Dräger

DIVERSITY

ANNUAL REPORT 2012

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DIVERSITY

TECHNOLOGY FOR LIFE

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

"Technology for Life" is the guiding philosophy. Whether in the operating room, in intensive care or emergency response services, Dräger products protect, support and save lives.

Dräger offers its customers anaesthesia workstations, medical ventilation, patient monitoring as well as neonatal care for premature babies and newborns. With ceiling supply units, IT solutions for the OR, and gas management systems the company is at the customer's side throughout the entire hospital.

Emergency response services, law and regulatory enforcement and the industry trust in Dräger's integrated hazard management, in particular for personal protection and plant safety. This includes: respiratory protection equipment, stationary and portable gas detection systems, professional diving equipment and systems, as well as alcohol and drug impairment detection. In collaboration with its customers Dräger develops customized solutions, such as entire fire training systems, training concepts and workshops.

Dräger has about 12,500 employees worldwide and is currently present in more than 190 countries. The company has sales and service subsidiaries in over 40 countries. Its development and production facilities are based in Germany, Great Britain, Sweden, Czech Republic, South Africa, the USA, Brazil and China.

DRÄGER WORLDWIDE

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

Dräger employs approximately 12,500 people worldwide and is active in more than 190 counties across the globe. The company has sales and service subsidiaries in over 40 countries. Dräger has development and production facilities in Germany, the UK, the Czech Republic, Sweden, the USA, Brazil, South Africa, and China. As of December 31, 2012, 6,695 Dräger employees were working outside Germany.

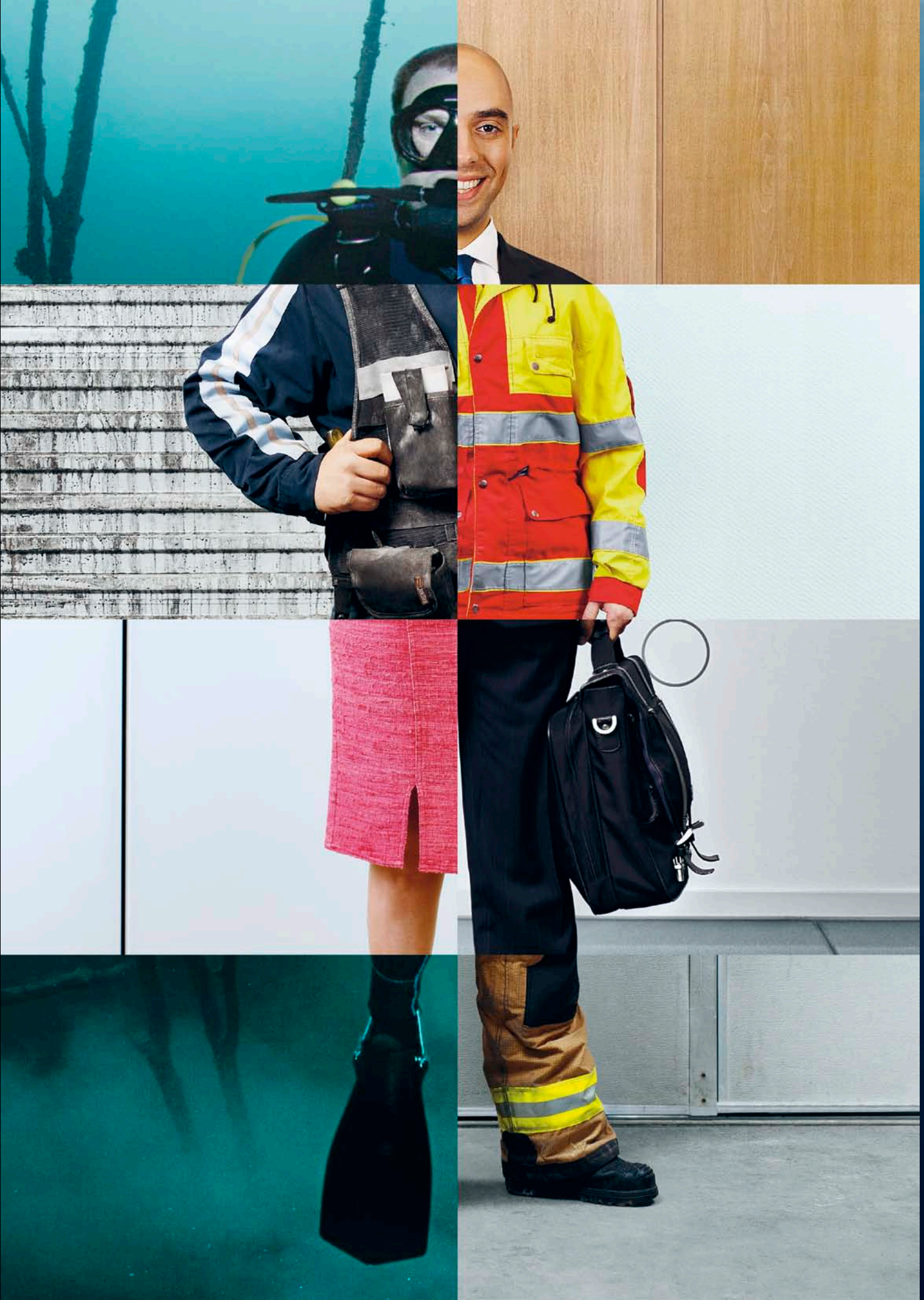
Headquarters Sales and service organizations Production plants Logistic centers

WE DON'T JUST PAY LIP SERVICE TO DIVERSITY. IT'S PART OF WHO WE ARE.

Diversity is the buzzword of the day – both in the public sphere and in businesses. Almost everyone has an opinion on what diversity is, or should be. The focus is often on differences in regard to gender or nationality. For us, diversity is much more than that. It's part of who we are, and it's one of the Company's essential characteristics.

Dräger is active in a wide range of business fields. This means dealing with differences is part of everyday life. We work for a broad spectrum of customer groups who all have different individual needs. We do everything we can to get to know our customers and to learn about what makes them special. We do that by listening to them and never assuming that we know everything there is to know. Creative talents of different nationalities shape our Company and enrich our ideas with their experience. What we learn is reflected in our products and services. We offer an extraordinarily wide range of products, which is what makes our business stable. We also use different business mechanisms to suit each customer, from the sale of individual products to rendering services and complete system solutions that we develop specifically for the customer. Our technology is used around the world and we have an on-the-ground presence for our customers in all major countries.

Our business is diverse, and so are the people we encounter. In this report, we introduce twelve people, each with a different relationship to Dräger – whether as a customer, an employee or a specialist retailer. Each of them faces his or her own very personal challenges. What unites them is their enthusiasm for what they do.



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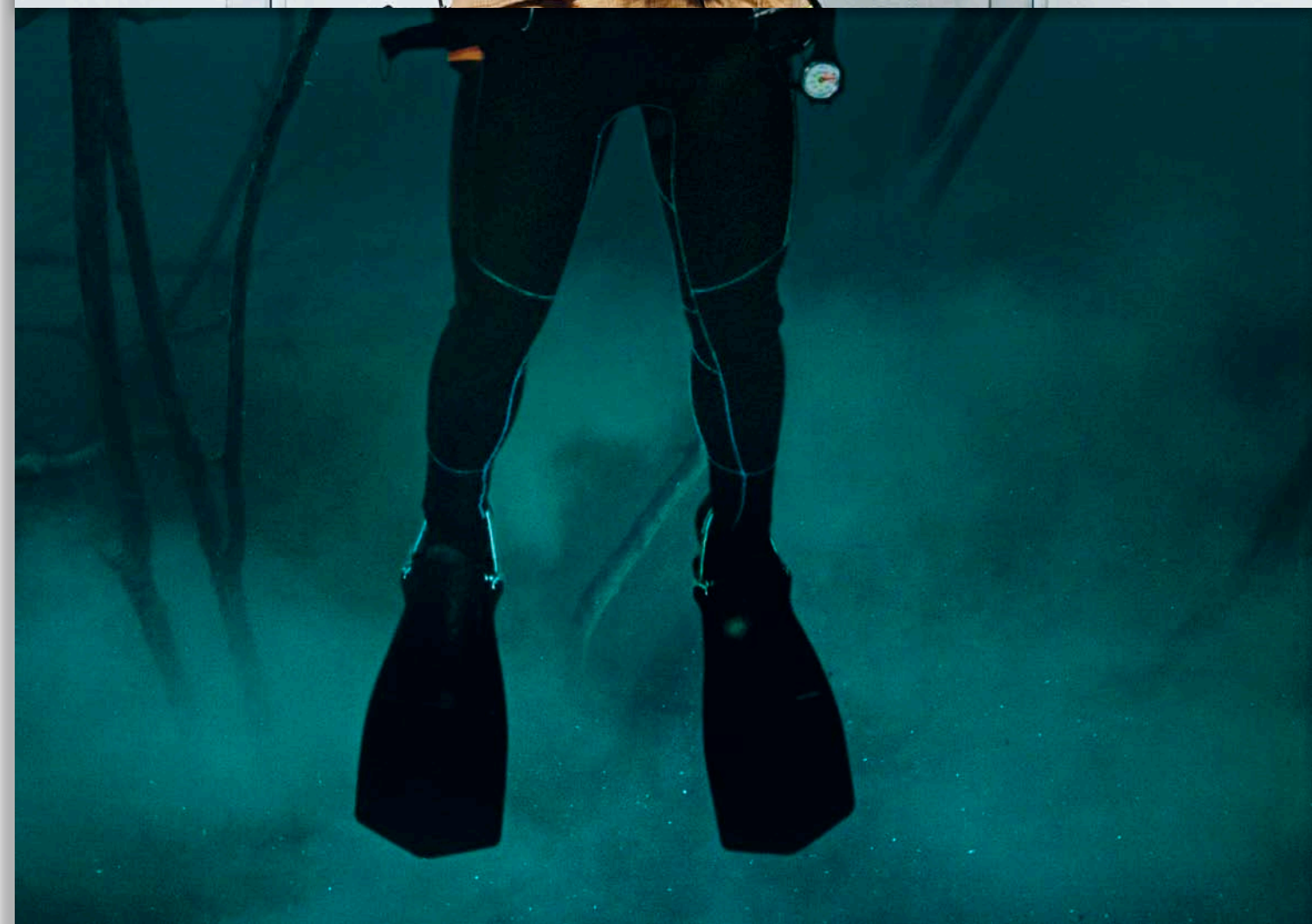


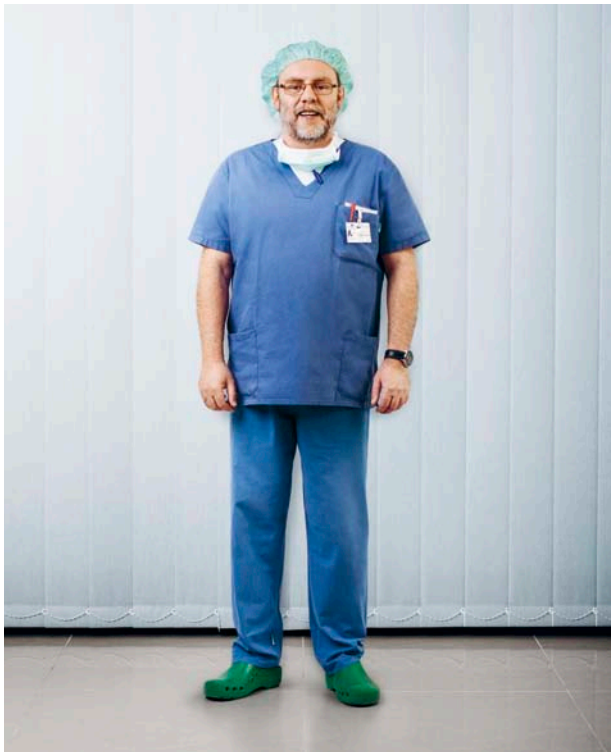
NICOLETTA CALABI, ITALY
Sales & Service Director, Draeger Medical Italia SpA

As President Sales, Service and Marketing, it is my job to deal with the requirements of the future every single day. It's very enjoyable. A major part of my work is recognizing market changes at an early stage and acting accordingly.

Of course, the current economic situation in Italy presents a huge challenge for us. The Government must make savings and, therefore, has less money to spend. This is something that will have long-term implications on the health sector here. However, I am still confident that we are perfectly equipped to deal with these challenges. Why?

I have been working for Dräger for twelve years now. I love it here because Dräger and I share the same values. We all believe that people with curiosity and courage are what inspire our work and that teams benefit from a variety of opinions and strengths. I am a good example: As a woman in a position of leadership, I am not a common occurrence in Italy. In my Country only around five percent of managers are female. But in a homogenized environment, it is difficult to recognize and seize opportunities. I see openness as a key factor in the company's success.

In Italy, we have to focus particularly on using our technology to make hospitals more efficient. I am sure that we have the potential to find the best possible solution for both sides of the equation – for our customers and for our company.



MICHAEL BRUMM, GERMANY
Head Nurse Anesthetist, University Hospital Bonn

I have been a male nurse for 40 years. During an internship in a hospital, I quickly realized that I was interested in the combination of professional and personal challenges the profession involves. That was the critical factor when it came to making the decision of what I wanted to train as.

A great deal has changed in the profession since then. In nursing, as in other areas, there is a growing tendency to specialize. The jack-of-all-trades is a thing of the past. This means it is an important goal for me as a nursing manager to make sure that staff have good training opportunities and that they have access to help if problems come up, because that is the only way to make sure our patients are well cared for.

Continuous training is a standard part of the job for me. Our job involves a lot more than just working through a checklist of tasks. The human element is an essential part of it. Looking back on my career up to now, there is one thing that I can safely say has never changed: As nurses, we have to be able to look after patients in the situation they find themselves. We deal with sick people who have been taken out of their usual safe, comfortable social setting. As nurses, we often act as mediators and give guidance. That's a big responsibility. And it's also the most important thing that I would tell young people about the job.

ARI AKRAWI, SOUTH AFRICA
Dräger trainee in the Region Middle East / Africa

There have been many places I have called home over the course of my life. I was born in Iraq, but had to move to Austria with my family when I was eight. I still feel a strong connection to the Middle East. Nowhere else is there such a stark difference between people and cultures, even though they live relatively close to one another.

I knew that I wanted to embrace my roots in my professional career. That's why I looked for an employer that appreciates my vita while I was studying in the UK. There was one aspect of Dräger I found fascinating from the very start: How can a family-run company from a small city in Germany be so successful around the world? That's only possible if you are open and willing to give your all wherever you are in the world. That's why I chose the Dräger Graduate Program.

I am employed in the regional office in Dubai. There alone, I work together with people from more than ten different countries. After working in Lübeck and Dubai, I am now in South Africa supporting colleagues from service and sales. As a graduate, I have been able to gain an incredible amount of experience and expertise within a short space of time. That's exactly what I have always wanted.

When the graduate program comes to a close, I will be responsible for specialist retailers in four to six countries as an Area Manager. It's an incredibly exciting challenge that I am already looking forward to.

MARIA BUCKSTEEG, GERMANY
Paramedic, Wesel fire service

I love the extremely varied nature of my job. One minute we're on an emergency call-out where every second counts, the next minute we're helping an old lady who can't make it to the hospital on her own and who tells me her life story on the way. Basic help and understanding are the skills I need in those situations. If, later on, the lady remembers that she had a nice chat and that makes her feel more secure, then I feel I have achieved something.

Everything I do is important to me, and I want to do my bit to make sure that paramedics are as well prepared as possible for every scenario. That's why I take part in "moulage" exercises for emergency response training. You might ask what that involves: I create realistic-looking wounds on actors so that paramedics can use them as training patients. I also often take part as an actor. This type of training is very educational, as trainee first responders have to look after real people who directly react to them. The more realistic the wounds look, the more helpful it is to trainees. Anyone who has seen and treated an imitation wound will react very differently in a real situation. The shock is not so great, so they can start helping straight away.

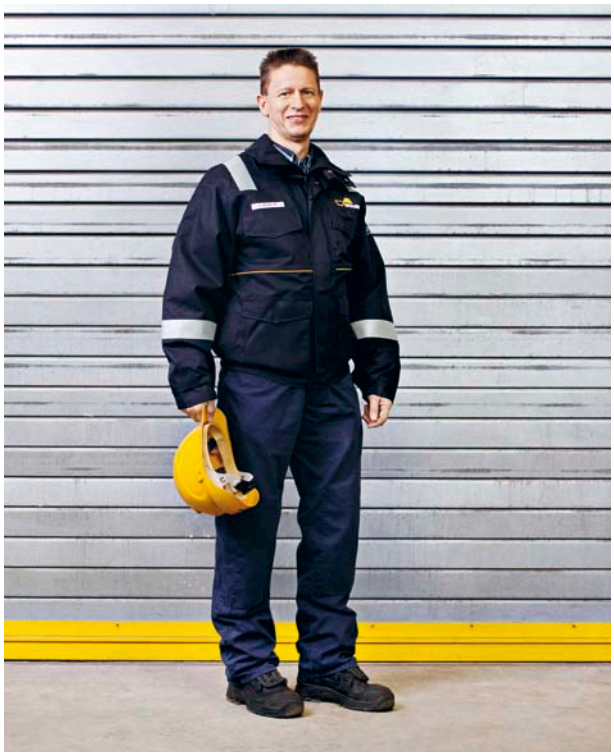
I train using this method too, and it leaves a big impression on me every time. I can hardly remember the first classroom lesson during my training, but I'll never forget the first imitation wound that I had to treat.

COLIN ALTMAN, USA
Fire Chief, Miami Township Fire-Rescue, Ohio

As Miami Township Fire-Rescue we respond to emergencies in a 24 square mile area. We are responsible for the safety of the 6000 residents and over one million annual visitors. I serve as the head of the department and provide administrative and operational direction. I manage the budget, plan, make purchases and respond to fire and medical emergencies. I love this variety and the ability to make a difference. And I get to work with some fantastic people every day. These are the things that make this a great job.

We like working with fire service products from Dräger because they are well made and intelligently designed. They seem well thought out and take into account how they will actually be used. Firefighting is a tough job and firefighters can be extremely hard on their equipment. Dräger products are able to function in dangerous situations and withstand rigorous use.

Maintaining an adequate number of well-trained firefighters and emergency medical technicians is the biggest challenge I face. We have to constantly foster an atmosphere and culture that promotes professionalism while having a good time. We believe that by bringing together people with different backgrounds and beliefs, we're better able to serve our community. Our community is a diverse one and we feel it's important to reflect that in our makeup.



COR BUSKOP, NETHERLANDS
Senior Safety Supervisor, Mourik B.V., Rotterdam

Mourik is a Dutch family-run company with over 80 years of experience. Our services include major construction projects, civil engineering and industrial cleaning. I work in a division that carries out mechanical repairs and maintenance on industrial machinery during shutdowns. For example, we empty and clean tanks and pipelines in oil refineries.

The bigger the project, the more exciting it is for me. When we work on oil tanks, for instance, there is a lot to keep in mind. There are different requirements for every different type of plant, for a start. As well as that, I have to supervise the people working on the project. Everyone concentrates on his or her own task within a project, which is natural. I have to make my colleagues aware that there is nothing more important than their lives and their health. For every job we do, there are ways to protect ourselves – using the right equipment. I make sure that we use the most state-of-the-art safety equipment and that every employee has been fully trained to use it. This requires my full commitment and a lot of motivation. I make the safety plans and provide support to my colleagues so they can follow them. That's the only way to make sure that we are all on the same page in terms of safety.

Every project is of course different from the last, which means no two working days are the same for me. But, at the end of the day it is always a great feeling for all of us to know that together we have successfully completed a major task.

ALEXANDER VOGT, GERMANY
Risk management expert, Dräger Lübeck

Safety is an important topic for me. In the same way that Dräger products protect people, I help protect Dräger's safety through my work – the safety of our company, our colleagues and our products.

A major part of my job involves keeping an eye on the risks that affect the company, so that we can develop risk management measures for different scenarios in good time. Safety during business trips is another important topic. We keep a constant eye on where our colleagues are around the world. In emergencies, they can get advice and help on the Dräger Travel Card, for example.

The desire for safety is at its strongest when we are in situations that are unsafe. I know how that feels. I've been a volunteer firefighter for years, and I help to train new recruits. Helping people to escape from emergency situations is a great feeling. It also teaches you a lot about yourself, not least about how to entrust your life to your equipment. I couldn't do that if I didn't feel that I could rely on the technology one hundred percent. That applies both to my work as a firefighter and to my second passion, diving. I fell in love with the sport straight away, because there is always something new to discover. And, best of all, I always feel safe, because I have total faith in my Dräger equipment. That's my own, very personal, relationship with our products.

GLENN EDWARDS, GERMANY
President Corporate Intellectual Property, Dräger Lübeck

I started working for Dräger in the USA. It was a unique and interesting opportunity for me. Dräger has a great history in technology and intellectual property from the beginning of the company formation – I am really impressed with how important research and development is to the company, and the investments made therein. I am proud to have the opportunity to help protect this innovation.

This is accomplished by obtaining rights such as patents, trademarks and copyrights. And of course, on some occasions, we enforce our intellectual property rights against others who use our intellectual property without legal authorization. The value of intellectual property to a company is much higher today than it was in past years since competition is more aggressive. The real challenge for us is to be more strategic in this area so that potential risks to the business are identified early, avoided and mitigated.

Since I have started at Dräger, my responsibility for intellectual property became more and more global. One and a half years ago, it was necessary for me to relocate from the US to Lübeck. I like living in Germany because it has given me the opportunity to learn so much more about the German culture and to be more effective in my role. This is a great experience for my wife and I to share with our children. And what I love most: I work with very smart and creative people every day. It is a joy to help protect the great ideas of my Dräger colleagues.

BRANDON TRIPLETT, USA
Safety Manager, Arch Coal Inc., West Virginia

Mining and Dräger go back a long way together in the US. Mine rescue workers were already wearing Dräger respiratory protection devices more than 100 years ago. The company name was always printed clearly on the equipment, which is probably the reason why mine rescue workers in the US were dubbed "Draegermen". This is an officially accepted term – you can find it in the dictionary. Many are proud to be a "Draegerman" and to help save people's lives.

I'm also in this tradition. My current position is safety manager for Arch Coal, Inc. at their Leer Mine. There are four active sections to our mine. I am responsible for all safety and compliance activities at the operation. I make sure that everyone on the site observes regulations, which in turn protect my colleagues. Of course, my job includes keeping bang up to date and making sure we offer the best possible protective equipment.

It's not easy to be innovative and to come up with new products in an industry that changes so slowly. I see that as my biggest challenge. Dräger products for miners help me with this because they are often a step ahead of the times. Dräger stays in close contact with its customers, so the company is always up to speed on what will be in demand in the mining industry in the future. That's something I really appreciate.

ULRIKE SCHMIDT, GERMANY
Operative Purchaser, Dräger Lübeck

I've worked for Dräger since 1984. After my training as a salesperson, I applied to Dräger on spec. The main thing I wanted at the time was a secure job, and I thought Dräger could give me that.

In fact, I got a whole lot more than that from Dräger. I've been working here for a very long time now, but I've never been bored. There have always been new challenges over the years. I originally started out in production, where I assembled and packed personal protective equipment.

My managers recognized my strengths and helped me to use them well. After a while I was promoted to Team Assistant and moved into Operative Purchasing. Dräger gave me every opportunity for professional development, which is something I hugely appreciate.

Every new day at work is exciting and varied: Sending out orders, following up delivery dates, explaining drawings, issuing delivery notes and processing bills. I'm in close contact with our suppliers and colleagues from other departments, and I love that part of the job.

And recently I have even taken over another task: I am now also responsible for the logistics and planning of our compressed gas containers.

DR. JING CANG, CHINA
Anesthetist, Zhongshan Hospital

Our hospital has 1,700 beds. In 2011 alone, we treated 75,000 inpatients. Anesthesia plays a very important role in operations and other therapy. Our work is very demanding; we constantly have to make use of all our expert knowledge and must remain highly focused at all times. Proper anesthesia makes a decisive contribution to the well-being of our patients.

That's why we are always thinking about what we can do to improve. Of course, we need reliable, robust anesthesia equipment. Technology is very important for our work, and it must be absolutely dependable. Complete solutions for the operating room that are tailored to the way we work are also a great help. Technology should support us, not hold us back. That's why the manufacturer has to understand exactly what happens during an operation.

Dräger solutions provide great help with our daily work in the operating rooms. Anesthesia equipment and ventilators, patient monitors and ceiling supply units – all these devices run smoothly so that we as anesthetists can do the best for our patients' health.

OMER FITTIANI, KUWAIT
Specialist retailer, Central Circle Co., Kuwait City

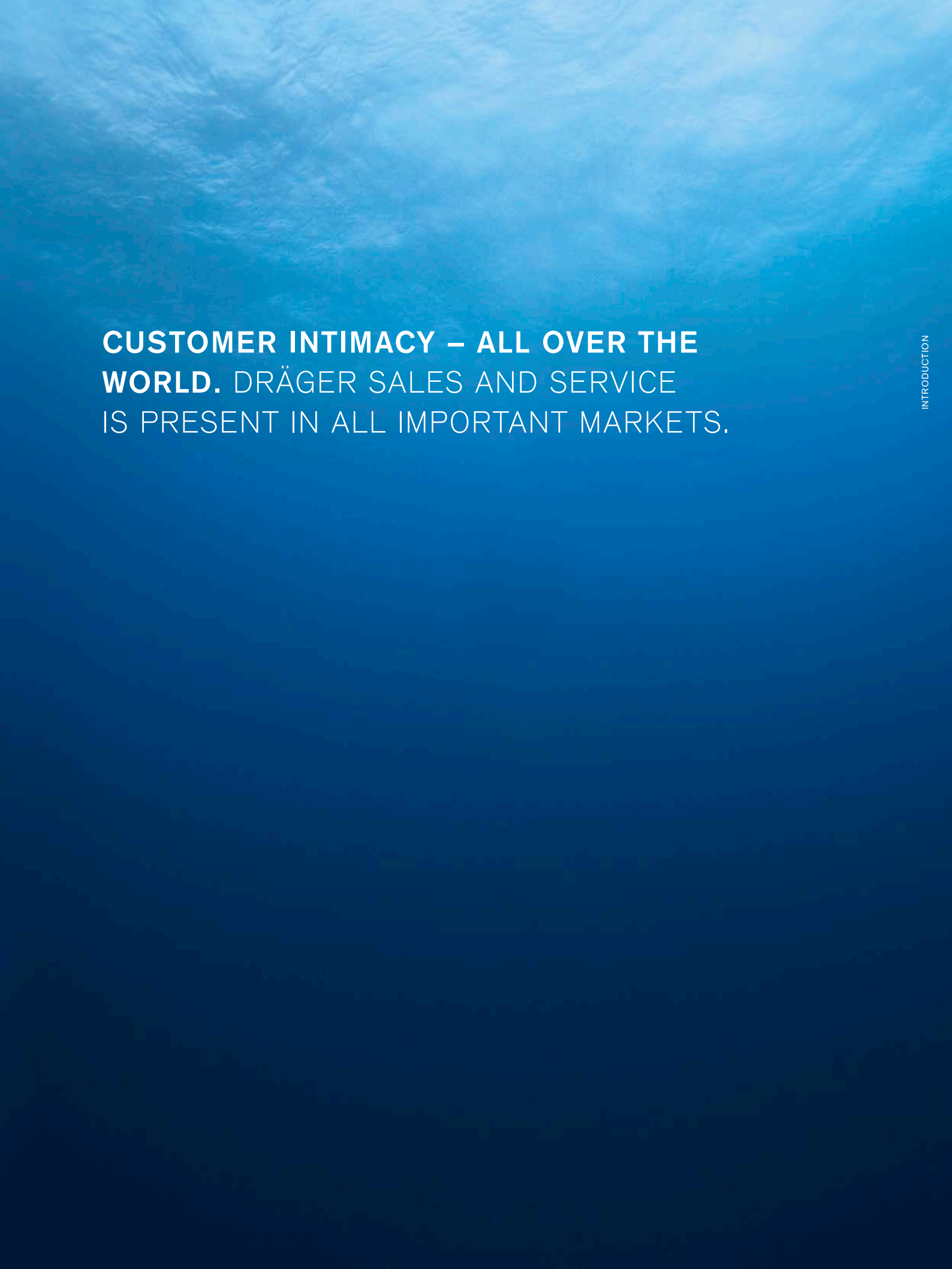
Born in Jerusalem, I moved to Kuwait at the age of 23. Kuwait is geographically relatively small, but it is incredibly diverse and international. This contrast fascinated me and is the reason I became an independent specialist retailer in 1979.

Today I sell and distribute medical equipment in Kuwait together with my 110 employees. We offer the complete range of products from a variety of manufacturers. Our wide range of system solutions compensates for the fact that we operate in such a small region. For example, I am proud to have been the very first person to sell an ultrasound device in Kuwait.

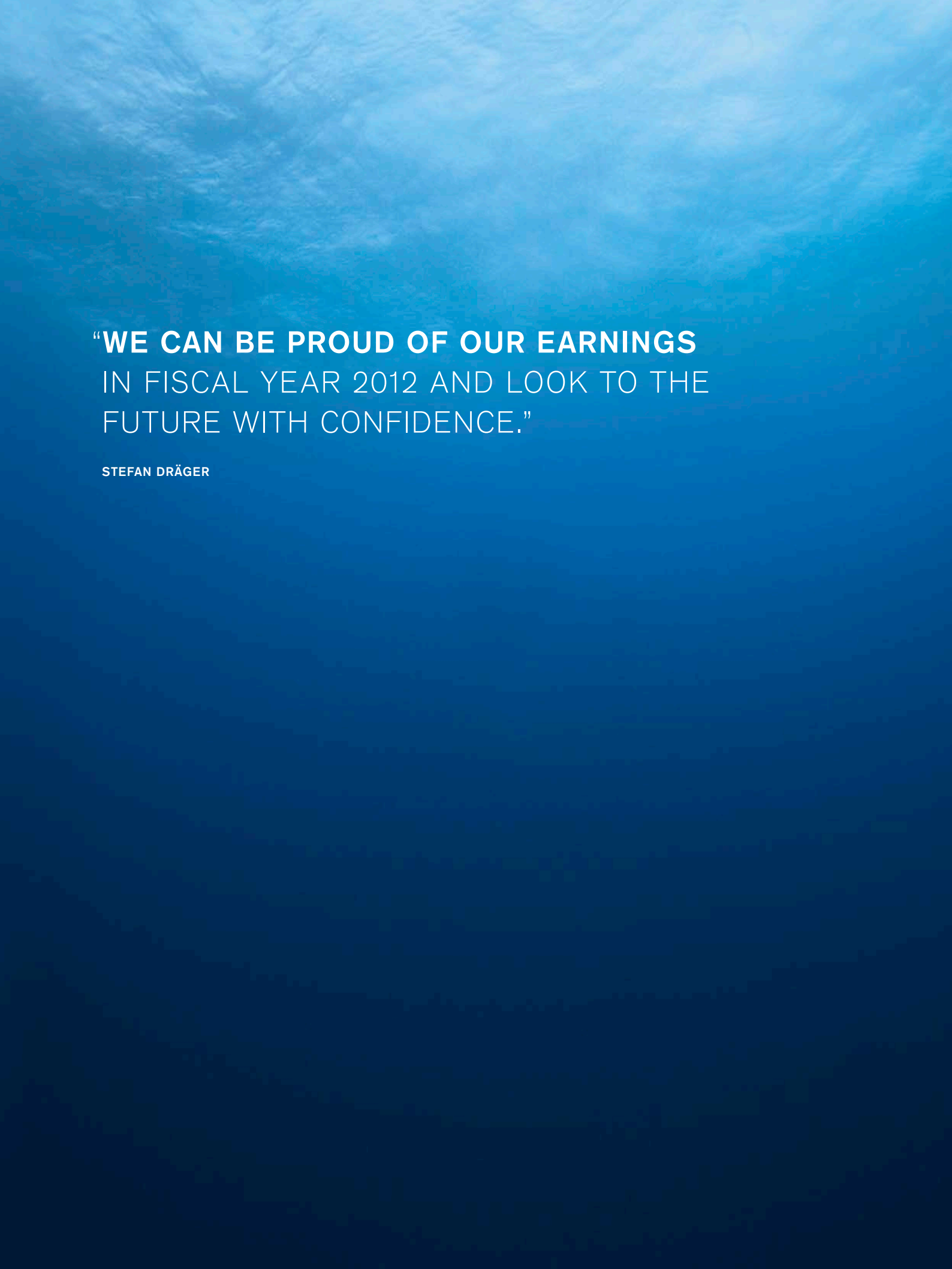
Dräger products are not only interesting to our customers because of their outstanding technology. The fact that the company has a long tradition and is family-run also has great value. I don't primarily see myself as a salesman. I am more of a father figure and advisor to my employees. My job is to recognise and promote their talent. That's the only way we can offer our customers the best possible service and maintain our excellent reputation. Of course it is a pleasure to see my company continue to grow. But what makes me happy above all is the knowledge that I can help doctors and patients with the latest medical technology. Even though I have reached an age when others probably think about retiring, I don't see work as a chore – rather as a blessing, allowing me to stay active and creative every day.

Expression of thanks: Dräger would like to thank those who supported the annual report's "Diversity" photo concept, both for their courage to pose in front of the camera and for their creative input during the shoots, which often took place in the middle of the working day at employees' workplaces.

These twelve customers, employees and specialist retailers authentically showed Dräger photographers the true meaning of diversity at Dräger on behalf of many other people all around the world. These are people from all walks of life linked by a common passion for "Technology for Life".



CUSTOMER INTIMACY – ALL OVER THE WORLD. DRÄGER SALES AND SERVICE IS PRESENT IN ALL IMPORTANT MARKETS.



“**WE CAN BE PROUD OF OUR EARNINGS** IN FISCAL YEAR 2012 AND LOOK TO THE FUTURE WITH CONFIDENCE.”

STEFAN DRÄGER

Dear Shareholder, dear Employees, dear Reader,

2012 was the third record year in a row for our company. In terms of order intake, net sales and earnings, we once again generated an increase compared to the good prior year. We reached most of the targets we set for ourselves and even went slightly above and beyond in some places. That is something we can be proud of. After all, we managed this despite slowing global growth momentum and also despite large investments in securing the future potential of our company.

TARGETS REACHED

Our order intake increased by 4.9 percent in fiscal year 2012, and net sales went up 5.2 percent. The weak euro helped us somewhat. Net of currency effects, we increased order intake by 2.2 percent and net sales by 2.5 percent. This put us slightly below the global economic growth, which we had used as a benchmark in our forecasts. In terms of the EBIT margin, we even finished slightly above the forecast bandwidth, thanks to the favorable product mix and lower costs in the fourth quarter. We also reached our own target when it came to Dräger Value Added (DVA), our most important key management figure. We were able to increase DVA by 11.2 percent to the new record figure of EUR 149.7 million.

Last year, we made the holders of Dräger participation certificates a buyback offer with the aim of improving our capital structure. In the future, we want to concentrate on shares as a key refinancing instrument. I am pleased that our offer was so successful: In total, we were able to buy more than 41 percent of the outstanding participation certificates. As a result, our shareholders will be able to benefit even more from the added value we earn. Earnings per share increased as a result of the buyback. This year, we want to make our employees the offer to benefit directly from the success of their company by buying employee shares. The program will start in Germany, but, in the years to come, all employees worldwide shall gradually receive this opportunity, to the extent permitted by law.

STEFAN DRÄGER

In view of the volatile market situation and economic uncertainties, we decided last year to aim for an equity ratio of at least 40 percent. Until we have reached this threshold, we will distribute only 15 percent of Group net profit (less earnings attributable to non-controlling interests) instead of 30 percent. In the past fiscal year, the equity ratio improved slightly to 34.6 percent, despite the buyback of participation certificates and the burdens of the re-evaluation of the actuarial interest rate for pension provisions. We will therefore propose a dividend of EUR 0.86 per common share and EUR 0.92 per preferred share at the annual shareholders' meeting on May 3, 2013.

FOUNDATION FOR THE FUTURE SET

In 2012, we implemented the functional structure of our company on a worldwide basis. This is a governance structure we have given ourselves to manage our company and

our business. Our goal is to become a global organization with a highly integrated network. We want to be even better at sharing our knowledge beyond borders.

Diversity, the motto of this year's annual report, is a pivotal element for Dräger. At Dräger, diversity doesn't just include 14 production sites in 10 countries, business activities in more than 190 countries around the world or our over 12,500 employees from a total of 49 countries. Diversity also describes the different markets in which we are active and the various customer groups with their varying needs. This diversity results in very different business models. Diversity makes us strong and robust. But it also creates a complexity that we have to master in order to make the most out of the opportunities that result.

For some time, we were busy working on a new marketing strategy and sales structure. This took longer than originally planned, which in itself was mainly due to the diversity of our business. We implemented the new sales structure in 2012. The new marketing organization went live at the start of the new fiscal year. It will put us in a position to understand our markets even better, recognize changing customer requirements early and serve with innovative product solutions. Dräger is Technology for Life. Life is change. And our new structure is made for change and growth.

SIGHTS SET ON THE FUTURE

Despite our joy and pride in light of what we have achieved, we must not close our eyes to the challenges that lie ahead of us. For instance, we have to admit that our order intake profited from a weaker euro. Net of currency effects, we only grew by 2.2 percent last year. Weaker global economic growth and the recession in some European countries left quite a mark. This means we are starting off 2013 without a tailwind. Our goal of approximately matching the prior year's growth is therefore quite challenging. After all, even though the euro crisis has since grown less acute, and even though some economic indicators have recently improved, the forecasts for the current year are still generally characterized by great uncertainty. It is therefore all the more important that we are already on new footing in Sales and Marketing. We expect additional impetus for our business from this as well as efficiency gains from the One Dräger structure.

We also have to continue investing in our company's future potential. We want to continue driving the globalization of Dräger while further expanding our sales as well as research and development, especially in growth regions such as China. This is the only way we can take full advantage of the growth potential of this emerging country. We will also deliberately shoulder high costs for research and development this year. We do this with the clear aim of further strengthening our innovation competence, thereby taking advantage of additional growth opportunities in the medium term and achieving a rise in profitability.

I would like to take a moment to extend my sincere thanks to our employees for their commitment. The good result in fiscal year 2012 is your achievement, and I look forward to continuing to work successfully with you.

We look with confidence toward the future and all its challenges. We want to master them and will. Our company looks back at a long, successful history and is approaching yet another anniversary – this time, our 125th. Our goal remains the same as it ever was: First choice for customers, employees and shareholders.

Best regards,

Stefan Dräger

DRÄGER HAS BEEN DEVELOPING "TECHNOLOGY FOR LIFE" FOR ALMOST 125 YEARS NOW. THIS TECHNOLOGY PROTECTS, SUPPORTS AND SAVES LIVES.

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Executive Board

Forward-looking, responsible leadership is fundamental to Dräger's corporate culture. The four members of the Executive Board are dedicated in realizing a sustainable increase in corporate value, pursuing that objective with openness, passion and high standards.

STEFAN DRÄGER

Stefan Dräger is the fifth generation of the Dräger family to lead the company. He has been with Dräger since 1992 and became Chairman of the Executive Board in 2005.

ANTON SCHROFNER

Anton Schrofner manages Production, Logistics and IT. He joined the Company in September 2010.

DR. HERBERT FEHRECKE

Dr. Herbert Fehrecke joined the Company in 2008. He is Vice Chairman of the Executive Board, responsible for Purchasing, Quality and Research and Development.

GERT-HARTWIG LESCOW

Gert-Hartwig Lescow has been responsible for Dräger's Finance function since 2008.

Report of the Supervisory Board

Dräger looks back on a successful fiscal year 2012. The Supervisory Board continued its trusting working relationship with the Executive Board, dealing in detail with the Company's economic situation and prospects. The Supervisory Board was involved in all decisions directly and in time.

Dear Shareholders,

The company also developed very well in 2012 from the perspective of the Supervisory Board. Dräger achieved to the greatest extent the targets published at the beginning of the year. The increase in Group net sales (net of currency effects) only approximated global economic growth rates, which were taken as a guideline. However, this increase must be taken against the backdrop of weak economic growth in Europe, which is still where Dräger generates more than half of its net sales. Investments to secure the company's future sustainability were significantly increased again last year. This meant there was a marked increase in expenditure on research and development, for example. What is even more positive is that Dräger's profitability did not suffer as a result, and at 9.7 percent, the EBIT margin for the full year was higher than the published target range of 8.0 to 9.5 percent. The company took an important step towards the reorganization of its capital structure in 2012 with the successful buyback of 41.1 percent of its participation certificates. By doing this, Dräger reinforced the share as its long-term refinancing instrument, and can offer its shareholders even more attractive interest on capital. The new sales structure that was introduced last year provides greater efficiency and opens up further opportunities for growth. The new marketing organization that was put in place early in the new year should also provide a significant boost to further net sales and income growth.

The Executive Board has set target net sales growth of two to four percent for 2013, a similar level to last year, and wants to achieve an EBIT margin of between 8.0 and 10.0 percent. This is however dependent on stable growth in those markets that are relevant for Dräger, and on exchange rates remaining unchanged. The Supervisory Board considers that this estimate is realistic against the background of only moderate growth rates within the global economy and the ongoing economic problems in a number of European countries. For 2014, the Executive Board forecasts net sales growth to outperform market growth in both divisions and the Group EBIT margin to increase compared to 2013, providing the Company's relevant markets continue their positive performance. The Supervisory Board also deems this prognosis to be realistic in view of the structural improvements carried out and will closely cooperate with management in monitoring the defined milestones and goals.

In the past fiscal year, discussions continued to focus on the Company's functional orientation, its long-term strategic targets and its regional growth options. Discussions also focused on the development and launch of new products, and the introduction of the new marketing organi-

PROF. DR. NIKOLAUS SCHWEICKART

zation planned for January 1, 2013. The Supervisory Board also reviewed the concluded buyback of participation certificates as well as their redemption at several meetings.

In fiscal year 2012, the Supervisory Board carefully and regularly monitored the work of the Executive Board of the general partner in accordance with the law and the articles of association, and provided advice on the strategic development of the Company as well as all major measures. The Supervisory Board was involved in all decisions of importance to the Company. The extensive written and oral reports by the Executive Board formed the basis for these decisions. Also outside of the Supervisory Board meetings, the Chairman of the Supervisory Board was regularly informed by the Chairman of the Executive Board about current business developments and major transactions.

MEETINGS

In four regular meetings and one special meeting, the Supervisory Board dealt in detail with the business and strategic development of the Dräger Group, the divisions and their German and foreign subsidiaries, and intensively advised the Executive Board on such matters. If neces-

sary, individual points on the agenda were discussed without the Executive Board. Supervisory Board member Walter Neundorf, representative of the executive staff, took over a General Manager position at two subsidiaries in China on May 1, 2012. Since that date, his seat on the Supervisory Board has been suspended in accordance with Sec. 105 (2) AktG. A replacement member has not been appointed. In addition, no member took part in less than half of the Supervisory Board's meetings.

FOCAL POINTS OF THE SUPERVISORY BOARD DELIBERATIONS

The Group's development, particularly the future functional orientation, was one of the focal points of the discussions. Another main topic was the development and launch of new products.

The medium-term planning and the planning presented for fiscal year 2013 was approved by the Joint Committee, which is responsible for approving the catalog of transactions requiring approval, in its meeting on December 13, 2012. These deliberations focused on research and development, planned product launches and cost development. Additionally, the Executive Board gave an overview of the Company's financing.

The Supervisory Board of Drägerwerk Verwaltungs AG, which acts as the general partner, and the Joint Committee approved the transactions requiring approval after careful consideration of the documents provided by the Executive Board.

ACTIVITIES OF THE AUDIT COMMITTEE

The Audit Committee held three meetings and three conference calls in the year under review. Representatives of the statutory auditor, the internal audit department and Compliance generally participated in these meetings. At its meeting on May 4, 2012, the Supervisory Board appointed Supervisory Board member Siegfrid Kasang to the Audit Committee for the duration of Supervisory Board member Walter Neundorf's absence.

At its meetings, the Audit Committee reviewed the single entity and Group financial statements, the quarterly reports, the half-yearly report as well as the profit appropriation proposal. In addition, the Committee audited and assessed the financial reporting process, the risk reporting system as well as the audit activities of the Internal Audit and the auditor. The organization of the Compliance department and its activities as well as the tax audit of the German companies were also a topic of the meetings. The Audit Committee also informed the plenary Supervisory Board of the results of its deliberations.

CORPORATE GOVERNANCE AND EFFICIENCY AUDIT

The Supervisory Board regularly deals with the application and enhancement of corporate governance principles within the Dräger Group. The declaration of conformity has been reproduced on page 46 of this annual report. We also evaluated our Supervisory Board activities in fiscal year 2012 and conducted an internal efficiency audit.

SINGLE ENTITY AND GROUP FINANCIAL STATEMENTS

The Supervisory Board appointed the statutory auditor elected by the annual shareholders' meeting, Frankfurt-based PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, to audit the single entity and Group financial statements for fiscal year 2012. Subject of the audit were the single entity financial statements of Drägerwerk AG & Co. KGaA, prepared in accordance with German Commercial Code (HGB), as well as the Group financial statements, prepared in accordance with IFRS, and the management reports of both Drägerwerk AG & Co. KGaA and the Dräger Group.

The auditors examined the single entity financial statements of Drägerwerk AG & Co. KGaA prepared in accordance with the provisions of the German Commercial

Code, the IFRS Group financial statements, as well as the management reports of both Drägerwerk AG & Co. KGaA and the Group, and issued an unqualified audit opinion. The auditors confirmed that the Group financial statements prepared in accordance with IFRSs and the Group management report conform with IFRSs as adopted by the EU.

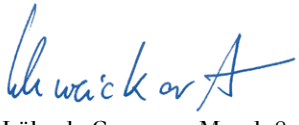
The members of the Supervisory Board carefully examined the single entity and Group financial statements and accompanying management reports as well as the audit reports. Representatives of the statutory auditor attended the Audit Committee's meeting on March 7, 2013, during which Dräger's single entity and group financial statements were deliberated on, as well as the Supervisory Board's meeting on March 8, 2013, to discuss the financial statements. These representatives reported on the performance of the audit and were available to provide additional information. At these meetings, the Executive Board explained the single entity financial statements of Drägerwerk AG & Co. KGaA and the Group financial statements along with the risk management system. On the basis of the audit reports on the single entity and Group financial statements and the management report, the Audit Committee came to the conclusion that both sets of financial statements with their respective management reports give a true and fair view of the net assets, financial position and results of operations in accordance with the applicable financial reporting framework. To do so, the Audit Committee deliberated on significant asset and liability items and their valuation as well as the presentation of the earnings position and the development of certain key figures. The Chairman of the Audit Committee reported on the discussions to the Supervisory Board. Further questions by members of the Supervisory Board led to a more detailed discussion of the results. The Supervisory Board was convinced that the dividend proposed by the general partner was in line with Dräger's dividend policy and was appropriate considering the net assets, financial position and results of operations, and approved it. The liquidity of the Company and the interests of the shareholders were taken into account in equal measure. There were no reservations concerning the economic efficiency of the Executive Board's actions.

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

CONFLICTS OF INTEREST

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

The Supervisory Board would like to express its recognition of the Executive Board for its successful work in this fiscal year. Furthermore, it thanks management and all employees, including employee representatives, for their hard work in the fiscal year 2012.



Lübeck, Germany, March 8, 2013

Prof. Dr. Nikolaus Schweickart
Chairman of the Supervisory Board

Report of the Joint Committee

Dear Shareholders,

Since the change in legal form to a partnership limited by shares in 2007, the Company has had a Joint Committee as an additional voluntary body which comprises four members of the Supervisory Board of the general partner, two shareholders and two employee representatives from the Supervisory Board of Drägerwerk AG & Co. KGaA.

The Chairman of the Supervisory Board, Prof. Dr. Nikolaus Schweickart, is the Chairman of the Joint Committee. This Committee is responsible for transactions requiring approval (pursuant to Sec. 111 [4] Sentence 2 AktG ["Aktiengesetz": German Stock Corporation Act]). The Joint Committee held four regular meetings in the reporting year and one extraordinary meeting, dealing in detail with the business and strategic development of the Dräger Group. After reviewing the documents provided by the Executive Board, the Joint Committee approved all transactions requiring authorization.

Lübeck, Germany, March 8, 2013

Prof. Dr. Nikolaus Schweickart
Chairman of the Joint Committee

Corporate Governance Report

Corporate governance at Dräger represents responsible business management. It fosters the trust of investors, customers, employees and the public. The recommendations of the Government Commission of the German Corporate Governance Code are applied with only one exception.

Dräger has always attached great importance to corporate governance as a management and control process which focuses on a responsible, transparent and long-term increase in the value of the Company. In an effort to emphasize this, we will continue to apply the German Corporate Governance Code – which is aimed at stock corporations – even after the transformation of Drägerwerk AG into Drägerwerk AG & Co. KGaA. The corporate governance report describes the features of the management and control structure of Drägerwerk AG & Co. KGaA as well as the significant rights of the shareholders and explains the special features compared to a stock corporation.

Partnership limited by shares

"A partnership limited by shares (KGaA) is a company with a separate legal personality where at least one partner is fully liable to the Company's creditors (general partner) and the remaining shareholders have a financial interest in the capital stock, which is divided into shares, without being personally liable for the company's liabilities (limited shareholders)" (Sec. 278 [1] AktG). Hence, a partnership limited by shares is a hybrid between a stock corporation and a limited partnership, with the character of a stock corporation predominating. As is the case at a stock corporation, a partnership limited by shares has a two-tier management and oversight structure by law. The general partner manages the company and its operations, and the supervisory board oversees the company's management. Significant differences compared to a stock corporation are the general partner, which manages operations, the absence of an executive board, and the restricted rights and obligations of the supervisory board. The supervisory board does not appoint the general partner or its management bodies and does not determine their contractual conditions, whereas in a stock corporation it appoints the executive board. In a partnership limited by shares, the supervisory board may not adopt rules of procedure for the company's management or a catalog of transactions requiring approval. There are also differences relating to the annual shareholders' meeting. Certain resolutions must be approved by the general partner (Sec. 285 [2] AktG), in particular the resolution to approve the financial statements (Sec. 286 [1] AktG). Many of the recommendations of the German Corporate Governance Code (hereinafter also referred to as the "Code"), which is designed for stock corporations, can therefore only be applied to a limited extent to a partnership limited by shares.

The sole general partner of Drägerwerk AG & Co. KGaA is Drägerwerk Verwaltungs AG, which is a wholly-owned company of Stefan Dräger GmbH. Drägerwerk Verwaltungs AG

manages the operations of Drägerwerk AG & Co. KGaA and represents it. To do so, it acts through its Executive Board. Drägerwerk Verwaltungs AG does not hold an equity interest in Drägerwerk AG & Co. KGaA.

Stefan Dräger GmbH selects the six members of the Supervisory Board of Drägerwerk Verwaltungs AG. They are currently identical to the shareholder representatives on the Supervisory Board of Drägerwerk AG & Co. KGaA. The Supervisory Board of Drägerwerk Verwaltungs AG therefore does not have any employee representatives. It appoints the Executive Board of Drägerwerk Verwaltungs AG.

The Supervisory Board of Drägerwerk AG & Co. KGaA, which has twelve members, is made up of six employee representatives and six shareholder representatives. Its chief purpose is to oversee the management by the general partner. It cannot appoint or remove the general partner or its Executive Board. Nor is it authorized to define a catalog of management transactions, as the general partner requires the approval of the Supervisory Board for this. Moreover, it is not the Supervisory Board but the annual shareholders' meeting that must approve the financial statements of Drägerwerk AG & Co. KGaA.

Pursuant to Sec. 22 of the Company's articles of association, Drägerwerk AG & Co. KGaA has set up a Joint Committee as a voluntary, additional body, which consists of eight members. Four members each are appointed by the Supervisory Boards of Drägerwerk Verwaltungs AG and Drägerwerk AG & Co. KGaA. The Supervisory Board of Drägerwerk AG & Co. KGaA must appoint two shareholder representatives and two employee representatives. The Joint Committee decides on the extra ordinary management transactions by the general partner which require approval as set out in Sec. 23 (2) of the articles of association of Drägerwerk AG & Co. KGaA.

Declaration of conformity

The joint declaration of conformity by the general partner and the Supervisory Board of Drägerwerk AG & Co. KGaA was discussed and approved in the meeting of the Supervisory Board on December 13, 2012. It states that the recommendations of the Government Commission of the German Corporate Governance Code were applied with one exception.

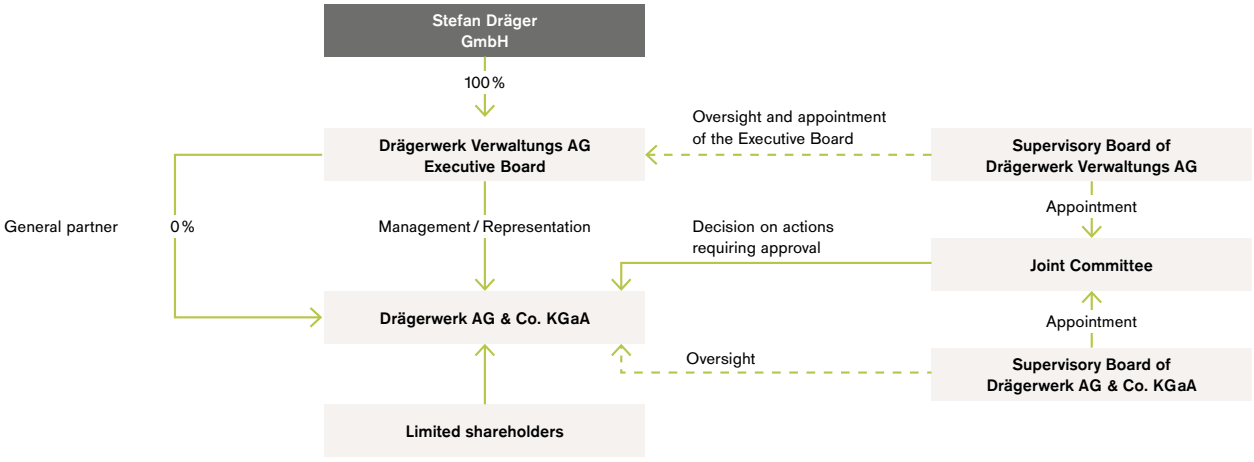
The declaration was published on December 17, 2012, with the following wording:

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

The general partner, represented by its Executive Board, and the Supervisory Board declare that Drägerwerk AG & Co. KGaA has acted on the recommendations of the Government Commission of the German Corporate Governance Code, as amended on May 26, 2010, from the date of the issue of its previous declaration of conformity on December 16, 2011 until June 14, 2012 and has acted and will continue to act on the recommendations as amended on May 15, 2012, from the date of the issue on June 15, 2012. This applies subject to the following exception:

When appointing the members of the Executive Board, the Supervisory Board of the general partner exclusively takes into account qualifications of the available persons. In this respect, the Supervisory Board of the general partner does not comply with the recommendations stated in 5.1.2. clause 3 of the Code."

DRÄGERWERK AG & CO. KGAA



SUPERVISORY BOARD

The Supervisory Board of Drägerwerk AG & Co. KGaA has twelve members, half of whom are elected by shareholders and half by employees in accordance with the German Co-determination Act. Several members of the Supervisory Board hold or held high-ranking positions at other companies. The majority of the shareholder representatives on the Supervisory Board are independent of the Company for the purposes of the Corporate Governance Code. Where business relationships exist with Supervisory Board members, transactions are conducted on an arm's length basis as between unrelated parties and do not affect the independence of the members. The Supervisory Board of Drägerwerk Verwaltungs AG has six members who are also the shareholder representatives on the Supervisory Board of Drägerwerk AG & Co. KGaA. The Supervisory Boards of Drägerwerk AG & Co. KGaA and Drägerwerk Verwaltungs AG each appoint four members to the Joint Committee.

The Supervisory Board of Drägerwerk AG & Co. KGaA resolved to apply the following objectives when selecting its members pursuant to 5.4.1 of the Code:

When proposing a new member, the Supervisory Board will be guided by the following criteria that take into account diversity:

- Professional and personal qualifications regardless of gender. In the case of equal qualifications, preference is given to females. This procedure aims to achieve an adequate proportion of women on the board;
- Business management experience in German and foreign companies with a global presence in various cultural regions;
- Experience as a representative of family-owned as well as listed companies;

- A proven track record in finance and accounting as well as in financing and capital market communication;
- Experience in marketing and sales in diversified technology companies;
- Intellectually and financially independent persons with a high degree of personal integrity who do not have a conflict of interest with the Company;
- The majority of shareholder representatives are independent members;
- Must be under 70 years of age for new election or re-election.

The Supervisory Board of Drägerwerk AG & Co. KGaA monitors and advises the Executive Board of the general partner in the management of the partnership limited by shares. The Supervisory Board regularly discusses business performance and plans as well as the implementation of the business strategy based on written and oral reports by the Executive Board of the general partner. It reviews the financial statements of Drägerwerk AG & Co. KGaA and the Dräger Group.

In doing so, it takes into account the audit reports of the statutory auditors and the results of the review by the Audit Committee. The Supervisory Board makes its recommendation to the annual shareholders' meeting for a resolution to approve the financial statements and the group financial statements.

The Joint Committee makes decisions on extraordinary management transactions by the general partner. The individual transactions requiring approval are defined in Sec. 23 (2) of the articles of association of the Company.

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

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

In addition, the Supervisory Board also established a Nomination Committee in accordance with 5.3.3 of the Code. This Committee is charged with proposing suitable candidates for election to the Supervisory Board. On this basis, the Supervisory Board compiles suggestions for the annual shareholders' meeting.

MANAGEMENT

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

In its role as managing body of Drägerwerk AG & Co. KGaA and of the Dräger Group, the Executive Board of

Drägerwerk Verwaltungs AG makes decisions on corporate policy. It determines the Company's strategic focus, plans and sets budgets, is responsible for resource allocation and monitors business performance. It also compiles the quarterly reports and the financial statements of Drägerwerk AG & Co. KGaA and the Group. It works closely with the oversight bodies. The Chairman of the Supervisory Boards of the Company and of the general partner works closely with the Chairman of the Executive Board of the general partner. He regularly provides up-to-date and comprehensive information on all issues relevant to the Company: strategy and its implementation, planning, business performance, financial position and results of operations as well as business risk. The Supervisory Board of Drägerwerk Verwaltungs AG approved the rules of procedure for the Executive Board at its meeting on May 4, 2012.

Investor relations

Drägerwerk AG & Co. KGaA has issued a total of 16,510,000 shares. These are all traded on the German stock exchanges and are divided into 10,160,000 common shares and 6,350,000 preferred shares. The Dräger family holds 71.3 percent of the 10,160,000 common shares. Dräger reports to its shareholders on business performance, net assets, financial position and results of operations in two quarterly reports, one half-yearly report and the annual report.

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

In the course of our investor relations work, the Chairman of the Executive Board and the CFO, as well as the other Executive Board members hold regular meetings with analysts and institutional investors. Besides an annual analysts' conference, conference calls also takes place when the quarterly figures are announced and for other important events.

Compliance

As an internationally active industrial company in the medical and safety business, we must fulfill wide-ranging legal and ethical requirements. It goes without saying that we comply with laws and properly apply the relevant standards and codes. We see compliance as meaning conduct with integrity and taking responsibility for our own actions. In our Dräger Compliance Program, we take into account the expectations others have of us as well as the demands we place on ourselves. The program focused on the following measures in 2012:

- We supplemented our business policies and code of conduct to include Group-wide guidelines in connection with anti-trust laws and anti-corruption measures.
- For the first time, we created an internal newsletter on compliance issues and distributed it throughout the Company; it will appear regularly in the future to continuously improve employees' awareness of compliance issues. Additionally, a so-called pocket guide to anti-trust

laws and anti-corruption measures was published internally.
- Compliance's intranet site was updated; it contains specific information as well as the contact information of the Compliance Office.
- More than 1,000 employees took part in more than 50 events on location in more than 10 countries in the reporting year. The classroom training events will be continued in 2013. In addition, online training sessions on the topics of anti-trust laws and anti-corruption measures will take place for the first time, which will make it possible to reach even more employees.
- The Helpline, which was introduced to help answer compliance questions, is now well-established. The Compliance Office has answered questions from every region via a single central e-mail address.
- A telephone whistleblower system for reporting ethical concerns and possible offenses had gone live by the end of 2012 in more than 25 countries for more than 80 Group companies; as a result, it now reaches more than 85 percent of all employees.
- We developed a new procedure for evaluating compliance risks from distribution partners and have introduced it in four regions in selected countries. The procedure is scheduled for implementation on a Group-wide basis over the course of the year.
- The Compliance Committee was stocked up by additional members from further departments and now consists of members of management from Legal, HR, Internal Auditing and Controlling as well as Sales and Service. The Compliance Committee decides, in particular, on whether to conduct investigations in light of evidence of possible compliance violations. An expansion of the compliance organization is planned for 2013. To do so, the Compliance Office, which is part of the Legal department, will receive more employees, among other things. Additionally, we also intend to allocate local compliance responsibilities in selected countries or regions.

Remuneration Report

The remuneration report also forms part of the Group management report.

EXECUTIVE BOARD REMUNERATION

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

This report provides an overview of the amount and structure of Executive Board remuneration at Dräger and outlines the joint remuneration system for the Executive Board members and the top managers in the Group (Top Management Incentive, TMI). Dräger implements the following requirements of the Act on the Appropriateness of Executive Board Remuneration (VorstAG), the Act on Disclosure of Executive Compensation (VorstOG) and the German Corporate Governance Code (GCGC):

- The remuneration structure is designed to support sustainable business performance;
- The total remuneration consists of fixed and variable components;
- The variable remuneration component is based on a long-term measurement period over several years;
- Positive and negative developments in Company value are taken into account;
- Remuneration is designed to appropriately reflect the function, the Company and the industry;
- No incentives are given that would encourage the taking of inappropriately high risks.

All Executive Board members have concluded their employment contracts with Drägerwerk Verwaltungs AG. The Supervisory Board of this company is responsible for determining their remuneration. The contracts of the Executive Board members are valid for two to five years. Since

fiscal year 2011, Dräger has disclosed remuneration of all Executive Board members individually in accordance with VorstOG. This makes it easier for us to ensure that it is possible to understand the appropriateness of remuneration in relation to the duties of individual Executive Board members and the Company's position in accordance with the requirements of Sec. 87 (1) AktG.

Since 2010, Dräger has oriented the management of the Company towards a long-term, sustainable increase in Company value. We introduced the Company-related key figure Dräger Value Added (DVA) as a key performance indicator for measuring the Company value. DVA is the result of EBIT in the past twelve months less calculated capital costs (basis: average capital employed in the past twelve months). DVA-driven management has been integrated into all management processes. The maxim of value added is particularly important for the definition of strategies, planning, regular reporting and when making investment and business decisions. Consequently, performance-related variable remuneration of the Dräger management also reflects DVA. The Company has adjusted the existing management and Executive Board remuneration systems correspondingly by setting all quantitative targets so as to have a direct and positive impact on DVA. Targets can also be defined on the basis of other key performance indicators for individual functions. Each year, the Supervisory Board sets the Executive Board members' personal targets in consultation with the individual members of the Executive Board.

In fiscal year 2012, remuneration of the Executive Board members again included up to five components: fixed annual remuneration, a DVA-based bonus, a KPI-based bonus, a bonus based on the achievement of individual targets and additional benefits.

- Fixed remuneration is paid monthly as a salary. The fixed remuneration of existing Executive Board members was determined upon their appointments or at the time their contracts were extended and have remained unchanged since.
- Variable Executive Board remuneration focuses on increasing the value of the Company. Dräger has made it its goal to increase DVA between 2010 and 2014. 60 percent to 80 percent of the variable remuneration component is dependent on achieving this goal and is therefore based on a long-term, sustainably oriented measurement period. If the target is fully met, this portion makes up around 60 percent of the remuneration of the Chairman of the Executive Board and roughly 35 percent to 50 percent of the remuneration of all other Executive Board members. If the target has been exceeded to a considerable extent, the bonus payment will be capped at double the benchmark. If the target is exceeded by more than 200 percent (300 percent maximum cap) or performance drops below 0 percent (–100 percent maximum cap), a corresponding amount is added or deducted from the bonus reserve. 20 percent of variable remuneration for Executive Board members who are responsible for operating functions (Research and Development, Purchasing, Production, Logistics, and IT) is calculated on the basis of KPIs. The targets are to relate to the areas of responsibility of each member of the Executive Board and have a positive impact on Dräger's company targets. Each year, the Supervisory Board sets KPI targets in consultation with the individual members of the Executive Board. They should not exceed five individual targets. Again, if a target has been exceeded to a considerable extent, the bonus payment will be capped at double the benchmark. If the target has been missed by a long way, the bonus is not paid at all. If the target is exceeded by more than 200 percent (300 percent maximum cap) or performance drops below 0 percent (–100 percent maximum cap), a corresponding amount is added or deducted from the bonus reserve.
- When a personal target is fully met, the corresponding variable bonus amounts to 20 percent of total variable remuneration. Each year, the Supervisory Board sets per-

sonal targets in consultation with the individual members of the Executive Board. If a target has been exceeded, the payment will be capped at double the benchmark. Again, if the target has been missed by a long way, the bonus is not paid at all. There are no plans to recognize a bonus reserve for personal targets. The Supervisory Board may choose to pay a special bonus for extraordinary performance or services rendered by individual Executive Board members.

– Fringe benefits include contributions for pension, care and health insurance premiums as well as a company car for business and private use. The use of the company car is calculated using the 1-percent method plus the benefit for trips between home address and place of work, and taxed individually. The Executive Board members are responsible for paying the incurred payroll tax. The Company has also taken out group accident insurance for Executive Board members and pays the premium for the D&O financial loss liability insurance policy, liability insurance policy and legal expense insurance policy for members of the Executive Board. In the opinion of the German tax authorities, these do not constitute part of the Executive Board's remuneration. The financial loss liability insurance includes a deductible, which has been set since 2010 at one and a half times the amount of gross fixed annual remuneration in accordance with VorstAG.

Dräger integrated a bonus reserve in the remuneration system for Executive Board members and top managers to further emphasize its sustainability. The bonus reserve is calculated over the entire target period of four years so that it is possible to compensate for cases of exceeded or missed targets. They only receive the positive net amount of the bonus reserve together with the last bonus payment in the subsequent year at the end of the target period (end of 2014 or earlier if the DVA target of EUR 165 million is achieved in fiscal year 2013). A negative amount would be carried forward to the next period. The bonus reserve therefore lets Executive Board members and top managers share in the opportunities and risks of Dräger's medium term business performance.

This incentive system aims to measure the success of Executive Board members and top managers. The absolute amount of remuneration for Executive Board members and top managers is based on each person's range of tasks, responsibilities and required abilities.

No additional amounts were added to the bonus reserve as a long-term, performance-related component for the members of the Executive Board during the year. The value of the bonus account only changed by the discounting effect of EUR 87,918 to EUR 1,940,280: Stefan Dräger EUR 705,108 (2011: EUR 673,158); Dr. Herbert Fehrecke: EUR 265,303 (2011: EUR 253,282); Gert-Hartwig Lescow EUR 780,291 (2011: EUR 744,934); and Anton Schrofner EUR 189,578 (2011: EUR 180,988).

Components with long-term incentives included in the performance-related remuneration came to EUR 1,674,455 (2011: EUR 2,913,158) for Stefan Dräger, EUR 630,029 (2011: EUR 1,096,102) for Dr. Herbert Fehrecke, EUR 849,188 for Gert-Hartwig Lescow (2011: EUR 1,419,697), and EUR 415,325 for Anton Schrofner (2011: EUR 720,563).

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

In the fiscal year, no payments were made or promised by a third party to any member of the Executive Board in relation to duties as member of the Executive Board.

EXECUTIVE BOARD REMUNERATION

	2012				2011			
	Non-performance related		Performance related		Non-performance related		Performance related	
	Fixed remuneration	Additional benefits	Variable cash components	Total	Fixed remuneration	Additional benefits	Variable cash components	Total
in €								
Chairman of the Executive Board								
Dräger, Stefan	600,000	10,384	1,948,855	2,559,239	600,000	10,254	2,492,800	3,103,054
Other Executive Board Members								
Fehrecke, Dr. Herbert	400,000	20,594	1,038,797	1,459,391	400,000	20,192	1,111,595	1,531,787
Lescow, Gert-Hartwig	400,000	22,233	982,668	1,404,901	377,708	21,984	801,563	1,201,255
Schrofner, Anton	330,000	36,116	639,695	1,005,811	330,000	35,248	774,780	1,140,028
Active Executive Board members	**1,730,000**	**89,327**	**4,610,015**	**6,429,342**	**1,707,708**	**87,678**	**5,180,738**	**6,976,124**
Members who left the Executive Board in the prior year								
Kriwet, Dr. Carla					350,000	1,808,922	1,278,832	3,437,754
Total	**1,730,000**	**89,327**	**4,610,015**	**6,429,342**	**2,057,708**	**1,896,600**	**6,459,570**	**10,413,878**

If Executive Board remuneration is paid by Drägerwerk Verwaltungs AG, pursuant to Sec. 11 (1) and (3) of the articles of association of Drägerwerk AG & Co. KGaA it is entitled to claim reimbursement from Drägerwerk AG & Co. KGaA monthly. Pursuant to Sec. 11 (4) of the Company's articles of association, for the management of the Company and the assumption of personal liability the general partner receives a fee, independent of profit and loss, of 6 percent of the equity disclosed in its financial statements, payable one week after the general partner prepares its financial statements. For fiscal year 2012, this remuneration amounts to EUR 76 thousand (2011: EUR 73 thousand) plus potentially incurred VAT.

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

The defined benefits under the pension plans offered to the members of the Executive Board are either fixed or based on the basic annual salary and years of service on the Executive Board. It is based on an annual contribution of up to 15 percent of the basic annual salary. Under the deferred compensation option, an additional annual contribution of up to 20 percent of the basic annual

PENSION OBLIGATIONS FOR ACTIVE EXECUTIVE BOARD MEMBERS (€)

	Addition 2012	Obligation Dec. 31, 2012	Addition 2011	Obligation Dec. 31, 2011
Chairman of the Executive Board				
Dräger, Stefan	802,450	1,462,069	155,356	659,619
Other Executive Board Members				
Fehrecke, Dr. Herbert	73,898	179,115	31,511	105,217
Lescow, Gert-Hartwig	206,391	309,940	24,156	103,549
Schrofner, Anton	140,931	204,108	50,001	63,177
Active Executive Board members	**1,223,670**	**2,155,232**	**261,024**	**931,562**

remuneration is possible. Stefan Dräger receives a further contribution of 50 percent from the Company on deferred compensation, but no more than 8 percent of his basic annual salary. This top-up payment is made if the Group EBIT margin equals 5 percent or more of net sales.

EUR 3,091,968.82 was paid to former members of the Executive Board and their surviving dependants (2011: EUR 3,022,224). Pension commitments to former members of the Executive Board and their surviving dependants amounted to EUR 44,566,316 (2011: EUR 36,720,320).

SUPERVISORY BOARD REMUNERATION

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

In accordance with Sec. 21 (1) of the articles of association of Drägerwerk AG & Co. KGaA, each Supervisory Board member receives compensation for expenses incurred plus annual remuneration, which is composed of fixed remuneration of EUR 20 thousand (2011: EUR 20 thousand) and variable remuneration. The variable component is 0.015 percent of DVA, but no more than EUR 20 thousand (as in 2011).

Pursuant to Sec. 21 (2) of the articles of association of Drägerwerk AG & Co. KGaA, as in 2011, the remuneration of members of the Supervisory Board is distributed according to the following principles: Its chairman is entitled to three times and the vice chairman to one and a half times the amount. The members of the Audit Committee receive an additional fixed annual remuneration of EUR 10 thousand and the Chairman of the Audit Committee an additional EUR 20 thousand. The members of the Nomination Committee do not receive any additional remuneration. Since fiscal year 2009, we have no longer paid Supervisory Board members a per diem.

The Company concludes a D&O policy for Supervisory Board members, considering the deductible. In the opinion of the tax authorities, the premium for a D&O financial loss liability insurance policy, liability insurance policy and a legal expense insurance policy is not part of the Supervisory Board's remuneration. The deductible for Supervi-

sory Board members is one and a half times their fixed annual salary.

In fiscal year 2012, the total remuneration of the six members of the Supervisory Board of the general partner, Drägerwerk Verwaltungs AG, amounted to EUR 135 thousand (as in 2011) as well as additional flat fees for out-of-pocket expenses totaling EUR 55 thousand (as in 2011). No remuneration was paid to Supervisory Board members of Group companies.

SHARES OWNED BY THE EXECUTIVE AND SUPERVISORY BOARDS

As of December 31, 2012, the members of the Executive Board of Drägerwerk Verwaltungs AG and their related parties directly held 6,000 preferred shares in Drägerwerk AG & Co. KGaA, equivalent to 0.04 percent of the Company's total shares, and 119,300 common shares, corresponding to 0.72 percent of the Company's total shares.

Dr. Heinrich Dräger GmbH held around 67.19 percent of common shares of Drägerwerk AG & Co. KGaA with 68.36 percent attributable to the Chairman of the Executive Board Stefan Dräger, whereby 67.19 percent are attributable to him in accordance with the terms of Sec. 22 (1) Sentence 1 No. 1 WpHG (Wertpapierhandelsgesetz – German Securities Trading Act).

On December 31, 2012, the members of the Supervisory Board and their related parties directly or indirectly held a total of 150 preferred shares, equivalent to less than 0.01 percent of the Company's total shares and 292 common shares (directly or indirectly), corresponding to less than 0.01 percent of the Company's total shares.

SUPERVISORY BOARD REMUNERATION (€)

	2012				2011			
	Fixed	Variable	Other	Total	Fixed	Variable	Other	Total
Schweickart, Prof. Dr. Nikolaus (Chairman)	60,000	60,000	10,000	130,000	60,000	60,000	10,000	130,000
Kasang, Siegfrid (Vice-Chairman)	30,000	30,000	6,667	66,667	30,000	30,000	0	60,000
Friedrich, Daniel	20,000	20,000	0	40,000	20,000	20,000	0	40,000
Grenz, Prof. Dr. Thorsten	20,000	20,000	20,000	60,000	20,000	20,000	20,000	60,000
Grosse, Peter-Maria	20,000	20,000	0	40,000	20,000	20,000	0	40,000
Lüders, Uwe	20,000	20,000	0	40,000	20,000	20,000	0	40,000
Neundorf, Walter [1]	6,667	6,667	3,333	16,667	20,000	20,000	10,000	50,000
Peddinghaus, Jürgen	20,000	20,000	10,000	50,000	20,000	20,000	10,000	50,000
Rauscher, Prof. Dr. Klaus	20,000	20,000	0	40,000	20,000	20,000	0	40,000
Rickers, Thomas	20,000	20,000	0	40,000	20,000	20,000	0	40,000
Tinnefeld, Ulrike	20,000	20,000	10,000	50,000	20,000	20,000	10,000	50,000
Zinkann, Dr. Reinhard	20,000	20,000	0	40,000	20,000	20,000	0	40,000
Total	**276,667**	**276,667**	**60,000**	**613,334**	**290,000**	**290,000**	**60,000**	**640,000**

[1] inactive membership

DIRECTORS' DEALINGS

In fiscal year 2012, the Company was not informed about any business transactions with executive employees pursuant to Sec. 15a WpHG (Wertpapierhandelsgesetz – German Securities Trading Act).

Announcements of transactions with executive employees pursuant to Sec. 15a WpHG (Wertpapierhandelsgesetz – German Securities Trading Act) are published at www.dgap.de in the Directors' Dealings section.

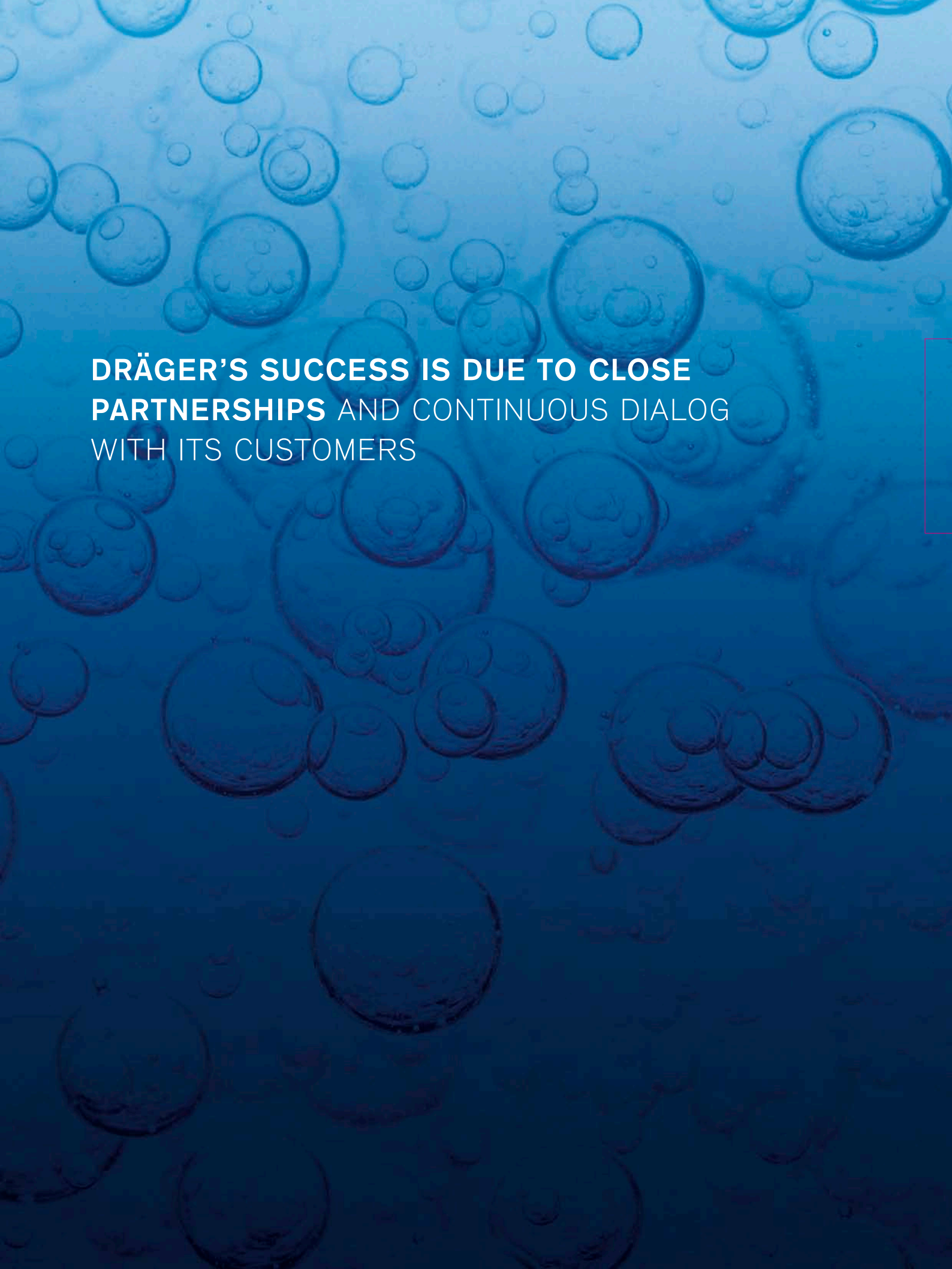
Related party transactions

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 material transactions conducted with Dräger Verwaltungs AG are presented in Notes 18, 42 and 50 of this annual report.

Group companies rendered services for companies related to Stefan Dräger and for the Dräger Foundation totaling EUR 63 thousand in the fiscal year 2012 (2011: EUR 92 thousand). Receivables amounted to EUR 1 thousand on December 31, 2012 (December 31, 2011: EUR 75 thousand). Claudia Dräger, Stefan Dräger's wife, is an employee of Drägerwerk AG & Co. KGaA.

Dräger Group's Executive Board members are also entitled to participate in the planned employee share program at identical terms and conditions.

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



DRÄGER'S SUCCESS IS DUE TO CLOSE PARTNERSHIPS AND CONTINUOUS DIALOG WITH ITS CUSTOMERS

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The Dräger Shares

The year 2012 was extremely positive for equity investors. Stock markets rose worldwide, some by a significant amount. The DAX increased by 25 percent over the course of the year and the TecDAX by 18 percent. Dräger shares also performed satisfactorily, with common shares up 16 percent and preferred shares up 21 percent.

STOCK MARKETS

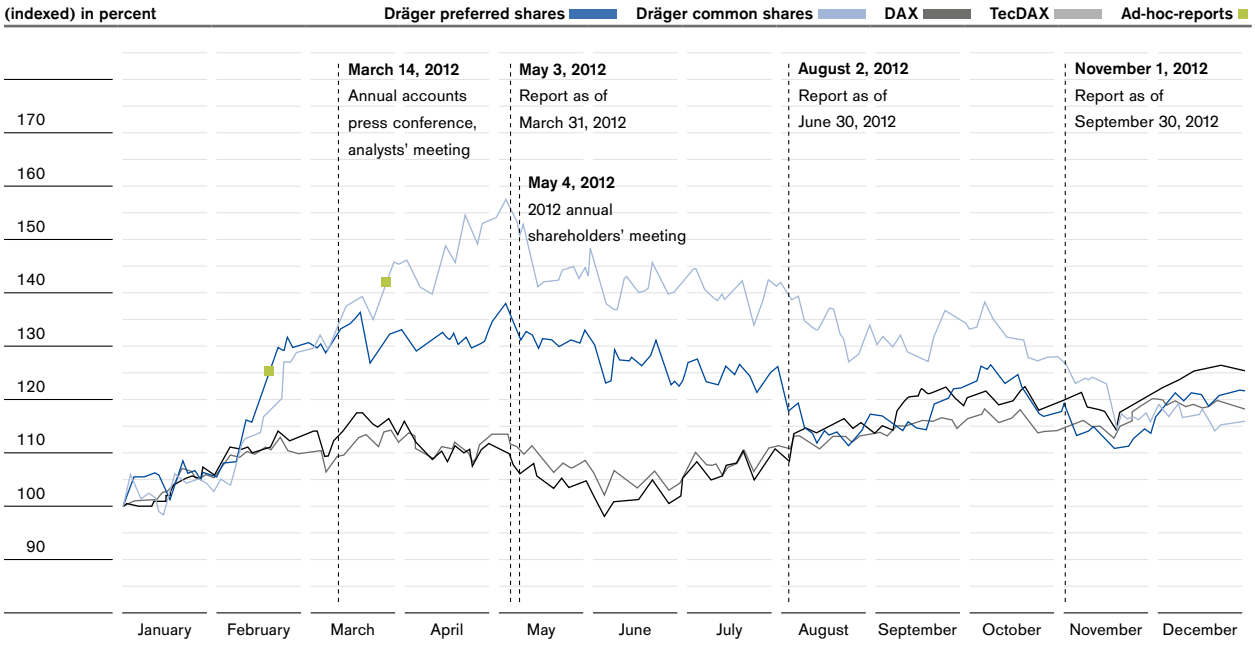
The international stock markets began 2012 with significant gains, bolstered by a slight recovery in the global economy in the first quarter of the year. The sovereign debt and banking crisis in the eurozone relaxed somewhat in the first months of 2012. Together with very low short-term interest rates and a slight increase in foreign demand, this provided the economies in the eurozone with crucial momentum. However, the positive sentiment turned somewhat sour in the second quarter of the year due to weak economic results and the rekindling of the eurozone crisis. As a result, stock markets lost much of the ground made up at the start of the year. However, as stronger intervention in the European sovereign debt crisis from the European Central Bank (ECB) became apparent, stock markets responded with some significant gains. Between June and the end of the year, the DAX rose successively every month. Germany's most important index performed well during the last few weeks of the year in particular, pushing above 7,500 points, its highest level since 2011.

SHARE PRICE DEVELOPMENT

Dräger common shares began the year trading at EUR 49.11 and declined slightly over the first few days with what would prove to be an all-year low of EUR 48.41 on January 13, 2012. Dräger preferred shares opened the year at an all-year low of EUR 63.14. Over subsequent weeks, both shares gained a significant amount of ground, especially after the announcement on February 12 of our intention to buy back Dräger participation certificates, and the publication of the preliminary figures for 2011 on February 15. By the publication of the final figures on March 14, common shares had soared by 39 percent to EUR 68.10 and preferred shares by 33 percent to EUR 84.02. This upward trend continued until the publication of the first-quarter figures on May 3, 2012, albeit at a slightly slower pace. On May 3, both shares reached an all-year high, with common shares trading at EUR 77.30 (+57 percent compared with the start of the year) and preferred shares at EUR 87.15 (+38 percent). As a result, both shares outperformed benchmark indices DAX and TecDAX, which only experienced growth of 10 percent and 14 percent respectively over the same period.

However, Dräger shares lost ground again over subsequent months. Figures for the first half of the year were met with disappointment by some investors, exacerbating the downward trend. The common shares and preferred shares both bottomed out on November 16 at EUR 56.20 and EUR 69.86 respectively, before recovering somewhat toward the end of the year. By contrast, benchmark indices showed significant gains over the second half of the year

SHARE PRICE DEVELOPMENTS



on the back of high liquidity provided by central banks. The last few weeks of the year drove the DAX to a five-year high. On the last day of the year, common shares closed at EUR 57.00 and preferred shares at EUR 76.52 and, with overall development of +16 percent and +21 percent over the course of the year, weren't quite able to match the gains achieved by the DAX (+25 percent). However, preferred shares managed to outperform the TecDAX, which only increased by 18 percent over the year as a whole.

ANNUAL SHAREHOLDERS' MEETING

The annual shareholders' meeting of Drägerwerk AG & Co. KGaA took place on May 4, 2012, in the Lübeck Music and Congress Center; 482 common and preferred shareholders were in attendance. In total, 87.94 percent of the Company's common shares and 17.61 percent of its preferred shares were represented.

The annual shareholder's meeting authorized the Executive Board of Drägerwerk Verwaltungs AG, until May 3, 2017, and upon consent of the Supervisory Board, to acquire up to 10 percent in own shares of both types (common and/or preferred shares) and to use them for all legal purposes.

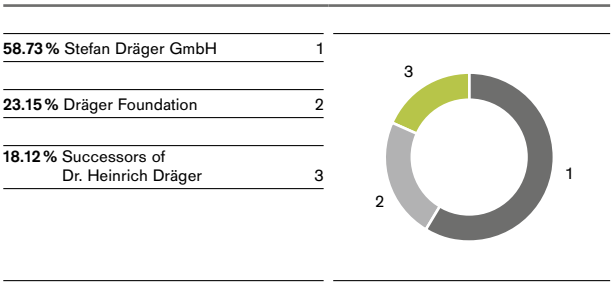
BUYBACK OF PARTICIPATION CERTIFICATES

The participation certificates we issued have largely lost their purpose as equity instruments. The division of Drägerwerk AG & Co. KGaA's market capitalization into several types of participation certificates in addition to

existing shares is inefficient and stands in the way of optimized capital financing through shares. We therefore bought back and subsequently redeemed 41.1 percent of our participation certificates in March 2012 (see pages 141 et seq. of the notes). As a result, we have optimized our capital structure and provided shareholders with higher interest on capital employed in the long term.

Participation certificates are no longer of importance in terms of our medium- and long-term corporate financing. In the future, shares will be our equity instrument of choice for refinancing.

SHAREHOLDING OF DR. HEINRICH DRÄGER GMBH



SHAREHOLDER STRUCTURE

The capital stock of Drägerwerk AG & Co. KGaA amounts to EUR 42,265,600 and consists of 10,160,000 common shares and 6,350,000 preferred shares with a mathematical share in capital stock of EUR 2.56 each. In addition, there are also share options available for a total of 1,250,000 preferred shares. The share options mature on April 30, 2015. The mathematical share in capital stock of the shares to be issued also comes to EUR 2.56 each. In order to service these share options, we conditionally increased our capital stock by EUR 3,200,000 on August 5, 2010 with an entry in the commercial register.

The common shares have been admitted to the regulated market in the Prime Standard subsection of Frankfurt Stock Exchange. According to Deutsche Börse AG, 71.36 percent of common shares are held by the Dräger family, and 28.64 percent are in free float. Around 67.19 percent of common shares in Drägerwerk AG & Co. KGaA are held by Dr. Heinrich Dräger GmbH. They account for almost the entire assets of this company. The majority of shares of Dr. Heinrich Dräger GmbH are held by members and companies of the Dräger family.

This structure places the voting rights associated with the common shares in the hands of the Dräger family. Members of the Dräger family also hold 4.18 percent of voting rights in person. This means that the family is in possession of 71.36 percent of voting rights in total. In accordance with Sec. 22 (1) Sentence 1 No. 1 WpHG (Wertpapierhandelsgesetz – German Securities Trading Act), the voting rights are to be counted towards those of Dr. Heinrich Dräger GmbH – due to existing regulations – as well as Stefan Dräger GmbH and the Dräger Foundation, Munich / Lübeck. The voting rights of Stefan Dräger GmbH are to be allocated to its partner, Stefan Dräger.

The non-voting preferred shares are listed on the regulated market of Frankfurt Stock Exchange (Prime Standard) and on the stock exchanges in Berlin, Düsseldorf, Hamburg, Hanover and Munich. They are also included in the TecDAX share index of Deutsche Börse. According to Deutsche Börse AG, they are 100 percent in free float. As the shares take the form of bearer shares, Dräger does not have a share register, as would be the case with registered shares. The duty to report the acquisition or sale of voting rights to an issuer pursuant to Secs. 21 et. seq. WpHG relates exclusively to shares with voting rights and therefore does not apply to the non-voting preferred shares. This report

DRÄGER SHARES – BASIC FIGURES

	Common 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

therefore contains no detailed information about the shareholder structure of Dräger preferred shares.

An analysis of the shareholder structure conducted in March 2012 – not including shares held by Dr. Heinrich Dräger GmbH and other members of the Dräger family – showed that approximately 20 percent of the capital stock is accounted for by institutional investors from Germany. Shareholders from the USA and Canada hold approximately 11 percent of Dräger stock and investors from the UK and Ireland, around 10 percent. Approximately 23 percent of the capital stock is owned by institutional investors from other European countries and around 10 percent is owned by private investors.

EARNINGS PER SHARE

Earnings per Dräger common share amounted to EUR 7.63 in the reporting year (2011: EUR 7.29). At EUR 7.69, earnings per preferred share were higher, as the dividend claim is EUR 0.06 higher than that of common shares (2011: EUR 7.35).

Earnings attributable to non-controlling interests amounted to EUR 3.3 million in fiscal year 2012 (2011: EUR 2.8 million). EUR 5.3 million of net profit was attributable to participation certificates (excluding minimum dividend, after taxes) (2011: EUR 1.6 million).

In the case of a full distribution, earnings per Dräger common share amounted to EUR 5.81 (2011: EUR 4.54) and earnings per preferred share to EUR 5.87 (2011: EUR 4.60). Earnings per share in the case of a full distribution assumes an actual full distribution of net profit less the share in net profit of non-controlling investments to common and preferred shareholders as well as to holders of participation certificates.

Dilution in fiscal year 2012 resulted from the option rights issued to Siemens, of which the strike price is below the average market price of the preferred shares. For further information, please refer to pages 163 et seq. in the notes.

DIVIDENDS

In line with our financial strategy, we plan to increase the equity base to 40 percent of consolidated total assets in the medium term. Until this equity ratio has been achieved, 15 percent of Group net profit (less earnings attributable to non-controlling interests) are set to be distributed. Subsequently, around 30 percent of Group net profit (less earnings attributable to non-controlling interests) is to be distributed as a dividend.

The Executive Board of the general partner, together with the Supervisory Board, therefore plan to propose to the annual shareholders' meeting on May 3, 2013 a dividend

DRÄGER SHARES INDICATORS

	2012	2011
Common shares		
No. of shares as of December 31	10,160,000	10,160,000
Annual high (in €)	77.30	69.84
Annual low (in €)	48.41	45.98
Share price as of December 31 (in €)	57.00	49.92
Average daily trading volume [1]	4,855	6,709
Earnings per common share (in €)		
Undiluted (in €)	7.63	7.29
Diluted (in €)	7.51	7.23
Earnings per common share in the case of a full distribution (in €) [2]		
Undiluted (in €)	5.81	4.54
Diluted (in €)	5.75	4.52
Preferred shares		
No. of shares as of December 31	6,350,000	6,350,000
Annual high (in €)	87.15	89.30
Annual low (in €)	63.14	57.05
Share price as of December 31 (in €)	76.52	62.70
Average daily trading volume [1]	29,721	29,321
Earnings per preferred share (in €)		
Undiluted (in €)	7.69	7.35
Diluted (in €)	7.57	7.29
Earnings per preferred share in the case of a full distribution (in €) [2]		
Undiluted (in €)	5.87	4.60
Diluted (in €)	5.81	4.58
Market capitalization	1,065,022,000	905,332,200

[1] All German stock exchanges (Source: designated sponsor)
[2] Based on an assumed actual full distribution of earnings attributable to shareholders (see also pages 163 et seq. in the notes)

on preferred shares of EUR 0.92 and a dividend per common share of EUR 0.86, equating to a distribution rate of 15.1 percent of net profit less the share in net profit of non-controlling investments.

CAPITAL MARKET COMMUNICATIONS

We have always attached great importance to open and continual communication with all capital market participants. We engage in dialog with institutional investors and analysts from research agencies during roadshows and

individual meetings. Private investors can access comprehensive information on Dräger and Dräger shares on our website www.draeger.com.

In 2012, we conducted roadshows in London, Paris, New York, Boston, Geneva, Copenhagen and Helsinki in order to meet the information needs of foreign investors. At an investor day at Düsseldorf's MEDICA trade fair in November, we provided investors and analysts with information about the latest products from our medical division and gave them the opportunity to share knowledge and expertise with our product experts.

ANALYSTS

Twelve analysts from various institutions regularly monitored and evaluated Dräger's business performance during the course of 2012 (2011: 14), including Berenberg Bank, CA Cheuvreux, CBS Research, Commerzbank, Deutsche Bank, DZ Bank, equinet, HSBC, Independent Research, LBBW, M.M. Warburg & CO, and NORD/LB.

Organizational changes at Bankhaus Lampe, Silvia Quandt & Cie. and WestLB mean that these institutions have ended their analysis activities concerning Drägerwerk AG & Co. KGaA. By contrast, Independent Research began analyzing Dräger shares for the first time.

Important changes in fiscal year 2012

BUYBACK OF PARTICIPATION CERTIFICATES

In March 2012, we bought back 41.1 percent of Dräger participation certificates and redeemed them afterwards. For further information please see pages 141 et seq. in the notes.

NEW MARKETING AND SALES ORGANIZATION

In the fourth quarter of 2012, we laid the foundations of our new marketing organization. This came into force at the start of this year. The marketing organization and sales organization, which was also restructured in 2012, will together shape our new, more customer-focused, business structure. The marketing and sales functions, which were previously separated for each division, were combined on an organizational level in fiscal year 2012, in keeping with our functional management structure. Details of the new marketing and sales organization can be found in the section "Marketing and Sales" on pages 101 et seq. of the management report.

EXTENSION OF THE EXECUTIVE BOARD CONTRACT OF DR. HERBERT FEHRECKE

On December 12, 2012, the Supervisory Board of Drägerwerk Verwaltungs AG extended the contract of Dr. Herbert Fehrecke, vice-chairman of the Executive Board, by two years until the end of March 2015. Dr. Herbert Fehrecke has been a member of the Executive Board of Dräger Verwaltungs AG since April 1, 2008.

Group structure

The parent company of the Dräger Group is Drägerwerk AG & Co. KGaA. It holds all shares in the parent companies of the medical division (Dräger Medical GmbH) and safety division (Dräger Safety AG & Co. KGaA). All the shareholdings which form part of the global operations of the two divisions are either directly or indirectly owned by the respective parent. In addition, Drägerwerk AG & Co. KGaA also holds some equity investments which do not form part of the two divisions' operations (see notes).

Central functions like Legal, Compliance, Customs and Export Control, Taxes, Audit, Accounting, Treasury, Controlling, Corporate Communications, Marketing Communications, Insurance and Capital Marketing Communications are organized within Drägerwerk AG & Co. KGaA. The areas IT, Strategic Purchasing and HR are also organized as jointly used service areas.

As of December 31, 2012, 12,516 people were employed worldwide, of whom 49.1 percent work in Sales, Marketing and Service, 29.7 percent in Production, Quality Assurance, Logistics and Purchasing, 10.1 percent in Research and Development, and 11.1 percent in Administration.

Dräger is represented in over 190 countries on all continents. The Company has its own sales and service companies in more than 50 countries. The Group operates development and production sites in Germany (Lübeck), China (Shanghai and Beijing), Great Britain (Blyth), the Czech Republic (Policka), and the US (Andover, Pittsburgh and Telford) as well as production sites in Germany (Hagen), Brazil (São Paulo), Great Britain (Plymouth), Sweden (Svenljunga), South Africa (King William's Town) and the Czech Republic (Chomutov).

OPERATING ACTIVITIES OF THE MEDICAL DIVISION

In the medical division, Dräger develops, produces, and markets system solutions, equipment and services for acute point of care (APOC). These include the perioperative care (products and services connected to the operating room), critical care and perinatal (neonatal) care, as well as emergency care. The Group's portfolio comprises products for therapy, monitoring information management and process support. Dräger is one of the global market leaders with its products for ventilation, anesthetics and warming therapy as well as related accessories and consumables. In recent years, Dräger strengthened its expertise as a system provider with products such as integrated IT solutions for the operating room and gas management systems.

OPERATING ACTIVITIES OF THE SAFETY DIVISION

Dräger's safety division develops, produces and markets products, system solutions and services for personal protection, gas detection technology and integrated hazard management. Dräger's customers are companies in the chemical and petrochemical industries, mining and the public sector such as fire services, police and disaster protection. The Company's portfolio includes stationary and mobile gas detection systems, personal protective equipment, professional diving systems, alcohol and drug testing devices, and a varied range of training and services, in addition to projects such as fire training systems and interchangeable special units for tunnel rescue trains.

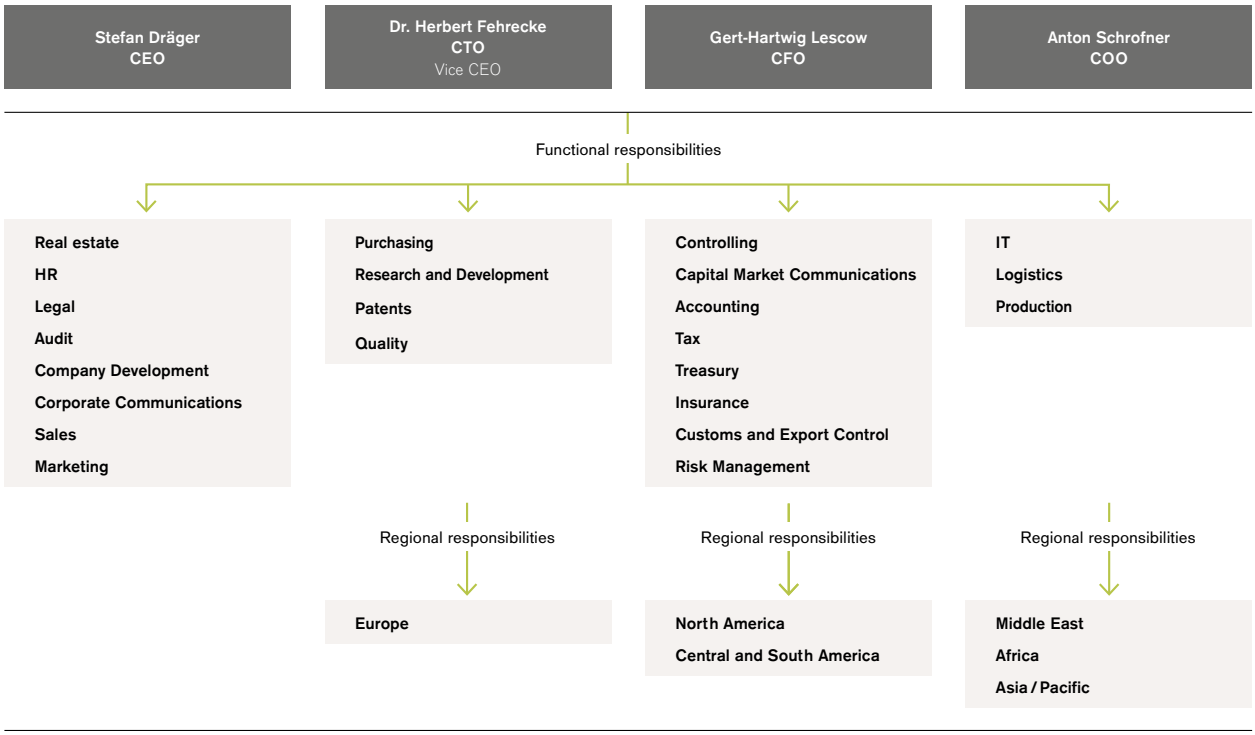
Control system

In 2007, Dräger first started implementing a functional, cross-departmental management model, beginning with the Executive Board. The objective is to reduce unnecessary double structures in the medical and safety divisions and to use synergy effects. In 2011, Strategic Purchasing, Logistics, IT, HR, Accounting, Marketing Communications and Group Real Estate already received a cross-divisional structure; Dräger introduced cross-divisional functions in Sales and Controlling in 2012.

NEW STRUCTURE WITH MANY ADVANTAGES

In November 2011, we introduced a new management model which not only provides for the functional organization and consolidation of the two business units under a single management ("One Dräger" concept), but also for the assumption of regional responsibility by the Executive Board members. Each member of the Executive Board has a regional responsibility in addition to their functional tasks: Gert-Hartwig Lescow heads the Americas region, Dr. Herbert Fehrecke all of Europe and Anton Schrofner the Middle East, Africa and Asia/Pacific. This ensures that the Executive Board has an understanding of the effects of its decisions on an operational level, maintains customer contact and makes the connection between global thinking and local requirements. In addition, the members of the Executive Board of Drägerwerk Verwaltungs AG have also taken over the management of Dräger Medical GmbH and Dräger Safety AG & Co. KGaA. All three companies' Super-

ALLOCATION OF RESPONSIBILITIES



visory Boards have been manned by the same members on the capital side since March 2012.

In 2012, Regional Sales and Service Managers assumed responsibility for each region for the previously separate medical and safety divisions. Other global functions also improve transnational cooperation.

Furthermore, in 2012, we tasked one Executive Board member with coordinating the various functions within their country as Country Manager in addition to their other tasks.

This ensures that Dräger employs its resources more efficiently by, for instance, jointly using infrastructure and central service functions. At the same time, this new structure explicitly and concisely allocates tasks and responsibilities. A clearly defined escalation path helps to deal with difficult situations more quickly. We have also improved our system of checks and balances and therefore reduced risks. Joint targets and performance-related remuneration ensure that we keep our focus on major goals.

VALUE-DRIVEN MANAGEMENT THROUGH DRÄGER VALUE ADDED

In order to achieve long-term success, Dräger has to generate steady growth as well as stable and sustainable economic performance. The Group uses a value-driven management system to increase Company value in the long term based on the performance indicator Dräger Value Added (DVA). The main targets we want to achieve with DVA are:

- Profitable growth,
- Increasing operating efficiency, and
- Increasing capital efficiency.

DVA is the result of EBIT over the preceding twelve months less calculated capital costs (basis: average capital employed in the past twelve months). We calculate capital costs on the basis of average costs for equity and debt over past years. The weighted average cost of capital (WACC) used for calculating the cost of capital was the current rate of 9.0 percent (2011: 9.0 percent) before taxes.

DVA is the central key management figure which we use to measure the development of the Company's added value and that of its various units. DVA makes it possible to combine the various targets within the Group and all relevant key figures and to adjust business decisions so as to assist in increasing Company value. The major proportion of annual variable remuneration of Executive Board members is measured by DVA performance. We have also integrated DVA into internal reporting and the managers have been given specific training regarding this topic.

In fiscal year 2012, Dräger generated DVA of EUR 149.7 million (2011: EUR 134.6 million), corresponding to a rise of 11.2 percent year-on-year. While cost of capital remained largely unchanged, this increase was achieved by improving EBIT. The average capital employed rose by 1.0 percent to EUR 888.5 million and therefore more slowly than net sales (+5.2 percent).

The internal control and risk management system of the Dräger Group

DEFINITION AND ELEMENTS

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

Our internal control system provides for both process-integrated and process-independent measures. Process-integrated measures include automated and manual process controls (such as a system of checks and balances). In addition, bodies like the Compliance Committee and specific Group functions like the central tax and Group legal departments ensure process-integrated monitoring. The Supervisory Board of Drägerwerk AG & Co. KGaA, particularly its Audit Committee, and Internal Audit are also part of the internal monitoring system. Internal Audit regularly audits our international Group companies.

Process-independent audit activities are conducted by the auditor of the Group financial statements. This auditor also audits the major financial statements of our subsidiaries consolidated in the Group's results.

The internal control system in the Dräger Group is supplemented by a risk management system. It comprises operational risk management and a systematic early-warning

system for detecting business risks. In relation to the financial reporting process, the risk management system is also aimed at preventing the use of incorrect information in the Group's accounts and external reports.

USE OF IT SYSTEMS

At Dräger, the consolidated subsidiaries (see pages 218 et seq. in the notes) prepare individual financial statements which contain information relevant to their accounting system. Consolidated subsidiaries mainly use SAP and Microsoft standard software. This ensures that each month, the single entity financial statements and additional, standardized reporting information are consolidated in SAP EC-CS system. For financial reporting, data from SAP EC-CS is consolidated in the SAP Business Warehouse. To do this, we use a Group-wide, standardized chart of accounts, which also stipulates which reconciliation methods are to be used for the financial statements. Local accounting methods are adjusted to comply with IFRS either in the local accounting systems or by reporting on a Group level. Once the entry has been translated into the Group currency euro, all internal business transactions are consolidated.

Dräger assesses the IT environment, identifies potential risks and reports them at least twice a year to the Executive Board within the scope of the risk management system. In addition, the auditors of the Group financial statements carry out an audit of the IT control system, change management, IT operations, access to programs and data, and system development once a year.

ESSENTIAL REGULATORY MEASURES AND CONTROLS

One of the activities in our internal control system is to check whether amounts reported in the balance sheet, income statement and the statement of comprehensive income are recognized in the correct period and fully attributed, and whether the record contains reliable and traceable information regarding the business transaction. To do this, we clearly allocate responsibilities and control mechanisms, provide transparent accounting and reporting guidelines, and use highly reliable IT accounting systems in the Group companies. The monthly Group financial statements are checked by Controlling and reconciled with the plans and the latest forecast.

The Dräger accounting policies are applied throughout the Group to ensure that all German and foreign subsidiar-

DEVELOPMENT OF DRÄGER VALUE ADDED (DVA)

		Medical division		Safety division		Dräger Group	
		2012	2011	2012	2011	2012	2011
DVA	**€ million**	**135.2**	**144.0**	**78.9**	**57.5**	**149.7**	**134.6**
EBIT	**€ million**	**185.1**	**191.8**	**97.1**	**76.1**	**229.6**	**213.8**
Cost of capital	**€ million**	**49.9**	**47.9**	**18.2**	**18.6**	**80.0**	**79.1**
WACC [1]	%	9.0	9.0	9.0	9.0	9.0	9.0
Capital employed [2]	**€ million**	**554.2**	**532.0**	**202.4**	**206.8**	**888.5**	**879.4**
Net current assets [2]	€ million	289.0	264.2	128.6	130.3	380.3	363.4
Other capital employed [2]	€ million	265.2	267.8	73.9	76.5	508.3	516.0

[1] WACC = Weighted Average Cost of Capital
[2] Average over the past twelve months

ies consolidated in the Group financial statements use the same standard. These apply to general accounting policies, balance sheet, income statement, consolidated statement of comprehensive income and notes. The accounting policies are regularly updated to comply with current EU legislation.

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

In our accounting systems we have separated administrative, executive and authorization functions by issuing different access profiles. This allows us to reduce the potential for fraudulent acts against the Company by employees.

Group accounting determines the scope of consolidation and the reporting packages prepared by Group companies. Prior to the preparation of the financial statements, the Group companies and local auditing firms, which examine and comment on compliance with Dräger accounting policies, are provided with additional information, schedules and deadlines. This ensures that the Group financial statements can be prepared in good time and in accordance with all applicable reporting standards and laws. Our subsidiaries enter their local financial statements into the SAP EC-CS consolidation system, where validation rules guarantee a high degree of data quality. Subsidiaries send other reporting packages in electronic form to Group Accounting in Lübeck, where the data is reviewed on the basis of internal check lists and passed on to the auditor of the Group financial statements for final approval.

General economic conditions

Despite a dynamic start to 2012, global economic growth became markedly weaker throughout the year. Growth rates for important emerging markets were still higher than the global average, but these increases were lower than in the previous year. The sovereign debt crisis in South Europe held the capital markets hostage again last year, while the recession deepened in the affected countries. This also had an increasing effect on these countries' business partners due to the drop in demand. On top of this, the presidential election in the US and the change in leadership in China led to a temporary increase in uncertainty and caution.

GROWTH SLOWS DOWN IN THE COURSE OF THE YEAR

The International Monetary Fund (IMF), which had raised its projection for growth in global gross domestic product (GDP) for 2012 to 3.5 percent in spring, readjusted its forecast down to 3.2 percent as the year progressed. On the one hand, this was based on the significantly reduced contribution of emerging markets to growth, and on the other, to the drop in GDP in the eurozone. China, for example, recorded the lowest increase in GDP for over ten years, with a figure of 7.8 percent. The US economy experienced growth of 2.2 percent according to the US Department of Commerce, making it one of the few industrialized countries that managed to maintain the (albeit modest) growth rate of the previous year. In the eurozone, economic performance for the fiscal year shrank by 0.4 percent. The reasons for this were the varying levels of recession currently affecting countries such as Greece, Spain, Portugal and Italy, also as a result with their strict austerity policies and structural reforms. Against this background, the

German economy remained strong and in fact, according to information provided by Bundesbank, grew very slightly (0.7 percent). This development was based mainly on exports. After an upbeat start to the new year, growth rates fell continuously, however, and in the last quarter of 2012, GDP even shrank slightly.

CENTRAL BANKS ARE TAKING ACTION

Central banks around the world tried to support economic growth in 2012 by keeping interest rates low. Major emerging markets such as China and Brazil lowered key interest rates several times. The US Federal Reserve System (Fed) has kept its key interest rate at the same very low level as last year and plans to keep it there until unemployment falls to below 6.5 percent; the current figure is 7.7 percent. The Fed also announced in September that it would start buying mortgage-backed securities to the value of USD 40 billion every month in order to have further influence on long-term interest rates. In December 2012, the Federal Reserve also decided that, starting in January 2013, it would start buying back long-term government bonds to the value of some USD 45 billion every month. The European Central Bank (ECB) reduced interest rates last summer, to a record low of 0.75 percent. On top of this, the ECB announced in September that it would buy an unlimited number of one- to three-year bonds from member states – provided that these countries apply to the European Stability Mechanism (ESM), placing themselves under the control of the euro bailout fund. As a result of this announcement, the yields on South European government bonds fell, which meant Italy and Spain were able to issue bonds with lower interest rates.

FLUCTUATING COMMODITY PRICES, VOLATILE EXCHANGE RATES, MODERATE INFLATION

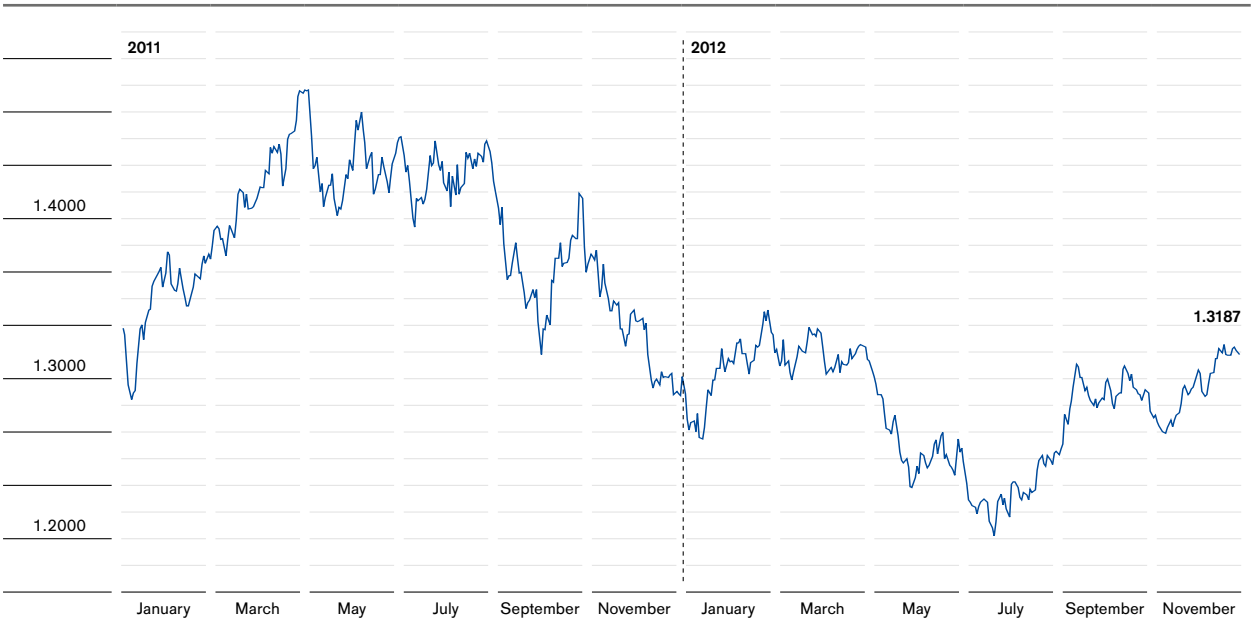
Weakening economic growth in conjunction with falling commodity prices slowed inflation. Oil prices fluctuated greatly throughout the year: Brent crude recorded a record high of USD 128 per barrel in spring, dropping to a low of USD 88 in summer and finishing the year at approximately USD 111 per barrel, a similar figure to the previous year. Inflation in the eurozone was 2.5 percent, which is lower than the figure for the previous year. In Germany, consumer prices rose by 2.0 percent in 2012 after a rise of 2.3 percent in the previous year.

The euro's exchange rate went up against the US dollar at the beginning of the year, but then proceeded to fall to a low of almost USD 1.20 mid-year as a result of the euro crisis. The ECB's agreement to support the eurozone led to a significant recovery: Towards the end of the year, the euro recorded a value of USD 1.32, which was slightly higher than at the beginning of the year. At the beginning of January 2013, the nominal effective exchange rate of the euro, measured by the currencies of 20 of the most important trading partners in the eurozone, was 0.8 percent up on the level of early December 2012 and 0.3 percent below its value at the beginning of last year.

MEDICAL DIVISION – INDUSTRY PERFORMANCE

Global demand for highly developed medical technology was stable in 2012 overall, but there were significant regional variations. While demand in North Europe remained at a similar level to the previous year, the debt crisis had an increasingly negative effect on certain countries in South Europe. Government austerity programs led to a decline in investment volumes, including investments in the hospital sector. Russia, on the other hand, continued to show a positive performance, driven among other things by the presidential election in March. In the US, demand for medical technology was increasingly stable in the second half, despite the US budget deficit. South America continued to invest in developing and expanding its healthcare infrastructure in 2012. The Asia-Pacific region recorded consistently increasing demand for medical technology products, with the largest proportion of demand again coming from China and India. Purchasing volumes were also high in other countries in the region, such as Taiwan, Korea and Hong Kong. The expansion of

DEVELOPMENT OF EXCHANGE RATE EURO / US-DOLLAR



Source: Vwd (Vereinigte Wirtschaftsdienste)

healthcare systems in the Middle East also led to positive demand overall.

SAFETY DIVISION – INDUSTRY PERFORMANCE

Demand for safety technology products remained largely stable in 2012. Demand from the mainly export-oriented German industrial sector showed slightly positive development despite the global economy cooling down. Demand from South Europe fell as a result of the downturn. In the US, the booming exploitation of new shale gas deposits led to growing demand for safety-division products, both in the petrochemical sector and in the chemical supply industry. Chemical and plastics manufacturers in the US are benefiting from a reduction in production costs thanks to current low gas prices. The competitive advantage that this gives them on an international level is reflected in the growing demand for safety-division products. A number of South American industrial sectors recorded robust growth, such as the production of basic chemicals in Mexico or the chemical industry in Brazil, which is on the upswing again. Demand in Asia grew, although expansion in India and China slowed down overall. The markets in the Middle East and Africa provided two factors for positive growth: one was Saudi Arabia's massive effort to expand its refineries, petrochemical sector and downstream industries, while the other was reconstruction in Libya. While in previous years, strict government austerity measures in the industrialized nations led to significantly tighter budgets in the fire services, in 2012 the industry benefited from a slow reduction in the investment backlog in standard firefighting equipment.

Business performance of the Dräger Group

BUSINESS PERFORMANCE OF THE DRÄGER GROUP

		Fourth quarter			Twelve months		
		2012	2011	Change in %	2012	2011	Change in %
Order intake	**€ million**	**636.7**	**613.5**	**+3.8**	**2,405.5**	**2,293.2**	**+4.9**
Orders on hand [1]	**€ million**	**483.0**	**461.3**	**+4.7**	**483.0**	**461.3**	**+4.7**
Net sales	**€ million**	**726.9**	**698.5**	**+4.1**	**2,373.5**	**2,255.8**	**+5.2**
EBITDA [2, 3]	**€ million**	**110.5**	**91.5**	**+20.7**	**295.3**	**274.6**	**+7.5**
Depreciation / amortization [3]	€ million	(18.2)	(17.4)	+4.6	(65.7)	(60.9)	+7.9
EBIT [4]	**€ million**	**92.3**	**74.1**	**+24.5**	**229.6**	**213.8**	**+7.4**
Interest result	€ million	(9.1)	(11.6)	(21.2)	(33.2)	(33.0)	+0.5
Income taxes	€ million	(26.4)	(16.8)	+57.2	(61.4)	(55.7)	+10.2
Net profit	**€ million**	**56.7**	**45.7**	**+24.0**	**135.0**	**125.1**	**+8.0**
Earnings per share [5]							
per preferred share	€	3.19	2.73	+16.8	7.69	7.35	+4.7
per common share	€	3.17	2.72	+16.5	7.63	7.29	+4.7
Earnings per share on full distribution [6]							
per preferred share	€	2.43	1.61	+50.9	5.87	4.60	+27.7
per common share	€	2.41	1.60	+50.6	5.81	4.54	+28.1
R&D costs	€ million	52.3	45.3	+15.5	197.3	160.5	+22.9
Equity ratio [1]	%	34.6	34.5		34.6	34.5	
Cash flow from operating activities [3]	€ million	87.8	77.7	+12.9	176.8	161.7	+9.3
Net financial debt [1]	€ million	56.8	39.8	+42.9	56.8	39.8	+42.9
Investments [3]	€ million	23.4	27.1	(13.8)	78.2	78.1	+0.2
Capital employed [1, 7]	€ million	898.4	877.1	+2.4	898.4	877.1	+2.4
Net working capital [1, 8]	€ million	404.1	362.8	+11.4	404.1	362.8	+11.4
EBIT [4] / net sales	%	12.7	10.6		9.7	9.5	
EBIT [4, 9] / capital employed [1, 7] (ROCE)	%	25.6	24.4		25.6	24.4	
Net financial debt [1] / EBITDA [2, 3, 9]	Factor	0.19	0.14		0.19	0.14	
Gearing [10]	Factor	0.08	0.05		0.08	0.05	
DVA [11]	€ million	149.7	134.6	+11.2	149.7	134.6	+11.2
Total headcount [1]		12,516	11,924	+5.0	12,516	11,924	+5.0

[1] Value as of December 31
[2] EBITDA = Earnings before net interest result, income taxes, depreciation and amortization
[3] Equipment leased out is recognized in property, plant and equipment. The prior-year figures were adjusted accordingly.
[4] EBIT = Earnings before net interest result and income taxes
[5] On the basis of the expected dividend
[6] Based on an imputed actual full distribution of earnings attributable to shareholders
[7] Capital employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
[8] Net working capital = current, non-interest-bearing assets less current, non-interest-bearing debt
[9] Value of the last twelve months
[10] Gearing = Net financial debt / equity
[11] Dräger Value Added = EBIT less cost of capital

2012 was marked by weakening economic growth. This downturn affected most of the industrialized nations, but also hit important emerging markets such as China. At the same time, Europe continued to be affected by the debt crisis. In this economic climate, in fiscal year 2012 order intake rose by 2.2 percent (net of currency effects). Net sales growth was 2.5 percent (net of currency effects) up year-on-year. Orders on hand went up by 5.0 percent (net of currency effects).

Order intake stagnated in the medical division (0.0 percent net of currency effects), while net sales increased by 2.3 percent (net of currency effects). The safety division saw 6.8 percent (net of currency effects) order intake growth and 3.2 percent (net of currency effects) net sales growth. Dräger experienced above-average improvement in earnings: EBIT rose by 7.4 percent in 2012 to EUR 229.6 million (2011: EUR 213.8 million). This means that the EBIT margin increased slightly again, from 9.5 percent to 9.7 percent. Dräger Value Added (DVA) also increased in fiscal year 2012 again; DVA is Dräger's most important key management figure. As of December 31, DVA came to EUR 149.7 million, corresponding to a rise of 11.2 percent year-on-year (2011: EUR 134.6 million).

The positive earnings development was due to increasing net sales volume – especially in countries with above-average margins. Dräger recorded a favorable product mix, particularly in the fourth quarter, in addition to which certain costs that had been planned for 2012 did not arise that year.

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

ORDER INTAKE

In fiscal year 2012, Dräger's order intake increased year-on-year by 2.2 percent (net of currency effects) to EUR 2,405.5 million (2011: EUR 2,293.2 million). A large order from Deutsche Bahn for interchangeable special units for a total of seven tunnel rescue trains in the engineered solutions business had a positive impact on order intake in the safety division. The order amounts to a mid-two-digit million figure. Delivery will continue until 2016. Without this order, Group order intake would have remained almost the same (net of currency effects). In the medical division, order intake (net of currency effects) remained stable. Strong order intake from Russia, China, India and Japan balanced out a downturn in orders from European countries and the US in this division. Order intake in the safety division grew by 6.8 percent (net of currency effects). While order intake from China decreased, solid growth was visible not only in Germany, but also in Australia and the US. Group-wide, the Rest of Europe region saw a drop

ORDER INTAKE

	Fourth quarter				Twelve months			
€ million	2012	2011	Change in %	Net of currency effects in %	2012	2011	Change in %	Net of currency effects in %
Germany	122.3	113.3	+8.0	+8.0	513.0	451.9	+13.5	+13.5
Rest of Europe	248.2	259.9	(4.5)	(5.6)	847.4	878.2	(3.5)	(4.4)
Americas	124.0	107.4	+15.4	+11.7	457.3	438.4	+4.3	(0.7)
Asia / Pacific	104.3	96.4	+8.2	+4.9	414.8	360.3	+15.1	+7.0
Other	37.9	36.5	+3.8	+4.2	173.0	164.4	+5.2	+4.4
Total order intake	**636.7**	**613.5**	**+3.8**	**+2.2**	**2,405.5**	**2,293.2**	**+4.9**	**+2.2**

ORDERS ON HAND

€ million	December 31, 2012	December 31, 2011	Change in %	Net of currency effects in %
Germany	114.8	67.3	+70.6	+70.6
Rest of Europe	141.1	154.0	(8.4)	(9.7)
Americas	91.0	98.0	(7.2)	(5.3)
Asia / Pacific	92.2	89.8	+2.7	+4.0
Other	43.9	52.2	(15.9)	(15.3)
Total orders on hand	**483.0**	**461.3**	**+4.7**	**+5.0**

in order intake. In the Americas region, orders remained stable, while other regions saw good levels of growth. In the fourth quarter, order intake increased for the Americas region in particular.

ORDERS ON HAND

As of December 31, 2012, orders on hand (net of currency effects) were up 5.0 percent against the prior-year value. Orders on hand in the medical division decreased slightly, by 2.4 percent (net of currency effects). Net sales in the fourth quarter, which were significantly higher than order intake, contributed to this development. In the safety division, orders on hand at the end of 2012 were at 21.5 percent (net of currency effects) significantly up year-on-year. This figure contains the above-mentioned large Deutsche Bahn order. At the end of 2012, equipment orders on hand covered a 2.7 month period (December 31, 2011: 2.6 months). This key figure is based on the average net sales over the past twelve months.

NET SALES

In fiscal year 2012, Dräger net sales increased by 2.5 percent (net of currency effects) to EUR 2,373.5 million (2011: EUR 2,255.8 million). In the medical division, net sales increased by 2.3 percent (net of currency effects). Solid growth was achieved in Russia, China, Saudi Arabia and Australia, while in the US, a number of countries in Southern Europe and in Germany, deliveries decreased. Net sales in the safety division went up by 3.2 percent (net of currency effects). Higher numbers of deliveries in Germany, Russia, the US and Canada contributed to this, while net sales in China fell. Group-wide, net sales increased most in the Other Countries region, at 24.1 percent (net of currency effects), but the Company also saw significant growth in the Asia / Pacific region again this year. In the fourth quarter, net sales grew by 2.7 percent (net of currency effects). This was also due in particular to growth in net sales in the Americas region.

EARNINGS

Gross profit in fiscal year 2012 went up by EUR 58.7 million to EUR 1,167.0 million due to high net sales. The gross margin increased slightly, to 49.2 percent (2011: 49.1 percent). While the safety division, in which gross profit was hit by an increase in valuation adjustments in 2011, experienced increased margins in industry and the fire services, the margin was somewhat lower in the medical division compared to the prior-year. A drop in margin in this customer area is mainly due to low-margin large projects. Currency effects also had a positive effect on gross profit.

NET SALES

	Fourth quarter				Twelve months			
€ million	2012	2011	Change in %	Net of currency effects in %	2012	2011	Change in %	Net of currency effects in %
Germany	143.6	136.4	+5.3	+5.3	462.6	457.7	+1.1	+1.1
Rest of Europe	284.4	299.0	(4.9)	(6.0)	864.7	866.4	(0.2)	(1.2)
Americas	136.1	118.6	+14.7	+12.3	461.0	440.3	+4.7	(0.4)
Asia / Pacific	113.3	103.2	+9.8	+6.4	404.1	346.1	+16.7	+8.4
Other	49.4	41.3	+19.5	+19.1	181.2	145.3	+24.8	+24.1
Total net sales	**726.9**	**698.5**	**+4.1**	**+2.7**	**2,373.5**	**2,255.8**	**+5.2**	**+2.5**

The costs for our functional areas increased by 4.6 percent year-on-year throughout the Company, the main reason being the 22.9 percent increase in research and development (R&D) expenses. We invested in developing new products, the compliance of our existing portfolio with RoHS II[1] and defending our market position in the monitoring sector. The research and development ratio therefore increased to 8.3 percent (2011: 7.1 percent). Although Dräger continued to invest in sales structures in growth markets, the Company nonetheless managed to reduce the marketing and sales ratio to 25.1 percent (2011: 25.5 percent).

Higher IT costs due to the improvement of Group-wide infrastructure did however have a negative effect on earnings. The year-on-year drop in variable management and Executive Board remuneration had a positive effect on results, as did the fact that expenses for implementing the new sales organization had already been recognized in functional costs for the previous year. The changes in exchange rates compared to the euro had a negative effect on functional costs.

Group earnings before interest and taxes (EBIT) grew last year by 7.4 percent to EUR 229.6 million (2011: EUR 213.8 million). This means the EBIT margin was 9.7 percent (2011: 9.5 percent).

In the fourth quarter, EBIT was EUR 92.3 million, making it EUR 18.2 million higher than in the previous year. The EBIT margin increased to 12.7 percent (Q4 2011: 10.6 percent). Both higher net sales and the improved gross margin (+0.7 percentage points) had a positive effect on EBIT. The higher gross margin was due mainly to the safety division, while the medical division remained at the same level as the previous year. Functional costs fell in the last quarter of 2012 as a result of one-off burdens that were incurred the previous year, including for the implementation of the new sales organization.

Despite expenses for buying back the participation certificates in the first quarter of this year, interest expenses increased by EUR 0.2 million year-on-year to EUR 33.2 million in fiscal year 2012, therefore remaining almost constant. At 31.2 percent, the effective tax rate was on a similar level to the previous year (2011: 30.8 percent). Earnings after income taxes amounted to EUR 135.0 million, up 8.0 percent on the prior-year period (2011: EUR 125.1 million).

[1] EU Directive ›Restrictions of the use of certain hazardous substances in electrical and electronic equipment‹

FINANCIAL FIGURES

€ million	December 31, 2012	December 31, 2011	Change in %
Total assets	2,101.2	2,115.2	(0.7)
Equity	727.2	729.6	(0.3)
Equity ratio	34.6%	34.5%	
Capital employed	898.4	877.1	2.4
Net financial debt	56.8	39.8	42.7

INVESTMENTS / DEPRECIATION AND AMORTIZATION

	2012		2011	
€ million	Investments	Depreciation / amortization	Investments	Depreciation / amortization
Intangible Assets	10.3	7.5	10.8	7.4
Property, plant and equipment[1]	67.9	58.2	67.3	53.5

[1] Equipment leased out is recognized in property, plant and equipment since 2012. The figures for 2011 were adjusted accordingly.

INVESTMENTS

In fiscal year 2012, Dräger invested EUR 67.9 million in property, plant and equipment (2011: EUR 67.3 million) and EUR 10.3 million (2011: EUR 10.8 million) in intangible assets. These investments mainly pertained to replacements, equipment for rental and the modernization of the IT infrastructure. Depreciation in the last fiscal year was EUR 65.7 million (2011: EUR 60.9 million) and was covered to 119 percent by investments, meaning that non-current assets rose by EUR 12.5 million net.

Cash flow statement

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.

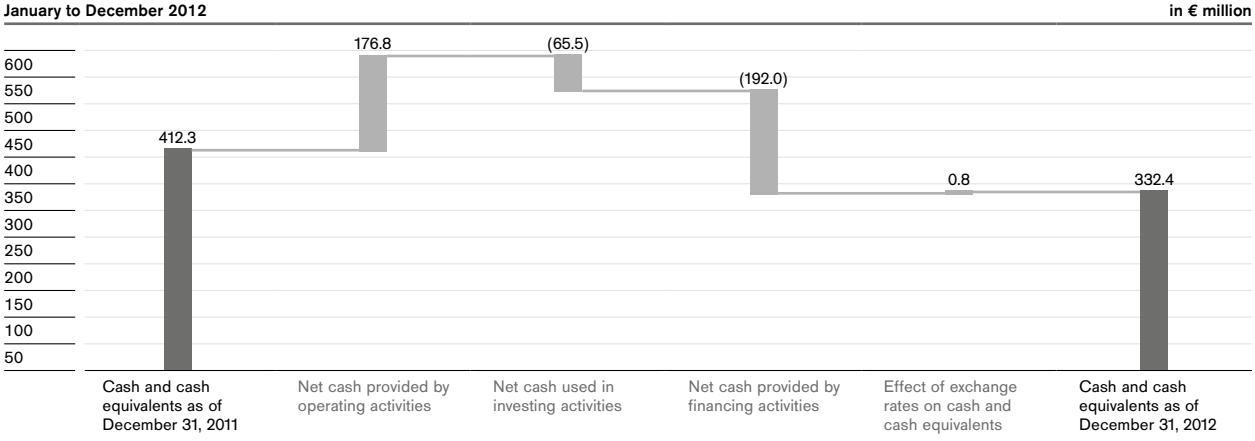
Cash inflow from Dräger Group operating activities increased from EUR 161.7 million in the previous year by EUR 15.1 million to EUR 176.8 million in fiscal year 2012. A major factor in this was the lower rise in trade receivables of EUR 15.2 million (2011: EUR 52.4 million). In addition, other assets decreased by EUR 6.8 million (2011: increase of EUR 8.3 million) and other liabilities increased by EUR 9.1 million (2011: decrease of EUR 13.4 million). The rise in inventories to the amount of EUR 31.6 million (2011: decrease of EUR 19.2 million) had a particularly marked effect. In addition, earnings after income taxes, adjusted for write-downs, changes to cash neutral provisions as well as other non-cash earnings and expenses, decreased by EUR 6.8 million to EUR 209.5 million. Non-cash expenses rose to EUR 26.3 million (2011: EUR 3.7 million) primarily due to the changes to deferred taxes not recognized in income from the use of tax loss carryforwards. On the other hand, the changes to provisions recognized in profit or loss, but not recognized in income,

FINANCIAL POSITION OF THE DRÄGER GROUP

		2007	2008	2009	2010	2011	2012
Cash flow from operating activities [1]	€ million	165.0	104.7	193.5	219.1	161.7	176.8
Cash flow from investing activities [1]	€ million	(125.5)	(76.2)	(42.5)	(52.2)	(67.4)	(65.5)
Free cash flow	€ million	39.5	28.5	151.0	166.9	94.2	111.3
Cash flow from financing activities	€ million	(56.0)	(60.4)	64.9	(210.1)	(4.6)	(192.0)
Change in liquidity (excluding exchange rate effects)	€ million	(16.5)	(31.9)	215.9	(43.2)	89.7	(80.7)

[1] Equipment leased out is recognized in property, plant and equipment since 2012. The figures for 2011 were adjusted accordingly.

CASH FLOW RECONCILIATION



declined by EUR 17.6 million (2011: increased by EUR 26.0 million).

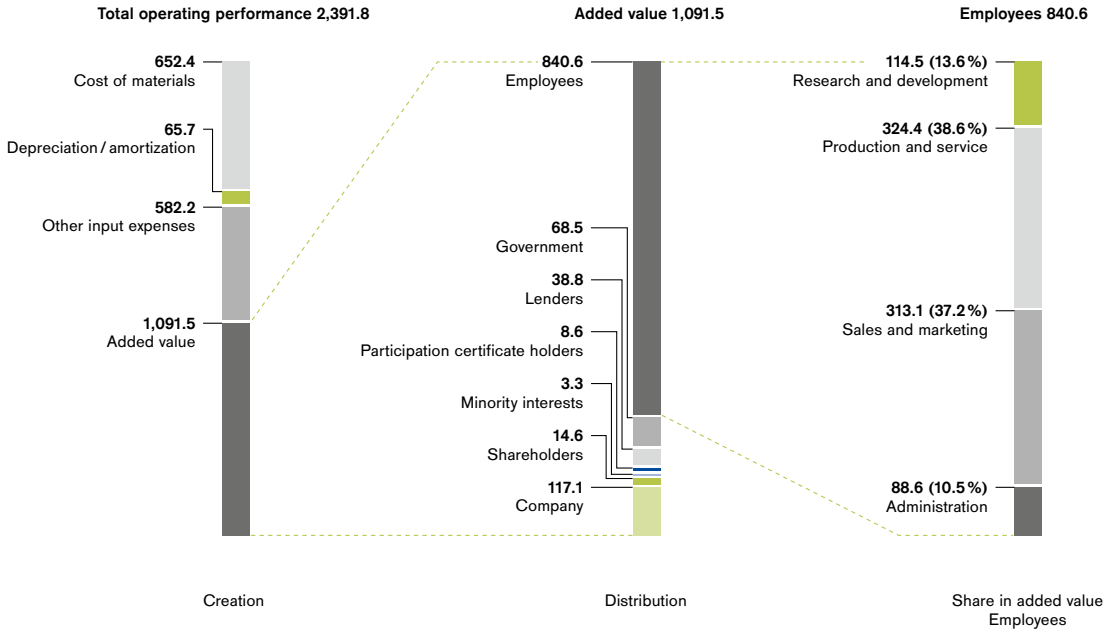
The cash inflow from operating activities includes EUR 41.2 million in income taxes paid (2011: EUR 54.9 million), EUR 9.6 million in interest received (2011: EUR 5.5 million) and EUR 25.8 million in interest paid (2011: EUR 27.6 million).

Cash outflow from investing activities of EUR 65.5 million (2011: EUR 67.4 million) decreased slightly. Last year's investment volume of EUR 6.7 million included the investment in the new production and logistics building for the Infrastructure Projects business in Lübeck, which was under construction at the time.

The buyback of 581,474 participation certificates in March 2012 resulted in cash outflow of EUR 122.1 million (EUR 122.5 million including incidental purchase costs),

ADDED VALUE STATEMENT OF THE DRÄGER GROUP

Figures in € million



EUR 15.7 million of which pertained to the debt component and EUR 106.4 million to the equity component of the bought back participation certificates.

Cash and cash equivalents as of December 31, 2012 exclusively comprised cash, of which EUR 14.6 million was subject to restrictions (2011: EUR 14.6 million).

ADDED VALUE CREATED BY THE DRÄGER GROUP

The Dräger Group's added value is calculated by deducting input expenses such as the cost of materials, depreciation and amortization and other operating expenses from total operating performance (net sales plus other operating income). The added value is then broken down into the percentage attributable to the Group's major stakeholders, thus showing the Dräger Group's contribution to the income of the public and private sectors. In 2012, Dräger created added value of EUR 1,091.5 million, a 6.8 percent increase on the previous year. The largest portion of this added value, EUR 840.6 million (77.0 percent), was attributable to Dräger employees (2011: EUR 793.5 million; 77.6 percent). With a 5.0 percent increase in headcount (annual average), added value per employee amounted to EUR 89 thousand (2011: EUR 88 thousand) a 1.1 percent increase on the previous year. Average personnel expenses per employee remained almost the same at EUR 68 thou-

sand (2011: EUR 68 thousand) in the Dräger Group, which was due to factors such as a decrease in variable Management- and Executive Board remuneration and above-average increase in headcount in developing countries.

Financial management in the Dräger Group

BORROWING

The Dräger Group has arranged for bilateral credit lines with renowned banks to the amount of EUR 240 million due on December 31, 2015 to secure its working capital. Dräger only utilized these credit lines in form of sureties in Germany and abroad in the reporting year. The Company also maintains internal cash pools in several currencies that are used for offsetting liquidity within the Group. On December 31, 2012, short-term loans amounted to around EUR 104.3 million (December 31, 2011: EUR 84.5 million).

Dräger uses note loans in addition to bilateral credit lines for its medium and long-term financing. In the reporting year, Dräger repaid due note loans totaling EUR 55.0 million. Total note loans amounted to EUR 311.0 million on December 31, 2012 (December 31, 2011: EUR 365.8 million).

The capital structure improved compared to fiscal year 2011 due to the buying back of the participation certificates. In regard to equity instruments, the company is concentrating on preferred and common shares. In total, we bought back around 41.1 percent of the participation certificates for EUR 122.1 million.

At present, Dräger does not have a rating from agencies such as Standard & Poor's, Moody's or Fitch. The Company does not intend to receive such a rating at present. Please refer to pages 188 et seq. of the notes for further details on Dräger Group's loans and liabilities.

LIQUIDITY FORECAST

Liquidity came to EUR 332.4 million at the end of the year (December 31, 2011: EUR 412.3 million). For its medium and long term planning, Dräger forecasts a positive development of cash and cash equivalents. This will be influenced by a moderate increase in operating cash flow – reflecting expected business developments – and solid financing, which has already been arranged for the coming year as a prudent measure. Future payment obligations from note loans falling due, which will result in payments of EUR 79.0 million in 2013 and EUR 50.0 million in 2014, as well as the planned dividend distributions, will have a negative impact on liquidity. The short and medium term liquidity supply of Dräger Group is secured by existing cash in hand and bank balances and the limits of the existing credit lines, of which most have a term of more than one year.

TASKS AND STRUCTURE OF THE TREASURY DEPARTMENT

The treasury department is responsible for treasury management, secures the Group's liquidity and credit facilities and manages its interest and currency risks. The department acts as a service center with a focus on the corporate risks. The organizational structures and processes and the Group's internal treasury policy ensure transparency and security. The treasury back office, for example, checks and confirms all financial transactions. Treasury Controlling monitors compliance with the limits available and that the conditions agreed are in line with market conditions.

DERIVATIVE FINANCIAL INSTRUMENTS

Dräger generally uses financial instruments only for hedging purposes and not to optimize earnings, although the principles of economic efficiency are also applied to such

NET ASSETS OF THE DRÄGER GROUP

		2007	2008	2009	2010	2011	2012
Non-current assets	€ million	566.4	577.4	657.7	681.0	690.2	711.5
Current assets	€ million	1,071.1	1,077.4	1,228.1	1,295.9	1,425.0	1,389.8
thereof cash and cash equivalents	€ million	160.7	125.2	344.1	320.0	412.3	332.4
Equity	€ million	545.2	553.8	393.8	636.6	729.6	727.2
Debt	€ million	1,092.3	1,101.0	1,492.0	1,340.3	1,385.6	1,374.0
thereof liabilities to banks	€ million	449.6	380.1	465.9	407.5	449.8	387.2
Total assets	€ million	1,637.5	1,654.8	1,885.8	1,976.9	2,115.2	2,101.2
Long-term equity-to-fixed-assets ratio [1]	%	236.4	233.3	211.3	254.5	249.2	239.4

[1] Long-term equity-to-fixed-assets ratio = Total equity and long-term debt divided by total intangible assets and property, plant and equipment

decisions. Transactions of this type are selected and concluded in a uniform manner throughout the Group. Please go to pages 149 and 202 et seq. of the notes for detailed information on the derivatives used by the Company.

NET ASSETS

Total assets decreased by EUR 14.0 million to EUR 2,101.2 million in fiscal year 2012. Cash and cash equivalents dropped by EUR 79.9 million, which was only partially offset by inventories rising by EUR 22.6 million, an increase in trade receivables of EUR 13.8 million and deferred tax assets of 32.2 million. On the liabilities side, loans payable in particular went down (EUR –62.6 million) while pension commitments increased (EUR +50.4 million).

Despite net profit rising to EUR 135.0 million, equity declined by EUR 2.4 million to EUR 727.2 million. The reason for this development was the negative other comprehensive income (EUR 54.9 million), primarily caused by actuarial losses, effects from the buyback of participation certificates, as well as the dividend paid for 2011 in fiscal year 2012 (see page 178 in the notes).

Reduced total assets meant that the equity ratio increased slightly and as of December 31, 2012 was 34.6 percent (December 31, 2011: 34.5 percent).

DRÄGER VALUE ADDED

As of December 31, 2012, Dräger Value Added (DVA) came to EUR 149.7 million (December 31, 2011: EUR 134.6 million), an increase of 11.2 percent year-on-year. Cost of capital increased slightly by 1.0 percent year-on-year as the average capital invested rose by EUR 9.1 million to EUR 888.5 million.

Business performance of the medical division

BUSINESS PERFORMANCE OF THE MEDICAL DIVISION

		Fourth quarter			Twelve months		
		2012	2011	Change in %	2012	2011	Change in %
Order intake	**€ million**	**432.9**	**421.3**	**+2.7**	**1,558.4**	**1,518.8**	**+2.6**
Orders on hand [1]	**€ million**	**310.5**	**319.8**	**(2.9)**	**310.5**	**319.8**	**(2.9)**
Net sales	**€ million**	**494.7**	**486.3**	**+1.7**	**1,558.0**	**1,484.5**	**+5.0**
EBITDA [2,3]	**€ million**	**92.9**	**91.2**	**+1.8**	**211.6**	**217.2**	**(2.5)**
Depreciation / amortization [3]	€ million	(7.0)	(7.2)	(2.2)	(26.6)	(25.3)	+4.9
EBIT [4]	**€ million**	**85.8**	**84.0**	**+2.2**	**185.1**	**191.8**	**(3.5)**
R&D costs	€ million	35.1	31.3	+12.2	135.8	111.1	+22.2
Cash flow from operating activities [3]	€ million	50.2	49.2	+2.1	110.9	130.1	(14.7)
Investments [3]	€ million	11.7	9.7	+21.1	29.1	35.4	(17.7)
Capital employed [1,5]	€ million	583.2	547.2	+6.6	583.2	547.2	+6.6
Net working capital [1,6]	€ million	332.6	279.8	+18.9	332.6	279.8	+18.9
EBIT [4] / net sales	%	17.4	17.3		11.9	12.9	
EBIT [4,7] / capital employed [1,5] (ROCE)	%	31.7	35.1		31.7	35.1	
DVA [8]	€ million	135.2	144.0	(6.1)	135.2	144.0	(6.1)
Total headcount [1]		6,948	6,717	+3.4	6,948	6,717	+3.4

[1] Value as of December 31
[2] EBITDA = Earnings before net interest result, income taxes, depreciation and amortization
[3] Equipment leased out is recognized in property, plant and equipment. The prior-year figures were adjusted accordingly.
[4] EBIT = Earnings before net interest result and income taxes
[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 less current, non-interest-bearing debt
[7] Value of the last twelve months
[8] Dräger Value Added = EBIT less cost of capital

ORDER INTAKE

	Fourth quarter				Twelve months			
€ million	2012	2011	Change in %	Net of currency effects in %	2012	2011	Change in %	Net of currency effects in %
Germany	81.6	78.3	+4.2	+4.2	308.3	311.5	(1.0)	(1.0)
Rest of Europe	157.7	169.2	(6.8)	(7.8)	518.9	548.0	(5.3)	(6.1)
Americas	89.4	76.9	+16.3	+12.2	321.0	314.4	+2.1	(2.8)
Asia / Pacific	75.4	68.7	+9.7	+6.7	276.2	233.0	+18.5	+10.5
Other	28.8	28.2	+2.1	+2.7	134.0	111.9	+19.8	+18.5
Total order intake	**432.9**	**421.3**	**+2.7**	**+1.1**	**1,558.4**	**1,518.8**	**+2.6**	**0.0**

ORDER INTAKE

In fiscal year 2012, order intake in the medical division remained stable (net of currency effects). A drop in Germany, the rest of Europe and the Americas region was offset by strong growth in orders from the Asia / Pacific and Other Countries regions. There was a slight increase in orders in the fourth quarter.

In terms of products, order intake grew in particular in Lifecycle Solutions, Ventilation and Infrastructure Projects. Lifecycle Solutions, which specifically encompasses the service business as well as accessories and consumables, grew in all regions. In Ventilation, business increased in particular in Japan, China and the Americas region. Infrastructure Projects, the area in which Dräger provides gas management systems, supply units and workplace solutions in hospitals, grew due to strong demand, particularly from Saudi Arabia, Mexico and Japan. This more than compensated for weaker business in the rest of Europe and in Germany. In Anesthesia, order intake fell slightly after a strong previous year. Growth in Russia was more than offset by a drop in business in most other European countries. In Neonatal Care, order intake grew in Russia and China, among others. However, this was not sufficient to compensate for the drop in the Americas region and the Other Countries region. In these regions, Dräger won major tenders in the previous year in Venezuela and Iraq. In Monitoring, Systems and IT, there was a double-digit decline in order intake reflecting weaker demand in North America and in the rest of Europe, but also in Germany.

In Germany, strong order intake in Anesthesia and Lifecycle Solutions did not compensate for the drop in Monitoring, Systems and IT, and Infrastructure Projects, where business is mainly project-related. In Germany, there was an increase in order intake in the fourth quarter, again due to strong demand in Lifecycle Solutions.

In the Rest of Europe region, order intake declined significantly both for the whole year and in the fourth quarter. Demand fell particularly steeply in some South European countries, such as Italy and Spain. Business was also weaker in the Netherlands, Poland and Sweden compared to the previous year. There was a clear rise in order intake in Russia, although business in that country did weaken in the fourth quarter in comparison with the very strong prior-year quarter.

ORDERS ON HAND

€ million	December 31, 2012	December 31, 2011	Change in %	Net of currency effects in %
Germany	38.1	41.6	(8.4)	(8.4)
Rest of Europe	92.1	95.9	(4.0)	(5.2)
Americas	76.2	82.0	(7.1)	(5.2)
Asia / Pacific	71.0	63.3	+12.1	+13.9
Other	33.2	37.0	(10.3)	(9.7)
Total orders on hand	**310.5**	**319.8**	**(2.9)**	**(2.4)**

In the Americas region, order intake decreased slightly year-on-year (net of currency effects) despite increases in Brazil, Argentina and Peru. However, Dräger had received large projects in the US and Venezuela in 2011. There was an increase in order intake of 15.5 percent (net of currency effects) in the US in the fourth quarter, particularly for anesthesia devices. Order volume grew in Brazil in the last quarter as well.

Order intake in the Asia / Pacific region increased significantly both for the full year and in the last quarter. Business in Japan showed positive growth following the decline on account of the natural and nuclear disaster in the prior-year. There was also a clear increase in orders in China and India compared to the previous year.

In the Other Countries region we achieved double-digit growth in order intake of 18.5 percent (net of currency effects). One of the factors contributing to this was a clear increase in order volume for the improvement and modernization of the healthcare system in Saudi Arabia. Dräger won a major contract for a series of products in Ghana.

ORDERS ON HAND

On December 31, 2012, orders on hand in the medical division were EUR 310.5 million, down 2.4 percent (net of currency effects) on the prior-year's figure of EUR 319.8 million.

Order intake declined, particularly in the Rest of Europe region and in Germany. In the Americas region and the Other Countries region, order intake declined in the fourth quarter, partially due to strong net sales growth. In the Asia / Pacific region, in contrast, orders on hand continued to rise due to constant high demand in China and India.

Equipment orders on hand covered a 2.6 month period at the balance sheet date, based on net sales for the past twelve months (December 31, 2011: 2.9 months).

NET SALES

In fiscal year 2012, net sales in the medical division increased by 2.3 percent (net of currency effects). A drop in Germany and in the Rest of Europe region was more than offset by a clear increase in net sales in the Asia / Pacific and Other Countries regions. In the fourth quarter, net sales growth was 0.4 percent (net of currency effects).

In terms of products, net sales increased, particularly in Ventilation, Lifecycle Solutions and Neonatal Care. Dräger's business in products for the care of premature babies increased in every region outside Germany. There was a particularly strong increase in deliveries to customers in Iraq, Russia, Saudi Arabia and Ghana. Ventilation net sales increased in every region, with strongest growth in the Other Countries and Asia / Pacific regions, as well as the

NET SALES

	Fourth quarter				Twelve months			
€ million	2012	2011	Change in %	Net of currency effects in %	2012	2011	Change in %	Net of currency effects in %
Germany	94.0	93.9	+0.1	+0.1	309.1	317.9	(2.8)	(2.8)
Rest of Europe	185.9	209.3	(11.2)	(12.1)	522.6	534.7	(2.3)	(3.1)
Americas	99.5	85.4	+16.5	+13.8	323.9	309.1	+4.8	(0.3)
Asia / Pacific	76.6	72.4	+5.8	+3.0	264.8	223.7	+18.4	+10.3
Other	38.8	25.3	+53.2	+51.7	137.7	99.2	+38.8	+37.7
Total net sales	**494.7**	**486.3**	**+1.7**	**+0.4**	**1,558.0**	**1,484.5**	**+5.0**	**+2.3**

US. Lifecycle Solutions, with its accessories, consumables and service business, also rose across the board. A drop was recorded in the Anesthesia business. Growth in Russia and the Asia / Pacific region was not sufficient to compensate for lower net sales in the US and the Rest of Europe region in this product area. Net sales also fell in Monitoring, Systems and IT, particularly due to a drop in deliveries in the rest of Europe and Germany.

In Germany, net sales fell by 2.8 percent. An increase in deliveries in Lifecycle Solutions and Anesthesia could compensate for the drop in Infrastructure Projects and Monitoring, Systems and IT only in the fourth quarter, not for the whole year.

Net sales in the Rest of Europe region fell by 3.1 percent (net of currency effects). Even the strong increase in deliveries to Russia could not compensate for the fall in business with Spain and Italy. The double-digit drop in net sales in the fourth quarter can partially be attributed to a large project in Poland in the prior-year.

Net sales in the Americas region remained stable (net of currency effects). An increase in deliveries in numerous countries in South America compensated for the drop in business in the US of 7.3 percent (net of currency effects). In the fourth quarter there was a clear rise in net sales of 13.8 percent (net of currency effects) for the region in total, whereas in the United States net sales continued to decline.

The strong growth trend in net sales in the Asia / Pacific region continued throughout 2012, with an increase of 10.3 percent (net of currency effects). Dräger recorded net sales growth in China, Japan and Australia. In the fourth quarter, clear increases in net sales in India, Japan and China more than offset a drop in deliveries in Vietnam.

At 37.7 percent (net of currency effects), the Other Countries region showed a quite significant growth. This was due above all to high net sales to the Saudi Arabian Ministry of Health and deliveries to Ghana, Iraq and South Africa.

EARNINGS

In fiscal year 2012, gross profit in the medical division was higher than in the previous year as a result of net sales growth and positive currency effects. The gross margin was nonetheless 0.6 percentage points lower than in the previous year. Low-margin large projects, many in the area of Monitoring Systems and IT, and a change in sales mix, led to lower margins. An inventory allowance in the

lower one-digit million range recorded in the third quarter also had a negative effect on margins. The ratio of net sales from especially profitable business fields was particularly high for the end-of-year business, which meant that the gross margin in the fourth quarter was higher than the same quarter the previous year.

Functional costs in this division were significantly higher in 2012 than in the prior-year. Dräger invested heavily in research and development to support future growth and continued to develop the sales organization in emerging markets. Research and development expenses rose by a total of 22.2 percent compared with the previous year (18.9 percent net of currency effects). In addition, expenditure for the future product portfolio was significantly increased and Dräger also invested in bringing the current product portfolio in line with the EU directive RoHS-II [1]. To ensure the targeted exploitation of growth opportunities, we opened new regional headquarters for Latin America and also opened new sales companies in Panama and Morocco. The euro was weaker compared to the currencies of many countries, which had a positive effect on net sales but a negative one on costs.

EBIT fell by a total of 3.5 percent to EUR 185.1 million (2011: EUR 191.8 million). The EBIT margin of 11.9 percent was down on the previous year's value (2011: 12.9 percent).

INVESTMENTS

In fiscal year 2012, Dräger invested EUR 0.8 million (2011: EUR 1.5 million) in intangible assets and EUR 28.3 million in property, plant and equipment (2011: EUR 33.9 million). In addition to replacements, Dräger invested EUR 2.1 million in a new production and management building in the Czech Republic, EUR 1.4 million in the initial phase of the construction of a new production and development building in China and EUR 1.2 million in the new regional headquarter and sales company for Latin America in Panama. In the prior-year, we invested EUR 6.0 million in the construction of a new production and logistics building for the Infrastructure Projects business as well as EUR 1.6 million in the new Dräger Design Center in Lübeck.

In fiscal year 2012, depreciation and amortization of non-current assets came to EUR 26.6 million (2011: EUR 25.3 million). Investments covered 109.4 percent of depreciation, meaning that non-current assets rose by EUR 2.5 million net.

FINANCIAL POSITION AND NET ASSETS

As of December 31, 2012, capital employed increased by EUR 36.0 million to EUR 583.2 million (December 31, 2011: EUR 547.2 million). The main reasons for this were high inventories and receivables due to increased net sales. Inventories and receivables were also slightly higher than in the previous year in relation to net sales, which had a slightly negative effect on the efficiency of net current assets: The days working capital (coverage of net current assets) fell by 0.7 days to 117.5 days. Cash flow from operating activities came to EUR 110.9 million at the end of the year (2011: EUR 130.1 million). Reduced cash flow was due to a slight reduction in profit as well as to a lower reduction of working capital.

DRÄGER VALUE ADDED

DVA in the medical division decreased in fiscal year 2012 by EUR 8.8 million compared to the previous year, to EUR 135.2 million. This drop in DVA was driven mainly by EBIT, which fell by EUR 6.7 million. Slightly higher average capital employed caused DVA to fall by a further EUR 2.0 million.

[1] EU Directive ›Restrictions of the use of certain hazardous substances in electrical and electronic equipment‹

Business performance of the safety division

BUSINESS PERFORMANCE OF THE SAFETY DIVISION

		Fourth quarter			Twelve months		
		2012	2011	Change in %	2012	2011	Change in %
Order intake	**€ million**	**212.7**	**200.2**	**+6.2**	**880.8**	**805.0**	**+9.4**
Orders on hand [1]	**€ million**	**173.7**	**142.8**	**+21.7**	**173.7**	**142.8**	**+21.7**
Net sales	**€ million**	**241.6**	**221.4**	**+9.1**	**849.3**	**802.7**	**+5.8**
EBITDA [2,3]	**€ million**	**35.7**	**16.0**	**+123.2**	**122.0**	**100.1**	**+21.9**
Depreciation / amortization [3]	€ million	(6.6)	(6.6)	+0.8	(24.8)	(24.0)	+3.4
EBIT [4]	**€ million**	**29.0**	**9.4**	**+209.0**	**97.1**	**76.1**	**+27.7**
R&D costs	€ million	16.0	12.4	+29.7	57.9	44.8	+29.5
Cash flow from operating activities [3]	€ million	28.2	34.1	(17.2)	71.8	60.8	+18.1
Investments [3]	€ million	5.5	8.5	(35.1)	31.2	27.7	+13.0
Capital employed [1,5]	€ million	201.9	192.7	+4.8	201.9	192.7	+4.8
Net working capital [1,6]	€ million	129.8	120.5	+7.7	129.8	120.5	+7.7
EBIT [4] / net sales	%	12.0	4.2		11.4	9.5	
EBIT [4,7] / capital employed [1,5] (ROCE)	%	48.1	39.5		48.1	39.5	
DVA [8]	€ million	78.9	57.5	+37.3	78.9	57.5	+37.3
Total headcount [1]		4,771	4,531	+5.3	4,771	4,531	+5.3

[1] Value as of December 31
[2] EBITDA = Earnings before net interest result, income taxes, depreciation and amortization
[3] Equipment leased out is recognized in property, plant and equipment. The prior-year figures were adjusted accordingly.
[4] EBIT = Earnings before net interest result and income taxes
[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 less current, non-interest-bearing debt
[7] Value of the last twelve months
[8] Dräger Value Added = EBIT less cost of capital

ORDER INTAKE

				Fourth quarter				Twelve months
€ million	2012	2011	Change in %	Net of currency effects in %	2012	2011	Change in %	Net of currency effects in %
Germany	48.9	43.9	+11.4	+11.4	235.6	170.0	+38.6	+38.6
Rest of Europe	91.1	89.8	+1.4	+0.1	330.4	331.2	(0.2)	(1.4)
Americas	34.6	30.5	+13.4	+10.5	136.7	124.0	+10.2	+4.7
Asia / Pacific	28.9	27.7	+4.3	+0.4	139.0	127.3	+9.2	+0.8
Other	9.2	8.3	+9.6	+10.8	39.1	52.5	(25.7)	(25.3)
Total order intake	**212.7**	**200.2**	**+6.2**	**+4.6**	**880.8**	**805.0**	**+9.4**	**+6.8**

ORDER INTAKE

Order intake in the safety division rose by 6.8 percent (net of currency effects) in fiscal year 2012. This figure includes a large Deutsche Bahn order in the medium two-digit million range. Excluding this order, order volume rose by 0.6 percent (net of currency effects). In the fourth quarter, order intake rose by 4.6 percent (net of currency effects).

In terms of products, the strongest growth was in Engineered Solutions. This was the area that received the above-mentioned large order for interchangeable special units for a new generation of tunnel rescue trains. Orders from industrial customers increased slightly, particularly for light respiratory protection devices and oxygen self-rescuers, as well as mobile gas detection products. Figures for stationary gas detection remained slightly below the high prior-year level, which was due above all to projects in the Middle East. Order intake rose again in Services. Demand in the fire services market was uneven around the world, but overall there was a slight increase in order intake.

Order intake in Germany increased significantly due to the large order from Deutsche Bahn. After adjustment for the effect of this large contract, order intake still showed an almost double digit increase in Germany. Growth was achieved in business with industrial customers and customers in the fire services market. In the fourth quarter, demand increased by 11.4 percent, driven by mobile gas detection products for industry and the rental equipment business, as well as personal protective equipment for fire services.

Order intake in the Rest of Europe region dropped slightly (net of currency effects). Particularly in South Europe, there was reluctance to invest in safety technology systems, which means that demand fell as a consequence. Dräger was unable to repeat the very high order volume of the previous year in Scandinavia and Russia. There was an increase in order intake from Poland, however, from customers in the mining sector.

Order intake in the Americas region rose by 4.7 percent (net of currency effects). There was significant growth due to orders from customers in the fire services in Canada. In the US, orders for stationary gas detection systems increased from customers in the oil and gas industry, as did orders for thermal imaging cameras for fire services. In the fourth quarter, demand rose by 10.5 percent (net of currency effects). Among other things, we received a large order from the US for respiratory protection devices.

Order intake in the Asia / Pacific region remained stable (net of currency effects). In Australia, we exceeded the very good order figure for the prior-year. Among other things, we received an order for a fire training facility from the Melbourne airport fire service. Several orders for respiratory protection devices for the fire services came from Indonesia. In China, demand from customers in the mining sector and the fire services market declined. In the fourth quarter, an increase in demand was recorded in China for mobile gas detection products in particular.

Order intake in the Other Countries region declined significantly by 25.3 percent (net of currency effects). Business performance in this region is strongly project-dependent. Dräger had received large one-off orders from this region in the prior-year. The Company received a large order in 2012 for respiratory protection devices from a customer in the fire services market. In the fourth quarter there was increased demand for stationary gas detection systems for the oil and gas industry.

ORDERS ON HAND

As of December 31, 2012, orders on hand were significantly up year-on-year (net of currency effects). This figure contains the above-mentioned large Deutsche Bahn order, which has a four-year delivery period, to 2016. Orders on hand declined by 11.2 percent excluding the impact from large projects, such as the tunnel rescue trains and the deep sea diving systems of the previous year.

Lower demand due to a reduction in investment activities in South Europe led to a decline in orders on hand for the Rest of Europe region. Orders on hand declined significantly in the Asia / Pacific region as a result of large deliveries in Australia. Dräger also delivered large orders in the Other Countries region in 2012 that in the previous year were still contained in the orders on hand figure.

As of December 31, 2012, equipment orders on hand excluding the above-mentioned large order covered a 1.9 month period, based on net sales for the past twelve months (December 31, 2011: 2.1 months).

NET SALES

The safety division increased net sales by 3.2 percent in fiscal year 2012 (net of currency effects), while when the impact from net sales from the discontinued project business in the deep sea diving systems area is deducted, this increase was 5.3 percent. In the fourth quarter, deliveries increased by 7.6 percent (net of currency effects).

Net sales grew most significantly in the service and maintenance business, but also in equipment orders. Net sales to customers in the fire services increased due to Dräger's

ORDERS ON HAND

€ million	December 31, 2012	December 31, 2011	Change in %	Net of currency effects in %
Germany	77.5	26.5	+192.5	+192.5
Rest of Europe	49.1	58.6	(16.2)	(17.6)
Americas	15.1	16.0	(5.6)	(3.8)
Asia / Pacific	21.3	26.5	(19.6)	(19.2)
Other	10.7	15.2	(29.6)	(28.9)
Total orders on hand	**173.7**	**142.8**	**+21.7**	**+21.5**

NET SALES

	Fourth quarter				Twelve months			
€ million	2012	2011	Change in %	Net of currency effects in %	2012	2011	Change in %	Net of currency effects in %
Germany	58.3	51.2	+13.9	+13.9	184.6	169.0	+9.2	+9.2
Rest of Europe	99.2	90.2	+10.0	+8.4	344.5	334.0	+3.1	+1.9
Americas	36.6	33.2	+10.2	+8.4	137.2	131.2	+4.6	(0.5)
Asia / Pacific	36.9	30.8	+19.8	+14.6	139.5	122.4	+14.0	+5.3
Other	10.6	16.0	(33.8)	(32.5)	43.6	46.1	(5.5)	(5.0)
Total net sales	**241.6**	**221.4**	**+9.1**	**+7.6**	**849.3**	**802.7**	**+5.8**	**+3.2**

extensive portfolio of products and services. Demand was particularly high for the new thermal imaging cameras, compressors and fire training systems. In terms of business with industrial customers, growth was recorded in particular in the stationary gas detection business. There was a drop in net sales in Engineered Solutions project business. Adjusted for the deep sea diving project business, however, there was clear growth in this business.

Net sales of respiratory protection devices – oxygen self-rescuers and compressed air breathing apparatus – increased in Germany, as did net sales of stationary gas detection devices. Among customers in the fire services, growth was recorded in sales of thermal imaging cameras, among other products. In the fourth quarter, Dräger invoiced large orders for industrial customers and the German Navy.

Net sales increased on the prior-year in the Rest of Europe region by 1.9 percent (net of currency effects). Net of deep sea diving systems, growth was 5.0 percent. In the Netherlands, Dräger delivered high numbers of mobile gas detection products and fire alarm systems. In Poland, net sales increased driven by mobile gas detection systems. Increased net sales were recorded to customers in Russia of stationary gas detection equipment, respiratory protection devices and alcohol testing devices. In South Europe, Dräger profited from orders on hand from the previous year, which meant that net sales remained on a similar level to the previous year. In the fourth quarter, net sales increased significantly due to deliveries to customers in the Netherlands, Switzerland and Great Britain.

Despite increased net sales of 8.4 percent (net of currency effects) in the fourth quarter, deliveries in the Americas region remained on the same level as the prior-year. Adjusted for the deep sea diving systems, net sales in the region rose by 4.4 percent in the fiscal year. In the US, growth in sales to industrial customers more than compensated for the somewhat lower demand from customers in the fire services. Growth was positive in Canada, where respiratory protection devices, gas detection devices and alcohol testing devices were in particular demand. In Brazil, deliveries to customers in the oil and gas industries, as well as in the mining sector, increased.

Net sales in the Asia / Pacific region grew by 5.3 percent (net of currency effects). Net sales in Australia and New Zealand increased significantly again. Products with strong demand included oxygen self-rescuers and alcohol testing devices. An order from the Melbourne airport fire service is already included on a pro rata basis in net sales

figures for 2012. Net sales rose in Indonesia due to deliveries of respiratory protection devices and fire training systems. There was a slight reduction in net sales (–2.8 percent) in China in fiscal year 2012. Low demand from customers in the mining sector and the fire services had a negative effect in this regard. Net sales in the Asia / Pacific region increased significantly in the fourth quarter by 14.6 percent (net of currency effects). Deliveries to China, South Korea and Singapore contributed to this.

Net sales in the Other Countries region fell by 5.0 percent (net of currency effects). Deliveries of extensive orders in Saudi Arabia and the United Arab Emirates did not achieve the same values in fiscal year 2012 as were attained through projects in this region in the prior-year.

EARNINGS

In fiscal year 2012, gross profit in the safety division was higher than in the previous year as a result of net sales growth and positive currency effects. This led to an increase in the gross margin of 1.3 percentage points year-on-year. A further increase in margins was recorded in particular in the more profitable segments. In addition, the margin in the fourth quarter of the prior-year was overshadowed by additional impairment losses on canceled projects and for spare parts valuation in the medium one-digit million range.

Research and development costs went up by 29.5 percent year-on-year as a result of our ongoing innovation offensive to EUR 57.9 million (2011: EUR 44.8 million). The safety division brought a total of 14 new products to market. Marketing, selling and administrative expenses were similar to the previous year. Higher costs for expanding the sales structures in growth markets were balanced by a drop in general and administrative costs.

EBIT in the safety division rose by 27.7 percent as a result of these developments, to EUR 97.1 million (2011: EUR 76.1 million). The EBIT margin went up from 9.5 percent in the previous year to 11.4 percent in 2012.

INVESTMENTS

In to 2012, Dräger invested EUR 30.4 million (2011: EUR 26.8 million) in property, plant and equipment and EUR 0.8 million (2011: EUR 0.9 million) in intangible assets in the safety division. This rise is mainly due to a higher equipment rental business volume as well as investments in modernization measures at the production site in Blyth, United Kingdom.

Depreciation and amortization amounted to EUR 24.8 million (2011: EUR 24.0 million). Investments therefore covered up to 125.8 percent of depreciation and amortization (2011: 115.4 percent) and non-current assets rose by EUR 6.4 million net.

FINANCIAL POSITION AND NET ASSETS

Capital employed in the safety division increased by 4.8 percent to EUR 201.9 million (2011: EUR 192.7 million) due mainly to an absolute rise in working capital. Inventories and trade receivables increased, while payables fell. The days working capital figure (coverage of net current assets) was 98.3 days in the safety division, 0.9 days below the previous year figure. Cash flow from operating activities went up year-on-year to EUR 71.8 million due to ends of periods effects and as a result of higher profitability (2011: EUR 60.8 million).

DRÄGER VALUE ADDED

DVA in the safety division rose by EUR 21.4 million to EUR 78.9 million (2011: EUR 57.5 million). This increase in DVA was mainly driven by the EUR 21.1 million increase in EBIT (on a twelve-month rolling basis).

Business performance of Drägerwerk AG & Co. KGaA / other companies

BUSINESS PERFORMANCE OF DRÄGERWERK AG & CO. KGAA / OTHER COMPANIES

		Fourth quarter			Twelve months		
		2012	2011	Change in %	2012	2011	Change in %
Order intake	**€ million**	**4.6**	**4.5**	**+0.4**	**16.2**	**16.2**	**(0.1)**
Orders on hand [1]	**€ million**	**0.0**	**0.0**		**0.0**	**0.0**	
Net sales	**€ million**	**4.6**	**4.5**	**+0.4**	**16.2**	**16.2**	**(0.1)**
EBITDA [2]	**€ million**	**39.2**	**15.4**	**+155.3**	**212.3**	**149.0**	**+42.5**
Depreciation / amortization	€ million	(4.4)	(3.5)	+25.6	(14.2)	(11.5)	+24.1
EBIT [3]	**€ million**	**34.8**	**11.8**	**+194.1**	**198.1**	**137.5**	**+44.0**
R&D costs	€ million	1.2	1.7	(26.9)	3.6	4.7	(23.0)
Cash flow from operating activities	€ million	49.8	21.7	+129.5	190.7	128.2	+48.8
Investments	€ million	6.4	7.8	(17.9)	18.1	13.9	+30.3
Capital employed [1,4]	€ million	724.3	747.8	(3.1)	724.3	747.8	(3.1)
Net working capital [1, 5]	€ million	(57.9)	(37.3)	(55.4)	(57.9)	(37.3)	(55.4)
Total headcount [1]		797	676	+17.9	797	676	+17.9

[1] Value as of December 31
[2] EBITDA = Earnings before net interest result, income taxes, depreciation and amortization
[3] EBIT = Earnings before net interest result and income taxes
[4] Capital employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
[5] Net working capital = current, non-interest-bearing assets less current, non-interest-bearing debt

EARNINGS

Drägerwerk AG & Co. KGaA is the parent company of the Dräger Group. Together with the other companies, it provides services to the medical and safety divisions and their companies.

Drägerwerk AG & Co. KGaA/Other companies' EBIT rose in fiscal year 2012 to EUR 198.1 million (2011: EUR 137.5 million). This increase resulted from the rise in profits for 2012 in the amount of EUR 249.3 million (2011: EUR 190.2 million), primarily coming from Dräger Medical GmbH and Dräger Safety AG & Co. KGaA.

In the fourth quarter of 2012, Drägerwerk AG & Co. KGaA/Other companies' EBIT rose to EUR 34.8 million (fourth quarter 2011: EUR 11.8 million). This increase resulted for the most part from the rise in profits for the fourth quarter of 2012 of EUR 57.5 million (fourth quarter 2011: EUR 31.0 million), with the majority coming from Dräger Medical GmbH and Dräger Safety AG & Co. KGaA.

INVESTMENTS

In 2012, Dräger invested EUR 18.1 million in intangible assets and property, plant and equipment (2011: EUR 13.9 million). These investments were mainly made to improve and modernize the IT infrastructure. Further significant investments were made in the SAP HCM (Human Capital Management) system and in the continued, consistent expansion of the global CRM (Customer Relationship Management) system.

Research and Development

Dräger attaches a great deal of importance to its research and development (R&D) activities. The Company therefore works hard to expand these in order to increase competitiveness through new and improved products. Dräger has also expanded its R&D activities geographically, with the extension of R&D centers in Beijing and Shanghai, China. These centers develop local product modifications and adjustments for the growing Asian market.

In fiscal year 2012, research and development costs increased by EUR 36.8 million to EUR 197.3 million (2011: EUR 160.5 million). This figure corresponds to 8.3 percent of net sales (2011: 7.1 percent). There were three reasons for this increase: Dräger increased the number and intensity of development projects; the Company also updated a number of products in order to ensure their compliance, particularly with the RoHS II [1] European Union Guideline; and the annual average rise of the US dollar against the euro increased research and development costs.

Dräger obtained services from external research partners in 2012 for a volume of EUR 33.1 million (2011: EUR 25.5 million). This amount accounts for 16.8 percent of total research and development expenses (2011: 15.9 percent), meaning that the ratio has risen by 0.9 percentage points year-on-year. Dräger purchased external research and development services primarily in order to have access to expert knowledge in niche technologies for the development of individual components for devices and accessories. This measure increases product quality and shortens development periods, meaning that devices can be launched more quickly, and it also increases flexibility. Dräger enters into long-term exclusive partnerships to protect the results of such external development work.

On December 31, 2012, 1,215 employees worked in research and development in the medical and safety divisions worldwide (December 31, 2011: 1,060). 52 people worked in Central Basic Research in Lübeck at that time (December 31, 2011: 49). In 2012, patent and trademark offices around the world issued 122 new patents to Dräger (2011: 118). The Company also applied for another 95 patents at international patent and trademark offices (2011: 87).

[1] EU directive ›Restrictions of the use of certain hazardous substances in electrical and electronic equipment‹

RESEARCH AND DEVELOPMENT

R&D costs in € million	2007	2008	2009	2010	2011	2012
Medical division	89.1	104.7	107.8	101.1	111.1	135.8
in % of net sales	7.4	8.4	8.5	6.9	7.5	8.7
Safety division	31.2	34.6	39.3	43.9	44.8	57.9
in % of net sales	4.9	4.9	5.8	6.0	5.6	6.8
Drägerwerk AG & Co. KGaA	1.6	2.7	2.3	3.3	4.7	3.6
Dräger Group	121.9	142.0	149.4	148.4	160.5	197.3
in % of net sales	6.7	7.4	7.8	6.8	7.1	8.3
Headcount	949	1,058	992	1,005	1,109	1,267

Basic Research analyzed and assessed chances and opportunities for Dräger business from a technological perspective last fiscal year. Some of these analyses will be put into practice in 2013 as technology projects. Dräger also worked on application-based innovations in more than 40 technology projects. Eleven of these projects were completed in 2012, seven for medical technology applications and four for safety equipment applications. These technologies are now available for product development. They include innovations that can significantly improve the control of ventilation for patients in critical care, and technologies that will enable Dräger to make its electro-chemical sensors stand out even more from the competition. In the process, employees in Basic Research produced more than 30 inventions for which patent applications are currently being prepared.

MEDICAL DIVISION

In 2012, Dräger again developed numerous new and existing medical technology products: eleven new devices and device expansions (2011: eight) and four accessories (2011: five).

The new anesthesia workstation “Dräger Perseus A500” was one of the highlights. It was premiered to industry professionals at the World Congress of Anesthesiologists (WCA) in Buenos Aires, Argentina, at the end of March 2012. The “Perseus A500” provides a flexible workstation design for hospital employees, a link to the Infinity Acute Care System Monitoring (IACS), critical patient care and automated functions that support work processes in the operating room. Our “SmartPilot View” calculates the combined effect of anesthetics and pain killers and displays them graphically. The new Version 2.0 software supports the “Perseus A500”. It can also depict laughing gas (N_2O) and, as an additional innovation, includes the Dräger-developed Noxious Stimulation Response Index (“NSRI”). The Group has also added new functions to the IACS, therefore improving data exchange between therapy devices. The “Infinity Medical Cockpit”, for instance, takes over anesthesia data from the “Perseus A500” and displays it on a monitor in real time, together with the patient’s vital statistics. When the portable monitoring component “M540” is connected to the “Perseus A500”, it automatically adjusts its alarm pattern to the situation in the operating room. The wireless LAN function (WLAN) for the portable Infinity “M540” monitor during patient transport is another innovation in the connection of the IACS. The “M540” automatically switches to WLAN operation as soon as it is removed from its docking station on the hospital bed. During transport, all vital statistics are transmitted using a wireless connection via the hospital network to continue recording electronic data.

In order to meet requirements for safe and effective acute patient care, Dräger has had its "ICM" patient data management system certified as a class II medical product. The new version, "ICM 8", not only documents all relevant patient data as before, but also provides doctors and care personnel with a diagnosis and treatment assessment to plan further measures.

In addition to launching the "Perseus A500", Dräger further developed the "Primus" and "Fabius" anesthesia devices portfolio. The display of additional trends on the "Primus" helps to optimize patient ventilation. Dräger developed the "Fabius+XL" on the Shanghai site specifically for its customers in emerging markets. The device has been significantly improved in terms of design, ergonomics, ease of use and workstation design. In addition, in Ventilation the Group has also further developed the "Savina 300" device. With its additional ventilation modes and monitoring functions, it provides customers with even more therapy options. We introduced additional components, such as the multi-monitor bracket "Pendula", for hospital infrastructures. Our "Advanced workplace design" concept offers product solutions for hospitals, which take particular account of aspects such as safety, ergonomics, efficiency and comfort.

SAFETY DIVISION

Research and development in the safety division once again launched a large number of products in 2012: The division brought a total of 14 new products to the market (2011: 18).

A highlight in 2012 was the launch of the "Dräger X-act 5000" automatic tube pump. This is a protected all-in-one solution for measurements with Dräger short-term tubes and sampling. The "Dräger X-act 5000" recognizes the tube type with a barcode scanner and automatically adjusts all measurement parameters without requiring any additional input. This simplifies measurement preparations and reduces potential error sources. Dräger also further optimized its tube portfolio with the introduction of new nitrogen dioxide tubes.

In the portable gas detector business, Dräger launched the "Dräger X-am 5100", a small, light, one-gas detector that is perfectly suited for meeting the requirements of personal gas detection. It can be fitted with an electro-chemical sensor either for hydrogen peroxide, hydrazine, hydrogen fluoride or hydrogen chloride. The Group also expanded the stationary gas detection portfolio. The "DrägerSensor EC" and "DrägerSensor MEC" electro-chemical sensors completed the Polytron-8000 series. For the first time ever, we are offering a product family that reflects all stationary gas detection measurement technologies. This provides customers with a wide range of combinations for measurements, all depending on the specific application and regulatory requirements.

We added the "Dräger Merlin Software" to our "Dräger PSS Merlin Telemetry System." We therefore provide the firefighting sector with a software-based telemetric monitoring system that always gives a precise overview of all respiratory protection devices in operation. The software enables fully automated registration and compiles operational reports.

There were also new developments in respiratory protection systems. We developed the "Dräger Hybrid System (DHS) 7000", a modular respiratory protection system, for the US market. Users can operate the system as a filter, fan or compressed air breathing apparatus with just one mask. The "Dräger Oxy 3000" is a respiratory protection device that operates independently of the ambient air. It enables the user to escape from environments in which smoke or toxic gas may pose a hazard, or where there is a lack of oxygen.

New technologies and materials mean that products can be made more user-friendly and new product characteristics can be developed. For example, respiratory protec-

tion filters can be even more specifically tailored for various areas of application and the performance of gas sensors can be improved. This enables Dräger to increase customer safety as much as possible and to offer lower costs on account of an optimized process chain.

Purchasing

Strategic Purchasing is responsible for obtaining all of the materials and services required within Dräger – from electronic printed circuit boards and complex mechatronic systems such as cockpits and trolleys, plastic and machining parts, to fleet management and IT services. Purchasing volume last year was EUR 999 million (2011: EUR 980 million), more than half of which can be attributed to production materials. In 2012, Strategic Purchasing consistently developed its material groups and supplier strategies and also stipulated the general terms for cooperation with suppliers. Dräger's global purchasing strategy is based on four pillars: innovation, quality, reliability and competitiveness. This strategy has enabled the Group to overcome the challenge of higher turnover in the fiscal year and therefore increased production quantities, in combination with increasing pressure to lower costs.

INNOVATION

Dräger concentrated last year on two strategic elements intended to provide an innovative approach to purchasing: This allowed further improvements to time to market – that is, the shortening of the time that passes until a product idea becomes a product that is ready to be launched – and an important contribution was also made to design to cost within Dräger. Design to cost means that products are designed and constructed with a view to keeping manufacturing costs as low as possible. Both succeeded by involving Dräger's strategic partners at an even earlier point in the development process. This is where Strategic Purchasing, in conjunction with suppliers, plays an important role involving significant responsibility in the product development process.

SUPPLIER QUALITY

The objective of the supplier quality improvement program, or SQIP, launched at the end of 2010, is to optimize all aspects of Dräger's supplier portfolio. In fiscal year 2012, this improvement program enabled Dräger to reduce the failure rate of 20 SQIP suppliers by up to 35 percent, for example.

This was a major success for both the Group and its suppliers. The Group also used the experiences gained from this quality improvement program to make tangible improvements to its basic cooperation with suppliers. Two examples of this are a more efficient initial sampling process and an optimized complaints procedure.

At supplier day, held on March 6, 2012, Dräger rewarded six top suppliers for the first time for their excellent performance in the categories services, quality, innovation, logistics, and competitiveness, with one supplier also declared the overall winner in all categories. The event slogan was "Who stops becoming better, stops being good". Supplier day is an important part of Dräger's collaboration with preferred suppliers and strategic partners. It has been made an essential part of supplier management that will take place annually in the future.

RELIABILITY

An improved comprehensive supplier management system also played an important part in the success of the Company this year. Close collaboration with Dräger's suppliers enabled the Company to continuously improve supply capacity in all locations, even in conjunction with increased unit output. The guarantee of success was provided by numerous workshops with selected suppliers. These workshops will be repeated in the future.

COMPETITIVENESS

If Dräger is to remain internationally competitive, it must take action concerning not only the purchase of raw materials, but also non-production materials and services. Throughout all of last year, raw material provision was at all times guaranteed to be in line with consumption during production. Prices fluctuated, as also happened in 2011, but remained for many raw materials under the level of the previous year. Platinum powder and aluminum in particular were purchased considerably more economically by setting prices early.

In terms of strategy, in 2012 Dräger worked on the reorganization of purchasing processes with a view to increasing competitiveness. This allowed further decisive progress to be made towards the implementation and networking of a tailored value analysis concept: Dräger Value Managers in purchasing are now involved in product development and further development processes from a very early stage. The content of the main processes – value analysis and target price analysis for optimizing product costs – was set out again and the timing was adapted to the individual product development phases.

An important function within Strategic Purchasing is what is known as Global Commodity Management. This function is responsible for drawing up a strategy for each material group and implementing this Group-wide. The supplier strategies for the strategic partners are drawn up in response to these strategies and applied throughout the Company.

Following the reorganization of Purchasing in 2010 and the establishment of the strategically focused Global Commodity Management in Mechanics and Electronics, the next optimization step was implemented in this area mid-2012, with the aim of obtaining components and modules as efficiently as possible around the world. The task of Global Commodity Management was given a significantly more strategic focus in order to better meet the demands placed on a comprehensive material group and supplier management system, particularly with a view to standardization and the implementation of Group-wide solutions. A clearly measurable improvement in supplier quality and reliability was visible within just a few months of implementation.

A further strength in the implementation of Dräger's purchasing strategy last year was the limiting of supplier numbers in order to simplify processes within the Company. Dräger's aim in this regard is to conduct more business with its compatible suppliers. This will ultimately help the Company to improve all four pillars of the purchasing strategy.

Quality

Dräger has implemented a variety of activities and programs in recent years aimed at improving the quality and reliability of its products. The "Six Sigma" method is particularly noteworthy and has already been introduced in large areas of the Company. Preventative quality work in development projects and the continuous improvement of existing products meant that quality key figures, for example device breakdowns among Dräger customers, improved significantly again in fiscal year 2012.

Last year, Dräger focused particularly on improving the quality of products made in the US. The established "Six Sigma" method was also used for this. In addition, the introduction of quality management instruments in the development process on American sites continued. These were successfully implemented in Lübeck some years ago.

PRODUCT QUALITY AND SAFETY

A new Dräger process landscape was developed in fiscal year 2012. This involved the description and assessment of internal processes so that they can be continuously improved, along with efficiency in production and the provision of services in line with customer requirements. The business and support processes documented in this system provide the basis for the different process-oriented quality management systems. In many countries the certification of these systems is a legal requirement for the launch of products, such as medical technology, gas detection devices or personal protective equipment. Furthermore, customers often demand to see proof of the Company's management systems for quality, occupational health and safety, and environmental protection, prior to placing an order.

For this reason, all 14 production sites have for some years had quality management systems certified in accordance with DIN EN ISO 9001. As in the previous years, this corresponds to a rate of 100 percent. In addition, the management systems of ten (previous year: nine) of our 14 production sites are also certified in accordance with OHSAS 18001, an international standard for occupational health and safety. The management systems were checked again in 2012 in internal and external audits and were confirmed to be working effectively. You can find more information on this subject on the Dräger website at www.draeger.com/certificates.

Production and logistics

The Production and Logistics function has been organized on a regional basis since June 1, 2012. This change is intended to place an even stronger focus on Dräger markets and customers, to help better understand their differing requirements, and to meet these requirements as far as possible. With this aim, Dräger has created a global Management Team. The team members are all of the heads of production in Lübeck, as well as all of the regional heads of this function in Dräger's wider markets.

Dräger is also continuing to invest in its Lübeck site. A new production facility was built there in 2011 and planning continued in 2012 for a basic site structure concept. This concept aims to optimize the flow of materials and the production layout in the Lübeck factory. The project would also meet requirements for increasing production volumes with a smaller total floor area.

As part of its regular site analyses, Dräger has decided to shift production of masks and chemical protection suits from Lübeck to the Chomutov site in the Czech Republic. This will enable the Company to remain competitive in these products' market. The production site in Blyth, United Kingdom, was the overall winner of the "Manufacturing Excellence Award" of the British "Institution of Mechanical Engineers". This annual award is one of the most well-known and longest-established awards programs in the processing industry in the UK. Dräger was given the prestigious award in several categories, including Customer Focus, Innovation, Logistics and Operational Efficiency, People Effectiveness, Business Development, Financial Management and Sustainable Manufacturing.

Dräger intends to significantly expand its development and production site in Shanghai, China, in 2013. Groundbreaking for the site expansion began in October 2012, and the building should be ready for use by the end of 2013. Dräger intends to expand this site in the coming years to become a lead factory in the Asia-Pacific region, with the specific aim of meeting the constantly growing demand in the region. This lead factory will manufacture complex products using state-of-the-art technology and processes.

New Marketing and Sales Organization

In recent years, Dräger has been committed to adapting its management model to functional structures (see the details on the internal control system on pages 67 et seq.) In 2012, the company introduced cross-customer area functions in Sales. The new global marketing structure came into force at the start of 2013. This new structure replaces the old structure based on strategic business fields (SBF) and reorganizes the Company's marketing processes.

Our business is very diverse in terms of our products, and also our customers and markets. This diversity helps us to overcome strains such as economic cycles more easily. At the same time we must ensure that we exploit the full potential of these diverse business activities. "One Dräger" is an important step in that direction.

MARKET SEGMENTS AND KEY-APPLICATION-FIELDS IN CONSTRUCTIVE DIALOG

In order to better meet the needs of its different customer groups, Dräger has identified five segments with the greatest business potential and will address specifically these segments. At the same time the Company will further develop the products and solutions in its 17 key-application-fields. These key-application-fields are the basis of the product range that we offer our customers both within and beyond the segments. We expect net sales of products and solutions to customers who cannot be classified into any of the five segments to continue to make a significant contribution to total net sales in the future.

The five segments are:

- Hospital,
- Oil and gas (including petro-chemical industry),
- Chemical industry,
- Mining and
- Fire services.

The focus within the Hospital segment will be on the customer areas Operating Rooms, Critical Care Units and Perinatal Care, as well as Hospital Wide Solutions. The focus in the other four segments is on integrated hazard management as well as personal and system protection. The focal points are different forms of gas detection and various pieces of personal protection equipment. Customer service is provided throughout the entire product lifecycle – from the sale of safety devices to staff training, maintenance and service. The development of emergency concepts, such as in mining, is a further aspect. Increasingly, modern service forms, such as the so-called Safety Shop, are also playing a role, for example in the chemical sector or the oil and gas industry.

Our key-application-fields include the continuous monitoring of toxic and explosive gases in industrial sectors, breath alcohol testing and professional diving. The hospital segment encompasses thermal beds, anesthesia and ventilation equipment and gas supply units, patient monitoring systems and patient data management. In many of these customer areas we are already the leading supplier worldwide, and we would like to continue to build on our market position.

The goal of the new structure is for Dräger to better exploit business potential in every segment and in every application field in order to achieve stronger and more profitable growth.

Realignment of Marketing

The new global Marketing organization is particularly focused on early recognition of technology and market trends as well as customer requirements. In this way, it should contribute to making sure that we remain or become our customers' first choice, helping us to achieve our long-term financial goals.

Dräger's new Marketing organization is divided into three specialized functional areas. These work closely together with the aim of making our marketing activities even more powerful. The individual areas are:

SEGMENT MANAGEMENT AND STRATEGIC MARKETING

This customer area pools together the development and design of the strategic marketing process. It also has the ongoing task of finding out even more about what Dräger customers require from the Company's solutions and products. Another focal point is the observation and evaluation of market trends.

PRODUCT MANAGEMENT AND APPLICATION MARKETING

This customer area will expand our cross-product and cross-technology application expertise and will be responsible for application-focused product management. To do this, it must recognize trends in technology early, but must also set such trends. In close collaboration with research and development, this will then result in long-term product development that will ensure Dräger products are perfectly adapted to customer requirements in terms of both specifications and delivery times.

COMMUNICATION AND MARKETING

The customer area Communication and Marketing will develop communications concepts and implement them globally. Communication creates additional added value for customers. As personal contact with sales and service is a decisive factor in customer perception of the Dräger brand, sales support is the cornerstone of activities in this customer area.

Sales and Service

COMMON REGIONAL STRUCTURES FOR MEDICAL AND SAFETY DIVISIONS

In 2012, Dräger restructured its global business and organized sales and service across multiple divisions in seven different regions. Alongside three European regions (North, Central, South), which account for half of the Company's business, Dräger has also created four regions outside of Europe: Asia / Pacific, Central and South America, North America and Middle East / Africa. Each region is headed by a Regional Sales and Service Manager. This regional concept guarantees the necessary intimacy with Dräger's customers and helps the Company to develop infrastructure and resources in individual markets in a consistent manner.

EXPANSION OF THE GLOBAL INFRASTRUCTURE

In August 2012, Dräger's newest sales region CSA (Central and South America) moved into its new headquarters in Panama City. With this step, Dräger wants to enhance customer intimacy in the region and be able to have a better understanding of their specific requirements in order to operate successfully in this important growth region moving forward.

GROWING SERVICE BUSINESS

Dräger's business does not just include classic sales of equipment and accessories, the Company also offers services that guarantee the full operation and safety of its systems. Complete service packages for the hospital segment, for example, range from on-site maintenance to Dräger equipment and systems through to the provision of the necessary accessories. In addition, Dräger also operates project business which will be illustrated in more detail in the following section. In Dräger's safety division business with industrial customers, the Company not only protects its customers' employees through our products and solutions, but also external employees who, during large-scale changes to equipment and systems, can sometimes even outnumber the customer's workforce. The service concept for such change projects ranges from solutions catering for additional safety equipment and gas detection systems, training and instruction and additional operative resources for managing and completing inspection projects.

INCREASED IMPORTANCE OF PROJECT BUSINESS

Dräger differentiates itself from its competitors through engineered project solutions. It reduces complexity for the customers and therefore offers them added value. This increases customer satisfaction and customer loyalty.

Dräger solutions for hospitals, for example, allow existing network systems to be used for patient monitoring systems and clinical patient data management systems and permits remote access to patient data and mobile monitoring of patients' vital signs. Dräger project management integrates all of these solutions into the existing IT infrastructure.

For operating rooms and critical care units, the Company develops systems to optimize workplace ergonomics and the positioning of patient and equipment. This provides notable improvements to safety, quality and efficiency in dealing with patients. Project business requires different means and methods in terms of acquisition, as Dräger engineers a solution together with our customers. This is why the Company continues to develop its 3D visualization tools and establish additional Design Centers in selected countries in addition to the modern Design Center in Lübeck. This allows Dräger customers to experience the Company's products "live" and gain an insight into their appearance and ergonomics. In the summer of 2012, Dräger opened a new Design Center in Mumbai, India, which attracted a great deal of attention from potential customers.

Dräger also sees a great deal of potential in industry, mining and fire services to drive forward its project business. While the Company already supports a number of global customers in stationary gas detection system projects around the world, it believes there is still a great deal of potential in fire service training systems, tunnel rescue trains and refuge chambers for mining and industry – particularly in emerging countries where these markets are growing rapidly.

DRÄGER ACADEMY – KNOWLEDGE FOR THE REAL WORLD

Dräger develops products and solutions that protect and save lives. The most important aspect of the Company's work is knowledge of laws and regulations, our products, their application and maintenance as well as of the latest topics and trends.

Dräger Academy offers seminars, training courses and workshops. Employees at hospitals or in the fire service, in mining, industry or the public sector can learn how to structure their work more safely and more effectively. They gain fundamental knowledge, expand their expertise and practice their skills in a realistic environment. This allows them to become accustomed to using Dräger products and solutions. They also learn how to make best use of the products in accordance with their own, respective requirements. Over 22,000 customers in Germany alone have already taken part. Dräger intends to expand the Dräger Academy both in terms of content and in terms of global availability.

GREATER DIVERSITY OF SALES CHANNELS

The diversity of the markets, customer segments, applications and business areas at Dräger means that the Company must consistently develop its sales channels. That's why Dräger analyzes and evaluates its sales channels on a regular basis and adapts them where necessary to reach both existing customers and potential customers even better. Dräger currently uses a direct sales model, sales via distributors and specialist retails and, in selected markets, also new sales channels such as electronic marketplaces or web shops. There, customers not in search of expert advice can simply and easily order products, accessories and replacement parts.

Corporate IT

IT STRATEGY

Dräger's fundamental goal is still to support its business processes and all areas, departments and employees with IT. In 2012, the Company's focus shifted to employee IT workstations, following the previous year's focus on the modernization of the computer center. The Strategic Hosting Provider (SHP) project linked to this was completed. In a large project in 2012, Dräger replaced more than 50 percent of end user terminals, including end user software. This increased user productivity in performance-related areas. Dräger also introduced improved service processes for user support with the aim of further increasing the satisfaction of internal customers. The Company continues to expand partnerships with strategic suppliers. This process includes renewing and updating the content of important contracts. This will enable Dräger to react more flexibly to new IT requirements within business processes in the future. It also laid the foundations for future modernization processes. One large project was successfully completed as part of Dräger's back end processes: the connection of every location around the world to the Dräger computer center. This made network connections even faster and more secure.

Last year, as announced, the focus of the Group's IT investments was preparation for the global consolidation of numerous enterprise resource planning (ERP) systems from various developers with the aim of gradually integrating them into a global SAP system. By 2016, some 70 percent of the total net sales volume within the Group should be conducted within a joint SAP template. The first step to achieving this is the introduction of a joint SAP template in Dräger Safety AG & Co. KGaA in 2013.

The basis for the uniform SAP template is a project designed to transfer the previously very diverse process models within the medical and safety divisions into a joint Dräger process landscape. The aim of this is to harmonize administrative tasks through all of the departments and customer segments. At the same time, Dräger is tightening its supply chain. This encompasses every area from materials requirements planning to procurement and production, right up to customer supply. A first milestone in this process in 2012 was the development and adoption of joint business processes. Every area of production in Germany should already be conducting its manufacturing processes via a joint SAP system in 2013.

In order to increase customer loyalty, Dräger is continuing to develop its customer relationship management (CRM) solution with the aim of implementing it comprehensively within the next five years. In 2012, CRM was implemented in both the safety and the medical divisions in Japan. In Germany and Austria it was implemented in the safety division, and in Russia and South Africa it was implemented in the medical division. By the end of 2012, approximately 2,400 employees in the sales and service business areas were working with this solution.

On December 31, 2012, the CRM system was available to employees in the medical division in 17 countries and to employees in the safety division in eight countries. The offer preparation process within the medical division was integrated into the CRM in 2012. The first Dräger employees in the US and United Kingdom are already using this extended functionality. In 2013, it is anticipated that all users in the medical division in the US and United Kingdom will be working with the integrated offer preparation process.

The Company is working on further additional functions for DrägerService with the aim of supporting the first country comprehensively, including its technical customer service, with CRM by the beginning of 2014.

WORKFORCE TREND

	Headcount as of the balance sheet date		Headcount (average)	
	Dezember 31, 2012	Dezember 31, 2011	2012	2011
Medical division	6,948	6,717	6,853	6,586
Safety division	4,771	4,531	4,677	4,469
Drägerwerk AG & Co. KGaA and other companies	797	676	743	615
Dräger Group total	**12,516**	**11,924**	**12,273**	**11,670**
Women	3,628	3,478	3,553	3,401
Men	8,888	8,446	8,720	8,269
Dräger Group total	**12,516**	**11,924**	**12,273**	**11,670**
Personnel development costs in € million	**15.6**	**13.8**		
thereof training expenses in € million	9.6	8.3		

IT EMPLOYEES

Dräger took on IT employees again in 2012, which led to an increase in total numbers: The largest increase was in support and operations for business-specific IT applications. The Company's main goal is to reduce the use of external services for IT services in order to accumulate strategically important expertise internally. When commissioning new IT systems, Dräger aims to avoid dependency on external service providers from the start, by taking on its own employees. At the close of 2012, 155 employees were involved in Corporate IT.

IT COSTS

As planned, total IT costs rose last year in comparison to 2011: The modernization carried out plus planned project expenses meant that total IT costs increased to EUR 105.2 million (2011: EUR 100.6 million). Additional costs were also incurred by the insourcing program and the essential simultaneous operation of old and new systems.

Dräger employees in figures

The Dräger headcount rose by 5.0 percent in fiscal year 2012. As of December 31, 2012 Dräger employed a total of 12,516 people around the world, an increase of 592 from the previous year (December 31, 2011: 11,924). In Germany, the number of people working for Dräger Group rose by 349 compared with the end of 2011. The number of employees working abroad increased by 243. Strong increases in headcount were seen in Research and Development (+142), Sales (+108), Production (+79) and Service (+78). As of December 31, 2012, a total of 53.5 percent (December 31, 2011: 54.1 percent) of employees were working outside of Germany.

On the balance sheet date, 121 more people were employed at Drägerwerk AG & Co. KGaA and Other Companies than on December 31, 2011. One reason for this was the organizational transfer of 45 employees from Controlling in the medical and safety divisions to Drägerwerk AG & Co. KGaA. In addition, Dräger recruited a number of

EMPLOYEES – FULL TIME EQUIVALENTS (FTES)

	FTEs as of the balance sheet date		FTEs on average	
	December 31, 2012	December 31, 2011	2012	2011
Medical division	6,684	6,420	6,595	6,365
Safety division	4,555	4,323	4,462	4,268
Drägerwerk AG & Co. KGaA and other companies	731	623	684	565
Dräger Group total	**11,970**	**11,366**	**11,741**	**11,198**
Germany	5,370	5,047	5,248	4,915
Other	6,600	6,319	6,493	6,283

employees in administrative functions such as in IT (+25), in Customs and Export Control (+11) and in HR (+8).

In the medical division, the number of employees rose by 231 in 2012 as follows: In Germany, in Research and Development (+59); at foreign subsidiaries in Sales (+123) and Service (+32); at production and development sites in Shanghai (China) and Andover (USA) in Research and Development (+13).

In the safety division, Dräger employed a total of 240 more people as of December 31, 2012 than the previous year. In Germany, the headcount was increased in Production (+70), Logistics (+54) as well as Research and Development (+44); in Production and Logistics, the majority of new employees were due to the recruitment of temporary staff. Outside of Germany, 60 new employees were recruited in the safety division, most of whom in Service (+23) and Research and Development (+23).

Personnel expenses within the Group rose by 5.9 percent year-on-year to EUR 840.5 million. This increase was due to growth-related recruitment and increases in wages and salaries. Another contributing factor was the pay rise in the metal and electrical industries in Germany. Negative currency effects also led to an increase in personnel expenses. The personnel cost ratio in fiscal year 2012 was 35.4 percent (2011: 35.2 percent).

In the “Sustainability” section of this report on pages 107 et seq., you will find detailed information on our employees.

Sustainability

For Dräger as a listed fifth generation family-run company, sustainability is a fundamental part of corporate strategy: We want to pass on a successful company with continuously increasing value in the long term to the next generations. This requires a cautious approach to all stakeholders, from employees to customers and suppliers, to investors, the media and society as a whole.

Compliance

A company’s behavior can only be described as sustainable when its actions in day-to-day business are ethically and legally exemplary. For Dräger, compliance is an essential part of the Company’s corporate culture. It has therefore drawn up compliance guidelines for employees and put structures in place to ensure that it is possible to adhere to these guidelines.

The Dräger Compliance Program takes into account both the expectations third parties have of the Company, and its own requirements for itself and its actions. The main elements of this program and the measures taken in fiscal year 2012 are explained in detail on pages 49 et seq. of Dräger's corporate governance report.

Executive Board and Supervisory Board remuneration

The basic features of the remuneration system for the Executive Board and Supervisory Board are described on pages 50 et seq. of the remuneration report included in the corporate governance report. The bonus reserve is particularly relevant to sustainability, as it lets Executive Board members and top managers share in the opportunities and risks of Dräger's medium-term business performance.

Employees

Dräger is "Technology for Life". Behind this slogan is a responsibility for people that need and rely on Dräger technology. However, this slogan also stands for the responsibility for the people that make this technology possible. Our employees lay the foundations of our success through their ideas and their passion. That is something that is hugely appreciated at Dräger, which is why the Company supports its employees in every regard.

SUPPORT AND DEVELOPMENT

The extensive range of training courses Dräger offers its employees have a dual purpose: They ensure that Dräger employees are successful in their areas of expertise while supporting employees' personal and technical development so that Dräger is able to deploy them effectively within the Company. Every year, Dräger holds an employee meeting which allows it to specify and agree upon areas for improvement and development targets with each employee individually.

Dräger's personnel development costs rose to EUR 15.6 million in 2012 (2011: EUR 13.8 million). Of this, EUR 0.6 million was invested in international employee development programs. Costs for further training amounted to EUR 9.6 million (2011: EUR 8.3 million). Dräger increasingly switched its focus to web-based training programs. These allow employees worldwide to integrate training courses into their working lives and reduces the need to travel to on-site training courses.

Dräger has to constantly review the development of the Company and its processes in order to guarantee its competitiveness. If large-scale changes are on the horizon, Dräger managers receive needs-oriented support through specially trained change managers. In fiscal year 2012, these change managers were involved in change projects alongside their ordinary daily responsibilities for a total 168 days.

Dräger's leisure program also offers our employees a wide variety of opportunities for personal and professional training, such as IT training courses, seminars on creative techniques, language and health courses as well as sport and leisure activities. More than 1,500 took advantage of these opportunities last year.

SECURE, INDIVIDUAL WORKPLACES

Occupational health and safety has always been of the utmost importance to Dräger. The Company regularly carries out medical examinations and instructs all employees on occupational health and safety issues. Dräger systematically monitors the handling of hazardous materials throughout the Company. This allows it to identify risks in the workplace and implement protective measures where necessary. In 2012, only 26 accidents took place in all German Dräger companies (2011: 34 accidents).

WORKFORCE TREND

		Headcount as of the balance sheet date		
		December 31, 2012	December 31, 2011	December 31, 2010
Number of employees		12,516	11,924	11,291
Percentage of female employees	%	29.0	29.2	29.3
Part-time employees		754	764	614
Average years with Dräger in Germany	Years	13	14	15
Average age of employees	Years	42	42	42
Turnover in % of employees	%	4.3	5.1	5.3
Sick days in % of work days	%	3.5	3.1	3.2
Accidents in Germany (accidents at work and whilst commuting to work), Time off sick > 3 days		26	34	38

For this reason, occupational health management is regarded as a crucial part of strategic HR management. In 2012, over 2,000 employees took part in one of Dräger's health promotion programs. Health-related absences remained low in 2012 at 3.5 percent of work days.

As a family-owned company, Dräger knows how important it is to maintain a positive work-life balance. The Company's mission is to actively support our employees in combining their professional and private lives effectively. Dräger also offers employees the chance to work part-time and take responsibility for structuring their working day. The Company also cooperates with one of Germany's leading consulting and employment agencies for family-friendly services. This agency helps Dräger employees find a nanny or childcare facilities and offers extensive advice when close relatives require care.

ATTRACTIVE EMPLOYER

Dräger has a great reputation – top positions in rankings of the most popular employers for graduates, among other things, are a testament to this. The rankings are compiled by Trendence, a European research institute based in Berlin. In the "Young Professionals" category for people with between twelve months and eight years of professional experience, Dräger improved its ranking to 52nd (prior-year: 61). Among engineers Dräger improved to 30th place from 39th last year.

82 percent of employees took part in the Company's employee survey in the second half of 2011. Dräger is delighted that 90 percent of those employees said they were proud of working for the Company. Another global employee survey is planned for 2013.

TRAINING AND TALENT-SPOTTING

A company needs the next generation of highly qualified employees in order to grow. That's why Dräger continually trains young people, offering them potential employment in a total of nine different vocational training subjects, seven different dual study courses and its own international training program. In 2012, Dräger recruited 79 trainees and dual students, a 5 percent increase from the prior-year. A total of 56 trainees completed their vocational training. Dräger offered all graduates a job at the Company; all 56 accepted. In 2012, Dräger also launched a new training program where the Company offers four young people long-term internships. These young people have not

BREAKDOWN BY OCCUPATION AS OF DECEMBER 31

Occupation	2012	2011
Business / technical vocational training	**93**	**79**
Industrial business managers	63	60
Chemical laboratory assistants	7	6
Qualified warehouse logistics personnel	10	10
Shipping and logistics services business administrators	2	3
Office communication business administrators	7	–
Qualified IT specialists	4	–
Industrial vocational training	**69**	**63**
Mechatronics	25	24
Devices and systems electronics engineers	32	29
Qualified warehouse personnel	7	6
Technical draftsmen / women	5	4
College and university studies	**69**	**69**
Bachelor of Science "industrial engineering"	29	32
Bachelor of Engineering "medical technology"	7	7
Bachelor of Science "computer science"	9	9
Bachelor of Engineering "mechanical engineering"	9	11
Bachelor of Engineering "electrical engineering"	10	8
Bachelor of Science "business informatics"	3	2
Graduate business managers	2	–
Total apprentices in vocational careers	**231**	**211**

been able to find any vocational training opportunities despite possessing school leaving certificates, so the Dräger training program enhances their career prospects.

Dräger attracts the next generation of employees at educational fairs and careers days as well as through partnerships with selected universities and colleges. The Company also organizes a "Dräger Career Day" at its headquarters for students from all over Germany. In 2012, Dräger offered 334 young people the chance to gain practical experience with a Dräger internship or by writing their final papers at the Company. Many of the Company's interns go on to take graduate positions at Dräger.

Further details, particularly on headcount development, can be found in the "Employees in figures" section on pages 105 et seq.

Environment

Environmental protection and occupational health and safety are top priorities for the Dräger Group. These are highlighted in Dräger's global quality and environmental policy, which enables the Company to live up to its responsibility for protecting the climate and resources, as well as the health and safety of its employees.

ENVIRONMENTAL PROTECTION ON DRÄGER SITES

Dräger continued to expand its environmental protection and occupational health and safety systems in all regions last year. Group certification and integrated DIN EN ISO 14001 and OHSAS 18001 management systems provide efficient structures in all of the companies affected, ensuring that Dräger reaches its environmental protection and occupational health and safety goals. A total of 35 Dräger companies are now DIN EN ISO 14001 certified (2011: 31 companies). This encompasses 67 percent of Dräger employees (2011: 64 percent). OHSAS 18001 certificates have now been issued to 28 companies. Subsidiaries that are not yet certified have similar environmental protection and occupational health and safety standards in place.

The Dräger product portfolio, manufacturing technologies and processes, and the services it provides, means that the Company requires neither intensive energy use nor resource use. This means that the direct carbon footprint of Dräger's business activities and products is small. This is clearly illustrated by direct air emissions from Dräger sites. These are caused first and foremost by the production

ENVIRONMENTAL KEY FIGURES

		2008	2009	2010	2011	2012
Number of certified locations						
DIN EN ISO 14001		5	6	28	31	35
OHSAS 18001		0	0	17	24	28
Consumption of Dräger companies at the Lübeck site						
Power, total	kWh	23,077,207	23,756,143	24,231,826	24,650,652	25,809,232
Total primary energy, direct (for heating, company power generation in cogeneration unit, steam generation and production gas)	kWh	41,149,985	44,037,104	50,589,311	45,907,936	50,039,008
Water / drainage for Dräger companies at the Lübeck site	m³	68,107	73,436	83,660	72,425	67,083
Waste, total for Dräger companies at the Lübeck site	t	4,672	4,012	4,002	3,978	3,950
Net sales of MD GmbH / SD AG & Co. KGaA Lübeck	**€ thousand**	**1,092,172**	**1,017,639**	**1,236,013**	**1,227,695**	**1,315,000**
Consumption of Dräger companies at the Lübeck site per € thousand of net sales						
Power, total	kWh	21.1296	23.3444	19.6048	20.0788	19.6268
Total primary energy, direct (for heating, company power generation in cogeneration unit, steam generation and production gas)	kWh	37.6772	43.2738	40.9294	37.3936	38.0525
Water / drainage	m³	0.0624	0.0722	0.0677	0.0590	0.0510
Waste, total	t	0.0043	0.0039	0.0032	0.0032	0.0030

of heat energy, with a far lower amount resulting from production processes. The Company has installed highly efficient exhaust air decontamination systems at production sites around the world, and many manufacturing processes require only limited amounts of energy-intensive final assembly.

Primary energy (gas, heating oil) is mainly used for heating. The Lübeck site uses only limited amounts of heating oil (< 5 percent of primary energy use). Natural gas is also used in Lübeck for the in-house block-type power station and in the production process. Dräger has installed two new condensing boilers on the Revalstrasse site in Lübeck, which has improved the energy efficiency of the heating system there by around 15 percent. It has also signed a new contract for the supply of heating from landfill gas and biogas. These are classified as renewable energies in line with the German renewable energy act EEWärmeG [1]. This will further reduce Dräger's carbon footprint.

With a view to effectively and measurably reducing building energy consumption around the world, Dräger has launched the "Energy 20+" program. This program aims to save 20 percent of the energy used at the ten main Dräger sites around the world. The program includes the conversion of lighting equipment in new and converted buildings to comply with the strictest energy-saving standards. Dräger has successfully reduced the energy consumption of this type of equipment by up to 60 percent.

[1] Renewable Energies Heat Act.

Water is used mainly for sanitary purposes. It is only in the production areas in Lübeck for soda lime, respiratory protection filters and filter fleece materials that water consumption is high. Water requirements in these areas depend on production volumes. A new filter fleece production facility was opened in 2012 that uses 50 percent less water than the previous facility.

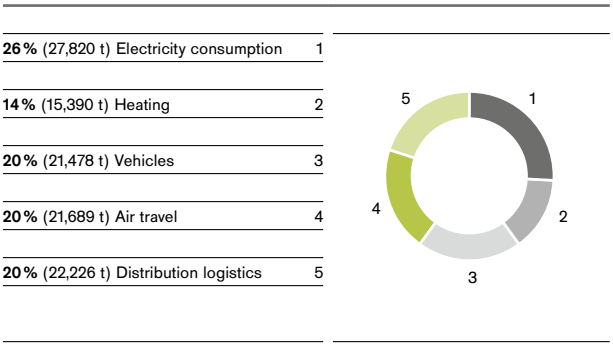
As in 2011, Dräger Abfallwirtschaftsverband w.V. disposed of 3,950 tons of waste from the Lübeck site in 2012. Almost 98 percent (3,865 tons) was recycled, with only 85 tons (2.5 percent) requiring end disposal. The waste types and quantities changed very little from the previous year. The main components are cardboard / paper, glue, soda lime production waste, and waste that is similar to domestic waste. All of these can be recycled to protect the environment. Dräger disposes of or recycles waste from the other production sites and other locations using local, usually certified, waste disposal companies.

The table provides an overview of Dräger's certified management systems and the most important, environmentally relevant, consumption and emissions data. In absolute terms, these have remained stable and low in recent years. There has in fact been a continuous reduction relative to Dräger's increase in net sales and employee numbers.

Since 2009, Dräger has participated regularly in the "Carbon Disclosure Project" [1]. In 2012, the Company expanded its reporting for fiscal year 2011 of indirect CO_2 emissions created by the shipping of products in the medical and safety divisions from the logistics center in Frankfurt. Dräger now calculates and assesses its carbon footprint Group-wide for all major production, service and sales processes, with the exception of the procurement process.

In 2012, Dräger again took part in the ratings process carried out by the ratings agency oekom research AG in the "Health Care Equipment and Supplies" industrial sector and was classified as "Prime".

DIRECT AND INDIRECT CO_2 EMISSIONS 2011 [1]



[1] Data for each period becomes available in the middle of the following year. Companies recorded: 90

PRODUCT-RELATED ENVIRONMENTAL PROTECTION

Dräger devices are characterized by high levels of operating security and long useful lives, both of which play an important role in environmental protection. In regard to energy and resource consumption, Dräger devices can be categorized in various groups: Some products are energy self-sufficient, which means they can be used without the provision of energy, such as detector tubes, many escape devices and the non-electronic devices produced by the safety division. However, the operating conditions of large numbers of products produced by the safety and medical divisions create the need for batteries. These devices are designed to be as energy-saving as possible, making them more environmentally friendly without interfering with their functionality. This applies, for example, to thermal imaging cameras. This enables the devices to meet customer requirements for long periods of use and low operating costs. For other electrical devices, particularly in the medical division, resources consumption and life cycle costs are of major importance to customers. Dräger products offer them optimal solutions, such as closed cycles for anesthetic gases or efficient, patient-optimized ventila-

[1] The Carbon Disclosure Project (CDP) is a recognized independent reporting organization for information on climate change. It holds the world's largest database of company key figures regarding climate change.

tion systems. For the particularly resource-intensive central gas supply systems in hospitals, Dräger offers not only particularly efficient equipment concepts – the new GCC 1000 cockpit is also a product that provides operators with the resource-efficient control and monitoring of their medical gas consumption.

Starting on July 22, 2014, Dräger electrical and electronic medical devices must meet the requirements of the RoHS II [1] guidelines (2011/65/EU) on the use of certain hazardous substances. In addition to this, Dräger has implemented a specific project to coordinate and monitor all constructive and administrative measures to ensure that its devices meet the deadline for CE conformity. Critical substances in device components are being replaced where required, to reduce the environmental risks associated with their disposal. The problematic materials in the development and construction of devices in the safety division, which as a rule are not subject to the limitations set out in RoHS II until July 22, 2017, are already being replaced.

The use of minerals from the Democratic Republic of Congo is regulated by US law [2]. If customers purchase products subject to these laws, Dräger undertakes the necessary communication processes to ascertain the origins of the raw materials they contain: tungsten, tin, tantalum and gold.

EMISSIONS OF HAZARDOUS SUBSTANCES AND TOXIC MATERIALS

The installation and service work carried out in production generally does not release any hazardous emissions into the air. For process security and product safety reasons, cleaning agents, adhesives and coatings that contain solvents are used in certain areas of some production departments. In 2012, the associated emissions were again of a volume of less than 2.7 tons and were therefore below the reporting thresholds established by the regulatory authorities. Anesthetic gases used by the Company for the purpose of calibrating anesthesia equipment also fell below the reporting threshold.

Highly efficient exhaust air purification meant that residual emissions from large-scale soda lime and activated carbon production were less than 1,000 kg per year. Emissions concentration was below 5 percent of the threshold value. The Company still does not release any hazardous, reportable air emissions pursuant to the European hazardous emission registry EPER.

Corporate Social Responsibility

Social responsibility has been a cornerstone of Dräger's corporate culture since the very beginning. The Company's social commitment is focused on a variety of national and international projects which benefit the brand and support the guiding philosophy. In 2012, for example, the Company made donations to support the work of the outpatient children's hospice service in Lübeck. Academic support in fiscal year 2012 came in the form of support for the Juniorcampus of the University of Applied Sciences in Lübeck through the provision of additional courses. Dräger also covered three scholarships at the University of Applied Sciences in Lübeck as part of the "Deutschlandstipendium" (Germany scholarship) program organized by the German Federal Ministry of Education and Research.

In 2010, Dräger launched the campaign "ene, mene, mini. One baby in ten is born premature. Worldwide." alongside the European Foundation for the Care of Newborn Infants (EFCNI). As part of this campaign, Dräger employees knitted almost 1,000 pairs of socks for preterm infants for World Prematurity Day on November 17, 2012. This annual knitting action is linked to a call to the European Parliament in 26 languages for better care for pregnant women, and preterm and newborn babies. The goal is

[1] EU directive ›Restrictions of the use of certain hazardous substances in electrical and electronic equipment‹
[2] Dodd-Frank Act

to encourage EU institutions and national governments to implement uniform quality standards for the care and treatment of preterm infants.

As a manufacturer of medical and safety technology devices, Dräger also helped by donating devices. At the beginning of 2012, for example, ventilation and anesthesia devices were donated to the charitable organization ARCHEMED – Ärzte für Kinder in Not e.V., and to the Eritrea Hilfswerk in Deutschland (EHD) e.V association. In collaboration with the health ministry in Eritrea, these organizations aim to improve medical care in this East African country.

Dräger is also pleased to support dedicated employees in their activities. On November 9, 2012, a charity auction was held at our Lübeck site to benefit the small village of Bisso, in Cameroon. With the support of the Hamburg branch of Sotheby's auction house, 36 drawings by children from the village were auctioned for the association "Future for Bisso e.V". This charity was set up by Dräger employees in 2011 on their own initiative. The association carries out aid work in Cameroon, particularly by supporting education, training, and parenting initiatives, by supporting the public health system, and by improving preventative healthcare.

Risks and opportunities for the future development of the Dräger Group

RISK AND OPPORTUNITY MANAGEMENT

Dräger risk and opportunity management has two goals: Seizing opportunities and identifying and counteracting risks at an early stage. This way Dräger can increase the value of the Company on a sustainable basis.

Dräger has a responsible approach when dealing with the inevitable insecurities of doing business. Dräger meets its targets by consistently taking advantage of opportunities without losing sight of the associated risks. Dräger regularly updates its risk assessments, especially with regard to developments that could threaten the existence of Dräger. The risk management system therefore meets the requirements of the Control and Transparency Act (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – KonTraG).

Dräger opportunity management allows long-term strategic planning and, as a result, plans for the development of products and their positioning over the course of the entire product life cycle. In order to respond to market changes in a flexible manner, Dräger Group pursues the continuous improvement of Company structures and processes.

Part of Dräger's risk management is identifying, measuring, controlling and monitoring potential strategic and operative risks early. The basis for this is strategic corporate planning: even during the planning process, Dräger begins to specify potential uncertainties in the assumptions underlying its plans. The Company's internal control system (see pages 67 et seq.) continuously monitors these uncertainties and highlights potential variances. All operating areas of the Company report twice a year on risks using specified criteria; Group Controlling then summarizes these at Company level. Risk reporting is complemented by ad-hoc reporting, so that Dräger can act upon material risks as quickly as possible.

In 2012, Dräger adapted its risk management systems to the functional structure of the company and expanded the existing risk committee in order to develop risk management further across multiple areas of the Company. Information on risks and opportunities is exchanged between the respective process owners, the Executive and Supervisory Boards and, if necessary, enables action to be taken at short notice. The Internal Auditing department and the Supervisory Board complement risk management and regularly verify the effectiveness of the risk management system pursuant to the regulations of the German Commercial Code (Handelsgesetzbuch – HGB) and Sec. 107 (3)

of the German Stock Corporation Act (Aktiengesetz – AktG). The Dräger early risk identification system is also part of the risk management system and remains part of our annual audit.

The Dräger medical and safety divisions submit their products and services to quality inspections and ongoing checks in accordance with stringent national and international standards, always in keeping with the special quality and risk orientation of these sectors (see Quality management on pages 99 et seq.). The risks and the impact they may have on the Company as described below are not necessarily the only risks Dräger is exposed to. Risks that are not known or have been considered immaterial as of the reporting date may also affect the business activities of Dräger in the future.

OVERALL ECONOMIC RISKS

In 2012, the global economy did not grow as strongly as in the prior-year. Financial markets stabilized over the course of the year as a result of investment from central banks. Financial difficulties that individual countries in the eurozone are currently faced with could continue to influence the Dräger Group negatively. The International Monetary Fund (IMF) continues to expect recession in the eurozone in 2013 and forecasts moderate growth in the industrial nations. The IMF expects emerging countries such as India, China and Brazil to return to higher GDP growth after a poor prior-year. However, the growth rate in emerging countries is to remain below 2010 and 2011 levels, partly due to the weak demand from these countries' international trading partners. The IMF issued a preliminary forecast in January 2013 and from 3.6 percent to 3.5 percent for adjusted lowered expectations of global economic growth in 2013. In 2014, the IMF is expecting growth to jump to 4.1 percent. However, it also believes that global economic growth continues to be at risk of slowing down further. Risks include further setbacks in the eurozone and an overeager short-term budget consolidation in the USA.

Dräger has strengthened its global business and spread its sales across multiple regions. The Company continues to see potential for growth, particularly in emerging countries. Dräger's production sites in the USA, Great Britain and China help the Company reduce currency risks from international business.

Natural disasters in countries rich in raw materials or the artificial scarcity of commodities due to speculative transactions could lead to rising costs and supply bottlenecks in the commodities market.

A number of other factors, including political or cultural conflicts such as the situation in the Middle East can affect macroeconomic factors and international capital markets and therefore shape demand for Dräger's products and services.

STRATEGIC RISKS

Dräger operates in future-oriented industries with strong growth in which it can expect further consolidation processes that are likely to affect the structure and intensity of competition: hospitals are consolidated or form purchasing cooperatives, pooling purchasing volumes and gain increased market power. In addition, there is also an increasing trend towards outsourcing secondary and tertiary services such as maintenance and repair, meaning that Dräger is only able to act as a subcontractor in more and more cases. Dräger is faced with strong competition, some of whom with access to extensive resources. New competitors primarily originate from Asia. The quality of their products has increased significantly over the past few years, meaning that they are now competing with Dräger in the lower and middle performance and price segment.

The Dräger Group depends on the investment budgets of public authorities in both divisions since domestic and foreign public institutions such as public hospitals, fire services, the police force, the military and disaster manage-

ment make up a large proportion of the customer base. Public spending has been cut in numerous industrialized countries over the last few years, for example in the US and Europe. This trend could continue given the current market environment. Dräger is meeting these challenges through customer orientation, innovation, high product and service quality and reliability as well as through cooperation and acquisitions in order to safeguard and strengthen the Company's market position.

OPERATIONAL RISKS

Supplier and material price risks: For Dräger's current and planned product portfolio, the Company must extensively coordinate with reliable and competent suppliers. Dräger integrates suppliers into its processes as the level of vertical integration in its business model has been reduced to the necessary core technologies and the assembly of purchased parts and components. To manage the resulting risks, Dräger has restructured information processes, optimized the necessary internal and external interfaces in the global processes and carefully reviewed performance of external partners. Strict quality standards apply to supplier selection and procurement processes and the Company continually improves its operating processes.

In 2012, Dräger had to accept isolated price increases from suppliers due to rising commodity prices. The supply situation in terms of electronic components has also relaxed significantly. Tension is also not expected to return in 2013 due to unstable economic growth prospects. Dräger has concluded fixed price agreements with most strategic suppliers which apply for a period of one year and therefore protect the Company from significant increases in prices. However, negotiations have not yet been concluded with some important suppliers, meaning that residual risk for price increases remains.

PRODUCT LIFECYCLE RISKS

It is important for the profitability of the Company that the product portfolios of both divisions are kept up to date. Experience has shown that new products are more profitable than products in a later phase of the product lifecycle. This is why Dräger continuously invests in research and development in order to keep the proportion of new products as high as possible. This means that Dräger must develop top technological products and also products appealing to a large section of the market. Dräger optimizes its operating processes, from development, sales and order fulfillment through to maintenance of the product portfolio. This way, the Company can produce a high-quality product portfolio. Risks may therefore arise from factors such as the unexpectedly high complexity of development projects, delayed product launches and changes in market requirements.

The Company is also exposed to an increased risk from adapting its medical technology products to conform to the EU directive 2002/95/EG, applicable as from 2014, concerning the limitation of use of certain hazardous substances in electric and electronic devices (RoHS II [1] – Regulations of Hazardous Substances). Up to now, medical devices have been subject to special regulations. In summer 2011, however, the decision was made that medical devices must also comply with the regulations from July 2014. Switching over and changing these products results in significant costs due to their long life and development cycles. There is a risk that Dräger will not be able to complete the adaptation of these products by mid-2014. If this is the case, these products will lose the CE mark and Dräger would not be able to market them in certain countries, such as in European Union member states.

PROJECT RISKS

Projects account for a significant proportion of business in the Dräger divisions. Large-scale projects that require the highest technical standards and specific know-how bear particularly high levels of risk. Actual profit margins may be below expected margins due to increased costs or reduced productivity. Other risks include quality problems, the loss or shortage of qualified skilled workers, delivery prob-

[1] EU directive ›Restrictions of the use of certain hazardous substances in electrical and electronic equipment‹

lems on the part of suppliers or payment difficulties on the part of customers. Should Dräger not meet specific contractual obligations in a timely manner or at all, this can lead to contractual penalties, compensation claims or necessitate temporary measures. The Company's project management and ongoing project controlling keep such risks as low as possible.

IT RISKS

Dräger business processes require reliable IT systems. A breakdown of IT systems caused by factors such as overload or external hazards (virus attack) could compromise critical business processes and lead to temporary production shutdown, for instance.

In 2012, Dräger continued its initiative to further enhance IT security and expanded its IT risk management. In IT network management, the Company implemented additional technical monitoring systems.

PERSONNEL RISKS

Dräger's remuneration systems and personnel development programs are geared towards retaining employees, enhancing their identification with the Company and motivating maximum performance. Dräger Group invests in employee qualification measures in order to counteract risks from the loss of know-how associated with employee turnover and retirement. The Company protects itself against the increasingly tough competition for highly qualified professional and executive employees by maintaining close contact with universities and implementing targeted recruitment measures, among other things. Positioning the Company as an attractive employer is the main key to success.

In terms of Dräger personnel, there is a remuneration risk due to the possible cancellation of the collective pay agreement applicable to the German Dräger companies effective April 30, 2013. New collective agreements of unknown terms and duration are to be expected for the subsequent period.

REGULATORY AND LEGAL RISKS

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

The Dräger companies are currently involved in legal disputes and may be involved in legal disputes within the scope of their business activities in the future. To counter such legal risks, Dräger has taken out liability insurance policies with coverage which the Executive Board of the general partner considers appropriate and customary for the industry.

In some regions, legal uncertainty could result from Dräger only having limited possibilities to assert its rights.

Dräger's business policies and code of conduct are intended to ensure that business is conducted responsibly and in accordance with legal requirements. The Company has also drawn up Group-wide compliance regulations. The control and prevention mechanisms in our compliance structure may not have been sufficient in the past or may not be sufficient in the future to prevent the breach of certain laws.

Distribution partners may assert compensation or equalization claims pursuant to the respective applicable laws

when partnerships are terminated. Such claims are excluded in the distribution agreements to the extent permitted by law. Dräger only concludes contracts with short terms, particularly with new distribution partners.

RISKS FROM FINANCIAL INSTRUMENTS

Dräger's aim is to minimize liquidity risk and risk from financial instruments, i. e. interest rate, currency and credit risk. Liquidity and interest rate risks are hedged centrally by Drägerwerk AG & Co. KGaA, whereas currency risk is the joint responsibility of Drägerwerk AG & Co. KGaA and the divisions. Dräger mitigates against credit risk with regard to cash investments and derivatives centrally. Credit risk due to receivables from operating activities is managed partly centrally, partly decentrally by Group companies and is hedged by instruments such as letters of credit or guarantees.

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

Dräger uses various financing instruments to reduce liquidity risk: In addition to participation certificates, Dräger Group has issued outstanding note loans with various terms of up to seven years. Total repayments are less than the usually expected free cash flow. This reduces the risk of not being able to arrange for follow-up financing. In 2010, Dräger also reached an agreement with selected banks to grant binding lines of credit to secure the Company's liquidity. The volume of these lines of credit is EUR 240 million. The bilateral agreements have a term of five years. The framework agreement for the bilateral credit lines stipulates target values based on certain financial covenants. Should Dräger not comply with these, the banks are entitled to terminate the bilateral credit lines. The values have been specified so that Dräger would only run the risk of being unable to meet them if the Company's financial position was to deteriorate drastically. It is also possible for Dräger to obtain the banks' approval to exceed or undercut these key figures at an early stage. Dräger monitors compliance with the key financial figures continuously and regularly reports to the CFO and the banks.

Dräger is also exposed to interest rate risk, primarily in the eurozone. The Company combats these risks through a combination of fixed- and variable-rate liabilities. It also hedges against part of the variable interest rates through interest rate caps. Dräger only invests cash and cash equivalents over the short-term at commercial banks with high credit ratings.

Dräger manages currency risks associated with currencies other than the euro through forward and swap hedging transactions with selected banking partners, wherein the payment streams are hedged on a transaction-specific basis. Please go to pages 199 et seq. of the notes for more information on the management of financial risks.

OTHER RISKS

Dräger Group does not have unlimited liability coverage and therefore the risk exists that the liability insurance does not sufficiently cover any claims against the Company (e. g. in case of a class action lawsuit). However, it is extremely unlikely that such a risk will materialize. The Company's production facilities are subject to operating and accident risks. As a result, Dräger invests in occupational safety and fire protection and has concluded comprehensive industrial insurance cover to financially secure the insurable operating risks and resulting sales risks.

OVERALL RISKS

Overall, the most important of all risks are the strategic risks, especially those stemming from consolidation processes in the market that affect the competitive struc-

ture. However, Dräger mitigates this risk both through the regional spread and the diversification of the product and service offerings. Dräger limits performance risks from the completion of orders through a wide spread.

All in all, the risks to the Dräger Group are limited and, based on the information currently available, the continued existence of the Company as a going concern is not at risk.

Opportunities

EXPANSION OF LEADING MARKET POSITIONS

Based on net sales, Dräger considers itself one of the global market leaders in many areas and product groups of its two divisions. Dräger sees opportunities for the continued growth of its market share by building on outstanding technological expertise, high product quality, brand awareness and long-term customer relationships. Alongside its established market segments, Dräger also focuses in this respect on attractive market segments and niches where the Company sees above-average profitability and growth opportunities. Dräger also strives to open up new markets by developing new products.

EXPANSION IN DEVELOPING AND EMERGING COUNTRIES

Over the past few years, Dräger has made significant investment and implemented considerable restructuring measures, particularly in Sales and Service. This has given Dräger a favorable position for profitable and sustainable expansion in rapidly growing developing and emerging countries.

EXPANSION OF THE SERVICE AND ACCESSORIES BUSINESS

Dräger strives to increase the share of net sales it generates in the stable and attractive service and accessories business. Dräger continues to develop customer support following equipment sales as well as service and product offerings in the accessories and consumables business in order to achieve this goal. Here, both divisions of the Dräger Group benefit from the large number of Dräger devices already in use around the world.

INVOLVEMENT IN MAJOR PROJECTS

In the future, Dräger aspires to secure more major project tenders in the medical and safety divisions and therefore increase its net sales. This opportunity can arise from new investment programs from our customers, among other things.

CHANGES TO THE PRODUCT MIX

Changes to the product mix come with both risk and reward. Dräger wants to increase the number of new products in its product portfolio and thus increase the Company's profitability. At the same time, Dräger is working towards the scalability of its product portfolio in order to meet demand from emerging countries.

SYNERGY EFFECTS FROM DIVISION COOPERATION

In the future, Dräger intends to make even better use of the synergies between its medical and safety divisions. By pooling demand, Dräger can achieve more favorable procurement conditions in common purchasing. Dräger is also striving to reduce material costs in development by implementing design-to-cost strategies. The Company takes the overall costs of the finished product into account during the product development phase.

Last year, Dräger also began the organizational merger of marketing and sales activities, which had previously been separated, in accordance with its functional management structure. In addition, Dräger is currently implementing a uniform Group-wide CRM (customer relationship management) system for both divisions in order to enhance growth and allow target groups to be addressed more effectively with the aim of achieving additional sales growth.

Dräger also wants to enhance its competitive position and boost market share by improving efficiency in sales.

Disclosures pursuant to Sec. 315 (4) of the German Commercial Code (HGB) and explanations of the general partner

The following disclosures pursuant to Sec. 315 (4) HGB reflect circumstances on the balance sheet date.

COMPOSITION OF CAPITAL STOCK

The capital stock of Drägerwerk AG & Co. KGaA amounts to EUR 42,265,600. It consists of 10,160,000 voting bearer common shares and 6,350,000 bearer preferred shares, each with a EUR 2.56 share in capital stock. Shares of the same type carry the same rights and obligations. The rights and obligations of the shareholders are laid down in the German Stock Corporation Act, in particular in Secs. 12, 53a et seq., 118 et seq. and 186 AktG, as well as in the articles of association of the Company. As compensation for the lack of voting rights, an advance dividend of EUR 0.13 per preferred share is distributed from net earnings. If sufficient profits are available, a dividend of EUR 0.13 per common share is then paid. Any profit in excess of this amount, if distributed, is allocated so that preferred shareholders receive EUR 0.06 more than common shareholders. If profit is not sufficient to distribute the advance dividend for preferred shares in one or more years, the amounts are paid from the profit of subsequent fiscal years before a dividend is paid on common shares. If amounts in arrears are not paid in the next year along with the full preferred dividend for that year, the preferred shareholders have voting rights until the arrears have been paid. In the event of liquidation, the preferred shareholders receive 25 percent of net liquidation proceeds in advance. The remaining liquidation proceeds are distributed evenly to all shares.

RESTRICTIONS RELATING TO VOTING RIGHTS OR THE TRANSFER OF SHARES

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

DIRECT OR INDIRECT SHAREHOLDINGS EXCEEDING 10 PERCENT

67.19 percent of the common shares of Drägerwerk AG & Co. KGaA, equivalent to 6,826,000 common shares or 41.34 percent of the total capital stock, belong to Dr. Heinrich Dräger GmbH, Lübeck. 58.73 percent of its shares are held by Stefan Dräger GmbH, Lübeck, 23.15 percent by the Dräger Foundation Lübeck/Munich, and the remainder by various members of the Dräger family. Stefan Dräger GmbH is wholly owned by Stefan Dräger, Lübeck. On July 14, 2010, Stefan Dräger GmbH and Dr. Heinrich Dräger GmbH informed us in accordance with Sec. 21 of the German Securities Trade Act (WpHG) that their shares in the voting rights of Drägerwerk AG & Co. KGaA, Lübeck, equal 67.19 percent. On July 14, 2010, Stefan Dräger and the Dräger Foundation informed us in accordance with Sec. 21 German Securities Trade Act (WpHG) that their shares in the voting rights of Drägerwerk AG & Co. KGaA, Lübeck, equal 68.36 percent (Stefan Dräger) and 67.31 percent (Dräger Foundation), respectively. In accordance with Sec. 22 German Securities Trade Act (WpHG), the voting rights are to be counted towards those of Dr. Heinrich Dräger GmbH – due to existing regulations – as well as Stefan Dräger GmbH and its majority shareholder and the Dräger Foundation.The voting rights of Stefan Dräger

GmbH are to be allocated to its partner, Stefan Dräger, pursuant to Sec. 22 German Securities Trade Act (WpHG). Through Stefan Dräger GmbH, Stefan Dräger also holds all shares in Drägerwerk Verwaltungs AG, Lübeck, the general partner of Drägerwerk AG & Co. KGaA. This means Stefan Dräger is a shareholder of the general partner as well as common shareholder of Drägerwerk AG & Co. KGaA. In the cases covered by Sec. 285 (1) Sentence 2 AktG he would therefore not be entitled to vote. The legal structure of Dr. Heinrich Dräger GmbH ensures that, for such resolutions, Stefan Dräger does not exert any influence on the exercise of the voting rights of common shares held by Dr. Heinrich Dräger GmbH.

SHARES WITH SPECIAL RIGHTS CONFERRING CONTROL

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

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

If employees of the Company or the Dräger Group wish to acquire shares in the Company, they can purchase common shares with voting rights or preferred shares without voting rights on the stock exchange. Preferred shares do not confer any control rights. Employees can exercise the control rights to which they are entitled through the ownership of common shares with voting rights directly like other shareholders, subject to the applicable legal regulations and the provisions of the articles of association.

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

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

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

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

Pursuant to Secs. 133, 179, 278 (3) AktG, amendments to the articles of association must be approved by the annual shareholders' meeting. Such resolution requires a majority of at least three quarters of the capital stock represented at the time of the vote. The articles of association may

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

POWER OF THE GENERAL PARTNER TO ISSUE OR BUY BACK SHARES

By resolution of May 7, 2010, the annual shareholders' meeting conditionally increased the Company's capital stock by up to EUR 3,200,000 in order to issue up to 1,250,000 new no-par preferred shares (no-par shares) in return for cash and/or contributions in kind (authorized capital, Article 6 (5) of the articles of association). The capital stock will only be conditionally increased to the extent that applicable option rights are exercised. Dräger issued warrant bonds with option rights guaranteed in the form of warrants on account of the resolution on the authorization and instruction passed by the annual shareholders' meeting on May 7, 2010 regarding agenda point 7 a). The option rights have not been exercised up to now.

In accordance with the resolution agreed upon at the annual shareholders' meeting on May 6, 2011, the general partner is entitled to increase the Company's capital until May 5, 2016, with the approval of the Supervisory Board, by up to EUR 21,132,800.00 (authorized capital) by issuing new common shares and/or preferred shares (no-par value shares) in return for cash and/or contributions in kind, in either one or several tranches. The authorization includes the approval to issue new common shares and/or preferred shares, which carry the same status as the previously issued preferred shares with regard to the distribution of profits and/or Company assets. The statutory maximum as stipulated in Sec. 139 (2) AktG is to be taken into account: No more than half of the capital stock may be issued as preferred shares. Shareholders are principally given a subscription right in the case of a capital increase – unless the Company excludes subscription rights with the approval of the Supervisory Board. In the case of common and preferred shares being issued together, the right of holders of one share type to subscribe to the other type of shares ("crossed exclusion of subscription rights") can be excluded.

The authorization of the general partner to increase the capital stock by May 7, 2014 issued on May 8, 2009 was lifted to the extent that it had not yet been used.

In accordance with the resolution agreed upon at the annual shareholders' meeting on May 4, 2012, the general partner is entitled, until May 3, 2017 and upon consent of the Supervisory Board, to acquire up to 10 percent in own shares of both types (common and/or preferred shares) and to use them for all legal purposes.

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

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

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

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

Subsequent events

EMPLOYEE SHARE PROGRAM

In February, the Executive Board of Drägerwerk Verwaltungs AG resolved to enable Dräger employees in Germany to participate in the Company through a new employee share program. This is designed to increase employees' identification with the company and Dräger's attractiveness as an employer. Dräger plans to grant employees one bonus share for every three shares purchased by the employee and that are subject to a two-year holding period. In the coming years, Dräger also plans to involve employees working outside Germany – if legally possible. Dräger is not planning to increase capital, but instead acquire the preferred shares for the program on the capital market.

DISTRIBUTIONS

The general partner and the Supervisory Board of Drägerwerk AG & Co. KGaA, Lübeck, plan to propose to distribute out of the net earnings of Drägerwerk AG & Co. KGaA of EUR 232.7 million for fiscal year 2012 a cash dividend of EUR 0.86 per common share and EUR 0.92 per preferred share, totaling EUR 14.6 million. The remaining amount of EUR 218.1 million will be carried forward to new account. The preferred share dividend also governs the dividend for participation certificates, which will amount to EUR 9.20 each – ten times the preferred share dividend.

Outlook

FUTURE MARKET ENVIRONMENT

The global economy noticeably lost momentum over the course of 2012, resulting in growth forecasts for many countries having to be retracted. Towards the end of the year, the situation appeared to stabilize: It appeared as though the economy had bottomed out and many early indicators hinted towards moderate economic expansion over the course of 2013. The International Monetary Fund (IMF) spoke of gradual recovery in the global economy in its economic forecast at the end of January 2013. However, according to the Kiel Institute for the World Economy, a number of uncertainties continue to weigh heavily on growth prospects, particularly in relation to the European sovereign debt crisis and future fiscal policy in the USA.

The IMF is expecting an increase in growth in emerging countries. However, this growth is likely to fall far short of the growth seen in 2010 and 2011. Even certain emerging nations are likely to also continue to suffer from weak demand from industrial countries. In China, the IMF is forecasting a slight increase in growth after the lowest rise in a decade. In the USA and Germany, the IMF believes that economic growth will slow down slightly. The situation in the eurozone will only improve slightly, meaning that the economy there is likely to contract again in 2013 overall, albeit not as much as the prior-year. On the whole, the IMF has slightly lowered its forecasts for global economic growth over the next two years. Growth of 3.5 percent is expected in 2013. The IMF notes in this respect that significant downward risks still exist, primarily from renewed setbacks in the eurozone and excessive budgetary consolidation in the wake of the US budget conflict.

After Germany's economic outlook grew progressively cloudier throughout 2012 and the Deutsche Bundesbank spoke of a possible recession in winter 2012/2013, the financial institution's January report for the start of 2013

suggested a more positive outlook, particularly due to higher expectations of companies. The Bundesbank anticipates that it is unlikely that a weak economic situation in Germany will last for a longer period, a hypothesis that is also reflected in the ifo Business Climate Index. This has recently experienced a reversal, and after six consecutive periods of decline has finally experienced three growth periods. The confidence this expresses suggests there will be an economic upswing over the course of the year. For 2013, the Bundesbank expects 0.4 percent growth in GDP, while stating that this estimate is by no means set in stone.

In light of continuing moderate economic expansion, it is assumed that raw material prices will remain relatively stable. The IMF and the Deutsche Bundesbank both expect a slight downturn in this segment. Oil prices are expected to weaken, due in part to increasing supply resulting from new exploration techniques in the US, which should in turn play a part in reactivating the economy. Against this backdrop, forecasts for 2013 suggest moderate inflation: The outlook for the eurozone is that prices will rise by 1.8 percent in 2013, a figure that is again lower than in the previous year. At 1.5 percent, the consumer price increase in Germany is also expected to be lower than in 2012.

If the euro crisis continues to ease, the trend could be for the euro to increase in value. However, changes in exchange rates remain susceptible to crises such as the European sovereign debt crisis, the US budget conflict and political conflicts such as those underway in the Middle East. The general expectation is that the most important central banks will maintain their key interest rates at the same low levels in 2013, and will additionally provide liquidity by purchasing securities. This expansionary monetary policy around the world that aims among other things to stimulate economic activity in the different currency areas is inherently competitive in nature, which means it brings with it potential conflict.

IMF – JANUARY 23, 2013 GROSS DOMESTIC PRODUCT (GDP) GROWTH FORECAST

in %	2012	2013	2014
Global economy	3.2	3.5	4.1
USA	2.3	2.0	3.0
Eurozone	(0.4)	(0.2)	1.0
Germany	0.9	0.6	1.4
China	7.8	8.2	8.5

Source: International Monetary Fund (IMF)

FUTURE SITUATION OF THE MEDICAL TECHNOLOGY INDUSTRY

Dräger expects overall positive performance in the medical technology markets in 2013. Ongoing budgetary consolidation in Europe will lead to continuing stagnation of demand. The structural measures undertaken are beginning to take effect, which means that a slight recovery is expected for Greece and South-East Europe, although the economic situation as a whole, particularly in Spain, will remain difficult in 2013. Progressive consolidation of the German hospital system will characterize the medical technology market, but also provides new opportunities through modernization projects resulting from new constellations, and new business models in the shape of partnerships for technology.

Dräger expects strong demand for ventilation products and solutions to continue, particularly in emerging countries, where it will be encouraged by essential infrastructure development and modernization measurements, but also by the increasing incidence of chronic respiratory conditions in developing countries. Demand from the BRIC countries (Brazil, Russia, India and China) will again enjoy above-average increases and will make a disproportionately high contribution to growth for Dräger. China will continue to top the list of fastest-growing economies, considerably ahead of India, which is next on the list.

Increasing urban development and the growing middle class will continue to increase demand for health care in 2013, bringing with it greater demand for medical technology. Sales opportunities are likely to remain high in Russia for the year too. However, there is a lack of mature market economy structures in place there which can effect business. Medical technology stimulus programs tend to be centrally controlled and are generally difficult to predict due to differing political interests.

Other emerging countries are also living up to expectations: Many enjoy both high growth rates and a high proportion of young people in the population. Investments are also booming in these countries, in addition to which high levels of market growth can be expected. Very positive economic development and existing growth in the medical division will continue in Indonesia thanks to a strong domestic market and minimal dependency on the global economic situation. The situation in North Africa and parts of the Middle East, with growth forecast at 3.4 percent, remains uncertain. Continued instability should be anticipated here, particularly in relation to the implementation of large-scale projects. Moderate growth of 2.0 percent is expected for the US. The reform of the health care system announced in the US will require additional expenditure in the health sector, particularly in terms of electronic data management. The "fiscal cliff" implies business risks mainly in the second half of the year, given that budget cuts and delays in investments are to be expected.

FUTURE SITUATION OF THE SAFETY TECHNOLOGY INDUSTRY

In 2013, Dräger expects performance in safety technology markets to be moderately positive, influenced by the limitations of the global economy. High growth rates in countries such as India and China will help balance out the reduction in demand for oil and gas from the industrialized countries, ensuring continued investments in this sector. Tightened health and safety criteria in these countries will bring about additional investments in safety technology. In the eurozone, the tense situation in South Europe will continue to dampen demand. The anticipated economic slowdown in Germany will have a primarily negative effect on Dräger's business.

As in the medical division, Dräger expects the BRIC countries to experience above-average growth in the safety technology industry this year, with China at the head. The downturn in the mining industry experienced in recent years is not expected to continue in 2013. Growth of 3.9 percent is expected for this sector by 2020. The economic situation in Brazil will gradually improve in 2013 thanks to an easing of monetary policy that will in turn promote investment. Nonetheless, Brazil will still experience the lowest growth levels of the BRIC countries. Other emerging countries will also continue on a course of strong growth. Increasingly positive business performance is also expected in the safety technology industry in Indonesia. In the oil, gas, chemical and mining industries in North America, all of which are important markets for Dräger, further strong growth can be expected, driven by the desire for increasing independence from oil imports. In the fire services market segment, Dräger expects fewer new acquisitions, as costs have increased while budgets have been cut or frozen.

FUTURE SITUATION OF THE COMPANY

The table on page 125 provides an overview of Dräger's expectations for the development of a variety of forecast figures for fiscal year 2013.

For fiscal year 2013 we expect net sales growth of between 2 and 4 percent, which is a similar level as in the previous year. This is based on the assumption of a stable economy in Europe and North America, sustained market growth in developing countries and stable exchange rates. The majority of Dräger's growth will likely be supported by non-

European regions, particularly the emerging countries. In the medical division, Dräger expects above-average growth in Anesthesia and Ventilation. The company also anticipates that the service and accessory business areas will continue to make major contributions to net sales growth. In the safety division, the Group forecasts further business volume increases with customers in industry and in engineered solutions. New products will boost growth in both divisions: Overall, the Company plans to launch eleven new medical technology products and 18 new safety technology products and product developments. Dräger therefore expects the share of new and improved products in net sales to rise.

A fairly stable gross margin is anticipated in the medical division. In principle, the new products launched in the past years should improve the margin. However, Dräger also expects that changes to the country mix will have negative effects on the margin that will counteract this improvement. In the safety division, the Company anticipates a slightly lower proportion of above-average margin industrial business, which means that the gross margin could remain slightly below its level in the previous year.

Research and development expenses are likely to rise by 5 percent to around EUR 207 million in 2013 (2012: EUR 197.3 million) so as to continue expanding the share of new products and to make existing products compliant with RoHS II [1] by 2014. Dräger plans to invest around EUR 10 million in total to ensure that all products adhere to the ROHS II regulations by 2014. Dräger expects a Group EBIT margin between 8.0 percent and 10.0 percent for fiscal year 2013 (2012: 9.7 percent).

In 2013, interest expense is anticipated to be slightly below the previous year and come to around EUR 30 million (2012: EUR 33.2 million) – assuming that interest rates remain unchanged. Due to the positive earnings performance and optimization of Group structures, Dräger expects a tax rate of approximately 29 percent to 33 percent in fiscal year 2013 (2012: 31.2 percent)

In 2013, we expect cash inflow from operating activities to remain high in the region from 70 percent to 85 percent of EBIT (2012: 77 percent) within the scope of anticipated earnings developments. The investment volume is likely to be higher than depreciation and amortization at around

EXPECTATIONS FOR FISCAL YEAR 2013

	Forecast	2012
Net sales	2 – 4 % growth	+2.5 % net of currency effects
EBIT margin	8,0 – 10,0 %	9.7 %
Other forecast figures		
Gross margin	48.5 – 49.5 %	49.2 %
Research and development costs	€ 207 million	€ 197.3 million
Interest result	On par with prior-year	€ (33.2 million)
Effective tax rate	29 – 33 %	31.2 %
Operating cash flow	70 – 85 % of EBIT	77 % of EBIT
Investment volume	€ 85 – 105 million	€ 78.2 million
Equity ratio	35 – 38 %	34.6 %
Net debt	Improvement	€ 56.8 million

[1] EU directive ›Restrictions of the use of certain hazardous substances in electrical and electronic equipment‹

EUR 85 million to EUR 105 million (2012: EUR 67.5 million excluding rental business) on account of real estate investments for the purpose of increasing and optimizing production capacities.

Without the negative impact experienced in 2012 of the buyback of participation certificates and the adjustment of interest rates for pension provisions, by the end of 2013, Dräger expects a higher equity ratio of 35 to 38 percent (2012: 34.6 percent).

High cash inflow means that the Company expects a reduction in net debt despite increased investment volume (2012: EUR 56.8 million).

DRÄGER MANAGEMENT ESTIMATE

The general economic conditions are characterized by fiscal consolidation, particularly in numerous European countries, and almost worldwide expansive monetary policy. However, it is still too early to assume that global economic growth will accelerate again. This affects the countries and regions that are of particular importance to Dräger's business. Lower GDP growth can be anticipated in the US, partly as a result of budgetary cuts and tax increases as part of the budget disputes in Congress. China and other emerging countries could experience stronger growth in 2013 following weaker performance in the prior-year. The eurozone economy may remain in recession in 2013, even if the situation seems to be gradually stabilizing. Moderate GDP growth is forecast for Germany. While the euro crisis may have lessened and certain economic indicators appear to have improved somewhat recently, the outlook for this year is still generally characterized by uncertainty.

The medical division is likely to experience moderate growth in the US and restrained development in Europe, particularly in the countries of South Europe. The continued development and expansion of healthcare systems means that above-average growth can be expected in emerging countries in 2013. Demand in the safety division could again benefit somewhat more strongly from increased growth in important emerging countries such as China, as well as high investments in the oil and gas market in North America. The market will probably remain difficult in Europe.

Order intake only increased by 2.2 percent (net of currency effects) last year. Weaker global economic growth and the recession in certain countries in Europe certainly left their mark. Fiscal year 2013 has started without a tailwind. This means that our goal of trying to follow up net sales growth of the previous year is an ambitious one.

Dräger must continue to invest in its future sustainability in 2013. The Company must continue along the course of globalization it has undertaken and must expand sales operations, but also research and development, in growth regions such as China above all. The Company faces high research and development costs again this year, but with a clear commitment to innovation and therefore to additional medium-term growth opportunities and improved profitability. The Group's EBIT margin for fiscal year 2013 is forecast to be between 8.0 and 10.0 percent.

For fiscal year 2014, Dräger forecasts that net sales growth will outperform market growth in both divisions and the Group EBIT margin will increase compared to 2013, providing the Company's relevant markets continue their positive performance.

In the medium term, the new sales and marketing structure will reduce the relevant expenses and tap into additional growth prospects. Overall, Dräger expects to achieve at least one percentage point in savings regarding the relevant marketing and sales costs by the end of 2014, with 2011 as the starting point. The Company also plans to grow faster than the market in the medium term and achieve a sustainable EBIT margin of at least 10 percent.

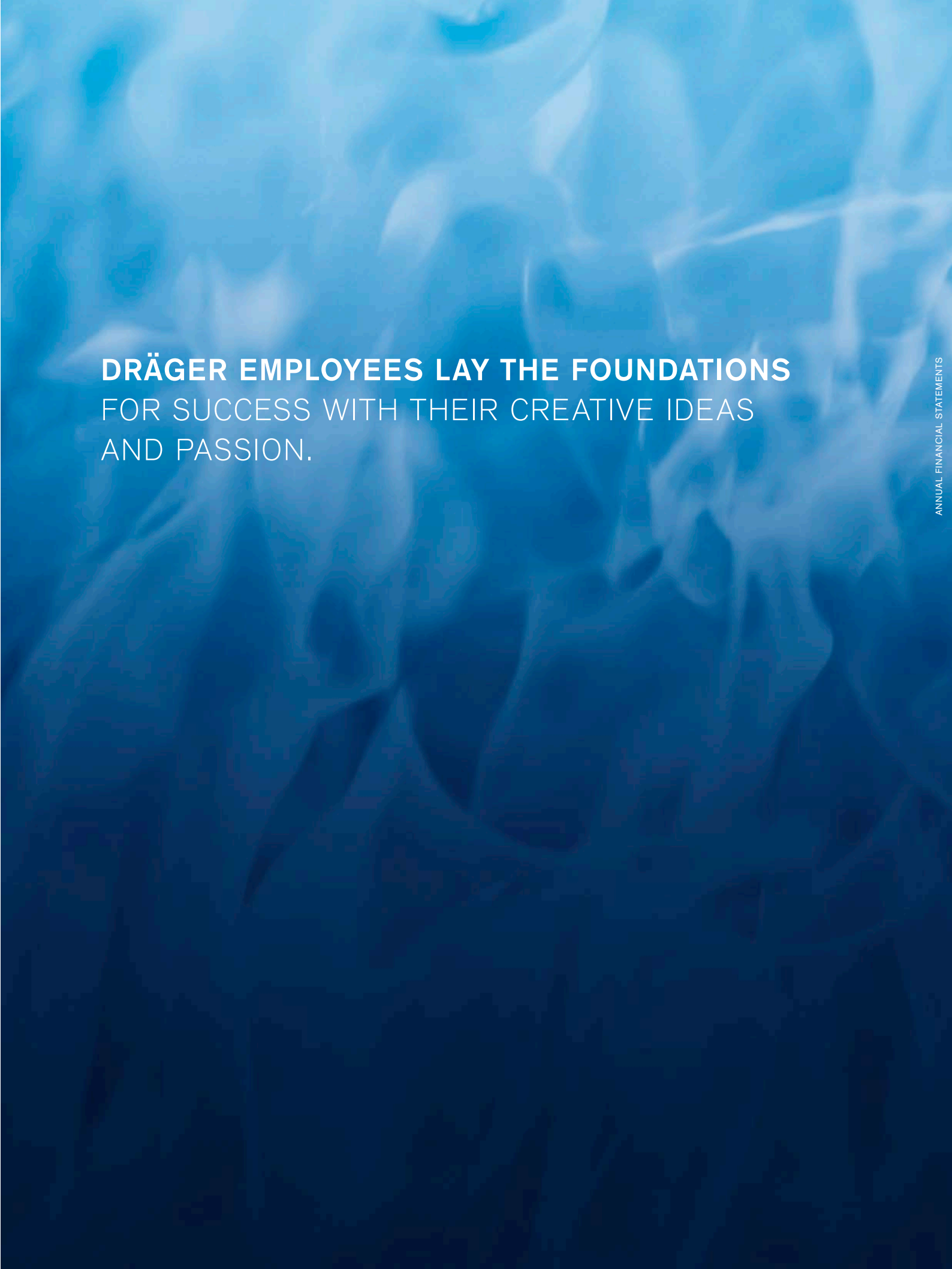
FORWARD-LOOKING STATEMENTS

This management report contains forward-looking statements. The statements are based on the current expectations, presumptions, and forecasts of the Executive Board of Drägerwerk Verwaltungs AG as well as the information available to it to date. The forward-looking statements do not provide any warranty 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 which could prove to be incorrect. Dräger does not assume any responsibility for updating the forward-looking statements made in this report.

Lübeck, Germany, February 22, 2013

The general partner
Drägerwerk Verwaltungs AG
represented by its Executive Board

Stefan Dräger
Herbert Fehrecke
Gert-Hartwig Lescow
Anton Schrofner



DRÄGER EMPLOYEES LAY THE FOUNDATIONS
FOR SUCCESS WITH THEIR CREATIVE IDEAS
AND PASSION.

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

€ thousand	Note	2012	2011
Net sales	10	2,373,495	2,255,847
Cost of sales	11	(1,206,485)	(1,147,507)
Gross profit		**1,167,010**	**1,108,341**
Research and development costs	12	(197,338)	(160,548)
Marketing and selling expenses	13	(595,808)	(575,258)
General administrative costs	14	(140,235)	(149,508)
Other operating income	15	8,745	7,514
Other operating expenses	15	(11,430)	(16,741)
		(936,066)	**(894,541)**
		230,944	**213,800**
Profit from investments in associates		227	(372)
Profit from other investments		0	182
Other financial result		(1,550)	167
Financial result (before interest result)	**16**	**(1,323)**	**(23)**
EBIT		**229,621**	**213,777**
Interest result	16	(33,213)	(33,050)
Earnings before income taxes		**196,408**	**180,727**
Income taxes	17	(61,372)	(55,675)
Net profit		**135,036**	**125,052**
Net profit		**135,036**	**125,052**
Non-controlling interest in net profit		3,319	2,783
Earnings attributable to participation certificates (excluding minimum dividend, after taxes)		5,325	1,558
Earnings attributable to shareholders		126,392	120,711
Undiluted earnings per share [1]	**20**		
per preferred share (in €)		7.69	7.35
per common share (in €)		7.63	7.29
Diluted earnings per share [1]	**20**		
per preferred share (in €)		7.57	7.29
per common share (in €)		7.51	7.23
Undiluted earnings per share on full distribution [2]	**20**		
per preferred share (in €)		5.87	4.60
per common share (in €)		5.81	4.54
Diluted earnings per share on full distribution [2]	**20**		
per preferred share (in €)		5.81	4.58
per common share (in €)		5.75	4.52

[1] Based on the proposed dividend (see Note 20)
[2] Based on an imputed actual full distribution of earnings attributable to shareholders (see Note 20)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE DRÄGER GROUP

€ thousand	2012	2011
Net profit	**135,036**	**125,052**
Currency translation adjustment for foreign subsidiaries	(808)	2,911
Change in the fair value of financial assets designated as available for sale recognized directly in equity	31	0
Change in the fair value of derivative financial instruments recognized directly in equity	(1,024)	(1,222)
Deferred taxes on changes in the fair value of financial instruments recognized directly in equity	318	373
Actuarial gains / losses from defined benefit pension plans	(77,328)	2,820
Deferred taxes on actuarial gains / losses from defined benefit pension plans	23,933	(1,071)
Other comprehensive income	**(54,878)**	**3,811**
Total comprehensive income	**80,158**	**128,863**
of which earnings attributable to non-controlling interests	3,210	2,407
of which earnings attributable to participation certificates (excluding minimum dividend, after taxes)	5,325	1,558
of which earnings attributable to shareholders	71,623	124,898

CONSOLIDATED BALANCE SHEET OF THE DRÄGER GROUP

€ thousand	Note	December 31, 2012	December 31, 2011 (adjusted figures)	January 1, 2011 (adjusted figures)
Assets				
Intangible Assets	21	282,554	280,309	277,351
Property, plant and equipment [1]	22	278,370	273,421	262,977
Investments in associates	23	280	306	904
Other non-current financial assets	24	9,462	9,766	11,403
Deferred tax assets	25	136,659	104,454	109,502
Other non-current assets [1]	26	4,129	21,955	18,898
Non-current assets		**711,454**	**690,211**	**681,035**
Inventories	27	362,872	340,292	356,666
Trade receivables and receivables from construction contracts	28	600,269	586,488	533,163
Other current financial assets	29	21,974	19,883	22,514
Cash and cash equivalents	30	332,390	412,309	320,037
Current tax refund claims		13,884	7,531	13,027
Other current assets	31	58,362	58,475	50,465
Current assets		**1,389,751**	**1,424,978**	**1,295,872**
Total assets		**2,101,205**	**2,115,189**	**1,976,907**
Equity and liabilities				
Capital Stock		42,266	42,266	42,266
Capital reserves		158,098	158,098	158,098
Reserves retained from earnings, incl. Group result		489,429	469,763	380,285
Participation capital	34	29,497	50,405	50,404
Other comprehensive income		1,175	2,549	111
Non-controlling interests	33	6,736	6,535	5,399
Equity	**32**	**727,201**	**729,616**	**636,563**
Liabilities from participation certificates	34	19,208	31,164	29,916
Provisions for pensions and similar obligations	35	229,844	179,418	183,448
Other non-current provisions	36	72,860	62,749	44,973
Non-current interest-bearing loans	37	282,911	365,266	318,042
Other non-current financial liabilities	38	6,133	8,849	6,893
Non-current income tax liabilities [2]	39	2,317	562	0
Deferred tax liabilities	40	1,957	1,629	2,581
Other non-current liabilities		487	782	715
Non-current liabilities		**615,717**	**650,419**	**586,568**
Other current provisions	36	224,553	228,198	226,026
Current loans and liabilities to banks	41	104,256	84,519	89,496
Trade payables	42	169,225	172,073	171,301
Other current financial liabilities [3]	42	31,962	38,849	37,016
Current income tax liabilities [2]	43	53,099	51,145	60,136
Other current liabilities [3]	44	175,192	160,370	169,801
Current liabilities		**758,287**	**735,154**	**753,776**
Total equity and liabilities		**2,101,205**	**2,115,189**	**1,976,907**

[1] Rental equipment is recognized in property, plant and equipment. Previous year's figures were adjusted accordingly (see Note 22).
[2] Change to the presentation of income tax liabilities. The prior-year figures were adjusted accordingly (see Notes 39 and 43).
[3] Other liabilities to employees and for social security shall be recognized as other liabilities. The prior-year figures were adjusted accordingly (see Notes 42 and 44).

CONSOLIDATED CASH FLOW STATEMENT OF THE DRÄGER GROUP

€ thousand	2012	2011 (adjusted figures)
Operating activities		
Group net profit	135,036	125,052
+ Write-down / write-up of non-current assets [1]	65,804	61,573
+/– Increase / decrease in provisions [2]	(17,552)	26,027
+ Other non-cash expenses / income	26,250	3,712
+ Loss from the disposal of non-current assets	623	389
+/– Decrease / increase in inventories	(31,566)	19,233
– Increase in trade receivables	(15,239)	(52,440)
+/– Decrease / increase in other assets [1]	6,806	(8,315)
– Increase in trade payables	(2,510)	(150)
+/– Increase / decrease in other liabilities [2]	9,101	(13,389)
Cash inflow from operating activities	**176,754**	**161,690**
Investing activities		
– Cash outflow for investments in intangible assets	(10,606)	(11,195)
+ Cash inflow from the disposal of intangible assets	232	1,213
– Cash outflow for investments in property, plant and equipment [1]	(58,380)	(61,306)
+ Cash inflow from disposals of property, plant and equipment	4,571	2,634
– Cash outflow for investments in non-current financial assets	(2,392)	(196)
+ Cash inflow from the disposal of non-current financial assets	1,071	1,410
Cash outflow from investing activities	**(65,503)**	**(67,440)**
Financing activities		
– Distribution of dividends (including dividends for participation certificates)	(3,763)	(35,310)
– Payment of cash compensation for the participation certificates	0	(7,798)
– Cash outflows from the purchase of participation capital	(122,536)	0
+ Cash provided by raising loans	82	106,800
– Cash used to redeem loans	(58,325)	(65,224)
– Net balance of other liabilities to banks	(2,718)	(646)
– Net balance of finance lease liabilities repaid / incurred	(1,024)	(705)
– Cash outflow from the change in shareholdings in subsidiaries	(700)	(1,060)
– Profit distributed to non-controlling interests	(3,002)	(643)
Cash outflow from financing activities	**(191,987)**	**(4,587)**
Change in cash and cash equivalents in the fiscal year	**(80,736)**	**89,663**
+/– Effect of exchange rates on cash and cash equivalents	817	2,609
+ Cash and cash equivalents at the beginning of the fiscal year	412,309	320,037
Cash and cash equivalents as of December 31 of the fiscal year	**332,390**	**412,309**

[1] Rental equipment is recognized in property, plant and equipment. The prior year figures were adjusted accordingly (see Note 21).
[2] Change to the presentation of income tax liabilities. The prior-year figures were adjusted accordingly (see Notes 39 and 43).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE DRÄGER GROUP

€ thousand					Other comprehensive income						
	Capital stock	Capital reserves	Reserves retained from earnings incl. Group result	Partici-pation capital	Currency translation differences	Financial assets available for sale	Derivative financial instruments	Total other compre-hensive income	Total equity of share-holders of Drägerwerk AG & Co. KGaA	Non-controlling interests	Equity
Jan 1, 2011	**42,266**	**158,098**	**380,285**	**50,404**	**803**	**(676)**	**(16)**	**111**	**631,164**	**5,399**	**636,563**
Net profit	–	–	122,269	–	–	–	–	**0**	122,269	2,783	125,052
Other compre-hensive income	–	–	1,749	–	3,287	(844)	(5)	**2,438**	4,187	(376)	3,811
Total compre-hensive income	**0**	**0**	**124,018**	**0**	**3,287**	**(844)**	**(5)**	**2,438**	**126,456**	**2,407**	**128,863**
Distributions	–	–	(35,310)	–	–	–	–	**0**	(35,310)	(643)	(35,953)
Changes in the shares in subsidiaries, excluding loss of control	–	–	(432)	–	–	–	–	**0**	(432)	(628)	(1,060)
Changes in the scope of con-solidation / other	–	–	1,202	1	–	–	–	**0**	1,203	–	1,203
Dec 31, 2011	**42,266**	**158,098**	**469,763**	**50,405**	**4,090**	**(1,520)**	**(21)**	**2,549**	**723,081**	**6,535**	**729,616**
Net profit	–	–	131,717	–	–	–	–	**0**	131,717	3,319	135,036
Other compre-hensive income	–	–	(53,395)	–	(699)	(708)	33	**(1,374)**	(54,769)	(109)	(54,878)
Total compre-hensive income	**0**	**0**	**78,322**	**0**	**(699)**	**(708)**	**33**	**(1,374)**	**76,948**	**3,210**	**80,158**
Distributions	–	–	(3,763)	–	–	–	–	**0**	(3,763)	(3,002)	(6,765)
Buyback of participation certificates	–	–	(64,269)	(20,908)	–	–	–	**0**	(85,177)	–	(85,177)
Changes in the shares in subsidiaries, excluding loss of control	–	–	(692)	–	–	–	–	**0**	(692)	(8)	(700)
Changes in the scope of con-solidation / other	–	–	10,068	–	–	–	–	**0**	10,068	1	10,069
Dec 31, 2012	**42,266**	**158,098**	**489,429**	**29,497**	**3,391**	**(2,228)**	**12**	**1,175**	**720,465**	**6,736**	**727,201**

Notes of the Dräger Group for 2012

1 GENERAL

The Dräger Group is managed by Drägerwerk AG & Co. KGaA, Moislinger Allee 53 – 55, D-23542 Lübeck, Germany. Drägerwerk AG & Co. KGaA is entered in the commercial register of the Local Court of Lübeck under HR B No. 7903 HL. The financial statements are published in electronic form in the Federal Gazette.

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

2 BASIS OF PREPARATION OF THE GROUP FINANCIAL STATEMENTS

As in 2011, Drägerwerk AG & Co. KGaA prepared its Group financial statements for fiscal year 2012 in accordance with International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Boards (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). Drägerwerk AG & Co. KGaA applied all the IASs/IFRSs adopted by the IASB as of December 31, 2012 to its 2012 Group financial statements, provided that these standards were endorsed by the European Commission and published in the Official Journal of the European Union by the date of publication of the Group financial statements and that application of such standards is mandatory for fiscal year 2012.

Dräger has applied the following revised standards issued by the IASB for the first time in fiscal year 2012:

- In line with the amendment to IFRS 7 "Disclosures – Transfers of Financial Assets (issued 2010)", additional disclosures are required for the transfer of financial assets that were not derecognized and for the transfer of financial assets in which the transferring entity retains a continuing interest.

The following amendments of existing standards, which have already been endorsed and which become effective for fiscal years beginning on or after July 1, 2012, were not applied to these financial statements:

- The amendments to IFRS 1 "First-time Adoption of IFRS (issued December 2010)" include two adaptations. The removal of fixed application dates for first-time adopters and also regulations for preparing IFRS financial statements after reporting periods during which it was impossible to prepare fully IFRS-compliant financial statements due to hyperinflation.
- The amendments to IAS 12 "Income Taxes (issued December 2010)" include an exception for the recognition of deferred tax on investment properties.
- Due to amendments to IAS 1 "Presentation of Items of Other Comprehensive Income (issued June 2011)", the individual other comprehensive income items are to be divided into amounts that can be reclassified to the income statement and those that do not

require reclassification in the future. Income taxes pertaining to these items are also to be divided correspondingly. These changes must be applied for fiscal years starting on or after July 1, 2012 and will result in an extended breakdown of other comprehensive income.

- The amendments to IAS 19 "Employee Benefits (issued June 2011)" pertain to the abolition of the corridor approach and consequently the statutory recognition of actuarial gains and losses in other comprehensive income. In addition, the expected return on plan assets and the interest expense on pension obligations are replaced by a standardized net interest component. In the future, total past service costs will have to be recognized in the period of the related plan amendment. Furthermore, the requirements for termination benefits are being amended with regard to the definition as well as the date on which the associated liability is recognized, and the obligations to disclose information and explanations are being amended and increased. These changes must be applied for fiscal years starting on or after January 1, 2013. Earlier application is permitted. Dräger will apply these changes starting with fiscal year 2013. These changes will likely result in a EUR 587 thousand decrease interest income from plan assets in the Group financial statements 2013.
- The amendments to IAS 32 "Financial Instruments – Presentation (issued December 2011)" pertain to the netting of financial assets and liabilities. This is not expected to have a material impact on Dräger's Group financial statements, although this is still being assessed by management.
- The disclosures in the notes regarding the netting of financial assets and liabilities are dealt with by the amendments to IFRS 7 "Financial Instruments – Disclosures (issued December 2011)".
- IFRS 10 "Consolidated financial statements (issued May 2011)" focuses on the introduction of a standardized consolidation model for all companies, which is based on the parent company controlling the subsidiary. The amendment also includes special purpose entities, the consolidation of which had previously been governed by SIC-12. A material impact on Dräger's Group financial statements is still being assessed by management.
- The new IFRS 11 "Joint Arrangements (issued May 2011)" states that a company must disclose the contractual rights and obligations arising from the joint agreement. According to the amended definitions, there are now two types of joint arrangements: joint activities and joint ventures. Joint ventures are no longer permitted to choose whether to apply proportionate consolidation; equity method must be used at all times. This is not expected to have a material impact on Dräger's Group financial statements, although this is still being assessed by management.
- IFRS 12 "Disclosures of Interests in other Entities (issued May 2011)" combines the disclosure obligations of IAS 27 / IFRS 10, IAS 31 / IFRS 11 and IAS 28. This is not expected to have a material impact on Dräger's Group financial statements, although this is still being assessed by management.
- IFRS 13 "Fair Value Measurement (issued May 2011)" aims at improving measurement continuity and reducing complexity. It describes how to define fair value, how to determine the measurement method and which disclosures must be made. The scope of application of measurement at fair value is not expanded; the standard explains

instead how to measure fair value. A material impact on Dräger's Group financial statements is still being assessed by management.
- IAS 27 "Separate Financial Statements (issued May 2011)" includes the remaining rules on the recognition of investments in individual financial statements, keeping in mind the consolidation guidelines for group financial statements that have been defined in the new IFRS 10.
- IAS 28 "Associates and Joint Ventures (issued May 2011)" explains how to recognize the equity of joint ventures and associates using the equity method, which must be applied in the future.
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine (issued October 2012)" clarifies when costs for the disposal of mine spoils have to be initially reported as assets and how these assets have to be recognized at first-time application and thereafter.

Further standards were published, which become effective for fiscal years starting on or after January 1, 2013 and which have not been endorsed yet:

- Improvements to and clarifications on accounting questions relating to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34 were published in line with the "Improvements to IFRS 2009-2011 (issued May 2012)".
- The amendment to IFRS 1 "Government Loans (issued March 2012)" stipulates how IFRS first-time adopters must recognize a public loan, which is issued with an interest rate below the market rate, at the time of transitioning to IFRS. This amendment provides IFRS 1 with the same relief for first-time adopters as IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance". As Dräger is no IFRS first-time adopter, this will not impact Dräger's Group financial statements.
- In June 2012, amendments to IFRS 10, IFRS 11 and IFRS 12, which had been published but not yet adopted in EU law, came into effect. They clearly stipulate the transitioning rules in IFRS 10 and the requirement to adapt comparative information pursuant to IFRS 10, IFRS 11 and IFRS 12 to the most recent comparable period. In addition, comparative information on unconsolidated structured units in periods prior to the first-time application of IFRS 12 does not need to be provided. This is not expected to have a material impact on Dräger's Group financial statements.
- Additional amendments to IFRS 10, IFRS 12 and IAS 27 were published in October 2012 and redefine the consolidation provisions for investment companies. As a result, investment companies are classed as an independent company type that may be exempted from the consolidation provisions stipulated under IFRS 10 Consolidated Financial Statements. Instead, investment companies are required to measure their investments at fair value. This is not expected to have a material impact on Dräger's Group financial statements.
- IFRS 9 "Financial Instruments (issued November 2009, amended December 2011)" deals with the classification, recognition and measurement of financial assets and liabilities. This standard replaces the sections of IAS 39 that describe the classification and measurement of financial instruments. According to IFRS 9, financial assets are now only classified into two measurement categories: at fair value and at amortized

cost. Most of the regulations regarding financial assets in IAS 39 still apply. The management is currently evaluating the effects of these amendments on Dräger's Group financial statements.

The provisions of Art. 4 EC Regulation No. 1606/2002 of the European Parliament in conjunction with Sec. 315a (1) HGB (Handelsgesetzbuch – German Commercial Code) governing a company's exemption from its obligation to prepare group financial statements in accordance with German commercial law have been met. To ensure that the Group financial statements are equivalent to consolidated financial statements prepared in accordance with the German Commercial Code, all disclosures and explanations required by German commercial law above and beyond the provisions of the IFRSs have been provided in accordance with Sec. 315a (1) HGB.

The Group financial statements were prepared in euros. Unless stated otherwise, all figures were disclosed in thousands of euros (EUR thousand); rounding differences may arise as a result. The balance sheet is classified according to the current/non-current distinction; the income statement was prepared according to the cost of sales method. Where certain items of the financial statements have been grouped with a view to enhancing the transparency of presentation, they are disclosed separately in the notes. The single entity financial statements of the companies included in consolidation were prepared as of the balance sheet date of the Group financial statements on the basis of uniform accounting policies. This did not apply to one (2011: two) minor companies with a different calendar year, for which the financial statements would be carried forward to the Group reporting date in the event of a material development.

3 AMENDMENTS TO BALANCE SHEET REPORTING AS AGAINST THE PREVIOUS YEAR'S FINANCIAL STATEMENTS

Drägerwerk AG & Co. KGaA has amended the way in which three forms of data are reported in the balance sheet. The amendments do not impact the statement of comprehensive income or earnings per share.

- From the current fiscal year, Dräger reported equipment leased out under property, plant and equipment, rather than separately under other non-current assets. The previous year's reporting was adjusted accordingly.
- IAS 12 "Income Taxes" does not differentiate between actual income tax provisions and income tax liabilities. In order to adjust the balance sheet to the preferred prevailing accounting practices, Drägerwerk AG & Co. KGaA included the previously separately recognized income tax provisions in income tax liabilities and the previous year's reporting was adjusted accordingly. The amount of information contained in the balance sheet was also increased, as "liabilities" previously referred to both liabilities and provisions in accounting terminology.
- Other liabilities to employees and for social security are non-financial liabilities. They were therefore reclassified from other current financial liabilities to other current liabilities. The previous year's reporting was adjusted accordingly.

The disclosure changes described above had the following effects on the Group financial statements:

EFFECTS OF THE CHANGES IN PRESENTATION ON THE CONSOLIDATED BALANCE SHEET

€ thousand	December 31, 2012	December 31, 2011	January 1, 2011
Property, plant and equipment	11,651	10,058	9,262
Other non-current assets	(11,651)	(10,058)	(9,262)
Non-current assets	**0**	**0**	**0**
Non-current income tax provisions	(2,317)	(562)	0
Non-current income tax liabilities	2,317	562	0
Non-current liabilities	**0**	**0**	**0**
Current income tax provisions	(42,113)	(39,876)	(41,584)
Current income tax liabilities	42,113	39,876	41,584
Other current financial liabilities	(41,299)	(33,602)	(31,483)
Other current liabilities	41,299	33,602	31,483
Current liabilities	**0**	**0**	**0**

4 BUYBACK OF DRÄGER PARTICIPATION CERTIFICATES

On February 15, 2012, Drägerwerk AG & Co. KGaA published an ad hoc report in accordance with Sec. 15 of the German Securities Trading Act (WpHG) in which it made a legally non-binding request to the holders of series A, K and D participation certificates to submit offers to Drägerwerk AG & Co. KGaA for the sale of their participation certificates at a price of EUR 210.00 each. The offer period started on February 20, 2012 and ended on March 19, 2012.

At the end of the offer period, Drägerwerk AG & Co. KGaA had received offers for 581,474 participation certificates. These offered participation certificates were bought back on March 22, 2012 at a volume of EUR 122,109 thousand (plus EUR 427 thousand in incidental buyback costs). 41.1 percent of the participation certificates were bought back. This percentage is divided between the individual participation certificate series as follows:

BUYBACK RATIO FOR PARTICIPATION CERTIFICATES

	Series A	Series D	Series K	Total
Number of participation certificates prior to buyback	315,600	992,620	105,205	1,413,425
Number of repurchased participation certificates	120,355	425,801	35,318	581,474
Buyback ratio	38.1 %	42.9 %	33.6 %	41.1 %

In order to spread the buyback value across debt and equity components, the fair value of the debt components was first calculated as for IAS 32.32. The present value of the outstanding payment obligations was determined by applying the market interest rate for similar obligations not tied to equity components. The share of the equity components results from the residual amount of the buyback value after deducting the fair value of the debt components.

The EUR 88,344 thousand difference between the buyback value of EUR 122,109 thousand and the carrying value of the debt and equity components of the bought back participation certificates was divided between the two components accordingly. In accordance with IAS 32, the EUR 2,853 thousand share of the difference relating to the debt component was recognized in the income statement and the remainder of EUR 85,491 thousand (EUR 64,269 thousand after tax effect recognized directly in equity) pertaining to the equity component directly in equity in retained earnings. After adjustment for incidental buyback costs and a tax effect, the earnings effect from the buyback resulted in expenses of EUR 2,251 thousand.

On April 16, 2012, Drägerwerk AG & Co. KGaA redeemed the acquired participation certificates.

5 SCOPE OF CONSOLIDATION

The consolidated group of Drägerwerk AG & Co. KGaA is composed of the following entities:

SCOPE OF CONSOLIDATION

	Germany	Abroad	Total
Drägerwerk AG & Co. KGaA and fully consolidated companies			
January 1, 2012	23	100	123
Newly formed entities	–	2	2
Liquidations	–	1	1
December 31, 2012	**23**	**101**	**124**
Associates			
January 1, 2012	1	1	2
Disposals	–	1	1
December 31, 2012	1	–	1
Total	**24**	**101**	**125**

Besides Drägerwerk AG & Co. KGaA, fully consolidated companies include all subsidiaries in which Drägerwerk AG & Co. KGaA holds a direct or indirect majority of voting rights and is therefore able to govern financial and operating policies so as to obtain benefit from their activities. As a result, no subsidiaries were consolidated because they were immaterial. As in prior-years, the consolidated group includes four real estate companies and two other special purpose entities (SPEs) whose assets are attributable in substance to the Group. Drägerwerk AG & Co. KGaA directly and indirectly exerts a significant influence on its associate. Associates are accounted for according to the equity method. The consolidated companies of the Dräger Group as of December 31, 2012, are listed under Note 53.

In fiscal year 2012, the remaining 49 percent share of a subsidiary were acquired, without this having an effect on the status.

6 EFFECTS OF THE CHANGES IN THE SCOPE OF CONSOLIDATION

There was no significant impact on the Group's net assets, financial position and results of operations as a result of the change to the scope of consolidation in fiscal year 2012.

7 CONSOLIDATION PRINCIPLES

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

Successively acquired interests that do not affect the controlled status of an entity are treated as transactions between providers of equity capital ("entity concept"). The carrying amounts of assets and liabilities remain the same. The value shift between Dräger and the non-controlling interests is recorded directly in equity. Any non-controlling interests in equity are shown in the consolidated balance sheet as such (see also Note 33).

When swapping or exchanging shares or in similar transactions, the fair value of the shares given is attributed to the shares received. For associates, the cost of investments is adjusted to reflect their share in net profit or loss for the period and dividend distributions. The goodwill is included in the carrying values of the investments. Impairments are accounted for separately.

Intercompany receivables and liabilities are netted (elimination of intercompany balances). The carrying values of assets from intercompany goods and services are adjusted for unrealized intercompany profits and losses (elimination of intercompany profits and losses); therefore, these assets are measured at group cost. For associates, elimination

of intercompany profits and losses is waived due to immateriality. Internal net sales are eliminated. Any other intercompany income and expenses are mutually offset (elimination of income and expenses). Deferred tax assets or liabilities from consolidation entries that affect profit or loss are recognized whenever differences in tax expenses or income are expected to reverse in subsequent years.

8 CURRENCY TRANSLATION

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

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

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

The financial statements and comparative figures of economically independent foreign entities operating in a hyperinflationary environment and reporting in a currency of a hyperinflationary economy shall be restated in terms of the measuring unit current on the balance sheet date using a general price index for the country in question. As in the previous year, one operating subsidiary in Venezuela had its registered office in a hyperinflationary economy in the year under review. The effects of inflation were not recognized as the subsidiary is of only minor importance to the Group.

The exchange gains/losses on operating foreign currency items included in cost of sales and in functional costs gave rise to costs of EUR 6,181 thousand (2011: income of EUR 4,360 thousand). The exchange gains/losses on foreign currency items disclosed in the financial result led to costs of EUR 1,723 thousand (2011: income of EUR 432 thousand).

Currency translation for foreign subsidiaries gave rise to a decrease in other comprehensive income of EUR 699 thousand as of the balance sheet date (2011: increase of EUR 3,287 thousand).

The major group currencies and their exchange rates developed as follows:

CURRENCIES/EXCHANGE RATES

		Closing rate		Average rate	
	1 € =	Dec. 31, 2012	Dec. 31, 2011	2012	2011
USA	USD	1.32	1.29	1.29	1.40
UK	GBP	0.82	0.84	0.81	0.87
Japan	JPY	113.61	100.20	103.49	111.31
People's Republic of China	CNY	8.22	8.16	8.15	9.03

9 ACCOUNTING POLICIES

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

Net sales recognition

Net sales are recognized when control, for instance the risks and rewards incident to ownership, has been transferred to the buyer. Net sales includes the income that can be determined reliably, if it is probable that the economic benefit will flow to the entity.

Net sales from services are recognized when the service has been rendered, if the amount of income can be measured reliably and it is probable that the economic benefit will flow to the entity. Net sales that cannot be reliably estimated are only recognized to the extent of the expenses recognized that are recoverable.

If several deliveries and / or services are provided to the same customer at the same time or within a short time frame and are included in a single civil-law contract with a single price (multi-element contracts), this transaction is split into a number of different elements and the regulations pertaining to net sales recognition are applied to the individual components of the transaction to reflect the economic content of the transaction appropriately.

Net sales are net of sales deductions, if any.

In accordance with IAS 11, construction contracts are recognized using the stage of completion method. The stage of completion which has to be established to this end in the case of fixed price contracts is determined using the cost-to-cost method (input-based method). This method determines the stage of completion based on the costs incurred as of the balance sheet date in relation to the estimated total cost. If the outcome of a construction contract can be estimated reliably, the revenues are recorded at the amount of contract costs incurred plus a profit margin. The contracts are recognized under receivables from construction contracts or, if a loss is expected, under liabilities from construction contracts. Part payments received are deducted from the receivable. If the part payments received exceed the receivable, the balance is recognized under liabilities.

Intangible assets

Group-controlled intangible assets from which future economic benefits are expected to flow to the Group and which can be reliably measured are recognized at cost, provided that these are clearly identifiable and are therefore to be distinguished from goodwill. The cost of the assets is reduced by straight-line amortization over their expected useful lives. Borrowing costs that are material and directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset in accordance with IAS 23.

Purchased software for internal use is recognized as a separate asset unless it is an integral part of the related hardware.

Costs incurred for changing existing software systems (e. g. new versions) are recognized as expenses. Costs incurred in connection with the installation and implementation of purchased software are recognized as incidental purchase costs of the same.

Dräger's research costs are charged as expense in the period in which they are incurred.

Internal development costs for products, including their software, as well as software for internal use are recognized as assets if it is sufficiently probable that the assets will result in future cash inflows that will cover the development costs.

However, due to strict legal and safety requirements for Dräger Group products, this means that the product must have already been approved for sale in the major markets. Until all criteria for recognition as an asset are met, internal development costs for products, including their software, are expensed as incurred (just like research costs).

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

Goodwill recognized as an intangible asset is disclosed at cost less accumulated impairment losses. Under IAS 36, amortization is no longer charged on a systematic basis.

Property, plant and equipment

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

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

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

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

– Office and factory buildings	20 to 40 years
– Other buildings	15 to 20 years
– Production plant and machinery	5 to 8 years
– Other plant, factory and office equipment	2 to 15 years

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

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

Assets under construction are stated at cost. Low-value assets (costing less than EUR 500) are fully expensed in the year of their addition and recognized as disposals in the statement of changes in non-current assets.

Investment allowances

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

Impairment losses on intangible assets and property, plant and equipment

If there are external or internal indicators of impairment of intangible assets or property, plant and equipment pursuant to IAS 36.12 on the balance sheet date, these items are subjected to an impairment test pursuant to IAS 36. If the carrying value of the asset exceeds its recoverable amount (the higher of its value in use and net realizable value), an impairment loss is charged. If no future cash flows independently generated from other assets can be attributed to individual assets, the recoverable amount is tested for impairment on the basis of the cash-generating unit to which the asset belongs.

An impairment test is performed annually on goodwill and intangible assets with indeterminable useful lives. The impairment test for goodwill is performed on the basis of the cash generating unit to which the asset belongs. Goodwill is tested for impairment using the discounted cash flow method based on the operational five-year plan and an assumed sustained growth of 1 percent in the subsequent period is used to test the goodwill of the individual cash generating units. A risk-adjusted interest rate is used for discounting. Goodwill is based on the operating business segments in accordance with IFRS 8.

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

Financial instruments

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

The following items in particular are recognized as financial assets:

- Investments in associates,
- Other shareholdings,
- Securities,
- Loans and other receivables,
- Derivative financial assets,
- Other financial assets, and
- Cash and cash equivalents.

The following liabilities are recognized as financial liabilities:

- Liabilities to banks and loan liabilities,
- Trade payables,
- Derivative financial liabilities, and
- Other financial liabilities.

All financial assets and liabilities may be classified, upon initial recognition, at fair value through profit or loss if they fulfill the requirements of the IASB (fair value option). This option has not been exercised by the Dräger Group to date.

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

Financial instruments are initially recognized at fair value. Transaction fees directly attributable to the acquisition or issuance of financial instruments are only taken into account when calculating the carrying value if the financial instruments are not recognized at fair value in income.

Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are recognized at amortized cost less any impairment losses and discounting (effective interest method).

In subsequent measurements, loans and receivables are subject to an impairment test. As part of a two-stage method, the first step is to examine whether there is substantial evidence of impairment following the initial recognition (i. e. it is highly probable that the borrower will become insolvent or the obligor is in considerable financial difficulties). The second step is to determine the extent of the impairment on the basis of expected future cash flows. The carrying values of loans and receivables are generally adjusted through the use of allowance accounts.

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

Securities with fixed or determinable payments and fixed maturity that the Dräger Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments and recognized at amortized cost using the effective interest method.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale and are not classified as belonging to any of the other categories. This category comprises other investments and securities, which are measured at fair value, or, if not determinable, at amortized cost. Unrealized gains and losses from the change in fair value are recorded in equity, taking the tax effects into account. Changes in fair value are not recognized in profit or loss until the asset is sold, or if it is permanently impaired.

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

Financial liabilities

Financial liabilities are disclosed at amortized cost in subsequent periods. Any differences between the payment (less transaction fees) and repayment are recognized in the income statement over the term of the loan, using the effective interest method.

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

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

Fair value of financial assets and liabilities

Where the fair value of financial assets and liabilities is disclosed or stated, it is always derived from the market or stock exchange value. In the absence of an active market, the fair value is determined according to recognized methods of financial mathematics such as the discounting of expected future cash flows.

Derivative financial instruments

The Dräger Group uses derivatives as part of its risk management to hedge currency and interest rate risks.

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

In a hedge of the exposure to changes in fair value of a recognized asset or liability (fair value hedge), the changes in the fair value of both the hedged item and the derivative are recognized in profit or loss. Changes in the fair value of the exposure to variability in future cash flows (cash flow hedge) are recognized directly under equity, taking tax effects into account, if the hedge is effective. These amounts are not removed from equity and recognized in profit or loss until the hedged item affects profit or loss. Changes in the fair value of derivatives used to hedge future cash flows between group companies are recognized as cash flow hedges if they fulfill the relevant criteria.

Derivative financial instruments that are not designated as effective hedging instruments in accordance with IAS 39 are classified as held for trading and recognized at fair value, or, if not determinable, at amortized cost. The fair value of listed derivatives is the positive or negative market value. In the absence of a market value, the fair value is determined according to recognized methods of financial mathematics such as the discounting of expected future cash flows.

In hedging foreign currency risks posed by recognized assets or recognized liabilities, the Dräger Group does not use hedge accounting in accordance with IAS 39 to recognize hedges as the profit or loss from the currency translation of the hedged item pursuant to IAS 21 affects the income statement at the same time as the profit or loss from the measurement of the hedging instrument.

We refer to Note 45 for details of the nature and scope of the Dräger Group's existing financial instruments.

Inventories

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank balances, including short-term deposits.

Participation capital

In accordance with IAS 32 and IAS 39, the individual Dräger participation certificate series are recognized pursuant to the commercial value of their contractual agreements. Series A certificates are generally classified as equity. However, they include an obligation with a value to the amount of the minimum return which is recognized as liability.

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

Effects recognized in equity reflect the participation certificates' equity component (including deferred tax effects) and corresponding past compounding effects.

The components recognized as debt are measured at amortized cost using the effective interest method (present value of repayment obligation). Please refer to Note 34 for further information on the individual Dräger participation certificate series.

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

Provisions for pensions and similar obligations

Provisions for pension obligations and similar obligations are calculated according to IAS 19 using the projected unit credit method allowing for future adjustments to salaries and pensions and employee turnover.

The provisions were measured on the basis of pension reports. The Dräger Group has decided to exercise the option under IAS 19.93A of fully recognizing actuarial gains or losses in equity immediately, taking account of deferred taxes. The actuarial gains or losses recognized in equity are reconciled in the statement of comprehensive income presented before the notes.

The interest portions contained in pension expenses are disclosed in interest and similar expenses and netted with the expected return on plan assets.

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

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

Other provisions

A provision is recognized when the entity has a present obligation (legal or constructive) to a third party as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are stated at the amount expected to be required to settle the obligation. This settlement amount also includes cost increases that have to be taken into account on the balance sheet date. Non-current provisions are discounted to the balance sheet date using appropriate pre-tax market rates. These interest rates are determined taking into account the risk and the term of the provision, if the risk had not already been recognized when determining future payments. Provisions are not offset against rights of recourse.

Income taxes

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

Actual tax expenses are determined using the tax regulations applicable on the balance sheet date in the individual countries. Management regularly assesses tax declarations, especially in relation to matters open to interpretation and, if necessary, sets aside provisions based on the amounts that are likely to be payable in tax.

Pursuant to IAS 12, deferred taxes are determined using the balance sheet-based liability method. Deferred taxes are recognized for temporary differences between the Group financial statements and the tax accounts of the consolidated companies as well as for loss and interest carryforwards.

Deferred tax assets are only recognized if it is sufficiently probable that they will be realized. Deferred tax assets and liabilities are only netted if they relate to the same taxation authority.

Deferred tax liabilities resulting from the temporal difference in connection with investments in subsidiaries are stated unless the timing of the reversal of the temporary

difference can be controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future due to this effect.

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

Leases

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

A) FINANCE LEASES

Dräger group as lessee

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

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

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

Dräger group as lessor

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

B) OPERATING LEASES

Dräger group as lessee

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

Dräger group as lessor

Assets subject to operating leases are presented in the balance sheet according to the nature of the asset. Lease income from these leases is recognized in profit or loss on a straight-line basis over the lease term.

Overview of selected valuation methods

SELECTED VALUATION METHODS

Assets	Valuation method
Goodwill	Acquisition costs (subsequent valuation using an impairment test)
Intangible assets with limited useful lives	(Amortized) costs
Property, plant and equipment	(Amortized) costs
Investments in associates	Equity method
Financial assets	
– Loans and receivables	(Amortized) costs
– Derivatives (held for trading)	Fair value (recognized in profit or loss)
– Available for sale	Generally fair value (recognized in equity) (at amortized cost if the value cannot be determined)
Inventories	Lower value of average costs and the net realizable value
Cash and cash equivalents	Costs

Liabilities	Valuation method
Liabilities from participation certificates	(Amortized) costs
Provisions for pensions and similar obligations	Projected unit credit method
Other provisions	Expected settlement amount (possibly discounted)
Financial liabilities	
– Derivatives (held for trading)	Fair value (recognized in profit or loss)
– Loans and other financial liabilities	(Amortized) costs

Use of estimates and assumptions

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

The estimates pertain to the following areas in particular:

As part of the annual assessment of the recoverable amount of capitalized goodwill, Dräger's management uses estimates to arrive at its conclusions. Management uses data from internal analyses and forecasts with regards to anticipated earnings trends and data from external information sources with regards to other analysis parameters.

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

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

Defined benefit pension plans and similar obligations are recognized in accordance with actuarial methods. These methods are based on actuarial assumptions such as the discount rate, expected return on plan assets, wage and salary trends, increases in pension and employee turnover. The recognized discount factors are calculated on the basis of the effective market return on high-quality corporate bonds. The expected return on plan assets is determined using a standard calculation, taking into account historical long-term assumptions. Deviations of actuarial assumptions from actual developments could have serious implications for the measurement of defined pension plans and similar obligations.

The Group has set aside provisions for various risks. The likelihood of these provisions being used is assessed on the basis of previous experience and assessments of individual business transactions. Adjusting events were taken into account accordingly. The Group has to pay income taxes in several countries. This involves a specific calculation of the expected actual income tax exposure for each tax object and an assessment of temporary differences resulting from the different treatment of certain items for IFRS and tax reporting purposes. Management has to make assumptions when calculating effective and deferred taxes. Tax estimates are made in accordance with local laws.

Notes to the income statement

10 NET SALES

For the breakdown of net sales by business segment and geographical segment, please see the tables below. A detailed segment report is provided in Note 48 and in the management report.

NET SALES – DIVISIONS

Breakdown by divisions in € million	2012	2011	Change in %
Medical division	1,558.0	1,484.5	5.0
Safety division	849.3	802.7	5.8
Drägerwerk AG & Co. KGaA / other companies	16.2	16.2	0.0
Segment net sales	**2,423.5**	**2,303.4**	**5.2**
Intersegment net sales	(50.0)	(47.6)	5.0
Net sales	**2,373.5**	**2,255.8**	**5.2**

NET SALES – REGIONS

Breakdown by region in € million (sales areas)	2012	2011	Change in %
Germany	462.6	457.7	1.1
Rest of Europe	864.7	866.4	(0.2)
Americas	461.0	440.3	4.7
Asia / Pacific	404.1	346.1	16.8
Other	181.1	145.3	24.6
Net sales	**2,373.5**	**2,255.8**	**5.2**

Net sales include EUR 64.6 million (2011: EUR 75.8 million) from construction contracts in accordance with IAS 11. This amount is disclosed in the net sales from the following regions: Germany EUR 36.8 million (2011: EUR 39.5 million), Rest of Europe EUR 16.1 million (2011: EUR 26.9 million), Asia / Pacific EUR 5.1 million (2011: EUR 0.6 million), Americas EUR 1.5 million (2011: EUR 0.4 million), and other countries EUR 5.1 million (2011: EUR 8.4 million).

11 COST OF SALES

Cost of sales include the following:

COST OF SALES

€ thousand	2012	2011
Direct materials	652,396	633,977
Direct labor	204,562	188,803
Direct costs	**856,958**	**822,780**
Material overheads	58,430	45,469
Production overheads	242,558	206,035
Other indirect costs	48,539	73,223
Indirect costs	**349,527**	**324,727**
Cost of sales	**1,206,485**	**1,147,507**

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

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

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

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

12 RESEARCH AND DEVELOPMENT COSTS

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

13 MARKETING AND SELLING EXPENSES

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

14 GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses comprise the costs of administrative activities not related to other functions. This includes in particular the cost of management, corporate controlling, legal, accounting and consulting fees, audit fees and general infrastructure

costs. Income arising in direct connection with the costs is netted. The costs comprise the material costs and personnel expenses arising from administration as well as depreciation and amortization.

15 OTHER OPERATING INCOME / EXPENSES

OTHER OPERATING INCOME / EXPENSES

€ thousand	2012	2011
Reversal of bad debt allowances	5,900	4,661
Rental income	1,696	2,264
Gains on the disposal of non-current assets	1,149	589
Other operating income	**8,745**	**7,514**
Allocations to bad debt allowances and write-downs on receivables	8,994	14,907
Expenses for leased assets	612	892
Losses on the disposal of non-current assets	1,824	942
Other operating expenses	**11,430**	**16,741**

The reversal of bad debt allowances also includes receivables written down in the previous year of EUR 635 thousand.

16 FINANCIAL RESULT

FINANCIAL RESULT (BEFORE INTEREST RESULT)

€ thousand	2012	2011
Income from investments in associates	253	225
Write-downs of investments in associates	(26)	(597)
Profit from investments in associates	**227**	**(372)**
Income from other investments	–	182
Profit from other investments	**–**	**182**
Net result from foreign exchange transactions	(1,723)	432
Earnings from the disposal of other financial assets and securities	52	1
Write-downs on other financial assets	(58)	(191)
Write-ups on other financial assets	8	2
Other financial income	285	3
Other financial expenses	(114)	(80)
Other financial result	**(1,550)**	**167**
Financial result (before interest result)	**(1,323)**	**(23)**

INTEREST RESULT

€ thousand	2012	2011
Income from other securities and loans	218	211
Interest income from bank balances	3,979	3,901
Income from interest hedges	–	67
Interest contained in lease payments	94	165
Other interest and similar income	5,238	1,292
Interest and similar income	**9,529**	**5,636**
Interest expenses from bank liabilities	(19,446)	(18,990)
Other interest and similar expenses	(10,486)	(9,077)
Expenses from interest hedges	(490)	(414)
Interest contained in lease payments	(204)	(260)
Interest portion contained in pension provisions	(8,220)	(8,150)
Distribution for participation certificates	(345)	(547)
Compounding of participation certificates	(901)	(1,248)
Other interest effect from the buyback of participation certificates	(2,650)	–
Interest and similar expenses	**(42,742)**	**(38,686)**
Interest result	**(33,213)**	**(33,050)**

Other interest and similar expenses include expenses incurred from the compounding of provisions (see also Note 36).

17 INCOME TAXES

COMPOSITION OF TAX EXPENSE

€ thousand	2012	2011
Germany	**(4,858)**	**(8,025)**
Abroad	**(36,071)**	**(43,991)**
Current tax expense	**(40,929)**	**(52,016)**
Germany		
Deferred income / expense from temporary differences	3,682	1,721
Deferred tax expense / income from loss carryforwards	(20,729)	(10,065)
Deferred tax expense / income (Germany)	**(17,047)**	**(8,344)**
Abroad		
Deferred income / expense from temporary differences	(2,482)	6,650
Deferred tax expense / income from loss carryforwards	(914)	(1,965)
Deferred tax expense / income abroad	**(3,396)**	**4,685**
Deferred tax expense / income	**(20,443)**	**(3,659)**
Income taxes	**(61,372)**	**(55,675)**

Deferred tax expenses include a tax expense of EUR 419 thousand (2011: tax income of EUR 10 thousand) from the change in tax rates.

A deferred tax liability of EUR 4,150 thousand (2011: EUR 4,042 thousand) was recognized for temporary differences in connection with retained profits of foreign subsidiaries. No deferred tax liability was recognized for temporary differences in connection with proportional values of subsidiaries to the amount of EUR 14,018 thousand (2011: EUR 15,866 thousand) as the sale of these companies or a distribution of retained profits is unlikely in the foreseeable future.

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

RECONCILIATION OF EXPECTED INCOME TAX EXPENSE TO RECOGNIZED INCOME TAX EXPENSE

€ thousand	2012	2011
Earnings before income taxes	**196,408**	**180,727**
Expected income tax expense (tax rate 30.92 %; 2011: 30.92 %)	**(60,729)**	**(55,881)**
Reconciliation:		
Effects from other periods	3,431	2,039
Effect from change in tax rates	(419)	10
Effect from different tax rates	6,273	5,907
Tax effect of non-deductible expenses and tax-free income	(9,173)	(6,005)
Recognition and measurement of deferred tax assets	(800)	(1,555)
Other tax effects	45	(190)
Recognized income tax expenses	**(61,372)**	**(55,675)**
Tax rate (%) overall	31.2	30.8

The parent company's tax rate of 30.92 percent (2011: 30.92 percent) was used as the expected tax rate. The expected tax rate is composed of a corporate income tax component of 15.83 percent (including the 5.5 percent solidarity surcharge) (2011: 15.83 percent) and a trade tax component of 15.09 percent (2011: 15.09 percent).

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

DEFERRED TAX ASSETS / DEFERRED TAX LIABILITIES

	Deferred tax assets		Deferred tax liabilities	
€ thousand	**2012**	**2011**	**2012**	**2011**
Intangible assets	8,663	9,221	4,238	4,220
Property, plant and equipment	6,598	4,055	7,507	8,120
Other non-current financial assets	–	37	330	361
Other non-current assets	19,331	10,609	–	–
Non-current assets	**34,592**	**23,922**	**12,075**	**12,701**
Inventories	11,463	21,557	751	991
Trade receivables and receivables from construction contracts	5,655	6,455	4,776	5,956
Other current financial assets	1,292	710	3,849	5,654
Other current assets	586	720	1,362	1,820
Current assets	**18,996**	**29,442**	**10,738**	**14,421**
Liabilities from participation certificates	–	–	7,696	13,492
Provisions for pensions and similar obligations	33,005	9,734	19,785	12,322
Other non-current provisions	10,156	8,886	260	207
Non-current interest-bearing loans	1,405	1,602	145	219
Other non-current financial liabilities	2,336	2,433	231	156
Non-current liabilities	**46,902**	**22,655**	**28,117**	**26,396**
Other current provisions [1]	18,980	20,846	2,125	709
Current loans and liabilities to banks	197	188	8	10
Trade payables	84	181	38	232
Liabilities from construction contracts	46	664	–	–
Other current financial liabilities [2]	7,713	8,502	1,235	443
Other current liabilities [1,2]	3,913	7,113	3,976	13,175
Current liabilities	**30,933**	**37,494**	**7,382**	**14,569**
Capitalized tax loss carryforwards	15,603	29,019	–	–
Capitalized interest carryforwards	22,035	5,727	–	–
Gross amount	**169,061**	**148,259**	**58,312**	**68,087**
Netting	(65,028)	(75,031)	(65,028)	(75,031)
Deferred taxes from consolidation entries	32,626	31,226	8,673	8,573
Carrying amount	**136,659**	**104,454**	**1,957**	**1,629**

[1] The income tax provisions and liabilities shall be recognized consistently in income tax liabilities pursuant to the applicable accouting policies. The prior-year figures were adjusted accordingly (see Note 3).

[2] Other liabilities to employees and for social security must be recognized in other liabilities. The prior-year figures were adjusted accordingly (see Note 3).

The recoverable amount of the recognized deferred tax assets on recognized tax loss carryforwards and temporary differences at the consolidated companies is tested for impairment and written down where necessary once a year on the basis of the future taxable profit, which in 2012 was determined on the basis of a five-year operating plan taking risk markdowns into account.

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

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

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

CAPITALIZED TAX LOSS CARRYFORWARDS

€ thousand	2012	2011
Corporate income tax	20,369	60,097
Trade tax	74,529	135,924
Interest carryforwards	81,167	21,096
State tax USA	14,835	13,242
Total	**190,900**	**230,359**

NON-CAPITALIZED TAX LOSS CARRYFORWARDS

€ thousand	2012	2011
Corporate income tax	54,145	54,380
of which will expire in the next 12 months	4	469
of which will expire after more than 12 months	1,488	1,132
of which does not expire	52,653	52,779
Trade tax + state tax USA	46,472	16,381
of which will expire in the next 12 months	–	–
of which will expire after more than 12 months	29,936	–
of which does not expire	16,536	16,381
Total	**100,617**	**70,761**

Deferred taxes were recognized on loss carryforwards of EUR 14,835 thousand (2011: EUR 13,242 thousand) of a US company which is subject to state tax of an average of 3.07 percent (2011: 4.12 percent).

Theoretically, deferred taxes of EUR 14,669 thousand (2011: EUR 14,258 thousand) might have been recognized for unrecognized corporate income and trade tax losses.

Despite losses in the current and / or previous year, deferred tax assets of EUR 8,540 thousand (2011: EUR 10,858 thousand) were recognized for loss carryforwards and temporary differences, as the companies in question are expected to generate sufficient taxable profits in the future.

Income from the valuation adjustment on deferred tax assets amounted to EUR 878 thousand (2011: EUR 1,569 thousand). The income from the reversal of a previous valuation adjustment on deferred tax assets came to EUR 78 thousand in fiscal year 2012 (2011: EUR 14 thousand).

Current income taxes of EUR 1,984 thousand (2011: EUR 1,194 thousand) were recognized directly in equity and primarily related to the share of the dividend for participation certificates relating to the equity component. In addition, current income taxes of EUR 8,331 thousand and deferred taxes of EUR 16,185 thousand had been recognized directly in equity, which relate to the loss from the buyback of participation certificates.

The deferred tax assets recognized in equity increased by EUR 24,251 thousand (2011: decreased by EUR 698 thousand) during the period and mainly concerned the recognition of actuarial gains and losses directly in equity. The rise resulted from higher actuarial losses due to the significant drop in interest rates.

18 PERSONNEL EXPENSES / HEADCOUNT

PERSONNEL EXPENSES

€ thousand	2012	2011
Wages and salaries	702,868	666,419
Social security, pension expenses and related employee benefits	137,656	127,008
	840,524	**793,427**

Personnel expenses include the remuneration of the members of the Executive Board of the general partner Drägerwerk Verwaltungs AG, Lübeck. Please refer to our comments in the remuneration report (Note 50).

HEADCOUNT AS OF THE BALANCE SHEET DATE

	2012	2011
Germany	5,821	5,472
Abroad	6,695	6,452
Total headcount	**12,516**	**11,924**
Production: production, service, exterior fitting	5,440	**5,288**
Other	7,076	**6,636**
Total headcount	**12,516**	**11,924**

HEADCOUNT (AVERAGE)

	2012	2011
Germany	5,684	5,322
Abroad	6,589	6,348
Total headcount	**12,273**	**11,670**
Production: production, service, exterior fitting	5,377	5,192
Other	6,896	6,478
Total headcount	**12,273**	**11,670**

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

19 AMORTIZATION OF INTANGIBLE ASSETS AND DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

DEPRECIATION/AMORTIZATION

€ thousand	2012	2011
Intangible Assets	7,478	7,407
Property, plant and equipment [1]	58,210	53,458
	65,688	**60,865**

[1] Equipment leased out is recognized in property, plant and equipment. The prior-year figures were adjusted accordingly (see Note 3).

EUR 31,063 thousand in amortization and depreciation charges is contained in cost of sales (2011: EUR 34,435 thousand), EUR 3,027 thousand in research and development costs (2011: EUR 2,742 thousand), EUR 10,735 thousand in marketing and selling expenses (2011: EUR 5,398 thousand) and EUR 20,863 thousand in general administrative expenses (2011: EUR 18,290 thousand).

As in the previous year, no impairment losses were charged on intangible assets or property, plant and equipment in fiscal year 2012.

20 EARNINGS/DIVIDEND PER SHARE

Dräger has determined and illustrated the earnings per share as well as the earnings per share in the case of a full dividend distribution to provide its shareholders with comprehensive information. The calculation of earnings per share is based on Dräger's current dividend policies and takes into account the actual proposed distribution as well as a fictitious full distribution of the remaining earnings to common and preferred shareholders. The method used for calculating earnings per share in the case of a full distribution assumes an actual full distribution of net profit less the share in net profit of non-controlling interests to common and preferred shareholders as well as to holders of participation certificates.

EARNINGS / DIVIDEND PER SHARE

€ thousand	2012	2011
Net profit	135,036	125,052
Earnings attributable to non-controlling interests	(3,319)	(2,783)
Earnings attributable to participation certificates (excluding minimum dividend, after taxes)	(5,325)	(1,558)
Earnings attributable to shareholders	**126,392**	**120,711**
Weighted average of outstanding preferred shares	6,350,000	6,350,000
Potentially dilutive preferred shares	229,803	123,239
Weighted average of outstanding preferred shares on dilution	**6,579,803**	**6,473,239**
Weighted average of outstanding common shares	10,160,000	10,160,000
Potentially dilutive common shares	0	0
Weighted average of outstanding common shares on dilution	**10,160,000**	**10,160,000**
Undiluted earnings per common share (in €)	**7.63**	**7.29**
Preference per preferred share (in €)	0.06	0.06
Undiluted earnings per preferred share (in €)	**7.69**	**7.35**
Undiluted earnings per common share (in €)	**7.51**	**7.23**
Preference per preferred share (in €)	0.06	0.06
Diluted earnings per preferred share (in €)	**7.57**	**7.29**

The structure of the proposed distribution is as follows:

CALCULATION OF PROPOSED DISTRIBUTION

	Number of shares	Dividend per share	Dividends in €	less taxes and minimum dividends	Total in €
Common shares	10,160,000	0.86	8,737,600.00		8,737,600.00
Preferred shares	6,350,000	0.92	5,842,000.00		5,842,000.00
Participation certificates	831,951	9.20	7,653,949.20	(2,328,957.74)	5,324,991.46
					19,904,591.46

The proposed distribution corresponds to 15.11 percent (2011: 3.34 percent) of net profit less the share in net profit of non-controlling interests.

The method used for calculating earnings per share in the case of a full distribution assumes an actual full distribution of net profit less the share in net profit of non-controlling interests to common and preferred shareholders as well as to holders of participation certificates. If an actual full distribution of net profit is assumed, earnings per share are calculated as follows in the case of a full distribution due to the effects on earnings attributable to participation certificates with an unchanged average number of shares outstanding:

EARNINGS/DIVIDEND PER SHARE ON FULL DISTRIBUTION

€ thousand	2012	2011
Net profit	135,036	125,052
Earnings attributable to non-controlling interests	(3,319)	(2,783)
Earnings attributable to participation certificates (excluding minimum dividend, after taxes) [1]	(35,350)	(46,954)
Earnings attributable to shareholders [1]	**96,367**	**75,315**
Undiluted earnings per common share (in €) [1]	**5.81**	**4.54**
Preference per preferred share (in €)	0.06	0.06
Undiluted earnings per preferred share (in €) [1]	**5.87**	**4.60**
Diluted earnings per common share (in €) [1]	**5.75**	**4.52**
Preference per preferred share (in €)	0.06	0.06
Diluted earnings per preferred share (in €) [1]	**5.81**	**4.58**

[1] On an imputed actual full distribution

By resolution of the annual shareholders' meeting on May 6, 2011, the general partner was authorized to increase the capital stock of the Company, with the approval of the Supervisory Board, until May 5, 2016, by issuing new bearer common shares and/or preferred shares (no-par shares) in return for cash and/or contributions in kind by up to EUR 21,132,800.00 (authorized share capital) in one or several tranches. In accordance with the articles of association, the general partner is not entitled to exclude the shareholders' subscription right for exercising option and/or conversion rights or fulfill conversion obligations from participation certificates.

By resolution of the annual shareholders' meeting on May 4, 2012, the general partner was authorized to acquire up to 10 percent in own shares of both types (common and / or preferred shares) of the Company's capital stock as of the date of resolution or – if this value is lower – as of the date on which the authorization is exercised. Together with all other shares held by the Company or attributable to it according to Secs. 71a et seq. AktG, shares purchased under this provision may at no time equal more than 10 percent of capital stock. The authorization may not be used for the purpose of trading in treasury shares (see also Note 32).

In March 2012, Drägerwerk AG & Co. KGaA bought back 581,474 participation certificates; the number of issued participation certificates as of December 31, 2012 totaled 831,951 (2011: 1,413,425 participation certificates). In accordance with the terms and conditions of participation certificates, Drägerwerk AG & Co. KGaA will grant the holders either ten common or preferred shares per certificate or ten times the current stock market price of preferred shares upon termination. The factor 10 is due to the share split, which did not apply to the participation certificates (please refer to the information on participation certificates provided in Note 34).

Within the scope of the acquisition of the 25 percent share in Dräger Medical GmbH from Siemens in fiscal year 2009, Dräger issued warrant bonds with option rights guaranteed in the form of warrants to the total nominal value of EUR 1.25 million to Siemens on August 30, 2010. The option rights entitle their holders to acquire a total of 1.25 million preferred shares. They are divided into 25 individual options, entitling holders to acquire 50,000 preferred shares each. The options rights expire on April 30, 2015. The option rights issued caused dilution as of the balance sheet date, as the average market price of EUR 78.02 for preferred shares exceeded the exercise price of option rights of EUR 63.68 on December 31, 2012. The resulting 229,803 potentially diluted preferred shares were consequently taken into consideration in the calculation of diluted earnings per share.

In order to exercise the option rights issued to Siemens, the annual shareholders' meeting on May 7, 2010, resolved to conditionally increase the Company's capital stock up to EUR 3,200,000 by issuing up to 1,250,000 new no-par preferred bearer shares (no-par shares) in return for cash and/or contributions in kind (conditional capital).

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

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

Notes to the consolidated balance sheet

21 INTANGIBLE ASSETS

INTANGIBLE ASSETS AS OF DECEMBER 31, 2012

€ thousand	Goodwill	Patents, trademarks and licenses	Purchased software	Internally generated intangible assets	Payments made	2012 Total
Cost						
January 1, 2012	264,770	18,091	80,609	17,624	4,026	385,120
Additions	–	176	6,891	–	3,235	10,302
Disposals	–	(212)	(979)	(38)	(401)	(1,630)
Reclassifications	–	–	2,116	–	(1,827)	289
Currency translations effects	(239)	(345)	(164)	(13)	–	(761)
December 31, 2012	**264,531**	**17,710**	**88,473**	**17,573**	**5,033**	**393,320**
Accumulated amortization and impairment losses						
January 1, 2012	5,096	15,272	68,233	16,210	–	104,811
Additions (amortization)	–	870	5,860	748	–	7,478
Disposals	–	(210)	(892)	–	–	(1,102)
Currency translations effects	22	(273)	(156)	(14)	–	(421)
December 31, 2012	**5,118**	**15,659**	**73,045**	**16,944**	**0**	**110,766**
Net carrying value	**259,413**	**2,051**	**15,428**	**629**	**5,033**	**282,554**

INTANGIBLE ASSETS AS OF DECEMBER 31, 2011

€ thousand	Goodwill	Patents, trademarks and licenses	Purchased software	Internally generated intangible assets	Payments made	2011 Total
Cost						
January 1, 2011	267,128	17,585	76,377	17,602	1,555	380,247
Additions	–	104	7,580	–	3,158	10,842
Disposals	(2,838)	(32)	(4,663)	–	–	(7,533)
Reclassifications	–	–	687	–	(687)	0
Currency translations effects	480	434	628	22	–	1,564
December 31, 2011	**264,770**	**18,091**	**80,609**	**17,624**	**4,026**	**385,120**
Accumulated amortization and impairment losses						
January 1, 2011	7,793	14,049	65,813	15,241	–	102,896
Additions (amortization)	–	899	5,561	947	–	7,407
Disposals	(2,838)	(32)	(3,375)	–	–	(6,245)
Currency translations effects	141	356	234	22	–	753
December 31, 2011	**5,096**	**15,272**	**68,233**	**16,210**	**0**	**104,811**
Net carrying value	**259,674**	**2,819**	**12,376**	**1,414**	**4,026**	**280,309**

Goodwill mainly resulted from the transfer in fiscal year 2003 of the "Electromedical Systems" business unit of Siemens Medical Solutions to Dräger Medical GmbH. Goodwill increased further on account of the buyback of Siemens' 35 percent share in Dräger Medical GmbH in fiscal years 2007 and 2009.

The amortization of intangible assets is contained in the cost of sales and the other functional costs.

The discounted cash flow method is used for measuring the recoverable amount of goodwill by determining the net realizable value, based on the operational five-year plan for the individual cash generating units. The business segments form the basis for the cash generating units. The main planning assumptions are market growth (which will be in excess of the expected rate of GDP growth), development of market shares (which will tend to stagnate in markets with high market shares and is otherwise expected to rise) and market price trends (as shown by the corresponding rate of inflation). Based on these assumptions, sales growth of 5.5 percent (2011 for 2012 - 2016: 5.1 percent) is expected for the medical division between 2013 and 2017 and growth of 6.0 percent (2011 for 2011 - 2016: 6.9 percent) expected in the same period for the safety division, resulting in overall growth for the Group of 5.7 percent (2011: 5.8 percent). The calculation was also based on discounting rate assumptions: In the current planning, a discount rate of 6.24 percent (2011: 6.32 percent) and a growth rate of 1 percent (2011: 1 percent) were taken into account for perpetual annuity of the medical division. In the planning, a discount rate of 7.91 percent (2011: 7.78 percent) and a growth rate of 1 percent (2011: 1 percent) were therefore taken into account for perpetual annuity of the safety division. These assumptions are backed up by external sources of information on market development. No impairment loss was required on the basis of this multi-year plan. Even if the

perpetual annuity was to grow by 0 percent and the discount rate were to increase by another 2 percentage points, no impairment loss would have to be recognized.

As of December 31, 2012, goodwill was made up of EUR 257.3 million for the medical division (2011: EUR 257.6 million) and EUR 2.1 million for the safety division and Drägerwerk AG & Co. KGaA (2011: EUR 2.1 million).

22 PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT AS OF DECEMBER 31, 2012

€ thousand	Land, equivalent titles and buildings	Production plant and machinery construction	Other plant, factory and office equipment	Leased equipment	Leased assets (finance lease)	Prepayments made and assets under construction	2012 Total
Cost							
January 1, 2012	328,499	106,429	252,665	35,481	5,126	12,749	740,949
Additions	6,316	3,911	30,433	9,057	730	17,499	67,946
Disposals	(1,031)	(5,853)	(19,278)	(962)	(1,256)	(2,062)	(30,442)
Reclassifications	4,181	1,461	4,882	–	–	(10,813)	(289)
Reclassifications of display devices	–	–	–	(963)	–	–	(963)
Change in consolidated group	–	32	–	–	–	–	32
Currency translations effects	(1,074)	(35)	(766)	(348)	(13)	27	(2,209)
December 31, 2012	**336,891**	**105,945**	**267,936**	**42,265**	**4,587**	**17,400**	**775,024**
Accumulated depreciation and impairment losses							
January 1, 2012	173,317	81,899	184,007	25,423	2,808	74	467,528
Additions (depreciation)	12,645	7,734	30,538	6,453	840	–	58,210
Write-ups	–	–	(1)	–	–	–	(1)
Disposals	(999)	(5,788)	(18,258)	(533)	(1,134)	–	(26,712)
Reclassifications	–	(41)	41	–	–	–	0
Reclassifications of display devices	–	–	–	(390)	–	–	(390)
Change in consolidated group	9	–	–	–	–	–	9
Currency translations effects	(818)	(71)	(728)	(339)	(34)	–	(1,990)
December 31, 2012	**184,154**	**83,733**	**195,599**	**30,614**	**2,480**	**74**	**496,654**
Net carrying value	**152,737**	**22,212**	**72,337**	**11,651**	**2,107**	**17,326**	**278,370**

PROPERTY, PLANT AND EQUIPMENT AS OF DECEMBER 31, 2011

€ thousand	Land, equivalent titles and buildings	Production plant and machinery	Other plant, factory and office equipment	Leased equipment [1]	Leased assets (finance lease)	Prepayments made and assets under construction	2011 Total
Cost							
January 1, 2011	306,286	97,720	236,864	31,434	6,015	18,823	697,142
Additions	8,732	5,468	25,934	6,656	281	20,195	67,266
Disposals	(3,041)	(2,413)	(15,747)	(1,369)	(1,166)	(366)	(24,102)
Reclassifications	15,653	4,913	5,392	–	134	(26,092)	0
Reclassifications of display devices	–	–	–	(1,240)	–	–	(1,240)
Currency translations effects	869	741	222	–	(138)	189	1,883
December 31, 2011	**328,499**	**106,429**	**252,665**	**35,481**	**5,126**	**12,749**	**740,949**
Accumulated depreciation and impairment losses							
January 1, 2011	163,540	75,351	169,809	22,172	3,219	74	434,165
Additions (depreciation)	11,949	7,568	28,388	4,998	555	–	53,458
Write-ups	–	(70)	(10)	–	–	–	(80)
Disposals	(2,378)	(1,831)	(15,159)	(863)	(810)	–	(21,041)
Reclassifications	–	43	89	–	(132)	–	0
Reclassifications of display devices	–	–	–	(1,095)	–	–	(1,095)
Currency translations effects	206	838	890	211	(24)	–	2,121
December 31, 2011	**173,317**	**81,899**	**184,007**	**25,423**	**2,808**	**74**	**467,528**
Net carrying value	**155,182**	**24,530**	**68,658**	**10,058**	**2,318**	**12,675**	**273,421**

[1] Equipment leased out is recognized in property, plant and equipment. The prior-year figures were adjusted accordingly (see Note 3).

From the current fiscal year, Dräger reported equipment leased out under property, plant and equipment, rather than separately under other non-current assets. For more information on assets leased under operating leases, we also refer to our comments in Note 46.

The assets leased under finance leases mainly comprise factory and office equipment (also see Note 46).

Additions to buildings primarily resulted from measures to modernize and remodel buildings. Prior-year additions include EUR 5,969 thousand for the production and logistics building for the Infrastructure Projects business in Lübeck, which was completed in April 2011. Government grants of EUR 1.8 million for this building were deducted from the production costs in previous years. Finance for this building has been secured with a mortgage of EUR 10.8 million.

No borrowing costs for additions for this new building were recognized in fiscal year 2012 (2011: EUR 31 thousand). The prior-year's underlying capitalization rate was 3.75 percent.

23 INVESTMENTS IN ASSOCIATES

Drägerwerk AG & Co. KGaA has investments in one unlisted company (2011: two unlisted companies) over which it has indirect and direct significant influence. This entity is included as an associate in the Group financial statements according to the equity method (over 20 percent interest).

As in prior-years, the fiscal year for companies accounted for according to the equity method ends on December 31, while the fiscal year for the company sold in fiscal year 2012 ends on March 31 of each calendar year.

The following figures are based on the last annual financial statement of the remaining company (2011: each company):

INVESTMENTS IN ASSOCIATES

€ thousand	2012	2011
Total assets	1,482	5,865
Total liabilities	910	3,590
Net sales	2,806	9,025
Earnings	517	804

24 OTHER NON-CURRENT FINANCIAL ASSETS

OTHER NON-CURRENT FINANCIAL ASSETS

€ thousand	2012	2011
Trade receivables	3,715	4,676
Other loans	2,944	1,755
Finance lease receivables (lessor)	507	747
Positive fair values of derivates	14	57
All other non-current financial assets	2,282	2,531
	9,462	**9,766**

The non-current receivables do not carry any discernible risks nor have they been impaired by any bad debt allowances.

The positive fair values of derivatives pertained exclusively to currency forwards and futures (2011: EUR 50 thousand). The prior-year also included EUR 7 thousand recognized for the positive fair values of derivatives derived from interest rate hedges relating to the repurchase of the 10 percent share in Dräger Medical GmbH from Siemens in fiscal year 2007.

All other non-current financial assets include investments and other non-current securities of EUR 974 thousand (2011: EUR 1,026 thousand).

For more information on finance lease receivables, please refer to our comments on the recognition of finance leases by the lessor (Note 46).

25 DEFERRED TAX ASSETS

Deferred tax assets are explained in Note 17.

26 OTHER NON-CURRENT ASSETS

OTHER NON-CURRENT ASSETS[1]

€ thousand	2012	2011
Fund assets from pension plans	3	17,341
All other non-current assets	4,126	4,614
	4,129	**21,955**

[1] Equipment leased out is recognized in property, plant and equipment. The prior-year figures were adjusted accordingly (see Note 3).

Fund assets relating to plan assets contain the available excess of plan assets (see also Note 35).

27 INVENTORIES

INVENTORIES

€ thousand	2012	2011
Finished goods and merchandise	194,956	179,174
Work in progress	57,585	59,351
Raw materials, consumables and supplies	109,272	100,467
Payments made	1,059	1,300
	362,872	**340,292**

The carrying value of inventories written down to their net realizable value as of December 31, 2012, is EUR 60,046 thousand (2011: EUR 50,119 thousand).

Impairment losses of EUR 9,320 thousand (2011: EUR 13,100 thousand) were charged on inventories in the fiscal year and recognized in cost of sales. In addition, EUR 1,494 thousand (2011: EUR 1,016 thousand) of impairments recognized in previous years were reversed. Finished goods and merchandise comprise loan equipment and demo equipment lent to customers in the short term worth EUR 32,749 thousand (2011: EUR 33,633 thousand). Loan and demo equipment is taken over by the customers after a short period of time and is therefore disclosed in inventories. Appropriate allowances were made for wear and tear over the period of use.

During this period, inventories with a carrying value of EUR 810,442 thousand (2011: EUR 788,840 thousand) were recognized in cost of sales.

Prepayments made mainly include payments in connection with projects in the safety divisions.

28 TRADE RECEIVABLES AND RECEIVABLES FROM CONSTRUCTION CONTRACTS

TRADE RECEIVABLES AND RECEIVABLES FROM CONSTRUCTION CONTRACTS

€ thousand	2012	2011
Trade receivables	580,033	562,000
Receivables from construction contracts	20,236	24,488
	600,269	**586,488**

The risks associated with trade receivables are adequately accounted for by bad debt allowances. Bad debt allowances developed as follows:

SPECIFIC BAD DEBT ALLOWANCES

€ thousand	2012	2011
January 1	39,067	32,724
Allocation	8,494	12,391
Utilization	(6,009)	(3,226)
Reversal	(4,937)	(2,542)
Change in consolidated group	–	29
Currency translations effects	229	(309)
December 31	**36,844**	**39,067**

The remaining credit risks from trade receivables after specific bad debt allowances are as follows, according to the age of the receivables:

AGING OF OVERDUE RECEIVABLES NOT SUBJECT TO BAD DEBT ALLOWANCES

€ thousand	2012	2011
Receivables neither impaired nor overdue	383,305	391,171
Receivables subject to bad debt allowances	3,798	7,068
Overdue receivables not subject to bad debt allowances		
– less than 30 days	90,091	76,338
– between 30 and 59 days	33,197	23,786
– between 60 and 89 days	23,791	18,247
– between 90 and 119 days	14,833	14,640
– more than 120 days	51,254	55,238
	213,166	188,249
Carrying amount	**600,269**	**586,488**

As of the reporting date, there were no signs of a credit risk for either impaired or overdue receivables.

Payments on interest-bearing loans of about EUR 500 thousand are expected after more than 365 days.

In addition to costs incurred for the contracts, receivables from construction contracts include the corresponding profit and were offset against part payments received.

The cost incurred for the contracts in process plus the corresponding profit according to the percentage of completion method amount to EUR 32,791 thousand (2011: EUR 60,722 thousand) as of the balance sheet date and were offset against part payments received of EUR 12,556 thousand (2011: EUR 36,284 thousand). This led to receivables from construction contracts of EUR 20,236 thousand (2011: EUR 24,488 thousand).

No specific bad debt allowances were recognized on receivables from construction contracts. There are no overdue trade receivables or receivables from construction contracts which require bad debt allowances.

29 OTHER CURRENT FINANCIAL ASSETS

OTHER CURRENT FINANCIAL ASSETS

€ thousand	2012	2011
Positive fair values of derivates	939	1,052
Notes receivable	14,982	13,457
Receivables from employees	1,902	1,620
Finance lease receivables (lessor)	214	763
Other	3,937	2,991
	21,974	**19,883**

For more information on finance lease receivables, please refer to our comments on the recognition of finance leases by the lessor (Note 46).

For the derivative financial instruments recognized as other financial assets, please refer to the table of derivative financial instruments in the Dräger Group presented in Note 45. Notes receivable chiefly stem from the Turkish, Chinese, Japanese and Spanish subsidiaries where the bill of exchange is a common method of payment.

As in the prior-year, no specific bad debt allowances were recognized on current financial assets. There are no overdue receivables which require bad debt allowances.

30 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and balances at various banks in different currencies. Cash and cash equivalents which were subject to restrictions as of the balance sheet date amount to EUR 14,556 thousand (2011: EUR 14,558 thousand).

31 OTHER CURRENT ASSETS

OTHER CURRENT ASSETS

€ thousand	2012	2011
Prepaid expenses	19,802	23,732
Other tax refund claims	18,884	19,809
Other	19,676	14,934
	58,362	**58,475**

Specific bad debt allowances were recognized in the amount of EUR 2 thousand (2011: EUR 4 thousand) on other current assets.

Other tax refund claims primarily result from VAT claims.

32 EQUITY

For the breakdown and changes in equity in fiscal years 2012 and 2011, please see the statement of changes in equity of the Dräger Group.

The capital stock of Drägerwerk AG & Co. KGaA remains unchanged at EUR 42,266 thousand. This capital stock is divided into 10,160,000 limited no-par bearer common shares and 6,350,000 limited no-par preferred shares. The nominal value of both share types is EUR 2.56. Drägerwerk Verwaltungs AG, the general partner, holds no shares in capital.

The capital stock has been fully paid in. As before, the preferred and common shares are traded on the capital market.

Other than voting rights, the preferred shares have the same rights as those attached to the common shares. As compensation for the lack of voting rights, an advance dividend of EUR 0.13 per preferred share is distributed from net earnings. If sufficient profits are available, a dividend of EUR 0.13 per common share is then paid. Any profit in excess of this amount, if distributed, is allocated so preferred shares receive EUR 0.06 more than common shares.

If the profit is not sufficient to distribute the advance dividend for preferred shares in one or more years, the amounts are paid from the profit of subsequent fiscal years before a dividend is paid on common shares.

If amounts in arrears are not paid in the next year along with the full preferred dividend for that year, the preferred shareholders have voting rights until the arrears have been paid.

In the event of liquidation, the preferred shareholders receive 25 percent of net liquidation proceeds in advance. The remaining liquidation proceeds are distributed evenly to all shares.

By resolution of the annual shareholders' meeting on May 6, 2011, the general partner was authorized to increase the capital stock of the Company, with the approval of the Supervisory Board, until May 5, 2016, by issuing new bearer common shares and/or preferred shares (no-par shares) in return for cash and/or contributions in kind by up to EUR 21,132,800.00 (authorized share capital) in one or several tranches. The authorization includes the entitlement to optionally issue new common shares and/or non-vot-

ing preferred shares up to the statutory maximum as stipulated in Sec. 139 (2) AktG, which carry the same status as the previously issued non-voting preferred shares with regard to the distribution of profits and/or Company assets.

In the case of common and preferred shares being issued at the same time while maintaining the ratio of both share types at the time of issuance, the general partner is being authorized, subject to approval by the Supervisory Board, to exclude the right of the case of common and preferred shares to subscribe to the other type of shares ("crossed exclusion of subscription rights").

The annual shareholders' meeting on May 7, 2010, resolved to conditionally increase the Company's capital stock up to EUR 3,200,000 by issuing up to 1,250,000 new no-par preferred bearer shares (no-par shares) in return for cash and/or contributions in kind (conditional capital). The conditional capital was used for issuing the option rights to Siemens.

By resolution of the annual shareholders' meeting on May 4, 2012, the general partner was authorized to acquire until May 3, 2017, up to 10 percent in own shares of both types (common and/or preferred shares) of the Company's capital stock as of the date of resolution or – if this value is lower – as of the date on which the authorization is exercised. Together with all other shares held by the Company or attributable to it according to Secs. 71a et seq. AktG, shares purchased under this provision may at no time equal more than 10 percent of capital stock. The authorization may not be used for the purpose of trading in treasury shares.

The authorization may be exercised in whole or in part, on one or more occasions and for one or more purposes by the Company or by dependent Group companies or enterprises in which the Company has a majority shareholding, or by third parties for its or their account. The purchase may be limited in part or in full to a single class of shares by excluding, in part or in full, shareholders' right to sell the other class of share.

The purchase may, at the discretion of the general partner, be affected via the stock exchange, or by means of a public purchase offer to all holders of the respective type of share or by means of a public invitation to all holders of the respective type of share to submit offers for sale.

The general partner is being authorized to use treasury shares acquired on the basis of this authorization for any lawful purposes.

The purchase of treasury shares by the general partner may only be initiated with the approval of the Supervisory Board.

Drägerwerk AG & Co. KGaA does not grant any share-based payments (share option plan).

Capital reserves

The capital reserves originated from share premiums from Drägerwerk AG & Co. KGaA's establishment (transformation) in 1970 and from capital increases in 1979, 1981, 1991 and 2010.

Retained earnings

Retained earnings comprise the earnings generated until fiscal year 2012 by the companies included in the Group financial statements, where they were not attributed to minority interests or paid as a dividend by Drägerwerk AG & Co. KGaA. Deferred taxes on

participation capital recognized in equity are stated in this item. Actuarial gains/losses from the Company's pension provisions, including deferred taxes, are also included in retained earnings.

The increase of retained earnings through net profit primarily served to counteract the following two factors.

Firstly, actuarial losses for provisions for pensions and similar obligations have risen sharply due to the drop in interest rates. The net amount of this increase of EUR 53,396 thousand is recognized directly in equity under other comprehensive income and retained earnings.

Secondly, the EUR 88,344 thousand difference between the buyback value of EUR 122,109 thousand and the carrying value of the debt and equity components of the bought back participation certificates is divided between the two components. The EUR 85,491 thousand (EUR 64,269 thousand after tax effect recognized directly in equity) share pertaining to the equity component was recognized directly in equity in retained earnings. Reserves retained from earnings, including Group result, therefore changed as follows:

RESERVES RETAINED FROM EARNINGS, INCL. GROUP RESULT

€ thousand	
Reserves retained from earnings, incl. Group result as of January 1, 2012	469,763
Effect from the buyback of participation certificates (recognized in equity)	(64,269)
Total comprehensive income (excluding non-controlling interests)	78,322
Other effects	5,613
Reserves retained from earnings, incl. Group result as of December 31, 2012	**489,429**

EFFECT FROM THE BUYBACK OF PARTICIPATION CERTIFICATES (RECOGNIZED IN EQUITY)

€ thousand	
Share of purchased participation certificate equity components of the difference	85,491
Tax effect (recognized in equity)	(21,222)
Effect from the buyback of participation certificates (recognized in equity)	**64,269**

Total comprehensive income (excluding non-controlling interests) includes EUR –2,251 thousand as an effect from the buyback of participation certificates on profit or loss.

EUR 8,085 thousand of the other changes in retained earnings resulted from the reversal of deferred tax assets together with the buyback of participation certificates due to the improvement to the results of operations of the Dräger Group as of the balance sheet date. The changes also include taxes on the proposed distribution for participation certificates (equity components) recognized directly in equity (EUR 1,983 thousand).

Participation capital

Please refer to Note 34 for details on participation capital.

Other comprehensive income

OTHER COMPREHENSIVE INCOME

€ thousand	2012	2011
Currency translation adjustment	3,391	4,090
Fair value of financial instruments	(3,202)	(2,210)
Deferred taxes recognized directly in equity	986	669
	1,175	**2,549**

In fiscal year 2012, the fair values of financial instruments to the amount of EUR 1,482 thousand (2011: EUR 1,635 thousand) were recognized directly in equity. In addition, EUR 490 thousand (2011: EUR 414 thousand) were reclassified from equity to the interest result due to interest hedging.

Capital management

One of Dräger's most important goals is to increase the business value. The key function of capital management in this respect is to minimize the cost of capital while ensuring solvency at all times by coordinating of the due dates of financial liabilities with the expected free cash flow and creating sufficient liquidity reserves.

Capital is monitored regularly using various key metrics, which include gearing and the equity ratio. Dräger's medium-term goal is to achieve a consolidated equity ratio of 40 percent.

The Dräger Group's equity and liabilities broke down as follows as of the balance sheet date:

EQUITY AND LIABILITIES

€ million	2012	2011
Equity interest held by shareholders of Drägerwerk AG & Co. KGaA	720.5	723.1
+ Non-controlling interests	6.7	6.5
Equity of the Dräger Group	727.2	729.6
Share of total equity and liabilities	34.6 %	34.5 %
Non-current liabilities	615.7	650.4
Current liabilities	758.3	735.2
Total liabilities	1,374.0	1,385.6
Share of total equity and liabilities	65.4 %	65.5 %
Total equity and liabilities	**2,101.2**	**2,115.2**

In fiscal year 2012, the equity of Dräger Group decreased slightly, despite the net profit achieved (EUR 135,036 thousand). This development is primarily due to the changes to retained earnings resulting from the buyback of participation certificates and from the actuarial adjustments to provisions for pensions and similar obligations (see the information on retained earnings).

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

GEARING

€ million	2012	2011
Non-current interest-bearing loans	282.9	365.3
+ Current loans and liabilities to banks	104.3	84.5
+ Non-current and current liabilities from finance lease	2.0	2.3
– Cash and cash equivalents	(332.4)	(412.3)
Net financial debt	**56.8**	**39.8**
Equity	727.2	729.6
Gearing (= net financial debt / equity)	**0.08**	**0.05**

33 NON-CONTROLLING INTERESTS

The non-controlling interests mostly relate to the following subsidiaries:

NON-CONTROLLING INTERESTS

	Non-controlling interests		thereof net profit	
€ thousand	2012	2011	2012	2011
Shanghai Dräger Medical Instrument Co. Ltd.	1,916	4,049	556	694
Dräger Medical South Africa	978	1,209	202	245
Draeger Medikal Ticaret ve Servis	(987)	(1,187)	95	587
Draeger Arabia Co. Ltd.	4,672	2,366	2,399	1,142
Other	157	98	67	115
	6,736	**6,535**	**3,319**	**2,783**

In the statement of changes in equity, other earnings from non-controlling interests of EUR 109 thousand (2011: EUR 376 thousand) only includes exchange rate differences.

34 PARTICIPATION CAPITAL/ LIABILITIES FROM PARTICIPATION CERTIFICATES

PARTICIPATION CAPITAL/LIABILITIES FROM PARTICIPATION CERTIFICATES 2012

	Number	Par value	Premium	Payments received	thereof recognized as debt	thereof recognized in equity
		€	€	€	€	€
Series A until June 1991	195,245	4,990,462.20	7,642,509.00	12,632,971.20	4,230,928.03	8,402,043.17
Series K until June 27, 1997	69,887	1,786,311.72	1,168,305.27	2,954,616.99	1,765,413.90	1,189,203.09
Series D from June 28, 1997	566,819	14,487,893.64	14,023,388.96	28,511,282.60	5,262,183.29	23,249,099.31
	831,951	**21,264,667.56**	**22,834,203.23**	**44,098,870.79**	**11,258,525.22**	**32,840,345.57**
Accumulated interest effect until 2011 (for remaining participation certificates after buyback)					7,047,931.10	–
Compensation for participation certificate holders in 2010 (for remaining participation certificates after buyback)					–	(3,343,471.88)
Compounding 2012					901,408.61	–
Recognition as of December 31, 2012					**19.207.864,93**	**29,496,873.69**

PARTICIPATION CAPITAL/LIABILITIES FROM PARTICIPATION CERTIFICATES 2011

	Number	Par value	Premium	Payments received	thereof recognized as debt	thereof recognized in equity
		€	€	€	€	€
Series A until June 1991	315,600	8,066,736.00	12,353,585.70	20,420,321.70	6,839,001.70	13,581,320.00
Series K until June 27, 1997	105,205	2,689,039.80	1,758,718.44	4,447,758.24	2,657,581.09	1,790,177.15
Series D from June 28, 1997	992,620	25,371,367.20	24,557,921.23	49,929,288.43	9,215,196.34	40,714,092.09
	1,413,425	**36,127,143.00**	**38,670,225.37**	**74,797,368.37**	**18,711,779.13**	**56,085,589.24**
Accumulated interest effect until 2011					12,451,809.32	–
Compensation for participation certificate holders in 2010 (including adjustment in 2011)					–	(5,681,102.46)
Recognition as of December 31, 2011					**31,163,588.45**	**50,404,486.78**

FAIR VALUE

	2012			2011		
	Number	Price Dec. 31	Fair value	Number	Price Dec. 31	Fair value
		€	€		€	€
Series A until June 1991	195,245	305.50	59,647,347.50	315,600	160.00	50,496,000.00
Series K until June 27, 1997	69,887	303.00	21,175,761.00	105,205	165.00	17,358,825.00
Series D from June 28, 1997	566,819	307.50	174,296,842.50	992,620	160.00	158,819,200.00
	831,951		**255,119,951.00**	**1,413,425**		**226,674,025.00**

PARTICIPATION CAPITAL CONDITIONS

	Termination right of Drägerwerk AG & Co. KGaA	Termination right of participation certificate owner	Loss share	Minimum return	Dividend for participation certificates
				€	
Series A	yes	no	no	1.30	Dividend on preferred share x 10
Series K	yes	yes	no	1.30	Dividend on preferred share x 10
Series D	yes	yes	yes	–	Dividend on preferred share x 10

The EUR 11,956 thousand drop in liabilities from participation certificates from EUR 31,164 thousand to EUR 19,208 thousand was primarily due to the buyback of the 581,474 participation certificates (see also Note 4).

No participation certificates were issued in fiscal year 2012.

Drägerwerk AG & Co. KGaA does not intend to terminate the participation certificates. If the participation certificate holder exercises the calling right, the amount repayable shall equal the average mean rate of the last three months at the Hamburg Stock Exchange or a maximum of the weighted average issue price of the corresponding tranche. Series K may be terminated for the first time as of December 31, 2021, with five years' notice; the period of termination thereafter is again five years.

Series D may be terminated for the first time as of December 31, 2026. Series D participation certificates share in losses. The proportionate loss attributable to the participation capital is offset by future profits. The cases in which the minimum return is not paid are the same as those in which the preferred dividend is not paid. As with the subsequent payment of preferred dividends, the dividend for participation certificates is paid in arrears.

The dividend for participation certificates is 10 times the preferred share dividend, as the par value of the securities was originally identical, but the arithmetic par value of the preferred share has since been reduced to one tenth of the original par value.

For details, please refer to the schedule with the terms and conditions of series A, K and D participation certificates.

35 PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

As of December 31 2012, the Dräger Group mainly had defined benefit pension plans and similar obligations in addition to a small number of defined contribution pension plans.

Defined benefit pension plans and similar obligations

Under the Group's defined benefit pension plans, provisions for pensions and similar obligations have been accrued for benefits payable in the form of old-age, disability and surviving dependents' pensions. The amount of the obligations is determined using the projected unit credit method. The obligations are partly funded by plan assets.

The Dräger Group has decided to exercise the option under IAS 19.93A of fully recognizing actuarial gains or losses in equity immediately, taking account of deferred taxes. The actuarial gains or losses recognized in equity are reconciled in the consolidated statement of comprehensive income of the Dräger Group.

The defined benefit pension plans of the German companies account for some 92 percent (2011: 89 percent) of the provisions for pensions and similar obligations disclosed as of the balance sheet date. As of January 1, 2005, the new company pension plans "Rentenplan 2005" for almost all employees of the Dräger Group's German subsidiaries and "Führungskräfteversorgung 2005" for management came into effect, superseding the former "Versorgungsordnung '90" and "Ruhegeldordnung '90" schemes.

Under the old pension plan, employees received pensions based on their salaries and period of employment. As part of the transition to the new plan, employees were guaranteed a pension based on the old plan for their years of service prior to the transition. The new plan is now composed of the employer-funded basic level, the employee-funded top-up level (deferred compensation) and the employer-funded supplementary level.

The pension cost for the employer-funded basic level is based on the respective employee's income. The employee funded top-up level allows employees to increase their pension entitlement through deferred compensation.

The contribution made at the employer-funded supplementary level depends on the employee contribution through deferred compensation and on the Company's business performance (EBIT).

Since December 2007, these funds from the pension plan as well as the employee contributions from the respective fiscal year have been paid into a new fund (WKN [securities identification number] A0HG1B) and secured in favor of the employees via a contractual trust arrangement (CTA), meaning that they only serve to cover and finance the Company's direct pension obligations. The employees' pension accounts have a minimum guaranteed return of 2.75 percent. Hence, the assets of this fund fulfill the criteria of plan assets pursuant to IAS 19; the EUR 62,808 thousand (2011: EUR 33,094 thousand) in assets secured by the CTA were offset against the gross pension obligations in fiscal year 2012.

The available excess of plan assets over the relevant pension obligations totaling EUR 3 thousand (2011: EUR 17,341 thousand) is disclosed under other non-current assets.

The changes in the projected benefit obligation and plan assets are as follows:

CHANGES IN THE PROJECTED BENEFIT OBLIGATIONS AND PLAN ASSETS

€ thousand	2012			2011		
	Defined benefit plans	Similar obligations	Total	Defined benefit plans	Similar obligations	Total
Changes in the projected benefit obligation						
Projected benefit obligation as of January 1	241,655	7,010	248,665	243,885	7,018	250,903
Service cost	4,240	351	4,591	4,380	397	4,777
Interest expense	11,529	299	11,828	11,141	290	11,431
Past service costs	(2,118)	–	(2,118)	–	–	0
Actuarial gains / losses	76,446	1,287	77,733	(8,200)	(504)	(8,704)
Benefits paid	(11,248)	(279)	(11,527)	(12,674)	(233)	(12,907)
Employee contributions	3,148	–	3,148	2,724	–	2,724
Transfer of obligations and other effects	6,986	(235)	6,751	(1,021)	42	(979)
Currency changes	308	–	308	1,420	–	1,420
Projected benefit obligation as of December 31	**330,946**	**8,433**	**339,379**	**241,655**	**7,010**	**248,665**
thereof with plan assets	124,645	2,980	127,625	81,711	2,473	84,184
of which without plan assets	206,301	5,454	211,754	159,944	4,537	164,481
Change in plan assets						
Fair value of plan assets as of January 1	86,209	28	86,237	80,690	29	80,719
Expected return on plan assets	3,608	–	3,608	3,284	–	3,284
Actuarial gains / losses	405	–	405	(5,885)	–	(5,885)
Employer contributions	11,040	–	11,040	7,521	–	7,521
Employee contributions	3,130	–	3,130	2,706	–	2,706
Benefits paid	(718)	–	(718)	(2,345)	–	(2,345)
Transfer of obligations and other effects	5,266	–	5,266	(870)	–	(870)
Currency changes	220	–	220	1,108	(1)	1,107
Plan assets as of December 31	**109,160**	**28**	**109,188**	**86,209**	**28**	**86,237**
Funding status						
Other amounts stated in the balance sheet	–	(350)	(350)	–	(351)	(351)
Net obligation as of December 31	**221,786**	**8,055**	**229,841**	**155,446**	**6,631**	**162,077**
thereof:						
Available excess of plan assets Plan assets	3	–	3	17,341	–	17,341
Provisions for pensions and similar obligations	221,789	8,055	229,844	172,787	6,631	179,418

The current component of provisions for pensions and similar obligations, and therefore the expected pension payments for fiscal year 2013, amount to EUR 12,512 thousand (2011: EUR 12,285 thousand).

The obligations similar to pensions of EUR 8,055 thousand (2011: EUR 6,631 thousand) mainly comprise obligations to employees based on local regulations governing the departure of employees from the Company.

Actuarial gains / losses from the Company's pension provisions of EUR 103,527 thousand (2011: EUR 26,199 thousand), including deferred taxes of EUR 31,142 thousand (2011: EUR 7,209 thousand), are included in retained earnings. The year-on-year change is due to the significant drop in interest rates.

A change in the discounting rate of 25 basis points would lead to a rise in the projected benefit obligation of approximately 4 percent.

Plan assets are composed as follows:

COMPOSITION OF FUND ASSETS

	2012	2011
Shares and securities	74 %	76 %
Real estate	19 %	21 %
Other assets	7 %	3 %

The expense for defined benefit pension plans is made up as follows:

EXPENSES FOR DEFINED BENEFIT PLANS AND SIMILAR OBLIGATIONS

€ thousand	2012			2011		
	Defined benefit plans	Similar obligations	Total	Defined benefit plans	Similar obligations	Total
Current service costs	4,240	351	4,591	4,380	397	4,777
Interest expense on obligations	11,529	299	11,828	11,141	290	11,431
Expected return on plan assets	(3,608)	–	(3,608)	(3,284)	–	(3,284)
Past service costs	(2,118)	–	(2,118)	–	–	0
Other effect on profit or loss	1,720	–	1,720	(172)	–	(172)
	11,763	**650**	**12,413**	**12,065**	**687**	**12,752**

The expected return on plan assets and the interest expense on the pension obligations are disclosed as a net total under interest expenses (Note 16).

The actual gains on plan assets totaled EUR 4,013 thousand (2011: losses of EUR 2,601 thousand).

For fiscal year 2013, additions to plan assets are expected to amount to EUR 11,458 thousand (2011: EUR 10,058 thousand for fiscal year 2012).

The following pension payments are expected for fiscal year 2013 to 2017:

EXPECTED PENSION PAYMENTS

€ thousand	2013	2014	2015	2016	2017
Expected pension payments	12,512	13,087	13,623	13,832	14,021

The following actuarial assumptions were made in measuring the projected benefit obligation:

ACTUARIAL ASSUMPTIONS

	2012	2011
Discount rate	2.00 – 3.50 %	2.40 – 5.50 %
Future wage and salary increases	0.00 – 4.00 %	0.00 – 4.00 %
Future pension increases	0.00 – 3.00 %	0.00 – 3.00 %
Average employee turnover	0.00 – 7.00 %	0.00 – 7.00 %
Expected income from fund assets	3.00 – 4.50 %	3.00 – 4.70 %

A discount rate of 3.25 percent (2011: 5.5 percent), a future increase in wages and salaries of 3.0 percent and 4.0 percent (2011: 3.0 percent and 4.0 percent), a future increase in pensions of 1.0 percent and 2.0 percent (2011: 1.0 percent and 2.0 percent), average employee turnover of 3.0 percent (2011: 3.0 percent) and an expected return on plan assets of 3.0 percent (2011: 3.0 percent) are applicable to the German companies, to which around 92 percent (2011: 89 percent) of pension obligations are allocable. The 2005 G Heubeck mortality table has been used as a basis of calculation.

The discount rate reflects the effective market return on high-quality corporate bonds (calculated on the basis of modified iBoxx indices) with the same term as the pension obligations as of the balance sheet date.

The expected return on plan assets was based on the assumption of a long-term trend of 3.7 percent (2011: 3.5 percent) for shares and securities and 4.5 percent (2011: 4.5 percent) for real estate. Interest on other assets is expected to come in between 3.0 percent and 4.5 percent (2011: 3.0 percent to 4.7 percent).

In fiscal year 2012, additional benefits of EUR 2,305 thousand (2011: EUR 1,460 thousand) were paid out to pensioners.

In recent years, the experience adjustments of defined benefit obligations and plan assets amounted to:

EXPERIENCE ADJUSTMENTS

€ thousand	2012	2011	2010	2009	2008
Defined benefit obligations	1,930	1,321	140	4,383	4,278
Plan assets (fair value)	(405)	5,885	5,871	(3,154)	4,938
	1,525	**7,206**	**6,011**	**1,229**	**9,216**

In the above table, an increase in defined benefit obligations and a decrease of plan assets (both actuarial losses) are preceded by a plus sign.

The projected benefit obligation and plan assets have changed as follows in recent years:

MULTI-YEAR OVERVIEW OF DEFINED BENEFIT PENSION PLANS

€ thousand	2012	2011	2010	2009	2008
Projected benefit obligations	330,946	241,655	243,885	225,167	210,551
Plan assets (fair value)	109,160	86,209	80,690	70,608	56,942
Total projected benefit obligations and plan assets	221,786	155,446	163,195	154,559	153,609
thereof:					
Unfunded obligations	221,789	172,786	176,788	164,365	163,678
Available excess of plan assets	3	17,341	13,593	9,806	10,069

Defined contribution plans

In addition to the defined benefit plans and similar obligations described above, Dräger pays voluntary and statutory contributions to government and private pension insurers (defined contribution plans).

The cost of other defined contribution plans came to EUR 9,197 thousand in fiscal year 2012 (2011: EUR 8,386 thousand). Dräger also paid statutory pension contributions in Germany of EUR 29,426 thousand (2011: EUR 27,250 thousand).

36 OTHER NON-CURRENT AND CURRENT PROVISIONS

OTHER PROVISIONS

€ thousand	Provisions for personnel and welfare obligations	Warranty provisions	Provisions for potential losses	Provisions for commissions	Provisions for other obligations in the normal course of business	2012 Total
January 1, 2012	128,144	33,064	12,606	7,250	109,883	290,947
Allocation	98,857	21,560	270	6,606	61,100	188,393
Unwinding of the discount	1,337	119	2,376	–	127	3,959
Utilization	(86,925)	(18,410)	(906)	(4,860)	(44,815)	(155,916)
Reversal	(7,271)	(6,701)	(289)	(1,440)	(10,586)	(26,287)
Reclassification	33	–	–	(33)	–	0
Change in consolidated group	(34)	–	–	–	–	(34)
Currency translations effects	(1,248)	(271)	–	(72)	(2,058)	(3,649)
December 31, 2012	**132,893**	**29,361**	**14,057**	**7,451**	**113,651**	**297,413**

Provisions for personnel and welfare obligations were mainly recognized to cover bonuses and sales compensation as well as phased retirement and long-service awards. In the prior-year, this item also includes EUR 7 million in expenses from the implementation of the new sales structure.

The warranty provisions were measured by reference to the warranty claims made in the past and specific known risks.

Provisions for potential losses mainly resulted from long-term leases of unused business premises.

Provisions for commissions are recognized on the basis of contractual claims from sales.

In addition, obligations in the normal course of business were mainly covered by provisions for customer bonuses, audit of financial statements, litigation costs and risks, rental obligations and purchase guarantees.

The expected utilization of other provisions is as follows:

OTHER PROVISIONS BY MATURITY

€ thousand	Up to 1 year	1 to 5 years	Over 5 years	Total
Provisions for personnel and welfare obligations	93,266	28,881	10,746	132,893
Warranty provisions	26,097	3,264	–	29,361
Provisions for potential losses	1,649	4,312	8,096	14,057
Provisions for commissions	7,451	–	–	7,451
Provisions for other obligations in the normal course of business	96,090	16,967	594	113,651
	224,553	**53,424**	**19,436**	**297,413**

37 NON-CURRENT INTEREST-BEARING LOANS

NON-CURRENT INTEREST-BEARING LOANS

€ thousand	2012			2011		
	1 to 5 years	Over 5 years	Total	1 to 5 years	Over 5 years	Total
Non-current liabilities to banks	15,136	35,743	50,879	14,764	39,710	54,474
Note loans						
a) issued 2007	74,964	–	74,964	99,923	–	99,923
b) issued 2009	61,351	–	61,351	115,207	–	115,207
c) issued 2011	57,335	38,382	95,717	57,298	38,364	95,662
	208,786	**74,125**	**282,911**	**287,192**	**78,074**	**365,266**

The non-current note loans in place as of the balance sheet date are not subject to any contractually agreed termination options.

The terms and conditions and the interest on non-current interest-bearing loans are as follows:

TERMS AND CONDITIONS AND INTEREST RATES FOR NON-CURRENT INTEREST-BEARING LOANS

€ thousand			2012			2011
Currency	Interest conditions	Interest rate in %	Total	Interest conditions	Interest rate in %	Total
Liabilities to banks						
EUR	variable	1.68 – 2.85	17,453	variable	2.47 – 3.02	17,863
EUR	fixed	2.12 – 12.96	33,426	fixed	2.12 – 12.51	36,611
			50,879			**54,474**
Note loans						
EUR	fixed	3.21 – 7.07	232,032	fixed	3.21 – 7.07	310,792
			232,032			**310,792**
			282,911			**365,266**

Variable interest rates are partly hedged. Please see our information on derivative financial instruments (Note 45).

Liabilities to banks arising from the construction of the medical division's new office and laboratory building that was completed in fiscal year 2008 have been collateralized by a mortgage of EUR 55 million. The finance for the new production and logistics building for the Infrastructure Projects segment in Lübeck, which was completed in fiscal year 2011, has been secured with a mortgage of EUR 10.8 million. There are no other mortgages on land and buildings or assignments as security for recognized liabilities.

38 OTHER NON-CURRENT FINANCIAL LIABILITIES

OTHER NON-CURRENT FINANCIAL LIABILITIES

€ thousand			2012			2011
	1 to 5 years	Over 5 years	Total	1 to 5 years	Over 5 years	Total
Finance lease liabilities (lessee)	1,271	–	1,271	1,387	125	1,512
Negative fair values of derivate financial instruments	8	3,430	3,438	25	2,406	2,431
All other non-current liabilities	1,276	148	1,424	1,743	3,163	4,906
	2,555	**3,578**	**6,133**	**3,155**	**5,694**	**8,849**

For an explanation of finance lease liabilities, please refer to our comments on recognition of finance leases by the lessee (Note 46).

39 NON-CURRENT INCOME TAX LIABILITIES

IAS 12 "Income Taxes" provides for current income tax obligations to be recognized under income tax liabilities, without differentiating between income tax provisions and liabilities. Drägerwerk AG & Co. KGaA has therefore included income tax provisions, which had been recognized separately, in income tax liabilities and adjusted the prior-year figure (EUR 562 thousand) accordingly.

40 DEFERRED TAX LIABILITIES

Deferred tax assets are explained in Note 17.

41 CURRENT LOANS AND LIABILITIES TO BANKS

CURRENT LOANS AND LIABILITIES TO BANKS

€ thousand	2012	2011
Liabilities to banks	25,281	29,551
Note loans	78,975	54,968
	104,256	**84,519**

In fiscal year 2012, note loans of EUR 55.0 million (2011: EUR 54.5 million) were paid and note loans of EUR 79.0 million (2011: EUR 55.0 million) were reclassified from non-current to current liabilities.

The terms and conditions and the interest on current loans and liabilities to banks are as follows:

TERMS AND CONDITIONS AND INTEREST RATES FOR CURRENT LOANS AND LIABILITIES TO BANKS

€ thousand			2012			2011
Currency	Interest conditions	Interest rate in %	Total	Interest conditions	Interest rate in %	Total
Liabilities to banks						
EUR	variable	3.29 – 4.33	2,557	variable	2.39 – 3.40	2,662
EUR	fixed	1.65 – 12.96	3,258	fixed	1.90 – 7.08	3,179
JPY	variable	1.20 – 2.35	10,505	variable	1.20 – 2.35	13,072
USD	fixed	1.65	8,790	fixed	1.9	10,007
Other	variable		171	variable		631
			25,281			**29,551**
Note loans						
EUR	variable	–	–	variable	3.21 – 7.07	49,972
EUR	fixed	4.75 – 5.65	78,975	fixed	4.00	4,996
			78,975			**54,968**
			104,256			**84,519**

Variable interest rates are partly hedged. Please also see our information on derivative financial instruments (Note 45).

42 ALL OTHER CURRENT FINANCIAL LIABILITIES

ALL OTHER CURRENT FINANCIAL LIABILITIES

€ thousand	2012	2011
Trade payables to third parties	**169,225**	**172,073**
Other current financial liabilities[1]		
Liabilities to Drägerwerk Verwaltungs AG	8,887	13,053
Negative fair values of derivate financial instruments	499	1,426
Finance lease liabilities (lessee)	755	771
Distribution for participation capital	345	547
Liabilities to associates	–	48
Other financial liabilities	21,476	23,004
	31,962	**38,849**
	201,187	**210,922**

[1] Other liabilities to employees and for social security must be recognized in other liabilities. The prior-year figures were adjusted accordingly (see Note 3).

Other liabilities to employees and for social security are non-financial liabilities. They were therefore reclassified to other current liabilities. The prior-year figures were adjusted accordingly.

For the derivative financial instruments recognized as other financial liabilities, please refer to the table of derivative financial instruments in the Dräger Group presented in Note 45.

For an explanation of finance lease liabilities, please refer to our comments on recognition of finance leases by the lessee (Note 46).

43 CURRENT INCOME TAX LIABILITIES

IAS 12 "Income Taxes" provides for current income tax obligations to be recognized under income tax liabilities, without differentiating between income tax provisions and liabilities. Drägerwerk AG & Co. KGaA has therefore included income tax provisions, which had been recognized separately, in income tax liabilities and adjusted the prior-year figure (EUR 39,876 thousand) accordingly.

44 OTHER CURRENT LIABILITIES

OTHER CURRENT LIABILITIES

€ thousand	2012	2011
Prepayments received	60,798	48,864
Deferred income	38,918	41,612
Other liabilities to employees and for social security[1]	41,299	33,602
Other tax liabilities	32,631	33,114
Liabilities from construction contracts	0	2,149
Other current liabilities	1,546	1,029
	175,192	**160,370**

[1] Other liabilities to employees and for social security must be recognized in other liabilities. Previous year's figures were adjusted accordingly (see Note 3).

Other liabilities to employees and for social security are non-financial liabilities. They were therefore reclassified from current financial liabilities to other current liabilities. The prior-year figures were adjusted accordingly.

In the previous year, liabilities from construction contracts resulted from higher project development costs for one deep sea diving system in the safety division. Prepayments received include prepayments on construction contracts of EUR 1,536 thousand (2011: EUR 0 thousand) in accordance with IAS 11 which exceeded the respective recognized value of the contract.

Deferred income primarily includes reported service contracts.

45 FINANCIAL INSTRUMENTS

Structure of financial instruments and their measurement

The structure of financial instruments in the Group, and therefore the basis for their measurement as well as their reconciliation to the Group balance sheet, was as follows as of the balance sheet date:

FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2012 – ASSETS

	Financial instruments						Other	Total
	Measurement in accordance with IAS 39				Measurement in accordance with other IAS			
	Fair value (held for trading)	Fair value (available for sale)	Amortized cost (loans and receivables)	Amortized cost (held to maturity)	(Amortized) cost in accordance with IAS 17	(Amortized) cost in accordance with IAS 28		
Intangible assets	–	–	–	–	–	–	282,554	282,554
Property, plant and equipment	–	–	–	–	–	–	278,370	278,370
Investment in associates	–	–	–	–	–	280	–	280
Other non-current financial assets	14	856[1]	7,967	118	507	–	–	9,462
Deferred tax assets	–	–	–	–	–	–	136,659	136,659
Other non-current assets	–	–	–	–	–	–	4,129	4,129
Inventories	–	–	–	–	–	–	362,872	362,872
Trade receivables and construction contracts	–	–	600,269	–	–	–	–	600,269
Other current financial assets	939	–	20,821	–	214	–	–	21,974
Cash and cash equivalents	–	–	332,390	–	–	–	–	332,390
Income refund claims	–	–	–	–	–	–	13,884	13,884
Other current assets	–	–	–	–	–	–	58,362	58,362
Total assets	**953**	**856**	**961,447**	**118**	**721**	**280**	**1,136,830**	**2,101,205**

[1] Including investments of EUR 233 thousand, which are measured at amortized cost as their fair value cannot be determined.

FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2012 – EQUITY AND LIABILITIES

€ thousand	Financial instruments				Other	Total
	Measurement in accordance with IAS 39		Measurement in accordance with other IAS			
	Fair value (held for trading)	Amortized cost in (other liabilities)	Fair value	(Amortized) cost		
Equity	–	–	–	–	727,201	727,201
Liabilities from participation certificates	–	19,208	–	–	–	19,208
Provisions for pensions and similar obligations	–	–	229,844	–	–	229,844
Other non-current provisions	–	–	–	–	72,860	72,860
Non-current interest-bearing loans	–	282,911	–	–	–	282,911
Other non-current financial liabilities	8	1,424	–	1,271	3,430	6,133
Non-current income tax liabilities	–	–	–	–	2,317	2,317
Deferred tax liabilities	–	–	–	–	1,957	1,957
Other non-current liabilities	–	–	–	–	487	487
Other current provisions	–	–	–	–	224,553	224,553
Current loans and liabilities to banks	–	104,256	–	–	–	104,256
Trade payables	–	169,225	–	–	–	169,225
Other current financial liabilities	499	30,708	–	755	–	31,962
Current income tax liabilities	–	–	–	–	53,099	53,099
Other current liabilities	–	–	–	–	175,192	175,192
Total equity and liabilities	**507**	**607,732**	**229,844**	**2,026**	**1,261,096**	**2,101,205**

FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2011 – ASSETS

€ thousand	Financial instruments						Other	Total
			Measurement in accordance with IAS 39		Measurement in accordance with other IAS			
	Fair value (held for trading)	Fair value (available for sale)	Amortized cost (loans and receivables)	Amortized cost (held to maturity)	(Amortized) cost in accordance with IAS 17	(Amortized) cost in accordance with IAS 28		
Intangible assets	–	–	–	–	–	–	280,309	280,309
Property, plant and equipment [1]	–	–	–	–	–	–	273,421	273,421
Investment in associates	–	–	–	–	–	306	–	306
Other non-current financial assets	57	837 [2]	8,006	118	747	–	–	9,766
Deferred tax assets	–	–	–	–	–	–	104,454	104,454
Other non-current assets [1]	–	–	–	–	–	–	21,955	21,955
Inventories	–	–	–	–	–	–	340,292	340,292
Trade receivables and construction contracts	–	–	586,488	–	–	–	–	586,488
Other current financial assets	1,052	–	18,068	–	763	–	–	19,883
Cash and cash equivalents	–	–	412,309	–	–	–	–	412,309
Income refund claims	–	–	–	–	–	–	7,531	7,531
Other current assets	–	–	–	–	–	–	58,475	58,475
Total assets	**1,109**	**837**	**1,024,871**	**118**	**1,510**	**306**	**1,086,437**	**2,115,189**

[1] Equipment leased out is recognized in property, plant and equipment. The prior-year figures were adjusted accordingly (see Note 3).
[2] Including investments of EUR 237 thousand, which are measured at amortized cost as their fair value cannot be determined.

FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2011 – EQUITY AND LIABILITIES

€ thousand	Financial instruments				Other	Total
	Measurement in accordance with IAS 39		Measurement in accordance with other IAS			
	Fair value (held for trading)	Amortized cost (other liabilities)	Fair value	(Amortized) cost		
Equity	–	–	–	–	729,616	729,616
Liabilities from participation certificates	–	31,164	–	–	–	31,164
Provisions for pensions and similar obligations	–	–	179,418	–	–	179,418
Other non-current assets [1]	–	–	–	–	62,749	62,749
Non-current interest-bearing loans	–	365,266	–	–	–	365,266
Other non-current financial liabilities	25	4,906	–	1,512	2,406	8,849
Non-current income tax liabilities [1]	–	–	–	–	562	562
Deferred tax liabilities	–	–	–	–	1,629	1,629
Other non-current liabilities	–	–	–	–	782	782
Other current provisions	–	–	–	–	228,198	228,198
Current loans and liabilities to banks	–	84,519	–	–	–	84,519
Trade payables	–	172,073	–	–	–	172,073
Other current financial liabilities [2]	1,426	36,652	–	771	–	38,849
Current income tax liabilities [1]	–	–	–	–	51,145	51,145
Other current liabilities [2]	–	–	–	–	160,370	160,370
Total equity and liabilities	**1,451**	**694,580**	**179,418**	**2,283**	**1,237,457**	**2,115,189**

[1] IAS 12 "Income Taxes" provides for the recognition of actual income tax liabilities in income tax liabilities without distinguishing between income tax provisions and liabilities. The prior-year figures were adjusted accordingly (see Note 3).
[2] Other liabilities to employees and for social security must be recognized in other liabilities. The prior-year figures were adjusted accordingly (see Note 3).

The measurement categories are explained in our comments on the measurement of financial assets and liabilities in Note 9 of this annual report.

Other non-current financial assets include investments with a carrying value of EUR 233 thousand (2011: EUR 237 thousand). These investments are not quoted in any active market. Other methods for calculating an objective market value also rendered no reliable result. The investments are therefore carried at cost.

In the following table, the carrying values of financial assets and liabilities are compared with their fair values:

CARRYING VALUES AND FAIR VALUES OF FINANCIAL ASSETS / LIABILITIES

€ thousand	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Trade receivables	600,269	600,269	586,488	586,488
Other financial assets	31,436	31,510	29,649	29,716
Cash and cash equivalents	332,390	332,390	412,309	412,309
Financial liabilities				
Liabilities from participation certificates	19,208	19,208	31,164	31,164
Loans and liabilities to banks	387,167	405,509	449,785	462,765
Trade payables	169,225	169,225	172,073	172,073
Other financial liabilities[1]	38,095	38,296	47,698	47,891

[1] Other liabilities to employees and for social security must be recognized in other liabilities. The prior-year figures were adjusted accordingly (see Note 3).

Fair value measurement of financial instruments

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

FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

€ thousand	Level	2012	2011
Assets measured at fair value			
Derivatives with positive fair value (non-current)	Level 2	14	57
Derivatives with positive fair value (current)	Level 2	939	1,052
Securities (non-current)	Level 1	623	602
Liabilities measured at fair value			
Derivatives with negative fair value (non-current)	Level 2	3,438	2,431
Derivatives with negative fair value (current)	Level 2	499	1,426

Level 1:
Prices in the active markets are assumed for identical financial assets or liabilities.

Level 2:
Uses input factors that do not include any listed prices taken into consideration in level 1 but which can be directly (i. e. price) or indirectly (i. e. derived from prices) observed for financial assets or financial liabilities.

Level 3:
Uses factors not based on observable market data for the measurement of financial assets and liabilities (unobservable input factors). Dräger Group does not hold any level 3

financial instruments. No material reclassifications between level 1 and level 2 were carried out in the past two fiscal years.

Net profit / loss from financial instruments

The net profit / loss from financial instruments recognized in profit or loss in fiscal year 2012 is summarized below (by measurement category):

NET PROFIT / LOSS BY MEASUREMENT CATEGORY

€ thousand	2012	2011
Financial assets and financial liabilities held for trading	(627)	6,346
Loans and receivables	(2,663)	(9,728)
Available-for-sale financial assets	8	(57)
Other financial liabilities	(6)	(645)
	(3,288)	**(4,084)**

The net profit / loss of the financial assets and liabilities in the held for trading category comprises profit and loss from changes in fair value as well as interest income / expenses for these assets and liabilities. The net profit / loss in the category loans and receivables contains impairment losses of EUR 8,994 thousand (2011: EUR 14,907 thousand).

Interest income / expenses from financial instruments

In fiscal year 2012, interest income / expenses from financial instruments not measured at fair value through profit or loss was as follows:

INTEREST INCOME / EXPENSES FROM FINANCIAL INSTRUMENTS

€ thousand	2012	2011
Interest income		
Loans and receivables	4,268	4,229
Available for sale	23	267
	4,291	**4,496**
Interest expenses		
Other financial liabilities	(23,546)	(21,045)
	(19,255)	**(16,549)**

Financial risk management

As an international company, the Dräger Group is especially exposed to exchange rate and interest rate risks, in addition to liquidity risks. The aim of financial risk management is to mitigate these market risks arising in the course of operating and financial activities. Derivative financial instruments are used to hedge the currency and interest exposure of current and forecast transactions. Derivatives are only transacted with banks of prime standing.

Financial risk management is based on the annually revised strategic plans of the Group and divisions and the resultant short and medium-term plans. Financial risk management of liquidity and interest rate risk is implemented centrally at Drägerwerk AG & Co. KGaA, whereas currency risk management based on regular risk reports is the joint responsibility of Drägerwerk AG & Co. KGaA and its divisions. Please see our comments in the management report for more general information on risk management.

Liquidity risk

Drägerwerk AG & Co. KGaA mitigates its liquidity risk by diversifying the maturity structure of its financing instruments. These include in particular participation certificates and note loans due in one to six years. Drägerwerk AG & Co. KGaA also has various non-current and current liabilities to banks as well as a liquidity reserve comprising freely available credit facilities with numerous banks with which it has concluded bilateral agreements. Due to the maturity structure of these financing instruments, Drägerwerk AG & Co. KGaA has only a limited repricing risk.

The following analysis of the maturities of financial liabilities (contractually agreed, non-discounted payments) shows the influence on the Group's liquidity situation:

MATURITIES OF FINANCIAL LIABILITIES 2012

€ thousand	2013	2014	2015 to 2017	From 2018	Total
Derivative financial liabilities					
Foreign currency derivatives – cash outflow	42,719	747	–	–	43,466
Foreign currency derivatives – cash inflow	(42,179)	(739)	–	–	(42,918)
Interest rate swap (hedge accounting) – cash outflow	562	532	1,266	1,107	3,467
	1,102	**540**	**1,266**	**1,107**	**4,015**
Non-derivative financial liabilities					
Liabilities from participation certificates	345	345	1,035	37,554	39,279
Loans and liabilities to banks	104,281	58,207	179,182	90,536	432,206
Trade payables	169,225	–	–	–	169,225
Finance lease liabilities	755	708	706	–	2,169
Other financial liabilities	30,708	63	1,158	160	32,089
	305,314	59,323	182,081	128,250	674,968
	306,416	**59,863**	**183,347**	**129,357**	**678,983**

MATURITIES OF FINANCIAL LIABILITIES 2011

€ thousand	2012	2013	2014 to 2016	From 2017	Total
Derivative financial liabilities					
Foreign currency derivatives – cash outflow	86,571	545	242	–	87,358
Foreign currency derivatives – cash inflow	(84,857)	(524)	(232)	–	(85,613)
Interest rate swap (hedge accounting) – cash outflow	446	447	928	778	2,599
	2,160	**468**	**938**	**778**	**4,344**
Non-derivative financial liabilities					
Liabilities from participation certificates	547	547	1,641	61,900	64,635
Loans and liabilities to banks	84,551	89,819	242,827	96,203	513,400
Trade payables	172,073	–	–	–	172,073
Finance lease liabilities	771	749	894	131	2,545
Other financial liabilities[1]	36,634	1,088	477	200	38,399
	294,576	92,203	245,839	158,434	791,052
	296,736	**92,671**	**246,777**	**159,212**	**795,396**

[1] Other liabilities to employees and for social security must be recognized in other liabilities. The prior-year figures were adjusted accordingly (see Note 3).

Cash outflow from currency hedges of EUR 43.5 million (2011: EUR 87.4 million) faced cash inflow of EUR 42.9 million (2011: EUR 85.6 million) as of December 31, 2012.

Currency risk

The Group's currency risks within the meaning of IFRS 7 relate to the financial instruments used in connection with operating activities or investing and financing activities. Drägerwerk AG & Co. KGaA mainly counters any risk that remains after offsetting cash inflows and outflows in the same foreign currency by entering into derivatives. In order to better illustrate existing currency risks, the effects of hypothetical changes in relevant currencies on net profit and equity are discussed below on the basis of a currency sensitivity analysis. For this purpose, it was assumed that most monetary financial instruments are already denominated in the functional currency or have been converted into the functional currency using derivative financial instruments. Currency risks therefore lie in the remaining unhedged financial instruments in foreign currencies in respect of which currency fluctuations affect profit or loss. If the euro were up/down 10 percent against the US dollar, the main foreign currency in the Dräger Group, as of the balance sheet date, with all other variables remaining the same, earnings after taxes (pursuant to IFRS 7) would be EUR 2.7 million lower (2011: EUR 2.3 million lower)/EUR 3.3 million higher (2011: EUR 2.8 million higher).

Interest rate risk

As well as variable rate non-current receivables and liabilities from operations, variable rate non-current loan liabilities also give rise to an interest rate risk due to changes in market rates. Drägerwerk AG & Co. KGaA counters this risk with a combination of fixed and variable rate financial liabilities and by using interest rate caps. Changes in the market interest rates for primary financial instruments with fixed interest only affect the Group's profit or loss if such instruments are recognized at fair value. Thus none of the

fixed-interest financial instruments recognized at amortized cost poses an interest rate risk that would affect cash flows. In order to better illustrate existing interest rate risks, the effects of hypothetical changes in market interest rates on net profit and equity are discussed below on the basis of an interest rate sensitivity analysis. For this purpose, it was assumed that interest rate changes affect primary financial instruments measured at fair value and derivative financial instruments that are not part of a hedging relationship, whose changes in value are recognized in profit or loss. Derivative financial instruments that are part of a cash flow hedge are also affected by interest rate changes, with the changes in value recognized directly in equity.

A hypothetical increase / decrease of 100 basis points in market interest rates as of the balance sheet date, with all other variables remaining the same, would increase / decrease earnings before taxes by EUR 1,984 thousand (2011: EUR 1,994 thousand) and increase equity by EUR 1,298 thousand (2010: EUR 1,301 thousand) / decrease equity by EUR 1,401 thousand (2011: EUR 1,454 thousand).

Credit risk

The maximum exposure to credit risk is represented by the carrying value of each financial asset, including financial derivatives, in the balance sheet. The Group does not expect any counterparties to derivatives to fail to meet their obligations as they consist exclusively of prime financial institutions. Consequently, the Group considers that its maximum exposure is reflected by the amount of trade receivables and other current assets, net of valuation adjustments recognized as of the balance sheet date.

Derivative financial instruments

Like the hedged items, derivative financial instruments are recognized at fair value, and resulting unrealized gains and losses are recognized in profit or loss as part of the cost of sales or the financial result providing the instruments are not part of a cash flow hedge. If a derivative financial instrument serves as a cash flow hedge, the unrealized gains and losses are recognized directly in equity.

The following positions were held as of the balance sheet date:

DERIVATIVE FINANCIAL INSTRUMENTS

€ thousand	Nominal volume	Fair value	
		Positive	Negative
December 31, 2012			
Currency hedges	86,092	953	507
Interest rate caps	68,500	–	–
Interest rate swaps	14,474	–	3,430
	169,066	**953**	**3,937**
December 31, 2011			
Currency hedges	174,547	1,102	1,451
Interest rate caps	103,500	7	–
Interest rate swaps	14,736	–	2,406
	292,783	**1,109**	**3,857**

The positive fair values of the derivatives are disclosed as current and non-current financial assets, the negative fair values as current and non-current financial liabilities.

The currency hedges cover selected foreign currency cash flows from operating activities over the next two years (2011: three years). Currency hedging mainly relates to operations in US dollars and to a lesser extent to operations in pounds sterling, Australian dollars as well as dividends distributed in Swiss francs.

In order to offset the effects of future changes to interest rates on cash flows, the Group concluded interest rate swaps and interest rate caps.

The interest rate hedges have remaining terms of up to four months (interest rate caps) or 11 years (interest rate swaps). For the swap, the only contract for which the Group uses hedge accounting, the Group pays variable interest and in turn receives fixed interest. It is used for hedging variable interest rates from a real estate lease agreement. Interest rate swaps are recognized at fair value. The ineffective part of the changes in fair value is recognized in income.

46 LEASING

The contracts recognized under IFRIC 4 as leases are explained below.

Lessee – finance leases

Property leased by the Dräger Group primarily includes machinery and equipment. The most significant obligations assumed under the lease terms, other than the rental payments themselves, are the upkeep of the facilities and equipment, insurance and taxes on capital. Lease terms generally range from one to five years with options to renew at varying conditions.

The Group had no finance leases with conditional payments in the fiscal year or the prior-year.

For a list of assets used under finance leases, please see our explanations in connection with the statement of non-current assets in Note 22.

Minimum lease payments for the above finance leases are as follows:

MINIMUM LEASE PAYMENTS

€ thousand	2012	2011
During the first year	902	903
From the second to the fifth year	1,451	1,643
After five years	0	131
Minimum lease payments	**2,353**	**2,677**
During the first year	755	771
From the second to the fifth year	1,271	1,387
After five years	0	125
Present value of minimum lease payments	**2,026**	**2,283**
Interest portion contained in the minimum lease payments	**327**	**394**

No future income from non-cancelable subleases was expected as of December 31, 2012, as in the previous year.

Lessee – operating leases

Drägerwerk AG & Co. KGaA and its subsidiaries have various operating lease agreements for buildings, machinery, office equipment and other facilities and equipment. Most leases contain renewal options. Some of the leases contain escalation clauses and provide for contingent rents based on percentages of net sales derived from assets held under operating leases. Lease conditions do not contain restrictions concerning dividends, additional debt or further leasing.

Lease expenses comprise the following:

LEASING EXPENSES

€ thousand	2012	2011
Basic lease costs	51,165	48,827
Contingent costs	376	43
Income from subleases	(127)	(113)
	51,414	**48,757**

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

MINIMUM LEASE PAYMENTS

€ thousand	2012	2011
During the first year	40,498	38,704
From the second to the fifth year	51,783	47,096
After five years	18,772	17,091
Minimum lease payments	**111,053**	**102,891**

Total expected future minimum income from subleases under non-cancelable operating leases amounted to EUR 90 thousand as of December 31, 2012 (2011: EUR 30 thousand).

Lessor – finance leases

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

Receivables from future lease payments outstanding are shown below:

RECEIVABLES FROM FUTURE LEASE PAYMENTS OUTSTANDING

€ thousand	2012	2011
During the first year	268	981
From the second to the fifth year	393	588
After five years	188	287
Total gross investments in finance leases	**849**	**1,856**
During the first year	214	763
From the second to the fifth year	347	509
After five years	160	238
Present value of minimum lease payments outstanding as of the balance sheet date	**721**	**1,510**
Unearned finance income	**128**	**346**

As in the previous year, bad debt allowances for uncollectible minimum lease payments were not required as of December 31, 2012.

Lessor – operating leases

The Dräger Group's main operating leases relate to medical equipment of the medical division, and solutions and gas detection products of the safety division.

From the current fiscal year, Dräger reported equipment leased out under property, plant and equipment, rather than separately under other non-current assets. For information on assets leased under operating leases, we also refer to our comments in Note 22.

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

MINIMUM LEASE PAYMENTS

€ thousand	2012	2011
During the first year	12,495	8,737
From the second to the fifth year	31,377	28,524
	43,872	**37,261**

As in the prior-year, no contingent rents were recognized in profit or loss in fiscal year 2012.

47 CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

As in the previous year, the Dräger Group did not have any contingent liabilities.

Other financial obligations

As of December 31, 2012, other financial obligations amount to EUR 133,778 thousand (2011: EUR 127,699 thousand) and are structured as follows:

a) Rental and lease agreements

For other financial obligations from rental and lease agreements of EUR 113,906 thousand (2011: EUR 105,568 thousand), please refer to our comments in Note 46 (lessee – operating leases).

b) Purchase obligations

In line with the usual requirements, Drägerwerk AG & Co. KGaA has also entered into purchase obligations with other service providers in order to guarantee the availability of IT services. Due to the centralization of IT activities at Drägerwerk AG & Co. KGaA, the Company assumed all existing long-term obligations to IT service providers of the medical and safety divisions. As a result of outstanding orders, the Group had obligations to purchase intangible assets of EUR 116 thousand (2011: EUR 1,022 thousand) and items of property, plant and equipment of EUR 11,977 thousand (2011: EUR 13,280 thousand) as of December 31, 2012.

c) Investment allowance for MOLVINA

Based on the decision of Investitionsbank Schleswig Holstein on November 1, 2005, Dräger Medical GmbH and MOLVINA Vermietungsgesellschaft mbH & Co. Finkenstrasse KG, both jointly and severally liable, were granted an allowance for investment costs of EUR 7,829 thousand for the medical division's new building, which has been fully paid out. The grant can only be used for this specific purpose and is subject to the fulfillment of specific conditions, all of which relate to Dräger's use of the building. If these conditions are not fulfilled within the contractually stipulated period of seven years (ending 2015), the amount paid out must be repaid.

d) Investment allowance for DRENITA

Based on the decision of Investitionsbank Schleswig Holstein on August 18, 2010, Dräger Medical GmbH and DRENITA Grundstücks-Vermietungsgesellschaft mbH & Co. KG, both jointly and severally liable, were granted an allowance for investment costs of a maximum of EUR 2,230 thousand for the new production and logistics building for the Infrastructure Projects business in Lübeck, which was completed in fiscal year 2011. EUR 450 thousand was already paid out in 2012. The remaining EUR 1,780 thousand will be paid out in 2013. The grant can only be used for this specific purpose and is subject to the fulfillment of specific conditions, all of which relate to Dräger's use of the building. If these conditions are not fulfilled within the contractually stipulated period of five years (ending 2016), the amount paid out must be repaid.

e) Litigation

Companies of the Dräger Group were involved in litigation and claims for damages in connection with business activities as of December 31, 2012. The Executive Board of the general partner believes that the outcome of such litigation and claims will not have any further material adverse effect on the Company's net assets, financial position or results of operations over and above the provisions which have already been recognized.

It is not to be expected for these contingent liabilities to materialize into actual liabilities for which no provision has been recognized yet.

48 SEGMENT REPORT

BUSINESS PERFORMANCE OF THE SEGMENTS

		Dräger medical division	
		2012	2011
Order intake	**€ million**	**1,558.4**	**1,518.8**
Orders on hand [1]	**€ million**	**310.5**	**319.8**
Net sales	**€ million**	**1,558.0**	**1,484.5**
thereof intersegment net sales	€ million	1.1	1.5
thereof third party net sales	€ million	1,556.9	1,483.0
EBITDA [2, 3]	**€ million**	**211.6**	**217.2**
Depreciation / amortization [3]	€ million	(26.6)	(25.3)
EBIT [4]	**€ million**	**185.1**	**191.8**
Interest result	€ million		
Income taxes	€ million		
Net profit	**€ million**		
thereof profit / loss from investments in associates	€ million		
Research and development expenses	**€ million**	**135.8**	**111.1**
Cash flow from operating activities [3]	**€ million**	**110.9**	**130.1**
Capital employed [1, 5]	**€ million**	**583.2**	**547.2**
Assets [1]	**€ million**	**1,028.5**	**1,005.6**
thereof investments in associates	€ million	–	–
Liabilities [1]	**€ million**	**426.9**	**419.6**
Net financial debt [1]	**€ million**		
Investments [3]	**€ million**	**29.1**	**35.4**
Non-cash expenses	€ million	152.4	166.2
EBIT [4] **/ net sales**	**%**	**11.9**	**12.9**
EBIT [4, 6] **/ capital employed** [1, 5] **(ROCE)**	**%**	**31.7**	**35.1**
Net financial debt [1] **/ EBITDA** [2, 3, 6]	**Factor**		
Gearing factor	**Factor**		
DVA [7]	**€ million**	**135.2**	**144.0**
Headcount as of December 31		**6,948**	**6,717**

[1] Value as of December 31
[2] EBITDA = earnings before net interest result, income taxes, depreciation and amortization
[3] Equipment leased out is recognized in property, plant and equipment. The prior-year figures were adjusted accordingly.
[4] EBIT = earnings before interest and taxes

Drägerwerk AG & Co. KGaA reports on the medical and safety divisions. The Executive Board bases its business decisions on information provided by these two operating segments. Drägerwerk AG & Co. KGaA / other companies comprises all group companies that are not directly allocated to one of the two operating segments. These companies mainly deal with strategic cross segment controls or real estate management.

Dräger safety division		Drägerwerk AG & Co. KGaA / other companies		Consolidation		Dräger Group	
2012	2011	2012	2011	2012	2011	2012	2011
880.8	**805.0**	**16.2**	**16.2**	**(49.8)**	**(46.8)**	**2,405.5**	**2,293.2**
173.7	**142.8**	**–**	**–**	**(1.2)**	**(1.3)**	**483.0**	**461.3**
849.3	**802.7**	**16.2**	**16.2**	**(50.0)**	**(47.6)**	**2,373.5**	**2,255.8**
35.0	32.1	13.9	14.0	(50.0)	(47.6)	–	–
814.3	770.6	2.3	2.3	–	–	2,373.5	2,255.8
122.0	**100.1**	**212.3**	**149.0**	**(250.6)**	**(191.6)**	**295.3**	**274.6**
(24.8)	(24.0)	(14.2)	(11.5)	–	0.1	(65.7)	(60.9)
97.1	**76.1**	**198.1**	**137.5**	**(250.6)**	**(191.7)**	**229.6**	**213.8**
						(33.2)	(33.0)
						(61.4)	(55.7)
						135.0	**125.1**
						0.2	(0.4)
57.9	**44.8**	**3.6**	**4.7**	**–**	**–**	**197.3**	**160.5**
71.8	**60.8**	**190.7**	**128.2**	**(196.7)**	**(157.3)**	**176.8**	**161.7**
201.9	**192.7**	**724.3**	**747.8**	**(611.1)**	**(610.7)**	**898.4**	**877.1**
378.9	**373.7**	**818.9**	**829.3**	**(630.8)**	**(640.2)**	**1,595.5**	**1,568.4**
–	–	0.3	0.3	–	–	0.3	0.3
160.7	**166.2**	**84.5**	**83.3**	**(29.1)**	**(39.1)**	**643.0**	**630.0**
						56.8	**39.8**
31.2	**27.7**	**18.1**	**13.9**	**(0.2)**	**1.1**	**78.2**	**78.1**
68.6	76.3	38.0	27.4	0.6	(0.1)	259.7	269.7
11.4	**9.5**					**9.7**	**9.5**
48.1	**39.5**					**25.6**	**24.4**
						0.19	**0.14**
						0.08	**0.05**
78.9	**57.5**					**149.7**	**134.6**
4,771	**4,531**	**797**	**676**	**–**	**–**	**12,516**	**11,924**

[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

The medical division develops, produces, and markets system solutions, equipment and services for the optimization of processes at the acute point of care. These include emergency care, perioperative care (in connection with the operation), critical care and also perinatal care (in connection with childbirth). The safety division develops, produces and markets products, system solutions and services for personal protection, gas detection

technology and integrated hazard management. Its customers come from industry, mining and public sectors such as fire departments, police and disaster protection.

Consolidation amounts essentially relate to elimination of order intake and net sales between segments, the elimination of income from investments and, in the case of assets, the effects of consolidation of investments.

The segment reports were prepared in accordance with IFRS as applied in the Group financial statements.

The key figures from the segment report are as follows:

EBIT / EBITDA

€ million	2012	2011
Net profit	135.0	125.1
+ Interest result	33.2	33.0
+ Income taxes	61.4	55.7
EBIT	**229.6**	**213.8**
+ Depreciation / amortization [1]	65.7	60.9
EBITDA	**295.3**	**274.6**

[1] Equipment leased out is recognized in property, plant and equipment. The prior-year figures were adjusted accordingly (see Note 3).

CAPITAL EMPLOYED

€ million	2012	2011
Total assets	2,101.2	2,115.2
– Deferred tax assets	(136.7)	(104.5)
– Cash and cash equivalents	(332.4)	(412.3)
– Non-interest-bearing liabilities	(733.7)	(721.3)
Capital employed	**898.4**	**877.1**

ASSETS

€ million	2012	2011
Total assets	2,101.2	2,115.2
– All other financial assets	(3.9)	(2.7)
– Deferred tax assets	(136.7)	(104.5)
– Tax refund claims (current and non-current)	(32.7)	(27.3)
– Cash and cash equivalents	(332.4)	(412.3)
Assets	**1,595.5**	**1,568.4**

LIABILITIES

€ million	2012	2011
Liabilities recognized in the balance sheet	1,374.0	1,385.6
– Provisions for pensions and similar obligations	(229.8)	(179.4)
– Tax liabilities, tax provisions, and deferred tax liabilities	(92.8)	(92.9)
– Interest-bearing liabilities	(408.4)	(483.3)
Liabilities	**643.0**	**630.0**

NET FINANCIAL DEBT

€ million	2012	2011
Non-current interest-bearing loans	282.9	365.3
+ Current loans and liabilities to banks	104.3	84.5
+ Non-current and current liabilities from finance lease	2.0	2.3
– Cash and cash equivalents	(332.4)	(412.3)
Net financial debt	**56.8**	**39.8**

NON-CASH EXPENSES

€ million	2012	2011
Write-downs on inventories	23.3	29.3
+ Losses from bad debt allowances	9.0	14.9
+ Allocations to provisions	227.4	225.5
Non-cash expenses	**259.7**	**269.7**

DVA

€ million	2012	2011
EBIT	229.6	213.8
– Cost of capital	(80.0)	(79.2)
DVA	**149.7**	**134.6**

Gearing is the ratio of net financial debt to equity.

The business performance of the individual segments is detailed in the management report. Services rendered between the divisions are accounted for using the arm's length principle.

SEGMENT PERFORMANCE BY REGION

		Dräger medical division	
		2012	2011
Net sales by region	**€ million**	**1,558.0**	**1,484.5**
Germany	€ million	309.1	317.9
Rest of Europe	€ million	522.6	534.7
Americas	€ million	323.9	309.1
Asia / Pacific	€ million	264.8	223.7
Other	€ million	137.7	99.2
Assets by region	**€ million**	**1,028.5**	**1,005.6**
Germany	€ million	479.4	465.9
Rest of Europe	€ million	229.3	262.3
Americas	€ million	184.3	162.8
Asia / Pacific	€ million	98.4	91.3
Other	€ million	37.2	23.3
Investments[1,2,3] by region	**€ million**	**29.1**	**35.4**
Germany	€ million	11.9	22.9
Rest of Europe	€ million	6.3	4.9
Americas	€ million	6.2	4.6
Asia / Pacific	€ million	4.1	2.5
Other	€ million	0.5	0.4

[1] Excluding other financial assets, tax refund claims and non-interest-bearing assets
[2] Intangible assets and property, plant and equipment
[3] Equipment leased out is recognized in property, plant and equipment. The prior-year figures were adjusted accordingly.

	Dräger safety division		Drägerwerk AG & Co. KGaA / other companies		Consolidation		Dräger Group	
	2012	2011	2012	2011	2012	2011	2012	2011
	849.3	**802.7**	**16.2**	**16.2**	**(50.1)**	**(47.7)**	**2,373.5**	**2,255.8**
	184.6	169.0	16.2	16.2	(47.3)	(45.3)	462.6	457.7
	344.5	334.0	–	–	(2.4)	(2.3)	864.7	866.4
	137.2	131.2	–	–	–	–	461.0	440.3
	139.5	122.4	–	–	(0.3)	–	404.1	346.1
	43.6	46.1	–	–	–	–	181.1	145.3
	378.9	**373.7**	**818.9**	**829.3**	**(630.8)**	**(640.2)**	**1,595.5**	**1,568.4**
	151.2	149.1	817.3	826.9	(734.9)	(743.7)	713.1	698.2
	123.8	126.4	–	–	116.6	116.8	469.6	505.5
	57.3	53.3	1.6	2.4	(12.0)	(13.1)	231.2	205.5
	42.3	39.9	–	–	(0.4)	(0.2)	140.2	130.9
	4.4	5.0	–	–	–	–	41.5	28.2
	31.2	**27.7**	**18.1**	**13.9**	**(0.2)**	**1.1**	**78.2**	**78.1**
	15.1	14.0	18.1	13.8	(0.2)	1.1	44.8	51.8
	7.0	4.8	–	–	–	–	13.3	9.7
	7.6	5.3	0.1	0.1	–	–	13.9	10.1
	1.4	3.5	–	–	–	–	5.6	6.0
	0.1	0.1	–	–	–	–	0.6	0.5

49 NOTES TO THE CASH FLOW STATEMENT

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.

In fiscal year 2012, Dräger Group's cash inflow from operating activities rose by EUR 15.1 million year on year, from EUR 161.7 million to EUR 176.8 million. The lower increase in trade receivables of EUR 15.2 million (2011: EUR 52.4 million) was the main contributor to this development. In addition, other assets fell by EUR 6.8 million (2011: rose by EUR 8.3 million), while other liabilities rose by EUR 9.1 million (2011: fell by EUR 13.4 million). The rise of inventories to the amount of EUR 31.6 million (2011: decline of EUR 19.2 million) had an offsetting effect in particular. In addition, earnings after income taxes, adjusted for write-downs, changes to cash neutral provisions as well as other non-cash earnings / expenses, decreased by EUR 6.8 million to EUR 209.5 million. Non-cash expenses rose to EUR 26.3 million (2011: EUR 3.7 million) primarily due to the changes to deferred taxes not recognized in income from the use of tax loss carryforwards. On the other hand, the changes to provisions recognized in profit or loss, but not recognized in income, declined by EUR 17.6 million (2011: increased by EUR 26.0 million).

The cash flow from operating activities includes EUR 41,214 thousand (2011: EUR 54,947 thousand) in income taxes paid, EUR 9,579 thousand (2011: EUR 5,527 thousand) in interest received, and EUR 25,752 thousand (2011: EUR 27,550 thousand) in interest paid.

At EUR 65.5 million, cash outflow from investing activities was down slightly (2011: EUR 67.4 million). Last year's investment volume included EUR 6.7 million for the new production and logistics building for the Infrastructure Projects business in Lübeck, which was under construction at the time.

The buyback of 581,474 participation certificates in March 2012 resulted in cash outflow of EUR 122.1 million (EUR 122.5 million including incidental purchase costs), EUR 15.7 million of which pertained to the debt component and EUR 106.4 million to the equity component of the bought back participation certificates.

Cash and cash equivalents include EUR 14,556 thousand in cash (2011: EUR 14,558 thousand) which is subject to restrictions. The changes in the cash flow statement are explained in the management report.

Unused credit lines came to EUR 338.0 million as of December 31, 2012 (2011: EUR 271.7 million) and are subject to restrictions applicable in the market.

50 REMUNERATION OF THE EXECUTIVE AND SUPERVISORY BOARDS

Executive Board remuneration

In fiscal year 2012, total Executive Board remuneration amounted to EUR 6,429,342 (2011: EUR 10,413,878) and comprised a fixed component of EUR 1,819,327 (2011: EUR 3,954,308) and a performance-related short-term component of EUR 4,610,015 (2011: EUR 6,459,570).

No additional amounts were added to the bonus reserve as a long-term, performance-related component for the members of the Executive Board: The value of the bonus bank only rose to EUR 1,940,280 due to compounding interest of EUR 87,918.

Performance-related remuneration includes components with long-term incentives of EUR 3,568,997 (2011: EUR 6,149,520).

If Executive Board remuneration is paid by Drägerwerk Verwaltungs AG, pursuant to Sec. 11 (1) and (3) of the articles of association of Drägerwerk AG & Co. KGaA it is entitled to claim reimbursement from Drägerwerk AG & Co. KGaA monthly. Pursuant to Sec. 11 (4) of the Company's articles of association, for the management of the Company and the assumption of personal liability the general partner receives a fee, independent of profit and loss, of 6 percent of the equity disclosed in its financial statements, payable one week after the general partner prepares its financial statements. For fiscal year 2012, this remuneration amounts to EUR 76 thousand (2011: EUR 73 thousand) plus any VAT incurred.

Obligations to Executive Board members under pension plans are stated in the financial statements 2012 at EUR 2,155,232 (2011: EUR 931,562). In fiscal year 2012, the Company made pension provisions contributions of EUR 1,223,670 for members of the Executive Board (2011: EUR 261,024).

EUR 3,091,968 was paid to former members of the Executive Board and their surviving dependents (2011: EUR 3,022,224). Pension commitments to former members of the Executive Board and their surviving dependents amounted to EUR 44,566,316 (2011: EUR 36,720,320).

If an Executive Board member dies during his or her active service on the Board, the surviving spouse is entitled to Dräger widow's pension and any remaining children have claim to Dräger orphan's pension. The annual Dräger widow's and widower's pension amounts to 55 percent of the Dräger pension received by or which would have been received by the deceased executive if said executive would have been unable to work when they died (notional invalidity pension). The amount of Dräger orphan's pension is 10 percent of the fictitious reduction in earning capacity pension or the current Dräger pension of the deceased Executive Board member.

Supervisory Board remuneration

The annual shareholders' meeting of Drägerwerk AG & Co. KGaA has defined Supervisory Board remuneration in the articles of association since fiscal year 2011.

Supervisory Board remuneration for fiscal year 2012 came to EUR 613,334 (2011: EUR 640,000).

In fiscal year 2012, the total remuneration of the six members of the Supervisory Board of the general partner, Drägerwerk Verwaltungs AG, amounted to EUR 135 thousand (as in 2011) as well as additional flat fees for out-of-pocket expenses totaling EUR 55 thousand (as in 2011). No remuneration was paid to Supervisory Board members of Group companies.

Further information on the itemized remuneration of the Executive Board and the Supervisory Board can be found in the remuneration report.

51 SHARES OWNED BY THE EXECUTIVE AND SUPERVISORY BOARDS

As of December 31, 2012, the members of the Executive Board of Drägerwerk Verwaltungs AG and their related parties directly held 6,000 preferred shares in Drägerwerk AG & Co. KGaA, equivalent to 0.04 percent of the Company's total shares, and 119,300 common shares, corresponding to 0.72 percent of the Company's total shares.

Dr. Heinrich Dräger GmbH holds 67.19 percent of common shares of Drägerwerk AG & Co. KGaA with 68.36 percent of voting rights attributable to the Chairman of the Executive Board Stefan Dräger, whereby 67.19 percent are attributable to him in accordance with the terms of Sec. 22 (1) Sentence 1 No. 1 WpHG (Wertpapierhandelsgesetz – German Securities Trading Act).

On December 31, 2012, the members of the Supervisory Board and their related parties directly or indirectly held a total of 150 preferred shares, equivalent to less than 0.01 percent of the Company's total shares and 292 common shares (directly or indirectly), corresponding to less than 0.01 percent of the Company's total shares.

Related party transactions

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 material transactions conducted with Dräger Verwaltungs AG are presented in Notes 18, 42 and 50 of this annual report.

Services were rendered for companies related to Stefan Dräger and for the Dräger Foundation totaling EUR 63 thousand in the fiscal year 2012 (2011: EUR 92 thousand). Receivables amounted to EUR 1 thousand on December 31, 2012 (December 31, 2011: EUR 75 thousand).

Claudia Dräger, Stefan Dräger's wife, is an employee of Drägerwerk AG & Co. KGaA.

Dräger Group's Executive Board members are also entitled to participate in the planned employee share program at identical terms and conditions.

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

52 ADDITIONAL INFORMATION

Auditor's fee

The total fee charged by the auditor – PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft – in fiscal year 2012 for the audit of the Group financial statements amounted to EUR 1,014 thousand (2011: EUR 950 thousand) for the audit of the financial statements, EUR 493 thousand (2011: EUR 260 thousand) for other audit services, and EUR 248 thousand (2010: EUR 81 thousand) for tax consultancy.

Corporate governance declaration

Drägerwerk AG & Co. KGaA's declaration of conformity under the terms of Sec. 161 AktG (Aktiengesetz – German Stock Corporation Act) has been issued and made available to the shareholders at www.draeger.com (please also see the corporate governance report).

Annual document in accordance with Sec. 10 of the German securities Prospectus Act (Wertpapierprospektgesetz – WpPG)

Shareholders can now access the annual document in accordance with Sec. 10 WpPG of Drägerwerk AG & Co. KGaA online at www.draeger.com in the "Investors" section (Corporate Governance, annual document).

53 CONSOLIDATED COMPANIES OF THE DRÄGER GROUP

CONSOLIDATED COMPANIES

	Name and registered office	Capital stock in LCU thousand	Share-holding in %
Germany			
	Dräger Medical GmbH, Lübeck [1]	200 EUR	100
	Dräger Safety AG & Co. KGaA, Lübeck [1]	25,739EUR	100
	Dräger Medical Deutschland GmbH, Lübeck [1]	2,000 EUR	100
	Dräger Electronics GmbH, Lübeck	2,000 EUR	100
	Dräger Medizin System Technik GmbH, Lübeck	1,023 EUR	100
	Dräger Safety Verwaltungs AG, Lübeck [1]	1,000 EUR	100
	Dräger TGM GmbH, Lübeck [1]	767 EUR	100
	Draeger MSI GmbH, Hagen	1,000 EUR	100
	Dräger Medical ANSY GmbH, Lübeck [1]	500 EUR	100
	Dräger Interservices GmbH, Lübeck [1]	256 EUR	100
	Dräger Gebäude und Service GmbH, Lübeck [1]	250 EUR	100
	Dräger Medical International GmbH, Lübeck [1]	100 EUR	100
	MAPRA Assekuranzkontor GmbH, Lübeck [2]	55 EUR	49
	Fachklinik für Anästhesie und Intensivmedizin Vahrenwald GmbH, Lübeck	26 EUR	100
	Dräger Energie GmbH, Lübeck	25 EUR	100
	FIMMUS Grundstücks-Vermietungs GmbH, Lübeck [1]	25 EUR	100
	Dräger Finance Services GmbH & Co. KG, Bad Homburg v. d. Höhe (SPE) [3]	511 EUR	95 [3]
	OPTIO Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Lübeck (SPE) [3]	26 EUR	100 [3]
	FIMMUS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Lübeck KG, Lübeck (SPE) [3]	10 EUR	100 [3]
	HAMUS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Lübeck KG, München (SPE) [3,4]	10 EUR	100 [3]
	MOLVINA Vermietungsgesellschaft mbH & Co. Objekt Finkenstraße KG, Düsseldorf (SPE) [3]	5 EUR	100 [3]
	DRENITA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Fertigung Dräger Medizintechnik KG, Düsseldorf (SPE) [3]	10 EUR	100 [3]
	Dräger Grundstückverwaltungs GmbH, Lübeck	25 EUR	100
Europe			
Belgium	Dräger Medical Belgium NV, Wemmel	1,503 EUR	100
	Dräger Safety Belgium NV, Wemmel	789 EUR	100
Bulgaria	Draeger Medical Bulgaria EOOD, Sofia	705 BGN	100
	Draeger Safety Bulgaria EOOD, Sofia	500 BGN	100
Denmark	Dräger Safety Danmark A/S, Herlev	5,000 DKK	100
	Dräger Medical Danmark A/S, Allerod	4,110 DKK	100
Finland	Dräger Suomi Oy, Helsinki	802 EUR	100

[1] Relief in accordance with Sec. 264 (3) HGB.
[2] These companies were consolidated as special purpose entities pursuant to SIC 12 in conjunction with IAS 27.
[3] These companies are treated as associates as defined by IAS 28.
[4] Relief in accordance with Sec. 264b HGB.

CONSOLIDATED COMPANIES

	Name and registered office	Capital stock in LCU thousand	Share-holding in %
Europe (continued)			
France	Dräger Médical SAS, Antony	8,000 EUR	100
	Draeger Safety France SAS, Strasbourg	1,470 EUR	100
	AEC SAS, Antony	70 EUR	100
Greece	Draeger Hellas A.E. for Products of Medical and Safety Technology, Athens	1,500 EUR	100
Great Britain	Draeger Safety UK Ltd., Blyth	7,589 GBP	100
	Draeger Medical UK Ltd., Hemel Hempstead	4,296 GBP	100
Ireland	Draeger Medical Ireland Ltd., Dublin	25 EUR	100
Italy	Draeger Medical Italia S.p.A., Corsico-Milan	7,400 EUR	100
	Draeger Safety Italia S.p.A., Corsico-Milan	1,033 EUR	100
Croatia	Dräger Medical Croatia d.o.o., Zagreb	4,182 HRK	100
	Dräger Safety d.o.o., Zagreb	2,300 HRK	100
Netherlands	Dräger ST-Holding Nederland B.V., Zoetermeer	10,819 EUR	100
	Dräger Medical B.V., Best	1,460 EUR	100
	W.S.P. Safety Equipment B.V., Rotterdam	18 EUR	100
	W.S. Poppeliers Brandblusmaterialen B.V., Rotterdam	18 EUR	100
	Safety Service Center B.V., Rotterdam	18 EUR	100
	Dräger Finance B.V., Zoetermeer	11 EUR	100
	Dräger MT-Holding Nederland B.V., Zoetermeer	18 EUR	100
	Dräger Safety Nederland B.V., Zoetermeer	18 EUR	100
	Dräger Medical Netherlands B.V., Zoetermeer	18 EUR	100
Norway	Dräger Safety Norge AS, Oslo	1,129 NOK	100
	Dräger Medical Norge AS, Drammen	16,371 NOK	100
Austria	Dräger Medical Austria GmbH, Vienna	2,000 EUR	100
	Dräger Safety Austria GmbH, Vienna	500 EUR	100
Poland	Dräger Polska sp.zo.o., Bydgoszcz	4,655 PLN	100
	Dräger Safety Polska sp.zo.o., Bydgoszcz	1,000 PLN	100
Portugal	Dräger Portugal, LDA, Lisbon	1,000 EUR	100
Romania	Dräger Medical Romania SRL, Bucharest	205 RON	100
	Dräger Safety Romania SRL, Bucharest	1,540 RON	100
Russia	Draeger ooo, Moscow	3,600 RUB	100
Sweden	Dräger Safety Sverige AB, Svenljunga	6,000 SEK	100
	Dräger Medical Sverige AB, Bromma	2,000 SEK	100
	ACE Protection AB, Svenljunga	100 SEK	100
Switzerland	Dräger Medical Schweiz AG, Liebefeld-Bern	3,000 CHF	100
	Dräger Safety Schweiz AG, Dietlikon	1,000 CHF	100
Slovakia	Dräger Slovensko s.r.o., Piestany	597 EUR	100
Slovenia	Dräger Slovenija d.o.o., Ljubljana-Crnuce	344 EUR	100
Serbia	Draeger Tehnika d.o.o., Belgrade	21,385 RSD	100
Spain	Dräger Medical Hispania SA, Madrid	3,606 EUR	100
	Dräger Safety Hispania SA, Madrid	2,404 EUR	100

CONSOLIDATED COMPANIES

	Name and registered office	Capital stock in LCU thousand	Share-holding in %
Europe (continued)			
Czech Republic	Dräger Medical s.r.o., Prague	18,314 CZK	100
	Dräger Safety s.r.o., Prague	29,186 CZK	100
	Dräger Chomutov s.r.o., Chomutov	14,000 CZK	100
	Danisevsky spol. s.r.o., Policka	5,000 CZK	100
Turkey	Draeger Medikal Ticaret ve Servis Limited Sirketi, Istanbul	1,270 TRY	67
	Draeger Safety Korunma Teknolojileri Limited Sirketi, Ankara	70 TRY	90
Hungary	Dräger Safety Hungaria Kft., Budapest	66,300 HUF	100
	Dräger Medical Hungary Kft., Budapest	94,800 HUF	100
Africa			
Morocco	Draeger Maroc SARLAU, Casablanca	8,720 MAD	100
South Africa	Dräger South Africa (Pty.) Ltd., Bryanston	4,000 ZAR	100
	Dräger Medical South Africa (Pty.) Ltd., Johannesburg	1 ZAR	69
	Dräger Safety Zenith (Pty.) Ltd., King Williams Town	5,000 ZAR	100
Americas			
Argentina	Dräger Medical Argentina S.A., Buenos Aires	4,281 ARS	100
Brazil	Dräger do Brasil Ltda., São Paulo	27,021 BRL	100
	Dräger Industria e Comércio Ltda., São Paulo	8,132 BRL	100
	Dräger Safety do Brasil Ltda., São Paulo	21,584 BRL	100
Chile	Dräger Chile Ltda., Santiago	1,284,165 CLP	100
Canada	Draeger Safety Canada Ltd., Mississauga / Ontario	2,280 CAD	100
	Draeger Medical Canada Inc., Richmond Hill / Ontario	2,000 CAD	100
Colombia	Draeger Colombia SA, Bogota D.C.	1,500,000 COP	100
Mexico	Draeger Safety S.A. de C.V., Queretaro	50 MXN	100
	Dräger Medical Mexico S.A. de C.V., Mexico D.F.D.	50 MXN	100
Panama	Draeger Panama, S.de R.L., Panama	180 USD	100
	Draeger Panama Comercial, S.de R.L., Panama	20 USD	100
Peru	Draeger Peru S.A.C., Piso Miraflores-Lima	900 PEN	100
USA	Draeger Medical, Inc., Telford	356 USD	100
	Draeger Safety, Inc., Pittsburgh	1,930 USD	100
	Draeger Safety Diagnostics, Inc., Durango	1 USD	100
	Draeger Medical Systems, Inc., Telford	1 USD	100
	Draeger Interservices, Inc., Pittsburgh	40 USD	100
Venezuela	Draeger Medical Venezuela S.A., Caracas	460 VEF	100

CONSOLIDATED COMPANIES

	Name and registered office	Capital stock in LCU thousand	Share-holding in %
Asia / Australia			
People's Republic of China	Shanghai Dräger Medical Instrument Co., Ltd., Shanghai	22,185 CNY	67,5
	Draeger Safety Equipment (China) Co., Ltd., Beijing	50,000 CNY	100
	Dräger Medical Equipment (Shanghai) Co., Ltd., Shanghai	3,311 CNY	100
	Draeger Medical Hong Kong Limited, Wanchai	500 HKD	100
	Draeger Medical Systems (Shanghai) Co., Ltd., Shanghai	70,000 CNY	100
India	Draeger Medical (India) Pvt. Ltd., Mumbai	150,000 INR	100
	Draeger Safety India Pvt. Ltd., Mumbai	35,000 INR	100
Indonesia	PT Draegerindo Jaya, Jakarta	3,384,000 IDR	100
	PT Draeger Medical Indonesia, Jakarta	18,321,000 IDR	100
Japan	Draeger Medical Japan Ltd., Tokyo	549,000 JPY	100
	Draeger Safety Japan Ltd., Tokyo	81,000 JPY	100
Saudi Arabia	Draeger Arabia Co. Ltd., Riyadh	2,000 SAR	51
Singapore	Draeger Safety Asia Pte. Ltd., Singapore	3,800 SGD	100
	Draeger Medical South East Asia Pte. Ltd., Singapore	8,360 SGD	100
South Korea	Draeger Medical Korea Co., Ltd., Seoul	2,100,010 KRW	100
Taiwan	Draeger Safety Taiwan Co., Ltd., Hsinchu City	5,000 TWD	100
	Draeger Medical Taiwan Ltd., Taipei	10,000 TWD	100
Thailand	Draeger Medical (Thailand) Ltd., Bangkok	3,000 THB	100
	Draeger Safety (Thailand) Ltd., Bangkok	15,796 THB	100
Vietnam	Draeger Medical Vietnam Co., Ltd., Ho Chi Minh City	9,552,478 VND	100
Australia	Draeger Safety Pacific Pty. Ltd., Notting Hill	5,875 AUD	100
	Draeger Medical Australia Pty. Ltd., Notting Hill	3,800 AUD	100
New Caledonia	Draeger NC SARL, Noumea	1,000 XPF	100

54 SUBSEQUENT EVENTS

Employee share program

In February, the Executive Board of Drägerwerk Verwaltungs AG resolved to enable Dräger employees in Germany to participate in the Company through a new employee share program. This is designed to increase employees' identification with the company and Dräger's attractiveness as an employer. Dräger plans to grant employees one bonus share for every three shares purchased by the employee and that are subject to a two-year holding period. In the coming years, Dräger also plans to involve employees working outside Germany – if legally possible. Dräger is not planning to increase capital, but instead acquire the preferred shares for the program on the capital market.

Distribution

The general partner and the Supervisory Board of Drägerwerk AG & Co. KGaA, Lübeck, plan to propose to distribute out of the net earnings of Drägerwerk AG & Co. KGaA of EUR 232.7 million for fiscal year 2012 a cash dividend of EUR 0.86 per common share and EUR 0.92 per preferred share, hence a total EUR 14.6 million, and carry forward the balance of EUR 218.1 million. The preferred share dividend also governs the dividend for participation certificates, which will amount to EUR 9.20 each – ten times the preferred share dividend.

On March 12, 2013, the Executive Board is approving the publication of the Group financial statements of Drägerwerk AG & Co. KGaA for fiscal year 2012.

Lübeck, Germany, February 22, 2013

The general partner
Drägerwerk Verwaltungs AG
represented by its Executive Board

Stefan Dräger
Herbert Fehrecke
Gert-Hartwig Lescow
Anton Schrofner

Management compliance statement

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

Lübeck, Germany, February 22, 2013

The general partner
Drägerwerk Verwaltungs AG
represented by its Executive Board

Stefan Dräger
Herbert Fehrecke
Gert-Hartwig Lescow
Anton Schrofner

AUDITOR'S OPINION

We have audited the consolidated financial statements prepared by Drägerwerk AG & Co. KGaA, Lübeck, comprising the balance sheet, the income statement and statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2012 to December 31, 2012. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) is the responsibility of the management of the managing general partner. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Hamburg, February 22, 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Andreas Borcherding
Wirtschaftsprüfer
(German Public Auditor)

Dr. Andreas Focke
Wirtschaftsprüfer
(German Public Auditor)

Single entity financial statements of Drägerwerk AG & Co, KGaA 2012 (condensed)

The single entity financial statements of Drägerwerk AG & Co. KGaA have been prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB).

Drägerwerk AG & Co. KGaA reported a net profit of EUR 77,053 thousand in fiscal year 2012 (2011: EUR 101,515 thousand).

Earnings performance was chiefly attributable to the one-off effect of the buyback of participation certificates and higher profit and loss transfer amounts for Dräger Safety AG & Co. KGaA and Dräger Medical GmbH.

Including the profit of EUR 155,694 thousand brought forward from the prior-year, Drägerwerk AG & Co. KGaA reported net earnings of EUR 232,747 thousand.

The Executive Board of Drägerwerk Verwaltungs AG, together with the Supervisory Board of Drägerwerk AG & Co. KGaA, proposes to distribute from the net earnings a cash dividend of approximately EUR 14,580 thousand for fiscal year 2012 (EUR 0,86 per common share and EUR 0,92 per preferred share) and to carry forward the balance of EUR 218,167 thousand to new account.

PROPOSED APPROPRIATION OF NET EARNINGS

	€
EUR 0,86 dividend for 10,160,000 common shares	8,737,600.00
EUR 0,92 dividend for 6,350,000 preferred shares	5,842,000.00

A dividend of 10 times the preferred share dividend will be paid for participation certificates since their arithmetic par value is 10 times that of a preferred share. Based on the proposed dividend, the dividend for participation certificates will be EUR 9,20 per certificate. The dividend for series A and K participation certificates has been included in the interest expense item of these financial statements. The distribution for series D participation certificates is shown in a separate line, “Distribution for participation capital”, in the income statement, after taxes and before net profit. The complete financial statements, including an unqualified opinion from the auditor of Drägerwerk AG & Co. KGaA, will be published in the electronic version of the German Federal Gazette under HR B No. 7903 HL. A hard copy may be requested from Drägerwerk AG & Co. KGaA or a copy downloaded on the internet at www.draeger.com.

INCOME STATEMENT OF DRÄGERWERK AG & CO. KGAA

€ thousand	Note	2012	2011
Other operating income	21	155,984	144,142
Personnel expenses	22	(63,298)	(50,866)
Amortization of intangible assets and depreciation of property, plant and equipment	23	(10,236)	(8,614)
Other operating expenses	24	(133,066)	(139,309)
Income from a profit transfer agreement	25	249,292	190,164
Income from other investments	26	1,492	2,109
Interest result	27	(26,780)	(23,294)
Expenses from the buyback of series A, K and D participation certificates	28	(90,306)	0
Results from ordinary operations		**80,082**	**114,332**
Income taxes	29	(414)	(10,453)
Other taxes		(414)	(478)
Profit before distribution for participation capital		**82,268**	**103,401**
Distribution for participation capital	41	(5,215)	(1,886)
Net profit / loss		**77,053**	**101,515**
Profit brought forward from previous year		155,694	56,706
Net earnings	**43**	**232,747**	**158,221**

BALANCE SHEET OF DRÄGERWERK AG & CO. KGAA

€ thousand	Note	Dec 31, 2012	Dec 31, 2011
Assets			
Intangible assets	7	14,479	9,934
Property, plant and equipment	8	40,149	38,770
Financial assets	9	857,790	858,289
Non-current assets		**912,418**	**906,993**
Trade receivables		57	147
All other receivables and other assets		38,808	47,253
Receivables and other assets	**10**	**38,865**	**47,400**
Bank balances		171,386	243,191
Current assets		**210,251**	**290,591**
Prepaid expenses	11	5,039	7,681
Deferred tax assets	12	70,011	61,886
Excess of plan assets over pension liability	13	2,841	1,828
Total assets		**1,200,560**	**1,268,979**

BALANCE SHEET OF DRÄGERWERK AG & CO. KGAA

€ thousand	Note	Dec 31, 2012	Dec 31, 2011
Equity and liabilities			
Capital stock, authorized capital: € 3,200 thousand	14	42,266	42,266
Capital reserves	15	161,266	161,266
Retained earnings	16	199,191	199,191
Other retained earnings		199,191	199,191
Net earnings		232,747	158,221
Participation capital – par value: € 14,488 thousand (Series D)	18	28,511	49,929
Equity		**663,981**	**610,873**
Provisions for pensions and similar obligations		83,269	84,590
Other provisions		60,339	43,082
Provisions	**19**	**143,608**	**127,672**
Participation capital – par value: € 6,777 thousand (Series A+K)	18	15,588	24,868
Liabilities to banks		311,516	366,592
Trade payables		14,248	17,027
All other liabilities		51,619	121,947
Liabilities	**20**	**392,971**	**530,434**
Total equity and liabilities		**1,200,560**	**1,268,979**

The Company's Boards

SUPERVISORY BOARD OF DRÄGERWERK AG & CO. KGAA

Chairman

Prof. Dr. Nikolaus Schweickart

Lawyer, Bad Homburg
Former Chairman of the Executive Board of ALTANA AG, Bad Homburg

Supervisory Board memberships:
– Drägerwerk Verwaltungs AG, Lübeck (Chairman)
– Dräger Medical GmbH, Lübeck (Chairman), from March 1, 2012
– Dräger Safety AG & Co. KGaA, Lübeck (Chairman), from March 1, 2012
– Dräger Safety Verwaltungs AG, Lübeck (Chairman), from March 1, 2012

Memberships on comparable boards of German or foreign companies:
– Diehl-Konzern, Nuremberg (Chairman of the Advisory Board)
– Max-Planck-Innovation GmbH, Munich (Advisory Board)

Vice-Chairman

Siegfried Kasang

Works Council Chairman of Dräger Medical GmbH, Lübeck
Group Works Council Chairman of Drägerwerk AG & Co. KGaA, Lübeck

Supervisory Board memberships:
– Dräger Medical GmbH, Lübeck (Vice Chairman)

Daniel Friedrich

District secretary of the metalworkers' union IG Metall Küste, Hamburg

Supervisory Board memberships:
– Dräger Medical GmbH, Lübeck

Prof. Dr. Thorsten Grenz

Professor at Christian-Albrechts University, Kiel

Supervisory Board memberships:
– Dräger Medical GmbH, Lübeck, from March 1, 2012
– Dräger Safety AG & Co. KGaA, Lübeck, from March 1, 2012
– Dräger Safety Verwaltungs AG, Lübeck, from March 1, 2012

Peter-Maria Grosse

Works Council member of Dräger Safety AG & Co. KGaA, Lübeck

Supervisory Board memberships:
– Dräger Safety AG & Co. KGaA, Lübeck (Vice-Chairman)

Uwe Lüders

Chairman of the Executive Board of L. Possehl & Co. mbH, Lübeck

Supervisory Board memberships:
– Nordex AG, Norderstedt (Chairman), until July 2, 2012
– Drägerwerk Verwaltungs AG, Lübeck
– Dräger Medical GmbH, Lübeck, from March 1, 2012
– Dräger Safety AG & Co. KGaA, Lübeck, from March 1, 2012

Walter Neundorf, inactive from May 1, 2012

Officer of Dräger Medical GmbH, Lübeck

Jürgen Peddinghaus

Self-employed business consultant, Hamburg

Supervisory Board memberships:
– Jungheinrich AG, Hamburg (Chairman)
– Drägerwerk Verwaltungs AG, Lübeck
– Dräger Medical GmbH, Lübeck, from March 1, 2012
– Dräger Safety AG & Co. KGaA, Lübeck, from March 1, 2012
– Dräger Safety Verwaltungs AG, Lübeck, from March 1, 2012
– Zwilling J. A. Henckels AG, Solingen

Prof. Dr. Klaus Rauscher

Former Chairman of the Management Board of Vattenfall Europe AG, Berlin

Supervisory Board memberships:
– Endi AG, Halle (Chairman)
– Deutsche Annington Immobilien SE, Düsseldorf
– Drägerwerk Verwaltungs AG, Lübeck
– Dräger Medical GmbH, Lübeck, from March 1, 2012
– Dräger Safety AG & Co. KGaA, Lübeck, from March 1, 2012

Thomas Rickers

1st Delegate of the metalworkers' union IG Metall, Lübeck-Wismar administrative office, Lübeck

Supervisory Board memberships:
– Dräger Medical GmbH, Lübeck

Ulrike Tinnefeld

Works Council Chairperson of Dräger Safety AG & Co. KGaA, Lübeck
Group Works Council Chairperson of Dräger Safety AG & Co. KGaA, Lübeck
Group Works Council Vice-Chairperson of Drägerwerk AG & Co. KGaA, Lübeck

Supervisory Board memberships:
– Dräger Safety AG & Co. KGaA, Lübeck

Dr. Reinhard Zinkann

Managing Partner of Miele & Cie. KG, Gütersloh

Supervisory Board memberships:
– Falke KGaA, Schmallenberg (Chairman)
– Drägerwerk Verwaltungs AG, Lübeck
– Dräger Medical GmbH, Lübeck, from March 1, 2012
– Dräger Safety AG & Co. KGaA, Lübeck, from March 1, 2012

Memberships on comparable boards of
German or foreign companies:
– Krombacher Brauerei GmbH & Co. KG, Kreuztal-Krombach (Advisory Board)
– Nobilia-Werke J. Stickling GmbH & Co. KG, Verl (Advisory Board)

Members of the Audit Committee:

Prof. Dr. Thorsten Grenz (Chairman)
Siegfrid Kasang, from May 1, 2012
Jürgen Peddinghaus
Prof. Dr. Nikolaus Schweickart
Ulrike Tinnefeld

Members of the Nomination Committee:

Prof. Dr. Nikolaus Schweickart (Chairman)
Uwe Lüders
Dr. Reinhard Zinkann

Members of the Joint Committee:

Representatives of Drägerwerk Verwaltungs AG:
Prof. Dr. Thorsten Grenz
Uwe Lüders
Jürgen Peddinghaus
Prof. Dr. Klaus Rauscher

Representatives of Drägerwerk AG & Co. KGaA:
Prof. Dr. Nikolaus Schweickart (Chairman)
Siegfrid Kasang
Thomas Rickers
Dr. Reinhard Zinkann

MEMBERS OF THE EXECUTIVE BOARD OF DRÄGERWERK VERWALTUNGS AG, ACTING FOR DRÄGERWERK AG & CO. KGAA

Stefan Dräger

Chairman of the Executive Board

Chairman of the Executive Board of Drägerwerk Verwaltungs AG, Lübeck (general partner of Drägerwerk AG & Co. KGaA)
Chairman of the Executive Board of Dräger Safety Verwaltungs AG, Lübeck, from March 1, 2012 (general partner of Dräger Safety AG & Co. KGaA)
Managing Director of Dräger Medical GmbH, Lübeck, from February 1, 2012

Supervisory Board memberships:
– Sparkasse zu Lübeck AG, Lübeck

Dr. Herbert Fehrecke

Executive Board member for Purchasing, Quality, Research and Development
Vice-Chairman of the Executive Board

Vice-Chairman of the Executive Board of Drägerwerk Verwaltungs AG, Lübeck (general partner of Drägerwerk AG & Co. KGaA)
Member of the Executive Board of Dräger Safety Verwaltungs AG, Lübeck, from March 1, 2012 (general partner of Dräger Safety AG & Co. KGaA)
General Manager of Dräger Medical GmbH, Lübeck, from February 1, 2012

Gert-Hartwig Lescow

CFO

Member of the Executive Board of Drägerwerk Verwaltungs AG, Lübeck (general partner of Drägerwerk AG & Co. KGaA)
Member of the Executive Board of Dräger Safety Verwaltungs AG, Lübeck, from March 1, 2012 (general partner of Dräger Safety AG & Co. KGaA)
General Manager of Dräger Medical GmbH, Lübeck, from February 1, 2012

Supervisory Board memberships:
– Dräger Safety AG & Co. KGaA, Lübeck, until February 29, 2012
– Dräger Safety Verwaltungs AG, Lübeck, until February 29, 2012

Anton Schrofner

Executive Board member for Production, Logistics and IT

Member of the Executive Board of Drägerwerk Verwaltungs AG, Lübeck (general partner of Drägerwerk AG & Co. KGaA)
Member of the Executive Board of Dräger Safety Verwaltungs AG, Lübeck, from March 1, 2012 (general partner of Dräger Safety AG & Co. KGaA)
General Manager of Dräger Medical GmbH, Lübeck, from February 1, 2012

Glossary

“Arm’s length” principle

Principle used in tax law for business conducted as if between unrelated parties.

Carbon Disclosure Project

The Carbon Disclosure Project (CDP) is a recognized independent reporting organization for information on climate change. It has the world’s largest database of company key figures regarding climate change.

Compliance Committee

As a central part of the compliance organization, the Compliance Committee regularly reports to the Executive Board. This body is responsible for selecting and implementing measures that are aimed at ensuring an effective compliance program.

Derivative

Instruments whose value is mainly derived from a specified price and price fluctuations and expectations of an underlying asset (e. g. shares, foreign currency, interest securities).

Directors’ dealings

Directors’ dealings are securities transactions conducted by persons with management functions at a listed stock corporation in that corporation’s own shares or in related financial instruments. According to Sec. 15 a German Securities Trading Act (Wertpapierhandelsgesetz), these persons, including those who are closely related to them, must report securities transactions of this kind immediately.

Dräger Abfallwirtschaftsverband w.V.

In accordance with Sec. 17 of the German Recycling and Disposal Law (Kreislaufwirtschaft- und Abfallgesetz), member companies of this business association have transferred to it their legal duties arising from the generation and ownership of waste. This provides for a more efficient and law-abiding waste collection and disposal system.

EFCNI

The “European Foundation for the Care of Newborn Infants” is the pan-European organization representing the interests of preterm and newborn infants and their families.

EPER

Abbreviation for “European Pollutant Emission Register”, the European hazardous emission register for defined industrial emissions (air and water) whose volumes must be recorded and reported by companies.

Forward transactions

Currency future. Contractual agreement between two parties to exchange two agreed currency amounts on a specified future date and at an agreed exchange rate.

Free float

Shares of a company which are traded freely on the stock exchange.

GDP

Abbreviation of gross domestic product. GDP is the total value of all final goods and services produced in a one-year period within a country.

German Corporate Governance Code

The German Corporate Governance Code is an important piece of legislation governing the management and oversight of German listed companies and contains nationally and internationally recognized standards for proper and responsible corporate governance. The purpose of the Code is to make the corporate governance system clearer and easier to understand and to foster the trust of investors, customers, employees and the public in the management and oversight of German stock corporations.

ifo Business Climate Index

The ifo Business Climate Index is a closely followed leading http://en.wikipedia.org/wiki/Economic_indicator in Germany prepared by the ifo Institute for Economic Research in Munich.

IFRS

Abbreviation of “International Financial Reporting Standards”. Standards for the preparation of financial statements by companies. In the EU, the application of IFRSs for the consolidated financial statements of listed companies has been mandatory since 2005.

Interest rate cap

Interest rate caps are interest derivatives which offer an upper ceiling on the variable interest rate on underlying transactions.

Interest rate swaps

An interest rate swap is an agreement between two contractual parties to exchange different interest cash flows with each other. As an interest rate derivative, it can be used both to hedge interest rate risk and as a speculative investment which benefits from certain changes in interest rates.

Net earnings

Net earnings (or accumulated loss) pursuant to Sec. 158 AktG ("Aktiengesetz": German Stock Corporation Act) is the net profit / loss for the year plus / minus the following items:

+ / – Profit / loss brought forward from prior-year
+ Transfers from additional paid-in capital
+ / – Transfers from / to retained earnings

Noxious Stimulation Response Index

The "Noxious Stimulation Response Index" (NSRI) is a numerical value representing the depth of anesthesia of a patient, based on models for the interaction of hypnotics and analgesics.

OHSAS

Abbreviation of "Occupational health and safety assessment series". A British standard for occupational health and safety management systems for continuously improving occupational health and safety in companies. The structure is similar to those of the international standards for quality and environmental management systems (ISO 9001 / ISO 14001).

ROCE

Abbreviation of "return on capital employed". The figure shows how effectively and profitably a company employs its capital. It is the ratio of EBIT before non-recurring expenses to capital employed.

RoHS II

Abbreviation of "restriction of the use of certain hazardous substances in electrical and electronic equipment". EU directive.

Safety Shop

A type of service provision used particularly in the chemical, oil and gas industries. During a shutdown, many tasks need to be carried out simultaneously and the number of employees working on the site increases significantly. Safety equipment is leased to the customer and maintenance is also carried out for them.

Six Sigma

Six Sigma is a quality management tool representing the systematic linking of a variety of tried and tested methods for minimizing variability in processes and ensuring more customer-focused products.

Surety

Surety is an umbrella term for both suretyships and guarantees. A surety is issued when a customer has to prove to third parties that certain liabilities such as rent, guarantees and bids will be paid by their due dates.

Swap transactions

Simultaneous conclusion of a cash currency transaction and a currency future with the same counterparty. The amount purchased in cash is sold on the future date or vice versa.

"trendence" ranking

The "trendence Graduate Barometer" is a study by the trendence Institut GmbH, Berlin. Every year, it records the expectations of students almost ready to graduate regarding their career start and determines the most popular employer choices. The survey is carried out in the engineering, information technology, business and law sectors.

DIVISIONS OVER THE PAST FIVE YEARS

		2008	2009 [1]	2010	2011	2012
Medical division						
Order intake	€ million	1,276.9	1,339.6	1,441.9	1,518.8	1,558.4
Orders on hand	€ million	219.8	300.5	280.6	319.8	310.5
Net sales	€ million	1,243.8	1,260.9	1,472.0	1,484.5	1,558.0
EBIT [2]	€ million	75.5	76.7	186.6	191.8	185.1
in % of net sales (EBIT margin)	%	6.1	6.1	12.7	12.9	11.9
Capital employed [3]	€ million	641.6	546.6	514.7	547.2	583.2
EBIT [2] / capital employed [3] (ROCE)	%	11.8	14.0	36.3	35.1	31.7
DVA [4]	€ million	20.3	23.6	136.5	144.0	135.2
Headcount as of December 31		6,326	6,305	6,386	6,717	6,948
Safety division						
Order intake	€ million	679.6	665.9	731.7	805.0	880.8
Orders on hand	€ million	181.2	140.7	142.3	142.8	173.7
Net sales	€ million	706.8	676.9	733.8	802.7	849.3
EBIT [2]	€ million	61.0	30.2	61.0	76.1	97.1
in % of net sales (EBIT margin)	%	8.6	4.5	8.3	9.5	11.4
Capital employed [3]	€ million	223.8	190.1	181.6	192.7	201.9
EBIT [2] / capital employed [3] (ROCE)	%	27.3	15.9	33.6	39.5	48.1
DVA [4]	€ million	40.9	9.6	43.1	57.5	78.9
Headcount as of December 31		4,194	4,336	4,409	4,531	4,771

[1] Due to the integration of Dräger Medical AG & Co. KG in September 2010, the prior year figures were adjusted accordingly.
[2] EBIT = Earnings before net interest result and income taxes
[3] Capital employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
[4] Dräger Value Added = EBIT less cost of capital

THE DRÄGER GROUP OVER THE PAST FIVE YEARS

		2008	2009	2010	2011	2012
Order intake	€ million	1,930.4	1,978.3	2,145.5	2,293.2	2,405.5
Orders on hand	€ million	399.9	440.1	421.7	461.3	483.0
Net sales	€ million	1,924.5	1,911.1	2,177.3	2,255.8	2,373.5
EBITDA [1, 2]	€ million	166.3	146.0	246.7	274.6	295.3
EBIT [3]	€ million	105.8	80.1	192.8	213.8	229.6
in % of net sales (EBIT margin)	%	5.5	4.2	8.9	9.5	9.7
Interest result	€ million	(27.8)	(30.8)	(39.1)	(33.0)	(33.2)
Income taxes	€ million	(28.6)	(16.8)	(48.9)	(55.7)	(61.4)
Net profit	€ million	49.4	32.5	104.8	125.1	135.0
Of which attributable to shareholders	€ million	31.8	14.9	90.7	120.7	126.4
Earnings per share [4]						
per preferred share	€	2.53	1.20	6.25	7.35	7.69
per common share	€	2.47	1.14	6.19	7.29	7.63
Earnings per share on full distribution [5]						
per preferred share	€	1.50	0.83	4.36	4.60	5.87
per common share	€	1.44	0.77	4.30	4.54	5.81
Equity	€ million	553.8	393.8	636.6	729.6	727.2
Equity ratio	%	33.5	20.9	32.2	34.5	34.6
Capital employed [7]	€ million	956.8	709.1	833.4	877.1	898.4
EBIT [3] / capital employed [7] (ROCE)	%	11.1	11.3	23.1	24.4	25.6
Net financial debt [6]	€ million	258.0	374.4	90.3	39.8	56.8
DVA [8]	€ million	20.4	(1.8)	114.5	134.6	149.7
Headcount as of December 31		10,909	11,071	11,291	11,924	12,516
Drägerwerk AG & Co. KGaA dividends						
Preferred share	€	0.35	0.40	1.19	0.19	0.92
Common share	€	0.29	0.34	1.13	0.13	0.86

[1] EBITDA = Earnings before net interest result, income taxes, depreciation and amortization
[2] Equipment leased out is recognized in property, plant and equipment since 2012.
The figures for 2011 were adjusted accordingly.
[3] EBIT = Earnings before net interest result and income taxes
[4] On the basis of the proposed dividend
[5] Based on an imputed actual full distribution of earnings attributable to shareholders
[6] Since the end of fiscal year 2009, finance lease liabilities are recognized in net financial debt.
The prior year figures were adjusted accordingly.
[7] Capital employed = total assets less deferred tax assets, current securities, cash and cash equivalents and non-interest-bearing liabilities
[8] Dräger Value Added = EBIT less cost of capital

Imprint

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FINANCIAL CALENDAR 2013

Annual accounts press conference, Hamburg	March 12, 2013
Analysts' meeting, Frankfurt / Main	March 12, 2013
Report as of March 31, 2013	May 2, 2013
Conference call, Lübeck	May 2, 2013
Annual shareholders' meeting, Lübeck	May 3, 2013
Report as of June 30, 2013	August 1, 2013
Conference call, Lübeck	August 1, 2013
Report as of September 30, 2013	October 31, 2013
Conference call, Lübeck	October 31, 2013

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