stratec

ANNUAL REPORT 2017

MISSION STATEMENT

As the innovative and technological market leader for automation and instrumentation solutions in in-vitro diagnostics, we seek to offer our worldwide partners first class solutions and thereby share responsibility towards their customers and patients.

Our success is based on the talents and skills of our employees and their commitment to always perform the extraordinary. Their performance allows for the successful and sustainable development of our company in the interest of all its stakeholders.

Our partnerships are built on mutual trust, continuity and professionalism and with our partners we share a common mission to develop safe, innovative, market-leading products that consistently fulfill customer expectations.

For STRATEC, partnership means responsibility, passion and commitment, to both our customers and our products, that goes well beyond the duration of the product life cycle.

ANNUAL REPORT 2017

STRATEC GROUP AT A GLANCE

Group Key Figures

Sales, earnings, and dividend

	2017	2016	Change
Sales (in € thousand)	209,764	184,911	13.4%
Gross R&D expenses (in € thousand)	29,847	22,829	30.7%
Gross R&D expenses as % of sales	14.2	12.3	+190 bps
Adjusted EBIT (in € thousand)[1]	35,451	32,196	10.1%
Adjusted EBIT as % of sales[1]	16.9	17.4	-50 bps
Adjusted Consolidated net income (in € thousand)[1]	27,936	25,308	10.4%
Adjusted diluted earnings per share (in €)[1]	2.33	2.12	9.9%
Diluted earnings per share IFRS (in €)	2.14	1.63	31.3%
Dividend per share (in €)	0.80[2]	0.77	3.9%

[1] Adjusted to exclude amortization resulting from purchase price allocations in the context of acquisitions, associated integration expenses, and other extraordinary effects.
[2] Subject to approval by the Annual General Meeting on May 30, 2018

Balance sheet

	12.31.2017	12.31.2016	Change
Shareholders' equity (in € thousand)	157,837	142,341	10.9%
Total assets (in € thousand)	263,776	257,967	2.3%
Equity ratio (in %)	59.8	55.2	+460 bps

Quarterly Overview 2017

Sales and earnings

	1st quarter (01.01.–03.31.)	2nd quarter (04.01.–06.30.)	3rd quarter (07.01.–09.30.)	4th quarter (10.01.–12.31.)
Sales (in € thousand)	49,510	51,213	50,344	58,697
Adjusted EBIT (in € thousand)[1]	6,870	5,992	11,111	11,478
Adjusted EBIT as % of sales[1]	13.9	11.7	22.1	19.6
Adjusted Consolidated net income (in € thousand)[1]	5,369	4,579	8,679	9,309
Adjusted Basic earnings per share (in €)[1]	0.45	0.39	0.73	0.78
Adjusted Diluted earnings per share (in €)[1]	0.45	0.38	0.72	0.78

[1] Adjusted to exclude amortization resulting from purchase price allocations in the context of acquisitions, associated integration expenses, and other extraordinary effects.

Sales by operating division in 2017

48.7 %
Systems
(€ 102,231k)

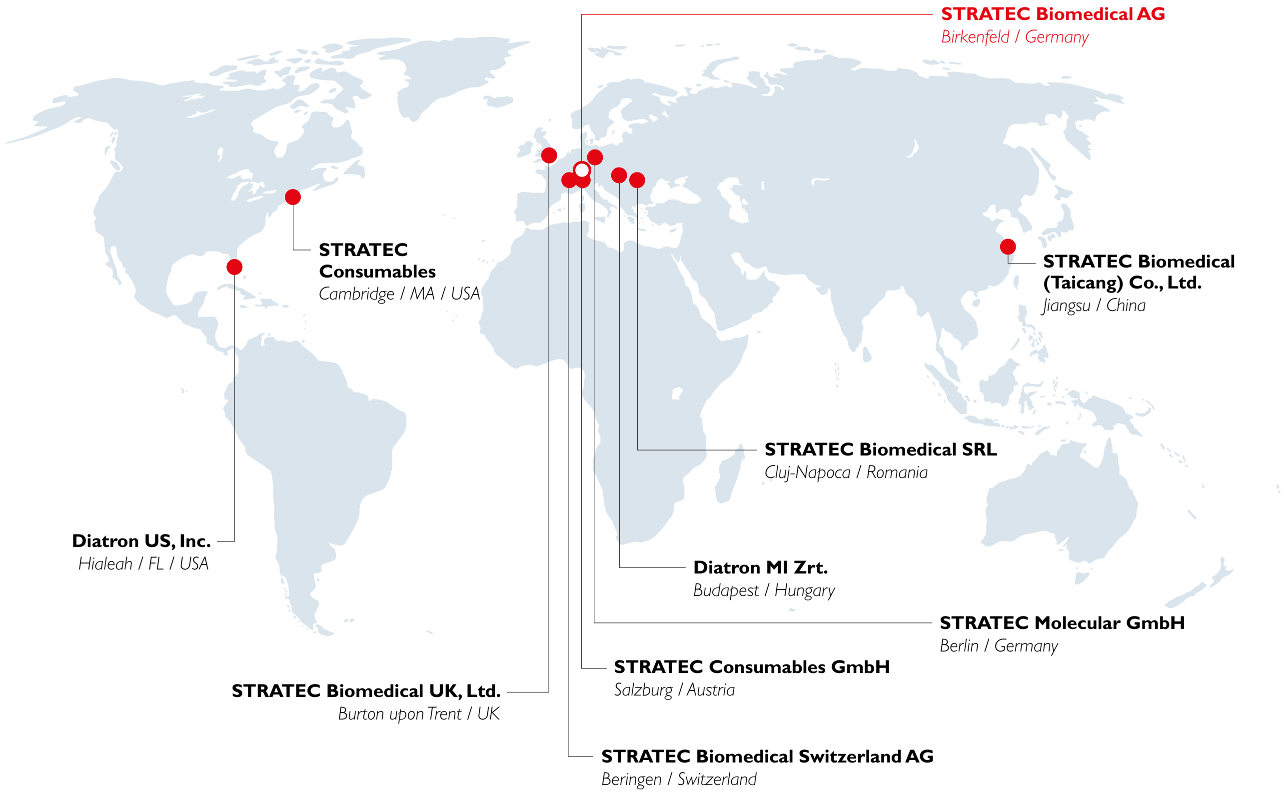
0.6 %
Other activities
(€ 1,341k)

32.8 %
Service parts & consumables
(€ 68,700k)

17.9 %
Development and sevrices
(€ 37,492k)

SALES
100 % (€ 209,764k)

Locations of the STRATEC Group



LETTER FROM THE BOARD OF MANAGEMENT

Dear Shareholders,
Partners and Friends of STRATEC,

2017 was once again an eventful and successful year for STRATEC. Not only did we set new records for revenue and earnings in 2017, we also signed further major development agreements with leading global diagnostics companies.

Against the backdrop of demographic change, new technologies, more extensive applications and the expansion of healthcare systems in emerging markets, the in-vitro diagnostics industry and our customers' target markets continue to offer attractive and sustainable growth rates. We are also seeing an accelerating trend among our customers towards outsourcing the development and production of automation solutions to partners such as STRATEC. Thanks to many years of reliable and trusting cooperation with our customers and the continuing expansion of our product range, we are today better positioned than ever to benefit from this positive market environment and to respond quickly to potential changes on the market. Our development pipeline is full to the brim, and we are also conducting promising negotiations for a large number of additional development projects and supply agreements.

The higher level of development work is likewise reflected in very gratifying growth in our headcount. Using targeted measures, we have succeeded in recruiting further highly qualified employees for our companies, thereby increasing our workforce by 11.3% year-on-year to 1,086.

Key milestones were also reached in the development of new systems. Hologic, for example, one of our biggest customers, announced the market approval of 'Panther Fusion' in the first half of 2017. We are anticipating further significant market launches by our customers in the current year, and the launch of our in-house 'KleeYa' analyzer platform.

In the fiscal year, we grew both organically and as a result of our acquisitions in 2016, which were included in consolidation for the full year for the first time in 2017. Our revenue increased by 13.4% to EUR 209.8 million. Adjusted EBIT also rose significantly by 10.1% to EUR 35.5 million.

In light of our strong cash flow, as a growth company we also wish to give our shareholders the opportunity to share in the company's success – in addition to the appreciation of our shares – by further increasing our dividend. A dividend of EUR 0.80 per share will therefore be proposed at the Annual General Meeting. This would mark the fourteenth dividend increase in a row.

Driven by our strong development pipeline and the growth opportunities currently arising, we expect a significantly higher number of employees in the years ahead. In this context, we are currently in the final planning phase for the conversion and expansion of the buildings at the Birkenfeld location, and expect construction work to begin in 2018.

In order to adapt our structures to future growth and to reflect the accelerated internationalization of our company in recent years, we will also be proposing transforming the company from a German stock corporation to a European company (Societas Europaea, SE) at this year's Annual General Meeting.

Marcus Wolfinger (50)
Chairman of the Board of Management

Dr. Robert Siegle (50)
Member of the Board of Management, Finances and Human Resources

Dr. Claus Vielsack (50)
Member of the Board of Management, Product Development

Following the successful integration of our acquisitions from 2016, further significant organizational and structural developments are on the agenda in 2018 as well. In particular, this includes the implementation of a Group-wide ERP system that will greatly simplify cooperation across all locations and make processes more efficient. The first phase of implementation was completed in January 2018 with the introduction of the new ERP system at our locations in Austria and Hungary. As the second phase, we are now also preparing its launch at our headquarters in Birkenfeld.

We would like to thank our employees, who now number more than 1,000, for their creativity, motivation and willingness to give of their best. It is these qualities which have fueled our company's sustainable success. Our responsibility towards our employees, customers, shareholders, partners and the people who depend on the high quality of our products will continue to define our business activities moving ahead.

We are sincerely grateful for your confidence and interest in our company, and we look forward to the continued exciting and positive development of our company.

Birkenfeld, April 2018

The Management Board of
STRATEC Biomedical AG

Marcus Wolfinger *Dr. Robert Siegle* *Dr. Claus Vielsack*

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

In the 2017 financial year, the Supervisory Board of STRATEC Biomedical AG once again addressed the company's situation and its prospects in great detail. It worked together with the Board of Management on a basis of trust, advised the Board of Management, and exercised its own supervisory function. The Supervisory Board performed the duties required by law, the Articles of Association, and its Code of Procedure at all times in full awareness of its responsibility. With only a few exceptions, it also complied with the recommendations of the German Corporate Governance Code. The Supervisory Board was directly involved in all decisions or measures of fundamental significance, particularly those involving corporate strategy, group-related matters, and the net asset, financial and earnings position of the company and the Group, as well as those transactions requiring its approval in the Code of Procedure in force for the Board of Management. The Board of Management provided the Supervisory Board with regular, timely and comprehensive written and oral information concerning all issues of relevance to the company.

Outside the framework of Supervisory Board meetings, individual members were also available to discuss specific topics with the Board of Management in various one-to-one talks held in person or by telephone.

Key focuses of discussion at meetings
The Supervisory Board held a total of ten meetings, of which four in the form of conference calls, in the 2017 financial year. All Supervisory Board members basically participated in the Supervisory Board meetings, as did all members of the Board of Management to the extent that the meetings did not address matters relating to the Board of Management or internal Supervisory Board matters.

At its first meeting in the period under report, held on March 13, 2017, the Supervisory Board dealt with the compensation paid to the Board of Management. It determined the level of target achievement and discretionary component for individual members of the Board of Management for the bonus payment for the 2016 financial year in accordance with the individual additional agreements (mid-term compensation agreement). Furthermore, it also set new target agreements for individual members of the Board of Management for the 2017 financial year.

In its conference call on March 23, 2017, the Supervisory Board approved the corporate governance declaration and corporate governance report and also voted in favor of extending Hermann Leistner's appointment to the Administrative Board and his advisory contract at STRATEC Biomedical Switzerland AG.

At its meetings on April 11, 2017, July 19, 2017, October 19, 2017, and December 15, 2017, the Supervisory Board dealt in particular with the risk report, compliance management, the Group's sales and earnings performance, its financial position, the status of the respective development projects, and the company's contract negotiations. Further focuses included discussions on the subsidiaries, the company's organizational structure, implications of new legislative requirements, and the Group's long-term corporate strategy.

Furthermore, at the meeting on April 11, 2017 the Supervisory Board discussed the annual financial statements and management report of STRATEC Biomedical AG and the consolidated financial statements and group management report for the 2016 financial year. It discussed and approved the draft resolutions to be proposed to the Annual General Meeting on June 14, 2017, including the proposed appropriation of profit for the 2016 financial year.

In a conference call held on April 13, 2017, in which the representatives of the auditor once again participated and answered questions, the Supervisory Board approved the annual financial statements and management report of STRATEC Biomedical AG and the consolidated financial statements and group management report for the 2016 financial year.

Following the retirement of Wolfgang Wehmeyer from the Supervisory Board and the election of Rainer Baule by the Annual General Meeting, at its meeting on June 14, 2017 the Supervisory Board elected Rainer Baule to be its Deputy Chairman and independent financial expert. Moreover, at this meeting the Supervisory Board also set targets for the share of women on the Board of Management and the Supervisory Board.

The Supervisory Board meeting on July 19, 2017 was held at the location of STRATEC Consumables, the subsidiary acquired one year earlier, in Austria. This way, the Supervisory Board convinced itself on location of the company's forward-looking technologies in the field of smart consumables. As well as adopting resolutions on the customary focus topics, the Supervisory Board also approved the establishment of a new software development location at Karlsruhe Technology Park.

At its meeting on October 19, 2017, the Supervisory Board listened to comments provided by the Board of Management on the progress made with the Mod-n-More module company founded Hungary in March 2017. Furthermore, the Supervisory Board approved the transaction requiring its approval presented by the Board of Management, namely the proposal to convert and expand STRATEC's headquarters in Birkenfeld / Germany. Furthermore, the Supervisory Board was informed about the status of the project to launch a new ERP system across all locations and the associated conversion to a more efficient IT architecture for the entire group of companies.

In a conference call on November 15, 2017 the Supervisory Board approved the sole agenda item, namely the adjustment and amendment to the company's Articles of Association to account for the shares issued for subscription in 2017 in connection with existing stock option programs.

In its conference call on December 4, 2017, the Supervisory Board addressed the German Corporate Governance Code in its version dated February 7, 2017. To monitor compliance with the German Corporate Governance Code, the Supervisory Board reviewed the implementation of the recommendations at STRATEC Biomedical AG and the efficiency of its own work. Furthermore, the Supervisory Board laid down specific written targets concerning its own composition, compiled a competence profile for the overall board, and adopted the Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act (AktG). This is permanently available to shareholders at the company's website.

At the final meeting of the reporting period, held on December 15, 2017, the Supervisory Board adopted the budget and annual financing plan for the 2018 financial year. Furthermore, the Board of Management reported once again on the latest status of the project initiated in spring 2017 to introduce a new ERP system across all locations.

Fred K. Brückner (75)
Chairman of the Supervisory Board

Prof. Dr. Stefanie Remmele (40)
Member of the Supervisory Board

Formation of Supervisory Board committees
As it has only three members, the Supervisory Board has not formed committees and thus deviates from the recommendation in the German Corporate Governance Code.

Review of potential conflicts of interest
No conflicts of interest requiring immediate disclosure to the Supervisory Board and immediate notification of the Annual General Meeting arose among members of the Board of Management or the Supervisory Board. No material transactions were performed with any member of the Board of Management or with any person or company closely related to such.

Changes in composition of Supervisory Board and Board of Management
The Supervisory Board witnessed one change in its composition in the year under report. Due to personal reasons, its member Wolfgang Wehmeyer stood down from his position on the Supervisory Board prematurely as of June 14, 2017. The Annual General Meeting held the same day elected Rainer Baule, Managing Director of Baule GmbH and, among other functions, former CEO of Fresenius Kabi AG, to succeed Wolfgang Wehmeyer on the Board for the remainder of his term in office. The Supervisory Board thanks Wolfgang Wehmeyer for his commitment and his constructive support from which the company benefited. There were no changes in the composition of the Board of Management in the year under report.

Audit of annual and consolidated financial statements
The Annual General Meeting held on June 14, 2017 elected Ebner Stolz GmbH & Co. KG Wirtschaftsprüfergesellschaft Steuerberatungsgesellschaft, Stuttgart, as auditor and group auditor for the 2017 financial year. Ebner Stolz has audited the annual and consolidated financial statements of STRATEC Biomedical AG since the 2015 financial year. During that time, Linda Ruoss (née Schwachulla) has been the auditor responsible for the audit of the financial statements.

At its meeting on April 9, 2018, the Supervisory Board dealt in detail with the annual financial statements of STRATEC Biomedical AG and the consolidated financial statements, in each case as of December 31, 2017, as well as with the management report of STRATEC Biomedical AG and the STRATEC Group for the 2017 financial year. Both sets of financial statements had previously been audited and provided with unqualified audit opinions by the auditor. Furthermore, in its assessment of the risk management system the auditor also confirmed that the Board of Management had taken the measures required by the German Stock Corporation Act (AktG) for the early identification of any risks to the company's continued existence.

Rainer Baule (69)
Deputy Chairman of the Supervisory Board

The annual financial statements of STRATEC Biomedical AG, the consolidated financial statements, the management report of STRATEC Biomedical AG and the STRATEC Group, the proposal submitted by the Board of Management in respect of the appropriation of profit, and the auditor's audit reports were made available to us for our review. Representatives of the auditor attended the discussion of the annual and consolidated financial statements at the Supervisory Board meeting on April 9, 2018 and outlined the key audit findings.

The audit of the annual financial statements of STRATEC Biomedical AG, the consolidated financial statements, and the management report of STRATEC Biomedical AG and the STRATEC Group by the Supervisory Board did not result in any objections being raised. The Supervisory Board concurred with the findings of the audit conducted by the auditor in accordance with legal requirements and approved the annual financial statements and the management report, as well as the consolidated financial statements and the group management report. The annual financial statements are thus adopted.

Furthermore, the Supervisory Board discussed the proposed appropriation of profit, which foresees the distribution of a dividend of € 0.80 per share with dividend entitlement, in detail with the Board of Management and approved this proposal.

Thanks
The Supervisory Board would like to thank the members of the Board of Management and the employees of STRATEC Biomedical AG and all group companies for their dedication and their constructive work and cooperation in the past financial year.

Birkenfeld, April 2018

On behalf of the Supervisory Board

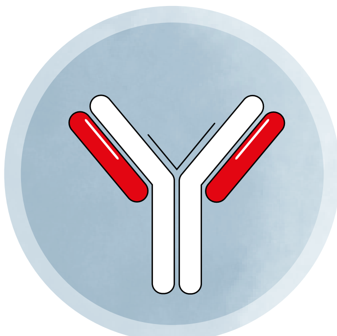
Fred K. Brückner
Chairman

FROM CLIA TO KLEEYA

A NAME INSPIRED BY A TECHNOLOGY

Chemiluminescence immunoassay (CLIA)

If the energy generated in a chemical or enzymatic reaction is emitted in the form of light, this is called a chemiluminescence reaction. 'Biological hook' are used. These consist of tiny magnetic particles that are coated with a protein (1st antibody) which specifically binds to a predefined target molecule (antigen). The target molecule can be an indicator or also a marker, for example for the respective physical condition.



CHEMILUMINESCENCE IMMUNOASSAY (CLIA) WITH THE KLEEYA ANALYZER

Safe, flexible, and efficient workflows for growing requirements in clinical diagnostics

Blood analysis is one of the most important routinely performed testing methods in laboratory medicine today. For example, the results of a blood test can provide information on a patient's health and help to identify and monitor diseases, health risks, the effectiveness of medication, and organ functions.

The requirements for the systems which are used, have constantly increased in recent years due to more rigorous safety requirements imposed by authorities, greater cost awareness within healthcare systems worldwide, and a continuous rise in the number of available tests of increasing complexity. Along with a wide range of applications, safe, flexible, and efficient workflows are now the key factors in the success of an analyzer system on the market.

Major advances have been made in medical research in recent years, enabling laboratories to perform much more specific tests that allow far more extensive analyses and conclusions than was the case just a few years ago. Pioneering breakthroughs have been made in cancer diagnosis in particular.

Use of these tests is hampered by the technological possibilities of the analyzer systems as well as the limited and therefore expensive available space in laboratories. Some tests require various application technologies. In an ideal scenario, all tests would be available to a clinical laboratory on one or at least just a few analyzer systems. However, in reality, many laboratories still contain a large number of systems with all kinds of technologies and potential applications.

STRATEC has addressed these wide-ranging challenges and developed an analyzer system that brings laboratories a big step forward in terms of flexible usability of various technologies in the field of ***chemiluminescence immunoassay***.

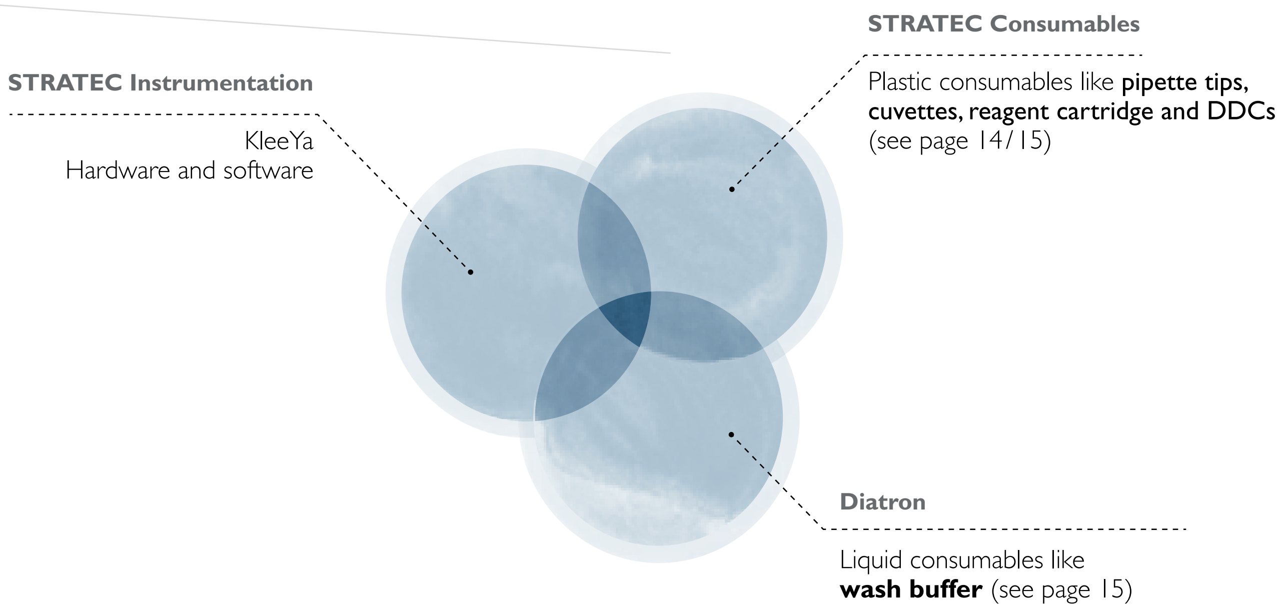
PERFECT INTERACTION OF THREE BUSINESS UNITS

With its latest platform development, the KleeYa analyzer, STRATEC has applied its decades of experience and its extended product range to the growing demands of a flexible, modern diagnostics market.

Like previous generations of platforms, the KleeYa analyzer is an open platform system. This means that, in contrast to closed systems, tests by various providers can be used on the KleeYa analyzer. Therefore, the system appeals to many potential partners who each use differing test methods and technologies. The ability to combine the wide variety of methods used within a single existing system requires a huge number of flexible solutions. The KleeYa analyzer is STRATEC's response to the flexibility required on the market in the immunoassay sector, and allows the use of two different and significant detection methods (flash or glow) on one system, for instance.

A proprietary, patented automation technology, software solutions, and innovative consumables also allow an even more efficient workflow geared towards the end customer's processes.

This is made possible by the interaction of the three STRATEC business units involved: STRATEC Instrumentation, responsible for KleeYa hardware and software; STRATEC Consumables, responsible for plastic consumables such as pipette tips, cuvettes, and reagent vessels; and Diatron, responsible for marketing and liquid consumables such as wash buffers.

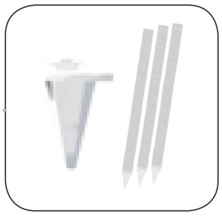


THE KLEEYA ANALYZER

Reagent cartridge

The reagents for the various detection reactions are developed, produced, put into reagent vessels, and marketed by STRATEC's partners.

The reagent cartridge is a modular system of 5-ml and 10-ml plastic tubes specially developed by STRATEC that can be put together in any configuration in a housing with a total of five positions. The integrated, rewritable RFID chip enables storage of the consumption of each reagent, and the end user is able to switch between two possible reagent sets in just a few steps.



Cuvettes

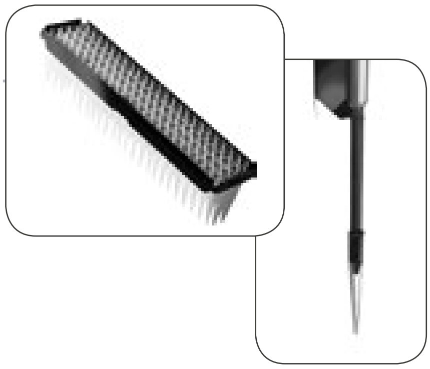
Blood analysis is performed in small reaction vessels, known as cuvettes. Cuvettes are often supplied as bulk goods and added to a compartment of the analyzer system by the lab technician, like beans to a coffee machine. This therefore requires a complex feeding and sorting system of screw conveyors and vibrating conveyors in order to achieve the preferred orientation of the cuvettes.

STRATEC has developed a unique cuvette that is stackable. The user can easily introduce up to 10 stacks of 50 cuvettes into the opening provided in the KleeYa analyzer. As a result, there is no need for complex feeding and sorting systems.

Disposable dispenser cartridge (DDC)

DDCs are the containers into which the starter reagents for the reactions are filled. Starter reagents are usually contained in small bottles and fed in via a system of pumps and hoses of the cuvette in which the reaction takes place. The hose system must be free of air bubbles here so that the correct volume is dispensed.

By developing the DDCs, STRATEC has found a way to totally eliminate complex feeding systems for starter reagents. The DDCs are located at the site of consumption, in the immediate use vicinity of the measuring chamber. They are equipped with the latest RFID technology. As a result, information such as reagent consumption, the opening date, and many other variables can be stored on the bottle.



Tips

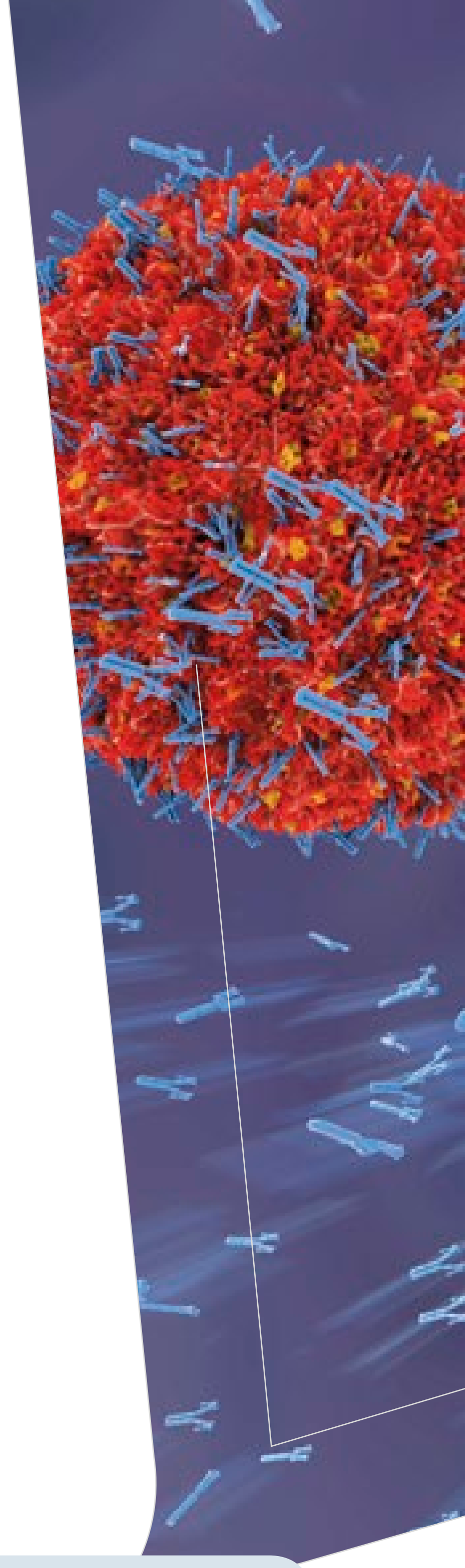
A critical point when analyzing different blood samples in one system is the risk of contamination, 'carry-over' of one blood sample into another. To prevent this, the samples are drawn by a pipettor, to which disposable plastic tips are applied. The sample material is drawn (aspirated) and then inserted (dispensed) into the cuvettes using these tips. Consequently, a new disposable tip is used for each sample.

With special functions, STRATEC has ensured that the tip cannot fall off, as this would lead to contamination of the entire analyzer system.

Wash buffer

Because an appropriate volume of wash buffer is needed for each sample and washing step, the device has a wash buffer container with a capacity of 10 liters. An intermediate tank also enables this liquid consumable to be loaded during operation.

A JOURNEY THROUGH THE KLEEYA ANALYZER



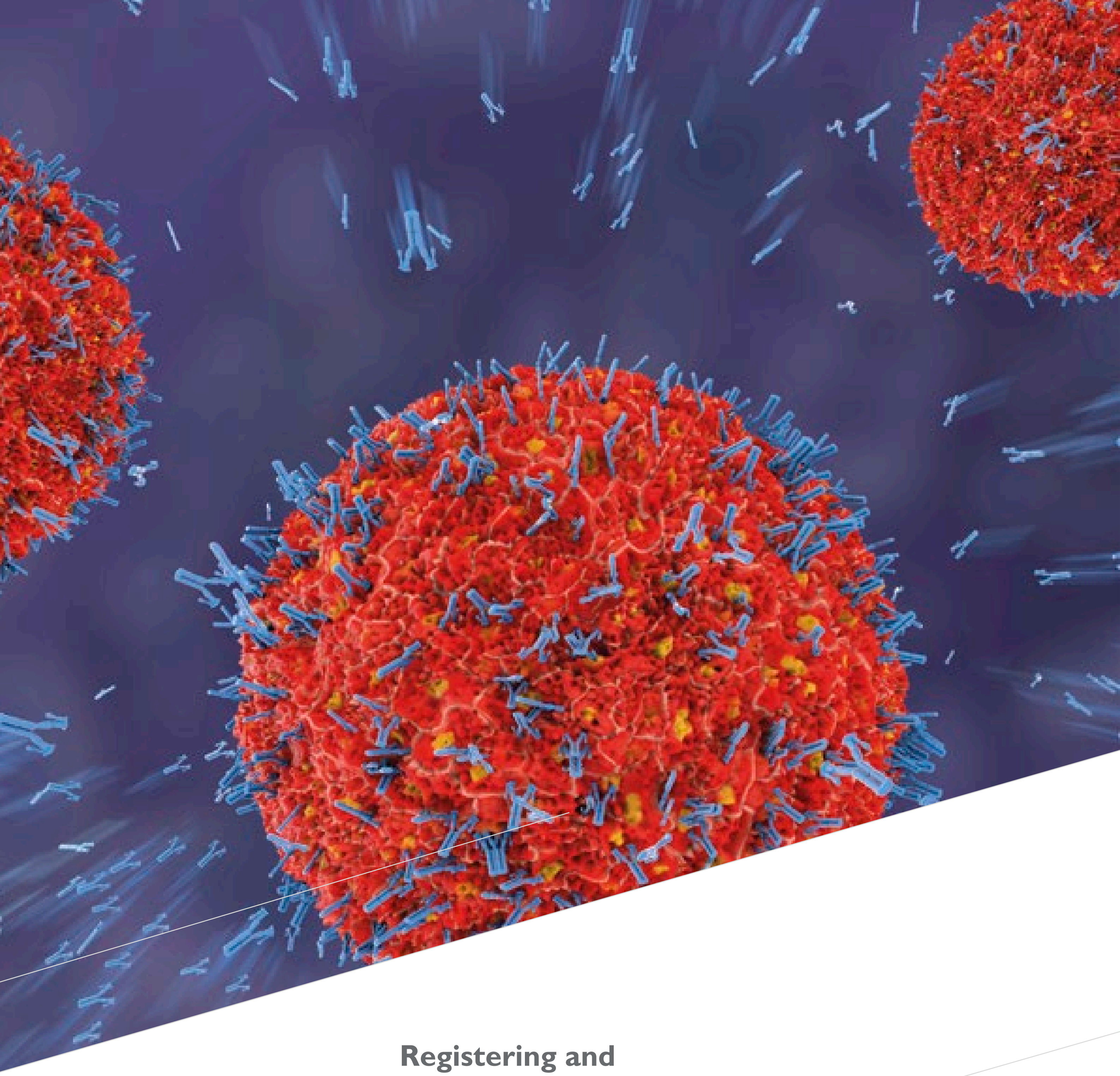
Join us as we follow a blood sample through the KleeYa analyzer in order to understand the critical components for an efficient workflow, the various technologies, the flexible system, and the complexity of a blood analyzer system.

In our example, the aggressiveness of the disease in a breast-cancer patient is to be identified by means of a blood analysis ***(HER-2/neu test)***. The analysis is intended to let the physician make a more precise prognosis of how the disease will progress, and to select a suitable form of therapy geared towards the patient.

After the physician has taken the blood sample, it is usually sent to an analysis laboratory that is often attached to a hospital. Analysis laboratories are equipped with a host of devices that are used for various analysis methods. Immunoassays, in which biological substances are identified by means of antigen-antibody reactions, are a widespread bioanalysis method. One variant of these is chemiluminescence immunoanalysis, in which the reaction result is made visible on the basis of light emissions.

HER-2/neu

HER-2/neu (human epidermal growth factor receptor-2) is an oncogene that plays a particularly significant role in breast cancers. Oncogenes control the formation of oncoproteins and can therefore cause uncontrolled cell growth. These proteins are also released into the blood and thus can also be measured via blood analyses along with tissue samples. An elevated quantity of HER-2/neu usually indicates intensified cell growth, which ultimately makes tumors more aggressive.



Registering and loading the sample

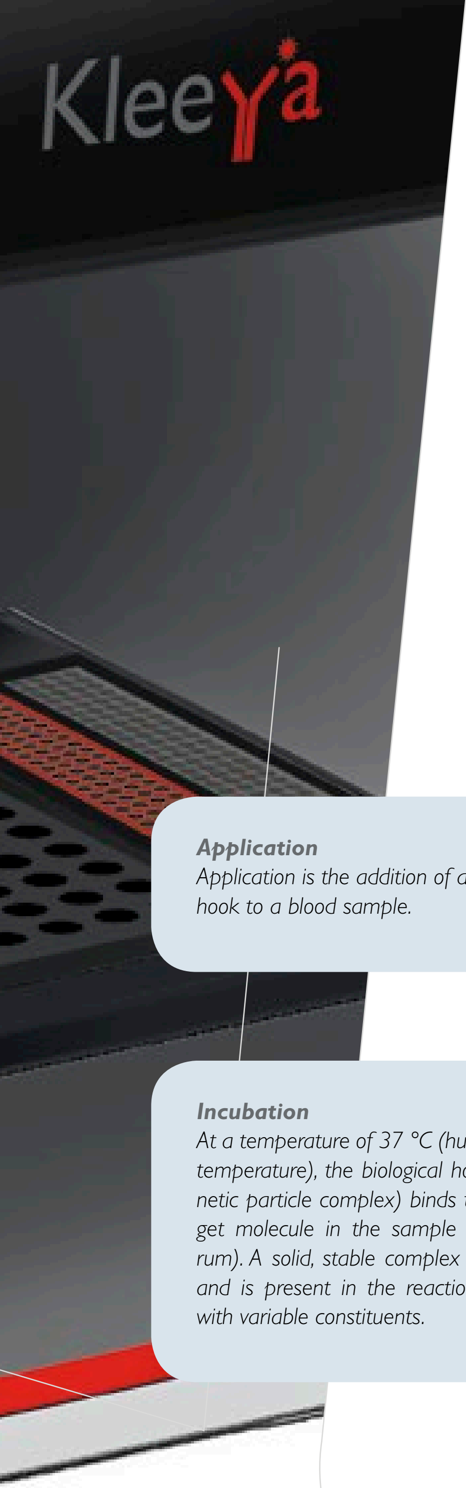
On reaching the laboratory, the tube of blood is registered in a sample-management system and assigned to a suitable analyzer system, in our case the KleeYa analyzer. Having arrived there, the test tube with the blood sample is placed into the analyzer system by the lab technician. One special feature of STRATEC systems here is the ability to load samples into the device while the system is in operation (known as 'random access'). In this way, the system plays a big part in optimizing manual workflows in the laboratory.

Via a camera-based system, the barcoded sample is identified, added to the system's worklist, and transferred to the work process.

Reagents and consumables – everything on board?

Every analyzer system has an area laden with the test reagents. Many of the reagents need to be kept refrigerated because of their antibody and enzyme content, and so this area is cooled to a temperature of approx. 10 °C.

The touchscreen of the KleeYa analyzer shows the current load status. The device automatically detects whether the available consumables are enough for the predefined tasks, or whether additional tips (disposable pipette tips for drawing the sample material), cuvettes (small reaction vessels), etc. need to be loaded. STRATEC uses a system here that allows all consumables to be constantly loaded into the analyzer system even if it is in operation (known as 'continuous loading'). The only exception here is the DDCs (reagent vessels) filled with the starter reagents. If all essential consumables are available in the system, analysis can commence.



All set for the sample run: pipetting and detecting

After system start-up, a pipettor first takes a tip and then draws a defined volume of blood or serum from the test tube. Various complex safety mechanisms are applied during sampling to check whether the corresponding amount of fluid is actually drawn, and also whether it is ensured that no particles that could clog the system are drawn. Should the system ever be clogged, which may occur due to dust, for instance, the software automatically marks the corresponding sample as invalid. If drawing of the sample is valid, the sample is put into the cuvette in the incubator ring (dispensed). The contaminated tip is thrown automatically into the waste container.

Application
Application is the addition of a biological hook to a blood sample.

Incubation
At a temperature of 37 °C (human body temperature), the biological hook (magnetic particle complex) binds to the target molecule in the sample (blood/serum). A solid, stable complex is formed and is present in the reaction mixture with variable constituents.

The next steps: applying, incubating, washing

Next, the reagent is drawn using a second pipettor. Application of the reagents to the cuvette filled with sample material is carried out above the surface of the fluid ***(Application)***. This prevents the steel needle of the pipettor from coming into contact with the sample material. Consequently, there is no need to use tips here, which is a crucial factor in the system's operating costs.

The next process step is performed in the incubator ***(Incubation)***. The reaction vessel, the cuvette, now contains the sample and the reagent. To ensure optimum blending of the reaction mixture, the incubator remains in motion constantly. Incubation is followed by a washing cycle, with the purpose of removing surplus material (***Washing)***. To do so, the cuvette is pushed into the inner incubator ring, known as the washing ring. After this first washing process, a further reagent is added ***(Addition of signal molecule)***. A further incubation and washing cycle is then performed.

Adding the signal molecule
In a second step, the chemical signal molecule is added which is coupled to a protein (2nd antibody) that binds to the magnetic particle-target molecule complex. After this, incubation and washing are carried out again.

Washing
The other constituents form a background that could negatively affect the results. Therefore, they must be removed. To allow this, a magnet is used to hold the magnetic particles with the desired target molecule on the outer wall of the cuvette. The magnetic particles with the bound target molecule are washed through multiple additions and removals of wash buffer. After this process, only the magnetic particle-antibody-target molecule complex is left in the cuvette.

CHEMILUMINESCENCE REACTION: FLASH OR GLOW

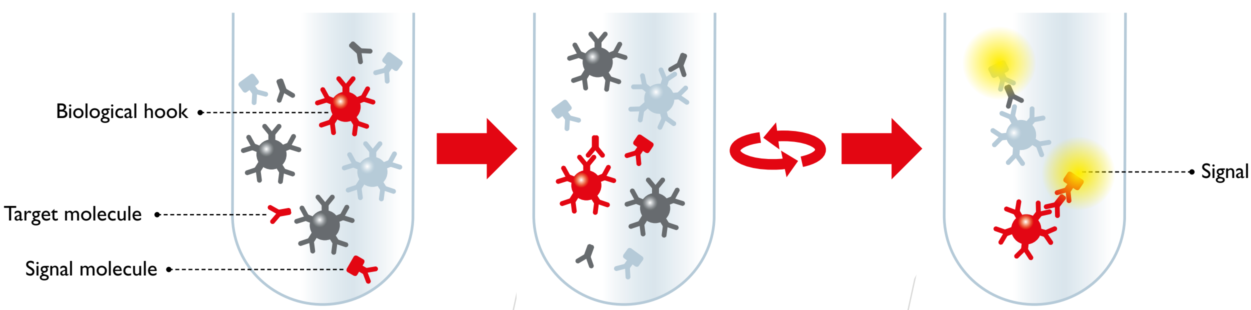
The huge degree of flexibility of the KleeYa analyzer is particularly apparent in the final process step, the ***chemiluminescence reaction***. Depending on the preferred detection method ***(flash or glow)***, the corresponding reaction starter can be added to the reaction mixture in the cuvette via the DDCs.

The light signal is then measured in the measuring chamber. A photomultiplier tube is used here. This is a special electron tube that detects weak light signals by generating and boosting an electric signal. The system correlates the light signals with the concentration of a specific antibody in the solution, which is interpreted by means of defined data from the assay manufacturer. The results, for example the concentration of HER-2/neu proteins in the blood that is being looked for in our case, can be read on the touchscreen via the results field of the software.

After the reaction, the remaining reaction mixture is siphoned from the cuvette and disposed of.

Chemiluminescence reaction
The addition of reaction starters produces light. This light is measured in RLU (relative light units). From the signal intensity, the system automatically calculates whether the target molecule is present and, if so, in what concentration.

Flash or glow
The process described is a chemical reaction, also called 'flash' (flash-type), because the chemical reaction produces a light pulse that appears only quickly and immediately levels off again after a short peak. If an enzyme-based mixture is chosen instead of the purely chemical one, the process is called 'glow' (glow-type). Here, the generated light intensity remains constant for a longer period after a sharp increase. However, the luminescence signal of glow is usually less intense than in the flash reaction.



DECADES OF EXPERTISE

Along with its core business with analyzer systems developed with partners from the initial idea to approval, STRATEC has frequently developed generic platform systems that enable partners to position products on the market without developing devices themselves. This helps smaller assay developers in particular to avoid the high costs and long development times associated with in-house device development.

STRATEC has channeled its decades of expertise in liquid handling, instrumentation, and automation into the KleeYa analyzer. In conjunction with the innovative, unique consumables, the KleeYa analyzer provides a flexible system solution. By simply switching the detection system (flash or glow), our partners in the assay-development sector can design their tests in line with their own requirements.

ANNUAL REPORT 2017

of STRATEC Biomedical AG

STRATEC'S SHARE

Strong year on the stock markets in 2017

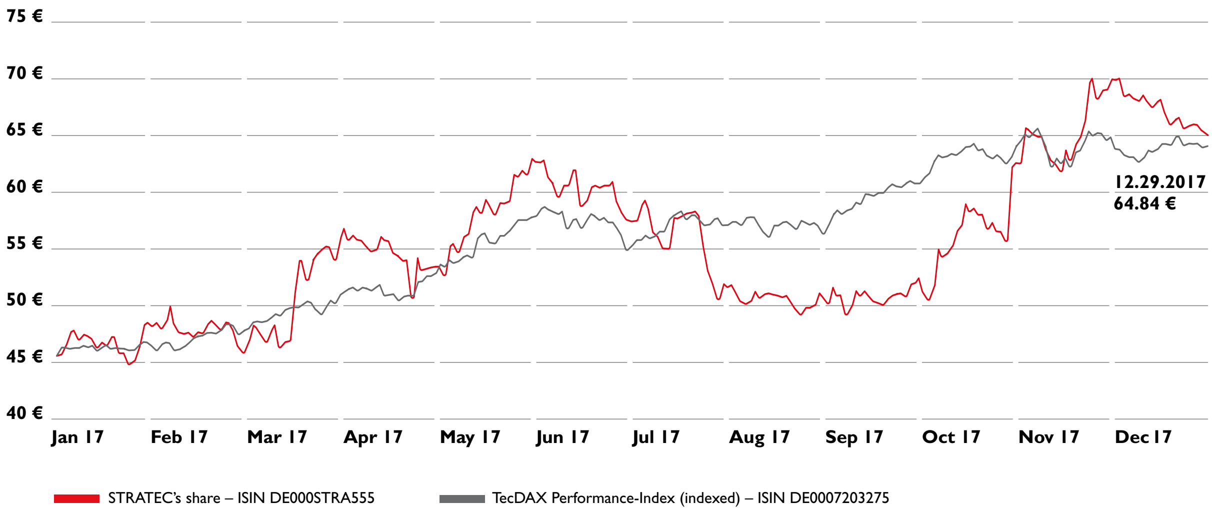
Robust global growth in excess of long-term averages, continuing low inflation coupled with persistently low interest rates and the liquidity thereby freed up – all these factors benefited global stock markets in 2017. The markets witnessed virtually no notable corrections and many indices set new records accompanied by low levels of volatility. Uncertainties, such as Brexit, the tensions with North Korea, and the crisis surrounding the Spanish region of Catalonia and its striving for independence, led at most to temporary minor setbacks. Against this backdrop, the DAX – Germany's lead index – rose by 12.5% over the year as a whole. By contrast, the TecDAX – Germany's technology index – showed far higher growth and posted an annual performance of 39.6%.

STRATEC shares reach new all-time highs in 2017

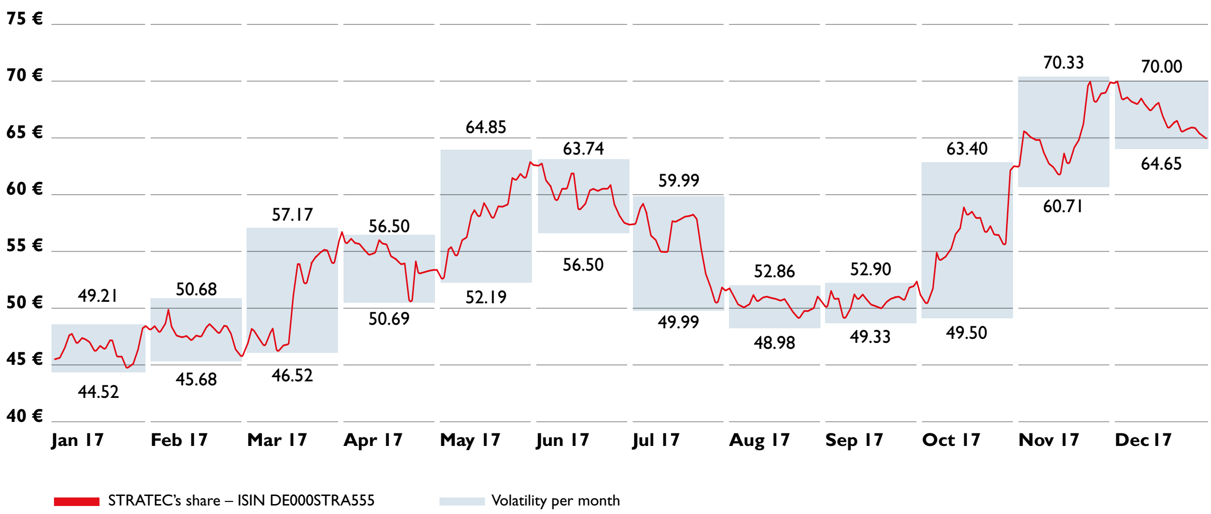
STRATEC's shares began the 2017 trading year at € 45.79 (Xetra, year-end price on December 30, 2016) and quickly reached their annual low at € 44.52 (Xetra, intraday) on January 23, 2017. The publication of preliminary key figures for the 2016 financial year triggered the first round of rapid growth, one which took the share price to € 57.17 (Xetra, intraday) by the end of March 2017. After around four weeks of consolidation, the release of the company's three-month figures sent its share price surging in just nineteen trading days to reach a new all-time high at € 64.85 (Xetra, intraday) on May 30, 2017. The previous all-time high still valid at that point dated back to January 2016 and amounted to € 62.85 (Xetra, intraday).

During the subsequent period of consolidation, lasting around four months, the share price several times dipped temporarily beneath the € 50 mark. Starting from here, it showed rapid growth from early October 2017 and peaked at a new all-time high of € 70.33 (Xetra, intraday) on November 28, 2017. This was also the period in which the company published its nine-month results. STRATEC's share ended the year at € 64.84 in December 2017 (Xetra, year-end price on December 29, 2017). Having risen by 41.6% over the year as a whole, the share even exceeded the exceptionally strong performance of the TecDAX.

STRATEC's share – dynamic performance in 2017 (€)



STRATEC's share – monthly highs and lows in 2017 (€)



Listing and stock market turnover

STRATEC's shares are listed in the Regulated Market of the Frankfurt Stock Exchange (marketplaces: Xetra and Frankfurt) and meet the transparency requirements of the Prime Standard. Its shares are also traded on the regional stock markets in Berlin, Düsseldorf, Hamburg, Hanover, Munich, and Stuttgart, as well as on Tradegate, the electronic over-the-counter trading system at the Tradegate Exchange.

Measured in terms of simple order book turnover, STRATEC shares worth € 187.6 million changed hands on the aforementioned marketplaces (excluding Tradegate) in 2017 (previous year: € 120.7 million). The Xetra and Frankfurt marketplaces alone accounted for 88.0% of these volumes (previous year: 85.1%).

The company's shares have also witnessed brisk trading on multilateral trading systems, which are gaining increasing market share from the regulated marketplaces with which they compete. A multilateral trading system is a trading platform set up and operated by a financial services provider, securities companies, or market operator. This kind of system brings together buy and sell orders for shares and other financial instruments in accordance with specific regulations and thus generates contract agreements.

Trading data for STRATEC's share (status: December 31)

	2017	2016	2015	2014	2013
Year-end price previous year (€)	45.79	61.00	45.75	30.25	37.65
Annual low (€)	44.52	41.30	41.00	30.06	25.30
Annual high (€)	70.33	62.85	61.00	53.10	40.00
Year-end price (€)	64.84	45.79	61.00	45.75	30.25
Performance (%)	+41.6	-24.9	+33.3	+51.2	-19.6
Market capitalization (€ million)	773.0	543.1	723.0	540.0	356.0
Trading volumes (€ million)	187.6	120.7	141.0	131.1	109.8
Average daily trading volume (€)	744,490	473,151	555,065	520,199	433,863
Average daily trading volume (number of shares)	13,346	9,775	11,687	13,200	13,275

Annual General Meeting elects new Supervisory Board member and approves further record dividend

On June 14, 2017, STRATEC's Board of Management and Supervisory Board welcomed more than 300 shareholders, voting proxies, and guests to the company's Annual General Meeting held at CongressCentrum Pforzheim. A total of 77% of the company's share capital was represented at the Annual General Meeting (previous year: 71.72%).

Items submitted to the shareholders for resolution included the appropriation of net profit, the approval of the actions of the Board of Management and Supervisory Board, the election of the auditor, and the approval of a profit transfer agreement. Furthermore, shareholders elected Rainer Baule (69), Managing Director of Baule GmbH and, among other functions, former CEO of Fresenius Kabi AG, to the Supervisory Board. He has succeeded Wolfgang Wehmeyer, who retired from the Supervisory Board at his own request.

At the meeting, which lasted around two-and-a-half hours, shareholders approved all six of the agenda items submitted for resolution with the necessary majority in each case.

These resolutions included increasing the dividend for the thirteenth consecutive year. At € 9.1 million, corresponding to € 0.77 per share, the total distribution reached a new record level. In 2016, the company had distributed a total of € 8.9 million, or € 0.75 per share, to its shareholders.

Following the Annual General Meeting, all voting results and shareholder presence statistics were published on the company's website. The next Annual General Meeting will be held at CongressCentrum Pforzheim on May 30, 2018.

Fourteenth consecutive dividend increase proposed

STRATEC pursues a continuity-based dividend policy which aims to enable shareholders to suitably and sustainably participate in the company's performance. Consistent with this approach, STRATEC's Board of Management and Supervisory Board will be proposing a dividend payment of € 0.80 per share for approval by the Annual General Meeting on May 30, 2018. This corresponds to a total distribution of € 9.5 million and a dividend yield of 1.2% based on the closing price of € 64.84 on December 29, 2017. Subject to adoption of the corresponding resolution by the Annual General Meeting, the dividend is expected to be paid on June 5, 2018.

Stable shareholder structure

The largest shareholders in the company are still its founder, Hermann Leistner, his family, and their investment companies, which hold a combined stake of 41.18%. A further 0.04% of the shares are held by the company itself, while 58.78% of the shares are attributable to large numbers of retail and institutional investors both in Germany and abroad.

Key figures for STRATEC's share (status: December 31)

	2017	2016	2015	2014	2013
Number of shares issued (million)	11.9	11.9	11.9	11.8	11.8
Number of shares with dividend entitlement (million)	11.9	11.9	11.9	11.8	11.8
Cash dividend per share (€)	0.80 [1]	0.77	0.75	0.70	0.60
Distribution total (€ million)	9.5 [1]	9.1	8.9	8.3	7.1
Dividend yield (%)	1.2 [1]	1.7	1.2	1.5	2.0

1) Subject to approval by the Annual General Meeting on May 30, 2018

Further information about STRATEC's share

ISIN	DE000STRA555
WKN	STRA55
Ticker	SBS
Reuters Instrument Code	SBSG.DE
Bloomberg Ticker	SBS:GR
Sector	DAXsector All Pharma & Healthcare
Transparency level	Prime Standard
Market segment	Regulated Market

Currency	€
Class	No-par registered ordinary shares
Share capital (€)	11,920,945.00
Share capital (number of shares)	11,920,945
Initial listing	August 25, 1998
Marketplaces	Xetra; Frankfurt and further regional stock exchanges in Germany
Designated sponsors	HSBC Trinkaus & Burkhardt AG Oddo Seydler Bank AG

Investor relations

STRATEC maintains an ongoing dialog with existing and potential investors, analysts, and business and financial journalists. When communicating with market participants, the company adheres to the principle that all information should be provided simultaneously, openly, and transparently. Its active and ongoing reporting aims to enable all capital market players to form their own realistic assessment of the company's performance. The financial calendar keeps interested parties regularly informed about important dates with sufficient advance notice. Furthermore, we also regularly inform capital market participants about the company's strategic development and business performance by publishing financial reports, ad-hoc announcements, and press releases.

One core component of STRATEC's investor relations activities involves holding conference calls upon the publication of results and occurrence of other major events at the company. These calls are also made available on the company's website. As well as holding numerous one-to-one meetings, at capital market conferences the company gives presentations and thus informs investors and analysts from Germany and abroad about the company's current situation and its business performance. At present, a total of seven institutions regularly report on STRATEC in extensive studies and brief analyses: Berenberg Bank, Deutsche Bank, Kepler Cheuvreux, Landesbank Baden-Württemberg, Metzler Capital Markets, Oddo BHF, and Warburg Research.

The latest information about STRATEC and its share can be found on the company's website at www.stratec.com.

Financial calendar

04.19.2018	Annual Financial Report 2017
05.15.2018	Quarterly Statement Q1|2018
05.30.2018	Annual General Meeting, Pforzheim, Germany
07.24.2018	Half-Yearly Financial Report H1|2018
11.08.2018	Quarterly Statement 9M|2018
11.27.2018	German Equity Forum, Frankfurt/Main, Germany

Subject to amendment

GROUP MANAGEMENT REPORT

fot the 2017 Financial Year

A. THE STRATEC GROUP

Business model and strategic alignment

Basic features of business model

In global markets in which the relevant trends and developments are determined by a relatively small number of companies, it is crucial for STRATEC to position itself as a partner to these global players and to convince them with its reliability and performance. STRATEC's aim here is to further boost its position and enable all parties involved to generate sustainable growth by offering a well-balanced mix of cost efficiency, expertise, and innovation.

The core competence of the STRATEC Group involves compiling and implementing concepts and requirements in the automation and instrumentation of biochemical processes using hardware and software solutions. STRATEC also has comprehensive knowledge of quality and documentation requirements, particularly for the approval of medical technology solutions by the relevant national and international authorities. STRATEC accompanies its customers in an advisory capacity from the very outset. Drawing on its longstanding experience, it offers valuable tips when it comes to compiling specifications and determining suitable system alignments. These include tips on user-friendliness, a factor which promotes acceptance of the resultant system among end customers. Due to its existing technology pool and its experience in the approval process, STRATEC is also able to shorten the development times for its partners.

By continually developing new technologies and making targeted company acquisitions, the STRATEC Group has consistently extended its product range in recent years and thus aligned itself ever more closely to the needs of its customers and partners – generally global leaders in the fields of diagnostics and research. That is why in addition to pure instrumentation the STRATEC Group covers virtually the entire value chain for complex analyzer system solutions and for integrating these into laboratory structures. The value chain ranges from compiling initial system specifications to approval processes through to serial production, including the development of complex consumables and complementary middleware laboratory software. One core principle of STRATEC's philosophy is to ensure that the company, while continuously extending its technology, product and service portfolio, should never allow any situation to arise in which it competes with its partners.

Given the breadth of its product range and the innovative strength of its R&D employees, STRATEC is able to react swiftly to any changes in the market. STRATEC continues to observe an ongoing trend towards consolidation in laboratory structures in its most important markets, for example. The increasing focus on small numbers of large central laboratories will not only increase demand for high throughput appliances but also create a need to perform time-critical tests close to patients (point-of-care). For point-of-care applications in particular, a large share of the complexity is shifted away from the instrument to so-called smart consumables, such as polymer chips. Due to its ever broader product portfolio, STRATEC is now very well positioned to benefit from the growth opportunities presented by this polarization in the market.

Quality management

Most of STRATEC's products are supplied to partners operating in strictly regulated markets. Quality management therefore represents a core aspect of STRATEC's business model and forms the basis for the success both of the company and of its partners.

STRATEC is committed to permanently improving the quality of its processes and services. Most of its products are subject not only to the strict requirements of the German Medical Products Act, but also to numerous national and international regulations that have to be complied with when entering the respective markets.

To satisfy these requirements, STRATEC has established a high-performance, certified quality management system. This accounts for the ever growing body of regulatory requirements in international markets and the ever more extensive number of requirements on national level. At the same time, it is the prerequisite for ensuring consistently high product quality.

Among others, the tasks performed by the Quality Management and Regulatory Affairs department include ensuring that the products comply with all necessary regulatory requirements for medical products, supplier evaluation and qualification, and continuously improving the quality management system.

Comprehensibly defined processes throughout the entire value chain – from the first development steps through to serial production – play a crucial role in safeguarding the company's sustainable success in the market. These processes are a means to meet the requirements both of customers and of the regulatory authorities. The process model is divided into core processes, which are in turn subdivided into sub-processes.

All defined processes are checked by 'process owners' – employees who are responsible for implementing the processes laid down in the relevant descriptions. One advantage of this process-oriented approach is the permanent control it makes possible via the interconnections between individual processes in the process model and their combination and interaction.

The allocation of key figures, such as the 'first pass yield' or the shipment error quota, enables processes to be measured and serves as a basis for permanently enhancing the system. At the same time, a flexible quality management system facilitates compliance with necessary international requirements and enables new markets to be rapidly and efficiently accessed together with STRATEC's OEM partners.

STRATEC's complaint handling system supports the service and vigilance process and partners' risk management with cross-departmental error analyses and risk assessments. Furthermore, the company actively involves its partners in the relevant control steps within the change process.

The Quality Management and Regulatory Affairs department is in close contact with STRATEC's partners and also supports these in submitting, monitoring, and checking worldwide product approvals and communicating with international authorities. On the product side, quality management is responsible for determining statistics and performing trend analyses to identify sources of errors and take preventive measures.

The design and manufacture of an analyzer system also involves regular audits by customers, the authorities, certification bodies and internal company departments at our development and production locations. These are prepared and accompanied by our quality management team.

STRATEC is committed to and certified under the following standards:

- EN ISO 9001
- EN ISO 13485
- ISO 13485 CMDCAS
- TCP/Taiwan GMP
- FDA QSR Compliant Development and Manufacturing Processes
- FDA Registered Establishment
- CSA/UL/NEMKO registered

Consistent with the motto 'one world – one company – one quality', STRATEC has set itself the target of largely harmonizing its quality management system. Due account will be taken of the specific needs of individual locations resulting from their different focuses (product types, development, production, etc.). STRATEC employees at the various locations form teams of experts for individual specialisms to promote the sharing of information within the company, support one another with their skills and experience, and ensure a coordinated approach.

Production and locations

The production of STRATEC's products is governed by especially strict quality requirements, compliance with which is regularly audited by internal specialists, our customers, and external authorities. Analyzer systems are produced to the highest standards at the locations in Beringen, Birkenfeld, and Budapest. The aim here is to work as efficiently as possible and continually enhance processes. To this end, production activities at the Birkenfeld location were reorganized in 2015. Production capacities at the Swiss location were extended in the 2016 financial year. Processes at the Budapest location have been adjusted and optimized as appropriate.

Given its high quality standards, STRATEC has deliberately decided to base its production in Germany, Switzerland, and Hungary and also sees this as the basis for the company's ability to comply with all necessary regulations and standards. Overall, STRATEC is represented with its solutions and qualified contact partners at ten locations on three continents. To do justice to the rising standards resulting from the company's further growth and to be able to offer its customers the entire value chain within a smooth process organization structure, the company implemented and adopted further optimization measures in 2017 as well.

Given that capacities are currently in full use, we expect to see further workforce growth in the years ahead, particularly in research and development. To meet the requirements of this growth, in the financial year under report the company decided to build a new development and office building at its Birkenfeld location in Germany. Construction work is scheduled to begin in spring 2018 and to be completed by the end of 2019.

At the Swiss location in Beringen, the final stage of a multistage extension program was completed in 2017. An additional total of 3,900 m² of production space is now available. With this strategic capacity reserve, we can already safeguard the efficiency-enhancing production of existing and future appliance lines.

Core corporate strategy

At core, STRATEC's corporate strategy involves supporting select customers in implementing their growth strategies in the fields of in-vitro diagnostics and life sciences. It does this by acting as a competent partner, offering expertise, and supplying innovative and safe product solutions to promote the success of our partners' end customer business. Sustainability-related topics, such as environmental concerns and social welfare are playing an increasingly important role at STRATEC, as is also the case at its customers and suppliers. These topics form a major component of our strategy.

The objective is to enable both our customers and STRATEC itself to generate growth that is sustainably ahead of the long-term market average. The company is focusing on rapidly growing areas of application within in-vitro diagnostics and healthcare research. Examples worth mentioning here are molecular diagnostics, immunohematology, and specialized and highly sensitive immunoassay processes. To be able to maintain its strong market position with regard to its competitors and partners on a long-term basis, one key priority for STRATEC is to secure and further boost its expertise and technology portfolio with patents and industrial property rights.

STRATEC Instrumentation

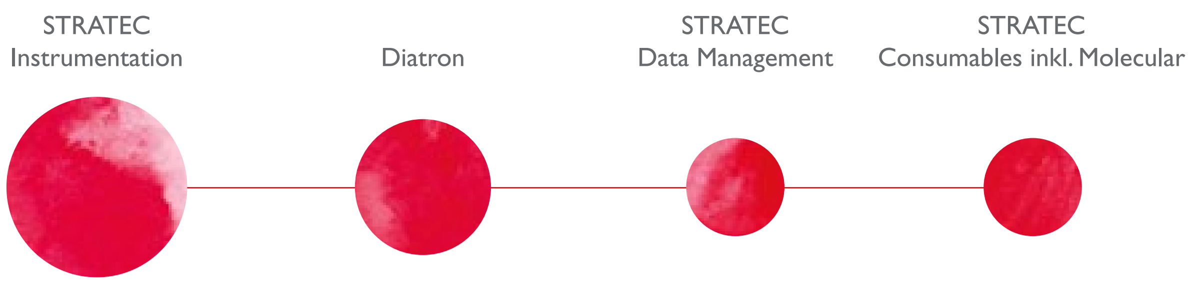
The instruments designed and manufactured by STRATEC and marketed to its partners can be found worldwide.

Even though the instrumentation comes from STRATEC, in virtually all cases it is the partner's brand name that is displayed on the system itself. While the specifications are in most cases jointly defined by the partners, the subsequent development stage of two to four years is characterized by parallel development processes. During this time, STRATEC focuses on developing the automation solution, the corresponding software, consumables and quality management, as well as on preparing system approval. New requirements on the part of partners, such as connectivity or smart consumables, form a key basis for STRATEC's permanently evolving technology portfolio. This means that customers can focus all of their energies on developing their reagent menus, as well as on their market expertise, access to end customers, and support measures. Throughout the development stage, however, the various activities often running in parallel have to be closely coordinated. As soon as the first prototypes are complete, work already begins on integrating the reagents into the automation process. This complex process, which is performed with close cooperation between the two partners, is one of the key foundations for the functionality of the resultant systems.

Group structure

In terms of its organizational structure, the STRATEC Group aligns and optimizes its operations in four business units.

The primary objective here is to be able to react to customers' requirements in an efficient and coordinated manner and to offer the Group's solutions and products from across the respective business units. Not only that, by fostering group-wide communications and ensuring flat hierarchies, STRATEC aims to be able to react swiftly and across all of its locations to any developments in the market or changes in the regulatory framework. The company's strategic alignment, with its organizational structure focusing on four business units, can be presented as follows:



One key success factor for the STRATEC Group involves providing its customers with the solutions they need in the fields of automation, software development, and sample preparation for them to implement their own objectives. Alongside patents and internally developed technologies, it is the company's wide variety of expertise in different scientific and technological disciplines that offers the basis for the shared success it aims to achieve with its partners. STRATEC can look back on nearly 40 years of development and production activity. Equally relevant to the subsequent success of jointly developed products is the in-depth understanding which STRATEC's partners have of end customers' requirements and thus of the market, as are the measures they take with their own service and sales activities to ensure suitably prepared market access. In view of this, STRATEC focuses on business-to-business and OEM relationships and does not maintain any significant proprietary sales network to its end customers. The product specialists at STRATEC's partners are individually supported in their activities. This particularly takes the form of training, but in exceptional cases also involves providing specific services on location.

STRATEC is continually extending its range of products and services and its value chain. This way, it aims to take responsibility for major parts of the development, approval, and production of system solutions, and thus to assume a major share of the associated risks. One core principle of the company's philosophy is nevertheless only to cover those sections of the value chain which allow it to operate without entering into competition with its partners.

Within the Instrumentation segment, a basic distinction is made between two approaches towards developing systems and cooperating with partners.

Partnering Business

With this type of development, STRATEC targets both existing and new customers. The company works together with its partner to define the specifications for a new analyzer system for the customer at a very early stage of planning. The cooperation between the company and its partner is very close throughout the entire development phase, which usually lasts between 24 and 48 months. STRATEC is responsible for developing hardware and software and draws here on its constantly growing pool of proprietary innovative technologies, patents, rights, and know-how. This way, the development work is faster, more cost-effective and involves fewer risks, an approach from which both partners benefit. This gives rise to systems that are more reliable and require less maintenance. In close cooperation with the partner, the reagents menu is integrated into the automation processes. As soon as the system has been fully developed and approved by the regulatory authorities together with the reagents and software package, it is launched onto the market and serial production begins. In this stage, the partner focuses on marketing and selling the product to end customers, generally laboratories, blood banks, and research institutes, and also provides subsequent customer support and other services. STRATEC provides an ongoing supply of maintenance and service parts and discusses ongoing improvements in the system with the customer, particularly with regard to the next generation of software applications, user-friendliness and activities to extend the reagents menu.

System developments in the partnering business place certain minimum requirements in a customer. On the one hand, a suitable development budget has to be available for allocation, on the other hand the partner must have appropriate distribution channels enabling it to exploit turnover potential and thus make the project interesting for both partners. By analogy with the printing industry, which works with low-margin printers and high-margin ink cartridges, the partner generates its return on capital employed by selling the tests. STRATEC earns its share from the sale of appliances and service parts (maintenance and replacement parts) to the partner. The success achieved by its partners enables STRATEC to generate the growth targeted for this business field. In view of this, in its production activities the company attaches great value to providing customers with those instruments they need to ensure the best possible cost-input ratio. This approach is reflected in particular at the production locations in Switzerland, Germany and Hungary, where highly qualified employees implement production and testing processes that are subject to close regulatory definition monitoring and performed in an audited and certified environment. The selection of the right partners and products plays a crucial role in determining STRATEC's growth in this area.

Platform development
A STRATEC platform is a system developed internally by the company. It is not designed in cooperation with a specific partner but, given its general design scheme, is suitable for marketing to several customers. This merely involves the platform being adapted to the specific requirements of customer reagents and corporate design schemes. These platforms are particularly suited to partners aiming to enter a market very rapidly – and thus draw on a platform solution – or who on account of their size and market access are not yet able to place the volume of systems needed to amortize the high level of development expenses. STRATEC chiefly develops such platforms for areas with potential for generating multiplier effects.

In developing proprietary technologies and solutions, STRATEC aims to ensure a calculable balance between innovation and sales potential. Here in turn, it is important to develop the right applications that offer market players relevant additional benefits or to cooperate with the right partners to gain early market presence with applicable solutions when it comes to developing next-generation technologies.

STRATEC Data Management
As well as software solutions integrated into instruments, STRATEC also offers its partners flexible application options for deploying and controlling instruments, work processes and test volumes mainly for use in laboratories. Among other functionalities, these software solutions facilitate the interlinking of various systems, enable work volumes to be managed, and provide access to the test results for evaluation by specialist staff. These middleware software solutions optimize and accelerate laboratory work processes and enable instrument capacity utilization rates to be optimized. They also assist laboratories in complying with regulatory requirements.

STRATEC Data Management offers its OEM software solutions both as standard versions and as individually customized versions. All-round project management enables us to work closely with the partner to ensure that the solution satisfies customer requirements and also complies with the extensive regulatory framework.

In strategic terms, the development and sale of middleware software should be viewed as an extension to the company's value chain and as a door opener to customers who often also require instrumentation and automation solutions in the fields of diagnostics and research.

STRATEC Consumables

The STRATEC Consumables business unit develops and produces polymer-based 'smart' consumables. These includes polymer chips and single-molecule arrays in the field of micro-fluids. This area represents a key component of STRATEC's technology and product spectrum and has extended the company's product range to include an important part of the value chain. This reduces customers' project risks and the associated project supervision input. STRATEC is able to offer substantial added value to its customers, particularly by assuming responsibility across the various interfaces involved. Not only that, important aspects of test process development and the corresponding automation components can be harmonized far more closely.

The change in conventional consumables into complex smart consumables is making it possible to 'outsource' various test process steps in a targeted manner to the consumable. For low test volumes, this 'loss' of process steps makes it possible to significantly reduce the size, complexity, and cost of instruments. That is a crucial factor, particularly for point-of-care applications. Furthermore, by offering greater flexibility it opens up new possibilities to develop test processes.

The Consumables business unit has diverse skills and applications in the fields of nano-structuring and micro-structuring, various coating technologies, polymer science applications, and the automated and industrial production of smart consumables. The business unit can build on its longstanding experience in the high-precision production of optical storage media. Consumables are developed in close cooperation with the relevant partners and in line with their requirements for the development of reagents and instrumentation.

Alongside the consumables themselves, in its Consumables business unit STRATEC also offers sample preparation products to its customers. Particularly in the field of molecular diagnostics, sample preparation is an important work step prior to execution of the actual analyses or tests. In particular, it involves purifying the DNA and RNA to be investigated. STRATEC offers solutions for these upstream steps that can then be integrated by customers into their own range of products and services. Furthermore, the products are sold with or without accompanying instrumentation solutions to end customers, in this case particularly small and medium-sized laboratories.

Diatron

The Diatron business unit designs and manufactures analyzer systems for use in human and to a minor extent in veterinary diagnostics, as well as complementary products such as consumables and services. Diatron's customers include prestigious diagnostics and life science companies with global operations. The system solutions for human diagnostics which Diatron predominantly manufactures in Hungary are used in the fields of hematology and clinical chemistry. Diatron mainly distributes its solutions as an OEM provider and via distributors, of which a small share is directly marketed under the Diatron brand. Its platform-based development approach and its market access based on OEM partnerships are similar to the approach taken in the Instrumentation business unit.

Diatron's OEM portfolio consists in particular of analyzer systems, system components, consumables and tests in the low throughput segment. Throughput is the term used to describe the frequency of tests which can be performed in a given period, typically a single laboratory shift. By contrast, the Instrumentation business unit generally focuses on medium to high throughput ranges. The extension in the value chain in the field of decentralized laboratory solutions – typically small to medium-sized hospitals, group practices, and laboratories – therefore represents a far-reaching addition to the expertise and product portfolio at STRATEC Instrumentation.

Management of the STRATEC Group

Given its size and the dovetailing of its business fields, the STRATEC Group is managed by reference to a matrix organizational structure. The business fields are grouped in business units across locations and together reflect STRATEC's value chain.

The business units receive targets set by the Group's Board of Management, on which basis they are managed and also report in the course of the financial year. These targets are chiefly of a quantitative nature and relate to sales and profitability. In addition, legal units and divisions are provided with targets that include qualitative, quantitative, and strategic elements. These are based on factors such as risk management, employee management, customer relationships, or M&A activities.

In view of the company's growth and not least to do justice to our claim of being a reliable partner and an attractive employer, traditional management figures such as sales, EBIT, liquidity, key development, production, and marketing figures, and product quality are increasingly being supplemented by sustainability-related topics such as environmental and social aspects.

Alongside ongoing organizational adjustments to the company's structure in line with its growth, the objective of the company's management is to uphold its sustainable sales growth in excess of average growth rates in the in-vitro diagnostics industry while simultaneously improving the company's profitability, safeguarding the company's liquidity position at all times, and detecting and averting any risk of erroneous developments in good time.

In addition to quantitative reporting structures, regular assessments of current project developments and risks are additionally reported by individual location managers and project directors to the respective heads of department or the Board of Management.

Central support and administration functions are pooled at corporate headquarters and work closely together with employees in the relevant specialist departments at the subsidiaries. Furthermore, the regular exchange of information in conference calls and meetings with the management of subsidiaries ensures that all matters relating to the Group's current business performance are discussed. These measures also include regular visits on location.

A further management instrument is the variable compensation paid to local managers at the subsidiaries, the heads of business units, employees in senior or key positions, and sales employees. This variable compensation is largely dependent on the key figures achieved, especially operating earnings, but also on strategic objectives. This raises awareness of cost structures and efficiency enhancements, and thus of the company's long-term business performance, among employees in those company divisions not able to directly influence sales.

The most important performance indicators referred to in managing the company are sales, the adjusted EBIT margin, and the number of employees. More detailed information about these key management figures can be found in the Business Report and the Outlook.

Market

IVD instrumentation market

The global market for instrumentation solutions (including services and software) in the field of in-vitro diagnostics (IVD) had a volume of around 12 billion US dollars in 2016. This market is expected to reach a volume of around 14 billion US dollars by 2021. It should be noted that only around 40% of instrumentation solutions are currently developed by outsourcing partners such as STRATEC (IVD OEM market). The remaining share of system solutions continues to be designed by the largest diagnostics companies themselves (IVD in-house market). Due to ever stricter regulatory requirements, improved cost efficiency, and shorter development times, STRATEC nevertheless expects the global share of system solutions designed and manufactured by outsourcing partners to increase further in the years ahead.

Annual sales volumes in the instrumentation market relevant to the STRATEC Group amount to around 1.5 billion US dollars for in-vitro diagnostics (IVD) alone. This figure is derived from relevant throughput segments and areas of application. The areas of application relevant to STRATEC particularly include the immunoassay, immunohematology, molecular diagnostic, clinical chemistry, and hematology applications. Alongside these areas, there are also interesting niche markets, both within and outside IVD, in which STRATEC is performing targeted projects or concluding development cooperations with established or innovative partners.

Increasing regulation of diagnostics industry

The increasing regulation of the diagnostics industry continues to generate growing demand for automated process solutions. Manual and semi-automated processes are increasingly being superseded by fully automated methods. Due to the routine processes involved and the lower error rate compared with manual processes, such methods offer a high degree of security, great precision, and highly reproducible results. Not only that, fully automated methods enable the tiniest volumes of liquids to be processed. In recent years, ever more countries have begun introducing their own control mechanisms and requirements for IVD products and processes. To meet these increasingly strict requirements around the world, many laboratories are opting for automated solutions. Automated instrument solutions are in turn subject to a high degree of regulation, and this presents a barrier to new players entering the market. STRATEC's long track record of dealing with these regulatory requirements, broad pool of technology, and longstanding experience mean that it has a strong position in this market.

Alongside increasing regulation, STRATEC also benefits from the fact that there is a shortage of qualified laboratory personnel in many countries. This factor increases demand for automated systems that are easy to use and which do not require highly qualified laboratory staff.

Outsourcing

STRATEC is benefiting not only from increasing regulatory efforts on the part of the relevant authorities, but also in particular from the growing trend towards outsourcing in the diagnostics industry. Alongside market access, the core competence of large diagnostics groups largely involves developing and providing so-called reagents. These are used to perform the diagnostic tests in fully automated systems. Acting as an OEM partner, STRATEC designs and manufactures the system with all of its hardware and software components. Here, the customers assign almost all of the responsibility for the system, and thus also a large share of the related risk, to STRATEC. Working in close cooperation, a system is developed that is based on jointly compiled specifications and automates all of the analytical process steps. Within this cooperation, STRATEC assumes activities along the entire value chain – from development of the specifications through to approval of the resultant products by the relevant authorities. The partners benefit from STRATEC's extensive technology portfolio and its far-reaching experience in product approval processes, as well as from the resultant cost benefits and shorter development times.

When it comes to the growing trend towards outsourcing in diagnostics, comparisons are often made with the automotive industry, where automakers have long outsourced the development and production of complex components and modules to specialist partner companies. A very similar trend is observable in the diagnostics industry.

General market developments

Alongside the specific developments in the diagnostics industry outlined above, STRATEC's areas of activity are also expected to benefit in general from ongoing growth due to demographic, worldwide, and global economic developments. The reasons for this can be found in global megatrends:

Further growth in the volume of investments channeled into expanding national healthcare systems is leading to an increase in the number of people worldwide with access to healthcare services. Higher numbers of patients are resulting in greater demand for the products and services offered by the diagnostics industry. Together with rising life expectancies, the increasing prevalence of diseases such as cancer, diabetes or cardiovascular diseases will also lead to growing demand in healthcare systems and consequently for diagnostics products. Alongside these factors, the rapid progress being made in research and development for diagnostics methods, such as in the fields of molecular diagnostics and next-generation sequencing, is facilitating the introduction of new tests and technologies and giving reason to hope that it will be possible to track down diseases that were previously difficult to diagnose.

Veterinary diagnostics

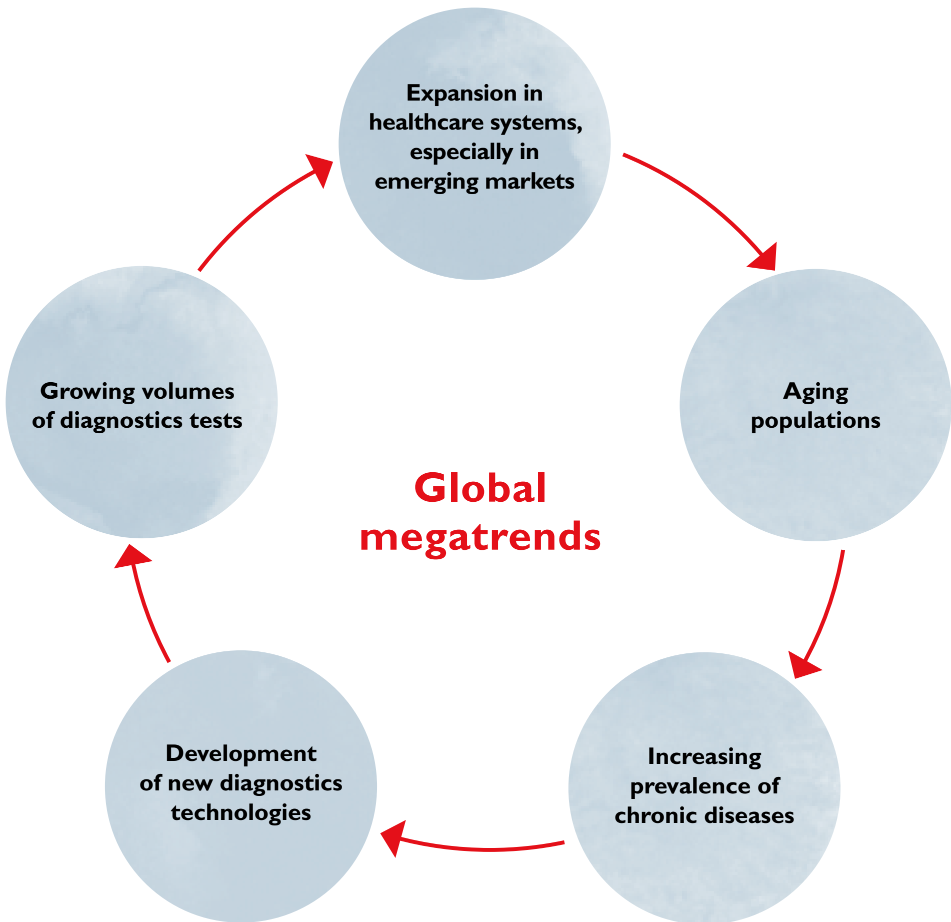
As well as human diagnostics systems, the Diatron business unit also offers systems for use in veterinary diagnostics.

Turnover in the global veterinary diagnostics market totaled around 2.3 billion US dollars in 2017. Average annual growth (CAGR) of around 9% is expected in the years from 2017 to 2022. Veterinary diagnostics has taken over numerous technologies and methods from human diagnostics. A range of key standard diagnostics applications in the fields of immunodiagnostics, molecular diagnostics, hematology and clinical chemistry is thus available for the veterinary supervision of domestic and farm animals.

Life sciences

Life sciences is taken here to comprise academic research and pharmaceuticals research, with the latter area accounting for by far the larger share of the market. The global life sciences instrumentation market is around the same size as the IVD market and is expected to reach a scale of 75 billion US dollars by 2022.

The Consumables business unit in particular has numerous customers in the field of life sciences. Furthermore, the field of translational research, which involves translating the results of basic research into clinical applications, is also increasingly significant to STRATEC.



Research and development

The STRATEC Group's long story of sustainable success is based on its development of innovative technologies that satisfy the requirements of strictly regulated markets and those of its partners in terms of safety, reliability and user-friendliness. For the development of complex systems, consumables, and laboratory software, STRATEC's development teams comprise numerous employees from various areas of activity who are supplemented by developers from our partners. As a general rule, the interdisciplinary teams of experts draw on employees from various areas of activity. In the field of research, where new technologies, processes and software solutions are tested and developed, feasibility and market studies are performed or referred to at an early stage already. These enable qualified assessments to be made while at the same time minimizing any associated risks.

At a new research and prototype laboratory at the Anif location, the Group is working in cooperation with the University of Salzburg to link state-of-the-art plastic and coating technology with biotechnological processes. This involves manufacturing and testing biochip prototypes intended for inclusion in customer products at a later date.

In the development projects category, the underlying processes, development steps, and ultimate targets are all stipulated in detail. The development activities follow precisely defined technical specifications and project plans and involve milestones and target data. In the context of analyzer system development, different appliance generations are supplied to the partner and then accepted once the respective development milestones have been met. These range from the first development appliance status ('bread boards') via prototypes through to validation and pre-serial appliances on which the tests are validated and whose results are referred to by the relevant authorities when approving the appliances. In the final development stage, the customer then accepts the serial appliance and related service components.

Development activities within the STRATEC Group are based on the following aspects:

- **Development of new systems for customers and system platform development**
  STRATEC's growth is largely driven by its constantly growing range of new OEM products. These therefore remain a key focus of development activities. Here, STRATEC can offer an extensive range of technologies and services to its customers.

  As already outlined in the Instrumentation section, in its development of new systems STRATEC distinguishes between platform development and the partnering business. In platform development, STRATEC works in a way similar to the automobile industry by developing a platform or module concept internally and then in the second stage adapting this to individual customer needs. In its partnering business, by contrast, STRATEC works closely with the customer from a very early stage of development and, based on a library concept, develops a system precisely tailored to the customer's needs.

- **Support for existing systems and product lifecycle management**
  Strict regulatory requirements and the resultant expense required to obtain approval are leading to longer system lifecycles, which generally amount to well over ten years. To facilitate such long lifecycles for systems on the market, permanent system modernization is required. This factor is accounted for above all in software development and verification activities. This is one of the main reasons for the disproportionate growth in these areas and the associated number of employees within STRATEC's development division.

- **Development of new technologies**
  To boost its competitiveness and leading position as an independent system provider, STRATEC not only observes ongoing changes in its customers' needs in terms of technologies and processes, but also constantly analyzes innovations and developments in the relevant markets. The insights thereby gained are correspondingly factored into the development of new technologies. One key focus here is on gaining early experience with processes resulting from research, and in particular with technologies and processes which harbor potential for routine applications in in-vitro diagnostics.

- **Development of platform technologies**
  A further focus of STRATEC's development activities involves further developing and enhancing platform technologies for relevant systems. These platform technologies are of key significance. After all, they are not only one of the main factors determining the performance of our systems, but also account for the greatest cost item in their production. They also form the basis for the continually growing technology pool, which significantly reduces the times and costs involved in our partners' market launches of these kinds of systems.

- **Development of (smart) consumables**
  STRATEC also develops the consumables used with a given analyzer system. This development work is also based on proprietary industrial property rights. The products range from simple consumables through to complex, so-called smart consumables. These complex consumables present part of the test process that is otherwise often performed within the instrument. They may be developed and manufactured together with an analyzer system or on a standalone basis to meet the individual requirements of our partners.

The overall package of proprietary platform technologies, a good understanding of potential opportunities available from research and in the in-vitro diagnostics environment, and the tools and processes optimized for use in this area enable STRATEC to offer all-round solutions with highly attractive development periods. Not least as a result of these factors, STRATEC retains control of key industrial property rights for the systems thereby developed. This secures the company's long-term cooperation with its partners and customers is secured.

Overall, research and development expenses amounted to € 29.8 million in the financial year under report (previous year: € 22.8 million). Of this total, an amount of € 2.9 million related to capitalized internally generated intangible assets (previous year: € 2.6 million). Accordingly, the capitalization ratio – as a percentage of internally generated intangible assets – came to 9.7% as of December 31, 2017 (previous year: 11.4%).

Within the STRATEC Group a total of 545 employees were allocable to research and development at the balance sheet date on December 31, 2017 (previous year: 488 employees).

B. BUSINESS REPORT

Macroeconomic and sector-specific framework

Macroeconomic framework

The Economic Outlook published by the OECD in November 2017 forecasts global GDP growth of 3.6% for 2017, and thus a slight acceleration compared with the previous year's figure of 3.1%. This increase has been driven in particular by political measures and has been accompanied by a marked rise in employment totals, moderate growth in capital expenditure, and revived growth in trading volumes.

The OECD expects the rate of growth both in the US and in the euro area to show slightly higher momentum. For the US, the OECD has forecast growth of 2.2% in 2017 (compared with 1.5% in 2016). The euro area is expected to grow by 2.4% in 2017 (compared with 1.8% in 2016). Germany is expected to report growth of 2.5%. By contrast, growth in the UK is expected to slow, with this development being due in particular to the ongoing uncertainty surrounding the Brexit implementation. Accordingly, growth in 2017 is expected to amount to 1.5% (compared with 1.8% in 2016).

The OECD has pointed out that the current macroeconomic revival is more subdued than previous upturns. Furthermore, it still believes that the conditions needed for the global economic revival to continue through to the end of 2019, or to secure a higher level of growth potential or more robust growth, are not yet in place.

In general, the downstream implications of the financial crisis are still apparent, as are the persistently lower levels of growth in capital expenditure, trade, productivity, and incomes. A slight improvement is expected in 2018 and 2019, although productivity growth will remain limited. The growth potential for emerging economies is still assessed at weaker levels than in the past. Overall, the OECD has forecast global GDP growth of 3.7% and 3.6% in 2018 and 2019 respectively.

Given its long-term project and product lifecycles, STRATEC and the decisions its customers take concerning joint development projects are only affected by macroeconomic fluctuations to a limited extent. Having said this, the macroeconomic climate nevertheless plays a major role in STRATEC's entrepreneurial activity and is therefore extensively factored into the company's assessments and planning.

The UK market is an important market for STRATEC's customers. The implications resulting from any potential Brexit are difficult to assess, but are expected to be of subordinate significance overall. The exchange rate movements in the British pound have had a slightly positive effect, but one which has not had any notable impact on STRATEC's overall earnings situation. The subsidiary STRATEC Biomedical UK, Ltd. develops software solutions in the UK. Here too, any potential Brexit only harbors a low level of risks, as these development activities are closely dovetailed with those at other subsidiaries. If need be, they could therefore be supplemented or substituted. STRATEC does not expect its partners' turnover figures in the UK end customer market to suffer to any significant extent from the implications of Brexit.

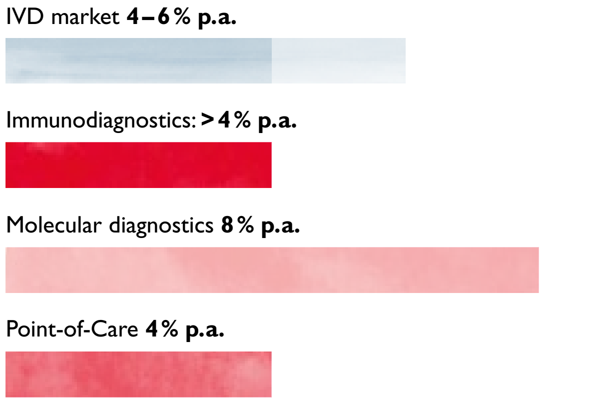
Consistent with expectations, the US market – still the most important individual market for STRATEC's customers – has continued to perform positively. Overall, developments in the US healthcare market have been positive for STRATEC in recent years. Not only that, the unemployment rate has been falling for years, a factor which has additionally boosted the number of people with insurance cover. To date, no negative effects have been detected in connection with the new US administration. It is currently not possible to provide any reliable assessment as to whether the planned changes to the healthcare system will be implemented or as to the implications of these changes.

Currently, North America, Europe, and Japan account for 75% of the total IVD market. In the years ahead, emerging markets such as China, Brazil, India, and Saudi Arabia in particular will report growing test volumes as the governments in these countries are investing heavily in healthcare systems. Demand for new tests and processes remains high, with particularly strong demand for cost-effective solutions.

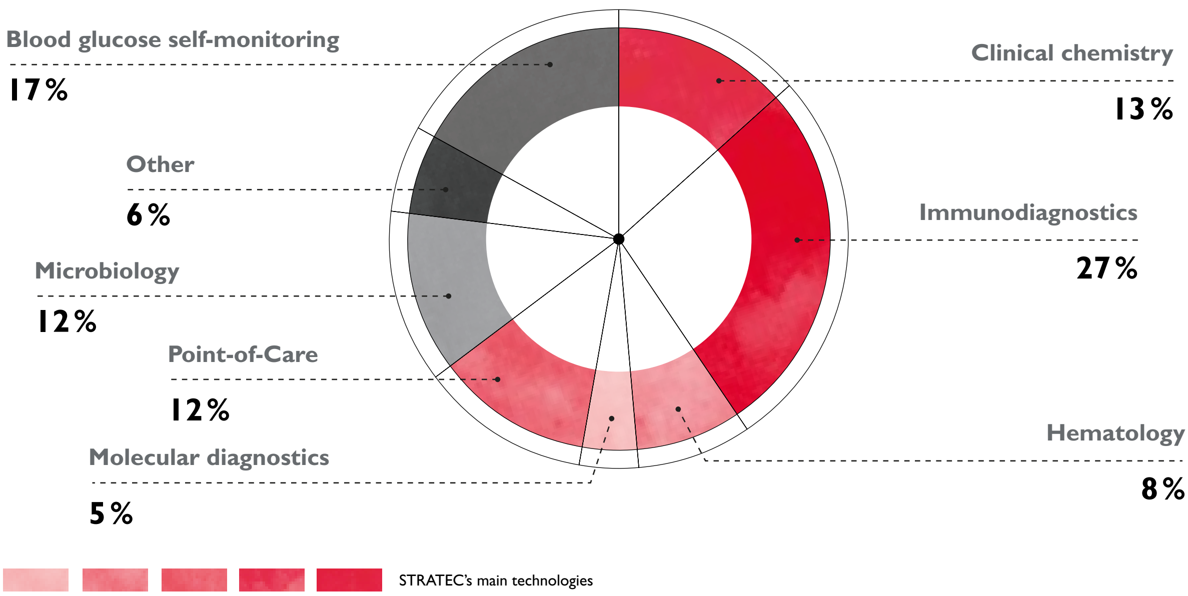
Sector-specific framework

Based on various estimates, in-vitro diagnostics (IVD) is set to remain a growth market, with average annual global growth rates of 4% to 6% through to 2021. By 2021, the IVD market will have an estimated volume of 72 billion US dollars, as against around 60 billion US dollars in 2016. The various segments within IVD will report different growth rates. STRATEC operates in those segments in particular which are expected to generate high growth rates. These include molecular diagnostics, for example, where the growth rate is expected to average around 8% p.a. between 2016 and 2021. Other segments, such as blood glucose self-monitoring, are declining and are not among STRATEC's areas of activity. Today, STRATEC offers products and solutions in numerous key areas of the IVD market. Consistently aging populations, increased prevalence of chronic diseases based on our current lifestyles, and the ever growing significance of personalized treatment – these are key market growth drivers. Over and above that, the research being performed on innovative technologies, such as specific biomarkers, will create new opportunities for future market growth.

Compound annual growth rate 2016–2017



IVD market by technologies



Due not least to the increasing complexity of IVD tests, it is difficult for any company to develop proprietary products in all technology and market segments. In view of this, diagnostics groups frequently procure specific technologies to maintain their technological leadership and survive in the market. As a result, a process of consolidation has been apparent in the IVD market for years now and is expected to continue in future as well.

At the same time, the constant rise in regulation recently seen in the diagnostics industry also represents an increasingly high barrier to potential competitors to STRATEC entering the market. There are only very few comparable companies with the ability to offer a comparable range of products and services from compiling specifications, through development, approval, and production of the respective instruments and solutions. The competitive situation therefore remains very limited and, alongside in-house development departments, is restricted to a handful of specialist companies. With the companies acquired in 2016, STRATEC has further extended the range of products and services it can offer to customers and has accessed new market segments. This has further improved the company's competitive situation.

Overall, the markets served by STRATEC's customers are viewed as growth markets for the years ahead as well. This growth will be driven in particular by the following factors:

POLITICAL

- Development and expansion in healthcare systems, especially in developing and emerging economies
- Expansion in global infrastructure leading to improved access to medical care

TECHNOLOGICAL

- Fast-growing niche markets due to new medical findings and new diagnostics possibilities
- Development of new tests and treatment options, such as personalized medicine

SOCIAL

- Demographic change towards an increasingly elderly population with growing diagnostics requirements
- Rising life expectancy and resultant need for diagnostics
- Increased prevalence of chronic and infectious diseases

Business performance

STRATEC generated record sales and earnings yet again in the 2017 financial year. Sales rose year-on-year by 13.4% to € 209.8 million (previous year: € 184.9 million). This growth was driven both by the companies acquired in 2016, which were consolidated for the first full-year period in 2017, as well as by the strong performance of the service parts and consumables business. Sales generated with development and services also showed substantial growth compared with the previous year.

At 16.9%, the adjusted EBIT margin for the 2017 financial year declined slightly compared with the previous year's figure (17.4%). To facilitate comparison, the EBIT margin has been adjusted to exclude non-recurring items relating to company acquisitions, associated reorganization measures, and other extraordinary effects.

STRATEC concluded further major development agreements with global leaders in the diagnostics industry in the 2017 financial year. Furthermore, the company achieved major development milestones, while further systems at our partners received market approval.

The company's liquidity and financing position was at all times secured. During the year under report, the bridge financing taken up in connection with the acquisitions was converted into a long-term master loan agreement with a total volume of up to € 70 million.

Upon the publication of its 2016 annual report and its 2017 half year financial report, STRATEC issued its guidance for the development in its sales and adjusted EBIT margin in the 2017 financial year. It forecast sales in a target corridor of € 205 million to € 220 million for the 2017 financial year and predicted an adjusted EBIT margin of around 17 %. The company met both of these targets.

The workforce grew from 976 employees at the end of 2016 to 1,086 employees as of December 31, 2017. This increase is chiefly due to higher current volumes of development work and the associated expansion in development capacities.

The Board of Management of STRATEC views the company's performance in the past financial year and its outlook for the foreseeable future as positive.

Position

Earnings position

Overview of key figures in the consolidated statement of consolidated income (€ 000s)

	2017	2016	Change
Sales	209,764	184,911	+13.4%
Gross profit	67,496	61,561	+9.6%
Gross margin	32.2%	33.3%	-110 bps
Adjusted EBIT	35,451	32,196	+10.1%
Adjusted EBIT margin	16.9%	17.4%	-50 bps
Adjusted EBITDA	42,852	38,600	+11.0%
Adjusted EBITDA margin	20.4%	20.9%	-50 bps
Adjusted consolidated net income (EAT)	27,936	25,308	+10.4%

bps = basis points

Sales

STRATEC increased its sales year-on-year by 13.4% from € 184.9 million to € 209.8 million in the 2017 financial year. Alongside substantial growth resulting from the company acquisitions consolidated on a prorated basis in 2016, STRATEC also significantly increased its sales with service parts, as well as its development and services sales.

STRATEC divides its sales into four operating divisions.

Sales in **systems**, the largest operating division, rose year-on-year by 0.5% to € 102.2 million.

Following record sales in the previous year, the **service parts & consumables** operating division raised its sales by a further 28.2% to € 68.7 million. The sales growth here benefited in particular from the expansion seen in the system installed base in recent years and a higher average degree of complexity compared with the past.

In the **development and services** operating division, several development projects for partners were at different stages of development in the 2017 financial year. STRATEC received milestone payments for reaching significant milestones in its development projects. Year-on-year, sales in this segment, which also includes consulting sales and development services at STRATEC Consumables, rose by 32.0% to € 37.5 million.

The sales attributable to **other activities**, the smallest operating division, rose year-on-year by 12.2% to € 1.3 million.

Consolidated sales by operating division (€ 000s)

	2017	2016	Change
Systems	102,231	101,715	+0.5%
Service parts & consumables	68,700	53,599	+28.2%
Development and services	37,492	28,402	+32.0%
Other activities	1,341	1,195	+12.2%
Consolidated sales	209,764	184,911	+13.4%

Development in share of sales of operating divisions

	2017	2016	2015
Sales in € million	209.8	184.9	146.9
Systems share of sales in %	48.7	55.0	56.0
Service parts & consumables share of sales in %	32.8	29.0	25.9
Development and services share of sales in %	17.9	15.4	17.7
Other activities share of sales in %	0.6	0.6	0.4
Analyzer systems supplied (total number)	7,921	7,297	2,395

Gross profit and gross margin

Gross profit improved by 9.6% from € 61.6 million to € 67.5 million. The new companies consolidated for the first full-year period in 2017 contributed a higher share of consolidated sales in relative terms. As these companies are as yet less profitable, the gross margin decreased from 33.3% in 2016 to 32.2% in the 2017 financial year.

Research and development expenses

Gross development expenses rose from € 22.8 million to € 29.9 million. This total includes an amount of € 10.0 million for proprietary developments (previous year: € 7.3 million). This consistently high volume of expenses with highly qualified development personnel forms the basis for the company's further growth.

Sales-related expenses

At € 12.9 million, sales-related expenses were virtually unchanged on the previous year's figure of € 12.8 million.

General administration expenses

General administration expenses, which include personnel and material expenses at central administration departments, rose from € 16.0 million to € 21.0 million in the 2017 financial year. This increase was due both to the full-year inclusion of the new subsidiaries and to higher personnel expenses.

Other operating income and expenses

Other operating income and expenses mainly include currency gains and losses, as well as measurement items relating to company shareholdings. The net balance of other operating income and expense rose from € -0.6 million to € 5.5 million in the 2017 financial year. This increase was mainly due to a positive measurement item for company shareholdings.

Earnings performance

Operating earnings (EBIT) adjusted to exclude one-off items incurred in connection with company acquisitions, associated reorganization measures, and other extraordinary effects. Items rose by 10.1% to € 35.5 million (previous year: € 32.2 million). The adjusted EBIT margin decreased slightly to 16.9% (previous year: 17.4%). Here, positive margin items, such as the strong service parts and consumables business, were offset by higher costs for additional development capacities. The higher volume of sales in the development and services division also impacted negatively on the margin.

Development in EBIT and EBIT margin (€ 000s)

	2017	2016	Change
Adjusted EBIT	35,451	32,196	+10.1%
Adjusted EBIT margin	16.9%	17.4%	-50 bps

Consolidated earnings adjusted for one-off items grew by 10.4 % to € 27.9 million (previous year: € 25.3 million).

Adjusted basic earnings per share rose to € 2.35 (previous year: € 2.14). This corresponds to growth of 9.8 %. The average number of shares came to 11,881,254.

Segments

The business activities of the STRATEC Group are divided into three reporting segments.

In its **Instrumentation** segment, STRATEC pools its business with designing and manufacturing fully automated analyzer systems for its clinical diagnostics and biotechnology companies.

The **Diatron** segment comprises the business with systems, system components, consumables and tests in the low throughput hematology and clinical chemistry segment.

The **Consumables** segment includes the business with developing and selling scientific materials, such as nucleic acid purification, and the business with designing and manufacturing so-called smart consumables in the fields of diagnostics, life sciences, and medical technology.

In **Other activities,** STRATEC reports on the development in workflow software for networking several analyzer systems and the development and sale of scientific materials and technologies.

Instrumentation segment:

Sales in the Instrumentation segment grew from € 138.8 million to € 149.6 million. The sales performance benefited in particular from the strong growth of the service parts and consumables business, which is related to the increased installed base of instruments in recent years. Development sales also increased compared to the prior year. Adjusted EBIT in this segment amounted to € 30.6 million, as against € 27.2 million in the previous year. The adjusted EBIT margin for the year under report rose year-on-year by 90 basis points to 20.4 % (previous year: 19.5 %).

Diatron segment:

Sales in this segment, which arose due to the acquisition of the Diatron Group in the 2016 financial year, amounted to € 37.0 million, compared with € 29.9 million in the previous year (first-time inclusion in the scope of consolidation as of April 1, 2016). Adjusted EBIT decreased from € 4.9 million in the previous year to € 4.5 million in 2017. The adjusted EBIT margin for this segment fell from 16.6 % in 2016 to 12.2 % in the 2017 financial year. This reduction in the margin was due in particular to delays in new product launches and regulatory approvals, as well as in the resultant non-materialization of benefits of scale.

Overview of development in reporting segments (€ 000s)

	2017	2016
Instrumentation		
Sales	149,645	138,795
EBITDA	40,237	29,430
PPA amortization	72	74
EBIT	33,521	24,667
Adjusted EBIT	30,601	27,106
Diatron (consolidated from 04.01.2016)		
Sales	37,027	29,850
EBITDA	5,034	4,710
PPA amortization	6,575	3,534
EBIT	-2,051	855
Adjusted EBIT	4,523	4,946
Consumables (consolidated from 07.01.2016; sample preparation allocated to segment from 2016)		
Sales	17,930	9,614
EBITDA	1,550	-368
PPA amortization	2,956	1,521
EBIT	-3,048	-2,899
Adjusted EBIT	-92	-1,360
Other activities		
Sales	5,162	6,524
EBITDA	508	1,437
PPA amortization	0	0
EBIT	418	1,378
Adjusted EBIT	418	1,378

Consumables segment:
Sales rose from € 9.6 million to € 17.9 million. This increase was mainly due to the acquisition in the 2016 financial year of STRATEC Consumables, which was consolidated for the first full-year period in 2017. Adjusted EBIT in this segment came to € -0.1 million, as against € -1.4 million in the previous year.

Other activities:
At € 5.2 million, sales decreased compared with the previous year (€ 6.5 million). Adjusted EBIT in this segment amounted to € 0.4 million, compared with € 1.4 million in the previous year.

Reconciliation of adjusted EBIT and consolidated net income

In the interests of comparability, key earnings figures have been adjusted to exclude amortization resulting from purchase price allocations in the context of acquisitions, associated integration expenses, and other non-recurring items.

The reconciliation of the adjusted earnings figures with the earnings figures reported in the consolidated statement of comprehensive income is presented in the following tables:

€ 000s	2017
Adjusted EBIT	35,451
Adjustments:	
PPA amortization	9,603
Integration expenses	1,224
Income from other securities	-5,401
Impairment losses recognized on intangible assets	1,185
EBIT	28,840

€ 000s	2017
Adjusted consolidated net income	27,936
Adjusted earnings per share in € (basic)	2.35
Adjustments:	
PPA amortization	9,603
Integration expenses	1,224
Income from other securities	-5,401
Impairment losses recognized on intangible assets	1,185
Financing expenses due to company acquisitions	643
Current tax expenses	-514
Deferred tax income	-4,439
Consolidated net income	25,635
Earnings per share (basic)	2.16

Financial position

Liquidity analysis

The cash flow statement of the STRATEC Group presents the origin and utilization of the cash flows generated within the financial year. A distinction is made between the cash flow from operating activities and the cash flows from investing and financing activities. The cash flow records the changes in individual line items in the income statement and the balance sheet.

Overview of key figures in the consolidated cash flow statement (€ 000s)

	2017	2016	2015
Cash flow from operating activities	29,981	16,256	26,033
Cash flow from investing activities	-15,640	-86,728	-8,710
Cash flow from financing activities	-15,978	40,606	-8,661
Cash-effective change in cash and cash equivalents	-1,637	-29,866	8,662

The **inflow of funds from operating activities** rose year-on-year by 84.4% to € 30.0 million. This increase was mainly due to higher consolidated net income and to the higher volume of depreciation and amortization included therein. The inflow of funds from operating activities also benefited from a lower outflow of funds for income tax payments.

The **outflow of funds from investing activities** totaled € 15.6 million in the 2017 financial year (previous year: € 86.7 million) and thus fell significantly compared with the previous year. The previous year's figure included outflows of € 76.9 million for the acquisitions of the Diatron Group and STRATEC Consumables.

The **outflow of funds from financing activities** totaled € -16.0 million in 2017 (previous year: inflow of € 40.6 million). This reduction was mainly due to net repayments of financial liabilities, as well as to the dividend payment for the 2016 financial year, which was increased once again to € 9.1 million (previous year: € 8.9 million). The issue of shares within employee option programs led to inflows of funds from financing activities amounting to € 1.8 million (previous year: € 0.3 million).

The **cash-effective change in cash and cash equivalents** amounted to € -1.6 million in total in 2017 (previous year: € -29.9 million).

Following adjustment for exchange rate movements, the total of all inflows and outflows of funds in the financial year under report led cash and **cash equivalents at the end of the period** to decrease by € -2.4 million to € 24.1 million (previous year: € 26.5 million).

Furthermore, STRATEC has credit lines of € 80 million, of which € 60 million had been drawn down.

Investment and depreciation policies

STRATEC invested € 9.3 million in property, plant and equipment (previous year: € 7.2 million) and € 6.3 million in intangible assets in the 2017 financial year (previous year: € 2.8 million). Major investments in property, plant and equipment included the acquisition of a new plot of land at the Birkenfeld location, capacity extensions at the location in Cluj-Napoca/Romania, and the purchase of an injection molding machine at the location in Anif/Austria. The investments in intangible assets mainly involved capitalized development work and investments in a new uniform ERP system for the Group.

Investments in property, plant and equipment and intangible assets corresponded to a total of 7.5% of sales (previous year: 5.4%) and thus significantly exceeded the depreciation and amortization of € 8.9 million adjusted for assets measured within the purchase price allocation. These investments thus secure the company's long-term value and expansion. They will enable STRATEC to uphold its position as an innovation leader and continue making a valuable contribution to technological advances in the field of medical technology.

Key figures on financial position

(€ 000s)

	Definition	31.12. 2017	31.12. 2016	Change in %
Cash and cash equivalents	Cash holdings and credit balances at banks	24,137	26,500	-8.9
Net working capital	Current assets ./. cash and cash equivalents ./. current debt	64,145	-14,772	n/a
Operating cash flow per share	Operating cash flow / number of shares (undiluted)	2.52	1.37	84.0
Capex ratio	Investments in property, plant and equipment ./. consolidated sales	4.4%	3.9%	+50 bps

Asset position

Total assets grew to € 263.8 million as of December 31, 2017 (previous year: € 258.0 million). This was mainly due to increases in inventories, receivables from construction contracts, property, plant and equipment, and current financial assets.

The increases in inventories to € 27.9 million (previous year: € 24.5 million) and receivables from construction contracts to € 7.2 million (previous year: € 2.3 million) were chiefly driven by the company's overall growth, as well as by items specific to the reporting dates.

The growth in property, plant and equipment was due to the investments of € 9.3 million (previous year: € 7.2 million; plus € 10.4 million from company acquisitions), which exceeded the depreciation and amortization of € 5.6 million (previous year: € 3.9 million).

The increase in financial assets from € 5.7 million in the previous year to € 12.5 million was attributable to positive measurement items for available-for-sale financial instruments.

Structure of consolidated balance sheet: assets

(€ 000s)

	2017	2016	2015
Intangible assets	110,726	118,776	30,992
Non-current assets (excluding intangible assets)	36,069	33,266	19,800
Current assets	116,981	105,925	108,147
Consolidated total assets	263,776	257,967	158,939

The shareholders' equity reported in the balance sheet came to € 157.8 million as of December 31, 2017 and thus grew year-on-year despite the dividend distribution of € 9.1 million (previous year: € 8.9 million). The equity ratio rose to 59.8%, up from 55.2% in the previous year, and thus remained robust.

Structure of consolidated balance sheet: equity and debt (€ 000s)

	2017	2016	2015
Shareholders' equity	157,837	142,341	129,294
Non-current debt	77,240	21,429	10,978
Current debt	28,699	94,197	18,667
Consolidated equity and debt	263,776	257,967	158,939

Non-current debt rose from € 21.4 million in the previous year to € 77.2 million in the 2017 financial year, while current debt fell from € 94.2 million € 28.7 million. These changes were mainly due to the refinancing of the purchase prices paid for the acquisitions made in 2016 from short-term bridge financing to a long-term master loan agreement.

At € 105.9 million, total debt was slightly lower than in the previous year (€ 115.6 million), a development also reflected in a reduction in the debt/equity ratio from 81.2% in the previous year to 67.1%.

Key figures on asset position (€ 000s)

	2017	2016	2015
Total assets	263,776	257,967	158,939
Shareholders' equity	157,837	142,341	129,294
Equity ratio in %	59.8	55.2	81.3
Financial liabilities	72,941	75,828	8,144
Financial liabilities as % of total assets	27.7	29.4	5.1
Debt/equity ratio in %	67.1	81.2	22.9

Non-financial performance indicators

Employees and their interests

STRATEC's sustainable success is driven by the performance of its highly qualified and motivated employees, who work in partnership with global players, often market leaders, to develop innovative technologies and solutions that enable the company's partners to shape their markets with reliable, safe, and user-friendly products.

This awareness that their internally developed solutions are contributing to further advances in global diagnostics is a further motivation for STRATEC's team.

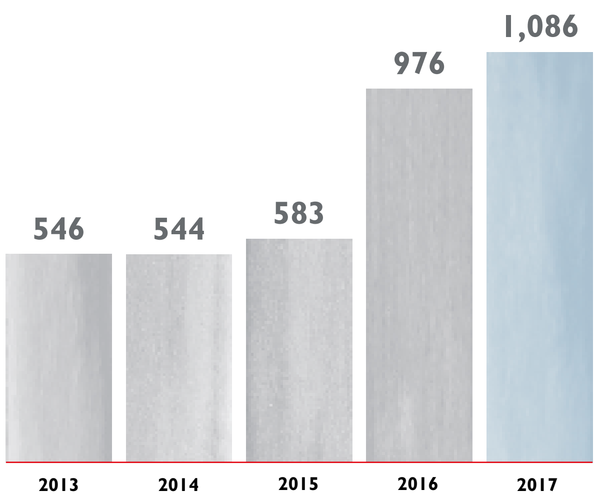
One of STRATEC's primary objectives is to provide its workforce, which has grown consistently in recent years, with a modern and attractive working environment by offering new career challenges and ensuring professional dealings with colleagues and partners. This in turn should motivate employees to continue giving of their very best and help retain them at the company on a permanent basis.

Number of employees

STRATEC had a total of 1,086 employees at the balance sheet date on December 31, 2017. Year-on-year, the total number of employees therefore grew by 11.3%.

Fluctuations within the financial year were offset by deploying temporary employees.

Number of employees



Development in employee total

One of STRATEC's core activities and competencies involves developing complex technological systems that combine biochemical processes with highly integrated hardware and software. This is reflected, among other factors, in the fact that nearly 545 of our employees work in research and development. This share is expected to remain high in the years ahead as well. Given the interdisciplinary nature of this work, the employees in this area contribute both technical and scientific expertise.

At the balance sheet date on December 31, 2017, the share of female employees at STRATEC amounted to 25.5% and thus rose slightly compared with the previous year (December 31, 2016: 24.2%).

STRATEC offers its employees individual opportunities for further development and promotes a culture of employees working independently under their own responsibility. This is seen as the basis for the positive development in the workforce and for the high level of motivation shown by STRATEC employees.

Personnel expenses amounted to € 61.1 million in the 2017 financial year.

Employees at balance sheet date

	2017	2016	Change
Total employees	1,086	976	+11.3%
Permanent employees	995	880	+13.1%
Temporary employees	91	96	–5.2%
Employees in Germany	470	444	+5.9%
Employees abroad	616	532	+15.8%
Trainees and interns	42	27	+55.6%
Employees working in R&D and development support	545	488	+11.7%
Share of female employees	25.5%	24.2%	+130 bps

Attractiveness as employer

STRATEC is making every effort to position itself as an attractive employer for both existing and future employees. One key task for human resources therefore involves offering existing and future specialists an interesting and attractive working environment at STRATEC. We act early to present STRATEC as an attractive employer to young people by taking part in careers' fairs in order to raise awareness of the wide variety of activities on offer at the company and also offer work placements and student internships.

The cooperation with Pforzheim University, where STRATEC on the one hand partly finances an endowed professorship in the field of 'Quality Management and Regulatory Affairs' in medical technology and on the other hand acts as a sponsor to Rennschmiede Pforzheim e.V., also helps raise awareness of STRATEC among many students at an early stage.

Occupational health and safety

STRATEC safeguards the safety of its employees at their respective workplaces with a forward-looking occupational health and safety program. The aim here is to offer a working environment that is free of the risk of injury or disease. A safety officer is responsible for implementing measures aimed at guaranteeing occupational health and safety. All locations have first aid and evacuation assistants who are provided with regular training. A fire protection officer has also been appointed and trained. Work-related accidents are recorded and accident log entries documented to enable suitable measures to be taken.

Profit participation

To retain its employees in the medium and long term, STRATEC grants stock options to select employees. Furthermore, the company granted bonus shares to its employees on several occasions in the past. This possibility was offered to STRATEC's employees once again in the 2017 financial year. By offering its employees the opportunity to procure shares free of charge and without incurring any taxes or social security contributions, STRATEC enables them to participate in the company's success and thus boosts their commitment to the company. A total of 339 employees, and thus around 98% of those eligible to participate, seized this opportunity.

In this connection, the company assigned a total of 1,695 treasury stock shares, corresponding to 0.01% of its share capital at the assignment date, to STRATEC employees in connection with the employee participation program in the 2017 financial year.

Further information about employees and their interests can be found in STRATEC's CSR reporting.

C. OUTLOOK

Since launching its activities nearly 40 years ago, STRATEC has always accorded great priority to generating sustainable growth that is continually strengthened with new developments and promising customer projects. Here, the company builds on innovative solutions that enable its partners to serve their respective markets with high-quality products. In implementing its targets, the company stands to benefit from the growth forecast in its target markets, and especially in in-vitro diagnostics, as well as from the ongoing positive trend towards outsourcing at its partners and potential customers. Given its business model, which involves long-term cooperation with its partners, its full development pipeline, and the extension in its product range in recent years, STRATEC is positive in its assessment of its business prospects.

Adjusted for currency effects and acquisitions, STRATEC is forecasting at least mid-single-digit organic sales growth in fiscal year 2018. Given the strong 2017 figures for the first quarter and the anticipated higher sales contribution from systems newly launched onto the market, STRATEC expects to generate most of the sales growth planned for 2018 in the second half of the financial year.

STRATEC expects an adjusted EBIT margin for fiscal 2018 in line with the previous year's figure of around 17%.

This forecast for 2018 does not yet account for any implications of the first-time application of IFRS 15, as these had not yet been conclusively assessed upon publication of this report. Based on initial, still preliminary assessments, STRATEC expects IFRS 15 requirements to have a moderate impact on its earnings, financial and asset position. Further details of the amendments resulting from IFRS 15 can be found in Section A of the notes to the consolidated financial statements.

Given upcoming market launches and the significant progress being made in numerous project negotiations, STRATEC continues to expect to generate average annual organic sales growth (CAGR) in the high single-digit or low double-digit percentage range in the years ahead. The expected positive development in profitability, due primarily to benefits of scale resulting from recent acquisitions, will be countered by a temporary increase in investment activity – to prepare the growth planned for the future – and by up-front financing of select customer projects. Overall, STRATEC expects the EBIT margin to remain broadly consistent.

Due to the planned construction activities at the Birkenfeld location, investments in 2018 will slightly exceed the previous year's figure. A dividend distribution of around € 9.5 million is foreseen for the shareholders in STRATEC AG.

Depending on its ability to recruit adequate numbers of qualified employees, the company plans to continue increasing the number of its employees roughly in line with its sales growth. This way, the company aims to do justice to continuing high demand for development services.

STRATEC's financial forecast is based on budgets that account for the specific features of its business model, as well as for numerous internal and external factors, and that weight such factors in accordance with their significance. New order figures, our customers' forecasts and their order behavior, and their stocking of services parts play a superordinate role here, as do the numbers of projects in development and negotiation. This forecast does not account for additional opportunities resulting from external growth. Given the long-term nature of its business relationships, macroeconomic developments are of subordinate significance for STRATEC. The macroeconomic factor is therefore weighted less prominently in the company's forecasts.

D. OPPORTUNITIES AND RISKS

Sustainable company growth is based not least on responsible company management that achieves a suitable balance of opportunities and risks. At STRATEC, these factors are therefore regularly assessed and continually monitored within an opportunity and risk management system.

As the business models of the individual segments, which focus almost exclusively on the OEM business, are highly similar and the resultant opportunities and risks are largely identical or even overlap, no distinction has been made between the individual business units in the following presentation of opportunities and risks.

Opportunities

Market growth

At present, the products offered by or in development at STRATEC are largely used in in-vitro diagnostics (IVD). Having said this, the number of systems deployed in research laboratories in the life science sector is also not insignificant. Within the IVD sector, which is expected to show annual growth of around 4% to 6% through to 2021, there are some segments that are forecast to generate growth above the sector average in the years ahead. STRATEC has focused on some of these segments with its development projects. The segments of molecular diagnostics and immunoassays are particularly noteworthy in this respect.

Furthermore, in the medium term geopolitical, infrastructure and demographic developments should also help ensure that ever more people around the world have access to higher numbers of diagnostics tests. The resultant ongoing rise in test volumes should generate sustainable growth in the IVD market.

Growth opportunities due to outsourcing

Demand for instrumentation solutions from independent providers such as STRATEC is still on the increase, a development due not least to the fact that many diagnostics companies are increasingly focusing on developing their reagents and thus do not or no longer view instrument development as forming part of their core businesses. Outside the diagnostics industry, there are also areas where similarly specific product qualities are called for and where similar underlying conditions apply. Research laboratories are particularly worthy of mention in this respect. Not only that, pharmaceuticals development processes also require precisely these conditions. As a result, STRATEC continues to benefit from above-average opportunities of participating in these positive developments, and in particular from the trend towards outsourcing. The emergence of new areas of research that move over time from pure research to diagnostics processes and pharmaceuticals products will further increase demand for laboratory automation solutions.

Consolidation

The increasing consolidation within the IVD market presents STRATEC with the opportunity to generate higher sales figures with established systems due to its established partners gaining greater market access. In recent years, various diagnostics groups have been seen to enter cooperations or take over competitors in order to offer their customers broader product portfolios or enter new markets. This enables STRATEC's systems to be sold to a broader customer base. At the same time, consolidation nevertheless also involves the risk that the merger of customer product portfolios may result in the discontinuation by customers of individual product series.

Increasing market regulation

Increasing regulation of the IVD market is creating ever greater demand for standardized automation solutions. Standards in terms of the precision and reliability of IVD tests have been rising for years now and automated solutions offer clear benefits in this respect when compared with manual processes. As a company that operates in highly regulated markets, such as instrumentation and automation and the development and production of consumables for in-vitro diagnostics, STRATEC requires extensive expertise to meet the requirements and regulations in force in individual countries. Not only that, the test and process structures, which involve close interaction between specialisms as varied as mechanics, software, electronics, and biochemical reactions, require the utmost precision and calibration. The corresponding quality assurance and process documentation steps are further foundations for functional development. Successfully combining all these qualities in a complex and reliable, but also user-friendly product, is currently only possible for a small number of companies that are in most cases highly specialized. As a result, the number of service providers able to cover all areas of the value chain from development through to serial production is very limited. With its broad technology pool, STRATEC is one of the few companies able to do justice to these requirements. The increasing complexity of instrumentation and consumables makes it necessary for companies to permanently develop further and research new technologies. On the other hand, it also acts as an ever higher barrier to market entry.

Technological opportunities

As a market, in-vitro diagnostics is highly dependent on the financing provided to healthcare systems. Approval by the authorities and financing commitments for individual diagnostics tests from health insurance companies or bodies is therefore a highly complex process. As a general rule, technological advances or entirely new applications therefore cannot be introduced at short notice. In view of this, STRATEC is largely relying on the further development of proven technologies and process enhancements. Having said this, STRATEC nevertheless also cooperates and conducts its own research in the field of new technologies. Together with partners, various development projects are currently underway that are thought to have the potential to sustainably influence their target markets due to new areas of application or technological advances.

Specifically, STRATEC is also pursuing point-of-care projects. Here, STRATEC is benefiting from the trend towards smaller systems working with complex consumables.

Opportunities due to new projects and customers

In the years ahead, STRATEC's customers will be launching several new products onto the market that should provide a foundation for the future growth of the STRATEC Group. Before entering into new development and supply agreements, STRATEC evaluates the potential projects in terms of their opportunity/risk profiles and the customer's future potential to place the resultant products in target markets. On this basis, the company expects to be able to generate further growth with new products.

Risks

Given its business model, which is based on very long periods of cooperation with customers, STRATEC is exposed to some risk factors to a notably lesser extent than is customary at many other companies that are dependent on macroeconomic cycles, or on technological and demand trends. As a general rule, customers' long-term planning for the development of an analyzer system is dependent on their market presence and the lifecycles of existing products, but not on macroeconomic cycles and economic crises. The period required for planning, specification and development ranges from around two to four years, while the lifecycle of a system launched onto the market lasts some 15 to 20 years. A further five to eight years often pass before the final support and service activities are discontinued. The total project lifecycle thus often amounts to more than 25 years.

The company is nevertheless exposed to risks in connection with its operating business, the environment in which it operates, and its customer relationships. STRATEC evaluates these risks by reference to their estimated probability of occurrence and their potential implications for the company's earnings, assets, financial position, and reputation.

The evaluation of the probability of the risks occurring is based on the following criteria:

Assessment of probability of occurrence

0%–25%	Very unlikely
25%–50%	Unlikely
50%–75%	Likely
75%–100%	Very likely

The evaluation of the potential financial implications is based on the following criteria:

Estimated damages in event of risk materializing

Degree of implication	Definition of damages
Low	€ 0 million – € 0.7 million
Medium	€ 0.7 million – € 7 million
High	€ 7 million – € 20 million
Very high	> € 20 million

Overview of risks and their implications

	Probability of occurrence	Potential implications short-term (up to 1 year)	medium-term (1–3 years)
Key customer project loss risks	Very unlikely	Medium	Very high
Project risks	Unlikely	Medium	Medium
Production risks	Very unlikely	Medium	Low
Patent infringement risks	Very unlikely	Medium	Medium
Supplier risks	Unlikely	Medium	Low
Competitive risks	Unlikely	Low	Medium
Currency risks	Likely	Medium	Medium
Liquidity risks	Unlikely	Medium	Medium
Interest rate risks	Likely	Low	Medium
Product liability risks	Very unlikely	Medium	High
Personnel risks	Unlikely	Medium	Medium

Individual risks are addressed in detail in the following section:

Dependency on key customers/ risk of key customer project loss

One main component of STRATEC's business model is its focus on cooperations with OEM partners who are among the market or technology leaders in their respective fields. By definition, this only applies to a limited number of potential partners, a factor that can result in a high degree of dependency in some cases. The resultant concentration of sales on a limited number of key customers and projects (key customer risk) may – in in the event of volatilities in sales of analyzer systems resulting, for example, from customers reducing their stocks – lead to fluctuations in STRATEC's performance. The termination of one or several projects by a customer may also lead to a loss of planned sales that cannot be offset, or only in part. The STRATEC Group will continue to work with existing and new partners in the field of new technologies in order to generate sustainable growth in this area as well and further minimize any 'cluster risks'.

Project risks

STRATEC generates a major share of its sales with development projects that may be influenced by numerous factors. Although negative implications resulting from potential damages are already accounted for and secured when structuring the respective project contracts, certain risks cannot always be excluded. STRATEC is thus exposed to the risk of a partner cancelling a project once it has started and thus losing the planned short and medium-term sales.

Furthermore, project delays may arise that lead, among other consequences, to a postponement in sales. Moreover, it is important for STRATEC to make sure that the costs of a project remain within the stipulated budget. In general, both STRATEC and the respective customer have a great interest in the project succeeding and as a general rule therefore allocate the resources necessary for a development project to succeed. Finally, active project management by experienced project managers also helps to minimize project risks.

Production risks

STRATEC is exposed to production risks in connection with its production of analyzer systems at its production sites. Above all, these risks relate to factors that could potentially lead to temporary downtime or delays in production, such as a loss of personnel, damage to production equipment or infrastructure due to external factors, or a lack of production material resulting from supply bottlenecks. Certain risks are mitigated by emergency plans, which provide for stocking measures or the relocation of production activities to other sites.

Patent infringement risks

The STRATEC Group draws on internal and external supervision to ensure that no third-party industrial property rights are violated. Furthermore, the company has protected its own expertise directly or indirectly with numerous international patents and industrial property right registrations.

Supplier risks

The STRATEC Group has reacted to the increase in development expenses, particularly for high complexity and throughput systems, by introducing strict project controlling procedures coupled with an effective target cost management system. The complexity of production processes means that, for reasons of economy and to safeguard quality levels, the STRATEC Group focuses on a small number of suppliers. The high cost of supervising logistics activities, such as securing procurement prices in the long term, and of monitoring quality standards, necessitates this degree of concentration in terms of suppliers. This risk is knowingly entered into in a controlled manner, but is nevertheless minimized with an individual catalog of measures tailored to the respective situations, such as close supplier supervision, maintaining inventory stocks, and forward-looking logistics planning together with clear contract structures and regular supplier audits.

Competitive risks

Broadly speaking, STRATEC's competitors can currently be limited to two groups. On the one hand, there are internal development groups maintained by the diagnostics companies themselves. For a variety of reasons, many diagnostics companies have moved in recent years to outsource these development services to specialist companies such as STRATEC. This move is motivated, among other factors, by the lower costs generally achievable due to the shorter development times resulting from specialization and due to the technology pool available at the company. On the other hand, STRATEC's competitors also include companies focusing on the development of automation solutions in highly regulated markets. As this specialization requires highly in-depth expertise, the market entry period for potential competitors is relatively long and arduous. The number of competitors is therefore still comparatively low. As far as STRATEC is aware, the company has gained, rather than lost market share in recent years.

Liquidity risks

STRATEC monitors its liquidity risks on a centralized basis and uses rolling liquidity planning to safeguard its ability to meet its obligations and its financial flexibility. The master loan agreement concluded in the first quarter of 2017 created a credit framework of € 70 million for the next five years. This will allow the company to flexibly offset any potential fluctuations in its liquidity. Here, STRATEC upholds the flexibility it needs by maintaining liquidity reserves in the form of payment funds. Based on its current liquidity planning, its available reserves, and its expected operating cash flows, the company currently does not expect any shortage of liquidity. Given STRATEC's current financial position, the risk of any liquidity default is assessed as low.

Foreign currency risks

In recent years, STRATEC has concluded an increasing number of development and supply contracts in US dollars. Part of the US dollar transactions was therefore hedged in the 2017 financial year. Given volatility and the uncertainty as to future developments in the currency markets, the hedging ratio at STRATEC AG and its subsidiaries is set to rise. Sales and costs in currencies other than the US dollar and euro only play a subordinate role.

Interest rate risks

Having taken up a significant volume of external funding with a floating interest rate for the first time in 2016 and subsequently concluded a master loan agreement in the first quarter of 2017, STRATEC is now exposed to interest rate risks. The company is closely monitoring developments on the international financial markets and plans to hedge its interest rates in the medium term. The potential implications of interest rate risks are currently classified as moderate.

Product liability risks

STRATEC's analyzer systems are deployed in highly regulated markets. Erroneous diagnoses could have drastic implications for the individuals affected. Before any system is put to use in a laboratory, various tests and validation phases take place to ensure that strict process and safety requirements are fully met. These are supplemented by several levels of process monitoring during the sample handling process, such as technical, chemistry-inherent, or software-based supervisory mechanisms. In practice, suppliers and manufacturers of diagnostics products are nevertheless exposed to liability risks, not all of which can be excluded even by complying with legal requirements and performing extensive quality checks.

Although STRATEC would not be the primary addressee for potential liability claims, the company covers itself against liability risks by concluding suitable product liability insurance policies. The possibility of the existing insurance cover being insufficient for potential liability claims nevertheless cannot be excluded.

Personnel risks

At STRATEC, personnel risks relate in particular to the attraction and retention of well-qualified specialist and management staff. The company's success is determined to a significant extent by its employees' competence, motivation, and willingness to perform. STRATEC aims to offer its employees an attractive and highly varied working environment and to actively promote their further development.

Demand for qualified personnel remains high, especially in technical fields. In attracting staff, STRATEC has to compete with other regional and international companies. The company counters this risk by upholding and extending its image as an attractive employer and by establishing contacts with young specialists at an early stage, for example at careers fairs. Furthermore, various activities, such as those in the field of software development, are performed across several locations to enable use to be made of the resources available at the respective locations. The availability of various professional skills at other locations is thus put to targeted use to avert any shortage of suitable personnel.

Other risks

The managers responsible for the early warning risk identification system have identified the following points as potential challenges which should be averted to avoid risks materializing:

- Use of suitable IT tools to integrate customer information from the market and other IT systems
- Implications resulting from displacement of market shares of current and potential STRATEC customers
- Risk that customers will be unable to place the expected numbers of units on the market and that this may result in potential write-downs of capitalized development expenses
- Postponement of market launches by STRATEC customers in various geographical markets
- Supply capacity risks for components relevant for regulatory approval or for highly complex proprietary components.

Overall assessment of risk situation at the STRATEC Group

The risk management system and ongoing reporting mean that STRATEC's Board of Management has an overview of risks consistent with the respective areas and their relevance to the business. These risks have not changed materially compared with the previous year.

Based on the overall assessment of risks, the Board of Management currently cannot discern any risks that could threaten the company's ongoing existence or have any materially negative impact on its asset, financial, or earnings position.

Risk management system

RISK MANAGEMENT SYSTEM

INTERNAL CONTROL SYSTEM

STRATEC has established an internal control system to protect the company's assets and information and ensure compliance with the relevant legal requirements and the company's business policy.

The internal control system is based on

- Internal guidelines
- Relevant legislation

CORPORATE COMPLIANCE

STRATEC has pooled its group-wide codes of conduct, ethical principles, and other guidelines in its Corporate Compliance Policy.

This is binding for all employees and is regularly supplemented by updated risk analyses.

This policy is based on:

- Relevant legislation
- Norms
- Internal instructions

EARLY WARNING RISK IDENTIFICATION

An early warning risk identification system is established in the risk management system at the STRATEC Group. This has been implemented in a risk handbook enabling potential areas of risk to be assessed. It serves to analyze and assess risks at the company and in its environment.

Consistent with § 91 (2) AktG, the system in place at the STRATEC Group offers an all-round instrument for monitoring elementary processes and identifying potential risks at an early stage.

- Stock Corporation Act
- Risk handbook
- Internal instructions

Internal control system

STRATEC has an internal control system (IKS) which contains audit processes also in respect of its (group) financial reporting process, lays down suitable structures and work processes, and is implemented within the company's organizational structures. The objective of the IKS system is to detect and, as far as possible, exclude any risk of errors and damages resulting from the company's own personnel or from criminal third parties. In general, the IKS encompasses the following measures:

- Execution of internal and external audits on the basis of checklists
- Detection of regulatory omissions and infringements based on a structured, risk-oriented approach
- Compiling of audit reports for forwarding to the Board of Management
- Auditing the implementation of corrective measures.

This sustainably secures and increases the efficiency of the company's operating processes. Furthermore, it also enhances awareness of control-related topics at the company.

Internal control system and risk management system in respect of the group financial reporting process

The (group) financial reporting process is designed to ensure that the Group's financial reports provide a true and fair view of the net asset, financial and earnings position of the STRATEC Group in accordance with the relevant laws and norms. It should nevertheless be noted that no internal control system, regardless of its specific structure, can provide absolute certainty that material accounting misstatements have been avoided or detected.

STRATEC's internal control system is further required to ensure the uniform, correct and prompt accounting treatment of all business transactions to ensure compliance with legal norms, accounting requirements and the company's internal accounting guidelines, which are binding for all of the companies included in the consolidated financial statements.

The following key measures have been introduced to limit risks as far as possible and to detect any misstatements or erroneous disclosures in the consolidated financial statements, or any fraudulent actions:

- Regular supervisory measures integrated into, but independent of processes, such as the segregation of duties, compliance with the dual control principle, and the implementation of access restrictions and payment guidelines
- Ensuring uniform accounting treatment by way of group-wide standards
- Inspection and analysis of local financial statements.

STRATEC's internal control system is also responsible for ensuring that individual companies within the STRATEC Group prepare their financial statements in accordance with the relevant requirements, while also complying with group-wide standards. Local companies are supported throughout this financial reporting process by trained contact partners at the parent company. These partners also perform a quality check function for the financial data thereby taken over and assist the companies with any complex questions thereby arising. The consolidated accounts are prepared centrally and in line with uniform recognition and measurement requirements based on the data from the subsidiaries included in the scope of consolidation. The specialist managers responsible check the processes in place to monitor compliance with the relevant requirements when this data is included in the consolidated financial statements. The company also draws on expertise from external consulting companies when preparing its consolidated financial statements. As a publicly listed company, STRATEC monitors and analyzes all changes in legislation, IFRS accounting standards and other pronouncements in terms of their relevance and implications for the consolidated financial statements so as to enable these to be implemented promptly.

Corporate compliance

STRATEC's understanding of compliance and its ethical principles are set out in its Corporate Compliance Policy, which requires application throughout the Group. This policy is binding for all employees and is updated at set intervals to account for the regularly updated risk analysis. At STRATEC, an understanding of corporate compliance is viewed as a key cornerstone of day-to-day business operations both within the company and in its external dealings. In this respect, compliance with a variety of legal systems and statutory regulations is just as important as compliance with ethical principles.

These guidelines have been communicated in training sessions to all employees, managers and members of the Board of Management.

An awareness and understanding of the applicable requirements is the only way to ensure overall compliance by all of the persons involved and only this way can the company ensure that its international business dealings are compliant with the necessary standards.

To enhance the group-wide compliance culture, STRATEC's compliance activities were provided with a new and uniform design in the 2016 financial year and rolled out with group-wide compliance training sessions held at all subsidiaries.

Regular training sessions are held for new employees in order to familiarize them with our understanding of compliance.

Core elements of STRATEC's Corporate Compliance Policy include:

- Preventing corruption, i.e. upholding the integrity necessary in business dealings, and in particular the prohibition of any illegitimate exercising of influence
- Regular training of employees and information material on the intranet and bulletin boards
- Compliance with all requirements set by law and the respective authorities
- The obligation to ensure fair, respectful working conditions at the company
- The avoidance of conflicts of interest
- Compliance with the requirements of capital market and antitrust law
- Compliance with all internal requirements and instructions.

STRATEC's compliance system is subject to permanent enhancement and optimization and forms an integral component of the STRATEC Group. This enables STRATEC's management teams to detect specific risks, avoid risks by analyzing situations and developing suitable strategies, comply with operational imperatives, and take any necessary measures. These processes are supplemented by regular meetings between managers and the relevant compliance officer. These one-to-one talks enable potential conflicts or questionable matters to be identified and clarified at an early stage. The compliance officer reports directly to the Board of Management. The Board of Management meets its reporting obligations towards the Supervisory Board.

STRATEC expects all its employees to adhere to its compliance requirements and thus ensure that all decisions and actions taken in their areas of responsibility are consistent with the relevant legal requirements and the Corporate Compliance Policy and also serve the company's best interests.

Early warning risk identification system

The early warning risk identification system in place at STRATEC is consistent with the legal requirements set out in § 91 (2) of the German Stock Corporation Act (AktG). The main risk categories thereby analyzed are general operating risks, market risks, and project risks. These include, for example, risks in connection with investments, logistics risks, IT risks, personnel risks, financial risks, sales market risks, and legal risks. The managers responsible for risks compile reports on their respective areas of responsibility at fixed intervals. These are qualified and quantified on the basis of a systematic approach. The resultant reports are assessed by a Risk Committee comprising members of an operating division and of the Finance department, and evaluated by the Board of Management. Exceptional developments require immediate ad-hoc report. At the various levels of aggregation, the decision makers and directors and officers are provided with a risk handbook to serve as a controlling instrument. The risk handbook is intended to provide an adequate framework that enables users to implement the steps and measures necessary to meet internal and legal requirements.

This enables any risks to the company's continued existence to be identified at an early stage and the conceivable consequences of such risks, including those arising over time, to be viewed and assessed alongside any change in their probability of occurrence. Risk analysis and reporting also account for the individual companies within the STRATEC Group, as well as for any interdependencies between group companies. To manage risks, the company generally deploys the following measures:

- Increased allocation of resources
- Shorter monitoring intervals
- Increased management attention
- Agreement of measures to eliminate risks.

The risk management system at STRATEC AG is safeguarded by integrating the shareholdings into the Group's risk management system. Alongside structured reporting and the collection of key financial figures at weekly, monthly and quarterly intervals, the development, production, marketing and sales departments are also required to immediately report any material events.

Risk report in respect of use of financial instruments

STRATEC's financial strategy is based on the availability of the funds needed to finance its targeted organic and potential acquisitions-driven growth.

STRATEC AG is financed by the cash flows generated from its operating activities and by a financing facility with a 5-year term provided by three banks bank in the context of a master loan agreement.

The principal objectives of the STRATEC Group's financial management involve a basically conservative financing policy aimed at guaranteeing permanent availability of the liquidity required, for example for new development and research projects or for external growth, as well as effective risk management. These objectives are chiefly met by planning and managing liquidity and by optimizing financing costs. Furthermore, STRATEC has a dividend policy that is based on continuity and the Group's long-term, sustainable business performance, with a distribution quota of 40% to 60% of consolidated net income. At the same time, STRATEC will continue to focus on exploiting external and internal growth opportunities, which may also involve temporarily deviating from this quota. In our financial and investment policy, we are currently mainly focusing on repaying financial liabilities and short-term money market investments.

Financial risks basically arise from currency and interest rate fluctuations. As already mentioned (see Section 2. 'Risks – currency risks'), currency risks in procurement and sales markets are increasing within the STRATEC Group. To counter this risk, the Group is therefore making targeted use of derivative hedging instruments.

A financial instrument is a contract simultaneously resulting in a financial asset at one company and in a financial liability or equity instrument at another company. For financial assets, a distinction is made between:

- Primary financial instruments, such as trade receivables or payables, or financial receivables and liabilities
- Derivative financial instruments not involving a hedging relationship with a hedged item
- Derivative financial instruments, such as hedges used to hedge risks resulting from movements in exchange or interest rates.

Financial instruments are held for the exclusive purpose of hedging underlying transactions and not for trading or speculative purposes.

The managers responsible for cash management review the expediency of currency hedging transactions at regular intervals. The risks resulting from exchange rate movements, and thus the volumes of corresponding hedging transactions concluded, are expected to increase further. Financial derivatives are generally deployed in cases where it is necessary to hedge risks in the operating business or currency holding risks. The conclusion of such transactions is governed by very strict standards laid down in the Code of Procedure for the Board of Management and was agreed with the Supervisory Board. In the 2017 financial year, parts of the cash flows expected in US dollars were hedged with futures contracts.

Interest rate risks are countered on the basis of the internal requirements of the risk management system. Depending on the internal risk assessment, these also involve covering such risks by means of derivative financial instruments. Derivative financial instruments to optimize interest rates may be deployed in cases where financing needs render such measures opportune and where they relate to a general transaction. STRATEC did not conclude any interest rate derivatives in the 2017 financial year.

Further details can be found in Sections G. 'Financial instruments' and H. 'Risk management' in the notes to the consolidated financial statements.

E. COMPENSATION REPORT

The Compensation Report of STRATEC AG sets out the basis for determining the compensation of the Board of Management and Supervisory Board, including its amount and structure. The Compensation Report is based on the requirements of § 314 (1) No. 6a) Sentences 5 to 8 and No. 6b) and § 315a (2) of the German Commercial Code (HGB).

Basic features of the compensation system for the Board of Management

The Supervisory Board lays down the compensation of individual members of the Board of Management, as well as determining and regularly reviewing the compensation system. In determining compensation, the Supervisory Board takes particular account both of the duties and performance of the individual member, as well as of the economic situation and future development of STRATEC AG. The compensation system for the Board of Management, which still corresponds to the system approved by a majority of shareholders at the Annual General Meeting on June 6, 2013, comprises fixed compensation for each financial year, variable compensation for each financial year, variable compensation based on the financial year and the two following years, and long-term share-based compensation.

Fixed compensation for each financial year

This component comprises a basic amount paid out as a monthly salary, as well as ancillary benefits, such as the use of a suitable car, insurance benefits, and individual contractual arrangements concerning retirement, invalidity and surviving dependant pensions. Furthermore, the private use of bonus miles and other benefits gained in a professional context is also expressly permitted to an appropriate extent.

Variable compensation for each financial year (short-term incentive)

This component includes target achievement and extended components. The target achievement component is measured in terms of a given percentage of consolidated earnings before interest, taxes, depreciation and amortization (consolidated EBITDA) in accordance with International Financial Reporting Standards (IFRS) and net of a fixed basic amount. The extended component is determined by the Supervisory Board to honor any outstanding performance on the part of the Board of Management (appreciation bonus). The target achievement component is paid out following the Annual General Meeting of STRATEC AG for the 2017 financial year. Members of the Board of Management are entitled to a mutually agreed monthly prepayment of this component. Payment of the extended component is made directly after the Supervisory Board resolution approving the granting of such.

Variable compensation based on the financial year and the two following years (mid-term compensation arrangement or mid-term incentive)

This component consists in equal shares of a linked component, an individual component, and a supplementary component. The linked component consists of two sub-components. The targets determined for the linked components are based on percentage increases in consolidated sales and consolidated EBITDA. The individual components are based on various individual targets agreed between the Supervisory Board and the individual member of the Board of Management. Target achievement for the mid-term incentive (MTI) scheme is further based in terms of its timing on achievement of the targets set for the current financial year and the two following years and on a target bonus, i.e. the amount to be paid out in the event of 100% target achievement for all components. The mid-term incentive is paid out following the Annual General Meeting of STRATEC AG for the next year but one, i.e. the mid-term incentive granted for 2015 (and 2016 and 2017 respectively) is paid out in 2018 (and 2019 and 2020 respectively). However, prepayments based on the respective achievement of individual and interim targets may be made, subject to agreement between the Board of Management and the Supervisory Board, at the end of each financial year. To date, no use has been made of this prepayment option.

Long-term share-based compensation (long-term incentive)

Since the 2015 financial year, this comprises contractual agreements in which payments are based on the long-term share price performance without any physical or real stocks being actually supplied (stock appreciation rights – SARs). Existing arrangements for past financial years concerning the subscription of stock options and of actual stocks are not affected by this new provision and are being continued accordingly. Detailed disclosures concerning the structure of these programs can be found in Section C. 'Notes to the consolidated balance sheet' in the notes to the consolidated financial statements.

The stock appreciation rights (SARs) have the following basic structure:

The rights refer to a payment to be made by the company to the member of the Board of Management, with the amount of payment being determined by reference to the share price performance of STRATEC AG (reference share) as documented in XETRA trading on the Frankfurt Stock Exchange over a predefined period.

The SARs should have a minimum term of five years calculated from the issue date, although initial payment of the value of the SARs may be requested at the earliest after a 'minimum waiting period' of two years. Any such payment prior to the expiry of the term (premature payment request) leads to a corresponding reduction in the terms of the rights. Should the term expire on a date within 30 stock market trading days prior to publication of figures for the quarterly or annual financial statements, the term is extended through to the first stock market trading day after the expiry of this timeframe.

Any premature payment request must be addressed to the Supervisory Board Chairman in writing and may not be issued within the aforementioned timeframe. Other than this, it is also not permitted to submit a premature payment request to the extent that the requirements of insider trading law or predefined compliance requirements do not permit dealings with shares in STRATEC AG at the given point in time.

Unless otherwise laid down by the Supervisory Board, the payment claim is determined on the basis of the increase in the XETRA closing price of a reference share through to the end of the term (based on a 30-day average price plus dividends) compared with the XETRA closing price at the issue date (reference price). In this respect, the annual increase in the reference share price – without reference to the share price performance within the term – must amount to at least eight percent (exercise hurdle). Should the term of the rights not correspond to a full year, the share price increase must be determined on a time-apportioned basis.

The amount of payment claim following expiry of the minimum waiting period or at the end of the term – assuming that the exercise hurdle is met – is calculated, unless otherwise stipulated by the Supervisory Board, as the difference between the reference price determined at the beginning of the term multiplied by the number of rights less the reference price determined at the end of the (abridged) term also multiplied by the number of rights.

The payment itself is made with the next salary payment made to the member of the Board of Management, and at the latest within two weeks of the end of the (abridged) term. For payment amounts of more than € 100,000.00, STRATEC AG may request that the payment be made in two equal installments after six and twelve months respectively, with an obligation to pay interest should this option be drawn on.

Compensation for activity at affiliate companies

Members of the Board of Management assuming supervisory board, managing director, or similar positions at affiliate companies generally do not receive separate compensation from the respective company for doing so. Any such compensation nevertheless paid by the affiliate companies is imputed to the aforementioned amounts.

Caps (CAP)

Variable compensation components are subject to requirements limiting them both individually and in combination in terms of their value and the degree of target achievement. Compensation based on the target components within the 'short-term incentive', 'mid-term incentive' and 'long-term incentive' schemes, for example, is limited to a maximum of 2.0 times basic salary plus certain ancillary benefits and pension commitments. Furthermore, the Supervisory Board also has the powers granted by law to limit compensation.

Individual compensation of Board of Management reported in accordance with the German Commercial Code (HGB)

The individual members of the Board of Management received the compensation set out below for their activities on the Board of Management in the 2017 financial year.

Individual compensation of Board of Management (€ 000s)

	Marcus Wolfinger		Dr. Robert Siegle		Dr. Claus Vielsack		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Non-performance-related components								
• Basic amount	272	212	239	190	210	173	721	575
• Other[1]	17	16	11	10	9	9	37	35
Performance-related components								
• MTI compensation claim[2]	173	169	109	106	109	106	391	381
• Other performance-related components	355	250	270	192	226	164	851	606
Total	**817**	**647**	**629**	**498**	**554**	**452**	**2,000**	**1,597**
Components with long-term incentive nature								
• Stock appreciation rights (SARs)[3]	218	227	109	114	109	114	436	455

[1] The 'Other' disclosure includes non-cash benefits due to the use of company vehicles and insurance benefits (excluding contributions made to retirement pensions, healthcare, nursing care, and D&O insurance).
[2] The amount disclosed refers to the mid-term incentive agreement for 2015 (2014), which covers 2015, 2016, and 2017 (2014, 2015, and 2016) and is due for payment in 2018 (2017).
[3] The amount disclosed corresponds to the fair value upon issue of the stock appreciation rights (SARs) calculated in accordance with IFRS 2 (Share-based Payment).

From the 2015 financial year, the individual members of the Board of Management only participate in the stock option program with regard to stock options already granted, but will not be granted any new stock options.

In the 2017 financial year, Marcus Wolfinger exercised 12,500 stock options at an average exercise price of € 30.75, Dr. Robert Siegle exercised 12,500 stock options at an average exercise price of € 30.75, and Dr. Claus Vielsack exercised 3,000 stock options granted to him prior to his appointment to the Board of Management at an average exercise price of € 34.74. In the 2016 financial year, no stock options were exercised by Marcus Wolfinger, Dr. Robert Siegle, or Dr. Claus Vielsack respectively.

As of December 31, 2017, Marcus Wolfinger had 52,500 stock options outstanding (previous year: 65,000) at an average exercise price of € 30.37 (previous year: € 30.44) and a weighted remaining contract term of 31.8 months (previous year: 41.1). As of December 31, 2017, Dr. Robert Siegle had 37,500 stock options outstanding (previous year: 50,000) at an average exercise price of € 30.28 (previous year: € 30.40) and a weighted remaining contract term of 29.8 months (previous year: 38.8). Similarly, as of December 31, 2017 Dr. Claus Vielsack had 10,000 stock options granted to him since his appointment to the Board of Management and outstanding (previous year: 10,000) at an average exercise price of € 31.87 (previous year: € 31.87) and a weighted remaining contract term of 39.5 months (previous year: 51.7).

As of December 31, 2017 Marcus Wolfinger had 32,500 stock options (previous year: 25,000) which were exercisable at an average exercise price of € 29.45 (previous year: € 31.19), while Dr. Robert Siegle had 27,500 stock options (previous year: 25,000) exercisable at an average exercise price of € 29.70 (previous year: € 31.19). As in the previous year, none of the stocks granted to Dr. Claus Vielsack in the period since his appointment to the Board of Management were exercisable as of the balance sheet date.

The following amounts were recognized as expenses for stock options in the 2017 financial year: € 28k for Marcus Wolfinger (previous year: € 35k), € 16k for Dr. Robert Siegle (previous year: € 21k), and € 9k for Dr. Claus Vielsack (previous year: € 9k).

The stock appreciation rights (SARs) of individual members of the Board of Management showed the following specific developments in the 2017 financial year:

Stock appreciation rights (SARs) of Board of Management

Disclosures in totals, €, or months	Reference price[1] €	Fair Value[2] €	Total at 01.01. No.	Added Disposed No.	Total at 12.31. No.	of which exercisable, No.	Fair value 12.31. € 000s	Remaining term[3] 12.31. Months
Marcus Wolfinger								
SARs T1 2015 dated 08.03.2015	50.53	9.99	20,000	-20,000	0	n/a	n/a	n/a
SARs T1 2016 dated 04.01.2016	43.07	11.36	20,000	0	20,000	0	494	39.0
SARs T 1 2017 dated 01.23.2017	45.05	10.90	0	20,000	20,000	0	500	48.8
Dr. Robert Siegle								
SARs T1 2015 dated 08.03.2015	50.53	9.99	10,000	-10,000	0	n/a	n/a	n/a
SARs T1 2016 dated 04.01.2016	43.07	11.36	10,000	0	10,000	0	247	39.0
SARs T 1 2017 dated 01.23.2017	45.05	10.90	0	10,000	10,000	0	250	48.8
Dr. Claus Vielsack								
SARs T1 2015 dated 08.03.2015	50.53	9.99	10,000	-10,000	0	n/a	n/a	n/a
SARs T1 2016 dated 04.01.2016	43.07	11.36	10,000	0	10,000	0	247	39.0
SARs T 1 2017 dated 01.23.2017	45.05	10.90	0	10,000	10,000	0	250	48.8
Total/average	**44.06**	**11.13**	**80,000**	**40,000** **-40,000**	**80,000**	**0**	**1,988**	**44.5**

[1] The amount disclosed corresponds to the XETRA closing price of the reference share at the SAR issue date.
[2] The amount disclosed corresponds to the fair value **upon issue or payment** of each stock appreciation right (SAR), calculated in accordance with IFRS 2 (Share-based Payment).
[3] The amount disclosed corresponds to the remaining terms of the stock appreciation rights (SARs) based on their overall terms.

No stock appreciation rights were forfeited or lapsed in the 2017 financial year.

The following amounts were recognized as expenses for stock appreciation rights (SARs) in the 2017 financial year: € 762k for Marcus Wolfinger (previous year: € 74k), € 381k for Dr. Robert Siegle (previous year: € 37k), and € 381k for Dr. Claus Vielsack (previous year: € 37k).

Regulations governing regular termination of activity on Board of Management

The following regulations were in place as of the balance sheet date for members of the Board of Management upon the regular termination of their activity:

Pension provision

Members of the Board of Management receive pension provision from STRATEC AG when they have reached pensionable age, i.e. between the age of 60 and the age of 67, and have concluded their activity as members of the Board of Management. Members have the option of receiving a one-off lump sum or ongoing pension payments for the rest of their lives. Pension claims remain valid in cases where members terminate their employment with the company before reaching pensionable age. STRATEC AG finances the pension claims both as defined benefit and as defined contribution plans. Alongside the aforementioned benefits, the company has also agreed lifelong surviving dependants' provision with Marcus Wolfinger. In the 2017 financial year, the company recognized expenses of € 94k for Marcus Wolfinger (previous year: € 93k), € 78k for Dr. Robert Siegle (previous year: € 78k), and € 44k for Dr. Claus Vielsack (previous year: € 44k) in connection with the benefits thereby committed. The present values of the capital claims acquired in connection with the benefits thereby committed as of December 31, 2017 amounted to € 675k for Marcus Wolfinger (previous year: € 579k), € 402k for Dr. Robert Siegle (previous year: € 320k), and € 109k for Dr. Claus Vielsack (previous year: € 72k). Due in particular to future financing contributions, the actual benefits will turn out higher than presented here.

Retrospective prohibition on competition

For the duration of the 24-month retrospective prohibition on competition, each member of the Board of Management receives compensation amounting to 75 % of his most recent contractually agreed total compensation for the first twelve months and 50 % of the same amount for the subsequent twelve months. The amounts payable in connection with the prohibition on competition are disbursed on a monthly basis. STRATEC AG may waive compliance with the retrospective prohibition on competition on a conditional basis. The nominal amounts of compensation payable for the retrospective prohibition on competition are € 826k for Marcus Wolfinger (previous year: € 668k), € 629k for Dr. Robert Siegle (previous year: € 507k), and € 534k for Dr. Claus Vielsack (previous year: € 447k). It can be assumed that actual compensation payments for the retrospective prohibition on competition will differ from the amounts presented here. This is due in particular to the currently indeterminable nature of the respective dates and amounts of compensation involved.

Stock appreciation rights (SARs)

The stock appreciation rights (SARs) granted to members of the Board of Management remain fully valid, including the right to request premature payment, through to the end of their term.

Regulations governing premature termination of activity on Board of Management

The following regulations were in place as of the balance sheet date for members of the Board of Management upon the premature termination of their activity:

Severance payments

Contracts with members of the Board of Management are concluded for fixed terms. In the event of the contract being terminated prematurely, on the basis of mutual agreement, and without compelling reason justifying immediate termination, severance payments amounting to a maximum of two full-year compensation packages based on the most recent full compensation package for the previous financial year are payable. Should the contract be terminated due to change of control pursuant to § 315a (1) No. 9 of the German Commercial Code (HGB), the member of the Board of Management receives unchanged compensation in accordance with the relevant requirements of the German Corporate Governance Code.

Retrospective prohibition on competition

For the duration of the retrospective prohibition on competition corresponding application is made of the provisions governing the retrospective prohibition on competition upon the regular termination of activity on the Board of Management.

Permanent inability to work and fatality

Should a member of the Board of Management become permanently unable to work during the term of the employment contract, this contract is terminated three months after the end of the month in which the permanent inability to work is ascertained. Compensation is based on the provisions governing regular termination of activity on the Board of Management. Should a member of the Board of Management die during the term of the employment contract, then his surviving dependants are entitled to continued payment of the fixed compensation, including variable compensation but excluding the appreciation bonus, for the month in which the member died and the following six months, nevertheless limited to the expiry of the employment contract irrespective of the death of the respective member.

Stock appreciation rights (SARs)

Should the employment contract with a member of the Board of Management be terminated prematurely, the stock appreciation rights (SARs) granted to the respective member of the Board of Management as of the date of his departure are settled on the basis of the average XETRA closing price in the 30 stock market trading days preceding the date of departure and in accordance with the conditions applicable to the rights at the end of their term. Any existing exercise hurdles in the form of specified percentage or absolute share price increases are calculated on a time-apportioned basis.

Basic features of the compensation system for the Supervisory Board

The compensation of the Supervisory Board is governed by § 13 of the Articles of Association of STRATEC AG and takes due account of the responsibility and scope of activity of Supervisory Board members, as well as of the economic position and performance of the company.

Each member of the Supervisory Board receives fixed compensation of € 25,000.00 for each financial year. The Supervisory Board Chairman receives twice and the Deputy Chairman receives one and a half times this amount of fixed compensation. Supervisory Board members only belonging to the Supervisory Board for part of a given financial year receive one twelfth of the fixed compensation for each month of activity commenced.

Furthermore, each member of the Supervisory Board receives a meeting allowance of € 750.00 for each meeting of the Supervisory Board attended in person. Where several meetings are held on the same day, the meeting allowance is paid only once. The meeting allowance is limited to a maximum of six meetings each financial year.

Fixed compensation and the meeting allowance are due for payment upon the conclusion of the respective financial year.

Furthermore, the company reimburses each member of the Supervisory Board for the necessary, appropriate volume of expenses incurred for him or her to perform his or her duties, as well as for any sales tax attributable to compensation or the reimbursement of expenses.

Members of the Supervisory Board may be included in a pecuniary loss liability insurance policy concluded by the company at its own expense, at an appropriate amount, and in its interest. The company assumes the resultant premiums.

The individual members of the Supervisory Board received the following compensation for their Supervisory Board activities in the 2017 financial year.

Individual Supervisory Board compensation (€ 000s)

	Fred K. Brückner		Rainer Baule[1]		Prof. Dr. Stefanie Remmele		Wolfgang Wehmeyer[2]		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Fixed compensation	50	50	22	0	25	25	19	38	116	113
Meeting allowance	4	4	3	0	4	4	2	4	13	12
Total	**54**	**54**	**25**	**0**	**29**	**29**	**21**	**42**	**129**	**125**

[1] Supervisory Board member since June 14, 2017
[2] Supervisory Board member until June 14, 2017

F. TAKEOVER-RELEVANT DISCLOSURES [1]

Composition of share capital

The company's share capital amounted to € 11,920,945 as of December 31, 2017 and was divided into 11,920,945 individual registered shares. This total includes 4,995 treasury stock shares as of December 31, 2017. All shares involve the same rights and obligations and each share confers one vote.

Restrictions on voting rights or the transferability of shares

Restrictions on share voting rights may result in particular from the requirements of the German Stock Corporation Act (AktG). In specific circumstances set out in § 136 AktG, for example, shareholders are subject to a prohibition on voting, while pursuant to § 71b AktG the company is not entitled to exercise any voting rights for treasury stock shares. We are not aware of any contractual restrictions relating to voting rights or the transferability of shares.

Pursuant to § 67 (2) AktG, only those shareholders registered as such in the Share Register are deemed shareholders from the company's perspective. According to § 4 (4.2) of the Articles of Association, to be entered in the Share Register shareholders must submit their name, address and date of birth if they are natural persons and their company names, commercial address and legal domicile if they are legal entities, as well as the number of shares they hold and their electronic mail address, should they have one, in both cases. Shareholders are required to inform the company without delay of any change in their address. Entries by a shareholder acting under its own name and relating to shares owned by another party are only permitted and effective from the company's perspective when the fact that the shares belong to another party and the name and address of the owner are entered in the Share Register. The same applies when the party thereby entered or the owner transfer their ownership of the shares to another party following such entry. Pursuant to § 67 (4) AktG, the company is entitled to request information from the party entered in the Share Register concerning the extent to which it actually owns the share for which it is entered as bearer in the Share Register and, should this not be the case, to convey the information necessary to maintain the Share Register to the party on behalf of which it holds the shares. Should such request for information not meet with any response then, pursuant to § 67 (2) AktG, no voting rights may be exercised for the shares concerned.

Direct or indirect capital shareholdings exceeding 10 % of voting rights

Based on the notifications available to us pursuant to § 21 of the German Securities Trading Act (WpHG), as of December 31, 2017 no shareholder directly held more than 10 % of the voting rights in the company. We have received notifications from Bettina Siegle, Tanja van Dinter, Ralf Leistner, Hermann Leistner, Doris Leistner, Herdor Beteiligungs GmbH, and Herdor GmbH & Co. KG (all in Germany) that, due to the allocation of voting rights, they each hold more than 25 % of the voting rights in the company.

The Board of Management is not aware of any other direct or indirect capital shareholdings exceeding 10 % of voting rights.

Bearers of shares with special rights conferring powers of control

There are no shares in the company with special rights conferring powers of control.

Type of voting right control when employees hold shareholdings in the capital and do not directly exercise their control rights

Any shares granted by the company to its employees within the framework of its employee share program or as share-based compensation are transferred directly to the employees. Like other shareholders, the employees benefiting from such programs can exercise the control rights resulting from their employee shares in accordance with statutory requirements and the provisions of the Articles of Association.

[1] (pursuant to § 315a (1) Nos. 1 to 9 HGB) and explanatory notes

Statutory requirements and provisions of the Articles of Association in respect of the appointment and dismissal of members of the Board of Management and amendments to the Articles of Association

The appointment and dismissal of members of the Board of Management are governed by § 84 and § 85 of the German Stock Corporation Act (AktG) and § 5 of the company's Articles of Association. Pursuant to § 84 (1) AktG, the Supervisory Board appoints members of the Board of Management for a maximum term of five years and may also dismiss members; repeated appointments and extensions in terms in office, in each case by a maximum of five years, are permitted. Pursuant to § 5 (5.1) of the Articles of Association, the Board of Management comprises one or several persons. § 5 (5.2) stipulates that the Supervisory Board determines the number of members of the Board of Management. Pursuant to § 84 (2) AktG and § 5 (5.2) of the Articles of Association, the Supervisory Board may appoint a Chairman and – pursuant to § 5 (5.2) – a Deputy Chairman of the Board of Management.

Consistent with § 179 AktG, amendments to the Articles of Association require a resolution by the Annual General Meeting. § 12 (12.2) of the Articles of Association allows the Supervisory Board to make amendments only affecting the respective wording. Furthermore, the Supervisory Board is authorized by resolutions adopted by the Annual General Meetings on May 20, 2009, June 6, 2013, and May 22, 2015 to amend § 4 of the Articles of Associations in line with the execution of Authorized Capital 2015/I and in accordance with utilization of Conditional Capital V/2009, Conditional Capital VI/2013, and Conditional Capital VII/2015 or upon the expiry of the authorization period governing the utilization of conditional capitals.

Pursuant to § 179 (2) AktG in conjunction with § 15 (15.3) of the Articles of Association, all resolutions adopted by the Annual General Meeting to amend the Articles generally require a simple majority of the votes cast and, unless otherwise mandatorily stipulated in legal requirements, a simple majority of the share capital represented upon the adoption of the resolution. Legal requirements call for larger majorities of three quarters of the share capital represented upon the adoption of the resolution in several cases, such as for any amendment in the object of the company's activities (§ 179 (2) Sentence 2 AktG), for specific capital-related measures, and for the exclusion of subscription rights.

Powers of the Board of Management to issue or buy back shares

Pursuant to § 4 (4.5) of the Articles of Association, STRATEC Biomedical AG had authorized capital of € 5.5 million as of December 31, 2017.

The Annual General Meeting held on May 22, 2015 created authorized capital (Authorized Capital 2015/I). The Board of Management is authorized, subject to approval by the Supervisory Board, to increase the company's share capital by a total of up to € 5.5 million by issuing new shares in return for contributions in cash or in kind on one or several occasions up to May 21, 2020. Shareholders must generally be granted subscription rights. In certain circumstances set out in the Articles of Association, however, the Board of Management is entitled to exclude subscription rights for a total of amount of up to 20% of the share capital existing upon the authorization taking effect or – if lower – of the share capital existing upon the authorization being acted on. To date, no use has been made of this authorization.

Pursuant to § 4 (4.6) and § 4 (4.7) of its Articles of Association, STRATEC Biomedical AG had conditional capitals amounting to up to around € 1.7 million in total as of December 31, 2017:

Conditional Capital V / 2009 (amounting to up to around € 0.05 million) serves to grant subscription rights (stock option rights) through to May 19, 2014 in accordance with the resolution adopted by the Annual General Meeting on May 20, 2009. The conditional capital increase is only executed to the extent that the bearers of stock options actually exercise their subscription rights. The new shares have profit participation rights from the beginning of the financial year in which they are issued.

Conditional Capital VI/2013 (amounting to up to around € 0.88 million) serves to grant subscription rights (stock option rights) through to June 5, 2018 in accordance with the resolution adopted by the Annual General Meeting on June 6, 2013. The conditional capital increase is only executed to the extent that the bearers of stock options actually exercise their subscription rights. The new shares have profit participation rights from the beginning of the financial year in which they are issued.

Conditional Capital VII/2015 (amounting to up to € 0.8 million) serves exclusively to grant new shares to the bearers or creditors of convertible or warrant bonds issued in accordance with the resolution adopted by the Annual General Meeting on May 22, 2015 in the period through to May 21, 2020 by the company or by a domestic or foreign company in which STRATEC AG directly or indirectly holds a majority of the voting rights and capital. Shares are issued in accordance with the aforementioned resolution and with the resolutions to be adopted by the Board of Management and the Supervisory Board in respect of the conversion and option prices to be set in each case. The conditional capital increase is only executed to the extent that the bearers or creditors of the convertible or warrant bonds actually exercise their rights to convert their conversion or option rights into shares in the company or that the conversion obligations relating to such bonds are met. To the extent that they arise due to the exercising of conversion or subscription rights through to the beginning of the company's Annual.

General Meeting, the new shares have profit participation rights from the beginning of the previous financial year and otherwise from the beginning of the financial year in which they arise due to the exercising of conversion or subscription rights. To date, no use has been made of this authorization.

In the cases governed by law in § 71 of the German Stock Corporation Act (AktG), STRATEC AG is authorized to buy back shares and to sell any shares thereby bought back. Furthermore, by resolution adopted by the Annual General Meeting on May 22, 2015 the company is authorized until May 21, 2020 to acquire treasury stock on one or several occasions and in total or in partial amounts up to a total of 10% of current share capital for every purpose permitted within the statutory limitation and consistent with the conditions stipulated in greater detail in Agenda Item 9 of the Annual General Meeting on May 22, 2015. The authorization may not be drawn on to trade in treasury stock. Together with the treasury stock already acquired and still possessed by the company, the treasury stock acquired may not at any time exceed 10% of the respective share capital. The shares should be usable for one or several of the purposes set out in greater detail in Agenda Item 9 of the Annual General Meeting on May 22, 2015, which in some cases also permit the exclusion of subscription rights. To date, the company has not made any use of the authorization to buy back treasury stock.

Material company agreements subject to change of control as a result of a takeover bid

Individual agreements include change of control provisions that entitle the contractual partner to terminate the agreement in the event of a change of control over the company or that grant other special rights potentially detrimental to the company or make the continuation of the contract dependent on approval by the contractual partner.

Compensation agreements reached by the company with members of the Board of Management for the event of a takeover bid

Members of the company's Board of Management have special resignation rights in the event of a change of control over the company. They are thus entitled within six months from the change of control taking effect to stand down from their positions with a notice period of three months to the end of the month and to terminate their employment contracts on an exceptional basis with a notice period of three months to the end of the month. Should this special termination right be exercised, then the member's position on the Board of Management and employment relationship both end prematurely upon expiry of the three-month notice period. The member of the Board of Management receives compensation amounting to 150% of the severance pay cap agreed for mutually agreed premature termination of activity on the Board of Management. This amounts to a maximum of two annual compensation packages.

G. CORPORATE GOVERNANCE DECLARATION

The company has published the declaration on corporate governance required by § 315d of the German Commercial Code (HGB), including the declaration on the German Corporate Governance Code required by § 161 of the German Stock Corporation Act (AktG), together with its corporate governance report in the Investors section of its website (www.stratec.com).

H. NON-FINANCIAL GROUP DECLARATION

Introduction

STRATEC has based its CSR reporting on the German Sustainability Code (DNK) and the GRI standards of the Global Reporting Initiative. This Non-Financial Group Declaration has been compiled in accordance with the relevant requirements of the German Commercial Code (HGB). The disclosures required for the first time for the 2017 financial year as a result of the European CSR Directive, namely information on the topics of environmental, employee, and social concerns, respect for human rights, and measures to combat corruption and bribery, have been reported in full. Information about STRATEC's business model (The STRATEC Group, Page 29) and additional non-financial risks (Opportunity and Risk Report, Page 51) relevant to the factors presented in this report can be found in the Management Report. Unless otherwise indicated, the data provided in this report refers to all companies included in the scope of consolidation.

Corporate Social Responsibility

Since its foundation, a responsible mindset and sustainable operations have been one of the foundations enabling STRATEC to grow from a small startup into what is now a company with global operations. Sustainability-related topics represent an important and ever growing aspect of the responsibility that has gradually been factored into the company's strategy and adapted in line with changing market and environmental conditions. STRATEC bases its business activities on three dimensions that account for the core elements of the company's corporate social responsibility (CSR):

- ECONOMIC OPERATIONS for long-term growth
- ECOLOGICAL RESPONSIBILITY for tomorrow's world
- SOCIAL RESPONSIBILITY towards people

Economic operations

We see economic operations as a core element of our company's long-term business success. Our strategic objective is to generate growth that is sustainable, ecological, socially responsible, and permanently higher than the sector average. At the same time, as an innovation leader STRATEC aims to make a valuable contribution towards further technological advances in various areas of life sciences and diagnostics.

Ecological responsibility

STRATEC has implemented extensive measures enabling it to meet its ecological responsibility. STRATEC's activities are performed in compliance with current environmental legislation, local regulations and ordinances, and recommended guidelines. The company ensures that resources are put to economical use in all relevant process – from forward-looking, resource-efficient product design through to environmentally-friendly waste disposal. STRATEC's objective here is to detect savings potential and render this measurable by working with defined key figures.

Social responsibility

STRATEC's success is driven by its employees with their individual skills, wealth of ideas, and outstanding motivation. It is their work and the resultant innovations that facilitate the company's successful and sustainable development. As a group of companies with operations worldwide and more than 1,000 employees, STRATEC is aware of its social and ecological responsibilities.

Environmental concerns

Ecological responsibility enjoys high priority at the STRATEC Group and forms a fundamental aspect of our quality management – from forward-looking resource-efficient product design to using renewable energies through to environmentally-friendly waste disposal.

STRATEC aims to ensure that resources are put to the most efficient possible use and to reduce its carbon dioxide emissions by working with renewable energies. Furthermore, the company is also pursuing the objective of using a high share of recyclable materials and packaging.

Furthermore, to enhance its energy efficiency and reduce energy consumption, STRATEC successfully conducted an energy audit pursuant to DIN EN 16247-1 for the first time in 2015. When implementing conversion and extension measures, the company endeavors to install air conditioning and heating facilities that are particularly efficient in terms of their energy consumption. The energy audit is to be performed at regular four-year intervals.

STRATEC only consumes a relatively low volume of raw materials and chemical substances, as the main focus of its business activities involves designing and manufacturing system and software solutions. Given the low volume of commodities and chemical substances consumed, the fact that its production activities are not energy-intensive, and the environmental protection measures applied, the environmental risks associated with STRATEC's business activities are therefore to be assessed as relatively low. The STRATEC Group has not reported any environmentally relevant incidents in the past years. Key risks to the company's own business activities are interruptions to operations due to extreme weather events in connection with global climate change.

Energy consumption and emissions

The emissions within the STRATEC Group are mostly attributable to the consumption of energy in the form of electricity and gas, as well as to the vehicle pool. This also includes company vehicles assigned to employees for private use.

Production activities at STRATEC mainly focus on prototype construction, final assembly, and product testing. This means that both production-related energy consumption and emissions are comparatively low.

Since 2017, STRATEC has based its recording of greenhouse gas emissions on the internationally recognized Greenhouse Gas Protocol (GHG). Consistent with this approach, the company divides its emissions into direct emissions (Scope 1) and indirect emissions (Scope 2). The direct emission data reported thus refers to the gas consumed at STRATEC's locations and the fuel consumed by the vehicle pool. Energy-related indirect emissions result from energy generation at external suppliers. Scope 3 emissions, which arise for example upon the production of upstream products, are currently not recorded. Due to the first-time application of the calculation methods set out in the Greenhouse Gas Protocol, the previous year's figures have been adjusted accordingly.

Group-wide carbon dioxide emissions due to gas and electricity consumption and the vehicle pool fell by -1.7% to 1,974.7 tonnes in 2017.

Carbon dioxide emissions in tonnes

	2017	2016
Gas consumption[1] (Scope 1)	369.7	348.9
Vehicle park (Scope 1)	291.8	301.7
Electricity consumption[1] Scope 2)	1,313.1	1,358.7
Total	**1,974.7**	**2,009.3**

[1] Data partly based on estimates, as not all data was yet available for some subsidiaries due to the respective invoicing periods

Energy generation

To reduce its carbon dioxide emissions, STRATEC is relying on renewable energies at its Birkenfeld (DE) and Beringen (CH) locations. In Birkenfeld, a photovoltaics system with a nominal capacity of 130 kilowatt peak (kWp) has been supplying renewable energy since December 2011. Since its first full year of operations, this system has produced an average of 137,739 kilowatt hours (kWh) of green energy a year, thus enabling around 65 tonnes of carbon dioxide emissions to be avoided each year compared with conventional energy generation. Since the launch of operations, the system has generated 828 megawatt hours (MWh) of green energy.

A photovoltaics system with a nominal capacity of 95 kWp was also installed at the location in Beringen (CH) in 2016. In 2017, this system generated 68,140 kWh of green energy.

Photovoltaics system total yield (kwh)

	2017	2016
Birkenfeld (DE)	138,947	133,363
Beringen (CH)	68,140	74,120
Total	**207,087**	**207,483**

Waste and recycling

Careful and correct waste separation is a matter of course for STRATEC, as is the suitable disposal of hazardous goods. STRATEC has therefore introduced the 4R method to minimize environmental pollution or avoid this altogether:

- REDUCTION
- REUSE
- RECYCLING
- REPLACE

STRATEC distinguishes several categories of waste to facilitate optimal classification of their environmental relevance. Since 2015, uncritical waste has been separated into municipal waste, cardboard packaging/paper, metal, and timber waste. The approach to waste separation at our locations in the UK, US, China, Hungary, and Romania is consistent with requirements in the individual countries. Waste materials with electronic components, chemicals, and oils are disposed of separately, as is laboratory waste, such as blood samples. For the disposal and recycling of its waste, STRATEC works together closely with specialist waste disposal companies.

In its supply chain as well, STRATEC attaches great value to avoiding waste by working with recyclable materials. To this end, STRATEC has obliged its suppliers to use recyclable packaging. Any exceptions to this requirement have to be explicitly approved by the company. STRATEC also makes use of reusable shuttle containers which are returned to suppliers for renewed use following receipt of a delivery.

Year-on-year, group-wide waste volumes rose by 4.1 % to 198.3 tonnes in 2017. In percentage terms, the increase in waste volumes thus fell short of the Group's sales growth and the expansion in its workforce.

Waste volumes in year-on-year comparison in tonnes

	2017	2016
Waste volumes [1]	198.3	190.5

[1] Data partly based on estimates, as not all data was yet available for some subsidiaries due to the respective invoicing periods

Water and wastewater

Apart from the production site in Hungary, STRATEC's production processes only use a relatively low volume of water. Moreover, this water does not remain in the finished products. The volume of wastewater thus corresponds to the volume of water used at all locations with the exception of the Hungarian location, which fills a notable volume of reagents and other liquids. The Hungarian location reported water consumption of 6,915 m^3 and wastewater of 778 m^3 in 2017 (previous year: 6,823 m^3) and 767 m^3). The volume of water consumed across the Group increased only slightly compared with the previous year, rising 1.5 % to 14,924 m^3 in 2017. Most of this growth was due to the higher number of employees and increased production output.

Water – consumption and wastewater in m^3

	2017	2016
Water consumption [1]	14,924	14,713
Wastewater [1]	8,787	8,657

[1] Data partly based on estimates, as not all data was yet available for some subsidiaries at the reporting date

Product-related environmental protection

During the appliance development stage, STRATEC already ensures that its products have a lean and resource-efficient design scheme and that they are made of forward-looking, recyclable materials.

- **Smart design reduces material input**
  When developing product designs, resource input is minimized by working with light construction and limiting the design scheme to the most important components. This has the beneficial side-effect of reducing the cost of materials.

- **Recyclable materials**
  When using stainless steel and aluminum, STRATEC avoids coatings wherever possible, as these mostly involve harmful or critical substances. STRATEC frequently uses thermoplastics as materials due to their good properties in terms of thermal usability. Due to potential contamination, these plastics may not be recycled.

- **Development of consumables**
  When developing consumables, such as pipette tips, reagent vessels or reaction cuvettes, STRATEC generally only uses thermoplastics with good thermal properties and only containing a minimum share of contaminants. Due to potential contamination, however, these plastics may also not be recycled.

- **Development of flat modules**
  In developing flat modules (printed circuit board assemblies – PCBAs), STRATEC ensures that the PCB surface area selected is very small and that the circuit design is optimized in such a way that only two or four copper layers are required. This way, it eliminates the need for assembly printing by including information in the copper layer. This increases efficiency in module production, reduces the use of machinery, accelerates the galvanic processes, and thus results in a more sustainable approach to using raw materials.

- **Recycling of used consumables**
  When disposing of used consumables, STRATEC ensures that liquid wastes are strictly separated in order to optimize incineration. For all appliances, the residual liquids are sucked out before the plastic components are disposed of as solid waste.

When selecting materials and technologies and procuring components, STRATEC ensures strict compliance with EU Directive 2011/65/EU. This RoHS (Restriction of Hazardous Substances) Directive serves to limit the use of specific hazardous substances in electrical and electronics appliances.

In designing and manufacturing appliances, STRATEC has complied with the necessary substance restrictions since the entry into force of the previous directive 2002/95/EC, which has now been replaced by the new requirements. This means that STRATEC's products already conformed to the RoHS Directive even before this required mandatory application. STRATEC identifies further materials limitations in the context of 2011/65/EU, such as those published in the form of delegated legislation, and factors these into its product design, change management, and procurement processes.

STRATEC pursues an analogous proactive approach to materials compliance with regard to European Regulation No. 1907/2006 (REACH Regulation; Registration, Evaluation, Authorisation and Restriction of Chemicals). This way, the company ensures that the materials used to construct appliances do not pose any risk to the people processing, using, or disposing of them and also safeguards the long-term approval, availability, and usability of the appliances on the market.

Employee concerns

STRATEC's employees – with their individual skills, wealth of ideas, and outstanding motivation – are the source of the company's success. STRATEC therefore attaches great importance to personnel development, occupational health and safety, and health-related topics. STRATEC has set itself the long-term objective of continually extending its personnel development opportunities and permanently enhancing its occupational health and safety and health promotion activities. Given the current shortage of specialist staff, it is also crucial for STRATEC to position itself in the labor market as an open, tolerant, and flexible company, and thus as an attractive employer.

Further training

The wealth of new ideas and willingness to perform on the part of our employees are the driving force for developing new, innovative technologies. STRATEC therefore accords high priority to promoting its employees. The company offers its employees individually tailored further development programs which include training for all employees on general topics as well as training courses tailored to the functions and tasks performed in individual departments. A new management training program dealing with the topic of personnel management was also introduced in 2017. This program is now held at regular six-monthly intervals.

As well as being recommended or instructed to take part in training by their managers, employees may themselves also apply to participate in specific training sessions or courses. Further training is a fixed item at the regular feedback meetings between employees and their managers.

Occupational health and safety

Occupational health and safety is one key element of our company's responsibility towards its employees. The company's top safety objective is to ensure a working environment that is free of injury and illness, and one that benefits all employees, suppliers, partners, and customers.

STRATEC achieves this by ensuring forward-looking occupational health and safety. To this end, the company has specially commissioned a safety officer who is responsible for the topic of occupational health and safety. The company regularly offers special health protection programs for first-aiders and evacuation assistants, as well as occupational health and training sessions. Work-related accidents are recorded and accident logbook entries are documented to enable suitable measures to be taken to further enhance workplace safety.

The Corporate Compliance Policy obliges all STRATEC Group employees to adhere to the occupational health and safety guidelines and adopt the company's basic approach to these areas. Employees are also required to immediately report any potential safety risks.

In terms of health promotion, the company implements preventative measures and programs, such as a voluntary annual eye and back check and seminars on healthy nutrition. Not only that, medical checks tailored to employees' specific workplaces are also offered, as are special vaccinations for employees. In 2017, the company also held a 'Health Day' organized by its own internal occupational health specialists.

Work-related accidents

	2017	2016
Work-related accidents	12	14
Accidents on way to work	6	10
Total	**18**	**24**

The number of work-related accidents remains very low. In 2017, there was a group-wide total of 12 accidents at work and 6 accidents on the way to work. These figures represent a decline of 14% and 40% respective compared with the previous year. To maintain a low number of accidents in future as well, individual accidents are analyzed and suitable measures taken to minimize the risk of such accidents recurring.

Sickness quota

	2017	2016
Sickness quota in %	3.6	3.7[1]

[1] Excluding companies acquired in 2016

At 3.6%, the group-wide sickness quota, i.e. the number of working days missed due to sickness as a proportion of planned working time, remained low in 2017. The inclusion of the subsidiaries acquired in 2016 for the first time in the 2017 statistics did not have any impact on the group-wide sickness quota figures. Excluding these acquisitions, the sickness quota for 2017 would also amount to 3.6%.

Working hour regulations, work and family

STRATEC offers its employees flexible working hours and flexitime arrangements. Part-time models are also available and particularly benefit employees with children. This makes it easier for them to return to work and may lead to full-time employment at a later date. Throughout the STRATEC Group, employees who find themselves in unforeseeable situations are supported by being granted individual working hour models.

Diversity

Innovation driven by diversity – STRATEC views a diverse workforce as a great source of added value. A wide range of personal and cultural diversity is seen as a force driving innovation and enabling the company to respond more closely and swiftly to technological changes and customers' needs. Furthermore, given the current shortage of specialists STRATEC believes that it is absolutely crucial to position itself in the labor market as an open and tolerant company and an attractive employer.

STRATEC treats all employees equally and provides them with the same career opportunities irrespective of their age, disability, origin, religious affiliation, gender, sexual orientation, or any other factors not relevant in this regard. The Corporate Compliance Policy obliges all employees worldwide to behave with respect and in compliance with legal requirements towards their employees, colleagues, business partners, customers, and the authorities.

In practice, diversity is lived on a top-down basis

STRATEC is aware that its managers have a key role to play in promoting diversity and inclusivity. In view of this, diversity is actively promoted in practice by STRATEC's Board of Management.

One key focus here as well is on raising the share of management positions held by women. To this end, in 2017 the company set targets for the share of women on the first and second management tiers below the Board of Management. These targets amount to 20% for each tier and are to be met by June 30, 2020. To help meet these targets, the company will be taking a number of additional measures in 2017. These particularly include rolling out a training program for first and second management tiers aimed at further raising awareness of diversity and inclusivity among all of the Group's managers. Furthermore, STRATEC will be introducing further initiatives to make it easier for parents to return to work after parental leave.

The female share of the STRATEC Group's workforce rose from 24.2% in 2016 to 25.5% in 2017.

Percentage of female employees

	2017	2016
Female employees in %	25.5	24.2

With regard to the diversity concept for the composition of the Board of Management and Supervisory Board, reference is made to the Corporate Governance Declaration, which is available at the company's website at www.stratec.com > Corporate Governance.

Social commitment

As a company with global operations but regional roots, STRATEC is aware of its social responsibility on both global and local levels. STRATEC therefore supports both regional and global charities, healthcare and education organizations, and associations. In 2017, these kinds of organizations were supported with a total of € 97,250. Not only that, the company maintains an open and constructive dialog with a wide variety of stakeholders in the fields of politics, business and society at all of our locations. This dialog is intended to improve the competitiveness of the individual regions and to inform local populations about activities and developments which affect them.

Donations and benefit payments in €

	2017	2016
Donations / benefit payments	97,250	87,857

Measures to combat corruption and bribery

Any incidence of corruption or bribery within the STRATEC Group may have severe implications for the company's reputation and for its existing and future business relationships. Corruption also has enormously negative implications for society as a whole, as well as for political integrity, and general prosperity.

Measures to prevent corruption and bribery therefore form an integral component of STRATEC's understanding of compliance and have also been summarized in the Corporate Compliance Policy which requires application throughout the Group. This policy is binding for all employees. In this respect, compliance with a variety of legal systems and statutory regulations is just as important as compliance with ethical principles. Core elements of STRATEC's Corporate Compliance Policy:

- Preventing corruption, i.e. upholding the integrity necessary in business dealings, and in particular the prohibition of any illegitimate exercising of influence
- Regular training of employees and information material on the intranet and bulletin boards
- Compliance with all requirements set by law and the respective authorities
- The obligation to ensure fair, respectful working conditions at the company
- The avoidance of conflicts of interest
- Compliance with the requirements of capital market and antitrust law
- Compliance with all internal requirements and instructions.

To reinforce a company-wide compliance culture, in the 2016 financial year STRATEC devised a new and uniform design for its compliance and rolled this out with group-wide compliance training sessions at all subsidiaries. As of December 31, 2017, all 1,070 of the STRATEC Group's employees had completed this compliance training. In 2017, the company also introduced an anonymous whistleblower system to report any breaches of regulations or legal requirements.

STRATEC's compliance system is subject to permanent enhancement and optimization and forms an integral component of the STRATEC Group. Consistent with this approach, one-to-one meetings are held at regular intervals between all managers and the relevant compliance officer. These talks are intended to identify any potential risks at an early stage and to continually raise awareness of compliance among the management teams. This enables STRATEC's management teams to detect specific risks, avoid risks by analyzing situations and developing suitable strategies, comply with operational imperatives, and take any necessary measures. The compliance officer reports directly to the Board of Management. The Board of Management meets its reporting obligations towards the Supervisory Board.

STRATEC expects all of its employees to adhere to compliance requirements and to ensure that all decisions and actions taken in their areas of responsibility are consistent with relevant legal requirements and the Corporate Compliance Policy and also serve the company's best interests.

Respecting human rights

STRATEC is committed to the Human Rights' Charter of the United Nations and the guidelines of the UN Global Compact. It provides employees across the Group with a high degree of social security and performance-based compensation. The company's approach towards human rights and employee rights is laid down in guidelines that are mandatory throughout the Group. The Corporate Compliance Policy obliges all employees worldwide to behave with respect and in compliance with legal requirements towards their employees, colleagues, business partners, customers, and the authorities.

Even though STRATEC's suppliers predominantly operate in western industrial economies, it is not possible to fully exclude the risk of human rights' breaches, particular in the upstream supply chain. STRATEC therefore expects its suppliers to meet the same standards in terms of safeguarding and complying with human rights.

To this end, all module suppliers in the Instrumentation business unit have been contractually obliged to abide by STRATEC's generally valid Code of Conduct, which is based on the guidelines of the UN Global Compact, the conventions of the ILO, the UN Declaration of Universal Human Rights and Children's Rights, and the OECD Guidelines for companies with international operations. Compliance with the Code of Conduct is also reviewed in the context of regular audits.

STRATEC has set itself the aim of contractually obliging all suppliers to the subsidiaries acquired in 2016 (Diatron and STRATEC Consumables) to comply with its generally valid Code of Conduct by the end of 2019.

No breaches of human rights were identified within the STRATEC Group or its supply chain in the 2017 financial year or the preceding financial years.

Birkenfeld, April 5, 2018

STRATEC Biomedical AG

The Board of Management

Marcus Wolfinger

Marcus Wolfinger

Robert

Dr. Robert Siegle

Vielsack

Dr. Claus Vielsack

CONSOLIDATED FINANCIAL STATEMENTS

of STRATEC Biomedical AG for the 2017 Financial Year

CONSOLIDATED BALANCE SHEET
as of December 31, 2017

Assets

€ 000s	Note	12.31.2017	12.31.2016 restated[1]	01.01.2016[1] restated[1]
Non-current assets				
Intangible assets	(01)			
• Goodwill		42,018	42,841	5,125
• Other intangible assets		68,708	75,935	25,867
		110,726	**118,776**	**30,992**
Property, plant and equipment	(02)	35,701	32,789	19,595
Financial assets	(07)	240	378	184
Deferred taxes	(11)	128	99	21
		146,795	**152,042**	**50,792**
Current assets				
Inventories	(03)			
• Raw materials and supplies		15,380	13,029	9,375
• Unfinished products, unfinished services		6,367	5,302	3,853
• Finished products and merchandise		6,133	6,188	2,791
		27,880	**24,519**	**16,019**
Receivables and other assets				
• Trade receivables	(04)	39,126	38,890	24,045
• Receivables from construction contracts	(05)	7,210	2,348	1,470
• Receivables from associates	(06)	24	22	23
• Financial assets	(07)	12,498	5,695	2,779
• Other receivables and assets	(08)	4,563	3,870	2,358
• Income tax receivables	(08)	1,543	4,081	5,038
		64,964	**54,906**	**35,713**
Cash and cash equivalents	(25)	24,137	26,500	56,415
		116,981	**105,925**	**108,147**
		263,776	**257,967**	**158,939**

[1] Due to adjustments, some of the amounts presented deviate from those stated in the consolidated financial statements for the 2016 financial year (see Section A of the notes to the consolidated financial statements).

Shareholders' equity and debt

€ 000s	Note	12.31.2017	12.31.2016 restated[1]	12.31.2016 restated[1]
Shareholders' equity	(09)			
Share capital		11,921	11,861	11,853
Capital reserve		22,417	20,437	20,061
Revenue reserves		121,058	104,552	93,901
Treasury stock		-89	-118	-172
Other equity		2,530	5,609	3,651
		157,837	**142,341**	**129,294**
Non-current debt				
Non-current financial liabilities	(12)	62,581	3,035	4,328
Other non-current liabilities	(14)	222	434	22
Provisions for pensions	(10)	3,402	3,386	1,244
Deferred taxes	(11)	11,035	14,574	5,384
		77,240	**21,429**	**10,978**
Current debt				
Current financial liabilities	(12)	10,360	72,793	3,816
Trade payables	(13)	6,928	7,100	3,436
Liabilities to associates	(13)	0	0	14
Other liabilities	(14)	8,204	12,631	8,391
Provisions	(15)	1,031	1,348	1,508
Income tax liabilities	(15)	2,176	325	1,502
		28,699	**94,197**	**18,667**
		263,776	**257,967**	**158,939**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the Period from January 1 to December 31, 2017

€ 000s	Note	2017	2016 restated[1]
Sales	(16)	209,764	184,911
Cost of sales	(17)	-142,268	-123,350
Gross profit		**67,496**	**61,561**
Research and development expenses	(18)	-10,262	-8,054
Sales-related expenses	(19)	-12,918	-12,779
General administration expenses	(20)	-20,979	-15,995
Other operating expenses	(21)	-3,858	-4,472
Other operating income	(21)	9,361	3,866
Earnings before interest and taxes (EBIT)		**28,840**	**24,127**
Financial income		109	104
Financial expenses		-816	-1,078
Other financial income/expenses		-106	-307
Net financial expenses	(22)	**-813**	**-1,281**
Earnings before taxes (EBT)		**28,027**	**22,846**
Taxes on income	(11)		
a) Current tax expenses		-6,484	-6,537
b) Current tax income		4,092	3,188
Consolidated net income		**25,635**	**19,497**
Items that may not be subsequently reclassified to profit or loss:			
Remeasurements of defined benefit pension plans		-86	-56
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences from translation of foreign operations		-4,478	974
Changes in value of financial investments		1,485	1,040
Other comprehensive income		**-3,079**	**1,958**
Comprehensive income		**22,556**	**21,455**
Basic earnings per share in €	(23)	**2.16**	**1.65**
No. of shares used as basis (basic)		11,881,254	11,851,382
Diluted earnings per share in €	(23)	**2.14**	**1.63**
No. of shares used as basis (diluted)		11,984,437	11,936,660

[1] Due to adjustments, some of the amounts presented deviate from those stated in the consolidated financial statements for the 2016 financial year (see Section A of the notes to the consolidated financial statements).

CONSOLIDATED CASH FLOW STATEMENT
for the 2017 Financial Year

€ 000s	Note	2017	2016 restated[1]
Operations			
Consolidated net income (after taxes)		25,635	19,497
Depreciation and amortization		18,488	11,211
Current income tax expenses	(11)	6,484	6,537
Income taxes paid less income taxes received		-2,131	-6,602
Financial income	(22)	-109	-104
Financial expenses	(22)	816	1,078
Interest paid		-1,044	-604
Interest received		109	60
Other non-cash expenses		2,772	1,605
Other non-cash income		-7,100	-2,193
Change in net pension provisions through profit or loss	(10)	161	369
Change in deferred taxes through profit or loss	(11)	-4,092	-3,188
- Profit/+loss on disposals of non-current assets		13	474
- Increase/+reduction in inventories, trade receivables, and other assets		-11,723	-9,862
+ Increase/-reduction in trade payables and other liabilities		1,702	-2,022
Cash flow from operating activities		**29,981**	**16,256**
Investments			
Incoming payments from disposals of non-current assets			
• Property, plant and equipment		22	82
• Financial assets		5	104
Outgoing payments for investments in non-current assets			
• Intangible assets		-6,354	-2,773
• Property, plant and equipment		-9,312	-7,206
• Financial assets		-1	-50
Outgoing payments for acquisitions of consolidated companies less cash and cash equivalents thereby acquired		0	-76,885
Cash flow from investing activities		**-15,640**	**-86,728**
Financing			
Incoming funds from taking up of financial liabilities		27,500	67,550
Outgoing payments for repayment of financial liabilities		-36,159	-18,313
Incoming payments from issue of shares for employee stock option programs		1,810	254
Dividend payments		-9,129	-8,885
Cash flow from financing activities		**-15,978**	**40,606**
Cash-effective change in cash and cash equivalents		**-1,637**	**-29,866**
Cash and cash equivalents at start of period		26,500	56,415
Changes in scope of consolidation		0	51
Impact of exchange rate movements		-726	-100
Cash and cash equivalents at end of period	**(25)**	**24,137**	**26,500**

[1] Due to adjustments, some of the amounts presented deviate from those stated in the consolidated financial statements for the 2016 financial year (see Section A of the notes to the consolidated financial statements).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the 2017 Financial Year

€ 000s	Note	Share capital	Capital reserve
December 31, 2015	(09)	**11,853**	**20,061**
IAS 8.41 restatements	(A)		
January 1, 2016 (restated[1])		**11,853**	**20,061**
Equity transactions with owners			
• Dividend payments			
• Issue of subscription shares from stock option programs, less costs of capital issue after taxes		8	247
• Allocations due to stock option plans			138
• Allocations due to employee participation program			-9
Adjusted comprehensive income in 2016			
Changes in scope of consolidation			
December 31, 2017 (restated[1])	(09)	11,861	20,437
Equity transactions with owners			
• Dividend payments			
• Issue of subscription shares from stock option programs, less costs of capital issue after taxes		60	1,750
• Allocations due to stock option plans			140
• Allocations due to employee participation program			90
Comprehensive income in 2017			
Changes in scope of consolidation			
December 31, 2017	(09)	**11,921**	**22,417**

[1] Due to adjustments, some of the amounts presented deviate from those stated in the consolidated financial statements for the 2016 financial year (see Section A of the notes to the consolidated financial statements).

Revenue reserves			Other equity			
Accumulated net income	Free revenue reserves	Treasury stock	Fair value reserve	Pension plans	Currency translation	Group equity
74,915	**19,392**	**-172**	**0**	**-47**	**4,278**	**130,280**
-406				-580		-986
74,509	**19,392**	**-172**	**0**	**-627**	**4,278**	**129,294**
-8,885						-8,885
						255
						138
		54				45
19,497			1,040	-56	974	21,455
39						39
85,160	19,392	-118	1,040	-683	5,252	142,341
-9,129						-9,128
						1,810
						140
		29				119
25,635			1,485	-86	-4,478	22,556
0						0
101,666	**19,392**	**-89**	**2,525**	**-769**	**774**	**157,837**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

of STRATEC Biomedical AG for the 2017 Financial Year

A. GENERAL DISCLOSURES

General information

STRATEC Biomedical AG (hereinafter 'STRATEC AG'), with its legal domicile in Gewerbestrasse 35–37, 75217 Birkenfeld, Germany, designs and manufactures fully automated systems for its partners in the fields of clinical diagnostics and biotechnology. Furthermore, STRATEC AG provides sample preparation solutions, integrated laboratory software, and complex consumables for diagnostics and medical applications. In this, the company covers the entire value chain – from development and design through to production and quality assurance. The partners market the systems, software and consumables, in general together with their own reagents, as system solutions to laboratories, blood banks and research institutes around the world. STRATEC AG develops its products on the basis of its own patented technologies.

STRATEC AG is entered in the Commercial Register in Mannheim under No. HRB 504390.

The Board of Management of STRATEC AG prepared the consolidated financial statements on April 5, 2018 and forwarded these to the Supervisory Board. The Supervisory Board of STRATEC AG will adopt a resolution concerning the approval of the consolidated financial statements at its meeting on April 9, 2018. The consolidated financial statements and group management report as of December 31, 2017 will be published in the electronic Federal Official Gazette (Bundesanzeiger).

Declaration of conformity

The consolidated financial statements compiled by STRATEC AG as the topmost parent company as of December 31, 2017 have been prepared with due application of § 315e (1) of the German Commercial Code (HGB) in accordance with the requirements of the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), London, and the Interpretations of the International Financial Reporting Interpretations Committee (IFRS IC) valid and endorsed by the European Union as of the balance sheet date, as well as with the supplementary requirements of German commercial law.

Basis of preparation

The consolidated financial statements have been compiled in thousand euros (€ 000s). Unless otherwise stated, the amounts reported in the notes to the consolidated financial statements are denominated in thousand euros (€ 000s). Due to numbers being rounded up or down and presented in € 000s, it is possible that individual figures in the consolidated financial statements of STRATEC AG do not add up exactly to the total stated and that the percentage figures do not correlate exactly to the absolute figures to which they refer.

The financial year for the consolidated financial statements corresponds to the calendar year. The financial statements of all companies included in the consolidated financial statements have been prepared as of the balance sheet date for the consolidated financial statements and based on uniform accounting and valuation principles.

The consolidated statement of comprehensive income has been prepared using the cost of sales method.

In the interests of clarity, individual items have been aggregated in the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated statement of changes in equity. These are explained in the notes to the consolidated financial statements. The consolidated balance sheet has been structured in line with the maturities of the respective assets and liabilities. All assets and liabilities maturing or due to be sold within the next twelve months are classified as current. Assets and liabilities earmarked for realization in the company's usual course of business are also classified as current, even when their maturities exceed twelve months. Liabilities for which STRATEC AG has an unconditional right to defer settlement by at least twelve months after the balance sheet date are classified as non-current. Pursuant to IAS 1.56, deferred taxes must generally be recognized as non-current items.

Accounting standards requiring mandatory application for the first time in the current financial year

The following accounting standards and interpretations required mandatory application for the first time in the 2017 financial year.

Standard	Title	Effective date[1]	EU endorsement
New and amended standards and interpretations			
IAS 7	Amendments to IAS 7: Disclosure Initiative	01.01.2017	11.06.2017
IAS 12	Amendments to IAS 12: Recognition of Deferred Tax Claims for Unrecognised Losses	01.01.2017	11.06.2017
IFRS 12	Annual Improvements to IFRS, 2014-2016 Cycle	01.01.2017	02.07.2018

[1] For companies like STRATEC AG whose financial year corresponds to the calendar year

The application of these standards and interpretations in the 2017 financial year was consistent with the respective transition requirements. Unless explicitly required by individual standards and interpretations and explained separately below, the respective requirements have generally been applied retrospectively, i.e. the information has been presented as if the new accounting methods had always been applied in the past. In these cases – and where called for by the respective standard – the comparative figures have been adjusted accordingly.

Overall, first-time application of the aforementioned requirements at STRATEC AG did not have any significant impact on the presentation of the net asset, financial, and earnings position, on earnings per share, or on the disclosures in the notes to the consolidated financial statements.

Adjustment to previous year's figures

When preparing the 2017 consolidated financial statements, it was discovered that – in contravention of IAS 19.30 – the post-employment benefits accounted for in connection with statutory retirement, dependant and invalidity pension requirements (BVG) both at STRATEC Biomedical Switzerland AG, Switzerland, and at STRATEC Services AG, Switzerland, had, due to their legal and actual structures, been classified as defined contribution plans and recognized pursuant to IAS 19.50 et seq. As a result, a retrospective adjustment pursuant to IAS 8.41 et seq. has been made to correct this item in the current financial year.

Overall presentation of implications

The adjustments made have had the following specific implications for the net asset, financial, and earnings position:

Correction in opening consolidated balance sheet of STRATEC Biomedical AG as of January 1, 2016 (€ 000s)

Balance sheet item	December 31, 2015 (as reported)	IAS 8.41 restatements	Opening balance sheet as of January 1, 2016
Retained earnings	94,307	-406	93,901
Other equity	4,231	-580	3,651
Provisions for pensions	63	1,181	1,244
Deferred taxes	5,579	-195	5,384

Correction in consolidated balance sheet of STRATEC Biomedical AG as of December 31, 2016 (€ 000s)

Balance sheet item	December 31, 2015 (as reported)	IAS 8.41 restatements	Opening balance sheet as of January 1, 2016
Retained earnings	105,033	-481	104,552
Other equity	6,506	-897	5,609
Provisions for pensions	1,753	1,633	3,386
Deferred taxes	14,829	-255	14,574

Correction in consolidated statement of comprehensive income of STRATEC Biomedical AG for the 2016 financial year (€ 000s)

Income statement item	2016 financial year (as reported)	IAS 8.41 restatements	2016 financial year (restated)
Cost of sales	-123,275	-75	-123,350
Gross profit	**61,636**	**-75**	**61,561**
General administration expenses	-15,993	-2	-15,995
Earnings before interest and taxes (EBIT)	**24,204**	**-77**	**24,127**
Financial income	81	23	104
Financial expenses	-1,043	-35	-1,078
Net financial expenses	**-1,269**	**-12**	**-1,281**
Earnings before taxes (EBT)	**22,935**	**-89**	**22,846**
Deferred tax income	3.174	14	3,188
Consolidated net income	**19,572**	**-75**	**19,497**
Remeasurements of defined benefit pension plans	247	-303	-56
Currency translation differences from translation of foreign operations	989	-15	974
Other comprehensive income	**2,276**	**-318**	**1,958**
Comprehensive income	**21,848**	**-393**	**21,455**
Basic earnings per share in €	**1.64**	**-0.01**	**1.63**

Correction in consolidated cash flow statement of STRATEC Biomedical AG for the 2016 financial year (€ 000s)

Cash flow statement item	2016 financial year (as reported)	IAS 8.41 restatements	2016 financial year (restated)
Consolidated net income (after taxes)	19,572	-75	19,497
Financial income	81	23	104
Financial expenses	-1,043	-35	-1,078
Other non-cash income	-1,836	-357	-2,193
Change in net pension provisions through profit or loss	-65	434	369
Change in deferred taxes through profit or loss	-3,174	-14	-3,188
Cash flow from operating activities	**16,256**	**0**	**16,256**

Accounting requirements already published but not yet applied

The IASB and IFRS IC have issued the following standards, amendments and revisions to standards and interpretations not yet requiring mandatory application. Application of the new and revised standards and interpretations is dependent, among other factors, on their acceptance by the European Union within its IFRS endorsement procedure.

Standard	Title	Effective date [1]	EU endorsement
Neue und geänderte Standards und Interpretationen			
IFRS 9	Financial Instruments	01.01.2018	11.22.2016
IFRS 15	Revenue from Contracts with Customers	01.01.2018	09.22.2016
IFRS 15	Clarifications to Revenue from Contracts with Customers	01.01.2018	10.31.2017
IFRS 2	Amendments: Classification and Measurement of Share-based Payment Transactions	01.01.2018	02.26.2018
IFRS 4	Amendments: Applying IFRS 9 (Financial Instruments) with IFRS 4 (Insurance Contracts)	01.01.2018	11.03.2017
Sundry	Annual Improvements to IFRS, 2014-2016 Cycle	01.01.2018	02.07.2018
IFRIC 22	Interpretation on Foreign Currency Transactions and Advance Consideration	01.01.2018	Expected in 1st quarter of 2018
IAS 40	Amendments: Transfers of Investment Property	01.01.2018	03.14.2018
IAS 19	Amendments: Plan Amendment, Curtailment or Settlement	01.01.2019	Expected in 2018
IAS 28	Amendments: Long-term Interests in Associates and Joint Ventures	01.01.2019	Expected in 2018
IFRS 9	Amendments: Prepayment Features with Negative Compensation	01.01.2019	Expected in 1st quarter of 2018
IFRS 10, IAS 28	Amendments: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [3]	01.01.2019	Endorsement postponed by European Commission
IFRS 16	Leases [2]	01.01.2019	10.31.2017
IFRC 23	Uncertainty Over Income Tax Treatments	01.01.2019	Expected in 3rd quarter of 2018
Sundry	Annual Improvements to IFRS, 2015-2017 Cycle	01.01.2019	Expected in 2018
IFRS 17	Insurance Contracts	01.01.2021	Outstanding

[1] For companies like STRATEC AG whose financial year corresponds to the calendar year
[2] Early application is only permitted with simultaneous application of IFRS 15
[3] The effective date for this amendment has been postponed indefinitely.

STRATEC AG does not intend to make any voluntary, premature application of these standards and interpretations or of the relevant amendments.

In the interests of reporting efficiency, only those standards and interpretations have been outlined below which, based on the information currently available and given the business model and business transactions customary at the STRATEC Group, are very likely to have implications for the accounting policies or for the reporting and disclosure of information in STRATEC's consolidated financial statements in future financial years.

IFRS 9 (Financial Instruments)

The IASB published IFRS 9 (Financial Instruments), a standard intended to replace IAS 39 (Financial Instruments: Recognition and Measurement), in July 2014. IFRS 9 (Financial Instruments) includes a new classification and measurement approach for financial assets. In this respect, the standard basically refers to the cash flow characteristics and the business model by which these are managed. Furthermore, the 'incurred loss model' in IAS 39 (Financial Instruments: Recognition and Measurement) will be replaced by a forward-looking 'expected credit loss' model. Moreover, IFRS 9 (Financial Instruments) amends the application of hedge accounting by requiring risk management activities, and especially those relating to the management of non-financial risks, to be presented in detail.

For STRATEC AG, application of the new requirements will have the following material implications. To facilitate comprehension, we would explicitly also refer to the information on the accounting policies applied in these financial statements provided in Section B. 'Financial assets and liabilities'. Specifically, the current accounting treatment of the shares held in Quanterix Corporation, US, is also presented in that section. These shares have to date been allocated to the 'available-for-sale financial assets' category pursuant to IAS 39 (Financial Instruments: Recognition and Measurement). Due to the deletion of this category without replacement upon application of IFRS 9 (Financial instruments), the shares held in Quanterix Corporation, US, will in future have to be classified in accordance with the requirements of IFRS 9 (Financial instruments). As of the balance sheet date on December 31, 2017, the shares held in Quanterix Corporation, US, constitute equity instruments (pursuant to the definition provided in IAS 32 (Financial Instruments: Presentation)) which do not meet the requirements for classification as 'held for trading' at this time. As a result, these shares will be within the scope of IFRS 9.4.1.4 in conjunction with IFRS 9.5.7.5. In view of the facts and circumstances pertaining upon initial application of IFRS 9 (Financial Instruments) on January 1, 2018, pursuant to IFRS 9.7.2.8 (b) in conjunction with IFRS 9.B7.2.1 STRATEC AG therefore (initially) has the option of designating the shares held in Quanterix Corporation, US, for subsequent measurement either through profit or loss or in equity in the 2018 financial year and subsequent financial years. This classification is made retrospectively as of January 1, 2018, as are any adjustments required as a result. Furthermore, it should be noted that the option provided for in IFRS 9.B5.7.1 may be exercised separately for each individual share ('on a share-by-share-basis').

Accordingly, were STRATEC AG to draw on the option of (regular) measurement through profit or loss provided for in IFRS 9.4.1.4 (on a share-by-share basis), then unlike in the current measurement pursuant to IAS 39.55 (b) share price movements would impact on earnings in the consolidated statement of comprehensive income at each balance sheet date even without derecognition of the shares. If, on the other hand, STRATEC AG were to draw on the option of subsequent measurement in equity (on a share-by-share basis), then pursuant to IFRS 9.B.5.7.1 – and unlike in the current form of measurement – share price movements would not be transferred from other comprehensive income to profit or loss even if the shares were to be derecognized. Furthermore, as the shares held in Quanterix Corporation, US, are traded in US dollars and constitute a non-monetary asset, the resultant foreign currency effects have to be accounted for in accordance with IAS 21 (Effects of Changes in Foreign Exchange Rates) in conjunction with IFRS 9.B5.7.3. Depending on whether the shares in Quanterix Corporation, US, are subsequently measured through profit or loss or in equity, this means that currency translation effects will also be recognized through profit or loss or in equity.

As presented in Section C. 'Notes to the consolidated balance sheet' in Point 7. 'Financial assets' and in Section G. 'Financial instruments', the fair value of the shares held in Quanterix Corporation, US, amounted to € 11,140k as of the balance sheet date on December 31, 2017. As of that date, an amount of € 2,560k was recognized before taxes on income (previous year: € 1,055k) and an amount of € 2,525k after taxes (previous year: € 1,040k) under accumulated other comprehensive income. Were the shares held in Quanterix Corporation, US, to be classified as measured through profit or loss, then the amount recognized in accumulated other comprehensive income would require classification out of accumulated other comprehensive income and into retained earnings. Conversely, if the shares were subsequently to be measured in equity then, even if they were derecognized at a later point in time, they would not be reclassified to profit or loss but rather directly to retained earnings.

Apart from the follow-up amendments to IFRS 7 (Financial Instruments: Disclosures) resulting from the transition from IAS 39 (Financial Instruments: Recognition and Measurement) to IFRS 9 (Financial Instruments), STRATEC AG does not expect this transition to have any other material implications for its consolidated financial statements.

STRATEC AG will introduce IFRS 9 (Financial Instruments) retrospectively without amending the previous year's figures. As a result, the conversion effects will be recognized cumulatively in equity as of January 1, 2018 while the comparative period will be presented in accordance with the previous requirements.

IFRS 15 (Revenue from Contracts with Customers)

I. General provisions

Published in May 2014, the standard 'Revenue from Contracts with Customers' is intended to unite the numerous regulations governing revenue recognition in various standards and interpretations into a single standard. The new standard provides for a uniform, principle-based **five-step model** applicable to all contracts with customers. Specifically, the following steps have to be accounted for:

Step 1: Identification of the contract
Step 2: Identification of the individual performance obligations
Step 3: Determination of the transaction price
Step 4: Allocation of the transaction price
Step 5: Satisfaction of the performance obligations

Furthermore, the standard includes **requirements governing the recognition of contract costs**. A distinction is made in this respect between incremental costs of obtaining the contract and contract fulfillment costs. Where the requirements for capitalizing these costs are met, the amortization and impairment of such costs also has to be addressed.

Moreover, the new standard includes **requirements governing the presentation of sales** and **requirements governing note disclosures** whose level of detail goes well beyond the existing requirements in IAS 18 (Revenue) and IAS 11 (Construction Contracts).

Details of **initial application** and **transition requirements** are provided in **Annex C to IFRS 15 (Revenue from Contracts with Customers)**. Accordingly, the standard requires mandatory application in financial years beginning on (or after) January 1, 2018.

In what follows, the specific approach taken to implement IFRS 15 (Revenue from Contracts with Customers) at the STRATEC Group is presented in detail.

II. Implementation at the STRATEC Group

1. Business model-based analysis of specific implementation of IFRS 15 (Revenue from Contracts with Customers) at the STRATEC Group

STRATEC AG began by performing a business model-based analysis to develop a system aimed at ensuring suitable recognition of its sales pursuant to IFRS 15 (Revenue from Contracts with Customers). The business model for the design, manufacture, and approval of complex analyzer systems was further broken down into:

- OEM partnering
  (includes the STRATEC Instrumentation business unit)

- Direct and distribution business
  (includes the Diatron business unit).

The business model for the design, manufacture, and approval of complex consumables comprises the Smart Consumables business unit, while the business model for the development of middleware laboratory software consists of the Data Management business unit.

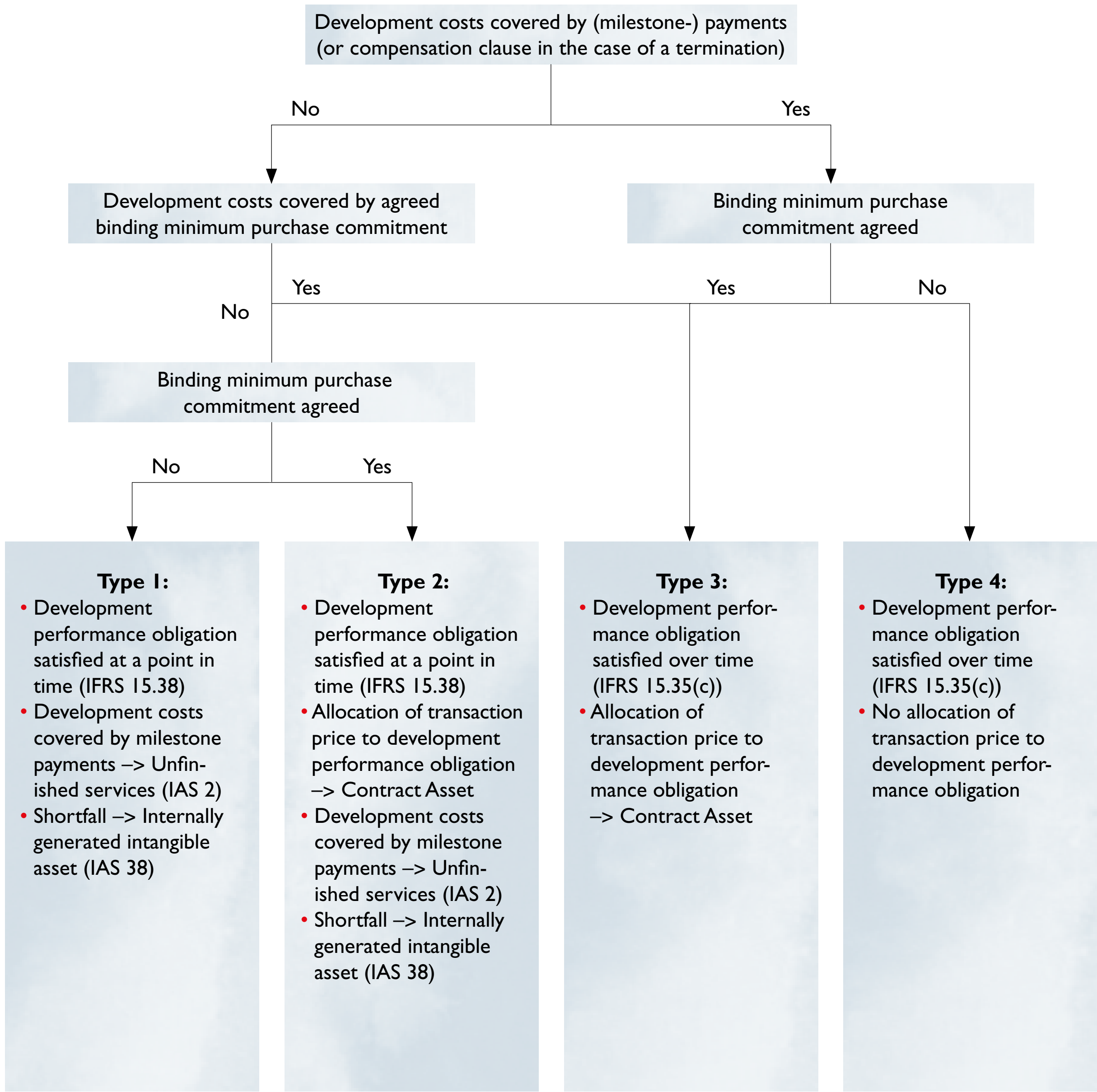
2. Derivation of new accounting practice in accordance with IFRS 15 (Revenue from Contracts with Customers) at the STRATEC Group

Based on the analysis of the individual business models, an individual concept for revenue recognition consistent with IFRS 15 (Revenue from Contracts with Customers) was designed for each of the aforementioned business models. The analysis also addressed more far-reaching related problem areas relating to the recognition of unfinished services pursuant to IAS 2 (Inventories), the capitalization of development expenses pursuant to IAS 38 (Intangible Assets), the determination of provision requirements pursuant to IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), and the (initial) recognition of (specific) contract costs pursuant to IFRS 15 (Revenue from Contracts with Customers).

Due to materiality considerations, the analyses thereby performed focused in the first stage on the development cooperations in the OEM partnering business. These are of the greatest significance to the STRATEC Group in both quantitative and qualitative terms. The analyses then addressed the direct and distribution business at the Diatron business unit, as well as STRATEC Consumables and the Data Management business unit.

In addition to what were in specialist and technical terms highly sophisticated descriptions of the requirements of IFRS 15 (Revenue from Contracts with Customers) as applicable to the specific individual business models (e.g. concerning the basic applicability of the standard, the conditions underlying the pooling of contracts, the presentation of contract modifications, the identification of performance obligations, the determination and allocation of the transaction price to individual service obligations, the inclusion of non-cash consideration in the transaction price, the selection of period-based or time-based revenue recognition, and the aforementioned more detailed matters associated with related standards), the analyses also provided specific illustrative models with sample figures and entries and evaluated the accounting considerations required for practical implementation purposes. This resulted in the identification of the following four main case groups for the recognition of development cooperations in the OEM partnering business. An overview of these is presented below:

Case groups for development cooperations in the OEM partnering business pursuant to IFRS 15 (Revenue from Contracts with Customers)



It became apparent that the threshold for recognizing sales is significantly higher than that required, for example, to capitalize intangible assets pursuant to IAS 38.57. Pursuant (in particular) to IAS 38.57 (d) in conjunction with IAS 38.60, the latter threshold is determined in accordance with the requirements of IAS 36, while the requirements for recognizing sales are exclusively based on IFRS 15 (Revenue from Contracts with Customers). The methodological considerations used to determine the capitalization of contract fulfilment costs pursuant to IFRS 15.95 et seq. are basically the same. Here, costs might potentially already be capitalized for anticipated contracts, whereas it would not be permitted to recognize sales in this case. More detailed considerations along the same lines subsequently arose when considering potential impairment tests. Pursuant to IFRS 15.102, the variable consideration constraint provided for under IFRS 15.56-58 does not apply in this case, but certainly does apply for the recognition of sales (c.f. IFRS 15.BC310).

3. Specific effects of initial conversion to IFRS 15 (Revenue from Contracts with Customers)

The expected effects of first-time application of IFRS 15 (Revenue from Contracts with Customers) at the STRATEC Group are presented below in the form in which they have been included in the 'Transition' section of the updated Accounting Policy at STRATEC AG:

'IFRS 15 requires application in financial years beginning on or after January 1, 2018. Earlier application is permitted. STRATEC will apply IFRS 15 in the financial year beginning on January 1, 2018.'

In respect of initial application, the standard provides for full retrospective application, full retrospective application with practical relief, and retrospective application with recognition of cumulative adjustments resulting from initial application as of the date of initial application. STRATEC has decided to apply IFRS 15 retrospectively with recognition of cumulative adjustments (the 'modified retrospective transition method'). To this end, the cumulative effect of initially applying the standard as of the date of initial application must be recognized as an adjustment to the opening balance of retained earnings. Here, STRATEC has additionally chosen the option of only applying IFRS 15 retrospectively to those contracts that have not been completed upon initial application, i.e. on January 1, 2018. A contract is completed when STRATEC has transferred all contractually promised goods and services identified in accordance with IAS 11, IAS 18 and associated interpretations. Here, transferred means 'delivered' in the context of goods and 'performed' in the context of services and construction contracts. [6]

For customer contracts that have not been completed pursuant to IFRS 15, the cumulative effect of initially applying the standard must be recognized as an adjustment to the opening balance of retained earnings and other relevant balance sheet items upon initial application (01.01.2018). STRATEC is drawing on the relief provided for in IFRS 15.C7A(b) in conjunction with IFRS 15.C5(c). This means that the implications of contract modifications are presented in summarized form pursuant to IFRS 15.

In Subsection 1. 'Development Cooperations in the OEM Partnering Business', the Accounting Policy continues as follows:

In accordance with the requirements of the Accounting Policy of the STRATEC Group and consistent with 'legacy IFRS', STRATEC recognizes sales for development cooperations in its OEM partnering business pursuant to IAS 11 in cases where there is a 'binding agreement'[7] and pursuant to IAS 18 where this is not the case.[8] In the context of development cooperations, STRATEC therefore recognizes sales for development services, prototype and validation appliance deliveries, and appliance deliveries.

a) Existing cases of application of IAS 2, IAS 38, IAS 18

A **(separate) development contract without a 'binding agreement'** [9], on which basis STRATEC owes the development of an analyzer system and has recognized all sales relating to the agreement in accordance with IAS 18 through to 12.31.2017 represents – from the perspective of IFRS 15 – a completed contract and is therefore not within the scope of the modified retrospective transition method selected by STRATEC. For such contracts, no adjustment needs to be recognized in the opening balance as of 01.01.2018.[10] If the development service has not been completed as of 12.31.2017, then the contract must be accounted for in accordance with IFRS 15 and the effect of converting from IAS 18 to IFRS 15 must be recognized. In the case of an uncompleted 'IAS 18 development cooperation', there is **no overall implication** for the level of **retained earnings**. The sales recognized through to 12.31.2017 must be offset against retained earnings by recognizing a **contract liability** in the same amount.[11] Conversely, the costs of sales incurred through to 12.31.2017 are offset in the same amount against retained earnings, in this case as unfinished services. **In this situation, sales in subsequent periods are higher under IFRS 15 than under IAS 18**.

Development cooperations with contractually agreed minimum acceptance volumes which nevertheless did not result in a 'binding agreement'[12] under 'legacy IFRS' and for which the minimum acceptance volumes have already been met, must be viewed under IFRS 15 as completed contracts as all of the services identified under IAS 18 have been performed. If, on the other hand, the development services provided for in such development cooperations have not been completed as of 12.31.2017, then the contract must be accounted for in accordance with IFRS 15 and the effect of converting from IAS 18 to IFRS 15 must be recognized. In this case, the transition to IFRS 15 has **no overall implication for the level of retained earnings.** The sales recognized through to 12.31.2017 must be offset against retained earnings by recognizing a contract liability in the same amount.[13] Conversely, the costs of sales incurred through to 12.31.2017 are offset in the same amount against retained earnings, in this case as unfinished services. However, any allocation of the transaction price initially required upon the transition to IFRS 15 may impact on the level of intangible assets, contract assets, and sales **upon the conclusion of the development performance obligation**, as is illustrated in Example 2 under D.1.j).

For development cooperations in which the development service has been completed, but the minimum acceptance volume has not yet been met, [14] then not all of the services identified under IAS 18 have been performed as of 12.31.2017. The transition to IFRS 15 has **no implication for the level of retained earnings.** The allocation of sales based on the allocation of the transaction price to the satisfied development performance obligations would lead to a reduction in internally generated intangible assets and to the recognition of a contract asset in the amount of the difference between the allocated transaction price and the sales previously recognized under IAS 18. The amortization of internally generated intangible assets and decline in the contract asset may have implications for the level of retained earnings as of 12.31.2017, as the contract asset declines in line with the minimum acceptance volume [15] while the internally generated intangible assets are amortized over a term based on estimated output volumes which generally exceed minimum acceptance volumes. **In this situation, sales in the period covered by minimum acceptance volumes are lower under IFRS 15 than under IAS 18**.

For development cooperations in which the costs are compensated by the customer even in the absence of minimum acceptance volumes and which are not yet completed as of 12.31.2017, a review should be performed to ascertain whether the criteria for performing the development-related performance obligation over a specific period have been met.[16] If the **development service is performed over a specific period,** then the transition to IFRS 15 is not expected to result in any overall **adjustment to retained earnings**.

Depending on specific circumstances, however, the following **implications for sales** may arise in subsequent periods:

- If the sales recognized under IAS 18 through to 12.31.2017 fall short of the development expenses incurred as a result of the (previous) cap at the lower of milestone payments or development expenses incurred, then the unfinished services recognized as of 12.31.2017 must be derecognized and offset against retained earnings with the recognition of a **contract asset** in the same amount. The contract asset should subsequently be derecognized upon receipt of the relevant consideration, an approach which **reduces the remaining sales under IFRS 15 compared with IAS 18**.[17]

- If, by contrast, the sales recognized under IAS 18 through to 12.31.2017 correspond to the development expenses incurred, then IFRS 15 requires any milestone payments exceeding the volume of sales reported and previously recognized as prepayments received to be reclassified as a contract liability. The **contract liability** should subsequently be reversed in line with the progress made with recognizing sales. **This will therefore not have any implications for the remaining sales under IFRS 15 compared with IAS 18.**[18]

If, particularly in the case of service agreements, cost coverage is provided for but not all of the criteria stipulated in IFRS 15.35 (c) for the recognition of sales over a period of time have been met[19] and if the **sales** for the development service are therefore **recognized at a specific point in time**, then the implications are the same as for (separate) development contracts without a 'binding agreement'. This will in turn result in **adjustments to retained earnings due to the transition to IFRS 15**. The sales recognized for development services through to 12.31.2017 have to be recognized as unfinished services and offset against retained earnings. Any milestone payments in excess of development expenses recognized as prepayments received as of 12.31.2017 have to be reclassified as a contract liability. The contract liability and unfinished services have to be derecognized upon completion of the development service (recognition of sales). **This increases the remaining sales under IFRS 15 compared with IAS 18**.

b) Existing cases of application of IAS 11

Development cooperations with a 'binding agreement' for which sales were recognized under IAS 11 through to 12.31.2017 have to be assessed as **completed pursuant to IFRS 15** in cases where the **development service has been completed** and the number of analyzer systems defined as the **minimum acceptance volume has been delivered**, i.e. all of the services identified under IAS 11 have **already been satisfied**.[20]

In general it is expected that, given the respective contractual

[1] IFRS 15.C3 ff.
[2] C.f. IFRS 15.C3 (b) in conjunction with C7-C8
[3] IFRS 15.C7
[4] IFRS 15.C7 in the version of the clarifications dated April 2016, c.f. IFRS 15.C8A in conjunction with IFRS 15.C1B
[5] IFRS 15.C2(b)
[6] IFRS 15.BC445D
[7] Please also see comments in the 'Case-based Preliminary Inquiry: Accounting for Development Cooperations in the Annual and Consolidated Financial Statements of STRATEC Biomedical AG Birkenfeld', Page 13: '…binding agreement for the recovery of the costs of the non-recurring phase…'
[8] Please also see comments in Chapter C. 'Accounting Policy Applied to Recognize Sales, Cost of Sales, Research and Development Expenses at the STRATEC Group through to 12.31.2017' and the 'Group Accounting Policy (Accounting Handbook)' (Version: 2017DE)
[9] One example here would be the contract with Customer A (note: the name of the customer has been anonymized for reporting purposes in the consolidated financial statements).
[10] IFRS 15.C7 in conjunction with IFRS 15.C3(b), IFRS 15.C2(b), IFRS 15.BC441: '...The boards clarified that a completed contract is a contract in which the entity has fully performed in accordance with revenue recognition requirements in effect before the date of initial application.'
[11] According to the Accounting Handbook of the STRATEC Group (Version 2017DE), the sales resulting from an 'IAS 18 development cooperation' are capped at the lower of the development expenses incurred and the milestone payments received.
[12] I.e. the development expenses are not covered by the minimum acceptance volume and the milestone payments. One example here would be the contract with Customer B (note: the name of the customer has been anonymized for reporting purposes in the consolidated financial statements).
[13] According to the Accounting Handbook of the STRATEC Group (Version 2017DE), the sales resulting from an 'IAS 18 development cooperation' are capped at the lower of the development expenses incurred and the milestone payments received.
[14] C.f. comments in Chapter D.
[15] C.f. comments in Chapter D.
[16] FRS 15.35, c.f. comments in Chapter D.1.f) 'Satisfaction of performance obligation(s). These also include those projects outside the more narrowly defined range of development cooperations and are addressed in STRATEC's existing Accounting Policy under '**Other development work**'.
[17] In exceptional situations, (further) implications may arise for retained earnings and sales if the requirements for recognition in early contract stages pursuant to IFRS 15.45 were already **no longer** met. Upon transition date, the volume of unfinished services / contract assets in excess of the contract costs would have to be derecognized and offset against retained earnings, with a corresponding impact on sales and earnings in some cases.
[18] In exceptional situations, implications may arise for retained earnings and sales if the requirements for recognition in early contract stages pursuant to IFRS 15.45 were already **no longer** met. Upon the transition date, the volume of prepayments received in excess of contract costs / contract liability would have to be derecognized and offset against retained earnings with a corresponding impact on sales and earnings in some cases.
[19] As, for example, the profit margin required under IFRS 15.B9 does not exist.
[20] One example here would be the **contract with Customer C** (note: the name of the customer has been anonymized for reporting purposes in the consolidated financial statements).

provisions, the requirements of IFRS 15.35 (c) should be met for (existing) 'IAS 11 development cooperations' and that as a general rule **sales will therefore also be recognized over time.** Upon transition, a distinction has to be made between the following constellations:

If an (existing) **'IAS 11 development cooperation'** with completed development is in the delivery stage and if the minimum acceptance volume has not yet been reached then, all in all, this cooperation constitutes an **uncompleted contract pursuant to IFRS 15**, as not all of the goods and services identified under 'legacy IFRS' have yet been transferred. Accordingly, **adjustments to retained earnings** will be required.

Changes to retained earnings may arise in particular due to a **transaction price allocation first performed as of the transition date** if, based on estimated standalone selling prices, the transaction price allocated to the development performance obligation already satisfied pursuant to IFRS 15.73 et seq. is higher than the sales recognized under IAS 11. Reference is made in this respect to the illustration of this matter provided in Example 3 under D. 1. j).

Consequently, the PoC-receivable not yet 'written down' as of 12.31.2017 should be converted in a first step into a contract asset and increased, with a corresponding reduction to retained earnings, by the difference between the transaction price allocated to the development service and the sales recognized under IAS 11. In a second step, this difference has to be reduced by the amount of the minimum acceptance obligation already fulfilled. [21]

If the **development stage** of an (existing) 'IAS 11 development cooperation' had **not yet been completed** as of 12.31.2017, a review should be performed to ascertain whether the criteria for fulfilling the development-related performance obligation over a specific period have been met.[22] A development service that is fulfilled **over a specific period** basically does **not** result in any **change in retained earnings** upon the transition to IFRS 15, even when due consideration is taken of the transaction price allocation first performed as of the transition date. This is because under IAS 11 sales were previously recognized through to 12.31.2017 in the amount of development expenses incurred. In this case IFRS 15.45 also requires sales in the 'early contract stage' to be recognized (only) in the amount of development expenses incurred.[23] IFRS 15 requires any customer milestone payments reported as prepayments received to be recognized as contract liabilities. Any 'PoC' receivables have to be reclassified as contract assets.

Where, **in exceptional cases**, the criteria of IFRS 15.35 (c) for the recognition of sales over a specific period were not met for an (existing) 'IAS 11 development cooperation' and where, as a result of this circumstance, the **sales have been recognized at a specific point in time**, this will have the following implications upon the initial transition to IFRS 15:

In this case, the development expenses already recognized as sales pursuant to IAS 11 have to be recognized as unfinished services and the payments made by customers have to be recognized as a contract liability, with the amounts in each case being offset against retained earnings. **This does not have any net implications for retained earnings. In this situation, the sales recognized pursuant to IFRS 15 would increase in subsequent periods compared with existing practice under IAS 11.**[24]

III. Summary and outlook

STRATEC will make modified retrospective application of IFRS 15 (Revenue from Contracts with Customers) from January 1, 2018. Given the complexity of the various business models at the STRATEC Group, the review and quantification of the implications of first-time application for shareholders' equity and individual balance sheet items as of the transition date have not yet been completed. Although application of IFRS 15 (Revenue from Contracts with Customers) is expected to have moderate implications for the company's net asset, financial, and earnings position, upon the preparation of these consolidated financial statements it was not yet possible to make any definitive statement with reasonable assurance as to the extent of these implications. These will be presented in specific detail in the mandatory publications scheduled for the 2018 financial year.

[21] The updating in the contract asset, which is basically the same, results from the issues described in Example 2 under D.1.j)
[22] IFRS 15.35, c.f. comments in Chapter D.1.f) 'Satisfaction of Performance Obligation(s)'
[23] IAS 11.33 in conjunction with IAS 11.32: 'Zero Profit Method'; c.f. comments on capping sales for development cooperations in the case of the performance obligation being fulfilled over a specific period in Chapter D.1.g) 'Determining the Percentage of Completion Compared with the Complete Satisfaction of a Performance Obligation'
[24] This situation would result in the further entry of a contract asset following completion of the development stage as well as in the additional premature recognition of sales compared with existing accounting practice as a result of the transaction price allocation.

IFRS 16 (Leases)

The International Accounting Standards Board (IASB) published the accounting standard IFRS 16 (Leases) on January 13, 2016.

The basic concept of the new standard involves the lessee recognizing basically all leases, and thus all associated contractual rights and obligations, in its balance sheet. The distinction previously required by IAS 17 (Leases) between finance and operating leases will in future no longer apply for the lessee.

For all leases, the lessee recognizes a lease liability in its balance sheet for the obligation to make future leasing payments. At the same time, the lessee capitalizes a right to use the underlying asset. This basically corresponds to the present value of future leasing payments plus directly allocable costs. Leasing payments include fixed payments, variable payments to the extent that these are indexed, payments expected for residual value guarantees, and where appropriate the exercise price for purchase options and penalties for the premature termination of lease contracts. During the term of the lease contract, the lease liability is updated in accordance with financial considerations in a manner comparable to that required for finance leases under IAS 17 (Leases), while the right to use the asset is subject to scheduled amortization. This approach generally results in higher expenses at the beginning of the term of the lease contract. Accounting relief is provided for short-term leases and low-value leased items.

At the lessor, by contrast, the requirements of the new standard are similar to the existing provisions of IAS 17 (Leases). Lease contracts will continue to be classified either as finance or operating leases. Leases in which the risks and rewards associated with ownership are mainly assigned will be classified as finance leases, while all other lease contracts count as operating leases. Classification of finance leases pursuant to IFRS 16 (Leases) has been based without amendment on the criteria set out in IAS 17 (Leases).

IFRS 16 (Leases) includes a number of additional requirements concerning reporting, note disclosures, and sale and leaseback transactions.

The new provisions require mandatory application in financial years beginning on or after January 1, 2019. Earlier application is permitted provided that application is also made of IFRS 15 (Revenue from Contracts with Customers). In its capacity as lessee, STRATEC can make first-time application of IFRS 16 (Leases) using either the retrospective approach or the modified retrospective approach with optional practical relief measures. Lessees are obliged to make consistent application of the approach thereby selected for all their leases. STRATEC has not yet reached any final decision as to which transitional approach it will apply. Based on current planning, however, the company can be expected to apply the modified retrospective approach as of January 1, 2019.

The new requirement supersedes the current provisions of IAS 17 (Leases) and the associated interpretations IFRIC 4 (Determining Whether an Arrangement Contains a Lease), SIC 15 (Operating Leases – Incentives), and SIC 27 (Evaluating the Substance of Transactions in the Legal Form of a Lease).

Application of the new standard will have implications for STRATEC's asset, financial, and earnings position on account of the existing operating lease contracts (c.f. Section I. 'Other disclosures – Contingent liabilities and other financial obligations'). Specifically, leased office buildings and leased plant and office equipment will lead to an extension in the balance sheet, as the corresponding rights to use the assets will have to be capitalized as assets and the respective obligations as liabilities. Whereas existing operating lease arrangements have generally been based on straight-line expensing, in future the straight-line amortization of the right to use the assets and reduction over time in the interest charge on the lease liability will result in a declining volume of expenses recognized over the lease term.

B. ACCOUNTING POLICIES APPLIED

Consolidation principles

Capital consolidation at STRATEC AG has been performed using the purchase method by offsetting the carrying amounts of investments against the prorated equity of the subsidiaries. This involves accounting for the assets and liabilities identifiable at the subsidiaries at the time of acquisition at fair value and for deferred taxes pursuant to IAS 12 (Income Taxes). Any remaining credit difference from capital consolidation is recognized as goodwill.

Intercompany profits and losses, sales, income and expenses have been eliminated, as have receivables and liabilities between the companies included in the consolidated financial statements. The income tax implications of consolidation entries have been accounted for by recognizing deferred taxes.

Scope of consolidation

In accordance with the requirements of IFRS 10 (Consolidated Financial Statements), the consolidated financial statements of STRATEC AG (parent company) basically include all companies controlled by STRATEC AG (subsidiaries).

Shareholdings whose implications for the net asset, financial, and earnings position are of immaterial significance both individually and aggregately are included in the consolidated financial statements at cost, less any impairments, and recognized as investments in associates in the consolidated balance sheet. The financial data of those subsidiaries of immaterial significance cumulatively account for less than 1 % of consolidated sales, group equity, group earnings and total group assets respectively.

As in the previous year, in addition to STRATEC AG the consolidated financial statements as of December 31, 2017 include the following subsidiaries by way of full consolidation:

- STRATEC Biomedical Switzerland AG, Beringen, Switzerland
- STRATEC Biomedical UK, Ltd. Burton upon Trent, UK
- STRATEC Molecular GmbH, Berlin, Germany
- STRATEC Biomedical USA, Inc., Glendale, US
- STRATEC Biomedical S.R.L, Cluj-Napoca, Romania
- STRATEC Services AG, Beringen, Switzerland
- STRATEC Capital GmbH, Birkenfeld, Germany
- RE Medical Analyzers Luxembourg 2 S.à.r.l., Luxembourg, Luxembourg (from April 1, 2016)
- Medical Analyzers Holding GmbH, Zug, Switzerland (from April 1, 2016)
- Diatron Medicinai Instrumentumok Laboratóriumi Diagnosztikai Fejlesztö-Gyártó Zrt, Budapest, Hungary (from April 1, 2016)
- Diatron (US), Inc., Delaware, US (from April 1, 2016)
- STRATEC PS Holding GmbH, Birkenfeld, Germany (from June 1, 2016)
- STRATEC Consumables GmbH, Anif, Austria (from July 1, 2016)
- STRATEC Biomedical Inc., Southington, USA (from October 1, 2016

Furthermore, the following subsidiary was included by way of full consolidation for the first time in the 2017 financial year:

- Mod-n-More Korlátolt Kft., Budapest, Hungary (from May 1, 2017)

The implications of the first-time full consolidation of this company for the asset, financial, and earnings position of the STRATEC Group are of subordinate significance. As in the previous year, the level of shareholding and voting rights held as of December 31, 2017 amounted to 100 % of voting capital at all of the companies.

Due to their immaterial significance, the following subsidiaries have not been included in the consolidated financial statements by way of full consolidation:

	Share capital	Shareholding %	Annual earnings[1]
Sanguin International Inc., Southington, CT, USA	USD 1,000	100.0	USD -25,891 (2016: USD -23,455)
STRATEC Biomedical (Taicang) Co. Ltd., Taicang, China	CNY 814,940	100.0	CNY -803,150 (2016: CNY 497,499)

[1] The earnings figures reported are based on the annual financial statements prepared in accordance with respective national accounting requirements as of December 31, 2017 and December 31, 2016 respectively.

Currency translation

Transactions in foreign currencies:

Transactions in foreign currencies have been translated into the functional currency using the rate on the date of the transaction. On the balance sheet date, monetary items have been translated using the reporting date rate, while non-monetary items have been translated at the rate on the date of the transaction. Differences arising upon currency translation have been recognized through profit or loss in the consolidated statement of comprehensive income, provided that the item in question does not form part of a net investment in a foreign operation.

Translation of financial statements of foreign group companies:

The functional currency of foreign group companies is the respective national currency, as the companies operate independently in financial, economic and organizational terms. Assets and liabilities at foreign companies have been translated into euros at the reporting date rate, while income and expenses have been translated into euros using annual average exchange rates. Equity components have been translated at historic rates upon the respective dates of addition from the Group's perspective. The translation difference arising in annual earnings compared with the reporting date rates has been recognized directly in equity in the 'Other equity – Foreign currency translation' item.

The exchange rates between major currencies and the euro developed as follows:

1 EUR /		Reporting date rate		Average rate	
		2017	**2016**	**2017**	**2016**
GBP	**UK**	0.887	0.856	0.877	0.820
USD	**US**	1.199	1.054	1.130	1.107
CHF	**Switzerland**	1.170	1.074	1.111	1.090
RON	**Romania**	4.659	4.539	4.569	4.490
HUF	**Hungary**	310.330	309.830	309.190	311.258[1]

[1] Average rate for period from April 1, 2016 to December 31, 2016.

Other intangible assets

Other intangible assets are recognized upon addition at cost in accordance with IAS 38.24. In line with IAS 38.27, the purchase costs of a separately purchased intangible asset particularly comprise the purchase price, less any reductions in the purchase price, plus costs directly attributable to preparing the asset for its intended use. In line with IAS 38.66, the construction costs of an internally generated intangible asset comprise all costs directly attributable to create, produce and prepare the asset to be capable of operating in the manner intended by the management.

In line with IAS 38.74, subsequent measurement is based on the cost model. As all other intangible assets apart from those not yet ready for use currently have limited useful lives, they have been amortized in accordance with these, generally using the straight-line method unless the actual decline in their value requires another form of amortization. Furthermore, account is also taken where necessary of impairments (see 'Impairment tests'). Where the reasons for impairment no longer apply, the respective assets are written back to a maximum of amortized cost.

Amortization of intangible assets has been based on the following useful lives:

	Useful lives in years 2017	Useful lives in years 2016
Acquired technologies	7 – 15	7 – 15
Acquired R&D projects	8	8
Internally generated intangible assets • **Proprietary development projects** • **Development cooperations**	5 – 8 *	5 – 8 *
Acquired patents	12 – 19	12 – 19
Acquired trademarks	10	10
Acquired customer relationships	5 – 12	8 – 20
Other rights and values • **Software and licenses**	1 – 8	1 – 8

* In respect of the accounting treatment of development cooperations, reference is made to the comments in 'Recognition of sales, cost of sales, research and development expenses' in this section. The period and method of amortization applied to the intangible assets resulting from development cooperations is based on the methodology presented under 'Forward-looking assumptions'.

Property, plant and equipment

Property, plant and equipment are measured upon initial recognition at cost in accordance with IAS 16.15 et seq. In line with IAS 16.30, subsequent measurement is based on the cost model. Accordingly, in subsequent periods the costs recognized are reduced by depreciation, where the respective assets are depreciable. Depreciation has generally been performed using the straight-line method, unless the actual decline in value requires a use-based form of depreciation. Furthermore, account is also taken where necessary of impairments (see 'Impairment tests' below). Where the reasons for impairment no longer apply, the respective assets are written back to a maximum of amortized cost.

Costs incurred to repair or maintain items of property, plant and equipment have generally been recognized through profit or loss. Costs incurred for measures expected to lead to an inflow of economic benefits in future have been capitalized as retrospective costs.

Depreciation of property, plant and equipment has been based on the following useful lives:

	Useful lives in years 2017	Useful lives in years 2016
Buildings	25 – 33	25 – 33
Outdoor facilities	10 – 30	10 – 30
Technical equipment and machinery	3 – 20	3 – 20
Vehicles	3 – 6	3 – 5
Tools	3 – 7	3 – 7
IT components	2 – 5	2 – 5
Other plant and office equipment	1 – 20	1 – 20

Gains or losses incurred upon the sale, decommissioning or scrapping of items of property, plant and equipment have been recognized under other operating income or expenses in the amount of the difference between the potential proceeds on disposal and the residual carrying amount.

Investment property includes land and buildings held to generate rental income (€ 61k; previous year: € 72k) or for capital appreciation, rather than for proprietary performance of services, administration purposes, or sales within customary business activities. STRATEC AG lets out parts of the real estate recognized under property, plant and equipment to third parties external to the Group. Given the immaterial scope of these surfaces, they have not been recognized in a separate item.

Borrowing costs

Where a significant period of time is required to manufacture a respective asset (so-called qualifying asset), the borrowing costs incurred through to completion are capitalized as a component of cost where the requirements of IAS 23 (Borrowing Costs) are met.

At the STRATEC Group, qualifying assets may relate in particular to property, plant and equipment, intangible assets, and inventories/construction contracts in connection with development cooperations. As the STRATEC Group's borrowing costs are of subordinate significance in terms of their amount, however, no borrowing costs have yet been capitalized pursuant to IAS 23 (Borrowing Costs).

Subsidies and grants

Government grants intended to promote investment and directly allocable to the respective investments have been deducted from the amount capitalized for the object of investment. Non-repayable grants received as project subsidies for research and development projects are linked to the respective expenses and are initially recognized as liabilities and subsequently offset through profit or loss in the consolidated statement of comprehensive income in the financial year in which the associated expenses are incurred.

Leasing

A leasing arrangement is classified as an operating lease in cases where all major risks and rewards relating to ownership remain with the lessor. The STRATEC Group only has operating leases in which the STRATEC Group acts as lessee. In line with IAS 17.33, payable leasing installments have been recognized in the consolidated statement of comprehensive income as expenses over the term of the leasing arrangement.

Impairment tests

Impairment tests pursuant to IAS 36 (Impairment of Assets) are performed on goodwill and other intangible assets with unlimited or indefinite useful lives, as well as on intangible assets not yet ready for use, at least once a year and, in the case of other intangible assets with limited useful lives and property, plant and equipment, only if there are specific indications of impairment. Impairment losses have been recognized through profit or loss in the consolidated statement of comprehensive income to the extent that the recoverable amount of the asset, i.e. the higher of its fair value less costs to sell and its value in use, falls short of its carrying amount. In principle, the recoverable amount has been determined for each individual asset. Where this is not possible, the recoverable amount has been determined on the basis of a group of assets representing a cash generating unit. A review is performed at least once a year to ascertain whether there is any indication that the reason for impairment losses already recognized no longer applies or that the amount of impairment has reduced. In this case, the recoverable amount is newly determined and the impairment losses already recognized, unless they involve goodwill, are correspondingly reversed.

As in the previous year, the cash generating units determined for goodwill impairment testing are 'laboratory automation', 'workflow software', 'nucleic acid purification', 'manufacturing parts & services', 'Diatron', 'smart consumables'.

The recoverable amount for the cash generating units as of December 31, 2017 (2016) has been determined by reference to their value in use, defined as the present value of future net inflows of cash. The forecast future net inflows of cash have been based on current budgets at the STRATEC Group. Future net inflows of cash are budgeted in the functional currency. Raw materials prices are accounted for on their given terms. As in the previous year, the detailed budget period covers three years. The budgets have in turn been based on assumptions concerning future sales volumes and sales prices, as well as on expected costs. Net inflows of cash beyond the detailed budget period have been presented as perpetuity, taking due account of growth rates based on current market information. Should the value in use fall short of the carrying amount of the cash generating unit, then the fair value less costs to sell has to be determined.

In line with IAS 36.A17 (a), capital costs of cash generating units have been calculated as the weighted average of their equity and debt capital costs (WACC). To calculate the weighted capital costs, reference has been made on the one hand to the costs of equity, which comprise the risk-free base interest rate and the risk premium (market risk premium, multiplied by a beta factor based on a peer group analysis) and on the other hand on the cost of borrowing, which corresponds to the average cost of borrowing at the peer group companies. Equity and debt capital costs have been weighted based on the average capital structure at the peer group companies.

Given the risk and return profiles of the cash generating units thereby reviewed, the costs of capital have been calculated on an individual basis. The key parameters are as follows:

Cash generating unit	Pre-tax WACC %
Laboratory automation	
2017	8.37
2016	7.50
Manufacturing, parts & services	
2017	7.52
2016	6.62
Diatron	
2017	8.74
2016	8.43
Workflow software	
2017	7,61
2016	6,92
Nucleic acid purification	
2017	8.07
2016	7.35
Smart consumables	
2017	6.69
2016	6.48

Of the goodwill recognized in the amount of € 42,018k (previous year: € 42,841k), € 654k results from the acquisition of STRATEC Biomedical UK, Ltd. in the 2006 financial year (previous year: € 677k), € 1,488k from the acquisition of STRATEC Molecular GmbH in the 2009 financial year (€ 1,488k), € 2,584k from the acquisition of STRATEC Biomedical USA, Inc. in the 2010 financial year (previous year: € 2,940k), € 28,525k (previous year: € 28,969k) from the acquisition of the Diatron Group and € 8,767k (previous year: € 8,767k) from the acquisition of STRATEC Consumables GmbH in the 2017 financial year. The changes compared with the previous year are due to foreign currency translation. For impairment testing purposes, the goodwill has been allocated to those cash generating units benefiting from the synergies.

For impairment testing purposes, the carrying amounts of the goodwill resulting from the aforementioned acquisitions have been allocated to the 'laboratory automation', 'manufacturing, parts & services', 'Diatron', 'workflow software', 'nucleic acid purification', and 'smart consumables' cash generating units on the basis of the respective EBITs. The main units have the following characteristics:

€ 000s	Laboratory automation		Manufacturing, Parts & Services		Diatron	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Carrying amount of goodwill	16,035	16,548	17,856	18,076	7,317	7,404
Carrying amount of cash generating unit, including goodwill	90,559	75,981	47,177	52,077	55,178	54,971

In line with IAS 36 (Impairment of Assets), the company performed the annual impairment test for these goodwill items as of December 31, 2017 (2016).

The following key assumptions have been used to determine the recoverable amounts of the cash generating units:

Assumptions used to calculate recoverable amounts of cash generating units

Laboratory automation	The budget for the recoverable amount has been based on average sales growth of 5.4% (previous year: 13.3%) and a budgeted average EBIT margin of 8.8% (previous year: 10.5%). This assumption reflects previous management experience. In perpetuity, a growth rate of 1.0% has been assumed (previous year: 1.0%).
Manufacturing, Parts & Service	Average sales growth of 13.1% (previous year: 4.6%) and a budgeted average EBIT margin of 26.0% (previous year: 28.7%) have been assumed. This assumption reflects past management experience. In perpetuity, a growth rate of 1.0% has been assumed (previous year: 1.0%).
Diatron	The budget for the recoverable amount has been based on average sales growth of 16.0% (previous year: 14.0%) and a budgeted average EBIT margin of 19.3% (previous year: 18.4%). These assumptions are consistent with average growth prospects in the sector based on external market data. In perpetuity, a growth rate of 1.0% has been assumed (previous year: 1.0%).

The sensitivity analysis has assumed a reduction in the future cash flow and an increase in weighted costs of capital by 10% each, as changes on this scale would appear reasonable and possible, especially from a long-term perspective. On this basis, we concluded that there were no indications of any potential impairment in the goodwill reported at the STRATEC Group. As in the previous year, no impairment losses were therefore recognized in the year under report.

An amount of € 810k, and thus not material compared with the total carrying amount of goodwill, was allocated from the total carrying amount of goodwill to further cash generating units in the year under report (previous year: € 814k). For the goodwill thereby allocated as well, the annual impairment test did not identify any indications of impairment.

Financial assets and liabilities

Financial assets consist of investments in associates, loans and receivables, other financial assets, and cash and cash equivalents.

Financial assets are recognized and measured in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). Accordingly, financial assets have been recognized in the consolidated balance sheet when the STRATEC Group has a contractual right to receive cash or other financial assets from third parties. These items are basically recognized as of their respective performance dates. They are initially recognized at fair value plus transaction costs. Transaction costs incurred upon the acquisition of financial assets measured at fair value through profit or loss have been expensed directly in the consolidated statement of comprehensive income.

Subsequent measurement is based on the asset's allocation to one of the following IAS 39 categories (Financial Instruments: Recognition and Measurement), which are governed by different measurement rules in each case:

Financial assets measured at fair value through profit or loss comprise financial assets held for trading. Changes in the fair value of financial assets in this category are recognized through profit or loss in the consolidated statement of comprehensive income as of the date of increase or decrease in their value. The financial assets held for trading and financial instruments classified as measured at fair value are recognized on the trading date. The trading date is taken as the date on which STRATEC AG undertakes to buy or sell the respective assets.

Loans and receivables are non-derivative financial assets not listed on any 'active market'. Trade receivables, future receivables from construction contracts, receivables from associates, and the receivables included under financial assets have been allocated to this category, as have cash and cash equivalents. These items are measured at amortized cost using the effective interest method, accounting for impairments where appropriate. For impairments of trade receivables, a distinction is made between individual allowances and general allowances. These take appropriate account of default risks calculated on the basis of historic experience and individual risk assessments. Impairments of trade receivables are recognized in an allowances schedule. When a receivable is demonstrably in default, its carrying amount is written down directly. Given the short-term nature of the maturities, trade receivables are not discounted. Such receivables are only discounted when they are expected to be collected after more than 12 months.

Available-for-sale financial assets include those non-derivative financial assets not allocated to any of the other measurement categories, as well as the shares in Quanterix Corporation, US. Changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income in equity. Pursuant to IAS 39.55 (b), changes in their fair value are generally only recognized through profit or loss upon derecognition. When the fair value falls either permanently or significantly short of cost, then a corresponding impairment is recognized through profit or loss in the consolidated statement of comprehensive income. Financial assets for which no listed market price is available and whose fair value cannot be reliably estimated are measured at cost, less any impairment losses.

The STRATEC Group does not have any financial assets in the financial investments held to maturity category.

When there are objective indications of impairment in the case of financial assets in the loans and receivables and available-for-sale financial assets categories, then a test is performed to ascertain whether their carrying amounts exceed the present value of the expected future cash flows determined on the basis of the market yields of comparable instruments. Should this be the case, corresponding impairment losses are recognized through profit or loss.

Application is made of the following requirements when the reasons for impairment losses previously recognized no longer apply: Impaired items in the loans and receivables, available-for-sale debt instruments and held-to-maturity financial investments categories may not be written up beyond their respective amortized cost. Impairments of items in the available-for-sale equity instruments category may not be reversed through profit or loss. Impairments of unlisted equity instruments whose fair value cannot be reliably determined may not be reversed.

Financial assets are retired when the contractual rights to payment have expired or the financial assets have been assigned.

Financial liabilities are recognized in the consolidated balance sheet when the STRATEC Group has a contractual obligation to transfer cash or other financial assets to a third party. These items are initially recognized at the fair value of the consideration received, less transaction costs where appropriate. They are subsequently measured at amortized cost using the effective interest method. Financial liabilities are retired when the contractual obligations have been met or cancelled, or have expired. STRATEC AG has not drawn on the option provided for in specified circumstances of designating financial liabilities upon initial recognition as financial liabilities measured at fair value through profit or loss.

Where the STRATEC Group has made use of derivative financial instruments (generally currency futures to manage exchange risks), these have initially been recognized at fair value and subsequently measured at fair value as of each balance sheet date. Gains or losses resulting from measurement have been recognized directly through profit or loss in the consolidated statement of comprehensive income, unless the derivative is designated and effective as a hedge within hedge accounting. However, STRATEC AG has so far not drawn on the possibility of designating such instruments as hedges. Derivatives with positive fair values are recognized as financial assets, while derivatives with negative fair values are recognized as financial liabilities.

Other receivables and liabilities, i.e. deferrals/accruals, prepayments, and other non-financial assets and liabilities have been recognized at amortized cost.

Inventories

Broadly speaking, inventories include assets held for sale in the normal course of business (finished products and merchandise), assets currently in the process of being manufactured for sale (unfinished products and unfinished services), and assets consumed during the manufacturing process or in the performance of services (raw materials and supplies). These items are measured at their cost of acquisition or at their net disposal value, if lower.

Upon addition, raw materials, supplies and merchandise are measured at their average cost of acquisition.

The manufacturing costs for unfinished and finished products include both directly allocable manufacturing wage and material expenses and a prorated share of material and production overheads, including depreciation. The manufacturing costs for unfinished services include both directly allocable manufacturing wage expenses and prorated production overheads. Administration expenses are also included to the extent that they can be directly allocated to production. Sales-related expenses are not included. Due to materiality considerations, borrowing costs as defined in IAS 23 (Borrowing Costs) have been recognized in full through profit or loss in the consolidated statement of comprehensive income.

Consistent with the business model at STRATEC AG, this balance sheet item also includes development cooperations. In respect of the accounting policies applied for development cooperations, reference is made to the information in 'Recognition of sales, cost of sales, research and development expenses' in this section.

Taxes

The taxes on income reported include the taxes levied on taxable profit and deferred tax items at companies in the STRATEC Group. The income taxes reported have been calculated in accordance with the country-specific tax legislation valid or adopted as of the balance sheet date, and in the amount at which they are expected to be paid or refunded.

Other taxes levied on items other than income have been recognized under other operating expenses in the consolidated statement of comprehensive income.

Deferred taxes have been calculated using the liability method for temporary differences between the amounts recognized for assets and liabilities in the tax balance sheet and those stated in the IFRS financial statements, as well as for consolidation entries and loss carryovers likely to be realized.

Deferred tax assets on temporary differences and tax loss carryovers have been capitalized to the extent that it is likely that future taxable income will be available and that there is sufficient likelihood that the loss carryovers will be utilized. The assessment of the ongoing value of tax loss carryovers has been based on short and medium-term forecasts concerning the future earnings situation of the respective group company. In this assessment, STRATEC AG is further bound by the tax law norms valid or adopted as of the balance sheet date. Future legislative amendments may thus make it necessary to adjust the respective values through profit or loss.

Pursuant to German tax law, deferred taxes have been recognized on 5% of the differences resulting from translating foreign financial statements denominated in foreign currencies.

No further deferred taxes have been recognized in connection with temporary difference for interests in subsidiaries as STRATEC AG is able to manage the timing of any reversal of these differences and these are unlikely to be reversed in the foreseeable future.

Deferred tax assets and liabilities have been reported on a net basis in cases where they refer to the same taxable entity and the same tax authority. Where gains and losses have been recognized directly in equity, the same applies for the relevant deferred tax assets and liabilities.

Provisions for pensions and similar obligations

Company pensions at the STRATEC Group involve both defined contribution and defined benefit schemes.

In defined contribution pension schemes, the company is obliged to pay contributions to state or private pension companies in accordance with statutory or contractual requirements. Apart from these contributions, the company is not subject to any further payment obligations. Current contributions have been recognized as expenses in the consolidated statement of comprehensive income.

The defined benefit pension schemes take the form of pension commitments made by the company. To cover its benefit obligations, the company makes contributions to external plan assets in some cases. In line with IAS 19 (Employee Benefits), the present value of pension obligations has been calculated using the projected unit credit method. This involves future obligations being measured using actuarial methods. The calculations at STRATEC AG have mainly been based on statistical data concerning mortality and invalidity rates, on assumptions concerning the discount rate, and the expected income from plan assets. The discount rate and the expected return on plan assets has basically been determined by reference to the yields on congruent corporate bonds of AA-rated companies, or additionally by reference to the yields on corresponding government bonds. The fair value of the plan assets has been deducted from the present value of the pension obligations. The obligations and plan assets are measured annually. Actuarial calculations are generally performed as of the balance sheet date. Remeasurements for actuarial items are recognized directly in 'Other comprehensive income'.

Other provisions

Other provisions have been recognized to cover legal or constructive obligations to third parties resulting from past events which are likely to lead to a future outflow of resources and for which the expected amount of the obligation can be reliably estimated.

Such obligations have been recognized at the present values of the expected outflow of resources where this is expected to occur later than in the following year. Refund claims due from third parties have been recognized separately from provisions to the extent that their realization is virtually certain.

Other provisions include those for guarantee and warranty obligations. The calculation of the scope of obligation has been based on the sales involving such guarantees thereby generated, on the respective contractual warranty periods, as well as on past empirical values, which are adapted on the basis of the implications of currently observable information and data, thus supplementing the implications of the historic values by reference to this current information and data.

Share-based payment transactions

IFRS 2 (Share-based Payment) makes a distinction between transactions that are cash-settled and those that are equity-settled. STRATEC AG recognizes three arrangements that are within the scope of IFRS 2 (Share-based Payment):

Cash-settled stock appreciation rights (SARs), equity-settled stock options for employees, and equity-settled employee participation programs.

Goods and services received for cash-settled share-based payments (stock appreciation rights – SARs) have been measured at each reporting date and settlement date at the fair value of the respective liability, which is determined using recognized option pricing models. Changes in fair value are recognized through profit or loss.

Given the lack of a separately determinable fair value for the services involved, goods and services received for equity-settled share-based payments (stock options, 2017 employee participation program) have been measured at the fair value of the equity instruments as of the grant date using recognized option pricing models.

Share-based payments with optional cash settlement (2015/2016 employee participation program) at the discretion of the counterparty constitute a financial instrument consisting of a debt component (right of the counterparty to cash payment) and an equity component (right of the counterparty to equity instruments). The fair value of the financial instrument corresponds to the total of the fair values of the two components. The calculation of the fair value of the debt component is based on the calculation for cash-settled share-based payments. The calculation of the fair value of the equity components is performed as of the date of the instruments being granted by analogy with equity-settled share-based payments. Where the payment is not made in cash, but rather by issuing equity instruments, at the time of the discretionary option being exercised the liability is reclassified to equity as consideration for the equity instruments. Should the payment be made in cash, rather than by issuing equity instruments, the liability is deemed to have been fully settled with such payment. All equity components previously recognized remain in equity.

Where the exercising of equity instruments granted or of the right to cash payment is dependent on the performance by the contractual party of a specific period of service, it is assumed that the services to be performed by the counterparty as consideration will be received during the vesting period in future. The payment expenses are therefore recognized over the vesting period within which the beneficiaries acquire an unrestricted claim to the instruments thereby committed.

Contingent liabilities

Contingent liabilities are potential obligations resulting from past events whose existence is conditional on the materialization or otherwise of one or several uncertain future events not fully within STRATEC's control. In this case, an outflow of resources is deemed unlikely or the scope of obligation cannot be reliably estimated.

Recognition of sales, cost of sales, research and development expenses

The key principles underlying the recognition of sales and the recognition of cost of sales and research and development expenses given the business model at STRATEC AG are as follows:

When recognizing development expenses, a distinction is made between proprietary development projects and development cooperations.

Development expenses for **proprietary development projects** are generally recognized as expenses in the period in which they are incurred, with the exception of research and development projects acquired upon company acquisitions, and development expenses cumulatively meeting the criteria stipulated in IAS 38.57. Capitalized development expenses are tested for impairment at least once a year in line with IAS 36 (Impairment of Assets) in cases where they are not yet ready for their intended use. Impairment losses are recognized when the carrying amount of the capitalized assets exceeds the recoverable amount. Once ready for their intended use, assets are amortized, generally over periods of five to eight years.

For **development cooperations**, it is first assessed whether the respective development cooperation constitutes a construction contract pursuant to IAS 11 (Construction Contracts). This assessment is largely based on the relevant facts and circumstances as to whether a binding agreement for the recovery of the costs of the non-recurring phase already exists upon conclusion of the development agreement.

Where a **binding agreement** of this nature already exists upon conclusion of the development agreement, sales for these orders are recognized in accordance with the requirements of IAS 11 (Construction Contracts) in the development stage already. Pursuant to IAS 11.32 et seq., however, the sales recognized are limited to the amount of contract costs incurred, as the development stage is viewed as an early stage of the respective contract. No earnings are therefore recognized. Here too, the respective contracts are tested for loss-free measurement (impairment) as a minimum as of each balance sheet date. This test is performed by analogy with the requirements of IAS 36 (Impairment of Assets). Development cooperations classified as construction contracts are recognized during the development stage in each case in line with IAS 11 (Construction Contracts) as either receivables or liabilities from construction contracts. Any differential amount arising following completion of the development stage between the development expenses capitalized and the payments received is amortized in the subsequent appliance manufacturing stage within sales over the agreed minimum purchase volume.

Where no binding agreement of this nature already exists upon conclusion of the development agreement, amounts not covered by agreed payments gradually arise for these orders as the relevant development work progresses. Where the requirements of IAS 38.57 are cumulatively met, the (prorated) shortfall determined for these projects using the percentage of completion method is capitalized. These items are recognized as intangible assets within non-current assets pursuant to IAS 38 (Intangible Assets), while the development expenses covered by agreed payments are recognized either as unfinished services pursuant to IAS 2 (Inventories) or as trade receivables. The recognition of sales during the development stage is based on the percentage of completion pursuant to IAS 18.21. In line with IAS 18.24 (c), percentage of completion is calculated as the ratio of the costs incurred as of the balance sheet date to the estimated total costs for the development agreement. In the case of contingent milestone payments pursuant to IAS 18.25 Sentence 2, however, sales may only be recognized when the respective conditions governing the milestone payment have been met. In these cases too, the sales thereby recognized are 'capped' at the percentage of completion of the order at that point in time. Unfinished services pursuant to IAS 2 (Inventories) are recognized as costs of sales in each case at the time at which the aforementioned principles governing the recognition of sales are met, while the capitalized shortfall pursuant to IAS 38.97 et seq. is amortized over the expected purchase volume following completion of the development stage and from the beginning of the appliance manufacturing stage. This amortization is also recognized within cost of sales. Furthermore, in line with IAS 36.10 (a) the capitalized shortfall is tested for impairment as a minimum as of each balance sheet date – and also during the financial year should there be any corresponding indications of impairment.

The recognition of sales in the appliance manufacturing stage is treated as a 'sale of goods' pursuant to the requirements of IAS 18.14 et seq. This approach is adopted irrespective of whether or not the preceding development stage constitutes a construction contract pursuant to IAS 11 (Construction Contracts).

The following aspects should also be noted:

Cost of sales basically consists of production-related manufacturing expenses for completed development cooperations and sold products. Alongside directly attributable individual material and production costs, they also include systematically attributed production overheads, including depreciation of production-related assets and impairments of inventories.

Development expenses were capitalized as internally generated intangible assets in the 2017 financial year. These amounted to € 2,908k for proprietary development projects (previous year: € 2,589k). Pursuant to IAS 38.54, outlays allocable to research expenses have been recognized as expenses in the period in which they are incurred.

Discretionary decisions and forward-looking assumptions

The preparation of the consolidated financial statements requires a certain number of discretionary decisions and forward-looking assumptions to be made which have implications for the method of statement and volume of assets, liabilities, expenses, income and contingent liabilities thereby recognized.

Discretionary decisions and forward-looking assumptions have to be made in particular in connection with the recognition of development expenses as presented in 'Recognition of sales, cost of sales, research and development expenses' in this section. Further, such decisions and assumptions also have to be made for establishment of uniform useful lives for non-current assets at the Group, the allocation of goodwill to cash generating units, the determination of the recoverable amount for impairment testing purposes, the measurement of pension provisions, the fair value measurement of share-based payments, the measurement of provisions, the recognition of deferred tax assets on tax loss carryovers, and the determination of the functional currency of foreign business units.

The most important discretionary decisions and forward-looking assumptions, as a result of which there may be a substantial risk of significant adjustments being required in the assets and liabilities thereby recognized in the coming financial year, are presented in greater detail below:

Discretionary decisions

1. Capitalization of internally generated intangible assets in connection with the development, or development stage, of a proprietary development project

The assessment as to whether the requirements for capitalization have been met in each individual case is subject to significant discretionary decisions. Given the empirical values available in the fields of development and project management, STRATEC AG assumes that the estimates in terms of technical feasibility, expected overall costs and market conditions are sufficiently reliable. When determining the recoverable amount, assumptions have been made concerning product lifecycles and the resultant future cash flows. The discount rates have been based on the relevant weighted average costs of capital (WACC) of the cash generating units performing the development work, adjusted where appropriate to account for the relevant term.

2. Recognition of development cooperations

Within the business model of the STRATEC Group, the adequate recognition of development cooperations including analyzer system production represents one of the core problems, and one that is subject to significant discretionary decisions. Reference is made to the information about 'Recognition of sales, cost of sales, research and development expenses' in this section.

3. Allocation of goodwill to cash generating units for impairment testing purposes

The allocation of goodwill acquired upon company acquisitions to cash generating units for impairment testing purposes pursuant to IAS 36 (Impairment of Assets) is subject to significant discretionary decisions. From the takeover date onwards, STRATEC AG allocates the goodwill resulting from any company acquisition to each cash generating unit at the company intended to benefit from the synergies expected to arise on account of the business combination. STRATEC AG works with appropriate key figures (EBIT factors) to determine the potential synergies expected in each case.

4. Identification of functional currency

When determining the functional currency of a foreign business operation and deciding whether its functional currency is identical with that of the reporting company, reference has to be made to the indicators specified in IAS 21 (The Effects of Changes in Foreign Exchange Rates). When these indicators provide a mixed picture and the functional currency is not immediately apparent, STRATEC AG determines at its own discretion which functional currency best reflects the economic implications of the underlying business transactions, events and circumstances. In the case of foreign group companies, the respective national currencies have accordingly been chosen as the functional currencies.

5. Recognition of option rights in Quanterix Corporation, US

The assessment as to whether the modification to the shares held in Quanterix Corporation, US, resulting from the initial listing of that company on the electronic market NASDAQ on December 7, 2017 led to the extinguishing or expiry of the original contractual rights to cash flows and as to whether the original financial asset should be derecognized and the modified financial asset recognized is subject to discretionary decisions. Based on an overall assessment of all qualitative and quantitative factors, STRATEC AG assumes that this development represented a substantial modification leading to the derecognition of the original shares in Quanterix Corporation, US, on December 7, 2017 pursuant to IAS 39.55 (b). Accordingly, this development resulted in the initial recognition of the modified shares held in Quanterix Corporation, US, pursuant to IAS 39.14. Reference is made to the information in Section G 'Financial instruments'.

Forward-looking assumptions

1. Determination of the recoverable amount when testing goodwill for impairment under IAS 36 (Impairment of Assets)

Due to the large number of variables involved, the goodwill impairment test (carrying amount as of December 31: € 42,018k; previous year: € 42,841k) is subject to a difficult assessment involving a significant degree of uncertainty in the estimates used. The principal assumptions underlying the impairment test performed at each balance sheet date are outlined in Section B. 'Accounting policies applied – Impairment tests'. When performing sensitivity analyses for goodwill impairment tests, a reduction in the future cash flow and an increase in the weighted costs of capital by 10% each has been assumed, as changes on this scale would appear possible from a long-term perspective. On this basis, STRATEC AG has concluded that there are no indications of potential impairment in the goodwill of any of its cash generating units.

2. Determination of the recoverable amount when testing other intangible assets for impairment under IAS 36 (Impairment of Assets)

Other intangible assets (e.g. capitalized development expenses) are tested for impairment either upon the occurrence of a triggering event (where the respective assets are subject to scheduled amortization) or at least once a year (where the respective assets are not subject to scheduled amortization) (carrying amount as of December 31, 2017: € 68,708k; previous year: € 75,935k). These impairment tests are also subject to the same difficulties and discretionary scope as the goodwill impairment test. When performing sensitivity analyses for these impairment tests, a reduction in the future cash flows and an increase in the weighted costs of capital by 10% each has been assumed, as changes on this scale would appear possible from a long-term perspective. Based on the sensitivity analyses performed for the impairment tests, STRATEC AG concluded that there were no indications of potential impairment in these assets over and above those outlined in Section C. 'Notes to the consolidated balance sheet (1) Goodwill and other intangible assets'.

3. Measurement of the stock appreciation rights (SARs) granted (carrying amount as of December 31, 2017: € 1,988k; previous year: € 863k) and determination of the resultant personnel expenses pursuant to IFRS 2 (Share-based Payment

The stock appreciation rights (SARs) granted have been measured by an independent surveyor specializing in option valuation. This surveyor used the binomial tree method to measure the SARs. The principal parameters subject to estimates (term, expected volatility, risk-free interest rate) have been presented in Section C. 'Notes to the consolidated balance sheet (12) Non-current and current financial liabilities – Stock appreciation rights (SARs)'.

4. Calculation of provision for guarantee and warranty obligations pursuant to IAS 37 (Provisions, Contingent Liabilities and Contingent Assets)

When calculating the provision for guarantee and warranty obligations (carrying amount as of December 31, 2017: € 1,031k; previous year: € 949k), the management takes due account of historic values from the past, which are adapted on the basis of the implications of currently observable information and data, thus supplementing the implications of the historic values by reference to this current information and data. The insights gained in the current financial year did not lead to any material change in the provision for guarantee and warranty obligations. Actual expenses in future financial years may deviate from the estimated figures.

5. Recognition of deferred taxes for temporary differences and tax loss carryovers pursuant to IAS 12 (Income Taxes)

In its assessment that the – predominantly short-term – differences between the figures recognized for tax purposes and the figures recognized in the IFRS consolidated financial statements will reverse in subsequent financial years, the management is bound pursuant to IAS 12 (Income Taxes) by the requirements of tax law valid or adopted as of the balance sheet date. Future legislative amendments could therefore make it necessary to adjust these figures through profit or loss. In its assessment that it will be possible to offset the tax loss carryovers recognized against future profits, the management relies on its short and medium-term budget forecasts. The actual materialization of future profits is based on discretionary estimates. The carrying amounts of the deferred tax assets and liabilities recognized and not recognized in the consolidated financial statements, as well as their arising and changes in the 2017 financial year compared with the previous year have been explained in detail in Section C. 'Notes to the consolidated balance sheet (11) Taxes on income'.

6. Determining the period and method of amortization applicable to intangible assets capitalized in the context of development cooperations

For intangible assets with limited useful lives, IAS 38.97 requires the amortizable amount to be allocated over the respective useful life. According to the definition provided in IAS 38.8, the **useful life** is either the period over which the asset is expected to be of use to the company or the number of production or similar units which the asset is expected to generate at the company. Pursuant to IAS 38.97, the **method of amortization** has to correspond to the expected pattern of use for the future economic benefits accruing to the company from the asset. According to IAS 38.98, reference may be made to various methods of amortization when determining the scheduled allocation of the amortizable amount. Alongside the straight-line and decreasing balance methods, these also include the units of production method. Pursuant to IAS 38.98B, when selecting an appropriate method of amortization as required by IAS 38.98 the company can determine the inherent predominant limiting factor relevant to the intangible asset. This may serve as the starting point for determining the appropriate amortization base. In the case of STRATEC's development cooperations, the decision as to whether the inherent predominant limiting factor is time-based or based on the number of units produced represents a discretionary assessment. Taking due account of all circumstances, STRATEC concluded that the number of units produced is the predominant limiting factor. In conjunction with the impairments tests performed at least once a year pursuant to IAS 36 (Impairment of Assets), the resultant method of amortization tends to result in the recognition of higher expenses in early appliance stages than would be the case with straight-line amortization – should this have been based on past experience with the current product lifecycles for the appliances, which generally range from 12 to 15 years.

There are no other significant forward-looking assumptions and major sources of uncertainty concerning estimates at the balance sheet date which involve any substantial risk of material adjustments being required in the assets and liabilities thereby recognized within the coming financial year.

C. NOTES TO THE CONSOLIDATED BALANCE SHEET

(1) Goodwill and other intangible assets

Intangible assets developed as follows in the 2017 financial year:

	Goodwill € 000s	Acquired technologies € 000s	Acquired R&D projects € 000s	Internally generated intangible assets € 000s	Acquired patents € 000s	Acquired trademarks € 000s	Acquired customer bases € 000s	Other rights and values € 000s	Total € 000s
Acquisition and manufacturing costs Balance at 12.31.2016	**42,841**	**27,485**	**431**	**37,591**	**5,023**	**2,997**	**27,960**	**3,720**	**148,048**
Additions	0	0	0	2,907	0	0	0	3,447	6,354
Disposals	0	0	0	0	0	0	0	-60	-60
Reclassifications	0	0	0	0	0	0	0	0	0
Currency differences	-823	-351	0	-216	0	-4	-574	-68	-2,036
Balance at 12.31.2017	**42,018**	**27,134**	**431**	**40,282**	**5,023**	**2,993**	**27,386**	**7,039**	**152,306**

	Goodwill € 000s	Acquired technologies € 000s	Acquired R&D projects € 000s	Internally generated intangible assets € 000s	Acquired patents € 000s	Acquired trademarks € 000s	Acquired customer bases € 000s	Other rights and values € 000s	Total € 000s
Accumulated amortization and impairments Balance at 12.31.2016	**0**	**8,627**	**343**	**14,191**	**167**	**225**	**2,596**	**3,123**	**29,272**
Additions to amortization	0	2,412	49	2,784	333	300	5,243	619	11,740
Impairments	0	0	0	1,185	0	0	0	0	1,185
Write-ups	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	-60	-60
Currency differences	0	-295	0	-77	0	-1	-119	-65	-557
Balance at 12.31.2017	**0**	**10,744**	**392**	**18,083**	**500**	**524**	**7,720**	**3,617**	**41,580**
Carrying amounts at 12.31.2017	**42,018**	**16,390**	**39**	**22,199**	**4,523**	**2,469**	**19,666**	**3,422**	**110,726**

The goodwill results from the acquisitions of the subsidiaries STRATEC Consumables GmbH, the Diatron Group, STRATEC Biomedical UK, Ltd., STRATEC Molecular GmbH, and STRATEC Biomedical USA, Inc.

The carrying amount of technologies includes the technologies relating to technical solutions for decentralized laboratory analyses in the field of hematology and clinical chemicals identified upon the acquisition of the Diatron Group and the technologies for smart consumables, particularly in the fields of nano-structuring, micro-structuring, coating, and plastics production, identified upon the acquisition of STRATEC Consumables. Furthermore, the carrying amount of technologies includes expertise in the field of RNA/DNA purification identified upon the acquisition of STRATEC Molecular GmbH and technology in the field of contact-free measurement and capacity calculation methods identified upon the acquisition of STRATEC Biomedical USA, Inc.

Acquired research and development projects are attributable to the acquisition of the STRATEC Molecular GmbH subsidiary in the 2009 financial year.

The carrying amount for internally generated intangible assets includes both development expenses capitalized for proprietary development projects (€ 11,112k; previous year: € 9,700k) and development expenses capitalized for development cooperations (€ 11,087k; previous year: € 13,700k). Reference is made to the information in Section B. 'Recognition of sales, cost of sales, research and development expenses'. The carrying amount for other rights and values includes software and licenses acquired.

In the consolidated statement of comprehensive income, amortization on internally generated intangible assets, technologies, current R&D projects acquired, and other rights and values has been recognized under cost of sales or within the individual functional divisions in line with its causation.

Individual intangible assets with carrying amounts of more than € 2.0 million at the balance sheet date on December 31, 2017 and thus, alongside goodwill, of material significance for the consolidated financial statements of STRATEC AG comprise the following items: development cooperation A with a carrying amount of € 5,185k – expected remaining amortization period of 4.0 years; development cooperation B with a carrying amount of € 3,726k – expected remaining amortization period of 7.0 years; in-house development project with a carrying amount of € 3,282k – still in the development phase.

Intangible assets developed as follows in the 2016 financial year:

	Goodwill € 000s	Acquired technologies € 000s	Acquired R&D projects € 000s	Internally generated intangible assets € 000s	Acquired patents € 000s	Acquired trademarks € 000s	Acquired customer bases € 000s	Other rights and values € 000s	Total € 000s
Acquisition and manufacturing costs Balance at 12.31.2015	**5,125**	**8,153**	**431**	**36,278**	**0**	**0**	**405**	**3,570**	**53,962**
Company acquisitions	37,139	19,844	0	7	5,023	2,956	27,002	294	92,265
Additions	0	0	0	2,589	0	0	0	186	2,775
Disposals	0	0	0	-1,159	0	0	0	-338	-1,497
Reclassifications	0	0	0	0	0	0	0	0	0
Currency differences	577	-512	0	-124	0	41	553	8	543
Balance at 12.31.2016	**42,841**	**27,485**	**431**	**37,591**	**5,023**	**2,997**	**27,960**	**3,720**	**148,048**

	Goodwill € 000s	Acquired technologies € 000s	Acquired R&D projects € 000s	Internally generated intangible assets € 000s	Acquired patents € 000s	Acquired trademarks € 000s	Acquired customer bases € 000s	Other rights and values € 000s	Total € 000s
Accumulated amortization and impairments Balance at 12.31.2015	**0**	**7,507**	**294**	**11,702**	**0**	**0**	**405**	**3,062**	**22,970**
Additions to amortization	0	1,830	49	2,471	167	224	2,163	391	7,295
Impairments	0	0	0	0	0	0	0	0	0
Write-ups	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	-338	-338
Currency differences	0	-710	0	18	0	1	28	8	-655
Balance at 12.31.2015	**0**	**8,627**	**343**	**14,191**	**167**	**225**	**2,596**	**3,123**	**29,272**
Carrying amounts at 12.31.2016	**42,841**	**18,858**	**88**	**23,400**	**4,856**	**2.772**	**25,364**	**597**	**118,776**

In the 2017 financial year, impairment losses of € 1,185k were recognized under other operating expenses for internally generated assets in connection with development cooperations. These are attributable to the Instrumentation segment. The events and circumstances leading to this impairment resulted from decisions taken on the basis of an individual customer assessment concerning the short to medium-term placement opportunities for an assay portfolio not yet fully developed for market penetration.

(2) Property, plant and equipment

Property, plant and equipment developed as follows in the 2017 financial year:

	Land, leasehold rights and buildings € 000s	Technical equipment and machinery € 000s	Other equipment, plant and office equipment € 000s	Prepayments made and assets under construction € 000s	Total € 000s
Acquisition and manufacturing costs Balance at 12.31.2016	**22,442**	**9,713**	**20,475**	**1,480**	**54,110**
Additions	738	924	5,215	2,435	9,312
Disposals	0	-1	-531	0	-532
Reclassifications	0	28	510	-510	28
Currency differences	-918	-28	-324	-7	-1.277
Balance at 12.31.2017	**22,262**	**10,636**	**25,345**	**3,398**	**61,641**

	Land, leasehold rights and buildings € 000s	Technical equipment and machinery € 000s	Other equipment, plant and office equipment € 000s	Prepayments made and assets under construction € 000s	Total € 000s
Accumulated depreciation Balance at 12.31.2016	**4,372**	**1,881**	**15,068**	**0**	**21,321**
Additions	706	2,644	2,213	0	5,563
Disposals	0	0	-499	0	-499
Currency differences	-132	-14	-299	0	-445
Balance at 12.31.2017	**4,946**	**4,511**	**16,483**	**0**	**25,940**
Carrying amounts at 12.31.2017	**17,316**	**6,125**	**8,862**	**3,398**	**35,701**

As in the previous year, it was not necessary to capitalize any borrowing costs as a component of costs of acquisition or manufacturing pursuant to IAS 23 (Borrowing Costs) in the 2017 financial year.

As in the previous year, it was not necessary to recognize any impairment losses in the 2017 financial year.

Property, plant and equipment developed as follows in the 2016 financial year:

	Land, leasehold rights and buildings € 000s	Technical equipment and machinery € 000s	Other equipment, plant and office equipment € 000s	Prepayments made and assets under construction € 000s	Total € 000s
Acquisition and manufacturing costs Balance at 12.31.2016	**15,010**	**1,073**	**18,702**	**3,392**	**38,177**
Change in scope of consolidation	0	0	2	0	2
Company acquisitions	204	7,914	1,072	1,187	10,377
Additions	3,945	456	2,149	691	7,241
Disposals	-3	-291	-1,503	-3	-1,800
Reclassifications	3,210	537	42	-3,789	0
Currency differences	76	24	11	2	113
Balance at 12.31.2017	**22,442**	**9,713**	**20,475**	**1,480**	**54,110**

	Land, leasehold rights and buildings € 000s	Technical equipment and machinery € 000s	Other equipment, plant and office equipment € 000s	Prepayments made and assets under construction € 000s	Total € 000s
Accumulated depreciation Balance at 12.31.2016	**3,748**	**497**	**14,337**	**0**	**18,582**
Change in scope of consolidation	0	0	2	0	2
Additions	610	1,504	1,799	0	3,913
Disposals	0	-121	-1,082	0	-1,203
Currency differences	14	1	12	0	27
Balance at 12.31.2017	**4,372**	**1,881**	**15,068**	**0**	**21,321**
Carrying amounts at 12.31.2017	**18,070**	**7,832**	**5,407**	**1,480**	**32,789**

(3) Inventories

Raw materials and supplies

Expenses of € 870k (previous year: € 389k) were recognized through profit or loss under cost of materials in the year under report for write-downs of raw materials and supplies. The resultant earnings items arose on account of stock movements.

Unfinished products / unfinished services

These items are structured as follows:

	12.31.2017 € 000s	12.31.2016 € 000s
Unfinished products	5,447	5,302
Unfinished services	920	0
	6,367	**5,302**

Expenses of € 112k were recognized through profit or loss under cost of materials in the year under report for adjustments made to impairments previously recognized on unfinished products and services (previous year: income of € 25k).

Information about the accounting treatment of development cooperations can be found in Section B. 'Recognition of sales, cost of sales, research and development expenses'.

Finished products and merchandise

These items are structured as follows:

	12.31.2017 € 000s	12.31.2016 € 000s
Finished products	5,944	5,873
Merchandise	62	288
Prepayments made	127	27
	6,133	**6,188**

Expenses of € 103k for the impairment of finished products were recognized through profit or loss under cost of materials in the year under report (previous year: € 12k).

Of the items recognized within inventories, the overwhelming share is expected to be realized within a period of twelve months after the balance sheet date.

(4) Trade receivables

Of trade receivables (€ 39,126k; previous year: € 38,890k), an amount of € 39,126k (previous year: € 38,890k) is due for payment within one year. Customer credit balances have been recognized under financial liabilities.

The allowances schedule for trade receivables developed as follows:

	2017 € 000s	2016 € 000s
Accumulated allowances at 01.01.	1,280	751
Company acquisitions	0	982
Expenses in period under report	111	238
Reversals	-35	-97
Utilized	-88	-608
Currency differences	-36	14
Accumulated allowances at 12.31.	**1,232**	**1,280**

The gross amount of receivables for which individual allowances had been recognized at the balance sheet date amounted to € 1,862k (previous year: € 1,574k).

No expenses were recognized through profit or loss in the 2017 financial year for the complete write-down of trade receivables (previous year: € 58k). No write-backs were required in the previous year.

The time band structure of trade receivables has been presented in the following table (all figures in € 000s):

	Gross amount	of which: impaired	of which: neither impaired nor overdue at balance sheet date	of which: not impaired at balance sheet date, but overdue within the following time bands			
				up to 30 days	between 30 and 60 days	between 60 and 90 days	more than 90 days
12.31.2017	**40,358**	**1,862**	**28,732**	**7,435**	**1,732**	**234**	**363**
12.31.2016	40,170	1,574	31,431	6,491	552	**68**	**55**

There were no indications at the balance sheet date of any default risks in connection with receivables which were not impaired. Furthermore, material receivables are covered by trade credit insurance policies.

(5) Receivables from construction contracts

Information about the necessary recognition of development cooperations as construction contracts pursuant to IAS 11 (Construction Contracts) has been provided in Section B. 'Recognition of sales, cost of sales, research and development expenses'.

Sales from construction contracts totaling € 10,299k have been recognized in the consolidated statement of comprehensive income for the 2017 financial year (previous year: € 7,282k). Of the sales recognized, an amount of € 5,917k corresponds to the costs incurred (previous year: € 7,282k).

As in the previous year, the future receivables from construction contracts recognized as of December 31, 2017 were neither impaired nor overdue. An amount of € 1,441k was overdue (previous year: € 850k) and an amount of € 5,531k due within one year (previous year: € 2,125k).

(6) Receivables from associates

These receivables are structured as follows:

Company providing service	Company receiving service	12.31.2017 € 000s	12.31.2016 € 000s
STRATEC AG	STRATEC Biomedical (Taicang) Co. Ltd.	15	13
STRATEC Biomedical UK, Ltd.	Sanguin International Inc.	9	9
		24	**22**

Receivables due from associates are subject to foreign currency risks. Given the amounts involved, however, these do not have any material impact on consolidated earnings.

(7) Financial assets

Financial assets are structured as follows:

	12.31.2017 € 000s	12.31.2016 € 000s
Investments in associates	158	160
Investments in listed companies	12,114	1,080
Investments in unlisted companies	0	2,751
Option rights	0	1,481
Other	466	601
	12,738	**6,073**

Investments in associates and other financial assets of € 82k have been recognized under non-current financial assets (previous year: € 218k).

Investments in associates

The composition of investments in associates is presented in Section B. 'Accounting policies applied – Scope of consolidation'. The amounts recognized in the balance sheet developed as follows:

	2017 € 000s	2016 € 000s
Carrying amount at 01.01.	160	184
Change in scope of consolidation	0	-14
Currency differences	-2	-10
Carrying amount at 12.31.	**158**	**160**

The change in the scope of consolidation in the previous year related to the first-time full consolidation of STRATEC Biomedical Inc., Southington, US.

Investments in listed companies

The shares held in listed companies have been measured at their closing prices on the stock market with the highest trading volumes at the balance sheet date and are structured as follows:

	2017 € 000s	2016 € 000s
Shares in Quanterix Corporation, US	11,140	0
Other shares	974	1,080
Carrying amount at 12.31.	**12,114**	**1,080**

Securities of € 1k were acquired in the 2017 financial year (previous year: € 0k). Of the net income of € 2,454k (previous year: expenses of € 307k) resulting from the measurement of investments in listed companies as of the balance sheet date, expenses of € 106k (previous year: € 307k) have been recognized through profit or loss under 'Other financial income/ expenses' in the consolidated statement of comprehensive income, while income of € 2,560k (previous year: € 1,055k) has been recognized directly in equity under 'Changes in value of financial investments' in the consolidated statement of comprehensive income.

Shares in Quanterix Corporation, USA

The shares held in Quanterix Corporation, US, witnessed substantial increase in their fair value in the 2017 financial year. This was chiefly attributable to that company's IPO on December 7, 2017. The implications of the IPO-related changes in the shares held in Quanterix Corporation, US, within the fair value hierarchies and the resultant implications for the consolidated statement of comprehensive income of STRATEC AG have been presented in detail in Section G. 'Financial instruments'. Due to an IPO-related lock-up agreement, the shares held in Quanterix Corporation, US, were subject to restrictions on sale as of the balance sheet date on December 31, 2017.

Other

The 'Other' line item mainly includes amounts charged on and refund claims of € 329k (previous year: € 93k), rental deposits of € 51k (previous year: € 26k), loans of € 41k (previous year: € 379k), receivables of € 38k from employees (previous year: € 42k), and creditors with debit balances of € 7k (previous year: € 34k). In the previous year, an impairment loss of € 25k was recognized for one creditor with a debit balance (previous year: € 33k).

(8) Other receivables and assets and income tax receivables

Other receivables and assets are structured as follows:

	2017 € 000s	2016 € 000s
Abgegrenzte Aufwendungen	2,160	1,106
Umsatzsteuer	2,275	2,638
Übrige	128	126
	4,563	**3,870**

The other receivables and other assets are neither impaired nor overdue.

Income tax receivables of € 1,543k result from prepayments and refunds of taxes on income (previous year: € 4,081k).

(9) Shareholders' equity

The individual components of shareholders' equity and their development in 2017 and 2016 have been presented in the consolidated statement of changes in equity.

Share capital

The share capital of STRATEC AG amounted to € 11,921k at the balance sheet date (previous year: € 11,861k). The share capital is divided into 11,920,945 ordinary shares (previous year: 11,860,995 ordinary shares). The increase in the share capital by 59,950 ordinary shares was due to a conditional capital increase (previous year: 8,025 ordinary shares). The shares have been paid up in full and are registered shares. Each share entitles its holder to one voting right.

Authorized capital

Pursuant to § 4 (4.5) of the Articles of Association, the Board of Management is authorized, subject to approval by the Supervisory Board, to increase the company's share capital on one or more occasions prior to May 21, 2020 by a maximum amount of up to € 5,500,000.00 by issuing up to a maximum of 5,500,000 new shares in return for cash or non-cash contributions (Authorized Capital 2015/I). In general, shareholders must be granted subscription rights. In specific circumstances outlined in the Articles of Association, however, the Board of Management is entitled to exclude such subscription rights for a total amount of up to 20% of existing share capital upon this authorization becoming effective or, if lower, of the equivalent amount upon this authorization being acted on. Authorized Capital amounted to € 5,500,000 as of December 31, 2017.

Conditional capital

§ 4 (4.6) Paragraph 1 of the Articles of Association provides for Conditional Capital V/2009. This conditional capital increase serves to grant subscription rights (stock options) up to May 19, 2014 on the basis of the resolution adopted by the Annual General Meeting on May 20, 2009. Pursuant to the resolution adopted by the Annual General Meeting on June 6, 2013, Conditional Capital V/2009 was reduced to € 198,500.00 and the authorization to grant stock options dated May 20, 2009 rescinded to the extent that no further new option rights may be granted; only existing option rights may be exercised. Conditional Capital V/2009 amounted to € 41,300.00 as of December 31, 2017.

§ 4 (4.6) Paragraph 2 of the Articles of Association provides for Conditional Capital VI/2013. This conditional capital increase serves to grant subscription rights (stock options) up to June 5, 2018 on the basis of the resolution adopted by the Annual General Meeting on June 6, 2013. The conditional capital increase is only exercised to the extent that bearers of stock options actually exercise their subscription rights. The new shares have profit entitlement from the beginning of the financial year in which they are issued. Conditional Capital VI/2013 amounted to € 877,250.00 as of December 31, 2017.

Furthermore, § 4 (4.7) of the Articles of Association provides for Conditional Capital VII/2015 of € 800,000.00. This conditional capital increase serves exclusively to grant up to 800,000 new shares to the bearers or creditors of convertible or warrant bonds issued by the company or by direct or indirect majority shareholdings of the company by May 21, 2020 on the basis of the resolution adopted by the Annual General Meeting on May 22, 2015. Conditional Capital VII/2015 amounted to € 800,000.00 as of December 31, 2017.

Total conditional capital therefore amounted to € 1,718,550.00 as of December 31, 2017 (previous year: € 1,778,500.00).

Stock option programs

The company had two stock option programs (equity-settled share-based payment) as of December 31, 2017 (previous year: two). These programs are especially well-suited to provide a sustainable performance incentive for employees of the company, and for members of the management and employees of associates. They thus help increase the value of the company in the interests of the company and its shareholders. Since the 2016 financial year, the individual members of the Board of Management have no longer been granted any stock options. Rather than stock options, they are now granted stock appreciation rights (cash-settled share-based payment – SARs) as a variable compensation component of a long-term incentive nature. Further details of the structure of the stock appreciation rights (SARs) can be found in Section E. 'Compensation report' in the group management report.

The following specific conditions apply to stock option programs granted up to June 6, 2013:

Each stock option entitles its bearer to subscribe one STRATEC share at a later date in return for payment of an exercise price determined upon the options being granted. The exercise price is equivalent to the average closing price of STRATEC shares on the five trading days prior to the decision being taken to grant stock options, with the par value of one euro per share representing the minimum possible exercise price. Following the expiry of qualifying periods and the meeting of specified performance targets, the stock options may be exercised in predetermined exercise windows. Up to 50 percent of the stock options granted may only be exercised at the earliest following a qualifying period of two years and provided that STRATEC's share has risen in value by a least ten percent compared with the exercise price between the date of the option rights being granted and the date marking the expiry of the qualifying period. Following a qualifying period of a further year, up to 100 percent of the stock options granted may be exercised provided that STRATEC's share has risen in value by at least fifteen percent between the date of the option rights being granted and the date marking the expiry of the qualifying period. Following the expiry of a seven-year term after being granted, the option rights lapse without compensation.

The following specific conditions in respect of qualifying periods and the meeting of specific performance targets apply to stock options granted from June 6, 2013 onwards:

The stock options granted may be exercised in full at the earliest following the expiry of a qualifying period of four years and provided that STRATEC's share has risen in value by at least twenty percent compared with the exercise price between the date of the option rights being granted and the date marking the expiry of the qualifying period. Following the expiry of a seven-year term after being granted, the option rights lapse without compensation.

The individual stock option programs, fair value calculations using the Black-Scholes option pricing model, and the calculation of the related personnel expenses in the individual periods (taking due account of personnel turnover) have mainly been based on the following key parameters (with expected volatility derived from historic volatility figures):

Granted in:	2017	2016	2015	2014	2013	2012
Option rights granted (number of shares)	31,550	24,050	19,850	56,100	92,600	96,100
Weighted exercise price (in €)	51.73	48.52	47.85	33.04	29.75	31.39
Expected share price volatility in %	29.70 to 34.18	34.88 to 42.29	31.93 to 39.77	26.40 to 34.67	34.20 to 39.43	28.70 to 33.51
Expected dividend yield in %	1.69	1.23	1.50	1.50	1.50	1.50
Risk-free interest rate in %	0.22 to 0.37	-0.02 to 0.19	0.12 to 0.79	0.72 to 1.56	1.20 to 1.76	1.30 to 1.85
Assumed turnover of subscription beneficiaries in %	5.0	5.0	5.0	5.0	5.0	5.0
Fair value of option rights at grant date (in € 000s)	151	123	101	202	307	258

The weighted average share price has been accounted for at € 52.66 in the fair value calculation of the option rights granted in the financial year (previous year: € 47.28).

In respect of the exercise behavior shown by the program participants, it has been assumed that they will exercise their options at the earliest opportunity.

The following options schedule provides an overview of the development in stock option rights in the 2016 to 2017 financial years:

	Number of option rights	Weighted exercise price
Outstanding on 12.31.2015	**230,825**	**32.37**
Exercisable on 12.31.2015	**76,550**	**31.47**
During the 2016 financial year		
• granted	24,050	48.52
• exercised	8,025	31.82
• lapsed	0	n.a.
• forfeited	2,400	n.a.
Outstanding on 12.31.2016	**244,450**	**33.91**
Exercisable on 12.31.2016	**78,500**	**31.63**
During the 2017 financial year		
• granted	31,550	51.73
• exercised	59,950	30.18
• lapsed	0	n.a.
• forfeited	500	n.a.
Outstanding on 12.31.2017	**215,550**	**37.57**
Exercisable on 12.31.2017	**87,100**	**30.19**

As in the previous year, all of the stock options granted in the year under report were allocated to employees at STRATEC AG.

In the year under report, 25,000 stock options were exercised by members of the Board of Management at an average exercise price of € 30.75 (previous year: no stock options exercised). A total of 15,000 stock options were exercised by former members of the Board of Management of STRATEC AG at an average exercise price of € 28.09 in the year under report (previous year: no stock options exercised). Employees of STRATEC AG exercised 19,950 stock options in the financial year under report (previous year: 8,025) at an average exercise price of € 31.05 per share (previous year: € 31.82). Of the stock options exercised by employees of STRATEC AG in the 2017 financial year, 3,000 related to stock options granted to a member of the Board of Management prior to his appointment as such. These were exercised at an average exercise price of € 34.74 per share (previous year: no stock options exercised).

The fair value of the option rights has been expensed over the agreed qualifying periods and has resulted in an endowment of the same amount in the capital reserve. This led to expenses of € 136k in the 2017 financial year (previous year: € 138k). Given the consistent, low level of personnel turnover, it has not been necessary in subsequent periods to adjust the expenses calculated upon the respective rights being granted.

The 87,100 stock option rights exercisable as of December 31, 2017 (previous year: 78,500) entitle their bearers to acquire a total of up to 87,100 shares (previous year: 78,500) at a total exercise price of € 2,629k (previous year: € 2,483k).

The weighted average listed price on the Frankfurt Stock Exchange of those stock options exercised in the period under report since their respective issue amounted to € 59.01 (previous year: € 49.46).

The weighted exercise prices and weighted average remaining contractual terms of the stock options outstanding at the end of the period under report have been presented in the following table:

2017

Range in €	Number of stock options	Weighted exercise price in €	Weighted remaining contractual term in months
25.01 – 30.00	42,000	28.09	31.4
30.01 – 35.00	93,500	32.02	31.6
35.01 – 40.00	2,800	39.98	45.6
40.01 – 45.00	15,250	42.61	59.1
45.01 – 50.00	31,050	47.60	66.1
50.01 – 55.00	23,850	52.50	69.2
55.01 – 60.00	5,500	59.81	83.2
60.01 – 65.00	1,750	61.99	78.1
Total	**215,550**	**37.57**	**44.5**

2016

Range in €	Number of stock options	Weighted exercise price in €	Weighted remaining contractual term in months
25.01 – 30.00	66,300	28.13	41.9
30.01 – 35.00	128,500	31.82	40.8
35.01 – 40.00	3,800	39.55	52.5
40.01 – 45.00	15,250	42.61	71.2
45.01 – 50.00	12,050	46.77	65.6
50.01 – 55.00	18,550	52.39	78.2
Total	**244,450**	**33.91**	**47.3**

Employee participation program

As one component of the negotiations held between the Board of Management and the Works Council to determine 2018 compensation, in December 2017 all employees in STRATEC AG already received five employee shares each within the employee participation program. To this end, a total of 1,695 shares held as treasury stock by STRATEC AG were transferred to the accounts of the employees participating in the program.

The employee participation shares granted in 2016 resulted from the decision taken by the Board of Management in August 2015 to offer an employee participation program. This employee participation program (share-based compensation with the option of cash or equity settlement) was offered to all permanent and temporary employees at STRATEC Biomedical AG, Birkenfeld, Germany, and was intended to enable them to participate in the future success of STRATEC AG. The program comprised the subscription of eight employee shares each in October 2015 and March 2016. Furthermore, those employees who did not sell the eight shares assigned to them in October 2015 by February 28, 2016 received an additional three shares. Employees opting not to participate in the employee participation program automatically received one-off payments corresponding to the value of eight employee shares in each case in October 2015 and March 2016. In October 2015 and March 2016, a total of 2,344 and 3,189 treasury stocks respectively in STRATEC AG were assigned to the accounts of the employees participating in the program.

An amount of € 119k was recognized as expenses (previous year: € 48k) and an amount of € 119k (previous year: € 45k) was recognized in the capital reserve in connection with the employee participation program in the 2017 financial year. Due to the assignment of treasury stock, the capital reserve was subsequently reduced by € 29k (previous year: € 54k).

Capital reserve

The capital reserve mainly includes the premium from the issuing of shares, less the costs of equity procurement, after taxes. Moreover, the capital reserve also includes the benefit from the granting of stock options and from the employee participation program recognized as expenses, as well as the differential amount from the buyback and reissue of treasury stock.

Retained earnings

Retained earnings include accumulated net income generated in the past, to the extent that this has not been distributed, as well as free revenue reserves. The free revenue reserves arose due to allocations made in the context of the statutory authorization of the Board of Management and Supervisory Board of STRATEC AG to determine the appropriation of profit pursuant to § 58 (2) of the German Stock Corporation Act (AktG).

Retained earnings are thus structured as follows:

	31.12.2017 € 000s	**31.12.2016** € 000s
Free revenue reserves	19,392	19,392
Accumulated net income	101,666	85,160
	121,058	**104,552**

Accumulated net income developed as follows in the year under report:

	€ 000s
Accumulated net income at 12.31.2016	85,160
Consolidated net income in 2017	25,635
Distribution (dividend for 2016)	-9,129
Accumulated net income at 12.31.2017	**101,666**

Other equity

Other equity includes the currency translation reserve, the fair value measurement reserve, the shares in Quanterix Corporation classified as available for sale, accumulated actuarial gains and losses from the remeasurement of pension, and the resultant deferred taxes.

The currency translation reserve of € 774k reported as of the balance sheet date (previous year: € 5,252k) mainly relates to currency differences arising upon the translation of the separate financial statements of companies with functional currencies other than the euro, as well as to the translation of group-internal net investments within equity as of the balance sheet date.

The amounts recognized in other comprehensive income (OCI) within equity are structured as follows:

	Balance at 01.01.2017 € 000s	**OCI** € 000s	**Balance at 12.31.2017** € 000s
Pensions	-868	-102	-970
Deferred taxes on pensions	185	16	201
Available-for-sale instruments	1.055	1,506	2,561
Deferred taxes on available-for-sale instruments	-15	-21	-36
Currency reserve	5,501	-3,879	1,622
Deferred taxes on currency reserve	-249	-599	-848
Total	**5,609**	**-3,079**	**2,530**

	Balance at 01.01.2017 € 000s	**OCI** € 000s	**Balance at 12.31.2017** € 000s
Pensions	-763	-105	-868
Deferred taxes on pensions	136	49	185
Available-for-sale instruments	0	1,055	1,055
Deferred taxes on available-for-sale instruments	0	-15	-15
Currency reserve	4,484	1,017	5,501
Deferred taxes on currency reserve	-206	-43	-249
Total	**3,651**	**1,958**	**5,609**

Treasury stock

By resolution of the Annual General Meeting held on May 22, 2015, the company was authorized until May 21, 2020 to acquire treasury stock on one or several occasions and in total or in partial amounts up to a total of ten percent of existing share capital as of May 22, 2015 and to use this for every purpose permitted within the statutory limitation and consistent with the respective conditions. The authorization may not be drawn on to trade in treasury stock. Together with the treasury stock already acquired on the basis of previous authorizations and still possessed by the company, the treasury stock acquired on the basis of this authorization may not at any time account for more than ten percent of the respective share capital. The treasury stock may be acquired on the stock market, by way of a public offer, by way of a public request to submit sales offers, or by issuing pre-emptive rights to shareholders. As well as being sold on the stock market or by way of a public offer addressed to all, the treasury stock acquired on the basis of this and earlier authorizations may also be used as follows:

a) Subject to approval by the Supervisory Board, and without any further resolution being required by the Annual General Meeting, the treasury stock may be retired
b) The treasury stock may be used to the exclusion of shareholders' subscription rights to service subscription rights in connection with stock option programs based on authorizations adopted by the Annual General Meeting
d) The treasury stock may be sold to third parties to the exclusion of shareholders' subscription rights in return for contributions in kind in the context of business combinations, or to acquire companies, parts of companies or shareholdings in companies
d) The treasury stock may be sold to third parties to the exclusion of shareholders' subscription rights in ways other than via the stock market. In this case, the selling price (excluding disposal-related costs) may not fall significantly short of the share's average closing price in XETRA trading on the Frankfurt Stock Exchange on the five trading days preceding the substantiation of the disposal obligation
e) The treasury stock may be issued to the exclusion of shareholders' subscription rights for the purpose of implementing a stock dividend.

In the case of authorizations b) to e), the number of stocks to be disposed of to the exclusion of shareholders' subscription rights may – together with new shares issued to the exclusion of shareholders' rights since the granting of this authorization pursuant to § 186 (3) Sentence 4 of the German Stock Corporation Act (AktG) – not exceed a total of ten percent of the company's share capital either at the time of this authorization becoming effective or, if lower, being exercised.

Authorizations a) to e) may be exercised in whole or in part, individually or collectively, and on one or several occasions. They also include the use of shares acquired on account of § 71d of the German Stock Corporation Act (AktG).

As in the previous year, STRATEC AG made no use of this authorization to acquire treasury stock in 2017. The company currently has no plans to retire the shares already acquired, but rather intends to retain the financial scope to make acquisitions and safeguard its growth strategy. Furthermore, the company reserves the right to use the treasury stock already acquired for other purposes consistent with the authorization provided by the Annual General Meeting.

The development in treasury stock is as follows:

	Number
Treasury stock at 12.31.2016	6,690
Acquisition of treasury stock	0
Surrender of treasury stock	-1,695
Treasury stock at 12.31.2017	**4,995**

The surrender of treasury stock was executed in connection with the employee participation program.

The treasury stock has been recognized at cost at a total amount of € 89k (previous year: € 118k) as a separate item within other equity.

Appropriation of earnings

The German Stock Corporation Act (AktG) requires the dividends to be distributed to shareholders to be calculated on the basis of the net income reported in the annual financial statements of STRATEC AG prepared in line with the German Commercial Code (HGB).

In the 2017 financial year, a dividend of € 0.77 (previous year: € 0.75) was paid per share with dividend entitlement for the 2016 financial year, corresponding to a total distribution of € 9,129k (previous year: € 8,885k).

With the approval of the Supervisory Board, the Board of Management proposes that, of the net income of € 67,575k calculated for STRATEC AG in line with the German Commercial Code, an amount of € 9,532,760.00, equivalent to € 0.80 per share with dividend entitlement, should be distributed, and that the remaining amount of € 58,042k should be carried forward. The proposed dividend is dependent on approval by the Annual General Meeting and has not been recognized as a liability in the consolidated financial statements.

As in the previous year, upon preparing the annual financial statements of STRATEC AG in line with the German Commercial Code (HGB) as of December 31, 2017, the Board of Management and Supervisory Board did not allocate any amount from the net income for 2017 to the free revenue reserves.

(10) Provisions for pensions

The company pension scheme can basically be divided into defined contribution plans and defined benefit plans. In defined contribution plans, the company does not enter into any legal or constructive obligations over and above its obligation to pay contributions to an external state or private pension provider. These contributions are recognized within personnel expenses upon becoming due for payment. Defined contribution pension expenses totaled € 5,039k in the financial year under report (previous year: € 3,096k). This total includes employer contributions of € 2,088k to the German state pension system (previous year: € 1,953k).

Furthermore, as of the balance sheet date capital allowance commitments had been made to one member of the Board of Management in Germany and to employees in Austria and Switzerland. Reinsurance policies have been concluded in some cases to cover the pension obligation.

Actuarial surveys have been obtained to ascertain the corresponding asset values as of the balance sheet date. This pension obligation is offset against the pledged assets of the reinsurance policies and stated on a net basis in the consolidated balance sheet.

The present value of pension obligations is calculated using the projected unit credit method, the actuarial method stipulated by IAS 19.67 to measure the respective provisions. In this, the future obligations are measured on the basis of the prorated vested claims attained by the end of the financial year, taking due account of assumed trends.

The calculation of the present value of pension obligations has been based on the following assumptions:

	Germany 12.31.2017	Austria 12.31.2017	Switzer-land 12.31.2017
Discount factor	1.77 %	1.82 %	0.70 %
Future income increases	0.00 %	3.00 %	1.80 %
Future pension increases	0.00 %	0.00 %	0.00 %
Personnel turnover rate	0.00 %	10.00 %	*
Average duration	14.6 years	13.9 years	**

	Germany 12.31.2017	Austria 12.31.2017	Switzer-land 12.31.2017
Discount factor	1.73 %	1.75 %	0.70 %
Future income increases	0.00 %	3.00 %	1.80 %
Future pension increases	0.00 %	0.00 %	0.00 %
Personnel turnover rate	0.00 %	10.00 %	*)
Average duration	15.5 years	15.8 years	**)

* Personnel turnover rate graded for men, women, and age groups. Pursuant to the Swiss Federal Act on Retirement, Dependant Care, and Invalidity Pensions (BVG), the turnover rate for men ranges, as in the previous year, from 1.30 % to 28.53 %; the rate for women ranges from 1.52 % – 24.12 %.

** The range of average duration amounts to 21.1 years at STRATEC Biomedical Switzerland AG (previous year: 21.4 years) and to 22.6 years at STRATEC Services AG (previous year: 22.2 years).

As in the previous year, the main life expectancy assumptions for Germany have been taken from the biometric '2005G Guidelines' published by Prof. Dr. Klaus Heubeck. For Austria, these assumptions have been based on the 'AVÖ 2008-P Pagler & Pagler Generationentafel'. For Switzerland, they have been based on the 'BVG 2015 Generationstafel'.

The assumptions stated for the calculation of the present value of pension obligations as of the previous year's balance sheet date also apply for the calculation of interest expenses and current service cost in the following financial year.

The present value of the vested defined benefit obligations (DBO) and plan assets changed as follows in the financial year under report:

	2017 € 000s	2016 € 000s
Present value of defined benefit obligations (DBO) as of 01.01.	**6,161**	**3,410**
Company acquisitions	0	2,017
Transfers due to change of employer	47	263
Current service cost	367	324
Retrospective service cost	-83	0
Compounding of pension obligations	64	53
Payments made	-58	-152
Employee contributions to pension plan	171	163
Remeasurement of pension obligations Actuarial gains (-)/losses (+) due to changes in • financial assumptions • demographic assumptions • experience adjustments	 -18 0 35	 66 0 -27
Currency differences	-371	44
Present value of defined benefit obligations (DBO) as of 12.31.	**6,315**	**6,161**

	2017 € 000s	2016 € 000s
Beizulegender Zeitwert des Planvermögens Stand 01.01.	**2,775**	**2,165**
Transfers due to change of employer	47	263
Employer contributions to plan assets	214	198
Employee contributions to plan assets	171	163
Interest income on plan assets	22	27
Remeasurement of plan assets • expenses for plan assets (excluding interest income) • other	 -85 0	 -67 0
Currency differences	-231	26
Fair value of plan assets as of 12.31.	**2,913**	**2,775**

To calculate the financing status or the net obligation, the present value of the externally financed obligations is compared with the fair value of the plan assets.

	12.31.2017 € 000s	12.31.2016 € 000s
Present value of pension obligations	6,315	6,161
Fair value of plan assets	2,913	2,775
Financing status = net obligation	**3,402**	**3,386**

The net obligation developed as follows in the past financial years:

	2017 € 000s	2016 € 000s
Net obligation as of 01.01.	**3,386**	**1,245**
Company acquisitions	0	2,017
Share of pension expenses recognized in income statement	326	350
Amounts recognized in OCI	102	106
Payments made	-58	-152
Employer contributions to plan assets	-214	-198
Currency differences	-140	18
Net obligation at 12.31.	**3,402**	**3,386**

The pension expenses recognized through profit or loss in the income statement for defined benefit commitments in the period under report comprise the following items:

	2017 € 000s	2016 € 000s
Current service cost	367	324
Retrospective service cost	-83	0
Compounding of pension obligations	64	54
Interest income on plan assets	-22	-28
Share of pension expenses recognized in income statement	**326**	**350**

Service cost is included in personnel expenses, while other components of the share of pension expenses recognized in the income statement are included in net financial expenses.

The following amounts have been recognized in equity under 'Other comprehensive income' in the consolidated statement of comprehensive income:

	2017 € 000s	2016 € 000s
Remeasurement of net obligation:		
Expenses for plan assets (excluding interest income)	85	67
Actuarial gains (-) / losses (+) due to changes in		
• financial assumptions	-18	66
• demographic assumptions	0	0
• experience adjustments	35	-27
Amounts recognized in OCI	**102**	**106**

The plan assets relate exclusively to capital commitments in Germany and Switzerland. In Germany, these reinsurance policies predominantly invest in fixed-income securities. When selecting such securities, the rating and equity resources of the issuer are accounted for, among other factors. The investment strategy predominantly aims to generate ongoing interest income and to ensure capital preservation with a low degree of volatility. No prices listed on an 'active market' are available for the reinsurance policies. The two Swiss companies are affiliated to the comprehensive insurance contract for the BVG collective foundation ('Sammelstiftung') at Allianz Suisse, while a reinsurance contract is in place between the Sammelstiftung and the life insurer Allianz Suisse Lebensversicherungs-Gesellschaft.

Depending on the specific company, the key actuarial assumptions used to calculate the pension obligations at STRATEC AG include the parameters presented in the sensitivity analyses below, namely the discount factor, future income increases, and the projected interest rate for retirement assets. The sensitivity analyses show how the net defined benefit obligation in Germany and Austria would have been influenced by potential changes in the corresponding assumptions if all other assumptions had remained unchanged.

Germany	2017 € 000s	2016 € 000s
Discount factor +0,50 %	-21	-21
Discount factor -0,50 %	22	23

Austria	2017 € 000s	2016 € 000s
Discount factor +0,50 %	-150	-124
Discount factor -0,50 %	81	137
Future income increases +0,50 %	76	147
Future income increases -0,50 %	-147	-135

In Switzerland, any variation in the respective parameters by 25 basis points would result in the following sensitivities in the present value of the defined benefit obligation:

Switzerland	**2017** € 000s	**2016** € 000s
Discount factor +0,25 %	241	237
Discount factor -0,25 %	-220	-217
Interest rate on retirement assets +0,25 %	-88	-87
Interest rate on retirement assets -0,25 %	91	89
Future income increases +0,25 %	-54	-57
Future income increases -0,25 %	58	59

Plan asset endowments by STRATEC AG of € 417k (previous year: € 371k) are expected for the following 2018 financial year. No outgoing payments from plan assets are expected.

Furthermore, STRATEC AG also has congruently reinsured pension fund models. Consistent with an approach frequently adopted in practice, these are considered on the basis of 'economic interpretation' as defined contribution plans, as the refinancing risk borne by the employer is generally deemed to be negligible. STRATEC AG has also adopted this approach for its accounting. The fair value of the insurance contracts amounted to € 884k as of December 31, 2017 (previous year: € 688k). If the reinsured pension fund models had been classified as defined obligation plans, then pursuant to IAS 19.115 the present value of the obligations can be assumed to be at the same level. STRATEC AG paid contributions of € 200k in the 2017 financial year (previous year: € 200k). These contributions were all made for retirement pensions of members of the Board of Management of STRATEC AG.

(11) Taxes on income

Taxes on income comprise the income taxes paid or owed and deferred taxes in the individual countries. Interest on back payments and reimbursements in connection with tax audits are recognized under net financial expenses.

Income tax expenses can be broken down in terms of their origin as follows:

	2017 € 000s	**2016** € 000s
Income taxes paid or owed		
• Germany	2,251	3,846
• International	4,233	2,691
	6,484	6,537
Deferred taxes		
• Germany	65	-69
• International	-4,157	-3,119
	-4,092	-3,188
Income tax expenses	**2,392**	**3,349**

Deferred taxes are recognized for the following balance sheet items and factors:

	12.31.2017		12.31.2016	
	Deferred tax assets € 000s	**Deferred tax liabilities** € 000s	**Deferred tax assets** € 000s	**Deferred tax liabilities** € 000s
Intangible assets	800	12,639	899	14,332
Property, plant and equipment	29	845	57	1,166
Non-current financial assets	0	573	63	688
Inventories	48	121	49	89
Trade receivables	136	179	133	254
Receivables from construction contracts	60	0	5	0
Receivables from associates	39	775	0	787
Current financial assets	0	123	0	51
Non-current financial liabilities	62	0	123	0
Non-current other liabilities	1	0	0	0
Provisions for pensions	754	0	735	0
Current financial liabilities	38	0	111	28
Trade payables	80	13	66	0
Current other liabilities	111	0	298	0
Provisions	6	113	0	120
Loss carryovers	3,173	0	740	0
Net investment in foreign operation	0	831	0	172
Currency translation	37	69	48	115
Subtotal	**5,374**	**16,281**	**3,327**	**17,802**
Netting	-5,246	-5,247	-3,228	-3,228
Amount recognized in consolidated balance sheet	**128**	**11,035**	**99**	**14,574**

Of the deferred tax income of € -4,092k recognized in the consolidated statement of comprehensive income (previous year: € -3,188k), € -1,453k (previous year: € -2,951k) is attributable to temporary valuation differences, € 6k (previous year: € 1k) to the costs of capital increases, and € -2,645k (previous year: € -191k) to the recognition through profit or loss of deferred tax assets on tax loss carryovers. Of the change in deferred tax assets recognized on loss carryovers, an amount of € 2,628k (previous year: € 619k) involves income resulting from the recognition of deferred tax assets on loss carryovers, € 182k (previous year: € 2k) involves expenses resulting from the utilization of deferred tax assets on loss carryovers, € 112k (previous year: € 426k) relates to impairment losses, € 311k (previous year: € 0k) involves income resulting from changes in tax rates, and € 211k (previous year: € 47k) involves expenses (previous year: income) resulting from currency translation. The remaining increase of € 386k in the previous year was attributable to the recognition through equity of additions resulting from company acquisitions and changes in the scope of consolidation.

In the 2017 financial year, deferred tax assets on loss carryovers were recognized for five subsidiaries (previous year: three subsidiaries) in an amount of € 3,174k (previous year: € 740k). In the 2017 financial year, deferred tax assets of € 112k on loss carryovers were written down (previous year: € 426k), of which € 46k related to STRATEC Biomedical USA, Inc. (previous year: € 361k). Given the existence of deferred tax liabilities, the deferred tax assets still recognized at this company are deemed to have retained their value. The nominal amount of loss carryovers for which no deferred tax assets were recognized amounts to € 4,598k (previous year: € 5,486k). The unused tax loss carryovers for which no deferred tax assets have been recognized in the balance sheet mainly relate to STRATEC Biomedical USA, Inc. Their eligibility to be carried forward is as follows:

	Up to 7 years	20 years	Unlimited	Total
Loss carryover	**248**	**4,350**	**0**	**4,598**
Loss carryover (previous year)	**189**	**5,256**	**41**	**5,486**

The tax expenses of € 2,392k reported for 2017 (previous year: € 3,349k) deviate by € 5,318k (previous year: € 2,938k) from the tax expenses of € 7,710k (previous year: € 6,287k) expected to result from application of the overall tax rate for STRATEC AG (27.51 %; previous year: 27.52 %) to the Group's earnings before taxes. The overall tax rate results from the corporate income tax rate of 15.00 % (previous year: 15.00 %), the solidarity surcharge of 5.50 % of corporate income tax (previous year: 5.50 %), and an average trade tax rate of 11.68 % (previous year: 11.69 %).

The difference between the tax expenses expected and those reported is attributable to the following items:

	2017 € 000s	**2016** € 000s
Earnings before taxes on income	28,027	22,846
Overall tax rate	27.51 %	27.52 %
Expected tax expenses (-) / income (+)	**-7,710**	**-6,287**
Deviations in German and foreign tax rates	2,406	2,256
Impact of increase (-) / decrease (+) in effective tax rates	310	3,228
Tax-exempt income (+) / expenses (-) from investments, securities price gains / losses, and dividends	1,138	-338
Expenses not deductible for tax purposes less tax settlements	-343	-225
IFRS personnel expenses (stock options)	-43	-38
Tax back payments / refunds for previous years and non-period tax expenses / income	-478	-1,487
Write-down of deferred tax assets on tax loss carryovers	-112	-426
Deferred tax assets on tax loss carryovers for previous years	2,503	0
Sundry	-63	-32
Reported tax expenses (-) / income (+)	**-2,392**	**-3,349**

(12) Non-current and current financial liabilities

Non-current financial liabilities are structured as follows:

	12.31.2017 € 000s	12.31.2016 € 000s
Liabilities to banks	61,534	2,505
Liabilities for personnel-related items	1.000	483
Accrued trade payables	47	47
	62,581	**3,035**

Current financial liabilities are structured as follows:

	12.31.2017 € 000s	12.31.2016 € 000s
Liabilities to banks	971	69,008
Liabilities for personnel-related items	4,293	2,021
Accrued trade payables	4,929	1,638
Supervisory Board compensation	129	124
Other	38	2
	10,360	**72,793**

Financial liabilities to banks:

For the predominant share of financial liabilities to banks, the relevant financing contracts include agreements concerning compliance with specific key financial figures (covenants), particularly with regard to the debt/equity ratio and the equity ratio. These financial covenants have to be calculated at the end of each quarter and were complied with in each case in the 2017 financial year. Furthermore, the company has entered into various obligations in this regard involving restrictions on assets and provisos concerning further borrowing. Moreover, no collateral securities exceeding an amount of € 10 million may be provided to third parties (or specific group companies not party to the guarantee concept for the financing arrangement) unless securities in the same amount are provided to the financing banks.

As of December 31, 2017, the Group had total unutilized credit lines of € 20,000k (previous year: € 5,900k).

Financial liabilities for personnel-related items:

Financial liabilities for personnel-related items chiefly comprise obligations of € 5,149k in connection with profit participation schemes (previous year: € 2,479k).

Obligations for profit participation schemes include obligations for short-term performance-related compensation for employees (€ 1,514k; previous year: € 364k), and obligations for short, medium, and long-term performance-related compensation for the Board of Management (€ 3,635k; previous year: € 2,115k). The obligations for long-term performance-related compensation for the Board of Management (€ 1,000k; previous year: € 863k) correspond to the fair value of the payments expected for the stock appreciation rights (SARs) granted. The fair value has been determined as an arbitrage-free valuation using the Black/Scholes method and with application of the binomial tree method. Further information about the structure of the short, medium, and long-term performance-related compensation for the Board of Management can be found in Section E. 'Compensation report' in the group management report.

Stock appreciation rights (SARs):

The fair value of the stock appreciation rights (SARs) as of the measurement date on December 31, 2017 has been determined on the basis of the following parameters:

Stock appreciation rights (SARs) model parameters	**Tranche I 2017 financial year**	**Tranche I 2016 financial year**
Issue date	01.23.2017	04.01.2016
Average share price on issue date	€ 45.05	€ 43.07
Term		
Overall term	60.0 months	60.0 months
Remaining term as of 12.31.	48.8 months	39.0 months
Minimum qualifying period		
Overall term	24.0 months	24.0 months
Remaining term as of 12.31.	12.8 months	3.0 months
Share price at measurement date	€ 68.84	€ 68.84
Expected volatility	35.0 %	33.5 %
Risk-free interest rate	-0.33 %	-0.46 %
Fair value on issue date	**€ 10.90**	**€ 11.36**
Fair value as of 12.31.	**€ 24.99**	**€ 24.71**

The development in the total number of stock appreciation rights (SARs) in the reporting period is presented below:

Absolute figures	Total at 01.01.2017	Granted	Exercised Lapsed Forfeited	Total at 12.31.2017	Of which exercisable
Tranche I 2015	40,000	0	-40,000	40,000	0
Tranche I 2016	40,000	0	0	40,000	0
Tranche I 2017	0	40,000	0	40,000	0
Total	**80,000**	**40,000**	**-40,000**	**80,000**	**0**

The total expenses recognized in the 2017 financial year for equity-settled share-based payments amounted to € 255k (previous year: € 183k) – further information can be found in '(9) Shareholders' equity' in this section – while total expenses for cash-settled share-based payments amounted to € 1,525k (previous year: € 152k).

Maturities:

Financial liabilities have the following maturities:

Maturity [1]	12.31.2017 € 000s
2018	10,360
2019	2,013
2020	1,639
2021	1,514
2022	57,326
2023 and later	89
Total	**72,941**

Maturity [1]	12.31.2016 € 000s
2017	72,793
2018	1,460
2019	389
2020	389
2021	389
2022 and later	408
Total	**75,828**

[1] The calculation of the maturity of stock appreciation rights (SAR) has been based on the shortest possible term for the rights in each case.

(13) Trade payables / liabilities to associates

By analogy with the previous year, trade payables mostly involve goods and services provided in November and December 2017. Also as in the previous year, these items are due for payment within one year.

No liabilities were due to associates, as was also the case in the previous year.

(14) Non-current and current other liabilities

Other liabilities are structured as follows:

	12.31.2017 € 000s	12.31.2016 € 000s
Liabilities for personnel-related items	2,696	3,259
Other tax liabilities	1,402	1,692
Social security liabilities	967	989
Prepayments received on orders	2,088	5,894
Other	1,273	1,231
	8,426	**13,065**

Of the 'Other' amount, € 222k has been recognized under non-current other liabilities (previous year: € 434k).

Liabilities for personnel-related items mainly consist of liabilities for outstanding vacation (€ 1,968k; previous year: € 1,761k) and employee working time credits (€ 683k; previous year: € 1,461k).

The tax liabilities relate to transaction taxes and employee payroll settlement. Social security liabilities chiefly relate to social security contributions still to be transferred.

Of prepayments received on orders, an amount of € 882k (previous year: € 3,838k) relates to development cooperations. Reference is made to Section B. 'Recognition of sales, cost of sales, research and development expenses'.

In the 2017 financial year, STRATEC AG received government grants of € 1,287k (previous year: € 444k). These grants relate exclusively to grants for research purposes. Total accrued liabilities for government grants amount to € 649k (previous year: € 410k).

Other liabilities have the following maturities:

Maturity	12.31.2017 € 000s
2018	8,204
2019	222
2020	0
2021	0
2022	0
2023 and later	0
Total	**8,426**

Maturity	12.31.2016 € 000s
2017	12,631
2018	434
2019	0
2020	0
2021	0
2022 und später	0
Total	**13,065**

(15) Provisions and income tax liabilities

Current provisions relate to provisions for guarantees and warrantees (€ 1,031k; previous year: € 949k) and in the previous year to litigation risks (€ 399k). These items developed as follows:

	12.31.2017 € 000s	12.31.2016 € 000s
01.01.	1,348	1,508
Company acquisitions	0	105
Utilized	-352	-402
Reversed	-399	-627
Added	478	763
Currency differences	-44	1
12.31.	**1,031**	**1,348**

There is uncertainty in respect of the amount and maturity of the provisions recognized. This has been duly accounted for by way of best estimates.

Income tax liabilities (€ 2,176k; previous year: € 325k) relate to current income tax obligations.

D. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(16) Sales

Sales mainly relate to:

	2017 € 000s	2016 € 000s
1. Systems	102,231	101,715
2. Service parts and consumables	68,700	53,599
3. Development and services	37,492	28,402
4. Other activities	1,341	1,195
	209,764	**184,911**

Sales can be broken down by geographical region (customer location) as follows:

	2017 € 000s	2016 € 000s
1. Germany	34,798	24,450
2. European Union	59,288	58,402
3. Other	115,678	102,059
	209,764	**184,911**

Substantial sales generated with analyzer systems in other countries are structured as follows:

	2017 € 000s	2016 € 000s
US	24,403	25,168
Belgium	20,506	26,688
Italy	6,135	5,616
China	5,884	6,101
France	3,906	4,467
Czech Republic	1,965	1,372
UK	1,142	1,244

The allocation of sales generated with analyzer systems to other countries has been based on the delivery locations from the perspective of the STRATEC Group. In view of the fact that the customers of the STRATEC Group partly supply their country outlets and customers from central distribution centers, however, this breakdown of sales does not necessarily reflect the geographical distribution of the final operating locations of the analyzer systems supplied by the STRATEC Group. For the same reason, it would not be meaningful to compile any country-specific breakdown of the supply of spare parts and other services by the STRATEC Group.

List of major customers pursuant to IFRS 8.34: in the year under report two customers (previous year: three) with sales of € 43.2 million and € 39.3 million (previous year: € 39.1 million, € 35.3 million, € 18.8 million). These figures in all cases include sales for several analyzer system lines, development activities, and services and consumables, and sales executed by the companies acquired in the 2017 financial year. The sales generated with these customers are allocable to the Instrumentation and Diatron segments.

(17) Cost of sales

Cost of sales, amounting to € 142,268k (previous year: € 123,350k), include production-related manufacturing expenses incurred for the products, maintenance and spare parts sold, and for development and other services.

(18) Research and development expenses

Research and development expenses not meeting the criteria for capitalization pursuant to IAS 38 (Intangible Assets) totaled € 10,262k (previous year: € 8,054k) and mainly involved cost of materials and personnel expenses.

Gross development expenses were structured as follows:

	2017 € 000s	2016 € 000s
Research and development expenses	29,847	22,829
of which development expenses recognized as revenues or capitalized	-19,585	-14,775
	10,262	**8,054**

In the financial year under report, an amount of € 762k from grants was recognized as a reduction to research and development expenses (previous year: € 386k).

(19) Sales-related expenses

Sales-related expenses amounted to € 12,918k (previous year: € 12,779k) and included direct sales expenses and sales overheads. These basically include all expenses incurred for personnel, materials, and other expenses incurred for sales (including prorated depreciation and amortization). A major share relates to expenses arising in connection with product launches and support.

(20) Other operating income and expenses

At € 20,979k (previous year: € 15,993k), administration expenses include the personnel and material expenses incurred in central administration departments (including corporate management, controlling, finance and accounting, legal affairs, investor relations, personnel and quality management) that are not directly attributable to production, sales, or R&D.

(21) Other operating income and expenses

The other operating income of € 9,361k (previous year: € 3,866k) and other operating expenses of € 3,858k (previous year: € 4,472k) mainly consist of the items presented in Section G. 'Financial instruments' in connection with the shares held in Quanterix Corporation, US, as well as of income from and expenses for currency translation.

Other than that, other operating income and other operating expenses also include numerous expense items that, viewed individually, are only of subordinate significance.

(22) Net financial expenses

Financial income is structured as follows:

	2017 € 000s	2016 € 000s
Interest income on cash and cash equivalents	15	41
Interest income from compounding of receivables	0	18
Other interest income	94	45
	109	**104**

Financial expenses are structured as follows:

	2017 € 000s	2016 € 000s
Interest expenses on loan liabilities to banks	728	819
Interest expenses for compounding of pension provisions	64	54
Interest expenses for compounding of liabilities and provisions	14	22
Other interest expenses	10	183
	816	**1,078**

Other financial income/expenses include gains and losses for financial assets and financial liabilities measured at fair value and are structured as follows:

	2017 € 000s	2016 € 000s
Gains/losses on financial assets measured at fair value **through profit or loss**:		
• Gains/losses on retirement	0	0
• Gains/losses on measurement at balance sheet date	-106	-307
Other financial income/expenses	**-106**	**-307**

(23) Earnings per share

Earnings per share have been calculated pursuant to IAS 33 (Earnings per Share) by dividing the consolidated net income by the average weighted number of shares in STRATEC AG in circulation in the past financial year.

The treasury stock held by STRATEC AG has been excluded from the calculation of the number of shares in circulation. The year-on-year increase in the number of shares was due to the issue of new shares upon the exercising of option rights within stock option programs. Changes in the number of shares within the financial year have been accounted for by weighting the respective figures on a prorated basis. The resultant weighted average number of outstanding shares used to calculate (basic) earnings per share amounts to 11,881,254 (previous year: 11,851,382).

Pursuant to IAS 33 (Earnings per Share), the consolidated net income of € 25,635k (previous year: € 19,497k) reported in the consolidated statement of comprehensive income has been used as the unaltered basis for the calculation.

Due to the option rights outstanding as of December 31, 2017, both basic earnings per share (€ 2.16; previous year: € 1.65) and diluted earnings per share (€ 2.14; previous year: € 1.63) have been calculated. Diluted earnings per share have been calculated on the assumption that all outstanding options not yet exercised are actually exercised. The number of additional shares to be accounted for is calculated by comparing the proceeds generated by such exercising of options with the proceeds which could theoretically be generated by issuing new shares on customary market terms.

The allocation or exercising of option rights within the financial year has been accounted for using prorated weighting. The resultant weighted average number of outstanding shares with a diluting effect accounted for in the calculation of (diluted) earnings per share amounts to 11,984,437 (previous year: 11,936,660).

(24) Additional disclosures on the consolidated statement of comprehensive income

Cost of materials

The functional divisions include the following cost of materials:

	2017 € 000s	2016 € 000s
Costs of raw materials and supplies	86,255	81,283
Costs of purchased services	6,512	5,763
	92,797	**87,046**

Personnel expenses

The functional divisions include the following personnel expenses:

	2017 € 000s	2016 € 000s
Wages and salaries	51,161	42,266
Social security contributions and pension and welfare expenses	9,911	7,923
	61,072	**50,189**

Furthermore, expenses of € 3,810k (previous year: € 3,745k) were incurred for wages and salaries for third-party employees (personnel leasing).

Number of employees

The average number of individuals employed by the Group during the financial year (including temporary employees from personnel agencies) was as follows:

	2017 Number	2016 Number
Employees	901	833
Trainees	39	30
Employees in permanent employment	940	863
Temporary employees	91	94
Total	**1,031**	**957**

Of permanent employees, 397 (previous year: 377) were in Germany, and 504 (previous year: 456) abroad. Of temporary employees, 36 (previous year: 36) were in Germany, and 55 (previous year: 58) abroad.

Disclosures concerning the auditor's fee pursuant to § 314 (1) No. 9 HGB

The total fees recorded for the group auditor in the financial year under report pursuant to § 314 (1) No. 9 of the German Commercial Code (HGB) are structured as follows:

	2017 € 000s	2016 € 000s
Fee for		
a) Auditing		
- of which for the previous year	175	242
b) Other certification services	-15	7
c) Tax advisory services	0	0
d) Other services	0	0
	0	0
Total auditor's fee	**175**	**242**

E. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

General disclosures

The consolidated cash flow statement shows how the liquidity of the STRATEC Group has changed due to inflows and outflows of funds during the financial year. A distinction is made between the cash flows from operating, investing and financing activities.

The amounts reported for foreign group companies have generally been translated at annual average exchange rates. One exception involves cash and cash equivalents which, like in the consolidated balance sheet, have been recognized at the exchange rate on the reporting date. The impact of changes in exchange rates on cash and cash equivalents is presented separately.

Inflow of funds from operating activities

The cash flow from operating activities has been calculated using the indirect method. This involves eliminating non-cash earnings components from consolidated net income after taxes.

The following other non-cash expense items have been accounted for:

	2017 € 000s	**2016** € 000s
Expenses:		
Currency translation losses from measurement of cash and cash equivalents at balance sheet date	98	115
Personnel expenses in connection with the granting of stock option rights	136	138
Personnel expenses in connection with employee participation programs	119	45
Exchange rate differences for foreign currency receivables / liabilities	458	271
Increase in impairment of inventories	1,085	376
Expenses for fair value measurement of securities held for trading	248	364
Allocations to impairments of receivables	111	238
Losses on receivables	0	58
Other	517	0
	2,772	**1,605**

The following other non-cash income items have been accounted for:

	2017 € 000s	**2016** € 000s
Income:		
Currency translation gains from measurement of cash and cash equivalents at balance sheet date	19	39
Exchange rate differences for foreign currency receivables / liabilities	501	267
Derecognition of shares (previous year: fair value measurement of options) in connection with development cooperations	5,402	535
Income from fair value measurement of securities held for trading	141	57
Income from reversal of other provisions and liabilities	399	775
Reversal of impairments of receivables	123	140
Other	515	380
	7,100	**2,193**

Interest income and expenses have been allocated to operating activities, as have the components of other financial income / expenses. Dividend payments are presented in the cash flow from financing activities.

Tax payments have been reported under operating activities in their entirety, as their allocation to individual business divisions is not practically feasible.

The interest paid/received and income taxes paid/refunded items in the cash flow from operating activities have been presented using the direct method. In the first stage, this involves adjusting consolidated net income to account for income and expenses recognized in the consolidated statement of comprehensive income. After this, the interest and income taxes paid or received are reported separately.

Inflow / outflow of funds from investing activities

A total of € 15,640k was expended on investing activities (previous year: € 86,728k). Of this sum, € 15,666k was channeled into the acquisition of property, plant and equipment (previous year: € 9,979k).

Inflow / outflow of funds from financing activities

Financing activities led to an outflow of funds of € 15,978k (previous year: inflow of € 40,606k). The net reduction in borrowing amounted to € 8,659k (previous year: net increase in borrowing of € 49,237k). Dividend payments accounted for an outflow of € 9,129k (previous year: € 8,885k).

Reconciliation pursuant to IAS 7.44A – .44B

As STRATEC AG did not execute any business combinations or incept any new finance leases in the 2017 financial year and as there is no obligation under IAS 7.60 to provide comparative disclosures on previous periods, there is no basis in the financial year under report to provide a reconciliation such as that called for in Illustrative Example E to IAS 7 (Statement of Cash Flows). All cash flows relating to financing activities can be seen directly in the cash flow statement.

(25) Cash and cash equivalents

The 'Cash and cash equivalents' items comprises cash holdings and credit balances at banks with original maturities of up to three months. As of December 31, 2017, cash and cash equivalents amounted to € 24,137k (previous year: € 26,500k).

F. SEGMENT REPORTING

The STRATEC Group is managed by reference to a matrix organizational structure which aggregates individual areas of activity in business units across various locations. Business units are aggregated on the basis of the products and services thereby offered. These units therefore basically constitute operating segments pursuant to IFRS 8 (Operating Segments). Separate segment reporting is provided where the quantitative thresholds pursuant to IFRS 8 (Operating Segments) are exceeded. Due to the acquisitions made in the 2016 financial year, management reporting was extended by two further business units. The Diatron Group, which has extended the STRATEC Group's offering to include products and customer services for analyzer systems, system components, consumables and tests in the lower throughput segment for hematology applications represents a standalone business unit (Diatron). STRATEC Consumables has been combined with STRATEC Molecular to form the Consumables business unit. STRATEC Consumables has extended the STRATEC Group's product portfolio to include the development and production of smart consumables in the fields of diagnostics, life sciences, and medical technology.

The 'Instrumentation' business unit has been identified as a further reporting segment: Here, the STRATEC Group designs and manufactures fully automated analyzer systems for its clinical diagnostics and biotechnology customers.

The accounting policies applied to the reporting segments are consisting with the accounting policies set out in Section B. 'Accounting policies applied.' The reconciliation of segment data to the relevant group data therefore mainly involves accounting for consolidation entries.

Segment data by operating segment for 2017

	Instrumentation (includes service parts and consumables allocable to business unit) € 000s	**Diatron** (includes service parts and consumables allocable to business unit) € 000s	**Consumables** € 000s	**Other activities** € 000s	**Total** € 000s	**Reconciliation** € 000s	**Total** € 000s
Sales with external customers	149,645	37,027	17,930	5,162	209,764	0	209,764
Inter-segmental sales	1,834	366	355	2,260	4,815	-4,815	0
Depreciation and amortization	6,716	7,086	4,597	89	18,488	0	18,488
EBITDA [1]	40,236	5,034	1,550	508	47,328	0	47,328
EBIT [1]	33,521	-2,051	-3,048	418	28,840	0	28,840
Interest income	2,307	0	20	0	2,327	-2,218	109
Interest expenses	770	2,054	198	12	3,034	-2,218	816
Assets	282,653	61,490	34,784	7,799	386,726	-122,951	263,755
Additions to non-current assets [1]	11,016	1,079	2,431	1,140	15,666	0	15,666
Average number of employees	508	194	164	74	940	0	940

[1] also includes additions due to first time inclusion of a subsidiary previously unconsolidated

Segment data by operating segment for 2016

	Instrumentation (includes service parts and consumables allocable to business unit) € 000s	Diatron (includes service parts and consumables allocable to business unit) € 000s	Consumables € 000s	Other activities € 000s	Total € 000s	Reconciliation € 000s	Total € 000s
Sales with external customers	138,795	29,850	9,614	6,524	184,783	128	184,911
Inter-segmental sales	2,385	5	28	2,009	4,427	-4,427	0
Depreciation and amortization	4,763	3,855	2,531	59	11,208	0	11,208
EBITDA [1]	29,430	4,710	-368	1,437	35,209	126	35,335
EBIT [1]	24,667	855	-2,899	1,378	24,001	126	24,127
Interest income	1,742	0	2	0	1,744	-1,640	104
Interest expenses	1,035	1,565	103	15	2,718	-1,640	1,078
Assets	269,517	62,611	33,730	6,745	372,603	-114,636	257,967
Additions to non-current assets[2]	37,127	45,912	28,157	1,465	112,660	0	112,660
Average number of employees	466	176	162	59	863	0	863

[1] Prior to consolidation and accounting for amortization in connection with purchase price allocation
[2] Also includes additions due to company acquisitions and additions due to first-time inclusion of subsidiaries previously unconsolidated

Of non-current assets at the reporting segments, excluding financial instruments and deferred taxes, € 38,698k are located in the country of origin of STRATEC AG (previous year: € 34,538k) and € 107,728k in other countries (previous year: € 117,027k). Further disclosures on company level have been presented in Section D. 'Notes to the consolidated statement of comprehensive income (16) Sales'.

Furthermore, impairment losses of € 1,185k were recognized and are allocable to the Instrumentation segment. Information about these can be found in Section C. 'Notes to the consolidated balance sheet (1) Goodwill and other intangible assets'.

G. FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of individual financial assets and liabilities for each class of financial instruments and reconciles these with the corresponding balance sheet items. Classification has been based on the underlying valuation method, with a distinction made between financial instruments measured at amortized cost and those measured at fair value. Furthermore, within those instruments measured at fair value, a further distinction has been made between instruments measured at fair value through profit or loss, and those measured at fair value in equity.

As financial liabilities also include the financial instruments covered by IFRS 2 (Share-based Payment), which are exempted from the scope of IFRS 7 (Financial Instruments: Disclosures), the 'Not covered by IFRS 7' column provides a corresponding reconciliation of these items.

Abbreviations for IAS 39 measurement categories (Financial Instruments: Recognition and Measurement):

LaR	Loans and receivables
AfS	Available-for-sale financial assets
FVTPL	Assets measured at fair value through profit or loss
FAHfT	Financial assets held for trading
FLAC	Financial liabilities measured at amortized cost

Figures in € 000s 12.31.2017 (12.31.2016)	IAS 39 category	Carrying amount	Amortized cost	Fair value through profit or loss	Fair value in equity	Total	Not covered by IFRS 7	Fair Value
Non-current assets	IFRS 7	Fair value						
Financial assets		240 (378)	240 (378)			240 (378)		
• Investments in associates	AfS	158 (160	158 (160)			158 (160)		
• Other financial assets	LaR	82 (218)	82 (218)			82 (218)		82 (218)
Current assets								
Trade receivables	LaR	39,126 (38,890)	39,126 (38,890)			39,126 (38,890)		39,126 (38,890)
Receivables from construction contracts	LaR	7,210 (2,348)	7,210 (2,348)			7,210 (2,348)		7,210 (2,348)
Receivables from associates	LaR	24 (22)	24 (22)			24 (22)		24 (22)
Financial assets		12,498 (5,695)	384 (384)	974 (2,561)	11,140 (2,751)	12,498 (5,695)		12,498 (5,695)
• Financial instruments available for sale	AfS	11,140 (2,751)			11,140 (2,751)	11,140 (2,751)		11,140 (2,751)
• Financial instruments measured at fair value through profit or loss	FVTPL	0 (1,481)		0 (1,481)		0 (1,481)		0 (1,481)
• Assets held for trading	FAHfT	974 (1,080)		974 (1,080)		974 (1,080)		974 (1,080)
• Loans and receivables	LaR	384 (384)	384 (384)			384 (384)		384 (384)
Cash and cash equivalents	LaR	24,137 (26,500)	24,137 (26,500)			24,137 (26,500)		24,137 (26,500)
Non-current debt								
Financial liabilities	FLAC	62,581 (3,035)	61,581 (2,552)			61,581 (2,552)	1.000 (483)	62,382 (2,554)
Current debt								
Financial liabilities	FLAC	10,360 (72,793)	9,371 (72,413)			9.371 (72,413)	989 (380)	10,388 (72,524)
Trade payables	FLAC	6,928 (7,100)	6,928 (7,100)			6,928 (7,100)		6,928 (7,100)
Liabilities to associates	FLAC	0 (0)	0 (0)			0 (0)		0 (0)

Investments in associates are allocated to the available-for-sale financial assets category. Pursuant to IAS 39.46 (c), investments in associates have been measured at cost.

The fair value of loans, receivables, and liabilities is calculated as the present value of future inflows and outflows of cash. Where a listed price is available, this has been taken as the fair value. Discounting is based on a market interest rate with a congruent term and risk structure.

Given the predominantly short-term maturities of loans and receivables and of trade payables and liabilities to associates, their carrying amounts as of the balance sheet date do not deviate significantly from their fair values. The fair value of financial liabilities is determined by discounting future cash flows.

The net results on financial instruments broken down into their respective measurement categories were as follows:

				From subsequent measurement					
Figures in € 000s 2017	**IAS 39 category**	**From investments**	**From interest**	**At fair value through profit or loss**	**At fair value in equity**	**Currency translation**	**Impairment**	**From disposals**	**Net result**
Available-for-sale financial assets	AfS	0	0	0	2,560	0	0	5,411	7,971
Loans and receivables	LaR	0	37	0	0	-358	-23	0	-344
Financial assets measured at fair value	FVTPL	0	0	-9	0	0	0	0	-9
Financial assets held for trading	FAHFT	8	0	-106	0	0	0	0	-98
Financial liabilities measured at amortized cost	FLAC	0	731	0	0	-1	0	0	-732
Total		**8**	**-694**	**-115**	**2,560**	**-359**	**-23**	**5,411**	**6,788**

				From subsequent measurement					
Figures in € 000s 2016	**IAS 39 category**	**From investments**	**From interest**	**At fair value through profit or loss**	**At fair value in equity**	**Currency translation**	**Impairment**	**From disposals**	**Net result**
Available-for-sale financial assets	AfS	0	0	0	1,055	0	0	0	1,055
Loans and receivables	LaR	0	58	0	0	209	-191	-33	43
Financial assets measured at fair value	FVTPL	0	0	535	0	0	0	0	535
Financial assets held for trading	FAHFT	16	0	-308	0	0	0	0	-292
Financial liabilities measured at amortized cost	FLAC	0	-831	0	0	74	0	0	-757
Total		**16**	**-773**	**227**	**1,055**	**283**	**-191**	**-33**	**584**

No interest income or interest expenses were generated or incurred in connection with financial instruments measured at fair value through profit or loss. Of the net result for financial instruments measured at fair value, an amount of € -106k has been recognized in other financial income/expenses (previous year: € -307k) and an amount of € 5,402k (previous year: € 535k) in other operating income.

The income and expenses resulting from translation through profit or loss of financial assets and liabilities at average exchange rates on the balance sheet date have been recognized under other operating income or expenses, as have the results of foreign currency translation performed within the financial year. The translation of cash and cash equivalents at the balance sheet date resulted in currency income of € 19k (previous year: € 39k) recognized through profit or loss under other operating income. Currency expenses of € 98k (previous year: € 115k) have been recognized under other operating expenses in connection with the translation of cash and cash equivalents at the balance sheet date.

Fair value hierarchy

To ensure the comparability and consistency of fair value measurements and related disclosures, IFRS 13 (Fair Value Measurement) stipulates a fair value hierarchy that allocates the input factor used in valuation methods to calculate fair value to three levels. The hierarchy grants the highest priority to prices (taken over without amendment) on active markets for identical assets or liabilities (Level 1 input factors) and the lowest priority to non-observable input factors (Level 3 input factors). The following specific definitions apply:

Input factor: Assumptions that would be used by market participants when determining the price of an asset or liability, including risk assumptions, such as:

(a) The risk involved in a specific valuation method used to calculate fair value (such as a price model), and

(b) The risk involved in the input factors used in the valuation method.

Input factors may be observable or non-observable.

Level 1 input factors:
Listed prices (taken over without amendment) on active markets for identical assets or liabilities to which the company has access on the valuation date.

Level 2 input factors:
Input factors other than the listed prices included in Level 1 that are either directly or indirectly observable for the asset or liability.

Level 3 input factors:
Input factors not observable for the asset or liability.

Observable input factors: Input factors derived from market data, such as publicly available information about actual events or transactions, which reflect those assumptions that would be used by market participants when determining the price of the asset or liability.

Non-observable input factors: Input factors for which no market data is available and which are derived from the best information available concerning the assumptions that would be used by market participants when determining the price of the asset or liability.

Financial assets measured at fair value have been allocated to the three input factor levels as follows:

Figures in € 000s 12.31.2017 (12.31.2016)	**Total carrying amount**	**of which Level 1**	**of which Level 2**	**of which Level 3**
Current assets				
Financial assets	12,114 (5,312)	12,114 (1,080)	0 (0)	0 (4,232)

No items were reclassified within the three input factor levels in the 2017 financial year. The financial assets allocated to Level 1 involve shares in listed companies, which have been measured at the closing price on the stock market with the highest trading volumes as of the balance sheet date. These mainly relate to the shares held in Quanterix Corporation, US.

Due to the IPO of Quanterix Corporation, US, on the electronic market NASDAQ on December 7, 2017, the shares in that company are now traded on an active market. As of that date, the shares held by STRATEC in that company were reclassified from Level 3 to Level 1 pursuant to IFRS 13 ('Fair Value Measurement'). Furthermore, the IPO also resulted in the substantial modification in the shares in Quanterix Corporation, US, described in Section B. 'Accounting policies applied – Discretionary decisions'. In the context of a share split, the 2,000,000 preferred stocks previously existing in the A-3 series were converted into common stocks in the company at a ratio of 1 : 3.214. From the perspective of STRATEC AG, this exchange of shares was assumed in particular to involve a substantial modification of the shares involving derecognition of the preferred stocks pursuant to IAS 39.55 (b) and initial recognition of the common stocks in Quanterix Corporation, US, pursuant to IAS 39.14. Unlike the preferred stocks previously existing in the A-1, A-2, B, C, and C-1 series, the shares in the A-3 series did not have any rights to cumulative dividends. In the event of a liquidation (in the sense used for companies financed by venture capital) of Quanterix Corporation, US, there were previously liquidation preferences for the different series and classes of shares. B, C, and C-1 series stocks thus had precedence over all others, while A-1, A-2, and A-3 series stocks had precedence over common stocks. Following the IPO of Quanterix Corporation, US, by contrast, the distinction formerly made between the preferred and common stocks no longer applies due to the introduction of a single class of share. Furthermore, this also means that the subordinate status of the 'most subordinate' A-3 preferred stock series held by STRATEC AG compared with all other preferred stocks also no longer applies. This resulted in a reclassification, particularly in the US-GAAP financial statements of Quanterix Corporation, US, of the preferred stocks, previously classified as debt capital, as equity in the company. This reflected the discontinuation of the previous classification in accounting terms and thus confirmed the consistency of the derecognition.

The IPO had further implications in terms of the valuation of the shares. Up to and including the IPO of Quanterix Corporation, US, in December 2017, and thus at the beginning and end of the 2016 financial year, the shares were measured using a hybrid method devised by a surveyor to account for two scenarios – on the one hand, an IPO scenario that would be followed by crossover financing and on the other a 'remain private' scenario. Measurement for the IPO scenario used a market-based valuation method, while measurement for the 'remain private' scenario was based on a DCF method. Each scenario was weighted on the basis of the likelihood as estimated by the Board of Management of Quanterix Corporation, US. Furthermore, the surveyor accounted for a discount for lack of marketability for the common stocks. This resulted in the shares and options in Quanterix Corporation, US, being measured at USD 2.23 per share/option as of December 31, 2016. Based on a split factor of 1 : 3.124, this led to the shares/options being measured at USD 6.97 each.

Since the IPO of Quanterix Corporation, US, the presence of an active market means that the shares have each been measured at their respective stock market price and thus at the closing price of USD 21.47 on the electronic market NASDAQ in the financial statements of STRATEC AG as of December 31, 2017. At the IPO, the shares were initially listed on the electronic market NASDAQ at a price of USD 16.25 on December 7, 2017. Pursuant to IAS 39.14 in conjunction with IAS 39.43, STRATEC AG therefore based its initial measurement of the shares held in Quanterix Corporation, US, on this price. Overall, this had the following implications for the consolidated statement of comprehensive income for the 2017 financial year:

	Level 1 € 000s	**Level 2** € 000s
Balance at 01.01.2016	**1,387**	**1,271**
Total gains or losses recognized through profit or loss		
• Other operating income	0	535
• Other financial income/expenses	-307	0
Total gains or losses recognized in OCI		
• Changes in value	0	1,055
Purchases/additions	0	1,371
Balance at 12.31.2016	**1,080**	**4,232**
Total gains or losses recognized through profit or loss		
• Other operating income	0	-9
• Other financial income/expenses	-106	0
Purchases/additions	8,580	1
Total gains or losses recognized in OCI		
• Changes in value	2,560	4,356
• Reclassifications out of OCI into profit or loss (other operating income)	0	-5,411
Retirement as a result of derecognition	0	-3,169
Balance at 12.31.2017	**12,114**	**0**

As a result, a net amount of € 5,402k was recognized through profit or loss under other operating income for the shares held in Quanterix Corporation, US, in the 2017 financial year (previous year: € 535k).

Maturity analysis

The liquidity risk to which the STRATEC Group is exposed in connection with its financial instruments consists of obligations due to future interest and principal payments for financial liabilities. Future payments are structured as follows:

	Carrying amount 12.31.2017	Cash flows 2018		Cash flows 2019		Cash flows 2020 – 2021		Cash flows 2022 ff.	
Figures in € 000s		Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
Financial liabilities	72,941	594	10,376	576	2,020	1,108	3,151	88	57,570
Trade payables	6,928	0	6,928	0	0	0	0	0	0
Liabilities to associates	0	0	0	0	0	0	0	0	0
Total	**79,869**	**594**	**17,304**	**576**	**2,020**	**1,108**	**3,151**	**88**	**57,570**

	Carrying amount 12.31.2016	Cash flows 2017		Cash flows 2018		Cash flows 2019 – 2020		Cash flows 2021 ff.	
Figures in € 000s		Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
Financial liabilities	75,828	172	72,893	35	1,460	31	778	11	797
Trade payables	7,100	0	7,100	0	0	0	0	0	0
Liabilities to associates	0	0	0	0	0	0	0	0	0
Total	**82,928**	**172**	**79,993**	**35**	**1,460**	**31**	**778**	**11**	**797**

Loans with remaining terms of up to five years charge interest at a weighted average of 0.94% (previous year: 0.79%). Loans with remaining terms of more than five years charge interest at a weighted average of 1.01% (previous year: 1.28%).This calculation has been based on the nominal interest rates applicable as of the balance sheet date.

H. RISK MANAGEMENT

Risk management principles

The assets, liabilities and future activities of STRATEC AG are subject to liquidity risks and market risks resulting from changes in exchange rates, interest rates and stock market prices. The objectives and methods used by the STRATEC Group to deal with the financial risks listed below form the object of the Group's risk management activities. The principles underlying the Group's risk management policies are presented in Section D. 'Opportunity and risk report' of the group management report.

The objective of financial risk management is to limit these risks primarily by means of its operating activities. In assessing individual risks the management takes account of the volume of such risks arising across the Group as a whole. These activities are supplemented by finance-based measures. The primary objective is to limit the risks of relevance to the cash flow. The basic principles of the company's financial policy are reviewed by the Board of Management annually and revised to account for new developments. The Supervisory Board is informed at regular intervals of the financial position of the Group and the assessments made by the Board of Management.

Financial instruments could in principle give rise to the following risks for the company:

Liquidity risks

For the STRATEC Group, liquidity risks involve the risk of not being able to meet payment obligations due to insufficient cash and cash equivalents. To safeguard the company's solvency, sufficient liquid funds are reserved on the basis of rolling liquidity planning, as are limited credit lines.

The STRATEC Group had cash and cash equivalents of € 24,137k at the balance sheet date (previous year: € 26,500k).

Foreign currency risks

On account of its international business activities, the STRATEC Group is exposed to foreign currency risks resulting from the impact of exchange rate movements on business transactions and the foreign currency receivables and liabilities as of the balance sheet date (transaction risks). Furthermore, the translation of the financial statements of foreign subsidiaries into the group currency (€) also involves foreign currency risks (translation risks). Pursuant to IFRS 7.B23, these latter risks do not require separate analysis for IFRS 7 (Financial Instruments: Disclosures) purposes.

The principal foreign currency transactions performed by the STRATEC Group relate to export transactions in US dollars and intercompany loan relationships in US dollars. Translation risks arise due to the translation of the financial statements of foreign group companies from Swiss francs (CHF), British pounds (GBP), and US dollars (USD), Romanian leis (RON), and Hungarian forints (HUF) into the group reporting currency (€).

With regard to the disclosures required by IFRS 7.31 – 42 concerning the type and scope of risks resulting from financial instruments, to avoid redundancies STRATEC AG makes partial use of IFRS 7.B6 by making the disclosures thereby required in its group management report. Reference is made to the following sections of that report: Section D. 'Outlook' and Section E. 'Opportunity and risk report: 4. Risk report in respect of use of financial instruments'.

Sensitivity to exchange rate movements (transaction risk):
The Group had the following transaction risk exposure as of the balance sheet date:

Foreign currency item translated into € 000s		**12.31.2017**				**12.31.2016**		
	GBP	CHF	EUR	USD	GBP	CHF	EUR	USD
Cash and cash equivalents	4	97	4,519	3,185	4	105	462	2,050
Trade receivables and other receivables	0	0	0	9,218	0	0	0	14,518
Receivables from associates	1,169	0	56,053	8,641	0	616	254	14,366
Financial assets	0	0	0	11,140	0	0	0	4,232
Trade payables	58	60	0	337	156	46	0	613
Liabilities to associates	64	624	3,122	386	0	0	4,608	5,126
Net risk exposure	**1,051**	**-587**	**57,450**	**31,461**	**-152**	**675**	**-3,892**	**29,427**

Exchange rate gains and losses resulting from the measurement of financial assets and financial liabilities as of the balance sheet date have been presented in Section G.'Financial Instruments'.

Any change in the exchange rate of these key currencies and the euro by +10% / -10% would have impacted as follows on consolidated net income as of the balance sheet date:

Foreign currency item translated into € 000s		**12.31.2017**				**12.31.2016**		
	GBP	CHF	EUR	USD	GBP	CHF	EUR	USD
Change in currency by +10%, Change in consolidated net income (€ 000s)	-96	53	-5,223	-2,860	14	-61	354	-2,675
Change in currency by -10%, Change in consolidated net income (€ 000s)	117	-65	6,383	3,496	-17	75	-432	3,270

In the 2017 financial year, the translation of transactions with third parties and within intercompany relationships led to the recognition through profit or loss of income from currency translation totaling € 2,784k (previous year: € 2,617k) and expenses for currency translation totaling € 3,731k (previous year: € 2,334k). These have been recognized under other operating income and other operating expenses respectively.

Interest rate risks

Interest rate risks involve the risk of fluctuations in the value of a financial instrument as a result of changes in market interest rates.

The STRATEC Group is subject to interest rate risks in terms of its interest-bearing/interest-charging financial instruments.

Given that interest rates are extremely low by historical standards, the cash and cash equivalents at the STRATEC Group now only generate interest income of immaterial significance and the resultant interest rate risk is also of subordinate significance. This item has therefore not been accounted for in the following analysis. However, any rise in interest rates would have a positive impact on earnings.

The Group reported the following interest-bearing assets and interest-charging liabilities as of the balance sheet date:

	2017 € 000s	2016 € 000s
Interest-bearing medium and long-term financial assets	67	203
• of which with floating interest rates	0	0
• of which with fixed interest rates	67	203
Interest-charging financial liabilities	62,505	74,019
• of which with floating interest rates	57,000	59,900
• of which with fixed interest rates	5,505	2,505

Sensitivity of fair values for fixed-interest financial instruments

Changes in market interest rates have no implications for the measurement of fixed-interest financial instruments at the STRATEC Group as of the balance sheet date, as these items are measured at amortized cost using the effective interest method. The fair values based on market interest rates as of the balance sheet date have been presented in Section G. 'Financial instruments'.

Sensitivity of cash flows for floating-interest financial instruments

Changes in market interest rates have no implications for the measurement of floating-interest financial instruments at the STRATEC Group as of the balance sheet date, as these items are measured at amortized cost using the effective interest method. Unlike fixed-interest financial liabilities, however, financial liabilities with floating interest rates involve the risk of fluctuations in future cash flows for payments of interest and principal due to changes in market interest rates. The STRATEC Group had financial liabilities with a nominal volume of € 57,000k with floating interest rates at the balance sheet date as of December 31, 2017 (previous year: € 60,000k).

The following table presents the future interest and principal payments assumed for the remaining term of the floating-rate loan liability as of the balance sheet date. The figures are based on the market interest rate prevalent at that time:

(€ 000s)	Carrying amount 12.31.2017	Cash flows 2018		Cash flows 2019		Cash flows 2020 and later	
		Interest	Principal	Interest	Principal	Interest	Principal
Financial liabilities with floating interest rates (1-month EURIBOR)							
Actual	57,000	530	0	530	0	1,145	57,000
+ 100 basis points	57,000	1,108	0	1,108	0	2,394	57,000
- 100 basis points	57,000	379	0	379	0	819	57,000

The increase in the cash flow from interest presented here simultaneously corresponds to the hypothetical impact on profit or loss in the consolidated statement of comprehensive income.

Any increase in the floating interest rate by 100 basis points would have led consolidated net income to deteriorate by € 461k. Any reduction in the floating interest rate by 100 basis points would have led consolidated net income to improve by € 120k.

Other price risks

The financial assets requiring measurement at fair value are subject to price risks. Had fair values been 10% higher (lower) than their balance sheet date levels, then consolidated net income would have been € 97k (previous year: € 256k) higher (lower) and OCI would have been € 1,114k higher (lower).

Default risks

The principal default risks faced by STRATEC AG are to be found in its operating activities. They involve the risk of contractual partners failing to meet their obligations. At STRATEC AG, this risk relates in particular to receivables from customers. The risk volumes considered for default risk management purposes includes all creditor items due from customers in connection with supplies and services. Default risk is countered by means of receivables management, such as trade credit insurance policies. Remaining default risks are accounted for with suitable allowances.

Liquid funds are invested solely in the form of short-term monthly deposits (with maximum terms of six months) at financial institutions with high-quality ratings.

The maximum default risk is reflected by the carrying amounts of the financial assets reported in the balance sheet. However, these figures do not account for the hedging measures outlined above.

Capital management

The objectives of capital management at STRATEC are:

- To safeguard the company's continued existence to enable it to continue generating income for shareholders and benefits for other stakeholders, and

- To generate an adequate return for shareholders by setting prices for products and services that are suitable to the market and the degree of risk involved.

STRATEC determines its level of capital in proportion to risk. To this end, STRATEC manages its capital structure and makes adjustments to be able to react to changes in the macroeconomic framework and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the STRATEC Group may adjust the level of dividends paid to its shareholders, repay capital to its shareholders, issue new shares, or reduce debts by making repayments or selling assets.

The main key figures referred to by the management are shareholders' equity and the equity ratio. Shareholders' equity amounted to € 157.8 million as of December 31, 2017, as against € 142.3 million at the equivalent date in the previous year. The equity ratio amounted to 59.8% at December 31, 2017 (previous year: 55.2%). The medium-term target corridor for this figure amounts to between 50 percent and 75 percent.

I. OTHER DISCLOSURES

Related party disclosures

Closely related companies and persons as defined in IAS 24 (Related Party Disclosures) are legal or natural persons in a position to exert influence on STRATEC AG and/or its subsidiaries or subject to control or significant influence by STRATEC AG or its subsidiaries. Such parties include unconsolidated subsidiaries, members of the Board of Management and Supervisory Board of STRATEC AG and persons and companies closely related to such.

The receivables and liabilities due to and from unconsolidated subsidiaries as of the balance sheet date have been presented under the respective balance sheet items.

In the 2017 financial year, STRATEC AG generated revenues of € 6k (previous year: € 2k) from transactions with STRATEC Biomedical (Taicang) Co. Ltd. and purchased services of € 234k (previous year: € 466k) from this company.

Due to the presumption regulation set out in IAS 28.5, the company's founder Hermann Leistner, his family, and their investment company (hereinafter 'the Leistner family') count as related parties pursuant to IAS 24. In Hermann Leistner's capacity as a member of the Administrative Board and advisor of STRATEC Biomedical Switzerland AG, the Leistner family received compensation of CHF 60k via Hermann Leistner in the financial year under report (previous year: CHF 60k). As Hermann Leistner is a member of the Supervisory Board of DITABIS Digital Biomedical Imaging Systems AG, this company counts as a related party pursuant to IAS 24 (Related Party Disclosures) via the Leistner family. In the 2017 financial year, STRATEC AG generated revenues of € 2k from transactions with DITABIS Digital Biomedical Imaging Systems AG (previous year: € 2k) and did not purchase services from this company (previous year: € 14k). As of the balance sheet date, the company had no receivables (previous year: € 0k) due from and no liabilities (previous year: € 9k) due to DITABIS Digital Biomedical Imaging Systems AG. Services were performed on customary contractual conditions.

Directors and officers

The **Board of Management** comprised the following members in the year under report:

- **Marcus Wolfinger**, Remchingen
  (Chairman) Graduate in Business Administration

- **Dr. Robert Siegle**, Birkenfeld
  (Director of Finance and Human Resources)
  Attorney

- **Dr. Claus Vielsack**, Birkenfeld
  (Director of Product Development)
  Graduate in Chemistry

The Chairman of the Board of Management, Marcus Wolfinger, is authorized to solely represent the company.

Marcus Wolfinger has been a member of the management of STRATEC Capital GmbH since November 2015 and a member of the management of STRATEC PS Holding GmbH since May 2016.

Dr. Robert Siegle has been a member of the management of STRATEC Molecular GmbH since December 2012, a member of the Administrative Board of STRATEC Biomedical Switzerland AG since March 2014, a member of the Administrative Board at STRATEC Services AG since November 2014, and a member of the management of STRATEC PS Holding GmbH since May 2016.

Dr. Claus Vielsack has been a member of the management of STRATEC PS Holding GmbH since May 2016.

The compensation of members of the Board of Management consists of fixed basic compensation and variable components dependent, among other factors, on the achievement of individual performance targets. Further information about the basic features of the compensation system for the Board of Management and the disclosures required by § 314 (1) No. 6a) Sentences 5 to 8 of the German Commercial Code (HGB) can be found in Section E. 'Compensation report' in the group management report.

Moreover, members of the Board of Management are entitled to participate in the stock option program subject to the limitation that no further stock options may be granted to them from the 2015 financial year onwards. Among other conditions, the exercising of the options is dependent on the achievement of performance targets outlined in greater detail in Section C. 'Notes to the consolidated balance sheet (9) Shareholders' equity – Stock option programs'. Rather than being granted stock options, members of the Board of Management now receive stock appreciation rights (SARs). Detailed information about the structure of this program can be found in Section E 'Compensation report' in the group management report.

The members of the Board of Management received total compensation of € 2,652k for their activity on the Board of Management in the 2017 financial year (previous year: € 2,267k). As of December 31, 2017, the net balance of performance-related payments outstanding for members of the Board of Management amounted to € 3,635k (previous year: € 2,115k).

	2017 € 000s[1]	2016 € 000s[1]
Short-term benefits	1,609	1,216
Post-employment benefits[2]	217	215
Other long-term benefits[3]	391	381
Share-based compensation[4]	436	455

[1] The amounts disclosed refer to members of the Board of Management active in the respective reporting year and to their activities on the Board of Management.
[2] The amount disclosed refers to the service cost recognized in the 2017 financial year and the insurance contributions made to the pension provision of members of the Board of Management.
[3] The amount disclosed refers to the mid-term incentive agreement for 2015 (2014), which covers 2015, 2016, and 2017 (2014, 2015, and 2016) and is due for payment in 2018 (2017).
[4] The amount disclosed corresponds to the fair value upon issue of the stock appreciation rights (SARs) granted in 2017 (2016) and calculated in accordance with IFRS 2 (Share-based payment).

One former member of the Board of Management received total compensation of € 15k in the 2017 financial year (previous year: € 193k).

The **Supervisory Board** comprised the following individuals in the year under report:

- **Fred K. Brückner**, Marburg (Chairman)
  Chemical Engineer and Independent Management Consultant

- **Rainer Baule**, Überlingen (Deputy Chairman)
  Graduate in Industrial Engineering,
  Managing Director of Baule GmbH
  (Supervisory Board member since June 14, 2017)

- **Wolfgang Wehmeyer**, Tübingen (Deputy Chairman)
  Graduate in Mechanical Engineering, BBA, MBA,
  Senior Vice President Care Innovation,
  Fresenius Medical Care Deutschland GmbH
  (Supervisory Board member until June 14, 2017)

- **Prof. Dr. Stefanie Remmele**,
  Landshut Professor of Medical Technology at
  the University of Applied Sciences in Landshut

The Supervisory Board members Fred K. Brückner and Prof. Dr. Stefanie Remmele do not hold positions on any other supervisory boards or supervisory bodies as defined in § 125 (1) Sentence 5 of the German Stock Corporation Act (AktG). Wolfgang Wehmeyer is a member of the Advisory Board of NMI TT GmbH, Reutlingen. Rainer Baule is a member of the Supervisory Board of Amann Girrbach AG, Koblach, the Supervisory Board of DITABIS Biomedical Imaging Systems AG, Pforzheim, the Supervisory Board of Metechon AG, Munich, the Advisory Board of Vorwerk & Co. KG, Wuppertal, and the Foundation Board of Else Kröner-Fresenius-Stiftung, Bad Homburg v.d.H.

The Supervisory Board members received total compensation of € 129k in the 2017 financial year for their activities on the Supervisory Board (previous year: € 125k). The specific structure of overall compensation was as follows:

	2017 € 000s	2016 € 000s
Fixed compensation	116	113
Meeting allowance	13	12
Total	**129**	**125**

In addition to this total compensation, each member of the Supervisory Board also has his or her expenses reimbursed and benefits from a pecuniary damage liability insurance policy taken out at the company's expense at suitable terms customary to the market.

Contingent liabilities and other financial obligations

Other financial obligations primarily relate to acceptance obligations (basic contracts with suppliers concerning modules and contractual obligations), and obligations in connection with operating leases and development orders.

Obligations for orders placed amounted to € 67,955k (previous year: € 83,442k). Of this total, € 723k relates to property, plant and equipment (previous year: € 1,328k), and € 1,235k to intangible assets (previous year: € 10k).

The rental and leasing contracts for buildings, vehicles, and office and other equipment have remaining terms of up to 8 years. The leasing contracts provide for conditional leasing payments dependent on the number of kilometers traveled or the number of copies made. Payments of € 1,668k were made for rental and leasing contracts in the 2017 financial year (previous year: € 991k). The contracts provide for price adjustment clauses and for extension and purchase options in some cases.

The income and expenses recognized for rental and leasing contracts are structured as follows:

	2017 € 000s	2016 € 000s
Minimum leasing payments	1,668	991
Conditional leasing payments	1	11
Less leasing income from subletting arrangements	0	-92
Total	**1,669**	**910**

Undiscounted future minimum leasing and rental payments in connection with operating leases amounted to € 8,096k as of the balance sheet date (previous year: € 9,004k). Key individual items within operating leases are the rental agreement for the company buildings used by STRATEC Biomedical UK, Ltd., STRATEC Molecular GmbH, Diatron Medicinai Instrumentumok Laboratóriumi Diagnosztikai Fejlesztö-Gyártó Zrt, and STRATEC Consumables GmbH. The remaining terms of the rental agreements amounted to up to 8 years at the balance sheet date. Price adjustment clauses and extension and purchase options have been agreed in some cases.

The future leasing payments resulting from rental agreements for company buildings are structured as follows:

	2017 € 000s	2016 € 000s
Future minimum leasing payments		
Due within one year	1,729	1,523
Due in between one and five years	4,926	5,022
Due in more than five years	774	1,926
Total future minimum leasing payments	7,429	8,471
Less leasing income from subletting arrangements	0	0
Net minimum leasing payments	**7,429**	**8,471**

STRATEC AG lets out sections of some properties recognized under property, plant and equipment. Future leasing income from non-terminable rental agreements are structured as follows:

	2017 € 000s	2016 € 000s
Future minimum leasing payments		
Due within one year	88	28
Due in between one and five years	198	110
Due in more than five years	0	0
Total future minimum leasing payments	**286**	**138**

Other financial payment obligations mature as follows:

	2017 € 000s	2016 € 000s
Due within one year	57,784	65,465
of which for operating leases	2.065	1,798
Due in between one and five years	19,089	25,886
of which for operating leases	5,257	5,280
Due in more than five years	774	1,926
of which for operating leases	774	1,926
Total	**77,647**	**93,278**
of which for operating leases	8,096	9,004

There are no contingent liabilities relating to the provision of security for third-party liabilities.

Contingent receivables and liabilities

As in the previous year, the Group has no contingent receivables or liabilities.

Disclosures pursuant to § 160 (1) No. 8 AktG

STRATEC Biomedical AG received the following voting right notifications from shareholders who hold a share of at least 3% of the voting rights:

Notifying party	Date on which threshold was met	Share of voting rights		Allocable voting right share of at least 3 %
		in %	absolute	
Herdor GmbH & Co. KG, Unterschleißheim, Germany	04.27.2014	25.40	2,990,000	Tanja van Dinter, Bettina Siegle and Ralf Leistner
Herdor Beteiligungs GmbH, Unterschleißheim, Germany	04.27.2014	25.40	2,990,000	Herdor GmbH & Co. KG, Tanja van Dinter, Bettina Siegle and Ralf Leistner
Hermann Leistner, Germany	04.27.2014	25.79	3,035,456	Herdor GmbH & Co. KG, Herdor Beteiligungs GmbH, Tanja van Dinter, Bettina Siegle and Ralf Leistner
Doris Leistner, Germany	04.27.2014	25.74	3,030,235	Herdor GmbH & Co. KG, Herdor Beteiligungs GmbH, Tanja van Dinter, Bettina Siegle and Ralf Leistner
Tanja van Dinter, Germany	04.27.2014	29.53	3,476,286	Herdor GmbH & Co. KG, Bettina Siegle and Ralf Leistner
Bettina Siegle, Germany	04.27.2014	29.68	3,493,954	Herdor GmbH & Co. KG, Tanja van Dinter and Ralf Leistner
Ralf Leistner, Germany	04.27.2014	29.73	3,499,343	Herdor GmbH & Co. KG, Tanja van Dinter and Bettina Siegle
BNP Paribas Investment Partners UK Limited, London, UK	03.30.2015	3.06	360,672	BNP Paribas Investment Partners Belgium S.A.
BNP Paribas Investment Partners Belgium S.A., Brussels, Belgium	03.30.2015	3.06	360,672	
OppenheimerFunds, Inc., Denver, Colorado, US	11.29.2016	5.19	615,133	Oppenheimer International Small-Mid Company Fund
Oppenheimer International Small-Mid Company Fund, Centennial, Colorado, US	11.29.2016	5.19	615,133	
Ameriprise Financial, Inc., Wilmington, Delaware, USA	07.25.2017	6.01	715,282	Threadneedle Investment Funds ICVC
Threadneedle Investment Funds ICVC, London, UK	07.25.2017	5.01	596,049	
Allianz SE, Munich, Germany	12.21.2017	5.14	612,492	Allianz I.A.R.D. S.A.

Information about voting right notifications can also be found in the Investors section of the company's website at www.stratec.com

Events after the balance sheet date

No events of particular significance expected to materially impact on the company's earnings, financial, or net asset position have occurred since the balance sheet date.

Declaration in respect of the German Corporate Governance Code

The declaration in respect of the German Corporate Governance Code ('Declaration of Conformity') required by § 161 of the German Stock Corporation Act (AktG) has been submitted by the Board of Management and Supervisory Board of STRATEC AG and made permanently available to shareholders in the Investors section of the company's website (www.stratec.com).

Birkenfeld, April 5, 2018

STRATEC Biomedical AG
The Board of Management

Marcus Wolfinger *Dr. Robert Siegle* *Dr. Claus Vielsack*

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Birkenfeld, April 5, 2018

STRATEC Biomedical AG
The Board of Management

Marcus Wolfinger *Dr. Robert Siegle* *Dr. Claus Vielsack*

INDEPENDENT AUDITORS' REPORT

TO STRATEC BIOMEDICAL AG, BIRKENFELD

Report on the Audit of the Consolidated Financial Statements and the Group Management Report

Audit opinions

We have audited the consolidated financial statements of STRATEC Biomedical AG, Birkenfeld, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income , consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January 2017 to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In addition, we have audited the group management report of STRATEC Biomedical AG, Birkenfeld, for the financial year from 1 January 2017 to 31 December 2017. We have not audited the content of the content of the Non-Financial Statement of the Group in Section H of the group management report and the Declaration on Corporate Governance published on the website of the Company, which is referred to in Section G of the group management report, in terms of their compliance with German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ('Handelsgesetzbuch': German Commercial Code) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from 1 January 2017 to 31 December 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not extend to the Non-Financial Statement of the Group contained in Section H of the group management report or the Declaration on Corporate Governance published on the website of the Company, which is referred to in Section G of the group management report.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as 'EU Audit Regulation') and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Our responsibilities under those requirements and principles are further described in the 'Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report' section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided any non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our (audit) opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our (audit) opinion thereon, we do not provide a separate (audit) opinion on these matters.

We summarize what in our view are the key audit matters below:

1. Impairment testing of goodwill
2. Accounting treatment of development expenditure for development projects and development cooperations

Re 1. Impairment testing of goodwill

a) The risk for the financial reporting

Goodwill of EUR 42.0 million is carried in the consolidated financial statements of STRATEC Biomedical AG, Birkenfeld, under the line item 'Goodwill'. This corresponds to 15.9 % of the balance sheet total. Goodwill is subject to an impairment test as of 31 December of each respective fiscal year.

The valuation was performed using the discounted cash flow method. The findings of the impairment test are highly dependent on the estimates made by the executive directors of future cash flows, the operating margins and the discount rate applied and are therefore subject to substantial uncertainty. In light of this circumstance and the complexity of the valuation, this issue was of special significance during our audit.

The disclosures of the Company regarding goodwill are contained in Sections B. and C of the notes to the consolidated financial statements.

b) Audit approach and conclusions

We verified that the future cash flows used in the valuations are appropriate by comparing them to the latest budgets derived from the three-year planning drawn up by the executive directors and approved by the Supervisory Board and reconciling them with expectations for the specific industrial sector or general market expectations.

The reliability of the business planning was tested using a retrospective comparison of the deviations between the budget figures underlying the valuation performed in the prior year and the actual figures posted in fiscal year 2017. Where any significant deviations were identified we discussed these with the executive directors in terms of their relevance for the financial statements of the reporting year.

Based on the knowledge that relatively small changes in the discount rate used can have a significant impact on the enterprise value determined in this way, we also placed a focus of our audit on the parameters used to determine the discount rate and the weighted average cost of capital and verified the formula used in the calculation.

Due to the material significance of goodwill and the fact that the valuation of goodwill also depends on the macroeconomic environment, which lies outside the sphere of influence of the Company, we also performed sensitivity analyses of the cash generating units with lower coverage (carrying amount compared to net present value) and found that the goodwill carried in the books is suitably covered by discounted future cash surpluses and has been suitably discounted. Overall, the valuation parameters and assumptions applied by the executive directors agree with our expectations.

Re 2. Accounting treatment of development expenditure for development projects and development cooperations

a) The risk for the financial reporting

Where the development project is one of the Company's own development projects, the development expenditure incurred in connection with the project is expensed in the period in which it is incurred. This excludes research and development projects acquired in the course of business combinations and development expenditure that cumulatively meets the recognition of IAS 38.57. Capitalized development expenses recognized under intangible assets are subject to an impairment test at least once a year in accordance with IAS 36 until they are put into an operating condition. As soon as they are put into an operating condition, they are amortized, generally over five to eight years.

If the project is a development cooperation, it is first tested as to whether the respective cooperation qualifies as a construction contract pursuant to IAS 11. For these contracts, revenue is already recognized in the development phase in accordance with the requirements of IAS 11. Here, too, an impairment test is conducted at least once each reporting date. Any difference arising after conclusion of the development phase between the capitalized development expenditure and the payments received is amortized over the agreed minimum purchase volume in the ensuing 'device' phase.

If the contract does not qualify as a construction contract pursuant to IAS 11, then expenses arising successively during the development phase in line with the percentage of completion are not covered by agreement payments. If the recognition criteria of IAS 38.57 are met cumulatively these are recognized as intangible assets pursuant to IAS 38 on the basis of the percentage of completion and measured at the amount of any (pro rata) lack of coverage and presented under non-current assets. On the other hand, development expenditure that is covered by agreed payments is either presented under work in process pursuant to IAS 2 or under trade receivables. Revenue in the development phase is recognized in accordance with IAS 18.21.

Based on IAS 18.24 (c), the percentage of completion is calculated as the ratio of the costs incurred by the reporting date in relationship to the total estimated costs of the development contract. Pursuant to IAS 2 work in process is expensed through the cost of sales on the date of revenue recognition, while any lack of coverage in development expenditure recognized under intangible assets pursuant to IAS 38.97 et seq. is amortized over the expected sales volume after the development phase has been completed. The amortization expense is also charged to the cost of sales. In addition, development expenditure recognized as intangible assets is subjected to an impairment test in accordance with IAS 36.10 (a) at least once every reporting date – and during the year if there are corresponding indications of impairment.

During the device phase, revenue is recognized from the sale of goods in keeping with IAS 18.14 et seq. This method is applied regardless of whether the preceding development phase constituted a construction contract pursuant to IAS 11 or not.

As of 31 December 2017, internally generated intangible assets of EUR 11,112 k (prior year: EUR 9,700 k) were recognized in association with own development projects and EUR 11,087 k (prior year: EUR 13,700 k) in association with development cooperations. Expenditures qualifying as research expenditure in the sense of IAS 38.54 are expensed in the period in which they are incurred. Due to the different individual contracts and the significance of internally generated intangible assets in the consolidated financial statements, this matter was of particular significance for our audit.

The disclosures of the Company on the accounting treatment of development expenditure for internal development projects and for development cooperations, and its impact on the consolidated financial statements, are included in Section B of the notes to the financial statements.

b) Audit approach and conclusions

In a first step we satisfied ourselves that the accounting policies required by IFRS described in a) above were applied systematically. This involved a critical appraisal of whether the recognition criteria of IAS 38.57 IAS were met as well as verifying the existence of a binding contract in the sense of IAS 11.

We audited the recognition, presentation and measurement of own development projects and development cooperations by means of substantive testing using consciously selected samples. If new development cooperations are arranged in the fiscal year, the contractual documents were examined to determine whether the respective project was allocated on the basis of the methodology presented under a) above. In particular, an audit focus was placed on revenue recognition in the various development categories and the annual impairment testing of development expenditure capitalized under intangible assets. We were able to verify the assumptions and estimates made by the executive directors with regard to the recognition of development expenses as intangible assets and determined that these are suitably documented and agree with our expectations.

Other Information

The executive directors are responsible for the other information. The other information comprises:

- The Non-Financial Statement included in Section H of the group management report
- the Declaration on Corporate Governance published on the website of the Company, which is referred to in Section G of the group management report
- The remaining parts of the annual report, with the exception of the audited consolidated financial statements, group management report and our auditor's report
- The corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code, and
- The confirmation pursuant to Sec. 297 (2) Sentence 4 HGB regarding the consolidated financial statements and the confirmation pursuant to Sec. 315 (1) Sentence 5 HGB regarding the group management report

Our audit opinions on the financial consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Financial Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report report or, if such disclosures are inadequate, to modify our respective (audit) opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express (audit) opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- evaluate the consistency of the group management report with the consolidated financial statements, its conformity with (German) law, and the view of the Group's position it provides.

- perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor of the consolidated financial statements by the annual general meeting on 14 June 2017. We were engaged by the Supervisory Board on 30 October 2017. We have been the independent auditor of STRATEC Biomedical AG, Birkenfeld, without interruption since fiscal year 2015.

We declare that the (audit) opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Ms. Linda Ruoß.

Stuttgart, 5. April 2018

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Christian Fuchs Wirtschaftsprüfer (German Public Auditor)	Linda Ruoß Wirtschaftsprüferin (German Public Auditor)

FINANCIAL CALENDAR

04 **April 19, 2018** Annual Financial Report 2017	**05** **May 15, 2018** Quarterly Statement Q1|2018	**05** **May 30, 2018** Annual General Meeting, Pforzheim, Germany
07 **July 24, 2018** Half-yearly Financial Report H1|2018	**11** **November 8, 2018** Quarterly Statement 9M|2018	**11** **November 27, 2018** German Equity Forum, Frankfurt/Main, Germany

Subject to amendment

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Editorial Responsibility
STRATEC Biomedical AG

Concept and Design
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Notice

Forward-looking statements involve risks: This annual report contains various statements concerning the future performance of STRATEC. These statements are based on both assumptions and estimates. Although we are convinced that these forward-looking statements are realistic, we can provide no guarantee of this. This is because our assumptions involve risks and uncertainties which could result in a substantial divergence between actual results and those expected. It is not planned to update these forward-looking statements.

This annual report contains various disclosures that from an economic point of view are not required by the relevant accounting standards. These disclosures should be regarded as a supplement, rather than a substitute for the IFRS disclosures.

Apparent discrepancies may arise throughout this annual report on account of mathematical rounding up or down in the course of addition.

This annual report is available in both German and English. Both versions can be downloaded from the company's website at www.stratec.com. In the event of any discrepancies between the two, the German report is the definitive version.

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