Dräger

ANNUAL REPORT 2019

Dräger. Technology for Life®

Content

↗ Reference to figures and tables
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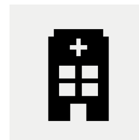
MARKETS

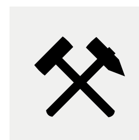
Dräger offers its hospital customers anesthesia workstations, ventilators for intensive and emergency care, patient monitoring solutions as well as neonatal care equipment for premature babies and newborns. With its supply units, operating room IT solutions, gas management systems, technical services 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.

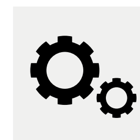

Hospital


Fire services


Oil and gas industry


Mining


Chemical industry


Application-driven markets

DRÄGER WORLDWIDE

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

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

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 14,500 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		
		2019	2018	Changes in %
Order intake	**€ million**	**2,796.1**	**2,686.5**	**+4.1**
Net sales	**€ million**	**2,780.8**	**2,595.0**	**+7.2**
Gross profit	**€ million**	**1,188.4**	**1,108.0**	**+7.3**
Gross profit / Net sales	%	42.7	42.7	
EBIT[1, 2]	**€ million**	**66.6**	**62.6**	**+6.3**
EBIT[1] / Net sales[3]	%	2.4	2.4	
Net profit	**€ million**	**33.8**	**34.9**	**−3.2**
Earnings per share on full distribution[4]				
per preferred share	€	1.44	1.48	−2.9
per common share	€	1.38	1.42	−3.0
DVA[3, 5, 6]	**€ million**	**−32.7**	**−26.5**	**−23.6**
Cash flow from operating activities[2]	€ million	164.4	4.1	> +100.0
Net financial debt[2, 7] / EBITDA[3, 5, 8]	Factor	0.46	0.29	
Equity ratio[3, 7]	%	41.9	44.8	
Headcount as at December 31		14,845	14,399	+3.1

[1] EBIT = earnings before net interest result and income taxes
[2] For effects of the first-time application of IFRS 16 on the figures as at December 31, 2019, see table on page 37.
[3] The first-time application of IFRS 16 impacts this key figure. Therefore, comparability is limited.
[4] Based on an imputed actual full distribution of earnings attributable to shareholders
[5] Value of the last twelve months
[6] Dräger Value Added = EBIT less cost of capital of average invested capital
[7] Value as at reporting date
[8] EBITDA = earnings before net interest result, income taxes, depreciation and amortization

Dear Shareholders, dear Employees, dear Readers,

In a world shaped by increasing levels of uncertainty, we look back on a year where we performed well and prepared ourselves more effectively for the challenges of the future.

The global economy grew less in 2019 than in the prior year. Germany even posted a significant decline of growth. However, we still have reason to be confident: our markets, medical and safety products, remain intact in this environment and are once again demonstrating the character of growth markets.

Overall, we are satisfied with our business development over the past year. Sales grew by 6 percent net of currency effects, with growth over 7 percent recorded in nominal terms, enabling us to fulfill the growth forecast for the fiscal year that had been adjusted upward in October. The Safety Division once again demonstrated above-average growth in 2019, but we also saw solid growth in the Medical Division. Our net sales performance in part already reflects the additional investments made over the past two years, particularly in the expansion of specific sales capabilities, even though these essential investments in our future are currently still having a negative impact on our earnings.

Our earnings before interest and taxes rose somewhat in 2019, but only benefited slightly from the higher sales volumes. Investments in our future had a negative impact on our earnings, as did a number of special expenditure items. Our EBIT margin remained at the same level as in the prior year at 2.4 percent, which was within our forecast range from the beginning of the fiscal year.

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 2025.

»We continue to invest significantly in innovation in the Medical Division and in specific sales capabilities in the Safety Division. At the same time, we are strengthening our customer focus at headquarters.«

The organizational changes that had been announced came into force at the beginning of 2020. By focusing on medical and safety technology products, we are making Dräger more powerful and goal-oriented – but above all, it gives us even greater customer intimacy. In the Safety Division, particularly in our business with gas detection as well as Rental and Safety Services, we achieved remarkable growth and good results in 2018 and 2019. We want to build on that over the coming years. In the Medical Division, we are facing a number of challenges. Growth remained below-average in this area. Our product portfolio is undergoing a renewal process, while quality assurance costs remain too high and income is too low. That is why we restructured the area. As a result of the realignment on the basis of business units, we are more customer- and goal-oriented. We already saw some achievements on that front in 2019: we brought an array of important new products to market, such as the Atlan family of anesthesia devices, and the V600/800 ventilators were launched at the end of the year. However, we still have not reached our goal; there is still work to be done.

At this point, I would like to thank our employees. The record sales achieved in the year gone by would have been unthinkable without their dedication; they once again achieved record production volumes in the fourth quarter. In light of the high investments currently being made, we are glad to have reached an agreement with the employee representatives in Germany on measures that will relieve some of the financial strain on our Company over the next three years. We are currently negotiating how to compensate the employees in return for positive business development. As a result, both sides will be taking responsibility for securing the future potential of our Company – and, ultimately, securing jobs. I would also like to express my gratitude to our employees for that as well. We have also been encouraging participation in our Company’s success for some years now by supporting the acquisition of Dräger shares by our employees. This offer was once again well received, and we will continue it.

So what is next for Dräger in the short to medium term? Given this backdrop of higher overall economic risks, we expect a slight fall in growth momentum for 2020 and anticipate sales growth of 1 to 4 percent, net of currency effects. The positive incoming orders recorded in the fourth quarter gives us some tailwind in this regard. In 2020, we will continue to strengthen our sales and accelerate quality assurance. At the same time, there are time-related risks regarding the approval and introduction of new products to the U.S. market. We therefore expect an EBIT margin in an expanded range of between 1 and 4 percent.

We have laid crucial organizational groundwork for Dräger's future economic success with our strong alignment into the Medical and Safety Division and the new structure of the Medical Division. We want to use well-structured units to serve the interest of our customers and the business, along with the higher purpose of our business activities, which have driven us for more than 130 years: Technology for Life. For the benefit of our Company, all stakeholders, and also for you, our shareholders.

Best regards,

Stefan Dräger

Stefan Dräger

Executive Board

Forward-looking, responsible leadership has been fundamental to Dräger's corporate culture since more than 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 Safety Division

DR. REINER PISKE
Executive Board member for Sales and Human Resources

ANTON (TONI) SCHROFNER
Executive Board member for Medical Division

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.

»In fiscal year 2019, we achieved our financial goals. We were even able to raise our net sales forecast somewhat during the year and our free cash flow also developed positively once again.«

RAINER KLUG

Rainer Klug is in charge of Safety Division. He has been with Dräger since 2015, and his term runs until the end of July 2023.

»Growth in the Safety Division was above average in 2019, particularly for gas detection products and in the rental and safety services business. We will build on this over the next few years and will continue to strengthen our organization to achieve this goal.«

DR. REINER PISKE

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

»Our investment in expanding specific sales skills is having an effect. We were able to increase our net sales across all regions in 2019. We also intend to further strengthen our skills and expertise in this area in the current fiscal year.«

TONI SCHROFNER

Toni Schrofner is responsible for Medical Division. He has been with the Company since 2010, and his term runs until the end of August 2023.

»We are rising to meet the challenges in the Medical Division. We are currently revising our product range and managed to launch a number of new key products in 2019. This new structure will make us more customer-driven and responsive.«

Report of the Supervisory Board

The Supervisory Board continued its trusting working relationship with the Executive Board in fiscal year 2019, dealing in detail with the Company's economic situation and prospects along with the progress of its restructuring and the reorganization of both divisions. The Supervisory Board was promptly and directly involved in all decisions.

Dear Shareholders,

Your Company developed in line with the expectations and forecasts overall in fiscal year 2019 from the perspective of the Supervisory Board. Net sales even exceeded the original forecast: it grew dynamically by 5.9 % net of currency effects, which was above the original forecast and at the upper end of the net sales forecast, which had been raised in October. However, earnings benefited only to a limited extent from the increase in net sales. The reason was higher investments in sales and service as well as high expenses for quality assurance and write-downs of receivables. The EBIT margin in fiscal year 2019 was 2.4 %, fulfilling the forecast. Dräger Value Added was in fact negative in 2019, but within the range of the budget and forecast.

The Executive Board has set a currency-adjusted net sales growth target of between 1.0 and 4.0 % for fiscal year 2020. The volume of orders on hand, which increased slightly once again, provides a sound starting point, despite macroeconomic risks. In 2020, the Executive Board will continue to make investments in securing Dräger's future potential. Expenses for quality assurance will once again increase in 2020. As a result of this and due to time-related risks regarding the approval of new medical technology products for the U.S. market, profitability is likely to remain at a low level in the current fiscal year. Overall, the Executive Board expects an earnings before taxes and interest margin for 2020 of between 1.0 and 4.0 % 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 2019, the Supervisory Board carefully and regularly monitored the work of the Executive Board of the general partner in accordance with the law and the articles of association, and provided advice on the strategic development of the Company as well as all major measures. The Supervisory Board was involved in all decisions of importance to the Company. The extensive written and oral reports by the Executive Board formed the basis for these decisions. The Chairman of the Supervisory Board was regularly informed about current business developments and major transactions by the Chairman of the Executive Board and by individual members of the Executive Board also outside of the Supervisory Board meetings.

MEETINGS

At four regular meetings and one extraordinary meeting, the Supervisory Board dealt in detail with the business and strategic development of the Dräger Group, the segments, and the 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. Participation by members of the Supervisory Board and the committees is disclosed below for each individual:

INDIVIDUAL PARTICIPATION RATE

Supervisory Board member	Supervisory Board plenary assembly	Joint Committee	Audit Committee	Nomination Committee
				Participation / number of meetings
Stefan Lauer (Chairman)	5 / 5	5 / 5	6 / 6	0 / 0
Siegfried Kasang (Vice-Chairman)	5 / 5	5 / 5	5 / 6	
Nike Benten	4 / 5			
Maria Dietz	5 / 5	5 / 5		
Daniel Friedrich	4 / 5		4 / 6	
Prof. Dr. Thorsten Grenz	5 / 5	5 / 5	6 / 6	
Astrid Hamker	5 / 5	5 / 5		
Stephan Kruse	5 / 5			
Uwe Lüders	4 / 5	4 / 5	6 / 6	0 / 0
Thomas Rickers	5 / 5	5 / 5		
Bettina van Almsick	4 / 5			
Dr. Reinhard Zinkann	4 / 5	4 / 5		0 / 0

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. Restructuring and reorganization were a particular focal point of the discussions in 2019. The future structure and aims of both the Medical and Safety Divisions was also the central topic of the extraordinary meeting on June 26, 2019. In its meeting on September 25, 2019, 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). In this meeting on September 25, 2019, the Supervisory Board also received information on the ongoing negotiations the Executive Board was holding with the works council and IG Metall. Another topic that arose in several meetings was meeting new approval requirements for medical devices set by the U.S. licensing authorities.

The plan for fiscal year 2020 was presented to the Supervisory Board in a meeting held on December 11, 2019 and approved by the Joint Committee, which is responsible for resolutions concerning transactions requiring approval.

At its meeting on December 11, 2019, the Supervisory Board also covered the German Corporate Governance Code in the version dated February 7, 2017. The Company fully complies with the recommendations of the German Corporate Governance Code. The declaration of conformity from the Supervisory Board and Executive Board pursuant to Sec. 161 German Stock Corporation Act (AktG) is permanently available on the Company website and in the corporate governance report.

ACTIVITIES OF THE AUDIT COMMITTEE

The Audit Committee held three meetings and three conference calls in the year under review. The CFO, the head of the Accounting department, 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), as well as 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 meetings also addressed the organization of Compliance and its activities and the risk management system. The Chairman of the Audit Committee gave a report to the Supervisory Board as a whole on the outcomes of his consultations.

In January and February 2020, the Internal Audit department and Legal department audited the sustainability report on behalf of the Audit Committee. The Audit Committee relied on this internal audit report in its audit of, and for its approval of, the sustainability report. According to that audit, there are no indications of failure to comply with the law, or that legally required content is missing.

ACTIVITIES OF THE NOMINATION COMMITTEE

The Nomination Committee 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 63 of this annual report. The Supervisory Board evaluates its activities and conducts an internal efficiency audit at regular intervals.

The members of the Supervisory Board undertake the training and continuing training measures needed for their duties independently, with support from the Company. Where necessary, internal information events are offered by the Legal department regarding topics such as changes to the legal frameworks. New members of the Supervisory Board are familiarized with the specific details about the Company when they first assume their roles.

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 2019. Subject of the audit were the single entity financial statements of Drägerwerk AG & Co. KGaA, prepared in accordance with the German Commercial Code (HGB), as well as the Group financial statements, prepared in accordance with the International Financial Reporting Standards (IFRS), and the combined management report of Drägerwerk AG & Co. KGaA and the Dräger Group. The auditor examined the single entity financial statements of Drägerwerk AG & Co. KGaA, prepared in accordance with the provisions of the German Commercial Code, the Group financial statements, prepared in accordance with IFRS, as well as the combined management report of both Drägerwerk AG & Co. KGaA and the Group, and issued an unqualified audit opinion. The auditor confirmed that the Group financial statements prepared in accordance with IFRS and the

STEFAN LAUER

Chairman of the Supervisory Board
of Drägerwerk AG & Co. KGaA

»The Supervisory Board dealt in detail with the Company's economic situation and prospects in fiscal year 2019. In the opinion of the Supervisory Board, your Company developed in line with expectations and forecasts in the past fiscal year.«

combined management report conform to IFRS as adopted by the EU.

The members of the Supervisory Board carefully examined the single entity and Group financial statements, the combined management report, as well as the audit reports. Representatives of the statutory auditor attended the Audit Committee's meeting on February 26, 2020, during which Dräger's single entity and group financial statements were deliberated on, as well as the Supervisory Board's meeting on February 27, 2020, 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. By resolution of the Supervisory Board of Drägerwerk Verwaltungs AG on December 10, 2019, Stefan Dräger's appointment as Chairman of the Executive Board was extended by five years, effective March 1, 2020.

CHANGES IN THE SUPERVISORY BOARD

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

CONFLICTS OF INTEREST

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

The Supervisory Board would like to recognize the Executive Board for its performance and dedicated service in the year under review. Furthermore, it thanks management and all employees, including employee representatives, for their hard work in fiscal year 2019.

Lübeck, February 27, 2020

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 and one extraordinary meeting, 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, Germany, February 27, 2020

Stefan Lauer
Chairman of the Joint Committee

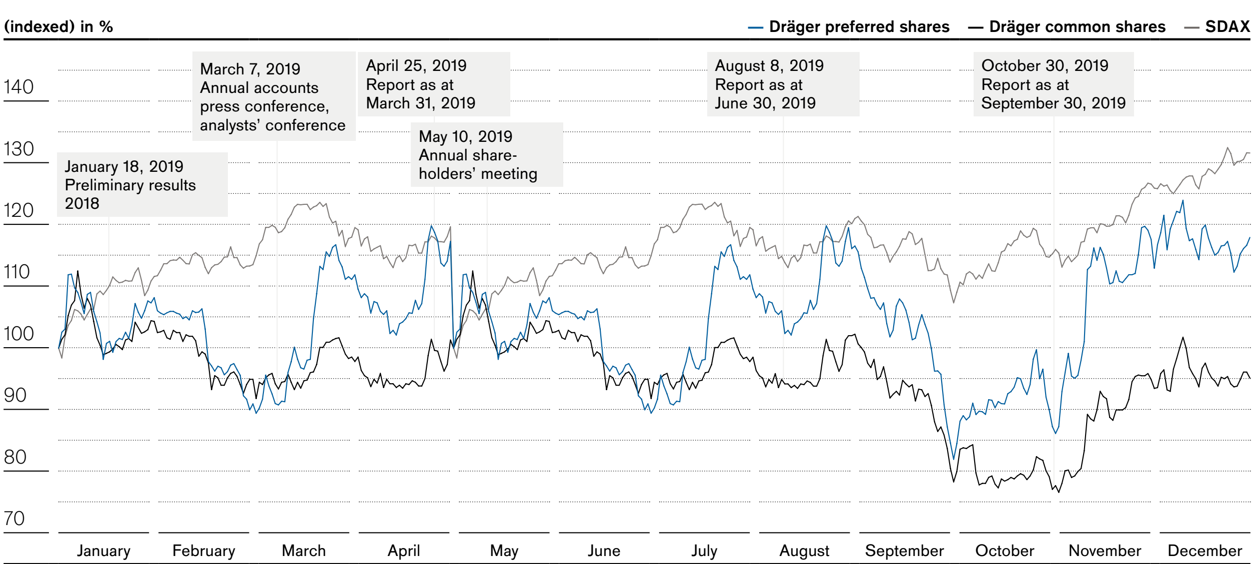
The Dräger shares

The performance of the Dräger shares was characterized by significant volatility in 2019. The two share types thereby developed very differently: the Dräger common shares fell by a total of 4% while the Dräger preferred shares rose by 20% over the course of the year. However, the Dräger preferred shares did not match the very positive development of the SDAX index, which was up by 32%.

Development of the Dräger shares

The Dräger shares made initial gains at the start of the year. In the first few days of trading, the Dräger common shares reached their annual high of EUR 46.80. However, those early gains made by the Dräger shares were lost again over the course of the first quarter, and they ended the quarter with a slight loss. In the days following the publication of the results for the first quarter, the price of the Dräger preferred shares rose significantly. Meanwhile, the price of the Dräger common shares only increased temporarily and, in the weeks that followed, remained around its level at the start of the year. The prices of both types of shares began to fall in early July, with the decline continuing until August. Their price did not rise again sustainably until the end of September. That positive development was particularly marked in the case of the preferred shares, which reached their annual high of EUR 58.55 on November 26. Overall, the increase in the price of the Dräger preferred shares in 2019 was 19.6 %, and they closed the year at EUR 55.70. The closing price for the Dräger common shares was EUR 39.60, which represented a decrease of 3.9 % compared to the end of the prior year.

SHARE PRICE DEVELOPMENTS 2019

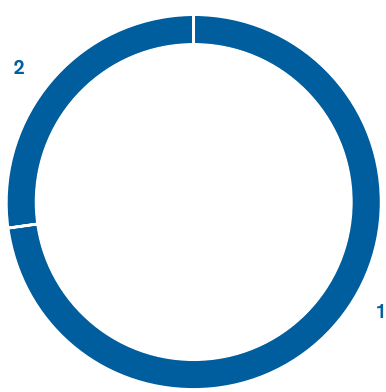


DEVELOPMENT OF THE DRÄGER SHARES AND KEY INDICES AS AT DECEMBER 31, 2019

in %, p. a.	1 year	3 years	5 years	10 years
Dräger common shares[1]	– 4	– 15	– 9	–
Dräger preferred shares	20	– 11	– 8	6
SDAX	32	10	12	13

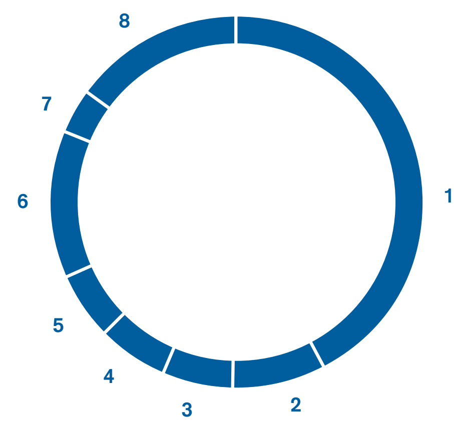
[1] Dräger common shares have been listed on the stock market since 2010.

OWNERSHIP OF COMMON SHARES



in %			
1. Dräger family	71.49	2. Free float	28.51

SHAREHOLDER STRUCTURE[1]



in %			
1. USA	42.4	5. Norway	5.8
2. Germany	7.9	6. Rest of Europe	12.8
3. Great Britain	6.1	7. Rest of the world	4.0
4. France	6.2	8. Private investors and unspecified investors	14.8

[1] Preferred shares and common shares not including shares owned by the Dräger family; as at January 2019

By comparison, the stock market performed better. The SDAX ended the year at 12,512 points, which corresponds to a rise of 31.6 % for the year.

In the course of the regular assessment of the composition of the German share indices, the Dräger preferred shares were removed from the TecDAX on December 23, 2019. The shares are still included in the SDAX.

The market capitalization of the roughly 17.8 million Dräger shares came to EUR 826 million as at December 31, 2019, compared to EUR 773 million at the end of 2018.

↗ Please refer to chart ›Dräger share price developments 2019‹ on page 15

Shareholder structure

The capital stock is divided into common and preferred shares. According to the definition of Deutsche Börse AG, 71.49 % 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 4.30 % of the common shares. A total of 28.51 % of the common shares are in free float. Of the preferred shares, which do not confer voting rights, 100 % are in free float.

DRÄGER SHARES INDICATORS

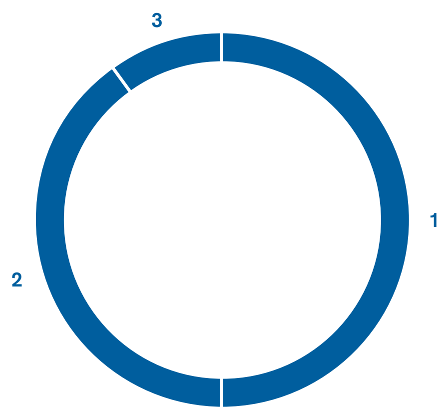
	2019	2018	2017
Common shares			
No. of shares as at the reporting date	10,160,000	10,160,000	10,160,000
High (in €)	46.80	66.50	81.21
Low (in €)	31.90	37.00	58.30
Share price on the reporting date (in €)	39.60	41.20	61.09
Annual share price development	– 3.9 %	– 32.6 %	– 6.2 %
Average daily trading volume [1]	3,870	3,308	5,083
Dividend per share (in €)	0.13 [2]	0.13	0.40
Dividend yield	0.3 %	0.3 %	0.7 %
Earnings per common share on full distribution (in €) [3]	1.38	1.42	4.12
Preferred shares			
No. of shares as at the reporting date	7,600,000	7,600,000	7,600,000
High (in €)	58.55	88.25	106.60
Low (in €)	38.74	45.32	69.89
Share price on the reporting date (in €)	55.70	46.58	72.30
Annual share price development	+ 19.6 %	– 35.6 %	– 9.0 %
Average daily trading volume [1]	20,137	40,332	34,335
Dividend per share (in €)	0.19 [2]	0.19	0.46
Dividend yield	0.3 %	0.4 %	0.6 %
Earnings per preferred share on full distribution (in €) [3]	1.44	1.48	4.18
Total distribution (in € thousand)	4,346 [2]	4,346	11,387
Distribution rate	13.0 % [2]	12.6 %	11.6 %
Market capitalization (in € thousand)	825,656	772,600	1,170,154

[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 note 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	5	3. Buy	1
2. Sell	4		

[1] At the end of 2019

An analysis of the shareholder structure (common and preferred shares) conducted in the first quarter of 2019, which excluded the Dräger family's shares, showed that institutional investors from the United States accounted for 42 % of capital stock in free float at that point in time, while institutional investors from Europe accounted for 39 %. Investors from Germany represented the largest portion of European shareholders, at eight percentage points. They are followed by the United Kingdom, France, and Norway, with approximately six percentage points each. The proportion attributable to private investors and other unidentified investors was around 15 % of capital stock.

Dividend policy and proposal

In accordance with the dividend policy whereby at least 10 % of earnings are distributed, 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 8, 2020. As a result, the proposed distribution rate is 13.0 % (2018: 12.6 %).

Please refer to note 19 in the Notes to the Annual Financial Statements.

Sustainability reporting and rating

Some 17 % of shares in free float are held by sustainable investors (2018: 14 %) and Dräger was audited by renowned sustainability ratings agencies. In its ESG Corporate Rating 2019, ISS awarded us the ›Prime‹ label. That means we have the best rating in the ›Health care equipment and suppliers‹ industry. In 2019, Dräger received a rating of A (on a scale from AAA to CCC) in the MSCI ESG Ratings. In the EcoVadis CSR Assessment in 2020, Dräger was awarded ›gold‹ status and was among the best 5 % of the industry. The Dräger sustainability report is available at

www.draeger.com/sustainability

Analyst coverage

At the end of 2019, analysts from ten different institutions (2018: ten) assessed Dräger's business performance: Bankhaus Metzler, EQUI.TS, Hauck & Aufhäuser, HSBC, Independent Research, Kepler Cheuvreux, LBBW, M.M. Warburg & Co., Main First Bank, and Nord / LB. A current overview of analyst recommendations can be found here:

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

Please refer to chart ›Analyst recommendations‹

02

COMBINED MANAGEMENT REPORT

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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 also 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.

see 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 (East London), the Czech Republic (Klášterec), and the USA (Andover, Telford).

Management, planning, and reporting

ORGANIZATIONAL AND MANAGEMENT SYSTEM

In the reporting year, the Executive Board managed the operating business by means of the three regions: Europe, Americas, and Africa, Asia, and Australia. Our segment reporting in 2019 was also based on those regions. Two members of the Executive Board (Executive Board members with regional responsibilities) were responsible for business performance in these three regions. The respective Executive Board member assumed additional functional tasks in addition to their regional responsibility. Dr. Reiner Piske was responsible for the Europe and Africa, Asia, and Australia regions, while Rainer Klug was responsible for the Americas region. As Executive Board members with regional responsibilities they were responsible for business with customers in their respective region, and were therefore fully responsible for operational management, and achieving net sales and earnings targets.

Global functions such as Research & Development, Production, Purchasing, Finance, IT, Human Resources as well as Legal and Compliance are located at the Group headquarters in Lübeck, and partially at other international locations. So far, production and development were fully managed globally from headquarters. Further global functions in Lübeck provided services to the national companies, defined group standards, and were responsible for strategic management. Sole responsibility for operational business lay with the countries themselves. In each country with Dräger subsidiaries, the respective Managing Directors had full decision-making authority. They made all local decisions on the basis of the corporate standards and strategy, and reported directly or indirectly to the regional Executive Board member.

In the course of the reorientation towards the Medical and Safety Divisions, which began at the end of 2018, we have revised and adjusted our Group management. The changes became effective at the beginning of 2020.

From January 2020, we no longer manage our business by region, but instead primarily via the Medical and Safety Divisions, and also adjust our segment reporting accordingly.

↗ please refer also to the graphic ›Executive Board Responsibilities‹ on page 22

MEDICAL DIVISION

In the Medical Division, we develop and produce system solutions, equipment and services for the acute point of care. Within the division, which, from 2020, falls under the Executive Board responsibility of Toni Schrofner, we have introduced business responsibility according to the five business units: Therapy (anesthesia devices and ventilators as well as thermoregulation equipment), Hospital Consumables & Accessories (generic and device-specific consumables and accessories), Workplace Infrastructure (supply units, lights, gas management systems), Monitoring (patient monitoring), and IT & Systems (software applications, system products and new services). The Research and Development, Supply Chain Management, and Production functions are integrated into the five respective business units. Quality & Regulatory Affairs manages quality-related activities and implements the regulatory requirements for medical products across all business units.

EXECUTIVE BOARD RESPONSIBILITIES SINCE JANUARY 1, 2020[1]

Stefan Dräger Chairman of the Executive Board	**Gert-Hartwig Lescow** CFO, Executive Board member for IT, and Vice-Chairman of the Executive Board	**Dr. Reiner Piske** Executive Board member for Sales and Human Resources	**Toni Schrofner** Executive Board member for Medical Division	**Rainer Klug** Executive Board member for Safety Division
Occupational Health and Safety Basic Research Real Estate Intellectual Property Quality Management Legal, Compliance, and Data Protection Corporate Auditing Environmental Management Corporate Communications and Corporate Identity Corporate Strategy and Business Development	Controlling Purchasing (indirect materials and IT) Information Security Information Technology Investor Relations Accounting Taxes Treasury Insurance Customs and Export Control	Human Resources Service Sales	Purchasing Research and Development Logistics Marketing Production Product Management Quality	Purchasing Research and Development Logistics Marketing Production Product Management Quality
		Sales and service locations	Production and development locations Medical Division	Production and development locations Safety Division

[1] Simplified presentation

SAFETY DIVISION

The Safety Division develops and produces devices, system solutions and services for personal protection, gas detection, and integrated hazard management. Rainer Klug has been the Executive Board member with responsibility for this division since January 2020. The division has three strategic business fields: Manufacturing Industries, Processing Industries, and Emergency & Rescue Services. Research and Development, Production, Supply Chain Management, and Quality are thereby organized across the division for all the named strategic business fields.

SALES AND SERVICE:

Sales and Service is the interface between the two divisions, which are engaged in product development and production, and our customers. Dr. Reiner Piske is the Executive Board member with global responsibility for Sales and Service. Operational responsibility for the sales and service business lies with management at the country level. 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 Executive Board member with responsibility for Sales.

Global functions such as Finance, IT, Human Resources, Quality & Regulatory Affairs (Corporate), Basic Research, and Legal and Compliance are located at the Group headquarters in Lübeck, and partially at other international locations. The global functions also provide services to the national companies, set global group standards, and are responsible for strategic management.

This organization clearly allocates responsibilities in a structure that is oriented towards cooperation. It is also a way of fostering customer focus and the entrepreneurial activity at Dräger, and accelerating our decision-making processes.

↗ Please refer to chart ›Executive Board responsibilities‹

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). In the future, in line with the change in segment reporting, it will be reported for the two divisions, medical and safety. We use DVA to measure the development of the Company's added value, and that of its various units. Not only does Dräger base its strategic decision-making on the development of DVA, the management's variable remuneration is, among other things, based on DVA.

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

– profitable growth
– increasing operating efficiency
– increasing capital efficiency

DVA is the difference between EBIT over the preceding 12 months and calculated capital costs. Capital costs are determined using average capital employed in the past 12 months, based on the average cost of equity and debt capital before taxes. The weighted average cost of capital (WACC) was determined at 7.0 %.

Days working capital (DWC) is another important figure. 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 at 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 on financial performance indicators.

If not already defined in footnotes in this report, details on the definition of specific key figures (including so-called alternative key performance indicators) 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 in the fourth quarter.

Important changes in the fiscal year

In 2019, we agreed with the German metalworkers' union ›IG Metall‹ that we will limit the growth in personnel costs in Germany in the coming years. As a result, all German Dräger employees will waive raises in accordance with collective wage agreements until 2022. Restrictions on recurring annual bonuses and variable remuneration components were also agreed. The parties to the collective agreement are currently negotiating specific agreements on this point and on potential future compensation for the waiver. In addition, further terminations for operating reasons and site closures have been excluded until 2023.

Together with the works council, we have laid the foundations for the implementation of the organizational and structural changes planned for 2020 in the scope of a company agreement.

Reference to Group Structure section on page 21

Strategy and goals

We have been devoted to developing and producing ›Technology for Life‹ for over 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 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 with our own interests.

As of January 1, 2020, we have changed our organizational structure to better reflect the needs of our customers. The former functional organization has been transformed into a divisional structure consisting of the Medical and Safety Divisions. For further details regarding the organizational changes please refer to the ›Group structure and control system‹ section on page 21 et seq

Our company principles are and remain the corporate aspriations for all our actions. They determine a key part of our decision-making: we want to and will remain an independent, self-determined, pioneering, value-creating, and attractive Company.

CORPORATE ASPIRATIONS

Our four corporate aspirations represent our vision of Dräger in the coming years.

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

We have a truly global footprint
We offer a high level of service to our customers, wherever they are located in the world. To serve our global markets, work with our suppliers, and support our sales channel partners, we have implemented the right organization and processes. We encourage our people to bring out their talent wherever they are and in whatever function they operate. Our balanced global resources give us greater flexibility, allow us to respond quicker to opportunities, and make us more resilient. We think globally and act locally.

We are networking across borders as entrepreneurs
We see the big picture, share our knowledge and expertise, support and collaborate with each other, and learn from each other. We are all part of a highly professional and social network working across departmental, legal entity, and country borders. This goes beyond our Company and includes customers, suppliers, and sales channel partners. We manage the challenge to be connected. Our entrepreneurial spirit is based on our individual judgement 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 targets. While defining our current goals, we 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 essential to convincing our customers and increasing 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 continuously 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.

STRATEGIC GOALS IN OUR MARKETS

STRATEGIC GOALS IN THE MEDICAL DIVISION'S MARKETS

As a specialist for acute care, constant improvement in this area is our top priority. We aim to support clinical personnel with technologies and services that help them make better therapeutic decisions, and facilitate their implementation. In the future, this support will lead to therapy automation in hospitals through diagnostic and therapeutic assistance systems.

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

– improving clinical treatment results,
– optimizing costs of care,
– promoting patient outcome, and
– increasing the satisfaction of clinical staff.

In the coming years, we will focus on the following strategic issues in order to achieve these goals:

Protective therapies
Our holistic solutions, such as patient-customized therapy in the area of anesthesia and ventilation and in neonatal thermoregulation, help our customers improve their clinical outcome.

Connected medical technology
Networking different systems at acute care workstations ensures that current information is always available, supporting clinical decisions, and allowing for automated steps in therapy. We use a standardized, non-proprietary communication protocol (IEEE11073-SDC) to ensure that our customers can fully benefit from this technology.

Care-centred workstations
We want to help reduce the burden on 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 bedside. Reducing the number of germs and lowering the risk of infection in hospitals is a further important goal for us and our customers. We contribute to that aim by developing devices that are easy and safe to clean, and by offering hygienically flawless disposable items, along with hygiene training and advice.

Wide range of services
Our extensive range of services ensure optimal availability of their medical technology for our customers. Increasingly networked medical technology will also allow us to develop a greater number of new data-based services and digital business models. For example, alarms are very stressful for patients and staff. Our alarm analysis offers an overview of the alarms triggered. It can be used as the basis for the systematic optimization of processes and staff planning to increase the efficiency of existing alarm management systems, and reduce stress on those involved and affected. That is how we aim to help customers increase transparency, optimally manage resources, and achieve their medical and economic goals.

STRATEGIC GOALS IN SAFETY DIVISION MARKETS

In the Safety Division, 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, for example providing fire training systems and interchangeable special units for tunnel rescue trains.

In our target markets

– oil and gas,
– the 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 the Safety Division's market position:

Internationalization of shutdown and rental services
Our shutdown and rental services ensure occupational health and safety, and avert risk in relation to industrial plant shutdowns or inspections. Based on our strong market presence in Europe, we will systematically transfer our successful business model to the Asian and American markets.

Overarching safety management
Holistic safety and emergency management systems are becoming increasingly important to our customers if they want to enjoy long-term success in the market. We help customers to reduce process risk and be optimally prepared for emergencies. We are continuously 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 offer our customers new data-based services, for example in the areas of remote services or asset management. That results in benefits for our customers, such as more efficient system and device maintenance, and optimal plant utilization.

Digital sales channels
The addition of digital channels to our sales network is our response to new technological developments. The use of digital tools allow us to provide even better support to our customers and sales partners via 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 maintain a global mindset. 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

We attach a great deal of importance to our research and development (R&D) activities. In fiscal year 2019, research and development costs rose by EUR 11.5 million year-on-year to EUR 263.7 million (2018: EUR 252.2 million), which equates to 9.5 % of net sales (2018: 9.7 %).

As at December 31, 2019, 1,482 employees worked in our development departments worldwide (December 31, 2018: 1,417). Over the course of 2019, patent and trademark offices around the world issued 266 new patents to Dräger (2018: 217). We applied for another 83 patents at international patent and trademark offices (2018: 74). During the reporting year, our technology development experts analyzed 115 new technologies in 22 technological fields and evaluated their relevance to Dräger. In a number of projects, these new technologies laid the foundations for future product innovations.

MEDICAL DIVISION PRODUCTS

We also developed numerous existing medical products and produced a number of new innovations in the reporting year, including 16 new and extended devices (2018: 13) and five new accessory products (2018: 3). Dräger's main focus in 2019 was on the development and market approval of new systems, and therapy device components and products.

We launched the Clinical Assistance Package system solution for anesthesia workstations (or CAP OR for short) in the first half of 2019. Seamless documentation of treatment data is becoming increasingly important within the scope of digitalization in the healthcare industry. At the same time, medical devices must also be able to share medical data with other devices as directly as possible, so that clinical situations can be visualized in context in an enhanced form, with devices becoming simpler and safer to use. CAP OR meets customers' demands for standardized interfaces between medical devices and IT systems for documentation purposes and is also the first step towards ensuring interoperability among medical devices themselves.

CAP OR offers new functionalities for the combination of anesthesia devices and patient monitoring systems, such as the option to input patient demographic data, synchronization of all system times down to the millisecond, convenient alarm deactivation, and automatic, dynamic retrieval of user interfaces at the workstation. The new CAP OR solution ensures that a range of our products that we have developed for the operating room work together as an integrated system. These include: Perseus A500 sw 2.0n and Atlan A3X0 in conjunction with the Connectivity Converter CC300 sw 1.1, IACS Monitor sw VG7.1, and Infinity Gateway sw VF8. CAP OR is based on the new SDC protocol (service-oriented device connectivity), which has been defined as a standard by the IEEE (The Institute of Electrical and Electronics Engineers, Inc.). This technology allows new functions to be added at a later date, particularly in the area of assistance systems, and will ultimately pave the way for automation, laying the foundations for future growth.

We introduced two important therapy devices in the second half of the year. Atlan is a major step forward in our efforts to update the product portfolio in the Medical Division, and is more than simply an anesthesia device – its different configuration options offer an entirely new family of anesthesia devices. The anesthesia workstation is an ergonomic all-rounder suitable for most patient groups, interventions, and spatial requirements, and features a network connection (SDC), a large touchscreen, and a completely revised user interface. It is available in a number of different variants with numerous configuration options, allowing it to be tailored to specific customer requirements and extended in the event of subsequent investments in additional equipment. This allows hospitals to have the same anesthesia workstation with the same user interface in all operating rooms. This helps to prevent mistakes being made in the operating room, reduces training expenses, and simplifies device management.

With the Babylog VN600, Babylog VN800, Evita V600, and Evita V800, Dräger presents new intensive care ventilators for everything from newborns to adults. We have developed a control concept for the neonatal and intensive care ventilators that allows for even easier orientation and clearer user navigation. The technology draws on Dräger's considerable experience in ventilation. It offers the basis for efficient therapy options that can also increase patient safety, for example automated weaning: early support for independent breathing allows the patients to be weaned from mechanical breathing support faster. That means they can be mobilized at an earlier stage. The Evita V600 and Evita V800 intensive care ventilators can also be connected to the PulmoVista 500 electrical impedance tomograph (EIT). The device allows doctors to follow the distribution of ventilation in the lung in real time with up to 50 images per second. The EIT enables ventilation tailored to the individual patient, thereby protecting their lungs.

RESEARCH AND DEVELOPMENT

R&D costs in € million	2019	2018	2017	2016	2015
Dräger Group	263.7	252.2	234.7	219.0	231.1
in % of Net sales	9.5	9.7	9.1	8.7	8.9
Headcount	1,482	1,417	1,377	1,295	1,416

SAFETY DIVISION PRODUCTS

In 2019, we launched 17 (2018: 17) 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.

We presented the X-pid 8500 in the first half of 2019. It has been specially designed for the US market and is a further addition to our range alongside the newly developed X-pid 9000 / 9500 detection instruments, which we launched in other markets in 2018. The mobile gas chromatograph sets new standards in the recognition and identification of volatile organic substances. The system consists of a sensor and operating unit and allows carcinogenic substances to be measured with laboratory precision. Thanks to the intuitive app, it is also simple to use – even in areas with potential explosion hazard.

We have also launched a brand-new gas detection instrument that provides even greater safety and efficiency, the Polytron 8900 UGLD. Conventional gas warning systems only detect a leak once the leaking gas is in direct proximity to the detection instrument. The Polytron 8900 UGLD ultrasound sensor, on the other hand, detects leaking gas independently of the ambient conditions, such as wind, before a gas detection sensor measures a critical concentration. The sensor is also part of the Polytron 8000 series, and therefore offers the same design and a familiar user interface, reducing training and maintenance costs for customers.

We have also introduced the Polytron 6100 EC WL. It is a wireless transmitter for the continual monitoring of toxic gases and oxygen. The internal battery pack allows it to operate constantly for up to 24 months. Laying cables for transmitters often involves significant costs, technical expertise, and time – that makes the Polytron a flexible and cost efficient solution for system extensions and upgrades, or new installations. The Polytron 6100 EC WL is also well suited to plant areas that require mobile solutions, are hard to reach, or do not offer any infrastructure. Wireless detection reduces planning work without the customer giving up the safety offered by cable-dependent transmitters. The Polytron 6100 EC WL uses tried-and-tested Dräger sensors that are optimized for industrial applications. They cover a spectrum of 140 different detectable gases.

In the area of respiratory protection, the new Dräger X-plore Bayonet Filter offers users in a variety of industries, such as woodwork and mining, protection against particles and dust. The filter can be safely and quickly fitted to the mask thanks to a bayonet fastener. To make sure that the filter paper always meets the high quality standards Dräger sets for its products, we manufacture it ourselves. The special combination and fold of the paper ensures that breathing resistance remains low, increasing the level of comfort as a result. The hydrophobic filter paper and improved casing also offers additional splash protection.

In the last quarter of 2019, the Dräger PSS 5000 and Dräger PSS 7000 brought the new generation of self-contained breathing apparatus to the North American market. The U.S. market, in particular, is an important growth area for us. Special customer requirements and local standards call for a high-quality product. All the adjustments made necessary by a change to the applicable standard were implemented by an intensive development project.

Employees

Our committed and expert employees are one of the key strengths of our Company. With all their skills and knowledge, they make a daily contribution, turning technology into ›Technology for Life.‹ In that way, they embody the Company spirit, putting their heart and souls into their work, and having done so for more than 130 years.

Dynamic global change creates growing challenges for us as a worldwide employer. We are responding to those challenges and are primarily focused on further increasing the competitiveness of our family company.

HUMAN RESOURCES STRATEGY

As in the prior year, HR had four key areas of activity:

- competitive working conditions,
- future-oriented skills and capacities,
- leadership, cooperation, well-being,
- organizational development and change management.

In the past year we were again able to achieve encouraging progress in these areas. For example, Dräger adopted a future-oriented pension plan and various measures for the compatibility of a career with the various phases in life. Dräger's vocational training was also more closely aligned with requirements, and WeLEAD – our vision for leadership and cooperation – was strengthened by various activities. We were also active in the areas of occupational health and reintegration management.

LEADERSHIP AND COOPERATION – EMPLOYEE SURVEY 2019

Every two years we conduct an employee survey, most recently in September 2019. A total of 79.8 % of employees took part, an encouragingly high proportion. To ensure good comparability of results, we asked the same questions as in 2017, along with five additional general questions. The results of the recent survey were somewhat more positive than two years ago – there is now better awareness of all the WeLEAD competencies.

In order to make targeted use of the employee survey and work towards the desired culture of leadership and cooperation, we have started the follow-up process, which relies on constant dialog between managers and employees. That dialog is accompanied by supporting offerings such as workshop concepts and neutral moderators.

EMPLOYEE SHARE PROGRAM

Our employee share program, which we launched in 2013, 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.

In fiscal year 2019, employees again had the chance to acquire up to 60 shares. They received a bonus share for every three preferred shares they purchased. Dräger acquired both the preferred shares ordered by the employees and the bonus shares in regular market trading (Xetra trading platform). In fiscal year 2019, 1,008 employees (2018: 1,172) purchased an average of 36 shares (2018: 37). A total of 35,817 preferred shares (2018: 43,368) were ordered; Dräger contributed 11,939 bonus shares (2018: 14,456).

EMPLOYEES IN NUMBERS

As at December 31, 2019, 14,845 people worked for the Dräger Group worldwide, 446 (3.1 %) more than in the prior year (December 31, 2018: 14,399). In Germany, the number of people working for the Dräger Group rose by 181 year-on-year (2.7 %), while the number of people working abroad rose by 265 (+3.5 %). As at December 31, 2019, Dräger employed 52.9 % (December 31, 2018: 52.7 %) of its employees outside Germany.

More than two-thirds of those hired (328 employees) were in sales-related areas. We increased employee numbers in Service and other customer-oriented functions by 171, with two thirds of those new employees hired abroad. Compared to the prior year, we employed 112 more people in Sales as at December 31. General Administration saw 67 new employees hired, almost one third of which were in IT. As at December 31, the number of employees in Research and Development rose by 65. In Production, Quality Assurance, Logistics, and Purchasing, the number of employees remained almost unchanged.

Of 14,845 employees worldwide, 59.1 % (December 31, 2018: 58.7 %) worked in Sales, Marketing, and Service, a further 20.2 % (December 31, 2018: 20.9 %) in Production, Quality Assurance, Logistics, and Purchasing, 10.0 % (December 31, 2018: 9.8 %) in Research and Development, and 10.7 % (December 31, 2018: 10.6 %) in General Administration.

Personnel expenses within the Group rose by 7.7 % year on year (6.7 % net of currency effects) to EUR 1,126.4 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 2.9 % (net of currency effects: 2.0 %). 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 2019 was 40.5 % (2018: 40.3 %).

↗ 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 at the balance sheet date		Headcount (average)	
		December 31, 2019	December 31, 2018	2019	2018
Germany		6,996	6,815	6,951	6,618
Abroad		7,849	7,584	7,744	7,461
Dräger Group total		**14,845**	**14,399**	**14,695**	**14,079**
Women		4,220	4,084	4,181	4,029
Men		10,625	10,315	10,514	10,050
Dräger Group total		**14,845**	**14,399**	**14,695**	**14,079**
Personnel development costs	**€ million**	**16.3**	**15.5**		
thereof training expenses	€ million	7.3	6.8		

KEY WORKFORCE TREND FIGURES

		Headcount as at the balance sheet date	
		December 31, 2019	December 31, 2018
Number of employees		14,845	14,399
Percentage of female employees	%	28.4	28.4
Part-time employees		917	852
Average years with Dräger in Germany	Years	14	14
Average age of employees	Years	43	43
Turnover of employees	%	5.0	5.0
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		55	38

Business performance

General economic conditions

GLOBAL ECONOMY GROWING MORE SLOWLY

According to the Institute for the World Economy (IfW), the global economy slowed noticeably in 2019, with global trade even decreasing. The outlook is dampened by political uncertainty caused by trade conflicts and populist governments. There was a recent economic downturn in industrial countries, while emerging markets recovered somewhat. Overall economic growth in 2019 is likely to have decreased to 3.0 %, while the IfW expects a slight improvement to 3.1 % in 2020.

The eurozone economy was also affected by the general uncertainty – despite its loose monetary policy: the IfW expects growth of just 1.2 % in 2019 and 2020. According to the Institute, Germany is even on the verge of a recession, with growth in the past year estimated at just 0.5 %. While the IfW expects an increase to 1.1 % in 2020, that is primarily due to the higher number of working days. In the view of the institute, the German economy is facing one of its weakest years since the financial crisis in 2008, with investment and exports, in particular, suffering from international uncertainty.

MONETARY POLICY RESPONDING TO ECONOMIC DEVELOPMENT AND INFLATION

Taking into account increasing uncertainty and the economic effects of the trade conflict, in 2019 the U.S. Federal Reserve (the Fed) decreased its benchmark rate to a corridor of 1.50 to 1.75 % in a number of steps. The European Central Bank (ECB) further decreased its negative interest rate for deposits by banks and now charges banks interest of 0.5 % on their deposits. In November, the ECB started purchasing government and corporate bonds again, and will make purchases totaling EUR 20 billion per month until further notice.

INFLATION CONTINUES TO FALL, EURO WEAKER

The rate of inflation in the eurozone declined further in 2019, moving away from the ECB's target. In December prices were 1.3 % higher than in the same month in the prior year. In Germany the increase in prices over the same period was 1.5 %. For 2019 as a whole, inflation in Germany amounted to 1.4 %.

The euro lost value slightly against the U.S. dollar in 2019 and also weakened compared to the currencies of several emerging economies.

↗ See table ›Major currency changes and their impact on Dräger's earnings‹

MARKET AND INDUSTRY PERFORMANCE

In the following we offer an assessment of the markets relevant to our two core fields of business.

Medical technology sector: Positive overall development in 2019

Factors for growth in the European medical technology sector were, on the one hand, demographic change and, on the other, technological innovation, such as the modernization and digitalization of hospitals in Spain and telemedicine in France. The Italian market also developed positively. In the United Kingdom there was, above all, rapid growth in the e-health market, which continues to offer good conditions for innovative companies, despite Brexit's continued negative effect on the outlook. Northern and Western Europe also developed positively.

MAJOR CURRENCY CHANGES AND THEIR IMPACT ON DRÄGER'S EARNINGS

Average rates compared to the euro	12 months 2019	12 months 2018	Change in %	Impact on Dräger's earnings (EBIT) [1]
US dollar	1.12	1.18	– 5.1	↓
Argentinean peso [2]	67.20 [3]	34.36	95.6	↓
Chinese yuan	7.72	7.82	– 1.2	↓
Saudi riyal	4.20	4.42	– 5.1	↑
Brazilian real	4.41	4.33	2.0	↓

[1] Please refer to the comments on the earnings of the Dräger Group and the segments on pages 37 et seq. for further details on the effects of changes in exchange rates on earnings.
[2] Please refer to note 6 in the Notes to the Annual Financial Statements for further information on the effects of high inflation in Argentina.
[3] Due to hyperinflation valuation in accordance with IAS 29, the closing rate is used.

The medical technology sector in the Americas was divided. Development in North America was overwhelmingly positive: the Canadian medical technology sector grew as strongly in 2019 as in previous years, and sales in the U.S. continued to rise, although growth was slower. The development of the medical technology market in Central and South America was weaker than expected: market growth slowed in Mexico, and continuing political uncertainty and the high national debt had a negative effect on demand in Brazil.

Asian markets developed positively, with demand for medical technology – particularly from foreign manufacturers – continuing to grow. China is working intensively on the expansion and transformation of its heath system. German medical technology remains in demand there, although the domestic competition is getting stronger. Providers of innovative, efficient medical technology continued to have good opportunities in Japan.

Improvement of the healthcare system remains an important political topic in Australia, with public investment continuing to rise. That fact, together with strong population growth, had a positive effect on the medical technology market in 2019. The same is true of the Middle East, particularly in the United Arab Emirates, where manufacturers of medical devices profited from the expansion of the healthcare sector. Market development was also positive in South Africa.

Safety technology sector: restrained positive development in 2019

In Europe the sectors that are relevant to us saw a slowdown in 2019. The German chemical industry developed weakly, with trade conflicts and the weaker global economy increasingly impacting the industry. The French chemical industry has also been affected by a cooling economy. In Italy, Europe's third largest chemical market is experiencing weak domestic and foreign demand. And the development of the British chemical market is also subdued. One of the primary reasons is that the effects of the Brexit remain unclear.

There was uneven development in the safety technology sector in North America. Growth in the U.S. chemical industry was restrained. Petrochemicals was the main driver of growth, with the oil companies continuing to invest in fracking. The situation in South America was similar: Brazil's chemical industry did not profit sufficiently form the overall recovery in the oil and gas market, and there is continued hope of increased investment and an opening of the gas market, which stagnated in 2019.

There was slightly positive development in Asia, with that tendency also applying to the Chinese chemical market. Here providers are suffering from increasing environmental regulation and weaker demand in a number of consumer industries. However, demand for environmentally friendly products grew. The trade conflict between China and the U.S. also affected Japan, where the development of the chemical industry stagnated, among other things. High gas prices had a negative effect on the Australian chemical industry. The oil and gas market was characterized by the development of new offshore deposits and the search for onshore reserves.

In Africa, raw materials are waiting for industrial processing across the continent. For many countries, raw materials are the backbone of the economy. However, large quantities of raw materials are exported from the region in a largely unprocessed state. There is potential for further growth in this area. The South African mining industry did not exploit its geological potential sufficiently in 2019. Investment in refineries is overdue in the chemical industry, but the market is slowly picking up.

In the important Middle East markets, we have seen slower but still positive development. Above all in the United Arab Emirates, there was considerable investment activity in the oil and gas sector.

Our impression is that the fire service market developed solidly worldwide.

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 VS. PROTECTIONISM

Trade wars, diplomatic crises, and cyber attacks – globalization is all too often seen as a problem, rather than an opportunity. Nationalistic tendencies are emerging in politics and society as a whole in some industrialized nations and emerging markets, and are an increasing threat to economic and financial stability. We believe that the growing uncertainty, and how this uncertainty is dealt with, will remain a key issue in the coming years. However, the challenges caused by increasing complexity and networking should not blind us to the positive effects of globalization, such as economic development and increasing prosperity in many emerging markets.

HEALTH

As living standards rise in emerging markets and industrialized economies alike, health is increasingly becoming a key feature of a good life. Demand for high-quality medical care, whether at home or in hospitals, is increasing accordingly. Life expectancy also continues to rise. We have seen awareness of the significance of protecting the environment and workers increase, with companies' investments in occupational health and safety rising accordingly. Considering these developments, the outlook for our Medical and Safety Divisions continues to be positive.

CONNECTIVITY

The issues of digitalization and automation in industry and retail has become ubiquitous. The interplay between humans and machines, and the exploitation of new technical opportunities, offers enormous potential to boost efficiency and pave the way for brand-new business models. However, they also entail numerous challenges. Our Company must explore the potentials offered by new platform-oriented sales models, and new innovation and production opportunities. Meanwhile, digital connectivity means that devices are collecting more and more data about our professional and private lives. We continue to intensively consider what happens to this data, and how it can be used as safely as possible with the customer benefit in mind.

OVERALL ASSESSMENT OF THE UNDERLYING CONDITIONS

Political uncertainty, including the trade conflicts originating from the U.S., is impacting trade flows and economic exchange. Ongoing ambiguity over the final terms of Brexit also continues to have a negative effect on the economic outlook. Those factors are dampening the outlook with regard to the growth of the global economy.

In this environment, the Medical and Safety Divisions' markets remain in robust shape overall and continue on a course of moderate growth with a degree of difference from region to region.

Business performance of the Dräger Group

↗ See table ›Business Performance of the Dräger Group‹ on page 34

OVERALL MANAGEMENT ASSESSMENT OF BUSINESS PERFORMANCE

Order intake and in particular net sales developed favorably in fiscal year 2019. Order volume rose by 4.1 % in nominal terms over the course of the year. In 2019 we increased net sales significantly by 7.2 %.

The euro lost some of its value against the US dollar over the course of the year, which tended to have a negative impact on Dräger earnings. Business developed both positively and negatively in relation to emerging market currencies. All in all, currency effects played a less significant role in 2019 than in the year before.

Net of currency effects, order intake rose by 2.8 % year-on-year and by 2.5 % in the fourth quarter compared with the same quarter in 2018. In fiscal year 2019, net sales increased by 5.9 % (net of currency effects), in the fourth quarter they increased by 1.3 %.

We raised the originally forecast net sales growth range on the back of positive net sales development in the first three quarters of the year. In fact, net sales growth in fiscal year 2019 actually reached the upper end of this adjusted range. The extremely positive development in the fourth quarter also contributed to this trend.

BUSINESS PERFORMANCE OF THE DRÄGER GROUP

				Twelve months
		2019	2018	Changes in %
Order intake	**€ million**	**2,796.1**	**2,686.5**	**+4.1**
Net sales	**€ million**	**2,780.8**	**2,595.0**	**+7.2**
Gross profit	**€ million**	**1,188.4**	**1,108.0**	**+7.3**
Gross profit / Net sales	%	42.7	42.7	
EBITDA [1, 2]	**€ million**	**193.8**	**148.0**	**+30.9**
EBIT [2, 3]	**€ million**	**66.6**	**62.6**	**+6.3**
EBIT [3] / Net sales [4]	%	2.4	2.4	
Net profit	**€ million**	**33.8**	**34.9**	**– 3.2**
Earnings per share on full distribution [5]				
per preferred share	€	1.44	1.48	–2.9
per common share	€	1.38	1.42	–3.0
DVA [4, 6, 7]	**€ million**	**–32.7**	**–26.5**	**–23.6**
Research and development costs	€ million	263.7	252.2	+4.6
Equity ratio [4, 8]	%	41.9	44.8	
Cash flow from operating activities [2]	€ million	164.4	4.1	> +100.0
Net financial debt [2, 8]	€ million	88.7	43.3	> +100.0
Investments	€ million	78.8 [9]	77.8	+1.4
Capital employed [2, 8, 10, 11]	€ million	1,401.3	1,341.3	+4.5
Net Working Capital [8, 11, 12]	€ million	622.7	644.6	–3.4
EBIT [3, 6] / Capital Employed [2, 8, 10, 11] (ROCE) [4]	%	4.8	4.7	
Net financial debt [2, 8] / EBITDA [1, 4, 6]	Factor	0.46	0.29	
Gearing [4, 13]	Factor	0.08	0.04	
Headcount as at December 31		14,845	14,399	+3.1

[1] EBITDA = earnings before net interest result, income taxes, depreciation and amortization
[2] For effects of the first-time application of IFRS 16 on the figures as at December 31, 2019, see table on page 37.
[3] EBIT = earnings before net interest result and income taxes
[4] The first-time application of IFRS 16 impacts this key figure. Therefore, comparability is limited.
[5] Based on an imputed actual full distribution of earnings attributable to shareholders
[6] Value of the last twelve months
[7] Dräger Value Added = EBIT less cost of capital of average invested capital
[8] Value as at reporting date
[9] Excluding investments in right-of-use assets according to IFRS 16. Actual investments in fiscal year 2019, including investments in right-of-use assets, stood at EUR 121.4 million.
[10] Capital employed = total assets less deferred tax assets, securities, cash and cash equivalents, non-interest-bearing liabilities and other non-operating items
[11] Due to the redefinition of the key figure 2019, the previous year's figures have been adjusted.
[12] Net working capital = Trade receivables and inventories less trade payables, customer prepayments, short-term operating provisions and other short-term operating items
[13] Gearing = Net financial debt / equity

Our earnings before interest and taxes (EBIT) climbed to EUR 66.6 million in 2019 (2018: EUR 62.6 million). This figure only increased slightly, only benefiting from the higher net sales to a limited extent. Earnings were impacted by future investment but also by one-off expenses for quality assurance and write-downs on receivables. The EBIT margin remained at 2.4 % (2018: 2.4 %) and within the forecast margin.

COMPARISON OF FORECAST FIGURES AND ACTUAL FIGURES

	Forecast 2019 According to the annual report	**Current forecast** Last published	**Fiscal year 2019** Results achieved
Net sales (net of currency effects)	1.0 to 4.0 %	4.0 to 6.0 %	5.9 %
EBIT margin	1.0 bis 3.0 % [1]	Confirmed	2.4 %
DVA	EUR –60 to –10 million	Confirmed	EUR –32.7 million
Other forecast figures:			
Gross margin	On par with prior year (+ / – 1 percentage point) (2018: 42.7 %)	Confirmed	42.7 %
Research and development costs	EUR 260 to 275 million	Confirmed	EUR 263.7 million
Interest result	On par with prior year (2018: EUR –11.0 million)	Confirmed	EUR –17.0 million (of which: IFRS 16 effect: EUR –4.4 million)
Days working capital (DWC) [2]	Stable development 2018: 117.4 days	Confirmed	121.0 days (new calculation method: 109.4 days)
Investment volume [3]	EUR 85 to 100 million	Confirmed	EUR 78.8 million
Net financial debt	Improvement (2018: EUR 43.3 million) [4]	Confirmed	EUR 88.7 million

[1] Based on exchange rates at the start of fiscal year 2019 excluding restructuring expenses
[2] The calculation methods for this figure was adjusted at the end of fiscal year 2019.
[3] Excluding company acquisitions and investments in right-of-use assets pursuant to IFRS 16. Actual investments in fiscal year 2019 including investments in right-of-use assets amounted to EUR 121.4 million.
[4] The amount as at December 31, 2018, would have been higher by EUR 101.2 million from the initial application of IFRS 16 as of January 1, 2019 (adjusted amount as at December 31, 2018: EUR 144.5 million).

Dräger Value Added (DVA) also came in within the forecast margin at EUR –32.7 million (2018: EUR –26.5 million). The weighted average cost of capital (WACC) was stable, meaning that the year-on-year decline was primarily due to the rise in average capital employed, which rose by EUR 100.9 million as a result of the initial application of IFRS 16.

Our other forecast figures developed as follows:

Our gross margin remained on a par with the prior year and therefore tallied with our forecast. We also achieved our forecast for R&D expenses. The investment volume was slightly below the forecast range. Our interest result was in line with our forecast, with the initial application of IFRS 16 producing an effect of EUR –4.4 million.

In relation to the introduction of IFRS 15, we adjusted the calculation method for days working capital (DWC) effective as at the end of fiscal year 2019. Contract liabilities are now included in this calculation in full. Based on the old calculation method, DWC was slightly up on prior-year figures due to the slight increase in average inventories and the marginally lower ratio of trade payables to net sales.

Our net financial debt increased due to the initial application of IFRS 16; without this effect this figure would have decreased.

↗ See table ›Comparison of forecast figures and actual figures‹

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

ORDER INTAKE

Our order intake rose by 2.8 % (net of currency effects) in fiscal year 2019. There was a strong rise in demand for safety products, while orders for medical products declined slightly. In the Europe segment, we generated order growth of 5.5 % (net of currency effects), which was particularly due to the sharp rise in order intake for safety products. Orders of medical products, however, also rose here. In the Americas segment, order intake increased by 1.5 % (net of currency effects), with demand for safety products also particularly contributing. By contrast, order intake in the Africa, Asia, and Australia segment was down year-on-year at 1.6 % (net of currency effects). There was a considerable rise in order intake in relation to safety products in this segment (net of currency effects); however this was offset by a decline in demand for medical products.

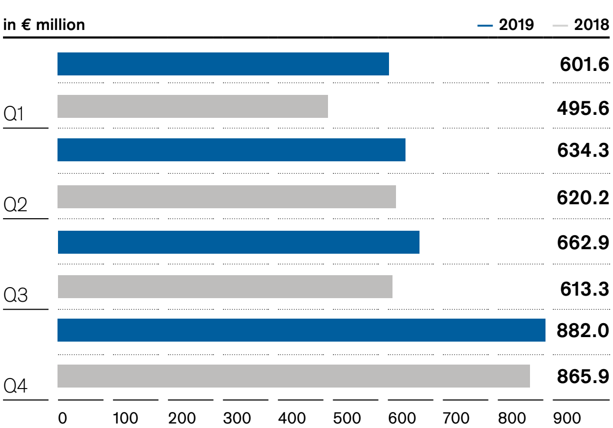
ORDER INTAKE

in € million	2019	2018	Changes in %	Twelve months Net of currency effects in %
Europe	1,528.9	1,450.2	+5.4	+5.5
Americas	553.1	526.0	+5.1	+1.5
Africa, Asia, Australia	714.2	710.2	+0.6	–1.6
Total	**2,796.1**	**2,686.5**	**+4.1**	**+2.8**
thereof medical business	1,728.6	1,723.4	+0.3	–1.2
thereof safety business	1,067.6	963.1	+10.9	+10.0

NET SALES

in € million	2019	2018	Changes in %	Twelve months Net of currency effects in %
Europe	1,503.3	1,431.9	+5.0	+5.1
Americas	547.7	499.3	+9.7	+5.9
Africa, Asia, Australia	729.8	663.8	+9.9	+7.6
Total	**2,780.8**	**2,595.0**	**+7.2**	**+5.9**
thereof medical business	1,741.8	1,643.0	+6.0	+4.6
thereof safety business	1,039.1	952.0	+9.1	+8.4

NET SALES GROWTH IN ALL QUARTERS



In terms of medical products, we were able to increase order intake for service business and for thermoregulation products. Orders in the areas of hospital infrastructure systems, hospital consumables business, and patient monitoring and data management declined in particular. There was also a fall in order intake for anesthesia devices and ventilators.

Order intake relating to safety products rose across all product areas in 2019. Growth was particularly strong in relation to gas detection products, respiratory and personal protection products, and service business. There was an increase in orders for engineered solutions, safety accessories and alcohol detection devices.

↗ Please refer to table ›Order intake‹

NET SALES

We recorded a rise in net sales of 5.9 % (net of currency effects) in fiscal year 2019. Net sales were also up in the traditionally strong final quarter compared to the same quarter in the prior year. Net of currency effects, all regions contributed to the growth in net sales in 2019. We achieved an increase in net sales of 7.6 % (net of currency effects) in the Africa, Asia, and Australia segment. In the Americas segment, net sales were 5.9 % higher compared to the prior year (net of currency effects). In the Europe segment, Dräger recorded a 5.1 % increase in net sales (net of currency effects).

↗ Please refer to tables ›Net sales‹ and ›Net sales growth in all Quarters‹

EFFECTS OF THE APPLICATION OF IFRS 16 BEGINNING JANUARY 1, 2019, ON KEY FIGURES AS AT DECEMBER 31, 2019

in € million	Increase / Improvement as at December 31, 2019
EBITDA	46.8
EBIT	4.4
Cash flow from operating activities	42.4
Net financial debt	107.8
Investments	42.5
Capital employed	100.9

EARNINGS

In fiscal year 2019, gross profit rose by EUR 80.4 million to EUR 1,188.4 million. Our gross margin remained stable at 42.7 % (2018: 42.7 %). The increase in gross profit was primarily attributable to higher net sales, however currency effects also had a positive impact.

Gross profit increased across all three segments, with the strongest growth being recorded in the Africa, Asia, and Australia segment and in the Americas segment. There was a slight rise in the gross margin in these two segments. In Europe, on the other hand, the gross margin declined marginally.

In the fourth quarter, the gross margin only just fell short of the figure reported in the same quarter in 2018. The gross margin in the Americas and in Africa, Asia, and Australia remained on par with the prior year but fell slightly in Europe.

Our functional costs in fiscal year 2019 were up by 6.4 % year-on-year (net of currency effects). Currency effects increased these costs, resulting in a nominal increase of 7.2 %.

Net of currency effects, selling and marketing costs were up by 3.9 % year-on-year. The reason for this rise was the planned rise in sales expenses, particularly in the markets of Germany, China, and the U.S.

Research and Development (R&D) costs increased by 3.3 %, net of the change in exchange rates (+ 4.6 % in nominal terms). The ratio of R&D costs to net sales (R&D ratio) therefore stood at 9.5 % (2018: 9.7 %). Net of currency effects, our administrative costs were up by 10.0 % compared to 2018 (+ 10.6 % in nominal terms) due to restructuring costs as part of the restructuring of the medical business and a rise in expenses for IT projects. Without these restructuring costs, administrative costs would have risen by 7.1 % net of currency effects.

Impairment losses on financial and contract assets were up significantly on the prior year in 2019, mostly as a result of impairments losses recognized in Saudi Arabia. Functional 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 – 4.4 million, the other financial result was lower than in the prior year (2018: EUR – 3.4 million). The main reason is that higher overall currency-related valuation losses were recorded. They include financial receivables and liabilities denominated in foreign currencies.

All in all, earnings in 2019 were influenced by the increase in net sales and by a planned rise in functional costs.

As a result, Group earnings before interest and taxes (EBIT) increased marginally EUR 66.6 million (2018: EUR 62.6 million). The EBIT margin remained unchanged at 2.4 %. The interest result deteriorated by EUR 6.1 million to EUR – 17.0 million (2018: EUR – 11.0 million), mainly due to the interest effect of the initial application of IFRS 16. At 31.8 %, the tax rate was marginally lower compared to the prior year (2018: 32.4 %). Earnings after income taxes amounted to EUR 33.8 million (2018: EUR 34.9 million).

FUNCTIONAL EXPENSES

in € million	2019	2018	Changes in %
Research and development expenses	263.7	252.2	4.6
in % of Net sales	9.5	9.7	
Marketing and selling expenses	621.9	592.6	4.9
in % of Net sales	22.4	22.8	
General administrative expenses	219.4	198.5	10.6
in % of Net sales	7.9	7.6	
Selling and general administrative expenses	841.3	791.1	6.4
in % of Net sales	30.3	30.5	
Other operating result	11.7	–1.0	> +100.0
Total functional expenses	**1,116.8**	**1,042.2**	**7.2**
in % of Net sales	40.2	40.2	

INVESTMENTS / DEPRECIATION AND AMORTIZATION

in € million	2019 Investments	2019 Depreciation / amortization	2018 Investments	2018 Depreciation / amortization
Intangible assets	5.1	–7.8	4.0	–10.7
Property, plant and equipment	73.7	–77.1	73.8	–74.8
Right-of-use assets	42.5	–42.4	0.0	0.0
Total	**121.4**	**–127.3**	**77.8**	**–85.4**

INVESTMENTS

In fiscal year 2019 we invested EUR 73.7 million in property, plant, and equipment (2018: EUR 73.8 million), EUR 5.1 million in intangible assets (2018: EUR 4.0 million), and EUR 42.5 million in right-of-use assets from leases recognized pursuant to IFRS 16 since 2019. Investments in property, plant, and equipment primarily comprised replacement and expansion investments and equipment for leasing. Depreciation and amortization totaled EUR 127.3 million in fiscal year 2019 (2018: EUR 85.4 million), EUR 42.4 million of which was attributable to depreciation and amortization on right-of-use assets capitalized. Investments covered 95.4 % of depreciation and amortization, meaning that non-current assets saw a decrease of EUR 5.9 million.

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

Cash flow statement[1]

↗ Please refer to table ›Financial Position of the Dräger Group‹ on page 40

In fiscal year 2019, Dräger Group's cash inflow from operating activities amounted to EUR 164.4 million (2018: EUR 4.1 million). Improved profitability[2] had a particular effect on this trend. In addition, trade receivables actually fell slightly by EUR 0.4 million, despite the significant increase in net sales, following an increase of EUR 41.0 million in the prior-year period. In addition, cash outflow from income taxes declined by EUR 31.4 million. By contrast, other liabilities saw a smaller increase compared to the prior year at EUR 11.6 million (2018: EUR 28.0 million).

[1] Due to the elimination of exchange rate effects, the underlying changes recognized in the cash flow statement cannot be directly reconciled with the items of the published balance sheet.
[2] Earnings before net interest result, income taxes, and amortization (EBITDA) – adjusted for cash-neutral changes to provisions and other non-cash income / expenses

Cash outflow from investing activities remained virtually constant at EUR 62.1 million (2018: EUR 63.5 million). Significant investments continued to be made in movable assets, in particular in factory and office equipment. German subsidiaries accounted for the majority of investments, at EUR 42.8 million (2018: EUR 46.1 million).

The cash outflow from financing activities totaling EUR 87.9 million (2018: EUR 6.2 million) was primarily due to the net repayment of bank loans and current account liabilities to banks totaling EUR 47.2 million (2018: net borrowing of EUR 6.4 million). In addition, increased cash outflow from leases of EUR 35.0 million was also recorded as a result of the initial application of IFRS 16 and the associated recognition of lease liabilities; these lease liabilities were recognized as rental and lease expenses in cash outflow from operating activities in fiscal year 2018.

Cash and cash equivalents as at December 31, 2019 exclusively comprised cash, of which EUR 7.9 million (December 31, 2018: EUR 4.3 million) was subject to restrictions.

Unused credit lines amounted to EUR 394.7 million as of the balance sheet date (December 31, 2018: EUR 362.6 million).

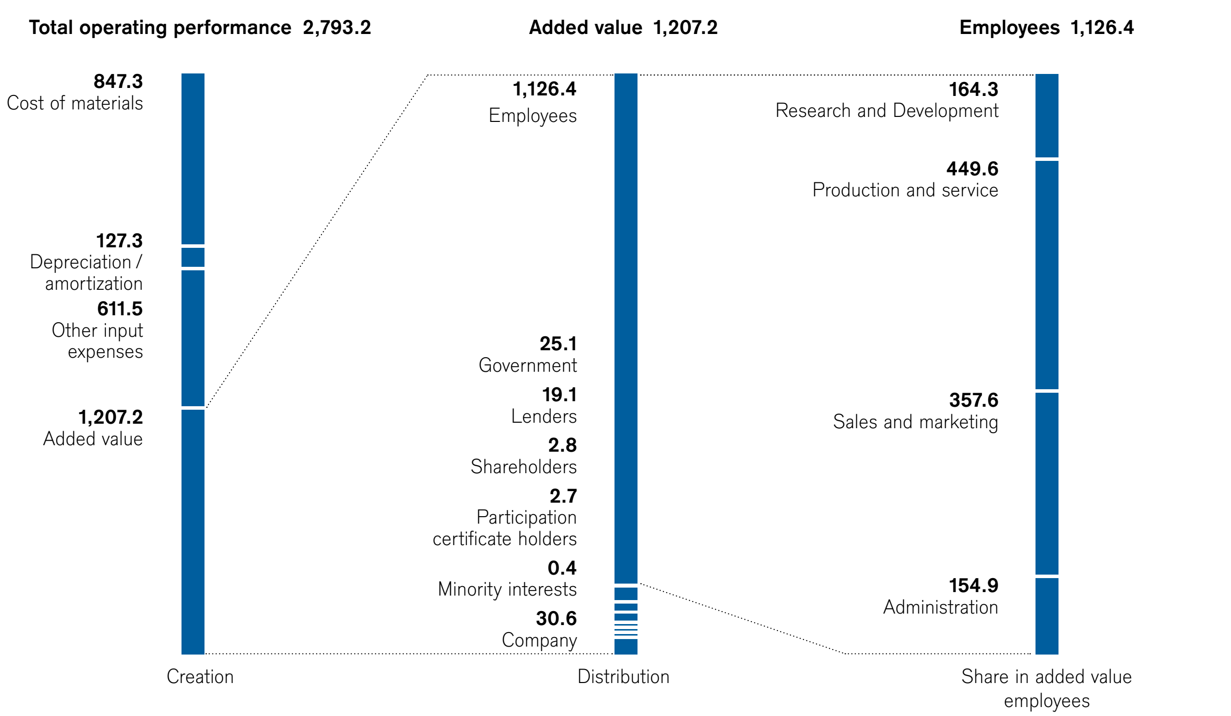
Financial management

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.

ADDED VALUE STATEMENT OF THE DRÄGER GROUP

in € million



FINANCIAL POSITION OF THE DRÄGER GROUP

in € million	2019	2018	2017	2016	2015
Cash flow from operating activities	164.4	4.1	143.3	195.3	39.9
Cash flow from investing activities	–62.1	–63.5	–65.5	–77.3	–167.0
Free cash flow	102.4	–59.4	77.8	118.1	–127.1
Cash flow from financing activities	–87.9	–6.2	–41.9	–70.0	–1.3
Change in liquidity (excluding exchange rate effects)	14.5	–65.6	35.9	48.1	–128.4

Internal Group cash pools exist in several different currencies through which liquidity is balanced within the Group. On December 31, 2019, Dräger Group's short-term loans amounted to around EUR 51.0 million (December 31, 2018: EUR 90.1 million).

Dräger uses note loans in addition to bilateral credit lines for its medium and long-term financing. As at December 31, 2019, total note loans amounted to EUR 60.0 million (December 31, 2018: EUR 60.0 million). In addition, the European Investment Bank (EIB) issued Dräger with an investment loan commitment for ongoing research projects of up to EUR 110 million, from which we have yet to utilize any funds as at December 31, 2019. 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‹ on page 41
Please refer to note 33 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 196.3 million at the end of 2019 (December 31, 2018: EUR 179.6 million). For its short and medium-term planning, Dräger forecasts a stable development of cash and cash equivalents. This is based on 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 and the commitment from the EIB.

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. We account for derivative financial instruments on the basis of IFRS hedge accounting standards.

Please refer to note 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 2019, our equity was slightly down on the prior-year figure at EUR 1,076.4 million (2018: EUR 1,080.7 million). At 41.9 %, the equity ratio was somewhat lower as at December 31, 2019 than as at December 31, 2018 (44.8 %). The net profit increased equity, but provisions for pension obligations and similar obligations had the opposite effect. The increase in provisions for pension obligations was primarily due to the adjustment to calculation parameters for German pension provisions, and in particular to the lowering of the underlying interest rate from 1.75 % to 1.10 %. The net amount of these pension adjustments of EUR 40.2 million after deferred tax liabilities reduced reserves from retained earnings recognized directly in equity. The equity ratio decreased by three percentage points, two of which as a result of the initial application of IFRS 16.

In fiscal year 2019, total assets rose by EUR 160.7 million to EUR 2,570.9 million. On the assets side, non-current assets increased by EUR 127.7 million. The main reason for this was the first-time recognition of rights of use pursuant to

IFRS 16 of EUR 100.9 million. Current assets climbed by EUR 33.0 million, predominantly as a result of the rise in inventories (EUR +26.0 million). Cash and cash equivalents increased by EUR 16.8 million, whereas current tax receivables declined by EUR 7.2 million.

On the equity and liabilities side, non-current liabilities increased by EUR 141.7 million. The reason for this development was the increase in both non-current other financial liabilities (EUR +73.2 million) due to IFRS 16 Lease Accounting and in provisions for pensions (EUR +51.6 million). Non-current provisions for field corrective actions also rose (EUR +14.1 million), as did current provisions (EUR +13.9 million). This was primarily due to an increase in provisions for variable employee remuneration as well as in restructuring expenses that was only partially compensated for through a reduction on current provisions for field corrective actions. Current lease liabilities increased by EUR 33.8 million due to the application of IFRS 16, whereas current interest-bearing loans and liabilities to banks declined by EUR 39.1 million.

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

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

		2019	2018	2017	2016	2015
Non-current assets	€ million	1,061.4	933.7	928.8	918.6	907.2
Current assets	€ million	1,509.5	1,476.5	1,425.5	1,393.8	1,400.9
thereof cash and cash equivalents	€ million	196.3	179.6	247.6	221.5	172.8
Equity	€ million	1,076.4	1,080.7	1,068.3	1,003.5	945.9
Debt	€ million	1,494.6	1,329.6	1,286.0	1,308.8	1,365.5
thereof liabilities to banks	€ million	169.6	215.2	209.3	245.7	307.8
Total assets	€ million	2,570.9	2,410.2	2,354.4	2,312.3	2,311.4
Long-term equity-to-fixed assets ratio[1]	%	212.1	220.5	213.9	213.7	196.8

[1] Long-term equity-to-fixed assets ratio = Total equity and long-term debt divided by intangible assets and property, plant and equipment, and right-of-use assets (starting 2019)

FINANCIAL FIGURES

in € million	December 31, 2019	December 31, 2018	Changes in %
Total assets[1]	2,570.9	2,410.2	6.7
Equity	1,076.4	1,080.7	–0.4
Equity ratio[1]	41.9 %	44.8 %	
Capital employed[2, 3, 4]	1,401.3	1,341.3	4.5
Net financial debt[4]	88.7	43.3	> +100.0

[1] The first-time application of IFRS 16 impacts this key figure. Therefore, comparability is limited.
[2] Capital employed = Total assets less deferred tax assets, securities, cash and cash equivalents, non-interest-bearing liabilities and other non-operative items
[3] Prior-year figure adjusted due to redefinition of the key figure in 2019
[4] For effects of the first-time application of IFRS 16 on this key figure as at December 31, 2019, see the table on page 37.

DRÄGER VALUE ADDED

Dräger Value Added decreased year-on-year by EUR 6.2 million to EUR −32.7 million in fiscal year 2019 (2018: EUR −26.5 million). Our EBIT rose by EUR 3.9 million year-on-year. The average capital employed was up by EUR 145.4 million to EUR 1,418.3 million, primarily as a result of the initial application of IFRS 16. The increase in average inventories (+10 %) and receivables (+6.5 %) also contributed here. As a consequence, capital costs increased by EUR 10.2 million to EUR 99.3 million (2018: EUR 89.2 million).

Days working capital rose by 1.2 days to 109.4 days, mainly due to the fact that average inventories rose by a disproportionately high margin compared to net sales. The method of calculating days working capital was adjusted in 2019, primarily to take contract liabilities pursuant to IFRS 15 fully into account. Prior-year figures were adjusted accordingly to present the development of this figure comparably.

Business performance of the Europe segment

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

ORDER INTAKE

In fiscal year 2019, order intake in the Europe segment rose by 5.5 % (net of currency effects). This was mainly due to increased demand for safety products, but order intake for medical products also increased. With an increase of 8.7 %, the order intake showed a particularly positive development in Germany. In the fourth quarter, net sales in the Europe segment increased by 7.3 % (net of currency effects). Both safety products and medical products contributed to this rise.

The year-on-year increase in order intake was particularly high in Germany, France, Russia, and the U.K. By contrast, order intake fell in Austria, the Netherlands, Sweden, and Turkey.

We recorded particularly significant order intake growth in Europe in relation to gas detection products, service business for medical products, engineered solutions, and respiratory and personal protection products. Demand also increased for service business for safety products, anesthesia devices, and accessories and service business for safety

BUSINESS PERFORMANCE OF EUROPE SEGMENT

					Twelve months
		2019	2018	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**1,528.9**	**1,450.2**	**+5.4**	**+5.5**
thereof Germany	€ million	621.4	571.5	+8.7	+8.7
Net sales with third parties	**€ million**	**1,503.3**	**1,431.9**	**+5.0**	**+5.1**
thereof Germany	€ million	603.5	558.0	+8.1	+8.1
EBITDA [1, 2]	**€ million**	**133.3**	**123.6**	**+7.8**	
EBIT [2, 3]	**€ million**	**68.5**	**82.0**	**−16.6**	
EBIT [3] / Net sales [2]	%	4.6	5.7		
Capital employed [2, 4, 5, 6]	€ million	642.0	592.0	+8.4	
EBIT [3, 7] / Capital employed [2, 4, 5, 6] (ROCE) [2]	%	10.7	13.9		
DVA [2, 7, 8]	**€ million**	**23.1**	**41.4**	**−44.2**	

[1] EBITDA = earnings before net interest result, income taxes, depreciation and amortization
[2] The first-time application of IFRS 16 impacts this key figure. Therefore, comparability is limited.
[3] EBIT = earnings before net interest result and income taxes
[4] Capital employed = Total assets less deferred tax assets, securities, cash and cash equivalents, non-interest-bearing liabilities and other non-operative items
[5] Value as at reporting date
[6] Due to the redefinition of capital employed 2019, the previous year's figures have been adjusted.
[7] Value of the last twelve months
[8] Dräger Value Added = EBIT less cost of capital of average invested capital

products. Orders in the areas of hospital infrastructure systems, ventilators, and patient monitoring and data management declined, however.

NET SALES

In fiscal year 2019, net sales in the Europe segment rose by 5.1 % (net of currency effects). The rise in net sales for safety products and for medical products contributed to this increase. In Germany, net sales growth stood at 8.1 %. In the fourth quarter, net sales in the Europe segment increased by 6.0 %, and in Germany by as much as 8.1 % (net of currency effects).

EARNINGS

Thanks to a rise in sales volume, gross profit improved by 3.7 % in the Europe segment in fiscal year 2019. The gross margin was 0.5 percentage points lower than in the previous year. Gross profit and the gross margin development in the fourth quarter was much the same as the rest of the year.

Functional costs in fiscal year 2019 were up by 6.8 % year-on-year (net of currency effects) (nominal: + 6.9 %). The reason for this increase in costs was planned investments in the marketing and sales organization in Germany, Italy, and the U.K. Functional costs actually rose by as much as 15.0 % in the fourth quarter as a result of the increase in cross-segment functional costs.

Full-year EBIT for the Europe segment in 2019 amounted to EUR 68.5 million, which marked a EUR 13.6 million year-on-year decline (2018: EUR 82.0 million). The EBIT margin fell from 5.7 % to 4.6 %. In the fourth quarter, the EBIT margin rose to 9.8 % (fourth quarter 2018: 12.6 %).

Dräger Value Added amounted to EUR 23.1 million in the Europe segment in 2019, a year-on-year decline of EUR 18.3 million (2018: EUR 41.4 million). With higher capital employed, capital costs increased by EUR 4.7 million to EUR 45.3 million.

Business Performance of the Americas segment

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

ORDER INTAKE

In the Americas segment, we recorded an increase in order intake of 1.5 % in 2019 (net of currency effects). Demand increased particularly in the case of safety products, whereas medical products recorded a slight decline in demand (net of currency effects). Order intake in the fourth quarter

BUSINESS PERFORMANCE OF AMERICAS SEGMENT

					Twelve months
		2019	2018	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**553,1**	**526,0**	**+ 5,1**	**+ 1,5**
Net sales with third parties	**€ million**	**547,7**	**499,3**	**+ 9,7**	**+ 5,9**
EBITDA [1, 2]	**€ million**	**14,2**	**– 8,2**	**> + 100,0**	
EBIT [2, 3]	**€ million**	**– 14,2**	**– 30,2**	**+ 52,8**	
EBIT [3] / Net sales [2]	%	– 2,6	– 6,0		
Capital employed [2, 4, 5, 6]	€ million	327,2	337,5	– 3,1	
EBIT [3, 7] / Capital employed [2, 4, 5, 6] (ROCE) [2]	%	– 4,3	– 8,9		
DVA [2, 7, 8]	**€ million**	**– 37,5**	**– 51,6**	**+ 27,4**	

[1] EBITDA = earnings before net interest result, income taxes, depreciation and amortization
[2] The first-time application of IFRS 16 impacts this key figure. Therefore, comparability is limited.
[3] EBIT = earnings before net interest result and income taxes
[4] Capital employed = Total assets less deferred tax assets, securities, cash and cash equivalents, non-interest-bearing liabilities and other non-operative items
[5] Value as at reporting date
[6] Due to the redefinition of capital employed 2019, the previous year's figures have been adjusted.
[7] Value of the last twelve months
[8] Dräger Value Added = EBIT less cost of capital of average invested capital

declined by 1.2 % (net of currency effects). There was a slight increase in demand for both medical and safety products.

Demand developed positively in the U.S., Colombia, Bolivia, and Brazil in 2019, whereas Mexico, Panama, the Dominican Republic, and Ecuador reported falls in order intake.

We achieved a significant increase in order intake in relation to gas detection products, service business for medical products, respiratory and personal protection products, service business for safety products, and warming therapy. By contrast, order intake decreased for anesthesia devices and workplace infrastructure systems, as well as in patient monitoring and clinical data management.

NET SALES

In fiscal year 2019, net sales in the Americas segment increased by 5.9 % (net of currency effects). Net sales increased most significantly in relation to safety products, although net sales involving medical products also developed well. In the fourth quarter, net sales declined by 9.4 % on account of the high prior-year figure (net of currency effects). Both safety products and medical products contributed to this trend.

EARNINGS

In 2019, gross profit rose by 10.7 % year-on-year in the Americas segment due to the sharp rise in net sales. The gross margin improved by 0.4 percentage points compared to the prior year. In the fourth quarter of 2019, gross profit declined by 8.1 % compared to the same quarter in the previous year due to the decline in net sales. The gross margin in the final quarter was on a par with the prior year.

Functional costs only rose by 1.8 % in 2019 (net of currency effects). The planned rise in costs for investments in the marketing and sales organization in the U.S. was offset somewhat by a fall in the charging of cross-segment costs. In the fourth quarter, functional costs increased by 6.3 % (net of currency effects) compared to the final quarter of the prior year. This was primarily due to the increase in cross-segment costs.

Full-year EBIT in the Americas segment came to EUR –14.2 million in 2019 (2018: EUR –30.2 million). The EBIT margin came to –2.6 % (2018: –6.0 %). Fourth-quarter EBIT stood at EUR 4.3 million (fourth quarter 2018: EUR 15.8 million), while the EBIT margin came to 2.6 % (fourth quarter 2018: 8.7 %).

The negative Dräger Value Added amount improved as at December 31, 2019 by EUR 14.1 million year-on-year to EUR –37.5 million (December 31, 2018: EUR –51.6 million). The main reason for this increase was the substantially lower full-year EBIT shortfall in 2019. Capital costs were up by EUR 1.8 million on account of the increase in capital employed.

Business performance of the Africa, Asia, and Australia segment

↗ Please refer to table ›Business performance of Africa, Asia, and Australia segment (AAA)‹ on page 45

ORDER INTAKE

In the Africa, Asia, and Australia segment, we recorded a decline in order intake of 1.6 % (net of currency effects) in 2019. Demand for safety products rose significantly, whereas order intake for medical products fell. The 6.1 % decline in order intake (net of currency effects) was somewhat stronger in the fourth quarter. The rise in demand for safety products was not able to compensate for the decline in terms of medical products.

Order intake rose particularly strongly in China, Taiwan, Japan, and New Zealand but fell in Egypt, Singapore, India, and Botswana.

The increase in order intake was primarily recorded with regard to gas detection technology, with medical technology service business, respiratory and personal protection products, and the safety technology service business. By contrast, business involving hospital consumables and order intake in relation to hospital infrastructure systems declined in particular. Demand also fell in relation to patient monitoring and clinical data management and anesthesiology products.

NET SALES

Net sales increased by 7.6 % (net of currency effects) in the Africa, Asia, and Australia segment in fiscal year 2019. Safety products contributed predominantly to the year-on-year rise in net sales, however medical products also saw net sales figures increase. Net sales declined slightly in the fourth quarter (net of currency effects).

EARNINGS

Thanks to a significant increase in net sales, the segment's gross profit rose by 11.5 % in fiscal year 2019. The gross margin increased by 0.6 %age points. In the fourth quarter both gross profit and the gross margin were on par with the same quarter in the prior year.

Functional costs in fiscal year 2019 were up by 10.0 % year-on-year (net of currency effects) (nominal: 11.2 %). The reason for this increase in costs was planned investments in the marketing and sales organization in China and elsewhere. In the fourth quarter, functional costs rose by 18.1 % net of currency effects (nominal: 19.3 %) due, among other factors, to a rise in write-down on receivables.

The segment's EBIT stood at EUR 12.4 million in the reporting year, improving by EUR 1.6 million year-on-year (2018: EUR 10.8 million). The increase in the EBIT was marginally higher than in the prior year at 1.7 % (2018: 1.6 %). Fourth-quarter EBIT stood at EUR 18.3 million (fourth quarter 2018: EUR 31.2 million), while the EBIT margin came to 7.6 % (fourth quarter 2018: 13.2 %).

Dräger Value Added was down EUR 2.1 million on the prior year in 2019 at EUR –18.4 million (December 31, 2018: EUR –16.3 million). With higher capital employed, capital costs increased by EUR 3.7 million to EUR 30.7 million.

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

					Twelve months
		2019	2018	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**714.2**	**710.2**	**+0.6**	**–1.6**
Net sales with third parties	**€ million**	**729.8**	**663.8**	**+9.9**	**+7.6**
EBITDA [1, 2]	**€ million**	**46.3**	**32.6**	**+41.9**	
EBIT [2, 3]	**€ million**	**12.4**	**10.8**	**+14.8**	
EBIT [3] / Net sales [2]	%	1.7	1.6		
Capital employed [2, 4, 5, 6]	€ million	432.2	411.7	+5.0	
EBIT [3, 7] / Capital employed [2, 4, 5, 6] (ROCE) [2]	%	2.9	2.6		
DVA [2, 7, 8]	**€ million**	**–18.4**	**–16.3**	**–12.7**	

[1] EBITDA = earnings before net interest result, income taxes, depreciation and amortization
[2] The first-time application of IFRS 16 impacts this key figure. Therefore, comparability is limited.
[3] EBIT = earnings before net interest result and income taxes
[4] Capital employed = Total assets less deferred tax assets, securities, cash and cash equivalents, non-interest-bearing liabilities and other non-operative items
[5] Value as at reporting date
[6] Due to the redefinition of capital employed 2019, the previous year's figures have been adjusted.
[7] Value of the last twelve months
[8] 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
		2019	2018	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**1,728.6**	**1,723.4**	**+ 0.3**	**– 1.2**
Europe	€ million	871.2	852.6	+ 2.2	+ 2.1
Americas	€ million	370.3	361.4	+ 2.5	– 1.0
Africa, Asia, Australia	€ million	487.0	509.3	– 4.4	– 6.8
Net sales with third parties	**€ million**	**1,741.8**	**1,643.0**	**+ 6.0**	**+ 4.6**
Europe	€ million	868.9	833.5	+ 4.2	+ 4.3
Americas	€ million	370.9	343.6	+ 7.9	+ 4.6
Africa, Asia, Australia	€ million	502.0	465.8	+ 7.8	+ 5.1
EBIT [1, 2, 3]	**€ million**	**13.1**	**6.9**	**+ 90.8**	
EBIT [1, 2, 3] / Net sales [3]	%	0.8	0.4		
Research and development costs	€ million	184.2	170.7	+ 7.9	

[1] EBIT = earnings before net interest result and income taxes
[2] Business figures are determined on the basis of products' allocation to the medical business. Non-product-related costs, including costs for the headquarters, are distributed using a plan-based net sales formula
[3] The first-time application of IFRS 16 impacts this key figure. Therefore, comparability is limited.

INFORMATION ON THE SAFETY BUSINESS

					Twelve months
		2019	2018	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**1,067.6**	**963.1**	**+ 10.9**	**+ 10.0**
Europe	€ million	657.7	597.5	+ 10.1	+ 10.3
Americas	€ million	182.8	164.6	+ 11.0	+ 7.0
Africa, Asia, Australia	€ million	227.2	200.9	+ 13.1	+ 11.6
Net sales with third parties	**€ million**	**1,039.1**	**952.0**	**+ 9.1**	**+ 8.4**
Europe	€ million	634.5	598.4	+ 6.0	+ 6.3
Americas	€ million	176.9	155.6	+ 13.6	+ 10.1
Africa, Asia, Australia	€ million	227.7	198.0	+ 15.0	+ 13.6
EBIT [1, 2, 3]	**€ million**	**53.5**	**55.8**	**– 4.1**	
EBIT [1, 2, 3] / Net sales [3]	%	5.1	5.9		
Research and development costs	€ million	79.5	81.5	– 2.4	

[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
[3] The first-time application of IFRS 16 impacts this key figure. Therefore, comparability is limited.

Potential

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

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

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

Dräger takes relevant risks and opportunities into consideration in its 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, and opportunities and opportunity management. We will end the section with a SWOT analysis.

RECOGNIZING, MANAGING, AND REPORTING RISKS

An essential element of Dräger's risk management is the early identification of strategic and operating risks, determining the scope of these risks, and monitoring and managing them. The basis of our risk assessment system is strategic corporate planning: Our risk reporting process is integrated into the planning process and into the financial forecast. We specify potential uncertainties in our assumptions at the planning stage and report on both negative (risks) and positive (opportunities, see page 55 et seq.) potential 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 departments. 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. As part of the current restructuring at Dräger, the composition of the Risk Committee is currently being adjusted in line with the new corporate structure.

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. EBIT risks are given priority in terms of risk recording, but significant cash flow risks and strategic or reputational risks that are difficult to quantify are also included.

Thanks to the exchange of information on risks and opportunities between the respective business 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 thereby 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 encrypted 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.

The due date for reported risks is December 31, 2019, whereby the risk assessment is based on the updated 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 reported below are not necessarily the only risks Dräger is exposed to. Risks that were not known or were considered immaterial as at 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

Our risk categories have been allocated to risk classes. The development of each individual risk category in the past year (remained stable, declined, or increased) is also presented.

↗ Please refer to charts ›Risk matrix‹, ›Key to probability of occurrence‹, ›Key to extent of damages‹ and table ›Material risks‹ on page 50

POLITICAL, ECONOMIC, AND SOCIAL DEVELOPMENT

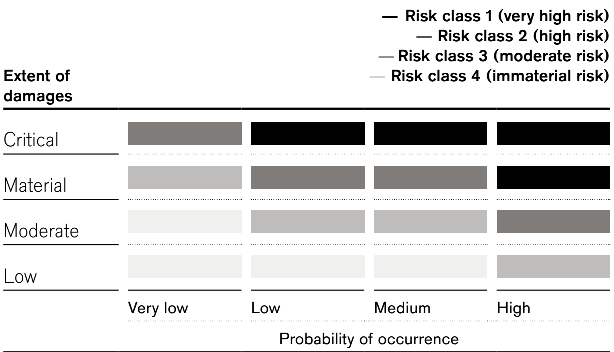
According to the International Monetary Fund (IMF), the global economy lost some of its momentum in 2019 and only achieved growth of 3.0 %. Economic activity declined particularly in the industrial sector. The IMF is forecasting slightly higher growth of 3.4 % in 2020.

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 U.K. from the E.U. in particular is capable of negatively impacting our business processes with customers and suppliers in the U.K. Dräger has had a subsidiary in the U.K. 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 U.K.

The increasing share of votes being garnered by populist parties in a number of European countries as well as political uncertainty emanating from the U.S. are two further sources of geopolitical unpredictability. Political tension in the Middle East may also put the brakes on our growth. In addition, political developments on the Korean peninsula could also have a negative impact on our business. 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.

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 our 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

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	< EUR 5 million	Immaterial negative impact on earnings

MATERIAL RISKS

Risk category	Risk class	Development
Political, economic, and social development	1	→
Organization and management	2	→
Information security and IT risks	1	→
Procurement	2	→
Production and logistics	1	↗
Quality	2	→
Research & Development	1	→
Compliance and legal	1	→
Currency risks	2	→
Risks from financial instruments	4	→
Finance (Financial market risks)	2	→
Risks of receivable losses	2	→
Pandemics	2	new
Other risks	2	→

nations have been under significant cost pressure over the past few years. This trend could continue the given the current market environment. We are 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. We thereby intend to reinforce and expand our market position.

We operate in future-oriented industries with strong growth in which we 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 us 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 MANAGEMENT

The dynamic market environment makes it essential for us to constantly assess our 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. We considers strengthening our ability to adapt to change as a critical success factor when it comes to long-term competitiveness. And so, in the future, we 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 and secure 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. We cooperate extensively with reliable and competent suppliers to minimize procurement risks for its current product portfolio and ensure they remain suppliers 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. We have concluded binding price agreements with all of our 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 offer 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, we will purchase these from a single supplier. As these module components are used in a number of our 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.

We are reliant on logistics providers repaying the faith we place in them and contributing to smooth supply chain even during stressful periods. Issues with a logistics provider can have a significant temporary impact on supply performance. We continuously evaluate the situation with our suppliers and service providers to minimize this potential risk (risk class 1).

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 innovative 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. In addition, additional requirements from licensing authorities can lead to delays in product launches or the loss of existing product licenses, resulting in net sales losses. We are 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 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 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.

Additional regulatory requirements and increasingly challenging 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).

Please refer to the ›Compliance‹ section of the Corporate Governance Report on page 65 et seq.

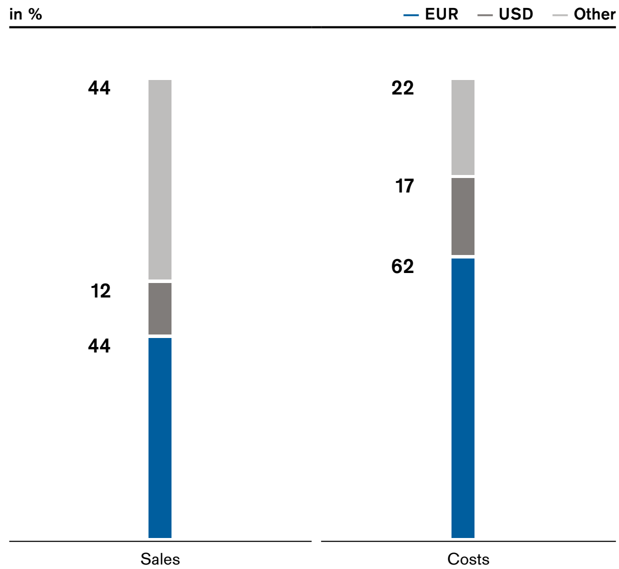
CURRENCY RISKS

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 in the euro's value has a negative impact. The U.S. dollar currency risk is one exception to the rule. Due to the high volume of materials procured in U.S. dollars, the costs exceed the net sales that we generate in U.S. dollars. As a result, the euro's devaluation against the U.S. negatively affects earnings despite the positive impact on net sales. Accordingly, an increase in the value of the euro against the U.S. has a positive effect on earnings development but, at the same time, negatively impacts net sales development.

Currencies to be hedged for the subsequent fiscal year are determined on an annual basis using a statistical at-risk calculation method in order to minimize fluctuations in earnings due to changes in exchange rates in an efficient and cost-effective manner. This method takes into account historical fluctuations in the value of foreign currencies against the euro and fluctuations in the values of foreign currencies among themselves. Using planned cash flows we determine an earnings risk that we are extremely unlikely to exceed. A cost- and risk-minimizing hedging portfolio is

NET SALES AND COSTS BY CURRENCIES (2019)



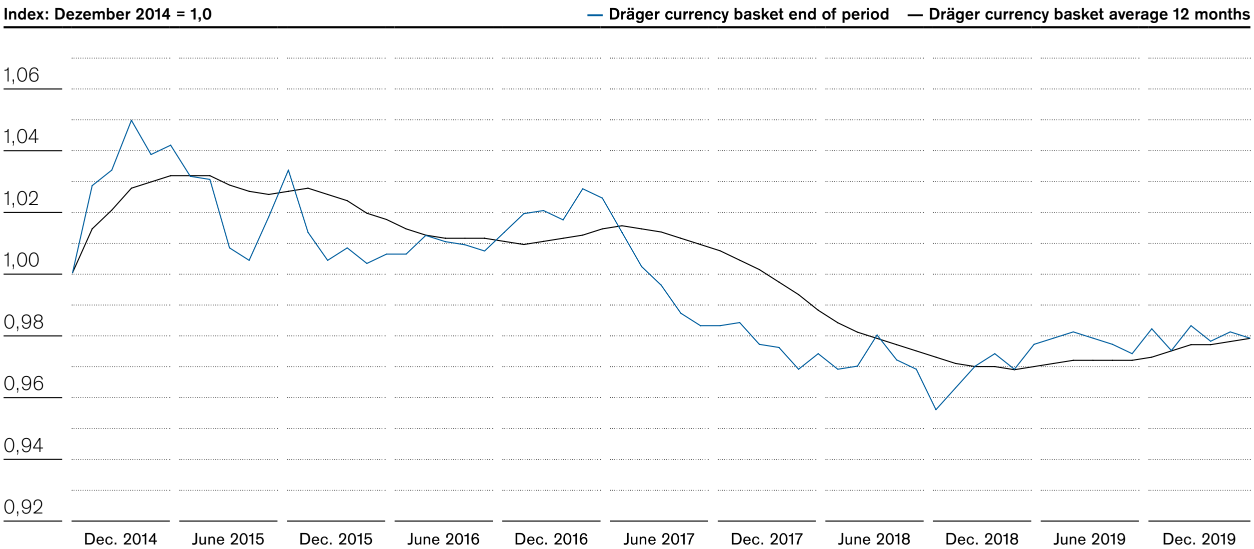
then determined for this earnings risk using software-based simulations.

Planned cash flows for currencies requiring hedging are hedged at a ratio of 75 % using twelve-month currency futures. These hedges are concluded on a rolling basis every quarter, with the maximum hedging level being increased through tranches of 25 %. Currency hedges for planned cash flows are recognized in accordance with the requirements of IAS 39 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.

When the underlying transactions are recognized on the balance sheet, the remaining balance sheet risk for the hedged currencies is also hedged using currency futures (risk class 2).

Please refer to charts ›Net sales and costs by currency (2019)‹ and ›Development of the sales-weighted currency basket (weighted according to net sales)‹ on page 54

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



[1] The Dräger currency basket is based on the respective proportion of net sales in the functional currencies as a share of Dräger's group net sales during the past fiscal year. The curve is based on the weighted changes in the exchange rate of the foreign currency to the euro compared to the base rate at the start of a five-year observation period (currently benchmark rates as at December 2014). A rising curve should be seen as a positive currency effect on the Dräger currency basket. An index value of more than 1 indicates that the underlying exchange rates had a positive currency effect on the Dräger currency basket compared to the base rate at the start of the observation period. A falling curve, or an index value of less than 1, indicates a negative currency effect. For improved presentation, the chart was calculated on the basis of the foreign currency's exchange rate to the euro (previously the euro to the foreign currency), thereby inverting the curves. The reference date (previously 2009) and the currency basket (previously based on the share of net sales in 2013) have been updated.

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, we hedge 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 both centrally and decentrally by Group companies and is hedged by instruments such as letters of credit or guarantees.

The only financial derivatives we use 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 two years in order to reduce liquidity risk. As at December 31, 2019, 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 specified so that we would only run the risk of being unable to meet agreed value thresholds if our financial position was to deteriorate drastically. It is also possible for Dräger to obtain the banks' approval to exceed or undercut these key figures at an early stage. We continuously monitor key financial performance figures.

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

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

FINANCE (FINANCIAL MARKET RISKS)

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).

PANDEMICS

The coronavirus currently spreading through China poses the risk of disruption to global supply chains. One of the ways in which this disruption is manifesting itself is through the cancelation of air freight and sea freight from China by many carriers, at the time of writing. We have set up a task force to secure supplies from our production sites in China.

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, page 21 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 33

Further global developments currently result in opportunities for Dräger:

PANDEMICS

The coronavirus currently spreading through China means there is a greater requirement for personal protective equipment and ventilators for ICUs. These products are heavily in demand at the time of writing. We have set up a task force to manage the distribution of production capacity and supply to China and to other customers.

GLOBAL TRENDS

– **Increasing and aging population:** Structural changes and increasing life expectancy are causing rising demand for medical products in many industrialized countries and a number of emerging markets. 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. 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. The secure, real-time data transfer of safety-related data is also becoming increasingly important in industrial markets.

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. The new division of responsibility into business units and business fields is geared towards strengthening the customer focus at headquarters.

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. We also see global opportunities to acquire new projects for the construction of training systems for emergency responders and new orders for rescue trains.

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 – Strong direct sales model with close-knit sales network – Established presence in important growth markets in Asia, Central America, and South America – High installed device base 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 – Expansion of healthcare systems in emerging markets (as a result of increasing incomes) – High market entry barriers for new competitors as a result of regulation, technologies, and patent protection – Low impact of economic fluctuations thanks to the breadth of the product portfolio and the markets served – 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 – 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.

CHANGES IN 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 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.

GROWING IMPORTANCE OF HEALTH AND SAFETY DEPARTMENTS AT COMPANIES

In the medium to long term there is also a chance that health and safety departments at industrial companies will be given greater priority when it comes to investments. Products and services for such areas of business are among Dräger's core competencies, particularly in terms of safety products.

DEVELOPMENT OF THE MACROECONOMIC SITUATION AND EXCHANGE RATES

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

Please also refer to section ›Currency risk‹ on page 53

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 our view, the number of opportunities for the Group outweighs the number of risks, especially the opportunities resulting from demographic changes, developments in emerging markets, and the future importance of system business. As a result, the outlook for the future is optimistic.

↗ Please refer to chart ›SWOT analysis – Dräger Group‹ on page 57

Outlook

FUTURE MARKET ENVIRONMENT

The global economy continued to lose momentum in 2019 following its initial slowdown toward the end of 2018. Economic activity declined particularly in the industrial sector. Trade conflicts and international tension have driven up uncertainty with regard to the future of the global trading system in particular and international cooperation in a general sense, which the International Monetary Fund believes has had a significant negative impact on the business climate, investment decision, and international trade. The IMF believes that global economic growth will stand at 2.9 % in 2019. Bolstered by stabilizing industrial activities and international trade, the global economy is set to achieve slightly stronger growth in 2020 and 2021.

↗ Please refer to table ›January 2020 Gross domestic product (GDP) growth forecast‹

According to the IMF, the risks currently outweigh the opportunities – particularly in the case of a further escalation in trade conflicts. In order to improve economic prospects, policymakers should concentrate on de-escalating trade conflicts and breathing new life into international cooperation.

FUTURE MARKET AND SEGMENT SITUATION

Our outlook in terms of the global medical technology market is positive overall. The European market is shaped by investment and the growing importance of digitalization. In France, for instance, hospitals are being given greater leeway to make investments and purchase new medical equipment. The U.K. has also announced its own hospital investment program, with 40 hospital projects set to benefit from funding. In Sweden, activities are focused on expanding capacities and deploying new technologies; however, investments are also being made in medical equipment. The Russian medical technology market is proving challenging. Despite a widespread need to replace old equipment, the Russian government has expanded its restrictions on foreign medical products and equipment in public-sector procurement.

We believe that the North American medical technology market will continue to develop positively in 2020, even though U.S. hospitals are being forced to save money due to spiraling healthcare costs. Ratings agency Moody's expects the medical equipment market to grow by between 4.5 and 5.5 % in 2020. The outlook for the Canadian healthcare market is also positive and continues to benefit from solid demand growth, as it has done for a number of years now. The aging population and the limited use of digital technologies means that this market offers significant growth potential. According to our forecasts, the Central and South American medical technology market continues to experience varied development. Brazil is showing promising progression, with its aging population consistently boosting demand for the healthcare industry. Work is set to continue on modernizing and accelerating authorization and import procedures this year. Mexico is a different story, with weak demand from public services and health insurers.

We also see development potential coming out of the Africa, Asia, and Australia region. Growth is set to continue in the Middle East, albeit at a slower rate. The market in South Africa paints a similar picture. Healthcare infrastructure expansion is also continuing in Australia. The Chinese healthcare industry is being developed and overhauled with the aim of providing widespread medical care to the Chinese population, particularly in rural regions. This is boosting demand for medical technology. Not only is China investing in modernizing its hospitals and elderly care facilities and building new infrastructure, it is also putting money into the healthcare sector's IT infrastructure, which in many cases does not meet the standards of modern digitalization.

The safety technology market continues to be influenced by the deterioration in the global economy. This is particularly true in our view of the European market, and above all the chemical, oil, and gas industry. German chemical companies, for instance, are not expecting any improvement in their business over the coming months. According to the industry association VCI, economic growth momentum will remain sluggish some way into the year 2021. The British economy will continue to be unsettled by Brexit, with the government needing to ramp up its investment to stabilize economic growth. Some major projects are already in the

IMF – JANUARY 2020 GROSS DOMESTIC PRODUCT (GDP) GROWTH FORECAST

in %	2019	2020	2021
Global economy	2.9	3.3	3.4
U.S.	2.3	2.0	1.7
Eurozone	1.2	1.3	1.4
Germany	0.5	1.1	1.4
China	6.1	6.0	5.8

pipeline, such as the Exxon oil refinery expansion in the south of the country. Economic development will also cool off in northern Europe. In the Norwegian oil and gas industry, for example, the offshore sector is having a negative impact on the outlook as it continues to suffer from the effects of low oil prices. However, issues such as sustainability and the environment are now becoming an increasingly important part of the agenda in northern Europe and are stimulating investment. Growth momentum is also dropping off in eastern Europe, a trend that will continue through 2020. Russia will achieve moderate growth this year. It will focus on the implementation of national projects to stimulate investment, which is why the Russian chemical industry is set to experience further growth in 2020. The outlook is also turning bleaker in southern Europe. The chemical industry in this region is barely growing at all, and key consumer industries are flagging. We believe that the European fire service market will progress in line with overall economic development, with issues such as digitalization and connectivity playing an increasingly important role.

Industries in North America with demand for safety technology will be looking ahead to the new year in a positive mood. Even though economic development is likely to slip further over the course of the year, the U.S. economy is still performing well compared to the rest of the world, and so safety technology products will continue to be in demand in our view. According to the American Chemistry Council (ACC), the chemical industry is on course to achieve growth of around 3 % in 2020. The Canadian chemical industry also has leeway for investment thanks to recent record-breaking profits. By contrast, the oil and gas sector in Canada continues to suffer and investments in the mining industry are falling further. According to our information, the fire service market in North America will in all likelihood keep pace with overall economic development. In Central and South America, on the other hand, we expect the safety technology market to show varied development. Oil and gas production will increase in key markets in Central and South America. Brazil, for instance, will continue to expand its oil and gas extraction as part of its efforts to become the world's fifth largest producer by 2030. Chemicals production is set to decline, however, meaning that the industry growth will dip in 2020 despite the economic recovery. The outlook is also relatively bleak for the Mexican chemical industry.

We believe that the Africa, Asia, and Australia region offers excellent growth opportunities in the safety technology market. The decline in China's economic development is being felt here, however the key issue in the chemicals industry, namely sustainability and protecting the environment, is becoming increasingly important with new standards and stricter oversight. This will open the door to new development opportunities. The Chinese oil and gas industry is becoming increasingly dependent on imports, which is why the country is investing large amounts in production and refinery capacities. The outlook in the Middle East is positive overall. Rising investment suggests that the economy – and especially the oil and gas industry – is developing positively. However, the chemicals industry will also continue to grow in the region in 2020. In Australia we are optimistic when it comes to demand for safety technology products. The investment curve in the Australian mining industry is pointing upwards again, with investments already in the pipeline. The same applies to the Australian oil and gas sector, which is also set to see some key investments.

FUTURE SITUATION OF THE COMPANY

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

↗ Please refer to table ›Expectations for fiscal year 2020‹ on page 61

Against the backdrop of increasing macroeconomic risks and the pandemic in China, we anticipate a slight 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 2020, we do not expect currency effects to have a negative effect on earnings. Our EBIT will continue to be negatively effected by increased spending to bolster our global sales and service network in 2020. We also plan a year-on-year increase in IT expenses. These investments will strengthen the future net sales and profitability of our Company and ensure that it remains competitive. At the same time, there are also time-related risks regarding the authorization and launch of new products in the U.S. market. In this environment, we expect an EBIT margin to be in a broad range of between 1.0 and 4.0 %.

EXPECTATIONS FOR FISCAL YEAR 2020

	Results achieved for fiscal year 2019	Forecast for fiscal year 2020
Net sales (net of currency effects)	5.9 %	1.0 to 4.0 %
EBIT margin	2,4 %	1.0 to 4.0 % [1]
DVA	EUR −32.7 million	EUR −70 to +20 million
Other forecast figures		
Gross margin	42,7 %	On par with prior year (+ / − 1 percentage point)
Research and development costs	EUR 263.7 million	EUR 275 to 290 million
Net interest result	EUR −17.0 million	On par with prior year
Days Working Capital (DWC) [2]	109.4 days	Stable development
Investment volume [3]	EUR 78.8 million	EUR 80 to 95 million
Net financial debt	EUR 88.7 million	Improvement

[1] Based on exchange rates at the start of fiscal year 2020
[2] The calculation method for this figure has been adjusted at the end of fiscal year 2019. The figure shown here for 2019 is based on the modified method.
[3] Excluding acquisitions and the effects of capitalizing right-of-use assets pursuant to IFRS 16

Dräger Value Added (DVA) is likely to stand at between EUR −70 million and EUR +20 million in fiscal year 2020. That assumes an unchanged cost of capital of 7 %.

We believe that our gross margin in 2020 will approximately match the prior-year level.

We also plan to invest more in the future sustainability of our Company in 2020. Our expenditure on research and development will therefore be higher than in the prior year. We plan to launch a total of 15 new medical products or medical product upgrades and 15 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 2020.

We anticipate stable development of days working capital in fiscal year 2020, on the basis of the modified calculation method introduced at the end of 2019.

Our total investment volumes should stand at around the level of depreciation and amortization, between EUR 80 million and EUR 95 million.

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

DRÄGER MANAGEMENT OVERALL ESTIMATE

Global economic growth lost further momentum in 2019. The rate of growth is expected to rise again slightly in 2020, particularly in emerging markets.

Around the world there are a series of risks associated with the rise in protectionism and the continuing trade conflicts. In Europe, the manner in which the U.K. leaves the European Union (Brexit) is also posing a risk to future economic development.

Our medical and safety technology markets remain growth markets, and this is in fact the case worldwide. We intend to use this market potential and remain competitive, which is why we will continue to work to strengthen our capacity for innovation and expand our global sales and service network in particular in 2020.

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 is also required by law to have a two-tier management and oversight structure. The general partner manages the company and its operations, while the Supervisory Board oversees the Company's management. The primary difference to a stock corporation is that, on the one hand, rather than an executive board, a KGaA has general partners represented by the executive board (who also generally manage its business) and, on the other, the rights and responsibilities of the Supervisory Board are limited.

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

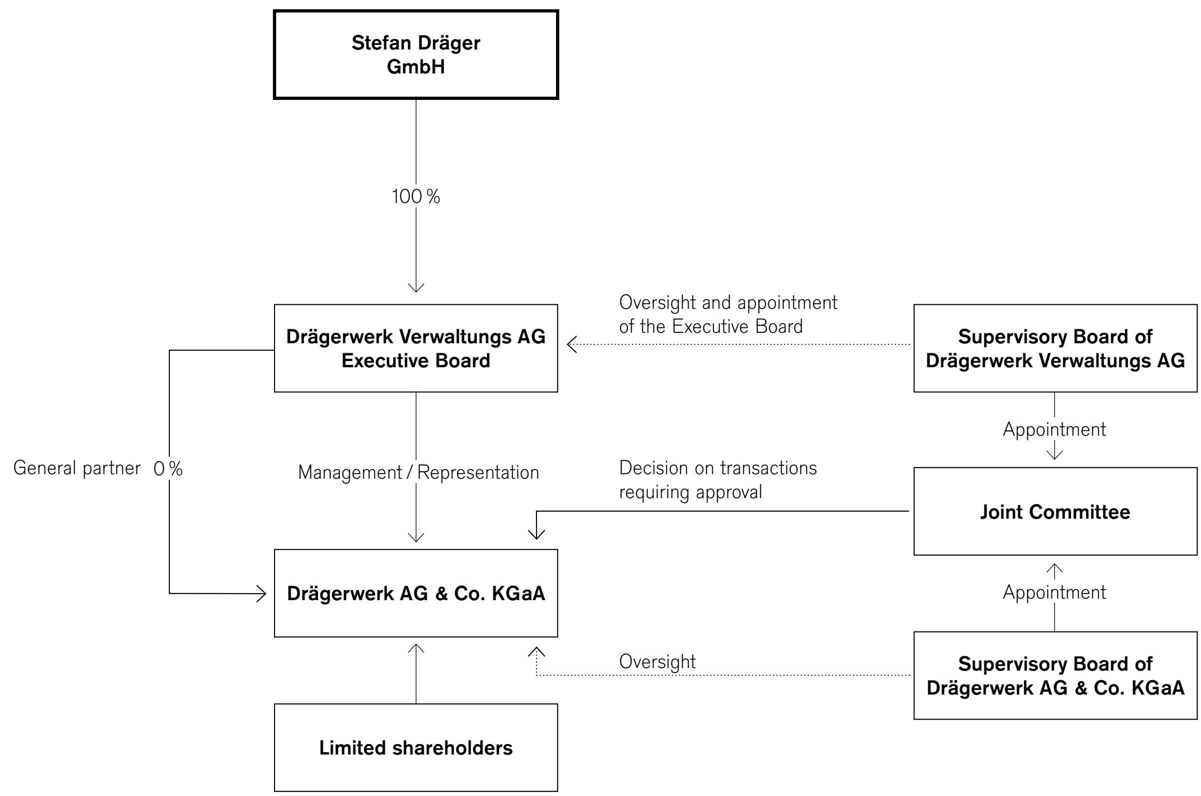
The sole general partner of Drägerwerk AG & Co. KGaA is Drägerwerk Verwaltungs AG, which is a wholly owned company of Stefan Dräger GmbH. Drägerwerk Verwaltungs AG manages the operations of Drägerwerk AG & Co. KGaA and represents it, acting through its Executive Board. Drägerwerk Verwaltungs AG does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

↗ Please refer to chart ›Drägerwerk AG & Co. KGaA‹ on page 63

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 11, 2019. 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, 2019, 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 following the change in 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 at February 7, 2017 from the date of the issue of its previous declaration of conformity on December 19, 2018.«

OVERSIGHT BODIES

The Supervisory Board of Drägerwerk AG Co. KGaA has 12 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 Mr. Stefan Lauer, Chairman of the Supervisory Board, as well as four further members, of which two are shareholder representatives (Professor Grenz, who is Chairman of the Audit Committee, and Mr. Uwe Lüders) and two are employee representatives (Mr. Siegfrid Kasang and Mr. Daniel Friedrich). 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.

Stefan Lauer, Chairman of the Supervisory Board, as well as two shareholder representatives, Mr. Uwe Lüders and Dr. Reinhard Zinkann, are members of the Nomination Committee. Stefan Lauer is also Chairman 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. The Executive Board 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 Chairman of the two Supervisory Boards speaks regularly with the Chairman of the Executive Board and the other Executive Board members, including about their personal plans and perspectives as Executive Board members, as well as the existing opportunities in their area of responsibility.

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 June 26, 2019.

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 approval of the actions 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 both qualities are among 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 also have the opportunity to discuss their concerns with Dräger's compliance experts in special advisory meetings.

In keeping with the German Corporate Governance Code, since 2019 the Dräger Integrity Channel – a web-based whistle-blower system that is accessible around the clock – has been available for tip-offs from employees and third parties, whether anonymous or in the informant's own name, regarding possible infringement of laws and regulations.

For more information about our compliance management system, please visit https://www.draeger.com/en_corp/About-Draeger/Responsibility/Compliance

The Dräger Integrity Channel is successively replacing the compliance hotline, which is only accessible internally; global implementation is underway.

In the prior year, as 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. Further details on Dräger's compliance management system and its further development are available in the Dräger Sustainability Report 2019.

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 level and structure of Executive Board remuneration at Dräger. 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 current remuneration system for members of the Executive Board has applied since fiscal year 2019 and was approved by the annual shareholders' meeting on May 10, 2019 by a majority of 90.53 %.

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. By resolution of the Supervisory Board of Drägerwerk Verwaltungs AG on December 10, 2019, Stefan Dräger's appointment as Chairman of the Executive Board was extended by five years, effective March 1, 2020.

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 2019, 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**.

- 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.

- In 2019, the **KPI targets** were based on three sub-goals:

(i) achievement of the cost targets set for 2019,
(ii) achievement of sales goals for selected new products, and
(iii) expansion of global business with customers in the area of monitoring.

- Target achievement of 0 to 200 % is possible for the annual bonus and its component targets.

- Of the **long-term bonus**, 55 % is based on a **three-year DVA target** and 45 % on a **five-year DVA target**.

  - 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.
  - 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.

The variable remuneration target system also forms the basis for roughly 150 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 2019. Three Executive Board members of Drägerwerk Verwaltungs AG took part in the employee share program. The participating Executive Board members purchased 20 sets, each consisting of three shares, at a price of EUR 52.85 per share using their own funds, which were booked at a price of EUR 56.20 per share. For every three preferred shares, participants received one preferred share worth EUR 56.20 on the date of entry free of charge from Dräger.

EXECUTIVE BOARD REMUNERATION – GRANTED ALLOWANCES

in €	2018	2019	2019 Minimum	2019 Maximum
Stefan Dräger, Chairman of the Executive Board, since March 1, 2005				
Fixed remuneration	600,000	600,000	600,000	600,000
Additional benefits	11,807	14,435	14,435	14,435
Total fixed remuneration	**611,807**	**614,435**	**614,435**	**614,435**
One-year variable remuneration	391,823	1,223,387	0	1,540,000
Share-based remuneration	936	965	965	965
Long-term variable remuneration	348,085	378,431	0	1,925,000
Total fixed and variable remuneration	**1,352,651**	**2,217,218**	**615,400**	**4,080,400**
Pension cost	173,638	97,908	97,908	97,908
Total remuneration	**1,526,289**	**2,315,126**	**713,308**	**4,178,308**
Gert-Hartwig Lescow, Finance and IT, since April 1, 2008				
Fixed remuneration	450,000	480,000	480,000	480,000
Additional benefits	23,988	26,169	26,169	26,169
Total fixed remuneration	**473,988**	**506,169**	**506,169**	**506,169**
One-year variable remuneration	223,899	699,078	0	880,000
Share-based remuneration	936	965	965	965
Long-term variable remuneration	198,906	216,246	0	1,100,000
Total fixed and variable remuneration	**897,729**	**1,422,459**	**507,134**	**2,487,134**
Pension cost	151,436	74,623	74,623	74,623
Total remuneration	**1,049,165**	**1,497,082**	**581,757**	**2,561,757**
Toni Schrofner, Medical Division, since September 1, 2010				
Fixed remuneration	400,000	400,000	400,000	400,000
Additional benefits	55,788	56,481	56,481	56,481
Total fixed remuneration	**455,788**	**456,481**	**456,481**	**456,481**
One-year variable remuneration	195,912	431,626	0	770,000
Share-based remuneration	0	0	0	0
Long-term variable remuneration	174,043	189,216	0	962,500
Total fixed and variable remuneration	**825,743**	**1,077,322**	**456,481**	**2,188,981**
Pension cost	30,384	21,011	21,011	21,011
Total remuneration	**856,127**	**1,098,333**	**477,492**	**2,209,992**

The holding period for these preferred shares – including those that participants acquired themselves – runs until December 31, 2021. 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

EXECUTIVE BOARD REMUNERATION – GRANTED ALLOWANCES (CONTINUED)

in €	2018	2019	2019 Minimum	2019 Maximum
Rainer Klug Safety Division, since August 1, 2015				
Fixed remuneration	400,000	400,000	400,000	400,000
Additional benefits	25,666	11,185	11,185	11,185
Total fixed remuneration	**425,666**	**411,185**	**411,185**	**411,185**
One-year variable remuneration	195,912	335,575	0	770,000
Share-based remuneration	0	0	0	0
Long-term variable remuneration	174,043	189,216	0	962,500
Total fixed and variable remuneration	**795,620**	**935,976**	**411,185**	**2,143,685**
Pension cost	32,621	20,906	20,906	20,906
Total remuneration	**828,241**	**956,881**	**432,091**	**2,164,591**
Dr. Reiner Piske Sales and Human Resources, since November 1, 2015				
Fixed remuneration	316,667	400,000	400,000	400,000
Additional benefits	26,392	25,945	25,945	25,945
Total fixed remuneration	**343,059**	**425,945**	**425,945**	**425,945**
One-year variable remuneration	172,589	455,928	0	770,000
Share-based remuneration	0	965	965	965
Long-term variable remuneration	153,323	189,216	0	962,500
Total fixed and variable remuneration	**668,971**	**1,072,054**	**426,910**	**2,159,410**
Pension cost	25,063	20,743	20,743	20,743
Total remuneration	**694,034**	**1,092,797**	**447,653**	**2,180,153**

the company car is calculated using the 1% method plus 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).

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 68 et seq.

EXECUTIVE BOARD REMUNERATION – CONTRIBUTION

in €	2019	2018
Stefan Dräger, Chairman of the Executive Board, since March 1, 2005		
Fixed remuneration	600,000	600,000
Additional benefits	14,435	11,807
Total	**614,435**	**611,807**
One-year variable remuneration	391,849	650,738
Share-based remuneration	965	936
Long-term variable remuneration	348,108	290,246
Total variable remuneration	**740,922**	**941,920**
Pension cost	97,908	173,638
Total remuneration	**1,453,265**	**1,727,365**
Toni Schrofner Medical Division, since September 1, 2010		
Fixed remuneration	400,000	400,000
Additional benefits	56,481	55,788
Total	**456,481**	**455,788**
One-year variable remuneration	195,924	325,369
Share-based remuneration	0	0
Long-term variable remuneration	174,054	145,123
Total variable remuneration	**369,978**	**470,492**
Pension cost	21,011	30,384
Total remuneration	**847,470**	**956,664**
Dr. Reiner Piske Sales and Human Resources, since November 1, 2015		
Fixed remuneration	400,000	316,667
Additional benefits	25,945	26,392
Total	**425,945**	**343,059**
One-year variable remuneration	172,600	278,888
Share-based remuneration	965	0
Long-term variable remuneration	153,333	259,009
Total variable remuneration	**326,898**	**537,897**
Pension cost	20,743	25,063
Total remuneration	**773,586**	**906,019**
Gert-Hartwig Lescow Finance and IT, since April 1, 2008		
Fixed remuneration	480,000	450,000
Additional benefits	26,169	23,988
Total	**506,169**	**473,988**
One-year variable remuneration	223,913	371,850
Share-based remuneration	965	936
Long-term variable remuneration	198,919	165,855
Total variable remuneration	**423,797**	**538,641**
Pension cost	74,623	151,436
Total remuneration	**1,004,589**	**1,164,065**
Rainer Klug Safety Division, since August 1, 2015		
Fixed remuneration	400,000	400,000
Additional benefits	11,185	25,666
Total	**411,185**	**425,666**
One-year variable remuneration	195,924	325,369
Share-based remuneration	0	0
Long-term variable remuneration	174,054	240,506
Total variable remuneration	**369,978**	**565,875**
Pension cost	20,906	32,621
Total remuneration	**802,069**	**1,024,162**

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, 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 2019, this remuneration amounted to EUR 114,219 (2018: EUR 96,362) plus any incurred VAT.

EXECUTIVE BOARD REMUNERATION – DRS 17

in €	2019	2018
Stefan Dräger, Chairman of the Executive Board, since March 1, 2005		
Fixed remuneration	600,000	600,000
Additional benefits	14,435	11,807
Total	**614,435**	**611,807**
One-year variable remuneration	1,223,436	391,823
Long-term variable remuneration	203,431	348,085
Share-based remuneration	965	936
Total variable remuneration	**1,427,832**	**740,844**
Total remuneration	**2,042,267**	**1,352,651**

	2019	2018
Gert-Hartwig Lescow Finance and IT, since April 1, 2008		
Fixed remuneration	480,000	450,000
Additional benefits	26,169	23,988
Total	**506,169**	**473,988**
One-year variable remuneration	699,106	223,899
Long-term variable remuneration	116,246	198,906
Share-based remuneration	965	936
Total variable remuneration	**816,317**	**423,741**
Total remuneration	**1,322,486**	**897,729**

Toni Schrofner Medical Division, since September 1, 2010		
Fixed remuneration	400,000	400,000
Additional benefits	56,481	55,788
Total	**456,481**	**455,788**
One-year variable remuneration	431,650	195,912
Long-term variable remuneration	101,716	174,043
Share-based remuneration	0	0
Total variable remuneration	**533,365**	**369,955**
Total remuneration	**989,846**	**825,743**

Rainer Klug Safety Division, since August 1, 2015		
Fixed remuneration	400,000	400,000
Additional benefits	11,185	25,666
Total	**411,185**	**425,666**
One-year variable remuneration	335,599	195,912
Long-term variable remuneration	101,716	174,043
Share-based remuneration	0	0
Total variable remuneration	**437,314**	**369,954**
Total remuneration	**848,499**	**795,620**

Dr. Reiner Piske Sales and Human Resources, since November 1, 2015		
Fixed remuneration	400,000	316,667
Additional benefits	25,945	26,392
Total	**425,945**	**343,059**
One-year variable remuneration	455,949	172,589
Long-term variable remuneration	101,716	153,323
Share-based remuneration	965	0
Total variable remuneration	**558,630**	**325,912**
Total remuneration	**984,575**	**668,971**

DEFINED BENEFIT PLANS

The terms and conditions of individual contracts with Drägerwerk AG & Co. KGaA with regard to obligations to the Executive Board members from the pension plan were adjusted as of January 1, 2019 in line with changes to the Company pension plan for management and for employees covered by the collective agreement on wages and salaries, and for employees outside the collective agreement. The ›Führungskräfteversorgung (FKV) 2019‹ guidelines have formed the basis for pension commitments since January 2019.

The adjustments concern the minimum guaranteed return on pension capital, which has been lowered, and the redefinition of the annuitization factor used to convert pension capital into pension benefits in the light of changes in demographic trends. Pension capital accrued up to 2018 and future interest due on these amounts continue to apply under the previous terms of the FKV 2005 to the extent of the respective pension entitlement.

The defined benefits under the pension plans offered to the members of the Executive Board are based on the basic annual salary of 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 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 2019: Stefan Dräger: EUR 120,000 (2018: EUR 120,000); Gert-Hartwig Lescow: EUR 90,000 (2018: EUR 90,000); Rainer Klug: EUR 0 (2018: EUR 65,000); and Dr. Reiner Piske: EUR 6,000 (2018: EUR 49,500). 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 further contribution which is as high as his deferred compensation, but no more than 5 % of his basic annual salary.

The amount of EUR 3,272,086 was paid to former members of the Executive Board and their surviving dependants as at the end of the reporting year (2018: EUR 3,152,869). Pension obligations to former members of the Executive Board and their surviving dependants amounted to EUR 43,115,745 (2018: EUR 42,201,445).

↗ please refer to table ›Pension obligations of the active members of the Executive Board‹ on page 73

REMUNERATION OF THE SUPERVISORY BOARD

The annual shareholders' meeting of Drägerwerk AG & Co. KGaA has defined the Supervisory Board remuneration in the articles of association since 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 (2018: EUR 20,000) and variable remuneration. The variable component is 0.015 % of DVA, but no more than EUR 20,000 (2018: 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 2019, the total remuneration of the six members of the Supervisory Board of the general partner, Drägerwerk Verwaltungs AG, amounted to EUR 135,000 (2018: EUR 135,000) as well as additional flat fees for out-of-pocket expenses totaling EUR 60,000 (2018: EUR 55,000). No remuneration was paid to Supervisory Board members of Group companies.

↗ Please refer to table ›Supervisory Board remuneration‹ on page 73

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

The following disclosures reflect circumstances on the balance sheet date.

COMPOSITION OF CAPITAL STOCK

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

PENSION OBLIGATIONS OF THE ACTIVE MEMBERS OF THE EXECUTIVE BOARD

in €	Allocations 2019	Obligation December 31, 2019	Allocations 2018	Obligation December 31, 2018
Dräger, Stefan	1,069,070	5,939,967	525,198	4,870,897
Lescow, Gert-Hartwig	594,969	2,501,879	371,437	1,906,910
Klug, Rainer	72,116	299,197	145,314	227,081
Piske, Dr. Reiner	75,557	272,351	114,915	196,794
Schrofner, Toni	139,754	795,897	52,663	656,143
Acting Members of the Executive Board	**1,951,466**	**9,809,291**	**1,209,527**	**7,857,825**

SUPERVISORY BOARD REMUNERATION

				2019				2018
in €	Fixed	Variable	Other	Total	Fixed	Variable	Other	Total
Lauer, Stefan Chairman	60.000	0	10.000	70.000	46.667	0	6.667	53.334
Schweickhart, Prof. Dr. Nikolaus Chairman (until May 4, 2018)	0	0	0	0	25.000	0	4.167	29.167
Kasang, Siegfried Vice Chairman	30.000	0	10.000	40.000	30.000	0	10.000	40.000
Benten, Nike	20.000	0	0	20.000	20.000	0	0	20.000
Dietz, Maria	20.000	0	0	20.000	13.333	0	0	13.333
Friedrich, Daniel	20.000	0	10.000	30.000	20.000	0	10.000	30.000
Grenz, Prof. Dr. Thorsten	20.000	0	20.000	40.000	20.000	0	20.000	40.000
Hamker, Astrid	20.000	0	0	20.000	13.333	0	0	13.333
Kruse, Stephan	20.000	0	0	20.000	13.333	0	0	13.333
Lüders, Uwe	20.000	0	10.000	30.000	20.000	0	6.667	26.667
Neundorf, Walter (until May 4, 2018)	0	0	0	0	8.333	0	0	8.333
Rauscher, Prof. Dr. Klaus (until May 4, 2018)	0	0	0	0	8.333	0	4.167	12.500
Rickers, Thomas	20.000	0	0	20.000	20.000	0	0	20.000
Van Almsick, Bettina	20.000	0	0	20.000	20.000	0	0	20.000
Zinkann, Dr. Reinhard	20.000	0	0	20.000	20.000	0	0	20.000
Total	**290.000**	**0**	**60.000**	**350.000**	**298.333**	**0**	**61.667**	**360.000**

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%

A total of 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 companies of the Dräger family, so that the voting rights associated with the common shares are held by the Dräger family. A total of 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 in turn 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 of the general partner as well as a 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 its 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 a 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 21

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

In fiscal year 2019, Drägerwerk AG & Co. KGaA's net profit amounted to EUR 6.5 million (2018: net loss of EUR –0.1 million). Over the course of the year, the Company had 2,924 employees on average (2018: 2,862 employees), of which 733 worked in Production (2018: 746 employees) and 2,191 worked in other areas (2018: 2,116 employees)

EARNINGS EFFECTS FROM OPERATING ACTIVITIES

In fiscal year 2019, Drägerwerk AG & Co. KGaA achieved a loss from operating activities – excluding income from investments, interest result and taxes – of EUR –106.7 million (2018: EUR –57.0 million).

Drägerwerk AG & Co. KGaA generated net sales from medical business of EUR 1,059.7 million in fiscal year 2019 (2018: EUR 1,064.8 million), which was offset by the cost of materials of EUR 592.0 million (2018: EUR 579.9 million). Personnel expenses rose year-on-year from EUR 282.3 million to EUR 299.8 million. Other operating expenses amounted to EUR 283.0 million (2018: EUR 289.3 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 2.71 % (2018: 3.21 %) in the calculation of pension provisions had a negative effect on earnings. In addition, rising cost of materials and lower exchange rate gains also contributed to 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 rise in earnings from profit and loss transfer agreements was primarily attributable to Dräger Safety AG & Co. KGaA (EUR +51.6 million).

DISTRIBUTION FOR PARTICIPATION CAPITAL

Based on the proposed dividend for preferred shares of EUR 0.19 (2018: EUR 0.19), the distribution for participation capital amounts to EUR 1.90 per participation certificate for fiscal year 2019 (2018: EUR 1.90).

INVESTMENTS

In fiscal year 2019, the Company invested EUR 4.4 million (2018: EUR 3.2 million) in software and other intangible assets. Investments in property, plant, and equipment came to EUR 19.7 million (2018: EUR 24.0 million). Investments were primarily focused in connection with the redevelopment of buildings, the construction of production facilities, and the production of various tools.

NET ASSETS AND FINANCIAL POSITION

After deducting cash and cash equivalents, net financial liabilities to banks as at December 31, 2019 amounted to EUR 67.6 million (2018: EUR 107.4 million); Group financing of Group companies came to EUR 205.8 million (2018: EUR 184.9 million).

Drägerwerk AG & Co. KGaA's equity stood at EUR 1,050.3 million and rose by a total of EUR 3.7 million year-on-year. Due to the sharper increase in total assets, the equity ratio of Drägerwerk AG & Co. KGaA fell slightly as at the balance sheet date to 61.7 % (2018: 62.6 %).

COMPARISON OF FORECAST FIGURES AND ACTUAL FIGURES

Drägerwerk AG & Co. KGaA's earnings in 2019 were principally impacted by net sales in Germany and abroad, income from services, investments, and profit and loss transfers. The net profit for the year of EUR 6.5 million was slightly above the prior-year forecast figure of EUR –0.1 million. As announced in 2019, dividends in the amount of EUR 2.8 million were paid on common and preferred shares in fiscal year 2019, net financial debt came to EUR 255.7 million. The equity ratio stood at 61.7 %, which is more or less on par with the prior-year forecast figure of 62.6 %.

FORECAST FOR FISCAL YEAR 2020

For Drägerwerk AG & Co. KGaA, we expect a similar net profit as in fiscal year 2019. In fiscal year 2019 we achieved a net profit of EUR 6.5 million. We do not expect any significant change to the equity ratio, which stood at 61.7 % as at December 31, 2019.

Declaration / Group declaration on 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 63.

DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES

The Executive Board has implemented effective internal control systems and relevant employee training measures to ensure that the Group's financial reporting system is correct and complies with legal requirements. The Company's principles are based on integrity and social responsibility in all areas such as environmental protection, quality, product and process safety, and compliance with local laws and regulations. The Internal Audit department continuously monitors the implementation of these principles as well as the reliability and functionality of the control systems. The Executive Board of Drägerwerk Verwaltungs AG governs the Group in the interest of its shareholders and is aware of its responsibility to employees, society, and the environment. We have made it our goal to use the resources entrusted to us in a manner that increases the value of the Dräger Group. According to the resolution passed by the annual shareholders' meeting on May 10, 2019, 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 2019.

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 2019.

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 June 26, 2019.

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

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.

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. These are printed in the Corporate Governance Report in this Annual Report on page 64. In the view of the Supervisory Board its current composition fully meets all goals. The composition of the Supervisory Board continues to meet 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.

FORWARD-LOOKING STATEMENTS

This combined management report contains forward-looking statements. These 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. We do not assume any responsibility for updating the forward-looking statements made in this report.

Lübeck, February 19, 2020

The general partner
Drägerwerk Verwaltungs AG
represented by its Executive Board

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

03

ANNUAL FINANCIAL STATEMENTS

Annual Financial Statements 2019 of the Dräger Group

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

in € thousand	Notes	2019	2018
Net sales	8	2,780,824	2,595,010
Cost of sales	9	–1,592,404	–1,486,963
Gross profit		**1,188,419**	**1,108,046**
Research and development costs	10	–263,707	–252,171
Marketing and selling expenses	11	–621,917	–592,631
General administrative costs	12	–219,428	–198,458
Impairment losses on financial assets and contract assets	13	–14,087	–648
Other operating income	14	4,133	3,546
Other operating expenses	14	–1,760	–1,850
		–1,116,766	**–1,042,211**
		71,654	**65,835**
Result from net exposure from monetary items	6	–925	–63
Result from investments in associates		281	219
Result from other investments		–72	–
Other financial result		–4,362	–3,346
Financial result (before interest result)	**15**	**–5,078**	**–3,189**
EBIT[1]		**66,576**	**62,646**
Interest result	15	–17,048	–10,994
Earnings before income taxes		**49,528**	**51,652**
Income taxes	16	–15,737	–16,754
Net profit		**33,790**	**34,899**
Net profit		**33,790**	**34,899**
Earnings to non-controlling interests		441	544
Earnings attributable to shareholders and holders of participation certificates	19	33,350	34,355
Undiluted/diluted earnings per share on full distribution	**19**		
per preferred share (in €)		1.44	1.48
per common share (in €)		1.38	1.42

[1] For effects of the first-time application of IFRS 16 on this key figure as at December 31, 2019, see table on page 37.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE DRÄGER GROUP

in € thousand	2019	2018
Net profit	**33,790**	**34,899**
Items that cannot be reclassified into the income statement		
Remeasurements of defined benefit pension plans	–57,165	–17,771
Deferred taxes on remeasurements of defined benefit pension plans	16,939	5,851
Items that may be reclassified into the income statement in the future		
Currency translation adjustment for foreign subsidiaries	9,510	–1,127
Changes in the fair value of the cash flow hedge reserve recognized directly in equity	–4,202	–1,252
Deferred taxes on changes in the fair value of the cash flow hedge reserve recognized directly in equity	1,160	573
Other comprehensive income (after taxes)	**–33,758**	**–13,726**
Total comprehensive income	**33**	**21,173**
of which attributable to non-controlling interests	462	333
thereof earnings attributable to shareholders and holders of participation certificates	–429	20,839

CONSOLIDATED BALANCE SHEET OF THE DRÄGER GROUP

in € thousand	Notes	December 31, 2019	December 31, 2018
Assets			
Intangible assets	20	333,985	336,019
Property, plant and equipment	21	416,520	429,109
Right-of-use assets	37	109,734	–
Investments in associates	22	2,475	395
Non-current trade receivables	23	1,499	2,518
Other non-current financial assets	24	15,501	17,946
Deferred tax assets	16	177,808	144,659
Other non-current assets	27	3,910	3,077
Non-current assets		**1,061,433**	**933,723**
Inventories	25	485,158	459,186
Trade receivables and contract assets	23	710,696	703,882
Other current financial assets	24	28,669	37,383
Cash and cash equivalents	26	196,314	179,561
Current tax refund claims		29,436	36,641
Other current assets	27	59,204	59,851
Current assets		**1,509,478**	**1,476,504**
Total assets		**2,570,910**	**2,410,227**
Equity and liabilities			
Capital stock		45,466	45,466
Capital reserves		234,028	234,028
Reserves retained from earnings, incl. group result		779,162	790,039
Participation capital	30	29,497	29,497
Other comprehensive income		–13,350	–19,796
Non-controlling interests	29	1,556	1,426
Equity	28	**1,076,359**	**1,080,659**
Liabilities from participation certificates	30	25,988	24,842
Provisions for pensions and similar obligations	31	390,939	339,295
Other non-current provisions	32	59,388	46,083
Non-current interest-bearing loans and liabilities to banks	33	118,569	125,076
Other non-current financial liabilities	34	98,074	24,866
Non-current income tax liabilities		19,267	15,686
Deferred tax liabilities	16	3,327	1,323
Other non-current liabilities	35	32,410	29,064
Non-current liabilities		**747,962**	**606,235**
Other current provisions	32	215,120	201,267
Current interest-bearing loans and liabilities to banks	33	51,009	90,098
Trade payables	34	205,106	201,438
Other current financial liabilities	34	70,660	34,277
Current income tax liabilities		22,860	23,082
Other current liabilities	35	181,833	173,171
Current liabilities		**746,589**	**723,332**
Total equity and liabilities		**2,570,910**	**2,410,227**

CONSOLIDATED CASH FLOW STATEMENT OF THE DRÄGER GROUP

	in € thousand	2019	2018
	Operating activities		
	Group net profit	33,790	34,899
+	Write-down / write-up of non-current assets	127,135	85,263
+	Interest result	17,048	10,994
+	Income taxes	15,737	16,754
+	Increase in provisions	13,437	3,349
+ / –	Other non-cash expenses / income	–798	13,697
–	Gain from the disposal of non-current assets	–880	–221
–	Increase in inventories	–24,515	–76,925
–	Increase in leased equipment	–12,747	–11,462
+ / –	Decrease / increase in trade receivables	434	–40,988
+ / –	Decrease / increase in other assets	7,700	–3,425
+ / –	Increase / decrease in trade payables	3,870	–2,331
+	Increase in other liabilities	11,600	28,042
+	Dividends received	328	245
–	Cash outflow for income taxes	–18,433	–49,878
–	Cash outflow for interest	–12,355	–7,360
+	Cash inflow from interest	3,068	3,439
	Cash inflow from operating activities	**164,420**	**4,090**
	Investing activities		
–	Cash outflow for investments in intangible assets	–5,878	–4,618
+	Cash inflow from the disposal of intangible assets	0	–
–	Cash outflow for investments in property, plant and equipment	–58,512	–57,108
+	Cash inflow from disposals of property, plant and equipment	3,494	1,802
–	Cash outflow for investments in non-current financial assets	–2,182	–3,754
+	Cash inflow from the disposal of non-current financial assets	1,510	176
–	Cash outflow from the acquisition of subsidiaries	–500	–
	Cash outflow from investing activities	**–62,067**	**–63,503**
	Financing activities		
–	Distribution of dividends (including dividends for participation certificates)	–4,001	–11,042
–	Cash outflow from the acquisition of treasury shares for the employee share program	–2,637	–2,791
+	Cash inflow from the transfer of treasury shares from the employee share program	1,893	2,029
+	Cash provided by raising loans	7,709	3,731
–	Cash used to redeem loans	–15,256	–51,581
–	Net balance of other liabilities to banks	–39,658	54,225
–	Repayment of lease liabilities	–35,587	–566
–	Cash outflow from the change in shareholdings in subsidiaries without a change in the method of accounting	–	–3
–	Profit distributed to non-controlling interests	–332	–168
	Cash outflow from financing activities	**–87,869**	**–6,167**
	Change in cash and cash equivalents in the fiscal year	**14,484**	**–65,579**
+ / –	Effect of exchange rates on cash and cash equivalents	2,269	–2,428
+	Cash and cash equivalents at the beginning of the fiscal year	179,561	247,568
	Cash and cash equivalents as at December 31 of the fiscal year	**196,314**	**179,561**

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
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	–	–	–	–	–	4,692	4,692	–	4,692
Miscellaneous	–	–	338	–	–	–	338	–	338
December 31, 2018 / January 1, 2019	**45,466**	**234,028**	**790,039**	**29,497**	**0**	**–19,796**	**1,079,233**	**1,426**	**1,080,659**
Net profit	–	–	33,350	–	–	–	33,350	441	33,790
Other comprehensive income	–	–	–40,226	–	–	6,447	–33,779	21	–33,758
Total comprehensive income	**–**	**–**	**–6,876**	**–**	**–**	**6,447**	**–429**	**462**	**33**
Distributions	–	–	–4,001	–	–	–	–4,001	–332	–4,333
Acquisition of treasury shares	–	–	–	–	–2,637	–	–2,637	–	–2,637
Employee share program	–	–	–	–	2,637	–	2,637	–	2,637
December 31, 2019	**45,466**	**234,028**	**779,162**	**29,497**	**0**	**–13,350**	**1,074,803**	**1,556**	**1,076,359**

Notes of the Dräger Group for 2019

1 GENERAL

The Dräger Group is managed by Drägerwerk AG & Co. KGaA, Moislinger Allee 53 – 55, 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 5, 2020, the Executive Board is approving the publication of the Group financial statements of Drägerwerk AG & Co. KGaA for fiscal year 2019. 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 2019 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 at December 31, 2019, to its 2019 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 2019.

On their effective dates, Dräger has applied the following revised standards issued by the IASB for the first time in fiscal year 2019 in particular:

– 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. The effects of IFRS 16 on accounting largely concerned leases that, as operating leases, had not been capitalized under IAS 17 and had been recognized as rental expenses. These leases are now reported together with the corresponding lease liability pursuant to IFRS 16. The transition to IFRS 16 took place using the modified retrospective approach as of January 1, 2019; the option to not adjust prior-year figures was exercised. Consequently, lease liabilities of the leases in existence as at January 1, 2019 were recognized at the present value of future lease payments in consideration of a term-specific, country-specific and currency-specific incremental borrowing rate. Leases with terms of twelve months or less or where the value of the leased asset is no higher than EUR 5,000 new are not accounted for and instead are recognized as expenses on a straight-line basis. The average incremental borrowing rate was 3.63 %. Leases that had already been accounted for as finance leases pursuant to IAS 17 were reclassified at their carrying values as at January 1, 2019 into rights of use and lease liabilities. These leases are only measured pursuant to IFRS 16 subsequently.

The first-time application of IFRS 16 resulted in the following adjustment effect as at January 1, 2019:

EFFECT OF FIRST-TIME ADJUSTMENT OF IFRS 16

in € thousand	December 31, 2018	Adjustment	January 1, 2019
Property, plant and equipment	429,109	99,924	420,257
Right-of-use assets	–	108,776	108,776
Other provisions	247,350	–1,277	246,073
Other financial liabilities	59,143	101,201	160,344

Dräger's essential leases concern rented office space, service areas, and production areas (most of which with contractual terms of between three and five years) and the vehicle fleet (the majority of which with contractual terms of between three and four years).

The amount of the rights of use is equal to the amount of the lease liabilities, adjusted for deferred lease liabilities as at December 31, 2018 (see also note 37 with regard to the figures and development through the period). Future outstanding minimum lease payments of non-cancelable operating leases reported in the notes as at December 31, 2018 can be reconciled to lease liabilities as at January 1, 2019 as follows:

RECONCILIATION OF MINIMUM LEASE PAYMENTS AS AT DECEMBER 31, 2018, TO THE LEASE LIABILITIES AS AT JANUARY 1, 2019

in € thousand	
Minimum lease payments of operate lease contracts as at December 31, 2018	105,982
Less: effect of discounting with incremental borrowing rate	–9,001
Add: finance lease liabilities recognized as at December 31, 2018	7,654
Less: short-term leases recognized as an expense	–2,601
Less: low-value contracts recognized as an expense	–971
Add: adjustment as a result of a different treatment of extension and termination options	10,157
Less: concluded contracts before commencement date (before capitalization as right-of-use asset)	–2,540
Add: provisions for potential losses	1,645
Other	1,184
Lease liability recognized as at January 1, 2019	**111,509**

Dräger exercised the following practical expedient permitted by the standard in the first-time application of IFRS 16:

- Dräger based considerations as to whether an agreement includes or constitutes a lease on its evaluations pursuant to IAS 17 or IFRIC 4.
- A single discounting rate was applied to groups of leases with similar properties.
- Existing evaluations of onerous contracts were retained. As a result, rights of use on buildings were lowered by a provision for potential losses amounting to EUR 1,277 thousand (discounted amount).
- Initial direct costs are not taken into consideration in the measurement of the right-of-use asset at the time of first application.
- In the case of contractual options to extend or terminate leases, the term of the lease is determined retrospectively.

The application of IFRS 16 has resulted in some permanent adjustments to certain key Dräger figures compared to the previous accounting methods under IAS 17:

- Balance sheet: Dräger's total assets have increased, and the share of total equity and liabilities attributable to equity has declined.
- Income statement: EBIT and EBITDA have improved.
- Cash flow statement: Significant decline in cash outflows from operating activities, as operating rental and leasing expenses have been significantly reduced and only the remaining interest expenses at Dräger are attributable to the cash outflows from operating activities. The repayment of the rise in lease liabilities is reported within cash outflows from financing activities, which have risen accordingly.

The framework agreements with banks on bilateral credit lines have been adjusted to reflect the changes in financial covenants resulting from IFRS 16.

- 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 materially impact Dräger's Group financial statements.
- The amendments to IFRS 9 ›Prepayment Features with Negative Compensation‹ (issued October 2017) govern how certain financial instruments with prepayment features are classified under IFRS 9. In addition, it also clarifies the recognition of financial liabilities as a result of modification. This does not materially impact 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 has no impact on Dräger's Group financial statements.
- The amendments in the ›Annual Improvements to IFRSs 2015–2017 Cycle‹ (issued December 2017) refer to the following 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. This includes the remeasurement of interests in the assets and liabilities of the joint Operation at fair value held prior to the obtaining of control. The acquirer remeasures the entirety of its previously held interests in the joint operation. This has no impact on 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 has no impact on 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. Dräger recognizes the portion of the distribution attributable to the equity component of the profit participation certificates directly in equity. The corresponding income tax of EUR 341 thousand was recognized for the first time in profit or loss in fiscal year 2019, as the transactions underpinning the profit distributed to holders of participation certificates were also recognized in profit or loss. The recognition directly in equity of income taxes of EUR 341 thousand in the previous year was not corrected for reasons of materiality.

    - 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 materially impact 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 occur only rarely and in insignificant amounts within the Group.
- 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 materially impact 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, 2020. Dräger did not voluntarily apply these requirements prematurely. These accounting provisions relate in particular to the following standards:

- The amendments to IFRS 3 ›Business Combinations‹ (issued October 2018) define 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 materially impact Dräger's Group financial statements.
- The amendments to IFRS 9, IAS 39, and IFRS 7 ›Interest Rate Benchmark Reform‹ (issued September 2019) are the Board's response to uncertainties related to the potential impact on financial reporting of what is known as the IBOR reform. The amendments relate specifically to certain simplifications regarding hedge accounting regulations. Their application is mandatory for all hedges affected by the reform of the reference interest rate. Additional information regarding the matter is also required. This does not materially 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, 2020. 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 has no impact on Dräger's Group financial statements.
- The amendments to the provisions of IAS 28 and IFRS 10 ›Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued September 2014)‹ resolved a conflict between these two standards. address a conflict between these standards 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 materially impact 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 at 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 at 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 103 fully consolidated entities as at December 31, 2019 (2018: 107 entities) and two associated entities (2018: one entity).

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

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

The consolidated group includes four (2018: five) real estate companies and a further special purpose entity as structured companies and, as in the prior year, 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.

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

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

Joint ventures, on the other hand, occur when the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Dräger is currently contractually involved in seven joint ventures (2018: one joint venture) in the form of working groups. These companies are not presented in the notes, as their business in and of itself and when taken as a whole is not material, their shares have no costs, and the companies, as in the case of the working groups in the prior year, do not generate any earnings of their own. Drägerwerk AG & Co. KGaA directly and indirectly exerts a significant influence on associates. In compliance with IAS 28, the associates are accounted for according to the equity method.

The consolidated companies of the Dräger Group as at December 31, 2019, 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 2019:

SCOPE OF CONSOLIDATION

	Germany	Abroad	Total
Drägerwerk AG & Co. KGaA and fully consolidated companies			
January 1, 2019	23	84	107
Mergers	2	2	4
December 31, 2019	**21**	**82**	**103**
Associates			
January 1, 2019	1	–	1
Additions	–	1	1
December 31, 2019	1	1	2
Total	**22**	**83**	**105**

In February 2019, the final two options to acquire the remaining 25 % of shares in bentekk GmbH, Hamburg, Germany, for a total of EUR 500 thousand were exercised. This makes bentekk GmbH, Hamburg, Germany, a wholly owned subsidiary of the Dräger Group.

In June 2019, Italian subsidiary Draeger Safety Italia S.p.A., Corsico-Milano, was merged with Italian subsidiary Draeger Italia S.p.A., Corsico-Milano (formerly: Draeger Medical Italia S.p.A.) with retroactive effect as at January 1, 2019.

In July 2019, 30 % of shares in the Canadian software company Focus Field Solutions Inc, St. John's, were acquired. The company is accounted for as an associated company using the equity method.

In September 2019, OPTIO Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Lübeck, and Dräger Grundstücksverwaltungs GmbH, Lübeck, were retroactively merged into Drägerwerk AG & Co. KGaA, Lübeck, as at January 1, 2019.

In October 2019, Polish subsidiary Draeger Safety Polska sp.zo.o., Katowice, was merged with Dräger Polska sp.zo.o., Bydgoszcz.

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 as expenses, provided that these are recognized as a liability at the time of acquisition. Non-controlling interests have to be measured either at fair value (›full goodwill method‹) or at the proportionally fair value of the acquired assets and assumed liabilities. Pursuant to IAS 36, goodwill is subject to an impairment test to be performed at least once annually (impairment-only approach). Any excess of the Group's share in equity over the cost of the investment is recognized in profit or loss at the date of acquisition.

Successively acquired shares that do not affect the controlled status of an entity are treated as transactions between providers of equity capital (›entity concept‹). The carrying amounts of assets and liabilities remain the same. The value shift between Dräger and the non-controlling interests is recorded directly in equity. Any non-controlling interests in equity are shown in the consolidated balance sheet as such (Reference 29).

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

Associates and joint ventures are accounted for using the equity method at cost on the date of acquisition. The cost of investments is adjusted to reflect their share in net profit or loss for the period and dividend distributions. The goodwill is included in the carrying values of the investments. Impairments are accounted for 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. 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 exchange rate for income statement positions. 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. Since fiscal year 2018, Argentina has been considered a hyperinflationary economy, meaning that the subsidiary in Argentina is affected by revaluation. The applied price index of the Federación Argentina de Consejos Profesionales de Ciencias Económicas (FACPCE) stood at 283.44 as at December 31, 2019 (December 31, 2018: 184.13). The effects of inflation amounted to EUR 1.2 million (2018: 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 925 thousand (2018: EUR 63 thousand).

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 –6,933 thousand (2018: EUR –12,966 thousand).

The exchange gains / losses on foreign currency items disclosed in the financial result led to total losses of EUR −4,412 thousand (2018: EUR −3,305 thousand).

Currency translation for foreign subsidiaries gave rise to a decrease in other comprehensive income of EUR 8,945 thousand as at the balance sheet date (2018: EUR 372 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 € =	31. Dez. 2019	31. Dez. 2018	2019	2018
U.S.	USD	1.12	1.15	1.12	1.18
People's Republic of China	CNY	7.81	7.88	7.72	7.82
United Kingdom	GBP	0.85	0.89	0.88	0.89
Australia	AUD	1.60	1.62	1.61	1.58

7 ACCOUNTING POLICIES

Drägerwerk AG & Co. KGaA and its consolidated German and foreign subsidiaries as at 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 fair value measurement method does not apply to the following at Dräger:

– leasing transactions within the scope of IFRS 16 / 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 mostly comprises fixed prices. Variable consideration components are only negotiated infrequently, and then only included in the transaction price if there is no uncertainty regarding the consideration. 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.

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 and there is therefore a claim to receipt of the agreed payment. 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 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 at 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.

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 ability to use or sell the product.
- 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.

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 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 1% 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 at 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 has no longer 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 and may, in some cases, be subject to restricted availability.

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 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 pensions 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 at 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). 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).

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

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

Other provisions

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

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

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

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

Income taxes

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

The Dräger Group companies are required to pay income taxes in several countries. Current tax expenses are determined using the tax regulations applicable on the balance sheet date in the individual countries. When determining global income tax receivables and liabilities, the interpretation of tax regulations in particular can carry a degree of uncertainty. It cannot be ruled out that the various fiscal authorities have different perspectives with regards to the correct interpretation of tax standards. The associated uncertainty is taken into account in that uncertain tax receivables and liabilities are estimated as soon as management is of the view that the probability of occurrence exceeds 50 %. 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 future 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.

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.

IAS 12 does not specifically address the tax implications of the recognition of leases under IFRS 16. However, on July 17, 2019, the IASB published a draft with proposed amendments to IAS 12 ›Income Tax‹ (ED / 2019 / 5). Accordingly, the prohibition on the recognition of deferred taxes in connection with the initial recognition of an asset or liability is to be restricted to the extent that it does not apply to transactions that result in the simultaneous occurrence of taxable and deductible temporary differences of the same amount. Deferred tax assets and liabilities arising from leases are therefore recognized to this extent, reported as net amounts in the consolidated balance sheet, and disclosed as gross amounts in the notes.

Share-based payment

In fiscal year 2019, as in fiscal year 2013 and annually since fiscal year 2015, 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

A lease in accordance with IFRS 16 is 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 to obtain substantially the benefits from the use of this asset during the term of use.

A) DRÄGER GROUP AS A LESSEE

Until 31 December 2018, and in accordance with IAS 17, a lease was classified and accounted for as a finance lease if all material risks and rewards incidental to ownership were transferred to the lessee.

Accordingly, finance leases were 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 was the interest rate implicit in the lease if this was practicable to determine. If this was not the case, the lessee's incremental borrowing rate was used. Initial direct costs were included as part of the asset. Lease payments were apportioned between the finance charge and the reduction of the outstanding liability. The finance charge was 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 was recognized in the interest result.

A finance lease gave rise to a depreciation expense for the capitalized asset as well as a finance expense for each period. The depreciation policy for leased assets was consistent with that for corresponding depreciable assets which were owned by the Company.

If all material risks and rewards of ownership remained with the lessor, a lease was classified as an operating lease. Consequently, lease payments under this lease were recognized as an expense in the function in which they were incurred.

With the application of IFRS 16 as of January 1, 2019, the lessee is required to recognize assets and liabilities for the rights and obligations arising under all existing leases.

The transition to IFRS 16 took place using the modified retrospective approach as at January 1, 2019; the option to not adjust prior-year figures was exercised.

Where contracts contain both leasing and non-leasing components, the leasing components of the contract are accounted for separately from the non-leasing components of the contract as a lease on the basis of the relative unit price. The non-leasing components are accounted for in accordance with the standards applicable to them.

The lease term generally comprises the non-cancelable basic term during which a lessee is entitled to use an underlying asset. The term is adjusted for periods arising from an option to extend or terminate the lease if the lessee is reasonably certain that they actually intend to exercise this option.

Dräger continues to exercise the option of recognizing leases as expenses on a monthly basis if they are either short-term leases (term of up to 12 months) or leases with an underlying asset of minor value (up to EUR 5,000 new).

In accordance with IFRS 16, the initial measurement of rights of use is based on the value of the corresponding lease liability, adjusted for the following items:

– completed lease payments and received lease incentives,
– initially incurred direct costs, and
– expected costs at the point of recognition in order to restore the leased asset to its original or the contractually agreed condition at the end of the lease.

The initial measurement of the lease liabilities takes place at the present value of future lease payments. Lease payments include:

– fixed lease payments,
– variable lease payments that are pegged to indices,
– payments resulting from options to buy, where there is a sufficient degree of certainty at the point of measurement that the option will be exercised, as well as
– any expected payments from agreed guaranteed residual values and contractual payments due to options to terminate leases being exercised.

Within the scope of the subsequent valuation, the right-of-use is measured at cost less any accumulated depreciation and impairment losses and adjusted for any revaluation of the lease liability.

B) DRÄGER GROUP AS A LESSOR

Finance leases

Leases with the Dräger Group as lessor continue to be classified as finance leases and recognized if all material risks and rewards of ownership are transferred to the lessee.

Accordingly, 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.

Operating leases

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 and changes in method

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 at the balance sheet date, and the recognition of income and expenses. Actual amounts may differ from these assumptions and estimates.

The estimates and changes in method 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.
- On the date of provision and the subsequent period, Dräger as a lessee assesses whether it is sufficiently certain that Dräger will exercise a renewal option or a purchase option for the underlying asset or will not exercise a termination option. The entity considers all relevant facts and circumstances that could provide an economic incentive for the lessee to exercise or not exercise the option, including any changes in those facts and circumstances that are expected to occur between the date of provision and the option exercise date.
- Within the scope of determining impairments to other assets, the performed test was based on the value in use and no longer on fair value less selling costs. The impairment test for goodwill was already carried out in the previous year on the basis of value in use. The change in method for other assets has harmonized the procedure.
- As a result of the introduction of the new accounting for leases in accordance with IFRS 16 and the resulting accounting for rights of use, the assets included in the calculation of impairment losses on goodwill and other assets have increased. In this context, the associated lease liabilities were not included in the determination of the carrying amounts of the cash generating units. The effects of IFRS 16 were taken into consideration for the peer group-based WACC (by making appropriate estimates of the historical capital structure on the basis of IAS 17 Notes).

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.

Construction contracts from project business, the net sales from which are realized over time, are recognized according to the percentage of completion method. The most important measurements used for the careful determination of the percentage of performance of the service 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 used discount factors 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	2019	2018	Change in %
Net sales from the sale of products and goods	1,708,330	1,560,003	9.5
Net sales from the sale of services and accessories (including replacement parts)	1,037,568	963,386	7.7
Net sales from projects	34,926	71,621	–51.2
Net sales	**2,780,824**	**2,595,010**	**7.2**

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

Net sales of EUR 603.5 million were generated in Germany during the reporting year (2018: EUR 558.0 million). Medical technology products and services generated net sales in fiscal year 2019 of EUR 1,741.8 million (2018: EUR 1,643.0 million), while safety technology products and services generated net sales of EUR 1,039.1 million (2018: EUR 952.0 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 85,781 thousand (2018: 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 the following net sales in upcoming fiscal years:

FUTURE NET SALES FROM LONG-TERM SERVICE AND CONSTRUCTION CONTRACTS

in € thousand	2019	2018
Expected net sales in year 1	57.125	62.976
Expected net sales in year 2	44.149	49.507
Expected net sales from year 3 on	38.083	40.950
	139.357	**153.433**

Net sales of EUR 369 thousand (2018: 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	2019	2018
Direct materials	842,232	780,984
Direct labor	328,527	297,534
Direct costs	**1,170,759**	**1,078,518**
Material overheads	62,246	71,438
Production overheads	267,597	259,636
Other indirect costs	91,803	77,372
Indirect costs	**421,645**	**408,446**
Cost of sales	**1,592,404**	**1,486,963**

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

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

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

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, the 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 comprised the following:

IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND CONTRACT ASSETS

in € thousand	2019	2018
Release of risk provisions	4,718	9,227
Allocations to risk provisions	–17,865	–9,485
Direct derecognition	–940	–390
	–14,087	**–648**

14 OTHER OPERATING INCOME / EXPENSES

OTHER OPERATING INCOME / EXPENSES

in € thousand	2019	2018
Gains on the disposal of intangible assets and property plant and equipment	1,933	1,369
Rental income	2,135	2,101
Income from the derecognition of liabilities	65	76
Other operating income	**4,133**	**3,546**
Expenses for leased assets	794	783
Losses on the disposal of intangible assets and property, plant and equipment	966	1,067
Other operating expenses	**1,760**	**1,850**

15 FINANCIAL RESULT

FINANCIAL RESULT (BEFORE INTEREST RESULT)

in € thousand	2019	2018
Profit from net exposure from monetary items	**–925**	**–63**
Share in the profits from investments in associates	328	245
Other expenses from investments in associates	–156	–26
Other income from investments in associates	108	–
Profit from investments in associates	**281**	**219**
Net result from the measurement of financial assets measured at fair value through profit and loss	–72	–
Profit from other investments	**–72**	**0**
Net result from foreign exchange transactions	–4,412	–3,305
Other financial expenses	51	–41
Other financial result	**–4,362**	**–3,346**
Financial result (before interest result)	**–5,078**	**–3,189**

INTEREST RESULT

in € thousand	2019	2018
Income from financial assets measured at amortized cost	3,507	3,868
Income from financial assets measured at fair value through profit and loss	9	10
Interest contained in lease payments	64	89
Interest and similar income	**3,580**	**3,968**
Expenses from financial liabilities measured at amortized cost	–7,813	–7,478
Interest portion contained in pension provisions	–5,837	–5,345
Interest contained in lease payments	–5,047	–634
Expenses from interest hedges	–512	–529
Other interest and similar expenses	–1,418	–976
Interest and similar expenses	**–20,628**	**–14,961**
Interest result	**–17,048**	**–10,994**

Expenses from financial liabilities measured at amortized cost include the compounding of participation certificates of EUR 1,146 thousand (2018: EUR 1,081 thousand) and the distribution of participation certificates of EUR 345 thousand (2018: EUR 345 thousand).

The rise in interest expenses included in lease payments was primarily the result of the initial application of the new lease accounting requirements of IFRS 16 (see also note 7).

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	2019	2018
Germany	**–6,022**	**3,595**
Abroad	**–22,310**	**–23,942**
Current tax expense	**–28,332**	**–20,347**
Germany		
Deferred tax income / expense from temporary differences	9,066	–1,780
Deferred tax expense / income from loss carryforwards	–113	120
Deferred tax income / expense (Germany)	**8,953**	**–1,660**
Abroad		
Deferred tax income from temporary differences	4,783	4,256
Deferred tax expense / income from loss carryforwards	–1,141	997
Deferred tax income (abroad)	**3,642**	**5,253**
Deferred tax income	**12,595**	**3,593**
Income taxes	**–15,737**	**–16,754**

Deferred tax income includes a tax-increasing effect of EUR 369 thousand (2018: EUR 435 thousand) from the change in tax rates.

A deferred tax liability of EUR 1,645 thousand (2018: EUR 2,008 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 10,251 thousand (2018: EUR 10,034 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	2019	2018
Earnings before income taxes	**49,528**	**51,652**
Expected income tax expense (tax rate: 31.5 %; 2018: 31.5 %)		
	–15,601	–16,270
Reconciliation		
Effects from other periods and non-deductible withholding tax	–5,867	6,652
Effect from changes in tax rates	–369	–435
Effect from different tax rates	4,899	4,561
Tax effect of non-deductible expenses and tax-free income	–2,055	–6,819
Recognition and measurement of deferred tax assets	3,387	–3,600
Other tax effects	–131	–843
Recognized income tax expense	**–15,737**	**–16,754**
Tax rate (%) overall	31.8	32.4

The parent Company's tax rate of 31.5 % (2018: 31.5 %) was used as the expected tax rate. The expected tax rate is composed of a corporate income tax component of 15.83 % (2018: 15.83 %), including the 5.5 % solidarity surcharge, and a trade tax component of 15.67 % (2018: 15.67 %). Domestic deferred taxes are determined on the basis of a 31.5 % tax rate (2018: 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	2019	2018	2019	2018
Intangible assets	4,398	6,051	8,275	5,894
Property, plant and equipment	7,901	7,291	7,218	10,203
Right-of use assets[1]	491	–	15,210	–
Other non-current financial assets	45	43	3,891	4,609
Other non-current assets	10	0	27	24
Non-current assets	**12,845**	**13,385**	**34,621**	**20,730**
Inventories[2]	17,755	21,879	829	6,464
Trade receivables and receivables from contract assets	3,802	3,778	557	2,954
Other current financial assets[2]	149	1,065	2,197	4,744
Other current assets[2]	521	178	5,755	516
Current assets[2]	**22,227**	**26,900**	**9,338**	**14,678**
Liabilities from participation certificates	–	–	5,705	6,135
Provisions for pensions and similar obligations	96,374	73,707	14	603
Other non-current provisions[2]	6,203	5,325	–	–
Non-current interest-bearing loans	–	–	757	8
Other non-current financial liabilities	1,342	3,852	675	–
Non-current lease liabilities[1]	10,193	–	–	–
Other non-current liabilities	3,042	2,988	–	–
Non-current liabilities[2]	**117,154**	**85,872**	**7,151**	**6,746**
Other current provisions[2]	13,907	10,302	–	–
Current interest-bearing loans and liabilities to banks	752	–	–	–
Trade payables	712	427	51	23
Other current financial liabilities[2]	3,403	2,908	161	91
Current lease liabilities[1]	4,894	–	–	–
Other current liabilities[2]	7,228	6,242	527	135
Current liabilities[2]	**30,896**	**19,879**	**739**	**249**
Capitalized tax loss carryforwards and tax credits	5,314	6,222	–	–
Gross amount[2]	**188,436**	**152,258**	**51,849**	**42,403**
Valuation allowance on temporary differences	– 422	– 4,059	–	–
Offset[2]	– 67,915	– 60,640	– 67,915	– 60,640
Deferred taxes from consolidation entries	57,709	57,100	19,393	19,560
Carrying amount	**177,808**	**144,659**	**3,327**	**1,323**

[1] Please also refer to note 7 income taxes for changes arising from lease liabilities according to IFRS 16.
[2] Deferred tax liabilities are offset with deferred tax assets on the balance sheet items where these refer to the same taxable entity.

The recoverable amount of the recognized deferred tax assets on 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 1,458 thousand (2018: EUR 15,319 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	2019	2018
Corporate income tax	13,367	16,766
Trade tax and state tax USA	11,982	14,195
	25,349	**30,961**

NON-CAPITALIZED TAX LOSS CARRYFORWARDS

in € thousand	2019	2018
Corporate income tax	40,428	41,619
of which does not expire	40,428	41,619
Trade tax and state tax USA	16,055	14,870
of which does not expire	16,055	14,870
	56,483	**56,489**

Deferred taxes are recognized on loss carryforwards of EUR 10,299 thousand (2018: EUR 12,254 thousand) of the US companies which are subject to an average state tax of 4.73 % (2018: between 2.00 and 4.00 %).

Deferred tax assets are recognized on unclaimed tax credits in the amount of EUR 1,550 thousand (2018: EUR 1,541 thousand).

Theoretically, deferred taxes of EUR 10,745 thousand (2018: EUR 10,712 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 11,612 thousand (2018: EUR 3,972 thousand) were recognized for loss carryforwards and temporary differences. The amounts are recognized on the basis of the 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 673 thousand (2018: EUR 3,689 thousand). The income from the reversal of a previous valuation allowance on deferred tax assets came to EUR 4,060 thousand in fiscal year 2019 (2018: EUR 89 thousand).

Current income taxes of EUR 341 thousand were recognized for the first time in profit or loss in fiscal year 2019 (2018: recognition directly in equity in the amount of EUR 341 thousand) 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 18,099 thousand (2018: increased by EUR 6,424 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	2019	2018
Wages and salaries	934,313	854,904
Social security	168,915	156,687
Pension expenses and related employee benefits	23,147	34,281
	1,126,375	**1,045,872**

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 include severance payments of EUR 6,729 thousand (2018: EUR 2,027 thousand).

HEADCOUNT AS AT THE BALANCE SHEET DATE

	2019	2018
Germany	6,996	6,815
Abroad	7,849	7,584
Total headcount	**14,845**	**14,399**
Production	2,152	2,166
Other	12,693	12,233
Total headcount	**14,845**	**14,399**

HEADCOUNT (AVERAGE)

	2019	2018
Germany	6,951	6,618
Abroad	7,744	7,461
Total headcount	**14,695**	**14,079**
Production	2,174	2,137
Other	12,521	11,942
Total headcount	**14,695**	**14,079**

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 were incurred in the following functional areas:

DISTRIBUTION OF DEPRECIATION / AMORTIZATION ON THE FUNCTIONAL AREAS

in € thousand	2019	2018
Cost of sales	51,757	38,434
Research and development costs	4,828	4,909
Marketing and selling expenses	12,670	4,282
General administrative costs	58,013	37,779
	127,269	**85,403**

Pursuant to IAS 36, checks were performed as at the reporting date to establish whether there are any indications that assets may be impaired. Due to difficult market conditions in certain regions, an asset impairment test was carried out for the cash generating units concerned. For this purpose, the individual companies were identified as cash generating units and, where appropriate, split into Medical Division and Safety Division.

The following impairment losses were recognized in fiscal year 2019:

RECOGNIZED NEED FOR IMPAIRMENT

Cash Genarating Unit[1] in € thousand		Discount rate	Value in use	Recognized need for impairment
Dräger Industria e Comércio Ltda., São Paulo	Medical Division	10.2 %	4,570	498
Dräger Chile Ltda., Santiago	Medical Division	7.8 %	2,880	305
	Safety Division	9.1 %	1,179	327
Dräger Safety do Brasil Equipamentos de Segurança Ltda., São Paulo	Safety Division	11.5 %	2,656	483
Dräger Argentina SA, Buenos Aires	Medical Division	47.7 %	–101	182
	Safety Division	49.0 %	108	74
Draeger Colombia SA, Bogota D.C.	Medical Division	9.6 %	2,692	212
	Safety Division	10.9 %	596	48
Draeger Peru S.A.C., Piso Miraflores-Lima	Medical Division	7.4 %	2,159	118
	Safety Division	8.7 %	–302	59
Draeger Panama Comercial, S. de R.L., Panama	Medical Division	6.1 %	1,052	74
	Safety Division	7.4 %	–7	21
Dräger-Simsa S.A., Santiago	Safety Division	9.1 %	–260	278
Draeger Medikal Ticaret ve Servis Anonim Sirketi, Istanbul	Medical Division	19.2 %	2,403	374
PT Draegerindo Jaya, Jakarta	Medical Division	9.1 %	1,632	49
	Safety Division	10.4 %	1,119	156
Draeger Arabia Co. Ltd., Riyadh	Medical Division	6.7 %	22,285	264
	Safety Division	8.0 %	–213	258
Draeger Safety Taiwan Co., Ltd., Hsinchu City	Safety Division	7.0 %	3,304	57
Draeger New Zealand Limited, Auckland	Safety Division	7.7 %	2,219	143
Draeger Safety Korunma Teknolojileri Anonim Sirketi, Ankara	Safety Division	20.5 %	2,704	47
Draeger Vietnam Co., Ltd., Ho Chi Minh City	Safety Division	10.2 %	–230	13
Dräger South Africa (Pty.) Ltd., Johannesburg	Safety Division	13.1 %	3,620	439
			56,065	**4,478**

[1] Cash generating units for the purpose of the asset impairment test

In fiscal year 2018, impairment losses of EUR 1,331 thousand were recognized on property, plant, and equipment, and in particular office and operating equipment.

Of the impairments of cash generating units, EUR 421 thousand was attributable to the Europe segment, EUR 2,679 thousand to the Americas segment, and EUR 1,379 thousand to the Africa, Asia, and Australia segment. The value in use was calculated on the basis of a future performance indicator, which is based on the discounting of future surpluses taken from the operational five-year plan for the respective cash generating unit. The assessment corresponds to level 3 of the measurement hierarchy.

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 (which include in particular 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

		2019	2018
Net profit	in € thousand	33,790	34,899
less the share of earnings attributable to non-controlling interests	in € thousand	441	544
Earnings attributable to shareholders and holders of participation certificates	**in € thousand**	**33,350**	**34,355**
plus future tax benefits resulting from the hypothetical case of a full distribution on participating equity instruments	in € thousand	3,205	3,302
Earnings attributable to shareholders and holders of participation certificates including the tax benefit	**in € thousand**	**36,555**	**37,657**
less earnings attributable to holders of participation certificates (excluding the minimum dividend of EUR 345 thousand)	in € thousand	11,621	11,973
Earnings attributable to shareholders	**in € thousand**	**24,934**	**25,685**
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 €**	**1.38**	**1.42**
Preference per preferred share	in €	0.06	0.06
Undiluted / diluted earnings per preferred share	**in €**	**1.44**	**1.48**

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 13.03 % (2018: 12.65 %).

As in the prior year, 831,951 Drägerwerk AG & Co. KGaA participation certificates were issued as at December 31, 2019. 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 AT DECEMBER 31, 2019

in € thousand	Goodwill	Patents, trademarks and licenses	Purchased software	Internally generated intangible assets	Prepayments made	2019 Total
Costs						
January 1, 2019	313,804	34,614	126,037	12,786	1,356	488,597
Additions	–	22	1,460	–	3,664	5,146
Disposals	– 64	–	– 2,581	–	–	– 2,645
Reclassifications	–	25	950	–	– 974	0
Currency translation effects	370	392	523	16	0	1,300
December 31, 2019	**314,110**	**35,053**	**126,388**	**12,802**	**4,046**	**492,399**
Accumulated amortization and impairment losses						
January 1, 2019	4,843	21,327	113,622	12,786	0	152,578
Additions	–	1,623	6,160	43	–	7,827
Disposals	– 64	0	– 2,579	– 43	–	– 2,686
Reclassifications	–	–	0	–	–	0
Currency translation effects	40	385	254	16	–	695
December 31, 2019	**4,819**	**23,335**	**117,457**	**12,802**	**0**	**158,413**
Net carrying value	**309,291**	**11,717**	**8,931**	**0**	**4,046**	**333,985**

INTANGIBLE ASSETS AS AT 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**

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.

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 (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 at December 31, 2019, goodwill of EUR 309.3 million (2018: EUR 309.0 million) was made up of EUR 228.1 million for the Europe segment (2018: EUR 228.0 million), and EUR 81.2 million for the Africa, Asia, and Australia segment (2018: EUR 81.0 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 2020 and 2024 (2018: 2019 to 2023), net sales growth rates of 3.4 % for the Europe region (2018: 3.0 %) and 7.4 % for the Africa, Asia, and Australia region (2018: 6.0 %) are planned, resulting in overall growth for the Group of 5.7 % (2018: 4.7 %) between 2020 and 2024 (2018: 2019 to 2023).

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 4.5 % for Europe (2018: 3.8 %) and 7.9 % for Africa, Asia, and Australia (2018: 5.3 %).

A discount rate of 9.4 % (2018: 9.2 %) before taxes and a growth rate of 1.0 % (2018: 1.0 %) were also taken into account in the current planning for perpetual annuity of the Europe segment. A discount rate of 10.3 % (2018: 10.3 %) before taxes and a growth rate of 1.0 % (2018: 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.

Even if the perpetual annuity was to grow by 0 % or the discount rate were to increase by another 1 percentage point, no impairment loss would have to be recognized. A reduction in the average EBIT margin by half a percentage point would also not lead to any impairment requirement.

21 PROPERTY, PLANT, AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT AS AT DECEMBER 31, 2019

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	2019 Total
Costs							
January 1, 2019	488,707	113,283	431,664	83,838	11,092	30,866	1,159,450
Additions	3,878	3,579	21,133	4,152	–	31,310	64,052
Disposals	– 6,905	– 3,701	– 19,372	– 2,703	–	– 26	– 32,707
Reclassifications	4,495	3,824	15,266	760	– 11,092	– 24,344	– 11,092
Reclassifications of rental and demo equipment	–	–	2,072	7,644	–	–	9,716
Currency translation effects	2,159	986	3,233	1,416	–	237	8,031
December 31, 2019	**492,335**	**117,971**	**453,995**	**95,106**	**0**	**38,043**	**1,197,450**
Accumulated depreciation and impairment losses							
January 1, 2019	240,886	97,201	323,195	66,809	2,240	11	730,341
Additions	17,156	4,923	42,168	12,826	–	–	77,073
Write-ups	– 2	– 2	– 30	– 100	–	–	– 134
Disposals	– 5,462	– 3,665	– 18,207	– 2,248	–	–	– 29,581
Reclassifications	0	– 13	429	– 417	– 2,240	–	– 2,240
Reclassifications of rental and demo equipment	–	–	699	– 625	–	–	74
Currency translation effects	1,012	843	2,278	1,262	–	2	5,397
December 31, 2019	**253,589**	**99,288**	**350,533**	**77,507**	**0**	**12**	**780,930**
Net carrying value	**238,746**	**18,683**	**103,462**	**17,598**	**0**	**38,031**	**416,520**

PROPERTY, PLANT, AND EQUIPMENT AS AT 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**

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.

Depreciation, amortization and impairment losses are contained in the cost of sales and the other functional costs (see also note 9).

Right-of-use assets from leases pursuant to IFRS 16 are recognized in the separate ›right-of-use assets‹ item on the balance sheet (see also note 37). Assets leased within the scope of finance leases in fiscal year 2018 included real estate in the amount of EUR 8,611 thousand and factory and office equipment of EUR 241 thousand.

As in the prior year, no borrowing costs for additions for new buildings were recognized in fiscal year 2019.

22 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Dräger holds shares in two associates. As in prior years, one of these associates is MAPRA Assekuranzkontor GmbH, Lübeck, an insurance broker, in which Dräger holds 49 % of the shares and over which Dräger exercises significant influence. The fiscal year of this associate ends as at December 31. In addition, 30 % of shares in Canadian software developer Focus Field Solutions Inc., St John's, Canada, a leading provider of industrial safety solutions to digitalize critical employee and system workflow data, were acquired in July 2019. The fiscal year of this associated company ends as at March 31 due to corporate law.

Both associated companies are included in the Group financial statements and accounted for using the equity method. There are no active market prices for either of these associates. No impairment losses were required for the associates in fiscal year 2019.

As the associates in and of themselves and when taken as a whole are not material, Dräger exercises the option to use the simplified consolidated method.

The following figures relating to MAPRA Assekuranzkontor GmbH are based on the most-recently published annual financial statements and in the case of Focus Field Solutions Inc. on the most-recent interim financial statements.

FINANCIAL INFORMATION ON ASSOCIATES

in € thousand	2019	2018
Carrying value of the Group shares of associates	2,475	395
Share in the profits from continued operations / total profits of the associates	198	266
Distributions received	245	245

In working groups together with other partners, Dräger Engineered Solutions offers fire training facilities for firefighters. As at the balance sheet date, Dräger is involved in seven (2018: one) working groups, which are accounted for as joint ventures using the equity method. The holding amount is between 40.0 % and 77.0 % (2018: 64.46 %). These working groups do not generate any income of their own and their shares were not purchased. As a result, these do not need to be presented in the consolidated balance sheet nor does any financial information need to be presented. As their business in and of itself and when taken as a whole 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

			2019			2018
in € thousand	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	709,162	1,499	710,661	706,924	2,518	709,442
Contract assets	38,152	–	38,152	33,012	–	33,012
less risk provisions	–36,618	–	–36,618	–36,055	–	–36,055
	710,696	**1,499**	**712,195**	**703,882**	**2,518**	**706,400**

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.

24 OTHER FINANCIAL ASSETS

OTHER FINANCIAL ASSETS

			2019			2018
in € thousand	Current	Non-current	Total	Current	Non-current	Total
Notes receivable	14,390	–	14,390	13,574	–	13,574
Security deposits paid	3,947	5,589	9,536	2,562	6,078	8,640
Other investments	–	6,315	6,315	–	6,383	6,383
Positive fair values of derivatives	3,186	487	3,673	6,859	1,629	8,488
Finance lease receivables (lessor)	417	1,757	2,174	442	1,596	2,038
Creditors with debit balances	2,061	–	2,061	2,038	–	2,038
Receivables from employees	1,262	–	1,262	1,339	–	1,339
Receivables from commissioning agents	331	–	331	9,126	–	9,126
Other loans	–	189	189	–	1,580	1,580
Receivables from associates	6	–	6	2	–	2
Sundry financial assets	3,069	1,163	4,233	1,440	679	2,119
	28,669	**15,501**	**44,170**	**37,383**	**17,946**	**55,328**

Other financial assets of EUR 9,555 thousand (2018: EUR 182 thousand) are subject to bad debt allowance (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 0 thousand (2018: EUR 9,126 thousand) are overdue by more than 120 days.

Sundry non-current financial assets include other non-current securities of EUR 708 thousand (2018: EUR 664 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	2019	2018
Finished goods and merchandise	261,662	252,558
Work in progress	61,664	56,799
Raw materials, consumables and supplies	158,320	146,545
Prepayments made	3,511	3,284
	485,158	**459,186**

The carrying value of inventories written down to their net realizable value as at December 31, 2019 is EUR 223,806 thousand (2018: EUR 196,994 thousand).

Impairment losses of EUR 28,348 thousand (2018: EUR 28,968 thousand) were charged on inventories in the fiscal year and recognized in cost of sales. However, EUR 6,987 thousand (2018: EUR 6,895 thousand) of impairments recognized in prior years were reversed through profit or loss, as the reasons for the impairment losses no longer applied.

Finished goods and merchandise comprise rental and demo equipment lent to customers in the short term worth EUR 12,447 thousand (2018: EUR 10,544 thousand). Loan and demo equipment is usually taken over by the customers after a short period of time and is therefore disclosed in inventories. Appropriate allowances were made for wear and tear over the period of use.

During the fiscal year, inventories with a carrying value of EUR 1,015,307 thousand (2018: EUR 951,793 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 at the balance sheet date amount to EUR 7,879 thousand (2018: EUR 4,347 thousand). These restrictions primarily concerned currency export restrictions and other contractual and legal limitations.

27 OTHER ASSETS

OTHER ASSETS

	2019			2018		
in € thousand	Current	Non-current	Total	Current	Non-current	Total
Prepaid expenses	24,678	–	24,678	27,388	–	27,388
Other tax refund claims	28,390	–	28,390	26,676	–	26,676
Fund assets from pension plans	–	106	106	–	98	98
Sundry	6,136	3,803	9,939	5,787	2,979	8,766
	59,204	**3,910**	**63,114**	**59,851**	**3,077**	**62,928**

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 three (2018: two) foreign subsidiaries of EUR 3,766 thousand (2018: EUR 2,832 thousand).

28 EQUITY

For the breakdown and changes in equity in fiscal years 2019 and 2018, 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 (2018: 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. However, the exclusion of the subscription right can, in this event, be conducted 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 the subscription right in direct application or application mutatis mutandis of Sec. 186 (3) sentence 4 AktG and 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 the subscription right in application mutatis mutandis of Sec. 186 (3) sentence 4 AktG, does not exceed 10 % of the share capital either at the time that this authorization comes into effect or at the time the new shares are issued;

(iv) if this is necessary in order to grant holders or creditors of warrant and / or convertible bonds with option and / or conversion rights and obligations that are issued by the company or one of the companies in which it holds a majority interest a right to subscribe to new shares in the extent to which they would be entitled after exercising the option or conversion rights or after fulfilling option or conversion obligations.

The proportion of the 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 following the preparation of this report.

DISCLOSED REPORTABLE INVESTMENTS

Reporter	Date that thresholds were exceeded or undercut	Reporting threshold	Allocation pursuant to WpHG	Investment	Investment in voting rights
Brandes Investment Partners, L.P., San Diego, USA	12. Februar 2019	5 % exceeded	Sec. 34	5.01 %	508,527
Brandes Investment Partners, L.P., San Diego, USA	18. Juni 2019	5 % undercut	Sec. 34	4.99 %	507,816

[1] Disclosure as a result of changes to directly or 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 2019 by the companies included in the Group financial statements, where they were not attributed to minority interests or paid as a dividend by Drägerwerk AG & Co. KGaA. The actual tax benefit from the tax deductibility of the distribution on participation certificates, which relates to the participation capital recognized in equity, was recognized directly in retained earnings. Effects from the remeasurements of the Company's pension provisions, including deferred taxes, are also included in retained earnings.

Other effects, which reduced retained earnings, mainly comprise the distribution to shareholders and participation certificate holders (EUR 4,001 thousand; 2018: EUR 11,042 thousand).

Retained earnings, including Group result, therefore changed as follows:

RETAINED EARNINGS, INCL. GROUP RESULT

in € thousand	2019	2018
Reserves retained from earnings, incl. Group result as at January 1	790,039	780,913
Adjustments due to amended accounting standards as at January 1	–	–2,604
Changes from remeasurements of pension plans (after taxes)	–40,226	–11,920
Net profit for the year (excluding non-controlling interests)	33,350	34,355
Other effects	–4,001	–10,704
Reserves retained from earnings, incl. Group result as at December 31	**779,162**	**790,039**

Own shares within the scope of the employee share program

In fiscal year 2019, 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 52.85 (which is lower than the closing price of the preferred shares in Xetra trading on the last trading day before the start of the acquisition period, November 22, 2019 of EUR 56.20). 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 4, 2019 and ended on November 13, 2019. During this period, 11,939 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 11,939 bonus shares were acquired for Dräger on the stock exchange in the period from November 4 to November 21, 2019, by the paying agent on a commission basis in the form of a share buyback at a total cost of EUR 659 thousand. The price on the stock exchange amounted to an average of EUR 55.23. The total price for investment and bonus shares, acquired for and on behalf of Dräger, totals EUR 2,637 thousand. Of this amount, EUR 1,893 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 745 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 at the date of resolution or – if this value is lower – as at 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 effected by the stock exchange, or by means of a public purchase offer to all holders of the respective type of share or by means of a public invitation to all holders of the respective type of share to submit offers for sale.

If the shares are acquired on the stock market, the purchase price paid by the Company per share of the same class (excluding incidental acquisition costs) may not be more than 10 % 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 and 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, 2018	**–21,494**	**–1,399**	**70**	**–22,822**
Reclassification to retained earnings due to changes in accounting standards				
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
December 31, 2018 / January 1, 2019	**–17,718**	**–2,078**	**0**	**–19,796**
Currency translation differences	9,489	–	–	9,489
Effect in profit or loss of the final consolidation of a subsidiary	–	–	–	0
Change from the remeasurement of cash flow hedge instruments	–	–16,239	–	–16,239
Reclassification to the income statement	–	12,037	–	12,037
Deferred taxes recognized directly in equity	–	1,160	–	1,160
December 31, 2019	**–8,229**	**–5,120**	**0**	**–13,350**

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 in fiscal year 2018 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 at the balance sheet date:

EQUITY AND LIABILITIES

in € million	2019	2018
Equity interest held by shareholders of Drägerwerk AG & Co. KGaA	1,074.8	1,079.2
+ Non-controlling interests	1.6	1.4
Equity of the Dräger Group	1,076.4	1,080.7
Share of total equity and liabilities	41.9 %	44.8 %
Non-current liabilities	748.0	606.2
Current liabilities	746.6	723.3
Total liabilities	1,494.6	1,329.5
Share of total equity and liabilities	58.1 %	55.2 %
Total equity and liabilities	**2,570.9**	**2,410.2**

The Dräger Group's gearing had developed as follows as at the balance sheet date:

GEARING

in € million	2019	2018
Non-current interest-bearing loans	118.6	125.1
+ Current interest-bearing loans and liabilities to banks	51.0	90.1
+ Non-current and current liabilities from finance lease	115.4	7.7
– Cash and cash equivalents	–196.3	–179.6
Net financial debt	**88.7**	**43.3**
Equity	1,076.4	1,080.7
Gearing (= net financial debt / equity)	**0.08**	**0.04**

As at December 31, 2019, the Dräger Group held bilateral credit lines of EUR 220 million due on June 30, 2022 to secure its liquidity (the agreement concerning guarantee and letter of credit facilities with no effect on liquidity of EUR 157 million continued to apply). 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 fines. 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	2019	2018	2019	2018
Dräger-Simsa S.A.	745	691	109	84
Dräger South Africa Pty. Ltd.	807	732	331	460
Other	3	3	1	–
	1,556	**1,426**	**441**	**544**

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 21 thousand (2018: EUR −210 thousand) only include exchange rate differences.

TRANSACTIONS WITH NON-CONTROLLING INTEREST WITHOUT A LOSS OF CONTROL

in € thousand	2019	2018
Carrying amount of the acquired non-controlling interest	–	–
Purchase price of the acquired non-controlling interest	–	−3
Difference between the purchase price and the carrying amount	**0**	**−3**

30 PARTICIPATION CAPITAL / LIABILITIES FROM PARTICIPATION CERTIFICATES

PARTICIPATION CAPITAL / LIABILITIES FROM PARTICIPATION CERTIFICATES 2019

	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**	**11,253,525.22**	**32,840,345.57**

Accumulated interest effect until 2018 (for remaining participation certificates after buyback)	13,583,420.65	–
Compensation for participation certificate holders in 2010 (for remaining participation certificates after buyback)	–	–3,343,471,.88
Compounding 2019	1,145,807.97	–
Recognition as at December 31, 2019	**25,987,753.84**	**29,496,873.69**

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
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 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 at December 31, 2018	**24,841,945.87**	**29,496,873.69**

FAIR VALUE

	2019			2018		
	Number	Price on December 31	Fair value	Number	Price on December 31	Fair value
		€	€		€	€
Series A until June 1991	195,245	235.00	45,882,575.00	195,245	270.00	52,716,150.00
Series K until June 27, 1997	69,887	226.00	15,794,462.00	69,887	232.00	16,213,784.00
Series D from June 28, 1997	566,819	235.00	133,202,465.00	566,819	265.00	150,207,035.00
	831,951		**194,879,502.00**	**831,951**		**219,136,969.00**

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 2019 as well as in the prior year, no participation certificates were issued nor 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 at 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 at 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 contribution 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 at December 31, 2019, 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 some 90.7 % (2018: 91.3 %) of the provisions for pensions and similar obligations disclosed as at the balance sheet date. As of January 1, 2005, the new company pension plans ›Rentenplan 2005‹ and ›Führungskrafteversorgung 2005‹ came into effect for almost all employees of the Dräger Group's German companies, superseding the ›Versorgungsordnung '90‹ and ›Ruhegeldordnung '90‹ schemes.

Under the previous pension plans, 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 2005.

The new pension plan is based on contributions into three components:

– employer-funded basic level
– employee-funded top-up level (deferred compensation)
– employer-funded supplementary level

The pension cost for the employer-funded basic level is based on the respective employee's income. In the employee-funded top-up level, employees can 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). When the pension is drawn, the pension benefit is calculated on the basis of the saved pension volume and an age-based annuitization factor.

The changes to the ›Rentenplan 2019‹ and ›Führungskräfteversorgung 2019‹ mark a continuation of this basic structure. Besides structural changes to the calculation of contributions, changes have also been made to the minimum guaranteed return and the calculation of the annuitization factor in line with the changing framework conditions.

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. Until December 31, 2018, the employees' pension accounts had a minimum guaranteed return of 2.75 % annually. This minimum guaranteed return was lowered to 0.9 % annually for pension capital paid in from fiscal year 2019. Hence, the assets of this fund fulfill the criteria of plan assets pursuant to IAS 19, the EUR 164,876 thousand (2018: EUR 137,152 thousand) in assets secured by the CTA were offset against the gross pension obligations in fiscal year 2019. Additions to the CTA of EUR 11,128 thousand are expected for fiscal year 2020 (in 2018 for fiscal year 2019: EUR 10,732 thousand).

The available excess of plan assets over the relevant pension obligations totaling EUR 106 thousand (2018: EUR 98 thousand) is disclosed under other non-current assets (see note 27).

The defined benefit pension plans of Dräger Schweiz AG, which use the BVG 2010 generation tables as a basis of calculation, account for 2.5 % (2018: 2.2 %) of the provisions for pensions and similar obligations disclosed as at 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 at 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 guarantee return commitment of 2.75 % on paid in pension capital by December 31, 2018 and 0.9 % for paid in pension capital from fiscal year 2019, Dräger must compensate for the actual return on fund assets if it falls below this minimum guaranteed amount.
- 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	2019	2018
Carrying amount of benefit obligations with plan assets	376,755	305,546
Present value of plan assets	–238,836	–202,205
Underfunded pension plans	**137,919**	**103,342**
Carrying amount of benefit obligations without plan assets	252,914	235,856
Net obligation as at December 31	**390,833**	**339,197**
Available excess of plan assets	106	98
Provisions for pensions and similar obligations	**390,939**	**339,295**

Changes in the net obligation are as follows:

CHANGES IN THE PROJECTED BENEFIT OBLIGATIONS AND PLAN ASSETS

			2019			2018
in € thousand	Projected benefit obligation	Fair value of plan assets	Total	Projected benefit obligation	Fair value of plan assets	Total
January 1	**541,402**	**–202,205**	**339,197**	**508,995**	**–196,099**	**312,895**
Service costs	10,708	–	10,708	19,646	–	19,646
Interest income (-)/interest expense (+)	8,935	–3,097	5,837	8,251	–2,906	5,345
Past service costs	–1,624	–	–1,624	1,887	–	1,887
Other effect on profit or loss	36	–	36	–25	–	–25
Changes recognized in profit or loss	**18,055**	**–3,097**	**14,958**	**29,759**	**–2,906**	**26,853**
Return on plan assets excluding amounts included in interest	–	–20,889	–20,889	–	10,189	10,189
Revaluations from changes to demographic assumptions	1	–	1	5,700	–	5,700
Revaluations from changes to financial assumptions	71,601	–	71,601	–2,241	–	–2,241
Revaluations from adjustment to empirical values	6,453	–	6,453	4,124	–	4,124
Changes in other comprehensive income	**78,055**	**–20,889**	**57,165**	**7,582**	**10,189**	**17,771**
Benefits paid	–16,592	3,767	–12,825	–16,912	4,047	–12,865
Employee contributions	4,432	–4,420	12	4,615	–4,615	0
Employer contributions	–	–9,276	–9,276	–	–10,522	–10,522
Transfer from obligations and other effects	1,291	–202	1,089	4371,3	53	4,424
Currency changes	3,026	–2,514	512	2,991	–2,351	640
Other changes	**–7,843**	**–12,645**	**–20,488**	**–4,934**	**–13,388**	**–18,322**
December 31	**629,668**	**–238,836**	**390,833**	**541,402**	**–202,205**	**339,197**
Net obligation as at December 31			**390,833**			**339,197**

Service costs and past service costs are included under personnel expenses.

Plan assets are composed as follows:

COMPOSITION OF PLAN ASSETS

			2019			2018
in € thousand	Active market	No active market	Total	Active market	No active market	Total
Cash and cash equivalents	3,352	–	3,352	11,892	–	11,892
Equity instruments	25,093	–	25,093	22,016	–	22,016
Securities	61,018	1,213	62,231	37,250	883	38,133
Debt instruments	128,775	–	128,775	108,467	–	108,467
Real estate	7,694	–	7,694	9,344	–	9,344
Other	11,689	–	11,689	12,352	–	12,352
			238,836			**202,205**

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 12,951 thousand (2018: EUR 12,974 thousand).

The following actuarial assumptions were made in measuring the projected benefit obligation (weighted averages):

ACTUARIAL ASSUMPTIONS

		2019		2018
in %	Germany	Abroad	Germany	Abroad
Discount rate	1.10	0.65	1.75	1.31
Future wage and salary increases	3.00	1.76	3.00	1.71
Future pension increases	1.15	0.29	1.36	0.31

In fiscal year 2019, Dräger rounded the actuarial discounting rate to 10 basis points (2018: 25 basis points) as part of the interest calculation method for domestic pension obligations. Compared to the interest calculation method used in the prior year, the change resulted in a fall in pension obligations of EUR 12,588 thousand.

The weighted average term of the defined benefit obligation in the fiscal year is 20 years (2018: 20 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

	2019			2018		
	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	16.6 % decrease	0.9 % increase	4.8 % increase	15.9 % decrease	1.1 % increase	4.5 % increase
Effect on the projected benefit obligation if the assumption decreases	22.6 % increase	0.5 % decrease	4.8 % decrease	21.3 % increase	0.7 % decrease	4.5 % decrease

The sensitivity analyses were performed using the same calculation method used for the determination of defined benefit obligations; 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 2019

in € thousand	2020	2021	2022 to 2024	> 2024	Total
Expected pension payments	16,978	17,446	55,475	888,580	978,478

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

Expenses for additional benefits to pensioners of EUR 2,372 thousand (2018: EUR 2,176 thousand) were recognized in fiscal year 2019.

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 41,421 thousand (2018: EUR 38,646 thousand) in fiscal year 2019. In addition, the cost of other defined contribution plans came to EUR 11,655 thousand (2018: EUR 10,597 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	2019 Total
January 1	117,418	36,380	2,757	5,332	85,463	247,350
Allocation	100,024	27,273	233	3,424	61,054	192,007
Accumulation of interest	295	2	4	–	47	348
Utilization	–75,540	–16,882	–1,553	–3,952	–50,621	–148,549
Reversal	–5,081	–2,984	–178	–210	–9,713	–18,165
Reclassifications	18	–	–	–	–18	0
Currency translation effects	749	238	–5	–3	537	1,517
December 31	**137,883**	**44,027**	**1,259**	**4,591**	**86,748**	**274,508**

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 at 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 at 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 41,271 thousand (2018: EUR 40,266 thousand), the amount of which is not sufficiently certain. These mainly relate to provisions for services received that have not yet been settled; as a result, the amount of these provisions has not been finalized. In addition, obligations for the audit of financial statements of EUR 1,800 thousand (2018: EUR 2,054 thousand) were set aside, as were obligations for customer bonuses of EUR 7,451 thousand (2018: EUR 6,205 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 to 5 years	more than 5 years	Total
Provisions for personnel and welfare obligations	101,161	25,995	10,728	137,883
Warranty provisions	27,545	16,482	–	44,027
Provisions for potential losses	1,224	34	–	1,259
Provisions for commissions	4,591	–	–	4,591
Provisions for other obligations in the normal course of business	80,599	6,149	–	86,748
	215,120	**48,660**	**10,728**	**274,508**

33 INTEREST-BEARING LOANS AND LIABILITIES TO BANKS

INTEREST-BEARING LOANS AND LIABILITIES TO BANKS

	2019					2018				
	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	51,009	41,522	17,061	58,583	109,592	90,098	40,836	24,266	65,102	155,199
Note loans (issued 2011 and 2016)	–	59,986	–	59,986	59,986	–	59,974	–	59,974	59,974
	51,009	**101,508**	**17,061**	**118,569**	**169,578**	**90,098**	**100,810**	**24,266**	**125,076**	**215,173**

The note loans in place as at 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

			2019			2018
	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	37,729	fixed	0.75 – 5.1	49,028
EUR	variable	1.46	14,514	variable	1.46	14,987
ZAR	fixed	8.8	4,750	fixed	8.8	814
MYR	fixed	4.7	1,438	fixed	–	–
INR	fixed	–	–	fixed	9.45	10
Other	fixed	13.0 – 17.0	152	fixed	14.0 – 17.0	262
			58,583			**65,102**
Non-current note loans						
EUR	fixed	0.8	59,986	fixed	0.8	59,974
			59,986			**59,974**
Total non-current loans and liabilities to banks			**118,569**			**125,076**
Current liabilities to banks						
EUR	variable	0.85 – 7.0	2,800	variable	0.85 – 7.0	30,153
EUR	fixed	0.75– 5.1	11,299	fixed	0.75 – 5.1	11,259
USD	variable	–	–	variabel	3,98	13.096
USD	fixed	3,25 – 3,98	8.282	fix	–	–
INR	variable	9.4 – 11.16	8,470	variable	9.17 – 9.95	11,841
IDR	fixed	9.65	4,121	fixed	–	–
PEN	fixed	5.5 – 12.5	3,524	variable	5.85 – 12.39	3,526
SAR	fixed	3.3 – 3.4	2,136	fixed	3.3 – 3.4	2,095
JPY	fixed	0.84	2,461	fixed	0.83	5,622
CNY	fixed	4.35	2,560	fixed	4.57	2,539
CNY	variable	5.3	1,280	variable	5.3 – 5.6	5,495
INR	fixed	9.45	10	fixed	9.45	10
MYR	fixed	4.7	392	fixed	–	–
Other	fixed	0.0 – 17.0	2,916	fixed	6.28 – 17.0	4,462
Other	variable	0.3 – 12.75	757	variable	–	–
			51,009			**90,098**
Total current loans and liabilities to banks			**51,009**			**90,098**

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 27.1 million) have been secured with a mortgage of EUR 55 million. The finance for the new production and logistics building for the business area Infrastructure Projects 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 8.2 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 2019.

34 OTHER FINANCIAL LIABILITIES

OTHER FINANCIAL LIABILITIES

in € thousand	2019 Current	2019 Non-current 1 year to 5 years	2019 Non-current more than 5 years	2019 Non-current Total	2019 Total	2018 Current	2018 Non-current 1 year to 5 years	2018 Non-current more than 5 years	2018 Non-current Total	2018 Total
Trade payables to third parties	**205,106**	**662**	**–**	**662**	**205,767**	**201,438**	**–**	**–**	**0**	**201,438**
Other financial liabilities										
Lease liabilities (2018: Finance lease liabilities-lessee)	34,136	55,746	25,542	81,288	115,424	291	803	6,560	7,363	7,654
Negative fair values of derivative financial instruments	13,474	2,435	–	2,435	15,909	9,434	3,289	0	3,289	12,723
Repayment obligation Draeger Arabia Co. Ltd.	–	12,316	–	12,316	12,316	–	13,066	0	13,066	13,066
Liabilities to employees	7,128	–	–	0	7,128	7,422	–	–	0	7,422
Debtors with credit balances	5,792	–	–	0	5,792	5,634	–	–	0	5,634
Liabilities to Drägerwerk Verwaltungs AG	1,587	–	–	0	1,587	3,590	–	–	0	3,590
Liabilities from accrued loan interest	580	–	–	0	580	500	–	–	0	500
Distribution for participation capital	345	–	–	0	345	345	–	–	0	345
Liabilities to associates	0	–	–	0	0	3	–	–	0	3
Other financial liabilities	7,618	2,034	–	2,034	9,652	7,057	1,148	–	1,148	8,205
	70,660	**72,532**	**25,542**	**98,074**	**168,734**	**34,277**	**18,306**	**6,560**	**24,866**	**59,142**
	275,766			**98,735**	**374,502**	**235,715**			**24,866**	**260,581**

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 at the date of termination. They are subsequently accounted for at amortized cost.

For an explanation of 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

	2019			2018		
in € thousand	Current	Non-current	Total	Current	Non-current	Total
Contractual liabilities	104,873	25,972	130,845	94,947	20,101	115,048
Deferred other income	312	6,203	6,516	913	6,727	7,640
Other tax liabilities	42,982	–	42,982	41,810	–	41,810
Other liabilities to employees and for social security	31,145	–	31,145	32,064	–	32,064
Remaining other liabilities	2,521	235	2,756	3,437	2,235	5,672
	181,833	**32,410**	**214,243**	**173,171**	**29,064**	**202,235**

Contractual liabilities are composed of accrued net sales of EUR 81,347 thousand (2018: EUR 69,842 thousand) and of prepayments received of EUR 49,498 thousand (2018: EUR 45,206 thousand).

Other deferred income includes accruals of other income.

36 FINANCIAL INSTRUMENTS

A. 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:

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

in € thousand	Classification	2019	2018
Financial assets			
Equity and debt instruments	Fair value through profit or loss	6,905	6,929
Derivatives (without hedging relation)	Fair value through profit or loss	2,528	5,808
Derivatives (cash flow hedge)	Recognized directly in equity in other comprehensive income	1,145	2,680
Trade receivables and receivables from construction contracts/contract assets	Amortized cost	712,195	706,400
Other financial assets	Amortized cost	33,592	39,912
Cash and cash equivalents	Amortized cost	196,314	179,561
		952,680	**941,289**
Financial liabilities			
Trade payables	Amortized cost	205,106	201,438
Loans and liabilities to banks	Amortized cost	169,578	215,173
Other financial liabilities	Amortized cost	178,813	71,262
Derivatives (with hedging relation)	Recognized directly in equity in other comprehensive income	12,447	3,415
Derivatives (without hedging relation)	Fair value through profit or loss	3,462	9,308
		569,405	**500,596**

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 2019.

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 – ASSETS

	2019					2018				
	Carrying amount	Fair value				Carrying amount	Fair value			
in € thousand		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
Financial assets – at amortized cost										
Trade receivables and contract assets	712,195	–	–	–	0	706,400	–	–	–	0
Other financial assets	33,592	–	33,678	–	33,678	39,912	–	39,892	–	39,892
Cash and cash equivalents	196,314	–	–	–	–	179,561	–	–	–	–
	942,101	**0**	**33,678**	**0**	**33,678**	**925,873**	**0**	**39,892**	**0**	**39,892**
Financial assets – recognized directly in equity in other comprehensive income										
Derivatives (with hedging relation)	1,145	–	1,145	–	1,145	2,680	–	2,680	–	2,680
	1,145	**–**	**1,145**	**–**	**1,145**	**2,680**	**–**	**2,680**	**–**	**2,680**
Financial assets – at fair value through profit and loss										
Derivatives (without hedging relation)	2,528	–	2,528	–	2,528	5,808	–	5,808	–	5,808
Equity instruments	6,315	–	–	6,315	6,315	6,383	–	–	6,383	6,383
Debt instruments	590	590	–	–	590	546	546	–	–	546
	9,433	**590**	**2,528**	**6,315**	**9,433**	**12,736**	**546**	**5,808**	**6,383**	**12,736**
	952,680	**590**	**37,351**	**6,315**	**44,256**	**941,289**	**546**	**48,380**	**6,383**	**55,308**

FINANCIAL INSTRUMENTS – EQUITY AND LIABILITIES

	2019					2018				
	Carrying amount	Fair value				Carrying amount	Fair value			
in € thousand		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
Financial liabilities – at amortized cost										
Trade payables	205,106	–	–	–	0	201,438	–	–	–	0
Loans and liabilities to banks	169,578	–	166,880	–	166,880	215,173	–	210,779	–	210,779
Other financial liabilities	178,813	–	180,418	–	180,418	71,262	–	71,258	–	71,258
	553,497	**0**	**347,299**	**0**	**347,299**	**487,874**	**0**	**282,037**	**0**	**282,037**
Financial liabilities – recognized directly in equity in other comprehensive income										
Derivatives (with hedging relation)	12,447	–	12,447	–	12,447	3,415	–	3,415	–	3,415
	12,447	**–**	**12,447**	**–**	**12,447**	**3,415**	**–**	**3,415**	**–**	**3,415**
Financial liabilities – at fair value through profit and loss										
Derivatives (without hedging relation)	3,462	–	3,462	–	3,462	9,308	–	9,308	–	9,308
	3,462	**0**	**3,462**	**0**	**3,462**	**9,308**	**0**	**9,308**	**0**	**9,308**
	569,405	**0**	**363,208**	**0**	**363,208**	**500,596**	**0**	**294,760**	**0**	**294,760**

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 2.33 % for cash flows in 2020 and 2.61 % for cash flows in 2025 relating to loans and liabilities to banks, as well as 2.0 % for cash flows in 2020 and 15.6 % for cash flows in 2021 relating to other financial liabilities. 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 not based on observable market data for the measurement of financial assets and liabilities (unobservable input factors). These are classified as level 3 when there is an unobservable input factor present that significantly influences the measurement. 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 2019 is composed as follows:

NET PROFIT OR LOSS FROM FINANCIAL INSTRUMENTS

in € thousand	2019	2018
Net profit or loss according to measurement class (IFRS 9)		
Financial assets measured at amortized cost	– 12,775	– 3,515
Assets measured at fair value through profit or loss	44	– 30
Derivatives measured at fair value through profit or loss	– 14,027	– 3,495
Financial liabilities measured at amortized cost	– 1,202	– 926
	– 27,959	**– 7,966**

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.

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	2019	2018
Interest result according to measurement class (IFRS 9)		
Financial assets measured at amortized cost	3,571	3,958
Debt instruments measured at fair value through profit or loss	9	10
Financial liabilities measured at amortized cost	– 7,813	– 8,112
	– 4,233	**– 4,144**

B. 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 shed light on financial risks posed to the Dräger Group and mitigate them through suitable measures. 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.

The following derivative financial instruments were held as at the balance sheet date:

DERIVATIVE FINANCIAL INSTRUMENTS

	Nominal volume						Fair value
				Assets			Equity and liabilities
in € thousand		Non-current	Current	Total	Non-current	Current	Total
2019							
Currency forwards							
Without a hedging relationship recognized in the balance sheet	326,301	306	2,222	2,528	160	3,301	3,462
In conjunction with cash flow hedges	518,802	181	964	1,145	659	10,172	10,831
	845,103	**487**	**3,186**	**3,673**	**819**	**13,474**	**14,293**
Interest rate swap							
In conjunction with cash flow hedges	12,191	–	–	0	1,616	–	1,616
	857,294	**487**	**3,186**	**3,673**	**2,435**	**13,474**	**15,909**
2018							
Currency forwards							
Without a hedging relationship recognized in the balance sheet	434,439	889	4,919	5,808	257	6,689	6,945
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**	**927**	**9,434**	**10,360**
Interest rate swap							
In conjunction with cash flow hedges	12,933	–	–	0	2,362	–	2,362
	715,127	**1,629**	**6,859**	**8,488**	**3,289**	**9,434**	**12,723**

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 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 (see ≣ note 30) and note loans due in fiscal year 2021. A loan agreement remains in place with the European Investment Bank (EIB) that can be utilized in individual tranches with terms of five years; so far, the loan has not been disbursed. 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 2019

in € thousand	2020	2021	2022 until 2024	after 2025	Total
Derivative financial liabilities					
Foreign currency derivatives – cash outflow	513,594	68,862	4,966	–	587,422
Foreign currency derivatives – cash inflow	–495,755	–67,331	–4,601	–	–567,687
Interest rate swap – cash outflow	496	479	574	–	1,549
	18,335	**2,010**	**939**	**0**	**21,284**
Non-derivative financial liabilities					
Liabilities from participation certificates	345	3,299	762	32,741	37,147
Interest-bearing loans and liabilities to banks	52,224	16,204	87,965	18,358	174,750
Trade payables	205,106	662	–	–	205,767
Other financial liabilities	57,187	41,101	50,148	50,575	199,011
	314,861	**61,265**	**138,875**	**101,674**	**616,676**
	333,196	**63,275**	**139,814**	**101,674**	**637,960**

MATURITIES OF FINANCIAL LIABILITIES 2018

in € thousand	2019	2020	2021 until 2023	after 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**

Currency risk

The Group's currency risks relate to the financial instruments denominated in foreign currencies and used in connection with operating activities or investing and financing activities.

Our currently risk management system aims to reduce the impact of exchange rate fluctuations on Group EBIT, taking into account the economic viability of the hedging methods applied. Currency risks resulting from the consolidation of the balance sheets and income statements of foreign subsidiaries (currency translation risk) are generally not hedged. Currency risks are netted by offsetting income and costs and assets and liabilities denominated in each currency.

The currency risk from operating activities is determined on the basis of planned cash flows in foreign currencies. Using a cash flow at risk optimization calculation, a currency portfolio is determined that minimizes hedging costs and the diversified currency risk at the same time. The currencies to be hedged are selected so that the currency risk does not exceed a maximum of 1 % of planned annual net sales.

The planned risk positions are hedged at a ratio of 75 % of the planned transaction in the currencies concerned. The recognition of the hedged item in profit or loss results in the hedging ratio being adjusted to 100 %. Risk positions from investing and financing activities are generally hedged at a ratio of 100 % when the assets or liabilities are recognized. Currency futures are used to hedge currency risks.

Dräger has exercised its option to continue to recognize hedge accounting pursuant to IAS 39. The notes have been prepared according to IFRS 7 so that the requirements of IFRS 9 are also met. The effectiveness of the hedging relationships is measured by the cumulative dollar offset method. In this method, only the change in the derivative attributable to the forward rate is designated as the hedging instrument (›forward-to-forward‹). This results in the change in value of the effective hedging instrument being recognized initially in other comprehensive income until the part of the hedged item is recognized in profit or loss. Once the hedged item has been recognized in profit or loss, the changes in the value of the hedging instrument are also recognized in profit or loss and the value changes recognized in equity are reclassified to the income statement (›reclassification adjustment‹).

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 and to determine any potential ineffectivities.

Dräger does not typically renew its hedges by changing the hedging instruments and the hedged items.

There are no planned transactions reflected as part of cash flow hedge accounting, which are no longer expected to occur.

In hedging foreign currency risks posed by recognized assets or recognized liabilities, hedge accounting is not used to recognize hedges. The concluded currency futures are categorized as trading derivatives and measured at fair value through profit or loss.

The nominal volumes of foreign currency hedging instruments are distributed as follows:

NOMINAL VOLUMES OF FOREIGN CURRENCY HEDGING INSTRUMENTS

in € million	Up to 1 year	Residual terms 1 to 5 years	Over 5 years	Total nominal volume December 31	Average hedging rate / price December 31
2019					
Currency futures USD	97.2	24.0	–	121.2	1.1
Currency futures CNY	91.4	22.8	–	114.1	8.1
Currency futures AUD	34.0	7.8	–	41.8	1.7
Currency futures JPY	28.6	7.9	–	36.5	123.6
Currency futures RUB	22.1	4.0	–	26.1	78.2
Currency futures BRL	19.0	4.1	–	23.1	4.7
Currency futures SEK	14.5	3.2	–	17.7	10.6
Currency futures CHF	13.5	2.1	–	15.6	1.1
Currency futures THB	11.8	3.1	–	14.9	35.7
Currency futures CLP	10.4	2.4	–	12.8	815.4
Total other currency areas	86.1	9.0	–	95.0	n / a
2018					
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 CNY	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

The sum of all other currency areas in fiscal year 2019 includes the currency futures for a total of eleven currencies, which only account for 20 % of the total volume in nominal terms.

The effects of these currency hedging transactions on the consolidated balance sheet are as follows:

DISCLOSURES ON ASSURANCE INSTRUMENTS AS PART OF FOREIGN CURRENCY CASH FLOW HEDGES

in € million	Carrying amount	Balance sheet items	Change in fair value to determine ineffectiveness	Nominal volume
2019				
Currency forwards				
Derivative assets	1.1	Other financial assets	1.1	96.4
Derivative liabilities	10.8	Other financial liabilities	10.8	422.4
2018				
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

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
2019			
Designated components	10.2	–5.8	–
2018			
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

				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
2019	–16.3	0.0	Cost of sales	1.2	10.3	Net sales	10.3
2018[1]	–1.6	1.0	Cost of sales	–	0.2	Net sales	0.2

[1] The prior-year values have been adjusted.

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	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
2019	–1.1	–16.3	1.2	10.3	–	–	–5.8
2018	0.4	–1.6	–	0.2	–	–	–1.1

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 at 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

	2019 Influence over		2018 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 %	0.4	–7.6	0.5	0.0
Euro down 10 %	–0.5	9.3	–0.6	0.0
Chinese yuan				
Euro up 10 %	0.1	5.7	0.1	4.6
Euro down 10 %	–0.1	–7.0	–0.1	–5.7

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. 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 three 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 interest rate
in € million	Up to 1 year	1 to 5 years	Over 5 years	December 31	December 31
2019					
Interest rate swap	–	12.2	–	12.2	4.1 %
2018					
Interest rate swap	–	12.6	–	12.6	4.1 %

The effectiveness of this interest-rate hedge is determined at the start of the hedging relationship and by means of periodic 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. 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. Furthermore, a retrospective test was performed to determine the effectiveness of the interest rate swap. Ineffectiveness resulted in the past solely from the consideration of counterparty risk and was contained in fair value. Given that there has been no change in the hedged item and no change is likely, no over-hedging has either taken place or is expected.

The effects of these hedging transactions on the consolidated balance sheet are as follows:

DISCLOSURES ON HEDGING INSTRUMENTS AS PART OF FOREIGN CURRENCY CASH FLOW HEDGES

in € million	Carrying amount	Balance sheet items	Change in fair value to determine ineffectiveness	Nominal volume
2019				
Interest rate swap				
Derivative liabilities	1.6	Other financial liabilities	0.1	12.2
2018				
Interest rate swap				
Derivative liabilities	2.3	Other financial liabilities	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 INTEREST RATE CASH FLOW HEDGES

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
2019			
Designated components	0.1	–1.6	–
2018			
Designated components	0.7	–2.2	–

The effects of interest rate cash flow hedges on the income statement and other comprehensive income are as follows:

DISCLOSURES ON GAINS AND LOSSES FROM INTEREST-RATE CASH FLOW HEDGES

				Reclassifications from the CFH reserve in the income statem-ent			
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
2019	0.1	–	–	–	–0.5	Financial result	–
2018	0.7	–	–	–	–0.5	Financial result	–

The interest rate cash flow reserves pursuant to IFRS 9 are as follows:

DEVELOPMENT OF INTEREST-RATE CASH FLOW HEDGE RESERVES

in € million	January 1	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
2019	–2.2	0.1	–	–0.5	–	–	–1.6
2018	–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 at the balance sheet date, with all other variables remaining the same, would increase earnings after taxes by EUR 577 thousand (2018: EUR 401 thousand) and equity by EUR 138 thousand (2018: EUR 277 thousand).

A hypothetical decrease of 25 basis points in market interest rates as at the balance sheet date, with all other variables remaining the same, would increase earnings after taxes by EUR 48 thousand (2018: EUR 135 thousand) and decrease equity by EUR 59 thousand (2018: EUR 64 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 at the balance sheet date. Trade receivables of EUR 1,441 thousand (2018: EUR 11,940 thousand) were mainly secured by letters of credit and bank guarantees. 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 93 thousand (2018: EUR 50 thousand) was recognized for contract assets in the amount of EUR 36,525 thousand (2018: EUR 33,012 thousand).

According to the simplified approach, a risk provision in the amount of EUR 36,618 thousand (2018: EUR 36,055 thousand) was recognized for gross carrying values totaling EUR 748,813 thousand (2018: EUR 742,455 thousand). Specific bad debt allowances are recognized if there are objective indications that receivables are impaired and are shown in the table.

Risk provisions for trade receivables and contract assets 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, 2019									
Gross carrying amounts of trade receivables and contract assets	517,892	80,033	28,540	17,356	11,326	93,666			748,813
Risk provisions	1,064	216	132	121	80	389	2,002	34,616	36,618
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

The development of risk provisions according to IFRS 9 is as follows:

RECONCILIATION OF RISK PROVISIONS FOR TRADE RECEIVABLES AND CONTRACT ASSETS

in € thousand	Specific bad debt allowances	Risk provisions	Total
January 1, 2018	40,423	3,725	44,148
Allocation	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 / January 1, 2019	**32,928**	**3,126**	**36,055**
Allocation	7,976	477	8,453
Utilization	–3,258	–50	–3,308
Reversal	–3,111	–1,571	–4,682
Currency translation effects	82	19	101
December 31, 2019	**34,616**	**2,002**	**36,618**

Throughout the reporting period, Dräger wrote off trade receivables of EUR 0 thousand (2018: 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 49 thousand (2018: EUR 85 thousand) was recognized for gross carrying values totaling EUR 33,641 thousand (2018: EUR 39,912 thousand).

No reclassifications were made at higher levels of credit due to the unchanged low 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 provisions in level 1 according to IFRS 9 is as follows:

RECONCILIATION OF LEVEL 1 RISK PROVISIONS (EXPECTED LOSSES OVER 12 MONTHS)

in € thousand	Specific bad debt allowances	Risk provisions	Total
January 1, 2018	0	0	0
Allocation	97	85	182
December 31, 2018 / January 1, 2019	**97**	**85**	**182**
Allocation	9,408	0	9,408
Reversal	0	– 36	– 36
December 31, 2019	**9,505**	**49**	**9,555**

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 2019

in € thousand	Gross amounts of financial assets	Amount of netted financial liabilities	Recognized net amount 2019	Unnetted amount of a netting agreement	Net amount 2019
Positive derivative financial instruments	3,673	–	3,673	–	3,673
Cash and cash equivalents	196,314	–	196,314	– 2,056	194,258
	199,988	**0**	**199,988**	**– 2,056**	**197,931**

NETTING OF FINANCIAL LIABILITIES 2019

in € thousand	Gross amounts of financial assets	Amount of netted financial liabilities	Recognized net amount 2019	Unnetted amount of a netting agreement	Net amount 2019
Negative derivative financial instruments	15.909	–	15.909	– 3.592	12.317
Liabilities to banks	109.592	–	109.592	– 205	109.387
	125.500	**0**	**125.500**	**– 3.797**	**121.704**

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 assets	Amount of netted financial liabilities	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**

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

For general accounting principles for leases pursuant to IFRS 16 from January 1, 2019 and pursuant to IAS 17 until December 31, 2018, please refer to our comments in note 7.

A. Dräger Group as lessee

Property leased by the Dräger Group primarily includes real estate as well as office equipment and machinery (particularly the vehicle fleet). The most significant obligations assumed under the lease terms comprise rental payments, the upkeep of the facilities and equipment, insurance, and taxes on capital. Only lease payments are included in the calculation of the right-of-use assets. Lease terms generally range from one to five years with options to renew at varying conditions.

Lessee accounting pursuant to IFRS 16 from January 1, 2019

The carrying amounts and depreciation and amortization of right-of-use assets capitalized within the scope of lessee accounting are split across the following asset classes:

RIGHT-OF-USE ASSETS

in € thousand	Land, equivalent titles and buildings	Other plant, factory and office equipment	Leased equipment	Total
Carrying value as at January 1, 2019, after IFRS 16 adjustments	77,943	28,157	2,677	108,776
Carrying value as at December 31, 2019	79,078	29,483	1,173	109,734
Additions in fiscal year 2019	22,820	19,695	–	42,515
Amortization in fiscal year 2019	–22,521	–18,572	–1,276	–42,369

Lease liabilities and their due dates are presented in note 34. Potential additional payments from options in the amount of EUR 27,872 thousand, where there is no sufficient degree of certainty at the point of measurement that the option will be exercised, were not included in the measurement of lease liabilities.

These leases had the following effects on the income statement in fiscal year 2019:

EXPENSES FROM LEASES IN 2019 (LESSEE)

in € thousand	
Amortization of right-of-use assets	–42,369
Interest expenses for lease obligations	–5,047
Expenses for short-term leases	–3,269
Expenses for low-value leases	–2,315
Expenses for variable lease payments	–6
	–53,006

In fiscal year 2019, income from sub-leases of EUR 216 thousand was generated.

The payments from these leases recognized in the cash flow statement for fiscal year 2019 were as follows:

LEASE PAYMENTS 2019

in € thousand	
Fixed lease payments	35,587
Variable lease payments	–6
	35,581

Lessee accounting pursuant to IAS 17 until December 31, 2018

The transition to IFRS 16 took place using the modified retrospective approach as of January 1, 2019; the option to not adjust prior-year figures was exercised. As a result, prior-year figures have not been adjusted.

Lessee – finance leases

For details of the development of assets used under finance leases up to December 31, 2018, please see our explanations in connection with the statement of non-current assets in note 21.

There were no finance leases with conditional payments in fiscal year 2018.

Minimum lease payments for the above finance leases were as follows as at December 31, 2018:

MINIMUM LEASE PAYMENTS 2018

in € thousand	2018
During the first year	879
From the second to the fifth year	3,537
After five years	28,985
Minimum lease payments	**33,401**
During the first year	291
From the second to the fifth year	803
After five years	6,560
Present value of minimum lease payments	**7,654**
Interest portion contained in the minimum lease payments	**25,746**

No future income from non-cancelable subleases was expected as at December 31, 2018.

Minimum lease payments continued 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 2018

in € thousand	2018
Basic lease costs	43,878
Contingent costs	28
Income from subleases	–178
	43,728

Future minimum lease payments outstanding under non-cancelable operating leases are as follows:

MINIMUM LEASE PAYMENTS AS AT DECEMBER 31, 2018

in € thousand	2018
During the first year	38,861
From the second to the fifth year	59,279
After five years	7,842
Minimum lease payments	**105,982**

No future income from subleases under non-cancelable operating leases were expected as at December 31, 2018.

B. Dräger Group as lessor

Lessor – finance leases

The Dräger Group's main finance leases relate to medical equipment, as well as solutions and personal protection products. A receivable was recognized equal to the present value of the minimum lease payments.

Receivables from future lease payments outstanding are shown below:

RECEIVABLES FROM FUTURE LEASE PAYMENTS OUTSTANDING 2019 ACCORDING TO IFRS 16

in € thousand	
Due in less than 1 year	457
Due in 1 to 2 years	440
Due in 2 to 3 years	425
Due in 3 to 4 years	394
Due in 4 to 5 years	346
Due in more than 5 years	326
Non-discounted lease payments	**2,388**
Unearned finance income	215
Net investments in leases	**2,174**

The following table shows the amounts recognized in the income statement in 2019:

AMOUNTS FROM FINANCE LEASES RECOGNIZED IN THE INCOME STATEMENT IN 2019 ACCORDING TO IFRS 16

in € thousand	
Selling profit for finance leases	270
Finance income on the net investment in finance leases	64
Income relating to variable lease payments not included in the net investment in finance leases	–
	334

Bad debt allowances for uncollectible minimum lease payments were not required.

RECEIVABLES FROM FUTURE LEASE PAYMENTS OUTSTANDING IN 2018 ACCORDING TO IAS 17

in € thousand	
During the first year	505
From the second to the fifth year	1,195
After five years	522
Total gross investments in finance leases	**2,222**
During the first year	442
From the second to the fifth year	1,094
After five years	502
Present value of minimum lease payments outstanding as at the balance sheet date	**2,038**
Unearned finance income	**184**

Lessor – operating leases

The Dräger Group's main operating leases relate to medical equipment, solutions, and gas detection products, as well as building space.

EUR 22,011 thousand (2018: EUR 22,093 thousand) in leased building space is contained in the Group's property, plant and equipment at historical cost as well as EUR 18,124 thousand (2018: EUR 16,851 thousand) in accumulated depreciation charges. The depreciation charged in the fiscal year amounts to EUR 1,273 thousand (2018: EUR 2,593 thousand).

Dräger reports equipment leased out (products) separately under property, plant and equipment (see note 21). Dräger generated income from leasing of EUR 56,501 thousand (2018: EUR 47,137 thousand) in fiscal year 2019.

Future minimum lease payments outstanding under non-cancelable operating leases are as follows:

MINIMUM LEASE PAYMENTS ACCORDING TO IFRS 16

in € thousand	
Payments in the first year	20,584
Payments from the first to second years	4,095
Payments from the second to third years	3,248
Payments from the third to fourth years	2,078
Payments from the fourth to fifth years	1,217
Payments after five years	3,260
	34,480

MINIMUM LEASE PAYMENTS IN 2018 ACCORDING TO IAS 17

in € thousand	
During the first year	26,735
From the second to the fifth year	15,722
After five years	2,961
	45,418

As in the prior year, no contingent rents were recognized in profit or loss in fiscal year 2019.

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 at December 31, 2019, other financial obligations amounted to a total of EUR 28,427 thousand (2018: EUR 159,786 thousand) and are structured as follows:

a) Rental and lease agreements

Other financial obligations from rental and lease agreements amount to EUR 1,339 thousand (2018: EUR 139,383 thousand). This decrease was the result of the change in accounting requirements due to the initial application of IFRS 16 (we refer to our comments in ≣ note 37 (Dräger Group as a lessee)).

b) Purchase obligations

In line with the usual requirements, the Dräger Group has also entered into purchase obligations with other service providers in order to guarantee the availability of IT services. Due to the centralization of IT activities at Drägerwerk AG & Co. KGaA, the Company assumed all existing long-term obligations to IT service providers of the medical and safety. As a result of outstanding orders, the Group had obligations to purchase intangible assets of EUR 259 thousand (2018: EUR 342 thousand) and items of property, plant and equipment of EUR 26,830 thousand (2018: EUR 20,062 thousand) as at December 31, 2019.

c) Litigation

Companies of the Dräger Group were involved in litigations and claims for damages in connection with business activities as at December 31, 2019. The Executive Board of the general partner believes that the outcome of such litigations 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 significant 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	
		2019	2018	2019	2018	2019	2018	2019	2018
Order intake with third parties	€ million	1,528.9	1,450.2	553.1	526.0	714.2	710.2	2,796.1	2,686.5
Net sales with third parties	€ million	1,503.3	1,431.9	547.7	499.3	729.8	663.8	2,780.8	2,595.0
EBITDA [1, 2]	€ million	133.3	123.6	14.2	– 8.2	46.3	32.6	193.8	148.0
Depreciation / amortization	€ million	– 64.8	– 41.6	– 28.5	– 21.9	– 34.0	– 21.9	– 127.3	– 85.4
EBIT [2, 3]	€ million	68.5	82.0	– 14.2	– 30.2	12.4	10.8	66.6	62.6
Capital employed [2, 4, 5, 6]	€ million	642.0	592.0	327.2	337.5	432.2	411.7	1,401.3	1,341.3
EBIT [3] / Net sales [2]	%	4.6	5.7	– 2.6	– 6.0	1.7	1.6	2.4	2.4
EBIT [3, 7] / Capital employed [2, 4, 5, 6] (ROCE) [2]	%	10.7	13.9	– 4.3	– 8.9	2.9	2.6	4.8	4.7
DVA [2, 7, 8]	€ million	23.1	41.4	– 37.5	– 51.6	– 18.4	– 16.3	– 32.7	– 26.5

[1] EBITDA = Earnings before net interest result, income taxes, depreciation, and amortization
[2] The first-time application of IFRS 16 impacts this key figure. Therefore, comparability is limited
[3] EBIT = Earnings before net interest result and income taxes
[4] Capital employed = Total assets less deferred tax assets, securities, cash and cash equivalents, and non-interest-bearing liabilities
[5] Value as at reporting date
[6] Prior-year figures adjusted to the redefinition of capital employed in fiscal year 2019
[7] Value of the last 12 months
[8] Dräger Value Added = EBIT less cost of capital of average invested capital

Segment reporting in the annual report is geared towards the organizational and management system (pursuant to IFRS 8).

The Executive Board manages the operating business by means of the three regions: Europe, Americas, and Africa, Asia, and Australia. The three regions are each allocated to a member of the Executive Board, who is fully responsible for business development in this particular region. The respective Executive Board member is also responsible for other functional tasks, in addition to their 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	2019	2018
Net profit	33.8	34.9
+ Interest result	17.0	11.0
+ Income taxes	15.7	16.8
EBIT	**66.6**	**62.6**

CAPITAL EMPLOYED

in € million	2019	2018
Total assets	2,570.9	2,410.2
– Deferred tax assets	–177.8	–144.7
– Cash and cash equivalents	–196.3	–179.6
– Non-interest-bearing liabilities[1]	–795.5	–744.7
Capital employed[1]	**1,401.3**	**1,341.3**

[1] Prior-year figures adjusted to the redefinition of capital employed in fiscal year 2019

DVA

in € million	2019	2018
EBIT (of the last 12 months)	66.6	62.6
– Cost of capital (basis: average of capital employed in the past 12 months)	–99.3	–89.2
DVA	**–32.7**	**–26.5**

Non-current assets are broken down by region on the basis of the assets' geographical locations:

NON-CURRENT ASSETS BY REGION [1]

in € million	2019	2018
Europe [2]	144.7	608.5
Americas	53.1	34.2
Africa, Asia, and Australia	666.4	125.5
	864.1	**768.2**

[1] Non-current assets = intangible assets; property, plant and equipment, right-of-use asset (as of fiscal year 2019); 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 2019, Dräger Group's cash inflow from operating activities amounted to EUR 164.4 million (2018: EUR 4.1 million). Improved profitability[1] had a particular effect on this trend. In addition, trade receivables actually fell slightly by EUR 0.4 million, despite the significant increase in net sales, following an increase of EUR 41.0 million in the prior-year period. In addition, cash outflow from income taxes declined by EUR 31.4 million. By contrast, other liabilities saw a smaller increase at EUR 11.6 million compared to the prior year (EUR 28.0 million).

Cash outflow from investing activities remained virtually constant at EUR 62.1 million (2018: EUR 63.5 million). Significant investments continued to be made in movable assets, in particular in factory and office equipment. German subsidiaries accounted for the majority of investments, at EUR 42.8 million (2018: EUR 46.1 million).

The cash outflow from financing activities totaling EUR 87.9 million (2018: EUR 6.2 million) was primarily due to the net repayment of bank loans and current account liabilities to banks totaling EUR 47.2 million (2018: net borrowing of EUR 6.4 million). In addition, increased cash outflow from leases of EUR 35.0 million was also recorded as a result of the initial application of IFRS 16 and the associated recognition of lease liabilities; these lease liabilities were recognized as rental and lease expenses in cash outflow from operating activities in fiscal year 2018.

[1] Earnings before net interest result, income taxes, and amortization (EBITDA) – adjusted for cash-neutral changes to provisions and other non-cash income / expenses

At Group level, the key figures from the segment report are as follows:

RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES 2019

	January 1	Affecting payments	Not affecting payment			December 31
in thousand €			**Addition**	**Reclassifica-tions**	**Exchange rate change**	
Liabilities from participation certificates (in debts)	24,842	– 345	1,490	–	–	25,988
Non-current interest-bearing loans	125,076	1,985	–	– 8,651	160	118,569
Current loans	16,366	– 9,531	–	8,651	– 125	15,361
Current liabilities to banks	73,732	– 39,658	–	–	1,575	35,648
Finance lease liabilities	7,654	– 35,587	40,692	102,275	390	115,424
Total liabilities from financing activities	**247,669**	**– 83,137**	**42,183**	**102,275**	**2,000**	**310,990**

RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES 2018

	January 1	Affecting payments	Not affecting payment			December 31
in thousand €			**Addition**	**Reclassifica-tions**	**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**

Cash and cash equivalents as at December 31, 2019 exclusively comprised cash, of which EUR 7.9 million (December 31, 2018: EUR 4.3 million) was subject to restrictions.

Unused credit lines amounted to EUR 394.7 million as at the balance sheet date (December 31, 2018: EUR 362.6 million) and are subject to restrictions applicable in the market.

41 EXECUTIVE AND SUPERVISORY BOARD REMUNERATION

Executive Board remuneration

Total remuneration for active Executive Board members amounted to EUR 6,187,673 in fiscal year 2019 (2018: EUR 4,540,713). This amount is made up of non-performance related payments of EUR 2,414,215 (2018: EUR 2,310,309), performance related payments of EUR 3,770,563 (2018: EUR 2,230,405), of which EUR 3,145,739 were short-term (2018: EUR 1,180,134), and share-based remuneration with long-term incentives in the amount of EUR 2,895 (2018: EUR 1,871).

The employee share program, offered for the first time in 2013, was once again offered by Dräger in fiscal year 2019. Executive Board members Stefan Dräger, Gert-Hartwig Lescow, and Dr. Reiner Piske took part in the employee share program. All three Executive Board members purchased 20 sets of three shares each at a price of EUR 52.85 per share using their own funds. For every three preferred shares, participants received one preferred share worth EUR 56.20 on the date of entry free of charge booked to their individual portfolio from Dräger. The holding period for these preferred shares – including those that participants acquired themselves – runs until December 31, 2021.

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 2019, this remuneration amounts to EUR 114,219 (2018: EUR 96,362) plus potentially incurred VAT.

Obligations to active Executive Board members under pension plans are declared in the financial statements 2019 in the amount of EUR 9,809,291 (2018: EUR 7,857,825).

In fiscal year 2019, the Company made pension provisions contributions of EUR 1,951,466 for active members of the Executive Board (2018: EUR 1,209,527). The amount of EUR 3,272,086 was paid to former members of the Executive Board and their surviving dependents as at the end of the reporting year (2018: EUR 3,152,869). Pension commitments to former members of the Executive Board and their surviving dependents amounted to EUR 43,115,745 (2018: EUR 42,201,445).

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 they died (notional invalidity pension). The amount of Dräger orphan's pension is 10 % of the notional reduction in earning capacity pension or the current Dräger pension of the deceased Executive Board member.

Supervisory Board remuneration

The annual shareholders' meeting of Drägerwerk AG & Co. KGaA has specified the remuneration of members of the Supervisory Board in the articles of association with effect from fiscal year 2011. Supervisory Board remuneration for fiscal year 2019 came to EUR 350,000 (2018: EUR 357,500).

In fiscal year 2019, the total remuneration of the six members of the Supervisory Board of the general partner, Drägerwerk Verwaltungs AG, amounted to EUR 135,000 (2018: EUR 135,000) as well as additional flat fees for out-of-pocket expenses totaling EUR 60,000 (2018: 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 at December 31, 2019, the members of the Executive Board of Drägerwerk Verwaltungs AG and their related parties directly held 6,980 preferred shares in Drägerwerk AG & Co. KGaA, equivalent to 0.039 % of the Company's total shares, and 107,105 common shares, corresponding to 0.603 % of the Company's total shares.

On December 31, 2019, the members of the Supervisory Board and their related parties directly or indirectly held a total of 120 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 54 thousand (2018: EUR 44 thousand) in fiscal year 2019. Receivables in this respect amounted to EUR 1 thousand as at December 31, 2019 (2018: EUR 1 thousand).

Services in the amount of EUR 324 thousand (2018: EUR 389 thousand) were rendered for the working group in fiscal year 2019 (see note 22). Receivables in this respect amounted to EUR 292 thousand as at December 31, 2019 (2018: EUR 16 thousand).

Group companies rendered rental services and other services totaling EUR 125 thousand (2018: EUR 119 thousand) for associate MAPRA Assekuranzkontor GmbH in fiscal year 2019. Receivables in this respect amounted to EUR 6 thousand as at December 31, 2019 (2018: EUR 5 thousand). No receivables or liabilities existed in relation to associate Focus Field Solutions Inc., St John's, Canada as at the reporting date. No services were provided either in fiscal year 2019.

The remuneration of the employee representatives on the Supervisory Board for work performed in addition to the Supervisory Board activities was also concluded at arm's length terms and conditions. Overall, remuneration is of immaterial importance for the Dräger Group.

Dräger Verwaltungs AG is the general partner of Drägerwerk AG & Co. KGaA and holds 0 % of the capital. There are only a few transactions conducted with the general partner, as it solely exercises administrative functions. The general partner is entitled to compensation for all expenses incurred in association with the management of Drägerwerk AG & Co. KGaA, including the contractually agreed remuneration for its executive bodies.

These expenses comprise the remuneration of the Executive Board, the remuneration of its Supervisory Board, liability remuneration as well as other expenses.

Liabilities to Drägerwerk Verwaltungs AG amount to EUR 6.38 million as at December 31, 2019 (2018: EUR 5.0 million). Expenses for Drägerwerk Verwaltungs AG services amounted to EUR 7,465 thousand in the fiscal year (2018: EUR 3,285 thousand). Services in the amount of EUR 11 thousand were rendered for Drägerwerk Verwaltungs AG in fiscal year 2019 (2018: EUR 6 thousand). There were no receivables in this respect as at December 31, 2019 (2018: EUR 1 thousand).

Three members of the Executive Board of Drägerwerk Verwaltungs AG participated in the 2019 employee share program. The three Executive Board members purchased twenty sets each of three shares at a cost of EUR 52.85 per share using their own funds. For every three preferred shares, participants received one preferred share worth EUR 56.20 free of charge from Dräger. The holding period for these preferred shares – including those that participants acquired themselves – runs until December 31, 2021.

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

Key management positions are held by members of the Executive Board of Drägerwerk Verwaltungs AG, the Supervisory Board of Drägerwerk AG & Co. KGaA, and the Supervisory Board of Verwaltungs AG. Executive Board remuneration as defined by IAS 24 is as follows:

EXECUTIVE BOARD REMUNERATION TABLE

in €	2019	2018
Payments due in the short term	5,562,794	3,429,055
Post-employment benefits	235,191	413,142
Total remuneration	**5,797,985**	**3,842,197**

Members of the Supervisory Board of Drägerwerk AG & Co. KGaA received short-term benefits of EUR 350,000 (2018: EUR 357,500). The members of the Supervisory Board of Drägerwerk Verwaltungs AG received short-term benefits of EUR 195,000 (2018: EUR 190,000).

44 FURTHER INFORMATION

Auditor's fee

The total fee charged by the auditor – PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft – in fiscal year 2019 for the audit of the Group financial statements amounted to EUR 1,015 thousand (2018: EUR 1,032 thousand) for the audit of the financial statements, EUR 27 thousand (2018: EUR 70 thousand) for other audit services, EUR 190 thousand (2018: EUR 64 thousand) for other services, and EUR 76 thousand (2018: EUR 204 thousand) for tax consultancy.

The services for the audit of the financial statements mainly consist of fees for the audit of the consolidated financial statements as well as the legally mandated audits of Drägerwerk AG & Co. KGaA and its subsidiaries included in the consolidated financial statements. The fee for other audit services primarily includes the statutory audit services, including EMIR. The fee for tax consultancy predominantly comprises the fee for tax consultancy relating to transfer prices as well as tax consultancy for current and planned transactions and intra-Group reorganization. The fee for other services primarily consists of project-specific advisory services.

The audit report was signed by Dr. Andreas Focke and Marko Schipper from PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft. Dr. Andreas Focke signed his first auditor's report in fiscal year 2019. Marko Schipper signed his fourth 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 2019.

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]
	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 Holding International GmbH, Lübeck	25 EUR	100 [1]
	bentekk GmbH, Hamburg	29 EUR	100
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, Athens	1,500 EUR	100
United Kingdom	Draeger Safety UK Ltd., Blyth	7,589 GBP	100
	Draeger Medical UK Ltd., Hemel Hempstead	4,296 GBP	100
Ireland	Draeger Ireland Ltd., Dublin	25 EUR	100
Italy	Draeger Italia S.p.A., Corsico-Milano	7,400 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] Exempt under Sec. 264 (3) HGB
[2] Company treated as an affiliate as defined by IAS 28.
[3] Special purpose entity as defined by IFRS 10
[4] Exempt under 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., Warsaw	4,655 PLN	100
Portugal	Dräger Portugal, LDA, Lisbon	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., Belgrade	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 Manufacturing Czech s.r.o., Klasterec nad Ohri	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., East London	5,000 ZAR	100
Americas			
Argentina	Dräger Argentina SA, Buenos Aires	159,822 ARS	100
Brazil	Dräger do Brasil Ltda., São Paulo	45,921 BRL	100
	Dräger Industria e Comércio Ltda., São Paulo	34,243 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
	Focus Field Solutions Inc., St. John's, NL	2,930 CAD	30 [2]
Colombia	Draeger Colombia SA, Bogota D.C.	3,900,936 COP	100
Mexico	Draeger Safety S.A. de C.V., Querétaro	50 MXN	100
	Dräger Medical Mexico S.A. de C.V., Mexico D.F.D.	50 MXN	100
Panama	Draeger Panama S. de R.L., Panama	180 USD	100
	Draeger Panama Comercial, S. de R.L., Panama	700 USD	100
Peru	Draeger Peru S.A.C., Piso Miraflores-Lima	9,809 PEN	100
USA	Draeger, Inc., Telford	356 USD	100
	Draeger Medical Systems, Inc., Telford	100 USD	100 [5]

[2] Company treated as an affiliate as defined by IAS 28.
[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., Tokyo	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 539,932 thousand for fiscal year 2019 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 537,167 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, 2020

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, 2020

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, 2019, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2019 to December 31, 2019, 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, 2019 to December 31, 2019. 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, 2019, and of its financial performance for the financial year from January 1, 2019 to December 31, 2019, 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, 2019 to December 31, 2019. 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 309.3 billion (representing 12.0 % 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 value in use. 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 177.8 million (6.9 % of total assets) after netting are reported in the Company's consolidated financial statements. Deferred tax assets amounting to EUR 188.4 million were recognized before netting with matching deferred tax liabilities. This item was recognized to the extent that the executive directors consider it probable that taxable profit will be available in the foreseeable future which will enable the deductible temporary differences and unused tax losses and interest carryforwards to be utilized. For this purpose, if insufficient deferred tax liabilities are available, future taxable profits are projected on the basis of the adopted business plan.

From our point of view, the accounting treatment of deferred taxes was of particular importance in the context of our audit, as it depends to a large extent on the estimates and assumptions made by the executive directors and is therefore subject to uncertainties.

② As part of our audit, we reviewed, among other things, the internal processes and controls for recording tax matters as well as the methodology adopted for the determination, accounting treatment and measurement of deferred taxes. We also assessed the recoverability of the deferred tax assets relating to deductible temporary differences and unutilized tax losses and interest carryforwards on the basis of the Company's internal forecasts of its future earnings situation, and we evaluated the appropriateness of the underlying estimates and assumptions.

Based on our audit procedures, we satisfied ourselves that the estimates and assumptions made by the executive directors were justified and adequately documented.

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 390.9 million (15.2 % 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 629.7 million and plan assets of EUR 238.8 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 31 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 10, 2019. We were engaged by the supervisory board on September 23, 2019. 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, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Andreas Focke	Marko Schipper
German Public Auditor	German Public Auditor

The Company's Boards

Supervisory Board of Drägerwerk AG & Co. KGaA

Chairman

STEFAN LAUER

Former Executive Board member of Deutsche Lufthansa AG, Frankfurt

Supervisory board memberships:
- 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-Chairperson)

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-Chairperson)

MARIA DIETZ

Member of the Administrative Board and shareholder of GFT Technologies SE, Stuttgart

Supervisory board memberships:
- GFT Technologies SE, Stuttgart (member of the Administrative Board)
- Drägerwerk Verwaltungs AG, Lübeck
- Dräger Safety AG & Co. KGaA, Lübeck

DANIEL FRIEDRICH

1st Delegate of the metalworkers' union IG Metall, Lübeck-Wismar administrative office, Lübeck (until October 31, 2019)
Regional Director of the metalworkers' union IG Metall, coastal region, Hamburg (since December 1, 2019)

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
- Drägerwerk Verwaltungs AG, Lübeck
- Dräger Safety AG & Co. KGaA, Lübeck
- Dräger Safety Verwaltungs AG, Lübeck
- Credion AG, Hamburg (since May 14, 2019)

ASTRID HAMKER

Member of the Advisory Board and shareholder at Piepenbrock Unternehmensgruppe GmbH & Co. KG, Berlin
KOMPASS-Beratung, freelance consultancy for family-run businesses, Georgsmarienhütte

Supervisory board memberships:
- dorma+kaba Holding GmbH & Co. KGaA, Ennepetal (until September 17, 2019)
- Schmitz Cargobull AG, Horstmar (since September 24, 2019)
- NORD/LB Norddeutsche Landesbank Girozentrale, Hanover
- Drägerwerk Verwaltungs AG, Lübeck
- Dräger Safety AG & Co. KGaA, Lübeck

Memberships on comparable boards of German or foreign companies:
- Piepenbrock Unternehmensgruppe GmbH & Co. KG, Berlin (member of the Advisory Board)
- Felix Schoeller Gruppe GmbH & Co. KG, Osnabrück (since September 8, 2019)
- Wieland Holding GmbH, Bamberg (since October 7, 2019)

STEPHAN KRUSE

Officer, Drägerwerk AG & Co. KGaA, Lübeck

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

THOMAS RICKERS

Officer for Drägerwerk AG & Co. KGaA
Secretary for metalworkers' union IG Metall, coastal region, Hamburg

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
Uwe Lüders
Daniel Friedrich

MEMBERS OF THE NOMINATION COMMITTEE:

Stefan Lauer (Chairman)
Uwe Lüders
Dr. Reinhard Zinkann

MEMBERS OF THE JOINT COMMITTEE:

Representatives of Drägerwerk Verwaltungs AG:
Maria Dietz
Astrid Hamker
Uwe Lüders
Dr. Reinhard Zinkann

REPRESENTATIVES OF DRÄGERWERK AG & CO. KGAA:

Stefan Lauer (Chairman)
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
(until February 7, 2019)

RAINER KLUG

Executive Board member for Production, Logistics, and Purchasing
Regional responsibility for the Americas
(until December 31, 2019)
Executive Board member for Safety Division
(since January 1, 2020)

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, Africa, Asia, and Australia
(until December 31, 2019)
Executive Board member for Sales and Human Resources
(since January 1, 2020)

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
(until December 31, 2019)
Executive Board member for Medical Division
(since January 1, 2020)

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
		2019	2018	2017	2016	2015
EUROPE SEGMENT						
Order intake with third parties[1]	**€ million**	**1,528.9**	**1,450.2**	**1,447.8**	**1,382.5**	**1,391.0**
Net sales with third parties[1]	**€ million**	**1,503.3**	**1,431.9**	**1,415.5**	**1,384.3**	**1,420.7**
EBIT[2, 3]	**€ million**	**68.5**	**82.0**	**108.1**	**84.5**	**59.4**
EBIT[2, 3] / Net sales	%	4.6	5.7	7.6	6.1	4.2
AMERICAS SEGMENT						
Order intake with third parties[1]	**€ million**	**553.1**	**526.0**	**509.2**	**515.0**	**496.8**
Net sales with third parties[1]	**€ million**	**547.7**	**499.3**	**510.4**	**503.7**	**509.1**
EBIT[2, 3]	**€ million**	**–14.2**	**–30.2**	**4.0**	**10.3**	**–18.6**
EBIT[2, 3] / Net sales	%	–2.6	–6.0	0.8	2.0	–3.7
AFRICA, ASIA, AND AUSTRALIA SEGMENT (AAA)						
Order intake with third parties[1]	**€ million**	**714.2**	**710.2**	**657.6**	**641.2**	**644.5**
Net sales with third parties[1]	**€ million**	**729.8**	**663.8**	**646.4**	**635.8**	**679.1**
EBIT[2, 3]	**€ million**	**12.4**	**10.8**	**43.7**	**42.1**	**25.8**
EBIT[2, 3] / Net sales	%	1.7	1.6	6.8	6.6	3.8

[1] Value for 2015 was adjusted due to new segmentation
[2] EBIT = earnings before net interest result and income taxes
[3] The first-time application of IFRS 16 in fiscal year 2019 impacts this key figure. Therefore, comparability is limited.

THE DRÄGER GROUP OVER THE PAST FIVE YEARS

						Twelve months
		2019	2018	2017	2016	2015
Order intake	**€ million**	**2,796.1**	**2,686.5**	**2,614.7**	**2,538.7**	**2,532.2**
Net sales	**€ million**	**2,780.8**	**2,595.0**	**2,572.3**	**2,523.8**	**2,608.9**
Gross profit	**€ million**	**1,188.4**	**1,108.0**	**1,152.2**	**1,135.4**	**1,171.7**
Gross profit / Net sales	%	42.7	42.7	44.8	45.0	44.9
EBITDA [1, 2]	**€ million**	**193.8**	**148.0**	**240.0**	**222.7**	**150.9**
EBIT [2, 3]	**€ million**	**66.6**	**62.6**	**155.7**	**136.9**	**66.7**
EBIT [3] / Net sales [4]	%	2.4	2.4	6.1	5.4	2.6
Interest result	€ million	–17.0	–11.0	–12.8	–15.5	–17.2
Income taxes	€ million	–15.7	–16.8	–44.4	–39.6	–16.2
Net profit	**€ million**	**33.8**	**34.9**	**98.5**	**81.7**	**33.3**
Earnings per share on full distribution [5]						
per preferred share	€	1.44	1.48	4.18	3.46	1.46
per common share	€	1.38	1.42	4.12	3.40	1.40
DVA [4, 6, 7]	**€ million**	**–32.7**	**–26.5**	**70.7**	**49.8**	**–46.3**
Equity [4, 8]	€ million	1,076.4	1,080.7	1,068.3	1,003.5	945.9
Equity ratio [4, 8]	%	41.9	44.8	45.4	43.4	40.9
Capital employed [2, 8, 9, 10]	€ million	1,401.3	1,341.3	1,243.6	1,247.0	1,269.3
EBIT [3, 6] / Capital employed [2, 8, 9, 10] (ROCE) [4]	%	4.8	4.7	12.5	11.0	5.3
Net financial debt [2, 8]	€ million	88.7	43.3	–29.2	34.7	145.3
Headcount as at December 31		14,845	14,399	13,739	13,263	13,936

[1] EBITDA = earnings before net interest result, income taxes, depreciation and amortization
[2] For effects of the first-time application of IFRS 16 on the figures as at December 31, 2019, see table on page 37.
[3] EBIT = earnings before net interest result and income taxes
[4] The first-time application of IFRS 16 impacts this key figure. Therefore, comparability is limited.
[5] Based on an imputed actual full distribution of earnings attributable to shareholders
[6] Value of the last twelve months
[7] Dräger Value Added = EBIT less cost of capital of average invested capital
[8] Value as at reporting date
[9] Capital employed = total assets less deferred tax assets, securities, cash and cash equivalents, non-interest-bearing liabilities and other non-operating items
[10] Due to the redefinition of capital employed in 2019, the figures from 2018 have been adjusted.

FINANCIAL CALENDAR 2020

Annual accounts press conference	March 5, 2020
Analysts' meeting	March 5, 2020
Report as at March 31, 2020, Conference call	April 30, 2020
Annual shareholders' meeting, Lübeck, Germany	May 8, 2020
Report as at June 30, 2020, Conference call	August 13, 2020
Report as at September 30, 2020, Conference call	October 29, 2020

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