesetz – German Stock Corporation Act) has been issued and made permanently available to the shareholders online at www.draeger.com in December 2018.

45 CONSOLIDATED COMPANIES

CONSOLIDATED COMPANIES

	Name and registered office	Capital stock in local currency unit thousand	Shareholding in %
Germany			
	Dräger Safety AG & Co. KGaA, Lübeck	25,739 EUR	100 [1]
	Dräger Medical Deutschland GmbH, Lübeck	2,000 EUR	100 [1]
	Dräger Electronics GmbH, Lübeck	2,000 EUR	100
	Dräger Digital GmbH, Lübeck	1,023 EUR	100
	Dräger Safety Verwaltungs AG, Lübeck	1,000 EUR	100 [1]
	Dräger TGM GmbH, Lübeck	767 EUR	100 [1]
	Dräger MSI GmbH, Hagen	1,000 EUR	100 [1]
	Dräger Medical ANSY GmbH, Lübeck	500 EUR	100 [1]
	Dräger Interservices GmbH, Lübeck	256 EUR	100 [1]
	Dräger Gebäude und Service GmbH, Lübeck	250 EUR	100 [1]
	Dräger Medical International GmbH, Lübeck	112 EUR	100 [1]
	MAPRA Assekuranzkontor GmbH, Lübeck	55 EUR	49 [2]
	Fachklinik für Anästhesie und Intensivmedizin Vahrenwald GmbH, Lübeck	26 EUR	100 [1]
	Dräger Energie GmbH, Lübeck	25 EUR	100
	FIMMUS Grundstücks-Vermietungs GmbH, Lübeck	25 EUR	100 [1, 3]
	Dräger Finance Services GmbH & Co. KG, Bad Homburg v. d. Höhe	511 EUR	95 [3]
	OPTIO Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Lübeck	26 EUR	100 [3, 4]
	FIMMUS Grundstücks-Vermietungs Gesellschaft mbH & Co. Objekt Lübeck KG, Lübeck	10 EUR	100 [3, 4]
	MOLVINA Vermietungsgesellschaft mbH & Co. Objekt Finkenstraße KG, Düsseldorf	5 EUR	100 [3]
	DRENITA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Fertigung Dräger Medizintechnik KG, Düsseldorf	10 EUR	100 [3]
	Dräger Grundstücksverwaltungs GmbH, Lübeck	25 EUR	100
	Dräger Holding International GmbH, Lübeck	25 EUR	100 [1]
	bentekk GmbH, Hamburg	29 EUR	75
Europe			
Belgium	Dräger Medical Belgium NV, Wemmel	1,503 EUR	100
	Dräger Safety Belgium NV, Wemmel	789 EUR	100
Bulgaria	Draeger Medical Bulgaria EOOD, Sofia	705 BGN	100
	Draeger Safety Bulgaria EOOD, Sofia	500 BGN	100
Denmark	Dräger Danmark A / S, Herlev	5,000 DKK	100
Finland	Dräger Suomi Oy, Helsinki	802 EUR	100
France	Dräger France SAS, Antony	8,000 EUR	100
	AEC SAS, Antony	70 EUR	100
Greece	Draeger Hellas A.E. for Products of Medical and Safety Technology, Athen	1,500 EUR	100
United Kingdom	Draeger Safety UK Ltd., Blyth	7,589 GBP	100
	Draeger Medical UK Ltd., Hemel Hempstead	4,296 GBP	100
Ireland	Draeger Ireland Ltd., Dublin	25 EUR	100
Italy	Draeger Medical Italia S.p.A., Corsico-Milano	7,400 EUR	100
	Draeger Safety Italia S.p.A., Corsico-Milano	1,033 EUR	100
Croatia	Dräger Medical Croatia d.o.o., Zagreb	4,182 HRK	100
	Dräger Safety d.o.o., Zagreb	2,300 HRK	100
Netherlands	Dräger Nederland B.V., Zoetermeer	10,819 EUR	100

[1] Relief in accordance with Sec. 264 (3) HGB
[2] This company is treated as an associate as defined by IAS 28.
[3] Special purpose entities in accordance with IFRS 10
[4] Relief in accordance with Sec. 264b HGB

CONSOLIDATED COMPANIES

	Name and registered office	Capital stock in local currency unit thousand	Shareholding in %
Europe (continued)			
Norway	Dräger Norge AS, Oslo	1,129 NOK	100
	GasSecure AS, Oslo	139 NOK	100
Austria	Dräger Austria GmbH, Vienna	2,000 EUR	100
Poland	Dräger Polska sp. zo.o., Bydgoszcz	4,655 PLN	100
	Dräger Safety Polska sp. zo.o., Katowice	1,000 PLN	100
Portugal	Dräger Portugal, LDA, Lissabon	1,000 EUR	100
Romania	Dräger Medical Romania SRL, Bucharest	205 RON	100
	Dräger Safety Romania SRL, Bucharest	3,740 RON	100
Russia	Draeger OOO, Moscow	3,600 RUB	100
Sweden	Dräger Sverige AB, Kista	2,000 SEK	100
	ACE Protection AB, Svenljunga	100 SEK	100
Switzerland	Dräger Schweiz AG, Liebefeld-Bern	3,000 CHF	100
Serbia	Draeger Tehnika d.o.o., Beograd	21,385 RSD	100
Slovakia	Dräger Slovensko s.r.o., Piestany	597 EUR	100
Slovenia	Dräger Slovenija d.o.o., Ljubljana-Crnuce	344 EUR	100
Spain	Dräger Medical Hispania SA, Madrid	3,606 EUR	100
	Dräger Safety Hispania SA, Madrid	2,404 EUR	100
Czech Republic	Dräger Medical s.r.o., Prague	18,314 CZK	100
	Dräger Safety s.r.o., Prague	29,186 CZK	100
	Dräger Chomutov s.r.o., Chomutov	65,435 CZK	100
Turkey	Draeger Medikal Ticaret ve Servis Anonim Sirketi, Istanbul	25,040 TRY	100
	Draeger Safety Korunma Teknolojileri Anonim Sirketi, Ankara	70 TRY	100
Hungary	Dräger Safety Hungaria Kft., Budapest	66,300 HUF	100
	Dräger Medical Hungary Kft., Budapest	94,800 HUF	100
Africa			
Morocco	Draeger Maroc SARLAU, Casablanca	8,720 MAD	100
South Africa	Dräger South Africa (Pty.) Ltd., Johannesburg	200 ZAR	69 [5]
	Dräger Safety Zenith (Pty.) Ltd., King William's Town	5,000 ZAR	100
Americas			
Argentina	Dräger Argentina SA, Buenos Aires	18,206 ARS	100
Brazil	Dräger do Brasil Ltda., São Paulo	27,021 BRL	100
	Dräger Industria e Comércio Ltda., São Paulo	28,132 BRL	100
	Dräger Safety do Brasil Equipamentos de Segurança Ltda., São Paulo	18,660 BRL	100
Chile	Dräger Chile Ltda., Santiago	1,284,165 CLP	100
	Dräger-Simsa S.A., Santiago	499,000 CLP	51
Canada	Draeger Safety Canada Ltd., Mississauga / Ontario	2,280 CAD	100
	Draeger Medical Canada Inc., Richmond Hill / Ontario	2,000 CAD	100
Colombia	Draeger Colombia SA, Bogota D.C.	2,350,000 COP	100
Mexico	Draeger Safety S.A. de C.V., Querétaro	50 MXN	100
	Dräger Medical Mexico S.A. de C.V., Mexiko D.F.D.	50 MXN	100
Panama	Draeger Panama S. de R.L., Panama	180 USD	100
	Draeger Panama Comercial, S. de R.L., Panama	700 USD	100
Peru	Draeger Peru S.A.C., Piso Miraflores-Lima	9,809 PEN	100
U.S.	Draeger, Inc., Telford	356 USD	100
	Draeger Medical Systems, Inc., Telford	100 USD	100 [5]

[5] Capital stock in local currency (not in local currency unit thousand)

CONSOLIDATED COMPANIES

	Name and registered office	Capital stock in local currency unit thousand	Shareholding in %
Asia / Australia			
P.R. China	Shanghai Dräger Medical Instrument Co., Ltd., Shanghai	22,185 CNY	100
	Draeger Safety Equipment (China) Co., Ltd., Beijing	50,000 CNY	100
	Dräger Medical Equipment (Shanghai) Co., Ltd., Shanghai	8,287 CNY	100
	Draeger Hong Kong Limited, Wanchai	500 HKD	100
	Draeger Medical Systems (Shanghai) Co., Ltd., Shanghai	70,000 CNY	100
India	Draeger India Private Limited, Mumbai	260,438 INR	100
	Draeger Safety India Pvt. Ltd., Mumbai	60,000 INR	100
Indonesia	PT Draegerindo Jaya, Jakarta	3,384,000 IDR	100
	PT Draeger Medical Indonesia, Jakarta	18,321,000 IDR	100
Japan	Draeger Japan Ltd., Tokio	499,500 JPY	100
Malaysia	Draeger Malaysia Sdn. Bhd., Kuala Lumpur	15,000 MYR	100
Myanmar	Draeger Myanmar Limited, Rangun	50 USD	100
Philippines	Draeger Philippines Corporation, Pasig City	40,965 PHP	100
Saudi Arabia	Draeger Arabia Co. Ltd., Riyadh	40,000 SAR	51
Singapore	Draeger Singapore Pte Ltd., Singapore	8,360 SGD	100
South Korea	Draeger Korea Co., Ltd., Seoul	2,100,020 KRW	100
Taiwan	Draeger Safety Taiwan Co., Ltd., Hsinchu City	50,000 TWD	100
	Draeger Medical Taiwan Ltd., Taipei	10,000 TWD	100
Thailand	Draeger Medical (Thailand) Ltd., Bangkok	203,000 THB	100
	Draeger Safety (Thailand) Ltd., Bangkok	15,796 THB	100
Vietnam	Draeger Vietnam Co., Ltd., Ho Chi Minh City	22,884,372 VND	100
Australia	Draeger Safety Pacific Pty. Ltd., Notting Hill	6 AUD	100 [5]
	Draeger Australia Pty. Ltd., Notting Hill	3,800 AUD	100
New Zealand	Draeger New Zealand Limited, Auckland	722 NZD	100

[5] Capital stock in local currency (not in local currency unit thousand)

46 SUBSEQUENT EVENTS

Distribution

The general partner and the Supervisory Board of Drägerwerk AG & Co. KGaA, Lübeck, plan to propose to distribute out of the net earnings of Drägerwerk AG & Co. KGaA of EUR 536,230 thousand for fiscal year 2018 a cash dividend of EUR 0.13 per common share and EUR 0.19 per preferred share, totaling EUR 2,765 thousand. The remaining amount of EUR 533,465 thousand will be carried forward to new account. The preferred share dividend also governs the distribution on participation certificates, which will amount to EUR 1.90 each – ten times the preferred share dividend.

Lübeck, February 19, 2019

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

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

Management compliance statement

We confirm to the best of our knowledge that, in accordance with the applicable financial reporting framework, the Group financial statements give a true and fair view of the net assets, financial position, and results of operations of the Group, the Group management report presents business performance including business results and the situation of the Group so as to give a true and fair view, and that the material opportunities and risks relating to the Group's development have been described.

Lübeck, February 19, 2019

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

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

»Independent Auditor’s Report

To Drägerwerk AG & Co. KGaA, Lübeck

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

AUDIT OPINIONS

We have audited the consolidated financial statements of Drägerwerk AG & Co. KGaA, Lübeck and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January1, 2018 to December 31, 2018, and notes to the consolidated financial statements,) including a summary of significant accounting policies. In addition, we have audited the group management report of Drägerwerk AG & Co. KGaA, which is combined with the Company’s management report for the financial year from January 1, 2018 to December 31, 2018. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the ›Other Information‹ section of our auditor’s report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315e Abs. (paragraph) 1 HGB (›Handelsgesetzbuch‹: German Commercial Code) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1, 2018 to December 31, 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the ›Other Information‹ section of our auditor’s report

Pursuant to § 322 Abs. 3 Satz sentence) 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537 / 2014, referred to subsequently as ›EU Audit Regulation‹) in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer Institute of Public

Auditors in Germany) (IDW). Our responsibilities under those requirements and principles are further described in the ›Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report‹ section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2018 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Recoverability of goodwill
❷ Accounting treatment of deferred taxes
❸ Pension provisions

Our presentation of these key audit matters has been structured in each case as follows:

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

Hereinafter we present the key audit matters:

❶ RECOVERABILITY OF GOODWILL

① Goodwill amounting in total to EUR 309.0 million (representing 12.8 % of total assets) is reported under the ›Intangible assets‹ balance sheet item in the Company's consolidated financial statements. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. Impairment testing is carried out at the level of the groups of cash-generating units to which the relevant goodwill has been allocated. The carrying amount of the relevant cash-generating units, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is generally calculated on the basis of fair value less costs of disposal. The present value of the future cash flows from the respective group of cash-generating units normally serves as the basis of valuation. The present values are calculated using discounted cash flow models. For this purpose, the medium-term business plan adopted by the Group forms the starting point for future projections based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital for the relevant group of cash-generating units. The impairment test determined that no write-downs were necessary. The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective group of cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

② As part of our audit, we reviewed the methodology employed for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the medium-term business plan adopted by the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. We also assessed whether the basis for including the costs of Group functions was accurate. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated using this method, we focused our testing in particular on the parameters used to determine the discount rate applied, and verified the calculation procedure. We reproduced the sensitivity analyses performed by the Company, in order to reflect the uncertainty inherent in the projections. Taking into account the information available, we determined that the carrying amounts of the cash-generating units, including the respective allocated goodwill, were adequately covered by the discounted future net cash inflows.

Overall, the measurement inputs and assumptions used by the executive directors are in line with our expectations and are within the ranges considered by us to be reasonable.

③ The Company's disclosures regarding impairment testing are contained in note 20 of the notes to the consolidated financial statements.

❷ ACCOUNTING TREATMENT OF DEFERRED TAXES

① Deferred tax assets amounting to EUR 144.7 million (6.0 % of total assets) after netting are reported in the Company's consolidated financial statements. Deferred tax assets amounting to EUR 152.3 million were recognized before netting with matching deferred tax liabilities. This item was recognized to the extent that the executive directors consider it probable that taxable profit will be available in the foreseeable future which will enable the deductible temporary differences and unused tax losses and interest carryforwards to be utilized. For this purpose, if insufficient deferred tax liabilities are available, future taxable profits are projected on the basis of the adopted business plan.

From our point of view, the accounting treatment of deferred taxes was of particular importance in the context of our audit, as it depends to a large extent on the estimates and assumptions made by the executive directors and is therefore subject to uncertainties.

② As part of our audit, we reviewed, among other things, the internal processes and controls for recording tax matters as well as the methodology adopted for the determination, accounting treatment and measurement of deferred taxes. We also assessed the recoverability of the deferred tax assets relating to deductible temporary differences and unutilized tax losses and interest carryforwards on the basis of the Company's internal forecasts of its future earnings situation, and we evaluated the appropriateness of the underlying estimates and assumptions.

Based on our audit procedures, we satisfied ourselves that the estimates and assumptions made by the executive directors were justified and adequately documented.

③ The Company's disclosures relating to deferred taxes are contained in note 16 of the notes to the consolidated financial statements.

❸ PENSION PROVISIONS

① Pension provisions totaling EUR 339.3 million (14.1 % of total assets) are reported under the ›Pension provisions‹ balance sheet item in the Company's consolidated financial statements. The pension provisions comprise obligations from defined benefit pension plans amounting to EUR 541.4 million and plan assets of EUR 202.2 million. The obligations from defined benefit pension plans were measured using the projected unit credit method. This requires assumptions to be made in particular about long-term rates of growth in salaries and pensions, average life expectancy, and staff turnover. The discount rate must be determined by reference to market yields on high-quality corporate bonds with matching currencies and consistent maturities. This usually requires the data to be extrapolated, since there is an insufficient number of long-term corporate bonds. The plan assets are measured at fair value, which in turn involves making estimates that are subject to uncertainty.

In our view, these matters were of particular significance in the context of our audit because the recognition and measurement of this item – which is significant in terms of its amount – are based to a large extent on estimates and assumptions made by the Company's executive directors.

② Our audit included evaluating the actuarial expert reports obtained and the professional qualifications of the external experts with respect to the material portion of the pension provisions. We also examined the specific features of the actuarial calculations and reviewed the numerical data, the actuarial parameters and the valuation methods on which the valuations were based for compliance with standards and appropriateness, in addition to other procedures. In addition, we analyzed the changes in the obligation and the cost components in accordance with actuarial expert reports in the light of changes occurring in the valuation parameters and the numerical data, and verified their plausibility. For the purposes of our audit of the fair value of the plan assets, we obtained bank and fund confirmations.

Based on our audit procedures, we satisfied ourselves that the estimates and assumptions made by the executive directors were justified and adequately documented.

③ The Company's disclosures regarding pension provisions are contained in note 34 of the notes to the consolidated financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section (Declaration / Group declaration of corporate governance (secs. 289f and 315d of the German Commercial Code (HGB))) of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 4, 2018. We were engaged by the Supervisory Board on June 19, 2018. We have been the group auditor of the Drägerwerk AG & Co. KGaA, Lübeck, without interruption since the financial year 2009.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Marko Schipper.«

Hamburg, February 20, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Peter Bartels	Marko Schipper
German Public Auditor	German Public Auditor

The Company's Boards

Supervisory Board of Drägerwerk AG & Co. KGaA

Chairman (until May 4, 2018)

PROF. DR. NIKOLAUS SCHWEICKART

Lawyer, Bad Homburg
Former Chairman of the Executive Board of ALTANA AG, Bad Homburg
Chairman of the Board of Trustees, Städel Museum Foundation, Frankfurt

Supervisory Board memberships (until May 4, 2018):
– Drägerwerk Verwaltungs AG, Lübeck (Chairman)
– Dräger Safety AG & Co. KGaA, Lübeck (Chairman)
– Dräger Safety Verwaltungs AG, Lübeck (Chairman)

Memberships on comparable boards of German or foreign companies:
– Diehl-Stiftung & Co. KG, Nürnberg (Chairman of the Advisory Board)

Chairman (since May 4, 2018)

STEFAN LAUER

Former Executive Board member of Deutsche Lufthansa AG, Frankfurt

Supervisory Board membership:
– Lufthansa Cargo AG, Frankfurt (until 30 June 2018)
– People at Work Systems AG, Munich
– Drägerwerk Verwaltungs AG, Lübeck
– Dräger Safety AG & Co. KGaA, Lübeck

Vice-Chairman

SIEGFRID KASANG

Group Works Council Chairman of Dräger, Lübeck
Dräger Lübeck Works Council Chairman, Lübeck

BETTINA VAN ALMSICK

Chairperson of Works Council Dräger Sales and Service Germany, Essen
Member of Works Council Dräger Sales and Service Germany, Lübeck
Member of Group Works Council of Dräger, Lübeck

Supervisory Board membership:
– Dräger Medical Deutschland GmbH, Lübeck (Vice-Chairman)

NIKE BENTEN

Member of Dräger Lübeck Works Council, Lübeck
Member of Group Works Council of Dräger, Lübeck

Supervisory Board membership:
– Dräger Safety AG & Co. KGaA, Lübeck (Vice-Chairman)

(since May 4, 2018)

MARIA DIETZ

Member of the Administrative Board and shareholder of GFT Technologies SE

Supervisory Board membership:
– GFT Technologies SE, Stuttgart (Member of the Administrative Board)

DANIEL FRIEDRICH

1st Delegate of the metalworkers' union IG Metall, Lübeck-Wismar administrative office, Lübeck

Supervisory Board membership:
– Dräger Safety AG & Co. KGaA, Lübeck

PROF. DR. THORSTEN GRENZ
Managing Partner of KIMBRIA Gesellschaft für Beteiligung und Beratung mbH, Berlin
Professor of Economics and Social Sciences at Christian-Albrechts University, Kiel

Supervisory Board memberships:
- Gpredictive GmbH, Hamburg
- Schaltbau Holding AG, Munich (since 24 May, 2018)
- Drägerwerk Verwaltungs AG, Lübeck
- Dräger Safety AG & Co. KGaA, Lübeck
- Dräger Safety Verwaltungs AG, Lübeck

(since May 4, 2018)
ASTRID HAMKER
Member of the Advisory Board and shareholder at Piepenbrock Unternehmensgruppe GmbH & Co. KG
KOMPASS-Beratung, freelance consultancy for family-run businesses

Supervisory Board memberships:
- dorma+kaba Holding GmbH & Co. KGaA, Ennepetal
- Norddeutsche Landesbank Girozentrale NORD/LB, Hanover

Memberships on comparable boards of German or foreign companies:
- Seier Gruppe GmbH, Dorum (Chairwoman of the Advisory Board)
- Piepenbrock Unternehmensgruppe GmbH & Co. KG, Osnabrück (Member of the Advisory Board)
- August Entsorgung GmbH, Meppen (Member of the Advisory Board)

(since May 4, 2018)
STEPHAN KRUSE
Head of Global Operations, Drägerwerk AG & Co. KGaA

UWE LÜDERS
Former Chairman of the Executive Board of L. Possehl & Co. mbH, Lübeck

Supervisory Board memberships:
- Lübecker Hafen-Gesellschaft mbH (LHG), Lübeck (Chairman)
- Drägerwerk Verwaltungs AG, Lübeck
- Dräger Safety AG & Co. KGaA, Lübeck
- Dräger Safety Verwaltungs AG, Lübeck (since May 4, 2018)

(until May 4, 2018)
WALTER NEUNDORF
Officer of Drägerwerk AG & Co. KGaA, Lübeck

(until May 4, 2018)

PROF. DR. KLAUS RAUSCHER

Former Chairman of the Board of Directors of
Vattenfall Europe AG, Berlin

Supervisory Board memberships:
– Vonovia SE, Düsseldorf (Vice-Chairman)
– Drägerwerk Verwaltungs AG, Lübeck (until May 4, 2018)
– Dräger Safety AG & Co. KGaA, Lübeck (until May 4, 2018)
– Dräger Safety Verwaltungs AG, Lübeck (until May 4, 2018)

Memberships on comparable boards of German or foreign companies:
– Board of Trustees of Berliner Philharmoniker, Berlin

THOMAS RICKERS

Officer for Drägerwerk AG & Co. KGaA
Secretary for metalworkers' union IG Metall, coastal region, Hamburg

Supervisory Board membership:
– Dräger Safety AG & Co. KGaA, Lübeck (until May 4, 2018)

DR. REINHARD ZINKANN

Managing Partner of Miele & Cie. KG, Gütersloh

Supervisory Board memberships:
– Falke KGaA, Schmallenberg (Chairman)
– Drägerwerk Verwaltungs AG, Lübeck
– Dräger Safety AG & Co. KGaA, Lübeck

Memberships on comparable boards of German or foreign companies:
– Hipp & Co., Pfaffenhofen
(President of the Administrative Board)
– Nobilia-Werke J. Stickling GmbH & Co. KG, Verl
(Advisory Board)

MEMBERS OF THE AUDIT COMMITTEE:

Prof. Dr. Thorsten Grenz (Chairman)
Siegfrid Kasang
Stefan Lauer (since May 4, 2018)
Uwe Lüders (since May 4, 2018
Prof. Dr. Klaus Rauscher (until May 4, 2018)
Prof. Dr. Nikolaus Schweickart (until May 4, 2018)
Daniel Friedrich

MEMBERS OF THE NOMINATION COMMITTEE:

Stefan Lauer (Chairman) (since May 4, 2018)
Prof. Dr. Nikolaus Schweickart (Chairman) (until May 4, 2018)
Uwe Lüders
Dr. Reinhard Zinkann

MEMBERS OF THE JOINT COMMITTEE:

Representatives of Drägerwerk Verwaltungs AG:
Maria Dietz (since May 4, 2018)
Astrid Hamker (since May 4, 2018)
Uwe Lüders
Prof. Dr. Klaus Rauscher (until May 4, 2018)
Dr. Reinhard Zinkann

REPRESENTATIVES OF DRÄGERWERK AG & CO. KGAA:

Stefan Lauer (Chairman) (since May 4, 2018)
Prof. Dr. Nikolaus Schweickart (Chairman) (until May 4, 2018)
Prof. Dr. Thorsten Grenz
Siegfrid Kasang
Thomas Rickers

Members of the Executive Board of Drägerwerk Verwaltungs AG, acting for Drägerwerk AG & Co. KGaA

STEFAN DRÄGER

Chairman of the Executive Board

Chairman of the Executive Board of
Drägerwerk Verwaltungs AG, Lübeck
(General Partner of Drägerwerk AG & Co. KGaA)
Chairman of the Executive Board of
Dräger Safety Verwaltungs AG, Lübeck
(General Partner of Dräger Safety AG & Co. KGaA)

Supervisory Board membership:
– Sparkasse zu Lübeck AG, Lübeck

GERT-HARTWIG LESCOW

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

Member of the Executive Board of
Drägerwerk Verwaltungs AG, Lübeck
(General Partner of Drägerwerk AG & Co. KGaA)
Member of the Executive Board of
Dräger Safety Verwaltungs AG, Lübeck
(General Partner of Dräger Safety AG & Co. KGaA)

Supervisory Board membership:
– AXA Corporate Solutions S. A., Paris

RAINER KLUG

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

Member of the Executive Board of
Drägerwerk Verwaltungs AG, Lübeck
(General Partner of Drägerwerk AG & Co. KGaA)
Member of the Executive Board of
Dräger Safety Verwaltungs AG, Lübeck
(General Partner of Dräger Safety AG & Co. KGaA)

DR. REINER PISKE

Executive Board member for Human Resources
Regional responsibility for Europe
Regional responsibility for Africa, Asia and Australia
(since January 1, 2019)

Member of the Executive Board of
Drägerwerk Verwaltungs AG, Lübeck
(General Partner of Drägerwerk AG & Co. KGaA)
Member of the Executive Board of
Dräger Safety Verwaltungs AG, Lübeck
(General Partner of Dräger Safety AG & Co. KGaA)

Supervisory Board membership:
– Dräger Medical Deutschland GmbH (Chairman), Lübeck

ANTON SCHROFNER

Executive Board member for Innovation
Regional responsibility for Africa, Asia and Australia
(until January 1, 2019)

Member of the Executive Board of
Drägerwerk Verwaltungs AG, Lübeck
(General Partner of Drägerwerk AG & Co. KGaA)
Member of the Executive Board of
Dräger Safety Verwaltungs AG, Lübeck
(General Partner of Dräger Safety AG & Co. KGaA)

THE SEGMENTS OVER THE PAST FIVE YEARS

						Twelve months
		2014	2015	2016	2017	2018
EUROPE SEGMENT						
Order intake with third parties [1,2]	**€ million**	**1,357.0**	**1,391.0**	**1,382.5**	**1,447.8**	**1,450.2**
Net sales with third parties [1,2]	**€ million**	**1,362.2**	**1,420.7**	**1,384.3**	**1,415.5**	**1,431.9**
EBIT [3]	**€ million**	**128.5**	**59.4**	**84.5**	**108.1**	**82.0**
EBIT [3] / Net sales	%	9.4	4.2	6.1	7.6	5.7
AMERICAS SEGMENT						
Order intake with third parties [1,2]	**€ million**	**461.5**	**496.8**	**515.0**	**509.2**	**526.0**
Net sales with third parties [1,2]	**€ million**	**471.2**	**509.1**	**503.7**	**510.4**	**499.3**
EBIT [3]	**€ million**	**–0.4**	**–18.6**	**10.3**	**4.0**	**–30.2**
EBIT [3] / Net sales	%	–0.1	–3.7	2.0	0.8	–6.0
AFRICA, ASIA, AND AUSTRALIA SEGMENT (AAA)						
Order intake with third parties [1,2]	**€ million**	**597.0**	**644.5**	**641.2**	**657.6**	**710.2**
Net sales with third parties [1,2]	**€ million**	**601.3**	**679.1**	**635.8**	**646.4**	**663.8**
EBIT [3]	**€ million**	**50.5**	**25.8**	**42.1**	**43.7**	**10.8**
EBIT [3] / Net sales	%	8.4	3.8	6.6	6.8	1.6

[1] The year 2014 was adjusted pro-forma due to the change in segment reporting
[2] Value for 2015 was adjusted due to new segmentation
[3] EBIT = Earnings before net interest result and income taxes

THE DRÄGER GROUP OVER THE PAST FIVE YEARS

						Twelve months
		2014	2015	2016	2017	2018
Order intake		**2,415.5**	**2,532.2**	**2,538.7**	**2,614.7**	**2,686.5**
Net sales		**2,434.7**	**2,608.9**	**2,523.8**	**2,572.3**	**2,595.0**
Gross profit		**1,138.0**	**1,171.7**	**1,135.4**	**1,152.2**	**1,108.0**
Gross profit / Net sales		46.7	44.9	45.0	44.8	42.7
EBITDA [1]	**€ million**	**255.6**	**150.9**	**222.7**	**240.0**	**148.0**
EBIT [2]	**€ million**	**178.6**	**66.7**	**136.9**	**155.7**	**62.6**
EBIT [2] / Net sales	%	7.3	2.6	5.4	6.1	2.4
Interest result		–25.0	–17.2	–15.5	–12.8	–11.0
Income taxes		–48.9	–16.2	–39.6	–44.4	–16.8
Net profit		**104.7**	**33.3**	**81.7**	**98.5**	**34.9**
Earnings per share on full distribution [3]						
per preferred share	€	4.58	1.46	3.46	4.18	1.48
per common share	€	4.52	1.40	3.40	4.12	1.42
DVA [4,5]	**€ million**	**81.6**	**–46.3**	**49.8**	**70.7**	**–26.5**
Equity [6]	€ million	896.6	945.9	1,003.5	1,068.3	1,080.7
Equity ratio [6]	%	40.1	40.9	43.4	45.4	44.8
Capital employed [6,7]	€ million	1,107.2	1,269.3	1,247.0	1,243.6	1,344.7
EBIT [2,4] / Capital employed [6,7] (ROCE)	%	16.1	5.3	11.0	12.5	4.7
Net financial debt [6]	€ million	10.7	145.3	34.7	–29.2	43.3
Headcount as of December 31		13,737	13,936	13,263	13,739	14,399

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

FINANCIAL CALENDAR 2019

Annual accounts press conference	March 7, 2019
Analysts' meeting	March 7, 2019
Report as of March 31, 2019, Conference call	April 25, 2019
Annual shareholders' meeting, Lübeck, Germany	May 10, 2019
Report as of June 30, 2019, Conference call	August 8, 2019
Report as of September 30, 2019, Conference call	October 30, 2019

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Drägerwerk AG & Co. KGaA
Corporate Communications
Moislinger Allee 53–55
D–23558 Lübeck
www.draeger.com

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DRÄGERWERK AG & CO. KGAA
Moislinger Allee 53 – 55
D – 23558 Lübeck
www.draeger.com

www.twitter.com / DraegerNews
www.facebook.com / DraegerGlobal
www.youtube.com / Draeger

CORPORATE COMMUNICATIONS
Tel. + 49 451 882 – 3998
Fax + 49 451 882 – 3944

INVESTOR RELATIONS
Tel. + 49 451 882 – 2685
Fax + 49 451 882 – 3296

90 70 456