stratec

INSIGHTS ALONG NEW LINES

Annual Report 2016

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 2016

STRATEC GROUP AT A GLANCE

Group Key Figures

Sales, earnings, and dividend

	2016	2015	Change
Sales (in € thousand)	184,911	146,886	25.9 %
R&D expenses (in € thousand)	8,054	8,336	-3.4 %
EBIT (in € thousand)[1]	32,273	26,875	20.1 %
EBIT as % of sales[1]	17.5	18.3	-80 bps
Consolidated net income (in € thousand)[2]	25,383	22,084	14.9 %
Basic earnings per share (in €)[2]	2.14	1.87	14.4 %
Diluted earnings per share (in €)[2]	2.13	1.85	15.1 %
Dividend per share (in €)	0.77[3]	0.75	2.7 %

[1] 2016 figure adjusted for one-off items resulting from transaction activities and related reorganization expenses
[2] 2016 figure additionally adjusted for financing expenses and tax expenses in connection with the acquisitions of the Diatron Group and STRATEC Consumables, for one-off items resulting from the tax audit for the 2009 to 2013 assessment periods, and for tax effects relating to reorganization expenses
[3] Subject to approval by the Annual General Meeting on June 14, 2017

Balance sheet

	12.31.2016	12.31.2015	Change
Shareholders' equity (in € thousand)	143,719	130,280	10.3 %
Total assets (in € thousand)	257,967	158,939	62.3 %
Equity ratio (in %)	55.7	82.0	-2.630 bps

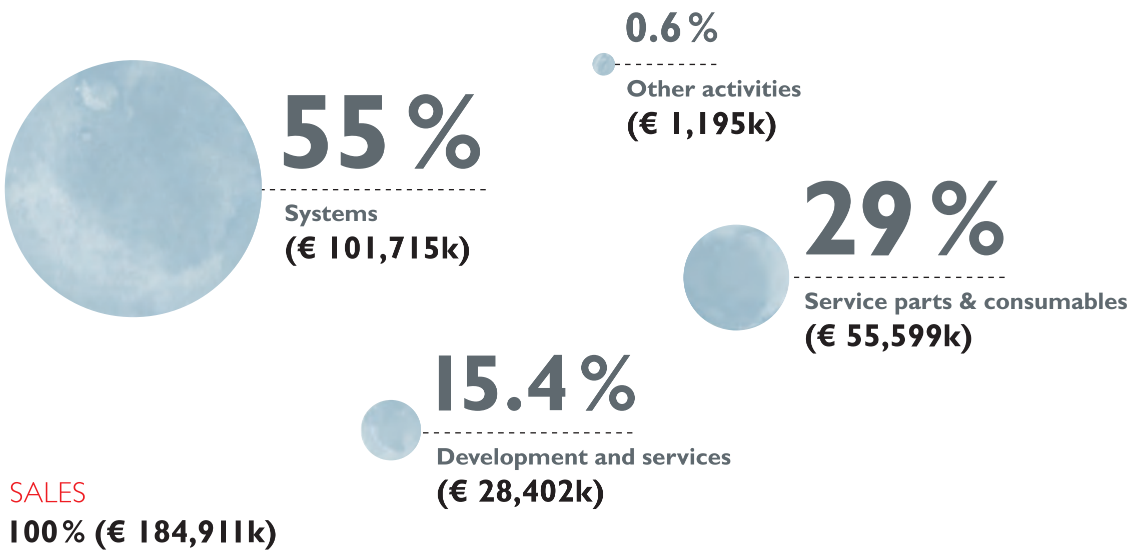
Quarterly Overview 2016

Sales and earnings

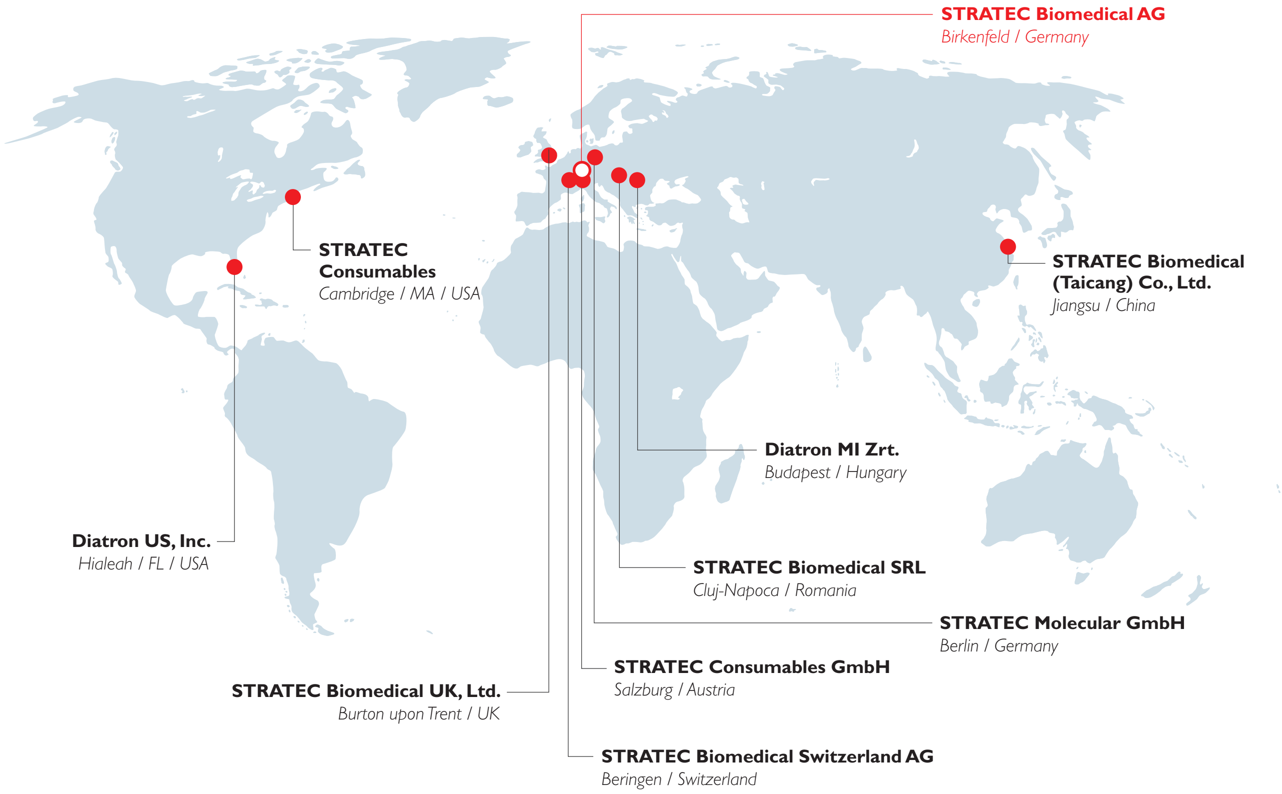
	1st quarter (01.01. – 03.31.)	2nd quarter (04.01. – 06.30.)	3rd quarter (07.01. – 09.30.)	4th quarter (10.01. – 12.31.)
Sales (in € thousand)	31,218	46,814	48,302	58,577
R&D expenses (in € thousand)	2,056	3,071	1,784	1,143
EBIT (in € thousand)[1]	4,530	8,086	5,774	13,883
EBIT as % of sales[1]	14.5	17.3	12.0	23.7
Consolidated net income (in € thousand)[2]	3,424	6,888	4,939	10,132
Basic earnings per share (in €)[2]	0.29	0.58	0.42	0.85
Diluted earnings per share (in €)[2]	0.29	0.58	0.41	0.85

[1] 2016 figure adjusted for one-off items resulting from transaction activities and related reorganization expenses
[2] 2016 figure additionally adjusted for financing expenses and tax expenses in connection with the acquisitions of the Diatron Group and STRATEC Consumables, for one-off items resulting from the tax audit for the 2009 to 2013 assessment periods, and for tax effects relating to reorganization expenses

Sales by operating division in 2016



Locations of the STRATEC Group



LETTER FROM THE BOARD OF MANAGEMENT

Dear Shareholders, Partners and Friends of STRATEC,

Last year was another very successful year for our Company.

The diagnostics and research environment in which we operate is very dynamic and continually evolving, with individualized diagnostics and therapy options becoming increasingly significant due to new technologies as well as new application possibilities. Driven both by demographic and infrastructure developments, our target markets are benefiting from megatrends that give ever greater reason to expect consistent long-term growth in our industry.

Driven by longstanding, reliable, and trust-based cooperation with our partners, we have built an invaluable position in a highly sensitive and strictly regulated market. Drawing on expertise gained in nearly 40 years of development activity and our profound knowledge of the relevant market segments, we are able to respond promptly to major developments in the market climate and new technologies, and indeed play a pivotal role in shaping these developments. All the while, we are mindful to balance the associated opportunities and risks in a way that makes best economic sense.

Our strategy of taking targeted steps to enhance our technological capabilities and access new market segments, either with internal development work or external acquisitions, came to fruition in 2016 when we acquired two new companies. We have made great progress in integrating these businesses into our own technology portfolio and the products and services offered by these new subsidiaries have already become part of the STRATEC Group's core business.

Diatron, an international specialist in hematology and clinical chemistry, which we acquired in March 2016, is a valuable addition to our portfolio, and one that complements our activities by targeting a segment of the IVD market we previously did not address. STRATEC has significantly extended its product range through acquiring Diatron and also gained valuable process-know-how and technologies for developing and producing smaller-scale systems and modules. As well as having diversified our range of products and services, we have gained access to additional new customers in both human and veterinary diagnostics.

In July 2016 we acquired Sony DADC BioSciences in Austria, which has since been renamed as STRATEC Consumables. With this acquisition, we have taken a very important step towards becoming a 'one-stop provider' of systems, software, and consumables. STRATEC Consumables has a reputation as a key source of innovation in what is still a new market for smart consumables, i.e. complex consumables with integrated process steps. In the introductory section to this Annual Report, we will familiarize you with microfluidics, one of the core activities at STRATEC Consumables.

Our growth in the 2016 financial year was driven both organically and by the consolidation of our new subsidiaries. Overall, sales grew by 25.9% to € 184.9 million. Excluding acquisition and associated restructuring expenses, we achieved an adjusted EBIT margin of 17.5%. Adjusted earnings per share came to € 2.14.

We always strive to ensure our shareholders participate in the company's success, not just from our capacity as a growing company but with the growth potential offered by our shares. We will therefore be proposing a dividend of € 0.77 for approval by the Annual General Meeting. This marks the 13th consecutive increase in our dividend.

We expect to see positive developments in the quarters ahead. Given pending market approvals and synergy effects from the acquisitions, we are very optimistic about the company's further growth, in which the latest platform developments are set to play an increasingly important role.

To facilitate this growth, we recently implemented several measures to extend our capacity. Our colleagues in Burton upon Trent, UK, moved into new and larger premises at the beginning of last year. With the completion of construction activities in Beringen, Switzerland, and Cluj-Napoca, Romania, we have built and occupied new premises for our operations at these locations. Diatron is set to move into an additional building in the first half of the current year.

We view organizational and structural adjustments as part of our continuing development. The years ahead will witness further milestones in this respect, such as the introduction of a group-wide ERP system at an earlier date than originally expected. This will serve as a basis for further growth. It will also further optimize our cross-location processes within the STRATEC Group.

The STRATEC Group had a total of 976 employees at the end of the year and we expect to pass the 1,000 employee mark during the current year. Our employees are the source of our confidence in the company's future. We are aware of the responsibility we bear towards them and their families, just as we are aware of our responsibility towards our customers and partners and towards the people who benefit from the products we develop together.

We would like to extend our sincere thanks to all of STRATEC's employees, partners, and customers, as well as to all other interested parties, for the trust they have placed in us. We look forward to mastering the challenges and seizing the opportunities that lie ahead.

Birkenfeld, April 2017

The Board of Management of
STRATEC
Biomedical AG

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

Marcus Wolfinger (49)
Chairman of the Board of Management

Dr. Robert Siegle (49)
Member of the Board of Management,
Finances and Human Resources

Dr. Claus Vielsack (49)
Member of the Board of Management,
Product Development

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

In the 2016 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 in Supervisory Board

The Supervisory Board held a total of six meetings in the 2016 financial year. Two of these meetings were held as conference calls. 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 February 17, 2016, the Supervisory Board dealt with the compensation paid to the Board of Management. It determined the level of target achievement for the individual members of the Board of Management for the bonus payment for the 2015 financial year in accordance with the individual additional agreements (mid-term compensation agreement). Furthermore, it also reached agreements with the individual members of the Board of Management for the 2016 financial year.

At its meetings on April 4, 2016, October 13, 2016, and December 9, 2016, the Supervisory Board dealt in particular with the risk handbook, 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 M&A activities, the subsidiaries, the company's organizational structure, the implications of new legislative requirements, the patent and industrial property right situation, and the Group's long-term corporate strategy.

Furthermore, at the meeting on April 4, 2016 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 2015 financial year. It discussed and approved the draft resolutions to be proposed to the Annual General Meeting on June 9, 2016, including the proposed appropriation of profit for the 2015 financial year. At this meeting, the corporate governance declaration and corporate governance report of the Board of Management and Supervisory Board were also approved. These were subsequently published on the company's website. Following the successful acquisition of the hematology system specialist Diatron MI Zrt., the Supervisory Board addressed the progress made with further acquisition options, including the company acquired and renamed as STRATEC Consumables GmbH – one of the world's leading OEM manufacturers of smart consumables for applications in diagnostics, life sciences and medical technology. Finally, the Supervisory Board voted in favor of extending Hermann Leistner's appointment to the Administrative Board and his advisory contract at STRATEC Biomedical Switzerland AG.

In a conference call held on April 11, 2016, 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 2015 financial year.

At the Supervisory Board meeting on October 13, 2016, the Supervisory Board addressed the information submitted by the Board of Management concerning the post-acquisition integration process and the Group's short to medium-term financing concept.

In a conference call on November 13, 2016 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 2016 in connection with existing stock option programs.

At the final Supervisory Board meeting in the period under report, held on December 9, 2016, the Board of Management presented the reorganized group structure resulting from the company acquisitions made in 2016. Furthermore, the Supervisory Board addressed the German Corporate Governance Code in its version dated May 5, 2015.

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. As a result, the Supervisory Board and Board of Management renewed their Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act (AktG) on this date. This is permanently available to shareholders at the company's website. The findings and implications of the regular external audit performed by the tax authorities were also presented to the Supervisory Board. Finally, the Supervisory Board dealt with the employment contracts with members of the Board of Management. Taking due account of the acquisitions made and the structures newly created, these contracts were adjusted within the regular review the Supervisory Board is required to perform on the management board compensation system to calculate short-term and mid-term incentives.

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 arose among members of the Board of Management or Supervisory Board. The Supervisory Board does not include any former members of the Board of Management.

Composition of Supervisory Board and Board of Management
There were no changes in the composition either of the Supervisory Board or of the Board of Management in the 2016 financial year.

Audit of annual and consolidated financial statements
At its meeting on April 11, 2017, 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, 2016, as well as with the management report of STRATEC Biomedical AG and the STRATEC Group for the 2016 financial year. Both sets of financial statements had previously been audited and provided with unqualified audit opinions by the auditor elected by the Annual General Meeting, Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart. 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.

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 11, 2017 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, in a conference call held on April 13, 2017. 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 € 0.77 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 all employees for their great commitment and achievements in the 2016 financial year, especially in connection with the two acquisitions and the integration of these companies into the STRATEC Group.

Birkenfeld, April 2017

On behalf of the Supervisory Board

Fred K. Brückner
Chairman

Fred K. Brückner (74)
Chairman of the Supervisory Board

Prof. Dr. Stefanie Remmele (39)
Member of the Supervisory Board

Wolfgang Wehmeyer (58)
Deputy Chairman of the Supervisory Board

INSIGHTS ALONG NEW LINES

TRAILBLAZING WORK FOR LABORATORY APPLICATIONS OF THE FUTURE

At this point in our annual report each year, we present visions, new technologies and applications. Topics that point the way for our industry and therefore also contribute to our success and to understanding our market. Here, we showcase aspects of everyday processes that are, however, also very important, such as blood sample analysis in a laboratory. We also highlight trends and developments that we see as playing a pivotal role in the future.

One such development is microfluidics. What was still seen as a vision not very long ago, this complex technology has now been put into place in every-day use. This represents an interesting niche, especially since many applications cannot be realized using other technologies. Through the acquisition of a company specialized in microfluidics, STRATEC expanded its range of technology significantly in 2016 in what is a highly attractive growth market. In keeping with the motto of this report, 'Insights Along New Lines', we will introduce you to the fascinating application possibilities of microfluidics on the following pages and will provide you with a glimpse at how this field is on the best path to shifting the boundaries between research and routine applications in laboratories.

THE WORLD OF MICROFLUIDICS

Product example:
Microfluidic dPCR-chip

WHAT IS MICROFLUIDICS?

Microfluidics deals with the behavior of liquids and gases on the smallest scales. Applied to analysis technology in the lab, microfluidics is the integration of multiple analytical steps on a single chip. Microfluidics allows the process to be accelerated, simplified and, ultimately, also to be completed in a more cost-efficient manner. This is comparable with the hardwiring of miniaturized electronic circuits on a silicon chip in microelectronics. They are therefore often referred to as microfluidic chips.

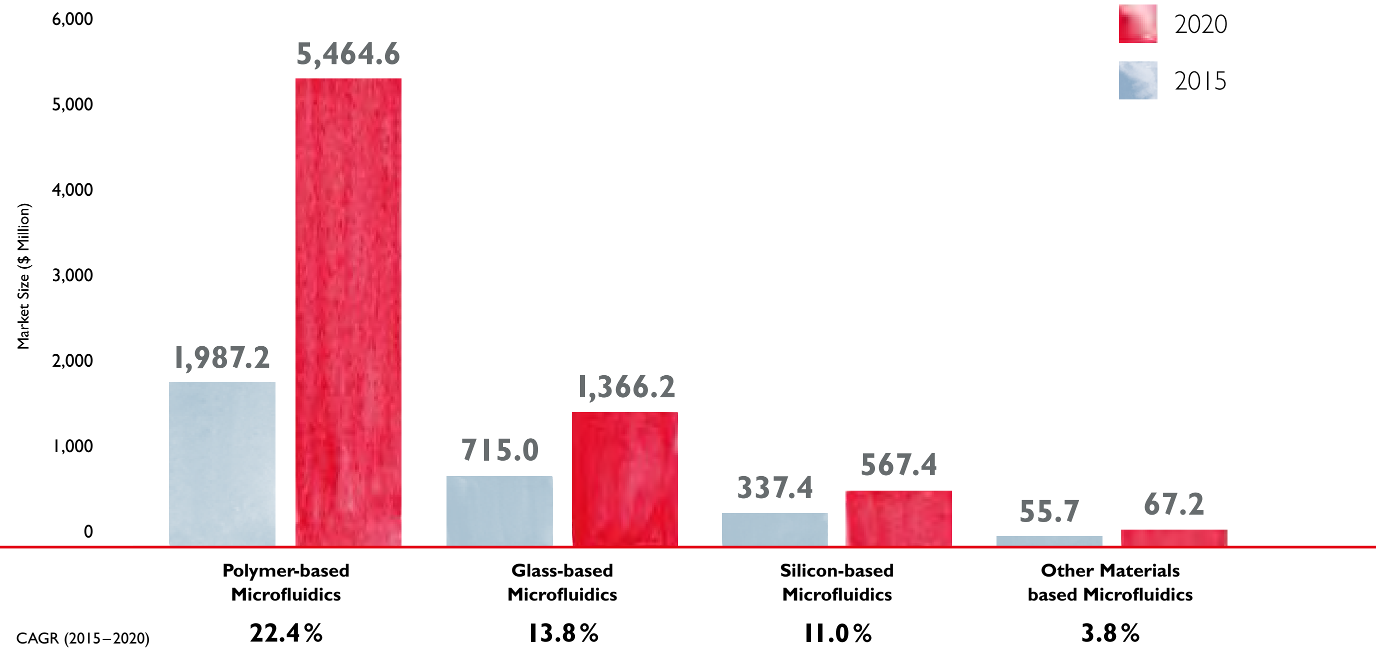
Plastic – the Material of Choice

Selecting materials plays an important role in the development and manufacturing of chips. While availability at short notice and functionality tend to be decisive for the first prototypes, costs gain in importance as volumes increase in serial production. Integrating the various functions therefore occurs increasingly using plastic. Plastic has cost benefits in comparison to other materials such as glass or silicon and is also characterized by its very good malleability.

A Head Start Through 30 Years of Experience

STRATEC Consumables benefits from three decades of experience in producing microstructures for CDs, DVDs and Blu-Ray-Discs. A high level of quality and cost awareness also sets it apart from the competition.

Plastics for Microfluidics on the Increase Around the World



Source: MarketsandMarkets (2015), Microfluidics Market Global Forecast to 2020

WHY MICROFLUIDICS?

Microfluidics represents another step towards comprehensive automation in laboratories and thus also in analyzer systems. In the past, a large portion of microfluidic consumables were allocated to completing manual tasks. With the integration of numerous analysis steps on one chip, the spacial density, reaction time, throughput, reliability and specificity can now be improved. This contributes to quicker user acceptance.

While in microelectronics, major improvements in silicon chips led to increasingly faster computers in the eighties and nineties, it took a little longer in medical technology and analysis for the benefits of miniaturization to become established. The splash that it caused first occurred at the beginning of the millennium, though the high expectations could not quite be met. The dominance of the first, very generalized patent applications also caused industry leaders in diagnostics and analysis to shy away from a broader introduction of this technology.

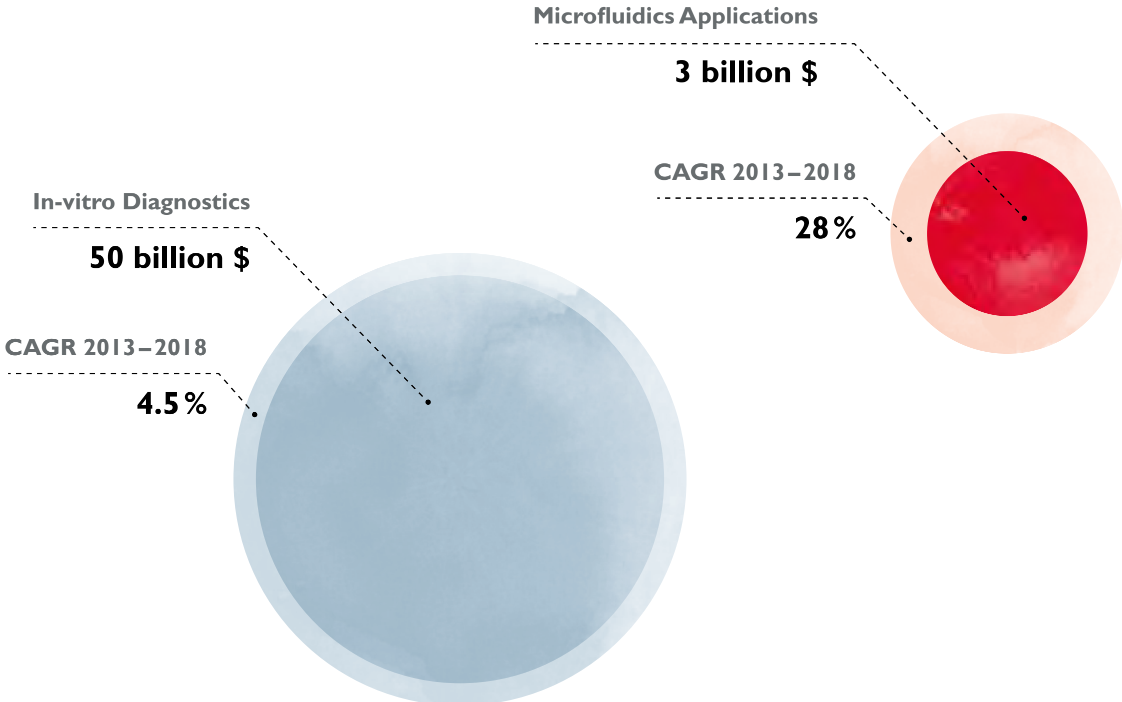
Miniaturization – Enduring Megatrend

Since about 2010, there has been a second wave of start-ups and company formation. A number of these have already been integrated into industry-leading corporations through mergers and acquisitions. The megatrend towards miniaturization and integration of different functions on one chip is just getting started and is likely to continue for a long time. Increasingly complex processes are continually being implemented on chips that can fulfill more and more functions. The market for microfluidics is currently in a phase in which a comprehensive understanding of the benefits of this technology is forming. This is the foundation for realistic expectations of the wide range of ways it can be implemented in many industries, from water purification to diagnostics, for example.

The market for microfluidics applications was estimated at roughly USD 3 billion in 2016. This may seem low in comparison to the market for in-vitro diagnostics, which comprises roughly USD 50 billion, but there is, however, a great deal of potential in this area. Annual average growth here of 28% is anticipated in the period between 2013 and 2018.

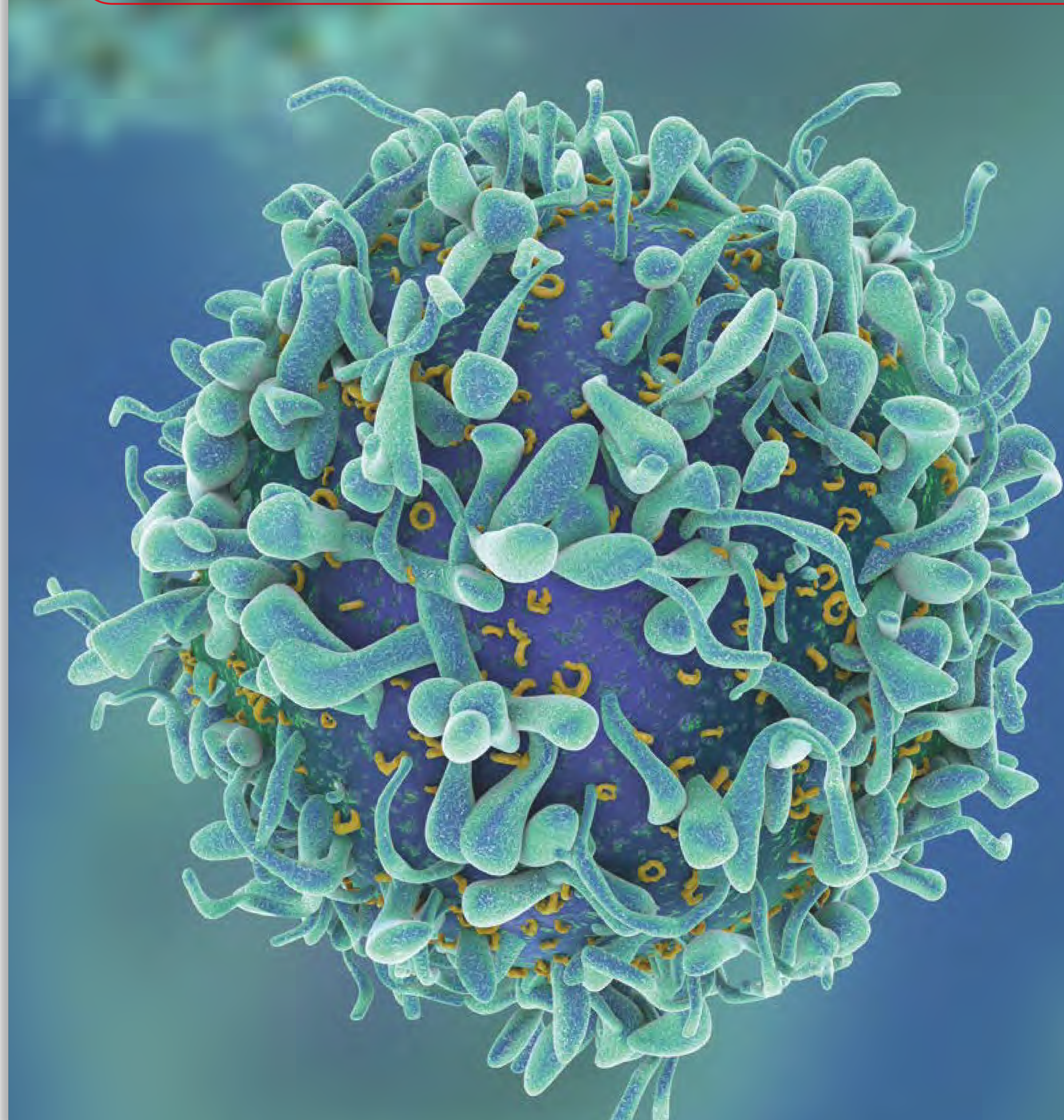
Coating can be used to change the surface of polymer chips to achieve specific chemical, biological, physical, or aesthetic functionalities.

Strong Growth Potential for Microfluidics



Source: Yole Développement (2015), Microfluidic Applications 2015

CELLS OF THE FUTURE



Automated Isolation of Individual Cells

One trailblazing field of application for microfluidic consumables is single-cell isolation, which is the isolation of single cells from blood or bone marrow, for example. This could be any type of cell, such as white or red blood cells, but also tumor cells.

Until now, isolating single cells is generally done manually under a microscope and there are few options for automating this process. Microfluidics opens up great potential here. With the help of microfluidic consumables, individual cells can be isolated from blood or bone marrow through automation and can then be processed further. A process that makes it possible to isolate a large number of individual cells more quickly and cheaply.

This application is currently being used primarily in cancer research, though many other areas are suited to application, and promising activities are already taking place. There are different approaches to working with the intact cells that are extracted in this way.

STRATEC Consumables has already developed numerous smart consumables for its partners for isolating individual cells. The following examples show the fascinating opportunities presented by this technology.

Close-up view of a T cell

NEEDLE IN THE HAY STACK

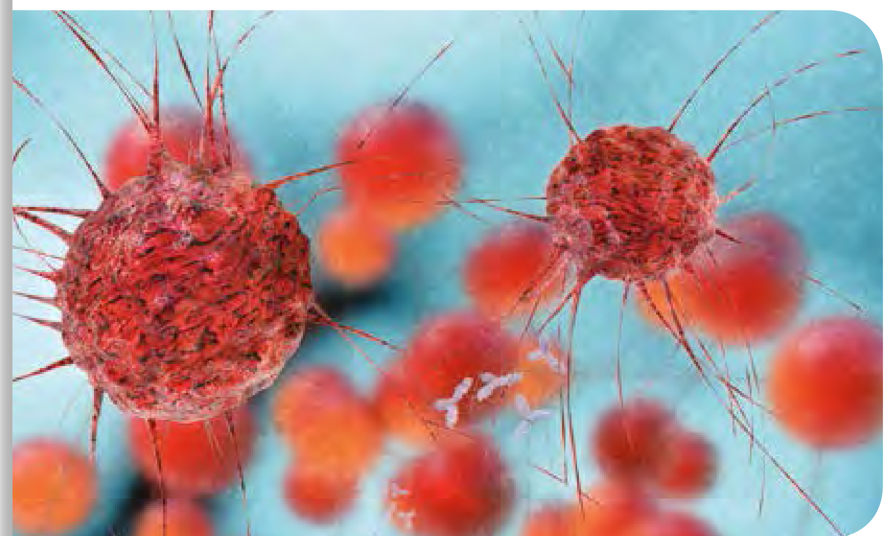
The applications mentioned below are all almost exclusively used in research or just recently in diagnostics. This means that clinical trials with patients are already being carried out, but there is not yet any established treatment. These applications nonetheless give great hope for future diagnostics and treatments. They have the potential to change the healthcare system and the chances for patients in the long term. In particular, the desire to get as much information as possible about one's current and future health can be met through the application of microfluidics.

Immunotherapy for Cancer Treatment

A STRATEC partner uses a microfluidics technology to isolate T cells. These are a form of white blood cells that play a pivotal role in immune defense by combating pathogens and mutated cells. This property is used in a targeted manner: T cells are isolated and then modified ex vivo, outside of the body, in order to be able to destroy certain other cells. The modified cells are then returned to the patient so that they can destroy the target cells, for example tumor cells. In connection with cancer treatment, this type of therapy is often also called immunotherapy as the tumor is targeted by the body's own immune system.

Therapy Tests on Tumor Cells

Another area of application is the isolation of individual tumor cells from the blood of ill patients. The isolated tumor cells can be analyzed precisely. In pharmaceutical research, in particular, this is already used to test how tumor cells and other mutations react to certain types of treatment. It makes it possible to observe the effect of the drugs that are used on healthy and mutated cells early on in treatment. In this context, this is often referred to as liquid biopsy. The cells can also be analyzed by tests such as next generation sequencing (NGS) or a mutation analysis.



Detecting Individual Proteins

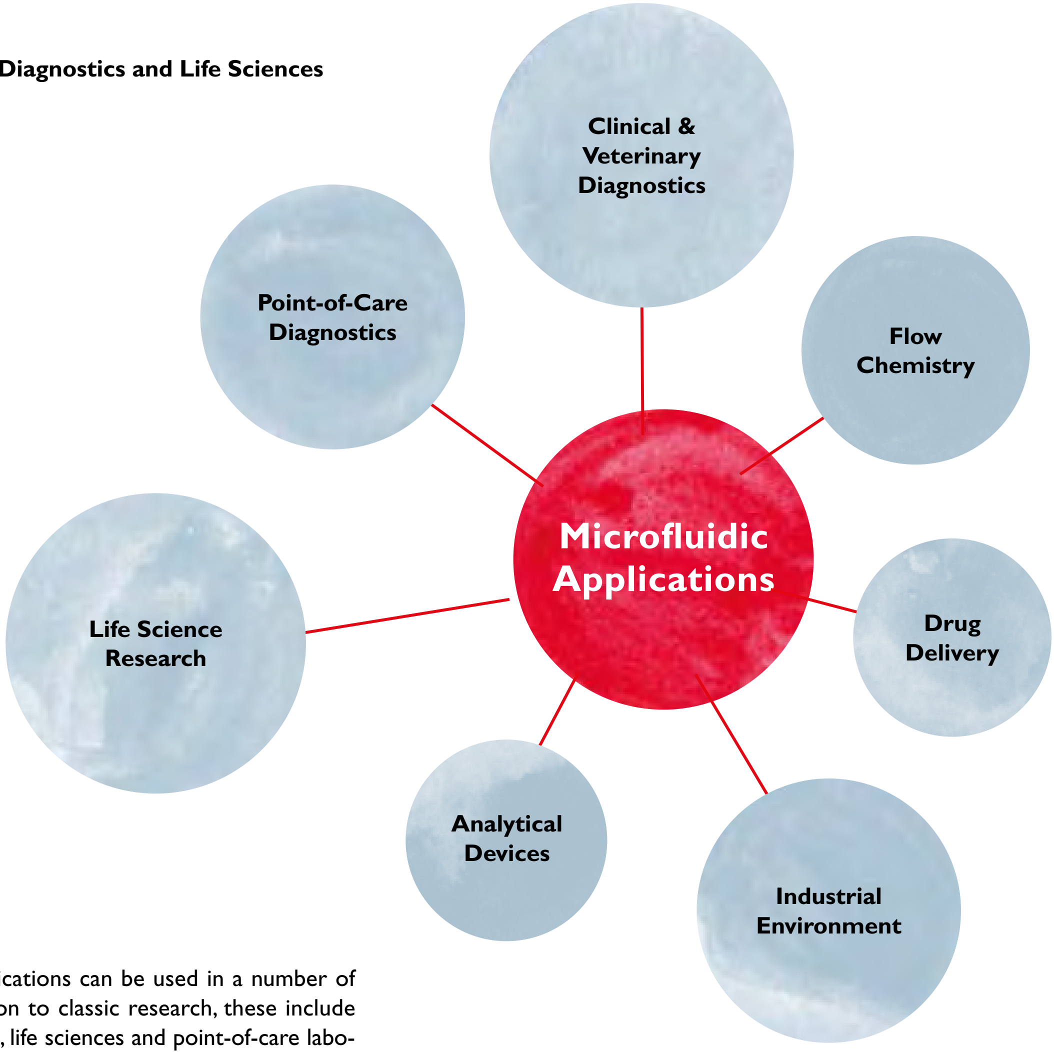
In one application that has already been announced publicly, the STRATEC partner Quanterix uses a microfluidic consumable to detect individual proteins. If certain antibodies are found in a sample, this can be a sign of infection. The microfluidic consumable allows proteins to be measured in a very low concentration on the level of individual molecules. This makes substances visible that cannot be detected using existing immunoassay processes. This is comparable with the proverbial search for the needle in the hay stack. This process can be used, for example, for the early detection of a protein that indicates that a patient will have a heart attack.

Our Vision: Preventative Diagnostics

In the past, diagnostics was used to identify or explain a medical condition that was present. In the future, it should be possible to act before the onset of the disease or potentially to avert an illness through preventative measures. Our shared vision is for diagnostics to be used not only retrospectively, but also preventively. This way, it creates added value and has a greater influence on the healthcare system.

THE MARKET
SEGMENTS AND POTENTIAL

Microfluidics in Diagnostics and Life Sciences



Microfluidics applications can be used in a number of markets. In addition to classic research, these include clinical diagnostics, life sciences and point-of-care laboratory diagnostics (POC).

Clinical Diagnostics – Strong Growth Rates Also in the Long Run
The largest and also strongest market in the long term is that of laboratory diagnostics. From major clinical laboratories to the bedside and, ultimately, to self-administered tests at home. This area shows the strongest growth rates in terms of the use of microfluidic consumables.

Life Sciences –
Great Potential Thanks to Low Obstacles

The area of life sciences comprises academic as well as pharmaceutical research. New types of tests are introduced and trialed in this market first. The pharmaceutical industry is the largest commercial outlet for this. Additional markets with lower regulatory requirements can be found in environmental analysis and industrial analysis. Microfluidics is also being used in veterinary diagnostics, food analysis and genetic analysis due to low obstacles.

Point-of-Care Testing – Highly Dynamic Growth

The point-of-care laboratory diagnostics market segment shows a particularly high growth dynamic. Point-of-care testing in medicine refers to diagnostic applications that take place not in a central laboratory but close to the patient. This can be directly in the ward at the hospital or in a doctor's office to determine cardiovascular parameters, for example. Home tests or quick tests that the patients can administer themselves are also POC tests. These include pregnancy tests or quick blood tests for measuring blood sugar and for the diagnosis of or blood clotting.

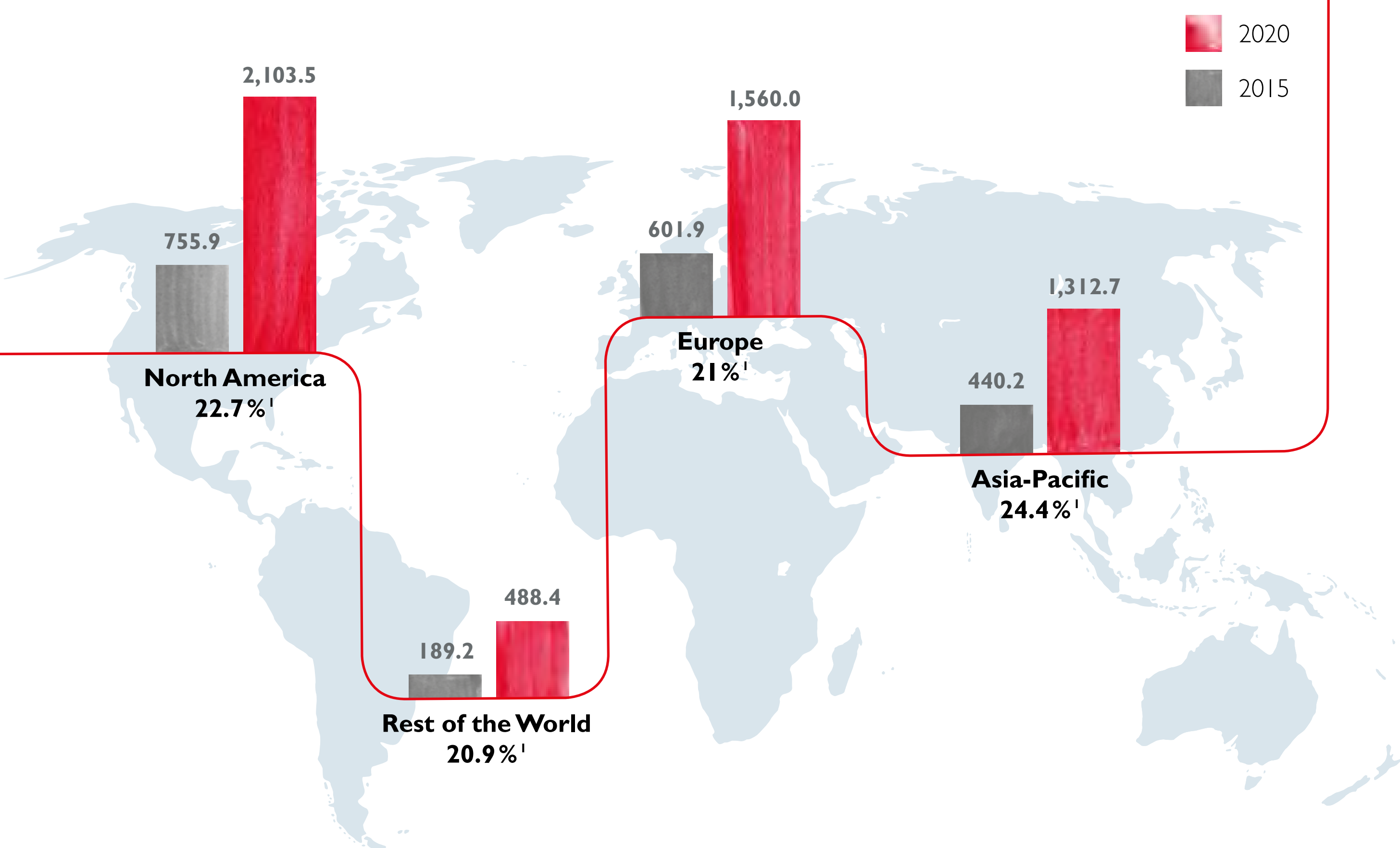
Economies of Scale Increase Competitiveness

The integration of numerous process steps, ranging from filtration to detection, for example, represents the strongest trend across all areas. The complex questions that arise from this often lead to very lengthy approval procedures. The established microfluidics processes often face a manufacturing price that is far above the cost of laboratory diagnostics. Due to the still relatively high costs, these tests can only gain prevalence if the test results are needed very quickly or if the nearest central lab is very far away. A significant improvement of the cost situation and therefore also the price development in the near future should, however, be possible thanks to economies of scale.

NORTH AMERICA ON TOP

The market for polymer microfluidics applications is currently dominated by North America, with a market share of 38%. The majority of the patents and innovations are from university centers there, such as Harvard and Stanford University. The high level of interdisciplinarity benefits these large institutes. Europe only begins to play a larger role when it comes to the implementation of market-ready products and their global roll-out.

Market Volume and Long-Term Market Growth



Source: MarketsandMarkets (2015), Microfluidics Market Global Forecast to 2020

STRATEC CONSUMABLES AS A DRIVER OF DEVELOPMENT

Expertise in Storage Media

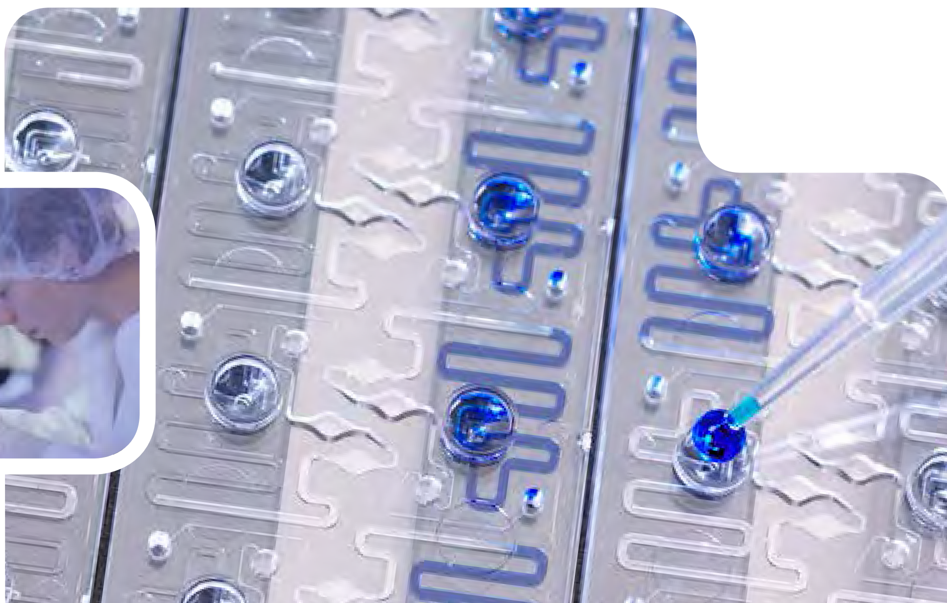
The company history of STRATEC Consumables, based in Anif, Austria, began about ten years ago. Sony DADC, a subsidiary of the SONY Corporation, entered the biotechnology market in 2007 with the founding of its biosciences division. The company, which had made a name for itself since the 1980s primarily as the market leader in optical storage devices and digital solutions for the entertainment, education and software industry, thus expanded its portfolio to include complex plastic components for medical and diagnostic applications. Its many years of experience and expertise in manufacturing storage media allowed it to use its optimized production methods in alternative applications as well and to develop these further.

Accordingly, tiny structures in the nano and micrometer range were also brought about in the manufacturing of microstructured plastic components for use in medicine and life sciences. But efforts were not limited strictly to the production process. What sets STRATEC Consumables apart is the range it offers along the entire value chain. This begins with the development of consumables and prototyping and continues all the way through to packaging and logistics.

Complex Test as First Joint Project

In July 2016, Sony DADC BioSciences GmbH became part of the STRATEC Group and was renamed STRATEC Consumables. The first collaboration between the then independent company with STRATEC Biomedical AG took place years earlier as part of a project for the customer Quanterix. The Disc was produced at the Anif location. The disc comprises 24 test fields with 216,000 micro-wells each and is used as a smart consumable in the analyzer system developed by STRATEC. With a customer project of this type, close cooperation in the development and manufacturing of the sample carrier and analyzer system is of the utmost importance in order to ensure quality, reliability and reproducibility.





[1] CAGR (2015 – 2020)

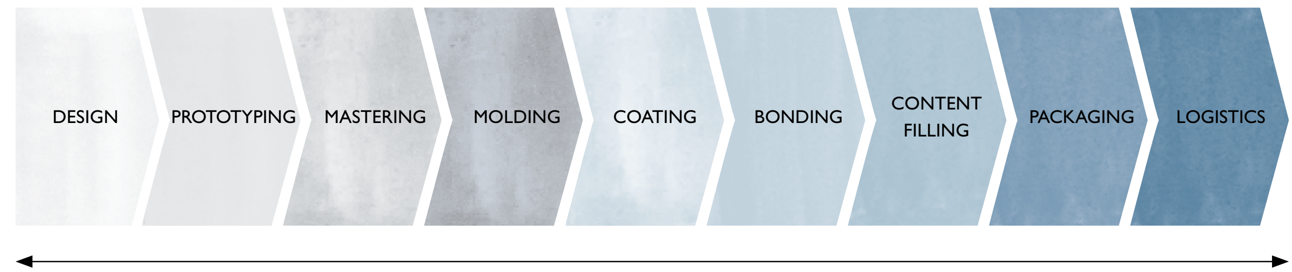
OPTIMIZED PROCESSES

Certified Quality Management

The processes in the consumables area, which have been established for many years, are constantly being improved. This includes the optimization of the working environment and conditions in order to improve the health and safety of the company's employees. Manufacturing takes place in accordance with the specifications of an ISO 13485-certified quality management system. A high level of quality awareness is shown on all levels of the value chain. From the very beginning, a close collaboration takes place with the customer in order to develop the partner's idea in the design and prototype phase in such a way that it will be suitable for serial production. Tiny structures of 200 nm to 200 μm can be produced using the unique mastering process, in which the negative of the component to be formed is produced using injection molding.

Thirty years of experience in manufacturing optical storage media are put to use in producing consumables through injection molding. This ensures the highest level of quality and reliability in the highly precise plastic components for medical and diagnostic applications.

High Quality Awareness at All Levels



Joint System Solutions

The development and production of microstructured plastic components is to be further expanded and the development of the Anif site will be promoted through specific partnerships and investments. Cooperation within the STRATEC Group makes it possible to offer customers joint systems solutions comprising analyzer systems, software and consumables. The aim, as seen in the Quanterix example, is to expand upon core expertise and to offer the customer complete solutions based on these.

INSTRUMENTS AND CONSUMABLES

Diverse Consumables

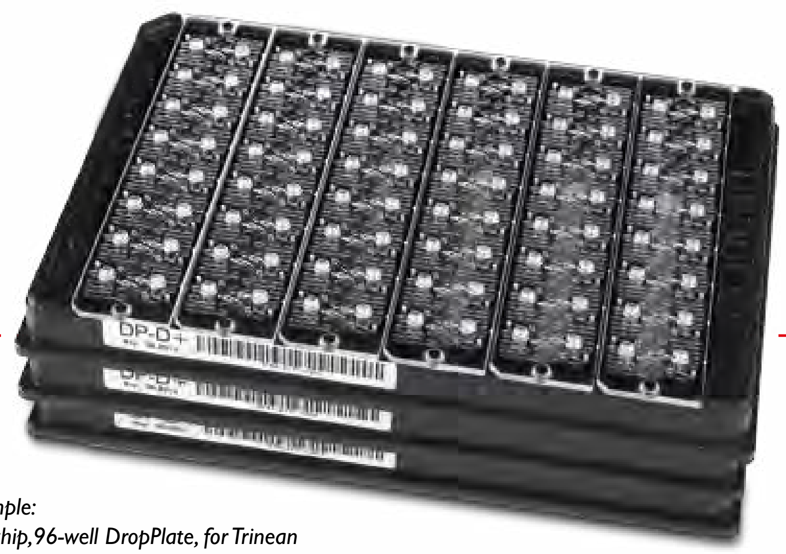
An analyzer system developed by STRATEC is made up of a variety of components. Alongside the hardware and software, the consumables are also an important part.

There are a wide variety of consumables used in analyzer systems and these can be divided into numerous categories. For one, there are replacement parts to replace components that are no longer usable at the end of the product life cycle. There are also maintenance kits with parts that need to be exchanged regularly, such as pumps, hoses or valves. Another category comprises components that are consumed by the instrument, such as plastic parts like pipette tips or measuring cells. These have a 1:n ratio with the tests that are performed.

STRATEC has always been responsible for developing the consumables that go with the system, and in many cases also produced them itself. Over the past years, however, there has been a shift with newly developed systems to producing the consumables in addition to developing them.

Everything From a Single Source

There is currently a trend towards using increasingly complex consumables in which a part of the test is shifted from the analyzer system to the consumable. With the company acquisition, STRATEC is now in a position to offer its customers an even more comprehensive range of products. In addition, it provides its partners with decisive benefits when the analyzer system and the consumables come from a single source. Development and production at STRATEC minimizes the often adverse effect on development times. This is because the systems integration of consumables often presents challenges that can only be addressed step by step. The customers also benefit from having a contact for all matters relating to the system.



Product example:
Microfluidic chip, 96-well DropPlate, for Trinean

ANNUAL REPORT 2016

of STRATEC Biomedical AG

STRATEC'S SHARE

Stock market year shaped by unexpected events

Various events with unexpected outcomes, such as the Brexit referendum and the US presidential elections, led stock market investors to hold their breath in 2016. These factors were preceded by concerns about the global economy triggered by weak economic data in China and the fall in the oil price, which placed a severe damper on the stock markets at the beginning of the year. The DAX, Germany's lead index, dropped 19% in the first trading weeks of the year.

The next unexpected event followed in June. In what was for many a surprising development, a marginal majority of UK voters decided in a referendum in favor of the United Kingdom exiting the European Union. This Brexit shock triggered turbulence on the currency and stock markets around the world. By contrast, the election of Donald Trump as US President in November only led to short-term fluctuations in stock prices.

Irrespective of these developments, global stock markets continued to be driven in 2016 by the flood of liquidity from major central banks. While interest rates in Japan, the UK, and the euro area remained at record lows, the US Federal Reserve acted to tighten the monetary reins and also signaled further steps in this direction.

Accompanied by a high level of volatility, the DAX rose by 6.8% over the twelve-month period as a whole. With a negative annual performance of 1.0%, by contrast, the TecDAX technology index posted significantly weaker developments. Given prolonged financial repression and the ongoing lack of attractive investment opportunities, experts nevertheless expect investors to continue preferring stocks, thus lending further momentum to stock markets.

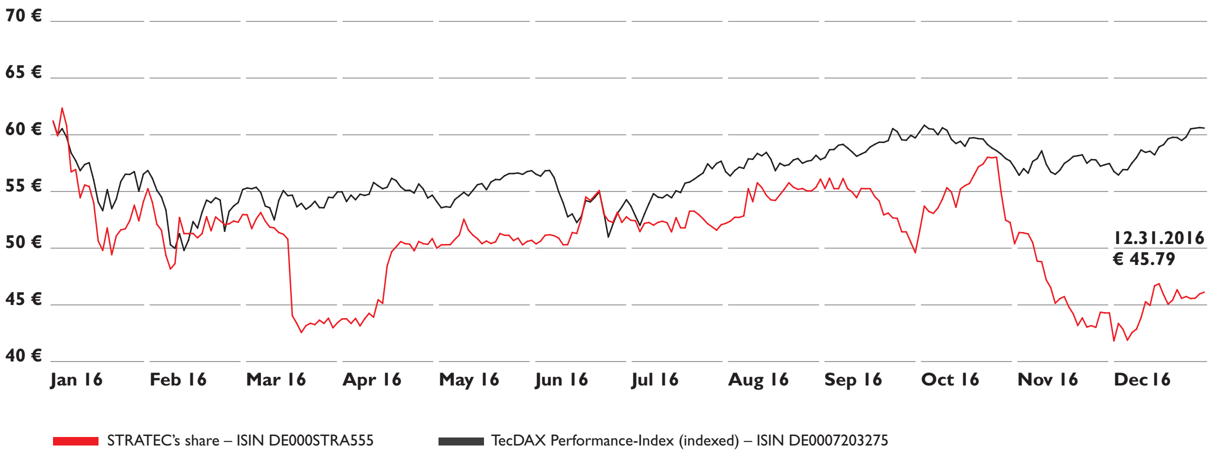
STRATEC's shares post a volatile performance in 2016

STRATEC's shares began the 2016 trading year at a price of € 61.00 (Xetra, year-end price on December 30, 2015) and by the third trading day had already reached a new all-time high at € 62.85 (Xetra, intraday). In the following weeks, the share price was unable to escape the effects of a weak stock market climate and several times fell below the € 50 mark.

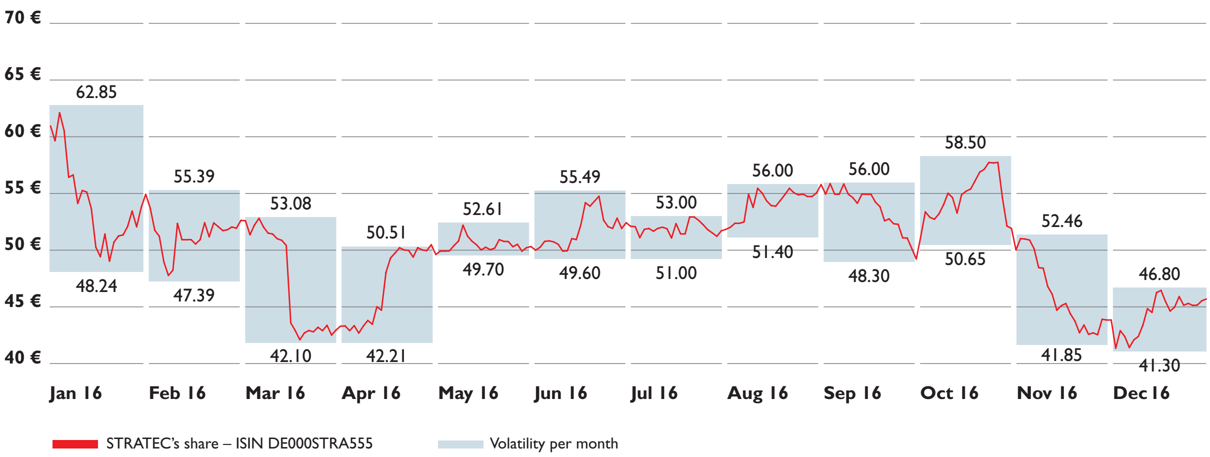
In mid-March, the company was obliged to adjust its medium-term financial forecast. The share lost around 15% of its value on the following day and subsequently marked time in a narrow range of between € 42.10 and € 44.35 (both prices Xetra, intraday). Upon publication of its definitive annual results for the 2015 financial year on April 14, 2016 and the announcement of a proposed further increase in the dividend, STRATEC's share price stopped moving sideways and within a few trading days had made up for the weakness seen since March.

The share posted further price gains as the year progressed and recovered to € 56.00 (Xetra, intraday) before coming under significant pressure in mid-September. By the end of September, the share price had slipped to € 48.30 (Xetra, intraday), only to recover again to € 58.50 in just 17 trading days (Xetra, intraday). The publication of the nine-month figures on October 27, 2016 was followed by a marked downward trend, one which led the share price to its annual low of € 41.30 (Xetra, intraday) on December 7, 2016. STRATEC's share the ended the year at € 45.79 at the close of trading on December 30, 2016. The listed share price was thus 24.9% lower than the previous year's year-end price and 10.9% up on its annual low. STRATEC was therefore unable to uphold the very positive share price performance seen in previous years.

STRATEC's share – volatile performance in 2016 (€)



STRATEC's share – monthly highs and lows in 2016 (€)



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

	2016	2015	2014	2013	2012
Year-end price previous year (€)	61.00	45.75	30.25	37.65	31.75
Annual low (€)	41.30	41.00	30.06	25.30	28.02
Annual high (€)	62.85	61.00	53.10	40.00	39.48
Year-end price (€)	45.79	61.00	45.75	30.25	37.65
Performance (%)	-24.9	+33.3	+51.2	-19.6	+18.6
Market capitalization (€ million)	543.1	723.0	540.0	356.0	441.9
Trading volumes (€ million)	120.7	141.0	131.1	109.8	126.6
Average daily trading volume (€)	473,151	555,065	520,199	433,863	498,367
Average daily trading volume (number of shares)	9,775	11,687	13,200	13,275	15,201

Listing, stock market turnover, and index affiliation

The company'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. Furthermore, the shares are also traded on the stock markets in Berlin, Düsseldorf, Hamburg, Hanover, Munich, and Stuttgart, as well as on Tradegate Exchange.

Measured in terms of simple order book turnover, STRATEC shares worth € 120.7 million changed hands on the aforementioned marketplaces in 2016 (previous year: € 141.0 million). The Xetra and Frankfurt marketplaces alone accounted for around 85.1 % of these volumes (previous year: 84.9 %).

Over-the-counter (OTC) trading volumes decreased compared with the previous year. STRATEC shares worth around € 43 million were traded on so-called multilateral trading systems such as Chi-X Europe, Turquoise, BATS Trading, Sigma X, and Tradegate, in 2016 (previous year: € 50 million).

STRATEC's share was listed in the TecDAX, the 30-stock select technology index of the German Stock Market, from November 2010 through to March 2017.

High shareholder presence once again and record dividend resolved at 2016 Annual General Meeting

On June 9, 2016, STRATEC's Board of Management and Supervisory Board welcomed more than 300 shareholders, voting proxies, and guest to the company's Annual General Meeting held at CongressCentrum Pforzheim. With 71.72 % of the company's share capital represented at the Annual General Meeting (previous year: 72.85 %), shareholder presence remained at a consistently high level.

Items submitted to 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.

During the two-hour meeting, all five of the agenda items submitted for resolution were approved by shareholders with the necessary majority in each case. The dividend was thus increased for the twelfth consecutive year to a new record level. The total distribution came to € 8.9 million, corresponding to around € 0.75 per share with dividend entitlement. In the previous year, the company had distributed a total of € 8.3 million, corresponding to € 0.70 per share with dividend entitlement, 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 June 14, 2017.

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

	2016	2015	2014	2013	2012
Number of shares issued (million)	11.9	11.9	11.8	11.8	11.7
Number of shares with dividend entitlement (million)	11.9	11.9	11.8	11.8	11.7
Cash dividend per share (€)	0.77 [1]	0.75	0.70	0.60	0.56
Distribution total (€ million)	9.1 [1]	8.9	8.3	7.1	6.6
Dividend yield (%)	1.7 [1]	1.2	1.5	2.0	1.5

[1] Subject to approval by the Annual General Meeting on June 14, 2017

New record dividend beckons for 2017

Notwithstanding the company acquisitions and associated investments made in 2016, STRATEC's Board of Management and Supervisory Board have decided to propose a dividend of € 0.77 per share with dividend entitlement for the 2016 financial year for approval by the Annual General Meeting on June 14, 2017.

Subject to approval by shareholders, this dividend proposal corresponds to a total distribution of € 9.1 million. Based on the year-end closing price on December 30, 2016, the dividend yield would amount to 1.7%.

Shareholder structure remains stable

The largest shareholders in the company are still its founder, Hermann Leistner, his family and their investment companies, which hold a combined stake of 41.47%. A further 0.06% of the shares are held by the company itself, while 58.47% of the shares are attributable to large numbers of retail and institutional investors in Germany and abroad. We witnessed a sharp rise in the number of retail shareholders in STRATEC in 2016. Irrespective of the employee stock option program offered and very well received in 2015 and 2016 – with one in seven shareholders now a STRATEC employee – the number of STRATEC's shareholders rose year-on-year by more than 30%.

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 (€)	11,860,995.00
Share capital (number of shares)	11,860,995
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 backs up its corporate strategy, which aims to achieving sustainable value growth, with its continuous and transparent communications with capital market participants. Our aim is to uphold our transparent communications with shareholders and gain the trust of new investors. With its investor relations activities, STRATEC keeps investors, analysts, and business and financial journalists continuously and promptly informed about the company's business performance. Interested parties can refer to the company's financial calendar, which provides advance notice of upcoming dates, events, and publications.

Financial calendar

04.20.2017	2016 Annual Report
05.04.2017	Quarterly Statement Q1|2017
06.14.2017	Annual General Meeting, Pforzheim, Germany
07.25.2017	Half-yearly Financial Report H1|2017
10.26.2017	Quarterly Statement 9M|2017
11.28.2017	German Equity Forum, Frankfurt/Main, Germany

Subject to amendment

Furthermore, we keep capital market participants regularly informed 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 offering webcast-based conference calls upon the publication of its financial reports and other major developments at the company. As well as holding numerous one-to-one meetings, at capital market conferences the company also gives presentations and thus provides investors from Germany and abroad with a detailed introduction to the company and its underlying business model.

Analysts' recommendations are one of the key instruments referred to by shareholders and investors when forming an opinion about a company's share. A total of eight institutions currently report on STRATEC in extensive studies and brief analyses: Berenberg Bank, Deutsche Bank, DZ Bank (until December 22, 2016), HSBC Trinkaus & Burkhardt, Kepler Cheuvreux, Landesbank Baden-Württemberg, Metzler Capital Markets, Oddo Seydler Bank, and Warburg Research.

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

GROUP MANAGEMENT REPORT

of STRATEC Biomedical AG for the 2016 Financial Year

A. THE STRATEC GROUP

Business model and strategic alignment

STRATEC makes blood analysis happen! – Building on its reputation and the expertise gained in nearly forty years of automating laboratory processes, STRATEC has succeeded in establishing itself as one of the world's leading providers of automation solutions for research and diagnostics and in permanently growing faster than its relevant target markets.

Over the years, STRATEC has consistently extended its business model and aligned it ever more closely to the needs of its partners – generally global leaders in the fields of diagnostics and research. That is why in addition to pure instrumentation STRATEC now covers virtually the entire value chain for the design, manufacture and approval of complex analyzer system solutions – from initial specifications to developing complex consumables and complementary middleware laboratory software.

STRATEC has always been an early mover when it comes to seizing new technologies and applications and integrating these into its existing technology portfolio, whether by way of proprietary development work or in partnership with its customers. As a result, STRATEC is now able to offer a full range of proven and forward-looking applications to its customers, which largely outsource the development work for this type of solution. The company's key focus is on high-growth segments in the fields of research and in-vitro diagnostics, and in particular on molecular diagnostics, hematology and immunoassay-based applications.

The ongoing trend towards consolidation within the healthcare sector is continuing in the diagnostics industry as well. On the one hand, this tends to increase the size of diagnostics laboratories, a development which is leading to ever higher requirements in terms of throughput capacities for analyzer systems in blood banks and central laboratories. On the other hand, there is a need to perform time-critical laboratory activities close to patients (point-o-care). Both these developments will generate new business opportunities and enable STRATEC to further expand its strengths.

STRATEC is reacting to these developments by gradually extending its range of products and services. In 2016, this process was assisted by two targeted acquisitions.

To extend its competencies and obtain capacities to design and manufacture smaller-scale systems, STRATEC acquired Diatron, a company with worldwide operations based in Hungary. STRATEC also took over SONY DADC BioSciences GmbH, a company located close to Salzburg and specializing in the development of complex consumables ('smart consumables'). This company has since been renamed as STRATEC Consumables. In smart consumables, parts of the analytical process are shifted from the instrument to the consumables, thus facilitating the development of smaller, less complex instruments.

The principal expertise STRATEC has gained by working together with market leaders involves compiling and implementing concepts and requirements in the automation and instrumentation of biochemical processes using hardware and software solutions. Furthermore, the STRATEC has acquired a comprehensive knowledge of quality and documentation requirements, particularly for the approval of medical technology solutions by the relevant national and international authorities. On this basis, STRATEC can accompany 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 includes tips on user-friendliness, a factor that promotes acceptance of the resultant system among end customers.

At core, the company's 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 and offering expertise and innovative and safe product solutions to promote the success of our partners' end customer business. The overriding objective here is to be a competent, reliable partner and enable both our customers and STRATEC itself to generate growth that is sustainably ahead of the long-term market average. In this respect, sustainability-related topics, such as environmental protection and social welfare, are also playing an increasingly important role at STRATEC. The company is focusing on rapidly growing areas of application within in-vitro diagnostics and on select areas of research and translational research, which involves translating the findings of basic research into clinical applications.

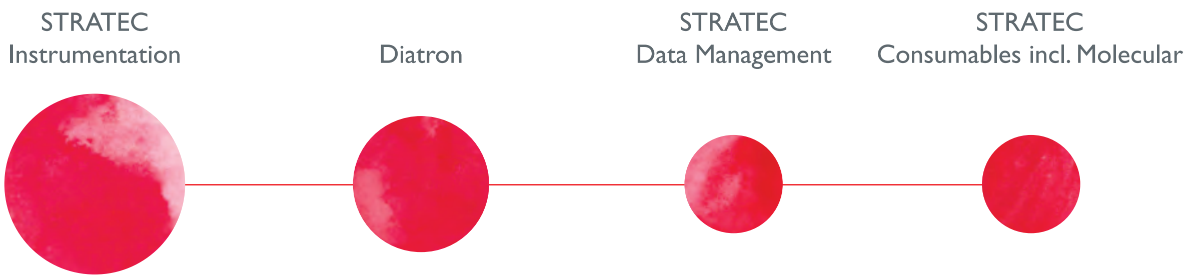
One core principle of STRATEC's corporate philosophy is to ensure that the company, while continuously extending its technology, product and service portfolio, should not allow any situation to arise in which it competes with its partners.

Group structure

When integrating the companies newly acquired in the 2016 financial year, the STRATEC Group reorganized its business units and realigned and optimized its corporate structure accordingly.

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 rapidly 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:

Alongside patents and internally developed technology, it is the company's wide variety of expertise in different scientific and technological disciplines that offers the basis for the success it aims to achieve together 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 their efforts to ensure a suitably prepared market access by means of their own service and sales activities. In view of this, STRATEC focuses on business-to-business and OEM relationships and only maintains a distinct proprietary sales network at its Diatron business unit, which focuses in particular on supporting OEM customers, retailers and distributors. The



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 three 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 facilitating secure application of remote access or preventive maintenance, 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 subsequent support measures. Throughout the development stage, however, the various activities mostly 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, and this in turn requires close cooperation between the partners.

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.

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 spare 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 a favorable 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 up to a certain point that is then adapted in the next phase to the specific requirements of the customer's reagent and corporate design scheme. 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 a corresponding volume of internally developed systems and therefore do not wish to make a large-scale development investment. STRATEC chiefly develops such platforms for areas capable of 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 appliance 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

STRATEC's existing consumables activities, which were substantially extended by the addition of a company acquired in 2016, have been pooled at the STRATEC Consumables business unit. Smart consumables are a major component of STRATEC's range of technologies, products and services. Due to an acquisition executed in 2016, this area of activity has been integrated into the STRATEC Group as a newly created business unit. We can thus offer our customers a major component of the value chain from a single source. This way, we reduce customers' project risks and the associated project supervision input, 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 traditional consumables into complex smart consumables is making it possible to 'outsource' various test process steps in a targeted manner to the consumable. This 'loss' of process steps on the one hand enables the size and complexity of instruments to be reduced. On the other hand, by offering greater flexibility it opens up new possibilities to develop test processes.

This 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** segment STRATEC also offers sample preparation products to its customers. These activities were previously located at the STRATEC Molecular business unit. 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 small and medium-sized laboratories in particular.

Diatron

STRATEC acquired the Diatron Group in July 2016. This new business unit designs and manufactures analyzer systems for use in human and 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. From a customer perspective, STRATEC's core competencies to date chiefly related to designing and manufacturing systems for molecular diagnostics, immunoassays and immunohematology. The extension of this portfolio to include Diatron's products means that the Group now covers the areas of diagnostic application with the highest volumes. 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 consistent with STRATEC's approach and business model.

Diatron's OEM portfolio consists in particular of analyzer systems, system components, consumables and tests in the lower throughput segment for hematology. Throughput is the term used to describe the frequency of tests in a given period, typically during a single laboratory shift. To date, STRATEC has focused on the medium to higher throughput range. 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 STRATEC's expertise and product portfolio. Furthermore, STRATEC expects to benefit from synergies particularly when it comes to designing and manufacturing consumables, modules for complete analyzer systems, and smaller-scale systems.

Management of the STRATEC Group

Given its size and the dovetailing of business fields that are pooled in business units across locations and together reflect STRATEC's value chain, the STRATEC Group is managed by reference to a matrix organizational structure. Following the acquisitions made in the 2016 financial year, the company's structure was amended to the extent that two new business units were added with Diatron and STRATEC Consumables. Furthermore, to optimize project and product management business activities were also transferred from existing business units to the new units.

The existing business unit STRATEC Molecular was assigned in organizational terms to the STRATEC Consumables unit and is now managed as part of that unit. 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, EBITDA, liquidity, key development, production, and marketing figures, and product quality are increasingly being supplemented by sustainability-related topics such as environmental and social aspects.

In practice, the Board of Management lays down the strategic framework in agreement with the Supervisory Board. Targets are filtered and jointly defined in the extended management teams at individual units. In the Instrumentation segment, management is based on a complex system that accounts for both key financial targets, such as sales and profitability, as well as for customers' requirements. These involve supply chains, and have efficiency enhancements and punctual delivery as their key targets. In development units, the key factors are the milestones and qualitative targets jointly defined in advance, while the targets in production units are regularly updated and agreed in very close cooperation with customers and by reference to forecasts and qualitative key figures.

Alongside ongoing organizational adjustments in 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.

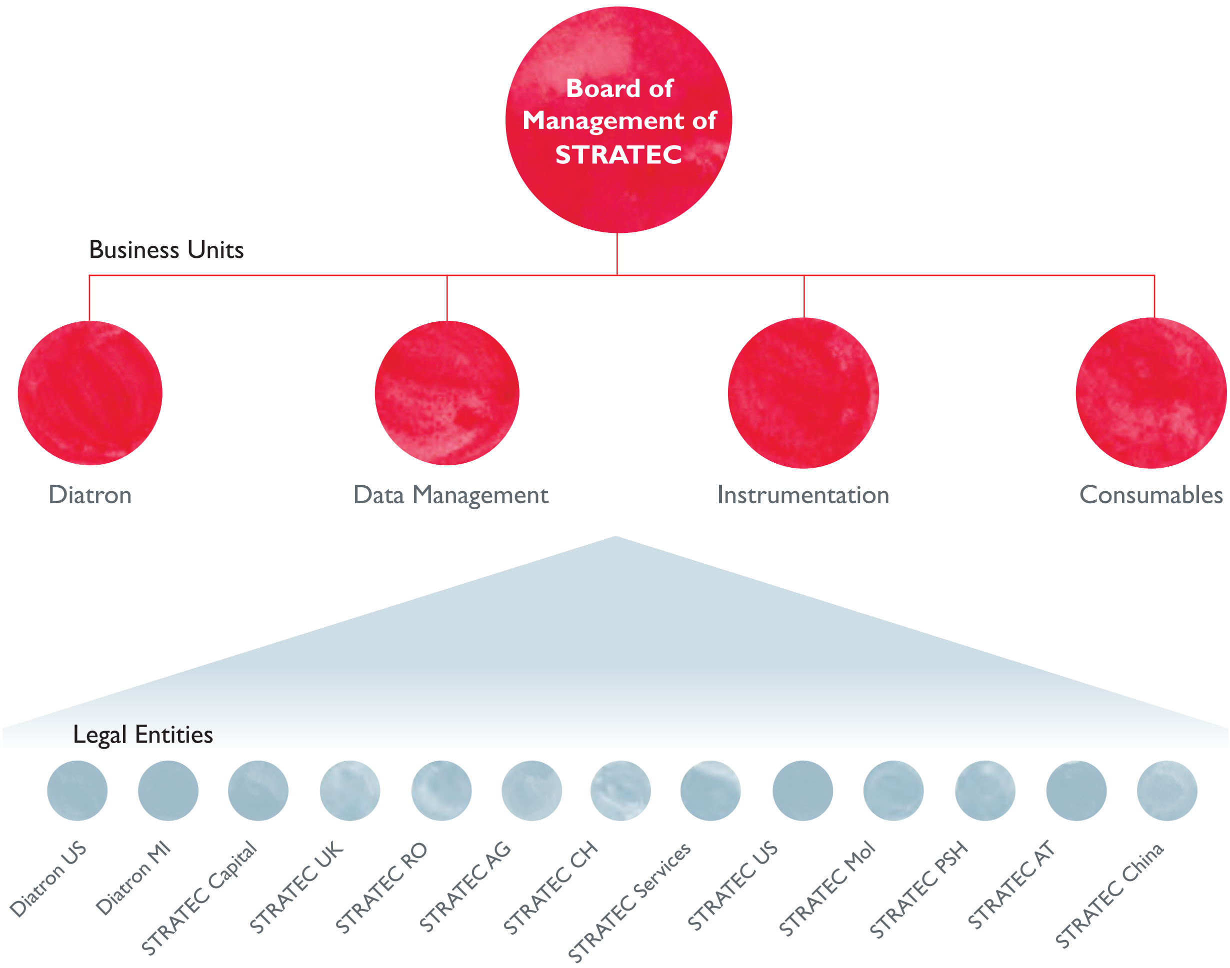
Alongside quantitative reporting structures, monthly assessments of current project developments and risks are additionally reported by individual location managers and project directors to the respective heads of department or the Board of Management.

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 telephone conferences 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 the heads of business units, local management teams at the subsidiaries, 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.

Group structure



'STRATEC PS Holding', 'STRATEC Capital', 'MAH', and 'REMA Lux' are holding companies without any proprietary operations. Due to materiality considerations, STRATEC China has not been consolidated. The intermediate holding companies 'REMA Lux' and 'MAH' added upon the acquisition of the Diatron Group are expected to be deleted in 2017 and have therefore not been presented in the above chart. Due to materiality considerations, STRATEC Inc. and Sanguin Inc. have also not been presented.

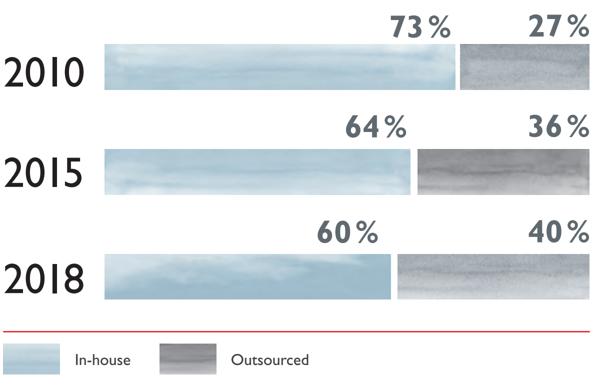
Market

IVD market

Annual sales volumes in the instrumentation market relevant to the STRATEC Group are estimated at around 1.5 billion US dollars for in-vitro diagnostics (IVD) alone. This figure is derived from relevant throughput segments and technologies, especially 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.

To date, most instrumentation development is still performed by the diagnostics companies themselves (IVD in-house market). Experts expect the overall IVD instrumentation market to grow from around seven billion US dollars currently to well over eight billion US dollars by 2018. The market segment relevant to STRATEC thus stands to grow to around 1.8 billion US dollars. 40% of the system solutions placed worldwide will already be developed by outsourcing partners, such as STRATEC (IVD OEM market). In 2016, this share amounted to around 36%[1].

In-house and outsourced instrumentation market



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 higher degree of security, greater 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, such as Brazil, have begun introducing their own control mechanisms and requirements for IVD products and processes. To meet 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 long-standing 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.

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.

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 that are shown below.

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, Diatron, which was acquired in 2016, also offers systems for use in veterinary diagnostics.

Turnover in the global veterinary diagnostics market totaled around two billion US dollars in 2016. Average annual growth (CAGR) of around 7% is expected in the years from 2012 to 2017.[2] 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.

Within veterinary diagnostics, a distinction is made between the treatment of domestic and farm animals. Domestic animals account for around 65% of the overall market, and thus for around 1.3 billion US dollars. Of this total, around 61% is attributable to the US, while Europe contributes 31% and the rest of the world around 8%. The US and Europe are therefore by far the largest and most important markets in this field.

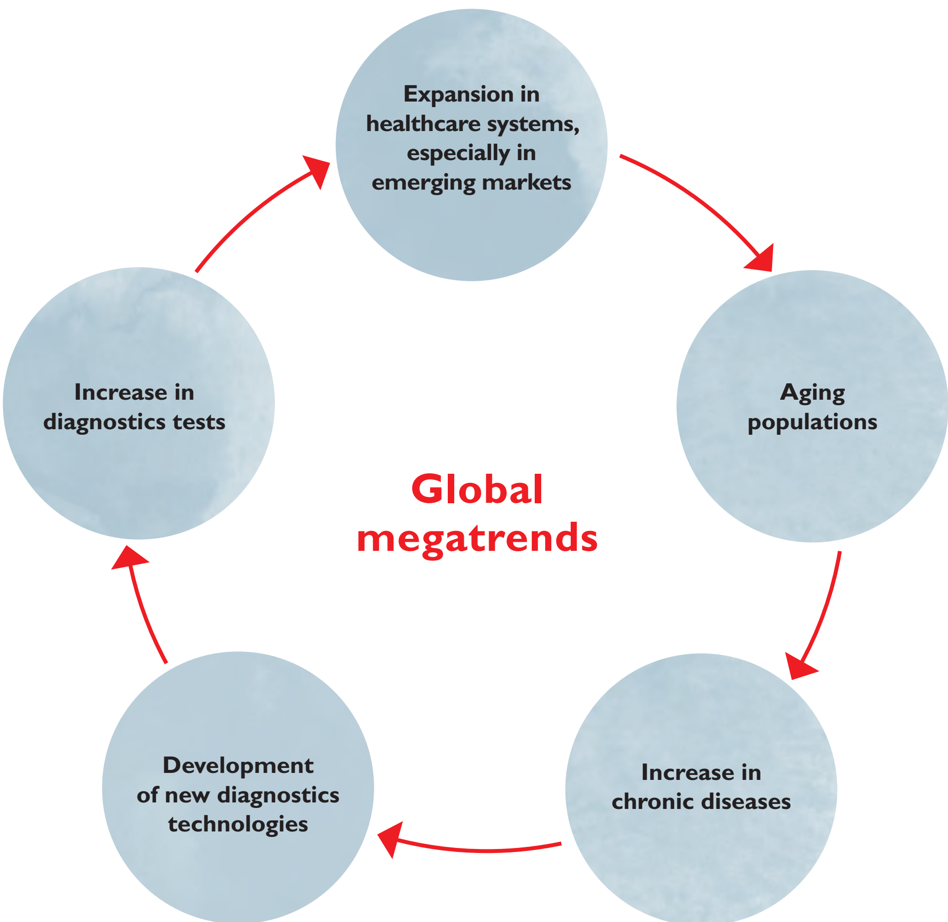
The farm animal market segment accounts for around 35% of the overall market, and thus for around 0.7 billion US dollars. Europe makes up around 62% of the farm animal market, followed by the US with around 17% and the rest of the world with around 21%.

Approximately 42% of the veterinary diagnostics market is attributable to instruments and consumables. Immunodiagnostic test kits and reagents account for a further 42% of the market, while the remaining 16% relates to molecular test kits and reagents[3].

Life Sciences

STRATEC Consumables, a company acquired in 2016, 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.

Life sciences particularly comprise academic research and pharmaceuticals research, with the latter area accounting for by far the larger share of the market. This field has more or less the same size as the IVD market and is set to grow to 64 billion US dollars by 2021[4].



[1] Berenberg Research Update November 2015
[2] Kalorama Information: 'The Worldmarket for Veterinary Diagnostics' July 2012
[3] Kalorama Information: 'The Worldmarket for Veterinary Diagnostics' July 2012
[4] Markets and markets 'Life Science Instrumentation Market', August 2016

Research and development

STRATEC'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 experts 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 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 target 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 chiefly driven by its constantly growing range of new OEM products. These therefore remain a key focus of development activities. Following the acquisitions made in 2016, STRATEC can now offer a far more extensive range of technologies and services to its customers.
  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 together 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 10 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 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. These consumables 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 research and the in-vitro diagnostics environment, and the tools and processes optimized for use in this area enable STRATEC to offer all-round solutions with what are highly attractive development periods when compared with other approaches. Not only that, this also ensures that STRATEC retains control of key industrial property rights for the systems thereby developed. Not least as a result of these factors, the company's long-term cooperation with its partners and customers is secured.

Overall, research and development expenses amounted to € 22.829k in the financial year under report (previous year: € 20.980k). Of this total, an amount of € 2.594k related to capitalized internally generated intangible assets (previous year: € 2.962k). Accordingly, the capitalization ratio – as a percentage of internally generated intangible assets – came to 11.4% as of December 31, 2016 (previous year: 14.1%).

Within the STRATEC Group a total of 488 employees were allocable to research and development at the balance sheet date on December 31, 2016 (previous year: 334 employees).[1]

[1] The number of employees allocable to R&D has changed compared with the previous year. This is due to an organizational reclassification under which employees who spend a majority of their time with development activities are allocated to this field.

B. BUSINESS REPORT

Macroeconomic and sector-specific framework

Macroeconomic framework

The Economic Outlook published by the OECD in November 2016 shows that the global economy has for five years now been trapped in a situation in which its annual growth of around 3% has fallen roughly 0.75 percentage points short of its long-term average prior to the outbreak of the financial crisis. Based on OECD estimates, global economic growth in 2016 should once again 'only' amount to around 3%. The reasons cited for this development are unsatisfactory underlying trends on the supply side, subdued levels of overall demand, and a slowdown in governments' efforts to introduce reforms.

The 'World Economic Outlook' published by the International Monetary Fund (IMF) in October 2016 also sees the global economy as passing through a period of lethargy. For the world's largest economy, the US, the IMF cut its growth forecast for 2016 from 2.2% to1.6%. By contrast, the IMF became more optimistic in its growth forecast for the German economy, which it raised from 1.6% to 1.7%. Germany has benefited in particular from higher exports in a euro area that is recovering momentum.

According to the IMF, medium-term growth rates in the industrialized economies will remain disappointing. For emerging and developing economies, on the other hand, the IMF expects to see an improvement in macroeconomic developments.

With regard to the global economy, the IMF has called for legislators to provide greater impetus for growth. Key factors here include labor market reforms and steps to lower trade barriers. Furthermore, central banks in industrialized economies should maintain their loose monetary policies and thus continue to assist their economies.

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.

Sector-specific framework

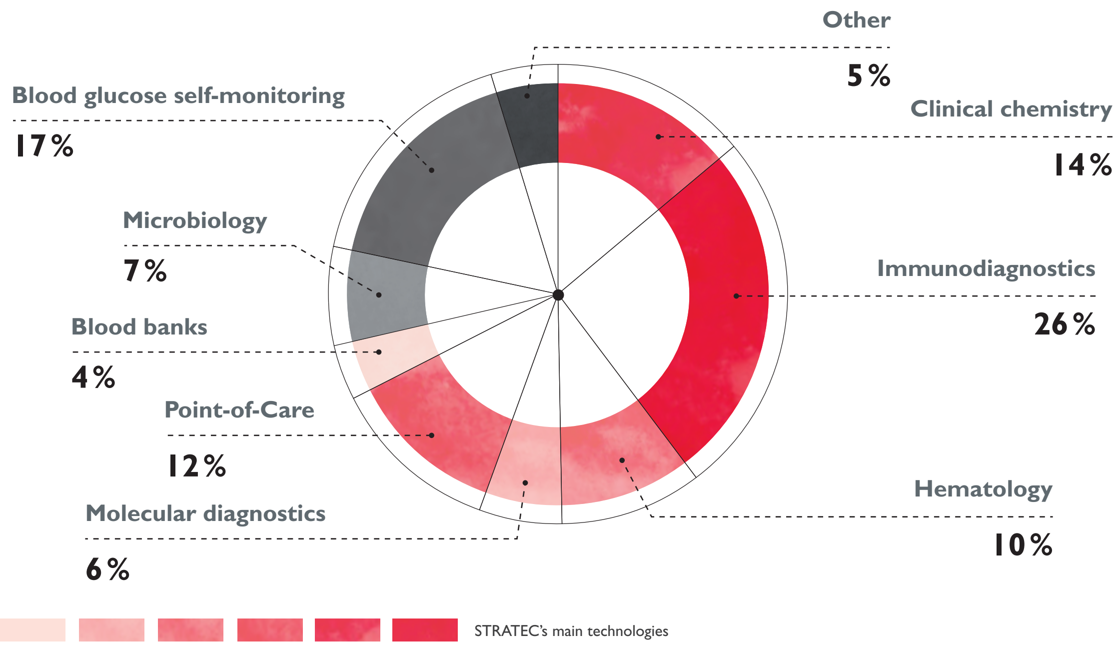
Based on various estimates, in-vitro diagnostics (IVD) is set to remain a growth market, with average annual global growth rates of 4 and 5%[1] through to 2018 and 2020 respectively. By 2018, the IVD market will have an estimated volume of 65 billion US dollars. The various segments within IVD will report different growth rates. STRATEC operates in those segments in particular which are expected to generate high growth rates. Among others, these include molecular diagnostics, where the growth rate is expected to average around 8% p.a. between 2013 and 2018.

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.

As a standalone market, the UK is important to STRATEC's customers. Having said this, the implications of exchange rate movements in the wake of any potential Brexit are difficult to forecast. Overall, this factor is nevertheless deemed to be of subordinate significance. STRATEC's subsidiary STRATEC Biomedical UK, Ltd. develops software solutions in the UK. Here too, the workforce of 40 employees is of subordinate significance compared with the overall Group. STRATEC does not expect its partners' turnover figures in the UK as an end-customer market to suffer to any significant extent from the effects of Brexit. Consistent with expectations, the US – still the most important individual market for STRATEC's customers -is developing positively. Developments in the healthcare market here have been positive overall for STRATEC in recent years. Not only that, the fall in the unemployment rate seen for several years now has had additional positive effects in terms of the number of people with insurance cover.

Upon publication of this report, the future direction of healthcare policy under the new US administration was not yet foreseeable.

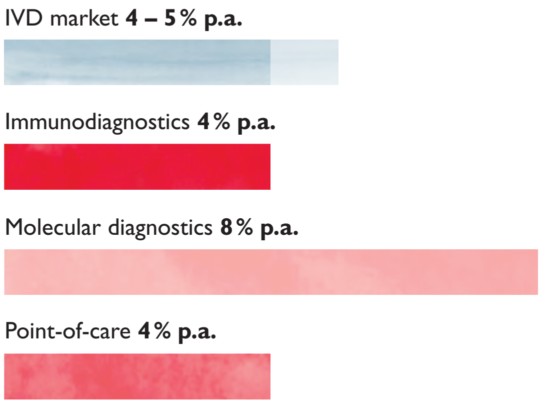
IVD market by technologies[2]



Currently, North America, Europe, and Japan account for 75 %[3] of the total IVD market. In the years ahead, emerging markets such as China, Brazil, Turkey, Korea, India, Russia, and Mexico 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.

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.

Compound annual growth rate 2013 – 2018



[1] Allied Market Research /IVD Market; Kalorama Information: The worldwide Market for In Vitro Diagnostic Tests
[2] Kalorama: The Worldwide Market for In Vitro Diagnostic Tests, 9th Edition
[3] Kalorama: The Worldwide Market for In Vitro Diagnostic Tests, 9th Edition

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 representing a growth market 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

By acquiring two companies, STRATEC acted in a targeted manner to increase the breadth and depth of its product and service offering for its partners and customers in the 2016 financial year. Sales rose year-on-year by 25.9% to € 184.9 million (previous year: € 146.9 million). This growth was driven on the one hand by the newly acquired subsidiaries at the Diatron Group and the STRATEC Consumables subsidiary and on the other hand by further growth in the spare parts and consumables business and by higher development and services sales. In parallel, the Group's sales excluding the effects of its acquisitions also increased.

At 17.5%[1], the EBIT margin for the 2016 financial year fell short of the previous year's figure (previous year: 18.3%). To facilitate comparison, this key figure has been adjusted to exclude one-off items relating to the company acquisitions and associated reorganization measures.

STRATEC's liquidity and financing position was at all times secured. In the context of the acquisitions, the company took up two bridge financing facilities with a combined total of € 68 million. Major milestones were achieved in development contracts and new development and supply contracts were signed.

The previous year's management report included targets for the company's sales and EBIT margin for the 2016 financial year. On group level, these forecasts are not comparable with the figures now reported, as they were prepared prior to the company acquisitions. A breakdown of key figures on segment level can be found in Section Earnings position.

For the 2017 financial year, STRATEC expects to post sales of between € 205 million and € 220 million with an EBIT margin (adjusted to exclude one-off items) at the same level as in the previous year. The company sees potential for a slight ongoing improvement in its operating margin.

The workforce grew from 583 employees at the end of 2015 to 976 employees as of December 31, 2016. This increase was chiefly due to the subsidiaries acquired in the 2016 financial year and the further expansion in development capacities.

The extension to the building in Switzerland was completed. Furthermore, employees at the subsidiary specializing in development services in Romania moved into the new building completed in 2016, which now offers potential for further growth.

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)

	2016	2015	Change
Sales	184,911	146,886	+ 25.9 %
Gross profit [2]	61,636	55,032	+ 12.0 %
Gross margin [2]	33.3	37.5	-420 bps
EBIT (adjusted in 2016)	32,273	26,875	+20.1%
EBIT margin (adjusted in 2016)	17.5	18.3	-80 bps
Adjusted EBITDA	38,677	34,207	+ 13.1 %
Adjusted EBITDA margin	20.9	23.3	-240 bps
Adjusted consolidated net income (EAT)	25,383	22,084	+ 14.9 %
Tax rate	14.7	18.7	-400 bps

bps = base points
[2] The gross profit and gross margin figures for the first time include amortization and costs of sales recognized on the assets measured in the context of the purchase price allocation and on the respective order backlogs and inventories.

Sales

STRATEC increased its sales year-on-year by 25.9 % to € 184.9 million in the 2016 financial year. Alongside the substantial growth generated by the company acquisitions, STRATEC also increased its sales with service parts and consumables as well as its development and services sales.

STRATEC divides its sales into four operating divisions.

Sales in **systems**, the largest operating division, increased year-on-year by 23.6 % to € 101.7 million. Alongside the growth resulting from sales of hematology and clinical chemistry systems at the Diatron Group, which was acquired in the 2016 financial year, this sales growth was also driven by the core business at STRATEC AG, with increased sales with fully automated clinical diagnostics and biotechnology systems.

Following record sales in the previous year, the **service parts & consumables** operating division raised its sales by a further 41.0 % to € 53.6 million. Alongside higher sales with service parts at STRATEC AG, this division benefited to a significant extent from consumables sales at the Diatron Group and at STRATEC Consumables.

In the **development and services** operating division several development projects for partners were at different stages of development in the 2016 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 9.4 % to € 28.4 million.

The sales attributable to **other activities**, the smallest operating division, rose year-on-year by 88.2 % to € 1.2 million. This growth was chiefly due to the inclusion of other sales at the Diatron Group acquired in the 2016 financial year.

Consolidated sales by operating division (€ 000s)

	2016	2015 [3]	Change
Systems	101,715	82,297	+ 23.6 %
Service parts & consumables	53,599	38,006	+ 41.0 %
Development and services	28,402	25,950	+ 9.4 %
Other activities	1,195	635	+ 88.2 %
Consolidated sales	184,911	146,886	+ 25.9 %

[3] The presentation of the previous year's comparative figures has been adjusted in that – as for the figures presented for the 2016 financial year – system sales now only include instrument-related sales.

Development in share of sales of operating divisions

	2016	2015	2014	2013
Sales in € million	184.9	146.9	144.9	128.0
Systems share of sales in %	55.0 %	56.0 %	66.3 %	70.9 %
Service parts & consumables share of sales in %	29.0 %	25.9 %	23.4 %	21.3 %
Development and services share of sales in %	15.4 %	17.7 %	10.1 %	7.3 %
Other activities share of sales in %	0.6 %	0.4 %	0.2 %	0.4 %
Analyzer systems supplied (total number)	7,297	2,395	2,719	2,679

Gross profit and gross margin

Gross profit improved by 12.0 % to € 61.6 million. All operating divisions reported growth in this key figure, with the strongest growth being generated in the maintenance and spare parts business. The gross profit for the 2016 financial year for the first time includes amortization and costs of sales recognized on the assets measured in the context of the purchase price allocation and on the respective order backlogs and inventories. Largely as a result of this factor, the gross margin decreased year-on-year by 4.2 percentage points to 33.3 %.

[1] A reconciliation of EBIT with EBIT adjusted to exclude one-off items can be found from page 45 onwards

Research and development expenses
Gross development expenses in the development division rose from € 21.0 million to € 22.8 million. This total includes an amount of € 7.3 million for proprietary developments (previous year: € 6.0 million). This consistently high volume of expenses with highly qualified development personnel forms the basis for the company's further growth.

Sales-related expenses
The increase in sales-related expenses from € 6.1 million to € 12.8 million resulted from increased project support services on account of the market launch of new systems and from the inclusion in the consolidated financial statements of the companies acquired in the 2016 financial year.

General administration expenses
General administration expenses, which include personnel and material expenses at central administration departments, rose by € 4.2 million to € 16.0 million (previous year: € 11.8 million). This increase was mainly due to legal and advisory expenses in connection with the company acquisitions in the 2016 financial year and their first-time inclusion in the consolidated financial statements, as well as to the hiring of additional staff in the administration departments at STRATEC AG.

Other operating income and expenses
Other operating income and expenses mainly include currency gains and losses, which amounted to a net total of € 0.3 million (previous year: € 0.4 million).

Earnings performance and tax rate
Operating earnings (EBIT) adjusted to exclude one-off items incurred in connection with the company acquisitions and associated reorganization measures rose by 20.1 % to € 32.3 million (previous year: € 26.9 million). This growth was due to the inclusion in the consolidated financial statements of the companies acquired in the 2016 financial year, as well as to the improvement in the margin for service parts and consumables in particular. The adjusted EBIT margin decreased slightly to 17.5 % (previous year: 18.3 %).

Development in EBIT and EBIT margin (€ 000s)

	2016 (adjusted)	2015
EBIT	32,273	26,875
EBIT margin	17.5 %	18.3 %

At 14.7 %, the Group's tax rate was lower than in the previous year. The tax rate for 2016 was mainly influenced by the reduction in the tax rate in Hungary, which led to deferred tax income at a Hungarian subsidiary.

Consolidated earnings adjusted for one-off items grew by 14.9 % to € 25.4 million (previous year: € 22.1 million).

Adjusted basic earnings per share rose to € 2.14 (previous year: € 1.87). This corresponds to growth of 15.45 %. The average number of shares came to 11,851,382.

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 customers.

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 **All other segments**, STRATEC reports on the development in workflow software for networking several analyzer systems and the development and sale of scientific materials and technologies.

Overview of development in reporting segments (€ 000s)

	2016	2015
Instrumentation		
Sales	138,795	136,182
EBITDA	29,507	30,838
PPA write-downs	74	0
EBIT	24,744	25,213
Diatron (consolidated from 04.01.2016)		
Sales	29,850	0
EBITDA	4,710	-2
PPA write-downs	3,534	0
EBIT	855	-2
Consumables (consolidated from 07.01.2016; sample preparation allocated to segment for 2016; previous year as comparative figure)		
Sales	9,614	2,663
EBITDA	-368	-128
PPA write-down	1,521	247
EBIT	-2,899	-350
Other segments		
Sales	6,524	8,345
EBITDA	1,437	2,523
PPA write-down	0	0
EBIT	1,378	2,488

Instrumentation segment:
Sales grew from € 136.2 million to € 138.8 million. EBIT in this segment amounted to € 24.8 million, as against € 25.2 million in the previous year.

Diatron segment:
Sales in this segment, which arose due to the acquisition of the Diatron Group in the 2016 financial year, came to € 29.9 million. EBIT amounted to € 0.9 million, a figure which includes an amount of € 4.2 million for amortization and costs of sales recognized on the assets measured in the context of the purchase price allocation and on the respective order backlogs and inventories.

Consumables segment:
Sales rose from € 2.7 million to € 9.6 million. This increase was mainly due to the acquisition of STRATEC Consumables in the 2016 financial year. EBIT in this segment amounted to € -2.9 million, as against € -0.4 million in the previous year. The 2016 figure includes an amount of € 1.5 million for amortization and costs of sales recognized on the assets measured in the context of the purchase price allocation and on the respective order backlogs and inventories.

All other segments:
At € 6.5 million, sales fell compared with the previous year. The increase in the previous year was largely due to a project completed in the workflow software business. Consistent with this development, EBIT in this segment amounted to € 1.4 million compared with € 2.5 million in the previous year.

Reconciliation of adjusted EBIT and consolidated net income
In the interests of comparability, EBIT has been adjusted to exclude advisory and integration expenses (including directly allocable personnel expenses) incurred in connection with the Group's acquisition and integration activities in the 2016 financial year, to exclude scheduled amortization on the intangible assets measured in the purchase price allocation and the cost of sales resulting from hidden reserves discovered within the inventories of the Diatron Group and at STRATEC Consumables, and to exclude reorganization expenses. The reconciliation of adjusted EBIT is presented in the following table:

€ 000s	01.01.– 12.31.2016
Adjusted EBIT	32,273
Adjustments	
Expenses due to company acquisitions	-1,199
Internal integration expenses	-389
Recognition of hidden reserves in inventories less reversal of an onerous contract	-823
PPA amortization	-4,807
Reorganization expenses	-851
EBIT	24,204

To ensure comparability, EBITDA has been adjusted to exclude advisory and integration expenses (including directly allocable personnel expenses) incurred in connection with the Group's acquisition and integration activities in the 2016 financial year, to exclude the cost of sales resulting from hidden reserves discovered within the inventories of the Diatron Group and STRATEC Consumables, and to exclude reorganization expenses. The reconciliation of adjusted EBITDA is presented in the following table:

€ 000s	01.01.– 12.31.2016
Adjusted EBITDA	38,677
Adjustments	
Expenses due to company acquisitions	-1,199
Internal integration expenses	-389
Recognition of hidden reserves in inventories less reversal of an onerous contract	-823
Restructuring expenses	-851
EBITDA	35,415

Similarly, to enhance comparability consolidated net income has been adjusted to exclude financing expenses incurred due to company acquisitions and tax receivables, to exclude current tax expenses resulting from adjustments to EBIT and tax effects, and to exclude deferred tax income resulting from the reversal of deferred taxes on measurement differences within the purchase price allocation. The reconciliation of adjusted consolidated net income is presented in the following table:

€ 000s	01.01. – 12.31.2016
Adjusted consolidated net income	25,383
Adjusted earnings per share in € (basic)	2,14
Adjustments	
Expenses due to company acquisitions	-1,199
Internal integration expenses	-389
Recognition of hidden reserves in inventories less reversal of an onerous contract	-823
PPA amortization	-4,807
Restructuring expenses	-851
Financing expenses due to company acquisitions and tax back-payments	-890
Current tax expenses	-858
Deferred tax income	4,005
Consolidated net income	19,572
Earnings per share in € (basic)	1.65

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)

	2016	2015	2014
Cash flow from operating activities	16,256	26,033	39,752
Cash flow from investing activities	-86,728	-8,710	-6,818
Cash flow from financing activities	40,606	-8,661	-8,012
Cash-effective change in cash and cash equivalents	-29,866	8,662	24,922

The **cash flow from operating activities** reduced compared with the previous year. This was chiefly due to non-cash deferred tax income, an increase in trade receivables, and a reduction in trade payables and other liabilities.

The **cash flow from investing activities** amounted to € 86.7 million in total in 2016 (previous year: € 8.7 million) and was mainly attributable to payments made in connection with the acquisitions of the Diatron Group and STRATEC Consumables.

The **cash flow from financing activities** totaled € 40.6 million in 2016 (previous year: € 8.7 million). This increase was due to the taking up of financial liabilities of € 67.6 million in connection with the company's acquisition activities (previous year: € 2.0 million). Outgoing payments included the dividend payment for the 2015 financial year, which increased once again to € 8.9 million (previous year: € 8.2 million), as well as outgoing payments of € 18.3 million for the repayment of financial liabilities (previous year: € 4.1 million). Furthermore, the issue of shares within employee option programs led to inflows of funds from financing activities amounting to € 0.3 million (previous year: € 1.7 million).

The **cash-effective change in cash and cash equivalents** came to € -29.9 million in total in 2016 (previous year: € 8.7 million).

Following adjustment for exchange rate movements, the total of all inflows and outflows of funds in 2016 led **cash and cash equivalents at the end of the period** to reduce by € 29.9 million to € 26.5 million (previous year: € 56.4 million).

Furthermore, STRATEC also has credit lines of € 13.9 million, of which € 8.0 million had been drawn down.

Investment and depreciation policies

STRATEC invested € 10.0 million in 2016 (previous year: € 8.9 million). Investments in property, plant and equipment rose to € 7.2 million (previous year: € 5.4 million). Major investments in property, plant and equipment included the extension to the location in Beringen, Switzerland and the new building at the location in Cluj-Napoca, Romania.

Investments corresponded to a total of 5.4 % of sales (previous year: 6.0 %) and thus significantly exceeded the depreciation and amortization of € 6.4 million adjusted for assets measured in the context of the purchase price allocation. These investments secure the company's long-term value and expansion, thus enabling it to continue making a valuable contribution as an innovation leader to technological advances in the field of medical technology.

Key figures on financial position (€ 000s)

	Definition	12.31. 2016	12.31. 2015	Change in %
Cash and cash equivalents	Cash holdings and credit balances at banks	26,500	56,415	-53.0
Net working capital	Current assets ./. cash and cash equivalents ./. current debt	-14,773	33,065	-144.7
Operating cash flow per share	Operating cash flow / number of shares (undiluted)	1.32	2.12	-37.8
Capex ratio	Investments in property, plant and equipment ./. consolidated sales	3.9 %	3.7 %	+20 bps

Asset position

Total assets grew to € 258.0 million as of December 31, 2016 (previous year: € 158.9 million). This was due to the inclusion in the consolidated financial statements of the companies acquired in the 2016 financial year. As a result, intangible assets and property, plant and equipment rose by € 87.8 million and € 13.2 million.

Structure of consolidated balance sheet: assets
(€ 000s)

	2016	2015	2014
Intangible assets	118,776	30,992	30,262
Non-current assets (excluding intangible assets)	33,266	19,800	17,477
Current assets	105,925	108,147	90,009
Consolidated total assets	257,967	158,939	137,748

The increase in non-current assets was mainly driven by the inclusion of the subsidiaries acquired in the 2016 financial year and by investments in new buildings at the locations in Romania and Switzerland.

Alongside the change in cash and cash equivalents, material changes in current assets as of December 31, 2016 related in particular to the increase in trade receivables by € 14.9 million to € 38.9 million and the increase in inventories by € 8.5 million to € 24.5 million. These increases were mainly due to the inclusion in the consolidated financial statements of the companies acquired in the 2016 financial year.

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

	2016	2015	2014
Shareholders' equity	143,719	130,280	112,051
Non-current debt	20,051	9,992	10,109
Current debt	94,197	18,667	15,588
Consolidated total shareholders' equity and debt	257,967	158,939	137,748

The shareholders' equity reported in the balance sheet came to € 143.7 million as of December 31, 2016 and thus grew year-on-year despite the dividend distribution of € 8.9 million (previous year: € 8.2 million). Due to the inclusion in the consolidated financial statements of the companies acquired in the 2016 financial year, the equity ratio fell to 55.7% (previous year: 82.0%) and thus remains at a solid level.

Non-current debt rose year-on-year by € 10.1 million to € 20.1 million (previous year: € 10.0 million). This increase was mainly due to the recognition of deferred taxes on measurement differences arising upon the measurement of assets, order backlogs, and inventories in the context of the purchase price allocation, as well as to the recognition of pension provisions at a company acquired in the 2016 financial year.

Current debt grew year-on-year by € 75.5 million to € 94.2 million (previous year: € 18.7 million). This resulted from the taking up of short-term bridge financing facilities in connection with the company acquisitions in the 2016 financial year, which led current financial liabilities to rise by € 69.9 million to € 73.7 million. Furthermore, the rise in this line item was also due to increases in trade payables by € 3.7 million and in other liabilities by € 3.3 million, with both developments mainly due to the inclusion in the consolidated financial statements of the companies acquired in the 2016 financial year.

Key figures on asset position (€ 000s)

	2016	2015	2014
Total assets	257,967	158,939	137,748
Shareholders' equity	143,719	130,280	112,051
Equity ratio in %	55.7	82.0	81.3
Financial liabilities	76,729	8,144	9,117
Financial liabilities as % of total assets	29.7	5.1	6.6
Debt/equity ratio in %	79.5	22.0	22.09

Non-financial performance indicators

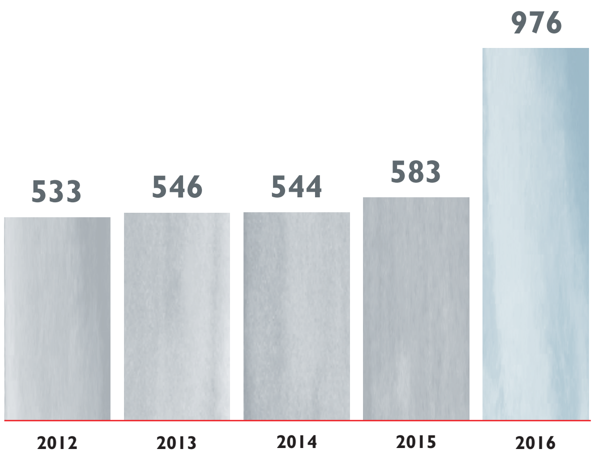
Employees and their interests

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



Number of employees

STRATEC had a total of 976 employees at the balance sheet date on December 31, 2016. Year-on-year, the total number of employees therefore grew by 67.4%. A large share of this increase is attributable to the acquisitions made in 2016. Organic workforce growth came to around 7%.

Upon the respective acquisitions, Diatron had 219 employees and STRATEC Consumables had 128 employees. As of December 31, 2016, Diatron had 226 employees and STRATEC Consumables had 128 employees.

Fluctuations within the financial year were offset by deploying temporary 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 490 of our employees work in research and development. On an organic basis, the share of employees working in research and development therefore amounts to around 58%. 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, 2016, the share of female employees at STRATEC amounted to 24.2% and thus fell slightly compared with the previous year (December 31, 2015: 25.2%).

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 € 53.9 million in the 2016 financial year.

Employees at balance sheet date

	2016	2015	Change
Total employees	976	583	+67.4 %
Permanent employees	880	539	+63.3 %
Temporary employees	96	44	+118.2 %
Employees in Germany	444	408	+8.8 %
Employees abroad	532	175	+204,0 %
Trainees and interns	27	15	+80,0 %
Employees working in R&D and development support[1]	488	334	+46.1 %
Share of female employees	24.2 %	25.2 %	–100 bps

2016 2015

Attractiveness as employer

STRATEC is making every effort to position itself as an attractive employer both for existing and for 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 and its development-related topics 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

In the 2015 financial year already, STRATEC offered its employees the opportunity to participate in the company's success by way of an employee participation program. Employees can choose between receiving a cash payment and procuring STRATEC shares, a measure partly exempt from tax and social security contributions. A total of 293 employees, and thus around 95 % of those eligible to participate at the time, decided to procure shares and seize the opportunity to invest in STRATEC AG. The possession of shares enables employees to participate in the company's success and further increases their loyalty to STRATEC.

Within this employee participation program, a further assignment of STRATEC shares to the 291 employees now eligible was executed in the 2016 financial year. Furthermore, those employees who had not sold the shares received in 2015 by a certain date in 2016 were rewarded with bonus shares. Ultimately, 99 % of the employees entitled to participate received bonus shares.

In the 2016 financial year, the company assigned a total of 3,189 treasury stock shares, corresponding to 0.03 % of its share capital at the assignment date, to STRATEC employees in connection with the employee participation program.

[1] The number of employees allocable to R&D has changed compared with the previous year. This is due to an organizational reclassification under which employees who spend a majority of their time with development activities are allocated to this field.

Quality management

The quality of the products designed and manufactured by STRATEC 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 increasingly strict 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.

Quality management is based on STRATEC's Quality Policy

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 with SCC accreditation (Canada)
- 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 are forming teams of experts for individual specialisms in order to promote the sharing of information within the company, to support one another with their skills and experience, and to ensure that their actions are coordinated.

Quality management

Customer satisfaction

STRATEC offers outstanding products and services that meet or exceed its partners' and customers' expectations. Maximum possible customer satisfaction is the foundation for our success.

Quality management

STRATEC has undertaken to establish a quality management system, to permanently enhance this, and to meet the targets laid down in its quality policy.

Traceability

Safeguarding the traceability of products along the entire value chain is one of our key success factors.

Meeting regulatory requirements

STRATEC designs, manufactures, and supplies its products in compliance with regional and international legislation and is committed to complying with industry standards and proven practice.

Transparency

STRATEC is open and transparent. This promotes the mutual trust between our employees, business partners, and investors.

Commitment to employees

STRATEC's success is crucially driven by the commitment, motivation, and skills of its employees. They are promoted and trained to enable them to permanently improve their work under their own responsibility and thus to meet our quality targets.

Innovation and peak performance

All activities from product development, via production and control through to quality and service are subject to permanent innovation at the cutting edge of technology.

Continuous improvement

STRATEC's aim is to manufacture top-quality products by making continuous improvements. From suppliers to employees, everyone involved is responsible for achieving a zero-error rate.

Sustainability

Ever since STRATEC was founded, a responsible mindset and sustainable actions have formed the basis for the company's growth from a small startup into a player with global operations. This way, STRATEC has developed into a responsible partner to global market leaders. Today, we are already thinking about the implications of our actions for future generations.

Sustainability represents an important and ever growing aspect of the responsibility that is gradually being factored into the company's strategy and adapted in line with changing market and environmental conditions. The company's entrepreneurial activity is based on three dimensions that form the core elements of sustainability at STRATEC:

Economic operations for long-term growth
Ecological responsibility for tomorrow's world
Social responsibility towards people

- **Economic operations**
  Economic operations are viewed as a prerequisite for the company's long-term growth. Our strategic objective is to generate growth that is sustainable, ecological, socially responsible, and permanently higher than the sector average. As an innovation leader, we aim in parallel to make a valuable contribution towards further technological advances in various segments of the life sciences and diagnostics markets.

- **Ecological responsibility**
  STRATEC has implemented extensive measures to do justice to its ecological responsibility. STRATEC performs its business activities in compliance with the latest environmental legislation, local regulations, and recommended guidelines.

  The economical use of resources is implemented in all relevant processes at the company – from forward-looking resource-efficient product design through to environmentally-friendly waste disposal. STRATEC's objective here is to detect potential savings and to make these measurable by reference to defined key figures. To this end, a first energy audit was held in 2015. Consistent with legal requirements, this type of audit will in future be performed no later than every four years.

  Detailed information about our energy consumption figures, emissions, and materials and energy use statistics for our locations can be found in our Sustainability Report.

- **Social responsibility**
  STRATEC's success is driven by the individual skills, creativity, and outstanding willingness of its employees to give of their best. It is their achievements and the resultant innovations that form the basis for the company's successful and sustainable development. As a group of companies with operations worldwide and nearly 1,000 employees, STRATEC is aware of its social and ecological responsibilities.

  STRATEC is committed to the protection of human rights. It provides its employees throughout the group of companies with a high degree of social security and performance-based compensation.

  The company views personal and cultural diversity as a great opportunity and competitive advantage. STRATEC's position concerning human rights and employee rights is laid down in policies that have group-wide validity. The Corporate Compliance Policy obliges all employees worldwide to act respectfully and lawfully in their dealings with employees, colleagues, business partners, customers, and the authorities. All employees are treated equally and benefit from the same career opportunities irrespective of their gender, age, origin, nationality, skin color, religious affiliation, marital status, health, sexual identity, or of any physical or mental disability. STRATEC does not tolerate discrimination or harassment of any kind. STRATEC is committed to the Human Rights Charter of the United Nations and to the guidelines of the UN Global Compact.

  As one component of its social responsibility, STRATEC promotes the health of its employees and supports them in performing voluntary work.

  'Offering help where it is needed' – consistent with this motto, providing support to regional and international aid projects is a matter close to STRATEC's heart. We see this as offering an ideal opportunity to make a contribution towards protecting and promoting human rights and to improving people's living conditions in developing economies. In the year under report, we provided financial assistance to the organizations Médecins sans Frontières (MSF), Plan International e.V. and Erde der Kinder e.V., as well as to an aid project in Sierra Leone with a charity run by STRATEC employees.

Extensive details about STRATEC's social activities can be found in the Sustainability Report available on the company's website. Furthermore, this report includes information about the company's supply chain management and environmental protection, as well as facts and figures relating to its energy and water consumptions, its waste volumes and its CO_2 emissions.

Location optimization

STRATEC is currently 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 further optimization measures in 2016 as well.

The acquisition of Diatron and STRATEC Consumables led to the addition of two new locations in the US. STRATEC's activities in the US have now been pooled at two locations on the East Coast. With the Diatron location in Budapest, STRATEC now also has additional production capacities, particularly for manufacturing smaller-scale systems and modules. STRATEC has planned further medium-term growth here as well and to this end needs to obtain suitable space and put the necessary organizational prerequisites and structures into place.

At the Swiss location in Beringen, work began in 2015 on a multistage extension to the existing building. The first stage of this extension was completed and moved into in the first quarter of 2016. Now that the entire extension is complete, an additional total of 3,900 m² of production surface is available. This should guarantee the efficiency-enhancing production of various appliance lines.

In Cluj-Napoca, Romania, work began in 2015 on the construction of a new development center. The new premises were occupied in the second half of 2016. The new building will enable STRATEC to further expand software development at this location in future as well.

Conversion and extension measures are also planned in the medium term at STRATEC's corporate headquarters in Birkenfeld, thus enabling the company to generate further growth at this location as well.

Supply chain

Even though STRATEC covers almost 100% of the development chain, when it comes to production at its Birkenfeld and Beringen locations the company's supply chain continues to be characterized by a low degree of vertical integration. STRATEC thus channels its resources into the complex share of production generating the greatest value. By contrast, production facilities with a significantly higher degree of vertical integration are available at the Budapest location.

Our integrated procurement management enables us to procure the necessary functional modules and individual components from a small number of strategic suppliers distinguished by their quality management systems and a process orientation compatible with STRATEC's. This enables us to focus on the necessary expertise at suppliers. Involving these suppliers at an early stage of product development provides us with market access to the latest production methods and processes. By working with long-term master agreements within the STRATEC Group, we are able to secure price reliability and supply capacities. Here, we make use of strategic instruments, such as Kanban supply, C-parts management, and consignment stores. This approach assists STRATEC in its ongoing development and provides it with the flexibility necessary to offer innovative solutions on economic terms. We aim to intensify and refine this approach in 2017 as well. The necessary assembly, quality assurance and inspection processes are performed by highly qualified and excellently trained employees. In our laboratories, we replicate the environments in which the STRATEC analyzer systems will actually be put to use at later dates. In response to the company's focus on production processes that are complex and necessary from a regulatory perspective, we have developed an infrastructure suitable to these requirements.

This approach enables us to achieve an optimal balance between economic efficiency and high quality, while at the same time ensuring supply reliability to our customers. The companies in the STRATEC Group in many cases forward the analyzer systems they produce directly to the logistics distribution centers of large diagnostics companies, which in turn market the systems together with the relevant reagents as system solutions under their own names and brands. Given that the customers of the STRATEC Group supply their own country outlets and customers on a large scale directly from these distribution centers, the regional sales as reported in the figures of the STRATEC Group do not reflect the actual geographical distribution or the final operating locations of the analyzer systems manufactured by the STRATEC Group.

Production

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 financial year under report. Processes at the Budapest location are being 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.

C. OUTLOOK

Since the company was founded in 1979, STRATEC has always accorded great priority to generating sustainable organic growth. 2016 was an exceptional year in this respect, as the company's product portfolio, sales and number of employees all grew sharply due to the acquisition of two companies. Not least on account of this factor, targeted investments were made to integrate these companies. Further such investments have been budgeted for the years ahead in connection with restructuring and reorganizing the business units. The introduction of an ERP system is also to be viewed in this context. This will initially be launched at the new locations and subsequently on a group-wide basis. Investments in property, plant and equipment will be made in 2017 at the Budapest location, among others, in order to extend capacities and thus facilitate further growth. The acquisition of a neighboring piece of land at the Birkenfeld location at the beginning of 2017 has secured the possibility of expanding further. The relevant project is currently still in the planning stage. No material investments are planned in this respect for 2017. Investments at the Group's other locations are expected to approximate to the previous year's figures.

Given the increase in development activities, investments in development projects are expected to rise. A dividend distribution of around € 9.1 million to the shareholders of STRATEC AG is envisaged.

STRATEC will continue to review various options for supplementing its business activities and technology portfolio, but will be focusing in particular on implementing its strategic objectives by drawing on its outstanding position as an established provider in various growth markets and thus generating further organic growth in all its business units. Here, the company will be relying on innovative solutions enabling its partners to serve their markets with high-quality products. In implementing these objectives, the company stands to benefit not only from the growth forecast in its target markets, and especially in the field of in-vitro diagnostics, but also 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, STRATEC is positive in its assessment of its business prospects. Macroeconomic developments in individual regions are currently difficult to forecast. Particularly in several Asian sub-markets, positive economic developments are being overshadowed to a certain extent by economy policy measures. It is currently difficult to predict the implications of the announced amendments to the Affordable Care Act ('Obamacare') for the US diagnostics industry in particular. STRATEC's management nevertheless does not expect this factor to have any material implications for the company's business performance in the short term.

For the 2017 financial year, STRATEC still expects to generate sales of between € 205 million and € 220 million. As the adjusted EBIT margin achieve in 2016 was at the upper end of the expected range, the EBIT margin adjusted to exclude transaction and integration-related activities is expected to remain broadly unchanged in 2017.

Overall, the average annual sales growth of 6% forecast for the 2016 and 2017 financial years, excluding the acquisitions made in 2016, is expected to be achieved by the end of the 2017 financial year.

Further employees are to be hired, particularly in the development division. Compared with previous years, the total number of employees is only expected to rise slightly in the 2017 financial year.

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 spare parts and services 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 divisions 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). A not insignificant share of products is also deployed in research laboratories in the life science sector. Within the IVD sector, which is expected to show annual growth of around 5%[1] through to 2020, 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 IVD 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 a greater number of diagnostics tests. The resultant ongoing rise in the numbers of tests performed should generate sustainable growth in the IVD market.

Technological opportunities

In-vitro diagnostics is a market that is highly dependent on the financing provided to healthcare systems. Approval by the authorities and financing commitments from health insurance companies or bodies is therefore a highly complex process. As a general rule, technological advances or entirely new applications can therefore not 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.

More specifically, STRATEC is also pursuing point-of-care projects. In this field, STRATEC is benefiting from the trend towards smaller systems working with complex consumables.

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.

Growth opportunities due to outsourcing

Demand for instrumentation solutions 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.

[1] Allied Market Research / IVD Market

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 achieved by a small number of in most cases highly specialized companies. 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 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.

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 range from around three to five 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	Very 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
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 the STRATEC Group'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 macroeconomic weakness – 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 made up for, 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 in Germany, Switzerland, and Hungary. 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.

Foreign currency risks

In recent years, STRATEC has concluded an increasing number of development and supply contracts in US dollars. Given the positive development in the USD exchange rate, only a very low share of USD transactions has been hedged. The hedging ratio at STRATEC AG is nevertheless set to rise to account for increasing volatility and uncertainty as to future developments in the currency markets. Sales in currencies other than the US dollar and euro only play a subordinate role. The company's sales in currencies other than the US dollar and the euro only play a subordinate role.

Liquidity risks

STRATEC's liquidity risks are centrally monitored by the Finance department. The liquidity position is managed with a liquidity planning tool to ensure the company's ability to meet its obligations and its financial flexibility. Given STRATEC's current financial position, the risk of any liquidity default is assessed as low.

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 can nevertheless not 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.

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 not be able 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 to 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 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 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 checks 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 scheme in the 2016 financial year and newly 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 then summarized and submitted in a risk report to the Board of Management, which in turn reviews and evaluates the risks reported. 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 substantial organic and external growth, and on an active investment strategy with a well-balanced opportunity/risk profile.

STRATEC Biomedical AG is financed by the cash flows generated from its operating activities and by bank loans.

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 addressed by optimizing our financing costs, and to a lesser extent by optimizing our financing income. 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 on short-term money market investments.

Financial risks basically arise from currency and interest rate fluctuations. As mentioned above (please see Section D 'Risks – Foreign currency risks'), currency risks in procurement and sales markets are increasing within the STRATEC Group. To counter this risk, the Group is making targeted use of derivative hedging instruments. The managers responsible for cash management review the expediency of currency hedging transactions at regular intervals. Due to the Group's structure, 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.

Interest rate risks are countered on the basis of the internal requirements of the risk management system in place at the STRATEC Group. 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 2016 financial year.

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.

The volume of primary financial instruments can be seen in the balance sheet. Pursuant to IAS 39, the financial instruments on the asset side have been assigned to various categories and recognized either at (amortized) cost or at fair value in line with their respective category.

Changes in the fair value of financial instruments available for sale are recognized in equity (other comprehensive income – OCI) up to the realization of the respective financial instrument. Where the reduction in fair value is significant or permanent, however, corresponding impairments are recognized through profit or loss. Changes in the fair value of financial instruments held for trading are recognized through profit or loss.

No hedging transactions were concluded in the 2016 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), as well as on § 315 (2) No. 4 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. In performing its regular review of the contractual terms set out in employment contracts and the compensation structure, by resolution dated December 9, 2016 the Supervisory Board amended the compensation system for the Board of Management with regard to the calculation of the 'short-term incentive' and the 'mid-term incentive'. 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; previously consolidated EBIT) 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 2016 financial year. Members of the Board of Management are entitled to a mutually agreed monthly prepayment of this component. Payment of the extended component, if granted, is made following expiry of the 2016 financial year.

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. Starting with the mid-term incentive for 2016, the targets determined for the linked components are based on percentage increases in consolidated sales and consolidated EBITDA (previously: consolidated EBIT). 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 2014 (and 2015 and 2016 respectively) is paid out in 2017 (and 2018 and 2019 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. 'Disclosures on the consolidated balance sheet – Stock option programs' 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 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) 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

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 2016 financial year.

Individual compensation of Board of Management (€ 000s)

	Marcus Wolfinger		Dr. Robert Siegle		Dr. Claus Vielsack		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Non-performance-related components								
• Basic amount	212	192	190	174	173	160	575	526
• Other[1]	16	16	10	10	9	9	35	35
Performance-related components								
• MTI compensation claim[2]	169	152	106	119	106	0	381	271
• Other performance-related components	250	243	192	188	164	159	606	590
Total	**647**	**603**	**498**	**491**	**452**	**328**	**1,597**	**1,422**
Components with long-term incentive nature								
• Stock appreciation rights (SARs)[3]	227	226	114	113	114	113	455	452

[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 2014 (2013), which covers 2014, 2015, and 2016 (2013, 2014, and 2015) and is due for payment in 2017 (2016).
[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 2016 financial year, **no** stock options were exercised by Marcus Wolfinger, Dr. Robert Siegle, or Dr. Claus Vielsack respectively. In the 2015 financial year, Marcus Wolfinger exercised 7,500 stock options at an average exercise price of € 27.11, Dr. Robert Siegle exercised 7,500 stock options at an average exercise price of € 27.11, and Dr. Claus Vielsack exercised 4,750 stock options granted to him prior to his appointment to the Board of Management at an average exercise price of € 29.13.

As of December 31, 2016, Marcus Wolfinger had 65,000 stock options outstanding (previous year: 65,000) at an average exercise price of € 30.44 (previous year: € 30.44) and a weighted remaining contract term of 41.1 months (previous year: 53.3). As of December 31, 2016, Dr. Robert Siegle had 50,000 stock options outstanding (previous year: 50,000) at an average exercise price of € 30.40 (previous year: € 30.40) and a weighted remaining contract term of 38.8 months (previous year: 51.0). Similarly, as of December 31, 2016 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 51.7 months (previous year: 63.9).

For both Marcus Wolfinger and Dr. Robert Siegle 25,000 stock options each (previous year: 25,000) were exercisable at an average exercise price of € 31.19 (previous year: € 31.19) as of December 31, 2016, while for Dr. Claus Vielsack, as in the previous year, no stock options granted to him in the period since his appointment to the Board of Management were exercisable.

The following amounts were recognized as expenses for stock options in the 2016 financial year: € 35k for Marcus Wolfinger (previous year: € 41k), € 21k for Dr. Robert Siegle (previous year: € 27k) 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 2016 financial year:

Stock appreciation rights (SARs) of Board of Management

	Reference price[1] €	Fair Value[2] €	Balance at 01.01 No.	Added No.	Balance 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	11.28	20,000	0	20,000	0	190	43.1
SARs T1 2016 dated 04.01.2016	43.07	11.36	0	20,000	20,000	0	241	51.0
Dr. Robert Siegle								
SARs T1 2015 dated 08.03.2015	50.53	11.28	10,000	0	10,000	0	95	43.1
SARs T1 2016 dated 04.01.2016	43.07	11.36	0	10,000	10,000	0	121	51.0
Dr. Claus Vielsack								
SARs T1 2015 dated 08.03.2015	50.53	11.28	10,000	0	10,000	0	95	43.1
SARs T1 2016 dated 04.01.2016	43.07	11.36	0	10,000	10,000	0	121	51.0
Total / average	**46.80**	**11.32**	**40,000**	**40,000**	**80,000**	**0**	**863**	**47.7**

Note: No stock appreciation rights were exercised, forfeited or lapsed in the 2016 financial year.

[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** 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.

The following amounts were recognized as expenses for stock appreciation rights (SARs) in the 2016 financial year: € 74k for Marcus Wolfinger (previous year: € 357k), € 37k for Dr. Robert Siegle (previous year: € 179k), and € 37k for Dr. Claus Vielsack (previous year: € 179k).

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 2016 financial year, the company recognized expenses of € 93k 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, 2016 amounted to € 579k for Marcus Wolfinger (previous year: € 461k), € 320k for Dr. Robert Siegle (previous year: € 238k), and € 72k for Dr. Claus Vielsack (previous year: € 37k). 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 € 668k for Marcus Wolfinger (previous year: € 608k), € 507k for Dr. Robert Siegle (previous year: € 441k), and € 447k for Dr. Claus Vielsack (previous year: € 417k). 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 § 315 (4) 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 2016 financial year.

Individual Supervisory Board compensation (€ 000s)

	Fred K. Brückner		Wolfgang Wehmeyer		Prof. Dr. Stefanie Remmele		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Fixed compensation	50	50	38	38	25	25	113	113
Meeting allowance	4	5	4	5	4	5	12	15
Total	**54**	**55**	**42**	**43**	**29**	**30**	**125**	**128**

F. TAKEOVER-RELEVANT DISCLOSURES [1]

Composition of share capital

The company's share capital amounted to € 11,860,995 as of December 31, 2016 and was divided into 11,860,995 individual registered shares. This total includes 6,690 treasury stock shares as of December 31, 2016. 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, 2016 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 use the control rights resulting from their employee shares in accordance with statutory requirements and the provisions of the Articles of Association.

[1] (pursuant to § 315 (4) 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, 2016.

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 € 1.8 million in total as of December 31, 2016:

Conditional Capital V/2009 (amounting to up to around € 0.1 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 € 0.9 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 around € 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. DECLARATION ON CORPORATE GOVERNANCE

The company has published the declaration on corporate governance required by § 315 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).

Birkenfeld, April 5, 2017

STRATEC Biomedical AG

The Board of Management

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

CONSOLIDATED FINANCIAL STATEMENTS

of STRATEC Biomedical AG for the 2016 financial year

CONSOLIDATED BALANCE SHEET
as of December 31, 2016

Assets

€ 000s	Note	12.31.2016	12.31.2015
Non-current assets			
Intangible assets	(01)		
• Goodwill		42,841	5,125
• Other intangible assets		75,935	25,867
		118,776	**30,992**
Property, plant and equipment	(02)	32,789	19,595
Financial assets	(07)	378	184
Deferred taxes	(11)	99	21
		152,042	**50,792**
Current assets			
Inventories	(03)		
• Raw materials and supplies		13,029	9,375
• Unfinished products, unfinished services		5,302	3,853
• Finished products and merchandise		6,188	2,791
		24,519	**16,019**
Receivables and other assets			
• Trade receivables	(04)	38,890	24,045
• Receivables from construction contracts	(05)	2,348	1,470
• Receivables from associates	(06)	22	23
• Financial assets	(07)	5,695	2,779
• Other receivables and assets	(08)	3,870	2,358
• Income tax receivables	(08)	4,081	5,038
		54,906	**35,713**
Cash and cash equivalents	(25)	26,500	56,415
		105,925	**108,147**
		257,967	**158,939**

Shareholders' equity and debt

€ 000s	Note	12.31.2016	12.31.2015
Shareholders' equity	(09)		
Share capital		11,861	11,853
Capital reserve		20,437	20,061
Revenue reserves		105,033	94,307
Treasury stock		-118	-172
Other equity		6,506	4,231
		143,719	**130,280**
Non-current debt			
Non-current financial liabilities	(12)	3,035	4,328
Other non-current liabilities	(14)	434	22
Provisions for pensions	(10)	1,753	63
Deferred taxes	(11)	14,829	5,579
		20,051	**9,992**
Current debt			
Current financial liabilities	(12)	72,793	3,816
Trade payables	(13)	7,100	3,436
Liabilities to associates	(13)	0	14
Other liabilities	(14)	12,631	8,391
Provisions	(15)	1,348	1,508
Income tax liabilities	(15)	325	1,502
		94,197	**18,667**
		257,967	**158,939**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the Period from January 1 to December 31, 2016

€ 000s	Note	2016	2015
Sales	(16)	184,911	146,886
Cost of sales	(17)	-123,275	-91,854
Gross profit		**61,636**	**55,032**
Research and development expenses	(18)	-8,054	-8,336
Sales-related expenses	(19)	-12,779	-6,607
General administration expenses	(20)	-15,993	-11,788
Other operating expenses	(21)	-4,472	-8,300
Other operating income	(21)	3,866	6,874
Earnings before interest and taxes (EBIT)		**24,204**	**26,875**
Financial income		81	361
Financial expenses		-1,043	-180
Other financial income/expenses		-307	117
Net financial expenses	**(22)**	**-1,269**	**298**
Earnings before taxes (EBT)		**22,935**	**27,173**
Taxes on income	(11)		
a) Current tax expenses		-6,537	-3,959
b) Current tax income (previous year: tax expenses)		3,174	-1,130
Consolidated net income		**19,572**	**22,084**
Items that may not be subsequently reclassified to profit or loss:			
Remeasurements of defined benefit pension plans		247	20
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences from translation of foreign operations		989	2,350
Changes in value of financial investments		1,040	0
Other comprehensive income		**2,276**	**2,370**
Comprehensive income		**21,848**	**24,454**
Basic earnings per share in €	**(23)**	**1.65**	**1.87**
No. of shares used as basis (basic)		11,851,382	11,810,284
Diluted earnings per share in €	**(23)**	**1.64**	**1.85**
No. of shares used as basis (diluted)		11,936,660	11,919,473

CONSOLIDATED CASH FLOW STATEMENT
for the 2016 Financial Year

€ 000s	Note	2016	2015
I. Operations			
Consolidated net income (after taxes)		19,572	22,084
Depreciation and amortization		11,211	6,232
Current income tax expenses	(11)	6,537	3,959
Income taxes paid less income taxes received		-6,602	-6,382
Financial income	(23)	-81	-361
Financial expenses	(23)	1,043	180
Interest paid		-604	-142
Interest received		60	282
Other non-cash expenses		1,605	869
Other non-cash income		-1,836	-1,684
Change in net pension provisions through profit or loss	(10)	-65	2
Change in deferred taxes through profit or loss	(11)	-3,174	1,130
- Profit/+loss on disposals of non-current assets		474	48
- Increase/+reduction in inventories, trade receivables, and other assets		-9,862	-4,470
+ Increase/-reduction in trade payables and other liabilities		-2,022	4,286
Cash flow from operating activities		**16,256**	**26,033**
II. Investments			
Incoming payments from disposals of non-current assets			
• Property, plant and equipment		82	157
• Financial assets		104	0
Outgoing payments for investments in non-current assets			
• Intangible assets		-2,773	-3,426
• Property, plant and equipment		-7,206	-5,438
• Financial assets		-50	-3
Outgoing payments for acquisitions of consolidated companies less cash and cash equivalents thereby acquired		-76,885	0
Cash flow from investing activities		**-86,728**	**-8,710**
III. Financing			
Incoming funds from taking up of financial liabilities		67,550	2,000
Outgoing payments for repayment of financial liabilities		-18,313	-4,087
Incoming payments from issue of shares for employee stock option programs		254	1.674
Dividend payments		-8,885	-8,248
Cash flow from financing activities		**40,606**	**-8,661**
IV. Cash-effective change in cash and cash equivalents		**-29,866**	**8,662**
Cash and cash equivalents at start of period		56,415	46,636
Changes in scope of consolidation		51	79
Impact of exchange rate movements		-100	1,038
Cash and cash equivalents at end of period	**(25)**	**26,500**	**56,415**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the 2016 Financial Year

€ 000s	Note	Share capital	Capital reserve
December 31, 2014	(09)	**11,795**	**18,129**
Equity transactions with owners			
• Dividend payments			
• Issue of subscription shares from stock option programs, less costs of capital issue after taxes		58	1,611
• Allocations due to stock option plans			144
• Allocations due to employee participation program			177
Comprehensive income in 2015			
Changes in scope of consolidation			
December 31, 2015	(09)	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
Comprehensive income in 2016			
Changes in scope of consolidation			
December 31, 2016	(09)	**11,861**	**20,437**

	Revenue reserves			Other equity			
	Accumulated net income	**Free revenue reserves**	**Treasury stock**	**Fair value reserve**	**Pension plans**	**Currency translation**	**Group equity**
	61,086	**19,392**	**-212**	**0**	**-67**	**1,928**	**112,051**
	-8,248						-8,248
							1,669
							144
			40				217
	22,084				20	2,350	24,454
	-7						-7
	74,915	19,392	-172	0	-47	4,278	130,280
	-8,885						-8,885
							255
							138
			54				45
	19,572			1,040	246	989	21,847
	39						39
	85,641	**19,392**	**-118**	**1,040**	**199**	**5,267**	**143,719**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

of STRATEC Biomedical AG for the 2016 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, 2017 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 13, 2017. The consolidated financial statements and group management report as of December 31, 2016 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, 2016 have been prepared with due application of § 315a (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 have been 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. In the case of financial liabilities, a distinction has been made between the repayment installments due for payment within the next twelve months (current financial liabilities) and long-term portions (non-current financial liabilities). 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 2016 financial year.

Standard	Title	Effective date[1]	EU endorsement
New and amended standards and interpretations			
Sundry	Annual Improvements to IFRS, 2010–2012 Cycle	02.01.2015	12.17.2014
IAS 19	Amendments to IAS 19: Defined Benefit Plans: Employee Contributions	02.01.2015	12.17.2014
IAS 16, IAS 41	Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants	01.01.2016	11.23.2015
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	01.01.2016	11.24.2015
IAS 16, IAS 38	Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	01.01.2016	12.02.2015
Sundry	Annual Improvements to IFRS, 2012–2014 Cycle	01.01.2016	12.15.2015
IAS 27	Amendment to IAS 27: Equity Method in Separate Financial Statements	01.01.2016	12.18.2015
IAS 1	Amendments to IAS 1: Disclosure Initiative	01.01.2016	12.18.2015
IFRS 10, IFRS 12, IAS 28	Amendments to IFRS 10, IFRS 12, and IAS 28: Investment Entities: Applying the Consolidation Exception	01.01.2016	09.22.2016

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

The application of these standards and interpretations in the 2016 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 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.

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
New and amended standards and interpretations			
IFRS 14	Regulatory Deferral Accounts	01.01.2016	Endorsement rejected by European Commission
IAS 12	Amendments to IAS 12: Recognition of Deferred Tax Claims for Unrecognised Losses	01.01.2017	Expected in 2nd quarter of 2017
IAS 7	Amendments to IAS 7: Disclosure Initiative	01.01.2017	Expected in 2nd quarter of 2017
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	Expected in 1st quarter of 2017
IFRS 2	Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	01.01.2018	Expected in 3rd quarter of 2017
IFRS 4	Amendments to IFRS 4: Applying IFRS 9 (Financial Instruments) with IFRS 4 (Insurance Contracts)	01.01.2018	Expected in 3rd quarter of 2017
Sundry	Annual Improvements to IFRS, 2014–2016 Cycle, published in December 2016	01.01.2017, 01.01.2018	Expected in 3rd quarter of 2017
IFRIC 22	Interpretation on Foreign Currency Transactions and Advance Consideration	01.01.2018	Expected in 3rd quarter of 2017
IAS 40	Amendments: Transfers of Investment Property	01.01.2018	Expected in 3rd quarter of 2017
IFRS 16	Leases[2]	01.01.2019	Expected in 4th quarter of 2017
IFRS 10, IAS 28	Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]	01.01.2019	Endorsement postponed by European Commission

[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.

The investigation of the implications of applying IFRS 9 (Financial Instruments) for the consolidated financial statements of STRATEC AG has not yet been completed. Given the complexity of the requirements, it is currently not possible to issue any reliable assessment of the implications, as these will depend on the financial instruments held by the Group in the 2018 financial year and on economic conditions, as well as on the selection of accounting policies and discretionary decisions.

IFRS 15 (Revenue from Contracts with Customers)

Published in May 2014, the standard IFRS 15 '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-stage model applicable to all contracts with customers. The respective date or period is no longer based on the transfer of risks and rewards, but rather on the transfer to the customer of control over the goods and services. For multiple element arrangements, IFRS 15 (Revenue from Contracts with Customers) explicitly stipulates that the transaction price must be allocated to the individual performance obligations thereby identified in proportion to the relative standalone selling prices. The new standard also includes new requirements governing the costs of performing and acquiring a contract and guidelines as to when such costs must be capitalized. Furthermore, the standard includes further requirements governing detailed issues and extends note disclosure requirements. By announcement published in September 2015, the effective date was postponed from January 1, 2017 to January 1, 2018.

STRATEC AG has completed its analysis of whether the business models at its business units are covered by the scope of the standard by referring to contracts typical to its accounting practice. Within the project to introduce IFRS 15 (Revenue from Contracts with Customers), the company is now performing advanced detailed analysis of the implications for its revenue recognition.

The following implications of IFRS 15 (Revenue from Contracts with Customers) for revenue recognition at STRATEC AG have been identified on the basis of the currently available findings of the detailed analysis:

- In those business fields in which STRATEC AG performs development services on behalf of its customers (development cooperations), in cases where a binding agreement to cover costs has been signed revenues are currently recognized pursuant to IAS 11 (Construction Contracts) by recognizing revenues at the amount of the contract costs (zero-profit method) during the development phase already (c.f. B. Accounting policies applied). When applying the criteria governing period-based revenue recognition (performance obligations satisfied over time) pursuant to IFRS 15, compared with its current accounting practice pursuant to IAS 11 (Construction Contracts) and depending on the individual case STRATEC AG may be obliged to recognize some revenues over time but also to delay the recognition of other revenues to the time at which the development services are completed or to the subsequent appliance delivery phase. Where a development cooperation meets the criteria for period-based revenue recognition and where the services performed exceed the payments received it will be necessary to recognize a contractual asset. Where the customer makes a payment before the development service is performed, then a corresponding contractual liability has to be recognized.
- In the case of development cooperations without any binding agreement to cover costs, STRATEC currently recognizes revenues in the development phase in accordance with the percentage of completion method pursuant to IAS 18 (Revenue). The percentage of completion is determined as the proportion of the total costs of the development contract incurred as of the balance sheet date. Should conditional milestone payments be made, then the relevant revenues may only be recognized once the respective conditions are met, with the amount of revenues thereby recognized being capped at the percentage of completion of the respective order at this point in time. IFRS 15 (Revenues from Contracts with Customers) provides a set of regulations for identifying separate contract performance obligations and requires revenues to be allocated to these individual performance obligations on the basis of their relative standalone selling prices. The contractual bases for the development cooperations at STRATEC AG are being analyzed in detail to assess whether they include separable performance obligations. Should this not be the case, then the development cooperation constitutes a single performance obligation. Depending on the individual case, revenues would then be recognized upon completion of the development service in its entirety or during any subsequent appliance delivery phase. Compared with current accounting practice, this would differ due to the capitalization of the development services performed and the later recognition of the relevant revenues. Where the development services agreed within a development cooperation constitute separate performance obligations not particularly linked to other services and supplies provided within the development cooperation, by contrast, then the total revenues resulting from a development cooperation will have to be allocated to the separable performance obligations. This may result in the recognition of revenues separately from and independently to the milestone payments received.
- Within its development cooperations, STRATEC AG often performs development services over multiyear periods. During the period of the development cooperation, the scope of services provided and relevant conditions are regularly modified. At STRATEC AG, contract modifications made in connection with development cooperations will have to be assessed to ascertain whether these result in separable contracts or performance obligations pursuant to IFRS 15 (Revenue from Contracts with Customers) or whether an additional development is not separable and therefore cannot be treated as part of the services already performed.

STRATEC AG currently does not intend to make premature application of IFRS 15 (Revenue from Contracts with Customers). First-time application will therefore be made in the consolidated financial statements as of December 31, 2018. According to the transitional requirements set out in IFRS 15 (Revenue from Contracts with Customers), both full retrospective first-time application and modified retrospective first-time application are possible. Modified retrospective first-time application offers practical relief for the non-application of the requirements of IFRS 15 (Revenue from Contracts with Customers) to contracts already satisfied at the beginning of the earliest period presented and to contracts which began and ended in the same comparative period.

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 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 determined which transitional approach it will apply.

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).

STRATEC does not intend to make any premature application of the standard. Application 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, 2016 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., Newbury Park, US
- STRATEC Biomedical S.R.L, Cluj-Napoca, Romania
- STRATEC Services AG, Beringen, Switzerland
- STRATEC Capital GmbH, Birkenfeld, Germany

Furthermore, the following subsidiaries were included by way of full consolidation for the first time in the 2016 financial year:

- 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, US (from October 1, 2016)

STRATEC Biomedical Inc., Southington, USA, was previously not fully consolidated due to materiality considerations. The implications of the first-time full consolidation of these companies 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, 2016 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, US	USD 1,000	100.0	USD-23.455 (2015: USD -22,363
STRATEC Biomedical (Taicang) Co. Ltd., Taicang, China	CNY 814,940	100.0	CNY 497,499 (2015: CNY 160,529)

[1] The earnings figures reported are based on the annual financial statements prepared in accordance with respective national accounting requirements as of December 31, 2016 and December 31, 2015 respectively.

Company acquisitions

STRATEC PS Holding GmbH

STRATEC AG acquired 100% of the shares in Blitz 16-332 GmbH, Munich, Germany, for an amount of € 28k on May 30, 2016. As Blitz 16-332 GmbH is a shelf company that does not constitute a business operation pursuant to IFRS 3.3, its acquisition did not result in a company acquisition as defined in IFRS 3 (Business Combinations). By shareholder resolution dated May 30, 2016 Blitz 16-332 GmbH was renamed as STRATEC PS Holding GmbH and the company's legal domicile was relocated from Munich, Germany, to Birkenfeld, Germany.

Diatron Group

On March 23, 2016, STRATEC AG announced that an agreement had been signed governing the acquisition of all of the shares in Diatron MI, its US associate Diatron US, and the superordinate holding structure. The purchase was completed on March 31, 2016. As of March 31, 2016, the STRATEC Group thus acquired a total of 100% of the shares in RE Medical Analyzers Luxembourg 2 S.à r.l. (REMA Lux 2), based in Luxembourg. REMA Lux 2 is the sole owner of Medical Analyzers Holding GmbH (MAH), based in Zug, Switzerland. MAH is in turn the sole owner of Diatron Medicinai Instrumentumok Laboratóriumi Diagnosztikai Fejlesztö-Gyártó Zrt (Diatron MI), based in Budapest, Hungary, and Diatron US, Inc. (Diatron US), based in Delaware, US. The companies thereby acquired, namely REMA Lux 2, MAH, Diatron MI, and Diatron US, have been fully consolidated.

With this acquisition, STRATEC AG has extended its product range and customer base in the field of hematology. The Diatron Group's OEM portfolio chiefly comprises analyzer systems, system components, consumables, and tests for the lower throughput hematology segment. This business combination has been recognized using the purchase method pursuant to IFRS 3 (Business Combinations). Since the acquisition date, the earnings of the Diatron Group have been included in the consolidated financial statements.

The Half-yearly Financial Report as of June 30, 2016 stated the fair values of the assets and liabilities identified at the Diatron Group upon acquisition. Based on further information, the purchase price allocation has been updated as of December 31, 2016. This results in goodwill of € 28,372k as of the acquisition date. This goodwill is not deductible for tax purposes. The allocation of the purchase price to the assets and liabilities is presented in the following table:

	IFRS carrying amounts upon acquisition	Disclosure of hidden reserves and charges	Corrections in measurement period	Fair values upon acquisition
Assets	€ 000s	€ 000s	€ 000s	€ 000s
Other intangible assets[1]	159	40,965	-4,097	37,027
Property, plant and equipment	1,194	266	0	1,460
Deferred tax assets	162	0	0	162
Inventories	6,888	801	-112	7,577
Trade receivables	4,601	0	0	4,601
Other receivables and assets and income tax receivables	1,512	0	0	1,512
Cash and cash equivalents	1,717	0	0	1,717
Total assets	**16,233**	**42,032**	**-4,209**	**54,056**

[1] Excluding goodwill

Liabilities	IFRS carrying amounts upon acquisition € 000s	Disclosure of hidden reserves and charges € 000s	Corrections in measurement period € 000s	Fair values upon acquisition € 000s
Deferred tax liabilities	340	7,546	-444	7,442
Current financial liabilities	16,365	0	0	16,365
Trade payables	3,975	0	0	3,975
Other liabilities	1,583	0	0	1,583
Current provisions	105	138	0	243
Total liabilities	**22,368**	**7,684**	**-444**	**29,608**

	Upon acquisition € 000s
Assets	
Other intangible assets	37,027
Property, plant and equipment	1,460
Deferred tax assets	162
Inventories	7,577
Trade receivables	4,601
Other receivables and assets and income tax receivables	1,512
Cash and cash equivalents	1,717
Total assets	**54,056**
Liabilities	
Deferred tax liabilities	-7,442
Current financial liabilities	-16,365
Trade payables	-3,975
Other liabilities	-1,583
Current provisions	-243
Total liabilities	**-29,608**
Total identifiable net assets at fair value	**24,447**
Goodwill arising upon company acquisition	28,372
Total consideration	**52,820**
Breakdown of outflow of funds resulting from company acquisition	€ 000s
Cash and cash equivalents acquired with subsidiary (included in cash flows from investing activities)	1,717
Outflow of cash and cash equivalents	-52,820
Actual outflow of funds	**-51,103**

Upon the acquisition, two loans with a total volume of € 14,301k at the group of companies thereby acquired were repaid by STRATEC Biomedical AG. The resultant liabilities to STRATEC Biomedical AG at the Diatron subgroup have been eliminated within the debt consolidation.

The gross amount of receivables acquired comes to € 6,851k. Of the receivables, € 738k were impaired. The receivables recognized are expected to be collectible. Given the short terms of the receivables acquired, their carrying amounts as of the acquisition date did not vary significantly from their fair values.

The deferred tax liabilities cover the implications of temporary differences between the fair values recognized for the assets and liabilities identified in the purchase price allocation and their carrying amounts in the tax balance sheet.

Of the goodwill, € 23,288k has been allocated to the Instrumentation segment and € 5,681k to the DIATRON segment.

The goodwill thereby recognized chiefly results from the synergies expected in particular in the development and production of consumables, modules for complete analyzer systems and smaller systems, and in the supply chain.

Since the acquisition date, the Diatron Group has contributed € 29,850k to the sales and € 3,081k to the earnings of the STRATEC Group.

The transaction expenses of € 665k have been expensed and recognized under administration expenses in the income statement and in the cash flow from operating activities in the cash flow statement.

If the Diatron Group had been acquired as of January 1, 2016, then based on estimates compiled by STRATEC AG consolidated sales and consolidated net income would have amounted to € 192.6 million and € 18.2 million respectively. In determining these amounts, STRATEC AG has assumed that the adjustments to fair values made upon acquisition would also have applied if the acquisition had been executed as of January 1, 2016. Due to the depreciation and amortization of the assets measured in the purchase price allocation and the inclusion of acquisition-related transaction expenses, the estimated level of consolidated net income is limited in terms of its meaningfulness.

STRATEC Consumables GmbH

On June 8, 2016, STRATEC AG signed a contract with Sony DADC Austria AG, based in Anif/Salzburg, Austria, concerning the complete acquisition of Sony DADC BioSciences GmbH, a wholly-owned subsidiary of Sony DADC Austria AG.

On June 15, 2016, Sony DADC BioSciences GmbH was renamed as STRATEC Consumables GmbH ('STRATEC Consumables'). STRATEC Consumables is a leading manufacturer of smart consumables for applications in diagnostics, life sciences, and medical technology and has outstanding capabilities and applications in nano-structuring and micro-structuring, various coating technologies, polymer science applications, and automated production.

The fair values of the assets and liabilities identifiable at STRATEC Consumables upon acquisition were as follows:

	Upon acquisition € 000s
Assets	
Other intangible assets	18,099
Property, plant and equipment	8,903
Financial assets	437
Deferred tax assets	952
Inventories	827
Trade receivables	2,086
Other receivables and assets and income tax receivables	106
Cash and cash equivalents	2,209
Total assets	**33,619**
Liabilities	
Deferred tax liabilities	-5,853
Pension provisions	-2,017
Other non-current liabilities	-108
Current financial liabilities	-2,343
Trade payables	-477
Other current liabilities	-3,626
Total liabilities	**-14,425**
Total identifiable net assets at fair value	**19,194**
Goodwill arising upon company acquisition	8,767
Total consideration	**27,962**
Breakdown of outflow of funds resulting from company acquisition	€ 000s
Cash and cash equivalents acquired with subsidiary (included in cash flows from investing activities)	2,209
Outflow of cash and cash equivalents	-27,962
Actual outflow of funds	**-25,753**

As no conclusive assessment can be made as of the balance sheet date as to whether all of the information required to determine the fair values in connection with the acquisition is available, the values stated are preliminary pursuant to IFRS 3.45. This relates to the deferred tax assets, as the volume of existing loss carryovers upon acquisition has not been conclusively determined.

The gross amount of receivables acquired comes to € 2,436k. Of the receivables, € 244k were impaired. The receivables recognized are expected to be collectible. Given the mostly short terms of the receivables acquired, their carrying amounts as of the acquisition date did not vary significantly from their fair values.

The deferred tax liabilities cover the implications of temporary differences between the fair values recognized for the assets and liabilities identified in the purchase price allocation and their carrying amounts in the tax balance sheet.

Of the goodwill, € 6,350k has been allocated to the Instrumentation segment, € 1,723k to the DIATRON segment, and € 694k to the Consumables segment. The goodwill is not deductible for tax purposes.

The goodwill thereby recognized chiefly results from the synergies expected in particular in the system development of smart consumables and instruments, the reduction in complexity and integration risks in connection with analyzer systems, smart consumables, assays, and cross-selling potential.

Since the acquisition date, STRATEC Consumables has contributed € 6,912k to the sales and € -1,585k to the earnings of the STRATEC Group.

The transaction expenses of € 60k have been expensed and recognized under administration expenses in the income statement and in the cash flow from operating activities in the cash flow statement.

If STRATEC Consumables had been acquired as of January 1, 2016, then based on estimates compiled by STRATEC AG consolidated sales and consolidated net income would have amounted to € 192.6 million and € 17.5 million respectively. In determining these amounts, STRATEC AG has assumed that the adjustments to fair values made upon acquisition would also have applied if the acquisition had been executed as of January 1, 2016. Due to the depreciation and amortization of the assets measured in the purchase price allocation and the inclusion of acquisition-related transaction expenses, the estimated level of consolidated net income is limited in terms of its meaningfulness.

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	
		2016	2015	2016	2015
GBP	UK	0.856	0.734	0.820	0.726
USD	US	1.054	1.089	1.107	1.110
CHF	Switzerland	1.074	1.084	1.090	1.068
RON	Romania	4.539	4.524	4.490	4.445
HUF	Hungary	309.830	315.980	311.258[1]	310.000

[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 (please 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 2016	Useful lives in years 2015
Acquired technologies	7–15	3–8
Acquired R&D projects	8	8
Internally generated intangible assets • Proprietary development projects • Development cooperations	5–8 *	5–8 *
Acquired patents	12–19	n.a.
Acquired trademarks	10	n.a.
Acquired customer relationships	8–20	5
Other rights and values • Software and licenses	1–8	3–8

* The shortfall capitalized for development cooperations pursuant to IAS 38.97 et seq. is amortized from the beginning of the appliance manufacturing stage and is based on expected call-up volumes. 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.

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 (please 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 leading to the accrual of future economic benefit have been capitalized as retrospective costs.

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

	Useful lives in years 2016	Useful lives in years 2015
Buildings	25–33	25–33
Outdoor facilities	10–30	10–15
Technical equipment and machinery	3–20	2–20
Vehicles	3–5	3–5
Tools	3–7	3–6
IT components	2–5	3–5
Other plant and office equipment	1–20	3–20

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 (€ 72k; previous year: € 73k) 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.

Leases

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.

The cash generating units determined for goodwill impairment testing are 'laboratory automation', 'workflow software', 'nucleic acid purification', 'manufacturing parts & services', 'Diatron', 'smart consumables', and in the previous year also 'contact-free measurement and capacity calculation methods'.

The determination of the recoverable amount for the cash generating units as of December 31, 2016 (2015) has been based on 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	
2016	7.50
2015	7.29
Manufacturing, parts & services	
2016	6.62
2015	n/a
Diatron	
2016	8.43
2015	n/a
Workflow software	
2016	6.92
2015	6.94
Nucleic acid purification	
2016	7.35
2015	7.13
Smart consumables	
2016	6.48
2015	n/a
Contact-free measurement and capacity calculation methods	
2016	n/a
2015	8.93

Of the goodwill recognized in the amount of € 42,841k (previous year: € 5,125k), € 677k results from the acquisition of STRATEC Biomedical UK, Ltd. in the 2006 financial year (previous year: € 790k), € 1,488k from the acquisition of STRATEC Molecular GmbH in the 2009 financial year (€ 1,488k), € 2,940k from the acquisition of STRATEC Biomedical USA, Inc. in the 2010 financial year (previous year: € 2,847k), € 28,969k from the acquisition of the Diatron Group and € 8,767k from the acquisition of STRATEC Consumables GmbH in the 2016 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	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Carrying amount of goodwill	16,548	4,897	18,076	0	7,404	n/a
Carrying amount of cash generating unit, including goodwill	75,981	70,035	52,077	n/a	54,971	n/a

In line with IAS 36 (Impairment of Assets), the company performed the annual impairment test for these goodwill items as of October 31, 2016 and October 31, 2015 respectively.

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 13.3% (previous year: 10.1%) and a budgeted average EBIT margin of 10.5% (previous year: 11.1%). This assumption reflects previous management experience. In perpetuity, a growth rate of 1.0% has been assumed (previous year: 1.0%).
Manufacturing, parts & services	Average sales growth of 4.6% (previous year: n/a) and a budgeted average EBIT margin of 28.7% have been assumed. This assumption reflects past management experience. In perpetuity, a growth rate of 1.0% has been assumed (previous year: n/a).
Diatron	The budget for the recoverable amount has been based on average sales growth of 14.0% and a budgeted average EBIT margin of 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.

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 € 814k, and thus not material compared with the total carrying amount of goodwill, was allocated from the total carrying amount of goodwill to several cash generating units in the year under report (previous year: € 228k). 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 and the option rights resulting from the existing development cooperation with Quanterix Corporation, US. The option rights have been classified as measured at fair value. 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 directly in equity. Changes in their fair value are generally only recognized through profit or loss upon disposal. 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. In this 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 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 have been 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 employee participation programs with the option of settlement in cash or with equity instruments at the discretion of the counterparty.

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) have been measured at the fair value of the equity instruments as of the date of being granted using recognized option pricing models.

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.

Share-based payments with optional cash settlement (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 2016 financial year. These amounted to € 2,589k for proprietary development projects (previous year: € 2,779k) and to € 0k for development cooperations (previous year: € 183k). 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 calculation of the fair value of the option rights and shares in Quanterix Corporation, US, is subject to substantial discretionary decisions, particularly in respect of the probability of the individual scenarios arising, the fungibility of the common stocks, and the consideration of risks and uncertainties. Reference is made to the information in Section C. 'Disclosures on the consolidated balance sheet – (7) Financial assets'.

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: € 42,841k; previous year: € 5,125k) 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: € 75,935k; previous year: € 25,867k). 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. 'Disclosures on 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: € 863k; previous year: € 714k) 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. 'Disclosures on 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: € 949k; previous year: € 1,419k), 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 2016 financial year compared with the previous year have been explained in detail in Section C. 'Disclosures on the consolidated balance sheet – (11) Taxes on income'.

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. DISCLOSURES ON THE CONSOLIDATED BALANCE SHEET

(1) Goodwill and other intangible assets

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
Change in scope of consolidation	0	0	0	0	0	0	0	0	0
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**
Change in scope of consolidation	0	0	0	0	0	0	0	0	0
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 12.31.2016	**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**

The goodwill results from the acquisition of the subsidiary STRATEC Consumables GmbH and of the Diatron Group in the 2016 financial year and from the acquisitions of the subsidiaries STRATEC Biomedical UK, Ltd., STRATEC Molecular GmbH, and STRATEC Biomedical USA, Inc., in previous years.

The carrying amount of technologies includes the technologies for technical solutions for decentralized laboratory analyses in the field of hematology 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. In connection with acquisitions made in previous years, 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 (€ 9,700k; previous year: € 8,480k) and development expenses capitalized for development cooperations (€ 13,700k; previous year: € 16,096k). 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, 2016 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 € 6,942k – expected remaining amortization period of 5.0 years; development cooperation B with a carrying amount of € 3,727k – expected remaining amortization period of 6.0 years; development cooperation C with a carrying amount of € 2,022k – expected remaining amortization period of 3.0 years.

Intangible assets developed as follows in the 2015 financial year:

	Goodwill € 000s	Technologies € 000s	Acquired R&D projects € 000s	Internally generated intangible assets € 000s	Other rights and values € 000s	Total € 000s
Acquisition and manufacturing costs Balance at 12.31.2014	**4,785**	**7,708**	**431**	**32,743**	**3,799**	**49,466**
Change in scope of consolidation	0	0	0	0	0	0
Additions	0	0	0	2,962	464	3,426
Disposals	0	0	0	-60	-390	-450
Reclassifications	0	0	0	471	0	471
Currency differences	340	445	0	162	102	1,049
Balance at 12.31.2015	**5,125**	**8,153**	**431**	**36,278**	**3,975**	**53,962**

	Goodwill € 000s	Technologies € 000s	Acquired R&D projects € 000s	Internally generated intangible assets € 000s	Other rights and values € 000s	Total € 000s
Accumulated amortization and impairments Balance at 12.31.2014	**0**	**7,314**	**245**	**8,220**	**3,425**	**19,204**
Change in scope of consolidation	0	0	0	0	0	0
Additions to amortization	0	198	49	1,953	328	2,528
Impairments	0	0	0	1,550	0	1,550
Write-ups	0	-450	0	0	0	-450
Disposals	0	0	0	-60	-390	-450
Currency differences	0	445	0	39	104	588
Balance at 12.31.2015	**0**	**7,507**	**294**	**11,702**	**3,467**	**22,970**
Carrying amounts at 12.31.2015	**5,125**	**646**	**137**	**24,576**	**508**	**30,992**

In the 2015 financial year, impairment losses of € 1,550k 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 relate to a customer's strategic decision not to continue the development cooperation for a platform-based appliance. The cooperation with this customer will be sustainably continued within other development cooperations and supply agreements. Following adjustment for customer-specific requirements, the platform developed up to that point in time can be put to further use by STRATEC AG. In the interests of an optimal allocation of resources in respect of development cooperations based on specific contracts, the management of STRATEC AG nevertheless decided to suspend marketing this platform and, if appropriate, only to continue with it at a later date.

Furthermore, a write-up of € 450k was recognized in the 2015 financial year on a contact-free measurement and capacity calculation method previously written down in the 2013 financial year. This write-up was recognized under other operating income. The impairment was originally recognized to account for the difficult market entry for contact-free measurement and capacity calculation methods at the time. In the past financial year, a sales agreement was concluded with a company that operates successfully in this market and has the sales structures needed to sustainably place the appliance based on contact-free measurement and capacity calculation methods technology in the market. This technology is attributable to the Instrumentation segment.

(2) Property, plant and equipment

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 12.31.2015	**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 12.31.2016	**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 12.31.2015	**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 12.31.2016	**4,372**	**1,881**	**15,068**	**0**	**21,321**
Carrying amounts at 12.31.2016	**18,070**	**7,832**	**5,407**	**1,480**	**32,789**

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 2016 financial year.

As in the previous year, it was not necessary to recognize any impairment losses in the 2016 financial year.

Property, plant and equipment developed as follows in the 2015 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 12.31.2014	**14, 038**	**1,088**	**17,596**	**294**	**33,016**
Change in scope of consolidation	0	0	0	0	0
Additions	459	302	1,178	3,499	5,438
Disposals	-4	-343	-868	0	-1,215
Reclassifications	0	0	355	-355	0
Currency differences	517	26	441	-46	938
Balance at 12.31.2015	**15,010**	**1,073**	**18,702**	**3,392**	**38,177**

	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 12.31.2014	**3,246**	**616**	**13,200**	**0**	**17,062**
Change in scope of consolidation	0	0	0	0	0
Additions	426	148	1,580	0	2,154
Disposals	0	-275	-808	0	-1,083
Currency differences	76	8	365	0	449
Balance at 12.31.2015	**3,748**	**497**	**14,337**	**0**	**18,582**
Carrying amounts at 12.31.2015	**11,262**	**576**	**4,365**	**3,392**	**19,595**

(3) Inventories

Raw materials and supplies

Expenses of € 389k (previous year: € 55k) 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:

	12.31.2016 € 000s	12.31.2015 € 000s
Unfinished products	5,302	3,630
Unfinished services	0	223
	5,302	**3,853**

Income of € 25k from adjustments made to impairments previously recognized on unfinished products and services was recognized through profit or loss under cost of materials in the year under report (previous year: € 10k).

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:

	12.31.2016 € 000s	12.31.2015 € 000s
Finished products	5,873	2,651
Merchandise	288	140
Prepayments made	27	0
	6,188	**2,791**

Expenses of € 12k from the impairment of finished products were recognized through profit or loss under cost of materials in the year under report (previous year: € 6k).

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 (€ 38,890k; previous year: € 24,045k), an amount of € 38,890k (previous year: € 22,740k) 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:

	2016 € 000s	2015 € 000s
Accumulated allowances at 01.01.	751	693
Company acquisitions	982	0
Expenses in period under report	238	20
Reversals	-97	0
Utilized	-608	-25
Currency translation	14	63
Accumulated allowances at 12.31.	**1,280**	**751**

The gross amount of receivables for which individual allowances had been recognized at the balance sheet date amounted to € 1,574k (previous year: € 751k).

Expenses of € 58k were recognized through profit or loss in the 2016 financial year for the complete write-down of trade receivables (previous year: € 0k). 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
12.31.2016	**40,170**	**1,574**	**31,431**	**6,491**	**552**	**68**	**55**
12.31.2015	24,796	751	18,184	5,079	334	**93**	**355**

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 € 7,282k have been recognized in the consolidated statement of comprehensive income for the 2016 financial year (previous year: € 5,243k). The sales recognized correspond to the costs incurred.

As in the previous year, the future receivables from construction contracts recognized as of December 31, 2016 were neither impaired nor overdue. An amount of € 850k is overdue (€ 0k) and an amount of € 2,125k is due within one year (previous year: € 1,470k).

(6) Receivables from associates

These receivables are structured as follows:

Company providing service	Company receiving service	12.31.2016 € 000s	12.31.2015 € 000s
STRATEC AG	STRATEC Biomedical Inc.	0	1
STRATEC AG	STRATEC Biomedical (Taicang) Co. Ltd.	13	13
STRATEC Biomedical UK, Ltd	Sanguin International Inc.	9	9
		22	**23**

As in the previous year, these receivables have remaining terms of less than one year. STRATEC Biomedical Inc. has been fully consolidated in the consolidated financial statements since October 1, 2016.

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:

	12.31.2016 € 000s	12.31.2015 € 000s
Investments in associates	160	184
Investments in listed companies	1,080	1,387
Investments in unlisted companies	2,751	0
Option rights	1,481	1,271
Other	601	121
	6,073	**2,963**

Investments in associates and other financial assets of € 218k (previous year: € 0k) have been recognized under non-current financial assets.

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:

	2016 € 000s	2015 € 000s
Carrying amount at 01.01.	184	263
Change in scope of consolidation	-14	-82
Currency differences	-10	3
Carrying amount at 12.31.	**160**	**184**

The change in the scope of consolidation relates to the first-time full consolidation of STRATEC Biomedical Inc., Southington, USA.

The amendment to the scope of consolidation in the previous year related to the first-time full consolidation of STRATEC Services AG, Beringen, Switzerland.

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. The expenses of € 307k resulting from measurement as of the balance sheet date (previous year: income of € 117k) have been recognized through profit or loss under other financial income/expenses in the consolidated statement of comprehensive income. No securities were acquired in the 2016 financial year (previous year: € 1,001k).

Investments in unlisted companies and option rights

The investments in unlisted companies and option rights result from the existing development cooperation with Quanterix Corporation, US. In the 2016 financial year, STRATEC AG was granted 700,000 option rights to shares in Quanterix Corporation, US, in return for the achievement of milestones (previous year: none). Furthermore, in the year under report STRATEC AG exercised 1,300,000 stock options granted in previous years. Quanterix Corporation, US, is a company that is not traded on an active market. For the measurement of the option rights, STRATEC AG has received a survey in which an independent surveyor determined the value of the common stocks and the preferred stocks. This survey, which was compiled during the financial year, has been updated as of December 31, 2016. At the balance sheet date on December 31, 2016, STRATEC AG possessed 700,000 (previous year: 1,300,000) option rights to preferred stocks in the A-3 series and 1,300,000 (previous year: 0) preferred stocks in the A-3 series. Unlike preferred stocks in the A-1, A-2, B, C, and C-1 series, the stocks in the A-3 series do not have rights to a cumulative dividend. In the event of a liquidation (in the sense used for companies financed by venture capital) of Quanterix Corporation, US, there are liquidation preferences for the different series and classes of shares. B, C, and C-1 series stocks thus have precedence over all others, while A-1, A-2, and A-3 series stocks have precedence over common stocks. In the event of an IPO at Quanterix Corporation, US, with a minimum share price of USD 5.00 per share and gross proceeds of at least USD 40.0 million, the preferred stocks are mandatorily converted at a ratio of 1:1 into common stocks. In measuring the common stocks, the surveyor applied a hybrid method accounting 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 uses a market-based valuation method, while measurement for the 'remain private' scenario has been based on a DCF method. Each scenario was weighted on the basis of its 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. The change in the fair value of the option rights resulted in income of € 535k in the 2016 financial year (previous year: € 663k), which has been recognized in the 'Other operating income' item in the consolidated statement of comprehensive income. The change in the fair value of the stocks resulted in income of € 1,055k in the 2016 financial year (previous year: € 0k), which has been recognized directly in equity in the 'Changes in value of financial investments' item in the consolidated statement of comprehensive income. The measurement of the Quanterix option rights and stocks involves a fair value measurement based on Level 3 input factors pursuant to IFRS 13 (Fair Value Measurement). If the Board of Management of STRATEC AG had not accounted in the previous year for the subjective, unverifiable discretionary decisions by the Board of Management of Quanterix Corporation, US, by way of an additional discount, other operating income for the previous year would have been € 425k higher.

Other

The 'Other' line item mainly includes loans of € 379k (previous year: € 0k), amounts charged on of € 93k (previous year: € 0k), receivables of € 42k from employees (previous year: € 31k), creditors with debit balances of € 34k (previous year: € 21k), insurance claims of € 8k (previous year: € 8k), and rental deposits of € 26k (previous year: € 5k). An impairment loss of € 25k has been 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:

	12.31.2016 € 000s	12.31.2015 € 000s
Deferred expenses	1,106	839
Sales taxes	2,638	1,478
Other	126	41
	3,870	**2,358**

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

Income tax receivables of € 4,081k result from prepayments and refunds of taxes on income (previous year: € 5,038k).

(9) Shareholders' equity

The individual components of shareholders' equity and their development in 2016 and 2015 have been presented in the consolidated statement of changes in equity.

Share capital

The share capital of STRATEC AG amounted to € 11,861k at the balance sheet date (previous year: € 11,853k). Based on the resolution adopted by the Annual General Meeting on May 22, 2015, the shares were converted after the close of trading on August 28, 2015 at a ratio of 1:1 from bearer shares with a nominal value of € 1.00 each into individual registered shares (no-par registered shares). The share capital is divided into 11,860,995 ordinary shares (previous year: 11,852,970 ordinary shares). The increase in the share capital by 8,025 ordinary shares was due to a conditional capital increase (previous year: 57,525 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, 2016.

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 € 78,500.00 as of December 31, 2016.

§ 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 € 900,000.00 as of December 31, 2016.

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 shareholders 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, 2016.

Total conditional capital therefore amounted to € 1,778,500.00 as of December 31, 2016 (previous year: € 1,787,325.00).

Stock option programs

The company had two stock option programs (equity-settled share-based payment) as of December 31, 2016 (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 2015 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:	2016	2015	2014	2013	2012	2011
Option rights granted (number of shares)	24,050	19,850	56,100	92,600	96,100	58,100
Weighted exercise price (in €)	48.52	47.85	33.04	29.75	31.39	27.47
Expected share price volatility in %	34.88 bis 42.29	31.93 bis 39.77	26.40 bis 34.67	34.20 bis 39.43	28.70 bis 33.51	29.23 bis 31.60
Expected dividend yield in %	1.23	1.50	1.50	1.50	1.50	1.50
Risk-free interest rate in %	-0.02 bis 0.19	0.12 bis 0.79	0.72 bis 1.56	1.20 bis 1.76	1.30 bis 1.85	1.83 bis 3.21
Assumed turnover of subscription beneficiaries in %	5.0	5.0	5.0	5.0	5.0	5.0
Fair value of option rights at date of being granted (€ 000s)	123	101	202	307	258	165

The weighted average share price has been accounted for at € 47.28 in the fair value calculation of the option rights granted in the financial year (previous year: € 48.57).

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 2015 to 2016 financial years:

	Number of option rights	Weighted exercise price
Outstanding on 12.31.2014	**270,500**	**30.62**
Exercisable on 12.31.2014	**79,250**	**29.49**
During the 2015 financial year		
• granted	19,850	47.85
• exercised	57,525	29.09
• lapsed	0	n.a.
• forfeited	2,000	n.a.
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**

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, no stock options were exercised by members of the Board of Management (previous year: 15,000 stock options at an average exercise price of € 27.11 per share). No stock options were exercised by former members of the Board of Management of STRATEC AG in the year under report (previous year: 15,000 stock options at an average exercise price of € 31.27 per share). Employees of STRATEC AG exercised 8,025 stock options in the financial year under report (previous year: 27,525) at an average exercise price of € 31.82 per share (previous year: € 28.98). Of the stock options exercised by employees of STRATEC AG in the 2016 financial year, no stock options related to stock options exercised by any member of the Board of Management prior to his appointment to the Board of Management (previous year: 4,750 stock options at an average exercise price of € 29,13).

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 € 138k in the 2016 financial year (previous year: € 144k). 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 78,500 stock option rights exercisable as of December 31, 2016 (previous year: 76,550) entitle their bearers to acquire a total of up to 78,500 shares (previous year: 76,550) at a total exercise price of € 2,483k (previous year: € 2,409k).

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 € 49.46 (previous year: € 51.19).

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:

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**

2015

Range in €	Number of Stock options	Weighted exercise price in €	Weighted remaining contractual term in months
25.01 – 30.00	69,100	28.19	52.8
30.01 – 35.00	134,525	31.87	53.0
35.01 – 40.00	4,600	39.34	62.1
40.01 – 45.00	4,250	41.45	71.0
45.01 – 50.00	12,850	46.77	77.6
50.01 – 55.00	5,500	50.63	83.2
Total	**230,825**	**32.37**	**55.5**

Employee participation program

In August 2015, the Board of Management decided to offer an employee participation program (share-based compensation with the option of cash or equity settlement) to all permanent and temporary employees at STRATEC Biomedical AG, Birkenfeld, Germany. This is intended to enable them to participate in the future success of STRATEC AG. The program comprises the subscription of eight employee shares each in October 2015 and March 2016. Furthermore, those shareholders 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 € 48k was recognized as expenses (previous year: € 254k) and an amount of € 45k (previous year: € 217k) was recognized in the capital reserve in connection with the employee participation program in the 2016 financial year. Due to the assignment of treasury stock, the capital reserve was subsequently reduced by € 54k (previous year: € 40k).

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.

Revenue reserves

Revenue reserves 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).

Revenue reserves are thus structured as follows:

	12.31.2016 € 000s	12.31.2015 € 000s
Free revenues	19,392	19,392
Accumulated net income	85,641	74,915
	105,033	**94,307**

Accumulated net income developed as follows in the year under report:

	€ 000s
Accumulated net income at 12.31.2015	74,915
Change in scope of consolidation	39
Consolidated net income in 2016	19,572
Distribution (dividend for 2015)	- 8,885
Accumulated net income at 12.31.2016	**85,641**

Other equity

Other equity includes the currency translation reserve, the fair value measurement reserve, the Quanterix shares classified as available for sale, accumulated actuarial gains and losses from the remeasurement of pension provisions, and the resultant deferred taxes.

The currency translation reserve of € 5,267k reported as of the balance sheet date (previous year: € 4,278k) 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 equity through other comprehensive income (OCI) are structured as follows:

	Balance at 1.1.2015 € 000s	OCI € 000s	Balance at 12.31.2015 € 000s
Pensions	- 67	1	-66
Deferred taxes on pensions	0	19	19
Available-for-sale instruments	0	0	0
Deferred taxes on available-for-sale instruments	0	0	0
Currency reserve	1,928	2,556	4,484
Deferred taxes on currency reserve	0	-206	-206
Total	**1,861**	**20**	**4,231**

	Balance at 1.1.2016 € 000s	OCI € 000s	Balance at 12.31.2016 € 000s
Pensions	- 66	240	174
Deferred taxes on pensions	19	6	25
Available-for-sale instruments	0	1,055	1,055
Deferred taxes on available-for-sale instruments	0	-15	-15
Currency reserve	4,484	1,032	5,516
Deferred taxes on currency reserve	-206	-43	-249
Total	**4,231**	**2,276**	**6,506**

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 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, 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.
c) 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 2016. 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 12.31.2015	9,879
Acquisition of treasury stock	0
Surrender of treasury stock	-3,189
Treasury stock at 12.31.2016	**6,690**

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 € 118k (previous year: € 172k) 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 2016 financial year, a dividend of € 0.75 (previous year: € 0.70) was paid per share with dividend entitlement for the 2015 financial year, corresponding to a total distribution of € 8,885k (previous year: € 8,248k).

With the approval of the Supervisory Board, the Board of Management proposes that, of the net income of € 45,646k calculated for STRATEC AG in line with the German Commercial Code, an amount of € 9,127,814.85, equivalent to € 0.77 per share with dividend entitlement, should be distributed, and that the remaining amount of € 36,518k 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, 2016, the Board of Management and Supervisory Board did not allocate any amount from the net income for 2016 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 € 3,272k in the financial year under report (previous year: € 2,777k). This total includes employer contributions of € 1,953k to the German state pension system (previous year: € 1,758k).

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 (severance obligations). 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 12.31.2016	Austria 12.31.2016
Discount factor	1.73 %	1.75 %
Future income increases	0.00 %	3.00 %
Future pension increases	0.00 %	0.00 %
Personnel turnover rate	0.00 %	10.00 %
Average duration (in years)	15.5	15.8
	Germany 12.31.2015	
Discount factor	2.28 %	
Future income increases	0.00 %	
Future pension increases	0.00 %	
Average duration (in years)	16.4	

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'.

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:

	€ 000s 2016	€ 000s 2015
Present value of defined benefit obligations (DBO) as of 01.01.	**242**	**226**
Company acquisitions	2,017	0
Current service cost	62	14
Compounding of pension obligations	19	5
Payments made	-152	0
Remeasurement of pension obligations Actuarial gains (-)/losses (+) due to changes in		
• financial assumptions	-100	-3
• demographic assumptions	0	0
• experience adjustments	-141	0
Present value of defined benefit obligations (DBO) as of 12.31.	**1,947**	**242**

	€ 000s 2016	€ 000s 2015
Fair value of plan assets as of 01.01.	**179**	**165**
Employer contributions to plan assets	12	12
Interest income on plan assets	4	4
Remeasurement of plan assets		
• expenses for plan assets (excluding interest income)	-1	-2
• other	0	0
Fair value of plan assets as of 12.31.	**194**	**179**

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:

	€ 000s 12.31.2016	€ 000s 12.31.2015
Present value of pension obligations	1,947	242
Fair value of plan assets	194	179
Financing status = net obligation	**1,753**	**63**

The net obligation developed as follows in the past financial years:

	€ 000s 2016	€ 000s 2015
Net obligation as of 01.01.	**63**	**61**
Company acquisitions	2,017	0
Share of pension expenses recognized in income statement	77	15
Amounts recognized in OCI	-240	-1
Payments made	-152	0
Employer contributions to plan assets	-12	-12
Net obligation at 12.31.	**1,753**	**63**

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:

	€ 000s 2016	€ 000s 2015
Current service cost	62	14
Compounding of pension obligations	19	5
Interest income on plan assets	-4	-4
Share of pension expenses recognized in income statement	**77**	**15**

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 statement of comprehensive income:

	€ 000s 2016	€ 000s 2015
Remeasurement of net obligation:		
Expenses for plan assets (excluding interest income)	1	2
Actuarial gains (-)/losses (+) due to changes in		
• financial assumptions	-100	-3
• demographic assumptions	0	0
• experience adjustments	-141	0
Amounts recognized in OCI	**-240**	**-1**

The plan assets relate exclusively to capital commitments 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.

At STRATEC AG, the discount factor is the key actuarial assumption used to calculate the pension obligation, while in Austria (severance obligations) reference is additionally made to future income increases. The following sensitivity analysis shows how the net defined benefit obligation would have been influenced by potential changes in the corresponding assumptions if all other assumptions had remained unchanged.

Germany	€ 000s 2016	€ 000s 2015
Discount factor +0.50 %	-21	-19
Discount factor -0.50 %	23	22
Austria		
Discount factor +0.50 %	-124	
Discount factor -0.50 %	137	
Future income increases +0.50 %	147	
Future income increases -0.50 %	-135	

Plan asset endowments by STRATEC AG of € 12k (previous year: € 12k) are expected for the following 2017 financial years. 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 negligible. STRATEC AG has also adopted this approach for its accounting. The fair value of the insurance contracts amounted to € 688k as of December 31, 2016 (previous year: € 1,053k). 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 2016 financial year (previous year: € 288k). 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:

	€ 000s **2016**	€ 000s **2015**
Income taxes paid or owed		
• Germany	3,846	1,615
• International	2,691	2,344
	6,537	3,959
Deferred taxes		
• Germany	-69	646
• International	-3,105	484
	-3,174	1,130
Income tax expenses	**3,363**	**5,089**

Deferred taxes are recognized for the following balance sheet items and factors:

	12.31.2016		12.31.2015	
	Deferred tax assets € 000s	**Deferred tax liabilities** € 000s	**Deferred tax assets** € 000s	**Deferred tax liabilities** € 000s
Intangible assets	899	14,332	1,913	7,015
Property, plant and equipment	57	1,166	17	15
Non-current financial assets	63	688	4	337
Inventories	49	89	39	116
Trade receivables	133	254	196	112
Receivables from construction contracts	5	0	0	0
Receivables from associates	0	787	104	368
Current financial assets	0	51	18	256
Non-current financial liabilities	123	0	16	0
Provisions for pensions	480	0	14	0
Current financial liabilities	111	28	144	0
Trade payables	66	0	0	0
Current other liabilities	298	0	258	0
Provisions	0	120	21	4
Loss carryovers	740	0	116	0
Net investment in foreign operation	0	172	0	145
Currency translation	48	115	39	89
Subtotal	**3,072**	**17,802**	**2,899**	**8,457**
Netting	-2,973	-2,973	-2,878	-2,878
Amount recognized in consolidated balance sheet	**99**	**14,829**	**21**	**5,579**

Of the deferred tax income of € -3,174k recognized in the consolidated statement of comprehensive income (previous year: expenses of € 1,130k), € -2,984k (previous year: € -1,001k) is attributable to temporary valuation differences, € 1k (previous year: € 2k) to the costs of capital increases, and € -191k (previous year: € 2,129k) to the recognition through profit or loss of deferred tax assets (previous year: deferred tax liabilities) on tax loss carryovers. Of the change in deferred tax assets recognized on loss carryovers, an amount of € 619k (previous year: € 0k) involves income resulting from the recognition of deferred tax assets on loss carryovers, € 2k (previous year: € 2,102k) involves expenses resulting from the utilization of deferred tax assets on loss carryovers, € 426k (previous year: € 131k) relates to impairment losses, and € 47k (previous year: € 104k) involves income resulting from currency translation. The remaining increase of € 386k (previous year: € 0k) is attributable to the recognition through equity of additions resulting from company acquisitions and changes in the scope of consolidation.

In the 2016 financial year, deferred tax assets on loss carryovers were recognized for three subsidiaries (previous year: one subsidiary) in an amount of € 740k (previous year: € 116k). In the 2016 financial year, deferred tax assets of € 426k on loss carryovers were written down (previous year: € 131k), of which € 361k related to STRATEC Biomedical USA, Inc. (previous year: € 131k). 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 € 5,486k (previous year: € 3,742k). 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	**189**	**5,256**	**41**	**5,486**

The tax expenses of € 3,363k reported for 2016 (previous year: € 5,089k) deviate by € 2,949k (previous year: € 2,394k) from the tax expenses of € 6,312k (previous year: € 7,483k) expected to result from application of the overall tax rate for STRATEC AG (27.52 %; previous year: 27.53 %) 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 11.69 % (previous year: 11.70 %).

The difference between the tax expenses expected and those reported is attributable to the following items:

	2016 € 000s	2015 € 000s
Earnings before taxes on income	22,935	27,173
Overall tax rate	27.52 %	27.53 %
Expected tax expenses (-) / income (+)	**-6,312**	**-7,483**
Deviations in German and foreign tax rates	2,267	1,993
Impact of increase (-) / decrease (+) in effective tax rates	3,228	-44
Tax-exempt income (+) / expenses (-) from investments, securities price gains / losses, and dividends	-338	795
Expenses not deductible for tax purposes less tax settlements	-225	-34
IFRS personnel expenses (stock options)	-38	-40
Tax back payments / refunds for previous years and non-period tax expenses / income	-1,487	-161
Write-down of deferred tax assets on tax loss carryovers	-426	-131
Sundry	-32	16
Reported tax expenses (-) / income (+)	**-3,363**	**-5,089**

(12) Non-current and current financial liabilities

Non-current financial liabilities are structured as follows:

	12.31.2016 € 000s	12.31.2015 € 000s
Liabilities to banks	2,505	3,614
Liabilities for personnel-related items	483	714
Accrued trade payables	47	0
	3,035	**4,328**

Current financial liabilities are structured as follows:

	12.31.2016 € 000s	12.31.2015 € 000s
Liabilities to banks	69,008	1,492
Liabilities for personnel-related items	2,021	1,511
Accrued trade payables	1,638	697
Supervisory Board compensation	124	84
Other	2	32
	72,793	**3,816**

Financial liabilities to banks

As of December 31, 2016, the Group had total unutilized credit lines of € 5,900k (previous year: € 13,900k).

Financial liabilities for personnel-related items

Financial liabilities for personnel-related items chiefly comprise obligations of € 2,479k in connection with profit participation schemes (previous year: € 2,206k).

Obligations for profit participation schemes include obligations for short-term performance-related compensation for employees (€ 364k; previous year: € 401k), and obligations for short, medium, and long-term performance-related compensation for the Board of Management (€ 2,115k; previous year: € 1,788k). The obligations for long-term performance-related compensation for the Board of Management (€ 863k; previous year: € 714k) 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, 2016 has been determined on the basis of the following parameters:

Stock appreciation rights (SARs) model parameters	**Tranche 2 2016 financial year**	**Tranche 1 2015 financial year**
Issue date	04.01.2016	08.03.2015
Average share price on issue date	€ 43.07	€ 50.53
Term		
Overall term	60.0 months	60.0 months
Remaining term as of 12.31.	51.0 months	43.1 months
Minimum qualifying period		
Overall term	24.0 months	24.0 months
Remaining term as of 12.31.	15.0 months	7.1 months
Share price at measurement date	€ 45.79	€ 45.79
Expected volatility	35.2%	37.2%
Risk-free interest rate	-0.62%	-0.70%
Fair value on issue date	**€ 11.36**	**€ 11.28**
Fair value as of 12.31.	**€ 12.07**	**€ 9.50**

The development in the total number of stock appreciation rights (SARs) in the reporting period is presented below:

Absolute figures	Total at 01.01.2016	Granted	Exercised, lapsed, forfeited	Total at 12.31.2016	Of which exercisable
Tranche 1 2015	40,000	0	0	40,000	0
Tranche 2 2016	0	40,000	0	40,000	0
Total	**40,000**	**40,000**	**0**	**80,000**	**0**

The total expenses recognized in the 2016 financial year for equity-settled share-based payments amounted to € 183k (previous year: € 361k) – further information can be found in '(9) Shareholders' equity' in this section – while total expenses for cash-settled share-based payments amounted to € 152k (previous year: € 751k).

Maturities

Financial liabilities have the following maturities:

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.

Maturity[1]	12.31.2015 € 000s
2016	3,816
2017	1,823
2018	971
2019	383
2020	383
2021 and later	768
Total	**8,144**

(13) Trade payables / liabilities to associates

Trade payables mostly involve goods and services provided in November and December 2016. As in the previous year, these items are due for payment within one year.

The liabilities to associates reported in the previous year were all due to STRATEC Biomedical (Taicang) Co. Ltd. and all related to the ongoing exchange of services and goods. These items were due for payment within one year.

(14) Non-current and current other liabilities

Other liabilities are structured as follows:

	12.31.2016 € 000s	12.31.2015 € 000s
Liabilities for personnel-related items	3,259	1,610
Other tax liabilities	1,692	1,242
Social security liabilities	989	461
Prepayments received on orders	5,894	4,815
Other	1,231	285
	13,065	**8,413**

Of the 'Other' amount, € 434k has been recognized under non-current other liabilities (previous year: € 22k).

Liabilities for personnel-related items mainly consist of liabilities for outstanding vacation (€ 1,761k; previous year: € 1,044k) and employee working time credits (€ 1,461k; previous year: € 448k).

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 € 3,838k (previous year: € 4,815k) relates to development cooperations. Reference is made to Section B. 'Recognition of sales, cost of sales, research and development expenses'.

In the 2016 financial year, STRATEC AG received government grants of € 444k. These grants relate exclusively to grants for research purposes and are not bound by any conditions. Total accrued liabilities for government grants amount to € 410k (previous year: € 0k).

Other liabilities have the following maturities:

Maturity	12.31.2016 € 000s
2017	12,631
2018	434
2019	0
2020	0
2021	0
2022 and later	0
Total	**13,065**

Maturity	12.31.2015 € 000s
2016	8,391
2017	22
2018	0
2019	0
2020	0
2021 and later	0
Total	**8,413**

(15) Provisions and income tax liabilities

Current provisions relate to provisions for guarantees and warrantees (€ 949k; previous year: € 1,419k), litigation risks (€ 399k; previous year: € 0k), and in the previous year to an onerous rental agreement (€ 89k). These items developed as follows:

	2016 € 000s	2015 € 000s
01.01.	1,508	1,731
Company acquisitions	105	0
Currency translation	1	-5
Utilized	-402	-1,651
Reversed	-627	0
Added	763	1,433
12.31.	**1,348**	**1,508**

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 (€ 325k; previous year: € 1,502k) relate to current income tax obligations.

D. DISCLOSURES ON THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(16) Sales

Sales mainly relate to:

	2016 € 000s	2015[1] € 000s
1. Systems	101,715	82,295
2. Service parts and consumables	53,599	38,006
3. Development and services	28,402	25,950
4. Other activities	1,195	635
	184,911	**146,886**

[1] The presentation of the previous year's comparative figures has been adjusted in that – as for the figures presented for the 2016 financial year – system sales now only include instrument-related sales.

Sales can be broken down by geographical region (customer location) as follows:

	2016 € 000s	2015 € 000s
1. Germany	24,450	21,158
2. European Union	58,402	54,276
3. Other	102,059	71,452
	184,911	**146,886**

Substantial sales generated with analyzer systems in other countries are structured as follows:

	2016 € 000s	2015 € 000s
Italy	5,616	5,928
France	4,467	3,956
Belgium	26,688	15,086
US	25,168	19,797
China	6,101	5,485
UK	1,244	6,888

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: € 39.1 million (previous year: € 31.6 million), € 35.3 million (previous year: € 35.6 million), € 18.8 million (previous year: € 22.3 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 2016 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 € 123,275k (previous year: € 91,854k), include production-related manufacturing expenses incurred for the products, maintenance and spare parts sold, and for development and services.

(18) Research and development expenses

Research and development expenses not meeting the criteria for capitalization pursuant to IAS 38 (Intangible Assets) totaled € 8,054k (previous year: € 8,336k) and mainly involved cost of materials and personnel expenses.

Gross development expenses were structured as follows:

	2016 € 000s	2015 € 000s
Research and development expenses	22,829	20,981
of which development expenses recognized as revenues or capitalized	-14,775	-12,645
	8,054	**8,336**

In the financial year under report, an amount of € 386k from grants was expensed as a reduction to research and development expenses (previous year: € 0k).

(19) Sales-related expenses

Sales-related expenses amounted to € 12,779k (previous year: € 6,607k) 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) General administration expenses

At € 15,993k (previous year: € 11,788k), 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 € 3,866k (previous year: € 6,874k) and other operating expenses of € 4,472k (previous year: € 8,300k) mainly consist of income and expenses for currency translation.

Furthermore, other operating income includes an amount of € 535k (previous year: € 663k) resulting from the measurement at fair value through profit or loss of the Quanterix options.

Other operating expenses also include amounts of € 537k for losses due to disposals of assets, € 384k from the increase in individual allowances on receivables, and € 308k for expected tax audits.

In the previous year, other operating income also included write-ups of € 450k for write-ups, while other operating expenses included impairment losses of € 1,550k.

Other than that, other operating income and other operating expenses also include numerous expenses items that, viewed individually, are only of subordinate significance.

(22) Net financial expenses

Financial income is structured as follows:

	2016 € 000s	2015 € 000s
Interest income on cash and cash equivalents	41	278
Interest income on receivables from associates	0	4
Interest income from compounding of receivables	18	70
Other interest income	22	9
	81	**361**

Financial expenses are structured as follows:

	2016 € 000s	2015 € 000s
Interest expenses on loan liabilities to banks	819	139
Interest expenses for compounding of pension provisions	19	5
Interest expenses for compounding of liabilities and provisions	22	20
Other interest expenses	183	16
	1,043	**180**

Other financial income/expenses include gains and losses for financial assets and financial liabilities measured at fair value and are structured as follows:

	2016 € 000s	2015 € 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	-307	117
Other financial income/expenses	**-307**	**117**

(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 11,851,382 (previous year: 11,810,284).

Pursuant to IAS 33 (Earnings per Share), the consolidated net income of € 19,572k (previous year: € 22,084k) 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, 2016, both basic earnings per share (€ 1.65; previous year: € 1.87) and diluted earnings per share (€ 1.64; previous year: € 1.85) 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 11,936,660 (previous year: 11,919,473).

(24) Additional disclosures on the consolidated statement of comprehensive income

Cost of materials

The functional divisions include the following cost of materials:

	2016 € 000s	2015 € 000s
Costs of raw materials and supplies	81,283	61,229
Costs of purchased services	5,763	2,543
	87,046	**63,772**

Personnel expenses

The functional divisions include the following personnel expenses:

	2016 € 000s	2015 € 000s
Wages and salaries	42,266	32,917
Social security contributions and pension and welfare expenses	7,923	5,016
	50,189	**37,933**

Furthermore, expenses of € 3,745k (previous year: € 2,395k) 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:

	2016 Number	2015 Number
Employees	833	496
Trainees	30	15
Employees in permanent employment	863	512
Temporary employees	94	43
Total	**957**	**555**

Of permanent employees, 377 (previous year: 343) were in Germany, and 456 (previous year: 153) abroad. Of temporary employees, 36 (previous year: 34) were in Germany, and 58 (previous year: 9) 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:

	2016 € 000s	2015 € 000s
Fee for		
a) Auditing	242	249
b) Other certification services	0	0
c) Tax advisory services	0	0
d) Other services	0	0
Total auditor's fee	**242**	**249**

The total fee for 2016 includes an amount of € 7k for auditing services relating to the 2015 financial year.

The total fee for 2015 includes an amount of € 52k for auditing services performed by the former auditor, Wirtschaftstreuhand GmbH, Stuttgart. These relate to the 2014 financial year.

E. DISCLOSURES ON 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:

	2016 € 000s	2015 € 000s
Expenses:		
Currency translation losses from measurement of cash and cash equivalents at balance sheet date	115	291
Personnel expenses in connection with the granting of stock option rights	138	144
Personnel expenses in connection with employee participation programs	45	217
Exchange rate differences for foreign currency receivables/liabilities	271	26
Increase in impairment of inventories	376	136
Expenses for fair value measurement of securities held for trading	364	3
Allocations to impairments of receivables	238	20
Losses on receivables	58	0
Other	0	32
	1,605	**869**

The following other non-cash income items have been accounted for:

	2016 € 000s	2015 € 000s
Income:		
Currency translation gains from measurement of cash and cash equivalents at balance sheet date	39	32
Exchange rate differences for foreign currency receivables/liabilities	267	296
Reduction in impairments of inventories	0	85
Fair value measurement of shares/options in connection with development cooperations	532	663
Income from fair value measurement of securities held for trading	57	120
Write-ups to non-current assets	0	450
Income from reversal of other provisions and liabilities	775	32
Reversal of impairments of receivables	140	0
Other	26	6
	1,836	**1,684**

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 € 86,728k was expended on investing activities (previous year: € 8,710k). Of this sum, € 9,979k was channeled into the acquisition of property, plant and equipment (previous year: € 8,864k).

Inflow / outflow of funds from financing activities

Financing activities led to an inflow of funds of € 40,606k (previous year: outflow of € 8,661k). Net new borrowing amounted to € 49,237k (previous year: net repayments of € 2,087k). Dividend payments accounted for an outflow of € 8,885k (previous year: € 8,248k).

(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, 2016, cash and cash equivalents amounted to € 26,500k (previous year: € 56,415k).

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 past financial year, management reporting has been 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 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
EBIT[1]	24,744	855	-2,899	1,378	24,078	126	24,204
EBITDA[1]	29,507	4,710	-368	1,437	35,286	126	35,412
Interest income	1,719	0	2	0	1,721	-1,640	81
Interest expenses	1,001	1,565	103	15	2,683	-1,640	1,043
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

[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, € 34,538k are located in the country of origin of STRATEC AG and € 117,027k in other countries. Further disclosures on company level have been presented in Section D. 'Disclosures on the consolidated statement of comprehensive income – (16) Sales'.

Segment data by operating segment for 2015

	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	136,182	0	2,663	8,345	147,189	-303	146,886
Inter-segmental sales	2,107	0	102	1,405	3,614	-3,614	0
Depreciation and amortization	4,525	0	222	35	4,782	-100	4,682
EBIT[1]	25,213	-2	-350	2,488	27,349	-473	26,875
EBITDA[1]	30,838	-2	-128	2,523	32,131	-573	32,658
Interest income	383	0	0	3	387	-26	361
Interest expenses	170	4	9	23	206	-26	180
Assets	161,013	1,116	2,572	6,090	170,791	-11,852	158,939
Additions to non-current assets	8,156	0	419	739	9,314	-450	8,864

[1] Prior to consolidation

As a result of the acquisition of the Diatron Group and STRATEC Consumables, STRATEC Biomedical AG has amended its organizational structures and the composition of its reporting segments. The disclosures on the operating segments as of December 31, 2015 have been amended accordingly.

Of non-current assets at the reporting segments, excluding financial instruments and deferred taxes, in the previous year € 35,726k was located in the country of origin of STRATEC AG and € 14,861k in other countries.

Furthermore, an impairment loss of € 1,550k and a write-up of € 450k were recognized in the previous year, both of which are allocable to the Instrumentation segment. Information about these can be found in Section C. 'Disclosures on 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	Kredite und Forderungen
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

Disclosures in € 000s 12.31.2016 (12.31.2015)	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								
Financial assets		378 (184)	481 (184)			481 (184)		
• Investments in associates	AfS	160 (184)	263 (184)			263 (184)		
• Other financial assets	LaR	218 (0)	218 (0)			218 (0)		218 (0)
Current assets								
Trade receivables	LaR	38,890 (24,045)	38,890 (24,045)			38,890 (24,045)		38,890 (24,045)
Receivables from construction contracts	LaR	2,348 (1,470)	2,348 (1,470)			2,348 (1,470)		2,348 (1,470)
Receivables from associates	LaR	22 (23)	22 (23)			22 (23)		22 (23)
Financial assets		5,695 (2,779)	384 (121)	2,561 (2,658)	2,751 (0)	5,695 (2,779)		5,695 (2,779)
• Financial instruments available for sale	AfS	2,751 (0)			2,751 (0)	2,751 (0)		2,751 (0)
• Financial instruments measured at fair value through profit or loss	FVTPL	1,481 (1,271)		1,481 (1,271)		1,481 (1,271)		1,481 (1,271)
• Assets held for trading	FAHfT	1,080 (1,387)		1,080 (1,387)		1,080 (1,387)		1,080 (1,387)
• Loans and receivables	LaR	384 (121)	384 (121)			384 (121)		384 (121)
Cash and cash equivalents	LaR	26,500 (56,415)	26,500 (56,415)			26,500 (56,415)		26,500 (56,415)
Non-current debt								
Financial liabilities	FLAC	3,035 (4,328)	2,552 (3,614)			2,552 (3,614)	483 (714)	2,554 (3,646)
Current debt								
Financial liabilities	FLAC	72,793 (3,816)	72,413 (3,799)			72,413 (3,799)	380 (17)	72,524 (3,873)
Trade payables	FLAC	7,100 (3,436)	7,100 (3,436)			7,100 (3,436)		7,100 (3,436)
Liabilities to associates	FLAC	0 (14)	0 (14)			0 (14)		0 (14)

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 cash flows. 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:

Figures in € 000s 2016	IAS 39 category	From invest-ments	From interest	From subsequent measurement: At fair value through profit or loss	At fair value in equity	Currency translation	Impair-ment	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**

Figures in € 000s 2015	IAS 39 category	From invest-ments	From interest	From subsequent measurement: At fair value through profit or loss	At fair value in equity	Currency translation	Impair-ment	From disposals	Net result
Available-for-sale financial assets	AfS	0	4	0	0	0	0	0	4
Loans and receivables	LaR	0	348	0	0	319	-20	0	646
Financial assets measured at fair value	FVTPL	0	0	663	0	0	0	0	663
Financial assets held for trading	FAHFT	4	0	117	0	0	0	0	121
Financial liabilities measured at amortized cost	FLAC	0	-159	0	0	55	0	0	-104
Total		**4**	**192**	**780**	**0**	**374**	**-20**	**0**	**1,330**

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 € -307k has been recognized in other financial income/expenses (previous year: € 117k) and an amount of € 535k (previous year: € 663k) in other operating income. The interest income from impaired financial assets amounts to € 0k (previous year: € 4k). Reference is made to the information in Section C. 'Disclosures on the consolidated balance sheet – (7) Financial assets' and with regard to the individual components of net financial expenses to Section D. 'Disclosures on the statement of comprehensive income – (22) Net financial expenses'.

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 € 39k (previous year: € 32k) recognized through profit or loss under other operating income. Currency expenses of € 115k (previous year: € 291k) 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 12.31.2016 (12.31.2015)	**Total carrying amount**	**of which Level 1**	**of which Level 2**	**of which Level 3**
Current assets				
Financial assets	5,312 (2,658)	1,080 (1,387)	0 (0)	4,232 (1,271)

No items were reclassified within the three input factor levels in the 2016 financial year. However, financial assets with carrying amounts and fair values of € 1,387k were reported in Level 3 as of December 31, 2015 even though given their listing on active markets they should have been reported in Level 1. In the above table, the figures reported as of December 31, 2015 have been adjusted accordingly. 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.

A reconciliation of the financial assets subject to recurring measurement in Level 3 of the fair value measurement hierarchy is presented below:

	€ 000s
Balance at 01.01.2015	**877**
Total gains or losses recognized through profit or loss	
Other operating income	663
Other financial income/expenses	117
Purchases/additions	1,000
Reclassifications into or out of Level 3	-1,387
Balance at 12.31.2015	**1,271**
Total gains or losses recognized through profit or loss	
Other operating income	535
Total gains or losses recognized in OCI	
Impairments of financial investments	1,055
Purchases/additions	1,371
Balance at 12.31.2016	**4,232**

Information about the fair value measurement of derivative financial instruments recognized under other financial assets can be found in Section C. 'Disclosures on the consolidated balance sheet – (7) Financial assets'.

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 12.31.2016	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**

	Carrying amount 12.31.2015	Cash flows 2016		Cash flows 2017		Cash flows 2018–2019		Cash flows 2020 ff.	
Figures in € 000s		Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
Financial liabilities	8,144	87	3,816	58	1,823	53	1,354	24	1,151
Trade payables	3,436	0	3,436	0	0	0	0	0	0
Liabilities to associates	14	0	14	0	0	0	0	0	0
Total	**11,594**	**87**	**7,266**	**58**	**1,823**	**53**	**1,354**	**24**	**1,151**

Loans with remaining terms of up to five years charge interest at a weighted average of 0.79% (previous year: 2.94%). Loans with remaining terms of more than five years charge interest at a weighted average of 1.28% (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 'Opportunities and risks' section 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 unlimited and limited credit lines.

The STRATEC Group had cash and cash equivalents of € 26,500k at the balance sheet date (previous year: € 56,415k).

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 C. 'Outlook' and Section D. 'Opportunities and risks – 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	**12.31.2016**				**12.31.2015**			
	GBP	CHF	EUR	USD	GBP	CHF	EUR	USD
Cash and cash equivalents	4	105	462	2,050	38	9,333	863	0
Trade receivables and other receivables	0	0	0	14,518	0	0	0	0
Receivables from associates	0	616	254	14,366	477	0	0	0
Financial assets	0	0	0	4,232	0	0	0	0
Trade payables	156	46	0	613	0	0	0	0
Liabilities to associates	0	0	4,608	5,126	0	0	-1,021	0
Net risk exposure	**-152**	**675**	**-3,892**	**29,427**	**515**	**9,333**	**-158**	**0**

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	**12.31.2016**				**12.31.2015**			
	GBP	CHF	EUR	USD	GBP	CHF	EUR	USD
Change in currency by +10%, Change in consolidated net income (€ 000s)	14	-61	354	-2,675	-47	-848	14	0
Change in currency by -10%, Change in consolidated net income (€ 000s)	-17	75	-432	3,270	57	1,037	-32	0

In the 2016 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 € 2,617k (previous year: € 5,081k) and expenses for currency translation totaling € 2,334k (previous year: € 4,701k). 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. Interest rates are extremely low by historical standards. As a result, 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:

	2016 € 000s	2015 € 000s
Interest-bearing medium and long-term financial assets	203	20
• of which with floating interest rates	0	0
• of which with fixed interest rates	203	20
Interest-bearing financial liabilities	74,019	5,106
• of which with floating interest rates	59,900	0
• of which with fixed interest rates	2,505	5,106

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 € 60,000k with floating interest rates at the balance sheet date as of December 31, 2016 (previous year: € 0k).

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 12.31.2016	Cash flows 2017		Cash flows 2018		Cash flows 2019 ff.	
		Interest	Principal	Interest	Principal	Interest	Principal
Financial liabilities with floating interest rates (1-month EURIBOR)							
Actual	59,900	103	60,000	0	0	0	0
+ 100 base points	59,900	198	60,000	0	0	0	0

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 base points would have led consolidated net income to deteriorate by € 284k. As the 1-month EURIBOR was negative at the end of the 2016 financial year and the loan agreement in this case provides for application of a floating interest rate of 0.00 %, a reduction in the floating interest rate by 100 base points would not have had any impact on consolidated net income.

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 € 256k (previous year: € 266k) higher (lower) and OCI would have been € 275k 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 on the one hand 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 sell assets or make repayments to reduce debts.

The main key figures referred to by the management are shareholders' equity and the equity ratio. Shareholders' equity amounted to € 143.7 million as of December 31, 2016, as against € 130.3 million at the equivalent date in the previous year. The equity ratio amounted to 55.7% at December 31, 2016 (previous year: 82.0%). 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 2016 financial year, STRATEC AG generated revenues of € 2k (previous year: € 2k) from transactions with STRATEC Biomedical (Taicang) Co. Ltd. and purchased services of € 466k (previous year: € 427k) 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 count as related parties pursuant to IAS 24 (hereinafter 'the Leistner family'). 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 68k). As Hermann Leistner is a member of the Supervisory Board of DITABIS Digital Biomedical Imaging Systems AG and Managing Director of LITRON GmbH through to the deletion of that company in the 2016 financial year, these companies count as related parties pursuant to IAS 24 (Related Party Disclosures) via the Leistner family. In the 2016 financial year, STRATEC AG generated revenues of € 2k from transactions with DITABIS Digital Biomedical Imaging Systems AG (previous year: € 2k) and purchased services of € 14k (previous year: € 0k) from this company. As of the balance sheet date, the company had no receivables (previous year: € 0k) due from and liabilities of € 9k (previous year: € 0k) due to DITABIS Digital Biomedical Imaging Systems AG. As in the previous year, STRATEC AG generated no revenues from transactions with LITRON GmbH and purchased no services from this company. Services were performed on customary contractual conditions.

Directors and officers

The company's **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. More detailed comments on 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. 'Disclosures on 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 € 2,267k for their activity on the Board of Management in the 2016 financial year (previous year: € 2,089k). As of December 31, 2016, the net balance of performance-related payments outstanding for members of the Board of Management amounted to € 2,115k (previous year: € 1,788k).

	2016 € 000s[1]	2015 € 000s[1]
Short-term benefits	1,216	1,151
Post-employment benefits[2]	215	215
Other long-term benefits[3]	381	271
Share-based compensation[4]	455	452

[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 2016 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 2014 (2013), which covers 2014, 2015, and 2016 (2013, 2014, and 2015) and is due for payment in 2017 (2016).
[4] The amount disclosed corresponds to the fair value upon issue of the stock appreciation rights (SARs) granted in 2016 (2015) and calculated in accordance with IFRS 2 (Share-based payment).

One former member of the Board of Management received total compensation of € 193k in the 2016 financial year (previous year: € 318k).

The company's **Supervisory Board** comprised the following individuals in the year under report:

- **Fred K. Brückner,** Marburg
  (Chairman)
  Chemical Engineer and Independent Management Consultant

- **Wolfgang Wehmeyer**, Tübingen
  (Deputy Chairman)
  Graduate in Mechanical Engineering, BBA, MBA, Senior Vice President Care Innovation, Fresenius Medical Care Deutschland GmbH

- **Prof. Dr. Stefanie Remmele**, Landshut
  fessor 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.

The Supervisory Board members received total compensation of € 125k in the 2016 financial year for their activities on the Supervisory Board (previous year: € 128k). The specific structure of overall compensation was as follows:

	2016 € 000s	2015 € 000s
Fixed compensation	113	115
Meeting allowance	12	13
Total	**125**	**128**

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 € 83,442k (previous year: € 76,948k). Of this total, € 1,328k relates to property, plant and equipment (previous year: € 350k), and € 10k to intangible assets (previous year: € 14k).

The rental and leasing contracts for buildings, vehicles, and office and other equipment have terms of up to 9.9 years. The leasing contracts provide for conditional leasing payments dependent on the number of kilometers traveled or the number of copies made. Payments of € 991k were made for rental and leasing contracts in the 2016 financial year (previous year: € 954k). The contracts provide for extension and purchase options in some cases.

The income and expenses recognized for rental and leasing contracts are structured as follows:

	2016 € 000s	2015 € 000s
Minimum leasing payments	991	954
Conditional leasing payments	11	3
Less leasing income from subletting arrangements	-92	-446
Total	**910**	**511**

Undiscounted future minimum leasing and rental payments in connection with operating leases amounted to € 9,004k as of the balance sheet date (previous year: € 3,362k). 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. By contrast, the rental agreement reported in the previous year for STRATEC Biomedical USA, Inc. no longer existed as of the balance sheet date. The remaining terms of the rental agreements amounted to up to 9.9 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:

	2016 € 000s	2015 € 000s
Future minimum leasing payments		
Due within one year	1,523	335
Due in between one and five years	5,022	1,175
Due in more than five years	1,926	0
Total future minimum leasing payments	8,471	1,510
Less leasing income from subletting arrangements	0	-446
Net minimum leasing payments	**8,471**	**1,064**

Part of the company building used by STRATEC Biomedical USA, Inc. was sublet in the 2016 financial year. The subletting arrangement no longer existed as of December 31, 2016.

The income from the subletting contract were structured as follows:

	2016 € 000s	2015 € 000s
Future minimum leasing payments		
Due within one year	0	99
Due in between one and five years	0	347
Due in more than five years	0	0
Total future minimum leasing payments	**0**	**466**

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:

	2016 € 000s	2015 € 000s
Future minimum leasing payments		
Due within one year	28	74
Due in between one and five years	110	53
Due in more than five years	0	0
Total future minimum leasing payments	**138**	**126**

Other financial payment obligations mature as follows:

	2016 € 000s	2015 € 000s
Due within one year	65,465	62,591
of which for operating leases	1,798	950
Due in between one and five years	25,886	17,694
of which for operating leases	5,280	1.860
Due in more than five years	1,926	582
of which for operating leases	1,926	582
Total	**93,278**	**80,867**
of which for operating leases	9,004	3,392

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 holding at least 3 % of the voting rights:

Notifying party	Date on which threshold was met	Share of voting rights in %	Share of voting rights absolute	Attributable share of voting rights (at least 3 %)
Threadneedle Investment Services Limited, London, UK	01.19.2012	4.71	550,051	Threadneedle Investment Funds ICVC
Threadneedle Investment Funds ICVC, London, UK	01.19.2012	4.71	550,051	
Threadneedle Asset Management UK Limited, London, UK	04.18.2013	5.35	628,462	Threadneedle Investment Funds ICVC
Allianz SE, Munich, Germany	12.10.2013	5.11	601,001	Allianz Europe B.V., Allianz Holding France SAS, Allianz France S.A. and Allianz I.A.R.D. S.A.
Allianz Europe B.V., Amsterdam, Netherlands	12.10.2013	5.10	600,000	Allianz Holding France SAS, Allianz France S.A. and Allianz I.A.R.D. S.A.
Allianz Holding France SAS, Paris, France	12.10.2013	5.10	600,000	Allianz France S.A. and Allianz I.A.R.D. S.A.
Allianz France S.A., Paris, France	12.10.2013	5,10	600,000	Allianz I.A.R.D. S.A.
Allianz I.A.R.D. S.A., Paris, France	12.10.2013	5.10	600,000	
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
Allianz Global Investors Europe GmbH, Frankfurt am Main, Germany	07.21.2014	7.14	842,323	Allianz I.A.R.D. S.A.
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	
Ameriprise Financial, Inc., Minneapolis, Minnesota, US	10.29.2015	5.0003	592,361	Threadneedle Investment Funds ICVC
Threadneedle Asset Management Holdings SARL, Luxembourg, Luxembourg	10.29.2015	5.0003	592,361	Threadneedle Investment Funds ICVC
Threadneedle Holdings Limited, London, UK	10.29.2015	5.0003	592,361	Threadneedle Investment Funds ICVC
TAM UK Holdings Limited, London, UK	10.29.2015	5.0003	592,361	Threadneedle Investment Funds ICVC
Threadneedle Asset Management Holdings Limited, London, UK	10.29.2015	5.0003	592,361	Threadneedle Investment Funds ICVC
TC Financing Limited, London, UK	10.29.2015	5.0003	592,361	Threadneedle Investment Funds ICVC
Threadneedle Asset Management Limited, London, UK	10.29.2015	5.0003	592,361	Threadneedle Investment Funds ICVC
Ameriprise International Holdings GmbH, Zug, Switzerland	10.29.2015	5.0003	592,361	Threadneedle Investment Funds ICVC
Oppenheimer International Small-Mid Company Fund, Centennial, Colorado, US	11.29.2016	5.19	615,133	
OppenheimerFunds, Inc., Denver, Colorado, US	11.29.2016	5.19	615,133	Oppenheimer International Small-Mid Company Fund

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

The company concluded a master loan agreement with a five-year term with several banks on February 28, 2017. This has converted two bridge financing facilities which were taken up in the context of the company acquisitions in the 2016 financial year into a long-term master loan agreement with a total volume of up to € 70 million, thus improving the plannability of the company's liquidity and financial situation.

Other than this, no events of particular significance expected to materially impact on the company's earnings, financial, or net asset position have occurred.

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, 2017

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, 2017

STRATEC Biomedical AG
The Board of Management

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

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements prepared by **STRATEC Biomedical AG, Birkenfeld,** comprising the balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows, segment reporting and the notes to the consolidated financial statements, together with the Group Management report, of STRATEC Biomedical AG, for the financial year from January 01 to December 31, 2016. The preparation of the consolidated financial statements and Group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) HGB and supplementary provisions of the articles of association is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the Management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and the generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit in a way that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements and in the combined Management report in accordance with the applicable financial reporting framework are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the combined Management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by Management as well as evaluating the overall presentation of the consolidated financial statements and the Management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to sect 315a (1) HGB and supplementary articles of association and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Management report is consistent with the consolidated financial statements , complies with legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, April 5, 2017

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Christian Fuchs	Linda Schwachulla
Chartered Accountant	Chartered Accountant

FINANCIAL CALENDAR

04 **April 20, 2017** Annual Financial Report 2016	**05** **May 4, 2017** Quarterly Statement Q1|2017	**06** **June 14, 2017** Annual General Meeting, Pforzheim, Germany
07 **July 25, 2017** Half-yearly Financial Report H1|2017	**10** **October 26, 2017** Quarterly Statement 9M|2017	**11** **November 28, 2017** German Equity Forum, Frankfurt/Main, Germany

Subject to amendment

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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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