LEADING IN PRODUCTION EFFICIENCY

digital@DÜRR

ANNUAL REPORT 2016

KEY FIGURES (IFRS)

		2016	2015	2014	2016/2015 Change in %
Incoming orders	€ million	3,701.7	3,467.5	2,793.0	6.8
Orders on hand (Dec. 31)	€ million	2,568.4	2,465.7	2,725.3	4.2
Sales revenues	€ million	3,573.5	3,767.1	2,574.9	−5.1
of which abroad	%	84.8	86.0	84.8	−1.2 % ppts.
EBIT	€ million	271.4	267.8	220.9	1.3
EBIT before extraordinary effects[1]	€ million	286.4	294.3	237.4	−2.7
EBT	€ million	258.1	244.5	204.7	5.6
Net profit	€ million	187.8	166.6	150.3	12.8
Cash flow from operating activities	€ million	227.4	173.0	291.3	31.4
Cash flow from investing activities	€ million	−116.9	−94.4	−224.3	
Cash flow from financing activities	€ million	192.5	−162.4	−20.0	
Free cash flow	€ million	129.9	62.8	221.1	106.8
Equity (with non-controlling interests) (Dec. 31)	€ million	831.0	714.4	725.8	16.3
Net financial status (Dec. 31)	€ million	176.5	129.4	167.8	36.4
Net working capital (Dec. 31)	€ million	194.4	236.8	87.6	−17.9
Employees (Dec. 31)		15,235	14,850	14,151	2.6
of which abroad	%	46.1	46.0	45.3	0.1 % ppts.
Gearing (Dec. 31)	%	−27.0	−22.1	−30.1	−4.9 % ppts.
Equity ratio (Dec. 31)	%	24.8	23.9	24.4	0.9 % ppts.
EBIT margin	%	7.6	7.1	8.6	0.5 % ppts.
EBIT margin before extraordinary effects[1]	%	8.0	7.8	9.2	0.2 % ppts.
ROCE[2]	%	41.1	45.3	38.7	−4.2 % ppts.
EVA[2]	€ million	142.5	146.2	121.6	−2.6
Dürr stock (ISIN: DE0005565204)					
High[3]	€	79.95	109.80	74.50	
Low[3]	€	49.52	58.22	49.09	
Close[3]	€	76.35	73.60	73.26	
Number of shares		34,601,040	34,601,040	34,601,040	
Earnings per share	€	5.26	4.67	4.33	12.6
Dividend per share	€	2.10[4]	1.85	1.65	13.5

[1] Extraordinary effects: € –15,0 million (2016), € –26,6 million (2015), € –16,5 million (2014). Further information can be found in table 2.32 in the management report.
[2] The according balance sheet figures of the Dürr Ecoclean Group (held for sale) were taken into account in the interests of full comparability.
[3] XETRA
[4] Dividend proposal for the annual general meeting

Minor variances may occur in the computation of sums and percentages in this report due to rounding.

THE DÜRR GROUP

The Dürr Group is one of the world's leading mechanical and plant engineering firms. Business with automotive manufacturers and their suppliers accounts for 60 % of our sales of € 3.57 billion. Other customer segments include the woodworking industry and the mechanical engineering sector as well as the chemical and pharmaceutical industries.

OUR FIVE DIVISIONS

Paint and Final Assembly Systems	Application Technology	Measuring and Process Systems	Clean Technology Systems	Woodworking Machinery and Systems
• Paint shops • Final assembly systems	• Paint application technology • Glueing technology • Sealing technology	• Balancing technology • Filling technology • Assembly technology • Testing technology	• Exhaust-air purification systems • Energy-efficiency technology	• Machinery and systems for woodworking
Sales: € 1,140.0 million **EBIT: € 77.2 million** **Employees: 3,384**	**Sales: € 560.6 million** **EBIT: € 76.1 million** **Employees: 1,956**	**Sales: 623.8 million** **EBIT: € 79.7 million** **Employees: 3,010**	**Sales: 167.0 million** **EBIT: € 6.1 million** **Employees: 569**	**Sales: 1,082.0 million** **EBIT: € 44.9 million** **Employees: 6,126**
DÜRR	DÜRR	DÜRR SCHENCK	DÜRR	HOMAG

The 'digital@DÜRR' strategy helps us face the challenges of Industry 4.0. The enclosed Eco magazine shows how we can ensure our future corporate success through digitization.

In 2016 Dürr achieved record EBIT of € 271 million. We intend to raise the dividend to € 2.10 per share – another all-time high.

digital@DÜRR

CONTENT

CHAIRMAN´S LETTER

Dear Readers,

This annual report contains a number of facts all about Dürr. For me personally, one figure is particularly important: the 11 % by which our service business rose in 2016. Service has a special meaning for Dürr. It increases the productivity and availability of our products and systems, leading to higher customer satisfaction – and this is what matters. We make every effort to go the extra mile as a service partner. Additional service sites bring us closer to our customers, spares are delivered promptly, and our experts are available 24/7 via a hotline.

When we talk about customer satisfaction, another topic is increasingly taking center stage: digitization. Our customers are evaluating us more and more based on how we can support them on their path toward digitally networked production. The answer lies in the digital@DÜRR strategy, which features in this annual report. digital@DÜRR stands for intelligent products, predictive maintenance, software-based order execution, and a networked smart factory. In 2016 we introduced a number of innovations in the field of digitization. The feedback we have received from our customers shows us that digital@DÜRR is a pragmatic approach combining both practical and future-oriented elements.

Our automotive customers are in a phase of transition. The keywords here are autonomous driving, connectivity and, above all, electromobility. Dürr sees electromobility as an opportunity: new carmakers are entering the market and require production technology. Existing factories, currently used to build conventional cars, must be upgraded. Final assembly offers opportunities for more extensive automation than before. Since electric cars are equipped with a simpler powertrain, their assembly can be automated more easily. We are currently demonstrating this in the construction of a highly innovative assembly plant for a customer specialized in electric cars.

Dürr is one of the first ports of call when it comes to new, more efficient production processes. In 2016 our R&D spending exceeded the € 100 million mark for the first time. We applied for 90 patent families and brought 73 new products to market, including groundbreaking innovations such as the 7-axis **Eco**RP E043i painting robot.

01
RALF W. DIETER (56)

02
RALPH HEUWING (50)

03
DR. JOCHEN WEYRAUCH (50)

04
CARLO CROSETTO (45)

»The feedback we have received from our customers shows us that digital@DÜRR is a pragmatic approach combining both practical and future-oriented elements.«

….. **RALF W. DIETER, CEO**

Going beyond product development, innovation is an integral part of Dürr's culture. Our teams are continuously working to develop new processes and tools to further optimize order execution. When visiting Dürr sites across the world I consistently notice that our employees regard new challenges as opportunities rather than threats. This is an attitude which makes me and my colleagues on the Board of Management proud. We know that we can rely on our team and thank everyone at Dürr for their great commitment.

The dedicated work of our employees made 2016 another successful year for Dürr. Order intake, at € 3.7 billion, was higher than ever, even though we had a cancellation for a large order that had already been placed in Mexico. All five divisions performed well despite the challenging market environment. We achieved our earnings target, even though sales dropped by 5 %. We had expected this drop in sales, as revenues in paint systems had been around € 200 million above the normal level in the previous year due to an extraordinary effect. Together with the Supervisory Board, we are proposing a dividend of € 2.10 per share for 2016. For our shareholders this means a 13.5 % increase over the previous year.

The purchase of the HOMAG Group, completed in 2014, is really paying off. In 2016 its incoming orders reached an all-time high of almost € 1.2 billion and HOMAG made a substantial contribution to consolidated earnings. We are well positioned for 2017 and the years to come. Dürr is a thoroughly healthy company. We can compensate any fluctuations in demand in individual regions through our global reach. With our new sites in Shanghai and Southfield (Michigan) we have further improved our local presence in the two largest individual markets. We have a solid balance sheet with a high level of cash and cash equivalents. This enables us to increase our portfolio whenever suitable opportunities for acquisitions arise – as was the case with the HOMAG Group takeover.

Provided the global economy continues to perform well and the political environment remains stable, we expect an EBIT margin of 7.5 to 8.25 % in 2017. This forecast includes an expected book gain of around € 25 million arising from the sale of the Dürr Ecoclean Group. At € 3.4 to 3.6 billion, sales are set to remain more or less constant, although revenues of around € 150 million will disappear following the Ecoclean sale. Without Dürr Ecoclean we still anticipate incoming orders worth between € 3.3 and 3.7 billion.

Two new colleagues, Dr. Jochen Weyrauch and Carlo Crosetto, have joined the Board of Management since the beginning of the year. I value their broad experience, their entrepreneurial spirit and their fresh impetus for Dürr, and I look forward to working with this new team. We are looking ahead with confidence, ready to seize our opportunities. The global production of cars and furniture is set to increase by an average of 3 to 4 % in the coming years. Dürr offers excellent services and is at the leading edge of technology. On this basis, we will be a reliable partner for our customers in these times of change, while still creating value for our shareholders.

Best wishes

RALF W. DIETER
Chairman of the Board of Management

BIETIGHEIM-BISSINGEN, MARCH 16, 2017

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

In the challenging competitive environment of 2016, Dürr proved very resilient and achieved some all-time highs. Despite a temporary weakness in our Chinese painting technology business, the Group's incoming orders rose considerably. This highlights the importance of our strong international presence, which enables the Group to take advantage of worldwide market opportunities and to compensate for regional weaknesses in demand. Another important strategic factor is that service-related sales increased despite a decline in consolidated earnings, because the service business is key to customer loyalty and earnings quality. The foundation for this good development in the service business had been laid in previous years through the CustomerExcellence@Dürr optimization program.

The Supervisory Board will continue to support the Board of Management in preparing the Group for new demands and opportunities. This applies in particular to Industry 4.0. The digital@DÜRR strategy stands for digital innovation designed to meet new production requirements. Furthermore, the Supervisory Board has been providing positive support for the continued optimization of Dürr's product portfolio. The healthy development of the HOMAG Group, which was acquired in 2014, shows that Dürr is a good owner for medium-sized and larger mechanical and plant engineering firms, and can help harness growth and efficiency potential.

In 2016 the Supervisory Board supported the Board of Management constructively and by offering critical advice. It performed all tasks assigned to it by law and by the articles of incorporation. The Board of Management always informed the Supervisory Board in a timely and comprehensive manner about business development, strategic measures, company planning and any activities requiring consent. All Supervisory Board resolutions were adopted following an in-depth review and discussion based on written decision-making materials.

The Supervisory Board carefully monitored the Board of Management's conduct of the company's affairs and confirms that the Board of Management always acted lawfully, diligently and economically. The Board of Management used the risk management system effectively in operational, financial and legal matters; it was advised and supported by the Compliance and Legal departments as well as Controlling and Internal Auditing. The Supervisory Board received regular and comprehensive reports on risks and opportunities, and it provided effective support to the Board of Management in further developing the risk control and monitoring system.

KLAUS EBERHARDT
Chairman of the Supervisory Board

In 2016 the Supervisory Board held six regular meetings. No member was absent from more than one meeting. This was also the case for committee meetings. In addition, the Chairman of the Supervisory Board had numerous conversations with the Board of Management, both face-to-face and over the phone. He informed the other members of the Supervisory Board of the outcome of these discussions in a timely manner.

KEY TOPICS OF THE MEETINGS

Market conditions, business performance, financial situation and outlook were discussed at all meetings held in 2016. The analysis of the economic development primarily covered incoming orders, sales, EBIT and EBIT margin as well as ROCE, cash flow and liquidity. In addition, the Supervisory Board was updated on the largest contracts of the divisions and on projects due to be awarded. Further recurring topics included the progress made in optimizing the HOMAG Group, and the development of the service business.

At its first meeting of the year (March 16, 2016), the Supervisory Board checked and approved the annual financial statements for 2015. After that, the agenda for the annual general meeting was discussed and approved. Following the recommendation of the Personnel Committee, the Supervisory Board determined the rolling LTI tranche for 2016 to 2018 for the variable Management Board compensation. Furthermore, the Corporate Social Responsibility function was added to the Board of Management's allocation of responsibilities. Following the detailed discussion of the financing structure, the Supervisory Board approved the issue of a bonded loan. It also carefully examined the first personnel report of the year.

Two meetings took place on May 4, 2016, the day of the annual general meeting. Prior to the annual general meeting, the Supervisory Board discussed the option of selling the Dürr Ecoclean Group. In this context, the employee representatives asked the Board of Management to elaborate on the development prospects for Dürr Ecoclean within and outside the Dürr Group. After the annual general meeting, the newly formed Supervisory Board held a constituent meeting and elected the chairman, deputy chairmen and committee members.

At the meeting held on July 27, 2016, the Supervisory Board examined the international distribution of business. It discussed the strong business growth in North America as well as the temporary decline in Chinese orders. Under the agenda item of personnel matters, the Chairman of the Supervisory Board explained Mr. Heuwing's decision not to extend his Management Board contract beyond the current term, and outlined the initial steps in finding a successor. Other key topics were the analysis of the shareholder structure, the implications of the e-mobility topic for Dürr, and the first risk report of the year. The Supervisory Board also discussed the planned sale of the Dürr Ecoclean Group and the expected sale price.

In August, the Supervisory Board passed two resolutions by written circulatory vote: It approved the sale of the Dürr Ecoclean Group to the Chinese SBS Group and the sale of an 11 % stake in Tec4Aero GmbH to the Shanghai Electric Group. Dürr had owned this stake since the end of 2014, which had arisen from the sale at that time of Dürr's aircraft assembly technology business to Broetje Automation GmbH.

At the meeting held on October 5, 2016, the Board of Management set out the further steps needed to close the Ecoclean sale. The Supervisory Board approved the future acquisition of additional shares in BENZ GmbH Werkzeugsysteme, which is part of the HOMAG Group. Business analysis focused on the high order backlog and cash flow improvement since the middle of the year. As part of the second personnel report of the year, the Supervisory Board was informed on topics such as the worldwide employee survey held at the time.

At the meeting on December 14, 2016, the Supervisory Board appointed Dr. Jochen Weyrauch to the Board of Management with effect from January 1, 2017. This appointment has expanded the Board of Management to three members, reflecting the Group's strong growth in recent years. Given this change and the succession plan for Mr. Heuwing, the allocation of responsibilities for the Board of Management was also reviewed. Dr. Weyrauch's responsibilities include the Measuring and Process Systems division and the Clean Technology Systems division. During the course of the meeting, the Board of Management and the division heads also presented their targets and measures under the "Dürr 2020" strategy. The Supervisory Board approved the budget for 2017 and acknowledged the planning for 2018 to 2020. It also dealt with the second risk report and the report on the internal control system. The Chairmen of the Board of Management and the Supervisory Board signed the new declaration of compliance with the German Corporate Governance Code.

The Supervisory Board held an extraordinary meeting on February 8, 2017, to appoint Mr. Carlo Crosetto to the Board of Management. Mr. Crosetto joined Dürr AG on March 1, 2017, to follow on from Mr. Heuwing as CFO.

CHANGES IN THE SUPERVISORY BOARD

Regular elections took place in April and May 2016 to appoint the members to the Supervisory Board. Carmen Hettich-Günther and Dr. Astrid Ziegler joined the Board as employee representatives. Existing members Mirko Becker, Thomas Hohmann, Hayo Raich and Dr. Martin Schwarz-Kocher were re-elected. Gerhard Federer and Dr. Anja Schuler became new shareholder representatives. In addition, the following existing members were confirmed in office by the annual general meeting: Professor Dr. Alexandra Dürr, Klaus Eberhardt, Professor Dr.-Ing. Holger Hanselka and Karl-Heinz Streibich. At the constituent meeting held on May 4, 2016, Mr. Eberhardt was confirmed as Chairman, and Mr. Raich and Mr. Streibich as Deputy Chairmen of the Supervisory Board.

Following these elections, the proportion of female Supervisory Board members stands at 33.3 %. This is in line with the Act on Equal Participation of Women and Men in Executive Positions, which stipulates a women's quota of at least 30 %.

Stefan Albert, Guido Lesch and Dr. Herbert Müller did not stand for re-election and thus left the Supervisory Board on the day of the annual general meeting. Dr. Schuler was appointed as a member of the Supervisory Board with effect from February 3, 2016, initially by court order, succeeding Professor Dr. Dr. E.h. Klaus Wucherer, who had resigned from office on December 31, 2015. The Supervisory Board would like to thank all former members for their long-term membership, their commitment and their loyalty to Dürr.

Professor Dr.-Ing. Holger Hanselka has announced his resignation as a member of the Supervisory Board with effect from the conclusion of the annual general meeting on May 5, 2017. The reason is that Professor Dr.-Ing. Hanselka will become Chairman of the Dürr Technology Council. This is a new group of experts that will provide advice to Dürr AG's Board of Management on technology issues. We would like to thank Professor Dr.-Ing. Hanselka for his commitment over the last few years. Following the nominating committee´s recommendation, the Supervisory Board has proposed Mr. Richard Bauer as a candidate to replace him.

WORK OF THE COMMITTEES

The Supervisory Board formed four committees at the constituent meeting. The Personnel Committee, which is also the Executive Committee, met three times during 2016. Its primary focus was to find a successor for Mr. Heuwing and to expand the Board of Management by appointing Dr. Weyrauch. In addition, it prepared the LTI tranche for 2016 to 2018.

The Nominating Committee held a conference call in 2016, recommending that Mr. Federer be nominated for election to the Supervisory Board at the annual general meeting. It had already issued its recommendation for Dr. Schuler in December 2015. The Nominating Committee held another meeting on February 17, 2017, recommending that Mr. Bauer be nominated for election to the Supervisory Board at the annual general meeting on May 5, 2017.

The Audit Committee convened three times in 2016 and carefully examined the quarterly, annual and consolidated financial statements as well as various accounting topics. These included hedging, deferred taxes, and IFRS 15 for revenue recognition, which must be applied from 2018. In addition, the committee studied the accounting effects of the domination and profit and loss transfer agreement with HOMAG Group AG. The effects of the EU audit reform, which will have to be taken into account, were also analyzed and presented to the Supervisory Board in plenary session. In this context, the Audit Committee set out the procedure for procuring non-audit services from the auditor. The Audit Committee proposed the key points for the external audit and monitored compliance with capital market regulations. It checked and confirmed the efficiency of the internal control system, the risk management system and the internal auditing system; it also reviewed the compliance management system and the financial reporting process. The audit results were presented to the Supervisory Board on December 14, 2016, and discussed in plenary session. The Audit Committee delivered further reports at the meetings held on March 16 and July 27, 2016. As in previous years, a meeting of the Mediation Committee was not required.

AUDIT AND RATIFICATION OF THE ANNUAL FINANCIAL STATEMENTS

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft examined Dürr AG´s annual financial statements, Dürr´s consolidated financial statements and the combined management report prepared by the Board of Management for the period ended December 31, 2016, and issued unqualified auditors' certificates. The annual financial statements, the consolidated financial statements and the combined management report were submitted to the members of the Supervisory Board in good time. They were discussed in detail with the Board of Management and reviewed at the Supervisory Board meeting held to approve the financial statements on March 16, 2017. The same applies to the auditors' reports, which were also submitted in due time. The auditors signing the audit certificate participated in that meeting and in the Audit Committee meeting held on the same day. They reported on their audit and were available for further explanations and discussions. The auditor responsible for Dürr at Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft is Mr. Heiko Hummel. He has performed this task in seven audits so far.

At the Supervisory Board meeting held to approve the financial statements, the Chairman of the Audit Committee, Mr. Federer, commented in detail on the audit documents and reported on the preliminary talks with the auditors. In addition, he elaborated on the key points of the audit. These included the master data of accounts payable and accounts receivable and the internal checks before entering into business relationships with new customers and sales partners.

On the basis of the documents presented to it and the reports of the Audit Committee and the auditors, the Supervisory Board examined and accepted the annual financial statements, the consolidated financial statements and the combined management report. The Supervisory Board's own review found no cause for objection. The Supervisory Board approves the results of the audits of both sets of financial statements, agrees with the Board of Management in its assessment of the situation of the Group and Dürr AG, and approves the annual financial statements and the consolidated financial statements prepared for the period ended December 31, 2016. The annual financial statements are thereby ratified. In light of the Audit Committee's recommendation and its own review, the Supervisory Board approves the Board of Management's proposal on the use of net retained profit, which provides for a dividend of € 2.10 per share for fiscal 2016.

The Supervisory Board thanks the Board of Management as well as the division heads, employee representatives and all employees for their commitment in 2016. The Supervisory Board also thanks the shareholders for the trust they have placed in Dürr.

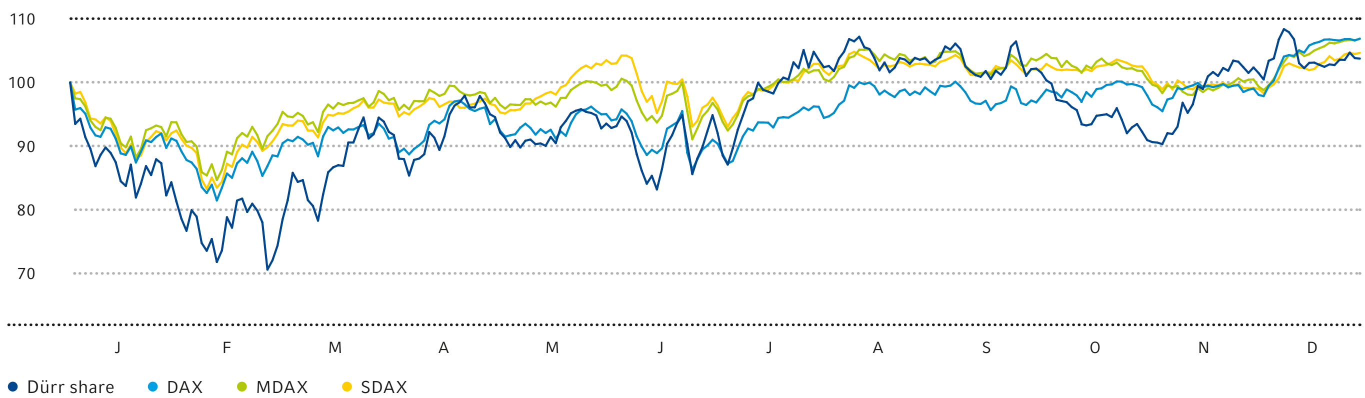
KLAUS EBERHARDT
Chairman of the Supervisory Board

BIETIGHEIM-BISSINGEN, MARCH 16, 2017

DÜRR ON THE CAPITAL MARKET: ONGOING DIALOG WITH INVESTORS

1.1 – PERFORMANCE OF DÜRR SHARE IN XETRA TRADING, JANUARY – DECEMBER 2016

Compared to the DAX, MDAX and SDAX (indexed figures)



Instilling confidence in the company and achieving a fair valuation – these are the goals of our investor relations activities. We maintain close contact with investors and analysts. Relevant information is published without delay and explained comprehensibly.

The performance of the HOMAG Group was a key aspect of our capital market communications in 2016. Most observers of our share consider HOMAG, which was acquired at the end of 2014, to constitute a crucial driving force for Dürr's continued top and bottom-line growth. Special attention was also paid to our Industry 4.0 strategy digital@DÜRR and the acquisition in December 2015 of IoT and MES software specialist iTAC.

Our peer group includes mechanical engineering companies and engineering service providers Andritz, Deutz, Edag, Gea, Jungheinrich, Heidelberger Druckmaschinen, Krones and Kuka. The Dürr share was trading at only a slight discount on these companies at the end of 2016 despite the fact that some 60 % of our business comes from the more cyclical automotive sector. Price/earnings ratio, enterprise value to EBIT/EBITDA, enterprise value to sales revenues and share price to book value constitute the benchmarks for a peer group comparison of our valuation. The current consensus estimates on sales revenues, profit and dividend can be found under "Investor Relations – Share" at **www.durr.com.**

DÜRR SHARE AND INDICES VOLATILE IN THE YEAR UNDER REVIEW

Signs of economic weakness in North America and Asia exerted pressure on the international capital markets at the beginning of 2016, with the conflicts in the Middle East and terror attacks in Europe causing additional uncertainty. The DAX hit a low for the year of 8,699 points on February 11. This was followed by a decision by the European Central Bank to lower its base rate to 0 % and to widen its asset-purchasing program. The unexpected Brexit vote in the United Kingdom initially triggered heavy losses in the stock markets, although confidence returned soon after. Similarly, the feared slump after the surprising outcome of the US presidential elections

1.2 – KEY FIGURES DÜRR SHARE

		2016	2015	2014
Earnings per share	€	5.26	4.67	4.33
Book value per share (Dec. 31)	€	23.40	20.15	17.78
Cash flow per share	€	6.57	5.00	8.42
Dividend per share	€	2.10[1]	1.85	1.65
High	€	79.95	109.80	74.50
Low	€	49.52	58.22	49.09
Closing price	€	76.35	73.60	73.26
Average daily trading volume[2]	Shares	174,000	174,000	124,000
Market capitalization (Dec. 31)	€ million	2,641.8	2,546.6	2,534.9
Number of shares		34,601,040	34,601,040	34,601,040

[1] Dividend proposed to the annual general meeting
[2] Solely XETRA since 2016

in November failed to eventuate. Instead, investor sentiment was very upbeat on hopes of a boost in growth for industry. The markets also took the widely expected failure of the constitutional reform in Italy in their stride. In December the ECB re-affirmed its accommodative monetary policy. As a result, the DAX was propelled to a high for the year, closing the year only slightly lower at 11,481 points. With a gain for the year of 6.9 %, it matched the MDAX (up 6.8 %).

After entering the year at € 71.86, the Dürr share (ISIN: DE0005565204) initially underperformed the market on economic concerns in China. On February 25, we published our forecast for 2016. Reflecting the heightened risks, it was somewhat more cautious than in the previous year. In a nervous market, this caused the share to retreat to a low of € 49.52. In the ensuing weeks, however, investors adopted a more optimistic stance. From the end of March, our share initially tracked the DAX before outperforming it in the summer and coming to just under € 80 on August 11 on the strength of good first-half figures and the upward adjustment in our full-year order intake forecast. The fact that we signed a contract on August 6 for the sale of the Dürr Ecoclean Group was also welcomed. Dürr Ecoclean achieved a below-average margin and primarily sells its cleaning equipment in the combustion engine construction sector. From the end of September, the Dürr share shed its gains, temporarily underperforming benchmark indices. A year-end rally emerged in mid-November, underpinned by the strong nine-month figures among other things. Dürr share reached a high for the year of € 79.95 on December 8. The share closed 2016 at € 76.35, equivalent to a full-year gain of 6.3 % (including the dividend of € 1.85 per share).

FURTHER DIVIDEND INCREASE PLANNED

We will be proposing a dividend of € 2.10 per share for 2016. This is an increase of 13.5 % over the previous year. Assuming that the dividend is approved, the total distribution will be valued at € 72.7 million or 38.7 % of consolidated net profit. This ratio is at the top end of the range of 30 to 40 % defined in our dividend distribution policy.

More than 97 % of daily exchange trading in Dürr shares is executed electronically via XETRA. However, the proportion of exchange-traded shares is declining, with 63 % of Dürr shares bought and sold over the counter in 2016. Average daily XETRA trading came to 174,000 shares in 2016 and was thus unchanged over the previous year. This is equivalent to a daily trading volume of € 11.7 million. Full-year XETRA trading volumes of all German shares declined by 16.4 % to € 1,096 billion in 2016.

At the end of 2016, we ranked 21st (2015: 15th) in terms of trading volumes on the MDAX. We held 32nd place with respect to market capitalization, down from 26th place in the previous year. The MDAX comprises the 50 most important listed German companies below the DAX 30.

GOOD IR RANKINGS

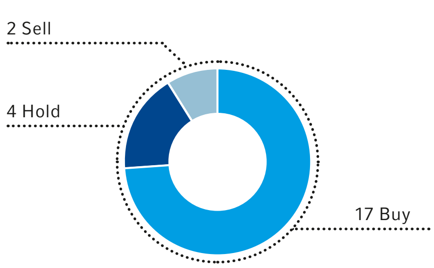
In the "Investor's Darling" competition organized by business journal Manager Magazine, we maintained our third place in the MDAX segment. Business magazine BILANZ also confirmed our good investor relations activities, putting us in 4th position in the MDAX again and in 7th position in the overall evaluation (DAX, MDAX, SDAX, TecDAX).

COVERAGE BROADENED

Last year, Bank of America Merrill Lynch and Goldman Sachs marked the addition of a further two renowned research companies covering Dürr AG. Coverage by US banks is a key investment criterion for the US capital market in particular. All told, 23 analysts are covering the Dürr share, 21 of whom have given it a "buy" or a "hold" rating. The average target price for the Dürr share stood at € 83.41 as of December 31, 2016.

We are seeing lively interest in our company and our securities. In 2016 we held over 550 talks with investors and analysts, well up on the previous year's figure of roughly 450. We inten-

1.3 – ANALYST RECOMMENDATIONS (DECEMBER 31, 2016)



- Baader Bank
- Bankhaus B. Metzler
- Bankhaus Lampe
- Bank of America Merrill Lynch
- Berenberg Bank
- Commerzbank
- DZ Bank
- Hauck & Aufhäuser
- HSBC Trinkaus
- Landesbank Baden-Württemberg
- MainFirst
- M.M. Warburg
- Montega
- Nord LB
- Oddo Seydler
- Quirin Bank
- Société Générale

- Kepler Cheuvreux
- Macquarie Capital
- Solventis Wertpapierhandelsbank
- UBS

- Deutsche Bank
- Goldman Sachs

sified our presence at international capital market conferences by attending 29 events, up from 27 in the previous year, while we increased the number of roadshows in which we participated from 20 to 31. Investor interest in visiting our head office in Bietigheim-Bissingen is also continuing to climb.

FREE FLOAT STABLE AT 71 %

The Dürr family continues to hold 28.8 % of our company's shares as an anchor shareholder and is committed to maintaining a quota of over 25 %. Of this, 25.3 % is held by Heinz Dürr GmbH and 3.5 % by Heinz und Heide Dürr Stiftung. Further packages of more than 3 % were held by Deutsche Bank (4.7 %), Morgan Stanley (4.0 %) and Alecta Pensionsförsäkring (3.2 %) at the end of 2016. A combined total of around 0.4 % of the shares was held by the members of the Board of Management, Ralf W. Dieter and Ralph Heuwing, as of December 31, 2016. Mr. Dieter held 90,600 shares and Mr. Heuwing 50,000 shares. The free float in accordance with the Deutsche Börse definition was unchanged at 71.2 %.

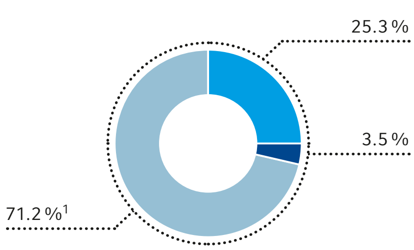
ATTRACTIVE DÜRR BOND, NEWLY ISSUED BONDED LOAN

The price of our bond of € 300 million (ISIN XS1048589458) rose from 104.5 % at the beginning of 2016 to 107.0 % at the end of the year. With a coupon of 2.875 %, the return stood at 1.2 % on December 31. The bond matures in 2021. Average daily trading volumes came to € 52,000 (2015: € 76,000).

As we take the view that the expense involved in having a rating calculated far exceeds the benefits, we decided several years ago to refrain from having bond and company ratings prepared. The capital market accepts this decision.

In March 2016, we issued a bonded loan for € 300 million for general funding purposes and to reinforce our liquidity. It is divided into three equal tranches with terms of five, seven and ten years. The average interest rate is around 1.6 % p.a. The bonded loan was subscribed to by numerous national and international institutional investors and was substantially oversubscribed.

1.4 – SHAREHOLDER STRUCTURE* (DECEMBER 31, 2016)



- Heinz Dürr GmbH, Berlin
- Heinz und Heide Dürr Stiftung, Berlin
- Institutional and private investors
  – of which Deutsche Bank: 4.7 %[2]
  – of which Morgan Stanley: 4.0 %[2]
  – of which Alecta Pensionsförsäkring: 3.2 %[2]
  – of which members of Dürr AG's Board of Management: 0.4 %[2]

[1] Free float as defined by Deutsche Börse AG
[2] on the basis of notices provided in accordance with the German Securities Trading Act
*rounded

COMBINED MANAGEMENT REPORT

COMBINED MANAGEMENT REPORT

COMBINED MANAGEMENT REPORT

We have combined the Dürr Group management report with the management report of Dürr AG in accordance with Section 315 (3) of Germany's Commercial Code (HGB) in conjunction with Section 298 (2) HGB. The management report is therefore termed a combined management report. Unless otherwise specified, the information below is applicable to both the Dürr Group and Dürr AG. Statements which refer exclusively to Dürr AG are correspondingly marked. These come at the end of the combined management report.

[P. 000] —>

PAGE REFERENCES

The page numbers in brackets in the text refer to additional information in the management report, in the notes to the consolidated financial statements or in the glossary.

BASICS

THE GROUP AT A GLANCE

PROFILE

Dürr is one of the world's leading engineering groups. Our machines, plant and services enable highly efficient manufacturing processes across a range of industries. Business with automotive manufacturers and their suppliers accounts for approximately 60 % of sales. Other customer segments include, for example, the woodworking, mechanical engineering, chemical, pharmaceutical and electrical industries. We run 92 sites in 28 countries. We operate globally with our brands Dürr, Schenck and HOMAG. In addition to North America and Western Europe, we are also strongly represented in the emerging markets[1]. These accounted for 41.8 % of our order intake in fiscal 2016 and 48.5 % of our sales. A good 60 % of the Group's business volume comes from mechanical engineering and almost 40 % from plant engineering.

GROUP ORGANIZATIONAL STRUCTURE

Dürr AG carries out Group-wide functions as a management holding company. Apart from governance of the divisions, these include, for example, financing, controlling and accounting, as well as legal affairs, taxation, internal auditing, corporate communications and human resources management. Dürr AG forms the Corporate Center together with Dürr Technologies GmbH, which acts as a holding company for equity interests, Dürr International GmbH and Dürr IT Service GmbH.

We operate in five divisions, which also form the reportable segments within the meaning of the IFRS:

- Paint and Final Assembly Systems
- Application Technology
- Measuring and Process Systems
- Clean Technology Systems
- Woodworking Machinery and Systems

DIVISIONS, BUSINESS MARKETS, MARKET SHARES[2], IMPORTANT PRODUCTS AND SERVICES

Paint and Final Assembly Systems

Paint and Final Assembly Systems plans, builds and upgrades turnkey paint shops and final assembly lines for the automotive industry. In the area of paint shop technology, we offer hardware and software solutions for all process stages. One key product is our RoDip dip-coating system. In this, the bodies are cleaned and pretreated as they emerge from the body shop, and an anti-corrosion coat is applied to them. Another core product is the energy-efficient **Eco**DryScrubber spray booth system, which is used when applying primer, base coat and clear coat. Our delivery specification usually also includes oven and conveyor systems plus air supply and exhaust-air systems. In addition, in the iTAC.IoT.Suite **Industry 4.0** **[P. 194]** platform, we offer software for networking and controlling production systems.

2.1 – GROUP STRUCTURE

Management holding company	Dürr AG				
Divisions	Paint and Final Assembly Systems	Application Technology	Measuring and Process Systems	Clean Technology Systems	Woodworking Machinery and Systems

[1] Asia (minus Japan), South and Central America, Africa, Eastern Europe
[2] Own figures

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Together with the Application Technology division, we are the only systems supplier worldwide to offer one-stop paint shop systems as well as application and robot technology. We lead the field over the competition with a global market share of around 50 %, followed by two companies from Japan and Germany, holding market shares of 20 % and 10 to 15 %, respectively.

The Dürr Consulting unit is also part of Paint and Final Assembly Systems. It advises customers on planning and optimizing their production operations, particularly in painting and final assembly technology and logistics.

Application Technology

Application Technology generates about 85 % of its sales from hardware and software solutions for the automated spray application of paint. Its main products are the **Eco**Bell3 **high-speed rotating atomizer** **[P. 194]**, the **Eco**LCC2 color changer and the **Eco**RP painting robot family, the third generation of which we unveiled in October 2016. Other systems are used for paint supply, quality assurance, and process control and evaluation. We are the leading supplier in the automotive sector with a global market share of around 50 %. Our two most important competitors are manufacturers of industrial robots with market shares of between 15 and 20 %.

In addition to paint application technology, we are active in two related business fields, i.e. sealing technology and glueing technology. **Sealing** processes **[P. 194]** are used for seam sealing, underbody protection and injection of insulating materials in vehicles. **Glueing** **[P. 194]** is increasingly in demand as a technology for joining vehicle components during body-in-white production and final assembly. Unlike welding, it permits the use of non-weldable lightweight materials in the manufacture of vehicle bodies. During final assembly, glueing technology is used, for instance, for fitting windows, glass roofs, cockpits and tanks.

Since 2014, Application Technology has also been expanding its business outside the automotive sector. The Industrial Products business unit, which is responsible for general industry, offers products and product systems for the plastics, ceramics, shipbuilding, timber and furniture industries, for instance.

Measuring and Process Systems

Measuring and Process Systems offers balancing and **diagnostic systems** and also assembly, test and **filling technology** **[P. 194]** products. Balancing systems under the Schenck brand are used in various industries, with the automotive share totaling 20 to 25 %. Our market share of about 45 % makes us the world's largest supplier, followed by competitors with market shares of approximately 15 and 10 %, respectively, in second and third places. With regard to assembly, testing and filling technology, we mainly equip the automotive industry. We are also the global leader in these areas, with market shares of around 50 % each. In filling technology, we also supply systems for the automated filling of refrigerators, air-conditioning systems and heat pumps with refrigerants via the Agramkow Group. The most popular testing technology products are test stands for brakes, electronics and wheel geometry. In assembly technology, the key area is marriage stations, in which the vehicle body and drive train are joined.

We expect to sell off the industrial **cleaning technology** **[P. 194]** and surface processing business (Cleaning and Surface Processing/Dürr Ecoclean Group), which is part of Measuring and Process Systems, with effect from March 31, 2017. Further information can be found under the sub-title Portfolio changes.

Clean Technology Systems

Clean Technology Systems supplies exhaust-air purification technology and products to enhance the energy efficiency of industrial processes. Our **Ecopure** exhaust-air purification systems are used in the chemical and pharmaceutical industries, but also in sectors such as printing, woodworking and carbon fiber production. Furthermore, the equipping of automotive industry paint shops accounts for around 25 % of sales in exhaust-air purification technology, and we have a market share of between 40 and 50 % in this business. We are also among the largest suppliers in the more fragmented non-automotive sector. Our most important process is thermal exhaust-air purification, in which pollutants are incinerated at up to 1,000 °C. The smaller energy efficiency technology business field was set up in 2011 and offers products for the efficient generation and use of heat, cold and electricity. This includes ORC technology (Organic Rankine Cycle) and the Dürr Compact Power System (micro gas turbine) for electricity generation, plus Dürr thermea's large-scale heat pumps.

Woodworking Machinery and Systems

Woodworking Machinery and Systems consists of the activities of the HOMAG Group, acquired in 2014, the world's leading supplier of woodworking machinery and systems. With a global market share of a good 30 %, the HOMAG Group has a significant lead over the two next-placed competitors, which each hold just over 10 %. Our technology is used by the furniture industry and woodworking trade, for example in the production of furniture, kitchens, parquet and laminate flooring, windows, doors, stairs and complete timber prefabricated houses. The range extends from entry-level machines to fully

2.2 – ACTIVITIES AND BUSINESS MARKETS

PAINT AND FINAL ASSEMBLY SYSTEMS DIVISION

Business type	Activities	Customer groups
• Plant engineering	• Complete paint shops • Individual painting process stations • Final assembly systems • Service	• Vehicle manufacturers • Automotive suppliers • General industry (e.g. construction equipment and farm machinery)
• Consulting	• Consulting	• Vehicle manufacturers • Automotive suppliers • General industry

APPLICATION TECHNOLOGY DIVISION

Business type	Activities	Customer groups
• Mechanical engineering and component business	• Products for automated spray painting • Sealing technology • Glueing technology • Service	• Vehicle manufacturers • Automotive suppliers • General industry (e.g. plastics, ceramics, timber, shipbuilding)

MEASURING AND PROCESS SYSTEMS DIVISION

Business type	Activities	Customer groups
• Mechanical engineering	• Balancing and diagnostic systems • Assembly technology for final vehicle assembly • Testing technology for final vehicle assembly • Filling technology • Industrial cleaning technology and surface processing systems[1] • Service	• Vehicle manufacturers • Automotive suppliers • Electrical/electronic engineering • Turbines/power plants • Mechanical engineering • Aerospace industry • Household appliance industry • Medical and laboratory equipment

CLEAN TECHNOLOGY SYSTEMS DIVISION

Business type	Activities	Customer groups
• Plant engineering and component business	• Exhaust-air purification systems • Energy management and consulting • Service • Energy-efficiency technologies	• Chemical industry • Pharmaceutical industry • Carbon fiber production • Printing/coating • Vehicle manufacturers (paint shops) • Automotive suppliers (paint shops) • Woodworking • Operators of decentralized power plants • Process industry • Energy sector • General industry

WOODWORKING MACHINERY AND SYSTEMS DIVISION

Business type	Activities	Customer groups
• Mechanical and plant engineering	• Woodworking machines • Linked production lines for woodworking • Service	• Woodworking industry • Woodworking trade

[1] The industrial cleaning technology and surface processing systems business (Cleaning and Surface Processing / Dürr Ecoclean Group) is expected to be sold to Shenyang Blue Silver Industry Automation Equipment Co., Ltd. with effect from March 31, 2017.

CONSOLIDATED FINANCIAL STATEMENTS

automated production lines. Our core products include panel dividing systems, throughfeed saws and drilling machines, sanders, edge-banding machines, CNC processing centers and handling systems. As part of its **Industry 4.0 [P. 194]** approach, the HOMAG Group offers a modular software portfolio which enables an integrated data flow – from ordering of the furniture to manufacture and through to shipping.

COMPREHENSIVE SERVICE OFFER

Since the end of the economic crisis of 2008/2009, our installed base, i.e. the total number of all Dürr machines and systems in the market, has seen a marked increase. This therefore opens up good growth opportunities in after-sales business for us. To exploit these, we have expanded and optimized our service organization in recent years through the Group-wide CustomerExcellence@Dürr program.

Our range of services includes planning, remodeling, upgrading, optimizing and relocating plants and machinery, as well as plant-productivity and energy-efficiency audits, software updates, training, maintenance, **remote diagnostics [P. 194]**, repairs and replacement parts. In 2016 service sales rose by 11.0 % to € 981.9 million, although Group sales fell by 5.1 % to € 3,573.5 million. Against this backdrop, the proportion of service business in Group sales rose to 27.5 % (2015: 23.5 %), bringing us correspondingly closer to our long-term target of 30 %. At year's end 2016, the service side employed 2,328 persons, or 15 % of the workforce.

TECHNOLOGY AND INDUSTRY PARK (TIP): REAL ESTATE SERVICE PROVIDER IN DARMSTADT

Schenck Technologie- und Industriepark GmbH (TIP), part of Measuring and Process Systems, markets and operates offices and also production and logistics space at Schenck's Darmstadt site. The floorspace for rent amounts to 109,900 m² on a 105,000 m² plot, of which offices account for 46 %.

FINANCIAL IMPORTANCE OF INDIVIDUAL PRODUCTS, SERVICES AND BUSINESS MARKETS

In view of our very broad-based portfolio, the financial importance of individual products and services is manageable. A key factor in our success in the paint shop business is our systems expertise, i.e. the ability to plan and implement turnkey systems. Service business generates a stabilizing and growing contribution to profitability in all divisions and is therefore being expanded. Thanks to our international presence, we achieve almost 85 % of Group sales outside Germany; 26 % of sales come from China. The earnings contribution from the individual market regions is approximately in line with the regional breakdown of sales. In regions with above-average market shares we tend to achieve higher margins.

LEGAL STRUCTURE

Each of the following companies is wholly owned by Dürr AG: Dürr Systems AG (until August 2016: Dürr Systems GmbH), Dürr International GmbH, Dürr Technologies GmbH, Carl Schenck AG and Dürr IT Service GmbH. The first four companies mentioned and Dürr AG have entered into domination and profit and loss transfer agreements. A profit and loss transfer agreement has been concluded between Dürr AG and Dürr IT Service GmbH. A domination and profit and loss transfer agreement has been in place between Dürr Technologies GmbH and HOMAG Group AG since March 17, 2015, with the agreement on profit and loss transfer being applicable for the first time to the profit in fiscal 2016. Dürr Systems AG, Dürr International GmbH, Carl Schenck AG and HOMAG Group AG hold direct or indirect stakes, usually 100 % holdings, in all the other Group companies. The members of the Boards of Management of Dürr AG, Carl Schenck AG, Dürr Systems AG and HOMAG Group AG are represented on the supervisory boards of all material foreign companies.

PORTFOLIO CHANGES

Acquisitions/shareholdings/asset deals

- Effective December 2, 2016, iTAC Software AG acquired 100 % of the shares in DUALIS GmbH IT Solution. DUALIS specializes in advanced planning and scheduling software (APS) for fine-planning and optimizing production processes in smart factories. It therefore complements iTAC's software portfolio for higher-level production control systems.

- On November 30, 2016, Dürr Systems AG acquired the exhaust-air purification business of KBA-MetalPrint GmbH in an asset deal. KBA-MetalPrint is a wholly owned subsidiary of Koenig & Bauer AG. The transaction opens up further growth potential for the Clean Technology Systems division, especially in exhaust-air purification technology for metal printing, and in service business.

- Effective July 6, 2016, we increased our holding in Dürr Cyplan Ltd. from 50 % to 100 %. We also acquired 100 % of the shares in E&P Turbo Ltd. Dürr Cyplan specializes in ORC systems (Organic Rankine Cycle), which generate electricity and thermal energy from waste heat. E&P Turbo supplies the turbines used in these.

Further information can be found in table 2.3 and under **item 19** **[P. 131]** in the notes to the consolidated financial statements.

Divestments

- Effective October 20, 2016, we sold our 11 % holding in Tec4Aero GmbH to the Shanghai Electric Group. The shareholding had been in our possession since the end of 2014 and resulted from the sale at that time of our activities in aircraft assembly technology to Broetje Automation GmbH. The disposal of our shares in Tec4Aero was connected with the sale of Broetje Automation to the Shanghai Electric Group by Deutsche Beteiligungs AG.

- We expect to deconsolidate and sell the Dürr Ecoclean Group (Cleaning and Surface Processing unit within the Measuring and Process Systems division) to Shenyang Blue Silver Industry Automation Equipment Co., Ltd. with effect from March 31, 2017. The buyer is a subsidiary of Chinese engineering company and machinery manufacturer Shenyang Blue Silver Group (SBS Group). The Dürr Ecoclean Group operates in the industrial cleaning technology field; in 2016, its approximately 850-strong workforce generated sales of almost € 200 million and EBIT of some € 14 million. We signed the agreement with the SBS Group on August 6, 2016. We expect to receive around € 100 million on March 31, 2017, as the proceeds from the sale of 85 % of the Dürr Ecoclean business. We will also receive a 15 % shareholding in the new holding company, SBS Ecoclean GmbH. This shareholding will be listed in the financial investments. A book gain (after transaction costs) for the entire transaction of around

2.3 – ACQUISITIONS/SHAREHOLDINGS/ASSET DEALS

	Shareholding	Consolidation type	Included in the consolidated financial statement since	Employees (Dec. 31, 2016)
DUALIS GmbH IT Solution Paint and Final Assembly Systems	100.0 %	Fully consolidated	Dec. 2, 2016	32
KBA-MetalPrint GmbH[1] Clean Technology Systems	Asset deal		Nov. 30, 2016	18
Dürr Cyplan Ltd. Clean Technology Systems	100.0 % (2016: 50.0 %, 2011: 50.0 %)	Fully consolidated	May 25, 2011	17
E&P Turbo Ltd. Clean Technology Systems	100.0 %	Fully consolidated	July 6, 2016	0

[1] Asset deal

2.4 – PROCESSES IN PLANT ENGINEERING

Project inquiry from customer	Planning phase		Order intake	Delivery order						Service
	Planning	Bid		Technical analysis	Engineering	Manufacture	Installation	Commis-sioning	Final inspection	Spares, upgrades etc.

€ 25 million is expected, effective March 31, 2017. The SBS Group and Dürr have purchase and selling options for our holding in SBS Ecoclean GmbH; these may be exercised from March 31, 2018. Further information is presented in the **Strategy** chapter **[P. 29]**.

Plant closures

We closed two unprofitable sites in Q4 2016: the Zistersdorf plant (Austria, Paint and Final Assembly Systems) and the Weinsberg plant of Friz Kaschiertechnik GmbH (Germany, Woodworking Machinery and Systems). The closure costs for the two plants totaled € 9.0 million.

BUSINESS PROCESSES/PROCESS ADVANTAGES

Planning, engineering and design, order execution and service are our most important business processes. We have also specifically expanded our in-house production in recent years in the interests of quality assurance, achieving on-time-to-requirement deliveries and protecting our intellectual property. For large plant engineering projects, in particular, our business success depends on the quality of order execution and professional project management. A large project usually requires 15 to 24 months to complete, while the figure for machinery orders is between 2 and 12 months. Smaller remodeling, upgrading and service projects are of shorter duration.

Complex projects require smooth collaboration between different departments and sites. We therefore operate with standardized processes in planning, order execution, service and administration. Our processes are supported by globally harmonized IT systems. This avoids interface problems, automates processes and enables the international sharing of work packages and thus effective capacity management. The standardization of processes and IT tools allows us to handle more orders in parallel while reducing risks. The HOMAG Group, which was acquired in 2014, has been integrated in a number of the Dürr Group's processes and IT systems. At the same time, it is harmonizing and automating its own business-specific workflows and systems as part of the FOCUS optimization program.

CUSTOMER RELATIONS

Most vehicle manufacturers and many suppliers use Dürr technology in their production operations. Our business with them is technically complex and long-term. We therefore communicate regularly with them. We act as a planner, consultant and system supplier. For that reason, we are sometimes involved in initial negotiations for up to two years before an order is placed in the case of major capital projects. As a service partner, we also support our customers in the after-sales sphere, for instance with replacement parts and upgrades. Customers often give us early notice of the development of new products to ensure that we can provide the necessary production technology at the right time.

The mechanical engineering divisions – Measuring and Process Systems and Woodworking Machinery and Systems – have a very broad market base with tens of thousands of customers. The costs of selling are therefore higher and the sales channels are structured differently than in plant engineering business with the automotive industry. In addition to supplying individual machines, these divisions are also involved in major, relatively long-term projects which require intensive cooperation.

SUPPLIER RELATIONS

We source goods, raw materials and services from more than 12,000 suppliers. In addition to parts and component suppliers, we also frequently use the services of contract manufacturers, engineering consultancies and logistics companies. In the case of crucial commodity groups, we enter into internationally valid framework agreements with preferred suppliers with a focus on the long term. Thus, we are able to pool the demands of several companies and divisions and enable economies of scale to be achieved. Further information is presented in the **Procurement** chapter **[P. 43]**.

FEATURES OF OUR BUSINESS MODEL

Our core competence is engineering efficient solutions in production technology. We frequently supply complete production systems, so project management and order execution are also central areas of expertise at Dürr. At 37 %, our **real net output ratio** **[P. 195]** is relatively low, though it has increased somewhat in recent years. Key factors in this were the expansion of in-house production in our core business and the takeover of the HOMAG Group with a real net output ratio of 45 %. In the Paint and Final Assembly Systems plant engineering division the real net output ratio is a mere 28 %.

In plant engineering, in particular, we operate an asset-light business model. Within the Group, the low real net output ratio goes hand-in-hand with a low asset intensity and capital employed. This has a positive impact on the **ROCE** **[P. 195]** The prepayments received from customers cover the receivables and inventories in current assets to a significant level. Consequently, the **net working capital (NWC)** **[P. 195]** in plant engineering is low, sometimes even negative. The fixed costs are also comparatively low thanks to the low real net output ratio and asset intensity, which enables us to respond more flexibly to cyclical order-book fluctuations. In 2016 we had an average days working capital (DWC) of 27.2 days (including Dürr Ecoclean), meaning we were within our target corridor of 25 to 35 days.

Measured against sales, our annual need for capital investment (without acquisitions) is low at € 70 to 80 million. Particularly in plant engineering, the expertise of our employees is a more important factor than large tangible assets. Capital expenditure in 2015 (€ 102.3 million) was higher because of the construction of new sites in China and the US. At € 30 million per annum, the HOMAG Group invests more than the other divisions since its real net output ratio is higher.

Our material cost ratio[1] (material costs as a proportion of sales) has fallen in the past few years: from 46.8 % in 2012 to 39.3 % in the year under review. One significant factor in this was the incorporation of the HOMAG Group; another was that we have successfully reduced expenditure on external manufacturing contractors as a result of our higher in-house production.

Most divisions have local production plants and procurement structures in major foreign markets. They tend, therefore, to export only little and are exposed to comparatively low transaction risks. Translation effects resulting from the conversion of foreign currency items into euros are more important. The acquisition of the HOMAG Group in 2014 has slightly increased our transaction risk. Since the HOMAG Group manufactures a great deal of its products in Germany, it has a higher export ratio and a correspondingly higher currency risk.

Many projects in the automotive industry have long lead times. This allows us a clearer picture in terms of the future order book. We can therefore assess our future sales, capacity utilization and income situation for a major portion of the business relatively accurately.

BUSINESS LOCATIONS AND DIVISION OF LABOR WITHIN THE GROUP

Our 92 sites worldwide guarantee that we are very close to our customers. In the past few years, our sites in the emerging markets have become increasingly important. At year's end 2016, 30.2 % of the workforce were employed there. Shanghai, with some 2,800 employees (including around 750 external staff), is the largest location in the emerging markets.

[1] Material costs: costs for raw materials and supplies, bought-in parts and purchases from sub-contractors

Our global operations are managed from the respective headquarters in Germany. With some 2,100 employees, the Dürr Campus in Bietigheim-Bissingen is the Group's corporate head office and also the headquarters of Paint and Final Assembly Systems, Application Technology and Clean Technology Systems. Darmstadt (around 550 employees) is the hub for the operations of Measuring and Process Systems and our center of competence for balancing technology. The HOMAG Group headquarters in Schopfloch (approx. 1,800 employees) manages the Woodworking Machinery and Systems business.

Since 2012 we have upgraded, expanded or built new plants at more than 15 Group locations. The associated capital expenditure on expansion in the period 2012 to 2016 totaled € 143.3 million (including the HOMAG Group from October 2014). In 2016 we pushed through two major site projects: In Southfield in the US a new campus site for around 500 employees was opened, while in Shanghai staff moved into a new office and technology complex in February 2017. The capital expenditure for the two projects came to some € 60 million. Of this, € 15.9 million was allocated in 2016 and € 30.7 million in 2015; the balance will be accounted for in 2017.

Guidelines and process standards define how the Group companies collaborate on cross-border systems projects in plant engineering. In the case of major orders for Paint and Final Assembly Systems, the system center in Bietigheim-Bissingen is usually responsible for project management. The companies based abroad are responsible for local sales and service, and they support system execution, for example by providing engineering, purchasing, and production services. Our international activities in mechanical engineering, too, are coordinated and supported by the principal business locations in Germany.

COMPANY-SPECIFIC LEADING INDICATORS

We use various leading indicators to manage the company. This enables us to respond to economic trends and changes in demand in a timely manner. We distinguish between four types of indicators:

- Key economic leading indicators include money supply, commodity and energy prices as well as purchasing manager indices and business confidence barometers. Research reports and macroeconomic statistics also help us identify economic trends at an early stage. We also carefully monitor interest rates. Business performance in our two main customer segments (the automotive and woodworking industries) strongly correlates with the development of the world economy.

- More specific indicators to predict future business potential are customers' investment plans as well as statistics and forecasts on production and sales. In addition, we monitor analysts' expectations regarding our customers' cash flows and investments.

- The third leading indicator tracks specific investment projects planned by our customers. We store information on these in our database, along with an assessment of the likelihood of our company being awarded a contract. In 2016 the opportunity-weighted market volume we track remained at a high level. In product business, the quoting period for offers is a reliable indicator. An increase in the average quoting period means that customers require more time for their investment decisions, which in turn points to more muted demand.

- The fourth group of indicators is made up of incoming orders and orders on hand. Given the long lead times of many projects, both figures provide a reliable basis for estimating capacity utilization and sales in the following quarters.

STRATEGY

"DÜRR 2020" STRATEGY: TARGETS

The "Dürr 2020" strategy is our roadmap for the Group's development through 2020. It defines the following targets:

- Sales: We want to increase sales to as much as € 5 billion by 2020 by means of organic growth and further acquisitions.
- EBIT margin: The EBIT margin is to be widened to between 8 and 10 % by 2020.
- ROCE: Planned level of more than 30 % by 2020 on a sustained basis.

Group sales are to grow by an average of around 3 % per year through 2020, with all divisions to make contributions at different growth rates. The growth of the individual divisions may be influenced by further acquisitions. Different EBIT margins and **ROCE [P. 195]** goals have been defined for the individual divisions. The Paint and Final Assembly Systems division's plant engineering business generates returns on capital far in excess of the average as **net working capital [P. 195]** is mostly negative. On the other hand, the EBIT margin is lower than the Group average. Moving forward, the Woodworking Machinery and Systems division will be a crucial driver behind the improvement in Group EBIT. Further information can be found in the **Report on expected future development [P. 88]**.

With the exception of the financial crisis years of 2008/2009, we have consistently met our targets since 2006 thanks to our good market position, our innovation strategy, the ongoing globalization of our business, the expansion of our service business and continuous process optimization.

PORTFOLIO STRATEGY: TAPPING NEW AREAS OF GROWTH

A key element of "Dürr 2020" entails tapping new areas of growth in the mechanical and plant engineering sector. Following the successful takeover of the HOMAG Group in 2014, we want to continue on our acquisition course, aided by our good capital resources. As was the case with the HOMAG Group, we are seeking potential candidates outside our core automotive business. This is because our large share of the market is placing a natural cap on potential for business growth in the automotive industry. Looking ahead over the next few years, we expect our business in this segment to expand by an average of around 3 % per year.

HOMAG Group

The HOMAG Group has performed well under Dürr's roof, increasing its sales and earnings significantly thanks to the FOCUS optimization program that has been implemented since 2015. The global market leader in woodworking machinery is well on its way to reaching its target EBIT margin of between 8 and 10 % by 2020.

This success is strengthening us in our resolve to continue on our acquisition course. We want to acquire companies with an appropriate valuation, enhance their profitability by boosting their efficiency and step up their growth. The HOMAG Group is a good example showing that we can help other companies in the plant and mechanical engineering sector to harness efficiency gains. In this connection, we are helped by our experience in optimizing structures and processes; measures such as the globalization of business, the standardization of products, processes and IT systems, and the expansion of service business form the basis for Dürr's upswing over the last ten years. These skills and experience provide the underpinnings for the optimization of HOMAG and should also help to unlock value from other future acquisitions.

Acquisition criteria

The criteria we apply in the acquisition of potential targets are clearly defined:

- Mechanical and plant engineering or related technologies (e.g. software) and services
- Leading market and technological position (number one or two in the market)
- Niche market operator not competing with any major companies
- Not in need of restructuring but offering potential for improving earnings
- A corporate culture which is a good fit for Dürr

Divestment of Dürr Ecoclean

Portfolio optimization also entails divesting activities that can develop more favorably outside the Group or which cease to satisfy our portfolio criteria in the longer term. We expect to sell the Dürr Ecoclean Group to the Chinese SBS Group effective

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2.5 – "DÜRR 2020": FOUR STRATEGIC FIELDS

March 31, 2017. Dürr Ecoclean is the global market leader in **industrial cleaning technology [P. 194]** and can benefit from the anticipated market consolidation more effectively outside the Dürr Group. This is because the high market share which Dürr has in automotive business as a whole is making it difficult for Ecoclean to achieve above-average growth rates. The SBS Group specializes in machinery for processing parts in engine and transmission engineering and is committed to making further investments in Dürr Ecoclean. Additional information can be found in the chapter entitled **The Group at a glance [P. 21]** in the section headed "Portfolio changes".

FURTHER STRATEGIC FIELDS IN THE GROUP AND DIVISIONS

Our strategy for the existing portfolio has four thrusts: innovation, globalization, service and efficiency. They all relate to our corporate slogan, "Leading in Production Efficiency", which embodies the promise to our customers of enhancing the efficiency of their production processes. They apply across all divisions, although they also factor in specific aspects relating to the individual divisions.

STRATEGIC FIELD: INNOVATION

Through innovation, we create spending incentives for our customers and secure our competitive edge. We are committed to ensuring that all new products lower our customers' unit costs and enhance their production efficiency. More than € 100 million is directly spent on innovation projects each year. The chapter entitled **Research and development [P. 39]** provides further information and recent examples.

digital@DÜRR

Digital transformation is currently the most important trend spurring innovation at Dürr. We define it as the use of intelligent products, digital networking of production equipment as well as automatic plant optimization using big data analysis of information gained from extensive production data.

Our customers can derive considerable efficiency gains in production from this digital transformation: productivity, quality, flexibility and plant availability are improved, new products are ready at an earlier stage, and investment and operating costs are lower. Digital transformation also offers us great opportunities: we have a broad range of digital solutions acting as competitive differentiators for us. At the same time, we are optimizing our own processes. Thanks to our financial strength, we are able to invest more effectively in digital transformation than our smaller peers.

Our digital@DÜRR digitization strategy encompasses four areas:

Smart products: We develop intelligent products which are self-regulating, detect changing production tasks and report servicing requirements at an early stage.

Smart services: We use the Internet to analyze customers' equipment online. At the same time, big data analyses allow us to offer **predictive maintenance [P. 194]**.

Smart processes: We utilize intelligent software and simulations to optimize order execution.

Smart factories: We network the machinery and equipment at a plant using software to render the entire production process transparent.

At the core of any digital factory is the **manufacturing execution system (MES) [P. 194]** software for integrated factory management. It communicates with all machines, collects process data and evaluates it. In this way, factory operators are able to enhance production efficiency. In view of the outstanding importance of MES technology for **Industry 4.0 [P. 194]**, we acquired iTAC Software AG, one of the leading vendors in this segment, in December 2015. The iTAC MES software is already being used to control and network more than 220 factories.

Together with iTAC, we have developed the iTAC.IoT.Suite Industry 4.0 platform. Based on existing iTAC and Dürr MES software (iTAC.MES.Suite and Dürr **Eco**EMOS), it features new technical elements such as cloud capabilities and extensive **big data** analysis **[P. 194]**. This gives us a promising state-of-the-art software platform for digital production management.

We have gained additional expertise in advanced planning and scheduling (APS) software following the acquisition of DUALIS at the end of 2016. The next step will be for us to integrate the DUALIS solutions for simulating and optimizing production processes in the smart factory in the iTAC.IoT.Suite software.

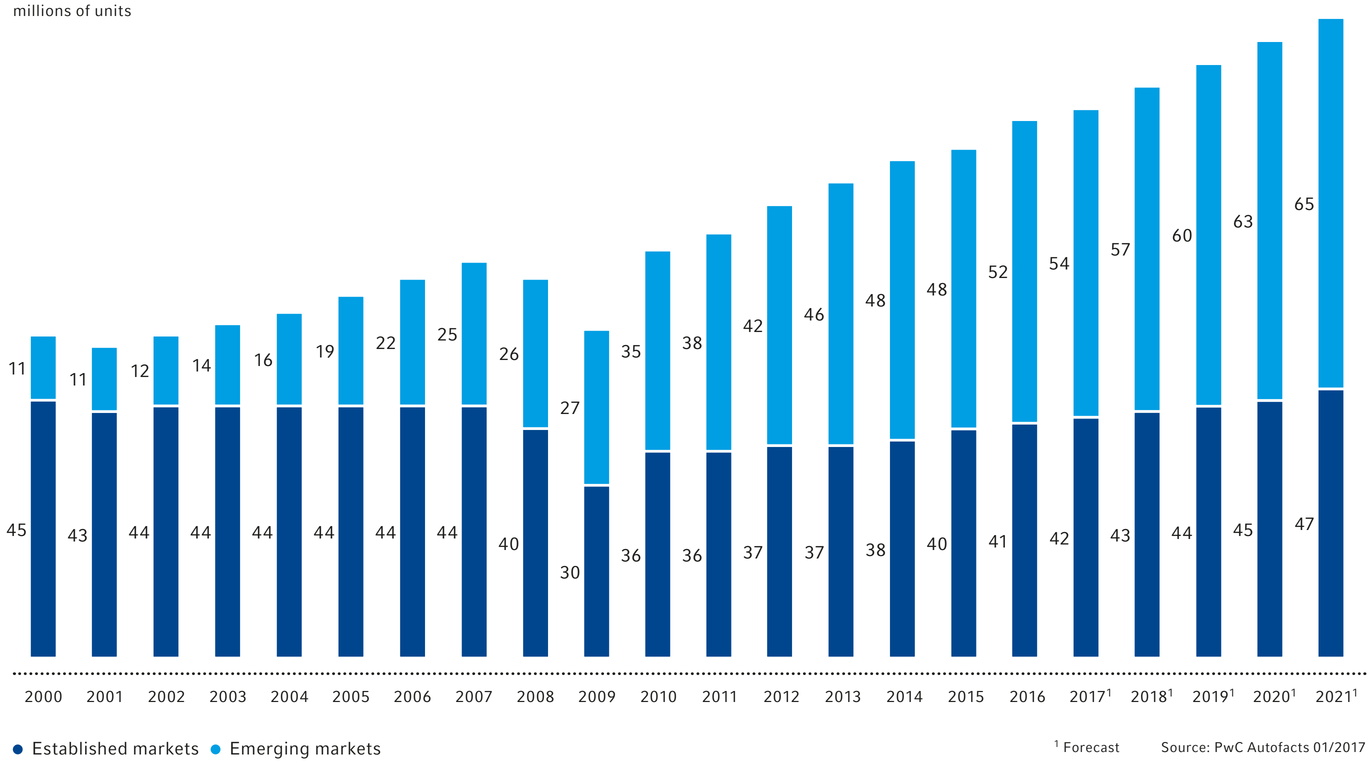
STRATEGIC FIELD: GLOBALIZATION

Global footprint

As we have a strong presence in all main markets, we have a balanced distribution of sales. Temporary dips in demand in

2.6 – GLOBAL AUTOMOTIVE PRODUCTION

millions of units



[1] Forecast Source: PwC Autofacts 01/2017

individual regions can normally be absorbed by growth in other markets.

It is becoming increasingly important for our customers to produce close to the markets that they are addressing. This is why, looking forward, new factories will continue to be built in many emerging markets. We will be able to benefit from this trend as we are steadily expanding into new regions and seeking a high degree of localization in foreign markets. In this way, we can support our customers efficiently in the construction of local production facilities and the provision of local service.

The years following the financial crisis in 2008/2009 saw particularly strong expansion of our activities in the emerging markets, where the automotive industry still expects the largest growth in sales and production volumes. With around 2,800 employees (including roughly 750 externals), we have a particularly strong presence in China. Between 2012 and 2014, we also strengthened our market position in Southeast Asia by setting up national companies in Indonesia, Malaysia and Thailand. Africa is a market of the future offering long-term potential. We are operating an efficient facility in South Africa and have already executed several projects on this continent – including Morocco. We are also prepared to open up new African markets together with our customers.

Global expansion into new business fields

One aspect of the globalization strategy involves expanding swiftly into areas related to our core business at an international level. One important example is the Industrial Products segment, via which Application Technology has been making forays into general industry since 2014. Target sectors include plastics, shipbuilding, ceramics, wood and furniture. **Application technology** **[P. 194]** for general industry offers a considerable market volume. We are hoping to achieve industrial business worth around € 50 million by 2019. Other new business segments which we have entered in the last few years include **glueing technology** for the automotive industry and **filling technology** **[P. 194]** for the household goods industry.

STRATEGIC FIELD: SERVICE

Expansion of service business

The expansion of service business is strategically important for a number of reasons:

- Our installed base has widened sharply as we have supplied an above-average quantity of equipment since the financial crisis in 2008/2009. This has given rise to correspondingly large growth potential for service business.

- By offering professional service, we can ensure maximum availability for our customers. This not only boosts productivity but also improves customer satisfaction.

- Service business generates greater and more stable earnings contributions than new business in machinery and equipment. A large proportion of service business safeguards our profitability even in the event of moderate growth in new business.

Service-related sales rose by 11 % in 2016. This success has its roots in the CustomerExcellence@Dürr optimization program that was executed from 2013 to 2015. CustomerExcellence@Dürr allowed us to lay the organizational foundations for the growth in our service business. Key activities included, for example, recruitment and training of service staff, the roll-out of new IT systems and improvements in spare parts logistics. At the same time, we invested heavily in customer orientation training and the “Dürr Promotor Score”, a systematic customer satisfaction measurement system. In this way, we want to widen the contribution made by service business to consolidated sales to as much as 30 % (2016: 27.5 %).

Modernization business offering growing business potential

Our customers are increasingly investing in **brownfield projects** **[P. 194]**, i.e. modernization projects. The proportion of these brownfield projects in painting technology business is expected to widen to around 35 % by 2020, up from 25 % in 2016. This will be driven not only by the established markets but also by China, where more and more plants require modernization. Around half of the over 670 automotive paint shops around the world are older than 20 years. Modernization spending mostly has short amortization periods as it leads to a substantial improvement in productivity in conjunction with moderate funding requirements.

We are at the beginning of a modernization cycle in painting robot business as we started installing a large number of robots around 15 years ago. Given their service life of 10 to 12 years, the next few years are set to see an appreciable increase in replacement spending. We are well positioned for this with our third-generation robots, which we unveiled in 2016.

STRATEGIC FIELD: EFFICIENCY

Ongoing process optimization forms part of our corporate ethos, allowing us to adjust swiftly to changing customer requirements and to harness efficiency potential. Improvements are currently targeted at the following main areas:

- **Digitization**: We are stepping up the digitization of processes in all parts of the company. One example of this is the virtual commissioning in which we can test plant components and software on the computer prior to installation at the construction site.
- **Global processes**: Shared international order execution calls for uniform Group-wide processes. In this connection, we are constantly integrating new knowledge in our standard processes and IT systems.
- **Global IT integration**: End-to-end IT systems provide access to the same data and work packages from any location at different Group companies around the world.

SUSTAINABILITY

Sustainability is part of Dürr's DNA, whether in relation to the economical use of resources, our relationship with our employees or exercising our social responsibility. On the Board of Management, sustainability falls within the CFO's responsibilities. In addition to this present chapter, we publish a separate Sustainability Report annually. We take part in sustainability initiatives such as the Carbon Disclosure Project, Ecovadis and Vigeo. We provide detailed responses to queries from our customers about sustainability issues. To measure sustainability, we use performance indicators such as customer and employee satisfaction, and consumption and emissions figures.

As a company, we have a range of stakeholders:

- Employees
- Customers
- Business partners and suppliers
- Shareholders
- Media
- Governments and authorities
- NGOs

We have analyzed the interests of these stakeholders and examined the impacts they have on our business activities. This reveals our ten most important issues in terms of sustainability to be:

- Responsible business management
- Innovation
- Supply chain
- Reliability as a partner
- Relationship with employees
- Communication
- Compliance
- Corporate governance
- Holistic risk management
- Values and integrity

We will address these issues in depth in our future sustainability reporting. The background to this is provided by the new features of the CSR Directive Implementation Act, which are to be applied for the first time to fiscal years starting after December 31, 2016.

COMPLIANCE

Compliance is part of the CEO's remit. The Corporate Compliance Board, which shapes and further develops our compliance management system, reports to him. This board comprises the Corporate Compliance Officer, the Head of Internal Auditing, the Corporate Risk Manager, the Finance Managers of the divisions and other managers.

Questionable conduct can be reported to the Corporate Compliance Officer – anonymously, if so wished. An initial investigation is then conducted, with the assistance of Internal Auditing. If there appear to be reasonable grounds for suspicion, the CEO and the Corporate Compliance Board are immediately notified. Local compliance managers support the employees in the Group companies in meeting compliance requirements.

Dürr's code of conduct and various organizational instructions outline compliance requirements that are binding across the Group. The code contains information on the inadmissibility of discrimination, anti-corruption protection, fair competition, the rights of all employees to fair treatment and dealing with insider knowledge. We have translated the code into the Group's nine most important languages. Other information on compliance can be found on the intranet, e.g. contacts, FAQs and procedures for reporting matters.

In mid-2016 we launched a global online training program on compliance. This uses actual examples to address the code of conduct and the compliance management system. Some employee groups are also able to attend in-depth training modules on fair competition and anti-corruption protection. In 2016 no fewer than 7,000 employees completed the basic compliance training. This did not include HOMAG Group employees, who had already attended a comparable training program.

Irrespective of the basic legal principles, the following standards are applicable right across Dürr worldwide:

- We treat our employees fairly, courteously and respectfully. Discrimination and harassment have no place here and are dealt with rigorously. We respect ethnic and cultural backgrounds and do not discriminate on the grounds of religion, disability, age, gender or sexual orientation.

- Child labor and forced labor are strictly forbidden. Our employees may join legally constituted employees' representative organizations without fear of disadvantage.

- A healthy and attractive working environment is essential to good performance. We comply with health and safety regulations.

- Our actions are guided by the UN Global Compact, which defines principles for fair working relationships and responsible business operations.

ECOLOGY

Consumption-optimized products

The aim of our technology is to help customers achieve the highest standard of quality while lowering per-unit costs. There is a good reason for our corporate slogan to be "Leading in Production Efficiency". Increasing efficiency usually means minimizing the use of resources and thus also emissions and environmental impacts. This is what underpins our product development under the "Dürr 2020" strategy. For examples of sustainable innovations, please refer to the **Research and development** chapter **[P. 39]**.

Environment and company sites

We make every effort to achieve the smallest possible environmental footprint in our manufacturing operations and adopt a systematic approach to seeking improvements. Energy, material and resources are to be used efficiently. We are committed to energy efficiency in both new-build and building upgrade projects. In the construction of our new US campus in Southfield, Michigan we largely retained the existing building fabric and incorporated innovative technologies in it to save energy and costs. In addition to LED lighting and special windows, that also includes one of the largest variable refrigerant flow systems in Michigan. This technology can supply heat and cold at the same time, tempering different zones within a building individually. Compared with our US sites previously, we are saving almost 900,000 kWh of electricity annually in Southfield. We also retrofit existing buildings with efficient, environment-friendly technologies such as LEDs. Wherever possible, paper, plastics, steel, wood and electrical equipment are recycled. In Bietigheim alone, that results in an annual CO_2 reduction of more than 400 tons. Schenck Technologie- und Industriepark (TIP) in Darmstadt, Germany, offsets around 700 tons of CO_2 emitted annually in the usage of natural gas and district heat by supporting two reforestation projects in New Zealand and the Democratic Republic of Congo.

2.7 – ENVIRONMENTAL KEY FIGURES (ABSOLUTE)

	2016	2015	2014[1]
Number of sites	92	92	53
of which quality management certified to ISO 9001[2]	47	51	38
of which environmental management certified to ISO 14001[2]	19	21	18
of which energy management certified to ISO 50001[2]	10	–	–
Consumption			
Electricity (MWh)	61,249	60,640	33,443
Gas/oil/district heat (MWh)	69,721	67,717	39,667
Water (m^3)	183,823	191,918	130,685
Waste water output (m^3)	168,368	175,489	122,022
Waste (t)	11,189	12,123	4,525
of which recycled (t)	8,962	9,737	3,191
Emissions			
CO_2 (t)	62,909	62,097	33,493
of which attributable to Dürr vehicle fleet (t)	9,474	9,481	3,965
SO_2 (t)	32	32	18
NO_x (t)	49	48	27

[1] Not including the HOMAG Group
[2] Sites used by several Dürr companies sometimes have multiple certificates.

2.8 – ENVIRONMENTAL KEY FIGURES (INDEXED)

	2016	2015	2014[1]
Consumption			
Electricity	76.9	72.2	64.6
Gas/oil/district heat	59.0	54.4	51.7
Water	84.4	83.6	92.3
Waste water output	87.1	86.2	97.2
Waste	136.5	140.3	85.0
Waste recycled	143.3	147.7	78.5
Emissions			
CO_2	73.8	69.1	60.5
CO_2 attributable to Dürr fleet	97.8	92.8	63.0
SO_2	75.9	71.3	63.9
NO_x	71.7	67.0	61.0

(2010 = 100; in relation to sales)
[1] Not including the HOMAG Group

Our large sites, in particular, are regularly certified to the ISO 14001 environmental management system and ISO 9001 and VDA 6.4 quality management systems. We introduced an energy management system at ten sites in 2016 and had them certified to ISO 50001. Internal audits allow us to guarantee the quality of the systems in place. A list of all our certifications can be found under Company/Sustainability/Certificates and Management Systems at **www.durr.com.**

SOCIAL COMMITMENT

Our social commitment is mainly directed towards humanitarian, cultural and education-related projects as well as to grassroots, youth and disability sport. We prefer to support activities in the local area around our sites. In 2016 we donated € 0.8 million (2015: € 0.7 million). The largest individual donation was € 60,000 for "Bietigheimer Wunderland", a major arts event in the town.

We are committed not only to donations, but also to active involvement. One example is the Knowledge Factory project in Germany, in which we run fun engineering workshops in schools. The HOMAG Cares project has a long tradition. In this, we sell furniture that we produce for demonstration purposes at trade shows, and then top up and donate the proceeds. We support eight students with the All-German Grants Initiative. Young persons from a migration background are assisted in their education with START grants.

In 2016 we supported various projects providing aid to refugees. These include the "PerjuF" initiative promoting improved prospects for young refugees, but also the activities of employment agencies, local councils and chambers of industry and commerce. And we support employees who volunteer in refugee projects, e.g. by granting leave of absence for training or educational purposes. On December 31, 2016, we had four employees and three interns of refugee background. Aside from a lack of language and technical skills, uncertainties over residence status often currently prove to be a constraint to employing refugees.

EMPLOYEES

In 2016 our workforce grew by 2.6 %, to 15,235 people. Following the acquisitions of DUALIS and the CleanAir section of KBA-MetalPrint, the Group gained 50 new employees. Aside from our regular workforce, we also take on external staff so we can respond more flexibly to fluctuations in workload.

839 employees were working for the Dürr Ecoclean Group on December 31, 2016. It is anticipated that they will leave the Dürr Group by March 31, 2017, as a result of the Ecoclean sale to the SBS Group.

53.9 % of our employees are based in Germany. In 2016 our workforce in Germany grew by 2.2 %. At 4.0 %, the increase in the emerging markets (including China) was significantly lower than in previous years. We had 4,597 employees working for us there, which is equivalent to 30.2 % of our total workforce.

Training and personnel development

The production technology market has seen many new trends – from **big data [P. 194]** and system connectivity through to **predictive maintenance [P. 194]**. To keep our employees' level of knowledge up to date, we provide a comprehensive training program. In 2016 our training expenditure per employee, at € 780, was on a par with the previous year. The number of training attendances in Germany totaled 10,032 (2015: 11,848). Added to that were over 10,000 online training programs worldwide – mostly in the field of compliance. The number of training measures rose from 1,710 to 1,881.

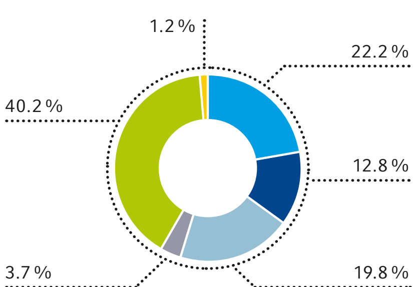
Technical training courses in IT, technology and commercial know-how made up 52 % of all training, with IT training constituting the largest sub-group (18 %). Service training was also very popular. The training campaign launched in 2014 to increase customer focus has almost been completed: 92 % of more than 8,000 designated employees have already completed their basic training. A new key topic of our training is compliance.

Around a third of all training events are offered by in-house staff. Those wishing to access training programs can use the MyTraining online portal, which has been available to all Group employees since 2016.

One of the training formats that reflects Dürr's international character is our corporate training, where employees from different countries come together. They learn about Group-wide best practices in project management, sales and leadership. In 2016 we had 535 people attending such events.

We also set great store by offering development programs for managers. In 2016, 249 participants attended specialist training courses based on the Dürr Leadership Skills Model, which represents a set of values for cooperation within the Group. New modules include the "Fit for Leadership" program for young executives and the "Advanced Leadership" training curriculum, which was launched at the beginning of 2017 for experienced managers.

2.9 – EMPLOYEES BY DIVISION (DECEMBER 31)



	2016	2015	2014
Paint and Final Assembly Systems	3,384	3,374	3,069
Application Technology	1,956	1,858	1,784
Measuring and Process Systems	3,010	2,992	3,018
Clean Technology Systems	569	499	473
Woodworking Machinery and Systems	6,126	5,906	5,659
Corporate Center	190	221	148
Total	**15,235**	**14,850**	**14,151**

HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014

To ensure we continue to fill all management positions with the right candidates, we have implemented the "People Development" process. Designed to systematically evaluate potential managers, this process will be expanded to include the HOMAG Group from 2017.

Personnel and university marketing

In 2016 we filled most vacancies without any problems, thanks to Dürr's positive image as an employer. This is based not only on our economic success but also on the technological appeal of our products, interesting compensation and career options as well as a corporate culture that is also reflected in social networks. We advocate work/life balance, for example by offering flexible working hours as well as sport and health schemes. From mid-2017 we plan to highlight the job diversity within the Group to potential applicants even more clearly through employer branding. In addition, we will expand our social media presence.

Our quality as an employer is underlined by numerous awards and high rankings:

- **Kununu Top & Open Company**: We have achieved an average score of 3.82 (out of 5) on the Kununu evaluation platform, thus outperforming our industry peers (average 3.11).

- **FOCUS Best Employers**: In the employer ranking published by German magazine FOCUS, we came 14th out of a total of 75 mechanical and plant engineering firms rated in Germany.

- **Fair Company**: We involve interns in high-quality projects and pay them appropriately. Graduates are not employed as interns, but offered salaried positions.

- **Best companies for families**: The German magazine ELTERN (parents) has listed us as one of the most family-friendly companies in the German mechanical and plant engineering sector.

- **Success Factor Family**: We are committed to a family-friendly personnel policy.

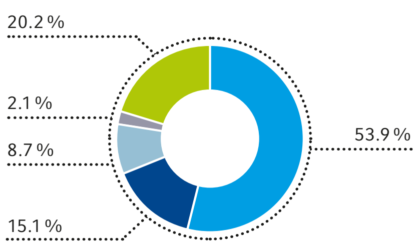
- **Outstanding Trainee Program**: This quality seal shows that our Dürr Graduate Program is fair and provides career opportunities.

In 2016 we visited 24 university and recruitment fairs to attract graduates to Dürr. We had 24 visitor groups from universities and welcomed around 100 students to the StudentsTechnologyDay@Dürr. 91 interns and 80 student employees worked for us to gain practical experience. We supported 62 students and 13 aspiring technicians in completing their theses.

The Dürr Challenge is a unique format for raising Dürr's profile among young people. As part of this film competition, we send students from different fields to three major cities around the world to shoot short films on a particular theme. In 2016, the 15 participants produced film documentaries on the "World of Tomorrow" in Buenos Aires, Dubai and Kuala Lumpur.

CONSOLIDATED FINANCIAL STATEMENTS

2.10 – EMPLOYEES BY REGION (DECEMBER 31)



	2016	2015	2014
Germany	8,205	8,026	7,749
Other European countries	2,306	2,165	2,180
North/Central America	1,329	1,256	1,134
South America	323	382	419
Asia, Africa, Australia	3,072	3,021	2,669
Total	**15,235**	**14,850**	**14,151**

HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014

2.11 – PERSONNEL KEY FIGURES

	2016	2015	2014[1]
Number of employees (Dec. 31)	15,235	14,850	8,492
of whom apprentices and students at cooperative state universities (Dec. 31)	464	481	158
Proportion of female employees (Dec. 31) (%)	16	16	18
Part-time employees (Dec. 31)	514	464	213
Average length of service (years)	11	11	10
Absenteeism rate (%)	3.2	3.1	2.1
Employee turnover (%)	7.3	7.2	4.4
Number of accidents per 1,000 employees (Germany)	13.5[2]	15.6[2]	7.8[2]

[1] excl. HOMAG Group
[2] excl. commuting accidents

Vocational training

Offering vocational training to young people is part of our social responsibility and enables us to fill vacancies with qualified junior staff from our own ranks. In 2016 we had 464 apprentices as well as cooperative state university and "Studium Plus" students working for Dürr, around 70 % of whom were employed by the HOMAG Group. We offer vocational training covering 14 commercial and industrial/technical fields. In 2016 we offered product technology as a training course for the first time. The 12 cooperative state university courses we support include electrical engineering, mechanical engineering and various IT courses. High-achieving university graduates can embark on a specialist or management career at Dürr through the Dürr Graduate Program. At the end of 2016, seven young people were participating in this trainee program.

Employee survey

We carry out worldwide employee surveys in an effort to identify potential areas for improvement and to enhance the dialog within the company. In our most recent survey, conducted in fall 2016, we once again achieved a high level of participation of almost 80 %. HOMAG Group employees took part in the survey for the first time. Compared to the 2013 survey, we saw further improvements in almost all areas on a like-for-like basis, with most of our scores above the peer average in Germany. The survey also showed that commitment, team spirit and job satisfaction play a key role at Dürr. In addition, many people are proud to work for the company, but participants did indicate their desire for more feedback and personal development opportunities. We are using the survey results once again to implement improvements and leverage strengths in cooperation with employees.

Our workforce

The average age of our 15,235 employees is 41. While in Germany the largest age group is between 45 and 54, in China, America and Europe (excluding Germany) the main age group is between 25 and 34. At 43 %, we have a high proportion of academics. 52 % of our employees have undergone non-academic vocational training. We employ around 700 project managers and 1,900 **engineering** staff **[P. 194]** – these large numbers correspond to the size of our well-established project business. 32 % of employees work in assembly and manufacturing, making up the largest proportion of the Group's workforce. However, compared to industrial companies with a higher level of production, this percentage is relatively low. Further personnel key figures can be found in table 2.11.

RESEARCH AND DEVELOPMENT

R&D GOALS

There are two overarching goals to our innovation management process: We wish to help our customers lower their per-unit production costs by means of new, more efficient solutions, hence our corporate slogan "Leading in Production Efficiency". In addition, innovation enables us to stand out from the competition and consolidate our leading market position.

R&D KEY FIGURES AND EMPLOYEES

Fiscal 2016 saw our direct expenditure on R&D reach € 105.9 million, passing the € 100 million mark for the first time. This represented a 9.0 % increase over the preceding year. In light of the lower sales figure, the R&D ratio rose from 2.6 % to 3.0 %. Development costs which accrued in connection with individual orders are contained in the sales costs rather than R&D costs. Capitalized development costs totaled € 12.4 million (2015: € 11.5 million). Measured against the direct R&D costs, the calculated capitalization rate comes to 11.7 %.

Compared with year's end 2015, the number of employees working in R&D rose by 4.2 % to 695 people. That represents a proportion of 4.6 % of the Group's workforce. Most of the R&D employees – a good 90 % – are based in Germany. We also carry out R&D activities at various sites in Europe, the Americas and China. In addition to staff in dedicated R&D departments, numerous other experts are working on new solutions in connection with customer orders.

Innovation at Dürr is based on a Group-wide process, covering every stage from the product idea through to product approval. Responsibility for R&D lies with the divisions. Representatives from the sales, engineering and procurement departments are also involved in all R&D projects, in addition to the R&D department. This ensures that customer needs and requirements in terms of price, engineering, availability of the necessary suppliers and production capacity are given equal consideration. The R&D/Technology multidisciplinary team coordinates R&D activities in the case of cross-divisional issues, assists with knowledge transfer between the divisions and develops best practices for R&D activities. Around 70 % of the R&D budget

CONSOLIDATED FINANCIAL STATEMENTS

2.12 – R&D KEY FIGURES

		2016	2015	2014
R&D ratio Dürr Group	%	3.0	2.6	2.2
Paint and Final Assembly Systems	%	1.2	0.8	1.0
Application Technology	%	4.3	3.6	3.9
Measuring and Process Systems	%	1.8	1.9	1.9
Clean Technology Systems	%	1.7	2.0	1.5
Woodworking Machinery and Systems	%	5.0	4.7	3.8
Capitalized development costs	€ million	12.4	11.5	5.5
Amortization of capitalized development costs	€ million	– 13.1	– 10.4	– 4.3
R&D employees (Dec. 31)		695	667	619
R&D personnel costs	€ million	– 68.0	– 75.1	– 35.2

HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014

2.13 – R&D EMPLOYEES 2016

	Group	Paint and Final Assembly Systems	Application Technology	Measuring and Process Systems	Clean Technology Systems	Woodworking Machinery and Systems
Total	695	60	155	84	20	376
% of divisional workforce	4.6	1.8	7.9	2.8	3.5	6.1

goes into developing new solutions, while some 30 % is spent on optimizing existing products. Our R&D work is mainly product and application-oriented, though we also undertake basic research to a lesser extent.

NEW DEVELOPMENTS AND PATENTS

2016 saw 73 product innovations progressed within the Dürr Group. At year's end, we held 1,126 patent families and 5,856 individual patents (Dec. 31, 2015: 1,075 and 5,395). Application Technology held the largest proportion, with 38 % of the patents. The costs for protecting our intellectual property came to € 6.8 million (2015: € 6.3 million).

COLLABORATIVE RESEARCH AND BOUGHT-IN R&D SERVICES

We maintain active contacts with around 100 scientific institutions and external development partners, ensuring we have good access to the latest research results. In 2016 we spent € 41.9 million (2015: € 24.8 million) on externally sourced R&D services. We received state research grants to the sum of € 0.5 million (2015: € 0.7 million); this represents 0.5 % of the total R&D costs.

R&D FOCUS

Our development work is based on our customers' requirements and leading trends. The focuses are currently as follows:

- **Industry 4.0/digitization**: The digital networking of machines and plant is the dominant global trend in production technology. We are working, for example, on **manufacturing execution systems (MES)** **[P. 194]**, smart products using intelligent sensors, and smart services such as **predictive maintenance** and **remote diagnostics** **[P. 194]**. We are also developing software tools with which production plant can be simulated and virtually commissioned.
- **Increased flexibility**: Our customers need flexible production lines in order to offer a wide diversity of models and variants.
- **Customization/batch size 1**: We are seeing growing interest in systems that enable customized end products to be manufactured efficiently on automated lines.
- **Optimization of per-unit cost**: Reducing per-unit manufacturing costs remains a key factor in increasing efficiency in production. We are therefore bringing new products and processes to market maturity with a reduced demand for material, energy, maintenance and human resources.
- **Automation**: Maximizing automation is crucial to reproducible top quality in long-run production. We are directing our efforts accordingly, for example with robots for interior painting of vehicles and linked production systems.
- **Electromobility**: There are differences in the final assembly of electric vehicles and conventional cars – for example, when connecting the power train and the body or during **end-of-line** **[P. 194]** performance testing. We are therefore developing specific assembly technology for electric vehicles.
- **Human-robot collaboration**: Combining human skills and mechanical efficiency enhances work processes. When developing such processes, we bring our know-how to bear in fields such as robotics, sensor technology, control technology and occupational safety.

- **Energy and resource efficiency**: The answer to the question of how sustainably products are manufactured is increasingly influencing consumers' purchase decisions. For that reason and also for reasons of cost, our customers require production systems with low material and energy consumption.

- **Driver assistance systems/autonomous driving**: More and more cars contain driver assistance systems. As the next logical step, the automotive industry is working intensively on concepts for driverless cars. We are developing highly sensitive test equipment for testing and calibrating the necessary technology.

R&D RESULTS

Paint and Final Assembly Systems

EcoInCure is an innovative process for drying paint freshly applied to the vehicle body. Unlike previous systems, the body is no longer conveyed longitudinally through the oven tunnel, but transversely instead. This enables the hot air in the oven to flow into the interior of the vehicle body through the opening for the windshield, which guarantees especially uniform heating and cooling of the body. The result is an optimal paint finish and energy savings of approximately 25 % thanks to a shorter heat-up time. It also ensures the **oven** **[P. 194]** has an extremely small footprint. The iTAC.IoT.Suite production control software allows our customers to constantly monitor the drying conditions for the bodies electronically.

We have introduced a new skillet conveyor system for transporting bodies in final vehicle assembly. Standing just 270 millimeters high, it is very compact and means the building no longer needs expensive and inflexible pits. An innovative push-chain lift device allows the bodies to be raised or lowered to the ideal working height for every operation. The new system also requires less energy than conventional conveyors.

Another focus was the development of new automation concepts for the final assembly of electric cars. The power train of electric cars is much less complex than that of vehicles with internal combustion engines. This enables the assembly process to be increasingly automated.

Application Technology

The **Eco**RP E043i robot, introduced in October 2016, breaks new ground in fully automated painting of vehicle bodies. Whereas painting robots usually work with six axes of rotation, this has a seventh rotary axis, which makes the robot more flexible and extends its work zone. That is beneficial when coating the body interior in particular. Since the robot is highly mobile, it is possible to dispense with a traversing rail in the paint booth in many cases. This reduces the capital costs and the space requirement. Thanks to a new smart controller, the **Eco**RP E043i follows even more uniform spray paths. The controller communicates with higher-level maintenance and control systems and is cloud-enabled.

The digital maintenance assistant for robots is a further innovation. The software shows the current maintenance status using a traffic light system and indicates what action will be necessary in the near future. This predictive maintenance approach means that all our customers have to do is wait until maintenance is really needed and fits in the production schedule – rigidly defined maintenance intervals are now a thing of the past.

Measuring and Process Systems

In **balancing technology** **[P. 194]**, we have launched an innovation for the fully automated balancing of car wheels. Whereas in the past the balancing weights were manually stuck onto the rims, robots are now performing this task for the first time. They attach the weights, which are sized precisely to the calculated balancing mass, at exactly the right location. A high-precision sensor system ensures the correct contact pressure. The weights therefore adhere optimally, which significantly improves the quality of the balancing operation. In addition, the timing of the entire line can be accelerated because the "manual weight attachment" stage often delayed the process in the past.

Our new Blue Series product line combines the quality of German **filling technology** standards **[P. 194]** with a design developed especially for customers from the emerging markets. The Blue Start entry-level model's engineering is based on our Compstart series. It features, for example, ergonomic benefits, an optimized display and simplified maintenance. The dominant blue color of the design is associated in China with sustainability and efficiency. One of our aims with the Blue Series line is to establish a stronger presence in the commercial vehicle sector, in addition to the passenger car segment.

In test stand technology we have developed an integrated line with a range of performance tests especially for fully assembled tractors. This enables the testing of driver assistance systems, ABS, brakes and axles and also roller testing. During roller testing, the tractors no longer have to be secured with chains. This substantially reduces the time required. Other benefits of the new test line include an energy requirement which is some 25 % lower, and maximum flexibility in terms of different vehicle sizes.

Clean Technology Systems

In energy-efficiency technology we have developed an energy-saving process for oven operation in automotive paint shops. The body passes through an intermediate oven after the base coat has been applied. Here, the water contained in the paint is removed, using dehumidified hot air. We use the thermeco2 heat pump from Dürr thermea for this evaporation process. This lowers the energy consumption as it not only ensures that the air is dehumidified, but also reheats the cold, dry air. The thermeco2 also operates using CO_2, a natural refrigerant with a much lower greenhouse potential than conventional refrigerants.

One of the most important innovations in exhaust-air purification technology is a catalytic filter process that works with high-temperature-resistant ceramic candle filters. The new process was implemented for the first time in a glass factory in the Beijing region. It enables the operator to ensure compliance with the ever more stringent emission control limits for nitrogen oxide, sulfur dioxide and dust with a single integrated exhaust-air purification system. With conventional processes, by contrast, multiple successive cleaning stages are often required to achieve comparable results.

Woodworking Machinery and Systems

The HOMAG Group has unveiled a new CNC machine concept for milling and drilling in the form of the BMG 110 series. The integrated safety systems mean that it can be freely accessed from all sides. The user-friendly system has a smaller footprint and can be commissioned within one day.

For aesthetic reasons, no joints should be visible on the furniture, if at all possible, after edge banding. The energy-saving, resource-friendly airTec unit is a new entry-level solution in zero-joint technology. At its heart is a patent-pending rotary air heater.

The HOMAG Group has further developed important software modules in response to **Industry 4.0** **[P. 194]**, for example the woodFlex modular cell control system, which can now also map non-linear material streams. The woodFactory 2.0 program guarantees holistic planning, organization and monitoring of production operations.

PROCUREMENT

In 2016 our material costs decreased by 13 %, to € 1,403.6 million. In plant engineering, in particular, manufacturing, assembly and engineering services account for the majority of our procurements. In addition, a substantial number of finished and semi-finished products such as drives and electrical components are sourced from suppliers. Prices for bought-in parts remained largely stable in 2016. In the procurement of services, higher wages paid by suppliers led to a slight price increase. Although prices for raw materials relevant for us have risen – above all aluminum, copper and steel – they are still very low. The same goes for energy prices.

When procuring components, we benefited from high supplier availability. This was due not only to our slightly lower purchasing requirements but also to the fact that we deliberately worked with many larger partners that were able to cover peaks in demand without any problems. Purchasing activities related to manufacturing and assembly in plant engineering required a high degree of coordination. A key factor in this was the large number of modification projects running in parallel during our clients' summer and winter production shutdowns. This also coincided with the start of several large projects.

We use worldwide framework agreements with preferred suppliers as well as cost benefits in the emerging markets to keep procurement costs down. In addition, we achieve economies of scale by pooling our purchasing needs internationally. Our global lead buyers, who are responsible for certain commodity groups worldwide and across the divisions, play an important part in this. Following the reorganization of our lead buying structure in 2016, purchasers from the HOMAG Group now act as lead buyers for certain commodity groups. In addition to that, the HOMAG Group's purchasing activities have been integrated into the Group's joint procurement operations. The HOMAG Group is thus party to a number of Group-wide framework agreements, for example, which were signed in 2016. Worldwide commodity group management is also being enhanced within the HOMAG Group itself.

While optimizing the procurement process, we progressed and completed several long-term projects, such as the electronic integration of suppliers (WEB-EDI integration) and the extensive automation of order confirmations. Another IT project is the integration of the HOMAG Group into Dürr's supplier relations management system. In the Paint and Final Assembly Systems division, purchasing played an important role in a number of different measures of the PACE efficiency enhancement program.

Almost 500 employees are involved in purchasing and supply chain activities within the Group. The Global Sourcing Board (GSB), made up of the purchasing heads within the divisions, is responsible for managing purchasing operations worldwide. At Paint and Final Assembly Systems, Application Technology and Clean Technology Systems, the Global Sourcing Committee (GSC) decides on major contract awards, international pooling of requirements and the signing of framework agreements. The central Coordination International Purchasing (CIP) team supports the international purchasing organizations and system projects in plant engineering. The Group companies can also call upon its assistance, if required.

CORPORATE GOVERNANCE

The German Corporate Governance Code helps to reconcile the interests of companies, investors and other stakeholders. It also provides guidance for reliable corporate governance. We regularly review the content of the Code and analyze the implications of new provisions on Dürr.

In 2016 the Code Commission made no amendments to the set of rules. Our declaration of compliance deviates from the Code in four points, down from five in the previous year. Since 2016 the variable compensation payable to the Supervisory Board has been based on the three-year rolling average EBT margin. This payment is now oriented toward sustainable growth of the company within the meaning of Item 5.4.6 Paragraph 2 Sentence 2 of the Code. The four remaining deviations from the Code, along with the corresponding reasons, can be found in the following excerpt from the declaration of compliance dated December 14, 2016. It refers to the current version of the Code dated May 5, 2015. The full text is available at **www.durr.com/investor/corporate-governance**.

EXCERPT FROM THE DECLARATION OF COMPLIANCE DATED DECEMBER 14, 2016

D&O insurance deductibles (Item 3.8 Paragraphs 2 and 3)

A D&O insurance policy without deductibles (group insurance) existed and continues to exist for members of the Supervisory Board. Accordingly, Item 3.8 Paragraph 3 in connection with Paragraph 2 of the Code was not and continues not to be observed. It is not planned to introduce any deductibles for members of the Supervisory Board because Dürr AG does not believe that the already high dedication and responsibility with which Supervisory Board members observe their duties can be improved any further by an agreement providing for deductibles. Another consideration is that it would be unreasonably costly for the six employee representatives on the Supervisory Board of Dürr AG, which has an equal number of members representing employees and shareholders respectively, to take out personal insurance policies at their own expense to cover the residual risk (in the amount of the deductibles).

Objectives for the composition of the Supervisory Board, age limit for members of the Supervisory Board, and limit of length of membership of the members of the Supervisory Board (Item 5.4.1 Paragraphs 2 and 3)

The recommendations in Item 5.4.1 Paragraphs 2 and 3 of the Code are not complied with. The Supervisory Board is of the opinion that specifying and publishing concrete objectives for its composition, and their regular adjustment, involves a not inconsiderable amount of work which does not appear justified in view of the Supervisory Board's size and the further increased workload placed on the Board by new statutory requirements. Furthermore, setting rigid objectives would exclude opportunities for obtaining excellently qualified persons to serve on the Supervisory Board who do not fit into the predefined framework. The same thing applies to a general age limit and a limit on the length of membership. Moreover, Dürr AG does not consider the capabilities of the members of the Supervisory Board to depend on a rigid age limit.

The Supervisory Board will therefore not be deliberating on the desired composition of the Board and the question of the length of membership until resolutions are to be passed on its proposals to the general meeting of the shareholders on the election of Supervisory Board members. In doing so, it may possibly consider criteria other than those stated in Item 5.4.1 Paragraph 2 of the Code. As of the date on which this declaration is issued, the Supervisory Board has several members with well-established international experience, while two of the longest-serving members have been on the Supervisory Board since 2006.

OTHER INFORMATION ON CORPORATE GOVERNANCE[1]

BOARD OF MANAGEMENT AND SUPERVISORY BOARD

As the executive body, the Board of Management conducts the company's business, defines the strategy and implements it in consultation with the Supervisory Board. It must always act in the company's best interest and in compliance with its business policies. The Board of Management reports to the Supervisory Board on a regular and comprehensive basis about business performance, strategy and risks. The rules of procedure issued by the Supervisory Board stipulate the responsibilities among individual Management Board members, the manner in which resolutions are passed, and other aspects.

The Supervisory Board advises and supervises the Board of Management. In accordance with the German Co-determination Act, it consists of 12 members with an equal number of shareholder and employee representatives. The six shareholder representatives are elected at the annual general meeting, and the six employee representatives are elected by the employees of Dürr's German business locations. The chairman has the casting vote in the event of a tie. Particularly urgent resolutions can be taken by the Supervisory Board by written circulation. It opted for this method twice in 2016: to approve the disposal of the Dürr Ecoclean Group and the sale of the stake in Tec4Aero GmbH. Both matters had been debated in depth at the preceding meetings.

As scheduled every five years, elections were held in 2016 to appoint new members to the Supervisory Board. If a member of the Supervisory Board resigns before the end of his/her term of office, a successor will be appointed by court if no elected substitute member is available. Supervisory Board members appointed by court must stand for election at the next annual general meeting (shareholder representatives) or at the next election date (employee representatives).

The Supervisory Board of Dürr AG has created four committees from its midst, which discuss special topics and prepare resolutions. After every meeting, the chairmen of the committees inform the full Supervisory Board of the results.

- The Personnel Committee, which also forms the Executive Committee, is primarily responsible for the appointment of members of the Board of Management and their compensation, and conducts the groundwork for the corresponding resolutions by the full Supervisory Board.

- The Audit Committee deals with financial reporting, risk management, internal control system and internal auditing. It also oversees the compliance management system. The committee reviews the annual financial statements of the Dürr Group and Dürr AG, and conducts the groundwork for the corresponding resolutions by the full Supervisory Board.

- The Mediation Committee convenes if there are differences of opinion within the Supervisory Board regarding the appointment or dismissal of members of the Board of Management. At Dürr, this committee has never had to convene.

- The Nominating Committee proposes to the Supervisory Board candidates who are professionally and personally suitable for the election of shareholder representatives at the annual general meeting. The committee takes account of the provisions of the Act on Equal Participation of Women and Men in Executive Positions and also aims to give due consideration to people with international experience.

Except for the three-strong Nominating Committee, which by its nature only has shareholder representatives, all the committees consist of four members with an equal number of shareholder and employee representatives.

ANNUAL GENERAL MEETING

At the annual general meeting, a general debate is held between shareholders, Board of Management and Supervisory Board. It also enables shareholders to exercise their voting rights. All motions on which resolutions are to be passed are outlined in the agenda, which is sent out by the company in time for the annual general meeting. The Chairman of the Supervisory Board presides over the annual general meeting and reports on the activities of the Supervisory Board and its committees in the previous fiscal year.

[1] The full corporate governance declaration can be found at www.durr.com/investor/corporate-governance/declaration-on-corporate-governance.

TRANSPARENCY

Our Corporate Communications department provides comprehensive, consistent and up-to-date information. Details and explanations relating to our business performance can be found in the annual report as well as in interim reports, financial reports, press releases and ad-hoc announcements. All publications are available at **www.durr.com.** We hold press and telephone conferences to announce important events.

FINANCIAL ACCOUNTING AND INDEPENDENT AUDIT

We prepare our consolidated financial statements to International Financial Reporting Standards (IFRS). The independent audit has been carried out by Ernst & Young GmbH for several years now. The company was appointed to audit the annual financial statements for 2016 at the annual general meeting on the basis of a proposal put forward by the Supervisory Board. It audits the consolidated financial statements and the individual financial statements of Dürr AG prepared by the Board of Management before these are reviewed and approved by the Supervisory Board and then published at the latest 90 days after the balance sheet date. In accordance with Item 7.2.3 of the German Corporate Governance Code, the auditor will inform the Chairman of the Supervisory Board immediately of all matters relevant for the work of the Supervisory Board that come to its attention in the course of the audit. The auditor will also inform the Supervisory Board of any deviations from the declaration of compliance according to Section 161 of the German Stock Corporation Act. Prior to receiving the letter of engagement, the auditor gives a pledge of its independence to the Supervisory Board.

PERFORMANCE INDICATORS, CONTROL SYSTEM, INSIDER REGISTER

The key indicators for corporate management are incoming orders, sales, EBIT, EBIT margin and **ROCE** **[P. 195]**. Information on our 2016 figures and on the methods of calculation can be found in the **Financial development** chapter **[P. 69]**.

Our risk management system covers 15 specific risk fields and describes the worldwide risk situation of the Group. One of the elements of the risk management system is the internal control system for the accounting process. More detailed information on this topic can be found in the **Risk report** **[P. 78]**.

We keep project-related insider lists according to Article 18 of the Market Abuse Regulation (MAR). All insiders will be informed about the associated legal obligations and sanctions.

BOARD OF MANAGEMENT AND SUPERVISORY BOARD PROCEDURES AT DÜRR

The structure of the Dürr AG Board of Management is as follows:

- The Chairman of the Board of Management, Ralf W. Dieter, heads up the divisions Paint and Final Assembly Systems, Application Technology and Woodworking Machinery and Systems, as well as several corporate functions. He is in charge of the sales operation and represents Dürr when dealing with customers' decision-makers.

- Until the end of 2016, Chief Financial Officer Ralph Heuwing was responsible for the activities of the Woodworking Machinery and Systems and Clean Technology Systems divisions as well as for Dürr Consulting and Information Technology. He handed over his responsibilities for Finance to his successor, Carlo Crosetto, with effect from March 1, 2017. Mr. Heuwing will be leaving Dürr at his own request when his contract expires in May 2017. Until his departure, he will be supporting Mr. Crosetto in familiarizing himself with the new position.

- Dr. Jochen Weyrauch became a member of the Board of Management on January 1, 2017, and has since been responsible for the Measuring and Process Systems and Clean Technology Systems divisions as well as for the Corporate Development and Information Technology functions.

- Carlo Crosetto joined the Board of Management on March 1, 2017, succeeding Mr. Heuwing as CFO. He was appointed by the Supervisory Board on February 8, 2017.

Table 2.14 provides an overview of the responsibilities within Dürr AG's Board of Management.

In previous years, the Board of Management consisted of two members. Following the departure of Mr. Heuwing, it will always consist of three members. The Supervisory Board has expanded the top-management capacities in response to the growth arising from the "Dürr 2020" strategy. An important step in this growth was the acquisition of the HOMAG Group, which now generates sales of over € 1 billion; further acquisitions are expected to follow.

2.14 – RESPONSIBILITIES WITHIN THE BOARD OF MANAGEMENT

	Ralf W. Dieter (CEO)	Ralph Heuwing (until May 14, 2017) (CFO)	Dr. Jochen Weyrauch (joined January 1, 2017)	Carlo Crosetto (joined March 1, 2017) (CFO)
• Divisional/ operative responsibilities	• Paint and Final Assembly Systems • Application Technology • Woodworking Machinery and Systems[1] • Measuring and Process Systems[2]	• Clean Technology Systems[2] • Woodworking Machinery and Systems[2] • Dürr Consulting[2]	• Measuring and Process Systems[1] • Clean Technology Systems[1]	
• Corporate functions	• Corporate Communications • Human Resources (Employee Affairs Director) • Research & Development • Quality Management • Internal Auditing • Corporate Compliance	• Finance/Controlling[3] • Investor Relations[3] • Risk Management[3] • Legal Affairs/Patents/ Insurance[3] • Information Technology[2] • Global Sourcing[3] • Corporate Social Responsibility[3]	• Corporate Development[1] • Information Technology[1]	• Finance/Controlling[4] • Investor Relations[4] • Risk Management[4] • Legal Affairs/Patents/ Insurance[4] • Global Sourcing[4] • Corporate Social Responsibility[4]

[1] since January 1, 2017
[2] until December 31, 2016
[3] until February 28, 2017
[4] since March 1, 2017

The second management level within the Group consists of the division heads. They have global responsibility for their business and work in close cooperation with the Board of Management. The corporate departments of Dürr AG support the Board of Management.

At Group level, Dürr has two management teams. The top management team (Dürr Management Board) consists of the Board of Management, the heads and financial officers of the divisions as well as a few other managers. The broader Senior Management Group is composed of chief executive officers and managers from the Group companies and Dürr AG. An overview of the members of the Supervisory Board and the Board of Management as well as their mandates can be found in **item 41** **[P. 175]** in the notes to the consolidated financial statements.

CONTROL

In accordance with Article 6 of Dürr AG's articles of incorporation, the Supervisory Board determines the number of members of the Board of Management and their appointment. The rules of procedure, which the Supervisory Board has issued for the Board of Management, contain a list of transactions requiring its approval and determine the allocation of responsibilities.

At Supervisory Board meetings, the Board of Management comments on the agenda items and answers any questions. The written motions for the Supervisory Board, along with a detailed dossier, are sent to the members at least one week prior to the meeting. On the day of the meeting, preliminary talks are usually held separately between the shareholder representatives and between the employee representatives. The Board of Management is available to provide any explanations that might be needed. The Chairman of the Supervisory Board has regular discussions with the Board of Management also outside the meetings.

SHAREHOLDINGS AND MANAGERS' TRANSACTIONS

We publish managers' transactions, i.e. securities transactions that have to be reported pursuant to Article 19 of the MAR (formerly: directors' dealings according to Section 15a of the German Securities Trading Act), as soon as the company is notified. An overview is available at **www.durr.com/investor/corporate-governance/managers-transactions.**

As at December 31, 2016, the members of the Supervisory Board held 0.1 % of the shares of Dürr AG. The Board of Management held a total of 0.4 % of the shares as at the same date. Mr. Heuwing is not planning to reduce his shares any further before his departure.

ACT ON EQUAL PARTICIPATION OF WOMEN AND MEN IN EXECUTIVE POSITIONS

On May 1, 2015, the Act on Equal Participation of Women and Men in Executive Positions came into force in Germany. Its most important provisions are also reflected in the Corporate Governance Code. We have fulfilled these legal requirements as follows:

- Since the 2016 elections, the Supervisory Board of Dürr AG has had four female members. This corresponds to a women's quota of 33 %, which fulfills the 30 % minimum quota required by law.
- The percentage of women on Dürr AG's Board of Management is 0 %; an increase is not planned.
- At the most senior management level of Dürr AG, the women's quota is 0 %; at the second most senior management level it is 33 %. The targets have been set at 0 % for the first management level and at 20 % for the second level. We have therefore significantly exceeded the target for the second level. The date by which both targets must be achieved is June 30, 2017.

DISCLOSURES PURSUANT TO SECTIONS 289 (4) AND 315 (4) OF THE GERMAN COMMERCIAL CODE (HGB)

- **Structure of subscribed capital**
  Dürr AG's subscribed capital is divided into 34,601,040 bearer common shares with full voting rights. The rights and obligations associated with the shares are regulated in the German Stock Corporation Act
- **Restrictions on voting rights/transfer of shares and related agreements**
  The Board of Management is not aware of any agreements by shareholders of Dürr AG which contain restrictions relating to voting rights or the transfer of shares. Legal voting right limitations exist, for example, pursuant to Section 28 S. 1 (breach of disclosure obligations) of the German Securities Trading Act and Section 71b (rights arising from own shares) and Section 136 (1) (voting right exclusion in the case of certain conflicts of interest) of the German Stock Corporation Act.
- **Shareholdings that exceed 10 %**
  Heinz Dürr GmbH holds 25.3 % of Dürr AG's capital stock. Taking into account the shares held by Heinz und Heide Dürr Stiftung (3.5 %), the Dürr family controls 28.8 % of the shares (as at December 31, 2016).
- **Shares conferring special rights**
  There are no shares in Dürr AG that confer special rights.
- **Voting right control of any employee stock ownership plan where the control rights are not directly exercised**
  There are no employee stock ownership plans where the control rights are not exercised directly by the employees.
- **Rules governing the appointment and replacement of members of the Board of Management**
  The applicable statutory rules are set out in Sections 84 and 85 of the German Stock Corporation Act and in Section 31 of the German Co-determination Act. Dürr AG's articles of incorporation do not contain any provisions that diverge from the statutory rules. Article 6 (1) of the articles of incorporation state additionally that the Board of Management consists of at least two members and that the appointment of deputy members of the Board of Management is admissible. Article 6 (2) states that the Supervisory Board may appoint one member of the Board of Management to be the chair of the Board of Management and another member of the Board of Management to be the deputy chair.
- **Rules governing amendment of the articles of incorporation**
  Any changes in the articles of incorporation are made by resolutions at the annual general meeting. Unless otherwise mandatorily specified in the German Stock Corporation Act, the resolution is passed in accordance with Article 20 (1) of the articles of incorporation by a simple majority of the votes cast and – where a majority of the capital stock represented in the voting is required – by a simple majority of the capital stock represented in the voting. In accordance with Article 14 (4) of the articles of incorporation, the Supervisory Board is given the power to enact changes in the articles of incorporation which relate only to the wording. Pursuant to Article 4 (4) and Article 5 of the articles of incorporation, the Supervisory Board is authorized upon utilization of the conditional or authorized capital to amend the wording of the articles of incorporation to reflect the extent of the utilization.

- **Powers of the Board of Management to issue or buy back shares**
  Information on this point may be found in **item 26 [P. 142]** in the notes to the consolidated financial statements.

- **Agreements in the event of a change of control following a takeover bid**
  Bond: Section 7 of the terms of our corporate bond provides that the bondholders have the right to demand early redemption of their bonds by Dürr AG in the case of a redemption event. The redemption amount in that case will be 100 % of the face value plus accrued and unpaid interest up to the redemption date. A redemption event occurs if a change of control and a rating event take place cumulatively. A change of control means in this regard (a) that a person or group of persons acting in concert has/have become the legal or economic owner of more than 50 % of the common shares of Dürr AG, or (b) that we intend to sell or otherwise dispose of all or almost all of the assets of Dürr AG to third parties (with the exception of a subsidiary of Dürr AG). The following cases constitute a rating event: The bonds have no rating, and no rating agency awards an investment grade rating for the bonds within 90 days of the occurrence of the change of control. The bonds have a rating at the time of the change of control and at the end of a 90-day period after the change of control this rating does not represent an investment grade rating or has been withdrawn. Such covenants are customary practice and are included in comparable form in the terms of the bonds of other issuers. They serve to protect the interests of the bondholders.

Syndicated loan: The terms of our syndicated loan agreement stipulate that, in the event of a change of control, no additional cash drawings or applications for guarantees may be made. In addition, any lender can cancel the credit commitments he has made, which could result in the syndicate loan having to be repaid in part or even in whole. The agent representing the interests of the banking syndicate must be informed about a change of control immediately after it becomes known. A change of control occurs if in total, directly or indirectly, more than 50 % of the common shares or voting rights of Dürr AG are held or controlled by one or more persons who have come to an accord on the exercising of voting rights or who collaborate in some other manner with the aim of achieving a lasting and substantial change in the business focus of Dürr AG.

- **Agreements providing for compensation in the event of takeover bids**
  Where an arrangement has been agreed with the members of Dürr AG's Board of Management in the event of a takeover, this arrangement contains an option for a defined period for the Board of Management member, if a change of control should occur, to terminate the contract himself with capitalization of all the contractual remuneration components as a severance package, though as a maximum only up to the level of the balance of the emoluments for the remaining term of the Board member's contract of employment. Variable remuneration elements, which are included pro rata in the calculation, are only paid out when the contract of employment is legally terminated.

COMPENSATION REPORT

In addition to the details below, the information contained in **item 41 [P. 175]** in the notes to the consolidated financial statements is an integral part of this compensation report.

SIDELINE ACTIVITIES

The members of the Board of Management do not carry out any sideline activities other than those listed in **item 41 [P. 175]** in the notes to the consolidated financial statements. No loan agreements, guarantees or other liabilities exist between the members of the Board of Management and Dürr AG or its subsidiaries.

REGULAR REVIEW

The Supervisory Board Personnel Committee reviews the compensation system for the Board of Management at regular intervals and draws up proposals for its further development where necessary. The Supervisory Board examines these recommendations carefully and passes its resolutions on that basis. The appropriateness of the Board of Management's compensation is assessed using several criteria. These include the tasks of the Board of Management as a whole and of its respective members, the members' personal performance, the economic situation as well as the company's long-term success and outlook. In addition, the Supervisory Board follows the development of the Board of Management's compensation in comparison with other companies as well as with the top management team and the workforce at Dürr.

The current compensation system has been in place since 2010. It was reviewed and deemed appropriate in 2015. All contracts of the Management Board members include short-term and long-term incentives (variable compensation calculated over a period of one and several years, respectively), payment caps and a deductible that applies in connection with D&O (directors' and officers') liability insurance policies in case of liabilities.

COMPONENTS OF THE COMPENSATION SYSTEM

The compensation for the Board of Management consists of non-performance-related and performance-related (variable) components. The non-performance-related component is made up of the basic compensation (fixed compensation) payable in equal monthly installments, plus fringe benefits. The latter include the use of a company car as well as term life and accident insurance contributions.

Performance-related compensation is based on short-term and long-term incentives; special bonuses may also be paid. The short-term incentive (STI) scheme consists of an agreed proportion of the Group's earnings before tax (EBT) in each financial year; there is a cap on the compensation payable under the STI scheme. An STI payment will only be made if Group EBIT exceeds the minimum threshold of € 100 million.

The compensation payable under the long-term incentive (LTI) scheme is based on the development of Dürr's share price and the Group's average EBIT margin over a three-year period (LTI period). The LTI scheme operates on a rolling basis; seven LTI tranches have been issued since its introduction in 2010. Each year a specified number of virtual Dürr shares are issued, known as performance share units. In 2016 Ralf W. Dieter received 25,000 and Ralph Heuwing 22,500 performance share units (2015: 25,000 and 22,500). The amount payable at the end of the three-year LTI period is calculated by multiplying the number of performance share units by a share price multiplier and an EBIT multiplier. The share price multiplier corresponds to the average closing price of the Dürr share in the last 20 trading days prior to the first annual general meeting after the three-year LTI period. The EBIT multiplier is calculated on the basis of the average EBIT margin achieved by the Group during the three-year LTI period. The LTI payment and the EBIT multiplier are subject to caps. During the term of the LTI scheme, the participants must hold a certain number of Dürr shares for the duration, purchased with their own funds.

A further component of the compensation is the employer-financed pension contribution. This is based on the basic compensation and STI and is paid into our "VORaB" scheme ("Vorsorge aus Bruttogehalt"). VORaB is the Dürr Group's defined benefit company pension plan based on a reinsurance scheme. If a member of the Board of Management resigns from office, no further expenses will be incurred under this scheme. Furthermore, the members of the Board of Management are covered by accident and term life insurance policies.

The Supervisory Board can agree targets with the members of the Board of Management for the further strategic development of the Group, and pay an additional bonus if these have been successfully implemented. A special bonus may also be paid for exceptional performance and successful achievements by a member of the Board of Management. These payments are also subject to a cap.

Apart from the Board of Management, the other 14 members of the Group's top management team (Dürr Management Board) are also entitled to join the LTI scheme. For this purpose, they can purchase an individually defined number of Dürr shares, which they must hold for the entire duration of their participation in the scheme.

COMPENSATION FOR 2016

Total compensation expense for the Board of Management in 2016 was € 7,886 thousand (2015: € 7,454 thousand). Former members of the Board of Management received pension benefits in the amount of € 1,891 thousand (2015: € 1,876 thousand).

The LTI expenses shown in table 2.15 include the amounts recognized as liabilities in 2016 and 2015 on a pro-rata basis for the current LTI tranches. These figures were linked to two factors: the average closing price of the Dürr share in the last

20 trading days in December 2016 and 2015 as well as the achieved or planned average EBIT margin for the periods of the three current tranches. The actual LTI payments may differ from the amounts recognized as liabilities, depending on the further development of share price and EBIT, but they are subject to caps. The members of the Board of Management, Ralf W. Dieter and Ralph Heuwing, received a total payment of € 2,400 thousand from the 2013 to 2015 LTI tranche.

Mr. Heuwing received a bonus payment of € 100 thousand in 2016. The Supervisory Board thus recognized his efforts during the integration and optimization of the HOMAG Group.

2.15 – COMPENSATION FOR THE BOARD OF MANAGEMENT: BENEFITS GRANTED

	RALF W. DIETER CEO				RALPH HEUWING CFO			
€	2015	2016	2016 (min)	2016 (max)	2015	2016	2016 (min)	2016 (max)
Basic compensation (fixed compensation)	800,000	800,000	800,000	800,000	650,000	650,000	650,000	650,000
Fringe benefits (payments in kind, allowances related to insurance premiums etc.)	47,594	49,179	49,179	49,179	35,938	33,125	33,125	33,125
Total	**847,594**	**849,179**	**849,179**	**849,179**	**685,938**	**683,125**	**683,125**	**683,125**
One-year variable compensation (STI)	1,445,120	1,581,260	0	1,600,000	1,300,608	1,423,134	0	1,440,000
Total of multi-year variable compensation (LTI)	1,200,000	1,200,000	0	1,200,000	1,200,000	1,200,000	0	1,200,000
Variable compensation: LTI 2013–2015	400,000	0	0	0	400,000	0	0	0
Variable compensation: LTI 2014–2016	400,000	400,000	0	400,000	400,000	400,000	0	400,000
Variable compensation: LTI 2015–2017	400,000	400,000	0	400,000	400,000	400,000	0	400,000
Variable compensation: LTI 2016–2018	0	400,000	0	400,000	0	400,000	0	400,000
Other variable compensation	200,000	0	0	350,000	200,000	100,000	0	300,000
Total	**3,692,714**	**3,630,439**	**849,179**	**3,999,179**	**3,386,546**	**3,406,259**	**683,125**	**3,623,125**
Benefit obligation contribution	200,000	640,000	480,000	640,000	175,000	209,000	100,000	209,000
Total compensation	**3,892,714**	**4,270,439**	**1,329,179**	**4,639,179**	**3,561,546**	**3,615,259**	**783,125**	**3,832,125**

2.16 – COMPENSATION FOR THE BOARD OF MANAGEMENT: PAYMENTS MADE

	RALF W. DIETER CEO		RALPH HEUWING CFO	
€	2015	2016	2015	2016
Basic compensation (fixed compensation)	800,000	800,000	650,000	650,000
Fringe benefits (payments in kind, allowances related to insurance premiums etc.)	47,594	49,179	35,938	33,125
Total	**847,594**	**849,179**	**685,938**	**683,125**
One-year variable compensation (STI)	1,200,000	645,120	1,100,000	600,608
Multi-year variable compensation (LTI)	1,500,000	1,200,000	1,500,000	1,200,000
Other variable compensation	200,000	0	200,000	100,000
Total	**3,747,594**	**2,694,299**	**3,485,938**	**2,583,733**
Benefit obligation contribution	200,000	424,512	175,000	195,061
Total compensation	**3,947,594**	**3,118,811**	**3,660,938**	**2,778,794**

BOARD OF MANAGEMENT CONTRACTS

The contracts of the members of the Board of Management are initially concluded for a period of three years upon joining the Board. When the contracts are due for renewal, they are usually extended by a total period of five years as permitted by law. Mr. Dieter's current 5-year contract of employment ends on December 31, 2020. Mr. Heuwing's current contract, which also runs for a term of five years, ends on May 14, 2017. His successor as CFO, Mr. Crosetto, joined the Board of Management on March 1, 2017; his contract runs for a period of three years. The contract of employment of Dr. Weyrauch, who joined the Board of Management on January 1, 2017, is also for three years.

Please also see the information in the paragraph entitled "Disclosures pursuant to Sections 289 (4) and 315 (4) of the German Commercial Code (HGB)".

COMPENSATION SYSTEM FOR THE SUPERVISORY BOARD

The compensation paid to the members of the Supervisory Board is set out in Article 15 of Dürr AG's articles of incorporation. The articles of incorporation can be viewed at **www.durr.com** under Investor Relations/Corporate Governance/Articles of Incorporation. Based on a resolution passed at the 2015 annual general meeting amending the articles of incorporation, the following compensation system has been in place since 2016: Each member receives a fixed compensation payment of € 40,000 per year, payable at the end of the year. Furthermore, members are entitled to a € 1,000 attendance fee for each meeting attended, plus reimbursement of expenses. The variable compensation payable to members of the Supervisory Board is based on the three-year rolling average EBT margin and must not exceed € 24,000. The Chairman of the Supervisory Board receives three times the total compensation paid to a regular member; each deputy chairman receives one and a half times the total compensation paid to a regular member. The compensation paid to the members of the Audit Committee is € 10,000 per year; the committee chairman receives two times that amount. The members of the Personnel Committee receive € 5,000 per year, while the chairman receives one and a half times that amount. The members of the Nominating Committee are entitled to a compensation payment of € 2,500 per meeting, the chairman receiving one and a half times that amount. Any members serving on the Supervisory Board or a committee for a part of the fiscal year only are remunerated pro rata temporis.

Total compensation paid to the members of the Supervisory Board in 2016 was € 1,189 thousand (2015: € 1,009 thousand). Information on the individual compensation payments made to the members of the Supervisory Board can be found in **item 41 [P. 175]** in the notes to the consolidated financial statements.

PERFORMANCE-RELATED COMPENSATION FOR OTHER EMPLOYEES

Non-tariff employees receive a basic annual salary plus a performance-related bonus. The bonus is linked to Group earnings and the achievement of personal performance targets. In most cases it is between 5 % and 10 % of the basic salary, but higher for managers. Tariff employees at almost all German Group companies receive a profit-sharing bonus, which is subject to earnings exceeding a certain threshold pre-agreed with the Works Council. The profit-sharing bonus for 2016 is € 2,750 for full-time tariff employees of Dürr and Schenck, and € 2,500 for the HOMAG Group. The employee capital participation scheme previously available at several HOMAG Group companies was terminated at the end of 2015.

BUSINESS REPORT

ECONOMY AND INDUSTRY ENVIRONMENT

MODERATE ECONOMIC GROWTH

At 3.0 %, growth in global gross domestic product (GDP) in 2016 fell somewhat short of the previous year. As in earlier years, economists had initially been expecting greater growth. However, weakening momentum in North America as well as the moderate economic performance of various emerging markets left traces. China, the world's second largest economy, reported a 6.6 % increase in GDP. Despite evidence of a slight improvement, Russia and Brazil remained stuck in a recession, while India continued to expand. The Eurozone economy experienced moderate growth, while the German economy expanded by a relatively strong 1.9 %. Commodity and energy prices bounced off their winter and spring 2016 lows in the course of the year – substantially so in some cases.

The main exchange rates exhibited strong volatility in 2016, although the annual average changes were small. Following the US elections in November, the dollar gained in strength, with US interest rates also picking up appreciably. Despite the Brexit vote, pound sterling recovered at the end of the year, returning to its 2014 level. The euro appreciated against the Chinese renminbi but at the end of 2016 was still around 10 % below the 2014 level. The relatively weak euro is advantageous for European exporters.

CURRENT YIELDS IN GERMANY NEGATIVE FOR THE FIRST TIME

Against the backdrop of the moderate economic growth and the continued muted inflation, many central banks retained their accommodative monetary policies. The US Federal Reserve raised its base rates in December 2016 for a second time after hiking them one year earlier for the first time since 2006. This decision had been prompted by the slight increase in inflation in the second half of the year. In the Eurozone, interest rates continued to decline on balance, with yields on ten-year German government bonds dropping from 0.6 % to 0.2 % in the course of the year. The current yield on fixed-interest bonds stood at

2.17 – GROWTH IN GROSS DOMESTIC PRODUCT

% year-on-year change	2016	2015	2014
Global	3.0	3.2	3.4
Germany	1.9	1.7	1.6
Eurozone	1.6	1.9	0.9
Russia	– 0.5	– 3.7	0.6
United States	1.5	2.6	2.4
China	6.6	6.9	7.3
India	7.0	7.2	7.1
Japan	1.0	0.6	– 0.1
Brazil	– 3.4	– 3.8	0.1

Source: Deutsche Bank 1/2017

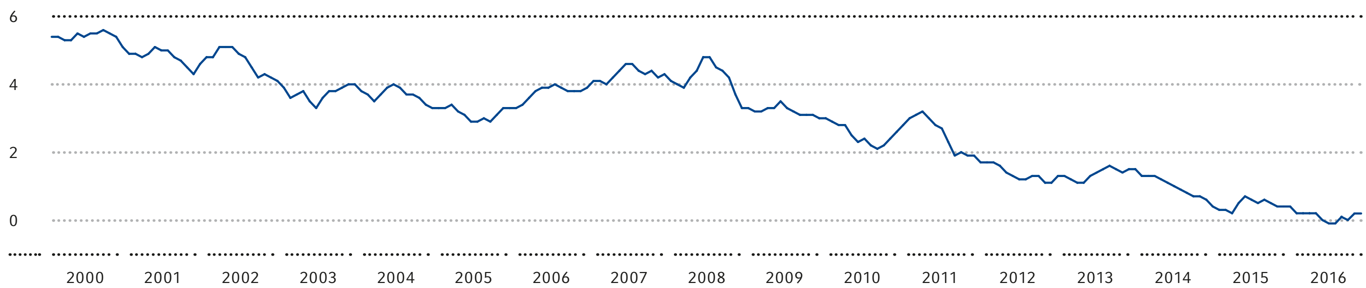
2.18 – AVERAGE EXCHANGE RATES

€ 1 equals	2016	2015	2014
USD	1.1037	1.1044	1.3217
GBP	0.8228	0.7240	0.8034
JPY	120.4308	133.5808	140.4908
CNY	7.3399	6.8898	8.1544

Source: Commerzbank

CONSOLIDATED FINANCIAL STATEMENTS

2.19 – CURRENT YIELD (%) IN GERMANY



Source: Deutsche Bundesbank

0.2 % at the end of the year after dipping to a low of –0.1 % in the summer. Despite political crises, the heightened terror risk, the unexpected Brexit vote and the US elections, equity markets performed well, benefiting from investors' plentiful liquidity.

GLOBAL AUTOMOTIVE PRODUCTION GAINING MOMENTUM

Global automotive production (passenger vehicles and light trucks) grew by 5.1 % in 2016 and, hence, substantially more quickly than in the previous year (+2.2 %). The record output of 92.7 million units was materially driven by dynamic growth in China, where automotive production rose by 15.9 % to 27.0 million units, accounting for 29 % of global output. One reason for the record production in China was the introduction of tax allowances on the purchase of small cars. Brazil and Russia again reported muted production figures, while India continued to expand. 17.7 million **light vehicles** **[P. 194]** were produced in North America – more than ever before. However, at 1.1 %, the increase over the previous year was substantially less pronounced than in the dynamic Western European automotive market (+4.8 %).

2.20 – PRODUCTION OF LIGHT VEHICLES

Million units	2016	2015	2014
Global	92.7	88.2	86.3
Western Europe	15.2	14.5	13.2
Germany	6.1	6.0	5.8
Eastern Europe	6.7	6.7	6.8
Russia	1.2	1.3	1.8
North America (incl. Mexico)	17.7	17.5	17.1
United States	11.9	11.9	11.5
South America	2.7	3.1	3.8
Brazil	2.1	2.3	3.0
Asia	48.2	44.3	43.5
China	27.0	23.3	22.1
Japan	8.4	8.5	9.0
India	4.1	3.7	3.6

Source: PwC 1/2017, own estimates

Northern American automotive production plants operated at a high capacity utilization in 2016, with Western Europe also achieving a higher level due to the strong demand. China also registered growth, although there were differences in capacity utilization among the individual automotive OEMs. Russia and Brazil were characterized by weak utilization of production capacities. Capital spending by automotive OEMs remained strong in view of their good earnings and cash flows. Volkswagen scaled back its capital spending as a result of the diesel issue.

MECHANICAL AND PLANT ENGINEERING FLAT, WOOD MACHINERY MARKET BUOYANT

The German capital goods industry as a whole recorded a 1 % rise in orders in 2016. Production in the mechanical and plant engineering sector remained at the previous year's level. The same goes for order intake, which barely changed, according to industry association VDMA. The sector therefore continued to drift sideways as in the previous years. Demand in the EU for German machinery and plant was encouraging, while exports to China, Brazil and Russia softened noticeably.

The woodworking machinery segment substantially outperformed the German machinery and plant engineering sector as a whole. The corresponding VDMA section reported an increase of 11 % in sales in 2016, underpinned in particular by heavy capital spending in North America and the EU. Chinese business also expanded, while pressure was exerted by the political instability in Turkey and weak market conditions in Russia. With its broad international footprint, the HOMAG Group is less exposed than other companies to a decline in demand in individual countries.

OVERALL ASSESSMENT BY THE BOARD OF MANAGEMENT AND TARGET ACHIEVEMENT

2016 was another successful year for Dürr, with order intake, EBIT and earnings after tax all reaching new highs. Order intake and the EBIT margin exceeded the February 2016 forecast, as did earnings after tax and **ROCE** **[P. 195]**. The other performance indicators matched expectations, reaching the top end of the target ranges in some cases.

At € 3,701.7 million, order intake was at the top end of the target range (€ 3,500 to 3,700 million) which had been raised in August 2016. In February we had originally forecast order intake of € 3,300 to 3,600 million. We are very satisfied with the volume of new orders achieved, which arose despite the cancellation of a major contract that had been received in the third quarter (Ford Mexico) and despite more muted painting technology business in China. On the other hand, we achieved substantial gains in North America and Europe.

At € 3,573.5 million, sales were also at the top edge of the target range (€ 3,400 to 3,600 million). The expected decline over the previous year was due to an extraordinary effect: the revenues that had been reported by Paint and Final Assembly Systems in 2015 were up by around € 200 million on the normal level as the division generated sales which had originally been budgeted for 2014 but did not arise until 2015 due to customer-induced delays in projects.

Total costs (cost of sales, overhead costs, other operating expense) were somewhat better than expected. There was a substantial decline in sales-related costs. Together with the greater share of service business in sales (27.5 %), this resulted in a gratifying increase in the gross margin from 22.0 % to 24.0 %. The main individual items largely lived up to expectations: at 4.3 %, the increase in personnel expense was somewhat less than expected (5.0 %). The cost of materials dropped by 13 % and thus rather more sharply than assumed. This reflected the decline in sales and lower prices of commodities and semi-finished goods.

At € 271.4 million, EBIT was slightly up on the previous year. Rising earnings contributions came from Measuring and Process Systems, Clean Technology Systems and Woodworking Machinery and Systems. Operating earnings in the Application Technology division, in which extraordinary effects had a positive effect on EBIT, fell only slightly short of the previous year. Earnings in the Paint and Final Assembly Systems division returned to normal. Consolidated EBIT before extraordinary effects came to € 286.4 million, down from € 294.3 million in the previous year due primarily to the lower sales. Table 2.32 in the chapter entitled **Business performance** **[P. 58]** lists the extraordinary effects.

At 7.6 %, the EBIT margin slightly exceeded the target range (7.0 to 7.5 %). The operating EBIT margin came to 8.0 %, exceeding the previous year (2015: 7.8 %).

ROCE reached 41.1 % and was above our target range (30 to 40 %). This good figure underscores the financial appeal of our business model. As expected, net finance expense (€ 13.3 million) improved substantially over the previous year. The tax rate dropped from 31.9 % to 27.2 %, causing earnings after tax to rise by 12.8 % to € 187.8 million. Our February 2016 forecast had suggested that there would be a slight increase in earnings after tax.

Cash flow from operating activities and **free cash flow** **[P. 195]** both reached a good level, clearly exceeding the previous year following sharp growth in the second half of 2016. Consequently, the **net financial status** **[P. 195]** improved by € 47.1 million to

2.21 – GROUP TARGET ACHIEVEMENT IN 2016

		2015 act.	2016 act.	2016 target (February 2016 forecast)
Sales revenues	€ million	3,767.1	3,573.5	3,400–3,600
Order intake	€ million	3,467.5	3,701.7	3,300–3,600
Orders on hand (December 31)	€ million	2,465.7	2,568.4	2,200–2,600
EBIT margin	%	7.1	7.6	7.0–7.5
ROCE	%	45.3	41.1	30–40
Net finance expense	€ million	– 23.3	– 13.3	Improved
Tax rate	%	31.9	27.2	Approx. 30
Earnings after tax	€ million	166.6	187.8	Slightly higher
Cash flow from operating activities	€ million	173.0	227.4	Higher
Free cash flow	€ million	62.8	129.9	Higher
Net financial status (December 31)	€ million	129.4	176.5	130–230
Liquidity	€ million	435.6	724.2	440–540
Capital expenditure[1]	€ million	102.3	81.9	90–100

[1] on property, plant and equipment and on intangible assets (excluding acquisitions)

€ 176.5 million, reaching the target range of € 130 to 230 million. We had lowered our cash flow forecasts in August 2016 as the high prepayments and progress payments arising as the year progressed were not yet foreseeable at that stage.

At € 724.2 million, liquidity significantly exceeded the target range (€ 440 to 540 million) at the end of 2016. However, the forecast did not yet include the proceeds generated by the bonded loan (€ 300 million). Capital spending (excluding equity investments) came to € 81.9 million and thus fell short of the forecast level. Major projects included the construction of two new campus sites in the United States and China as well as extensive IT spending.

DIVISIONS: MOST TARGETS REACHED

All five divisions reached their operating targets, exceeding expectations in some cases. We are generally very satisfied with their operating performance.

Paint and Final Assembly Systems achieved its sales target. Order intake matched expectations despite the cancellation of a contract (Ford Mexico). EBIT was down due to an extraordinary effect (closure of the Zistersdorf plant) and lower sales. However, the EBIT margin of 6.8 % (operating EBIT margin 7.2 %) was within the target corridor.

Application Technology sales were in the middle of the target corridor, while order intake was at the top end. At 10.5 %, the EBIT margin before extraordinary effects (sale of Auburn Hills real estate, income from legal disputes) reached the target range and exceeded it after extraordinary effects (13.6 %).

Measuring and Process Systems substantially exceeded the target that had been set for order intake, underpinned in particular by flourishing business in China and North America. Sales also came in higher than expected. At 12.8 %, the EBIT margin exceeded the previous year as well as the target range for 2016 due to high capacity utilization.

Clean Technology Systems posted an increase in order intake and sales but fell just short of the target ranges. EBIT rose slightly while, at 3.7 %, the EBIT margin was within the target range of 3.5 to 4.5 %.

The growth in sales for Woodworking Machinery and Systems matched expectations, while order intake grew by 10.1 % and,

2.22 – TARGET ACHIEVEMENT OF THE DIVISIONS 2016

	SALES (€ MILLION)		ORDER INTAKE (€ MILLION)		EBIT MARGIN (%)		ROCE (%)	
	2016 target	2016 actual	2016 target	2016 actual	2016 target	2016 actual	2016 target	2016 actual
Paint and Final Assembly Systems	1,100–1,200	1,140.0	950–1,150	1,094.5	6.75–7.25	6.8	> 100[1]	> 100[1]
Application Technology	530–600	560.6	530–600	582.7	9.5–10.5	13.6	25–30	40.0
Measuring and Process Systems	550–600	623.8	525–575	682.5	10–11	12.8	20–25	24.9
Clean Technology Systems	180 to 200	167.0	180 to 200	176.6	3.5–4.5	3.7	15–20	13.6
Woodworking Machinery and Systems	1,000–1,100	1,082.0	1,000–1,100	1,165.3	5.0–6.0	4.1	10–15	11.3

[1] Negative capital employed

hence, more quickly than planned. EBIT improved by 22.4 %. However, heavy extraordinary expense (including write-offs of brand rights, plant closure) prevented the EBIT margin (4.1 %) from reaching the target. As anticipated, the operating EBIT margin adjusted for extraordinary expense widened from 6.1 % to 6.6 %.

The 2017 targets for the divisions can be found in the **Report on expected future development [P. 88]**.

PERFORMANCE INDICATORS

The main financial performance indicators for managing the Dürr Group are order intake, sales, EBIT and EBIT margin as well as **ROCE** (EBIT to capital employed) **[P. 195]**. Cash flow from operating activities and **free cash flow [P. 195]** are also important parameters particularly at the Group level. Detailed information on the main financial performance indicators can be found in the section entitled “Operating performance indicators” in the chapter on **Financial development [P. 69]**.

Non-financial performance indicators are also regularly tracked and help us with the management and long-term strategic orientation of the company. Examples of these include employee and customer satisfaction, training, ecology/sustainability and R&D/innovation. However, the non-financial performance indicators are not primarily used for managing the company. Rather, they provide additional insight into the situation within the Group as a basis for decision-making processes. The non-financial performance indicators are described in the **Sustainability** chapter **[P. 33]** among other places.

MAIN EVENTS DRIVING BUSINESS PERFORMANCE

Other than the emission of a bonded loan for € 300 million, there were no individual events in 2016 materially impacting the Group’s results of operations, financial condition and net assets. As expected, in painting technology business we felt the effects of the automotive industry´s temporary spending restraint in China but were able to more than make up for this with high order receipts in North America and Europe. We were also able to offset the effects of the contract cancelled by Ford in Mexico (roughly € 100 million).

The main determinants of business with the automotive industry were the 5.1 % growth in automotive production and mounting modernization and flexibilization requirements in the sector. An important trend influencing the HOMAG Group’s business is the growing automation of furniture production.

The sale of the Dürr Ecoclean Group agreed upon in August 2016 is expected to be completed effective March 31, 2017. Dürr Ecoclean’s assets and liabilities are reported as held for sale in the balance sheet as of December 31, 2016. This reclassification has not had a significant effect on our balance sheet ratios. All told, we consider the Dürr Group’s balance sheet and financial ratios to be solid.

BUSINESS PERFORMANCE

IFRS, REPORTING PRACTICE, CONSOLIDATION OF THE HOMAG GROUP, PRESENTATION OF DÜRR ECOCLEAN

The charts and tables in this management report generally contain IFRS figures for the years from 2014 through 2016. EBIT is defined as earnings before interest, income taxes and income from investments. Extraordinary effects are eliminated from operating EBIT; these extraordinary effects are listed in table 2.32.

Amendments to the IFRS did not have any material impact on the presentation of the company's economic position in 2016. Relatively few reporting options are available under the IFRS and their utilization impacts our net assets, financial position and results of operations only minimally. They can be used, for example, in connection with inventories or property, plant and equipment. In the case of important balance-sheet items, we exercise options in such a way that the greatest possible measurement continuity is preserved. For example, financial instruments are measured at amortized cost as far as possible rather than at fair values. We made use of all reporting options in unchanged form in 2016. Similarly, the use of accounting measures exerts virtually no influence on the presentation of the results of operation. Moreover, it is inconsistent in many cases with our commitment to continuity and cross-period transparency.

HOMAG Group

The HOMAG Group has been fully consolidated by Dürr AG since October 3, 2014. It is included in the Dürr Group's segment report as the Woodworking Machinery and Systems division. The HOMAG Group is only included in the figures relating to the Dürr Group for 2014 with effect from October 3 of that year. Consequently, a comparison between 2014 and the later years produces what in some cases are considerable differences.

A domination and profit and loss transfer agreement between Dürr Technologies GmbH and HOMAG Group AG took binding effect on March 17, 2015 for an indefinite period and may not be terminated before the end of 2020 other than for good cause. Under the terms of the agreement, all of the net profit earned by HOMAG Group AG accrues to Dürr from January 1, 2016. HOMAG Group AG's external shareholders (44 % of the capital) are no longer entitled to a variable dividend. Instead, they receive a guaranteed dividend of € 1.01 per share for the duration of the domination and profit and loss transfer agreement. The expense for the guaranteed dividend (€ 6.3 million) is reported within the Dürr Group's net finance expense. As is to be expected in such cases, valuation proceedings were commenced in April 2015 before the Regional Court of Stuttgart by a number of HOMAG Group AG's external shareholders, who seek to have the amount of the guaranteed dividend and the cash settlement offer (€ 31.56 per HOMAG Group share) reviewed by a court of law. No decision is expected to be made in 2017.

Sale of Dürr Ecoclean

As a result of the contract signed on August 6, 2016 for the sale of the Dürr Ecoclean Group, Dürr Ecoclean's assets and liabilities are reported as held for sale. In this connection, Ecoclean assets of € 167.2 million were reclassified as current assets as of December 31, 2016. The income statement for 2016 includes the sales and earnings attributable to Dürr Ecoclean in full. The key figures referring both to the income statement and the balance sheet (days working capital, economic value added, **return on equity**, **total return on capital**, **ROCE** **[P. 195]**) include the corresponding balance sheet figures for Dürr Ecoclean in the interests of full comparability.

Acquisitions

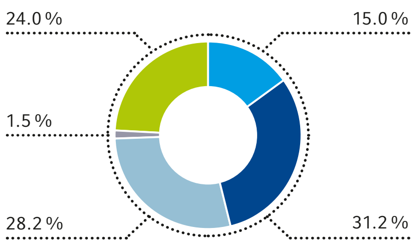
The companies acquired in 2015 and 2016 exerted only a minor influence on the Dürr Group's financial condition and results of operations, accounting for less than 1 % of sales and earnings in 2016.

RECORD ORDER INTAKE

Order intake rose by 6.8 % in 2016, exceeding € 3.7 billion for the first time. On the basis of like-for-like exchange rates, new orders climbed by just under 9 %. Four of our five divisions recorded what in some cases were substantial increases in order intake. Only Paint and Final Assembly Systems sustained a slight decline (down 2.8 %) due to the cancellation of a contract by Ford in Mexico. The strong order intake ensured full capacity utilization.

In the emerging markets, order intake fell by 11.1 % to € 1,548.7 million, accounting for 41.8 % of Group order intake (2015: 50.2 %). Orders were up in most of the emerging markets. However, in China they dropped by 35.2 % to € 618.0 million since the automotive industry scaled back its capital spending as planned after the period of expansion between

2.23 – CONSOLIDATED ORDER INTAKE BY REGION



€ million	2016	2015	2014
Germany	555.6	504.4	411.9
Other European countries	1,154.7	968.7	856.1
North/Central America	1,045.3	722.4	438.5
South America	56.9	78.2	91.8
Asia, Africa, Australia	889.1	1,193.9	994.7
Total	**3,701.7**	**3,467.5**	**2,793.0**

HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014

2012 and 2014 and the muted sales in summer 2015. This primarily affected painting technology, while Measuring and Process Systems and Woodworking Machinery and Systems posted double-digit growth rates. Order receipts in China had repeatedly fluctuated in earlier years as well.

We registered a sharp 44.7 % increase in new orders in North and Central America. At € 1,045.3 million, order intake in that region reached an extraordinarily high level. Among other things, we were awarded a contract for the construction of a final assembly plant by a US producer of electric vehicles. At 16.1 %, the growth in European order intake was also very encouraging. The fact that order receipts rose despite regional fluctuation once again highlights the importance of our broad regional footprint for the Group's stability.

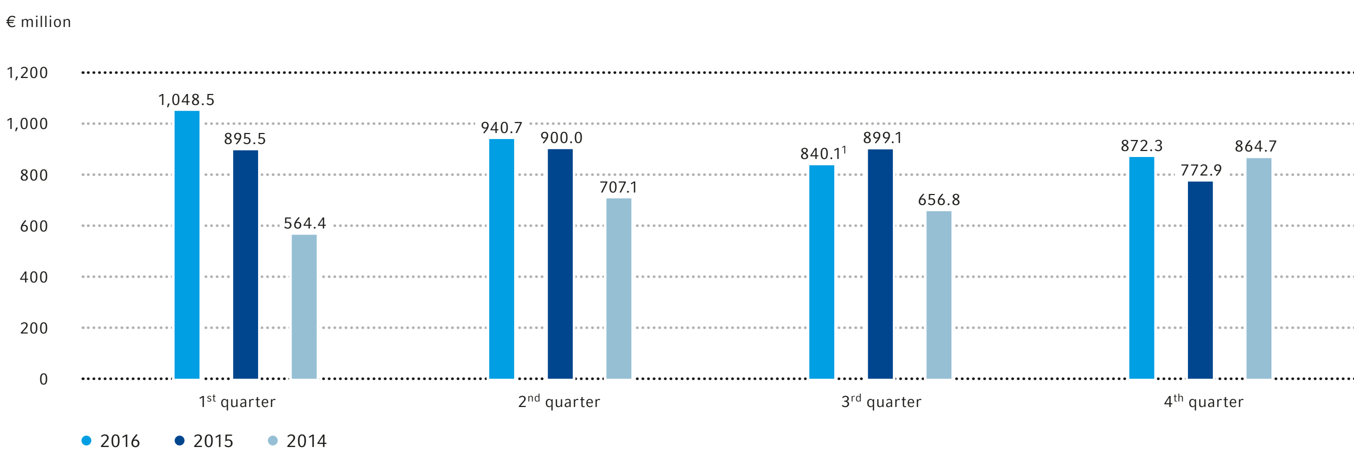
Order intake in the fourth quarter of 2016 came to € 872.3 million, thus exceeding the previous year's figure by just under € 100 million but falling short of the first two quarters. In view of the heavy influence of large system projects, such fluctuation from one quarter to another is typical of our business. Consequently, comparisons of individual quarters are not a reliable guide. This means that performance in the fourth quarter of 2016 does not provide an indication of the prospects for 2017.

5.1 % DECLINE IN SALES AS EXPECTED

As anticipated, sales dropped by 5.1 % to € 3,573.5 million in 2016. The high figure recorded in the previous year had been influenced by the fact that Paint and Final Assembly Systems was able to execute projects which had been delayed by customers in 2014. On the basis of like-for-like exchange rates, the decline in sales would have been two percentage points less.

Whereas sales from painting technology business (Paint and Final Assembly Systems and Application Technology) were

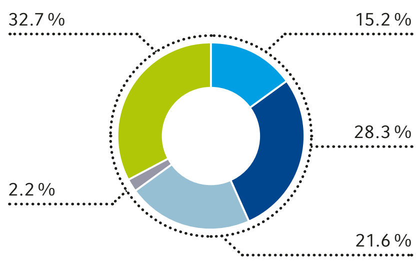
2.24 – CONSOLIDATED ORDER INTAKE BY QUARTER



HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014

[1] The contract cancelled by Ford in Mexico (roughly € 100 million) was derecognized with retroactive effect in the third quarter of 2016.

2.25 – CONSOLIDATED SALES BY REGION



€ million	2016	2015	2014
Germany	542.8	528.1	391.8
Other European countries	1,010.9	1,126.9	693.3
North/Central America	770.8	775.0	434.4
South America	79.4	120.8	178.0
Asia, Africa, Australia	1,169.7	1,216.4	877.4
Total	**3,573.5**	**3,767.1**	**2,574.9**

HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014

lower for invoicing-related reasons, all the other divisions reported single-digit growth. As table 2.25 shows, sales were regionally balanced, with Europe contributing the largest share (43.5 %), followed by Asia, Africa and Australia (32.7 %) and North and Central America (21.6 %). At 48.5 %, the share accounted for by the emerging markets was more or less unchanged (2015: 50.8 %).

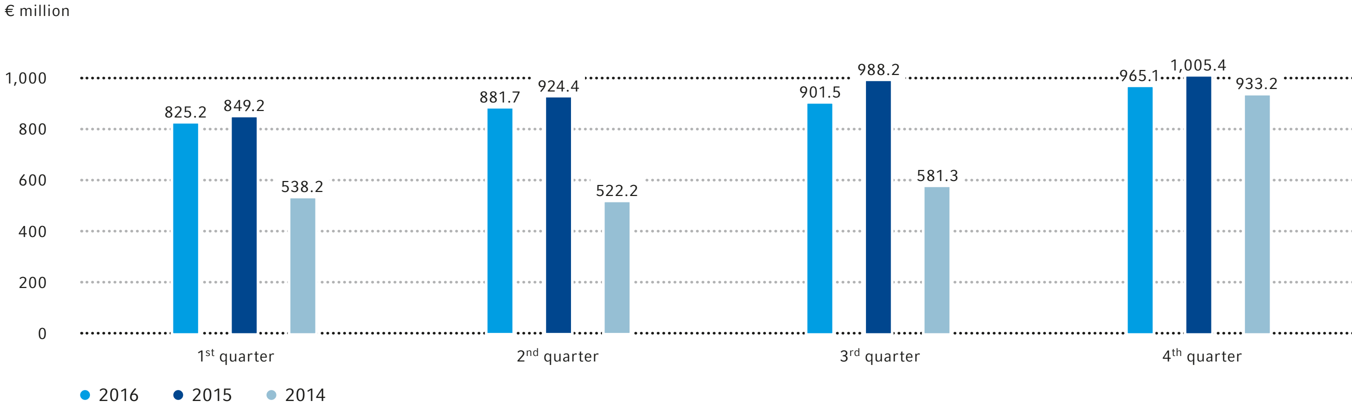
As in the previous year, the generation of sales accelerated from quarter to quarter, with a figure of € 965.1 million reached in the fourth quarter (table 2.26). Sales are customarily high in the final quarter for Dürr as more projects are invoiced at the end of the year.

Despite the decline in consolidated sales, service-related sales continued to expand as expected and, at € 981.9 million, came very close to the one-billion mark for the first time. The increase over the previous year came to 11.0 %, while the share in total sales widened from 23.5 % to 27.5 %. Consequently, we came a good deal closer to our goal of a 30 % share for service business. The growth in service business is being underpinned by our expanding installed base together with the CustomerExcellence@Dürr program, which we implemented in the previous years. With this program we have optimized our service structures and are focusing even more keenly on addressing our customers' service requirements.

ORDER BACKLOG OF JUST UNDER € 2.6 BILLION

The high order intake in conjunction with the decline in sales resulted in a book-to-bill ratio[1] of 1.04. The order backlog climbed by 4.2 % to € 2,568.4 million as of December 31, 2016

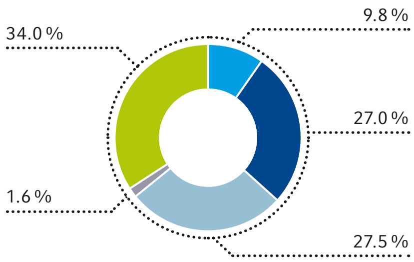
2.26 – CONSOLIDATED SALES BY QUARTER



HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014

[1] Ratio of order intake to sales

2.27 – CONSOLIDATED ORDER BACKLOG (DECEMBER 31) BY REGION



€ million	2016	2015	2014
Germany	252.0	239.3	250.6
Other European countries	694.0	555.6	716.8
North/Central America	706.3	434.9	465.4
South America	42.3	58.3	112.6
Asia, Africa, Australia	873.8	1,177.7	1,179.9
Total	**2,568.4**	**2,465.7**	**2,725.3**

HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014

(Dec. 31, 2015: € 2,465.7 million). Most of the service business does not find its way into the order backlog because of its short-term nature. However, if it is included in the order backlog, we are confident of achieving our sales target of € 3.4 to 3.6 billion for 2017. Orders on hand as of the end of 2016 were sufficient to cover a good 70 % of our sales target for 2017 (previous year: roughly 70 %).

2.28 – INCOME STATEMENT AND PROFITABILITY RATIOS

		2016	2015	2014
Sales revenues	€ million	3,573.5	3,767.1	2,574.9
Cost of sales	€ million	– 2,715.3	– 2,939.1	– 1,983.8
of which material costs	€ million	– 1,403.6	– 1,613.3	– 996.2
of which personnel expense	€ million	– 620.2	– 603.9	– 396.2
of which depreciation and amortization	€ million	– 57.5	– 56.2	– 30.2
Gross profit	€ million	858.3	828.0	591.1
Overhead costs[1]	€ million	– 605.5	– 566.4	– 359.5
EBITDA	€ million	360.3	348.2	262.9
EBIT	€ million	271.4	267.8	220.9
EBIT before extraordinary effects[2]	€ million	286.4	294.3	237.4
Net finance expense	€ million	– 13.3	– 23.3	– 16.2
EBT	€ million	258.1	244.5	204.7
Income taxes	€ million	– 70.3	– 78.0	– 54.4
Earnings after tax	€ million	187.8	166.6	150.3
Earnings per share	€	5.26	4.67	4.33
Gross margin	%	24.0	22.0	23.0
EBITDA margin	%	10.1	9.2	10.2
EBIT margin	%	7.6	7.1	8.6
EBIT margin before extraordinary effects[2]	%	8.0	7.8	9.2
EBT margin	%	7.2	6.5	8.0
Return on sales after taxes	%	5.3	4.4	5.8
Interest coverage		13.7	10.7	12.6
Tax rate	%	27.2	31.9	26.6
Return on equity	%	22.6	23.3	20.7
Return on investment	%	6.4	6.7	5.9
ROCE	%	41.1	45.3	38.7

HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014

[1] Selling, administrative and R&D expenses

[2] Extraordinary effects in 2016: € –15.0 million (2015: € –26.6 million), see table 2.32 for further information.

RECORD GROSS MARGIN OF 24.0 %

Total costs (cost of sales, selling, administrative and R&D costs plus other operating expenses) came to € 3,377.8 million in 2016. This translates into a decline of 5.5 % over the previous year, meaning that this item dropped more sharply than sales. The same applies to the cost of sales, which fell by 7.6 % to € 2,715.3 million. This item includes all sourcing and production costs for our products and services.

Gross profit climbed by 3.7 % to € 858.3 million. Consequently, the gross margin, i.e. the difference between sales and the cost of sales relative to sales, reached a record 24.0 %. This favorable performance was underpinned by cost discipline and quality in the execution of orders as well as the growth in service business with its wider margins. All divisions reported wider gross margins, including Paint and Final Assembly Systems despite the continued intense competition to which painting technology business is exposed.

SHARP DECLINE IN COST OF MATERIALS RATIO

The sharp 13.0 % decline in the cost of materials to € 1,403.6 million is due to the decline in sales and lower prices of commodities and semi-finished goods. The ratio of the cost of materials to sales contracted from 42.8 % to 39.3 %. The cost of materials is fully included in the cost of sales and mainly comprises the sourcing of parts as well as production and assembly services. Further information can be found in the **Procurement** chapter [P. 43].

FURTHER INCREASE OF 9.0 % IN R&D EXPENSES

Selling and administrative expenses climbed by 6.5 % to € 499.6 million in 2016. In addition to the increased workforce (annual average increase of 4.1 %) and rising remuneration, this was due to the costs of several open house events, some of which take place only every two years. As usual, the marketing expenses included in selling expenses accounted for

2.29 – OVERHEAD COSTS AND EMPLOYEES IN 2016

	Employees	Costs (€ million)	Personnel expense (€ million)	Depreciation and amortization (€ million)	Other costs (€ million)
Selling	1,760	–322.0	–205.7	–17.2	–99.2
2015	1,566	–282.7	–179.7	–5.1	–97.9
Administrative	1,346	–177.6	–117.5	–7.4	–52.7
2015	1,352	–186.5	–110.6	–9.6	–66.3
R&D	695	–105.9	–68.0	–8.4	–29.4
2015	667	–97.1	–75.1	–9.5	–12.6

HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014

2.30 – PERSONNEL-RELATED INDICATORS

	2016	2015	2014
Employees (Dec. 31)	15,235	14,850	14,151
Employees (annual average)	15,079	14,489	9,794
Personnel expense (€ m)	–1,011.8	–970.2	–634.9
Personnel expense ratio (%)	28.3	25.8	24.7
Personnel expense per employee (annual average) (€)	–67,100	–67,000	–64,800
Sales per employee (annual average) (€)	237,000	260,000	262,900

HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014

less than 1 % of sales. Research and development (R&D) expenses rose by 9.0 % to € 105.9 million, mainly reflecting the systematic expansion of our portfolio of digital technologies. All in all, overhead costs rose by 6.9 % to € 605.5 million.

Employee numbers climbed by 2.6 % to 15,235 as of December 31, 2016. The average annual Group headcount stood at 15,079 (up 4.1 %). One important reason for this increase was the recruitment of additional sales staff. We were able to cap the increase in personnel expense at 4.3 % despite the higher wages and salaries (table 2.30)

In 2016, net other operating income came to a relatively high € 18.6 million (2015: € 6.2 million). The largest single items were currency translation expense and income, resulting in net currency translation expense of € 0.6 million. Income in connection with legal disputes and the sale of real estate no longer required exerted a stronger effect. However, this income was accompanied by extraordinary expense such as transaction costs arising in connection with the sale of Dürr Ecoclean (table 2.32).

EBIT: SEVENTH CONSECUTIVE INCREASE

EBIT – our main performance indicator in the overall management process – rose for the seventh consecutive year in 2016, climbing from € 267.8 million in the previous year to € 271.4 million despite the 5.1 % decline in sales. On the basis of like-for-like exchange rates, EBIT would have been 2 % higher.

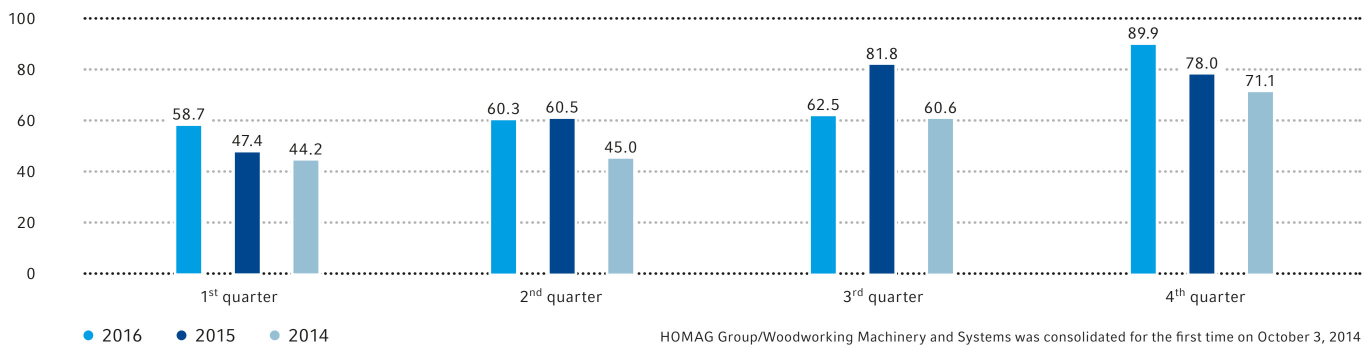
The EBIT margin widened by 0.5 percentage points and, at 7.6 %, was slightly above the full-year target corridor of 7.0 to 7.5 %. Once again, margins were the largest in the fourth quarter, with the gross margin coming to 25.1 % and the EBIT margin to 9.3 % (Q4 2015: 23.4 % and 7.8 %).

EBIT included extraordinary expense of € 34.5 million and extraordinary income of € 19.5 million. This resulted in a net extraordinary effect of € –15.0 million (2015: € –26.6 million). Operating EBIT adjusted for extraordinary effects came to € 286.4 million, while the operating EBIT margin rose to 8.0 % (2015: € 294.3 million and 7.8 %). Table 2.32 lists the extraordinary effects.

CONSOLIDATED FINANCIAL STATEMENTS

2.31 – EBIT BY QUARTER

€ million



HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014

2.32 – EXTRAORDINARY EFFECTS WITHIN EBIT

€ million	2016		2015		2014	
Paint and Final Assembly Systems	– 4.8	• Cost of closing the Zistersdorf plant	–	–	–	–
Application Technology	17.3	• Income from the sale of real estate in the United States • Income from legal disputes	–	–	–	–
Measuring and Process Systems	–	–	–	–	–	–
Clean Technology Systems	–	–	–	–	–	–
Woodworking Machinery and Systems	– 26.3	• Purchase price allocation expense HOMAG Group • Write-off of brand rights • Cost of closing the Weinsberg plant • Expense for terminating employee capital participation program	– 26.6	• Purchase price allocation expense HOMAG Group • Expense for terminating employee capital participation program	– 16.5	• Purchase price allocation expense HOMAG Group
Corporate Center	– 1.2	• Transaction costs sale of Dürr Ecoclean • Income from sale of shares in Tec4Aero (11 %)	–	–	–	–
Total	**– 15.0**		**– 26.6**		**– 16.5**	

SUBSTANTIAL IMPROVEMENT IN NET FINANCE EXPENSE

Net finance expense came to € 13.3 million, down from € 23.3 million in the previous year. This substantial improvement was due to two factors: the absence of extraordinary expense in connection with the integration of HOMAG (new funding, non-recurring effects from the domination and profit and loss transfer agreement) as well as the inclusion of non-recurring income of € 3.9 million in net investment income. The interest expense of € 26.5 million mainly arose from the corporate bond, the bonded placed in April 2016 and the guaranteed dividend for the external HOMAG shareholders.

EARNINGS AFTER TAX AT A NEW HIGH

Despite the 5.6 % increase in earnings before tax, tax expense dropped by 9.8 % to € 70.3 million in 2016. In the previous year, this item had contained non-recurring expense of € 8.9 million in connection with the domination and profit and loss transfer agreement entered into with HOMAG Group AG. The tax rate returned to a normal level of 27.2 % in 2016. Earnings after tax rose by 12.8 % to € 187.8 million (2015: € 166.6 million), whereas the return on sales after tax widened from 4.4 % to 5.3 %. Net of non-controlling interests, earnings per share climbed to € 5.26 (2015: € 4.67).

We will be proposing a dividend of € 2.10 per share for 2016 (2015: € 1.85), marking the seventh consecutive increase and equivalent to a growth of 13.5 % over the previous year. The dividend proposal translates into a total payout of € 72.7 million (2015: € 64.0 million) and a payout ratio of 38.7 % of consolidated net profit (2015: 38.4 %). This again places it at the upper end of Dürr's customary range of 30 to 40 %. Dürr AG's remaining net retained profit of € 291.0 million (2015: € 281.5 million) is to be carried forward.

2.33 – SALES, ORDER INTAKE AND EMPLOYEES (DEC. 31, 2016) BY DIVISION

3,573.5 € million

(Total sales revenues)

SALES REVENUES

30.3 %
Woodworking Machinery and Systems
€ 1,082.0 million

4.7 %
Clean Technology Systems
€ 167.0 million

17.5 %
Measuring and Process Systems
€ 623.8 million

0.0 %
Corporate Center
€ 0.0 million

31.9 %
Paint and Final Assembly Systems
€ 1,140.0 million

15.7 %
Application Technology
€ 560.6 million

3,701.7 € million

(Total order intake)

ORDER INTAKE

31.5 %
Woodworking Machinery and Systems
€ 1,165.3 million

4.8 %
Clean Technology Systems
€ 176.6 million

18.4 %
Measuring and Process Systems
€ 682.5 million

0.0 %
Corporate Center
€ 0.0 million

29.6 %
Paint and Final Assembly Systems
€ 1,094.5 million

15.7 %
Application Technology
€ 582.7 million

15,235

(Total employees)

EMPLOYEES

1.2 %
Corporate Center
190

40.2 %
Woodworking Machinery and Systems
6,126

3.7 %
Clean Technology Systems
569

22.2 %
Paint and Final Assembly Systems
3,384

12.8 %
Application Technology
1,956

19.8 %
Measuring and Process Systems
3,010

HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014

2.34 – EBIT BY DIVISION

€ million	2016	2015	2014
Paint and Final Assembly Systems	77.2	100.2	106.2
Application Technology	76.1	60.8	55.1
Measuring and Process Systems	79.7	69.8	70.3
Clean Technology Systems	6.1	5.8	7.6
Woodworking Machinery and Systems	44.9	36.6	– 7.9
Corporate Center/consolidation	– 12.5	– 5.4	– 10.4
Total	**271.4**	**267.8**	**220.9**

HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014

The loss recorded by the Corporate Center at the EBIT level widened by € 7.1 million to € 12.5 million in 2016 due to higher personnel and consulting expenses. Among other things, this includes transaction costs of € 3.4 million for the sale of Ecoclean. The consolidation effects included in Corporate Center EBIT were valued at € 1.9 million (2015: € 1.2 million).

2.35 – CAPITAL EXPENDITURE ON PROPERTY, PLANT AND EQUIPMENT AND ON INTANGIBLE ASSETS BY DIVISION[1]

€ million	2016	2015	2014
Paint and Final Assembly Systems	20.6	22.9	13.9
Application Technology	17.5	27.8	11.1
Measuring and Process Systems	9.4	9.5	9.8
Clean Technology Systems	6.3	7.5	3.9
Woodworking Machinery and Systems	24.3	29.7	12.8
Corporate Center/consolidation	3.7	4.8	3.4
Total	**81.9**	**102.3**	**54.9**

HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014
[1] Without acquisitions

2.36 – DEPRECIATION AND AMORTIZATION (INCL. IMPAIRMENT LOSSES AND REVERSALS) BY DIVISION[1]

€ million	2016	2015	2014
Paint and Final Assembly Systems	– 14.8	– 9.2	– 7.0
Application Technology	– 9.1	– 8.2	– 6.7
Measuring and Process Systems	– 7.2	– 9.3	– 9.0
Clean Technology Systems	– 2.6	– 2.3	– 2.1
Woodworking Machinery and Systems	– 51.1	– 47.5	– 13.9
Corporate Center/consolidation	– 4.1	– 4.0	– 3.3
Total	**– 88.9**	**– 80.5**	**– 42.0**

HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014
[1] Depreciation and amortization included in net interest expense is not reported here.

SEGMENT REPORT: DIVISIONS

Paint and Final Assembly Systems

New orders received by Paint and Final Assembly Systems dropped only slightly in 2016 (down 2.8 %) despite the cancellation of a large order placed by Ford in Mexico. At just under € 1.1 billion, North American business made the greatest contribution to order intake. Among other things, we received a major contract for the construction of a final assembly plant in the United States from a US producer of electric vehicles. Project volume in Europe was on a par with North American levels, while Chinese business remained muted. We are confident of being able to make up for the derecognition of the Mexican order through new capital spending projects that the customer has announced for 2017. 48 % of new orders came from the emerging markets (2015: 66 %).

As expected, sales were down 16.5 %. The previous year's figure had included revenues which had originally been budgeted for 2014 but did not arise until 2015 due to customer-induced project delays. The decline of € 23.0 million in EBIT is due to the lower sales volume and extraordinary expense of € 4.8 million in connection with the closure of a plant in Zistersdorf (Austria). At 6.8 %, the EBIT margin reached the full-year target corridor of 6.75 to 7.25 %. Adjusted for extraordinary expenses it came to 7.2 %. We consider a margin level of 6.0 to 6.5 % to be sustainable and are responding to heightened competitive pressure by boosting efficiency.

At € 20.6 million, capital spending remained high due to the construction of two modern campus sites: we completed the new building complex in Southfield (United States) in mid-2016, while we commenced operation on the campus in Shanghai (China) in February 2017.

2.37 – PAINT AND FINAL ASSEMBLY SYSTEMS – KEY FIGURES

€ million	2016	2015	2014	2013
Order intake	1,094.5	1,125.5	1,291.8	1,124.7
Sales revenues	1,140.0	1,364.6	1,078.2	1,176.9
Cost of materials (consolidated)	– 535.9	– 709.5	– 493.6	– 602.0
EBITDA	92.0	109.3	113.2	104.1
EBIT	77.2	100.2	106.2	98.3
EBIT margin	6.8 %	7.3 %	9.8 %	8.4 %
Capital expenditure	20.6	22.9	13.9	12.2
Employees (December 31)	3,384	3,374	3,069	3,075

2.38 – APPLICATION TECHNOLOGY – KEY FIGURES

€ million	2016	2015	2014	2013
Order intake	582.7	538.3	560.9	567.6
Sales revenues	560.6	599.7	526.0	540.0
Cost of materials (consolidated)	– 211.0	– 267.3	– 213.4	– 211.1
EBITDA	85.2	69.1	61.8	64.6
EBIT	76.1	60.8	55.1	59.6
EBIT margin	13.6 %	10.1 %	10.5 %	11.0 %
Capital expenditure	17.5	27.8	11.1	16.0
Employees (December 31)	1,956	1,858	1,784	1,546

2.39 – MEASURING AND PROCESS SYSTEMS – KEY FIGURES

€ million	2016	2015	2014	2013
Order intake	682.5	578.2	577.1	561.1
Sales revenues	623.8	603.7	581.9	583.6
Cost of materials (consolidated)	– 208.7	– 206.0	– 187.5	– 211.4
EBITDA	86.9	79.1	79.3	57.2
EBIT	79.7	69.8	70.3	46.3
EBIT margin	12.8 %	11.6 %	12.1 %	7.9 %
Capital expenditure	9.4	9.5	9.8	14.4
Employees (December 31)	3,010	2,992	3,018	2,967

Application Technology

Order intake for Application Technology rose by 8.2 % in 2016. Like Paint and Final Assembly Systems, it obtained most of its large orders from Europe and North America. With sales declining by 6.5 %, the book-to-bill ratio climbed to 1.04. EBIT rose by 25.1 % to € 76.1 million and includes extraordinary income of € 17.3 million (sales of real estate in the United States, legal disputes). This caused the EBIT margin to widen to 13.6 %. At the operating level, the EBIT margin came to 10.5 %, thus exceeding the previous year despite the lower sales and reaching the upper end of the target corridor of 9.5 to 10.5 %.

Established in 2014, the Industrial Products segment reported increased sales but continued to post a loss at the EBIT level due to start-up costs. In the medium term, however, this segment, through which we address sectors such as glass, ceramics, wood and furniture, offers interesting growth potential.

Capital expenditure more or less returned to normal in 2016 following the completion of the Southfield campus in the United States. The reasons for the increase in employee numbers over the last few years are to be found in the entry into Industrial Products and the expansion of internally-sourced production.

Measuring and Process Systems

Measuring and Process Systems recorded extraordinarily high order intake of € 682.5 million in 2016. The 18.0 % increase in new orders was underpinned by both segments within the division – Balancing and Assembly Products on the one hand and Cleaning and Surface Processing (Dürr Ecoclean) on the other. Against the backdrop of globally favorable business conditions, China and North America in particular stood out. Sales climbed from quarter to quarter, rising by 3.3 % over the year as a whole. At 1.09, the book-to-bill ratio was above the average. Driven by the pronounced top-line momentum in the second half of the year and good capacity utilization, EBIT climbed by 14.2 %. The EBIT margin came to 12.8 %, thus exceeding the previous year as well as the target corridor for 2016 (10.0 to 11.0 %).

The Cleaning and Surface Processing segment comprises the Dürr Ecoclean Group, which is expected to be sold to the Chinese SBS Group effective March 31, 2017. Proceeds of around € 100 million are expected from the sale of an 85 % stake in Dürr Ecoclean's business. A book gain of around € 25 million is expected from the transaction as a whole. Further information on this transaction can be found in the chapters entitled **The Group at a glance** **[P. 21]** and **Strategy** **[P. 29]**.

2.40 – CLEAN TECHNOLOGY SYSTEMS – KEY FIGURES

€ million	2016	2015	2014	2013
Order intake	176.6	166.3	144.9	133.7
Sales revenues	167.0	159.2	136.0	106.3
Cost of materials (consolidated)	–85.2	–83.6	–73.4	–57.2
EBITDA	8.7	8.1	9.8	7.5
EBIT	6.1	5.8	7.6	6.1
EBIT margin	3.7 %	3.6 %	5.6 %	5.7 %
Capital expenditure	6.3	7.5	3.9	5.3
Employees (December 31)	569	499	473	426

2.41 – WOODWORKING MACHINERY AND SYSTEMS – KEY FIGURES

€ million	2016	2015	2014
Order intake	1,165.3	1,058.4	218.3
Sales revenues	1,082.0	1,039.3	252.8
Cost of materials (consolidated)	–425.1	–403.9	–86.0
EBITDA	95.9	84.2	6.0
EBIT	44.9	36.6	–7.9
EBIT margin	4.1 %	3.5 %	–3.1 %
Capital expenditure	24.3	29.7	12.8
Employees (December 31)	6,126	5,906	5,659

HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014

Clean Technology Systems

Clean Technology Systems business primarily entails exhaust-air purification technology. The smaller energy efficiency technology segment contributed less than 10 % to order intake. Division sales and order intake rose in 2016 (up 4.9 % and 6.2 % respectively), while EBIT climbed from € 5.8 million to € 6.1 million. Earnings from exhaust-air purification technology were generally solid, although additional project-related expense arose in the fourth quarter due to the implementation of a new solution. Energy efficiency technology sustained protracted losses and fell short of the forecasts. We will be adopting structural measures in 2017 to improve the earnings situation with respect to energy efficiency technology.

Driven by the expansion of international business, capital spending (€ 6.3 million) was up roughly 10 % on the average for the past three years. Information on the acquisition of KBA-MetallPrint GmbH's exhaust-air purification technology business in November 2016 can be found in the section entitled "Portfolio changes" in the chapter **The Group at a glance** **[P. 21]**.

Woodworking Machinery and Systems

The Woodworking Machinery and Systems division comprises the HOMAG Group's activities. The sharp differences evident in table 2.41 between 2016 and 2015 on the one hand and 2014 on the other reflect the fact that the HOMAG Group was not consolidated until October 3, 2014.

Woodworking Machinery and Systems achieved record order intake of € 1,165.3 million in 2016 (up 10.1 %). Demand picked up all over the world, with business increasing in China and North America in particular. Growth in sales accelerated from quarter to quarter, reaching 4.1 % over the year as a whole. The book-to-bill ratio increased to 1.08 due to the high order intake.

EBIT increased by € 8.2 million to € 44.9 million despite the continued high extraordinary expense of € 26.3 million (2015: € 26.6 million). The improved earnings were due to productivity gains in connection with the FOCUS optimization program as well as economies of scale. The extraordinary expense arising in 2016 resulted from purchase price allocation for the HOMAG Group, the closure of a small plant in Weinsberg (Germany) as well as write-offs of brand rights and trailing costs in connection with the termination of the HOMAG Group's employee capital participation program. The EBIT margin widened from 3.5 % in the previous year to 4.1 %; the operating EBIT margin (i.e. before extraordinary expense) climbed from 6.1 % to 6.6 %.

FINANCIAL DEVELOPMENT

FUNDING AND LIQUIDITY MANAGEMENT

The main objectives of our central finance and liquidity management system are the optimization of earnings and costs as well as the reduction and prevention of financial risks. In addition, it achieves transparency concerning the Group's funding and liquidity needs. The principle of our liquidity management is to always have an adequate volume of cash and cash equivalents available in order to meet our payment obligations at any time.

The cash flow from our operating activities is our key source of funding. As a rule, debt finance is raised by Dürr AG and made available to the Group companies as required. Liquidity management is another task of Dürr AG. The company organizes a cash pooling system in which – to the extent legally possible – all cash and cash equivalents of the Group are consolidated. Companies located in countries subject to statutory restrictions on capital flows (for instance China, India, South Korea, Brazil) largely obtain their funding locally.

The investment of surplus liquidity is governed by a guideline for financial asset management and is the task of Group Treasury. We only choose banks with good credit ratings as our partners, and we use a limit system to reduce counterparty risks. At € 724.2 million, cash and cash equivalents at the end of 2016 were up on the previous year's level by 66.2 %. Its share of total assets amounted to 21.6 % (end of 2015: 14.6 %). Total liquidity, which also includes time deposits and securities held to final maturity, increased to € 822.6 million (Dec. 31, 2015: € 469.2 million).

Systematic **net working capital** **[P. 195]** management allows us to optimize our internal funding capabilities and reduce the volume of resources tied down. This has a beneficial effect on key figures such as our balance sheet structure and **ROCE** **[P. 195]**.

For information on the deployment of financial instruments, please refer to the section entitled "Currency, interest and liquidity risks as well as financial instruments for risk mitigation purposes" in the **Risk report** **[P. 78]**.

FUNDING STRUCTURE OF THE DÜRR GROUP

As at December 31, 2016, our funding structure comprised the following components:

- **Bonded loan**: In March 2016 we placed a bonded loan amounting to € 300 million, thus expanding our scope for the Group's strategic further development. The inflow of funding took place on April 6, 2016. The bonded loan comprises three tranches equal in size, with maturities of five, seven and ten years and bearing interest at an average of 1.6 % p.a.

- **Corporate bond**: Our corporate bond issued in 2014 for € 300 million in nominal terms has a term to maturity until 2021 and a coupon of 2.875 % (effective interest rate: 3.085 %). Its yield at the end of 2016 was 1.2 %. Early termination is not possible.

- **Syndicated loan**: The syndicated loan with a total volume of € 465 million has likewise been in place since 2014. It comprises a cash line of € 250 million and a guarantee line of € 215 million. We extended the maturity originally agreed (until 2019) in two steps (2015 and 2016) until 2021 without incurring any additional costs.

- **Real estate loans**: When the Dürr Campus in Bietigheim-Bissingen was purchased in 2011, we assumed the associated real-estate loans. Their book value totaled € 35.5 million as at December 31, 2016 (Dec. 31, 2015: € 37.7 million). The long-term fixed and annuity loans are due to mature on September 30, 2024. As at September 30, 2017, we have an early redemption option at the end of the interest lock-in period without having to pay a premature repayment penalty.

- **Leasing**: At the end of 2016, liabilities from leasing finance amounted to € 8.5 million. In addition, there were money and capital market instruments as well as off-balance sheet financing instruments in the form of operating leases (Dec. 31, 2016: € 104.6 million) and forfaiting transactions (Dec. 31, 2016: € 5.1 million).

- **Bilateral credit facilities**: Their volume as at the 2016 balance sheet date came to € 24.4 million.

Since the second quarter of 2015, the HOMAG Group has been able to access Dürr Group funding facilities. This results in relief in terms of net financial expense by € 2.3 million per annum.

As at December 31, 2016, the total volume of all credit and guarantee lines available amounted to € 1,026.5 million. Of this sum, € 345.0 million was actually utilized. The cash line of the syndicated loan remained unutilized in 2016. The total volume of our guarantee lines amounted to € 727.0 million. In addition to the guarantee line from the syndicated loan, it comprises additional guarantee lines amounting to € 501.8 million that are made available by insurers and banks.

In 2016, we met the financial covenant of our syndicated loan at every effective calculation date. Interest is calculated as the refinancing rate with matching maturities plus a variable margin. Further particulars on debt financing are listed in **item 30** **[P. 150]** of the notes to the consolidated financial statements.

2.42 – FINANCIAL LIABILITIES (DEC. 31)

€ million	2016	2015	2014
Bond/bonded loan	596.6	296.9	296.4
Liabilities to banks	35.5	43.2	118.4
Liabilities under finance leases	8.5	10.8	11.7
Other interest-bearing liabilities	13.9	0.0	0.0
Total	654.5	350.9	426.5
of which due within one year	5.3	6.8	17.1

HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014

2.43 – CASH FLOW

€ million	2016	2015	2014
Earnings before income taxes	258.1	244.5	204.7
Depreciation and amortization	88.9	80.5	42.0
Interest result	20.2	25.2	17.7
Income tax payments	– 75.3	– 88.6	– 51.6
Change in provisions	– 18.7	20.6	– 4.6
Change in net working capital	– 33.6	– 137.8	74.3
Other	– 12.4	28.6	8.8
Cash flow from operating activities	**227.4**	**173.0**	**291.3**
Interest payments (net)	– 15.8	– 10.4	– 16.6
Investment in property, plant and equipment and intangible assets	– 81.6	– 99.8	– 53.6
Free cash flow	**129.9**	**62.8**	**221.1**
Other cash flows	– 82.8	– 101.2	– 333.8
Change in net financial status	**47.1**	**– 38.4**	**– 112.7**

HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014

CASH FLOW SUBSTANTIALLY HIGHER

The **cash flow from operating activities** saw an outflow of funds in the first half of 2016 but improved significantly in the second half of the year. For the year as a whole, it was up by 31.5 %, to reach € 227.4 million, a very satisfactory value. Net working capital, which is of importance to the operating cash flow, increased by € 33.6 million in 2016 (adjusted for exchange-rate fluctuations). This value includes the change in **net working capital** **[P. 195]** of the Dürr Ecoclean Group held for sale. Other outflows of funds were the result of changes in provisions as well as disbursements for the employee capital participation program in the HOMAG Group terminated in 2015. The higher depreciation and amortization (+ 10.5 %) is due to the extensive investments made in previous years.

The **cash flow from investing activities** amounted to € – 116.9 million in fiscal 2016 (2015: € – 94.4 million). A key factor was that we invested funds received from the issue of the bonded loan in April 2016 (€ 300 million in nominal terms) in time deposits. In addition, proceeds were generated by the sale of assets, while an outflow of funds was recorded for investments in property, plant and equipment and intangible assets.

The **cash flow from financing activities** changed significantly in fiscal 2016: the inflow of funds from the issue of the bonded loan produced a positive value of € 192.5 million (2015: € –162.4 million). Outflows occurred in the wake of the dividend and interest payments made.

Based on the high operating cash flow, we succeeded in more than doubling the free cash flow, namely from € 62.8 million in the previous year to € 129.9 million in fiscal 2016. **The free cash flow** **[P. 195]** shows what means are available for dividend payouts, stock redemptions, acquisitions and improvement in the **net financial status** **[P. 195]**. In addition to the cash flow from operating activities, free cash flow also includes interest income and capital expenditure (included in the cash flow from investing activities) as well as interest expenditure (included in the cash flow from financing activities).

At € 176.5 million, the net financial status as at December 2016 reached the second-best value in Dürr's corporate history. At the end of 2013, it had amounted to € 280.5 million; in the following year it decreased substantially, however, due to the HOMAG acquisition.

OPERATING PERFORMANCE INDICATORS: INCOMING ORDERS, SALES, EBIT, AND ROCE

The key performance indicators at Dürr are incoming orders, sales, EBIT/EBIT margin and **ROCE** (EBIT to **capital employed** **[P. 195]**). Operating cash flow and free cash flow also play a central role, particularly at Group level. At divisional level, an additional focus is on order margins.

We also determine non-financial performance indicators on a regular basis. They support us in management and the long-term strategic orientation of the company. Examples are key figures on employee and customer satisfaction, training, ecology/sustainability and R&D/innovation. However, the non-financial performance indicators do not primarily serve to control the company. Instead, they facilitate extended findings on the situation of the Group and decision-making on that basis. The non-financial performance indicators are discussed inter alia in the **Sustainability** chapter **[P. 33]**.

2.44 – PERFORMANCE INDICATORS

		2016	2015	2014
Incoming orders	€ million	3,701.7	3,467.5	2,793.0
Sales revenues	€ million	3,573.5	3,767.1	2,574.9
EBIT	€ million	271.4	267.8	220.9
EBIT margin	%	7.6	7.1	8.6
ROCE	%	41.1	45.3	38.7

HOMAG Group/Woodworking Machinery and Systems was consolidated for the first time on October 3, 2014

The analysis of incoming orders and the resulting sales enables us to engage in forward-looking capacity planning. In 2016, the volume of incoming orders exceeded the original forecast (€ 3,300 million to € 3,600 million), reaching the upper edge of the target bandwidth raised in August (€ 3,500 million to € 3,700 million). Sales were in the upper range of the target corridor (€ 3,400 million to € 3,600 million).

We use EBIT and our EBIT margin to measure our operating profitability. In 2016, EBIT reached a new all-time high despite a 5.1 % decline in sales. At 7.6 %, the EBIT margin slightly exceeded the target range (7.0 % to 7.5 %).

The ROCE shows whether we generate an appropriate return on our capital employed, and thus represents the basis for efficient capital allocation. Capital employed takes account of all assets except cash and cash equivalents and financial assets, less non-interest-bearing liabilities. At 41.1 %, in 2016 the ROCE slightly exceeded the target range of 30 % to 40 %. In an international peer group comparison, this is a remarkable achievement. The slight decline year-on-year is based on the somewhat higher level of capital employed.

2.45 – VALUE ADDED

		2016	2015	2014
Capital employed (Dec. 31)	€ million	670.6	590.6	571.5
ROCE	%	41.1	45.3	38.7
NOPAT	€ million	190.0	187.5	154.6
Weighted average cost of capital (WACC)	%	7.20	6.98	5.78
EVA	€ million	142.5	146.2	121.6

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ROCE (in %) is calculated as follows:

$$\frac{\text{EBIT}}{\text{Capital Employed}} \times 100$$

Economic Value Added (EVA) reflects the value that a company generates in a financial year. In the past three years, we have always succeeded in achieving a high value increase in the triple-digit million range. The slight decline to € 142.5 million in 2016 was due to the level of capital employed **capital employed [P. 195]** and the capital costs increasing slightly more than earnings (NOPAT). We determine the capital costs as the weighted average cost rate of equity and borrowing costs before taxes (weighted average cost of capital: WACC). In calculating the cost of equity, a beta factor is taken into account, derived from capital market data and the capital structure of peer group companies. The borrowing costs comprise a basic interest rate for quasi-secure bonds and a surcharge determined from the credit rating of comparable peer group companies. The increase in capital costs in 2016 is due inter alia to a slightly changed composition of the peer group and an associated increase in the beta factor.

EVA is calculated as follows:

EVA = NOPAT – (WACC x capital employed)

- NOPAT = Net Operating Profit After Taxes/EBIT after fictitious taxes
- WACC = Weighted Average Cost of Capital

The rule relating to the performance indicator ROCE is that added value is generated when the return on capital employed exceeds the costs of capital. This was the case in all five divisions in 2016. In the Paint and Final Assembly Systems division, the ROCE calculation does not produce a meaningful result in mathematical terms as the capital employed was in negative territory. This is due to the high level of prepayments made by customers and the structurally low need for property, plant and equipment. ROCE of Application Technology, at 40.0 %, was substantially higher than in the previous year, since earnings influenced by extraordinary income items increased considerably. In the Measuring and Process Systems division, ROCE increased slightly owing to higher EBIT, reaching 24.9 %. The EBIT improvement also resulted in higher ROCE in the Clean Technology Systems division (13.6 %). ROCE of Woodworking Machinery and Systems (11.3 %) substantially exceeded the previous year's figure. The division has further scope for improvement, even though its **real net output ratio [P. 195]** exceeds that of the other divisions, and the level of capital employed is influenced by assets derived from the HOMAG purchase price allocation.

2.46 – CAPITAL EMPLOYED BY DIVISIONS

€ million	2016	2015	2014
Paint and Final Assembly Systems	–41.5	–104.4	–216.5
Application Technology	190.4	188.3	170.8
Measuring and Process Systems	330.0	283.8	250.9
Clean Technology Systems	45.0	49.4	43.7
Woodworking Machinery and Systems	396.1	413.1	430.2

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2.47 – ROCE BY DIVISION

%	2016	2015	2014
Paint and Final Assembly Systems[1]	>100	>100	>100
Application Technology	40.0	32.3	32.3
Measuring and Process Systems	24.9	24.6	28.0
Clean Technology Systems	13.6	11.7	17.5
Woodworking Machinery and Systems	11.3	8.9	–1.8

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[1] negative capital employed

BALANCE SHEET STRUCTURE FURTHER IMPROVED

As at December 31, 2016, total assets were up by € 361.9 million on the previous year (+12.1 %) even though the changed exchange rates had a reducing effect on tangible fixed assets, inventories as well as cash and cash equivalents. The consolidation perimeter remained virtually unchanged.

The higher level of total assets was mainly attributable to the issue of the bonded loan amounting to € 300 million in nominal terms. On the assets side, the issue led to an increase in current assets, comprising time deposits, for instance. Cash and cash equivalents were up by € 288.5 million compared to end-2015, to reach € 724.2 million. The initiated sale of Dürr Ecoclean called for reclassifications to be made in the balance sheet. Assets of the Ecoclean Group amounting to € 167.2 million were recognized as assets held for sale as part of other current assets. Accordingly, **net working capital [P. 195]** declined to € 194.4 million (Dec. 31, 2015: € 236.8 million). Adjusted for exchange-rate fluctuations and the effects of the Ecoclean reclassification, net working capital increased by € 33.6 million. In this context, please also refer to the cash flow analysis presented above.

2.48 – KEY BALANCE SHEET FIGURES

		2016	2015	2014
Net financial status (Dec. 31)	€ million	176.5	129.4	167.8
Net financial liabilities in relation to EBITDA		–	–	–
Gearing (Dec. 31)	%	– 27.0	– 22.1	– 30.1
Net working capital (NWC) (Dec. 31)	€ million	194.4	236.8	87.6
Days working capital	days	27.2	22.6	12.2
Inventory turnover	days	40.4	37.0	51.0
Days sales outstanding	days	47.3	51.9	67.8
Equity assets ratio (Dec. 31)	%	73.8	60.4	64.6
Asset coverage (Dec. 31)	%	148.8	109.9	121.8
Asset intensity (Dec. 31)	%	33.6	39.6	37.8
Current assets to total assets (Dec. 31)	%	66.4	60.4	62.2
Degree of asset depreciation	%	34.3	32.1	30.7
Depreciation expense ratio	%	6.7	6.4	4.2
Cash ratio (Dec. 31)	%	43.3	26.4	32.6
Quick ratio (Dec. 31)	%	89.8	80.8	85.7
Equity ratio (Dec. 31)	%	24.8	23.9	24.4
Total assets (Dec. 31)	€ million	3,348.5	2,986.7	2,976.1

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The acquisitions of companies and equity interests in 2016 had no material effect on the balance sheet. An overview of these transactions is contained in the section "Portfolio changes" in the chapter **The Group at a glance** **[P. 21]**.

As at December 31, 2016, equity was up by 16.3 %, to reach € 831.0 million. The decisive factor in this regard, above all, was the high level of after-tax earnings. A decreasing effect resulted from the dividend payment and – to a lesser degree – the revaluation of pension provisions due to the low level of interest rates. The equity ratio increased from 23.9 % on the effective date of the previous year to a current level of 24.8 %; our medium-term target is 30 %.

Our financial liabilities increased by 86.5 %, to € 654.5 million, particularly due to the issue of the bonded loan (€ 300 million in nominal terms). The biggest single item on the liabilities side were trade payables, amounting to € 982.5 million.

2.49 – NON-CURRENT AND CURRENT ASSETS (DEC. 31)

€ million	2016	% of total assets	2015	2014
Intangible assets	611.1	18.3	648.9	617.9
Property, plant and equipment	394.6	11.8	394.7	362.1
Other non-current assets	119.6	3.6	138.4	144.2
Non-current assets	**1,125.3**	**33.6**	**1,182.0**	**1,124.2**
Inventories	381.1	11.4	386.7	364.8
Trade receivables	779.4	23.3	895.8	849.4
Cash and cash equivalents	724.2	21.6	435.6	522.0
Other current assets	338.6	10.1	86.5	115.7
Current assets	**2,223.2**	**66.4**	**1,804.6**	**1,851.9**

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2.50 – EQUITY (DEC. 31)

€ million	2016	% of total assets	2015	2014
Subscribed capital	88.6	2.6	88.6	88.6
Other equity	720.9	21.5	608.5	526.7
Equity attributable to shareholders	**809.5**	**24.2**	**697.1**	**615.3**
Non-controlling interest	21.4	0.6	17.3	110.4
Total equity	**831.0**	**24.8**	**714.4**	**725.8**

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2.51 – CURRENT AND NON-CURRENT LIABILITIES (DEC. 31)

€ million	2016	% of total assets	2015	2014
Financial liabilities (incl. bond)	654.5	19.5	350.9	426.5
Provisions (incl. pensions)	165.1	4.9	185.7	180.8
Trade payables	982.5	29.3	1,046.1	1,128.3
of which prepayments received	648.1	19.4	647.0	763.3
Income tax liabilities	40.3	1.2	41.7	29.5
Other liabilities (incl. deferred taxes, deferred income)	675.2	20.2	647.8	485.3
Total	**2,517.6**	**75.2**	**2,272.2**	**2,250.4**

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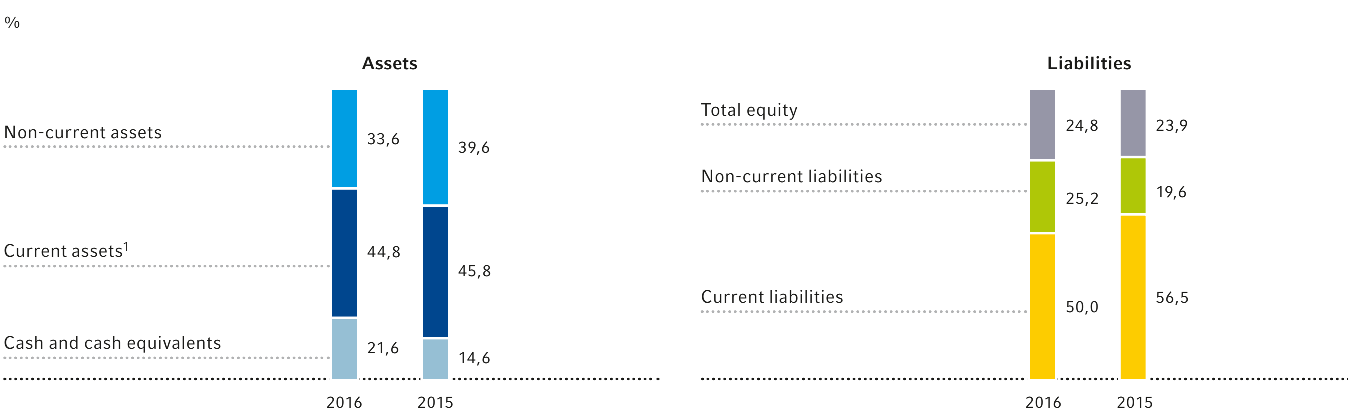
Prepayments by customers included in this line item reached € 648.1 million at the end of 2016, matching the previous year's level. Pension provisions increased slightly, to € 51.8 million (Dec. 31, 2015: € 49.7 million). Increases on account of the lower discount rate were partly offset by reductions due to the Ecoclean reclassification. Financial liabilities must be viewed in the context of a total liquidity of € 822.6 million; in addition to cash and cash equivalents, this also includes time deposits and securities held to final maturity.

2.52 – ASSET AND CAPITAL STRUCTURE (DEC. 31)



[1] excluding cash and cash equivalents

HIDDEN RESERVES/FAIR VALUES

We generally report the book values of assets and liabilities at amortized cost of acquisition or manufacture; in the process, lower-of-cost-or-market tests are taken into account. Customer-specific construction contracts are reported in accordance with the percentage-of-completion (POC) method. Financial derivatives, financial assets held for trading, obligations arising from options held by non-controlling shareholders, and liabilities from contingent purchase price installments are measured at their fair value. Explanatory notes on determining the book value of financial instruments are provided in **item 34** **[P. 155]** in the notes to the consolidated financial statements.

Property, plant and equipment may develop hidden reserves, especially in the case of land and buildings. Schenck Technologie- und Industriepark GmbH (TIP) in Darmstadt is worthy of mention in this regard. According to our assessment, its fair value exceeds the book value by a sum in the double-digit million euro range. Uncapitalized R&D costs are taken into account under R&D expenditure. They also concern the expenditure for patents amounting to € 6.8 million (2015: € 6.3 million). The value of our patents, numbering close to 5,900, is difficult to quantify.

The fair value of all financial assets accounted for at amortized cost exceeds their book value by € 0.2 million; the difference exists in financial investments held to final maturity. No other hidden reserves worthy of mention exist on the assets side. On the equity and liabilities side, the reported book values of liabilities are lower than their fair values in the following cases: the bond, the bonded loan, liabilities arising from finance leases, the loan for the campus in Bietigheim, and the valuation of liabilities arising from options. As in the previous year, the difference amounts to approx. 1 % of total assets (see **item 34** **[P. 155]** in the notes to the consolidated financial statements).

INVESTMENTS BACK TO NORMAL

Investments (excluding acquisitions) declined by 19.9 % in fiscal 2016, to € 81.9 million, after we had reached an all-time high in the investment cycle in the preceding year. Key projects were the construction of the new campus locations in the US and China as well as extensive IT investments.

2.53 – INVESTMENTS[1] AND DEPRECIATION/AMORTIZATION[2]

€ million	2016	2015	2014
Investments in property, plant and equipment	57.4	75.2	39.9
Investments in intangible assets	24.5	27.0	15.0
Equity investments	13.6	42.0	242.1
Depreciation and amortization	– 88.9	– 80.5	– 42.0

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[1] The capital expenditures in this overview deviate from the figures in the statements of cash flows according to IFRS.

[2] Including impairment losses and reversals. Depreciation and amortization taken into account in net interest expense is not included.

2.54 – INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT: REPLACEMENT AND EXTENSION INVESTMENTS

€ million	2016	2015	2014
Replacement investments	29.5	31.8	18.0
Extension investments	28.0	43.4	21.9
Investments in property, plant and equipment	57.4	75.2	39.9

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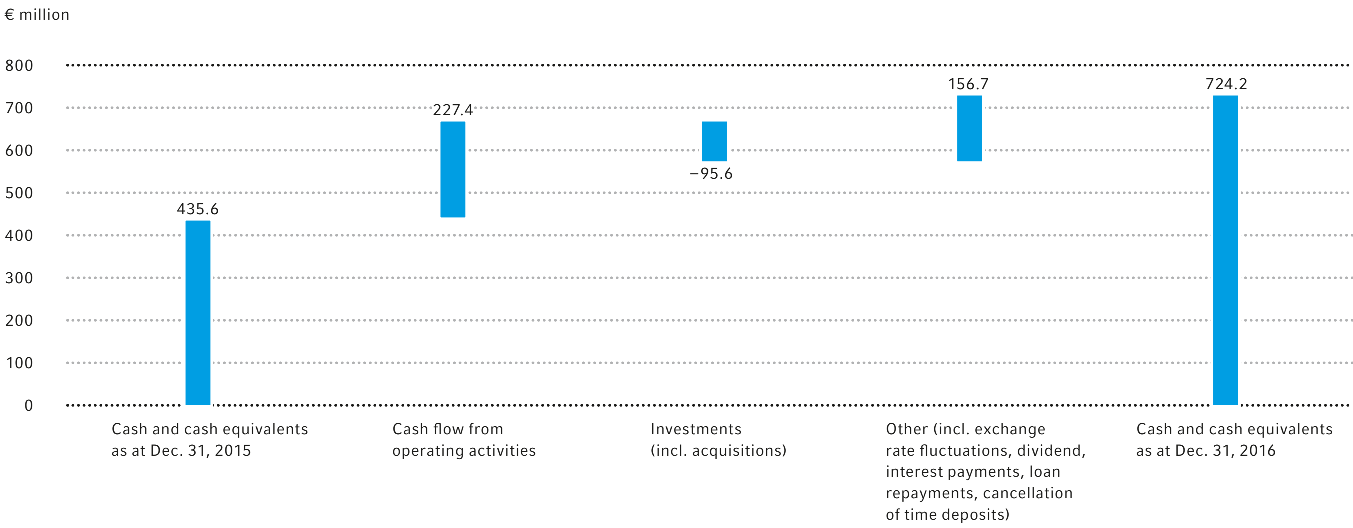
Investments in licenses, software and other intangible assets were almost constant at € 24.5 million. The optimization of the IT structure likewise remains an important element of our investment planning, particularly in the HOMAG Group. Replacement and extension investments in fiscal 2016 were almost equal at € 29.5 million and € 28.0 million, respectively.

Following the extensive corporate acquisitions in the two previous years (HOMAG Group, iTAC Software AG), we made only a few minor rounding-off acquisitions in 2016. These included DUALIS GmbH IT Solution and the exhaust-air purification business of KBA-MetalPrint GmbH. Information on both transactions is listed in the chapter entitled **The Group at a glance** **[P. 21]**. In 2016 a total of € 13.6 million was spent on equity investments.

The cash flow from operating activities covered the level of investments (including acquisitions) quite comfortably. Moreover, the emission of the bonded loan (€ 300 million in nominal terms) made a further contribution toward increasing our liquidity. We expect the cash flow and high level of financial resources to cover our operating financing needs in 2017 again without any problems. Where necessary, we can resort to the cash line under the syndicated loan.

2.55 – LIQUIDITY DEVELOPMENT



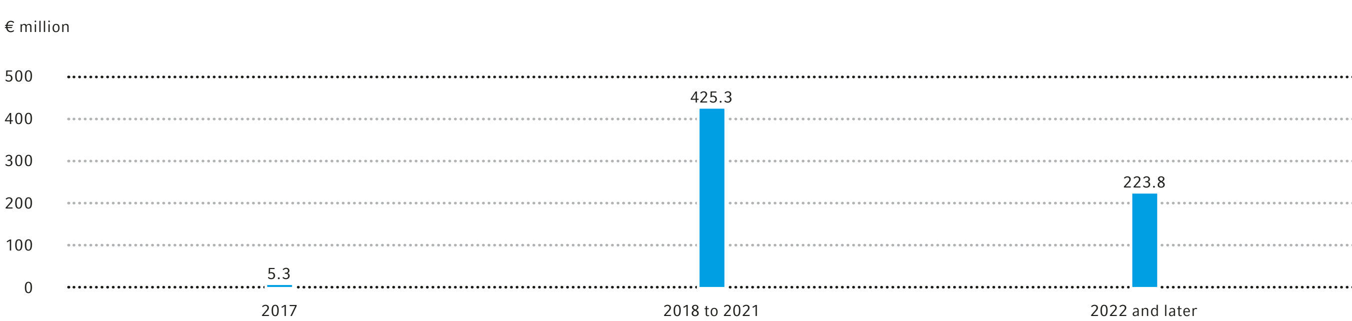
Payment obligations from operating leases amount to € 26.9 million in 2017 (2016: € 28.7 million). Minimum payments under finance leases amount to € 2.1 million; in addition, obligations to acquire property, plant and equipment exist to an extent of € 1.3 million. The financial debt maturing in 2017 amounts to as little as € 5.3 million.

OFF-BALANCE SHEET FINANCING INSTRUMENTS AND OBLIGATIONS

As at December 31, 2016, the volume of off-balance sheet financial instruments and obligations totaled € 115.3 million (excluding obligations from procurement contracts), declining year-on-year (Dec. 31, 2015: € 140.8 million). Future minimum payments arising from operating leases amounted to € 104.6 million (Dec. 31, 2015: € 122.1 million). Operating leases are the most important off-balance sheet form of financing employed by Dürr. The sale of accounts receivable (forfaiting, factoring) was reduced to € 5.1 million in 2016 (2015: € 17.4 million). The guarantees utilized, amounting to € 309.9 million, primarily comprise credit guarantee and suretyship contracts and do not constitute off-balance sheet financing instruments.

Off-balance sheet financing instruments reduce the volume of total assets and improve certain key capital ratios. Their volume is reasonable at Dürr in relation to the business volume. If we did not use operating leases, our total assets would rise by roughly 3 % and the equity ratio would decline by just under 1 percentage point. The earnings structure would likewise change: EBIT would rise by roughly the same amount by which the interest result would decline. The impact on pre-tax earnings would therefore be quite manageable.

2.56 – MATURITY STRUCTURE OF FINANCIAL LIABILITIES



EVENTS SUBSEQUENT TO THE REPORTING DATE

Effective as of January 26, 2017, HOMAG Group AG increased its shareholding in BENZ GmbH Werkzeugsysteme from 51 % to 75 %. The remaining 25 % of the shares will be taken over by HOMAG Group AG at the end of 2018. BENZ provides tool systems and engines for machining wood, metal and composite materials.

REPORT ON RISKS, OPPORTUNITIES AND EXPECTED FUTURE DEVELOPMENT

RISKS

We carefully weigh the opportunities and risks involved in all entrepreneurial activities. Our strategy is to control and reduce risks in such a manner that opportunities predominate. To this end, we make use of an effective risk management system.

DÜRR'S RISK MANAGEMENT SYSTEM

Scope of application

Dürr's risk management system is deployed throughout the Group. It has existed in its fundamental structure since 2008 and has been continually adjusted to new requirements. In 2016 it essentially remained unchanged.

Objectives

Our risk management system is tailored to the requirements of the mechanical and plant engineering business. In this way, we are able to record, analyze and – where possible – evaluate risks systematically. This enables us to adopt effective countermeasures at an early stage. We document all specific risks to the extent that these are identifiable and specific to an adequate degree. General risks with a low level of probability of occurring, such as natural disasters, are not recorded. We also document and evaluate our opportunities; the relevant information is contained in the **Opportunities report** **[P. 86]**.

Methods and processes

The risk management system is an integral part of all essential business and decision-making processes. We promote open dealings with risks and encourage employees to report any misdirected developments at an early stage.

The risk management process takes account of all risks of the participating companies. The central risk management team at Dürr AG initiates the nine-stage process every six months. The centerpiece of this standard risk cycle is the risk inventory of the Group's companies. In this process, individual risks are identified, evaluated and consolidated, i.e. classified into 15 specific risk fields (chart 2.57). The risk fields cover our management, core and support processes as well as external risk areas.

The evaluation of individual risks is carried out by the risk managers of the operating units of Dürr AG. In doing so, they use the risk management manual as well as risk structure spreadsheets. The evaluation process consists of three stages: first of all, the damage potential is calculated, i.e. the maximum impact on EBIT that can result from a risk in the following 24 months. Next, we assess the likelihood of specific risk scenarios turning into reality. In a third step, the effectiveness of possible countermeasures is examined and evaluated with a risk-reducing factor.

The bottom line is the net risk potential, i.e. the net EBIT risk that remains after taking account of the probability of occurrence and the effectiveness of suitable countermeasures. The lower the probability of occurrence and the higher the effectiveness of countermeasures, the more sharply the net EBIT risk declines.

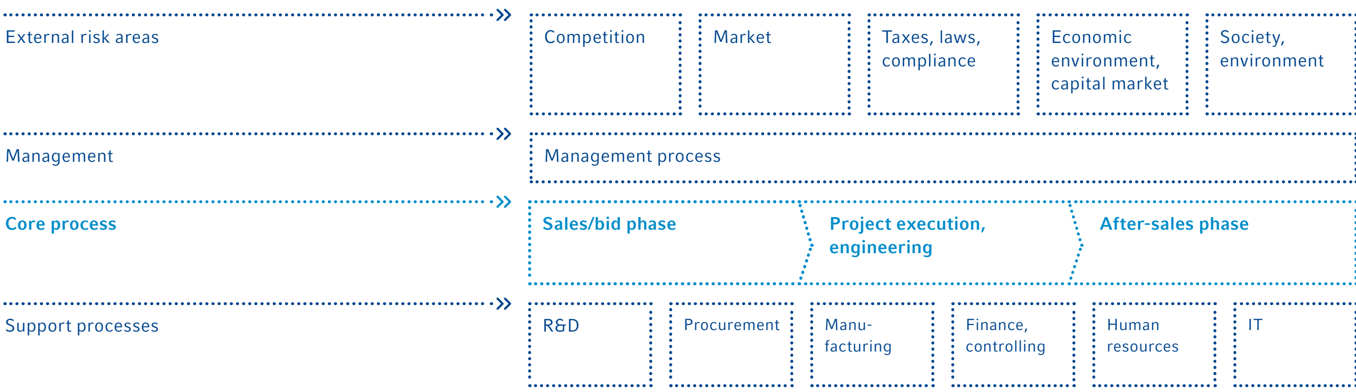
The net EBIT risks of the 15 risk fields are calculated from the sum total of net EBIT risks of all individual risks assigned. Depending on the extent of its net EBIT risk, each risk field is assigned to one of the following categories:

- Very low (≤ € 5 million)
- Low (> € 5 million to ≤ € 20 million)
- Medium (> € 20 million to ≤ € 40 million)
- High (> € 40 million)

The net EBIT risks of all risk fields are totaled to produce the Group's entire potential risk exposure. Portfolio and correlation effects are not taken into consideration in this process.

The Group companies and divisions prepare their risk reports after the risk inventory has been completed. These reports constitute the basis for the Group risk report, in which the risk management team at Dürr AG provides information on key

2.57 – DÜRR'S RISK FIELDS



individual risks and the overall risk. Following a discussion by the Dürr Management Board and the Board of Management, the Group risk report is discussed at length by the Audit Committee of the Supervisory Board. The Audit Committee chairman presents a statement in this regard to the Supervisory Board.

Acute risks are reported directly to the Board of Management and the heads of the relevant divisions. The risk managers of the Group, divisions and Group companies are responsible for identifying, evaluating, controlling and monitoring risks as well as for reporting; in most cases, these are the heads of the Controlling departments. The Internal Auditing department is also involved in this process.

KEY FEATURES OF THE INTERNAL CONTROL SYSTEM/RISK MANAGEMENT SYSTEM FOR THE ACCOUNTING PROCESS AT DÜRR

The internal control system (ICS) or the risk management system (RMS) for the accounting process is an element of Dürr's risk management system. It comprises all rules, measures and processes that guarantee the reliability of financial reporting to an adequate degree of certainty and ensure that the financial statements of the Group and its companies are prepared in conformity with the IFRS. The Board of Management bears the overall responsibility for ICS/RMS and has set up a managerial and reporting organization to this end, covering all organizational and legal units of the Group. Monitoring of the ICS/RMS is the task of the Internal Auditing department.

The internal control system takes account of the specific features of Group Accounting. The key instruments, control and backup routines for the accounting process are as follows:

- Dürr AG's accounting guideline, which defines the accounting process at the level of individual companies and at Group level. It is updated on a regular basis by Group Accounting and covers all IFRS rules and regulations of relevance. Supplementary internal accounting standards describe, for example, the processes on reconciliation of intercompany transactions for goods and services delivered.
- In a multi-stage validation process, we carry out samplings, plausibility checks and other control measures with regard to financial accounting. The operating companies, divisions as well as Group Controlling, Group Accounting and the Internal Auditing department are involved. The controls relate to various areas, such as reliability and appropriateness of the IT systems, completeness of provisions or evaluation of customer-specific construction orders. The results of all material control measures are systematically documented, recorded by the risk management team at Dürr AG, and sent to the Audit Committee of the Supervisory Board. Following an in-depth inspection of the documented results, the chairman of the Audit Committee reports to the Supervisory Board.

- All material Group companies document their own internal controls with which they ensure reliable and factually correct financial reporting. The documentations created within the scope of Dürr's ICS/RMS are deposited and forwarded to Group Accounting. The Internal Auditing department verifies the existence and effectiveness of the documented measures and instruments.

- Our ERP system and the consolidation system automatically verify booking processes and ensure that individual facts and circumstances are duly assigned to the correct balance sheet line items. In addition, we carry out manual audits.

- Only a select group of employees has access to the consolidation system. Access to all data is reserved to only a few employees from Group Accounting and Group Controlling. All other users' access is confined to the data of relevance for their specific activities. Data entered at the level of the Group companies must be checked in a two-stage process – initially by the Controlling department of the division responsible and then by Group Accounting.

- Commercial processes that trigger booking entries in the consolidation system are subject to the "four-eyes principle". Invoices must be signed off by the division head, managerial staff or the Board of Management, depending on the invoice amount.

In order to avoid risks and ensure unobjectionable financial statements, we deal carefully with key regulations and new developments in the field of accounting and reporting. Particular weight is assigned to accounting for construction orders using the percentage-of-completion (POC) method, the impairment test of goodwill as well as the reliability of qualitative statements in the management report and corporate governance report.

Within the scope of the ICS/RMS, we provide regular training sessions for employees of our finance departments, for instance in the application of accounting standards, accounting rules and IT systems used in accounting. In the case of corporate acquisitions, we adjust the accounting processes without delay and familiarize new employees with all the relevant processes, content and systems.

OVERALL RISK SITUATION

At the end of 2016, the Group's overall risk potential came to € 180 million and was roughly at the same level as the previous year (approximately € 175 million). This included the net risk potential of 267 individual risks evaluated. Measured in terms of the business volume and general economic situation, we consider the total risk potential adequate. We believe the current overall risk situation is easily manageable. Risks that might endanger the Group's continued existence as a going concern, whether separately or in combination with other risks, are not discernible from today's perspective.

The most significant risk field of the Group is the "Market" field, where the net risk potential remained constant in relation to the previous year. We recorded a discernible decline in net risk potential due to decreasing currency risks in the "Finance/controlling" field. This risk field had ranked at the top of the list in the previous year. Major risk fields in which the risks increased in 2016 were "Competition" and "Procurement". The main reasons for this were the pressure on prices in some markets and the prospects of our suppliers' capacity utilization increasing due to our higher order intake. The overall risk potentials of the divisions have not changed much since the end of 2015.

RISK FIELDS AND SIGNIFICANT INDIVIDUAL RISKS

Economic environment

A substantial economic slowdown phase in China would have a sharp impact on the Group's sales and earnings. This is not foreseeable at present; instead, the Chinese government continues to expect annual GDP growth rates of 6 to 7 %. With growth on this scale, the robust level of demand for cars and furniture is likely to continue unabated.

In Europe, Brexit, the unstable banking sector and high sovereign debt pose economic risks. We are anticipating hardly any direct consequences of Brexit on our business. Only close to 3 % of sales are settled in pounds sterling, and assets located in the United Kingdom are equivalent to as little as around 1 % of total assets. Whether or not Brexit will trigger an investment decline among our customers in the medium term remains to be seen. So far no slowdown has appeared to be imminent in our view.

2.58 – RISK FIELDS AND NET RISKS

RISK FIELD	NET RISK			
	Very low (≤ € 5 million)	Low (> € 5 million to ≤ € 20 million)	Medium (> € 20 million to ≤ € 40 million)	High (> € 40 million)
• Economic environment/capital market			●	
• Sales/bid phase	●			
• Project execution/engineering			●	
• Taxes, legislation, compliance		●		
• Market			●	
• Research & development		●		
• Competition			●	
• Procurement		●		
• Human resources		●		
• IT	●			
• Manufacturing	●			
• Society/environment	●			
• After-sales phase	●			
• Finance/controlling			●	
• Management process	●			

Economic risks owing to geopolitical conflicts and the risk of terrorism increased in 2016. In the US, there are still uncertainties regarding the trade policy approach adopted by the Trump administration. Should trade restrictions be imposed, these would have adverse effects on the global economy. Restricting free trade in the NAFTA region would probably lead to declining investments in Mexico and to rising investments in the US. The direct consequences of US market isolationism would be manageable for us, as we are heavily represented in the US with companies of our own.

Scenario calculations performed by us on a regular basis show that we are relatively robust when faced with regional economic weaknesses. Phases of weakness in specific countries can be offset relatively well by our balanced distribution of business activities. Economic slowdowns have a comparatively late effect on Dürr as our plant engineering business is characterized by long-term investment decisions by the automotive industry. In the early-cycle mechanical engineering business, such slowdowns tend to have a faster impact.

Capital market

An economic crisis or a rekindling of the EU sovereign debt crisis might cause tremors on the capital markets and render new financing activities more expensive. However, we do not perceive any financing requirements in the near future as we issued a bonded loan as recently as 2016. We assess the risk of a hostile takeover of Dürr AG as relatively remote since the Dürr founding family owns 28.8 % of the company’s shares.

Operating risks: sales/bid phase

In a phase of high competitive intensity, we may not be able to achieve our margin targets in negotiating for contract awards. When performing order calculations, there is potential for incorrect cost assessments. To prevent this, we obtain current market prices on the procurement side and have our calculation assumptions reviewed internally. Our sales position in the individual markets is good in most cases. Woodworking Machinery and Systems has limited contact with end customers in China as sales operations take place via a partner company in which the HOMAG Group has a minority equity interest. However, collaboration with the sales partner is currently in the process of being intensified.

Operating risks: project execution/engineering

Should we fail to meet deadlines or other commitments, this may lead to additional costs in order execution. We assess this risk as controllable since our capacities are always adjusted in line with our volume of business. Moreover, thanks to standardized products and processes, we are in a position to handle numerous large-scale projects in parallel. We take precautions to avoid technical or logistical problems within large-scale projects by maintaining a tightly-knit supplier monitoring system and performing regular project reviews. At the HOMAG Group, the margin-oriented planning and settlement of large-scale projects constitute a key emphasis of the FOCUS optimization program.

Taxes, legislation, compliance

We must comply with a large number of national legal standards. To avoid violations, we cooperate with local legal experts and train our employees accordingly. New trade barriers, legislation or tax regulations might increase our costs and reduce our sales opportunities.

Material legal risks are warranty claims, claims for damages in cases of production failures, and patent disputes. If we fail to meet our contractual obligations in performing our services, we may be liable to penalties. Before making any contractual representations and warranties, we study what liability-related consequences we may face. We rule out any claims that we cannot fulfill on principle. No extraordinary legal disputes are pending at this time; none of the pending cases exceeds a claim value in the single-digit millions of euros. We protect ourselves against compliance violations by means of a compliance system that is reviewed on a regular basis. We are not aware of any serious violations at this time.

The German Federal Finance Court has submitted a petition to the Federal Constitutional Court to establish whether or not Section 8a of the Corporation Tax Act is constitutional. The subject matter of this Section is the interest deduction limit applicable in Germany. As the outcome of the proceedings cannot be assessed as yet, we have not made any accounting-related provisions in this regard.

Market

The automotive industry must make substantial investments in the field of electromobility, autonomous driving and connectivity. This may lead to a reduction in investments relevant for us in the field of production technology. However, we do not anticipate a slump since the development of new technologies calls for carmakers to have access to high cash flows from business with conventional vehicles. This requires them to continue to invest appropriately in efficiency-enhancing production technology. An additional factor is that the trend toward e-mobility also generates additional business opportunities for us. For instance, in 2016 we received orders for the construction of an assembly factory and a paint shop for electrically powered cars.

In the automotive business, dependencies may arise due to the fact that there are relatively few carmakers worldwide. In 2016, 27 % of our sales were accounted for by the ten largest customers; prior to the HOMAG acquisition, this ratio had exceeded 50 %. Our customer base is very wide outside the automotive industry; accordingly, the dependency risks are lower.

The Volkswagen Group – one of our biggest customers – is reducing its investments on account of the Diesel issues, at least temporarily. As a result, our volume of business with Volkswagen has witnessed a corresponding reduction. However, the shortfalls are limited; besides, we have succeeded in expanding business with other customers.

Our markets are characterized by constant price pressure, which we counteract with innovations, process optimizations and cost controls. We assess the risk of losses on receivables as moderate. Our volume of receivables is limited; moreover, a large proportion of receivables is offset by prepayments from customers. A high volume of receivables exists in particular from carmakers with strong credit ratings. We carefully monitor receivables from customers without an investment grade rating. However, we cannot rule out any defaults in receivables from customers, and these might have a negative impact on us.

We closely monitor product innovations, technology developments and new business models in our lines of business. Trends that threaten our business in principle are not identifiable. Disruptive technologies in the automotive sector, such as electro-mobility and autonomous driving, have not led to lower demand for painting, assembly and **testing technology** **[P. 194]**. Instead, the level of demand in final assembly technology is likely to rise since the assembly of electric cars in some cases calls for new methods to be deployed. Autonomous driving tends to lead to rising demand for testing technology for sensors and driver assistance systems. In the field of painting technology, we face no serious substitution risks as there are still no alternatives to aluminum, steel and plastics in large-scale serial car body production. Composite materials deployed as a weight reduction strategy also need to be painted by conventional means. Wood and chipboard continue to dominate in furniture production; for this reason the HOMAG Group is not exposed to any major substitution risks.

Strategic risks in the emerging markets

The high business share in the emerging markets (48.5 % of sales) entails specific risks of the following kinds:

- Cultural and language barriers, insufficient knowledge of suppliers, customers and market customs, and specific legal and general political parameters may give rise to disadvantages.

- The level of staff turnover in countries like China and India is higher than in Germany. Attractive remuneration, our world market leadership and targeted career planning strategies help us retain top-performing employees.

- Product and brand piracy is more prolific in the emerging economies than in the established markets. We assess the associated risks as manageable. Core technologies are secured by patents; due to their complexity, equivalent copies cannot be easily produced.

- Some local competitors undercut our prices. We counter this by further increasing value added locally and by protecting our technology lead through innovations. Our local product development ensures that regional customer requirements are duly taken into account. This reduces the acceptance risks for new solutions.

Strategy risks: acquisitions/new fields of activity

When making corporate acquisitions, sales, earnings and synergies may turn out lower than planned. We hedge this risk by means of comprehensive due diligence audits and integration plans. In the process, we also review possible risks linked to aspects such as purchasing prices and technology.

Typical risks in developing new fields of business are misguided estimates of resources deployed, customer requirements and price targets, as well as of the development of demand, markets and competition. Moreover, problems may arise in the field of technology development. Such misguided estimates and problems may increase the risk of impairment on investments, equity interests in companies and capitalized development costs. In order to prevent this, we use tried-and-tested processes and technologies in new business fields as well as our network of locations across the globe. Development of the field of energy efficiency, in operation since 2011, has remained behind our expectations to date.

R&D and product liability risks

With innovations, there is a risk that we may not be able to absorb our development costs through our product prices. To avoid market acceptance risks, we analyze demand accurately, engage pilot customers in our projects and develop products with a high return on investment for customers. This also reduces the risk of non-scheduled impairment charges on capitalized development costs.

We carefully review the patent situation to ensure that no products violate any intellectual property rights of third parties. To prevent product liability cases, we ensure that our products are in conformity with occupational health and safety regulations, and take out appropriate insurance policies.

Competition

In view of our high market share, some customers are intensifying their level of cooperation with smaller-sized competitors. This may make our price targets difficult to achieve. In the bottom market segment characterized by lower technical complexity, the number of competing products is growing. This applies in particular to the emerging markets. We react to this trend by intensifying our localization and taking over smaller providers in specific instances.

We are not aware of any rival products that could seriously endanger our market position. When innovations are released by competitors, we are in a position to respond with developments of our own. We are not aware of any looming business combinations or merger plans of competitors.

In some markets, we have registered an above-average level of competitive intensity. In no key market are we systematically discriminated against in relation to domestic competitors.

Procurement and manufacturing

Quality issues or delays may arise with suppliers, particularly in the emerging markets. To avoid this, we rely on careful selection and control of suppliers. Moreover, we have reduced our dependency on suppliers by expanding our own production.

We are often unable to pass rising supplier prices on to our customers in full. The insolvency risk of suppliers is low in most countries. In view of the high order intake in 2016, capacity bottlenecks may occur with individual suppliers. We protect ourselves against availability and price risks by entering into framework agreements with preferred suppliers and by pooling our procurement volumes. Dependency on individual suppliers is low, apart from a few exceptions.

Human resources

We hire external temporary workers to avoid risks of capacity bottlenecks. In Germany, their deployment is subject to new statutory regulations with effect from April 1, 2017. These provide inter alia for a maximum working period and an equal pay model. We assume that the new regulations will increase the costs of enlisting the services of temporary workers.

As we have numerous highly qualified employees, know-how losses may be incurred when they leave our company. For this reason, we distribute special skills across a number of persons and promote knowledge transfer by means of appropriate documentations, training sessions, mentoring programs and our intranet.

In view of declining numbers of graduates in MINT subjects (mathematics, informatics, natural sciences, technology), bottlenecks may occur in personnel recruitment. This risk will increase due to digitization and the growing demand for appropriately skilled employees. To counteract this, we rely on long-term career planning for experts, intensified personnel and university marketing as well as vocational training and cooperative state university courses.

IT

Digitization causes increasing information technology risks, such as data loss, hacking and virus attacks. We protect ourselves by means of a Group-wide IT security organization and a robust IT infrastructure equipped with state-of-the-art firewalls and antivirus programs. We use back-up servers, redundant data lines and uninterrupted power supply units to avoid any outages. We rate our risk of hacker attacks and data theft to which we are exposed as normal for the industry in which we operate.

Environment, occupational health and safety

We counter the risk of accidents at work by ensuring comprehensive safety standards and procedures described in our health & safety guideline. Employees receive regular safety training and instructions; in addition, we cooperate with our customers in order to guarantee safety at work on construction sites. In modernizing our network of locations, in recent years we have also invested in new machinery complying with high safety standards. Any materials or substances posing health or environmental hazards are only used on a restricted scale, such as when carrying out tests in painting technology. In addition to the statutory rules and regulations in all fields of emissions and occupational health and safety, we also observe internal guidelines and parameters of the relevant certification systems.

CURRENCY, INTEREST AND LIQUIDITY RISKS AS WELL AS FINANCIAL INSTRUMENTS FOR RISK MITIGATION PURPOSES

Currency, interest rate and liquidity risks are explained in detail in **item 40** **[P. 171]** of the notes to the consolidated financial statements. Management of such risks is governed by a Group-wide guideline. The top corporate body in this area is the Financial Risk Committee consisting of the Chief Financial Officer, the heads of Group Controlling and Group Treasury as well as the financial officers of the divisions. This body discusses strategic financial issues and prepares the relevant resolutions for the Board of Management.

Hedging currency risks

We use financial instruments for hedging purposes. In most cases these are forward exchange contracts used as currency hedges. At the end of 2016, their nominal value amounted to € 519.6 million (Dec. 31, 2015: € 736.0 million). In particular, payment flows were hedged in the key currencies listed under **item 40 [P. 171]** of the notes to the consolidated financial statements. In 2016 we used financial derivatives to hedge interest rates with a volume of € 100 million for the variable tranches of the bonded loan.

In most cases, we hedge foreign currency risks of orders placed immediately after the relevant contract awards. In principle, we agree a separate (micro) hedge for each larger-scale individual project. In the standard machinery and spare parts business, we also use macro-hedges for any number of orders bundled in view of the low order values.

All financial derivatives and their underlying transactions are checked and valued on a regular basis. Financial derivatives are exclusively used to hedge loans and operations in commercial terms.

The risks involved in currency translation into euros declined in 2016 along with export-related transaction risks. The latter are relatively moderate at Dürr as we produce numerous products on site or purchase them in local currency. However, they have increased slightly since our takeover of the HOMAG Group as the latter exports more products on account of its high **real net output ratio [P. 194]** in Germany.

Hedging interest rate risks

Our interest and financing strategy is conservative in nature. Its central elements are long-term interest and financing certainty, matching maturities and a prohibition of speculation. Our financial liability primarily comprises the bonded loan issued in March 2016, the bond issued in 2014 and the long-term campus financing. The risk of interest rate fluctuations of our Group financing arrangement is limited.

Interest risk management staff keep a constant eye on all interest-bearing and interest-sensitive balance sheet line items. Regular interest analyses enable risks to be identified at an early stage. Group Treasury is chiefly responsible for borrowing, investment and interest rate hedges; from a defined scale onward, exceptions are required to be submitted to the Chief Financial Officer for approval.

Our pension risks are manageable. Owing to the ongoing policy of low interest rates, we were compelled to reduce the discount rate for calculating pension obligations in Germany from 2.4 % to 1.5 % in 2016. However, due to the balance sheet reclassification of Dürr Ecoclean, the increase in pension provisions turned out low at 4.3 %.

Hedging liquidity risks

We largely cover our liquidity needs from our cash flow. At times of temporary negative cash flows, we are able to use cash and cash equivalents and the cash line of the syndicated loan. This was not necessary in 2016. Please also refer to the chapter on **Financial development [P. 69]** in this regard. Our cash pooling enables us to make use of liquidity surpluses of individual companies for other Group subsidiaries, provided that the capital transfer regulations of the individual states allow this practice. This enables us to avoid taking out loans and paying interest expenditure.

Financing risks

No risks relating to borrowing exist at this time. Our bond issue, the bonded loan and the syndicated loan have maturities until at least 2021. The terms of our bond contain the usual restrictions and obligations. A violation could result in the bond plus accrued interest being called due for immediate payment. The bonded loan may also be called for immediate extraordinary repayment in the event of a violation of essential contractual obligations, in case of insolvency or a control change at Dürr. The contract for our syndicated loan provides for compliance with a certain key financial ratio. Non-compliance with this financial covenant would entitle the syndicate of banks to terminate the agreement prematurely. In fiscal 2016, the financial covenant was complied with on each effective calculation date.

Hedging investment risks

Our financial asset management guideline governs the process of handling investment risks. For instance, it defines the permissible asset classes and credit rating requirements. We do not hold any sovereign bonds whose timely redemption is uncertain. For this reason, there is no increased risk of impairment charges on our financial assets or financial investments.

RATINGS

We do not have any ratings carried out to assess our credit status.

OPPORTUNITIES

OPPORTUNITIES MANAGEMENT SYSTEM

The divisions play a key role in Dürr's opportunities management system. They collect information on new trends and market requirements when dealing with customers, suppliers and partners. This information is combined into opportunity clusters and evaluated. Opportunity clusters offering sustained economic potential are discussed in strategy workshops with the Board of Management and the division heads. The divisions integrate the approved opportunity clusters into their strategy and define budget targets, measures, responsibilities and schedules.

Identifying and evaluating business opportunities is an ongoing process, which is coordinated by the division heads. The Board of Management and the Corporate Development department are responsible for this at the level of Dürr AG. If we identify opportunities that are strategically important, we form multidisciplinary teams to prepare potential analyses, plans and – depending on the outcome – acquisition processes.

Cooperation with universities and research institutes is another part of our opportunities management. It allows us to ascertain whether new scientific findings offer any opportunities for our business. Legislative developments, e.g. regarding emission protection and free trade, may also give rise to opportunities. Our opportunities management system takes account of global and regional business opportunities as well as the potential of specific products, customers and business models.

POTENTIAL OFFERED BY OPPORTUNITIES

The following section describes the key opportunities of the Group and the divisions. The business plan for 2017 and the strategic plan through 2020 give a realistic estimate of the resulting sales and earnings potential. If we make greater use of our opportunities than assumed, sales might rise by up to 2 % and EBIT by up to 13 % over and above the figures planned for 2017. However, this additional potential arising from sales and EBIT can only be utilized in a best-case scenario.

STRATEGIC OPPORTUNITIES

Growth in the emerging markets: Experts predict that global automotive production will grow by an average of 3.4 % per year between 2016 and 2021. Higher growth rates are forecast for emerging markets such as China, Mexico, India and Southeast Asia. We can take advantage of this thanks to our strong local presence.

Digitization/Industry 4.0: Digitization of production offers our customers substantial opportunities. German industry is expected to see average efficiency gains of 3.3 % per year between now and 2020 as a result of digital investments. We are well positioned to benefit from this as a factory equipment provider: Dürr, HOMAG and Schenck systems are, to a large extent, already digitally networked. The acquisitions of iTAC and DUALIS have enabled us to substantially expand our software range for Industry 4.0 platforms. Thanks to our strong financial position, we can invest more heavily in digital solutions than smaller competitors.

HOMAG Group: The HOMAG Group, acquired in 2014, has the potential to make the highest earnings contribution within the Group in the medium term. Its EBIT margin is set to widen to between 8 and 10 % by 2020, with sales expected to reach € 1.25 billion. Under the FOCUS optimization program, which started in 2015, the HOMAG Group has seen dynamic growth and gradual efficiency gains. Its operating EBIT margin already reached 6.6 % in 2016 (2014: 4.0 %).

Electromobility The e-mobility megatrend is gaining strong momentum. Many established automotive OEMs are planning to venture into the mass production of electric vehicles. For this they require additional or modified production capacities such as paint shops and final assembly lines. Furthermore, new companies are entering the market, which are either planning to build electric vehicles or are producing them already. This applies in particular to China and the United States, potentially leading to a widening of our customer base.

Service: In 2016 service-related sales rose by 11 % despite a slight decline in total sales. This shows we are able to take advantage of our large installed base to generate growth in the higher-margin service business. We will continue to seize these opportunities. The foundation for this is the Customer-Excellence@Dürr program, which has enabled us to systematically optimize our service processes in recent years.

Growing modernization business: Plant modernization business is growing. Manageable investments and short payback periods help our customers achieve significant productivity gains in existing plants. In China, too, there is an increasing number of plants requiring modernization. In paint systems business, we have the opportunity to widen the proportion of modernization business from 25 % to 35 % by 2020.

Localization: We set great store by having a direct presence in all key markets, not just for sales and service, but also for **engineering** **[P. 194]**, production and order execution. Through further expanding our local capacities in those market regions with future potential, we can improve our cost structure and be closer to our customers.

Long-term funding: Our funding is secured until 2021. In this way we can concentrate on our operating business and still have financial scope for the Group's further strategic development.

OPPORTUNITIES IN THE DIVISIONS

Paint and Final Assembly Systems sees good opportunities in modernization business. This applies in particular to North America and, increasingly, to China. The electromobility trend offers additional business opportunities, partly because new vehicle manufacturers are entering the market. Backed by its strong presence in Southeast Asia, Paint and Final Assembly Systems is well positioned to expand its business with the Japanese automotive industry, which dominates this region.

Application Technology has growth opportunities in business with general industry. The Industrial Products segment, which is responsible for this activity, is set to contribute sales of around € 50 million by 2019. As a specialist in robot systems, Application Technology can benefit from two trends, namely the full automation of the painting process (including vehicle interiors) and increased production flexibility in terms of types and volumes. The division offers a highly innovative solution for this in the form of the new **Eco**RP E043i painting robot. Thanks to its expertise in paint supply systems, Application Technology can also benefit from the trend toward individualization in vehicle painting. Further opportunities exist in modernization business, as is the case with Paint and Final Assembly Systems.

Measuring and Process Systems can take advantage of the automotive industry's growing demand for intelligent test systems. This is spurred by the increased use of driver assistance systems, which require pre-testing, all the way through to autonomous driving. **Filling technology** **[P. 194]** offers opportunities in terms of automated systems for the commercial vehicle sector. Promoting expansion in Asia is another objective, also for our **balancing technology** **[P. 194]** activities.

Clean Technology Systems continues to enjoy good growth opportunities around the world, especially in China. This country offers growing market potential as emission protection is becoming increasingly important as a political goal. The division is also expanding its technology base and using opportunities for consolidation in the market. We expect efficiency gains arising from the "CTS Fit 2016" optimization program.

Since its acquisition by Dürr, **Woodworking Machinery and Systems** has been laying the groundwork for growth and sustained profitability increase. Key points of the FOCUS optimization program include: improvement of organization and processes as well as standardization, localization and innovation. Another objective is to make systematic use of the growth opportunities in China as well as in service and project business. Further opportunities lie in the industrialization of furniture production in the emerging markets. The trend toward customized furniture increases the sales potential for digitally networked batch size 1 manufacturing systems.

EXPECTED FUTURE DEVELOPMENT

GLOBAL ECONOMY: POSITIVE OUTLOOK BUT GROWING UNCERTAINTY

Economists predict a growth in the global economy for 2017 and 2018 of 3.4 % and 3.8 %, respectively, and thus an improvement over 2016. The US economy is forecast to gain momentum. The Trump administration plans to run an expansionary fiscal policy to modernize US infrastructure, and to bring investments back into the country through a more restrictive trade policy approach. Also on the agenda are the deregulation of the financial sector and a reduction in corporation tax. Yet the political unpredictability caused by the Trump administration might also have a dampening effect on the US economy. In China, GDP growth of 6 to 6.5 % seems realistic. The Chinese government must therefore, firstly, keep an eye on the level of debt in the financial sector. Secondly, it must continue the structural change it has initiated – moving away from export-driven mass production and toward an economy marked by a higher proportion of service and stronger domestic demand. The moderate economic development in Europe is set to continue. Although the effects of Brexit are difficult to predict, growth in the UK, in particular, is expected to slow down. In Germany, we anticipate GDP growth to drop to 1.1 % in 2017 (2016: 1.9 %). Russia and Brazil seem to have emerged from their economic slump after several years of recession; both countries could experience modest growth in 2017. India is expected to see its GDP growing by 7 %, continuing its strong upswing. Table 2.59 contains an overview of the growth forecasts for 2017 and 2018.

2.59 – GROWTH FORECAST FOR GROSS DOMESTIC PRODUCT

% year-on-year change	2016	2017	2018
World	3.0	3.4	3.8
Eurozone	1.6	1.3	1.5
United States	1.5	2.4	3.6
China	6.6	6.5	6.0
India	7.0	7.0	7.8
Brazil	– 3.4	0.8	2.2
Japan	1.0	1.1	1.4

Sources: Deutsche Bank 1/2017 and Kepler Cheuvreux 1/2017

The global economy continues to benefit from low interest rates, although the interest trend shows signs of a slight increase once again. Raw material prices have recovered following their low of spring 2016. The same applies to economic leading indicators such as the Baltic Dry Index, which refers to the price of transporting goods by sea. Global consumer confidence is strong. Following the deflationary trends of 2015, inflation is returning to normal again but remains at a low level. This is likely to cause many central banks to continue their expansionary monetary policy to support the economy. However, some central banks are already taking a more cautious approach. The Federal Reserve will probably continue to moderately increase US interest rates. Experts predict that rates will rise at least twice in 2017.

The general economic development is a good indicator of the state of our key customer segments. Both the automotive industry and the furniture industry grow at a similar speed as GDP over the long term. Consequently, the expected acceleration of growth in the global economy indicates that we can achieve our growth targets. Risks for this forecast are based on the assumption that protectionist trends will increase worldwide. Import restrictions imposed by the United States, for example, could jeopardize growth in the automotive production in Mexico. A strong protectionist approach would also have an impact on export countries such as Germany; in addition, restrictions on international competition would lead to increased price risks. Furthermore, the stability of the European Union is being put to the test, especially if more countries decide to hold exit referendums. In China, the expansion of the credit volume might lead to a credit bubble.

GLOBAL AUTOMOTIVE PRODUCTION: CONTINUOUS UPWARD TREND EXPECTED

PricewaterhouseCoopers (PwC) predicts global automotive production to rise by a further 3.0 % in 2017, after North America and China already reached record highs in 2016. We can assume that automotive sales will continue to be stimulated by moderate fuel prices, favorable financing options and the positive consumer climate.

2.60 – LIGHT VEHICLE PRODUCTION IN MILLION UNITS (YEAR-ON-YEAR CHANGE)

year-on-year change

Region	2016	2017[1]	2018[1]	2019[1]	2020[1]	2021[1]	CAGR[2] 2016–2021
North America	17.7 (1.1 %)	17.8 (0.6 %)	18.2 (2.2 %)	18.9 (3.8 %)	19.2 (1.6 %)	19.5 (1.6 %)	2.0 %
Mercosur	2.7 (– 12.9 %)	3.0 (11.1 %)	3.2 (6.7 %)	3.3 (3.1 %)	3.5 (6.1 %)	3.6 (2.9 %)	5.9 %
Western Europe	15.2 (4.8 %)	15.4 (1.3 %)	15.6 (1.3 %)	15.6 (0.0 %)	16.3 (4.5 %)	16.4 (0.6 %)	1.5 %
Eastern Europe	6.7 (0.0 %)	6.9 (3.0 %)	7.2 (4.3 %)	7.5 (4.2 %)	7.8 (4.0 %)	8.0 (2.6 %)	3.6 %
Asia	48.2 (8.8 %)	50.1 (3.9 %)	53.2 (6.2 %)	56.2 (5.6 %)	58.0 (3.2 %)	59.1 (1.9 %)	4.2 %
thereof China	27.0 (15.9 %)	27.7 (2.6 %)	29.9 (7.9 %)	31.7 (6.0 %)	33.1 (4.4 %)	33.9 (2.4 %)	4.7 %
Others	2.2 (4.8 %)	2.3 (4.5 %)	2.6 (13.0 %)	2.8 (7.7 %)	3.0 (7.1 %)	3.1 (3.3 %)	7.1 %
Total	**92.7 (5.1 %)**	**95.5 (3.0 %)**	**100.0 (4.7 %)**	**104.3 (4.3 %)**	**107.8 (3.4 %)**	**109.7 (1.8 %)**	3.4 %

[1] forecast
[2] CAGR = compound annual growth rate
Source: PwC 1/2017, own estimates

Global light vehicle production is set to reach 95.5 million units in 2017. Of this, China is likely to contribute around 29 %. Following strong growth in the previous year (15.9 %), production in China should increase by just under 3 %, with growth expected to accelerate again to almost 8 % in 2018. In 2016 the Chinese automotive industry benefited from value added tax of 5 %, i.e. half the normal rate, for the purchase of small cars. This rate was increased to 7.5 % at the beginning of 2017 and so remains below the value added tax of 10 % that applies to the purchase of larger cars. Automotive production in North America increased in 2016, reaching a record level of 17.7 million units. It could rise by a further 0.6 % in 2017, not least depending on the development of trade relations between the United States and Mexico. Western Europe may slightly exceed last year's production volume of 15.2 million units. Russia and Brazil should see a modest improvement, following the weak production levels of the previous years. In India, PwC predicts another strong increase of just under 10 %, with around 4.5 million **light vehicles** **[P. 194]** expected to be built on the subcontinent in 2017.

There is a considerable potential for growth in the automotive industry, also in the long term. For the period between 2016 and 2021, PwC predicts an average increase in worldwide production of 3.4 % per year. Based on this, production output in 2021 should reach almost 110 million units.

INDUSTRY ASSOCIATION ANTICIPATES MODERATE GROWTH IN MECHANICAL AND PLANT ENGINEERING

Following the stagnation of the previous years, the German mechanical and plant engineering association (VDMA) expects production to rise by around 1 % in 2017. The German Council of Economic Experts forecasts capital spending in Germany to increase by 1.8 %.

According to the Center for Industrial Studies (CSIL), the global furniture industry will expand at a slightly lower rate than in the previous year. Global demand is likely to accelerate by 2.7 %, with the major contribution expected from the Asia/Pacific region.

AUTOMOTIVE AND FURNITURE INDUSTRIES REMAIN THE MOST IMPORTANT CUSTOMER SEGMENTS

Project and capital spending in the automotive industry that is of relevance for Dürr contracted slightly in 2016. One reason for this was a reluctance to invest in painting technology in China after the strong years of 2014 and 2015. Added to that are high development expenses for electric cars and autonomous driving. Nevertheless, we were able to increase our order intake through gaining new market shares. We assume that project and capital spending volumes in 2017 will be on a par with 2016. The most important factors driving capital spending by automotive OEMs are capacity requirements and unit cost reductions by means of more efficient production, be it in new facilities (greenfield investments) or existing plants (**brownfield** investments [P. 194]). In addition, we expect investments in production technology for electric cars to increase in 2017 and 2018. We have exceptional technical expertise, in particular in final assembly lines for battery-powered vehicles.

The favorable investment climate in the woodworking industry is set to continue. Interest in fully automated production lines and batch size 1 manufacturing systems, in particular, will rise as a result of market consolidation and increasing flexibilization. In addition, services will be in greater demand, for example for system maintenance.

SALES TARGET FOR 2017: € 3.4 TO 3.6 BILLION

The political changes of the last few months are impairing forward visibility in 2017. The following forecast assumes that the global economy will continue to grow, that no economic dislocations occur and that the political environment remains stable.

Looking ahead over the next few years, we are continuing to seek organic growth in sales of an annual average of around 3 %. At this stage, we anticipate sales of € 3.4 to 3.6 billion in 2017. This is roughly the same as in 2016 despite the fact that the Dürr Ecoclean Group is expected to be sold and deconsolidated effective March 31, 2017. Dürr Ecoclean generated sales of just under € 200 million in 2016. Group order intake should move in a range of € 3.3 to 3.7 billion in 2017, while order backlog should reach € 2.4 to 2.9 billion at the end of 2017.

Total costs (cost of sales, overheads and other operating expense) should more or less move in sync with sales in 2017. Personnel expense and the cost of materials will remain the largest single items. There is unlikely to be any pronounced change in personnel expense: although we expect wages and salaries to rise, average employee numbers will be lower due to the sale of Ecoclean. The cost of materials should also remain relatively constant. Depreciation and amortization will be slightly higher due to the greater capital spending in the previous years. We want to raise the R&D ratio again, while selling and administrative expenses should drop substantially due to the deconsolidation of the Dürr Ecoclean Group. On balance, overhead costs should decrease by up to 4 %.

INCREASED EARNINGS AFTER TAX EXPECTED

From today´s perspective, the EBIT margin should be in a range of 7.5 to 8.25 % in 2017. In this connection, it should be borne in mind that EBIT will include a book gain, expected to be around € 25 million, from the sale of Ecoclean. On the other hand, the contribution made by the Dürr Ecoclean Group to operating earnings is expected to disappear from the second quarter of 2017 onwards. We expect the FOCUS optimization program to generate further earnings growth for the HOMAG Group in particular.

Net finance expense will grow slightly in 2017, one reason for this being the fact that the interest expense on the bonded loan placed in April 2016 will be recognized for the first full year. In addition, net investment income included a non-recurring income item in 2016.

The tax rate should once again range between 27 and 28 % in 2017. Consequently, we project a slight increase in earnings after tax.

DIVIDEND: FURTHER INCREASE POSSIBLE

The dividend proposed for 2016 corresponds to a payout ratio of 38.7 %. As consolidated net profit is expected to rise in 2017, a further increase in the dividend is possible. However, the scope for this is capped by our long-term dividend policy, which limits the payout ratio to 40 %. Moreover, we want to retain sufficient funds within the company to continue expanding our business by means of further acquisitions.

ROCE should reach the top end of the target range of 30 to 40 % in 2017.

DIVISIONS

Paint and Final Assembly Systems expects order intake and sales in 2017 to remain similar to the previous year, although slight declines cannot be ruled out. The target range for the EBIT margin stands at 6.0 to 6.5 % due to intensified competition. The division will be implementing productivity gains and expanding its service business in order to stabilize earnings. ROCE is likely to exceed 100 % again as capital employed will probably remain in negative territory due to prepayments and progress payments.

Application Technology order intake and sales should range between € 540 and 610 million. The top end of the target range for the EBIT margin is 11.0 %, marking an increase over the figure for 2016 of 10.5 % adjusted for extraordinary effects (extraordinary effects in 2016: income from the sale of real estate in the United States and legal disputes).

Measuring and Process Systems is targeting sales of € 450 to 525 million and orders worth € 400 to 500 million. It should be borne in mind that Dürr Ecoclean is not expected to make any further contributions from the second quarter of 2017 onwards. This explains the anticipated decline in sales. A slight increase in the EBIT margin is possible.

The Clean Technology Systems division is seeking a further increase in sales and order intake in 2017, underpinned in particular by China and North America. The target ranges are € 175 to 195 million (sales) and € 180 to 200 million (order intake). A target corridor of 4.0 to 4.5 % has been defined for the EBIT margin.

2.61 – GROUP OUTLOOK

	2016	2017 target
Order intake	€ 3,701.7 million	€ 3,300 – 3,700 million
Orders on hand (Dec. 31)	€ 2,568.4 million	€ 2,400 – 2,900 million
Sales revenues	€ 3,573.5 million	€ 3,400 – 3,600 million
EBIT margin	7.6 %	7.5 – 8.25 %[1]
ROCE	41.1 %	30 – 40 %
Net finance expense	€ – 13.3 million	slightly higher
Tax rate	27.2 %	roughly unchanged over the previous year
Earnings after tax	€ 187.8 million	slightly higher[1]
Cash flow from operating activities	€ 227.4 million	roughly unchanged over the previous year
Free cash flow	€ 129.9 million	roughly unchanged over the previous year
Net financial status (Dec. 31)	€ 176.5 million	€ 300 – 380 million[1]
Liquidity (Dec. 31)	€ 724.2 million	€ 850 – 925 million[1]
Capital expenditure[2]	€ 81.9 million	€ 75 – 85 million

[1] including the effects from the sale of Ecoclean
[2] on property, plant and equipment and on intangible assets (excluding acquisitions)

CONSOLIDATED FINANCIAL STATEMENTS

2.62 – OUTLOOK BY DIVISION

	SALES (€ MILLION)		ORDER INTAKE (€ MILLION)		EBIT MARGIN (%)		ROCE (%)	
	2016	2017 target	2016	2017 target	2016	2017 target	2016	2017 target
Paint and Final Assembly Systems	1,140.0	1,050 – 1,175	1,094.5	1,000 – 1,150	6.8[1]	6.0 – 6.5	> 100[2]	> 100[2]
Application Technology	560.6	540 – 610	582.7	540 – 610	13.6[3]	9.5 – 11.0	40.0	27 – 32
Measuring and Process Systems	623.8	450 – 525[4]	682.5	400 – 500[4]	12.8	11.5 – 14.0	24.9	20 – 25
Clean Technology Systems	167.0	175 – 195	176.6	180 – 200	3.7	4.0 – 4.5	13.6	15 – 20
Woodworking Machinery and Systems	1,082.0	1,100 – 1,150	1,165.3	1,125 – 1,225	4.1[5]	6.0 – 7.0	11.3	13 – 18

[1] includes extraordinary expenses of € 4.8 million (plant closure)
[2] negative capital employed
[3] includes extraordinary income of € 17.3 million (income from sale of US real estate and from legal disputes)
[4] business of around € 150 million will be lost with the sale of the Dürr Ecoclean Group
[5] includes extraordinary expenses of € 26.3 million (purchase price allocation, write-off of brand rights, etc.)

Woodworking Machinery and Systems is budgeting a further increase in sales and expects up to € 1,150 million in 2017, while a target range of € 1,125 to 1,225 million has been defined for order intake. The division wants to additionally bolster its profitability via the FOCUS optimization program. The target EBIT range is 6.0 to 7.0 %. In 2016, the EBIT margin was burdened by high extraordinary expenses (€ 26.3 million). We expect extraordinary expenses to be lower in 2017; purchase price allocation for the HOMAG Group will again burden EBIT with just under € 9 million (2016: € 8.7 million). The operating EBIT margin should widen from 6.6 % to between 7.0 and 8.0 %.

CASH FLOW

Cash flow from operating activities should be more or less unchanged over the previous year in 2017. We again project cash flow from operating activities of € 250 to 300 million adjusted for changes in net working capital. **Free cash flow** **[P. 195]** should be well and truly positive in 2017. Cash flow and cash and cash equivalents should comfortably cover operating funding requirements (capital expenditure, interest payments etc.) as well as the dividend payout. Sufficient funds would also be available for a possible share buyback. However, no decisions have been made on this yet.

CAPITAL EXPENDITURE

Capital expenditure on property, plant and equipment and on intangible assets should reach a normal level of € 75 to 85 million in 2017. This amount will probably be divided evenly between plant expansion projects and replacement spending. The largest single item in 2017 will be the completion of the Shanghai campus. Capital expenditure of around € 80 million is planned for 2018.

Under the "Dürr 2020" strategy further acquisitions and technology buy-ins are planned. If suitable opportunities arise in 2017, we will be making use of them. It will be possible for us to fund these activities with our high cash position and cash flow.

LIQUIDITY, EQUITY AND FUNDING

We currently project a **net financial status** **[P. 195]** of € 300 to 380 million for the end of 2017. This includes the expected proceeds of around € 100 million from the sale of 85 % of Dürr Ecoclean's business. Given the proceeds from the Ecoclean transaction and the cash flow generated from operating activities, liquidity should at this stage reach € 850 to 925 million.

The retained earnings should increase equity again substantially. We do not expect to utilize the cash credit line of our syndicated loan. There are currently no plans to raise any fresh capital; a corporate action would only be necessary in an exceptional case in the event of a very large acquisition. Our funding is stable up until 2021.

EMPLOYEES

Roughly 840 employees will be leaving the Group following the sale of Ecoclean (5.5 % of the workforce). This means that total employee numbers will probably drop below 15,000 by the end of 2017. However, adjusted for this effect, they will remain roughly unchanged. The proportion of employees based in the emerging markets will still be over 30 %. We currently do not have any plans to enlarge our workforce in the established markets.

RESEARCH AND DEVELOPMENT

We will be increasing R&D expense further in 2017, with growth likely to reach a high single-digit percentage again. Digitization remains the most important innovation sector. In this area, we are developing new software solutions for production control and big data analysis, self-regulating smart products and service models for predictive plant maintenance, for example. Other main aspects will entail further work on the automation and flexibilization of production processes to achieve cuts in unit costs for our customers. With respect to the environmental footprint, we will be endeavoring to additionally lower the energy and material requirements of our systems.

SUMMARIZED STATEMENT BY THE BOARD OF MANAGEMENT ON PROJECTED DEVELOPMENTS

Our forecasts for 2017 and 2018 assume that global economic growth will accelerate slightly and that global automotive and furniture production will expand by 3 to 4 % in each of the two years. Capital expenditure in the automotive industry in 2017 should remain more or less at the 2016 level. The proportion of modernization spending is likely to widen as many automotive plants are showing signs of age. New factories will primarily be built in the emerging markets, although we generally expect to see a slight decline in greenfield investments.

Full-year sales should again come to between € 3.4 and 3.6 billion in 2017. Including the income from the sale of Dürr Ecoclean, the EBIT margin should reach a range of 7.5 to 8.25 %. We expect a small increase in earnings after tax. The cash flow should match the previous year's figure in 2017, while the net financial status is expected to range between € 300 and 380 million at the end of 2017 (including the proceeds from the sale of Ecoclean). We will be proposing a dividend of € 2.10 per share for 2016, equivalent to a payout ratio of 38.7 % of consolidated net profit. Next year, the dividend could be higher again on the basis of a similar payout ratio and assuming a slight increase in consolidated net profit.

Political uncertainties have risen substantially. Plant engineering business in the automotive industry remains exposed to pronounced competitive pressure. Even so, we see opportunities for further gradual improvements in earnings. We initially want to raise the EBIT margin towards 8 %, after which it should move in a corridor between 8 and 10 % until 2020. Our confidence is based on several factors: we expect to see continued growth in service business with its wider margins, and we will further improve our cost base by implementing efficiency gains. The HOMAG Group will continue to improve its earnings with the FOCUS optimization program and, in the medium term, should make the largest absolute contribution to Group EBIT.

Electromobility is currently the greatest challenge for the automotive industry. However, it is an opportunity for us, as new producers of battery-powered vehicles are entering the market and require production plants, thus allowing us to broaden our customer base. At the same time, the established automotive OEMs are revamping their existing plants and require new production processes in some cases. We see considerable differentiation potential in final assembly technology for battery-driven vehicles in particular.

Looking ahead over the next few years, digitization and automation will be the decisive technologies in mechanical and plant engineering. We are at the vanguard with both trends, for example with software for networked production control, our new generation of painting robots, and automatic batch-size 1 furniture production lines.

We have sufficient financial resources to fund further acquisitions if attractive opportunities arise. Potential target companies include suppliers of technologies supplementing our own core business or mechanical and plant engineering specialists allowing us to add high-growth segments to our existing portfolio.

DÜRR AG (GERMAN COMMERCIAL CODE)

Dürr AG's annual financial statements are prepared in accordance with the provisions of the German Commercial Code, whereas the consolidated financial statements are prepared in accordance with IFRS. As the holding company, Dürr AG comprises the Group's central functions and does not engage in any operating business of its own. Its economic condition mainly hinges on the business performance of the Group's operating companies. Dürr AG holds shares in 127 companies directly or indirectly. The economic environment in which Dürr AG operates is essentially the same as the Group's as described in **Economy and industry environment** **[P. 53]**.

RESULTS OF OPERATIONS

In accordance with the Accounting Directive Implementation Act, Dürr AG's income statement for 2016 includes sales revenues for the first time. The sales revenues of € 35.3 million mainly arise from payments made by Group companies under transfer pricing arrangements for the services provided by Dürr AG as the holding company. These payments had previously been reported within other operating income. The cost of providing holding company services is primarily reported within personnel expense. The low cost of materials of € 1.8 million relates to services from third parties which we recharged to the Group companies.

The other operating income of € 36.7 million relates almost solely to currency translation gains (€ 36.3 million). Personnel expense dropped slightly due to lower expense for pension benefit payments. Other operating expenses were primarily composed of currency translation expenses of € 35.3 million.

As in the previous year, net investment income comprises income received under profit and loss transfer agreements. This included the profit transferred by HOMAG Group AG in 2016 for the first time. HOMAG Group AG transfers its profit to Dürr Technologies GmbH, which in turn has entered into a profit and loss transfer agreement with Dürr AG. The fact that the income from profit and loss transfer agreements dropped to € 121.7 million despite the contribution made by the HOMAG Group is due to impairments recognized on the book value of affiliated companies. Moreover, no material dividend income was received from the Chinese Group companies in 2016 as a lower withholding tax takes effect from 2017. Among other things, the net finance expense of € 9.6 million reflects the higher interest expense resulting from the bonded loan of € 300 million issued in April 2016.

2.63 – DÜRR AG INDIVIDUAL FINANCIAL STATEMENTS – INCOME STATEMENT (GERMAN COMMERCIAL CODE)

€ million	2016	2015
Sales revenues	35.3	–
Other operating income	36.7	77.1
Cost of materials	–1.8	–
Personnel expenses	–16.8	–17.0
Depreciation and amortization	–0.9	–0.9
Other operating expenses	–52.9	–56.0
Net investment income	121.7	151.2
Net finance expense	–9.6	–8.0
Income taxes	–29.6	–26.9
Net income	**82.2**	**119.5**
Profit brought forward from the previous year	281.5	226.0
Net retained profit	**363.7**	**345.5**

2.64 – DÜRR AG INDIVIDUAL FINANCIAL STATEMENTS - BALANCE SHEET (GERMAN COMMERCIAL CODE)

€ million	Dec. 31, 2016	Dec. 31, 2015
ASSETS		
Non-current assets		
Intangible assets	9.8	10.4
Property, plant and equipment	0.3	0.3
Financial assets	763.6	782.5
	773.6	**793.2**
Current assets		
Receivables and other assets	313.5	231.1
Cash and cash equivalents	387.2	154.7
	700.7	**385.8**
Prepaid expenses, sundry items	5.3	5.3
	706.0	**391.1**
Total assets	**1,479.6**	**1,184.3**
EQUITY AND LIABILITIES		
Equity		
Subscribed capital	88.6	88.6
Capital reserve	156.2	156.2
Net retained profit	363.7	345.5
	608.5	**590.3**
Liabilities		
Provisions	27.8	19.6
Liabilities	843.3	574.3
	871.1	**593.9**
Total equity and liabilities	**1,479.6**	**1,184.3**

Despite lower pre-tax earnings, income taxes rose by 10.0 % as we recorded lower tax-free income such as dividends. Consequently, net income fell from € 119.5 million to € 82.2 million; it is more than sufficient to cover the proposed dividend payout of € 72.7 million. Spurred by the higher profit carried forward, net retained profit climbed by 5.3 %.

NET ASSETS AND FINANCIAL CONDITION

Dürr AG's total assets rose by 24.9 % over December 31, 2015, to € 1,479.6 million. This was primarily due to the placement of the bonded loan of € 300 million.

On the assets side, intangible and tangible assets are of only marginal significance. At € 763.6 million, the largest item is composed of financial assets. The decline of € 18.9 million in this item was mainly due to a reduction in the corporate bonds held to maturity. In addition, loans to affiliated companies were lower, while the book value of Dürr Technologies GmbH rose in connection with the purchase of DUALIS GmbH IT Solution. Receivables and other assets were up 35.6 %, coming to € 313.5 million. This was due to the sharp rise in other assets that include a large amount of time deposits in which part of the proceeds of the bonded loan were invested. The sharp rise in cash and cash equivalents is also due to the emission of the bonded loan.

Net income exceeded the dividend that was distributed for 2015 (€ 64.0 million) by € 18.2 million. Against this backdrop, the net retained profit rose to € 363.7 million and equity as a whole to € 608.5 million (up 3.1 %). Despite this, the equity ratio shrank from 49.8 % to 41.1 % due to the increase in total assets resulting from the issue of the bonded loan. The increase in provisions (up 41.9 %) is primarily due to higher tax provisions and other provisions.

RISKS AND OPPORTUNITIES

Dürr AG is exposed to the opportunities and risks of its subsidiaries. The extent of such exposure depends on the size of its share in the respective company. See also the **Report on risks, opportunities and expected future development [P. 78]** for further details. In addition, strain may arise from the contingent liabilities in existence between Dürr AG and its subsidiaries.

FORECAST

Dürr AG's future economic performance is closely linked to the Group's operating performance. Details of the outlook and our plans for our operating business can be found in the **Report on risks, opportunities and expected future development [P. 78]**.

Dürr AG's full individual financial statements can be found under "Financial Reports" in the investor relations section at **www.durr.com.**

Bietigheim-Bissingen, March 8, 2017

Dürr Aktiengesellschaft

The Board of Management

RALF W. DIETER

RALPH HEUWING

DR. JOCHEN WEYRAUCH

CARLO CROSETTO

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

3.1 – CONSOLIDATED STATEMENT OF INCOME

of Dürr Aktiengesellschaft, Stuttgart, for the period from January 1 to December 31, 2016

€ k	NOTE	2016	2015
Sales revenues	(8)	3,573,517	3,767,094
Cost of sales	(9)	– 2,715,250	– 2,939,111
Gross profit on sales		**858,267**	**827,983**
Selling expenses	(10)	– 322,023	– 282,739
General administrative expenses	(11)	– 177,624	– 186,544
Research and development costs	(12)	– 105,873	– 97,115
Other operating income	(14)	75,686	76,728
Other operating expenses	(14)	– 57,038	– 70,527
Earnings before investment income, interest and income taxes		**271,395**	**267,786**
Profit from entities accounted for using the equity method	(16)	3,693	1,576
Other investment income		3,284	358
Interest and similar income	(17)	6,233	8,246
Interest and similar expenses	(17)	– 26,479	– 33,454
Earnings before income taxes		**258,126**	**244,512**
Income taxes	(18)	– 70,326	– 77,950
Profit of the Dürr Group		**187,800**	**166,562**
Attributable to:			
Non-controlling interests		5,925	5,002
Shareholders of Dürr Aktiengesellschaft		**181,875**	**161,560**
Number of shares issued in thousands		34,601.04	34,601.04
Earnings per share in € (basic and diluted)		5.26	4.67

3.2 – CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

of Dürr Aktiengesellschaft, Stuttgart, for the period from January 1 to December 31, 2016

€ k	NOTE	2016	2015
Profit of the Dürr Group		**187,800**	**166,562**
Items of other comprehensive income that are not reclassified to profit or loss			
Remeasurement of defined benefit plans and similar obligations	(27)	– 7,029	3,703
Associated deferred taxes	(18)	1,742	– 1,319
Items of other comprehensive income that may be reclassified subsequently to profit or loss			
Changes in fair value of financial instruments used for hedging purposes recognized in equity	(40)	– 3,052	– 1,961
Associated deferred taxes	(18)	1,228	406
Changes in fair value of financial assets available for sale		– 63	– 6
Associated deferred taxes	(18)	16	1
Currency translation effects of foreign subsidiaries		3,196	18,866
Currency translation effects of foreign entities accounted for using the equity method		1,295	1,992
Other comprehensive income, net of tax		**– 2,667**	**21,682**
Total comprehensive income, net of tax		**185,133**	**188,244**
Attributable to:			
Non-controlling interests		5,832	4,018
Shareholders of Dürr Aktiengesellschaft		**179,301**	**184,226**

3.3 – CONSOLIDATED STATEMENT OF FINANCIAL POSITION

of Dürr Aktiengesellschaft, Stuttgart, as of December 31, 2016

€ k	NOTE	Dec. 31, 2016	Dec. 31, 2015
ASSETS			
Goodwill	(19, 42)	401,600	415,162
Other intangible assets	(19, 42)	209,533	233,744
Property, plant and equipment	(19, 42)	394,577	394,716
Investment property	(19, 42)	20,664	21,261
Investments in entities accounted for using the equity method	(20, 42)	32,726	28,222
Other financial assets	(20, 42)	11,901	41,407
Trade receivables	(22)	16,878	560
Income tax receivables	(18)	90	573
Sundry financial assets	(23)	4,162	7,910
Other assets	(24)	527	555
Deferred taxes	(18)	29,891	35,535
Prepaid expenses		2,746	2,391
Non-current assets		**1,125,295**	**1,182,036**
Inventories and prepayments	(21)	381,056	386,740
Trade receivables	(22)	779,420	895,752
Income tax receivables	(18)	22,234	20,981
Sundry financial assets	(23)	117,264	24,600
Other assets	(24)	26,972	29,144
Cash and cash equivalents		724,179	435,633
Prepaid expenses		4,883	5,461
Assets held for sale	(25)	167,220	6,315
Current assets		**2,223,228**	**1,804,626**
Total assets Dürr Group		**3,348,523**	**2,986,662**

€ k	NOTE	Dec. 31, 2016	Dec. 31, 2015
EQUITY AND LIABILITIES			
Subscribed capital	(26)	88,579	88,579
Capital reserves	(26)	155,896	155,896
Revenue reserves	(26)	588,705	473,662
Other comprehensive income		−23,649	−21,054
Total equity attributable to the shareholders of Dürr Aktiengesellschaft		**809,531**	**697,083**
Non-controlling interests		21,429	17,335
Total equity		**830,960**	**714,418**
Provisions for post-employment benefit obligations	(27)	51,817	49,677
Other provisions	(28)	17,564	16,035
Trade payables	(29)	4,136	4,437
Bond and bonded loan	(30)	596,630	296,910
Other financial liabilities	(30)	52,564	47,210
Sundry financial liabilities	(31)	6,944	37,776
Income tax liabilities	(18, 32)	6,711	8,821
Other liabilities	(32)	4,603	5,988
Deferred taxes	(18)	102,316	118,133
Deferred income		38	44
Non-current liabilities		**843,323**	**585,031**
Other provisions	(28)	95,686	119,949
Trade payables	(29)	978,338	1,041,626
Financial liabilities	(30)	5,339	6,782
Sundry financial liabilities	(31)	283,215	266,491
Income tax liabilities	(18, 32)	33,573	32,907
Other liabilities	(32)	216,253	217,655
Deferred income		1,928	1,803
Liabilities held for sale	(25)	59,908	–
Current liabilities		**1,674,240**	**1,687,213**
Total equity and liabilities Dürr Group		**3,348,523**	**2,986,662**

3.4 – CONSOLIDATED STATEMENT OF CASH FLOWS

of Dürr Aktiengesellschaft, Stuttgart, for the period from January 1 to December 31, 2016

€ k	NOTE	2016	2015
	(35)		
Earnings before income taxes		258,126	244,512
Income taxes paid		– 75,254	– 88,572
Net interest		20,246	25,208
Profit from entities accounted for using the equity method		– 3,693	– 1,576
Dividends from entities accounted for using the equity method		490	–
Amortization and depreciation of non-current assets		88,939	80,462
Net gain/loss on the disposal of non-current assets		– 523	326
Other non-cash income and expenses		– 7,379	– 295
Changes in operating assets and liabilities			
Inventories		– 16,206	– 8,018
Trade receivables		3,103	– 26,146
Other receivables and assets		– 6,142	10,726
Provisions		– 18,654	20,595
Trade payables		– 20,767	– 103,699
Other liabilities (other than bank)		5,800	20,797
Other assets and liabilities		– 717	– 1,352
Cash flow from operating activities		**227,369**	**172,968**
Purchase of intangible assets		– 24,495	– 27,021
Purchase of property, plant and equipment		– 57,121	– 72,748
Purchase of other financial assets		– 39	– 321
Proceeds from the sale of non-current assets		39,378	4,217
Acquisitions, net of cash acquired		– 7,983	– 31,509
Investments in time deposits		– 80,767	26,098
Proceeds from the sale of assets and liabilities classified as held for sale		8,489	– 155
Interest received		5,635	7,009
Cash flow from investing activities		**– 116,903**	**– 94,430**

€ k	NOTE	2016	2015
	(35)		
Change in current bank liabilities and other financing activities		– 3,784	1,580
Repayment of non-current financial liabilities		– 8,681	– 75,494
Bonded loan issue		299,079	–
Payments of finance lease liabilities		– 2,356	– 3,580
Cash paid for transactions with non-controlling interests		– 4,000	– 8,234
Dividends paid to the shareholders of Dürr Aktiengesellschaft		– 64,012	– 57,092
Dividends paid to non-controlling interests		– 2,299	– 2,169
Interest paid		– 21,469	– 17,361
Cash flow from financing activities		**192,478**	**– 162,350**
Effects of exchange rate changes		– 529	– 2,512
Change in cash and cash equivalents related to changes in the consolidated group		295	–
Change in cash and cash equivalents		302,710	– 86,324
Cash and cash equivalents			
At the beginning of the period		435,633	521,957
At the end of the period		738,343	435,633
Less: Cash and cash equivalents classified as assets held for sale		– 14,164	–
Cash and cash equivalents at the end of the period (consolidated statement of financial position)		**724,179**	**435,633**

3.5 – CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

of Dürr Aktiengesellschaft, Stuttgart, for the period from January 1 to December 31, 2016

€ k	Subscribed capital	Capital reserve	Revenue reserves	Items that are not reclassified to profit or loss: Remeasurement of defined benefit plans	
	(26)	(26)	(26)		
January 1, 2015	**88,579**	**155,896**	**414,567**	**–37,778**	
Profit for the year	–	–	161,560	–	
Other comprehensive income	–	–	–	2,345	
Total comprehensive income, net of tax	**–**	**–**	**161,560**	**2,345**	
Dividends	–	–	–57,092	–	
Options of non-controlling interests	–	–	–9,775	–	
Other changes	–	–	–35,598	–	
December 31, 2015	**88,579**	**155,896**	**473,662**	**–35,433**	
Profit for the year	–	–	181,875	–	
Other comprehensive income	–	–	–	–5,265	
Total comprehensive income, net of tax	**–**	**–**	**181,875**	**–5,265**	
Dividends	–	–	–64,012	–	
Options of non-controlling interests	–	–	2,303	–	
Other changes	–	–	–5,123	–	
December 31, 2016	**88,579**	**155,896**	**588,705**	**–40,698**	

OTHER COMPREHENSIVE INCOME

Items that may be reclassified subsequently to profit or loss							
Unrealized gains/losses from cash flow hedges	Unrealized gains/losses from financial assets available for sale	Changes related to the consolidated group/ reclassifications	Currency translation	Other comprehensive income	Total equity attributable to the shareholders of Dürr Aktien-gesellschaft	Non-controlling interests	Total equity
– 4,676	**52**	**694**	**– 1,991**	**– 43,699**	**615,343**	**110,425**	**725,768**
–	–	–	–	–	161,560	5,002	166,562
– 1,555	– 5	–	21,881	22,666	22,666	– 984	21,682
– 1,555	**– 5**	**–**	**21,881**	**22,666**	**184,226**	**4,018**	**188,244**
–	–	–	–	–	– 57,092	– 2,169	– 59,261
–	–	–	–	–	– 9,775	– 1,858	– 11,633
–	–	– 21	–	– 21	– 35,619	– 93,081	– 128,700
– 6,231	**47**	**673**	**19,890**	**– 21,054**	**697,083**	**17,335**	**714,418**
–	–	–	–	–	181,875	5,925	187,800
– 1,824	– 47	–	4,562	– 2,574	– 2,574	– 93	– 2,667
– 1,824	**– 47**	**–**	**4,562**	**– 2,574**	**179,301**	**5,832**	**185,133**
–	–	–	–	–	– 64,012	– 2,299	– 66,311
–	–	–	–	–	2,303	– 588	1,715
–	–	– 21	–	– 21	– 5,144	1,149	– 3,995
– 8,055	**–**	**652**	**24,452**	**– 23,649**	**809,531**	**21,429**	**830,960**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2016 REPORTING PERIOD

BASIS OF PRESENTATION

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Dürr Aktiengesellschaft ("Dürr AG" or the "Company") has its registered offices in Stuttgart, Germany. Its headquarters for operations are located at Carl-Benz-Strasse 34 in 74321 Bietigheim-Bissingen, Germany. The Dürr Group ("Dürr" or the "Group"), which consists of Dürr AG and its subsidiaries, is a mechanical and plant engineering company with distinct automation competency. Dürr is one of the global market leaders in almost all of its fields of business. In addition to the automotive industry, it also acts as supplier of production technology for other industries including the mechanical engineering, energy, chemical and pharmaceutical industries as well as the woodworking industry. The Dürr Group serves the market with five global divisions: Paint and Final Assembly Systems offers assembly and paint finishing technology, mainly for the automotive industry. Application Technology manufactures products and systems for automated painting applications as well as sealing and glueing technology. The machines and systems produced by Measuring and Process Systems are used, among other things, in engine and drive construction as well as final vehicle assembly. Clean Technology Systems manufactures plant and equipment for purifying exhaust gases produced by industrial processes and develops technologies for improving the energy efficiency of production processes. Woodworking Machinery and Systems develops and manufactures machinery and systems related to woodworking.

Accounting policies

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) at the end of the reporting period, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code].

The accounting policies used generally correspond to the policies applied in the prior period. In addition, the Group has applied the new and/or revised standards that became mandatory for the first time in the 2016 reporting period. **[Tab. → 3.6, 3.7]**

New or amended standards that are of fundamental importance for the consolidated financial statements of the Company are explained below.

- IFRS 9 "Financial Instruments": IFRS 9 governs the classification and measurement of financial assets and liabilities. The standard replaces International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement" and combines all previously published regulations with the new regulations on recognizing impairment as well as the rules on the classification and measurement of financial assets and liabilities. The amendments primarily include the classification criteria for financial assets. These relate to the characteristics of the business model as well as the contractual cash flows of financial assets. The provisions on recognizing impairment have been fundamentally redefined and are now based on a model of expected losses. The presentation of hedging relationships has also been redefined under IFRS 9 and is designed to reflect operational risk management more strongly. Dürr is currently carrying out a detailed analysis in order to determine the extent of these effects.

3.6 – CHANGES IN ACCOUNTING POLICIES FROM THE ADOPTION OF THE REVISED STANDARDS AND INTERPRETATIONS

Standard/Interpretation	First-time application[1]	Adopted by the EU Commission	Impact on Dürr
Amended standards			
IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2016	Yes	None
IFRS 11 "Joint Arrangements"	January 1, 2016	Yes	None
IAS 1 "Presentation of Financial Statements"	January 1, 2016	Yes	Immaterial
IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"	January 1, 2016	Yes	None
IAS 19 "Employee Benefits"	February 1, 2015	Yes	Immaterial
IAS 27 "Separate Financial Statements"	January 1, 2016	Yes	None
Annual Improvements to IFRSs (2010–2012 cycle)	February 1, 2015	Yes	Immaterial
Annual Improvements to IFRSs (2012–2014 cycle)	January 1, 2016	Yes	Immaterial

3.7 – ACCOUNTING STANDARDS AND INTERPRETATIONS THAT HAVE BEEN PUBLISHED BUT NOT YET ADOPTED IN THE REPORTING PERIOD

Standard/Interpretation	First-time application[1]	Adopted by the EU Commission	Expected impact on Dürr
New standards			
IFRS 9 "Financial Instruments"	January 1, 2018	Yes	Significant in principle
IFRS 15 "Revenue from Contracts with Customers" including clarifications published	January 1, 2018	Yes[2]	Significant in principle
IFRS 16 "Leases"	January 1, 2019	No	Significant in principle
Amended standards/interpretations			
IFRS 2 "Share-Based Payment" – Classification and Measurement of Share-based Payment Transactions	January 1, 2018	No	None
IFRS 4 "Insurance Contracts" – Applying IFRS 9 with IFRS 4	January 1, 2018	No	None
IAS 7 "Statement of Cash Flows" – Disclosure Initiative	January 1, 2017	No	Significant in principle
IAS 12 "Income Taxes" – Recognition of Deferred Tax Assets for Unrealised Losses	January 1, 2017	No	Immaterial
IAS 40 "Investment Property" – Transfers of Investment Property	January 1, 2018	No	Immaterial
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018	No	Immaterial
Annual Improvements to IFRSs (2014–2016 cycle)	January 1, 2017/ January 1, 2018	No	Immaterial

[1] The standards/amendments are effective for reporting periods beginning on or after the specified date.
[2] Endorsement by the EU of the clarifications of IFRS 15 published in April 2016 is still pending.

- IFRS 15 “Revenue from Contracts with Customers”: The aim of the new standard concerning revenue recognition is the combination of the rules previously contained in various standards and interpretations. This primarily relates to the standards IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of interpretations relating to revenue. Common basic principles have been created in IFRS 15 that can be applied to all industries and all types of revenue transactions. According to this new standard, sales revenues should be recognized upon transfer of the promised good or service to the customer at the amount of consideration that the entity expects to be entitled to receive from the transaction. Revenue is recognized when the customer obtains control of the goods or services promised. The questions on the amount and the point in time or the period of time over which sales revenues are to be realized are both clarified respectively with a five-step model. Dürr also takes into account the clarifications published in April 2016.

  As part of a group-wide implementation project, Dürr subjected all divisions to an analysis with regard to the new rules and regulations. According to these new rules and regulations, it is expected that the vast majority of customer-specific construction contracts, which are currently accounted for according to the percentage of completion method, will meet the requirements for recognizing sales revenues over time. This was also proven by further detailed contractual analyses. In individual cases, however, it will be necessary to transition to recognize sales revenues at a point in time. The result is a time delay in recognizing sales revenues compared to the previous method. In future, the new accounting rules will make it necessary to separate a contract into several performance obligations in individual cases. Explicitly regulated special topics such as contract costs, variable consideration or significant financing components will also lead to different accounting treatment in individual cases. As discussions currently stand, however, Dürr does not expect there to be any significant effects on the consolidated financial statements. Due to the necessity of having significant contracts audited on a case-by-case basis, Dürr is currently developing guidelines to ensure simple and standardized processes.

  The standard also contains a number of further rules on changes in the presentation of the statement of financial position and expands the qualitative and quantitative disclosures in the notes as well. The first-time adoption is to be performed retrospectively, although there are various simplification options available. The regulations of IFRS 15 differentiate between a full and a modified retrospective first-time adoption. Dürr will make a final decision on the first-time application mid-2017 depending on how the project develops further, but is currently tending toward a full retrospective first-time adoption.

- IFRS 16 “Leases”: The new standard on lease accounting replaces the previous rulings of IAS 17 “Leases” and its interpretations. The main changes in the standard relate to lessee accounting treatment. In future, the lessee will no longer differentiate between operating and finance leases, but will instead account for most leases and the associated rights of use and lease liabilities. Exemptions are granted for low-value leased assets and short-term leases. In contrast, lessor accounting is subject only to minor changes compared to the classification and accounting of leases under IAS 17. In the 2016 reporting period, Dürr set up a project to implement IFRS 16 throughout the Group. This project is currently involved in analyzing the significant lease contracts. Dürr assumes that the majority of the lease contracts not previously accounted for will be on-balance. This will cause total assets to increase at the date of first-time application. For information on the obligations from operating and finance leases, we refer to note 39.

- Amendments to IAS 7 “Statement of Cash Flows”: The amendments published on January 29, 2016, aim to clarify the rulings of IAS 7 and to improve the information available to users of financial statements with regard to financing activities. This objective will be achieved by having additional disclosures in the notes that make changes to liabilities from the company’s financing activities and associated financial assets more transparent. The amendments to IAS 7 will not have any financial impact on Dürr’s consolidated financial statements; there will, however, be additional disclosures on the changes in financial liabilities.

The Group elected not to early adopt standards and IFRIC interpretations which have already been issued but have not yet become effective. Generally speaking, Dürr intends to adopt all standards when they become effective. The requirements of the standards applied were satisfied in full. The financial statements thus give a true and fair view of the net assets, financial position and results of operations and cash flows of the Group.

Dürr's reporting period is the calendar year. The consolidated financial statements are prepared in euros; all amounts are presented in thousands of euro (€ thousand or € k), unless stated otherwise.

All assets and liabilities are measured at historical or amortized cost. Exceptions to this rule are derivative financial instruments, obligations from options held by non-controlling interests, liabilities from contingent purchase price installments, obligations from share-based compensation and financial assets classified as held-for-trading, which are measured at fair value.

Assets and liabilities are treated as current if they are realized or settled within twelve months of the end of the reporting period. Within the statement of financial position, assets and liabilities with a remaining term of more than twelve months are disclosed as non-current. By contrast, liabilities with a remaining term of between one and five years are disclosed in the notes to the consolidated financial statements as medium-term and those with a remaining term of more than five years as long-term.

2. BASIS OF CONSOLIDATION

The consolidated financial statements of Dürr are based on the IFRS financial statements of Dürr AG and the consolidated subsidiaries and entities accounted for using the equity method as of December 31, 2016, prepared in accordance with uniform policies and audited by independent auditors.

For subsidiaries included in the consolidated financial statements for the first time, acquisition accounting is performed according to the acquisition method of accounting pursuant to IFRS 3 "Business Combinations". This involves offsetting the cost of the shares acquired against proportionate equity of the subsidiaries. All assets and liabilities and contingent liabilities acquired are included in the consolidated statement of financial position at the acquisition date taking hidden reserves and encumbrances into account. Any remaining positive difference is shown as goodwill. When the entity is removed from consolidation, the goodwill is released to profit or loss. Negative differences are posted immediately to profit or loss. For acquisitions in which less than 100 % of the shares are purchased, IFRS 3 provides for a choice between the purchased goodwill method and the full goodwill method. This option can be exercised for every business combination. Dürr determines the method to be used to recognize the goodwill for each acquisition. For information on exercising the option for individual business combinations, please refer to note 19 – Acquisitions. Changes in interests for subsidiaries which cause the Group's interest to increase or decrease without losing control are treated as transactions between equity providers that do not affect income.

Intragroup sales revenues, other income and expenses and all intragroup receivables, liabilities, provisions and end-of-year adjustments (prepaid expenses and deferred income) are eliminated. Intragroup profits which are not realized by sale to third parties are eliminated.

Subsidiaries that, on account of their low level or lack of business activity, are immaterial for the Group and the presentation of a true and fair view of the net assets, financial position and results of operations are generally included in the consolidated financial statements at cost. They are listed under non-consolidated subsidiaries.

Entities over which Dürr exercises significant influence (associates) are accounted for using the equity method. Significant influence is the power to participate in the financial and operating policy of the investee. Interests in entities accounted for using the equity method are initially recognized at cost. Costs exceeding the share in the net assets of the entity accounted for using the equity method after taking into account hidden reserves or encumbrances are recognized as goodwill. Goodwill resulting from the acquisition of an associate is included in the carrying amount of the entity accounted for using the equity method and is not amortized, but tested instead for impairment as part of the overall carrying amount of the entity accounted for using the equity method.

For subsequent measurement, the share of the profit or loss of the entity accounted for using the equity method to which Dürr is entitled is recorded under investment income in the consolidated statement of income. The share in other comprehensive income is recognized directly in group equity. The cumulative changes after the acquisition date increase/decrease the carrying amount of the entity accounted for using the equity method. Dividends received are deducted from the carrying amount. If the losses of an entity accounted for using the equity method attributable to Dürr correspond to or exceed the value of the interest in this entity, no further losses are recognized unless Dürr has entered into obligations or has made payments for the entity accounted for using the equity method.

All other investments are accounted for at cost because market values are not available and fair values cannot be reliably determined by other means.

3. CONSOLIDATED GROUP

Besides Dürr AG, as of December 31, 2016, the consolidated financial statements contain all German and foreign entities which Dürr AG can control directly or indirectly. Under IFRS 10 “Consolidated Financial Statements”, control exists if an entity is exposed, or has rights, to positive or negative returns from its involvement with another entity. It must also have the ability to affect these variable returns through its power over the investee. Control can exist due to voting rights or prevailing circumstances as a result of contractual arrangements, among other things.

The entities are included in the consolidated financial statements from the date on which the possibility of control was obtained. For most of the group companies, control is based on holding the majority of voting rights. On account of the contractual arrangements, Dürr has the power to exercise control over four entities, although in each case Dürr only holds 50 % of the shares or 50 % or less of the voting rights in the company. Consolidation of an entity included in the consolidated financial statements ceases when Dürr loses control over the entity.

Entities over which Dürr exercises significant influence pursuant to IAS 28 (associates) as well as joint ventures as defined by IFRS 11 “Joint Arrangements” are accounted for using the equity method. Significant influence is assumed with a share of voting rights ranging from 20 % to 50 %. Associates are included in the consolidated financial statements using the equity method from the date on which the possibility of significant influence existed. For shares of voting rights below 20 %, interests in entities are generally recognized under other investments.

3.8 – NUMBER OF ENTITIES

	Dec. 31, 2016	Dec. 31, 2015
Fully consolidated subsidiaries		
Germany	28	29
Other countries	84	78
	112	**107**
Entities accounted for using the equity method		
Germany	2	2
Other countries	2	2
	4	**4**
Other investments		
Germany	2	2
Other countries	2	2
	4	**4**

The consolidated financial statements contain 14 entities (prior period: 13) which have non-controlling interests in them. There are seven companies that are only included in the consolidated financial statements at cost on grounds of immateriality.

4. CHANGES IN THE CONSOLIDATED GROUP

3.9 – ADDITIONS OF FULLY CONSOLIDATED ENTITIES

Entity	Interest	Effective as of	Interest acquired by	Note
HOMAG Group Trading SEE EOOD, Plovdiv/Bulgaria	100 %	January 1, 2016	–	Previously unconsolidated entity
Dürr Systems spol. s r.o., Bratislava/Slovakia	100 %	June 30, 2016	Foundation	
E&P Turbo Ltd., Aldermaston/UK	100 %	July 6, 2016	Acquisition	
GT Assistência Técnica Industrial Ltda., Belo Horizonte/Brazil	50 %[1]	July 12, 2016	Acquisition	Renamed Verind Brasil – Servicos e Solucoes Ltda.
Carl Schenck spol. s r.o., Modřice/Czech Republic	100 %	October 21, 2016	Foundation	
EPE Fund 3 (RF) (Pty) Ltd., Port Elizabeth/South Africa	100 %	November 16, 2016	Foundation	
Luhlaza Industrial Services (Pty) Ltd., Port Elizabeth/South Africa	75 %	November 16, 2016	Foundation	
DUALIS GmbH IT Solution, Dresden/Germany	100 %	December 2, 2016	Acquisition	

[1] direct and indirect share

3.10 – DECONSOLIDATIONS/MERGERS

Entity	Effective as of	Note
HOMAG Deutschland GmbH, Schopfloch/Germany	January 1, 2016, retrospectively	Merged into HOMAG GmbH, Schopfloch/Germany
Carl Schenck Denmark ApS, Sønderborg/Denmark	January 1, 2016, retrospectively	Merged into AGRAMKOW Fluid Systems A/S, Sønderborg/Denmark
Friz Kaschiertechnik GmbH, Weinsberg/Germany	March 31, 2016, retrospectively	Merged into HOMAG GmbH, Schopfloch/Germany

5. CURRENCY TRANSLATION

Financial statements denominated in the foreign currency of the subsidiaries included in the consolidation are translated to the euro on the basis of the functional currency concept pursuant to IAS 21 "The Effects of Changes in Foreign Exchange Rates". For the majority of foreign subsidiaries in the Group, the functional currency is the local currency, since these entities operate independently from a financial, economic and organizational viewpoint. According to this concept, assets and liabilities are thus translated at closing rates, while income and expenses are generally translated at average rates. Any currency translation differences are recorded without effect on profit or loss in other comprehensive income.

In the separate financial statements of Dürr AG and its subsidiaries, receivables and liabilities in a currency other than the euro are measured at the historical rate; current transactions are translated at the current exchange rate. Any exchange rate gains and losses at the end of the reporting period are included in the statement of income. For actual figures of the exchange rate gains and losses recognized in profit or loss, please refer to notes 9 and 14. **[Tab. → 3.11]**

3.11 – SIGNIFICANT EXCHANGE RATES

	Closing rate		Average rate	
in relation to one euro	Dec. 31, 2016	Dec. 31, 2015	2016	2015
US dollar (USD)	1.0560	1.0892	1.1037	1.1044
Chinese renminbi (CNY)	7.3252	7.0728	7.3399	6.8898
Brazilian real (BRL)	3.4368	4.3141	3.8260	3.7444
Mexican peso (MXN)	21.8417	18.9225	20.7055	17.6675
Indian rupee (INR)	71.6388	72.0666	74.2162	71.0018
Pound sterling (GBP)	0.8586	0.7351	0.8228	0.7240
Korean won (KRW)	1,267.8959	1,281.4865	1,277.4843	1,252.8974
Danish krone (DKK)	7.4348	7.4623	7.4450	7.4608
Swiss franc (CHF)	1.0750	1.0823	1.0911	1.0641

In the separate financial statements of the foreign subsidiaries, goodwill is translated at the rate prevailing at the end of the Group's reporting period. The hidden reserves identified in acquisitions are accounted for using the functional currency of the acquired entity. An adjusted average rate was used for entities consolidated for the first time during the year.

6. RECOGNITION AND MEASUREMENT POLICIES

Intangible assets

Intangible assets comprise goodwill, franchises, brand names, industrial rights and similar rights, internally generated software, capitalized development costs as well as acquired customer relationships, orders and technological know-how. Purchased and internally generated intangible assets are recognized pursuant to IAS 38 "Intangible Assets" if, in addition to other criteria, it is probable that a future economic benefit will flow to the entity from the use of the asset, and the cost of the asset can be measured reliably.

Intangible assets are recognized at cost. Intangible assets with a finite useful life are amortized over their useful life using the straight-line method, unless they are impaired. Goodwill and other intangible assets with indefinite useful lives are not amortized. Other intangible assets are tested once annually to determine whether events and circumstances still justify the assumption that they have an indefinite useful life. If this is not the case, the estimated useful life is changed from indefinite to finite in accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Likewise, intangible assets with an indefinite useful life are tested once annually or sooner if there are any indications that an asset may be impaired. In addition to goodwill, the Dürr Group recognizes brand names as further intangible assets with mostly indefinite useful lives. These brand names are tested annually for impairment alongside goodwill. Just like goodwill, the brand names are part of the net assets of a cash-generating unit.

In the Group, development costs are only recognized as internally generated intangible assets if the conditions set forth in IAS 38 are satisfied. These include the following criteria:

- Technical feasibility of completing the intangible asset so that it will be available for use or sale
- The probability of a future economic benefit arising from the use of the asset
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Cost is the sum of all directly attributable expenditure incurred from the date when the intangible asset first meets the recognition criteria. Development costs which do not meet these criteria, as well as research costs, are expensed immediately. Amortization of capitalized development costs is disclosed under cost of sales in the statement of income.

3.12 – USEFUL LIVES OF INTANGIBLE ASSETS (ESTIMATED)

years	
Brand names with finite useful lives (WEEKE, BRANDT, HOLZMA, AUTOMATION, STILES, DUALIS)	0 to 5
Capitalized development costs	2 to 8
Franchises, industrial rights and similar rights	2 to 20
Customer relationships	8 to 10
Technological know-how	10 to 15
Other brand names	indefinite
Goodwill	indefinite

The brands WEEKE, BRANDT, HOLZMA and AUTOMATION were amortized over a residual useful life of a few months. More information on the brand names is provided in note 19.

Property, plant and equipment

Property, plant and equipment are accounted for at cost less straight-line depreciation over their useful life. Cost comprises all production costs that are directly attributable to the production process.

3.13 – USEFUL LIFE OF PROPERTY, PLANT AND EQUIPMENT (ESTIMATED)

years	
IT hardware	2 to 5
Machines and equipment	2 to 20
Furniture and fixtures	2 to 25
Buildings, hereditary building rights and leasehold improvements	3 to 50
Land	indefinite

The cost of property, plant and equipment includes major expenditures and replacements which extend useful lives or increase capacity. The historical cost of assets that are either sold or scrapped is derecognized, as is the accumulated depreciation. Any gains or losses from derecognition are determined as the difference between the net disposal proceeds and the carrying amount and recognized in profit or loss as other operating income or expenses in the period in which the item is derecognized. Costs of on-going repairs and maintenance are expensed immediately.

Investment property

Properties are allocated to investment property if a change in use has occurred which is substantiated by their being occupied by another party after the end of owner-occupation or the inception of an operating lease with another party.

Investment property is recognized initially at (amortized) cost, including transaction costs. The carrying amount contains the costs for investments to replace an existing investment property at the time these costs are incurred, provided the recognition criteria are satisfied, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at amortized cost.

Investment property is derecognized when it is sold or retired from active use and no future economic benefit is expected upon its disposal. Gains or losses arising from the retirement or disposal of investment property are recognized in the year of retirement or disposal.

Impairment test

All intangible assets with an indefinite useful life, intangible assets which are not yet ready for use and goodwill are tested for impairment at the end of each reporting period. Other intangible assets and property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that an asset may be impaired, i.e., that the carrying amount of an asset may not be recoverable. Investment property that is largely rented to third parties is also subjected to an annual impairment test.

An impairment loss is recognized if the recoverable amount of the asset falls short of its carrying amount. The recoverable amount is the higher of an asset's net selling price and its value in use. The net selling price is the amount recoverable from the disposal of an asset at market conditions less costs to sell. Value in use is the fair value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The recoverable amount is determined for each asset individually or, if that is not possible, for the cash-generating unit to which the asset belongs. As regards goodwill acquired in business combinations, the relevant cash-generating units correspond to the business activities within the divisions of the Dürr Group based on internal reporting structures. To determine the estimated cash flows of each cash-generating unit, basic assumptions have to be made. These include assumptions regarding financial planning and the interest rates used for discounting.

Impairment losses recognized in prior periods are reversed against profit or loss if they cease to exist or have decreased. The increase in value or the reduction of an impairment loss of an asset is, however, only recognized to the extent that it does not exceed the carrying amount that would have existed if the regular amortization or depreciation had been recorded and no impairment losses had been recognized. Impairments on goodwill may not be reversed.

Other comments on intangible assets and property, plant and equipment are to be found in note 19.

Government grants

In accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance", government grants are only recorded if it is reasonably certain that the conditions attached to the grants will be fulfilled and the grants actually awarded. Grants that relate to an investment are deducted from the carrying amount of the subsidized asset. Grants related to income are recognized as deferred income and released in the correct period.

Leases

Several entities in the Dürr Group lease land, buildings, plant and machinery, office and operating equipment and software. The majority of leases are classified as operating leases. Lease payments on operating leases are recorded as an expense in the statement of income over the term of the lease.

Assets leased under finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased asset, are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. A liability is also established at that time for the same amount. Lease payments are split into finance charges and a reduction of the lease liability so as to achieve a constant rate of interest over the period on the remaining balance of the lease liability. Finance charges are taken to profit or loss immediately. The leased asset is depreciated over the shorter of the lease term and its estimated useful life.

Financial instruments

A financial instrument is a contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Pursuant to IAS 39 "Financial Instruments: Recognition and Measurement", financial instruments are classified in the following categories:

- Financial assets held for trading
- Held-to-maturity investments
- Loans and receivables originated by the entity
- Available-for-sale financial assets
- Financial liabilities measured at amortized cost and
- Financial liabilities at fair value through profit or loss.

Purchases or sales of financial assets are recognized using trade date accounting.

Financial assets

Financial assets with fixed or determinable payments and fixed maturity that the entity intends and has the ability to hold to maturity other than loans and receivables originated by the entity pursuant to IAS 39 are classified as held-to-maturity investments. Financial assets that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margins are classified as financial assets held for trading. All sundry financial assets apart from loans and receivables originated by the entity pursuant to IAS 39 are classified as available-for-sale financial assets.

Held-to-maturity investments are disclosed under non-current assets. This does not apply if they are due within one year of the end of the reporting period. Financial assets held for trading are disclosed under current assets. Available-for-sale financial assets are disclosed under current assets if management intends to sell them within 12 months of the end of the reporting period.

When a financial asset is recognized initially, it is measured at cost. This comprises the fair value of the consideration and – with the exception of financial assets held for trading – the transaction costs.

Changes in the fair value of held-for-trading financial assets are recorded in profit or loss. The fair value of a financial instrument is the amount that can be generated from the asset in an arm's length transaction between knowledgeable and willing parties under current market conditions.

Held-to-maturity investments are measured at amortized cost using the effective interest method. If it is more likely than not that the financial assets measured at amortized cost are impaired, the impairment loss is recognized in profit or loss. If an impairment loss recorded in a prior period decreases and the decrease in the impairment loss (or reversal) can be objectively related to an event occurring after the impairment loss, the reversal is recognized in profit or loss. A reversal of an impairment loss cannot, however, exceed the carrying amount that would have been recognized without the impairment loss.

Loans and receivables originated by an entity and not held for trading are measured at the lower of amortized cost or net realizable value at the end of the reporting period.

Available-for-sale financial assets are recognized at fair value. Unrealized gains and losses are disclosed in other comprehensive income, net of a tax portion. The reserve is released to profit or loss either upon disposal or if the assets are impaired.

To date, Dürr has not made use of the option to designate financial assets upon initial recognition as financial assets at fair value through profit or loss.

Financial liabilities

Financial liabilities generally give rise to the right to receive settlement in cash or another financial asset. They include, for example, trade payables, liabilities to banks, bonds, bonded loans, obligations from options, derivative financial liabilities and other liabilities.

After initial measurement, financial liabilities carried at amortized cost are subsequently measured at amortized cost using the effective interest method. Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading. Derivatives are deemed to be held for trading unless they are designated and effective hedging instruments. Gains or losses on financial liabilities held for trading are recognized in profit or loss.

Dürr has not yet made use of the option to designate financial liabilities upon initial recognition as financial liabilities at fair value through profit or loss.

Derivative financial instruments and hedge accounting

Dürr uses derivative financial instruments such as forward exchange contracts in order to hedge against currency risks.

Derivative financial instruments are measured at fair value on initial recognition and in subsequent periods. Recognition of these changes – whether in profit or loss or directly in equity (hedge reserve) – depends on whether the derivative financial instrument is part of an effective hedge in accordance with IAS 39. Changes in fair value are recognized in profit or loss unless the special criteria of IAS 39 for hedge accounting are satisfied.

Depending on the nature of the hedged item, hedging instruments are designated as follows:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset, liability, unrecognized firm commitment or an identifiable part of such assets, liabilities or firm commitment which could affect profit or loss.

- Cash flow hedges if they hedge exposure to variability in cash flows that is attributable to a recognized asset or liability or a forecast transaction and could affect profit or loss; or

- Hedges of a net investment in a foreign operation. These are treated like cash flow hedges.

Fair value hedge accounting

In the case of fair value hedges, the carrying amount of a hedged item is adjusted through profit or loss by the profit or loss that is attributable to the hedged exposure. In addition, the derivative financial instrument is remeasured at its fair value. Gains or losses arising as a result are also recognized in profit or loss. In a perfect hedge, the fluctuation in fair value recognized in profit or loss for the hedged item practically offsets that of the hedging instrument. For fair value hedges which relate to hedged items carried at amortized cost, the adjustments of the carrying amount are released to profit or loss over their term until maturity. Every adjustment of the carrying amount of a hedged financial instrument is released to profit or loss using the effective interest method. The amount can be released as soon as an adjustment is made. It is released at the latest when the hedged item ceases to be adjusted for the changes in fair value that are attributable to the hedged exposure. If the hedged item is derecognized, the unamortized fair value is recognized immediately in the statement of income.

If an unrecognized firm commitment is designated as a hedged item, the subsequent accumulated change in its fair value that is attributable to the hedged risk is recognized as an asset or liability in the profit or loss of the period. The changes in fair value of the hedging instrument are also recognized in the profit or loss of the period. However, this does not apply if foreign exchange exposure is hedged, as that is treated as a cash flow hedge. Hedge accounting is discontinued when the hedging instrument is settled prematurely or matures or no longer qualifies for hedge accounting.

Cash flow hedge accounting

In the case of cash flow hedges, the effective portion of the gain or loss on a hedging instrument is recognized directly in equity. The ineffective portion is recognized in profit or loss. Amounts that are recognized directly in equity are reclassified to profit or loss in the period in which the hedged item affects the net profit or loss for the period. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or non-financial liability. If the forecast transaction is no longer expected to occur, any amounts previously taken to equity are reclassified to the net profit or loss for the period. When the hedge is settled prematurely or matures, the amounts previously disclosed remain a separate item in equity until the forecast transaction occurs. The same applies if the hedging instrument is exercised without replacement or rollover, or if the criteria for cash flow hedge accounting are no longer in place. If the forecast transaction is no longer expected to occur, the amount is recognized in profit or loss. Further explanations on derivative financial instruments are given in note 40.

Other financial assets

The marketable securities disclosed under other financial assets include securities classified as held to maturity, which are measured at amortized cost using the effective interest method. Other financial assets also include shares in companies that are reported at acquisition cost under other investments.

Inventories and prepayments

Inventories of materials and supplies, work in process from small series production and finished goods and merchandise are recognized at the lower of cost or net realizable value at the end of the reporting period. As a rule, an average value is used. Write-downs are recorded for obsolete and slow-moving inventories.

Costs of conversion comprise direct material costs, direct labor costs as well as an appropriate portion of production-related overheads and depreciation. The overhead markups are determined on the basis of average capacity utilization. Borrowing costs are not included unless they relate to qualifying assets.

Customer-specific construction contracts

Dürr generates most of its sales revenues from customer-specific construction contracts. Contract revenues are generally disclosed using the percentage of completion method (POC method) pursuant to IAS 11 “Construction Contracts”. This involves recognizing sales revenues and the planned gross margin in line with the degree to which the contract has been completed. The degree of completion is calculated on the basis of the costs incurred relative to the total estimated costs. This ensures that both sales revenues and the associated costs are systematically recorded and therefore the profit or loss from the contract is recognized in the period incurred. The zero profit method (ZP method) is used in instances where estimated costs to complete cannot be reliably determined, but it is probable that the costs incurred will be reimbursed. With the zero profit method sales revenues and the associated costs are realized in equal amounts until the contract is completed. The gross margin is thus not recognized in profit or loss until the contract is completed.

Progress billings issued to customers and cash received from customers are deducted without effect on income from costs and estimated earnings in excess of billings on uncompleted contracts or added to billings in excess of costs and estimated earnings.

To the extent that costs have been incurred on contracts, but the amounts cannot yet be billed under the terms of the contracts, they are reported under receivables together with the corresponding estimated earnings as costs and estimated earnings in excess of billings on uncompleted contracts. The invoicing of such amounts is dependent on certain contractually defined milestones being reached. Costs and estimated earnings in excess of billings on uncompleted contracts include directly allocable costs (material and labor costs and cost of purchased services) as well as an appropriate portion of production-related overheads and estimated earnings.

Also included in costs and estimated earnings in excess of billings on uncompleted contracts are amounts that Dürr seeks to collect from customers or others for errors or changes in contract specifications or design, contract change orders in dispute or unapproved as to both scope and price, or other customer-related causes of unanticipated additional contract costs, claims and pending change orders. These are carried at the estimated amount provided their realization is probable and they can be reliably estimated. No profits are reported on these accumulated costs. Pending change orders involve the use of estimates. Therefore, it is possible that adjustments to the estimated recoverable amounts of recorded pending change orders will be made in the future.

The POC method and ZP method are based on estimates. Due to the uncertainties prevailing in this respect, estimates of the expenses required for completion, including expenses for contractual penalties and warranties, may have to be adjusted subsequently. Such adjustments to costs and income are recognized in the period in which the adjustments are determined. Provisions for onerous contracts are recognized in the period in which losses are identified.

Sale of goods/other sales revenues

In addition to contract revenues, Dürr generates sales revenues from the sale of goods and services with a comparably high degree of standardization. These other sales revenues are recognized in accordance with IAS 18 "Revenue" when it is probable that economic benefits will flow to the Group and the amount of sales revenues can be measured reliably. This is usually the point in time when the goods or merchandise are delivered or services rendered, i.e., when the significant risks and rewards have been transferred, regardless of the date of payment.

Trade receivables and other non-derivative financial assets

Receivables and non-derivative financial assets are carried at the lower of amortized cost or net realizable value. The Group assesses their recoverability by referring to a number of factors. Should any issues arise which would impinge on the ability of certain debtors to meet their financial obligations, Dürr posts a specific valuation allowance to write down the net asset to the recoverable amount that can be reasonably expected. Impairments are recognized using valuation allowances. Receivables and non-derivative financial assets are derecognized as soon as they become uncollectible.

Management makes an estimate to evaluate whether separate accounts receivable are overdue or in default. For all other debtors, the Group records bad debt allowances on a portfolio basis for all receivables and non-derivative financial instruments depending on the days past due, the current business environment and past experience. A central monitoring and local collection management system counters the risk of bad debts. This system includes regular credit ratings, the conclusion of credit insurance policies and – particularly in the export business – issuing letters of credit.

Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits and other short-term, highly liquid financial assets with an original term to maturity of less than three months. They are recognized at face value.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups held for sale relate to assets that can be sold in their present condition and whose sale is highly probable. Their carrying amounts must mainly be recovered through a sale transaction rather than through continuing use.

The disposal group can also relate to liabilities that are directly connected to the assets. Non-current assets held for sale and disposal groups are recognized as a separate item in the statement of financial position under current assets. The sale must be expected to qualify within one year from the date of classification.

Pursuant to IFRS 5, non-current assets held for sale and discontinued operations are no longer amortized or depreciated. Instead, they are stated at their fair value less costs to sell provided that this is lower than the carrying amount.

Other comprehensive income

This item presents changes in equity, including the deferred taxes thereon, other than those arising from capital transactions with owners (e.g., capital increases or distributions). These include exchange differences, accumulated actuarial gains and losses from the remeasurement of post-employment benefits and similar obligations as well as unrealized gains and losses from the measurement of available-for-sale financial assets and derivative financial instruments, measured at fair value.

Borrowing costs

Borrowing costs include interest and similar expenses, other finance costs and the cost of liabilities.

Pursuant to IAS 39 "Financial Instruments: Recognition and Measurement", borrowing costs incurred in connection with the issue of the bond and bonded loan are deducted on the liabilities' side of the consolidated statement of financial position. Calculated using the effective interest method, borrowing costs are amortized over the term of the bond and the bonded loan.

Post-employment benefits

The Group's post-employment benefits include defined contribution plans and defined benefit plans. The defined benefit plans guarantee the beneficiary a monthly old-age pension or non-recurring payment upon leaving the company. These benefit plans are funded by the entities as well as by the employees.

In accordance with IAS 19 "Employee Benefits", provisions for post-employment benefit obligations are measured using the projected unit credit method. For this purpose, the future obligations are measured on the basis of the pro rata employee benefit obligations at the end of the reporting period. Provisions for post-employment benefit obligations are calculated taking into account development assumptions (e.g., relating to salary trends or pension increases) for those factors which affect the benefit amount.

Defined benefit cost is divided into service cost and net interest, which are recognized in profit or loss, and remeasurements, which are recognized directly in equity after deducting deferred taxes. Pursuant to the criteria of IAS 19, provisions for post-employment benefit obligations covered by assets held by a long-term benefit fund or by qualifying insurance policies are offset against the related fund assets (plan assets), taking account of the asset ceiling. Assets of an external insurance company or a fund are recognized as plan assets under IAS 19 if these assets can be used exclusively to pay or fund employee benefits and are protected from potential creditors.

Obligations from employee profit participation

In the prior period, the employee profit participation in place at several German HOMAG locations was terminated. The obligations that were to be paid were recognized as current within other liabilities. The non-recurring expenses incurred by the termination were included in the cost of sales and functional costs as part of personnel expenses as well as in net interest on a pro rata basis.

In connection with the termination, the employees of the HOMAG Group were given the opportunity in the 2016 reporting period to issue the settlement balance received or a part thereof to HOMAG Group AG as an interest-bearing loan.

Other provisions

Other provisions are recorded pursuant to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" if the obligation to a third party results from a past event which is expected to lead to an outflow of economic benefits and can be reliably determined. These are uncertain liabilities recognized on the basis of a best estimate of the amount needed to settle the obligations. If the amount of the provision can only be determined within a range, the most probable figure is used. If there is no difference in the level of probability, the weighted average is taken. Provisions with a remaining term of more than one year are discounted at market interest rates which reflect the risk and period until the obligation is settled.

Liabilities

At the inception of the lease, liabilities from finance leases are carried at the lower of fair value of the leased asset or the present value of the minimum lease payments (please refer to the explanations on leases). Trade payables and other non-derivative financial liabilities are recorded at amortized cost. Other liabilities are recorded at the settlement amount. Liabilities for restructuring are recognized to the extent that a detailed formal plan has been prepared and communicated to the parties concerned. Liabilities that do not lead to an outflow of resources in the following year are discounted at market interest rates as of the end of the reporting period.

Deferred taxes

Deferred taxes are accounted for using the balance sheet liability method according to IAS 12 "Income Taxes". This involves creating deferred tax items for all temporary accounting and measurement differences between the carrying amounts for IFRS purposes and the tax bases of the assets and liabilities. They are not created if the taxable temporary difference arises from goodwill or the initial recognition of other assets and liabilities in a transaction (that is not a business combination) which affects neither the IFRS accounting profit nor the taxable profit or loss. A deferred tax asset is recognized for all taxable temporary differences arising from investments in subsidiaries or associates, and interests in joint ventures, unless the parent can control the reversal of the temporary difference and the temporary difference will probably not reverse in the foreseeable future. Further, deferred tax assets for future economic benefits from unused tax losses and unused tax credits are taken into account if it is highly probable that they will be used.

Deferred taxes are measured taking into account the respective local income tax rates which are expected to apply in the individual countries at the time of realization based on tax laws that have been enacted or substantively enacted. Deferred tax assets are reversed if it is more probable that the tax benefit will be forfeited than that it will be utilized.

Deferred tax assets and deferred tax liabilities are netted if, and only if, the entity has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied on the same taxable entity by the same taxation authority. Deferred taxes are recorded as tax income or expense in the statement of income unless they relate to items recorded in other comprehensive income; in this case, the deferred taxes are also recorded in other comprehensive income. Deferred tax assets from temporary differences in excess of deferred tax liabilities are only recognized to the extent that they can be utilized against future taxable profits.

Share-based payment

The share-based payment transactions pursuant to IFRS 2 "Share-based Payment" cover remuneration systems that are settled in cash. For the measurement, Dürr calculates the fair value of the share-based payment transactions upon initial recognition, at each reporting date and on the settlement date. The fair value is accumulated over the period through profit or loss until they are settled and is recognized in other liabilities. Changes in fair value are recognized in personnel expenses in the statement of income.

Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent liabilities can arise from a present obligation that results from past events but is not recognized because:

- it is not probable that an outflow of resources embodying economic benefits will be required to settle this obligation or

- the amount of the obligation cannot be measured with sufficient reliability.

A contingent liability is not disclosed if the possibility of an outflow of resources embodying economic benefits is remote; otherwise, information is provided in the notes to the financial statements. Contingent liabilities assumed in a business combination are recognized at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

3.14 – OVERVIEW OF SELECTED MEASUREMENT METHODS

Item in the statement of financial position	Measurement method
Goodwill	Cost applying the impairment-only approach
Other intangible assets	
of indefinite useful life	Cost applying the impairment-only approach
of finite useful life	(Amortized) cost
Property, plant and equipment	(Amortized) cost
Financial assets	
held to maturity	(Amortized) cost applying the effective interest method
available for sale	At fair value recognized in equity
held for trading	At fair value recognized in profit or loss
Inventories	Lower of cost or net realizable value
Costs and estimated earnings in excess of billings	Percentage of completion method/zero profit method
Trade receivables	(Amortized) cost
Cash and cash equivalents	Nominal value
Non-current assets and disposal groups held for sale	Lower of fair value less costs to sell or carrying amount
Provisions	
Provisions for post-employment benefit obligations	Settlement value applying the projected unit credit method
Other provisions	Present value of the settlement amount
Financial liabilities	(Amortized) cost/fair value
Trade payables	(Amortized) cost
Liabilities from share-based payments	Fair value
Other liabilities	Settlement amount

Other measurement methods may apply in the event of impairment.

Use of assumptions and estimates

The preparation of the consolidated financial statements pursuant to IFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual figures may diverge from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that risk causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are discussed below.

Costs and estimated earnings in excess of billings

Customer-specific construction contracts make up a large part of Dürr's business. Sales revenues and receivables from construction contracts are generally recognized using the POC method. A precise assessment of the degree of completion is essential in this respect. The key estimation parameters include total contract revenues and contract costs, the remaining costs of completion and the contract risks. These estimates are reviewed and adjusted regularly.

Impairment of goodwill

The Group tests goodwill for impairment at least once a year. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. To do this, management is required to make an estimate of the expected future cash flows from the cash-generating units. Dürr uses a planning horizon of four years. In addition, it is necessary to choose a suitable discount rate in order to calculate the present value of these cash flows. Please refer to note 19 for further details.

Income taxes

Dürr operates in a large number of countries and is consequently subject to different tax jurisdictions. The anticipated current and deferred income taxes have to be determined for each taxable entity. Deferred tax assets are recognized to the extent that they are likely to be used. The probability of their being used in the future is assessed taking into account various factors, such as future taxable profit in the planning periods, effects on earnings from the reversal of temporary differences, tax strategies and profit actually generated in the past. Dürr uses a planning horizon of four years. Management reviews the deferred tax assets for impairment at the end of each reporting period. As these reviews are sometimes based on assumptions about the future, the actual values may diverge from estimates. These are then adjusted in other comprehensive income or in profit or loss, depending on how they were initially recognized. Based on past experience and the expected future income, Dürr assumes that the corresponding benefits will be realized from the deferred tax assets. Deferred tax assets and liabilities are measured at the tax rates expected to apply when the asset is realized or the liability is settled. Please refer to note 18 for further details.

Pensions and other post-employment benefit plans

The cost of defined benefit plans is determined using actuarial calculations. This involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. The discount rates used are based on the market yields of high-quality, fixed-interest corporate bonds. Due to the long-term nature of these plans, such assumptions are subject to significant uncertainty. Please refer to note 27 for further details.

Development costs

Development costs are capitalized in accordance with the accounting policy presented in note 6. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, interest rates to be applied and the expected period of benefits.

Options in connection with non-controlling interests

In the course of consolidating CPM S.p.A. in full for the first time in the 2007 reporting period, a put option for the shares held by non-controlling interests was measured at fair value in accordance with IAS 32 and recognized under sundry financial liabilities. The fair value is calculated at the end of each reporting period. This requires an estimate to be made regarding future income.

Options in connection with the domination and profit and loss transfer agreement with HOMAG Group AG

For the entitlements of the outside shareholders of HOMAG Group AG, the arbitration proceedings may in principle lead to adjustments being made to the settlement and compensation payments. However, as of the end of the reporting period Dürr does not expect any such adjustments to be made. For additional information, please refer to note 7.

Share-based payment

The measurement of cash-settled share-based payment transactions is based on the anticipated share price at the end of the contractual term and earnings ratios over the duration of the program. Historical share prices are used to determine the fair value. The earnings ratios used are based on internal forecasts. The actual share prices and earnings ratios may deviate from the assumptions made.

Non-current assets and liabilities held for sale

Pursuant to IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, non-current assets held for sale are stated at their fair value less costs to sell provided that this is lower than the carrying amount. The calculation of the fair value less costs to sell includes estimates and assumptions by management which are subject to a certain degree of uncertainty. The actual proceeds from the sale may deviate from the assumptions made.

Estimates and assumptions are also required for the recognition and measurement of bad debt allowances (cf. notes 22 and 40) as well as for contingent liabilities and other provisions; the same applies to determining the fair value of long-lived items of property, plant and equipment and intangible assets.

7. DOMINATION AND PROFIT AND LOSS TRANSFER AGREEMENT WITH HOMAG GROUP AG

On March 5, 2015, the extraordinary general meeting of HOMAG Group AG agreed to the domination and profit and loss transfer agreement with Dürr Technologies GmbH. Based on this agreement, Dürr Technologies GmbH has the possibility to issue instructions to the corporate bodies of HOMAG Group AG and to recognize the entire profit of HOMAG Group AG as well as the obligation to absorb any losses. In return, Dürr is required to make a compensation payment pursuant to Sec. 304 AktG ["Aktiengesetz": German Stock Corporations Act] of € 1.18 (gross) per HOMAG share (€ 1.01 (net) after deducting corporate income tax and solidarity surcharge; before individual tax burden of the shareholder) for each reporting period as well as a settlement payment pursuant to Sec. 305 AktG of € 31.56 per HOMAG share. The domination and profit and loss transfer agreement came into force in 2016. From this point onwards, Dürr Technologies GmbH guarantees a dividend equivalent to the compensation payment. The domination and profit and loss transfer agreement can be terminated for the first time as of December 31, 2020.

Due to the conclusion of the domination and profit and loss transfer agreement with HOMAG Group AG in the prior period, a sundry financial liability was recognized for the obligation to acquire the shares as well as to pay the compensation entitlements and any taxes incurred in this context. In addition, the sundry financial liability from options exercised towards the shareholder group Schuler/Klessmann was remeasured through profit or loss, as this shareholder group is now also entitled to compensation payments. For additional information, please refer to notes 26 and 31.

NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated statement of income

8. SALES REVENUES

3.15 – SALES REVENUES

€ k	2016	2015
Revenues from customer-specific construction contracts	2,176,760	2,386,210
Other sales revenues	1,396,757	1,380,884
Total sales revenues	**3,573,517**	**3,767,094**
thereof revenues from services	981,906	884,876

9. COST OF SALES

3.16 – COST OF SALES

€ k	2016	2015
Cost of materials	1,403,591	1,613,301
Personnel expenses	620,190	603,914
Exchange rate gains	–40,794	–41,643
Exchange rate losses	44,707	43,781
Amortization and depreciation of non-current assets	57,461	56,154
Other cost of sales	630,095	663,604
Total cost of sales	**2,715,250**	**2,939,111**
Gross margin in %	24.0	22.0

Of the total amount reported as amortization and depreciation of non-current assets, an amount of € 13,957 thousand (prior period: € 10,427 thousand) is attributable to capitalized development costs.

10. SELLING EXPENSES

Selling expenses comprise all direct selling costs and overheads. These generally include all personnel expenses, cost of materials, amortization and depreciation as well as other costs relating to sales. In addition, selling expenses include bad debt expenses relating to trade receivables.

3.17 – SELLING EXPENSES

€ k	2016	2015
Personnel expenses	205,656	179,719
Amortization and depreciation of non-current assets	17,195	5,075
Write-downs of receivables	901	954
Additions to and releases of bad debt allowances on trade receivables	5,550	2,700
Other selling expenses	92,721	94,291
	322,023	**282,739**

For further information about bad debt allowances and impairments of receivables, please refer to note 22.

11. GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses comprise personnel expenses and non-personnel expenses of the central administrative functions, which are not attributable to contract processing, production, sales or research and development.

3.18 – GENERAL ADMINISTRATIVE EXPENSES

€ k	2016	2015
Personnel expenses	117,490	110,648
Amortization and depreciation of non-current assets	7,445	9,603
Other administrative expenses	52,689	66,293
	177,624	**186,544**

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs include all the costs of those activities undertaken to gain new scientific or technical knowledge, to develop new products or to improve products and manufacturing processes. They comprise both personnel expenses and non-personnel expenses and are included in profit or loss on the date they are incurred. Research and development costs are reduced by those development expenses that qualify for recognition as assets pursuant to IAS 38 “Intangible Assets”.

3.19 – RESEARCH AND DEVELOPMENT COSTS

€ k	2016	2015
Personnel expenses	68,043	75,051
Amortization and depreciation of non-current assets	8,401	9,493
Capitalized development costs	– 12,423	– 11,534
Other research and development costs	41,852	24,105
	105,873	**97,115**

The restructuring of the Woodworking Machinery and Systems division resulted in reclassifications within the cost components of research and development costs.

13. PERSONNEL EXPENSES

The expense items of the statement of income contain the personnel expenses according to table 3.20:

3.20 – PERSONNEL EXPENSES

€ k	2016	2015
Wages and salaries	856,757	820,634
Social security contributions	155,005	149,558
Total personnel expenses	**1,011,762**	**970,192**
thereof post-employment benefits	57,541	51,467

14. OTHER OPERATING INCOME AND EXPENSES

3.21 – OTHER OPERATING INCOME AND EXPENSES

€ k	2016	2015
Other operating income		
Exchange rate gains	45,145	64,508
Income from litigation	12,492	119
Income from the disposal or remeasurement of assets held for sale	5,241	–
Income from compensation payments received subsequently	2,200	–
Gains on disposal of non-current assets	2,026	590
Government grants	1,795	1,448
Income from contingent purchase price installments	1,000	877
Reimbursements from damage claims	808	351
Reversal of provisions	667	1,742
Sundry	4,312	7,093
	75,686	**76,728**
Other operating expenses		
Exchange rate losses	45,767	58,857
Expenses from assets held for sale – transaction costs/impairment losses (prior period)	3,398	484
Losses on disposal of non-current assets	1,503	916
Expenses for other local taxes	1,301	1,775
Expenses for canteens	795	582
Expenses for a training facility	759	689
Expenses for damage claims	520	554
Incidental cost of monetary transactions	504	452
Sundry	2,491	6,218
	57,038	**70,527**

Apart from the income from litigation and compensation payments received subsequently as well as the reversal of provisions recognized in prior periods, there are no other material income or expense items relating to other periods.

15. GOVERNMENT GRANTS

Government grants of € 1,842 thousand were recognized in the 2016 reporting period to subsidize expenditures of the Group (prior period: € 1,448 thousand). The grants include subsidies for cost-intensive innovations as well as subsidies for basic and advanced training.

In addition, government grants reduced the cost of assets by € 219 thousand (prior period: € 356 thousand). Conditions are attached to the government grants. At present it can be assumed that these conditions will be met.

16. EARNINGS FROM ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

Earnings from entities accounted for using the equity method amounted to € 3,693 thousand (prior period: € 1,576 thousand). This contains the share of profit from accounting using the equity method. Profits from the sale of goods by consolidated entities to entities accounted for using the equity method (intragroup profits), which are not realized by sale to third parties, are eliminated in the profit from entities accounted for using the equity method. Currency effects were recorded in other comprehensive income.

17. NET INTEREST

3.22 – NET INTEREST

€ k	2016	2015
Interest and similar income	6,233	8,246
Interest and similar expenses	– 26,479	– 33,454
thereof:		
Nominal interest expenses on the corporate bond	– 8,625	– 8,625
Interest expense from the bonded loan	– 3,163	–
Interest expenses arising due to the conclusion of the domination and profit and loss transfer agreement with HOMAG Group AG	– 6,336	– 11,659
Amortization of transaction costs, premium from a bond issue, a bonded loan issue and from syndicated loans	– 641	– 4,428
Interest expenses from finance leases	– 398	– 484
Net interest cost from the measurement of defined benefit plans	– 1,149	– 1,109
Interest expenses from employee profit participation	–	– 2,047
Other interest expenses	– 6,167	– 5,102
Net interest	**– 20,246**	**– 25,208**

As in the prior period, interest expenses in the 2016 reporting period were not reduced by finance costs relating to customer-specific construction contracts, as the contracts did not require any external financing on account of the customer prepayments received.

18. INCOME TAXES

The income taxes relate to the German corporate income tax including a solidarity surcharge, trade tax on income and comparable taxes levied at foreign subsidiaries. The current taxes incurred by foreign subsidiaries are recognized at the tax rates and regulations of the respective national tax law. In Germany, deferred taxes are calculated using a tax rate of 28.7 % (prior period: 28.7 %). **[Tab.→ 3.23]**

Table 3.24 shows the reconciliation of the theoretical income tax expense to the total income tax expense reported. For the 2016 reporting period, German corporate income tax law provided for a statutory tax rate of 15.0 % (prior period: 15.0 %) plus the solidarity surcharge of 5.5 % (prior period: 5.5 %). The average trade tax burden amounted to 12.9 % for 2016 (prior period: 12.9 %). This means that the reconciliation is based on an overall tax rate in Germany of 28.7 % (prior period: 28.7 %). For the foreign entities, the respective country-specific income tax rates range from 15.0 % to 37.3 % (prior period: 15.0 % to 37.0 %). **[Tab.→ 3.24]**

Pursuant to IAS 12 "Income Taxes", a deferred tax asset should be recognized on unused tax losses and other deductible temporary differences only to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be offset. In calculating the possibilities for utilizing tax losses, Dürr uses a four-year planning horizon and takes into account the minimum taxation rule applicable in certain countries. Losses arising in Germany from the period prior to the tax group are not recognized.

The tax expense for 2015 was characterized by non-recurring special effects from the accounting treatment of the domination and profit and loss transfer agreement with HOMAG Group AG. Tax expenses are primarily due to future tax payments over the term of the agreement. Non-tax-deductible interest expenses were recognized in connection with the domination and profit and loss transfer agreement.

In sum, unused interest and tax losses amounted to € 167,180 thousand (prior period: € 186,969 thousand) as of December 31, 2016. There were also unused tax losses of € 18,613 thousand for business activities that are recognized as held for sale and for which no deferred tax assets are recognized. Unused tax losses for which no deferred tax assets were recognized came to € 115,552 thousand (prior period: € 105,478 thousand) and primarily exist in Germany, France and Brazil. In Germany, unused trade tax losses for which no deferred taxes were recognized amount to € 42,610 thousand (prior period: € 40,646 thousand). The unused trade tax losses can currently be carried forward for an indefinite period of time. Of the unused interest and tax losses not recognized, amounts of € 3,119 thousand expire within the next 10 years (prior period: € 3,964 thousand). At present, the remaining unused tax losses do not lapse.

3.23 – COMPOSITION OF THE INCOME TAX EXPENSE

€ k	2016	2015
Current income taxes		
Income tax expense – Germany	36,133	37,696
Income tax expense – other countries	41,088	53,036
Adjustment for prior periods	– 3,917	– 4,196
Total current taxes	**73,304**	**86,536**
Deferred taxes		
Deferred tax income – Germany	– 2,895	– 8,716
Deferred tax expense – other countries	1,799	732
Adjustment for prior periods	– 1,882	– 602
Total deferred taxes	**– 2,978**	**– 8,586**
Total income tax expense of the Dürr Group	**70,326**	**77,950**

3.24 – RECONCILIATION OF THE INCOME TAX EXPENSE

€ k	2016	2015
Earnings before income taxes	**258,126**	**244,512**
Theoretical income tax expense in Germany of 28.7 % (prior period: 28.7 %)	74,082	70,175
Adjustments of income taxes incurred in prior periods	– 5,799	– 4,797
Non-deductible operating expenses and withholding taxes	10,490	17,164
Foreign tax rate differential	– 8,095	– 8,215
Special effect from the domination and profit and loss transfer agreement (HOMAG Group AG)	–	8,920
Unrecognized deferred tax assets especially on unused tax losses	5,358	1,472
Subsequent recognition of deferred taxes on unused tax losses and changes in deferred taxes on impairment losses	– 5,732	– 5,981
Change in tax rates	324	495
Tax-exempt income	– 351	– 1,331
Other	49	48
Total income tax expense of the Dürr Group	**70,326**	**77,950**

3.25 – DEFERRED TAX ASSETS AND LIABILITIES

	CONSOLIDATED STATEMENT OF FINANCIAL POSITION		CONSOLIDATED STATEMENT OF INCOME	
€ k	Dec. 31, 2016	Dec. 31, 2015	2016	2015
Deferred tax assets				
Accounting for intangible assets	3,322	3,597	–275	–338
Remeasurement of land and buildings and property, plant and equipment	2,699	1,505	1,194	340
Bad debt allowances	1,140	1,306	–166	–248
Interest/currency transactions	7,108	4,412	2,696	144
Customer-specific construction contracts and inventories	17,232	21,572	–4,340	1,165
Other assets and other liabilities	3,838	13,800	–9,962	1,823
Post-employment benefits	13,534	7,299	6,235	–786
Provisions not recognized for tax purposes	12,600	9,419	3,181	801
Interest and tax loss carryforwards	16,101	17,826	–1,725	3,394
Total deferred tax assets	**77,574**	**80,736**		
Netting	–47,683	–45,201		
Net deferred tax assets	**29,891**	**35,535**		
Deferred tax liabilities				
Accounting for intangible assets	–40,065	–44,011	3,946	–2,218
Capitalized development costs	–10,207	–11,139	932	–2,112
Tax-deductible impairment of goodwill	–15,046	–16,441	1,395	–997
Remeasurement of land and buildings and property, plant and equipment	–26,682	–21,992	–4,690	2,127
Measurement of shares in subsidiaries	–15,162	–14,874	–288	–1,931
Customer-specific construction contracts and inventories	–34,328	–48,035	13,707	–1,707
Other assets and other liabilities	–8,191	–6,458	–1,733	2,391
Amortization of costs related to the bond, bonded loan and syndicated loans	–318	–384	66	420
Total deferred tax liabilities	**–149,999**	**–163,334**		
Netting	47,683	45,201		
Net deferred tax liabilities	**–102,316**	**–118,133**		
Reconciliation effect from first-time consolidation			1,175	5,563
Reconciliation effect from assets and liabilities held for sale			–6,122	–
Translation effects from deferred tax items			738	–157
Effects recognized in other comprehensive income			–2,986	912
Deferred tax income			**2,978**	**8,586**

Other deductible temporary differences of € 7,301 thousand were not recognized as of December 31, 2016 (prior period: € 9,190 thousand). **[Tab.→ 3.25]**

In the 2016 reporting period, deferred taxes of € –2,986 thousand were recognized in other comprehensive income (prior period: € 912 thousand).

In the prior period, the items unused interest and tax losses as well as impairment losses were recognized separately. In the 2016 reporting period, there was a change in presentation such that the two prior-period figures were netted by € 14,781 thousand.

The sale of the Cleaning and Surface Processing business activity (Dürr Ecoclean Group) is recognized as an asset held for sale transaction. As a result, the deferred tax assets and liabilities of € 6,122 thousand allocated to this business activity are recognized within assets or liabilities held for sale.

Deferred tax assets and deferred tax liabilities are netted if, and only if, the entity has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

The income taxes and withholding taxes on distributable profits from subsidiaries are reported under deferred tax liabilities if it can be assumed that these profits will be subject to the corresponding taxation, or if there is a plan not to reinvest these profits permanently. No deferred tax liabilities were recognized on the accumulated profits of subsidiaries of € 237,835 thousand (prior period: € 236,482 thousand), as it is intended to reinvest these profits for an indefinite period. Dürr assumes that no reserves will be distributed to the respective parent in the tax group while the consolidated tax group is in place.

Notes to the consolidated statement of financial position: assets

19. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Details regarding the changes in the Group's intangible assets and property, plant and equipment are presented in the statement of changes in non-current assets in note 42.

Amortization and depreciation

Amortization and depreciation is shown in the statement of income in the cost of sales and functional costs. **[Tab.→ 3.26]**

Continuing the ONE HOMAG program, the brand architecture of the Woodworking Machinery and Systems division is being realigned in the 2017 reporting period. As of March 1, 2017, the HOMAG Group only operates under the HOMAG brand. For this reason, the useful lives of the brand names WEEKE, BRANDT, HOLZMA and AUTOMATION which will no longer be used in future were changed from indefinite to finite and written down in full by an amount of € 11,098 thousand.

Intangible assets

In addition to goodwill, intangible assets with an indefinite useful life also include brand names of € 51,202 thousand (prior period: € 62,292 thousand). Dürr intends to continue using these brand names in the future.

Prepayments for intangible assets mainly contain capital expenditure on software products for a large-scale IT project of the HOMAG Group. The expected useful life for the project is five years.

3.26 – AMORTIZATION AND DEPRECIATION

	2016			2015		
€ k	Intangible assets	Property, plant and equipment	Total amortization and depreciation	Intangible assets	Property, plant and equipment	Total amortization and depreciation
Cost of sales	– 29,601	– 26,953	– 56,554	– 29,744	– 25,474	– 55,218
Selling expenses	– 12,920	– 4,275	– 17,195	– 1,559	– 3,090	– 4,649
General administrative expenses	– 1,479	– 5,966	– 7,445	– 3,361	– 5,927	– 9,288
Research and development costs	– 3,505	– 4,896	– 8,401	– 4,196	– 4,606	– 8,802
Other operating expenses	– 3	– 9	– 12	–	– 137	– 137
Interest and similar expenses	–	–	–	– 1,229	–	– 1,229
	– 47,508	**– 42,099**	**– 89,607**	**– 40,089**	**– 39,234**	**– 79,323**

Impairment test for goodwill

The goodwill acquired from business combinations is allocated to the cash-generating units for impairment testing. Dürr has defined the divisions or business activities within its divisions as cash-generating units. These are Paint and Final Assembly Systems, Application Technology, Balancing and Assembly Products, Clean Technology Systems and Woodworking Machinery and Systems. The calculation model is used in exactly the same way for all cash-generating units as the main parameters apply equally to all business activities. As part of the strategic realignment of the Cleaning and Surface Processing business activity, goodwill of € 21,316 thousand was reclassified as asset held for sale and tested for impairment prior to this. As the expected sales proceeds exceed the net assets, goodwill was not impaired.

The recoverable amount of the cash-generating units is determined based on the value in use. The value in use of each of the activities exceeded the net assets assigned to it. The calculation is based on cash flow forecasts for a planning period of four years. The pre-tax discount rate for the cash flow forecast ranged from 8.96 % to 10.91 % in the 2016 reporting period (prior period: 8.65 % to 10.82 %). Cash flows after the four-year period are extrapolated using a growth rate of 1.0 % (prior period: 1.0 %) based on the long-term growth rate of the business activities.

Dürr tests goodwill for impairment at the end of each reporting period.

Planned gross profit margins

The planned gross profit margins are determined in the bottom-up planning of the Group's entities and business activities. They are based on the figures determined in the previous reporting periods taking anticipated price and cost developments as well as efficiency increases into account.

Cost of capital (discount rate)

The cost of capital is the weighted average cost of debt and equity before taxes. When calculating the cost of equity, a beta factor is taken into account, which is derived from capital market data and the capital structure of Dürr's benchmark companies. Borrowing costs are based on a base interest rate for government bonds and a mark-up derived from the credit rating of benchmark companies.

Increase in the price of raw materials

Future increases in the price of upstream products and raw materials needed by Dürr are primarily derived from the expected increase in the prices of those commodities needed to manufacture the goods or materials. These, in turn, are determined from the forecast price indices of the countries from which the upstream products and raw materials are procured by the respective group entities.

Increase in wage and salary costs

In the four-year plan, the German subsidiaries have assumed annual average salary increases of 2.8 % p.a. from 2017 onwards (prior period: 2.6 % p.a.). The foreign subsidiaries have all used the applicable local rate of increase for the respective planning period.

Sensitivity analysis of goodwill

Independent of the current economic situation and the expectations for the future, Dürr conducted sensitivity analyses of the recoverability of the goodwill carried in its activities. The impact of the following scenarios was calculated:

- Decrease of 10 % in EBIT in all years within the planning horizon beginning in 2017 (in comparison to the figures projected in the approved business plans)
- Increase of 0.5 percentage points in the discount rate
- Decrease in the rate of growth for the terminal value to 0.75 %

The sensitivity analyses revealed that, from today's perspective, no impairment loss needed to be recognized on goodwill in any of the business activities even under these assumptions.

3.27 – DEVELOPMENT OF GOODWILL

€ k	Carrying amount as of Jan. 1, 2015	Exchange difference	Additions	Carrying amount as of Dec. 31, 2015	Exchange difference	Additions	Reclassification to assets held for sale	Carrying amount as of Dec. 31, 2016
Paint and Final Assembly Systems	**93,723**	**1,111**	**11,192**	**106,026**	**782**	**1,172**	**–**	**107,980**
Application Technology	**65,763**	**274**	**–**	**66,037**	**366**	**637**	**–**	**67,040**
Balancing and Assembly Products	101,292	1,099	272	102,663	334	–	–	102,997
Cleaning and Surface Processing	17,969	1,862	962	20,793	523	–	–21,316	–
Measuring and Process Systems	**119,261**	**2,961**	**1,234**	**123,456**	**857**	**–**	**–21,316**	**102,997**
Clean Technology Systems	**12,718**	**690**	**–**	**13,408**	**209**	**3,613**	**–**	**17,230**
Woodworking Machinery and Systems	**105,846**	**389**	**–**	**106,235**	**118**	**–**	**–**	**106,353**
Dürr Group	**397,311**	**5,425**	**12,426**	**415,162**	**2,332**	**5,422**	**–21,316**	**401,600**

Development of goodwill
Table 3.27 shows the development of goodwill, broken down by division and business activity.

The change in goodwill from additions is explained below.

Acquisitions
Other acquisitions
There were a few smaller acquisitions that took place in the 2016 reporting period.

- As part of the acquisition of additional shares in Dürr Cyplan Ltd., with registered offices in Aldermaston, UK, Dürr Systems AG, Stuttgart, Germany, acquired 100 % of the shares in E&P Turbo Ltd., with registered offices in Aldermaston, UK, on July 6, 2016.

- On July 12, 2016, Verind S.p.A., with registered offices in Rodano, Italy, acquired 100 % of the shares in GT Assistência Técnica Industrial Ltda., with registered offices in Belo Horizonte, Brazil, to strengthen the service business.

- Effective November 30, 2016, Dürr Systems AG acquired the assets and employees of KBA-MetalPrint GmbH, with registered offices in Stuttgart, Germany, to open up further markets in the area of exhaust gas purification.

- Effective December 2, 2016, iTAC Software AG, with registered offices in Montabaur, Germany, acquired 100 % of the shares in the German software company DUALIS GmbH IT Solution. DUALIS GmbH is based in Dresden, Germany. With this acquisition, Dürr continues to expand its activities in the area of manufacturing execution systems (MES).

First-time consolidation of the acquired entities was performed pursuant to IFRS 3 "Business Combinations" using the full goodwill method for acquisition accounting purposes. The profit or loss of the entities was included in the consolidated financial statements as of the date of first-time consolidation. The purchase price of the acquisitions amounted to € 9,590 thousand, of which € 8,411 thousand was settled in cash. Contingent purchase price installments of € 1,179 thousand were recognized. The acquisition-related costs came to € 88 thousand and were expensed in the 2016 reporting period. The goodwill from the first-time consolidation of the acquired entities and the acquired net assets are presented in table 3.28:

3.28 – GOODWILL – OTHER ACQUISITIONS

€ k	
Purchase price	9,590
Fair value of net assets	–4,168
Goodwill	**5,422**

Of goodwill, € 5,422 thousand reflects synergies in areas such as sales and earnings prospects in Brazil and Germany, and € 1,172 thousand was allocated to the division Paint and Final Assembly Systems, € 637 thousand to the division Application Technology and € 3,613 thousand to the division Clean Technology Systems. € 2,501 thousand of the goodwill is tax deductible.

The allocation of the purchase price to the acquired assets and liabilities can be found in table 3.29:

3.29 – PURCHASE PRICE ALLOCATION – OTHER ACQUISITIONS

€ k	Carrying amount before acquisition	Adjustment	Carrying amount after acquisition
Intangible assets	122	4,815	**4,937**
Property, plant and equipment	99	–	**99**
Inventories and prepayments	447	– 86	**361**
Receivables and other assets	776	– 58	**718**
Cash and cash equivalents	528	–	**528**
Deferred tax liabilities	–	– 1,175	**– 1,175**
Current liabilities	– 1,103	– 197	**– 1,300**
Net assets	**869**	**3,299**	**4,168**

The carrying amounts after acquisition correspond to fair value as of the date of first-time consolidation. The gross contractual value of the acquired receivables and other assets approximates their fair value. The adjustments mainly relate to intangible assets, where technological know-how and customer relationships were recognized in the purchase price allocation. No contingent liabilities were recognized in the first-time consolidation.

3.30 – HIDDEN RESERVES IDENTIFIED IN ACQUIRED INTANGIBLE ASSETS – OTHER ACQUISITIONS

€ k	Fair value
Technological know-how	4,447
Customer relationships	265
Other	103
	4,815

The fair value of technological know-how was measured using the multi-period excess earnings/relief from royalty method; the fair value of customer relationships was measured using the multi-period excess earnings method.

The earnings contributed by the first-time consolidated entities as of the date of first-time consolidation until December 31, 2016, are summarized in table 3.31:

3.31 – EARNINGS CONTRIBUTION FROM THE DATE OF FIRST-TIME CONSOLIDATION – OTHER ACQUISITIONS

€ k	
Sales revenues	552
Earnings after taxes	– 852

Earnings after taxes contains the effects attributable to the 2016 reporting period from identifying hidden reserves and encumbrances in the purchase price allocation.

Had the acquired entities been included in the consolidated group as of January 1, 2016, group sales revenues for the 2016 reporting period would have amounted to € 3,582,701 thousand and the Dürr Group's profit for the period would have been € 189,423 thousand.

Major acquisitions in the prior period

iTAC

Effective December 3, 2015, Dürr Technologies GmbH acquired 100 % of the shares in the German software company iTAC Software AG and its subsidiary iTAC Software Inc. iTAC Software AG has its registered offices in Montabaur, Germany, the subsidiary iTAC Software Inc. in Novi, Michigan, USA.

With this acquisition, Dürr has expanded its activities significantly in the area of manufacturing execution systems (MES) – a core component of Industry 4.0. MES software allows machines and equipment in production lines and factories to be connected in a smart system. iTAC is one of the leading providers in this future market.

First-time consolidation of the acquired entities was performed pursuant to IFRS 3 "Business Combinations" using the purchased goodwill method for acquisition accounting purposes. The profit or loss of the entities was included in the consolidated financial statements as of the date of first-time consolidation.

The purchase price for the acquisition of the iTAC companies amounted to € 31,239 thousand and was settled in cash. The acquisition-related costs came to € 392 thousand and were expensed in the 2015 reporting period.

The goodwill from the first-time consolidation of the acquired iTAC entities and the acquired net assets are presented in table 3.32:

3.32 – GOODWILL – ACQUISITION OF ITAC

€ k	
Purchase price	31,239
Fair value of net assets	– 20,047
Goodwill	**11,192**

Of goodwill, € 11,192 thousand reflected sales and earnings synergies relating to Industry 4.0 and was allocated to the Paint and Final Assembly Systems division. The goodwill was not tax-deductible.

The allocation of the purchase price to the acquired assets and liabilities can be found in table 3.33:

3.33 – PURCHASE PRICE ALLOCATION – ACQUISITION OF ITAC

€ k	Carrying amount before acquisition	Adjustment	Carrying amount after acquisition
Intangible assets	4,216	23,515	**27,731**
Property, plant and equipment	692	–	**692**
Deferred tax assets	–	3,037	**3,037**
Inventories and prepayments	14	–	**14**
Receivables and other assets	6,040	– 1,306	**4,734**
Cash and cash equivalents	1,376	–	**1,376**
Non-current liabilities	– 1,126	1,126	**–**
Deferred tax liabilities	–	– 8,366	**– 8,366**
Current liabilities	– 10,981	1,810	**– 9,171**
Net assets	**231**	**19,816**	**20,047**

The carrying amounts after acquisition corresponded to fair value as of the date of first-time consolidation. The gross contractual value of the acquired receivables and other assets approximated their fair value. The adjustments mainly relate to intangible assets, where technological know-how, customer relationships and the iTAC brand name were recognized in the course of the purchase price allocation. No contingent liabilities were recognized in the first-time consolidation.

3.34 – HIDDEN RESERVES IDENTIFIED IN ACQUIRED INTANGIBLE ASSETS – ACQUISITION OF ITAC

€ k	Fair value
Technological know-how	14,862
Customer relationships	4,869
Brand name	3,784
	23,515

The fair value of technological know-how and the brand name was measured using the relief from royalty method; the fair value of customer relationships was measured using the residual value method.

The earnings contributed by the iTAC companies as of the date of first-time consolidation until December 31, 2015, are summarized in table 3.35:

3.35 – EARNINGS CONTRIBUTED FROM THE DATE OF FIRST-TIME CONSOLIDATION – ITAC

€ k	
Sales revenues	2,209
Earnings after taxes	− 37

Earnings after taxes contained the effects attributable to the 2015 reporting period from identifying hidden reserves and encumbrances in the purchase price allocation.

Had the acquired iTAC entities been included in the consolidated group as of January 1, 2015, group sales revenues for the 2015 reporting period would have amounted to € 3,779,995 thousand and the Dürr Group's profit for the period would have been € 168,363 thousand.

Property, plant and equipment

Items of property, plant and equipment are recognized as assets under construction if costs for own or third-party work have already been incurred but they have not been completed by the end of the reporting period. As of December 31, 2016, the majority of assets under construction related to the construction of the new Dürr Campus in the Shanghai region in the PR China (prior period: Campus in Southfield, USA).

The Group pledged self-owned land and buildings, as well as plant and machinery of € 43,935 thousand (prior period: € 63,289 thousand), as collateral.

Land and buildings

Dürr invested € 6,427 thousand in property in the 2016 reporting period. The majority of this investment related to the completion of the Dürr Campus in Southfield and the training center in Ulsan, South Korea. In the prior period, investments in real estate amounted to € 14,320 thousand. Part of this amount related to the training center in Ulsan as well as the acquisition of land for the future Dürr Campus in Shanghai, PR China. A production plant in the US was also recognized as a finance lease.

Finance leases

On December 31, 2016, a building in the UK, a heating water distribution grid in Germany, a building in Italy as well as a production hall in the US were recognized as finance lease assets in land and buildings. Dürr is not the legal owner of the buildings or the heating water distribution grid. The production plant in the US was recognized as a finance lease for the first time in the 2015 reporting period. The depreciation recorded on these properties is included in the depreciation of property, plant and equipment. Table 3.36 shows cost and accumulated depreciation and impairment losses included in property, plant and equipment for these properties which are reported as finance lease assets.

3.36 – PROPERTIES RECOGNIZED AS FINANCE LEASE ASSETS

€ k	Dec. 31, 2016	Dec. 31, 2015
Historical cost	12,024	12,633
Accumulated depreciation and impairment losses	− 4,434	− 3,996
Net carrying amount	**7,590**	**8,637**

Investment property

Dürr distinguishes between property that is largely owner-occupied and property that is mostly let to third parties. A property is considered to be largely used by third parties if the space used by the company itself is insignificant. Dürr uses the cost method to measure such investment property. The properties concerned are a group of buildings as well as part of the infrastructure area of Schenck Technologie- und Industriepark GmbH in Darmstadt, Germany, which are allocated to the Measuring and Process Systems division.

3.37 – INCOME AND EXPENSES FROM INVESTMENT PROPERTY

€ k	2016	2015
Rental income in the reporting period	3,552	3,354
Future rental income expected based on the existing agreements	12,643	9,383
Directly attributable expenditure	1,287	1,351
Directly attributable expenditure for vacant property	77	142

Buildings are depreciated using the straight-line method of depreciation over their useful life ranging between 20 and 50 years.

In the 2016 reporting period, the composition of the properties accounted for pursuant to IAS 40 "Investment Property" was unchanged on the prior period. The fair value comes to € 31,860 thousand as of December 31, 2016, taking into account additions due to subsequent expenditure (prior period: € 31,070 thousand) and is allocated to level 3 in the fair value hierarchy (for more information on the fair value hierarchy levels, please see note 34). An internal calculation prepared on an annual basis is used to determine the fair value of the investment properties; no valuer was consulted in determining the values. Fair value of the property is calculated using capitalized income from the cash-generating unit based on market rents adjusted by risk mark-downs customary for the region. A vacancy rate of 10 % (prior period: 10 %) and a property yield of 7.5 % (prior period: 7.5 %) was used in the calculation. The accumulated cost of land and buildings came to € 43,365 thousand as of January 1, 2016, and € 43,643 thousand as of December 31, 2016. The accumulated depreciation including all impairment losses and reversals of impairment losses increased from € 22,104 thousand as of January 1, 2016, to € 22,979 thousand as of December 31, 2016.

20. INVESTMENTS IN ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD AND OTHER FINANCIAL ASSETS

Significant entities accounted for using the equity method

Homag China Golden Field Ltd.

The entity Homag China Golden Field Ltd. is based in Hong Kong, PR China, and is a sales and service company which sells the products of the HOMAG Group's manufacturing companies. It is responsible for ensuring a functioning service organization and for working the Chinese market.

3.38 – CONDENSED STATEMENT OF FINANCIAL POSITION OF HOMAG CHINA GOLDEN FIELD LTD.

€ k	Dec. 31, 2016	Dec. 31, 2015
Non-current assets	4,252	7,640
Current assets	137,945	81,223
Current liabilities	110,939	65,347
Equity	31,258	23,516
Carrying amount of the investment	12,299	10,913
Dürr investment	25.0 %	25.0 %

The carrying amount of the investment is influenced by currency effects.

3.39 – FURTHER FINANCIAL INFORMATION OF HOMAG CHINA GOLDEN FIELD LTD.

€ k	2016	2015
Sales revenues	178,906	197,586
Earnings after income taxes	6,138	3,076
Dividends received from Homag China Golden Field Ltd.	490	–

As in the prior period, the associate had no material contingent liabilities as of December 31, 2016. At present, there are no significant restrictions with respect to dividend distributions.

3.40 – AGGREGATED DISCLOSURES ON OTHER ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

€ k	2016	2015
Carrying amount of other entities accounted for using the equity method (as of Dec. 31)	20,427	17,309
Earnings after income taxes	4,217	4,717

The end of the reporting period of one associate is September 30; it is included using the equity method on the basis of the figures contained in the financial statements from that date. Significant effects that occurred between that date and December 31 are considered.

For further information on the consolidated companies, please refer to notes 3 and 4.

Other financial assets

3.41 – OTHER FINANCIAL ASSETS

€ k	Dec. 31, 2016	Dec. 31, 2015
Other investments	2,946	15,845
Securities classified as non-current assets	8,955	25,257
Other loans	–	305
	11,901	**41,407**

The investment in Tec4Aero GmbH, with registered offices in Wiefelstede, Germany, with a carrying amount of € 12,360 thousand as of December 31, 2015, was sold on October 20, 2016, for a profit of € 3,922 thousand. The profit is recognized under other investment income.

Securities classified as non-current assets mainly comprise corporate bonds that are held to maturity. The carrying amount of these securities came to € 8,955 thousand (prior period: € 24,878 thousand). As part of its investment strategy, Dürr invests its free liquidity in higher interest-bearing securities from European issuers in order to improve its net interest.

21. INVENTORIES AND PREPAYMENTS

3.42 – INVENTORIES AND PREPAYMENTS

€ k	Dec. 31, 2016	Dec. 31, 2015
Materials and supplies	173,842	171,243
less write-downs	– 22,019	– 17,246
Work in process from small series production	92,852	85,467
less write-downs	– 4,470	– 4,012
Finished goods and merchandise	119,043	129,320
less write-downs	– 15,649	– 20,071
Prepayments	37,457	42,039
	381,056	**386,740**

Materials and supplies were measured at average cost. On aggregate, write-downs on inventories increased to € 42,138 thousand (prior period: € 41,329 thousand) after taking into account exchange differences and consumption. The additions to write-downs in the 2016 reporting period of € 16,119 thousand (prior period: € 11,137 thousand) were recognized in profit or loss.

22. TRADE RECEIVABLES [Tab.→ 3.43]

Table 3.44 shows an ageing analysis of the recognized trade receivables that are not impaired. [Tab.→ 3.44]

With respect to the trade receivables that were neither impaired nor past due, there was no indication at the end of the reporting period that the debtors would not meet their payment obligations.

Bad debt allowances on trade receivables due from third parties and due from entities accounted for using the equity method developed, as presented in table 3.45. [Tab.→ 3.45]

3.43 – TRADE RECEIVABLES

€ k	Dec. 31, 2016 Total	Dec. 31, 2016 Current	Dec. 31, 2016 Non-current	Dec. 31, 2015 Total	Dec. 31, 2015 Current	Dec. 31, 2015 Non-current
Costs and estimated earnings in excess of billings	357,149	357,149	–	353,617	353,617	–
Trade receivables due from third parties	418,481	401,606	16,875	536,732	536,172	560
Trade receivables due from entities accounted for using the equity method	20,668	20,665	3	5,963	5,963	–
	796,298	**779,420**	**16,878**	**896,312**	**895,752**	**560**

3.44 – AGEING ANALYSIS OF TRADE RECEIVABLES

	Costs and estimated earnings in excess of billings		Trade receivables due from third parties		Trade receivables due from entities accounted for using the equity method	
€ k	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Neither past due nor impaired at the end of the reporting period	357,149	353,617	305,084	396,229	18,820	4,320
Not impaired at the end of the reporting period, but past due by						
less than 3 months	–	–	69,684	72,622	991	1,229
between 3 and 6 months	–	–	19,224	33,194	516	55
between 6 and 9 months	–	–	6,802	8,757	11	307
between 9 and 12 months	–	–	3,198	5,384	286	7
more than 12 months	–	–	9,375	12,700	44	45
Total	–	–	108,283	132,657	1,848	1,643
Net receivables on which specific bad debt allowances have been recognized	–	–	5,114	7,846	–	–
Net carrying amount	**357,149**	**353,617**	**418,481**	**536,732**	**20,668**	**5,963**

3.45 – CHANGES IN BAD DEBT ALLOWANCES

€ k	2016	2015
As of January 1	**11,032**	**8,897**
Exchange difference	66	146
Utilization	– 654	– 711
Reversal	– 1,721	– 2,170
Increases (impairment charge)	7,271	4,870
Reclassification to assets held for sale	– 906	–
As of December 31	**15,088**	**11,032**

3.46 – COMPOSITION OF COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS AND BILLINGS IN EXCESS OF COSTS ON UNCOMPLETED CONTRACTS

	Dec. 31, 2016			Dec. 31, 2015		
€ k	Total	Current	Non-current	Total	Current	Non-current
Assets						
Costs incurred including earnings	1,550,575	1,550,575	–	1,865,703	1,865,703	–
Less billings	1,193,426	1,193,426	–	1,512,086	1,512,086	–
Costs and estimated earnings in excess of billings	**357,149**	**357,149**	**–**	**353,617**	**353,617**	**–**
Liabilities						
Costs incurred including earnings	2,420,602	2,420,602	–	1,895,690	1,895,690	–
Less billings	2,942,968	2,939,140	3,828	2,430,002	2,426,174	3,828
Billings in excess of cost on uncompleted contracts	**522,366**	**518,538**	**3,828**	**534,312**	**530,484**	**3,828**
Total						
Costs incurred including earnings	3,971,177	3,971,177	–	3,761,393	3,761,393	–
Less billings	4,136,394	4,132,566	3,828	3,942,088	3,938,260	3,828
Billings in excess of cost on uncompleted contracts	**165,217**	**161,389**	**3,828**	**180,695**	**176,867**	**3,828**

3.47 – SUNDRY FINANCIAL ASSETS

	Dec. 31, 2016			Dec. 31, 2015		
€ k	Total	Current	Non-current	Total	Current	Non-current
Derivative financial assets	3,545	3,493	52	4,471	4,273	198
Rent deposits and other collateral provided	6,541	3,612	2,929	7,762	3,281	4,481
Time deposits	89,445	89,445	–	8,682	8,682	–
Held-for-trading financial assets	6	6	–	2	2	–
Remaining sundry financial assets	21,889	20,708	1,181	11,593	8,362	3,231
	121,426	**117,264**	**4,162**	**32,510**	**24,600**	**7,910**

Receivables of € 901 thousand (prior period: € 954 thousand) were derecognized in the 2016 reporting period; € 654 thousand (prior period: € 711 thousand) thereof had already been written down in the past. The remaining € 247 thousand (prior period: € 243 thousand) was derecognized through profit or loss in the 2016 reporting period. **[Tab.→ 3.46]**

These amounts are offset on a contract basis and are included in either costs and estimated earnings in excess of billings (assets) or billings in excess of costs and estimated earnings (liabilities). Please also refer to note 29.

23. SUNDRY FINANCIAL ASSETS

Remaining sundry financial assets include receivables from litigation of € 12,383 thousand (prior period: € 8 thousand), balances at suppliers of € 3,157 thousand (prior period: € 2,523 thousand) and receivables from employees totaling € 1,602 thousand (prior period: € 1,530 thousand). There is no indication that the debtors will not be able to meet their payment obligations.

For the disclosures required by IFRS 7, please refer to note 34.

24. OTHER ASSETS

3.48 – OTHER ASSETS

€ k	Dec. 31, 2016			Dec. 31, 2015		
	Total	Current	Non-current	Total	Current	Non-current
Tax reimbursement claims without income taxes	27,499	26,972	527	29,699	29,144	555
	27,499	**26,972**	**527**	**29,699**	**29,144**	**555**

25. NON-CURRENT ASSETS HELD FOR SALE AND RELATED LIABILITIES AND SALES

Assets sold in the 2016 reporting period

In connection with the relocation to the Dürr Campus in Southfield, Michigan, USA, the building in Auburn Hills, also in Michigan, USA, that was no longer needed and further technical equipment and office equipment at that location were classified as held for sale in the 2015 reporting period. The building and further items of property, plant and equipment were sold effective March 31, 2016. The gain on disposal amounted to € 4,935 thousand and is contained in the statement of income as other operating income. The assets were measured at the carrying amount at the date of reclassification. As of December 31, 2015, the assets classified as held for sale were allocated to the Application Technology division.

Furthermore, a property held for sale in Germany and additional items of property, plant and equipment were sold effective April 4, 2016. The gain on disposal amounted to € 297 thousand. The assets were measured at fair value. The assets sold were allocated to the Woodworking Machinery and Systems division.

As part of the closure of the manufacturing site Zistersdorf in Austria, a plot of land with buildings that was no longer needed and additional items of property, plant and equipment were classified as held for sale and sold effective December 30, 2016. The gain on disposal amounted to € 9 thousand. The assets were measured at fair value and allocated to the Paint and Final Assembly Systems division.

Assets and liabilities held for sale

As part of the strategic realignment of the Cleaning and Surface Processing activity (Dürr Ecoclean Group), the company Shenyang Blue Silver Industry Automation Equipment Co., Ltd., PR China (SBS), will acquire the business of the Dürr Ecoclean Group. Under the planned sale, Dürr receives a cash settlement of around € 100 million and a 15 % investment in the new holding company SBS Ecoclean GmbH, Germany. The assets and associated liabilities allocated to the Cleaning and Surface Processing activity are classified as held for sale and recognized separately in the consolidated statement of financial position of Dürr AG as of December 31, 2016. These assets and liabilities remained allocated to the Measuring and Process Systems division as of December 31, 2016. These assets were not required to be written down to fair value less costs to sell. In addition to various assets and liabilities in the PR China, Mexico and several other countries, the transaction involves the following companies:

- Dürr Ecoclean GmbH, Filderstadt, Germany,
- Dürr Cleaning France S.A.S., Le Mans, France,
- Dürr Ecoclean spol. s r.o., Oslavany, Czech Republic,
- UCM AG, Rheineck, Switzerland,
- Dürr Ecoclean Inc., Southfield, Michigan, USA,
- Mhitraa Engineering Equipments Private Limited, Sriperumbudur, India.

3.49 – ASSETS AND LIABILITIES HELD FOR SALE

€ k	Dec. 31, 2016	Dec. 31, 2015
Intangible assets	24,384	–
Property, plant and equipment	16,037	6,315
Deferred tax assets	1,297	–
Inventories and prepayments	20,225	–
Receivables and other assets	91,113	–
Cash and cash equivalents	14,164	–
Non-current liabilities	– 4,993	–
Deferred tax liabilities	– 7,419	–
Current liabilities	– 47,496	–
Net assets	**107,312**	**6,315**
Other comprehensive income	– 3,573	–

Dürr expects the transaction to be performed as of March 31, 2017. After deducting the transaction costs incurred for the spin-off, Dürr expects to generate an accounting gain of around € 25 million. **[Tab.→ 3.49]**

Assets and liabilities sold in the prior period

The assets and related liabilities of the entity Dürr Automation S.A.S. in France, which had been classified as held for sale, were sold on January 14, 2015. In the 2014 reporting period, measurement at fair value less costs to sell gave rise to other operating expenses of € 4,267 thousand. As of December 31, 2014, assets and liabilities classified as held for sale were allocated to the Measuring and Process Systems division.

Notes to the consolidated statement of financial position: equity and liabilities

26. EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF DÜRR AKTIENGESELLSCHAFT

Subscribed capital (Dürr AG)

As of December 31, 2016, the capital stock of Dürr AG came to € 88,579 thousand (prior period: € 88,579 thousand) and was made up of 34,601,040 shares (prior period: 34,601,040 shares). Each share represents € 2.56 of the subscribed capital and is made out to the bearer. The shares issued were fully paid in at the end of the reporting period.

Authorization of the Board of Management to acquire and sell treasury shares

The annual general meeting on May 4, 2016, authorized the Board of Management to purchase no-par value bearer shares once or several times until May 3, 2021. The purchases, whether for one or more purposes, may be transacted through the stock exchange or through a public tender addressed to all shareholders. The number of shares purchased in this way may not at any time exceed 10 % of the capital stock. The authorization may not be used for the purpose of trading with treasury shares. In the event of the shares being purchased through the stock exchange or by public offer, the consideration for the purchase of the shares is not allowed to exceed or fall below the arithmetic mean of the price in the closing auction on the XETRA trading system by more than 10 % during the last ten trading days before the contractual transaction is concluded. If the acquisition takes place through a public invitation addressed to all shareholders for the submission of bids, the Company sets a range of purchase prices per share. The 10 % threshold described above also applies here. No use was made of this authorization during the reporting period.

Authorized capital (Dürr AG)

The annual general meeting on April 30, 2014, authorized the Board of Management, subject to the approval of the Supervisory Board, to increase the capital stock once or several times in exchange for cash contributions and/or contributions in kind in the period up to April 29, 2019, by up to € 44,289 thousand by issuing up to 17,300,520 no-par value shares made out to the bearer.

Conditional capital (Dürr AG)

The annual general meeting on April 30, 2014, authorized the Board of Management, subject to the approval of the Supervisory Board, to issue once or several times until April 29, 2019, bearer or registered convertible bonds, warrant-linked bonds, participation rights or income bonds or combinations of these instruments with or without fixed maturity with a total nominal value of up to € 1,600,000 thousand. For this purpose, the subscribed capital has been conditionally increased by a maximum of € 44,289 thousand by issue of up to 17,300,520 new no-par value bearer shares.

Capital reserve (Dürr AG)

The capital reserve includes share premiums and amounted to € 155,896 thousand as of December 31, 2016 (prior period: € 155,896 thousand). The capital reserve is subject to the restrictions on disposal of Sec. 150 AktG.

Revenue reserves

Revenue reserves contain the profits generated in the past by the entities included in the consolidated financial statements that have not been distributed. They totaled € 588,705 thousand as of December 31, 2016 (prior period: € 473,662 thousand). The change is chiefly owing to the addition of the net profit for the year, the recognition and measurement of options allocable to non-controlling interests and the distribution of the dividend for the 2015 reporting period. In the 2015 reporting period, the change in the revenue reserves also included non-recurring effects from the conclusion of the domination and profit and loss transfer agreement with the outside shareholders of HOMAG Group AG.

Restriction on distribution, transfer and withdrawal in the separate financial statements of Dürr AG (Sec. 253 (6) HGB and Sec. 285 No. 28 HGB)

On account of regulations in accordance with commercial law, an amount of € 1,998 thousand (prior period: € 1,749 thousand) of the revenue reserves is subject to restrictions on distribution because assets were recognized at fair value in accordance with the BilMoG ["Bilanzrechtsmodernisierungsgesetz": German Accounting Law Modernization Act]. A difference of € 880 thousand arises from the recognition of provisions according to the respective average market interest rate from the past ten reporting periods and from the recognition of provisions according to the respective average market interest rate from the past seven reporting periods; this amount is also subject to a restriction on distribution.

Dividends

In accordance with the AktG, the distribution is measured based on net retained profit as reported by Dürr AG in its separate financial statements prepared in accordance with the provisions of the HGB. In the 2016 reporting period, Dürr AG distributed a dividend to its shareholders of € 1.85 per share from the net retained profit recorded in 2015 (prior period: € 1.65). The total amount distributed came to € 64,012 thousand (prior period: € 57,092 thousand). On account of the results of operations in the 2016 reporting period, the Board of Management of Dürr AG will propose to the Supervisory Board that a dividend of € 2.10 per share be distributed, corresponding to a total distribution amount of € 72,662 thousand.

Effects in equity of changes in the shareholding without loss of control

Dürr Cyplan

The shareholding in Dürr Cyplan Ltd., with registered offices in Aldermaston, UK, was increased from 50.0 % to 100.0 % in the 2016 reporting period. The entity was already included in the consolidated financial statements as a consolidated entity as a result of contractual arrangements.

3.50 – EFFECTS OF INCREASING THE SHAREHOLDING IN DÜRR CYPLAN

€ k	2016
Revenue reserves	−5,144
Non-controlling interests	1,144
	−4,000

Prior period

Dürr Thermea

The shareholding in Dürr Thermea GmbH, with registered offices in Ottendorf-Okrilla, Germany, was increased from 30.0 % to 87.6 % in the 2015 reporting period. The entity was already included in the consolidated financial statements as a fully consolidated entity as a result of contractual arrangements.

3.51 – EFFECTS OF INCREASING THE SHAREHOLDING IN DÜRR THERMEA

€ k	2015
Revenue reserves	– 6,665
Non-controlling interests	– 1,569
	– 8,234

HOMAG Group

On March 5, 2015, the extraordinary general meeting of HOMAG Group AG agreed to the domination and profit and loss transfer agreement with Dürr Technologies GmbH. With the agreement entered in the commercial register on March 17, 2015, the Dürr Group obtained control of all shares in HOMAG Group AG for the purposes of consolidation in accordance with the provisions of IFRSs. At the same time, a sundry financial liability was recognized for the obligation to acquire the shares of the outside shareholders of HOMAG Group AG as well as to pay the compensation entitlements and any taxes incurred in this context. For additional information, please refer to note 7.

3.52 – EFFECTS OF THE DOMINATION AND PROFIT AND LOSS TRANSFER AGREEMENT WITH HOMAG GROUP AG

€ k	2015
Revenue reserves	– 28,961
Non-controlling interests	– 91,523
	– 120,484

Disclosures on capital management

The primary objective of capital management is to support business operations, ensure a healthy capital ratio and increase business value.

Dürr monitors its capital on a monthly basis using a gearing ratio, which reflects the ratio of net financial debt to equity and is defined as the ratio of net financial debt to equity and net financial debt. Pursuant to the Group's internal policy, the ratio should not exceed 30 %. At – 27.0 % (prior period: – 22.1 %), the ratio at the end of the 2016 reporting period was significantly lower than the threshold given because, as was also the case in the prior period, the Group carried net financial assets rather than net financial debt.

3.53 – GEARING RATIO

€ k	Dec. 31, 2016	Dec. 31, 2015
Cash and cash equivalents	– 724,179	– 435,633
Time deposits and other short-term securities	– 89,451	– 8,684
Held-to-maturity securities and other loans	– 8,955	– 25,183
Bond and bonded loan	596,630	296,910
Liabilities to banks	35,545	43,177
Sundry financial liabilities	13,878	–
Net financial status	**– 176,532**	**– 129,413**
Equity	830,960	714,418
Net financial status	– 176,532	– 129,413
Equity and net financial status	**654,428**	**585,005**
Net financial status	– 176,532	– 129,413
Equity and net financial status	654,428	585,005
Gearing ratio	**– 27.0 %**	**– 22.1 %**

27. PROVISIONS FOR POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Group's post-employment benefits include defined contribution plans and defined benefit plans.

Defined contribution plans

In the case of defined contribution plans, Dürr pays contributions to state or private insurance institutions. Other than the subsidiary liability of the employer regarding its company pension plans, there are no other legal or constructive obligations for Dürr. The contributions are primarily recognized as a personnel expense when they fall due.

The post-employment benefits available to the employees of Dürr's German entities include a life insurance program (BZV) and a company pension (DAZU) in line with the respective tariff group, for which the Group recognized contributions of € 923 thousand (prior period: € 907 thousand) as an expense. In addition, Dürr paid contributions of € 42,227 thousand (prior period: € 36,037 thousand) to the German statutory pension scheme, which also constitutes a defined contribution plan.

The US subsidiaries contribute to external pension funds for trade union employees. In the 2016 reporting period, pension expenses for these employees amounted to € 3,513 thousand (prior period: € 5,904 thousand). Payments for other defined contribution plans in other countries, including state pension systems, amounted to € 8,368 thousand (prior period: € 8,709 thousand).

In addition, Dürr's US subsidiaries have a "401(k)" profit-sharing plan for certain employees. Profit-sharing is based on the number of years' service and the employees' remuneration. Dürr's contribution is discretionary and is determined annually by management. In the 2016 reporting period, expenses came to € 1,798 thousand (prior period: € 2,610 thousand).

Defined benefit plans

Pension entitlements have been granted to individual former members of the Board of Management of Dürr AG and the members of the management board and general managers of German subsidiaries based on their most recent fixed salary and years of service.

Non-pay-scale employees of Dürr's German subsidiaries, including the members of the Board of Management of Dürr AG, Carl Schenck AG and HOMAG Group AG, are also offered the possibility to convert employee contributions into a benefit obligation in addition to ongoing employer contributions. Under these plans, Dürr employees are entitled to convert certain parts of their future pay into an entitlement to future supplementary company benefits. To secure and finance the resulting obligation, Dürr has taken out employer's pension liability insurance for the life of the beneficiaries. Dürr has the exclusive right to the respective benefits. This therefore does not represent any significant actuarial or investment risk for Dürr. The amount of post-employment benefits equals the benefit paid out under the employer's pension liability insurance concluded by Dürr, which consists of a guaranteed pension and the divisible surplus allocated by the insurance company. Dürr reports the benefit obligation net of plan assets from the employer's pension liability insurance.

At the German Dürr entities, those employees who were employed at the Schenck entities at the time of the takeover were entitled to post-employment benefits. These are based on years of service. The payments provided for by the pension plans comprise fixed amounts plus an element that is dependent on years of service.

One US entity has a pension plan covering non-union employees at that subsidiary. This plan was closed in 2003 and the claims for active members frozen. The amount of the future pension benefits is based on the average salaries earned and length of service before the benefit obligations were frozen in 2003.

One subsidiary in the US has an approximate 37 % share in a multi-employer plan which is maintained jointly with other non-affiliated metal-working companies. The defined benefit plan is accounted for as a defined contribution plan as it is not possible to allocate the share of obligations and plans assets to the individual member companies. The beneficiaries of the plan are members of a trade union. The contributions are calculated on the basis of the number of production hours worked by members. A temporary shortfall in capacity utilization as well as lower returns on fund assets meant there has been a deficit in the past. As of March 31, 2016, unfunded obligations from the plan amounted to € 21,714 thousand (prior period: € 23,425 thousand). For 2017, Dürr expects contributions of € 1,664 thousand (prior period: € 1,365 thousand) to be made to the pension plan.

Moreover, there are plans that provide for payouts when employees leave the company as well as additional minor pension plans.

Post-employment benefit plan participants and risk management

Provisions for post-employment benefits are recognized for obligations from future and current post-employment benefits to eligible current and former employees as well as their surviving dependents. Pension plans vary according to local legal, tax and economic conditions and are usually based on employees' length of service as well as their remuneration. In the 2016 reporting period, there were obligations in place for 2,722 eligible persons (prior period: 2,517): 2,105 active employees (prior period: 1,934), 156 former employees with vested rights (prior period: 122) as well as 461 retired employees and surviving dependents (prior period: 461).

The defined benefit plans are largely financed via provisions which have corresponding qualifying fund assets as plan assets that are offset against the obligations. The fund assets mostly exist in the form of employer's pension liability insurance policies pledged to beneficiaries.

In order to take adequate account of risks associated with post-employment benefit obligations, Dürr established the Corporate Pension Committee (CPC) several years ago. This committee convenes on a quarterly basis and reviews and assesses all global post-employment benefit plans within the Dürr Group. Regular participants of the CPC are the Chief Financial Officer of Dürr AG as well as the heads of the groupwide functional areas Human Resources, Accounting & Controlling, Finance and Legal.

Furthermore, to minimize the risk from pension obligations no new defined benefit pensions have been granted in Germany for several years if their value is largely not hedged by external counter-financing. At the same time, the current pension plans are largely financed through deferred compensation.

Development of defined benefit plans

3.54 – CHANGES IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

€ k	Dec. 31, 2016	Dec. 31, 2015
Defined benefit obligation at the beginning of the year	111,394	114,478
Exchange difference	278	1,528
Current service cost	4,399	3,096
Past service cost	– 398	– 93
Gains and losses	–	– 10
Interest cost	2,740	2,536
Remeasurement of the defined benefit obligation	11,836	– 4,885
thereof actuarial gains and losses from changes in demographic assumptions	– 96	– 28
thereof actuarial gains and losses from changes in financial assumptions	11,874	– 6,800
thereof experience adjustments	58	1,943
Employer contributions	28	–
Employee contributions	951	645
Benefits paid	– 7,126	– 5,871
Settlements	– 303	– 544
Changes in the consolidated group	–	427
Reclassification to liabilities held for sale	– 8,816	–
Other	– 59	87
Defined benefit obligation at the end of the year	**114,924**	**111,394**

3.55 – CHANGE IN PLAN ASSETS

€ k	Dec. 31, 2016	Dec. 31, 2015
Fair value of plan assets at the beginning of the year	64,054	62,526
Exchange difference	161	1,097
Interest income	1,648	1,440
Remeasurement of plan assets	3,333	– 521
thereof actuarial gains and losses from changes in demographic assumptions	–	– 18
thereof actuarial gains and losses from changes in financial assumptions	3,341	– 951
thereof experience adjustments	– 8	448
Employer contributions	2,465	1,910
Employee contributions	2,169	1,341
Benefits paid	– 4,335	– 3,708
Settlements	– 270	– 366
Changes in the consolidated group	–	354
Reclassification to liabilities held for sale	– 4,954	–
Other	– 58	– 19
Fair value of plan assets at the end of the year	**64,213**	**64,054**
Effect of asset ceiling	– 1,106	– 2,337
Plan assets taking account of the asset ceiling	**63,107**	**61,717**
Funded status[1]	51,817	49,677

[1] Difference between the present value of the defined benefit obligation and the plan assets, taking into account the asset ceiling

3.56 – FUNDED STATUS

€ k	Dec. 31, 2016	Dec. 31, 2015
Present value of funded obligations	108,228	104,633
Fund assets taking account of the asset ceiling	63,107	61,717
Defined benefit obligation in excess of plan assets	**45,121**	**42,916**
Present value of non-funded benefit obligations	6,696	6,761
Funded status[1]	**51,817**	**49,677**

[1] Difference between the present value of the defined benefit obligation and the plan assets, taking into account the asset ceiling

At the end of the reporting period, the fair value of plan assets breaks down as shown in table 3.57 below:

3.57 – COMPOSITION OF PLAN ASSETS

€ k	Dec. 31, 2016	Dec. 31, 2015
Employer's pension liability insurance	53,649	50,805
Fixed-interest securities	9,524	11,439
Shares	700	775
Real estate	110	493
Other	230	542
	64,213	**64,054**

The plan assets of the German entities mainly consist of employer's pension liability insurance policies which guarantee the amount. These employer's pension liability insurance policies have been invested mainly in fixed-interest securities (including government bonds and mortgage bonds). When selecting the issuers, the factors considered include the individual rating by international agencies and the equity capitalization of the issuers. With the exception of shares and fixed-interest securities, there are no listed prices on an active market.

The fair value of plan assets is generally calculated on the basis of the market expectations prevailing on that date. The aim of the investment strategy is long-term capital accumulation on the one hand, and ongoing interest income on the other. This leads to slightly greater volatility. As part of a balanced approach, the portfolio mix contains debt and equity securities. The long-term growth in plan assets should be achieved primarily by means of fixed-interest securities which will also secure ongoing interest income. Equity instruments also make up a share of the investment portfolio. For the pension plan in the US, the portion of equity instruments in the investment portfolio came to 6.1 % (prior period: 7.5 %).

The expenses for defined benefit pension plans recognized through profit and loss comprise the items listed in table 3.58 below:

3.58 – SHARE OF EXPENSES FROM DEFINED BENEFIT PLANS RECOGNIZED THROUGH PROFIT OR LOSS

€ k	2016	2015
Current service cost	4,399	3,096
Past service cost	– 398	– 93
Interest cost	1,149	1,109
Curtailment of defined benefit obligations or plan settlements	–	– 10
Other	67	70
	5,217	**4,172**

The asset ceiling resulted in a change of € 1,231 thousand (prior period: € –587 thousand) in total comprehensive income. Of this amount, € 1,288 thousand (prior period: € –574 thousand) was recognized directly in equity and € –57 thousand (prior period: € –13 thousand) in net interest.

The reporting date for the measurement of projected benefit obligations and plan assets is December 31; the measurement date for defined benefit plans is January 1. In addition to the assumptions on life expectancy based on the biometric 2005 G mortality tables published by Prof. Dr. Klaus Heubeck for the German group companies, the premises in table 3.59 were used as a basis for calculating the defined benefit obligations and the fair value of the plan assets. [Tab.→ 3.59]

3.59 – AVERAGE RATES USED FOR CALCULATING OBLIGATIONS

	2016			2015		
%	Germany	United States	Rest of world	Germany	United States	Rest of world
Discount rate	1.50	3.85	1.45	2.40	3.95	2.09
Long-term salary increases	3.00	–	2.01	3.00	–	2.50

3.60 – EXPECTED PAYMENTS FROM THE DEFINED BENEFIT PLANS

€ k	2017	2018	2019	2020	2021	2022 to 2026	Total
Expected payments from the pension plans	6,203	5,314	5,306	5,371	5,713	29,801	57,708

The rate of pension progression, which has a significant impact on the defined benefit obligations as of the end of the reporting period, came to 1.75 % in the 2016 reporting period (prior period: 1.75 %). The average rates are calculated on the basis of the weighted average of the defined benefit obligations.

The average duration of the post-employment benefit obligations as of the end of the 2016 reporting period was 14 years (prior period: 13 years). For the 2017 reporting period, employers are expected to make contributions of € 1,492 thousand to the fund assets.

Table 3.60 gives an overview of the payments for pension plans expected in the coming reporting periods. **[Tab.→ 3.60]**

Sensitivity analyses

The material actuarial assumptions to determine the post-employment benefit obligations are the discount rate and, for obligations in Germany, also the rate of pension progression. By hedging the significant risks with employer's pension liability insurance policies, the longevity risk for the obligations in Germany plays only a minor role.

Table 3.61 shows how the defined benefit obligation is influenced by potential changes to the respective assumptions using sensitivity analyses in the form of scenarios.

3.61 – SENSITIVITIES – CHANGES IN THE DEFINED BENEFIT OBLIGATION

€ k	Dec. 31, 2016	Dec. 31, 2015
Discount rate		
+1 percentage point	−13,822	−9,495
−1 percentage point	17,318	12,366
Pension		
+0.25 percentage points	2,665	2,201
−0.25 percentage points	−2,548	−2,069

There are dependencies between the actuarial assumptions. The sensitivity analyses do not take these dependencies into account.

3.62 – CHANGES IN OTHER PROVISIONS IN THE 2016 REPORTING PERIOD

€ k	Contract-related provisions	Personnel provisions	Sundry provisions
As of January 1, 2016	**110,076**	**18,802**	**7,106**
Changes in the consolidated group	33	106	125
Exchange difference	–770	–5	84
Utilization	–44,314	–5,555	–2,025
Reversal	–23,810	–397	–574
Additions	52,003	7,148	1,111
Reclassification	250	–	–250
Reclassification to liabilities held for sale	–4,242	–1,642	–10
As of December 31, 2016	**89,226**	**18,457**	**5,567**

3.63 – OTHER PROVISIONS – EXPECTED UTILIZATION

	Dec. 31, 2016			Dec. 31, 2015		
€ k	Total	Current	Non-current	Total	Current	Non-current
Contract-related provisions	89,226	85,579	3,647	110,076	108,427	1,649
Personnel provisions	18,457	7,377	11,080	18,802	7,594	11,208
Sundry provisions	5,567	2,730	2,837	7,106	3,928	3,178
	113,250	**95,686**	**17,564**	**135,984**	**119,949**	**16,035**

28. OTHER PROVISIONS

The contract-related provisions mainly consist of provisions for after-sales expenses, warranties and for onerous contracts in the order backlog. Around 74 % (prior period: 75 %) of the contract-related provisions relate to provisions for warranties and subsequent expenditure. The personnel provisions mainly contain obligations for the phased retirement scheme and provisions for long-service awards. Sundry provisions relate to various identifiable specific risks and uncertain liabilities. **[Tab.→ 3.62]**

Those other provisions that are expected to be used within the next twelve months are classified as current. The payments for non-current provisions are expected to be incurred within the next two to five years. **[Tab.→ 3.63]**

29. TRADE PAYABLES [Tab.→ 3.64]

Billings in excess of costs include € 31,316 thousand (prior period: € 14,379 thousand) from entities accounted for using the equity method.

30. BOND, BONDED LOAN AND OTHER FINANCIAL LIABILITIES

All interest-bearing liabilities of the Group are shown under this item. **[Tab.→ 3.65]**

Other financial liabilities primarily contain loans from employees of German HOMAG Group entities in connection with the terminated employee profit participation program.

3.64 – TRADE PAYABLES

€ k	Total	Current	Total	Medium-term	Long-term
Billings in excess of costs on uncompleted contracts (from small series production)	125,745	125,745	–	–	–
(2015)	(112,676)	(112,676)	(–)	(–)	(–)
Billings in excess of costs on uncompleted contracts (from construction contracts)	522,366	518,538	3,828	3,828	–
(2015)	(534,312)	(530,484)	(3,828)	(3,828)	(–)
Trade payables	333,853	333,545	308	182	126
(2015)	(398,559)	(397,950)	(609)	(439)	(170)
Trade payables due from entities accounted for using the equity method	510	510	–	–	–
(2015)	(516)	(516)	(–)	(–)	(–)
December 31, 2016	**982,474**	**978,338**	**4,136**	**4,010**	**126**
(December 31, 2015)	(1,046,063)	(1,041,626)	(4,437)	(4,267)	(170)

3.65 – FINANCIAL LIABILITIES

€ k	Total	Current	Total	Medium-term	Long-term
Bond	297,474	–	297,474	297,474	–
(2015)	(296,910)	(–)	(296,910)	(–)	(296,910)
Bonded loan	299,156	–	299,156	99,719	199,437
(2015)	(–)	(–)	(–)	(–)	(–)
Liabilities to banks	35,545	1,783	33,762	10,459	23,303
(2015)	(43,177)	(4,325)	(38,852)	(12,783)	(26,069)
Finance lease liabilities	8,480	1,736	6,744	5,636	1,108
(2015)	(10,815)	(2,457)	(8,358)	(6,792)	(1,566)
Sundry financial liabilities	13,878	1,820	12,058	12,058	–
(2015)	(–)	(–)	(–)	(–)	(–)
December 31, 2016	**654,533**	**5,339**	**649,194**	**425,346**	**223,848**
(December 31, 2015)	(350,902)	(6,782)	(344,120)	(19,575)	(324,545)

Financing of the Group

Bond

In March 2014, Dürr AG issued an unsubordinated bond of € 300,000 thousand with a coupon of 2.875 % and an issue price of 99.221 %. It was paid out to Dürr and first listed on April 3, 2014. The bond has a term of seven years and cannot be terminated prematurely. It was issued to institutional and private investors outside of the US. The bond has not been rated.

Bonded loan

On March 24, 2016, Dürr issued a bonded loan of € 300,000 thousand. The funds were received on April 6, 2016. The total volume is split into three tranches with terms of five, seven and ten years, and thus results in the maturity profile being spread more broadly. The average interest rate amounts to around 1.6 % p.a. for tranches with both fixed and variable interest terms. The bonded loan was arranged by Commerzbank AG, Landesbank Baden-Württemberg and UniCredit Bank AG and signed by numerous banks both within and outside of Germany. The funds serve to generally fund the Group and to strengthen strategic liquidity.

Dürr AG syndicated loan

Effective March 21, 2014, Dürr AG concluded a syndicated loan with a term until March 21, 2019. The syndicate of banks comprises Baden-Württembergische Bank, Commerzbank AG, Deutsche Bank AG, UniCredit Bank AG, HSBC Trinkaus & Burkhardt AG, BNP Paribas and KfW IPEX-Bank GmbH.

The syndicated loan does not include any collateral on fixed and current assets and is intended for general corporate financing. It consists of a cash line of € 250,000 thousand and a bank guarantee of € 215,000 thousand. The latter is used for guarantees and warranties in the operating business. It was possible to extend the new loan agreement at no additional cost by up to two years until March 21, 2021. The two extension options for one year each were utilized. The syndicated loan thus now has a term until March 21, 2021. Premature termination of the syndicated loan is possible if the agreed-upon financial covenants or other terms of the loan are infringed and a two-third majority of the lending banks vote in favor of termination. The agreed financial covenant was complied with on all the specified measurement dates. Interest of the syndicated loan is payable at the matching refinancing rate plus a variable margin.

In the prior period, the termination of the HOMAG Group's syndicated loan involved the repayment of loans of € 60,054 thousand. Special effects from the termination of € 2,533 thousand were recognized in the interest result through profit or loss.

Other loans [Tab. → 3.66]

In order to integrate the Homag Group into Dürr's group financing, additional bilateral loans were repaid prematurely in the 2016 reporting period. A loan of USD 15,000 thousand was repaid prematurely in the prior period.

Credit lines and bank guarantees [Tab. → 3.67]

At the end of the reporting period, € 148,160 thousand (prior period: € 133,136 thousand) of the bank guarantee of Dürr AG's syndicated loan had been utilized. The cash line of the syndicated loan of Dürr AG was not utilized in the 2016 and 2015 reporting periods. In addition, Dürr has bilateral credit lines of € 24,429 thousand in place (useable for working capital or bank guarantees), bank guarantee facilities of € 501,801 thousand as well as smaller credit lines with various banks and insurance firms. The credit lines and bank guarantee facilities are not bound to any particular purpose and serve to generally fund the Group as well as project processing.

31. SUNDRY FINANCIAL LIABILITIES [Tab. → 3.68]

Obligations from options of € 210,217 thousand (prior period: € 210,878 thousand) relate to the sundry financial liabilities recognized under the domination and profit and loss transfer agreement with HOMAG Group AG for the acquisition of shares as well as to pay the compensation entitlements. The options also relate to non-controlling interests of € 28,612 thousand (prior period: € 30,327 thousand).

For the disclosures required by IFRS 7, please refer to note 34.

3.66 – MAJOR LOANS

December 31, 2016	Currency	Carrying amount € k	Remaining term (months)	Effective interest rate (%)
Loan to finance Dürr Campus properties	EUR	35,494	93	4.49

December 31, 2015	Currency	Carrying amount € k	Remaining term (months)	Effective interest rate (%)
Loan to finance Dürr Campus properties	EUR	37,730	105	4.49
Bilateral loans	EUR	4,690	Up to 76	3.49 – 6.04

3.67 – CREDIT LINES AND BANK GUARANTEES

€ k	Dec. 31, 2016	Dec. 31, 2015
Total amount of credit lines/bank guarantees available	1,026,501	1,034,948
Total amount of credit lines/bank guarantees utilized	345,034	359,950
thereof due within one year	273,576	294,956
thereof due in more than one year	71,458	64,994

3.68 – SUNDRY FINANCIAL LIABILITIES

€ k	Total	Current	Total	Medium-term	Long-term
Derivative financial liabilities	18,025	13,005	5,020	5,020	–
(2015)	(22,833)	(21,778)	(1,055)	(1,055)	(–)
Liabilities from accrued interest	9,395	9,395	–	–	–
(2015)	(6,589)	(6,589)	(–)	(–)	(–)
Obligations from options	238,829	238,829	–	–	–
(2015)	(241,205)	(211,724)	(29,481)	(29,481)	(–)
Liabilities from contingent purchase price installments	1,619	1,159	460	460	–
(2015)	(1,720)	(1,180)	(540)	(540)	(–)
Other financial liabilities	22,291	20,827	1,464	1,112	352
(2015)	(31,920)	(25,220)	(6,700)	(6,130)	(570)
December 31, 2016	**290,159**	**283,215**	**6,944**	**6,592**	**352**
(December 31, 2015)	(304,267)	(266,491)	(37,776)	(37,206)	(570)

32. INCOME TAX LIABILITIES AND OTHER LIABILITIES

3.69 – INCOME TAX LIABILITIES

€ k	Total	Current	Total	Medium-term	Long-term
Income tax liabilities	40,284	33,573	6,711	6,711	–
(2015)	(41,728)	(32,907)	(8,821)	(8,821)	(–)
December 31, 2016	**40,284**	**33,573**	**6,711**	**6,711**	**–**
(December 31, 2015)	(41,728)	(32,907)	(8,821)	(8,821)	(–)

3.70 – OTHER LIABILITIES

€ k	Total	Current	Total	Medium-term	Long-term
Tax liabilities not relating to income taxes	52,134	52,043	91	91	–
(2015)	(46,261)	(46,174)	(87)	(87)	(–)
Liabilities relating to social security	6,266	6,266	–	–	–
(2015)	(7,181)	(7,181)	(–)	(–)	(–)
Obligations to employees	156,264	151,752	4,512	4,509	3
(2015)	(168,456)	(162,555)	(5,901)	(5,901)	(–)
Other liabilities	6,192	6,192	–	–	–
(2015)	(1,745)	(1,745)	(–)	(–)	(–)
December 31, 2016	**220,856**	**216,253**	**4,603**	**4,600**	**3**
(December 31, 2015)	(223,643)	(217,655)	(5,988)	(5,988)	(–)

Employee profit participation

In the prior period, the employee profit participation in place at several German HOMAG locations was terminated. As a result, obligations to employees in the prior period included the carrying amount of the obligations to be paid from the termination of employee profit participation of € 31,229 thousand. Most of the amount (€ 19,591 thousand) is due to the capital repayment. € 7,591 thousand is attributable to the regular contractual obligations under the employee profit participation. The remaining € 4,047 thousand related to a voluntary non-recurring compensation payment offered to the employees of the HOMAG Group upon termination of the employee profit participation program. Furthermore, the non-recurring expenses incurred by the termination of the plan as a result of actuarial adjustments of € 4,435 thousand were recognized through profit or loss. Expenses from phasing out the employee profit participation are included in the cost of sales and functional costs as part of personnel expenses. In the prior period, part of the expenses was included in net interest.

3.71 – HOMAG GROUP EMPLOYEE PARTICIPATION EXPENSES

€ k	2016	2015
Personnel expenses	2,318	16,073
Interest expenses from employee profit participation	–	2,047
Expenses from employee profit participation	**2,318**	**18,120**

In connection with the termination, in the 2016 reporting period the employees of the HOMAG Group had the opportunity to issue the settlement balance received or a part thereof to HOMAG Group as an interest-bearing loan.

33. SHARE-BASED PAYMENT

There is a share-based long-term incentive (LTI) program in place for the members of the Board of Management and managers from top management of the Dürr Group. The program takes the form of tranches that are issued every year and have a term of three years each. The payments will be made upon expiry of the contractual term in each case after the following annual general meeting.

Under the program, the beneficiaries receive an individually fixed number of phantom Dürr shares (performance share units). As of December 31, 2016, 169,875 phantom shares had been issued (prior period: 166,680 shares). At the end of the term of the incentive program, the benefits accrued are settled in cash. The settlement is calculated on the number of phantom shares, the rounded share price on the closing date (share price multiplier) and an EBIT multiplier based on the average EBIT margin generated over the term of the arrangement. There is a cap for the EBIT multiplier. Payment is capped individually in each case.

In contrast to the entitlements from the LTI, the participants in the incentive program are obliged to maintain their own individually agreed investment in Dürr shares at all times.

In the 2016 reporting period, expenses of € 3,200 thousand (prior period: € 3,617 thousand) were recorded under administrative expenses for the LTI program. The amounts reported under other liabilities as of December 31, 2016, came to € 6,975 thousand (prior period: € 6,819 thousand).

34. OTHER NOTES ON FINANCIAL INSTRUMENTS

Measurement of financial instruments by category

Based on the relevant items of the statement of financial position, the relationship between the categories of financial instruments pursuant to IAS 39, classification pursuant to IFRS 7 and the carrying amounts of financial instruments is presented in table 3.72. **[Tab.→ 3.72]**

3.72 – MEASUREMENT OF FINANCIAL INSTRUMENTS BY CATEGORY

€ k	Carrying amount as of Dec. 31, 2016	AMOUNT RECOGNIZED AT Cost	Amortized cost	Fair value (not through profit or loss)	Fair value (through profit or loss)
Assets					
Cash and cash equivalents	724,179	–	724,179	–	–
Cost and estimated earnings in excess of billings[1]	357,149	–	–	–	–
Trade receivables due from third parties	418,481	–	418,481	–	–
Trade receivables due from entities accounted for using the equity method	20,668	–	20,668	–	–
Other non-derivative financial instruments					
Sundry financial assets	117,875	–	117,875	–	–
Held-for-trading financial assets	6	–	–	–	6
Held-to-maturity investments	8,955	–	8,955	–	–
Available-for-sale financial assets	2,946	2,946	–	–	–
Derivative financial assets					
Derivatives not used for hedging	562	–	–	–	562
Derivatives used for hedging	2,983	–	–	2,382	601
Liabilities					
Trade payables	333,853	–	333,853	–	–
Trade payables due from entities accounted for using the equity method	510	–	510	–	–
Other non-derivative financial liabilities	45,564	–	45,564	–	–
Bond	297,474	–	297,474	–	–
Bonded loan	299,156	–	299,156	–	–
Liabilities to banks	35,545	–	35,545	–	–
Finance lease liabilities[2]	8,480	–	–	–	–
Obligations from options	238,829	–	210,217	28,612	–
Liabilities from contingent purchase price installments	1,619	–	–	–	1,619
Derivative financial liabilities					
Derivatives not used for hedging	1,552	–	–	–	1,552
Derivatives used for hedging	16,473	–	–	14,095	2,378
thereof combined by measurement category in accordance with IAS 39					
Held-for-trading financial assets	568	–	–	–	568
Loans and receivables	1,638,352	–	1,281,203	–	–
Held-to-maturity investments	8,955	–	8,955	–	–
Available-for-sale financial assets	2,946	2,946	–	–	–
Financial liabilities at fair value	31,783	–	–	28,612	3,171
Financial liabilities measured at amortized cost	1,230,799	–	1,222,319	–	–

[1] Costs and estimated earnings in excess of billings on uncompleted contracts are accounted for pursuant to IAS 11 "Construction Contracts" and are therefore not included in any of the above categories.
[2] Finance lease liabilities are accounted for pursuant to IAS 17 "Leases" and are therefore not included in any of the above categories.

€ k	Carrying amount as of Dec. 31, 2015	AMOUNT RECOGNIZED AT Cost	Amortized cost	Fair value (not through profit or loss)	Fair value (through profit or loss)
Assets					
Cash and cash equivalents	435,633	–	435,633	–	–
Cost and estimated earnings in excess of billings[1]	353,617	–	–	–	–
Trade receivables due from third parties	536,732	–	536,732	–	–
Trade receivables due from entities accounted for using the equity method	5,963	–	5,963	–	–
Other non-derivative financial instruments					
Sundry financial assets	28,342	–	28,342	–	–
Held-for-trading financial assets	2	–	–	–	2
Held-to-maturity investments	24,878	–	24,878	–	–
Available-for-sale financial assets	16,224	15,845	–	379	–
Derivative financial assets					
Derivatives not used for hedging	1,100	–	–	–	1,100
Derivatives used for hedging	3,371	–	–	2,349	1,022
Liabilities					
Trade payables	398,559	–	398,559	–	–
Trade payables due from entities accounted for using the equity method	516	–	516	–	–
Other non-derivative financial liabilities	38,509	–	38,509	–	–
Bond	296,910	–	296,910	–	–
Bonded loan	–	–	–	–	–
Liabilities to banks	43,177	–	43,177	–	–
Finance lease liabilities[2]	10,815	–	–	–	–
Obligations from options	241,205	–	210,878	30,327	–
Liabilities from contingent purchase price installments	1,720	–	–	–	1,720
Derivative financial liabilities					
Derivatives not used for hedging	452	–	–	–	452
Derivatives used for hedging	22,381	–	–	16,992	5,389
thereof combined by measurement category in accordance with IAS 39					
Held-for-trading financial assets	1,102	–	–	–	1,102
Loans and receivables	1,360,287	–	1,006,670	–	–
Held-to-maturity investments	24,878	–	24,878	–	–
Available-for-sale financial assets	16,224	15,845	–	379	–
Financial liabilities at fair value	32,499	–	–	30,327	2,172
Financial liabilities measured at amortized cost	999,364	–	988,549	–	–

[1] Costs and estimated earnings in excess of billings on uncompleted contracts are accounted for pursuant to IAS 11 "Construction Contracts" and are therefore not included in any of the above categories.
[2] Finance lease liabilities are accounted for pursuant to IAS 17 "Leases" and are therefore not included in any of the above categories.

In order to make the fair value measurement of financial instruments comparable, a fair value hierarchy has been established in IFRSs with the following three levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2)
- Inputs that are not based on observable market data (level 3)

The financial instruments measured at fair value by Dürr break down as follows according to the fair value hierarchy levels:

3.73 – ALLOCATION TO THE FAIR VALUE HIERARCHY LEVELS

		FAIR VALUE HIERARCHY		
€ k	Dec. 31, 2016	Level 1	Level 2	Level 3
Assets at fair value – not through profit or loss				
Available-for-sale financial assets	–	–	–	–
Derivatives used for hedging	2,382	–	2,382	–
Assets at fair value – through profit or loss				
Held-for-trading financial assets	6	6	–	–
Derivatives not used for hedging	562	–	562	–
Derivatives used for hedging	601	–	601	–
Liabilities at fair value – not through profit or loss				
Obligations from options	28,612	–	–	28,612
Derivatives used for hedging	14,095	–	14,095	–
Liabilities at fair value – through profit or loss				
Liabilities from contingent purchase price installments	1,619	–	–	1,619
Derivatives not used for hedging	1,552	–	1,552	–
Derivatives used for hedging	2,378	–	2,378	–

		FAIR VALUE HIERARCHY		
€ k	Dec. 31, 2015	Level 1	Level 2	Level 3
Assets at fair value – not through profit or loss				
Available-for-sale financial assets	379	379	–	–
Derivatives used for hedging	2,349	–	2,349	–
Assets at fair value – through profit or loss				
Held-for-trading financial assets	2	2	–	–
Derivatives not used for hedging	1,100	–	1,100	–
Derivatives used for hedging	1,022	–	1,022	–
Liabilities at fair value – not through profit or loss				
Obligations from options	30,327	–	–	30,327
Derivatives used for hedging	16,992	–	16,992	–
Liabilities at fair value – through profit or loss				
Liabilities from contingent purchase price installments	1,720	–	–	1,720
Derivatives not used for hedging	452	–	452	–
Derivatives used for hedging	5,389	–	5,389	–

As of the end of each reporting period, an assessment is made as to whether there were reclassifications between the different hierarchy levels or measurement categories. No reclassifications were made between the fair value hierarchy levels or measurement categories in the 2016 reporting period.

Measurement at fair value of the financial instruments of levels 1, 2 and 3 held as of December 31, 2016, gave rise to the following total gains and losses:

3.74 – TOTAL GAINS AND LOSSES ON ASSETS

€ k	2016	2015
Recognized in profit or loss		
Held-for-trading financial assets	–	25
Derivative financial instruments	1,232	2,104
Recognized in equity		
Available-for-sale financial assets	–	– 6
Derivative financial instruments	2,258	2,265

3.75 – TOTAL GAINS AND LOSSES ON LIABILITIES

€ k	2016	2015
Recognized in profit or loss		
Liabilities from contingent purchase price installments	–	843
Derivative financial instruments	– 3,853	– 5,524
Recognized in equity		
Obligations from options	1,715	– 11,633
Derivative financial instruments	– 13,042	– 15,351

3.76 – DEVELOPMENT OF LEVEL 3 OF THE FAIR VALUE HIERARCHY

€ k	2016	2015
As of January 1	**32,047**	**21,837**
Additions	1,179	–
Disposals	– 1,280	– 580
Change in fair value	– 1,715	10,790
As of December 31	**30,231**	**32,047**

The changes in the fair value of the liabilities reported in level 3 were reported in profit or loss or directly in equity.

Valuation techniques

The fair value of the derivative financial assets and liabilities allocated to level 2 of the fair value hierarchy is based on daily observable spot foreign exchange rates and interest yield curves. In connection with IFRS 13 "Fair Value Measurement", both the counterparty credit risk and own risk of default have been taken into account during measurement. Input factors to take into account the counterparty credit risk are credit default swaps (CDSs), observable on the markets, of the credit institution involved in the respective transaction. If there is no CDS for a single credit institution, a synthetic CDS is derived from other observable market data (such as rating information). The counterparty credit risk is minimized by diversifying the portfolio and selecting the counterparties carefully. To calculate its own risk of default, Dürr uses information received from credit institutions and insurance companies to derive a synthetic CDS for Dürr.

The fair value of the options and contingent purchase price installments allocated to level 3 in the fair value hierarchy is calculated based on contractual arrangements/internal planning data. This primarily includes expected results of each company on which the amount of the financial liability depends. An adjustment to the planning data is made if there are indications that warrant such a measure. If applicable, unwinding effects resulting from a convergence with the maturity date are also included in the valuation.

Sensitivity level 3

For the obligations from options recognized in connection with the acquisition of the HOMAG Group, there are no sensitivities as a fixed price was agreed for the shares. For additional information, please refer to note 7.

For the put option for CPM S.p.A., no sensitivity calculations had to be performed as of December 31, 2016, as the value is already fixed as of the next possible exercise date. Had the underlying parameters (equity and accumulated earnings before income tax) been 10 % higher (lower) in the prior period, the value of the put option would have been € 2,748 thousand higher (lower).

3.77 – FAIR VALUES OF FINANCIAL INSTRUMENTS RECOGNIZED

	Dec. 31, 2016		Dec. 31, 2015	
€ k	Fair value	Carrying amount	Fair value	Carrying amount
Assets				
Cash and cash equivalents	724,179	724,179	435,633	435,633
Costs and estimated earnings in excess of billings	357,149	357,149	353,617	353,617
Trade receivables due from third parties	418,481	418,481	536,732	536,732
Trade receivables due from entities accounted for using the equity method	20,668	20,668	5,963	5,963
Other non-derivative financial instruments				
Sundry financial assets	117,875	117,875	28,342	28,342
Held-to-maturity investments	9,146	8,955	25,420	24,878
Liabilities				
Trade payables	333,853	333,853	398,559	398,559
Trade payables due from entities accounted for using the equity method	510	510	516	516
Other non-derivative financial liabilities	45,564	45,564	38,509	38,509
Bond	320,940	297,474	313,500	296,910
Bonded loan	306,036	299,156	–	–
Liabilities to banks	36,341	35,545	45,366	43,177
Finance lease liabilities	9,339	8,480	12,105	10,815
Obligations from options	225,040	210,217	210,878	210,878
thereof combined by measurement category in accordance with IAS 39				
Loans and receivables	1,281,203	1,281,203	1,006,670	1,006,670
Held-to-maturity investments	9,146	8,955	25,420	24,878
Financial liabilities measured at amortized cost	1,268,284	1,222,319	1,007,328	988,549

Fair values of financial instruments carried at amortized cost

Table 3.77 shows the fair value of the financial assets and liabilities carried at cost or amortized cost. The fair value of financial instruments not carried at amortized cost approximates their carrying amount. Available-for-sale financial assets are measured at cost because their fair value cannot be determined reliably.

Cash and cash equivalents, trade receivables, sundry financial assets, trade payables, other non-derivative financial liabilities and overdraft facilities mostly fall due within the short term. Consequently, their carrying amounts at the end of the reporting period approximate their fair value.

The fair value of the held-to-maturity investments (fair value hierarchy level 1) is equal to the nominal value multiplied by the quoted price of the respective financial instrument.

It was not possible to determine the fair values of equity interests measured at cost of € 2,946 thousand (prior period: € 15,845 thousand) because market prices were not available as no active markets existed. These equity interests are disclosed under other investments in the statement of financial position. The equity interests in non-listed entities were not measured by discounting future cash flows because they could not be reliably measured. In this case, it was assumed that their fair value approximates their carrying amount. At present Dürr does not have any plans to sell these equity interests.

The fair value of non-current liabilities is based on the current interest rate for borrowing at similar terms and conditions with comparable due date and credit rating. With the exception of the bond, bonded loan and Campus financing loan, the fair value of liabilities approximates the carrying amount. The fair value of the bond (fair value hierarchy level 1) is calculated by multiplying the nominal value with the quoted price at the end of the reporting period. As of December 31, 2016, the bond was quoted at 106.98 % (prior period: 104.50 %), which is equal to a market value of € 320,940 thousand (prior period: € 313,500 thousand). The fair value of the bonded loan (fair value hierarchy level 2) is determined by discounting the cash flows as of the measurement date with discount rates with matching terms. The fair value of the Campus loan (fair value hierarchy level 2) is determined by discounting the cash flows with the current market interest rates for comparable loans.

The obligations from options measured at amortized cost (level 3 in the fair value hierarchy) relate to the sundry financial liabilities recognized under the domination and profit and loss transfer agreement with HOMAG Group AG for the acquisition of shares as well as to pay the compensation entitlements. The financial liabilities are recognized in profit or loss in the subsequent measurement. The expected term of the arbitration proceedings as well as the expected amount of the compensation payment and cash settlement determines the measurement of the option. Both the term of the arbitration proceedings as well as the expected amount of the compensation payment and cash settlement remains unchanged on the prior period. The fair value is determined using a net present value model based on the contractually agreed cash settlement including compensation payment as well as the legal minimum interest rate and a discount rate with a matching term. The difference between the fair value and the carrying amount is due to the fact that the fair value takes into account changes in the actual interest rate environment, while the discount rate used for measurement at amortized cost remains mostly unchanged over the term.

Net gains and losses by measurement category

3.78 – NET GAINS AND LOSSES BY MEASUREMENT CATEGORY

		FROM SUBSEQUENT MEASUREMENT				
€ k	From interest	At fair value	Currency translation	Impairment	From disposals	Net gain or loss
Held-for-trading financial assets	–	–	–	–	–	–
(2015)	(25)	(–)	(–)	(–)	(–)	(25)
Loans and receivables	5,668	–	– 7,119	– 4,127	– 247	– 5,825
(2015)	(7,171)	(–)	(7,430)	(– 835)	(– 243)	(13,523)
Held-to-maturity investments	565	–	–	–	–	565
(2015)	(657)	(–)	(–)	(–)	(–)	(657)
Available-for-sale financial assets	–	–	–	–	3,985	3,985
(2015)	(–)	(–)	(–)	(–)	(–)	(–)
Financial liabilities at fair value through profit or loss	–	– 1,057	–	–	1,000	– 57
(2015)	(– 34)	(867)	(–)	(–)	(–)	(833)
Financial liabilities measured at amortized cost	– 24,932	–	126	–	–	– 24,806
(2015)	(– 29,780)	(–)	(– 398)	(–)	(–)	(– 30,178)
2016	**– 18,699**	**– 1,057**	**– 6,993**	**– 4,127**	**4,738**	**– 26,138**
(2015)	(– 21,961)	(867)	(7,032)	(– 835)	(– 243)	(– 15,140)

3.79 – DERIVATIVE FINANCIAL ASSETS SUBJECT TO NETTING AGREEMENTS, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS

€ k	Dec. 31, 2016	Dec. 31, 2015
Gross amounts of financial assets	3,545	4,471
Gross amounts of financial liabilities netted in the statement of financial position	–	–
Net amounts of financial assets reported in the statement of financial position	**3,545**	**4,471**
Associated amounts from financial instruments not netted in the statement of financial position	– 1,933	– 3,254
Net amount	**1,612**	**1,217**

3.80 – DERIVATIVE FINANCIAL LIABILITIES SUBJECT TO NETTING AGREEMENTS, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS

€ k	Dec. 31, 2016	Dec. 31, 2015
Gross amounts of financial liabilities	18,025	22,833
Gross amounts of financial assets netted in the statement of financial position	–	–
Net amounts of financial liabilities reported in the statement of financial position	**18,025**	**22,833**
Associated amounts from financial instruments not netted in the statement of financial position	– 1,933	– 3,254
Net amount	**16,092**	**19,579**

Financial assets which are subject to an enforceable master netting arrangement or a similar agreement

Some derivative financial instruments concluded with credit institutions are subject to certain contractual netting agreements which allow Dürr, in the event of a credit institution filing for insolvency, to offset certain financial assets against certain financial liabilities. **[Tab.→ 3.79, 3.80]**

Pledges

At the end of the reporting period, financial assets of € 25,906 thousand (prior period: € 7,051 thousand) were mainly pledged as collateral for cash deposits for guarantees of group companies.

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statement of cash flows shows how the cash and cash equivalents changed in the 2016 reporting period as a result of cash received and paid and thus provides information on the sources and use of cash and cash equivalents. The consolidated statement of cash flows prepared in accordance with IAS 7 "Statement of Cash Flows" makes a distinction between the cash flows from operating, investing and financing activities.

3.81 – NON-CASH INCOME AND EXPENSES

€ k	2016	2015
Income from contingent purchase price installments	1,000	877
Reclassification of the non-cash income and expenses to proceeds from the sale of assets and liabilities held for sale	1,845	– 422
Reclassification of the income from the sale of the investment to proceeds from the sale of non-current assets	3,922	–
Other	612	– 160
Total	**7,379**	**295**

The cash presented in the statement of cash flows contains all of the Group's cash and cash equivalents, i.e., cash in hand, checks and bank balances, with an original term to maturity of less than three months. The cash recognized in the statement of cash flows is thus different as of December 31, 2016, from the statement of financial position item "Cash and cash equivalents". The difference results from the cash and cash equivalents held by the Dürr Ecoclean Group as of December 31, 2016. As part of the disposal group, these have been reclassified to "Assets held for sale". The reconciliation of the cash recognized in the statement of cash flows to the statement of financial position item "Cash and cash equivalents" is presented at the end of the statement of cash flows.

Cash of € 175,806 thousand (prior period: € 163,576 thousand) is restricted due to the restrictions on capital transfers in some Asian countries.

Cash flow from operating activities

The cash flow from operating activities is derived indirectly from the earnings of the Group. Income tax payments are added to earnings before income taxes which is also adjusted for net interest and non-cash items. The latter includes amortization and depreciation of non-current assets, the profit from entities accounted for using the equity method and the net gain or loss on the disposal of property, plant and equipment. To derive the cash flow from operating activities, changes in the items of the statement of financial position that result from operating activities are then considered. Effects from foreign currency translation and changes in the consolidated group are eliminated. Changes in operating assets and liabilities contained in the consolidated statement of cash flows therefore do not necessarily match the changes in the related items of the consolidated statement of financial position. **[Tab. → 3.81]**

The amortization and depreciation reported in the consolidated statement of cash flows is € 2,296 thousand (prior period: € 1,867 thousand) lower because that amount is already included in the net interest or investment income. The cash flow from operating activities contains effects of € 5,128 thousand from non-recourse financing (prior period: € 17,355 thousand).

Cash flow from investing activities

The cash flow from investing activities is derived from actual cash flows. This relates mainly to the cash outflows for investments made in non-current assets and business combinations. Cash inflows arise from the disposal of non-current assets and interest received. Investments in non-current assets in connection with concluding or extending finance leases while simultaneously recognizing corresponding liabilities are not disclosed as these do not involve any cash outflow.

In the 2016 reporting period, the Dürr Group had cash outflows from the disposal of equity investments of € 16,282 thousand (prior period: € 0 thousand) and other financial assets of € 15,954 thousand (prior period: € 0 thousand). Investments

3.82 – ACQUISITIONS, NET OF CASH ACQUIRED

€ k	Purchase price	Contingent purchase price installments	Cash and cash equivalents received	Balance
2016				
Other acquisitions	9,590	–1,179	–528	7,883
Payment of contingent purchase price installments	–	100	–	100
Total	**9,590**	**–1,079**	**–528**	**7,983**

€ k	Purchase price	Contingent purchase price installments	Cash and cash equivalents received	Balance
2015				
iTAC companies	31,239	–	–1,376	29,863
Other acquisitions	2,196	–	–950	1,246
Payment of contingent purchase price installments	–	400	–	400
Total	**33,435**	**400**	**–2,326**	**31,509**

in time deposits result in cash outflows of € 80,767 thousand (prior period: cash inflows of € 26,098 thousand). Cash flows result from the investment strategy to improve net interest. This involves Dürr investing its free liquidity in higher interest-bearing securities from European issuers.

Table 3.82 presents the cash outflows from acquisitions.

For further details on business combinations, please refer to note 19.

In the 2016 reporting period, the sale of assets and liabilities held for sale resulted in a cash inflow of € 8,489 thousand. Of this, € 10,375 thousand related to the sale of the property and the items of property, plant and equipment at the former location Auburn Hills, Michigan, USA, and € 1,504 thousand to the sale of properties in Germany and Austria. Transaction costs of € 3,390 thousand related to the planned sale of the Cleaning and Surface Processing activity.

Cash flow from financing activities

The cash flow from financing activities is also derived from actual cash flows. It contains dividends and cash paid to shareholders and non-controlling interests, interest paid for the bond, the bonded loan and the other financing activities. It also includes the payments made to settle liabilities under the terms of finance leases and other non-current loans. The line item, "Change in current bank liabilities and other financing activities", mainly contains cash inflows and outflows from overdraft facilities.

On March 24, 2016, Dürr issued a bonded loan of € 300,000 thousand. The funds were received on April 6, 2016, after deducting transaction costs of € 299,079 thousand.

In order to incorporate the HOMAG Group into the group financing, non-current loans were repaid in the prior period including the syndicated loan of the HOMAG Group of € 60,054 thousand and a loan in US dollars of € 13,582 thousand.

Dürr acquired the remaining 50 % of the shares in Dürr Cyplan Ltd. in the 2016 reporting period. The purchase price for these shares was € 4,000 thousand. Dürr acquired an additional 57.6 % of the shares in Dürr Thermea GmbH in the prior period. The purchase price for the additional tranche amounted to € 8,234 thousand. Pursuant to IAS 7 "Statement of Cash Flows", the cash outflow for the additional shares was contained in the cash flow from financing activities under the item "Cash paid for transactions with non-controlling interests", as the entities were already previously fully consolidated in the Dürr Group.

The Group has unused credit lines and bank guarantees of € 681,467 thousand (prior period: € 674,998 thousand). For more information on the financing of the Group, please refer to note 30. A breakdown by division of the Dürr Group of the cash flows from operating activities, investing activities and financing activities can be found in note 36.

A more detailed explanation of the statement of cash flows can be found in the section on "Financial development" in the combined management report.

OTHER NOTES

36. SEGMENT REPORTING

The segment reporting was prepared according to IFRS 8 "Operating Segments". Based on the internal reporting and organizational structure of the Group, the data contained in the consolidated financial statements is presented by division. The presentation of segments is designed to provide details on the results of operations, net assets and financial position of individual activities.

The reporting is based on the divisions of the Group. As of December 31, 2016, the Dürr Group consisted of the Corporate Center and five operating divisions, each with global responsibility for their products and results. Paint and Final Assembly Systems plans and builds paint systems and final assembly lines for the automotive industry and offers software for the overarching production control. Application Technology develops and manufactures products and systems for the automated application of paint, sealants and adhesives. Measuring and Process Systems offers balancing and diagnostics equipment, testing, assembly and filling technology as well as industrial cleaning technology and surface treatment. Clean Technology Systems specializes in exhaust gas purification systems and energy efficiency technology. Woodworking Machinery and Systems develops and produces machinery and systems for woodworking. The Corporate Center mainly comprises the holdings Dürr AG and Dürr Technologies GmbH as well as Dürr IT Service GmbH, which performs IT services throughout the Group. A detailed description of the activities of the individual divisions can be found in the section "The Group at a glance" in the combined management report. Transactions between the divisions are carried out at arm's length.

The basis for segment reporting in accordance with IFRS 8 is the same as that used internally (management approach). Management monitors the EBIT (earnings before investment income, interest and income taxes) from each of its five divisions separately for the purpose of making decisions about resource allocation and evaluating operating segment performance as well as the development of the segments. Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

3.83 – SEGMENT REPORTING

€ k	Paint and Final Assembly Systems	Application Technology	Measuring and Process Systems	Clean Technology Systems	Wood-working Machinery and Systems	Total segments	Recon-ciliation[1]	Dürr Group
2016								
External sales revenues	1,140,015	560,638	623,816	167,036	1,081,982	3,573,487	30	3,573,517
Sales revenues with other divisions	7,054	4,147	10,570	1,722	58	23,551	–23,551	–
Total sales revenues	**1,147,069**	**564,785**	**634,386**	**168,758**	**1,082,040**	**3,597,038**	**–23,521**	**3,573,517**
EBIT	77,202	76,086	79,655	6,124	44,855	283,922	–12,527	271,395
Earnings from entities accounted for using the equity method	–	–	2,054	–	1,639	3,693	–	3,693
Cash flow from operating activities	33,465	66,109	44,534	21,542	82,156	247,806	–20,437	227,369
Cash flow from investing activities	–22,875	902	–8,402	–11,461	–17,333	–59,169	–57,734	–116,903
Cash flow from financing activities	–3,142	–56,603	–19,014	–8,560	–23,540	–110,859	303,337	192,478
Amortization and depreciation	–14,698	–9,040	–8,229	–2,598	–50,946	–85,511	–4,096	–89,607
Impairment of intangible assets and property, plant, and equipment	–144	–64	–699	–	–	–907	–	–907
Other non-cash income and expenses	10	4,931	204	1,000	712	6,857	522	7,379
Additions to intangible assets	5,025	3,479	2,270	6,060	10,866	27,700	2,217	29,917
Additions to property, plant and equipment	16,785	14,688	7,151	3,853	13,472	55,949	1,484	57,433
Investments in entities accounted for using the equity method	–	–	20,427	–	12,299	32,726	–	32,726
Assets (as of Dec. 31)	550,491	458,947	554,751	121,085	772,431	2,457,705	–16,708	2,440,997
Liabilities (as of Dec. 31)	599,293	278,448	230,877	73,295	324,911	1,506,824	213,606	1,720,430
Employees (as of Dec. 31)	3,384	1,956	3,010	569	6,126	15,045	190	15,235

[1] The number of employees, amortization and depreciation, impairment losses, additions to intangible assets and property, plant and equipment and non-cash income and expenses as well as external sales revenues reported in the reconciliation column relate to the Corporate Center.

€ k	Paint and Final Assembly Systems	Application Technology	Measuring and Process Systems	Clean Technology Systems	Wood-working Machinery and Systems	Total segments	Recon-ciliation[1]	Dürr Group
2015								
External sales revenues	1,364,551	599,672	603,670	159,234	1,039,323	3,766,450	644	3,767,094
Sales revenues with other divisions	8,068	4,842	11,379	3,135	2	27,426	−27,426	–
Total sales revenues	**1,372,619**	**604,514**	**615,049**	**162,369**	**1,039,325**	**3,793,876**	**−26,782**	**3,767,094**
EBIT	100,182	60,826	69,772	5,790	36,647	273,217	−5,431	267,786
Earnings from entities accounted for using the equity method	–	–	2,306	–	−730	1,576	–	1,576
Cash flow from operating activities	10,144	64,745	45,523	7,257	75,911	203,580	−30,612	172,968
Cash flow from investing activities	−44,287	−26,980	−9,664	−7,348	−24,963	−113,242	18,812	−94,430
Cash flow from financing activities	−7,282	−26,014	−34,381	2,533	−57,663	−122,807	−39,543	−162,350
Amortization and depreciation	−9,160	−8,232	−9,321	−2,283	−45,144	−74,140	−5,183	−79,323
Impairment of intangible assets and property, plant, and equipment	–	–	–	–	−2,368	−2,368	–	−2,368
Other non-cash income and expenses	3	–	−16	876	−566	297	−2	295
Additions to intangible assets	12,263	2,498	2,806	1,563	16,230	35,360	4,087	39,447
Additions to property, plant and equipment	21,850	25,344	7,880	5,945	13,511	74,530	710	75,240
Investments in entities accounted for using the equity method	–	–	17,309	–	10,913	28,222	–	28,222
Assets (as of Dec. 31)	551,282	480,638	490,812	114,292	795,410	2,432,434	−583	2,431,851
Liabilities (as of Dec. 31)	665,068	298,238	201,416	61,491	321,470	1,547,683	213,798	1,761,481
Employees (as of Dec. 31)	3,374	1,858	2,992	499	5,906	14,629	221	14,850

[1] The number of employees, amortization and depreciation, impairment losses, additions to intangible assets and property, plant and equipment and non-cash income and expenses as well as external sales revenues reported in the reconciliation column relate to the Corporate Center.

3.84 – RECONCILIATION OF SEGMENT FIGURES TO THE FIGURES OF THE DÜRR GROUP

€ k	2016	2015
EBIT of the segments	283,922	273,217
EBIT of the Corporate Center	– 14,403	– 6,668
Elimination of consolidation entries	1,876	1,237
EBIT of the Dürr Group	**271,395**	**267,786**
Earnings from entities accounted for using the equity method	3,693	1,576
Other investment income	3,284	358
Interest and similar income	6,233	8,246
Interest and similar expenses	– 26,479	– 33,454
Earnings before income taxes	**258,126**	**244,512**
Income taxes	– 70,326	– 77,950
Profit of the Dürr Group	**187,800**	**166,562**

€ k	Dec. 31, 2016	Dec. 31, 2015
Segment assets	2,457,705	2,432,434
Assets of the Corporate Center	970,632	986,137
Elimination of consolidation entries	– 987,340	– 986,720
Cash and cash equivalents	724,179	435,633
Time deposits and other short-term securities	89,451	8,684
Held-to-maturity securities and other loans	8,955	25,183
Investments in entities accounted for using the equity method	32,726	28,222
Income tax receivables	22,324	21,554
Deferred tax assets	29,891	35,535
Total assets of the Dürr Group	**3,348,523**	**2,986,662**
Segment liabilities	1,506,824	1,547,683
Liabilities of the Corporate Center	258,431	253,373
Elimination of consolidation entries	– 44,825	– 39,575
Bond and bonded loan	596,630	296,910
Liabilities to banks and sundry financial liabilities	49,423	43,177
Finance lease liabilities	8,480	10,815
Income tax liabilities	40,284	41,728
Deferred tax liabilities	102,316	118,133
Total liabilities of the Dürr Group[2]	**2,517,563**	**2,272,244**

[2] Consolidated total assets less total equity

Regional segmentation

Sales revenues are allocated to regions based on the location of the project or delivery locations. The Group's assets are allocated on the basis of the location of the subsidiary reporting these assets. In accordance with IFRS 8.33 they include all non-current assets of the Group except for financial instruments and deferred tax assets.

3.85 – REGIONAL SEGMENTATION

€ k	Germany	Other European countries	North/ Central America	South America	Asia/ Africa/ Australia	Dürr Group
2016						
External sales revenues	542,766	1,010,927	770,766	79,356	1,169,702	3,573,517
Additions to property, plant and equipment	25,793	5,233	12,255	432	13,720	57,433
Non-current assets (as of Dec. 31)	661,539	187,562	128,662	14,654	69,519	1,061,936
Employees (as of Dec. 31)	8,205	2,306	1,329	323	3,072	15,235

€ k	Germany	Other European countries	North/ Central America	South America	Asia/ Africa/ Australia	Dürr Group
2015						
External sales revenues	528,085	1,126,860	775,002	120,784	1,216,363	3,767,094
Additions to property, plant and equipment	21,581	5,790	32,389	565	14,915	75,240
Non-current assets (as of Dec. 31)	708,417	192,005	119,807	12,033	63,807	1,096,069
Employees (as of Dec. 31)	8,026	2,165	1,256	382	3,021	14,850

In the 2016 reporting period, sales revenues in China came to € 914,915 thousand (prior period: € 989,359 thousand) and in the USA to € 530,183 thousand (prior period: € 537,722 thousand).

In the 2016 reporting period, 11.0 % of consolidated net sales revenues were generated with one customer compared to 13.9 % in the prior period. The second- and third-largest customers accounted for 3.5 % (prior period: 5.1 %) and 3.4 % (prior period: 4.7 %) respectively. The net sales revenues with these customers related to all divisions, apart from the second-largest customer, with which no net sales revenues were realized in the Woodworking Machinery and Systems division. Entities that are known to be under common control are considered as one customer.

37. RELATED PARTY TRANSACTIONS

Related parties comprise members of the Supervisory Board and the Board of Management.

Some members of the Supervisory Board of Dürr AG hold high-ranking positions in other entities. Transactions between these entities and Dürr are carried out at arm's length. For further information about members of the Board of Management and the Supervisory Board of Dürr AG, please refer to note 41.

Related parties include entities accounted for using the equity method and non-consolidated subsidiaries of the Dürr Group.

In the 2016 reporting period, there were intercompany transactions between Dürr and its related parties of € 114,727 thousand (prior period: € 95,536 thousand). As of December 31, 2016, outstanding receivables from related parties totaled € 21,839 thousand (prior period: € 7,140 thousand), while trade payables to related parties amounted to € 1,720 thousand (prior period: € 2,129 thousand). Both the receivables and liabilities are current. Prepayments received of € 31,316 thousand (prior period: € 14,379 thousand) from related parties are also included in the statement of financial position.

The Board of Management confirms that all the related party transactions described above were carried out at arm's length conditions.

38. CONTINGENT LIABILITIES

3.86 – CONTINGENT LIABILITIES

€ k	Dec. 31, 2016	Dec. 31, 2015
Notes payable	14,735	–
Obligations from warranties and guarantees	12,175	11,662
Collateral pledged for third-party liabilities	–	10,552
Other	4,638	24,479
	31,548	46,693

Other contingent liabilities relate primarily to pending proceedings in Brazil as well as deductibles from sales financing issued with Hermes guarantees. Dürr assumes that these contingent liabilities will not lead to any liabilities or cash outflows.

39. OTHER FINANCIAL OBLIGATIONS

3.87 – OTHER FINANCIAL OBLIGATIONS

€ k	Dec. 31, 2016	Dec. 31, 2016
Future minimum payments for operating leases	104,649	122,059
Future minimum payments for finance leases	9,380	12,245
Purchase obligation for property, plant and equipment	1,304	6,467
	115,333	140,771

In the prior period, the obligations for the purchase of property, plant and equipment primarily included obligations for the construction of the new Campus location in the US. In addition to the obligations listed in table 3.87, there are purchase commitments stemming from procurement agreements on a customary scale.

Rent and lease agreements (operating leases)

Besides liabilities, provisions and contingent liabilities, the Group has other financial obligations, in particular from rental and lease agreements for buildings, furniture and fixtures, office space and vehicles. Future minimum lease payments up to the first contractually agreed termination date break down as shown in table 3.88 below:

3.88 – NOMINAL VALUES OF FUTURE MINIMUM PAYMENTS FOR OPERATING LEASES

€ k	Dec. 31, 2016	Dec. 31, 2015
Less than one year	26,892	28,680
Between one and five years	48,639	52,813
More than five years	29,118	40,566
	104,649	122,059

In the 2016 reporting period, expenses of € 37,350 thousand (prior period: € 36,974 thousand) were recorded in the statement of income for operating leases.

Finance leases

The Group has entered into finance lease agreements for various items of property, plant and equipment and software. Leased assets are pledged as security for the obligations from the related finance lease. Table 3.89 shows a reconciliation of the future minimum lease payments to liabilities.

3.89 – NOMINAL VALUES OF FINANCE LEASES

	Dec. 31, 2016			Dec. 31, 2015		
€ k	Minimum lease payments	Interest contained in the lease payments	Finance lease liabilities	Minimum lease payments	Interest contained in the lease payments	Finance lease liabilities
Less than one year	2,062	326	1,736	2,876	419	2,457
Between one and five years	6,185	549	5,636	7,661	869	6,792
More than five years	1,133	25	1,108	1,708	142	1,566
	9,380	900	8,480	12,245	1,430	10,815

40. RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS

The Group operates in countries in which there are political and economic risks. These risks did not have any material effect on the Group in the 2016 reporting period. Dürr may be involved in litigation, including product liability, in the ordinary course of business. There are no matters pending that the Board of Management expects to be material in relation to the Group's business or financial position. Provision has been made for expected litigation costs. Dürr is generally exposed to financial risks. These include mainly credit risks, liquidity risks and exposure to interest rate changes or currency risks. The regulations for a group-wide risk policy are set forth in the Group's guidelines. Detailed information on the risk management system of the Dürr Group can be found in the "Report on risks" in the combined management report.

Credit risk

Credit risk relates to the possibility that business partners may fail to meet their obligations in a transaction involving non-derivative and derivative financial instruments and that capital losses could be incurred as a result. Credit ratings are performed for new customers. The payment patterns of regular customers are analyzed on an ongoing basis. Dürr uses respective terms of payment as well as letters of credit, trade credit insurance policies and federal government guarantees to further limit the risk of default.

3.90 – RECEIVABLES SECURED AGAINST DEFAULT

€ k	Dec. 31, 2016	Dec. 31, 2015
Letters of credit	20,890	7,422
Trade credit insurance policies	5,615	7,574
Federal government guarantees	–	799
	26,505	**15,795**

Furthermore, the Dürr Group had non-recourse financing of € 5,128 thousand (prior period: € 17,355 thousand) as of December 31, 2016, primarily in connection with sales financing.

In connection with the investment of liquid funds, investments as part of financial asset management and the portfolio of derivative financial assets, the Group is exposed to losses from credit risks should the credit institutions and companies fail to meet their obligations. Dürr manages the resulting risk position by diversifying the portfolio and selecting the counterparties carefully. No cash and cash equivalents, investments of active asset management or derivative financial assets were past due or impaired due to credit defaults.

Dependence on few customers

The development of Dürr hinges to a large extent on the willingness of the automotive industry to invest. A significant portion of sales revenues is generated with a limited number of customers, as the number of manufacturers on the worldwide market for automobiles is comparatively small. The majority of the Group's receivables are due from automobile manufacturers. Generally these receivables are not secured by bank guarantees or other collateral. As of December 31, 2016, 40.1 % (prior period: 50.7 %) of the trade receivables were due from ten customers. The total receivables disclosed contain bad debt allowances of € 15,088 thousand (prior period: € 11,032 thousand). The maximum default risk is shown by the carrying amount of receivables recognized in the statement of financial position. Owing to its customers' group structure with international subsidiaries, Dürr does not see any concentration of credit risks from its business relations with individual debtors or groups of debtors despite the fact that its business is concentrated on a relatively small number of customers. The level of diversity displayed among the Group's customers is high compared to other automotive suppliers and was increased further with the acquisition of the HOMAG Group.

Liquidity risk

Liquidity risk is the risk that the Group may not be in a position to meet its obligations in the future, or to meet them at a reasonable price, when they fall due.

The liquidity situation is secured by available cash and cash equivalents as well as the credit lines which the Group can draw on. The situation is monitored and managed by means of a liquidity plan with a planning horizon of 18 months, coupled with a short-term liquidity forecast.

In addition, use of cross-border cash pooling structures has improved the structure of the statement of financial position through liquidity pooling, reduced the volume of borrowed funds and thus helped to enhance the financial result. At the same time, the liquidity situation has become more transparent. Moreover, excess liquidity at individual entities within the Group can be used to finance the cash needs of other group entities internally.

The syndicated loan agreement of Dürr AG, which expires on March 21, 2021 can be terminated prematurely by the banking syndicate if an agreed financial covenant is breached. The financial covenant includes certain targets relating to the gearing ratio. In the 2016 reporting period, the financial covenant was complied with as of each cut-off date. For additional information, please refer to note 30.

Table 3.91 shows the contractually agreed (undiscounted) interest and principal payments for financial liabilities.

Foreign currency risk

Currency risks exist in particular where receivables or liabilities are carried or will arise in the ordinary course of business in a currency other than the functional currency of the entity.

3.91 – INTEREST AND PRINCIPAL PAYMENTS FOR FINANCIAL LIABILITIES

		CASH FLOWS				
€ k	Carrying amount Dec. 31, 2016	2017	2018	2019	2020	From 2021 onwards
Non-derivative financial liabilities						
Trade payables	333,853	333,545	53	43	43	169
Trade payables due from entities accounted for using the equity method	510	510	–	–	–	–
Sundry financial liabilities	45,564	32,497	3,133	2,400	595	8,601
Bond	297,474	8,625	8,625	8,625	8,625	308,625
Bonded loan	299,156	4,325	4,325	4,325	4,325	316,960
Liabilities to banks	35,545	3,311	3,885	3,878	3,869	29,546
Finance lease liabilities	8,480	2,062	1,797	1,968	1,660	1,893
Obligations from options	238,829	238,829[1]	–	–	–	–
Liabilities from contingent purchase price installments	1,619	1,159	230	230	–	–
Derivative financial liabilities						
Derivatives not used for hedging	1,552	1,527	25	–	–	–
Derivatives used for hedging	16,473	11,478	4,995	–	–	–

		CASH FLOWS				
€ k	Carrying amount Dec. 31, 2015	2016	2017	2018	2019	From 2020 onwards
Non-derivative financial liabilities						
Trade payables	398,559	397,950	54	43	299	213
Trade payables due from entities accounted for using the equity method	516	516	–	–	–	–
Sundry financial liabilities	38,509	31,809	5,145	920	21	614
Bond	296,910	8,625	8,625	8,625	8,625	317,250
Liabilities to banks	43,177	6,176	5,609	4,879	4,022	33,451
Finance lease liabilities	10,815	2,876	2,239	2,055	1,756	3,319
Obligations from options	241,205	211,724[1]	29,481	–	–	–
Liabilities from contingent purchase price installments	1,720	1,180	180	180	180	–
Derivative financial liabilities						
Derivatives not used for hedging	452	438	14	–	–	–
Derivatives used for hedging	22,381	21,340	1,041	–	–	–

[1] The cash flows for obligations from options relate primarily to the sundry financial liability recognized under the domination and profit and loss transfer agreement with HOMAG Group AG. The expected cash flows were classified as current. However, the options can also be exercised with differing terms. For additional information, please refer to note 7.

Foreign exchange risks are hedged where they affect the cash flows of the Group. Foreign exchange risks that do not affect the cash flows of the Group (i.e., the risks from translating the items from the statement of financial position of foreign operations to the euro, the Group's reporting currency), however, are generally not hedged. Forward exchange transactions are entered into to hedge exchange rate fluctuations from cash flows relating to forecast purchase and sales transactions with original terms of up to 84 months (prior period: 86 months).

Regarding the presentation of market risks, IFRS 7 "Financial Instruments: Disclosures" requires sensitivity analyses showing how profit or loss and equity would have been affected by hypothetical changes in the relevant risk variables. The periodic expenses are determined by relating the hypothetical changes of the risk variables to the financial instruments as of the end of the reporting period. The presentation is based on the assumption that the portfolio at the end of the reporting period was representative for the whole year. Currency risks as defined by IFRS 7 arise from financial instruments that are denominated in a currency other than the functional currency and are of a monetary nature; exchange differences from the translation of financial statements to the Group's currency are not taken into account. All currencies other than the functional currency in which Dürr holds financial instruments are relevant risk variables.

Material non-derivative monetary financial instruments which constitute currency risks for Dürr are cash, trade receivables and payables as well as intercompany receivables and liabilities that are denominated in different functional currencies. Non-derivative financial instruments which could give rise to currency risks are usually hedged by derivative financial instruments that are accounted for as fair value hedges. In the process, both the change in the non-derivative financial instrument and the change in the value of the derivative financial instrument are posted through profit and loss. In addition, Dürr is exposed to currency risks from derivatives that are embedded, in accordance with IAS 39, in effective cash flow hedges of fluctuation in payments caused by exchange rates. Exchange rate changes concerning the currencies underlying these transactions affect the currency reserve in equity and the fair value of the hedges.

The analyses of the Group's sensitivity to fluctuations in foreign exchange rates use the currency pairs that are relevant for Dürr. This involves projecting the impact of a hypothetical 10 % appreciation, or depreciation respectively, of the euro against the US dollar, the Chinese renminbi, the Danish krone as well as an appreciation and depreciation of the US dollar against the Mexican peso.

3.92 – IMPACT ON THE STATEMENT OF INCOME AND EQUITY

	Dec. 31, 2016		Dec. 31, 2015	
€ k	Impact on the statement of income	Impact on the hedge reserve in equity	Impact on the statement of income	Impact on the hedge reserve in equity
EUR/USD				
EUR +10 %	−435	6,691	252	12,357
EUR −10 %	533	−8,159	−293	−15,070
EUR/CNY				
EUR +10 %	−2,712	3,253	−2,517	4,602
EUR −10 %	3,317	−3,923	2,625	−4,072
EUR/DKK				
EUR +10 %	−84	197	51	230
EUR −10 %	17	−247	−342	−309
USD/MXN				
USD +10 %	509	−3,308	918	−2,911
USD −10 %	−628	4,016	−1,119	3,510

Interest rate risk

Interest rate risks arise from fluctuations in interest rates that could have a negative impact on the net assets, financial position and results of operations of the Group. Interest rate fluctuations lead to changes in net interest and in the carrying amounts of the interest-bearing assets.

In 2016, Dürr AG concluded interest rate swaps with a nominal value of € 100 million to hedge against the interest rate risk from the variable tranches of the bonded loan. The changes in cash flows from the hedged transactions resulting from changes in the Euribor rate are offset by changes in cash flows from the interest rate swaps. The aim of the hedging measures is to transform the variable-rate financial liabilities into fixed-interest financial liabilities and thus to hedge the risks in the cash flow from the financial liabilities. Credit risks are not hedged. A hypothetical increase in the interest rates of 25 base points per year would have caused a € 202 thousand increase in the fair value of the interest rate swaps and equity. A hypothetical decrease in the interest rates of 25 base points per year would have caused a € 0 thousand decrease in the fair value of the interest rate swaps and equity.

Dürr has cash and cash equivalents that are subject to fluctuation in interest rates as of December 31, 2016. A hypothetical increase in these interest rates of 25 base points per year would have caused a € 1,227 thousand (prior period: € 1,049 thousand) increase in interest income. A hypothetical decrease of 25 base points per year would have caused a € 1,227 thousand (prior period: € 1,049 thousand) decrease in interest income.

Other price risks

In the presentation of market risks, IFRS 7 also requires disclosures on the effects of hypothetical changes in the risk variables on the price of financial instruments. The main risk variables include stock market prices and indices. As of December 31, 2016, Dürr did not have any significant investments classified as available for sale. Price risks therefore play only a minor role at Dürr. Please refer to note 34 for more information on the price risk of the options disclosed as a level 3 financial instrument and the liabilities from contingent purchase price installments.

Use of derivative financial instruments

Derivative financial instruments are used in the Group to minimize the risks concerning changes in exchange rates and interest rates on cash flows and the change in fair value of receivables and liabilities. Dürr is exposed to a replacement risk in the event of non-performance by counterparties (credit institutions) relating to the financial instruments described below. All financial derivatives as well as the hedged transactions are subject to regular internal control and measurement in accordance with the directive of the Board of Management. Derivative financial instruments are only entered into to hedge the operating business and to hedge loans.

At the inception of the hedge, the hedging relationship and the entity’s risk management objective and strategy for undertaking the hedge are formally documented. This documentation contains identification of the hedging instrument, the related hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or the hedged item’s cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the periods for which they were designated.

Depending on their market value at the end of the reporting period, derivative financial instruments are reported under sundry financial assets (positive market value) or sundry financial liabilities (negative market value) respectively.

3.93 – SCOPE AND FAIR VALUE OF FINANCIAL INSTRUMENTS

	NOMINAL VALUE		POSITIVE MARKET VALUE		NEGATIVE MARKET VALUE	
€ k	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Interest rate swaps in connection with cash flow hedges	100,000	–	–	–	79	–
Forward exchange contracts	519,570	735,951	3,545	4,471	17,946	22,833
thereof in connection with cash flow hedges	310,080	417,065	2,382	2,349	14,016	16,992
thereof in connection with fair value hedges	97,784	130,900	601	1,022	2,378	5,389
thereof not used for hedging	111,706	187,986	562	1,100	1,552	452

The fair value of the financial instruments was estimated using the following methods and assumptions. The fair values of the forward exchange contracts were estimated at the present value of cash flows on the basis of the difference between the contractually agreed forward exchange rates and the forward rate prevailing at the end of the reporting period. The fair values of the interest hedges are estimated as the discounted value of expected future cash flows based on current market parameters.

Accounting and disclosure of derivative financial instruments and hedge accounting

Currency hedges that clearly serve to hedge future cash flows from foreign exchange transactions and which meet the requirements of IAS 39 in terms of documentation and effectiveness are accounted for as cash flow hedges. Such derivative financial instruments are recognized at fair value. Changes in fair value that impact hedge effectiveness are recognized directly in other comprehensive income until the hedged item is realized. Upon realization of the future transaction (hedged item), the effects recorded in other comprehensive income are transferred to profit or loss and recognized in sales revenues or cost of sales or other operating income and expenses in the statement of income.

In the 2016 reporting period, an unrealized result was recognized in other comprehensive income. This was due to the changes in fair value from forward exchange contracts of € −3,052 thousand recognized in equity (prior period: € −1,973 thousand).

In addition, € 5,467 thousand (prior period: € 2,744 thousand) was reclassified in the 2016 reporting period from other comprehensive income to profit or loss and disclosed in sales revenues or cost of sales in the statement of income, thus decreasing profit.

The effect on earnings (before income taxes) expected for the 2017 reporting period from the amounts recognized in other comprehensive income at the end of the reporting period comes to € −6,352 thousand. In the 2018 and 2019 reporting periods, accumulated effects on earnings are expected to total € −4,652 thousand.

The changes in the fair value of all derivative financial instruments that do not meet the requirements for hedge accounting in accordance with IAS 39 are recognized in profit or loss at the end of the reporting period.

41. OTHER NOTES

Declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG

The declaration of compliance prescribed by Sec. 161 AktG was submitted by the Board of Management and the Supervisory Board of Dürr AG in Bietigheim-Bissingen on December 14, 2016, and made accessible to the shareholders on the internet. For additional information, please refer to the combined management report.

Headcount

The number of employees in the Dürr Group breaks down as of December 31, 2016, and as an average over the 2016 reporting period as shown in tables 3.94 and 3.95 below:

3.94 – EMPLOYEES AS OF THE END OF THE REPORTING PERIOD

	Dec. 31, 2016	Dec. 31, 2015
Industrial employees	7,102	6,995
Salaried employees	7,132	6,942
Employees without interns/trainees/others	**14,234**	**13,937**
Interns/trainees/others	1,001	913
Total employees	**15,235**	**14,850**

3.95 – AVERAGE HEADCOUNT DURING THE YEAR

	2016	2015
Industrial employees	7,099	6,778
Salaried employees	7,010	6,818
Employees without interns/trainees/others	**14,109**	**13,596**
Interns/trainees/others	970	893
Total employees	**15,079**	**14,489**

Fees payable to the auditor of the consolidated financial statements

Table 3.96 shows the audit fees payable to the auditor of the consolidated financial statements recorded as an expense for the reporting period:

3.96 – AUDITOR'S FEES

€ k	2016	2015
Audit of the financial statements	1,378	1,414
Other attest services	5	13
Tax advisory services	393	330
Other services	527	133
	2,303	**1,890**

Subsequent events

Since January 1, 2017, Dr. Jochen Weyrauch is a member of the Board of Management and responsible for the Measuring and Process Systems and Clean Technology Systems divisions as well as corporate development and information technology. The appointment by the Supervisory Board was made on December 14, 2016.

Carlo Crosetto joined the Board of Management on March 1, 2017, and succeeds Mr. Heuwing as Chief Financial Officer. The appointment by the Supervisory Board was made on February 8, 2017.

There were no other extraordinary events that took place between the end of the reporting period and the publication of this report.

Authorization for issue and publication of the consolidated financial statements as of December 31, 2016

The consolidated financial statements and combined management report of Dürr AG prepared by the Board of Management as of December 31, 2016, were authorized for issue to the Supervisory Board at the meeting of the Board of Management on March 8, 2017, and are scheduled for publication in the 2016 annual report on March 17, 2017.

MEMBERS OF THE BOARD OF MANAGEMENT

Ralf W. Dieter
Chairman

- Public Relations, Human Resources (Employee Affairs Director), Research and Development, Quality Management, Internal Audit, Corporate Compliance
- Paint and Final Assembly Systems division
- Application Technology division
- Measuring and Process Systems division (until December 31, 2016)
- Woodworking Machinery and Systems division (since January 1, 2017)

- Carl Schenck AG, Darmstadt[1] (Chairman)
- Dürr Systems AG, Stuttgart[1] (Chairman)
- HOMAG Group AG, Schopfloch[1,2] (Chairman since December 13, 2016)
- iTAC Software AG, Montabaur[1] (Chairman)
- Körber AG, Hamburg
- Schuler AG, Göppingen[2]

- Andritz AG, Graz/Austria[2] (until March 30, 2016)
- Dürr Paintshop Systems Engineering (Shanghai) Co. Ltd., Shanghai, PR China[1] (Supervisor)

Ralph Heuwing
(until May 14, 2017)

- Finance/Controlling, Investor Relations, Risk Management, Legal Affairs/Patents, Global Sourcing, Corporate Social Responsibility (until February 28, 2017; since March 1, 2017, handover to Carlo Crosetto), Information Technology (until December 31, 2016)
- Clean Technology Systems division (until December 31, 2016)
- Woodworking Machinery and Systems division (until December 31, 2016)
- Dürr Consulting (until December 31, 2016)

- Carl Schenck AG, Darmstadt[1] (until February 2, 2017)
- Dürr Systems AG, Stuttgart[1] (March 1, 2016 until February 28, 2017)
- HOMAG Group AG, Schopfloch[1,2] (Chairman until December 13, 2016)
- MCH Management Capital Holding AG, Munich
- Ringmetall AG, Munich[2] (since August 1, 2016)

- Ivoclar Vivadent AG, Schaan, Lichtenstein (since August 31, 2016, member of the administrative board)

Dr. Jochen Weyrauch
(since January 1, 2017)

- Information Technology, Corporate Development
- Measuring and Process Systems division
- Clean Technology Systems division

Carlo Crosetto
(since March 1, 2017)

- Finance/Controlling, Investor Relations, Risk Management, Legal Affairs/Patents, Global Sourcing, Corporate Social Responsibility

- Carl Schenck AG, Darmstadt[1] (since February 2, 2017)
- Dürr Systems AG, Stuttgart[1] (since March 1, 2017)

● Offices held by members of the Board of Management
● Membership in statutory supervisory boards
○ Membership in comparable German and foreign control bodies (of business entities)
[1] Group boards
[2] listed

The members of the Board of Management were remunerated as shown in table 3.97:

3.97 – REMUNERATION OF THE BOARD OF MANAGEMENT

€ k	2016	2015
Short-term employee benefits (excluding share-based payment)	4,637	4,679
Post-employment benefits	849	375
Termination benefits	–	–
Share-based payments	2,400	2,400
	7,886	**7,454**

Former members of the Board of Management received pension payments of € 1,891 thousand in the 2016 reporting period (prior period: € 1,876 thousand). Pension provisions for this group of persons amounted to € 6,486 thousand as of December 31, 2016 (prior period: € 4,730 thousand).

Individualized disclosures on the remuneration of the members of the Board of Management are presented in the section "Compensation report" in the combined management report.

MEMBERS OF THE SUPERVISORY BOARD

Klaus Eberhardt[1,4,5]
Independent consultant, former Chairman of the Board of Management of Rheinmetall AG, Düsseldorf
Chairman

- ElringKlinger AG, Dettingen/Erms[6]
- MTU Aero Engines AG, Munich[6] (Chairman)

Hayo Raich[1,3,4]
Full-time Chairman of the Group Works Council of Dürr AG, Stuttgart
Full-time Chairman of the Works Council of Dürr Systems AG, Stuttgart, at the Bietigheim-Bissingen site
Deputy Chairman

- Dürr Systems AG, Stuttgart (Deputy Chairman)

Karl-Heinz Streibich[1,4,5]
Chairman of the Board of Management of Software AG, Darmstadt
Further Deputy Chairman

- Deutsche Telekom AG, Bonn[6]
- Deutsche Messe AG, Hanover

Stefan Albert[3,4]
Full-time Chairman of the Works Council of Schenck RoTec GmbH, Darmstadt (until July 31, 2016)
(until May 4, 2016)

- Betriebspensionskasse der Firma Carl Schenck AG VVaG, Darmstadt (until July 31, 2016)

Mirko Becker[2,3]
Full-time member of the Group Works Council of Dürr AG, Stuttgart
Full-time member of the Works Council of Dürr Systems AG, Stuttgart, at the Bietigheim-Bissingen site

Prof. Dr. Alexandra Dürr[2,5]
Professor of Medical Genetics at the University Pierre et Marie Curie (UPMC) and senior physician in the Département de Génétique, Groupe Hospitalier Pitié-Salpêtrière, Paris, France

Gerhard Federer[2]
Independent consultant
(since May 4, 2016)

- HOMAG Group AG, Schopfloch[6]

Prof. Dr.-Ing. Holger Hanselka
President of the Karlsruhe Institute of Technology (KIT), Karlsruhe

- Harmonic Drive AG, Limburg an der Lahn (until December 31, 2016)
- MAFA-Beteiligungsverwaltungsgesellschaft mbH, Aalen (until June 30, 2016)

Carmen Hettich-Günther[3]
Full-time Chairwoman of the Group Works Council of HOMAG Group AG, Schopfloch
(since May 4, 2016)

- HOMAG GmbH, Schopfloch
- HOMAG Group AG, Schopfloch[6]

● Membership in statutory supervisory boards
[1] Member of the Executive Committee and Personnel Committee
[2] Member of the Audit Committee
[3] Employee representative
[4] Member of the Mediation Committee
[5] Member of the Nomination Committee
[6] listed

Thomas Hohmann[3]
Head of Personnel at Dürr Systems AG, Stuttgart

Guido Lesch[1,3]
Second Authorized Representative of IG Metall administrative offices, Völklingen
(until May 4, 2016)

- Saarschmiede GmbH Freiformschmiede, Völklingen (Deputy Chairman)

Dr. Herbert Müller[2]
Lawyer
(until May 4, 2016)

Dr. Anja Schuler
Member of the Supervisory Board, Zurich, Switzerland
(since February 3, 2016)

- HOMAG Group AG, Schopfloch[6]

Dr. Martin Schwarz-Kocher[2,3]
General manager of IMU Institut GmbH, Stuttgart

Dr. Astrid Ziegler[1,3]
Head of Department for Industrial, Structural and Energy Policy on the Board of Management of IG Metall, Frankfurt/Main
(since May 4, 2016)

- Pfleiderer Deutschland GmbH, Neumarkt/Oberpfalz

Dr.-Ing. E.h. Heinz Dürr
Honorary Chairman of the Supervisory Board

● Membership in statutory supervisory boards
[1] Member of the Executive Committee and Personnel Committee
[2] Member of the Audit Committee
[3] Employee representative
[4] Member of the Mediation Committee
[5] Member of the Nomination Committee
[6] listed

Table 3.98 shows a breakdown into components of the remuneration of individual Supervisory Board members in the 2016 reporting period:

3.98 – REMUNERATION OF THE SUPERVISORY BOARD IN 2016

€	Basic remuneration	Remuneration for committee membership	Attendance fees[3]	Variable remuneration	Total
Klaus Eberhardt, Chairman	120,000	11,250	9,000	61,500	201,750
(2015)	(60,000)	(11,250)	(9,000)	(105,000)	(185,250)
Hayo Raich* [1,2], Deputy Chairman	63,000	5,000	10,200	30,750	108,950
(2015)	(33,000)	(5,000)	(9,900)	(52,500)	(100,400)
Karl-Heinz Streibich, Deputy Chairman	60,000	7,500	7,000	30,750	105,250
(2015)	(30,000)	(7,500)	(9,000)	(52,500)	(99,000)
Stefan Albert* [2] (until May 4, 2016)	16,667	–	2,000	8,542	27,209
(2015)	(20,000)	(–)	(7,000)	(35,000)	(62,000)
Mirko Becker* [2]	40,000	10,000	9,000	20,500	79,500
(2015)	(20,000)	(9,000)	(11,000)	(35,000)	(75,000)
Prof. Dr. Alexandra Dürr	40,000	12,500	9,000	20,500	82,000
(2015)	(20,000)	(11,500)	(11,000)	(35,000)	(77,500)
Gerhard Federer[1] (since May 4, 2016)	36,667	31,333	16,000	13,667	97,667
(2015)	(–)	(–)	(–)	(–)	(–)
Prof. Dr.-Ing. Holger Hanselka	40,000	–	6,000	20,500	66,500
(2015)	(20,000)	(–)	(6,000)	(35,000)	(61,000)
Carmen Hettich-Günther* [1,2] (since May 4, 2016)	36,667	10,500	14,000	13,667	74,834
(2015)	(–)	(–)	(–)	(–)	(–)
Thomas Hohmann*	40,000	–	6,000	20,500	66,500
(2015)	(20,000)	(–)	(7,000)	(35,000)	(62,000)
Guido Lesch* [2] (until May 4, 2016)	16,667	2,083	3,000	8,542	30,292
(2015)	(20,000)	(5,000)	(8,000)	(35,000)	(68,000)
Dr. Herbert Müller (until May 4, 2016)	16,667	8,333	3,000	8,542	36,542
(2015)	(20,000)	(18,000)	(11,000)	(35,000)	(84,000)
Dr. Anja Schuler[1] (since February 3, 2016)	46,667	3,000	14,000	18,792	82,459
(2015)	(–)	(–)	(–)	(–)	(–)
Dr. Martin Schwarz-Kocher* [2]	40,000	10,000	9,000	20,500	79,500
(2015)	(20,000)	(9,000)	(10,000)	(35,000)	(74,000)
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer (until December 31, 2015)	–	–	–	–	–
(2015)	(20,000)	(–)	(6,000)	(35,000)	(61,000)
Dr. Astrid Ziegler* [2] (since May 4, 2016)	26,667	3,333	6,000	13,667	49,667
(2015)	(–)	(–)	(–)	(–)	(–)
Total	**639,669**	**114,832**	**123,200**	**310,919**	**1,188,620**
(2015)	(303,000)	(76,250)	(104,900)	(525,000)	(1,009,150)

* Employee representative
[1] Also member of the Supervisory Board of Dürr Systems AG or HOMAG Group AG
[2] These employee representatives have declared that they will transfer their remuneration to the Hans-Böckler Foundation in keeping with the guidelines of the German Federation of Trade Unions.
[3] For Supervisory Board and committee meetings

42. STATEMENT OF CHANGES IN NON-CURRENT ASSETS

3.99 – INTANGIBLE ASSETS

€ k	Goodwill	Franchises, industrial rights and similar rights	Capitalized development costs	Prepayments for intangible assets	Dürr Group
Accumulated cost as of January 1, 2015	**397,311**	**243,090**	**47,009**	**23,777**	**711,187**
Exchange difference	5,425	1,154	74	12	6,665
Changes in the consolidated group	–	24,557	3,921	–	28,478
Additions	12,426	11,494	9,743	5,784	39,447
Disposals	–	–11,240	–330	–1,690	–13,260
Reclassifications	–	6,481	6,383	–11,171	1,693
Accumulated cost as of December 31, 2015	**415,162**	**275,536**	**66,800**	**16,712**	**774,210**
Exchange difference	2,332	86	10	–1	2,427
Changes in the consolidated group	–	4,896	–	–	4,896
Additions	5,422	6,762	9,963	7,770	29,917
Disposals	–	–2,216	–418	–1,430	–4,064
Reclassification to assets held for sale	–21,316	–6,643	–2,275	–	–30,234
Reclassifications	–	655	1,136	–1,233	558
Accumulated cost as of December 31, 2016	**401,600**	**279,076**	**75,216**	**21,818**	**777,710**
Accumulated amortization and impairment as of January 1, 2015	**–**	**75,889**	**17,442**	**–**	**93,331**
Exchange difference	–	390	54	–	444
Amortization for the year	–	29,662	10,427	–	40,089
Impairment losses for the year	–	239	–	2,116	2,355
Disposals	–	–10,771	–263	–	–11,034
Reclassifications	–	119	–	–	119
Accumulated amortization and impairment as of December 31, 2015	**–**	**95,528**	**27,660**	**2,116**	**125,304**
Exchange difference	–	88	9	–	97
Changes in the consolidated group	–	17	–	–	17
Amortization for the year	–	34,394	13,114	–	47,508
Impairment losses for the year	–	–	843	–	843
Disposals	–	–1,208	–381	–	–1,589
Reclassification to assets held for sale	–	–3,975	–1,875	–	–5,850
Reclassifications	–	233	14	–	247
Accumulated amortization and impairment as of December 31, 2016	**–**	**125,077**	**39,384**	**2,116**	**166,577**
Net carrying amount as of December 31, 2016	**401,600**	**153,999**	**35,832**	**19,702**	**611,133**
Net carrying amount as of December 31, 2015	415,162	180,008	39,140	14,596	648,906
Net carrying amount as of January 1, 2015	397,311	167,201	29,567	23,777	617,856

3.100 – PROPERTY, PLANT AND EQUIPMENT

€ k	Land, land rights and buildings including buildings on third-party land	Investment property	Technical equipment and machines	Other equipment, furniture and fixtures	Prepayments and assets under construction	Dürr Group
Accumulated cost as of January 1, 2015	**325,376**	**42,845**	**58,435**	**121,769**	**5,488**	**553,913**
Exchange difference	1,789	–	719	1,459	689	4,656
Changes in the consolidated group	1,082	–	67	778	–	1,927
Additions	14,320	609	5,559	21,657	33,095	75,240
Disposals	– 1,130	– 89	– 1,620	– 8,381	– 67	– 11,287
Reclassification to assets held for sale	– 11,672	–	– 17	– 97	–	– 11,786
Reclassifications	924	–	1,494	718	– 2,997	139
Accumulated cost as of December 31, 2015	**330,689**	**43,365**	**64,637**	**137,903**	**36,208**	**612,802**
Exchange difference	1,054	–	11	680	– 402	1,343
Changes in the consolidated group	–	–	38	133	–	171
Additions	6,427	373	13,768	25,071	11,794	57,433
Disposals	– 506	– 95	– 3,510	– 6,916	– 44	– 11,071
Reclassification to assets held for sale	– 21,731	–	– 3,197	– 6,842	–	– 31,770
Reclassifications	31,258	–	5,277	2,523	– 35,885	3,173
Accumulated cost as of December 31, 2016	**347,191**	**43,643**	**77,024**	**152,552**	**11,671**	**632,081**
Accumulated depreciation and impairment as of January 1, 2015	**60,499**	**21,244**	**25,070**	**63,267**	**160**	**170,240**
Exchange difference	707	–	650	1,148	–	2,505
Depreciation for the year	13,239	949	6,599	18,447	–	39,234
Impairment losses for the year	–	–	13	–	–	13
Disposals	– 831	– 89	– 1,340	– 6,817	–	– 9,077
Reclassification to assets held for sale	– 6,321	–	– 3	– 25	–	– 6,349
Reclassifications	1	–	620	– 362	–	259
Accumulated depreciation and impairment as of December 31, 2015	**67,294**	**22,104**	**31,609**	**75,658**	**160**	**196,825**
Exchange difference	– 314	–	52	252	–	– 10
Changes in the consolidated group	–	–	21	27	–	48
Depreciation for the year	14,252	923	7,485	19,439	–	42,099
Impairment losses for the year	–	–	–	–	64	64
Disposals	– 19	– 48	– 2,214	– 4,646	–	– 6,927
Reclassification to assets held for sale	– 9,332	–	– 1,762	– 4,244	–	– 15,338
Reclassifications	60	–	31	– 12	–	79
Accumulated depreciation and impairment as of December 31, 2016	**71,941**	**22,979**	**35,222**	**86,474**	**224**	**216,840**
Net carrying amount as of December 31, 2016	**275,250**	**20,664**	**41,802**	**66,078**	**11,447**	**415,241**
Net carrying amount as of December 31, 2015	263,395	21,261	33,028	62,245	36,048	415,977
Net carrying amount as of January 1, 2015	264,877	21,601	33,365	58,502	5,328	383,673

3.101 – FINANCIAL ASSETS

€ k	Investments in entities accounted for using the equity method	Other investments	Securities classified as non-current assets	Other loans	Dürr Group
Accumulated cost as of January 1, 2015	**25,421**	**15,606**	**26,585**	**709**	**68,321**
Exchange difference	2,106	– 10	–	–	2,096
Additions	3,299	315	6	–	3,620
Disposals	– 1,740	–	– 6	– 107	– 1,853
Reclassifications	– 471	59	–	–	– 412
Accumulated cost as of December 31, 2015	**28,615**	**15,970**	**26,585**	**602**	**71,772**
Exchange difference	1,360	– 52	–	–	1,308
Additions	3,203	33	6	–	3,242
Disposals	–	– 12,615	– 17,203	–	– 29,818
Reclassifications	–	– 192	–	–	– 192
Accumulated cost as of December 31, 2016	**33,178**	**3,144**	**9,388**	**602**	**46,312**
Accumulated write-downs as of January 1, 2015	**834**	**18**	**887**	**141**	**1,880**
Exchange difference	30	– 10	–	–	20
Depreciation for the year	–	–	441	–	441
Impairment losses for the year	–	58	–	156	214
Reversal of impairment losses	– 17	–	–	–	– 17
Reclassifications	– 454	59	–	–	– 395
Accumulated write-downs as of December 31, 2015	**393**	**125**	**1,328**	**297**	**2,143**
Exchange difference	59	– 52	–	–	7
Depreciation for the year	–	125	291	–	416
Impairment losses for the year	–	–	–	305	305
Disposals	–	–	– 1,186	–	– 1,186
Accumulated write-downs as of December 31, 2016	**452**	**198**	**433**	**602**	**1,685**
Net carrying amount as of December 31, 2016	**32,726**	**2,946**	**8,955**	**–**	**44,627**
Net carrying amount as of December 31, 2015	28,222	15,845	25,257	305	69,629
Net carrying amount as of January 1, 2015	24,587	15,588	25,698	568	66,441

43. LIST OF GROUP SHAREHOLDINGS

3.102 – LIST OF GROUP SHAREHOLDINGS

Name and location	Share in capital %*
A. FULLY CONSOLIDATED SUBSIDIARIES	
Germany	
Benz GmbH Werkzeugsysteme, Haslach im Kinzigtal	51.0
Carl Schenck AG, Darmstadt[1, 2]	100.0
DUALIS GmbH IT Solution, Dresden	100.0
Dürr Assembly Products GmbH, Püttlingen[1, 2]	100.0
Dürr Clean Energy GmbH, Stuttgart	100.0
Dürr Ecoclean GmbH, Filderstadt[1, 2]	100.0
Dürr International GmbH, Stuttgart[1, 2]	100.0
Dürr IT Service GmbH, Stuttgart[1, 2]	100.0
Dürr Somac GmbH, Stollberg[1, 2]	100.0
Dürr Systems AG, Stuttgart[1, 2]	100.0
Dürr Systems Wolfsburg GmbH, Wolfsburg[1, 2]	100.0
Dürr Technologies GmbH, Stuttgart[1, 2]	100.0
Dürr thermea GmbH, Ottendorf-Okrilla	87.6
HOMAG Automation GmbH, Lichtenberg/Erzgebirge[1, 2]	100.0
HOMAG Bohrsysteme GmbH, Herzebrock-Clarholz (formerly Weeke Bohrsysteme GmbH)	100.0
HOMAG eSOLUTION GmbH, Schopfloch	51.0
HOMAG Finance GmbH, Schopfloch	100.0
HOMAG GmbH, Schopfloch (formerly Homag Holzbearbeitungssysteme GmbH)[1, 2]	100.0
Homag Group AG, Schopfloch[1]	55.9
HOMAG Kantentechnik GmbH, Lemgo (formerly Brandt Kantentechnik GmbH)[1, 2]	100.0
HOMAG Plattenaufteiltechnik GmbH, Calw (formerly HOLZMA Plattenaufteiltechnik GmbH)[1, 2]	100.0
iTAC Software AG, Montabaur	100.0
Luft- und Thermotechnik Bayreuth GmbH, Goldkronach[1, 2]	100.0
Schenck RoTec GmbH, Darmstadt[1, 2]	100.0
Schenck Technologie- und Industriepark GmbH, Darmstadt[1, 2]	100.0
SCHULER Consulting GmbH, Pfalzgrafenweiler	100.0
Torwegge Holzbearbeitungsmaschinen GmbH, Schopfloch	100.0
Weinmann Holzbausystemtechnik GmbH, St. Johann	75.9

Name and location	Share in capital %*
Other EU countries	
AGRAMKOW Fluid Systems A/S, Sønderborg/Denmark	100.0
Carl Schenck Machines en Installaties B.V., Rotterdam/Netherlands	100.0
Carl Schenck spol. s r.o., Modřice/Czech Republic	100.0
CPM S.p.A., Beinasco/Italy	51.0
Datatechnic S.A.S., Uxegney/France	100.0
Duerr Cyplan Limited, Aldermaston/UK	100.0
Dürr Anlagenbau Gesellschaft m.b.H., Zistersdorf/Austria	100.0
Dürr Cleaning France S.A.S., Le Mans/France	100.0
Dürr Ecoclean spol. s r.o., Oslavany/Czech Republic	100.0
Dürr Ltd., Warwick/UK	100.0
Dürr Poland Sp. z o.o., Radom/Poland	100.0
Dürr Systems Czech Republic a.s., Ledeč nad Sázavou/Czech Republic	100.0
Dürr Systems S.A.S., Guyancourt/France	100.0
Dürr Systems Spain S.A.U., San Sebastián/Spain	100.0
Dürr Systems spol. s r.o., Bratislava/Slovakia	100.0
E&P Turbo Ltd., Aldermaston/UK	100.0
HOLZMA PLATTENAUFTEILTECHNIK, S.A. Unipersonal, L'Ametlla del Vallès/Spain	100.0
HOMAG AUSTRIA Gesellschaft m.b.H., Oberhofen am Irrsee/Austria	100.0
HOMAG DANMARK A/S, Galten/Denmark	100.0
HOMAG ESPAÑA MAQUINARIA, S.A., Llinars del Vallès/Spain	100.0
HOMAG France S.A.S., Schiltigheim/France	100.0
HOMAG Group Trading SEE EOOD, Plovdiv/Bulgaria	100.0
HOMAG ITALIA S.p.A., Giussano/Italy	100.0
Homag Machinery Środa Sp. z o.o., Środa Wielkopolska/Poland	100.0
HOMAG POLSKA Sp. z o.o., Środa Wielkopolska/Poland	100.0
HOMAG U.K. LTD., Castle Donington/UK	100.0
Olpidürr S.p.A., Novegro di Segrate/Italy	65.0
Schenck Italia S.r.l., Paderno Dugnano/Italy	100.0
Schenck Limited, Warwick/UK	100.0
Schenck S.A.S., Jouy-le-Moutier/France	100.0
Stimas Engineering S.r.l., Turin/Italy	51.0
Verind S.p.A., Rodano/Italy[3]	50.0

Name and location	Share in capital %*
Other European countries	
CPM Automation d.o.o. Beograd, Belgrade/Serbia	100.0
Dürr Systems Makine Mühendislik Proje Ithalat ve Ihracat Ltd. Sirketi, Izmit-Kocaeli/Turkey	100.0
Homag (Schweiz) AG, Höri/Switzerland	100.0
OOO "Homag Russland", Moscow/Russia	100.0
OOO Dürr Systems RUS, Moscow/Russia	100.0
Schenck Industrie-Beteiligungen AG, Glarus/Switzerland	100.0
UCM AG, Rheineck/Switzerland	100.0
North America/Central America	
BENZ INCORPORATED, Charlotte, North Carolina/USA	100.0
Dürr de México, S.A. de C.V., Santiago de Querétaro/Mexico	100.0
Dürr Ecoclean Inc., Southfield, Michigan/USA	100.0
Dürr Inc., Southfield, Michigan/USA	100.0
Dürr Systems Canada, Corp., Windsor, Ontario/Canada	100.0
Dürr Systems Inc., Southfield, Michigan/USA	100.0
HOMAG CANADA INC., Mississauga, Ontario/Canada	100.0
Homag Machinery North America, Inc., Grand Rapids, Michigan/USA (formerly Weeke North America, Inc.)	100.0
iTAC Software Inc., Southfield, Michigan/USA	100.0
Schenck Corporation, Deer Park, New York/USA	100.0
Schenck México, S.A. de C.V., Mexico City/Mexico	100.0
Schenck RoTec Corporation, Southfield, Michigan/USA	100.0
Schenck Trebel Corporation, Deer Park, New York/USA	100.0
STILES MACHINERY, INC., Grand Rapids, Michigan/USA	100.0
South America	
AGRAMKOW do Brasil Ltda., Indaiatuba/Brazil	100.0
Dürr Brasil Ltda., São Paulo/Brazil	100.0
HOMAG INDÚSTRIA E COMÉRCIO DE MÁQUINAS PARA MADEIRA LTDA., Taboão da Serra/Brazil	100.0
Irigoyen 330 S.A., Buenos Aires/Argentina	100.0
VERIND BRASIL SERVICOS E SOLUCOES LTDA. – EPP, Belo Horizonte/Brazil[3]	100.0

Name and location	Share in capital %*
Africa/Asia/Australia	
AGRAMKOW Asia Pacific Pte. Ltd., Singapore/Singapore	100.0
Dürr (Thailand) Co., Ltd., Bangkok/Thailand	100.0
Dürr Africa (Pty.) Ltd., Port Elizabeth/South Africa	100.0
Dürr India Private Ltd., Chennai/India	100.0
Dürr Japan K.K., Tokyo/Japan	100.0
Dürr Korea Inc., Seoul/South Korea	100.0
Dürr Paintshop Systems Engineering (Shanghai) Co. Ltd., Shanghai/PR China	100.0
Durr Systems (Malaysia) Sdn. Bhd., Petaling Jaya/Malaysia	100.0
Dürr Systems Maroc sarl au, Tangier/Morocco	100.0
EPE Fund 3 (RF) (Pty) Ltd., Port Elizabeth/South Africa[3]	100.0
HA (THAILAND) CO. LTD., Bangkok/Thailand	100.0
HA MALAYSIA SDN. BHD., Puchong/Malaysia	100.0
HOMAG ASIA PTE LTD., Singapore/Singapore	100.0
Homag Australia Pty. Limited, Sydney/Australia	100.0
Homag India Private Limited, Bangalore/India	99.9
Homag Japan Co., Ltd., Higashiosaka/Japan	100.0
HOMAG KOREA CO., LTD., Seoul/South Korea	54.6
Homag Machinery (Shanghai) Co. Ltd., Shanghai/PR China	81.3
HOMAG Machinery Bangalore Private Limited, Bangalore/India	100.0
HOMAG NEW ZEALAND LIMITED, Auckland/New Zealand	100.0
Luhlaza Industrial Services (Pty) Ltd., Port Elizabeth/South Africa[3]	75.0
Mhitraa Engineering Equipments Private Limited, Sriperumbudur/India	100.0
PT Durr Systems Indonesia, Jakarta/Indonesia	100.0
Schenck RoTec India Limited, Noida/India	100.0
Schenck Shanghai Machinery Corp. LTD, Shanghai/PR China	100.0
Shanghai Shenlian Testing Machine Works Co., Ltd., Shanghai/PR China	100.0

B. NON-CONSOLIDATED SUBSIDIARIES

Aviva Vermögensverwaltung GmbH, Munich/Germany	100.0
Futura GmbH, Schopfloch/Germany	100.0
H O M A G Equipment Machinery Trading LLC, Dubai/United Arab Emirates[4]	49.0
HOMAG Arabia FZE, Dubai/United Arab Emirates	100.0
Hüllhorst GmbH i.L., Löhne/Germany	100.0
Unterstützungseinrichtung der Carl Schenck AG, Darmstadt, GmbH, Darmstadt/Germany	100.0
WTA Weinviertler Technik Akademie GmbH, Zistersdorf/Austria	100.0

Name and location	Share in capital %*
C. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD	
HOMAG CHINA GOLDEN FIELD LIMITED, Hong Kong/PR China	25.0
LaTherm Abwicklungsgesellschaft mbH, Dortmund/Germany	28.1
Nagahama Seisakusho Ltd., Osaka/Japan	50.0
Prime Contractor Consortium FAL China, Stuttgart/Germany	50.0
D. OTHER INVESTMENTS	
Fludicon GmbH, Darmstadt/Germany	1.4
HeatMatrix Group B.V., Utrecht/Netherlands	14.8
Parker Engineering Co., Ltd., Tokyo/Japan	10.0
SBS Ecoclean GmbH, Stuttgart/Germany	15.0

* Investment pursuant to Sec. 16 AktG
[1] Profit and loss transfer agreement with the respective parent company
[2] Exemption pursuant to Sec. 264 (3) HGB
[3] Controlling influence as a result of contractual arrangements to control the relevant activities
[4] 100 % share in voting right

Bietigheim-Bissingen, March 8, 2017

Dürr Aktiengesellschaft

The Board of Management

RALF W. DIETER **RALPH HEUWING**

DR. JOCHEN WEYRAUCH **CARLO CROSETTO**

AUDIT OPINION

We have issued the following opinion on the consolidated financial statements and the group management report, which was combined with the management report of the Company:

"We have audited the consolidated financial statements prepared by Dürr Aktiengesellschaft, Stuttgart, comprising the statement of income, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the notes to the consolidated financial statements, together with the group management report, which was combined with the management report of the Company, for the reporting period from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Stuttgart, March 8, 2017

Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft

MARBLER
Wirtschaftsprüfer
(German public auditor)

HUMMEL
Wirtschaftsprüfer
(German public auditor)

RESPONSIBILITY STATEMENT BY MANAGEMENT

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

RALF W. DIETER

RALPH HEUWING

DR. JOCHEN WEYRAUCH

CARLO CROSETTO

BIETIGHEIM-BISSINGEN, MARCH 8, 2017

4.1 – TEN-YEAR SUMMARY DÜRR GROUP[1]

		2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Incoming orders	€ million	3,701.7	3,467.5	2,793.0	2,387.1	2,596.8	2,684.9	1,642.2	1,184.7	1,464.0	1,781.5
Orders on hand	€ million	2,568.4	2,465.7	2,725.3	2,150.1	2,316.8	2,142.7	1,359.1	1,002.4	925.0	1,082.0
Sales revenues	€ million	3,573.5	3,767.1	2,574.9	2,406.9	2,399.8	1,922.0	1,261.4	1,077.6	1,602.8	1,476.6
Gross profit on sales	€ million	858.3	828.0	591.1	487.3	437.8	331.4	237.5	210.8	287.1	240.0
Overhead costs (incl. R&D costs)	€ million	−605.5	−566.4	−359.5	−280.7	−262.9	−225.5	−201.6	−202.5	−211.0	−203.3
EBITDA	€ million	360.3	348.2	262.9	230.4	205.4	127.1	54.6	25.6	87.1	73.5
EBIT	€ million	271.4	267.8	220.9	203.0	176.9	106.5	36.6	5.7	72.7	55.7
Financial result	€ million	−13.3	−23.3	−16.2	−18.4	−29.2	−20.7	−24.1	−17.9	−26.3	−21.0
EBT	€ million	258.1	244.5	204.7	184.6	147.7	85.8	12.5	−12.2	46.4	34.8
Income taxes	€ million	−70.3	−78.0	−54.4	−43.7	−36.3	−21.6	−5.4	−13.5	−12.7	−13.6
Net income/loss	€ million	187.8	166.6	150.3	140.9	111.4	64.3	7.1	−25.7	33.7	21.2
Profit/loss attributable to Dürr AG shareholders	€ million	181.9	161.6	149.8	140.1	107.2	61.9	6.3	−26.9	29.9	20.9
STOCK											
Earnings per share	€	5.26	4.67	4.33	4.05	3.10	1.79	0.19	−0.78	0.91	0.67
Dividend per share	€	2.10[2]	1.85	1.65	1.45	1.13	0.60	0.15	0.00	0.35	0.20
Book value per share (Dec. 31)	€	23.40	20.15	17.78	14.58	12.25	10.37	9.05	8.52	10.11	8.12
Operating cash flow per share	€	6.57	5.00	8.42	9.51	3.40	3.70	1.60	2.76	0.94	2.73
Closing price[3] (Dec. 31)	€	76.35	73.60	73.26	64.81	33.75	17.00	11.94	8.50	6.13	13.30
Number of shares (weighted average)	thousand	34,601	34,601	34,601	34,601	34,601	34,601	34,601	34,601	33,072	31,456
Market capitalization (Dec. 31)	€ million	2,642	2,547	2,535	2,243	1,168	588	413	294	203	418
INCOME STATEMENT											
Gross margin	%	24.0	22.0	23.0	20.2	18.2	17.2	18.8	19.6	17.9	16.3
EBITDA margin	%	10.1	9.2	10.2	9.6	8.6	6.6	4.3	2.4	5.4	5.0
EBIT margin	%	7.6	7.1	8.6	8.4	7.4	5.5	2.9	0.5	4.5	3.8
EBT	%	7.2	6.5	8.0	7.7	6.2	4.5	1.0	−1.1	2.9	2.4
Interest coverage		13.7	10.7	12.6	10.7	6.0	5.0	1.5	0.3	2.5	2.4
Tax rate	%	27.2	31.9	26.6	23.7	24.6	25.1	43.3	–	27.3	39.0
CASH FLOW											
Operating cash flow	€ million	227.4	173.0	291.3	329.1	117.6	127.9	55.4	95.4	30.9	85.9
Free cash flow	€ million	129.9	62.8	221.1	261.9	65.9	91.8	22.9	63.7	−14.5	40.6
Capital expenditure (property, plant & equipment and intangible assets)	€ million	81.9	102.3	54.9	51.2	32.5	23.4	16.6	21.4	24.3	26.5
Change in net financial status	€ million	47.1	−38.4	−112.7	183.8	44.9	28.2	20.6	37.4	27.4	34.7
BALANCE SHEET											
Non-current assets (Dec. 31)	€ million	1,125.3	1,182.0	1,124.2	590.9	551.9	529.0	462.3	452.6	443.5	424.2
Current assets (Dec. 31)	€ million	2,223.2	1,804.6	1,851.9	1,400.9	1,255.8	1,132.0	754.1	515.5	644.5	650.6
of which cash and cash equivalents (Dec. 31)	€ million	724.2	435.6	522.0	458.5	349.3	298.6	252.3	103.9	84.4	147.5
Equity (with non-controlling interests) (Dec. 31)	€ million	831.0	714.4	725.8	511.4	432.1	364.3	319.4	301.4	341.4	257.1
Non-current liabilities (Dec. 31)	€ million	843.3	585.0	643.1	394.8	402.6	401.9	328.2	201.1	201.3	305.0
of which pension obligations (Dec. 31)	€ million	51.8	49.7	53.7	49.8	53.5	57.8	55.9	55.1	52.2	50.0

		2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Current liabilities (Dec. 31)	€ million	1,674.2	1,687.2	1,607.3	1,085.7	973.0	894.8	568.8	465.6	545.4	512.7
Financial liabilities (Dec. 31)	€ million	654.5	350.9	426.5	271.1	286.1	286.2	232.3	104.0	122.6	214.6
Total assets (Dec. 31)	€ million	3,348.5	2,986.7	2,976.1	1,991.8	1,807.7	1,661.0	1,216.5	968.1	1,088.0	1,074.8
Net financial status (Dec. 31)	€ million	176.5	129.4	167.8	280.5	96.7	51.8	23.6	3.0	– 34.4	– 61.8
Net financial debt / EBITDA		–[4]	–[4]	–[4]	–[4]	–[4]	–[4]	–[4]	–[4]	0.4	0.8
Gearing (Dec. 31)	%	– 27.0	– 22.1	– 30.1	– 121.5	– 28.8	– 16.6	– 8.0	– 1.0	9.2	19.4
Net working capital (Dec. 31)	€ million	194.4	236.8	87.6	– 33.1	98.6	32.6	27.3	57.4	151.8	128.9
Days working capital	Days	27.2[6]	22.6	12.2	– 4.9	14.8	6.1	7.8	19.2	34.1	31.4
Days sales outstanding	Days	47.3[6]	51.9	67.8	47.6	51.9	61.5	52.5	62.4	56.0	66.6
Inventory turnover	Days	40.4[6]	37.0	51.0	22.1	21.7	23.3	21.1	20.9	17.5	14.1
Equity assets ratio (Dec. 31)	%	73.8	60.4	64.6	86.5	78.3	68.9	69.1	66.6	77.0	60.6
Degree of asset depreciation (Dec. 31)	%	34.3	32.1	30.7	43.9	48.4	48.8	56.9	56.9	57.8	59.4
Depreciation expense ratio	%	6.7	6.4	4.2	4.3	4.2	3.3	4.1	4.3	3.9	4.6
Asset coverage (Dec. 31)	%	148.8	109.9	121.8	153.3	151.2	144.8	140.1	111.0	122.4	132.5
Asset intensity (Dec. 31)	%	33.6	39.6	37.8	29.7	30.5	31.8	38.0	46.8	40.8	39.5
Current assets to total assets (Dec. 31)	%	66.4	60.4	62.2	70.3	69.5	68.2	62.0	53.2	59.2	60.5
Cash ratio (Dec. 31)	%	43.3	26.4	32.6	42.4	35.9	33.4	44.4	22.3	15.5	28.8
Quick ratio (Dec. 31)	%	89.8	80.8	85.7	104.5	107.3	103.3	113.3	91.7	96.8	107.8
Equity ratio (Dec. 31)	%	24.8	23.9	24.4	25.7	23.9	21.9	26.3	31.1	31.4	23.9
Return on equity	%	22.6[6]	23.3	20.7	27.6	25.8	17.6	2.2	– 8.5	9.9	8.2
Capital employed (CE) (Dec. 31)[5]	€ million	670.6	590.6	571.5	266.4	373.0	350.8	339.7	339.7	415.0	357.1
ROCE[5]	%	41.1[6]	45.3	38.7	76.2	47.4	30.4	10.8	1.7	17.6	15.9
Weighted average cost of capital (WACC)	%	7.20	6.98	5.78	6.69	6.58	7.64	8.10	8.08	7.58	7.41
Economic value added (EVA)[5]	€ million	142.5[6]	146.2	121.6	124.3	99.3	47.7	– 1.9	– 23.4	19.7	13.3
EMPLOYEES / R&D											
Employees (Dec. 31)		15,235	14,850	14,151	8,142	7,652	6,823	5,915	5,712	6,143	5,936
Cost per employee (year average)	€	– 67,100	– 67,000	– 64,800	– 65,200	– 64,900	– 62,700	– 59,300	– 57,200	– 62,200	– 63,500
Sales per employee (year average)	€	237,000	260,000	262,900	301,900	327,100	299,200	218,300	183,100	264,500	254,200
R&D ratio	%	3.0	2.6	2.2	1.8	1.6	1.5	2.0	2.4	1.6	1.4
R&D employees (Dec. 31)		695	667	619	248	199	180	162	157	152	158
R&D expenditure	€ million	– 105.9	– 97.1	– 55.4	– 43.0	– 37.2	– 29.5	– 25.8	– 25.9	– 25.5	– 20.5
R&D cost capitalized	€ million	12.4	11.5	5.5	3.4	3.1	2.7	3.6	2.5	3.1	4.7
Amortiziation of R&D cost capitalized	€ million	– 13.1	– 10.4	– 4.3	– 3.9	– 6.1	– 4.0	– 3.3	– 3.3	– 2.9	– 2.8

All figures according to IFRS

[1] The interest cost from the measurement of pension obligations was reclassified in 2011. The figures for 2010 have been adjusted accordingly.

[2] Dividend proposal for the annual general meeting

[3] XETRA

[4] Since 2009, the Group has had a positive net financial status.

[5] The capital employed has been calculated excluding financial assets since 2014. The previous years´ figures have been adjusted accordingly.

[6] The according balance sheet figures of the Dürr Ecoclean Group (held for sale) were taken into account in the interests of full comparability.

GLOSSARY

Technology and products

A

Application technology
General term for all products related to the application of paint and high-viscosity materials, e.g. painting robots, paint atomizers, and color change systems.

B

Balancing technology
Rotating components such as wheels and turbines must be tested for imbalances. Any imbalance is then removed since it would otherwise cause vibrations or oscillations.

Big data
Large volumes of data are collected in digitized and connected production systems, for example by means of sensors. The analysis of this data enables production to be optimized and flexibilized.

Brownfield
Brownfield projects are modification or upgrade jobs for existing factories. Greenfield projects, on the other hand, involve the construction of a plant on previously undeveloped land.

D

Dip-coating
Process for applying the first prime coat that protects against corrosion. To coat the interior of the body as well, it is immersed. The coating is applied with the aid of an electronic field.

Drying oven
Tunnel-like systems for curing freshly applied coats of paint.

E

End of line
Area in final vehicle assembly where the assembled cars are tested and prepared for shipping.

Engineering
Development and design of machinery and plants. At Dürr, engineering often involves developing technical solutions that are geared to customers' specific production goals.

F

Filling systems
Equipment designed for filling vehicles with the necessary operating media (e.g. brake fluid, refrigerant) in the course of their final assembly. Filling systems are also employed for charging refrigerators, air conditioners and heat pumps with refrigerant.

G

Glueing technology
Manufacturing process, in which parts such as the sheetmetal components of a car are joined together by means of adhesives.

H

High-speed rotating atomizer
Atomizers ensure a uniform distribution of the spray jet in paint application processes. High rotation atomizers rely on a bell-shaped disk revolving at up to 70,000 r.p.m. Due to this design, the paint fed to the center of the disk is accelerated and separated into fine threads which dissolve into minuscule droplets as they are propelled off the disk.

Human-robot collaboration (HRC)
A production system in which workers and robots can directly interact and use their respective strengths. Although there are no safety fences in HRC, the worker's safety is guaranteed. Sensors as well as intelligent software and control technology ensure that in unforeseen circumstances the robot comes to an immediate standstill.

I

Industrial cleaning systems
Cleaning systems remove from workpieces the contaminants that arise during the machining process.

Industry 4.0
Industry 4.0 refers to the digitization and networking of industrial production. It is aimed at creating a 'Smart Factory' in which production and logistics systems largely organize themselves.

L

Light vehicles
Cars and light trucks.

Lightweight design
In automotive engineering, lightweight design refers to the practice of building cars with weight minimization in mind. The vehicle's fuel consumption and CO_2 emissions can thus be reduced. Lowweight materials such as magnesium, titanium or synthetic fiber composites are becoming increasingly widespread to reduce vehicle weight.

M

Manufacturing execution system (MES)
Software for the management and control of automated production processes. The MES records data from the systems and machines in a factory, for example production figures, material requirements and energy consumption. This makes processes more transparent for factory operators, thus allowing for targeted optimizations.

P

Predictive maintenance
Companies can use predictive maintenance to anticipate potential malfunctions in manufacturing systems and avoid production downtime. This is more efficient than rectifying the malfunction after it has occurred. Plant and machines are equipped with a large number of sensors to help with predictive maintenance.

Pretreatment
This is the first stage in the painting process. When it comes from the body shop, the body shell is first cleaned, degreased and in most cases phosphated in preparation for the next coating. The phosphating produces a corrosion-inhibiting conversion layer (nonmetallic crystalline structure) to which subsequent paint layers will bond more effectively.

R

Real net output ratio
The proportion of a product manufactured by a company itself.

S

Sealing
Process for sealing welding seams created when car body parts are joined. Sealing also includes the application of an undercoating that protects against rock impact.

Smart factory
A factory in which production runs autonomously to a large degree with the aid of software, sensors and digital networking.

T

Test systems
End-of-line systems test the functions of fully assembled vehicles, e.g. headlights and ABS.

Traversing rail
Rail mounted on the spray booth wall, along which the painting robot moves parallel to the body.

Financial

A

Asset coverage
A ratio that indicates the extent to which shareholders' equity covers non-current assets.

$$\frac{\text{equity}}{\text{non-current assets}} \times 100\ (\%)$$

Asset intensity
A ratio that indicates the relative weight of non-current assets in total assets. High asset intensity means high fixed costs and high levels of capital tied up.

$$\frac{\text{non-current assets}}{\text{total assets}} \times 100\ (\%)$$

C

Capital employed
This is the capital used within the enterprise that is not subject to interest payable to external creditors. It is calculated by deducting liabilities from total non-current and current assets. However, all interest-bearing items are excluded.

D

Days sales outstanding
This ratio indicates the average length of time in days that capital is tied up in receivables.

$$\frac{\text{receivables} \times 360}{\text{sales revenues}}$$

The same method can be used to calculate the average length of time that capital is tied up in inventories and in net working capital.

E

Equity assets ratio
A ratio that indicates the extent to which shareholders' equity and non-current liabilities cover non-current assets.

$$\frac{\text{equity} + \text{non-current liabilities}}{\text{non-current assets}} \times 100\ (\%)$$

F

Free cash flow
Free cash flow is the cash flow from operating activities remaining after deducting capital expenditures and net interest paid and received, and represents the amount of cash that is freely available to pay a dividend and to pay off debt.

G

Gearing
This is the ratio of net financial debt to shareholders' equity and net financial debt. The higher the relative weight of net financial debt, the higher the reliance on external lenders. However, a high gearing is not necessarily negative if the interest paid does not reduce profits excessively.

I

Interest coverage
An interest coverage ratio of <1 indicates that the company is not able to meet its interest payments from operating earnings.

$$\frac{\text{earnings before tax} + \text{net interest expense}}{\text{net interest expense}}$$

L

Liquidity ratios: cash ratio and quick ratio
These two liquidity ratios show the degree to which current liabilities are covered by cash and cash equivalents (and other current assets). They serve to measure a company's solvency.

$$\frac{\text{cash and cash equivalents}}{\text{current liabilities}} \times 100\ (\%)$$

$$\frac{\text{cash and cash equivalents} + \text{short-term trade receivables}}{\text{current liabilities}} \times 100\ (\%)$$

N

Net financial status
This represents the balance of the financial liabilities (without financial leases) reported in the balance sheet after deducting liquid funds. If a company's liquid funds exceed its financial liabilities, it is de facto debt free.

$$\text{financial liabilities} - \text{liquid funds}$$

Net Working Capital (NWC)
This is a measure of the net funding required to finance current assets. Negative NWC is beneficial since it implies that sales are prefinanced by suppliers and customers. At Dürr, the prepayments received from customers are an important factor affecting NWC. The formula shows a simplified calculation.

$$\text{inventories} + \text{trade receivables} - \text{trade payables}$$

R

Return on Capital Employed (ROCE)
This measures the rate of return on the capital tied up in a company's operating assets (for instance in machinery and equipment, inventories, accounts receivable) and is the ratio of earnings before interest and taxes (EBIT) to capital employed.

$$\frac{\text{EBIT}}{\text{capital employed}} \times 100\ (\%)$$

Return on Equity (ROE)
This is the rate of return earned on shareholders' equity. It should exceed the rate of return on a comparable investment.

$$\frac{\text{earnings after taxes}}{\text{shareholders' equity}} \times 100\ (\%)$$

Return on Investment (ROI)
This ratio serves to measure how efficiently a company employs the total resources at its disposal.

$$\frac{\text{earnings after taxes} + \text{interest expense}}{\text{total assets}} \times 100\ (\%)$$

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FINANCIAL CALENDAR

03/17/2017	Publication annual report 2016
05/05/2017	Annual general meeting, Bietigheim-Bissingen
05/11/2017	Interim statement for the first quarter of 2017
08/03/2017	Interim financial report for the first half of 2017
11/08/2017	Interim statement for the first nine months of 2017

CONTACT

Please contact us for further information.

Dürr AG
Corporate Communications & Investor Relations
Carl-Benz-Strasse 34
74321 Bietigheim-Bissingen
Germany
Phone +49 7142 78-1785
Fax +49 7142 78-1716
corpcom@durr.com
www.durr.com

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The English translation of our 2016 annual report is based on the German version. The German version shall prevail.

FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements about future developments. As is the case for any business activity conducted in a global environment, such forward-looking statements are always subject to uncertainty. Our information is based on the conviction and assumptions of the Board of Management of Dürr AG, as developed from the information currently available. However, the following factors may affect the success of our strategic and operating measures: geopolitical risks, changes in general economic conditions (especially a prolonged recession), exchange rate fluctuations and changes in interest rates, new products launched by competitors, and a lack of customer acceptance for new Dürr products or services, including growing competitive pressure. Should any of these factors or other imponderable circumstances arise, or should the assumptions underlying the forward-looking statements prove incorrect, actual results may differ from those projected. Dürr AG undertakes no obligation to provide continuous updates of forward-looking statements and information. Such statements and information are based upon the circumstances as of the date of their publication.

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GLOBAL PRESENCE

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