Dräger

Half-yearly financial report
January 1 to June 30, 2016
Dräger Group

Dräger. Technology for Life®

THE DRÄGER GROUP OVER THE PAST FIVE YEARS

		Six months 2012	Six months 2013	Six months 2014	Six months 2015	Six months 2016
Order intake	€ million	1,139.3	1,159.8	1,119.4	1,249.3	1,221.1
Net sales	€ million	1,072.7	1,100.6	1,073.2	1,179.5	1,111.4
EBITDA [1,8]	€ million	124.9	113.0	69.1	62.7	46.5
EBIT [2,8]	€ million	93.7	79.2	34.0	22.7	5.5
in % of net sales (EBIT margin)	%	8.7	7.2	3.2	1.9	0.5
Interest result [8]	€ million	–17.0	–12.6	–11.6	–11.3	–8.4
Income taxes [8]	€ million	–23.5	–21.0	–7.6	–3.7	1.8
Earnings after income taxes [8]	€ million	53.2	45.6	14.9	7.7	–1.1
Earnings per share on full distribution [3,8]						
per preferred share	€	2.33	2.02	0.66	0.35	–0.23
per common share	€	2.30	1.99	0.63	0.32	–0.26
Equity [4,8]	€ million	703.4	751.9	808.9	931.1	895.0
Equity ratio [4,8]	%	34.5	37.8	40.3	41.2	39.5
Capital employed [4,5,8]	€ million	920.6	997.6	1,081.9	1,310.0	1,259.2
EBIT [2,6]/capital employed [4,5,8] (ROCE)	%	23.1	21.6	14.4	12.8	3.9
Net financial debt [4]	€ million	143.5	130.9	135.7	189.9	150.6
DVA [6,7,8]	€ million	133.4	132.9	63.5	62.0	–39.4
Headcount as of June 30		12,279	12,930	13,575	13,851	13,412

[1] EBITDA = Earnings before net interest result, income taxes, depreciation and amortization
[2] EBIT = Earnings before net interest result and income taxes
[3] Based on an imputed actual full distribution of earnings attributable to shareholders
[4] Value as of reporting date
[5] Capital employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
[6] Value of the last twelve months
[7] Dräger Value Added = EBIT less cost of capital (until 2015: 9 %, from 2016: 7 %) of average invested capital
[8] Due to the first-time application of IAS 19 (2011) in fiscal year 2013 values for 2012 were adjusted in accordance IAS 8.

SHAREHOLDER INFORMATION

MANAGEMENT REPORT

INTERIM FINANCIAL STATEMENTS OF THE DRÄGER GROUP AS OF JUNE 30, 2016

Possible rounding differences in this financial report may lead to slight discrepancies.

This Half-yearly financial report has been set up in German and English language. In case of any discrepancy between the German and English version, the German version shall prevail.

Dear Shareholders, dear Readers,

Global economic growth lacks momentum. The World Bank recently downgraded its growth forecast. The International Monetary Fund also lowered its forecasts further in mid-July and has warned that the risks for further economic development are increasing. In emerging markets, the history of growth seen over the past two decades has stalled; quite a few of these countries are suffering from falling commodity prices. In industrialized economies, growth remains sluggish. This also goes for the eurozone.

Just recently, the outcome of the referendum on Great Britain's membership in the EU created turbulence on capital markets. We respect the decision of the citizens of Great Britain, the oldest democracy in Europe, if not the world. The initial result is uncertainty that is hindering or delaying investment decisions, especially for the British economy, as it is still going to take some time to achieve clarity on issues concerning future cooperation. Dräger is also affected by this decision, since we maintain long-standing customer relationships and an important production site for safety technology products in the United Kingdom. Both customers and employees can rest assured that the outcome of the referendum will not change anything in this regard. We stand by our commitments in the United Kingdom.

The development of our net sales has so far been more than modest in fiscal year 2016. The typically weak first quarter was followed by an improved second quarter that was, however, down significantly compared to the same quarter in 2015. As a result, our net sales (net of currency results) fell by just over 3 percent in the first half of the year. In particular, net sales development was weak in the Africa, Asia, and Australia region—and especially in the Middle East. The Americas segment also failed to live up to expectations, which was mainly due to performance in Central and South America. Europe fared better, which was due solely to the strong performance in the core market of Germany, Austria, and Switzerland.

In terms of earnings, we are still down year-on-year after the first six months of 2016. On the bright side, however, our EBIT was essentially on par with the prior year in the second quarter, despite a drop in net sales, and we achieved an EBIT margin of almost 4 percent. This shows that the cost-cutting measures are starting to work. Aside from the weak net sales development, negative currency effects are also continuing to impact our earnings.

So what is next? We continue to expect net sales development (net of currency effects) of between 0 percent and 3 percent in fiscal year 2016. The second half of the year and, in particular, the final quarter of the year—traditionally our strongest—are still to come. With a view to our EBIT margin forecast, we are confident that we will land within the forecast range of 3.5 percent and 5.5 percent in light of favorable cost development.

At the moment, we are not yet able to match the success of past years. On the one hand, this is primarily due to the difficult economic climate. Many countries that used to make a significant contribution to our growth are currently going through a period of weakness.

The currency effects have also not been working in our favor for some time now. On the other hand, our cost base has continuously risen in recent years. Paired with a lack of net sales growth, as we are seeing now, this comes at the expense of profitability. The Fit for Growth efficiency program has allowed us to address key issues regarding the future. Material and personnel expenses are already down significantly in 2016. Our program aimed at reducing headcount in Germany and abroad is starting to bear fruit. The commissioning of the “factory of the future” in Lübeck will improve our production flexibility and reduce costs. And we are constantly working on accelerating our speed of innovation, getting new products to market faster, and increasing customer benefit.

All of this allows us to secure our competitiveness. Our strategy is correct and will remain for the long term. The medical and safety markets will continue to be growth markets. If we do our homework, we will once again be able to benefit more greatly from the opportunities they offer in the future.

Best regards,

Stefan Dräger

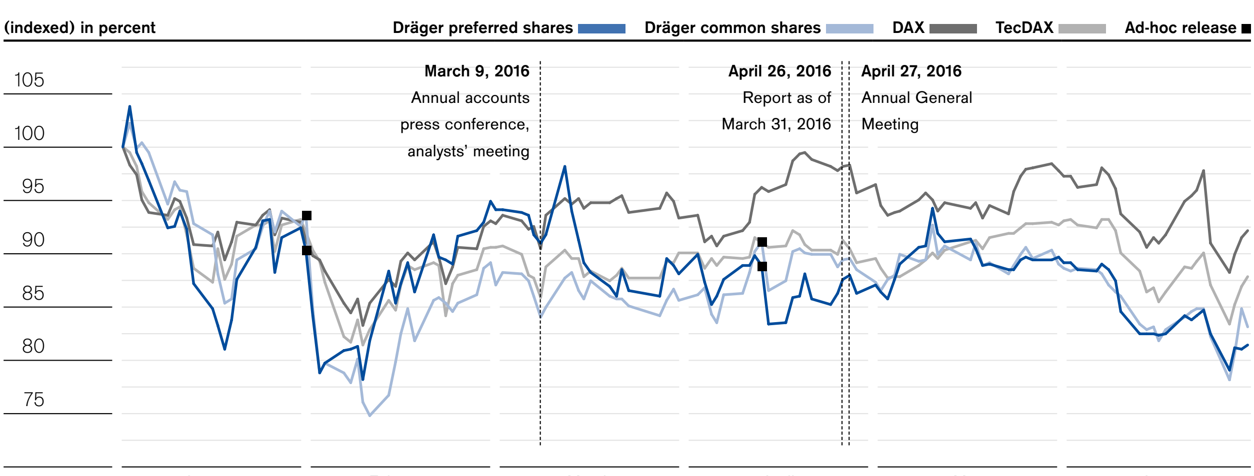
The Dräger shares

SHARE PRICE DEVELOPMENT

Share prices on the capital markets declined in the first half of the year as a result of geopolitical events in the Middle East and against the backdrop of terrorist attacks in Europe and the ongoing refugee crisis. The referendum on the United Kingdom's membership in the European Union created turbulence in June. Dräger shares fell significantly at the start of the year. Prices had recovered somewhat, but the publication of the preliminary figures for 2015 and the new dividend policy sent the share price down once again. However, the Dräger shares recovered from this setback after just a couple of days and spent the subsequent weeks in a volatile lateral trend. Dräger shares fell in value over the course of June once again, in line with the overall market trend.

As of the balance sheet date on June 30, 2016, Dräger common shares closed at EUR 50.00, down 17 percent on the beginning of the year. Dräger preferred shares closed the quarter at EUR 54.75, down 18 percent. In the first half of the year, the DAX fell by 8 percent to 9,680 points. The TecDAX also declined over the course of the first half of the year, falling by 12 percent to 1,601 points.

PERFORMANCE OF THE DRÄGER SHARES



DRÄGER SHARES – BASIC FIGURES

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

[1] International Stock Identification Number

DRÄGER SHARES KEY FIGURES

	Six months 2016	Six months 2015
Common shares		
No. of shares as of the reporting date	10,160,000	10,160,000
High (in €)	61.25	88.53
Low (in €)	45.04	64.00
Share price on the reporting date (in €)	50.00	74.48
Average daily trading volume [1]	4,974	5,648
Earnings per common share on full distribution (in €) [2]		
Undiluted/diluted (in €)	–0.26	0.32
Preferred shares		
No. of shares as of the reporting date	7,600,000	7,600,000
High (in €)	69.57	122.00
Low (in €)	52.58	79.28
Share price on the reporting date (in €)	54.75	96.11
Average daily trading volume [1]	27,166	29,569
Earnings per preferred share on full distribution (in €) [2]		
Undiluted/diluted (in €)	–0.23	0.35
Market capitalization (in €)	924,100,000	1,487,152,800

[1] All German stock exchanges (Source: designated sponsor).
[2] Based on an imputed actual full distribution of earnings attributable to shareholders

Management Report of the Dräger Group for the First Half of 2016

TRANSITION TO SEGMENT REPORTING

Segment reporting in the quarterly and annual reports is based on the organizational and management system (pursuant to IFRS 8).

Until the end of fiscal year 2015, the company was managed through the two divisions: the medical division and the safety division. An expanded functional Executive Management Team (EMT) was responsible for the operating management of the two divisions.

Dräger has realigned its organizational and management system to focus on the customer even more and make internal decision-making processes more efficient. In fiscal year 2016, the operating business is managed by the Executive Board trough three regions: Europe, Americas, and Africa, Asia, and Australia. In each case, one member of the Executive Board is fully responsible for the business performance of the company in one of the three regions. The respective Executive Board member assumes this regional responsibility in addition to his functional tasks.

With the changed management approach the segment reporting has also changed from the beginning of 2016. The new segment reporting is based on the business responsibility of the three Executive Board members with regional responsibilities and is broken down into the regions Europe (Dr. Reiner Piske), Americas (Rainer Klug), and Africa, Asia, and Australia (Anton Schrofner).

The regionally focused management approach results in the following changes to Dräger's segment reporting:

- Reporting is structured according to the regions Europe, Americas, and Africa, Asia, and Australia.
- Several key figures (including order intake, net sales, and EBIT) are reported using the previous medical division/safety division structure for informational purposes.
- For reporting EBIT, cross-regional costs are now allocated to the three segments with a plan-based allocation key. A large portion of these costs is assigned to the regions based on a net sales allocation key.
- Capital employed reported by segment now includes long term assets such as property plant and equipment in addition to the main drivers of working capital (trade receivables, trade payables, inventories including prepayments received). This is assigned to the segments using a net sales based allocation key.
- Key figures that cannot be suitably allocated to the regions, such as net financial debt, are only reported at Group level.

The change in segment reporting results in slight variations of the order intake and net sales per region, compared to the figures reported in the prior year.

The key figures from the last five years reported using the new regional segment structure are available on the Dräger website under Investor Relations.

General economic conditions

STAGNATING GROWTH

According to the World Bank, the global economy will grow by 2.4 percent in 2016. This rate of growth is significantly lower than the rate forecast at the start of the year and is only on par with prior-year growth. The lowering of this forecast is due to sluggish growth in industrialized economies and the negative impact of low commodity prices on commodity-exporting economies. The World Bank believes that the global economy is still at risk of slow growth.

According to the Bundesbank, the German economy is in relatively solid shape in terms of growth. Brisk domestic demand is a major pillar of this trend, with exports only providing limited impetus at the moment. The Bundesbank forecasts growth of 1.7 percent for the German economy this year.

In its annual report, the Bank for International Settlements (BIS) also warned that the high-risk combination of record debt, low growth, and limited scope for action could see the global economy spiral into a new crisis. The United Kingdom's decision to leave the European Union has has increased uncertainty further. The BIS considers it vital that the pressure be taken off monetary policy, which has been "burdened too much for too long." It warns that a new economic strategy is needed with greater attention paid to regulatory, fiscal, and structural policy.

FED SUSPENDS INTEREST RATE TURNAROUND, ECB NOW ALSO BUYING UP CORPORATE BONDS

After the European Central Bank (ECB) lowered benchmark rates to a record low of 0 percent, it then raised the penalty rate for banks to deposit excess liquidity to 0.4 percent. As part of the bank's quantitative easing program, the ECB is buying up bonds from public issuers worth EUR 80 billion per month. In addition, it expanded this program in June and is now buying up corporate bonds. By contrast, the US central bank, the Federal Reserve (Fed), ended its monthly bond-buying program in October 2014. In mid-December 2015, the Fed slightly raised benchmark rates for the first time since the 2008 financial crisis, but decided not to increase them further in June 2016.

EXTREMELY LOW RATES OF INFLATION

Inflation rates continue to remain extremely low in 2016. In Germany, prices only rose by 0.3 percent year-on-year in June. Compared to the prior year month, prices in the Eurozone increased minimally by 0.1 percent. The euro has once again lost a significant amount of its value compared to the US dollar over the past year. Following the significant devaluation of the euro against the US dollar and the increase in the value of the single currency against numerous emerging economy currencies last year, the euro has remained in a relatively narrow range so far this year. The Brexit vote caused major volatility and weakened not only the British pound in particular, but also the euro against the US dollar.

MARKET AND INDUSTRY PERFORMANCE

Medical technology – industry performance

Industry growth in the medical technology sector was subdued in the first half of 2016. However, a wide variety of national regulatory measures and macroeconomic factors within the scope of the different social and healthcare systems continued to influence business with medical devices. Despite the high demand for equipment, plans announced in emerging economies were not fully implemented. In the United States, the largest medical technology market in the world, healthcare reforms by the Obama administration and the aging population saw sales opportunities increase. In Latin America, sales were comparatively low and continued to suffer from cost pressure, inflation, currency effects, and a lack of resources in social security systems—particularly in Brazil. The European market only experienced marginally positive growth. Only a handful of smaller countries were growth oriented, while pressure to save, cost-cutting, and postponements of orders dominated major markets. In Asia, the most populous continent on the planet, sales in the medical technology market only rose slightly despite significant investment volume. China and India continue to be the drivers of sales growth. Adjustments to the healthcare sector in line with rising life expectancy are playing an increasingly important role in these countries. In the Middle East and Africa, business continued to go well for medical technology providers, with work continuing on existing hospital projects.

Safety technology – industry performance

Growth in the safety technology industry was only marginally positive in the first half of 2016. The most important consumer industries were busy with restructuring, cutting costs, and engaging in price/performance debates. Industry problems were exacerbated by interest rate policy, weak economic growth, and bureaucracy. The oil and gas industry trimmed back its capacities or saw production volumes fluctuate significantly. Multinational corporations continued their cost-cutting programs. Petrochemical and energy-intensive industrial operations benefited from cheap energy commodities. Due to the slump in the price of oil, the chemical industry was exposed to many economic dependencies and only experienced subdued growth worldwide. Due to the rise in fire-related disasters, government agencies are imposing stricter requirements to limit losses and damages caused by fire. The required protective equipment for rescue services continued to be ordered, even against the backdrop of scarce public financial resources. Income in the mining sector continued to be low. Investments in additional safety equipment were limited on account of a reduction of personnel in the industry, the closure of unprofitable sites, and stricter environmental legislation. In application-driven markets, which cover a broad spectrum of the industry and a wide variety of safety regulations in many different countries, demand for safety equipment remained stable. Industrial production in the United States was only able to halt its decline in the second quarter, while the chemical industry experienced growth. Brazil continued to suffer from a recession, whereas industry dynamics in Latin American as a whole were positive in terms of momentum. In China, demand from the chemical industry declined in the first months of the year, while other industries experienced growth. Interest for more efficient, cost-saving technology increased overall in Asia. In Europe, the chemical industry was unable to generate any growth. In the Middle East and Africa, most countries were able to grow slightly in the relevant industries despite the noticeable lack of income from the oil sector.

OVERALL ASSESSMENT OF FRAMEWORK CONDITIONS

Global economic growth continues to lack momentum in 2016 and is falling short of original forecasts. There is a distinct lack of economic impetus from both emerging economies, some of which are suffering from persistent low commodity prices, and from industrialized economies. The outcome of the British referendum on its EU membership created further uncertainty and is likely to dampen growth in Europe. However the medical and safety technology markets as a whole remain robust.

BUSINESS PERFORMANCE OF THE DRÄGER GROUP

		Second quarter			Six months		
		2016	2015	Changes in %	2016	2015	Changes in %
Order intake	**€ million**	**621.4**	**634.0**	**–2.0**	**1,221.1**	**1,249.3**	**–2.3**
Net sales	**€ million**	**579.0**	**634.0**	**–8.7**	**1,111.4**	**1,179.5**	**–5.8**
EBITDA [1]	**€ million**	**42.4**	**42.0**	**+0.9**	**46.5**	**62.7**	**–25.9**
Depreciation/amortization	€ million	–21.2	–20.4	–4.1	–41.0	–40.0	–2.3
EBIT [2]	**€ million**	**21.2**	**21.7**	**–2.2**	**5.5**	**22.7**	**–75.6**
Interest result	€ million	–4.0	–5.7	+29.2	–8.4	–11.3	+25.4
Income taxes	€ million	–4.6	–5.1	+9.0	1.8	–3.7	> +100.0
Earnings after income taxes	**€ million**	**12.5**	**10.9**	**+15.2**	**–1.1**	**7.7**	**> –100.0**
Earnings per share on full distribution [3]							
per preferred share	€	0.53	0.52	+1.9	–0.23	0.35	> –100.0
per common share	€	0.52	0.51	+2.0	–0.26	0.32	> –100.0
Research and development costs	€ million	–55.7	–58.5	+4.8	–109.9	–114.8	+4.3
Equity ratio [4]	%	39.5	41.2		39.5	41.2	
Cash flow from operating activities	€ million	33.6	–3.9	> +100.0	44.0	–66.5	> +100.0
Net financial debt [4]	€ million	150.6	189.9	–20.7	150.6	189.9	–20.7
Investments	€ million	24.7	30.3	–18.4	49.3	121.7	–59.5
Capital employed [4,5]	€ million	1,259.2	1,310.0	–3.9	1,259.2	1,310.0	–3.9
Net working capital [4,6]	€ million	568.5	652.9	–12.9	568.5	652.9	–12.9
EBIT [2]/net sales	%	3.7	3.4		0.5	1.9	
EBIT [2,7]/capital employed [4,5] (ROCE)	%	3.9	12.8		3.9	12.8	
Net financial debt [4]/EBITDA [1,7]	Factor	1.12	0.76		1.12	0.76	
Gearing [8]	Factor	0.17	0.20		0.17	0.20	
DVA [7,9]	€ million	–39.4	62.0	> –100.0	–39.4	62.0	> –100.0
Headcount as of March 31		13,412	13,851	–3.2	13,412	13,851	–3.2

[1] EBITDA = Earnings before net interest result, income taxes, depreciation and amortization
[2] EBIT = Earnings before net interest result and income taxes
[3] Based on an imputed actual full distribution of earnings attributable to shareholders
[4] Value as of reporting date
[5] Capital employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
[6] Net working capital = current, non-interest-bearing assets plus non-current trade receiveables less current, non-interest-bearing debt
[7] Value of the last twelve months
[8] Gearing = Net financial debt/equity
[9] Dräger Value Added = EBIT less cost of capital (until 2015: 9 %, from 2016: 7 %) of average invested capital

Business performance of the Dräger Group

ORDER INTAKE

	Second quarter				Six months			
in € million	2016	2015	Changes in %	Net of currency effects in %	2016	2015	Changes in %	Net of currency effects in %
Europe[1]	349.2	337.6	+3.4	+5.2	673.2	679.0	–0.9	+0.7
Americas[1]	120.8	122.8	–1.6	+4.1	236.6	239.3	–1.1	+4.6
Africa, Asia, Australia[1]	151.4	173.6	–12.8	–9.9	311.3	331.1	–6.0	–2.8
Total	**621.4**	**634.0**	**–2.0**	**+0.9**	**1,221.1**	**1,249.3**	**–2.3**	**+0.5**
thereof medical division	417.3	411.9	+1.3	+4.2	800.7	814.5	–1.7	+1.1
thereof safety division	204.2	222.1	–8.1	–5.4	420.4	434.9	–3.3	–0.5

[1] Value for 2015 adjusted due to new segmentation

Order intake rose slightly in the first half of the year (net of currency effects). The development in the regional segments ran counter to this trend. Order intake was stable in the Europe segment in the first half of the year, with growth coming in at 0.7 percent (net of currency effects). In Germany, order intake rose considerably, with solid demand for service business, industrial occupational health and safety, and workplace infrastructure having a positive impact. In the Americas segment, orders increased by 4.6 percent (net of currency effects). The sharp rise in order intake for products from the safety division (net of currency effects) made a particular contribution to this development, but demand for products from the medical division also experienced a slight increase. In the Africa, Asia, and Australia segment, order intake declined by 2.8 percent (net of currency effects) in the first half of the year. A slight rise in demand for products from the medical division was offset by a major decline in orders for safety technology products. Orders had increased in this segment in the first quarter, but they then declined in the second quarter—particularly in the case of products in the safety division.

In terms of medical technology products, order intake in the workplace infrastructure, hospital consumables, and service business rose. However, demand for patient monitoring and clinical data management declined significantly. Orders for anesthesia devices and respiratory care and thermoregulation products fell slightly.

In the safety division, Dräger concluded a major engineered solutions order in the first half of the year. Demand also rose in maintenance and equipment rental business. Order intake declined particularly in terms of alcohol testing devices in the first half of the year, although this came after strong performance in the prior year. Orders for personal protective equipment for fire services and plant safety equipment were also down. Demand for industrial occupational health and safety equipment remained roughly on par with the prior year.

NET SALES

in € million	Second quarter 2016	Second quarter 2015	Changes in %	Net of currency effects in %	Six months 2016	Six months 2015	Changes in %	Net of currency effects in %
Europe[1]	324.5	349.9	–7.2	–5.8	624.2	646.4	–3.4	–1.9
Americas[1]	112.2	119.6	–6.2	–1.7	216.2	232.8	–7.1	–2.6
Africa, Asia, Australia[1]	142.3	164.5	–13.5	–10.6	271.1	300.4	–9.8	–6.7
Total	**579.0**	**634.0**	**–8.7**	**–6.3**	**1,111.4**	**1,179.5**	**–5.8**	**–3.3**
thereof medical division	365.9	405.8	–9.8	–7.4	704.1	760.2	–7.4	–4.9
thereof safety division	213.1	228.2	–6.6	–4.2	407.4	419.4	–2.9	–0.3

[1] Value for 2015 adjusted due to new segmentation

Net sales declined in the first half of the year (net of currency effects), with the 6.3 percent fall in the second quarter (net of currency effects) contributing significantly to this trend. Deliveries declined across all regional segments. In the Europe segment, Dräger recorded a 1.9 percent decline in net sales in the first half of the year (net of currency effects). An increase in deliveries of safety technology products was unable to compensate for the considerable decline—above all in the second quarter—of medical product deliveries. In Germany, however, net sales were up by 7.4 percent midway through the year, particularly in relation to business involving workplace infrastructure, industrial occupational health and safety, and government agencies. In the Americas segment, deliveries were down 2.6 percent year-on-year in the first half of the year (net of currency effects). Net sales here declined in both the medical division and the safety division (net of currency effects). Dräger recorded a major decline in net sales of 6.7 percent in the first half of the year in the Africa, Asia, and Australia segment. Deliveries of medical technology products and safety technology products declined, with the second quarter seeing a particular dip in total deliveries.

Dräger only generated net sales growth in service business in the first half of the year, with net sales falling in all other medical division product areas. Deliveries declined in particular in the areas of workplace infrastructure systems, patient monitoring and data management, anesthesiology products, and respiratory care and thermoregulation equipment, as well as in the business with hospital consumables.

In the safety division, Dräger recorded a particular increase in net sales in its maintenance and equipment rental business. Net sales were also up in the service business and in industrial occupational health and safety. Deliveries of alcohol-detection devices, personal protective equipment for fire services, and plant safety equipment, however, were down. Business with engineering solutions remained on par with the prior year.

EARNINGS

In the first half of 2016, gross profit developed at a lower rate than net sales, with a decrease in absolute terms of EUR 54.2 million to EUR 486.6 million (6 months 2015: EUR 540.8 million). At 43.8 percent, Dräger's gross margin was 2.1 percentage points lower than in the prior year. All three segments contributed to this negative development. The increase in the value of the euro compared to other important Group currencies had a distinctly negative impact on the gross margin. In addition, lower net sales—particularly in the second quarter—led to an overall reduction in gross profit.

The gross margin climbed by 0.8 percentage points year-on-year in the second quarter to 45.5 percent. Margins rose in all three segments, but particularly in the Africa, Asia, and Australia segment and the Americas segment, partly due to the elimination of low-margin projects from the prior-year period.

Functional costs fell by 5.0 percent in the first half of the year (net of currency effects). Currency effects provided relief for functional costs; as a result, the decline in nominal terms amounted to 6.4 percent. Net of relief effects related to currency, selling and marketing costs were down 6.5 percent year-on-year. Cost-saving measures in all three segments are also having an effect. Expenditure on research and development fell by 3.9 percent (net of currency effects). At 9.9 percent of net sales, the research and development (R&D) ratio was approximately on par with the prior year (6 months 2015: 9.7 percent). Administrative costs were also down on the first six months of the prior year, falling 3.9 percent (net of currency effects). Administrative costs included one-off expenses, which consisted of costs for the “Fit for Growth” efficiency program and for the closure of the Dräger site in Pittsburgh, USA, which totaled EUR 6.2 million. Net of these effects and adjustments for the prior-year costs for the closure of the Pittsburgh site, administrative costs actually declined by 7.2 percent (net of currency effects), due in part to cost savings from the efficiency program. Personnel costs declined slightly by 0.1 percent (net of currency effects), or by 1.4 percent in nominal terms.

At EUR +1.0 million, the other financial result increased by a significant margin year-on-year (6 months 2015: EUR –3.3 million). The improvement is due primarily to the fact that, unlike in the prior year, overall currency-related valuation gains were recorded instead of valuation losses.

Total Group earnings before interest and taxes (EBIT) amounted to EUR 5.5 million in the first half of the year (6 months 2015: EUR 22.7 million). This resulted in a 0.5 percent decline in the EBIT margin (6 months 2015: 1.9 percent). Despite the fall in net sales volume in the second quarter, EBIT remained stable year-on-year.

The interest result improved to EUR –8.4 million (6 months 2015: EUR –11.3 million). The tax rate in the current year stood at 32.5 percent, as in the prior year (6 months 2015: 32.5 percent). Tax reimbursements for the prior year and negative earnings before taxes resulted in the total tax rate coming to 62.3 percent. Earnings after income taxes amounted to EUR –1.1 million, down EUR 8.8 million year-on-year (6 months 2015: EUR 7.7 million).

INVESTMENTS

In the first half of 2016, Dräger invested EUR 45.3 million in property, plant, and equipment (6 months 2015: EUR 56.4 million) and EUR 4.0 million in intangible assets (6 months 2015: EUR 65.2 million). Within the scope of the “factory of the future” project for modernizing the production site in Lübeck, Dräger invested an additional EUR 14.1 million in property, plant, and equipment (6 months 2015: EUR 19.4 million). The strong fall in investments in intangible assets compared to the first six months of the prior year is predominantly due to the inclusion of the acquisition of GasSecure AS in the prior-year figure. Depreciation and amortization totaled EUR 41.0 million in the first half of 2015 (6 months 2015: EUR 40.0 million). Investments covered 120.4 percent of depreciation, meaning that non-current assets rose by EUR 8.4 million net.

CASH FLOW STATEMENT [1]

In the first six months of fiscal year 2016, the Dräger Group generated cash inflow from operating activities of EUR 42.4 million compared to cash outflow of EUR 66.5 million in the prior-year period. The primary factor in this development was the fact that, at EUR 122.7 million, trade receivables decreased more than in the prior-year period (EUR 45.7 million). In addition, other assets only rose by EUR 16.9 million (6 months 2015: EUR 41.3 million) and inventories by a mere EUR 38.1 million (6 months 2015: EUR 60.9 million). Earnings before net interest result, income taxes, depreciation, and amortization (EBITDA) –adjusted for cash-neutral changes to provisions and other non-cash earnings/expenses– declined from EUR 18.5 million by EUR 9.9 million to EUR 8.6 million.

Cash outflow from investing activities fell to EUR 42.2 million (6 months 2015: EUR 111.4 million). The decrease was primarily due to the fact that the EUR 58.1 million purchase price payment for the shares in GasSecure AS, Oslo, Norway, were included in the prior-year period.

Cash outflow from financing activities of EUR 9.8 million was mainly impacted by the arrangement of a note loan in the amount of EUR 60.0 million and the concurrent repayment of bank loans and liabilities to banks totaling EUR 65.1 million.

Cash and cash equivalents as of June 30, 2016 exclusively comprised cash, of which EUR 7.5 million (December 31, 2015: EUR 8.9 million) was subject to restrictions.

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

Financial management

BORROWING

In the first quarter of 2016, Dräger took out a note loan in the amount of EUR 60.0 million. As of June 30, 2016, total note loans amounted to EUR 155.9 million (December 31, 2015: EUR 95.9 million).

NET ASSETS

Equity rose by EUR 50.9 million to EUR 895.0 million in the first six months of 2016. The equity ratio came to 39.5 percent as of June 30, 2016, down on the figure as of December 31, 2015 (40.9 percent). The adjustment of the underlying interest rate for German pension provisions from 2.25 percent to 1.5 percent increased pension provisions by EUR 54.5 million; the net amount of this adjustment of EUR 37.4 million after deferred tax liabilities reduced reserves from retained earnings recognized directly in equity. Total assets decreased by EUR 47.8 million to EUR 2,263.6 million in the first six months of 2016. On the assets side, Dräger reduced trade receivables by EUR 125.9 million. In contrast, other current assets increased by EUR 28.6 million and inventories by EUR 37.4 million. Deferred tax assets also rose by EUR 22.7 million, due largely to the adjustment of the underlying interest rate for German pension provisions. On the liabilities side, the change primarily resulted from lower current provisions (EUR –35.5 million), particularly on account of payment of variable remuneration and the reduction in trade payables (EUR –30.6 million). The increase in other current liabilities (EUR +14.6 million), primarily for accruals for future services, counteracted this effect. Loans and liabilities to banks declined by EUR 4.6 million, with the reduction in short-term loans more than compensating for the arrangement of a EUR 60 million note loan.

DRÄGER VALUE ADDED

Dräger Value Added (DVA) fell by EUR 101.5 million to EUR –39.4 million year-on-year as of June 30, 2016 (year-on-year as of June 30, 2015: EUR 62.0 million). Rolling EBIT went down substantially by EUR 117.8 million year-on-year. Despite an increase in average invested capital, capital costs decreased by EUR 16.3 million, as Dräger has used a lower weighted average cost of capital since 2016. This weighted average cost of capital was revalued and reduced by two percentage points to a current level of 7 percent to take into account the fall in interest rates. Average capital employed rose by 8.6 percent to EUR 1,270.5 million. The increase in capital employed is mainly due to a rise in non-current assets and higher trade receivables. The development of current assets is also reflected in days of working capital (coverage of current assets), which rose by 4.0 days to 123.7 days.

BUSINESS PERFORMANCE OF EUROPE SEGMENT

		Second quarter			Six months		
		2016	2015	Changes in %	2016	2015	Changes in %
Order intake with third parties [6]	**€ million**	**349.2**	**337.6**	**+3.4**	**673.2**	**679.0**	**–0.9**
Net sales with third parties [6]	**€ million**	**324.5**	**349.9**	**–7.2**	**624.2**	**646.4**	**–3.4**
EBITDA	**€ million**	**26.1**	**29.0**	**–9.9**	**30.4**	**40.6**	**–25.2**
Depreciation	€ million	–10.5	–10.1	–4.4	–20.1	–19.8	–1.5
EBIT [1]	**€ million**	**15.6**	**19.0**	**–17.6**	**10.3**	**20.8**	**–50.6**
Capital employed [2,3]	€ million	590.2	631.6	–6.6	590.2	631.6	–6.6
EBIT [1]/net sales	%	4.8	5.4		1.6	3.2	
EBIT [1,4]/capital employed [2] (ROCE)	%	8.3	19.0		8.3	19.0	
DVA [4,5]	€ million	7.4	70.6	–89.5	7.4	70.6	–89.5

[1] EBIT = Earnings before net interest result and income taxes
[2] Capital employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
[3] Value as of reporting date
[4] Value of the last twelve months
[5] Dräger Value Added = EBIT less cost of capital (until 2015: 9 %, from 2016: 7 %) of average invested capital
[6] Value for 2015 adjusted due to new segmentation

Business performance of Europe Segment

ORDER INTAKE

	Second quarter				Six months			
in € million	2016	2015	Changes in %	Net of currency effects in %	2016	2015	Changes in %	Net of currency effects in %
Medical division[1]	221.6	205.6	+7.8	+9.7	408.3	412.1	–0.9	+0.6
Safety division[1]	127.6	132.0	–3.3	–1.8	264.8	266.9	–0.8	+0.9
Total	**349.2**	**337.6**	**+3.4**	**+5.2**	**673.2**	**679.0**	**–0.9**	**+0.7**
thereof Germany	131.6	119.3	+10.3	+10.3	257.0	243.1	+5.7	+5.7

[1] Value for 2015 adjusted due to new segmentation

In Europe including Germany, order intake in the first half of the year rose by 0.7 percent (net of currency effects). A significant increase in demand in the second quarter, particularly in Germany, played a major role in this. Order intake for safety technology products and for medical technology products rose in the first six months of the year, although a significant rise in orders for medical technology products only came in the second quarter.

The demand trend in Germany, Switzerland, and Russia played a major role in the rise in order intake. This was offset by declines in orders in the United Kingdom, Turkey, France, Spain, and the Czech Republic, partly due to large orders in the previous year. In terms of products, engineered solutions generated the largest growth in order intake. Orders also increased in workplace infrastructure and service business. Both the hospital consumables and the industrial occupational health and safety businesses improved slightly year-on-year. Double-digit declines in order intake were recorded in patient monitoring and data management, business with government agencies, and with anesthesia devices. Business with respiratory care and thermoregulation equipment also fell.

NET SALES

	Second quarter				Six months			
in € million	2016	2015	Changes in %	Net of currency effects in %	2016	2015	Changes in %	Net of currency effects in %
Medical division[1]	185.7	207.7	–10.6	–9.2	358.6	385.2	–6.9	–5.6
Safety division[1]	138.9	142.1	–2.3	–0.8	265.6	261.2	+1.7	+3.4
Total	**324.5**	**349.9**	**–7.2**	**–5.8**	**624.2**	**646.4**	**–3.4**	**–1.9**
thereof Germany	133.3	122.9	+8.5	+8.5	247.8	230.7	+7.4	+7.4

[1] Value for 2015 adjusted due to new segmentation

Net sales in Europe including Germany decreased by 1.9 percent in the first half of the year (net of currency effects). This was predominantly due to a decline in net sales of medical technology products in the second quarter.

Dräger increased its net sales in Germany, Norway, and Italy, while net sales in the United Kingdom, Azerbaijan, Turkmenistan, the Netherlands, and Spain declined—in some cases considerably. Dräger recorded significant net sales growth in its industrial occupational health and safety and service businesses in the first six months of the year, while considerable declines in net sales were recorded with anesthesia devices, respiratory care and thermoregulation equipment, patient monitoring and data management, and business with government agencies. Hospital consumables business and plant safety equipment remained stable in the first half of the year.

EARNINGS

Gross profit fell by EUR 25.7 million in the first half of 2016 due to negative margin and volume effects and unfavorable currency influences. The gross margin decreased year-on-year by 2.6 percentage points.

Functional costs fell by 5.1 percent due to savings related to sales and marketing costs, supported by a favorable development of exchange rates and the fall in the allocation of cross-segment functional costs.

In total, earnings before interest and taxes (EBIT) for the Europe segment amounted to EUR 10.3 million (6 months 2015: EUR 20.8 million). As a result, the EBIT margin fell from 3.2 percent in the prior-year period to 1.6 percent.

BUSINESS PERFORMANCE OF AMERICAS SEGMENT

		Second quarter			Six months		
		2016	2015	Changes in %	2016	2015	Changes in %
Order intake with third parties [6]	**€ million**	**120.8**	**122.8**	**–1.6**	**236.6**	**239.3**	**–1.1**
Net sales with third parties [6]	**€ million**	**112.2**	**119.6**	**–6.2**	**216.2**	**232.8**	**–7.1**
EBITDA	**€ million**	**5.2**	**2.9**	**+78.6**	**1.7**	**3.5**	**–50.8**
Depreciation	€ million	–5.4	–5.4	–0.7	–10.7	–10.6	–1.0
EBIT [1]	**€ million**	**–0.2**	**–2.5**	**+91.3**	**–9.0**	**–7.1**	**–26.4**
Capital employed [2,3]	€ million	301.2	281.5	+7.0	301.2	281.5	+7.0
EBIT [1]/net sales	%	–0.2	–2.1		–4.1	–3.0	
EBIT [1,4]/capital employed [2] (ROCE)	%	–6.8	0.5		–6.8	0.5	
DVA [4,5]	€ million	–40.5	–22.1	–83.2	–40.5	–22.1	–83.2

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

[2] Capital employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities

[3] Value as of reporting date

[4] Value of the last twelve months

[5] Dräger Value Added = EBIT less cost of capital (until 2015: 9 %, from 2016: 7 %) of average invested capital

[6] Value for 2015 adjusted due to new segmentation

Business performance of Americas Segment

ORDER INTAKE

	Second quarter				Six months			
in € million	2016	2015	Changes in %	Net of currency effects in %	2016	2015	Changes in %	Net of currency effects in %
Medical division[1]	83.2	85.0	–2.2	+4.0	159.9	165.3	–3.2	+2.8
Safety division[1]	37.7	37.8	–0.4	+4.4	76.6	74.0	+3.6	+8.7
Total	**120.8**	**122.8**	**–1.6**	**+4.1**	**236.6**	**239.3**	**–1.1**	**+4.6**

[1] Value for 2015 adjusted due to new segmentation

In the Americas, order intake increased by 4.6 percent in the first half of the year (net of currency effects). This was driven in particular by the significant rise in demand for products from the safety division.

The positive demand trend in Canada and the United States made a major contribution to this performance. Despite a rise in demand in certain Central and South American countries, order intake declined somewhat in these areas in the first six months of the year (net of currency effects). Dräger generated a major boost in demand in the hospital consumables business and in business with government agencies. This was largely driven by orders for personal protective equipment for fire services. Demand for respiratory care and thermoregulation products, anesthesia devices, and services also rose. Patient monitoring and data management orders and orders in the hospital infrastructure business suffered significant declines.

NET SALES

	Second quarter				Six months			
in € million	2016	2015	Changes in %	Net of currency effects in %	2016	2015	Changes in %	Net of currency effects in %
Medical division[1]	79.5	82.2	–3.3	+1.8	148.7	160.1	–7.1	–2.3
Safety division[1]	32.7	37.5	–12.6	–9.3	67.5	72.7	–7.2	–3.4
Total	**112.2**	**119.6**	**–6.2**	**–1.7**	**216.2**	**232.8**	**–7.1**	**–2.6**

[1] Value for 2015 adjusted due to new segmentation

Net sales decreased by 2.6 percent in the first half of the year (net of currency effects). Deliveries of medical technology products and of safety technology products declined. In the safety division, Dräger recorded a particularly significant decline in net sales in the second quarter.

An increase in deliveries in Canada and certain South American countries could not compensate for the decline in net sales in the United States and Mexico. Net sales in the hospital consumables and service businesses experienced a major increase. Business with government agencies and deliveries of respiratory care and thermoregulation products rose slightly. By contrast, deliveries in the patient monitoring and data management business and of anesthesia devices declined considerably.

EARNINGS

Gross profit came to EUR 105.6 million (6 months 2015: EUR 118.2 million). The gross margin fell by 1.9 percentage points, particularly as a result of negative exchange rate effects in Brazil, Mexico, Colombia, and Argentina.

Functional costs declined by 7.9 percent in the first half of the year on account of positive currency effects, staff reductions, and targeted cost-cutting. In addition, the reduction in the allocation of cross-segment costs had a positive impact.

Earnings before interest and taxes (EBIT) for the Americas segment amounted to EUR –9.0 million (6 months 2015: EUR –7.1 million). The EBIT margin fell by 1.1 percentage points to –4.1 percent.

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

		Second quarter			Six months		
		2016	2015	Changes in %	2016	2015	Changes in %
Order intake with third parties [6]	**€ million**	**151.4**	**173.6**	**–12.8**	**311.3**	**331.1**	**–6.0**
Net sales with third parties [6]	**€ million**	**142.3**	**164.5**	**–13.5**	**271.1**	**300.4**	**–9.8**
EBITDA	**€ million**	**11.1**	**10.1**	**+9.5**	**14.4**	**18.6**	**–22.8**
Depreciation	€ million	–5.2	–4.9	–7.3	–10.2	–9.6	–5.5
EBIT [1]	**€ million**	**5.8**	**5.2**	**+11.6**	**4.2**	**9.0**	**–53.0**
Capital employed [2,3]	€ million	367.8	397.0	–7.3	367.8	397.0	–7.3
EBIT [1]/net sales	%	4.1	3.2		1.6	3.0	
EBIT [1,4]/capital employed [2] (ROCE)	%	5.7	11.5		5.7	11.5	
DVA [4,5]	€ million	–6.4	13.5	> –100.0	–6.4	13.5	> –100.0

1 EBIT = Earnings before net interest result and income taxes
2 Capital employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
3 Value as of reporting date
4 Value of the last twelve months
5 Dräger Value Added = EBIT less cost of capital (until 2015: 9 %, from 2016: 7 %) of average invested capital
6 Value for 2015 adjusted due to new segmentation

Business performance of Africa, Asia and Australia Segment (AAA)

ORDER INTAKE

	Second quarter				Six months			
in Mio. €	2016	2015	Changes in %	Net of currency effects in %	2016	2015	Changes in %	Net of currency effects in %
Medical division[1]	112.5	121.3	–7.2	–4.9	232.5	237.0	–1.9	+0.7
Safety division[1]	38.9	52.3	–25.5	–21.6	78.9	94.0	–16.1	–11.7
Total	**151.4**	**173.6**	**–12.8**	**–9.9**	**311.3**	**331.1**	**–6.0**	**–2.8**

[1] Value for 2015 adjusted due to new segmentation

Order intake in the Africa, Asia, and Australia segment fell by 2.8 percent (net of currency effects) in the first half of the year. This development was driven by a weak second quarter with a decline of nearly 10 percent (net of currency effects), due especially to the sharp decrease in demand for products from the safety division.

The considerable increase in order intake in Indonesia, Japan, and Egypt during the first six months could not offset the collapse of demand in Saudi Arabia, the United Arab Emirates, Singapore, Pakistan, and Qatar. In China, order intake was on par with the prior year. In terms of products, Dräger recorded growth in order intake during the first half of the year in the service business and hospital consumables business. The number of orders was slightly higher in the hospital infrastructure business, anesthesia devices, patient monitoring and clinical data management, as well as the service business. In some cases, however, demand was down considerably during the first six months for plant safety equipment, business with government agencies, industrial occupational health and safety products, and respiratory care and thermoregulation equipment.

NET SALES

	Second quarter				Six months			
in € million	2016	2015	Changes in %	Net of currency effects in %	2016	2015	Changes in %	Net of currency effects in %
Medical division[1]	100.8	115.9	–13.0	–10.6	196.8	214.9	–8.4	–5.8
Safety division[1]	41.5	48.6	–14.6	–10.3	74.2	85.5	–13.1	–8.8
Total	**142.3**	**164.5**	**–13.5**	**–10.6**	**271.1**	**300.4**	**–9.8**	**–6.7**

[1] Value for 2015 adjusted due to new segmentation

Net sales declined by 6.7 percent (net of currency effects) during the first six months. At 10.6 percent, the drop (net of currency effects) was especially pronounced in the second quarter. Fewer deliveries of products from the medical division and the safety division contributed to this development.

A sharp decline in net sales in Saudi Arabia and China during the first half of the year was partially offset by strong growth in Indonesia, Australia, and South Africa. In terms of products, Dräger recorded a marked increase for anesthesia devices and in the patient and clinical data management business. Dräger also achieved growth in net sales for respiratory care and thermoregulation equipment, as well as in the service business. On the other hand, demand fell considerably in the hospital infrastructure business, for hospital consumables, and for plant safety equipment. Deliveries were also down during the first six months for business with government agencies and industrial occupational health and safety products.

EARNINGS

Gross profit decreased in the first half of 2016 as a result of the lower net sales volume and negative currency effects. The gross margin fell by 0.6 percentage points.

Functional costs decreased by 7.3 percent due to lower selling expenses and positive currency effects. Furthermore, the allocated, cross-segment costs went down. EBIT for the segment fell by 53.0 percent (EUR –4.8 million) from EUR 9 million to EUR 4.2 million. The EBIT margin dropped from 3.0 percent to 1.6 percent.

Additional information on the medical and safety divisions

INFORMATION ON THE MEDICAL DIVISION

		Second quarter				Six months			
		2016	2015	Changes in %	Net of currency effects in %	2016	2015	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**417.3**	**411.9**	**+1.3**	**+4.2**	**800.7**	**814.5**	**–1.7**	**+1.1**
Europe [1]	€ million	221.6	205.6	+7.8	+9.7	408.3	412.1	–0.9	+0.6
Americas [1]	€ million	83.2	85.0	–2.2	+4.0	159.9	165.3	–3.2	+2.8
Africa, Asia, Australia [1]	€ million	112.5	121.3	–7.2	–4.9	232.5	237.0	–1.9	+0.7
Net sales with third parties	**€ million**	**365.9**	**405.8**	**–9.8**	**–7.4**	**704.1**	**760.2**	**–7.4**	**–4.9**
Europe [1]	€ million	185.7	207.7	–10.6	–9.2	358.6	385.2	–6.9	–5.6
Americas [1]	€ million	79.5	82.2	–3.3	+1.8	148.7	160.1	–7.1	–2.3
Africa, Asia, Australia [1]	€ million	100.8	115.9	–13.0	–10.6	196.8	214.9	–8.4	–5.8
EBIT [2]	**€ million**	**7.9**	**11.2**	**–29.7**		**–9.1**	**15.0**	**> –100.0**	
Research and development costs	€ million	40.4	42.0	–3.9		79.0	83.4	–5.3	
EBIT [2]/net sales	%	1.9	2.8			–1.3	2.0		

[1] Value for 2015 adjusted due to new segmentation

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

INFORMATION ON THE SAFETY DIVISION

		Second quarter				Six months			
		2016	2015	Changes in %	Net of currency effects in %	2016	2015	Changes in %	Net of currency effects in %
Order intake with third parties	**€ million**	**204.2**	**222.1**	**–8.1**	**–5.4**	**420.4**	**434.9**	**–3.3**	**–0.5**
Europe [1]	€ million	127.6	132.0	–3.3	–1.8	264.8	266.9	–0.8	+0.9
Americas [1]	€ million	37.7	37.8	–0.4	+4.4	76.6	74.0	+3.6	+8.7
Africa, Asia, Australia [1]	€ million	38.9	52.3	–25.5	–21.6	78.9	94.0	–16.1	–11.7
Net sales with third parties	**€ million**	**213.1**	**228.2**	**–6.6**	**–4.2**	**407.4**	**419.4**	**–2.9**	**–0.3**
Europe [1]	€ million	138.9	142.1	–2.3	–0.8	265.6	261.2	+1.7	+3.4
Americas [1]	€ million	32.7	37.5	–12.6	–9.3	67.5	72.7	–7.2	–3.4
Africa, Asia, Australia [1]	€ million	41.5	48.6	–14.6	–10.3	74.2	85.5	–13.1	–8.8
EBIT [2]	**€ million**	**13.4**	**10.5**	**+27.2**		**14.6**	**7.8**	**+88.4**	
Research and development costs	€ million	15.3	16.5	–7.2		31.0	31.4	–1.5	
EBIT [2]/net sales	%	6.7	4.6			3.6	1.9		

[1] Value for 2015 adjusted due to new segmentation

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

CHANGED CONDITIONS AFTER THE CLOSING OF THE INTERIM REPORTING PERIOD

There have been no material changes between the end of the first six months of 2016 and the time this interim financial report was prepared.

Research and development

In the first half of 2016, Dräger invested EUR 109.9 million in research and development (R&D), which was less than in the prior-year period (6 months 2015: EUR 114.8 million). The R&D expenses amounted to 9.9 percent of net sales (6 months 2015: 9.7 percent).

In the medical division, the focus remained on expanding the intensive care and operating room product portfolio, as well as on developing customer solutions within the Infinity Acute Care System. Dräger launched four new products and further developments from the medical division during the first half of the year.

With “IACS VG 5” we expanded the functionality of our „Infinity Acute Care System (IACS)“. Among them is the “Infinity M-Cable Microstream CO_2” which increases the clinical value by allowing monitoring of exhaled CO_2 on intubated and non-intubated patients. This also helps to monitor the respiration rate and reduces the need to perform repetitive blood gas analysis, an invasive procedure. The security of patient data in the cockpit has been fostered which supports our customers’ cybersecurity efforts. In addition, customers can now run Internet Explorer 11 (IE11), which supports HTML5 for better compatibility with web applications.

“Infinity MView” extends our patient monitoring portfolio. It closes the portfolio gap between our “Infinity M540 Stand alone” for low acuity and transport patients and the “IACS” (M540 plus Medical Cockpit display) for high acuity patients. At the point of care, “Infinity MView” provides clinicians with better access to their patient’s data and introduces flexibility into the clinical setting by displaying parameters as well as recorded patient data on an off-the-shelf medical-grade PC.

A significant portion of our “Infinity” Monitoring Systems portfolio has been granted certification under “DIACAP” (DoD Information Assurance Certification and Accreditation Process), a US Government Department of Defense standard. This documents that our products help to protect the privacy of individual patients, and the integrity of large government networks as well as commercial networks.

The “SmartPilot® View” software supports anesthesiologists by providing them with an innovative calculation and straightforward visual depiction of complex effects of anesthetic agents during all stages of the anesthesia process. The new “SmartPilot View 3.0” version streamlines the integration process with the anesthesia workstation and its inclusion in the perioperative procedure. Additional syringe pumps can also be connected, which stands to further increase the market penetration of this product.

The focus in the safety division is on expanding the Dräger product portfolio and developing systems to deliver complete solutions for customers. Dräger launched seven new products and further developments from the safety division during the first half of the year.

Dräger launched two new breath-alcohol testing devices at the beginning of the year. They were developed for different customer groups and account for the groups' respective needs. The "Alcotest 5820" is a breath-alcohol pretesting device for professional users, such as the police or public authorities. The "Alcotest 3820", on the other hand, is designed for private users who want to test their breath-alcohol level.

Dräger has optimized its "Dräger-Tubes" portfolio by adding four new tubes calibrated for specific alcohols. The new "Dräger-Tubes" are more sensitive and, in some cases, have shorter detection times. They are intended for use in various industries, including at technical workstations, for performing measurements as part of process monitoring, and for leak testing.

The new "XXS 2in1H2S-LC/CO-LC" dual sensor designed to detect a combination of hydrogen sulfide and carbon monoxide brings together the special features and low detection thresholds of the respective sensors in a single unit. It is intended for use in portable gas detection instruments in industrial settings.

Dräger's new ammonia sensor has been integrated in the "Polytron 8000 Update NH3". A special resilience to long-term exposure to gas sets it apart from other similar products on the market and means it is predestined for use in environments where high concentrations of ammonia can occur for extended periods of time. The product update also features new software functions. The "Polytron 8000 FB" is a new stationary gas detection instrument with its own digital communication interface, which makes it possible to integrate transmitters into digital networks and provides support for industrial automation.

Our "PSS 5000 Sentinel 7000" and "PSS 7000 Sentinel 7000" self-contained breathing apparatus (SCBA) have received NFPA 1981:2013 certification. The 2013 edition succeeds the previous 2007 edition of the standard of SCBA for Emergency Services to further improve the safety for users of the products, namely North American fire fighters.

Personnel

WORKFORCE TREND

		June 30, 2016	December 31, 2015	June 30, 2015
Germany		6,265	6,473	6,345
Other		7,147	7,463	7,506
Dräger Group total		**13,412**	**13,936**	**13,851**
Turnover of employees (Basis: average of the past twelve months)	%	6.7	5.0	4.3
Sick days of work days in Germany (Basis: average of the past twelve months)	%	5.3	5.4	5.5
Temporary staff in Germany (incl. short-term project employment)		453	357	314

As of June 30, 2016, the Dräger Group employed 13,412 people around the world, which is a year-on-year decrease of 439 employees (June 30, 2015: 13,851 employees). That corresponds to a headcount reduction of 3.2 percent. In Germany, the number of people working for the Dräger Group decreased by 80 year-on-year, while the number of people working abroad went down by 359. As of June 30, 2016, 53.3 percent (June 30, 2015: 54.2 percent) of employees were working outside of Germany.

The headcount in Germany was reduced especially in Production (–50), R&D (–26), as well as administrative areas. As part of an agreed headcount reduction program, Dräger will continue to decrease the number of employees over the further course of the year.

Compared to June 30, 2015, the number of employees outside of Germany has been reduced significantly by a total of 359 people. The headcount reduction measures particularly affected Sales (–135) and R&D (–100). Staff cutbacks were also made in administrative areas (–29) and Production (–26).

Personnel expenses within the Group were reduced by 1.4 percent year-on-year (net of currency effects: 0.1 percent) to EUR 497.4 million. This slight decline (net of currency effects) resulted from the lower headcount in the year-on-year comparison. This was offset by the pay rise in the metal and electrical industries in Germany. The personnel cost ratio came to 44.8 percent in the first half of 2016 (6 months 2015: 42.8 percent).

PERSONNEL EXPENSES [1]

in € thousand	Six months 2016	Six months 2015
Wages and salaries	**408,876**	**416,638**
Social security contributions and related employee benefits	75,572	73,224
Pension expenses	12,974	14,479
	497,422	**504,341**

[1] Personnel expenses include the remuneration of the members of the Executive Board of the general partner Drägerwerk Verwaltungs AG, Lübeck

RISKS TO FUTURE DEVELOPMENT

The material risks to Dräger's net assets, financial position, and results of operations as well as the structure of the company's risk management system are outlined in the annual report for fiscal year 2015 on pages 111 et seq. The annual report may be downloaded online at **www.draeger.com**.

There were no material changes to the 2015 annual report. In addition, Dräger cannot currently identify any individual or aggregated risks that could have a material impact on the company's continued existence as a going concern.

Outlook

FUTURE MARKET ENVIRONMENT

After the World Bank, the International Monetary Fund (IMF) in mid-July reduced its global economic growth forecast. As a result, economic growth is not anticipated to exceed the prior-year level once again in 2016. In terms of the global economy, the IMF now expects growth to stand at 3.1 percent in 2016. That is a further downgrade by 0.1 percentage points after the reduction of 0.2 percentage points in April. In many industrialized economies, economic expansion is gaining only a little momentum and due to the additional uncertainty as a result of the British referendum to exit from the European Union the IMF has reduced the forecast for the industrial countries in particular. In emerging economies economic growth has tailed off and continues to be below the level of the last two decades.

The IMF is of the opinion that the risk/reward profile for the global economy continues to worsen. Financial market turbulence, difficulties faced by oil-exporting countries as a result of the drop in oil prices, and a significant slowdown in China could have a negative impact on the global economy. Furthermore, the risk of geopolitical tensions remains high. The IMF is therefore arguing for the implementation of structural reforms that should be supported by fiscal policy as a means of enhancing the prospects for growth. The IMF also believes that it is essential to maintain the expansive monetary policy in many industrialized economies.

IMF – JULY 2016 GROSS DOMESTIC PRODUCT (GDP) GROWTH FORECAST

in %	2016	2017
Global economy	3.1	3.4
USA	2.2	2.5
Eurozone	1.6	1.4
Germany	1.6	1.2
China	6.6	6.2

FUTURE SITUATION OF THE MEDICAL TECHNOLOGY INDUSTRY

Dräger expects global net sales to continue growing in the medical technology industry in the second half of 2016. The health megatrend and the necessary modernization of healthcare systems will continue to serve as a trigger, driver, and trailblazer for new market opportunities. On the other hand, complex regulations, growing cost pressure, a shortage of skilled professionals, and a failure to capitalize on the potential of digitalization are increasingly affecting the willingness of hospitals to invest. Dräger's growth estimate for most countries in Europe is somewhat more positive than the most recent assessment. This development is due to structural reforms, new hospitals, and private investors. Expectations for Russia remain subdued in light of the government's regulatory policy. In North America, Dräger expects to see bigger gains due to the implementation of healthcare reforms and a high level of existing purchasing power. Despite the weakness of the Brazilian market, positive growth is still anticipated overall across all countries in Latin America as a result of successful government action and private-sector activities. In the Middle East, Africa, and many emerging economies, Dräger believes that the growth in these markets, which are often smaller by comparison, will still be just about in positive territory on the whole. Dräger expects to see positive growth trends in India thanks to an active private sector and better underlying conditions for investments. In China, it is becoming increasingly difficult for foreign suppliers to participate in the designated expansion of the healthcare sector and the national medical technology growth market. The medical division is likely to experience positive development overall in the other countries in Asia, which is due primarily to private investment activities.

FUTURE SITUATION OF THE SAFETY TECHNOLOGY INDUSTRY

Dräger anticipates a subdued, yet positive, growth situation overall for the safety division in the second half of 2016. The general development is being driven more by the necessities of occupational health and safety concerns plus hazardous-substance monitoring in existing processes than by an expansion of capacities. Stabilization in terms of capacities, production, and price structures within the oil and gas industry is currently not foreseeable. The profitability of mining activities is suffering from the low global market prices for metals and coal, in addition to the restructuring of the energy sector. Globally speaking, the chemical industry is likely to experience moderate growth. Despite increasing safety consciousness, public-sector procurement for replacement and additional equipment is facing budget pressure across the globe in the fire services segment. Links to products and solutions from the safety division can be found everywhere thanks in particular to technology for waste water, waste, and environmental protection on the application-oriented markets, as well as the product-related service industry.

The oil market will first need to stage a complete recovery to sustainably strengthen growth in the United States.

Brazil faces a slow process in overcoming its long and difficult economic and structural crisis. On the whole, however, countries in Latin America and emerging economies are showing encouraging growth trends. Within the scope of the “Made in China 2025” initiative, China has begun ensuring better plant safety and hazardous goods logistics for the chemical industry by adopting new safety standards. Dräger expects slight increases in areas related to the application-oriented markets in Asia. For Europe, Dräger anticipates slight growth in the chemical industry. In light of falling economic output in Russia, smaller positive effects are anticipated. Virtually no growth is likely in the Middle East and Africa due to difficult conditions.

FUTURE SITUATION OF THE COMPANY

The following section should be read in conjunction with the “Future situation of the company” section in the management report of the 2015 annual report (pages 125 et seq.), which describes expectations for 2016 in detail. The following table provides an overview of the expectations regarding the development of various forecast figures. The forecast period is based on the fiscal year.

EXPECTATIONS FOR FISCAL YEAR 2016

	Results achieved in 2015	Forecast 2016 according to the annual report	Current forecast
Net sales	+2.9 % (net of currency effects)	0.0–3.0 % (net of currency effects)	Confirmed
EBIT margin	2.6 %	3.5–5.5 % [1]	Confirmed
DVA	EUR −46.3 million	Improvement	Confirmed
Other forecast figures			
Gross margin	44.9 %	Down year-on-year	Confirmed
Research and development costs	EUR 231.1 million	EUR 225–235 million	Confirmed
Net interest result	EUR −17.2 million	On par with prior year	Confirmed
Effective tax rate	32.8 %	30–33 %	Confirmed
Days working capital (DWC)	121.2 days	119–121 days	Confirmed
Operating cash flow	59.8 % of EBIT	> 60 % of EBIT	Confirmed
Investment volume	EUR 196.8 million	EUR 110–120 million	Confirmed
Equity ratio	40.9 %	Increase	Confirmed
Net financial debt	EUR 145.3 million	Improvement	Confirmed

[1] Based on exchange rates at the start of fiscal year 2016

DRÄGER MANAGEMENT ESTIMATE

Global economic growth continues to lack momentum. In emerging economies, the growth seen in the last two decades has stopped; a number of these countries are suffering from the fall in commodity prices. Growth remains subdued in industrialized economies, which also applies to the eurozone.

With the “Fit for Growth” efficiency program, Dräger has addressed key issues for safeguarding the future of the company. The cost of materials and personnel expenses have already decreased in 2016. Dräger continues to optimize its supply chain and make great efforts to enhance the company’s innovative strength.

By taking these steps, Dräger is ensuring its competitiveness. This strategy is the right one and retains its long-term focus. The medical and safety technology markets remain growth markets.

FORWARD-LOOKING STATEMENTS

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

Lübeck, Germany, July 26, 2016

The general partner
Drägerwerk Verwaltungs AG
represented by its Executive Board

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

Interim financial statements of the Dräger Group as of June 30, 2016

CONSOLIDATED INCOME STATEMENT OF THE DRÄGER GROUP

in € thousand	Notes	Second quarter 2016	Second quarter 2015	Six months 2016	Six months 2015
Net sales		579,029	634,019	1,111,434	1,179,545
Cost of sales		–315,821	–351,066	–624,867	–638,764
Gross profit		**263,208**	**282,954**	**486,568**	**540,781**
Research and development costs		–55,700	–58,514	–109,914	–114,820
Marketing and selling expenses		–133,864	–152,080	–268,516	–293,066
General administrative costs		–51,153	–51,757	–101,853	–107,299
Other operating income		1,591	1,792	3,409	3,308
Other operating expenses		–3,888	–1,076	–5,269	–2,989
		–243,013	**–261,636**	**–482,143**	**–514,865**
		20,195	**21,318**	**4,425**	**25,915**
Profit from investments in associates		–	102	–	102
Profit from other investments		48	26	82	26
Other financial result		969	232	1,036	–3,310
Financial result (before interest result)	**6**	**1,016**	**360**	**1,117**	**–3,182**
EBIT		**21,211**	**21,678**	**5,542**	**22,734**
Interest result	6	–4,033	–5,694	–8,402	–11,264
Earnings before income taxes		**17,178**	**15,983**	**–2,860**	**11,470**
Income taxes	7	–4,640	–5,101	1,782	–3,726
Earnings after income taxes		**12,538**	**10,883**	**–1,078**	**7,744**
Earnings after income taxes		**12,538**	**10,883**	**–1,078**	**7,744**
Non-controlling interests in net profit		152	–50	177	37
Earnings attributable to participation certificates (excluding minimum dividend, after taxes) [1]		–	602	–	602
Earnings attributable to shareholders		12,386	10,331	–1,254	7,106
Undiluted/diluted earnings per share on full distribution [2]					
per preferred share (in €)		0.53	0.52	–0.23	0.35
per common share (in €)		0.52	0.51	–0.26	0.32

[1] The figure is calculated by accruing a dividend for participation certificates of EUR 0.65 June 30, 2015: EUR 1.20) based on earnings in the first six months of 2016 and the temporary amendment of Dräger's dividend policy announced in the capital market information on March 9th, 2016, to distribute EUR 0.19 per preferred share and a dividend of EUR 0.13 per common share until earnings have improved significantly and stabilized (June 30, 2015: Distribution of around 30 % of total Group net profit less earnings attributable to non-controlling interests).

[2] The dividend premium of EUR 0.06 on preferred shares is recognized pro rata on a quarterly basis.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE DRÄGER GROUP

in € thousand	Six months 2016	Six months 2015
Earnings after income taxes	**–1,078**	**7,744**
Items that cannot be reclassified into the income statement		
Remeasurements of defined benefit pension plans	–54,537	16,183
Deferred taxes on remeasurements of defined benefit pension plans	17,179	–4,996
Items that may be reclassified into the income statement in the future		
Currency translation adjustment for foreign subsidiaries	–8,268	22,099
Change in the fair value of financial assets designated as available for sale recognized directly in equity	–	0
Change in the fair value of derivative financial instruments recognized directly in equity	–292	371
Deferred taxes on changes in the fair value of derivative financial instruments recognized directly in equity	92	–160
Other comprehensive income (after taxes)	**–45,825**	**33,498**
Total comprehensive income	**–46,903**	**41,242**
thereof earnings attributable to non-controlling interests	244	64
thereof earnings attributable to participation certificates (excluding minimum dividend, after taxes) [1]	–	602
thereof earnings attributable to shareholders	–47,147	40,576

[1] The figure is calculated by accruing a dividend for participation certificates of EUR 0.65 June 30, 2015: EUR 1.20) based on earnings in the first six months of 2016 and the temporary amendment of Dräger's dividend policy announced in the capital market information on March 9th, 2016, to distribute EUR 0.19 per preferred share and a dividend of EUR 0.13 per common share until earnings have improved significantly and stabilized (June 30, 2015: Distribution of around 30 % of total Group net profit less earnings attributable to non-controlling interests).

CONSOLIDATED BALANCE SHEET OF THE DRÄGER GROUP

in € thousand	Notes	June 30, 2016	December 31, 2015
Assets			
Intangible assets	8	349,591	351,776
Property, plant and equipment	8	414,017	406,355
Investments in associates		231	231
Other non-current financial assets		11,590	11,613
Deferred tax assets		158,050	135,322
Other non-current assets		1,698	1,881
Non-current assets		**935,177**	**907,177**
Inventories	9	439,397	401,978
Trade receivables and receivables from construction contracts		585,385	711,323
Other current financial assets		43,732	47,708
Cash and cash equivalents		162,162	172,767
Current income tax refund claims		18,109	19,386
Other current assets	10	76,352	47,724
		1,325,137	**1,400,885**
Assets held for sale		3,270	3,334
Current assets		**1,328,407**	**1,404,220**
Total assets		**2,263,584**	**2,311,397**

in € thousand	Notes	June 30, 2016	December 31, 2015
Equity and liabilities			
Capital stock		45,466	45,466
Capital reserves		234,028	234,028
Reserves retained from earnings, incl. group result		584,021	626,634
Participation capital		29,497	29,497
Other comprehensive income		156	8,691
Non-controlling interests		1,858	1,614
Equity	11	**895,025**	**945,929**
Liabilities from participation certificates		22,233	21,779
Provisions for pensions and similar obligations	12	346,218	288,147
Other non-current provisions	13	56,977	56,646
Non-current interest-bearing loans	14	194,204	138,118
Other non-current financial liabilities		28,504	27,604
Non-current income tax liabilities		3,940	4,392
Deferred tax liabilities		3,172	3,431
Other non-current liabilities		6,365	5,762
Non-current liabilities		**661,614**	**545,880**
Other current provisions	13	197,481	232,984
Current interest-bearing loans and liabilities to banks	14	108,926	169,662
Trade payables		155,836	186,405
Other current financial liabilities		36,834	25,343
Current income tax liabilities		25,787	37,751
Other current liabilities		182,080	167,442
Current liabilities		**706,945**	**819,588**
Total equity and liabilities		**2,263,584**	**2,311,397**

CONSOLIDATED CASH FLOW STATEMENT OF THE DRÄGER GROUP

	in € thousand	Second quarter 2016	Second quarter 2015	Six months 2016	Six months 2015
Operating activities					
	Earnings after income taxes	12,538	10,883	–1,078	7,744
+	Write-down/write-up of non-current assets	21,213	20,372	40,947	40,016
+	Interest result [1]	4,033	5,694	8,402	11,264
+/–	Income taxes [1]	4,640	5,101	–1,782	3,726
–	Decrease in provisions [1]	–19,388	–20,959	–34,272	–29,570
+/–	Other non-cash expenses/income [1]	–7,895	10,478	–3,583	–14,607
+/–	Losses/Gains from the disposal of non-current assets	9	71	–21	–22
–	Increase in inventories	–18,978	–4,794	–38,119	–60,946
–	Increase in leased equipment	–2,966	–2,731	–7,113	–3,868
+/–	Decrease/Increase in trade receivables	20,331	–19,516	122,714	45,659
+/–	Decrease/Increase in other assets [1]	8,099	26,269	–16,896	–41,296
+/–	Increase/Decrease in trade payables	15,671	–1,003	–31,130	–35,613
+/–	Increase/Decrease in other liabilities [1]	6,246	–22,833	27,725	37,007
–	Cash outflow for income taxes [1]	–10,188	–4,805	–20,377	–16,954
–	Cash outflow for interests [1]	–2,085	–6,829	–4,054	–10,512
+	Cash inflow from interests [1]	686	711	1,024	1,521
	Cash inflow/outflow from operating activities	**31,969**	**–3,892**	**42,386**	**–66,450**
Investing activities					
–	Cash outflow for investments in intangible assets	–1,489	–1,812	–3,526	–2,910
+	Cash inflow from the disposal of intangible assets	1	124	1	191
–	Cash outflow for investments in property, plant and equipment	–23,439	–25,964	–39,285	–51,626
+	Cash inflow from disposals of property, plant and equipment	97	483	628	1,426
–	Cash outflow for investments in non-current financial assets	–13	–33	–24	–824
+	Cash inflow from the disposal of non-current financial assets	1	9	1	377
–	Cash outflow from the acquisition of subsidiaries	–	–5,000	–	–58,063
	Cash outflow from investing activities	**–24,842**	**–32,193**	**–42,205**	**–111,430**
Financing activities					
–	Distribution of dividends (including dividends for participation certificates)	–4,001	–34,601	–4,001	–34,601
+	Cash inflow from the exercise of option rights to preferred shares	–	31,548	–	31,548
–	Cash outflow from the acquisition of treasury shares for the employee share program	–	–	–	–1,143
+	Cash provided by raising loans	9	48,147	59,957	48,159
–	Cash used to redeem loans	–2,202	–62,209	–4,112	–88,892
+/–	Net balance of other liabilities to banks	–16,519	46,694	–60,975	53,529
–	Net balance of finance lease liabilities repaid/incurred	–380	–376	–653	–799
–	Outflow from the changes in shareholdings in subsidiaries	–	–	–	–4,000
–	Profit distributed to non-controlling interests	–	–2	0	–2
	Cash outflow/inflow from financing activities	**–23,093**	**29,200**	**–9,783**	**3,798**
Change in cash and cash equivalents in the reporting period		**–15,967**	**–6,886**	**–9,602**	**–174,082**
+/–	Effect of exchange rates on cash and cash equivalents	1,254	–2,947	–1,003	9,329
+	Cash and cash equivalents at the beginning of the reporting period	176,875	141,935	172,767	296,855
	Cash and cash equivalents on reporting date	**162,162**	**132,102**	**162,162**	**132,102**

[1] Payments for income taxes and interests are shown separately in the cash flow statement. Prior year's figures were adjusted accordingly.

For notes to the cash flow statement, please see page 16.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE DRÄGER GROUP

						Other comprehensive income						
in € thousand	Capital stock	Capital reserves	Reserves retained from earnings incl. group result	Participation capital	Treasury shares	Currency translation differences	Derivative financial instruments	Financial assets available for sale	Total other comprehensive income	Total equity of shareholder Drägerwerk AG & Co. KGaA	Non-controlling interests	Equity
January 1, 2015	**44,186**	**203,760**	**622,342**	**29,497**	**0**	**–2,970**	**–2,405**	**51**	**–5,325**	**894,459**	**2,146**	**896,606**
Earnings after income taxes	–	–	7,708	–	–	–	–	–	0	7,708	37	7,744
Other comprehensive income	–	–	11,187	–	–	22,072	211	–	22,284	33,471	27	33,498
Total comprehensive income	**–**	**–**	**18,895**	**–**	**–**	**22,072**	**211**	**–**	**22,284**	**41,178**	**64**	**41,242**
Repurchase of treasury shares	–	–	–	–	–1,143	–	–	–	0	–1,143	–	–1,143
Employee share program	–	–	–	–	1,143	–	–	–	0	1,143	–	1,143
Exercise of option rights to preferred shares	1,280	30,268	–	–	–	–	–	–	0	31,548	–	31,548
Distributions	–	–	–34,601	–	–	–	–	–	0	–34,601	–2	–34,603
Changes in the shares of subsidiaries, excluding loss of control	–	–	–3,086	–	–	–846	–	–	–846	–3,932	–68	–4,000
Changes in the scope of consolidation/other	–	–	307	–	–	–	–	–	0	307	–	307
June 30, 2015	**45,466**	**234,028**	**603,856**	**29,497**	**0**	**18,256**	**–2,194**	**51**	**16,113**	**928,959**	**2,140**	**931,100**
January 1, 2016	**45,466**	**234,028**	**626,634**	**29,497**	**0**	**10,849**	**–2,201**	**43**	**8,691**	**944,315**	**1,614**	**945,929**
Earnings after income taxes	–	–	–1,254	–	–	–	–	–	0	–1,254	177	–1,078
Other comprehensive income	–	–	–37,358	–	–	–8,335	–200	–	–8,535	–45,893	67	–45,825
Total comprehensive income	**–**	**–**	**–38,612**	**–**	**–**	**–8,335**	**–200**	**–**	**–8,535**	**–47,147**	**244**	**–46,903**
Distributions	–	–	–4,001	–	–	–	–	–	0	–4,001	0	–4,001
June 30, 2016	**45,466**	**234,028**	**584,021**	**29,497**	**0**	**2,514**	**–2,401**	**43**	**156**	**893,167**	**1,858**	**895,025**

Notes of the Dräger Group as of June 30, 2016 (condensed)

1 BASIS OF PREPARATION OF THE INTERIM GROUP FINANCIAL STATEMENTS

Drägerwerk AG & Co. KGaA, Lübeck, Germany, prepared its Group financial Statements for fiscal year 2015 in accordance with the International Financial Reporting Standards (IFRS) as defined by the International Accounting Standards Boards (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). In fiscal year 2016, the interim financial statements of the Dräger Group have therefore also been prepared in accordance with IFRS, and the interim reports in compliance with IAS 34 as well as German Accounting Standard No. 16 (GAS 16—Interim Financial Reporting) of the German Accounting Standards Committee (GASC).

The interim report should be read in connection with the disclosures in the Dräger IFRS annual report as of December 31, 2015. It was not audited or reviewed by an auditor.

The interim report was prepared in euros. Unless otherwise stated, all figures are disclosed in thousands of euros (EUR thousand); as a result, differences may occur due to rounding.

2 ACCOUNTING POLICIES

The same accounting principles were applied in preparing the interim financial statements and calculating the comparative figures as in the Group financial statements for 2015. A detailed description of these methods is published in the notes to the Group financial statements in the 2015 annual report in Note 10.

A discount rate of 1.50 percent (December 31, 2015: 2.25 percent) was used as a basis for the German pension provisions reported in these interim financial statements on account of the change in interest rates. The result from the revaluation of pension plans increased the provisions for pensions and similar obligations.

The annual report may also be downloaded online at **www.draeger.com**.

In preparing the interim financial statements, the Group opted to present condensed financial statements with selected explanatory notes. In general, greater use was made of estimates in determining carrying amounts than at fiscal year-end.

Accruals and deferrals were recognized where claims or obligations partially arose in the period under review.

The following new standards and amendments to existing standards published by the IASB, which have already been adopted in EU law, are to be applied for the first time in fiscal year 2016, in the event that transactions fall within the respective scopes of application:

- The "Annual Improvements to IFRSs 2012–2014 Cycle (issued September 2014)" resulted in slight adjustments or corrections to IFRS 5, IFRS 7, IAS 19 and IAS 34. This does not have a material impact on Dräger's Group financial statements.
- The IASB published clarifications on IAS 1 in line with the "Disclosure Initiative—Amendments to IAS 1 (issued December 2014)." In addition to assessing the materiality of information in the financial statements, the presentation of additional line items in

the balance sheet and the statement of comprehensive income, and the structure of disclosures in the notes, these also relate to the presentation of significant accounting policies. They also relate to the presentation of the other comprehensive income of associates and joint ventures accounted for using the equity method. This does not have a material impact on Dräger's Group financial statements.

- The amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations (issued May 2014)" means that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. This does not impact Dräger's Group financial statements.
- The amendment to IAS 27 "Equity Method in Separate Financial Statements (issued August 2014)" again allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The option to apply the equity method had been removed during the 2003 revision of IAS 27 "Consolidated and Separate Financial Statements pursuant to IFRS". This does not impact Dräger's Group financial statements.
- The amendments to IAS 16 and IAS 41 "Bearer Plants (issued on 30 June 2014)" bring bearer plants, which are used solely to grow produce, into the scope of IAS 16 so that they are accounted for in the same way as property, plant and equipment. This does not impact Dräger's Group financial statements.
- The amendments "Clarification of Acceptable Methods of Depreciation and Amortization (issued on 12 May 2014)" adjust IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets to clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate, as the revenue reflects the generation of economic benefits, rather than its consumption. This does not impact Dräger's Group financial statements.

Further new mandatory standards or amendments of standards that apply only to fiscal years beginning on or after January 1, 2017 and/or that have not yet been endorsed can be found in the Dräger IFRS annual report as of December 31, 2015.

The first-time application of the remaining amended standards did not have any significant effects on the net assets, financial position and results of operations of the Dräger Group.

3 SCOPE OF CONSOLIDATION

The newly established subsidiary Draeger Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia, was included in the consolidated financial statements for the first time in May 2016. The company is responsible for the sale of Dräger medical and safety equipment in Malaysia, which had previously been the responsibility of the subsidiaries in Singapore.

US subsidiary Draeger Safety Inc., Pittsburgh, USA, was merged with US subsidiary Draeger Medical Systems Inc., Telford, USA, also in May 2016.

4 AMENDMENTS TO SEGMENT REPORTING

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

Until the end of fiscal year 2015, the Company was managed through the two divisions: the medical division and the safety division. An expanded functional Executive Management Team (EMT) was responsible for the operating management of the two divisions.

We have realigned our organizational and management system to put the spotlight on the customer even more and make our internal decision-making processes more efficient. Since fiscal year 2016, the Executive Board is managing the operating business by means of the three regions: Europe, Americas, and Africa, Asia and Australia. In each case, one member of the Executive Board is fully responsible for the business performance of the Company in one of the three regions. The respective Executive Board member assumes this regional responsibility in addition to his functional tasks.

Segment reporting will also change beginning in 2016 with the change to the management approach. The new segment reporting is geared towards the business responsibility of the three Executive Board members with regional responsibilities and is broken down into the regions Europe (Dr. Reiner Piske), Americas (Rainer Klug), and Africa, Asia and Australia (Anton Schrofner).

The regionally focused management approach results in the following changes to our segment reporting:

- Reporting is structured according to the regions Europe, Americas, and Africa, Asia and Australia.
- Several key figures (including order intake, net sales and EBIT) are reported using the previous medical division/safety division structure for informational purposes.
- For reporting EBIT, cross-regional costs are now allocated to the three segments with a plan-based formula. A large portion of these costs will be assigned to the regions using a net sales formula.
- Apart from the key influencing factors of net working capital (trade receivables, trade payables, inventories including prepayments received), reporting capital employed also includes long-term capital, such as property, plant and equipment. This is assigned to the segments using a net sales formula.
- Key figures that cannot be reasonably allocated to the regions, such as net financial debt, are only reported at Group level.

The change in segment reporting results in slight variations of the order intake and net sales per region, compared to the figures reported in the previous year.

The key figures from the last five years reported using the new regional segment structure are available on the Dräger website under Investor Relations.

5 SEGMENT REPORT

BUSINESS PERFORMANCE OF THE SEGMENTS

		Europe		Americas		Africa, Asia, Australia		Dräger Group	
		Six months 2016	Six months 2015	Six months 2016	Six months 2015	Six months 2016	Six months 2015	Six months 2016	Six months 2015
Order intake with third parties [6]	**€ million**	**673.2**	**679.0**	**236.6**	**239.3**	**311.3**	**331.1**	**1,221.1**	**1,249.3**
Net sales with third parties [6]	**€ million**	**624.2**	**646.4**	**216.2**	**232.8**	**271.1**	**300.4**	**1,111.4**	**1,179.5**
EBITDA [1]	**€ million**	**30.4**	**40.6**	**1.7**	**3.5**	**14.4**	**18.6**	**46.5**	**62.7**
Depreciation/Amortization	€ million	–20.1	–19.8	–10.7	–10.6	–10.2	–9.6	–41.0	–40.0
EBIT [1]	**€ million**	**10.3**	**20.8**	**–9.0**	**–7.1**	**4.2**	**9.0**	**5.5**	**22.7**
Capital employed [2,3]	€ million	590.2	631.6	301.2	281.5	367.8	397.0	1,259.2	1,310.0
EBIT [1]/Net sales	%	1.6	3.2	–4.1	–3.0	1.6	3.0	0.5	1.9
EBIT [1,4]/Capital employed [2,3] (ROCE)	%	8.3	19.0	–6.8	0.5	5.7	11.5	3.9	12.8
DVA [4,5]	€ million	7.4	70.6	–40.5	–22.1	–6.4	13.5	–39.4	62.0

[1] EBIT = Earnings before net interest result and income taxes
[2] Capital employed in segments = Trade receivables, inventories incl. prepayments received;
Capital employed Group = Total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
[3] Value as of reporting date
[4] Value of the last twelve months
[5] Dräger Value Added = EBIT less cost of capital (until 2015: 9 %, from 2016: 7 %) of average invested capital
[6] Values within segments for 2015 adjusted due to new segmentation

The key figures from the segment report are as follows:

EBIT

in € thousand	Six months 2016	Six months 2015
Earnings after income taxes	–1,078	7,744
+ Interest result	8,402	11,264
+ Income taxes	–1,782	3,726
EBIT	**5,542**	**22,734**

CAPITAL EMPLOYED

in € thousand	June 30, 2016	June 30, 2015
Total assets	2,263,584	2,258,599
– Deferred tax assets	–158,050	–124,587
– Cash and cash equivalents	–162,162	–132,102
– Non-interest-bearing liabilities	–684,140	–691,863
Capital employed	**1,259,232**	**1,310,048**

DVA

in € thousand	June 30, 2016	June 30, 2015
EBIT (of the last twelve months)	49,496	167,293
– Cost of capital (Basis: average of capital employed in the past twelve months)	–88,936	–105,262
DVA	**–39,440**	**62,032**

The business performance of the individual segments is detailed in the management report accompanying these interim financial statements. Services rendered between the segments follow the arm's length principle.

6 FINANCIAL RESULT

FINANCIAL RESULT

in € thousand	Six months 2016	Six months 2015
Financial result (before interest result)	**1,117**	**–3,182**
Interest and similar income	1,303	1,527
Interest and similar expenses	–9,705	–12,791
Interest result	**–8,402**	**–11,264**

7 INCOME TAXES

Income taxes for the first half of 2016 were calculated on the basis of an anticipated Group tax rate of 32.5 percent (6 months 2015: 32.5 percent).

8 INTANGIBLE ASSETS/PROPERTY, PLANT AND EQUIPMENT

INTANGIBLE ASSETS/PROPERTY, PLANT AND EQUIPMENT

in € thousand	Carrying value January 1, 2016	Additions	Disposals/ other changes	Depreciation/ amortization	Carrying value June 30, 2016
Intangible assets	351,776	4,000	–173	–6,013	349,591
Property, plant and equipment	406,355	37,742	4,857	–34,938	414,017

9 INVENTORIES

INVENTORIES

in € thousand	June 30, 2016	December 31, 2015
Finished goods and merchandise	246,730	218,647
Work in progress	57,208	49,514
Raw materials, consumables and supplies	132,504	131,152
Payments made	2,956	2,665
	439,397	**401,978**

10 OTHER CURRENT ASSETS

OTHER CURRENT ASSETS

in € thousand	June 30, 2016	December 31, 2015
Prepaid expenses	36,821	23,210
Other tax refund claims	27,234	19,285
Receivables from investment allowances	777	820
Remaining other current assets	11,519	4,409
	76,352	**47,724**

The increase in prepaid expenses is largely attributable to deferred expenses in the current year. Other tax refund claims primarily included VAT claims. Remaining other current assets increased as a result of reporting date factors.

11 EQUITY

Retained earnings

The decline in interest rates to 1.50 percent (December 31, 2015: 2.25 percent) affected provisions for pensions and similar obligations as well as retained earnings. Please also see our explanations in Note 12 of these notes.

12 PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Provisions for pensions and similar obligations increased by EUR 58,071 thousand in the first six months of fiscal year 2016. The underlying interest rate was adjusted from 2.25 percent to 1.50 percent for German pension entitlements. This resulted in losses from the remeasurement of pension plans of EUR 54,537 thousand. The net amount of EUR 37,358 thousand is recognized directly in equity under other comprehensive income and offset against retained earnings.

13 OTHER NON-CURRENT AND CURRENT PROVISIONS

As of June 30, 2016, other non-current provisions mainly comprised provisions for personnel obligations of EUR 36,739 thousand (December 31, 2015: EUR 35,845 thousand).

Other current provisions as of June 30, 2016 also included monthly accruals and mainly consisted of provisions for personnel obligations of EUR 86,230 thousand (December 31, 2015: EUR 118,524 thousand), provisions for unpaid invoices of EUR 37,867 thousand (December 31, 2015: EUR 31,789 thousand) and warranty provisions of EUR 26,780 thousand (December 31, 2015: EUR 29,467 thousand).

14 NON-CURRENT INTEREST-BEARING LOANS/CURRENT INTEREST-BEARING LOANS AND LIABILITIES TO BANKS

A new note loan totaling EUR 60,000 thousand was taken out in March 2016. At the same time, other liabilities to banks declined by EUR 64,548 thousand.

15 MEASUREMENT OF ASSETS AND LIABILITIES REPORTED AT FAIR VALUE

Regular fair value measurement of financial instruments

Financial instruments recognized at fair value are allocated to the following three levels of the fair value hierarchy:

FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

in € thousand	Level	June 30, 2016	December 31, 2015
Assets measured at fair value			
Derivatives with positive fair value (non-current)	2	555	383
Derivatives with positive fair value (current)	2	8,621	2,188
Securities (non-current)	1	667	667
Liabilities measured at fair value			
Derivatives with negative fair value (non-current)	2	1,125	3,979
thereof with a hedging relationship		3,505	3,213
Derivatives with negative fair value (current)	2	14,258	3,104

Level 1:

Prices in the active markets are assumed in unchanged form for identical financial assets or liabilities. The fair values of non-current securities are based on current stock market prices.

Level 2:

Uses largely observable input factors that can be directly (i.e. price) or indirectly (i.e. derived from prices) observed for financial assets or financial liabilities; these do not include any listed prices taken into consideration in level 1.

Dräger applies the discounted cash flow method when measuring derivatives. Expected cash flows are determined on the basis of secured prices and/or interest rates and the observable closing rates and/or interest rates, which are then discounted using an interest rate that takes into account Dräger's Company-related risks.

Level 3:

Uses factors not based on observable market data for the measurement of financial assets and liabilities (unobservable input factors). These are classified as level 3 when there is an unobservable input factor present that significantly influences the measurement. The Dräger Group does not hold any level 3 financial instruments.

There was no material change between levels 1 and 2.

Fair value of financial instruments not regularly recognized at fair value

The fair value of level 2 financial assets and liabilities measured at amortized cost is determined using the discounted cash flow method by replacing the interest rates used in the initial calculation of non-current financial assets and liabilities with interest rates derived from current Company-related interest rate curves as of the balance sheet date.

The fair value of the note loans is approximately EUR 1.1 million down on the corresponding carrying value. The fair value of the remaining assets and liabilities largely corresponds with their carrying value.

16 RELATED PARTY TRANSACTIONS

Services were rendered for Stefan Dräger and companies related to Stefan Dräger, the Dräger-Stiftung and the Dräger-Familienstiftung (Dräger Foundation and Dräger Family Foundation) totaling EUR 15 thousand (6 months 2015: EUR 37 thousand) in the first half of 2016. Receivables in this respect amounted to EUR 4 thousand as of June 30, 2016 (June 30, 2015: EUR 1 thousand).

Drägerwerk AG & Co. KGaA rendered rental services and other services totaling EUR 66 thousand (6 months 2015: EUR 60 thousand) for associate MAPRA Assekuranzkontor GmbH in the first half of 2016. Receivables in this respect amounted to EUR 2 thousand on June 30, 2016 (June 30, 2015: EUR 58 thousand); there were no liabilities.

The disclosure obligations also apply to the close family members of related parties according to IAS 24. In 2016, this applies to Claudia Dräger, who is actively employed by the Dräger Group. Her employment contract was concluded at arm's length terms and conditions.

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

Dräger Verwaltungs AG is the general partner of Drägerwerk AG & Co. KGaA and holds 0 percent of the capital. Only a few transactions are conducted with the general partner, as it only exercises administrative functions. The general partner is entitled to compensation for all expenses incurred in association with the management of Drägerwerk AG & Co. KGaA, including the contractually agreed remuneration for its executive bodies. These expenses comprise the remuneration of the Executive Board, the remuneration of its Supervisory Board, liability remuneration as well as other expenses. Liabilities to Drägerwerk Verwaltungs AG amounted to EUR 2.0 million as of June 30, 2016 (June 30, 2015: EUR 1.5 million).

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

17 SUBSEQUENT EVENTS

There were no significant changes between the end of the first six months of 2016 and the time this interim financial report was prepared.

Lübeck, Germany, July 26, 2016

The general partner
Drägerwerk Verwaltungs AG
represented by its Executive Board

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

Management compliance statement

We confirm to the best of our knowledge that, in accordance with the applicable financial reporting framework for the interim financial statements, the group interim financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, the group interim management report presents business performance including business results and the situation of the Group so as to give a true and fair view, and that the material opportunities and risks relating to the Group's development in the remaining fiscal year have been described.

Lübeck, Germany, July 26, 2016

The general partner
Drägerwerk Verwaltungs AG
represented by its Executive Board

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

FINANCIAL CALENDAR

Report as of June 30, 2016, Conference call	July 28, 2016
Report as of September 30, 2016, Conference call	November 3, 2016

Drägerwerk AG & Co. KGaA
Moislinger Allee 53 – 55
23558 Lübeck, Germany
www.draeger.com

Corporate Communications
Tel. + 49 451 882 - 3998
Fax + 49 451 882 - 3944

Investor Relations
Tel. + 49 451 882 - 2685
Fax + 49 451 882 - 3296