ZEPPELIN®
WE CREATE SOLUTIONS

2017 ANNUAL REPORT

zeppelin.com

ZEPPELIN AT A GLANCE

		2017	2016	2015	2014	2013
Sales						
Construction Equipment EU SBU	EUR m	1,308	1,205	1,123	1,041	1,036
Construction Equipment CIS SBU	EUR m	430	299	307	434	573
Rental SBU	EUR m	410	363	373	348	290
Power Systems SBU	EUR m	351	307	283	301	311
Plant Engineering SBU	EUR m	326	262	328	266	299
Z Lab SBU	EUR m	0	0	-	-	-
Total for the Zeppelin Group [1]	EUR m	2,751	2,362	2,328	2,301	2,434
Employees (average for the year including trainees)						
Construction Equipment EU SBU		2,687	2,594	2,679	2,616	2,661
Construction Equipment CIS SBU		1,673	1,605	1,662	1,810	1,733
Rental SBU		1,336	1,236	1,238	1,254	1,048
Power Systems SBU		823	793	788	776	773
Plant Engineering SBU		1,366	1,332	1,376	1,373	1,381
Z Lab SBU		39	22	-	-	-
Total for the Zeppelin Group [1]		8,004	7,646	7,801	7,882	7,648
Fixed assets						
Additions	EUR m	236.9	170.2	184.7	157.3	118.2
Changes in consolidated companies	EUR m	0.0	0.0	-5.8	1.5	0.1
Depreciation	EUR m	103.6	90.9	88.5	80.1	72.2
	% of additions	44	53	48	51	61
Thereof, rental assets						
Additions	EUR m	169.5	109.0	133.0	108.9	63.4
Changes in consolidated companies	EUR m	0.0	0.0	-	-	-
Depreciation	EUR m	60.1	50.1	46.1	41.1	38.2
Result of ordinary activities	EUR m	96.3	88.5	84.2	74.5	67.6
Net Group income	EUR m	57.6	59.1	56.1	45.8	42.7
Net cash flow	EUR m	195.5	179.1	181.4	132.8	122.5
Equity	EUR m	674.4	633.4	566.3	522.8	513.9
Thereof,						
Subscribed capital	EUR m	100.0	100.0	100.0	100.0	100.0
Capital reserves	EUR m	60.0	60.0	60.0	60.0	60.0
Retained earnings	EUR m	508.7	468.7	404.0	362.0	353.5
Minority interests	EUR m	5.7	4.7	2.3	0.8	0.5

[1] including Zeppelin GmbH SBU: Strategic Business Unit

CONTENTS

THE MANAGEMENT BOARD

CHRISTIAN DUMMLER

Managing Director of Zeppelin GmbH / CFO

Finance, Controlling, Real Estate Management, Legal Affairs

Certified Banking Specialist

Member of the Management Board of
Zeppelin GmbH since 2011

MICHAEL HEIDEMANN

Vice Chairman of the Management Board of Zeppelin GmbH

Sales, Marketing, Service

Responsible for the Construction Equipment EU,
Construction equipment CIS,
and Rental strategic business units

Industrial Manager

Member of the Management Board of Zeppelin GmbH since 2000 and Vice Chairman of the Management Board of Zeppelin GmbH since 2010

PETER GERSTMANN

Chairman of the Management Board of Zeppelin GmbH/Labor Director

Compliance, Group Development, IT, Digital Business, HR, Auditing, Corporate Communications

Responsible for the Plant Engineering, Power Systems, and Z Lab strategic business units

MBA

Member of the Management Board of Zeppelin GmbH since 2007 and Chairman since 2010

MANAGEMENT BOARD REPORT

Dear readers – customers, partners and colleagues,

The Zeppelin Group enjoyed an extraordinarily successful year in 2017, achieving the highest revenue in the company's history. All divisions of the company were well-positioned and performed strongly, achieving good revenue growth in a positive economic environment. Almost all of the construction machine markets relevant to Zeppelin experienced growth, while utilization of the machine population was also high. Demand for rental and other services was highly dynamic. The Plant Engineering and Power Systems business units also enjoyed a largely positive market environment in 2017. The generally good development on the markets led to strong growth in revenue of 16%, to 2.75 billion euros, and all-time highs in terms of order entries and the order backlog. This success was made possible by the work of more than 8,000 employees all over the world, including trainees.

The market for new construction machines in Germany remained at a very high level thanks to the numerous infrastructural measures under way, as well as a large number of industrial and residential construction projects. In the Czech Republic, Slovakia and Austria, we achieved moderate growth overall for the year. The rental market for construction machinery and equipment benefited from a positive construction environment.

Substantial recovery trends were established in our markets in the CIS member states, particularly in Russia and Ukraine, owing to currency stabilization and increases in the price of raw materials in Russia and Ukraine.

Development on the markets for engines was uneven. While there was little growth in the oil and gas and diesel locomotive segments, the markets for energy and original machine equipment experienced dynamic growth. In the marine segment, we benefited from positive development in the cruise ship sector.

Project activity was high in all market segments of the Plant Engineering business unit. Demand was comparatively high, especially in Europe, the USA and Asia. In countries dependent on oil revenue, however, reluctance to invest continued to prevail.

Construction Equipment EU strategic business unit

We succeeded in further strengthening our leading market position in Germany, Austria, the Czech Republic and Slovakia in 2017. At the same time the machine population was increased, which also increased our potential servicing opportunities – a very important factor for us. We also further expanded our digital construction machine technology by investing in a joint venture with IBS Bauvermessung GmbH, a supplier in the machine control sector.

We acquired shares in INTRAC Polska Sp. z o.o. in the 2017 fiscal year. As part of this acquisition, we took over machinery and spare parts sales as well as the servicing business for special forklifts and Grove autocranes in Poland.

Construction Equipment CIS strategic business unit

In April 2017, the business unit became the official Mercedes-Benz truck dealer for the Russian Republic of Karelia and the Archangelsk region. The collaboration includes the sale and maintenance of Mercedes commercial vehicles as well as the sale of spare parts. This partnership has helped the business unit to strengthen its market profile and open up new sales opportunities.

PETER GERSTMANN

A major order for mining equipment to the value of 18 million euros was secured with a steel producer in Ukraine, while a Ukrainian coal company placed a 3.5-million-euro underground mining order with the Zeppelin Group.

In the agricultural machinery sector in Russia, we will concentrate on services and the sale of spare parts for various manufacturers in the future. The completion of a new sales, service and logistics center in St. Petersburg, which will serve all business segments in north west Russia, is planned for 2018.

Rental strategic business unit

The digital solution for our online rental offering has been adapted to customer requirements and further enhanced. In order to strengthen its market position in the site and traffic guidance segment, the Rental business unit acquired 100% of shares in Limes Mobil GmbH. The rental business acquired from STAPLER-RENT 2000 GmbH in 2016 was fully integrated in 2017.

Power Systems strategic business unit

Order entry was high in the cruise ship segment, both for the maritime industry and for inland shipping. In addition to the supply of engines, these orders included comprehensive maintenance and service contracts running over several years.

In July, the Power Systems business unit and German Dry Docks AG founded MWB Marine Services GmbH. This joint venture enabled us to expand our service expertise in the marine segment through providing maintenance and repair services that are not dependent on a particular manufacturer.

Plant Engineering strategic business unit

In concluding a 17.6 million USD contract pertaining to the construction of the world's first industrial-scale recycling plant for used tires, the Plant Engineering business unit reached a milestone in this field and thereby made an important contribution towards protecting the environment and expanding the responsible handling of natural resources.

In the control technology sector, the business unit entered into a joint venture with Indian automation company Smart Controls with the goal of working together to provide innovative control solutions for the rubber and tire industry.

The existing joint venture with Dekai was expanded for the important Chinese market. The joint venture will expand production capacities in China accordingly, which will enable it to also serve the Asian market from Shanghai in the future.

Z Lab/Digitization strategic business unit
Throughout the 2017 fiscal year, the focus was on developing digital solutions for the construction industry. The klickrent online rental platform was improved and enhanced with additional features.

The resources for the digitization of the existing business were amalgamated in the Z Lab business unit for the purposes of pooling our expertise. The further expansion of our customer portal and the enhancement of our online rental range constituted substantial progress in the implementation of our digitization strategy. The Zeppelin Group has once again invested heavily in digital transformation and will continue to drive it in the future. The strategic goal of the Zeppelin Group is to provide a digital platform for holistic solutions – which are not dependent on a particular manufacturer – in the construction industry and the industrial sector.

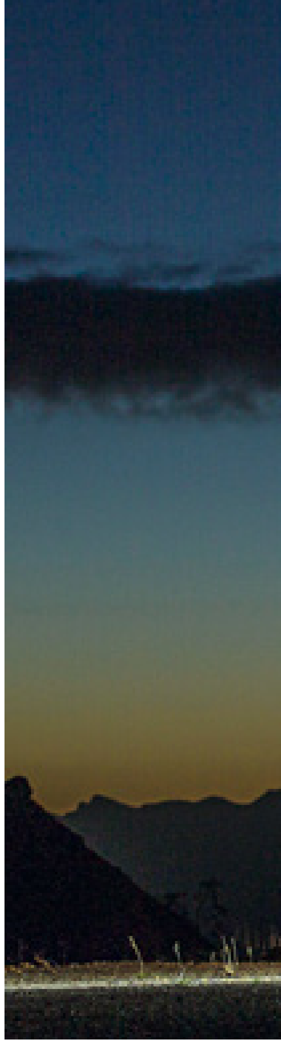
In order to equip our employees for the challenges of digital transformation and to support lifelong learning, a "Learning Community" was initiated in 2017. This offers all employees the opportunity to adopt new methods and learn from one another. The Z CONNECT internal communications platform, introduced at the end of 2017, enables all employees to network, exchange information and share knowledge on a global scale.

Caterpillar
In the 2017 fiscal year, our partner Caterpillar completed the restructuring measures it had initiated at the end of 2015 and achieved considerable increases in revenue and earnings. Jim Umpleby was appointed as the new CEO of the company on 1/1/2017. With its "Winning Together with our Customers" strategy, Caterpillar and its 180 dealers worldwide are emphasizing customer focus.

Employer attractiveness and employee retention
Work-life balance was one of the focal points with regard to improving our employer attractiveness. As such, the audit performed for the purposes of obtaining the "berufundfamilie" quality mark has been extended to all German companies in the Group, after we received the award for Zeppelin GmbH in 2015.

The Zeppelin Group carried out the Z VOICE employee opinion survey in March 2017. The participation rate was 64%. A total of 83% of our employees see Zeppelin as an attractive employer, and 75% are prepared to go the extra mile for the company. However, respondents also pointed out the high workload. Based on the survey, central action areas were defined and appropriate measures introduced. Thanks to the establishment of the Z NOW Zeppelin Network of Women, female skilled staff and managers will be given additional support and the company will become more attractive to women.

At the start of the year, the application process was standardized, transparency improved and data protection ensured with the introduction of the "TalentLink" applicant management tool in Germany and Austria.



Finances

In order to do justice to Zeppelin's growing international importance, further preparations were made in 2017 for the switch to the International Financial Reporting Standards (IFRS). In future, the Group companies will be managed on the basis of standardized, internationally recognized criteria. This will further improve the quality of the Group's financial reporting. The first IFRS-based Group accounting will take place in 2018.

The Creditreform Rating AG rating agency once again awarded the Zeppelin Group an "A-" quality rating for its credit, reflecting the stable financial outlook for the company.

Zeppelin GmbH has largely extended its syndicated loan agreement for 500 million euros to 2022, ahead of time. In August, bonded loans that had fallen due were refinanced through the issuing of two new bonded loans in the amount of 65 million euros in total.

Investments

Our infrastructure was further expanded through expenditure on construction projects and land acquisition, such as the 9.8 million euros invested in the new building in St. Petersburg, Russia, and the 20 million euros spent on the general modernization and expansion of our network of branches. In addition, a total of 169.5 million euros was invested in the rental fleet. A sum of 6.8 million was invested in Group-wide SAP implementation and the acquisition of SAP licenses. The total investment volume for the 2017 fiscal year was 223,4 million euros.

Outlook

We expect positive economic conditions to continue for the 2018 fiscal year, although growth rates in the individual

market segments may decline slightly. The stabilization and further recovery of raw material prices should lead to further growth in the global economy.

Continuing high investment in infrastructure by the German Federal government, along with a sustained high level of residential construction will ensure continued positivity in the construction industry and thereby ensure good market and sales opportunities for construction equipment in Germany.

While we do not expect any major improvements in the marine and oil and gas applications sectors, growth is set to continue in the energy sector. We are also forecasting stable demand for processing plants in the plastic, rubber and food sectors. Substantial order backlogs are supporting our positive revenue expectations for the Construction Equipment CIS, Power Systems and Plant Engineering business units.

Growing geopolitical risks, the withdrawal of the UK from the EU, and the overheating of the markets constitute significant uncertainties for the 2018 fiscal year.

The positive earnings we expect will enable us to invest further in expanding the Z Lab business unit and in the digital transformation of the existing business models, as well as in the roll-out of SAP over the coming years. This will allow us to secure sustainability and further strengthen our competitiveness.

On behalf of the Management Board of Zeppelin GmbH, I would like thank our customers for their confidence in our solutions and also to thank our employees for their continued commitment and loyalty. I would also like to extend our thanks to the works councils and our supervisory boards and shareholders for their trust in us.

On behalf of the Management Board

Peter Gerstmann
Chairman of the Management Board of Zeppelin GmbH

THE SUPERVISORY BOARD

The Supervisory Board, constituted in accordance with Article 7 of the German Codetermination Act (Mitbestimmungsgesetz), comprises the following members:

SHAREHOLDER REPRESENTATIVES

Andreas Brand
Chairman, Mayor of the City of Friedrichshafen

Dipl.-Ing. Werner Baier
Chairman of the Supervisory Board of Webasto SE

Dr. Reinhold Festge
Partner in HAVER & BOECKER OHG

Dr. Werner Pöhlmann
Lawyer, Tax Adviser, Certified Public Accountant

Univ.-Prof. Dr.-Ing. Dr.-Ing. E.h. Dr. h.c. Dieter Spath
Head of the Institute for Human Factors and Technology Management at the University of Stuttgart, Head of the Institute of Industrial Engineering at the Fraunhofer Institut Stuttgart, President of the German National Academy of Science and Engineering/acatech

Univ.-Prof. Dr. Dr. h.c. mult. Horst Wildemann
Chair for Corporate Management, Logistics and Production at Technische Universität München (TUM)

EMPLOYEE REPRESENTATIVES

Heribert Hierholzer
Vice Chairman,
Production Foreman and Chairman of the General Employee Council of Zeppelin Systems GmbH

Thomas Mann
Head of Time Management and HR Officer at Zeppelin Baumaschinen GmbH

Roswita Feineis
Head of Personnel at Zeppelin Baumaschinen GmbH, Authorized Officer of Zeppelin GmbH, Management Representative

Marita Weber
Primary Authorized Representative of the Offenbach Chapter of the IG Metall Trade Union

Ralph Misselwitz
Senior Field Service Representative, Chairman of the General Employee Council of Zeppelin Baumaschinen GmbH, Chairman of the Group Employee Council of Zeppelin GmbH

Vincenzo Savarino
Primary Authorized Representative of the Friedrichshafen-Upper Swabia and Singen Chapters of the IG Metall Trade Union

SUPERVISORY BOARD REPORT

The 2017 fiscal year was highly successful for the Zeppelin Group, marked by strong growth in orders and revenue, substantial investment in digitization, a series of acquisitions, and continued development and expansion of the network of branches and the Group infrastructure. Significant progress was achieved with regard to the implementation of Strategy 2025. The markets relevant to Zeppelin showed highly dynamic growth in some cases, with clear recovery trends observed in the CIS countries.

The Supervisory Board monitored the work of the Management Board on a regular basis and supported it in management, the strategic development of the Company and on a number of important individual matters. In the 2017 fiscal

ANDREAS BRAND

year, the Supervisory Board continued to perform all its duties pursuant to the law, the articles of incorporation, and the rules of procedure with great care. In addition, the Chairman and Vice Chairman of the Supervisory Board were also informed in detail about current developments and relevant events during regular talks with the management outside of the board meetings. All members of the Supervisory Board were informed promptly and extensively on a monthly basis about the performance of the Zeppelin Group. The long-term successful further development of the Zeppelin Group is the top priority for the Supervisory Board and the Management Board.

The focal points of the reporting and consulting were the strategic development of the Zeppelin Group (particularly in the context of digitization), Group-wide personnel projects, tapping into new growth areas, and planned strategic acquisitions. In addition to these, the main Group projects in the personnel and financial sectors were also discussed in the consultations, along with the planned investments.

The Supervisory Board met for three ordinary meetings to monitor and scrutinize the development and performance of the company, and the activities of the Management Board, on the basis of documents, reports and presentations regarding the company's strategy, plans, profitability, assets, and finances, as well as quarterly risk and compliance reports, the Group auditing department's report and the reporting related to integrating acquisitions. The corporate, investment and financial plans for 2018, with forecasts for 2019 and 2020, were discussed in detail. In addition, a decision was brought by the Supervisory Board in writing in lieu of a meeting.

Following detailed consideration and consultation with the Management Board, decisions were made on a number of projects and measures that required the approval of the Supervisory Board. These consisted mainly of four planned acquisitions, company law changes in Group companies, and financial and investment plans for the 2018 fiscal year.

The Supervisory Board also made decisions concerning the appointment and re-appointment of managing directors at affiliated companies based on relevant recommendations of the HR committee. The HR committee held five meetings to discuss key issues of corporate development and corporate strategy, as well as underlying questions, HR matters and succession planning.

The Supervisory Board advised on strategies and measures for the development and expansion of new business segments, employee recruitment and training, the development of the Group's finance, risk and compliance management system, and the status of other important strategic projects.

The work of the Supervisory Board in general and its scrutiny of the Management Board in particular did not give rise to any complaints. Cooperation both within the Supervisory Board itself and between the Supervisory Board and the Management Board was always open, responsible and constructive.

The financial statements of Zeppelin GmbH and the Group financial statements for the year ending Sunday, December 31, 2017, and the relevant management report were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), which issued an unqualified auditor's statement. The Supervisory Board engaged with the documents in detail and also reviewed them itself. To this end, the audit reports were provided to all members of the Supervisory Board in a timely manner. In due time before the Supervisory Board's accounts review meeting, PwC and members of the Supervisory Board met twice to discuss the details, focal points and findings of the year-end audits. During the accounts review meeting of the Supervisory Board on Thursday, March 22, 2018, PwC explained the key results of the audit, which were discussed in detail. The Supervisory Board did not raise any objections. It approved the results of the audit and thereby approved the financial statements of Zeppelin GmbH and the Group financial statements. The financial statements are thereby adopted. The Supervisory Board approved the Management Board's proposal concerning the appropriation of profit.

The Supervisory Board would like to thank the Management Board, the employee representatives and all employees worldwide for their outstanding work during the 2017 fiscal year and their willingness to tackle the challenges of the future with gusto. The continued success of the Zeppelin Group in 2017 has only been possible thanks to your strong commitment and extraordinary motivation.

Friedrichshafen, March 22, 2018

On behalf of the Supervisory Board

Andreas Brand

Andreas Brand
Chairman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ZEPPELIN WORLDWIDE

More than 8,000 employees at 190 sites in 35 countries help customers to increase their competitiveness by means of our extensive portfolio of products and services.

Construction Equipment EU
Germany / Austria / Poland [1] / Slovakia / Czech Republic

Construction Equipment CIS
Armenia / Northwest, Central and Southwest Russia / Tajikistan / Turkmenistan / Ukraine / Uzbekistan / Belarus

Rental
Germany / Austria / Slovakia / Czech Republic

Power Systems
Armenia / Azerbaijan [3)] / Bulgaria [2)/3)] / Germany / Georgia [3)] / Kazakhstan [2)/3)] / Kyrgyzstan [3)] / Moldavia [3)] / Mongolia [3)] / Austria / Poland [2)/3)] / Romania [2)/3)] / Russia [2)] / Switzerland [2)/3)] / Slovakia / Tajikistan / Czech Republic / Turkmenistan / Ukraine / Hungary [2)/3)] / Uzbekistan / Belarus / Cyprus [2)/3)]

Plant Engineering
Australia / Belgium / Brazil / China / Germany / France / UK / India / Italy / Russia / Saudi Arabia / Singapore / South Korea / USA

Z Lab
Germany

[1)] Hyster forklifts / Manitou conveyor systems only
[2)] MaK engines only
[3)] Sales and services segment only

OVERVIEW OF THE ZEPPELIN GROUP

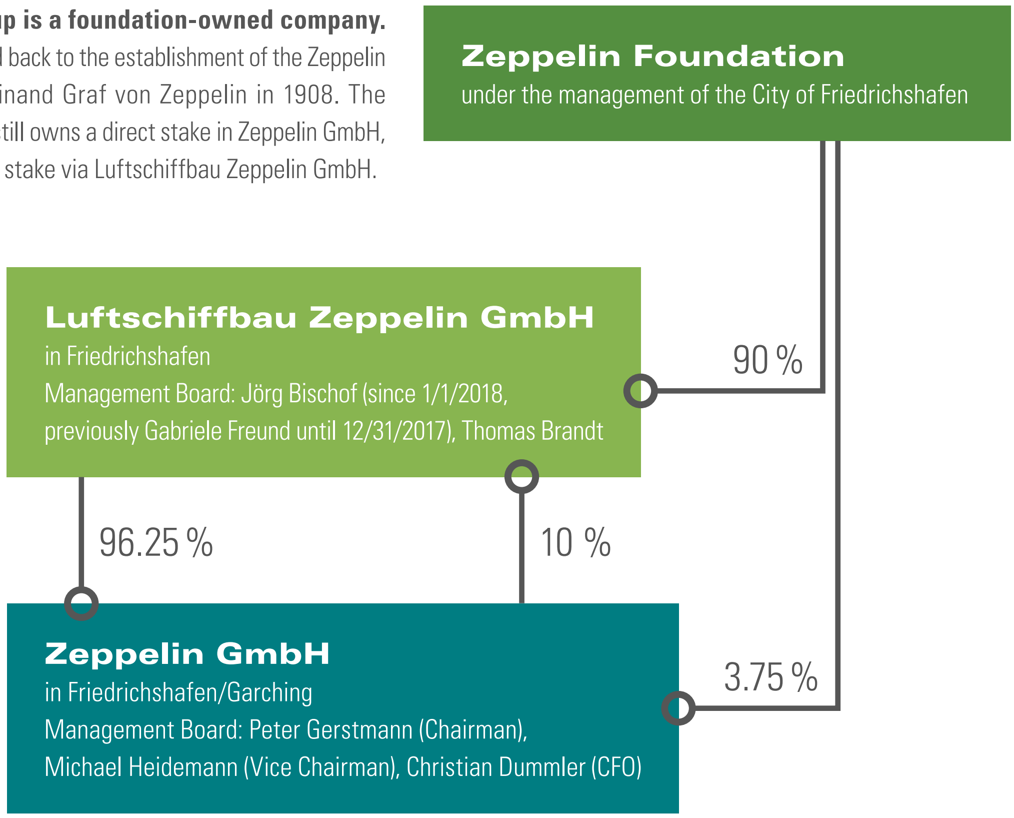
The Zeppelin Group has 190 sites in 35 countries. The company provides solutions in the following areas: construction machinery, mining machinery, agricultural machinery, rental machinery, construction logistics, construction site management, drive, propulsion, traction and energy, engineering, and plant engineering. It also develops new digital business models for the construction sector. Zeppelin generated a sales volume of 2.75 billion euros in the 2017 financial year; more than 8,000 employees (including trainees) contributed to this success.

190 Sites

35 Countries

Group-wide collaboration at Zeppelin revolves around a management holding company and six strategic business units: Construction Equipment EU, Construction Equipment CIS, Rental, Power Systems, Plant Engineering and Z Lab. This structure makes it possible to centralize operations and gear our business models towards various markets and customers. The Group's management holding company is Zeppelin GmbH. The company is legally domiciled in Friedrichshafen, with its headquarters located in Garching near Munich.

The Zeppelin Group is a foundation-owned company. Its roots can be traced back to the establishment of the Zeppelin Foundation by Ferdinand Graf von Zeppelin in 1908. The Zeppelin Foundation still owns a direct stake in Zeppelin GmbH, as well as an indirect stake via Luftschiffbau Zeppelin GmbH.



Zeppelin is noted for its high solutions competence and excellent service offering. Our promise to customers is “We Create Solutions”. Our diverse portfolio of innovative products and services, as well as Group-wide collaboration across borders and across business units, allows us to serve as a one-stop shop for solutions. Working with Zeppelin, customers can successfully shape their business and increase their competitiveness.

That means each individual, and Zeppelin staff as a whole are responsible for implementing our mission statement. We act across departments and countries in the interests of our customers.

We plan, shape, repair, calculate, analyze, manufacture, process and advise. We provide tailored, well designed and reliable products and services for every customer.

We find a lasting solution to every customer requirement. This increases customer satisfaction and ensures our success.

We Create Solutions

The GPS Corporate Strategy

Our company’s success is based on the GPS strategy, standing for growth, performance, and stability. The goals of continuous growth, outstanding performance, and lasting stability point the way ahead for the Group.

Growth refers to the continuous growth of the Group. Based on established business models and new, forward-looking business areas, the company’s range of services is constantly being expanded in order to ensure its competitiveness.

Performance stands for the outstanding achievements of Zeppelin employees. They recognize their customers’ needs, use their skills in a targeted way, and offer perfectly tailored solutions.

Stability refers to the long-term stability of the Group. Weighing up opportunities and risks during decision-making processes creates an environment that offers long-term stability, thereby ensuring the company’s future competitiveness.

OVERVIEW OF THE ZEPPELIN GROUP

CONSTRUCTION EQUIPMENT CIS
Sales and servicing of construction and agricultural equipment

Zeppelin's Construction Equipment CIS business unit is successfully positioned in Eastern Europe and Central Asia. Its portfolio includes Caterpillar construction machines, special equipment for surface and underground mining, and large or special equipment for mines and quarries, and the oil and gas industry. It also extends to agricultural and forestry machinery from leading international manufacturers. The extensive product range is rounded off by fleet management and machine control systems for improving work processes and enhancing efficiency. The business unit is leading the way with its Component Rebuild Centers for overhauling components used in mining.

RENTAL
Rental and project solutions for construction and industry

The Rental strategic business unit offers tailored solutions in the areas of rental, construction logistics, and temporary infrastructure. The latter ranges from site and traffic guidance, electrical construction site facilities and energy supply to modular space solutions for rent, to purchase or as operator models. Construction logistics includes the planning and coordination of all construction logistics processes, including access control, supply and disposal logistics, worker protection, health and safety coordination and training, as well as construction management with project and site development, building assessment, and workplace management. With over 62,000 machines and pieces of equipment, including a number of premium products from the market leader Caterpillar, maximum availability and range are guaranteed.

CONSTRUCTION EQUIPMENT EU
Sales and servicing of construction machines

The Construction Equipment EU business unit is a leader in Europe for sales and servicing of construction machines. Its portfolio includes over 200 different types of machine from market leader Caterpillar. It provides customers with powerful earthmoving, excavation, demolition, recycling, and road construction equipment, as well as offering gardening and landscaping, agricultural, and industrial machinery. The product range is rounded off by special equipment for surface and underground mining, and fleet management and machine control systems. A dense network of branches with a central spare parts warehouse ensures customers receive fast responses and quick delivery. The general overhaul of used construction machines also offers a cost-effective and resource-conserving alternative to buying new. In this respect, particular emphasis was placed on all-round care for customers in the construction sector and the building materials industry. The selection ranges from seismographic soil testing and drone flights to all-inclusive contracts.



PLANT ENGINEERING

Development and production of plants, components, and systems

The Plant Engineering business unit specializes in developing and manufacturing components and systems for handling high-quality bulk materials. The systems are used worldwide in the chemical, plastics, rubber, tire, and food industries. The business unit supports customers every step of the way, from project development, engineering, production, automation, control technology, site installation and commissioning through to after-sales service. In addition, it offers quality services to the aerospace and automotive industries. Customers can work with Zeppelin experts in test centers to examine new formulations and raw material mixtures.

Z LAB

New digital business models

The Z Lab business unit is engaging with the digitized construction site, and is developing new digital business models for the construction industry, not to mention related industries such as logistics and infrastructure. To do so, Z Lab combines the industry expertise of the Zeppelin Group with the digital expertise of start-up employees from outside the industry. Work is under way to develop digital B2B solutions within a dynamic environment. The aim is to make the construction site of the future more efficient, networked and automated. “klickrent”, a non-proprietary platform for the rental of construction equipment, construction machinery and conveyor systems, is the first standalone B2B venture for the business unit.

POWER SYSTEMS

Drive, propulsion, traction and energy systems

The Power Systems business unit sells and provides services for drive, propulsion, traction, and energy systems based on Caterpillar engines from the Cat, MaK and EMD brands. It is a leading provider of solutions for industrial and marine applications, rail vehicles, the oil and gas industry, and power generation. From mobile and stationary energy systems for power generation and complete installation in plants and buildings, through to turnkey CHP plants, it provides solutions based on diesel, gas and dual-fuel engines. It counts complete and custom drive systems and propellers for the most diverse types of ship amongst its core competencies. These drive solutions are used in industry, agriculture, seagoing and inland waterway vessels, in rail transport, and for petroleum and natural gas production. Its portfolio also includes system components, complete modules, and turnkey solutions for treating ballast water.

CORPORATE CULTURE

We live our values

The corporate culture of the Zeppelin Group is shaped by its identity, as a foundation-owned company, and its history. The corporate foundation for what is now the Zeppelin Group was laid in 1908, with the founding of Luftschiffbau Zeppelin GmbH and the Zeppelin Foundation by Ferdinand Graf von Zeppelin. His work and the values for which he stood still influence the Zeppelin Group to this day.

The basis of the company's value system is formed by the integrity and excellence of Zeppelin employees.

At the heart of this Zeppelin system of values are ten "Grafensätze". They form a link between the Group's current corporate culture and its unique company history, along with values actively embodied by Graf von Zeppelin, such as the ability to work in a team and willingness to learn. Our "Grafensätze" are the principles we follow in dealing responsibly with our colleagues, customers, service providers and partners, and are a yardstick for the day-to-day activities of all Zeppelin employees. We live our values.

INTEGRITY

As ambassadors for our culture, our employees epitomize values such as fairness, respect and transparency with respect to compliance, and put those values into practice in their day-to-day work.

EXCELLENCE

As reliable, dynamic partners, our employees recognize the needs of our customers and, with their wide-ranging knowledge of our products and services, are able to deliver outstanding solutions.

Grafen get others on board

Grafen overcome boundaries

Grafen stay on course

Grafen tip their hats

Grafen attract Grafen

Grafen receive support

Grafen move your heart

Grafen make you think

Grafen leave their footprint

Grafen fail successfully

ACQUISITIONS AND JOINT VENTURES

The Zeppelin Group completed a number of acquisitions and concluded several joint ventures in the 2017 fiscal year. Through these activities, the company gained potential revenue in excess of 60 million euros.

2016 2017

December January April June

ACQUISITION

of STAPLER-RENT 2000 GmbH, Germany, Rental SBU

The Zeppelin Group acquired the Rental division of STAPLER-RENT 2000 GmbH with effect from 12/1/2016. The acquisition has increased expertise with respect to the rental of forklifts, and has extended the rental fleet by around 500 machines. It was integrated into Zeppelin Rental GmbH in 2017.

TAKEOVER

of Limes Mobil GmbH Verkehrssicherung, Germany, Rental SBU

Effective since 1/1/2017, Zeppelin has acquired Limes Mobil GmbH Verkehrssicherung, thereby strengthening its expertise in the area of site and traffic guidance.

DEALER

Mercedes-Benz Lkw, Russia, Construction Equipment CIS SBU

On 4/20/2017, the Zeppelin Group became the official Mercedes-Benz truck dealer for the Archangelsk and the Republic of Karelia, Russia. This partnership will expand our product portfolio and thereby strengthen the market position of the Zeppelin Group in Russia.

ACQUISITION

of shares in INTRAC Polska, Poland, Construction Equipment EU SBU

On 6/26/2017, the Zeppelin Group acquired shares in INTRAC Polska Sp. z o.o. As part of the acquisition, Zeppelin took over sales for machinery and spare parts, as well as servicing for specialized forklifts and Grove autocranes at five sites in Poland. This allowed the company to expand its product portfolio and its network of branches in Poland, thereby strengthening its market position.

EXPANSION

of joint venture with Dekai, China, Plant Engineering SBU

The production division of our existing joint venture with Dekai has now been expanded in order to better serve the Chinese market in the future.

July

August

November

INVESTMENT

in the joint venture MWB Marine Services GmbH, Germany, Power Systems SBU

In July, the Zeppelin Group and German Dry Docks AG founded MWB Marine Services GmbH. The joint venture provides maintenance and repair services that are not dependent on a specific manufacturer, as well as spare parts for marine engines. The joint venture has helped to expand the Group's service expertise in the marine segment.

INVESTMENT

in the joint venture with IBS Bauvermessung GmbH, Germany, Construction Equipment EU SBU

The company has further expanded its range of digital construction equipment technology through its participation in a joint venture with IBS Bauvermessung GmbH, a supplier in the machine control sector.

ACQUISITION

of the aeronautics division of Mauderer Alutechnik GmbH, Germany, Plant Engineering SBU

The acquisition of the aeronautics division of Mauderer Alutechnik GmbH in June helped to expand our product portfolio and increased welding production capacity.

ACQUISITION OF SHARES

amounting to 40% in Smart Controls, India, Plant Engineering SBU

In August, the Zeppelin Group entered into a joint venture with Indian automation company Smart Controls in the control technology sector. The partnership is the perfect addition to the strategic concept in favor of digitization.

ORDERS SECURED

The Zeppelin Group continued to win groundbreaking orders in the 2017 fiscal year.

Viking River Cruises AG

In Germany and Austria, the Zeppelin Group has concluded a full service maintenance contract with Viking River Cruises AG, the largest provider of river cruises worldwide. The contract covers a 24-hour service for more than 40 vessels with more than 200 Cat engines, plying the routes from Amsterdam to the Black Sea.

Lydian International

The company has secured the largest single contract in its history in Armenia. Lydian International and its subsidiary Lydian have ordered mining equipment to the value of 65 million USD. A ten-year service contract worth 150 million USD has also been concluded.

Carnival Group

The Zeppelin Group is providing a complete solution by supplying seven new ships to the Carnival Group, with Caterpillar MaK dual fuel engines which run on environmentally friendly liquefied natural gas (LNG). The project volume is 200 million euros.

Pyrolyx AG

The Zeppelin Group is currently building the world's largest tire recycling plant for its long-standing collaboration partner Pyrolyx AG. This order is worth 17.6 million USD. Carbon Black will be recovered from old tires in this plant.

Metinvest

The company has secured a major order to the value of 18 million USD with steel producer Metinvest in Ukraine.

ZapSip Neftekhim

The Zeppelin Group is constructing a plastics plant in Tobolsk, Western Siberia, for the Russian ZapSip Neftekhim Group – an order that is valued at 60 million euros.

DTEK

In Ukraine, equipment worth 3.5 million euros was supplied to coal company DTEK for mining purposes.

NEW Z LAB STRATEGIC BUSINESS UNIT

Digitization in the construction industry

In October 2016, the Zeppelin Group founded the Z Lab strategic business unit, in which new digital business models are developed in parallel to the existing business.

The Berlin-based business unit does not focus on any specific manufacturer in its work, and pursues the objective of using digital business models to achieve sustainable change in the construction, logistics and infrastructure industries – which largely operate offline at present. To this end, the business unit combines the industry expertise and customer network of the entire Zeppelin Group with the digital knowledge of start-up employees from outside the industry. In an agile environment, the group works on innovative solutions for new and existing construction industry customers to make the construction site of the future more efficient and better networked, and to ensure it boasts a greater degree of automation.

The success of the new business unit is ensured through the interplay of several factors. In the role of a company founder, it offers external partners a framework within which sustainable business models can be developed and the focus can remain solely on their success. Through strategic investments, the business unit supports technologies and teams that can add to its portfolio in the long term. Partnerships and collaborations, including those outside the construction industry, constitute another component.

One of the business unit's first successes is klickrent, a digital, manufacturer-neutral platform that can be used to share, rent and rent out construction equipment all over Germany. This solution has seen well-established rental processes moving from the offline world to the networked platform.

Another solution produced by the Zeppelin Group's digital business incubator is maschinator, an online platform that can be used to arrange contracts for construction machine operators easily, quickly and free of charge, whether on a temporary basis or for longer-term projects. maschinator matches job offers from professional employers with the skills profiles of qualified machine operators to provide companies with staff at short notice. The business unit is continually working on further solutions such as Asset-Check, which plans maintenance appointments automatically, and e-commerce solutions.

New ideas are developed through the business unit's network and in collaboration with external partners and start-ups, and are then tested for their customer and market potential by teams within the business unit, with the clear understanding that not every idea will be a success. The goal is to scale at least one new business model every year. This can then be used to found subsidiaries, integrated into one of the business units of the Zeppelin Group or sold. In addition to the organic development of new products, services and business models, collaborations, partnerships and acquisitions will allow the Z Lab business unit to grow more rapidly.

Following its founding and initial experiences with a start-up organization within a corporate group, the Z Lab business unit was restructured during the 2017 fiscal year. The digitization of the existing business and the development of new digital business models were amalgamated under a single management team. This allows a Group-wide holistic and coordinated digital focus to be achieved; synergy and scaling effects to be better utilized; and individuals with expertise to be developed for the organization as a whole. The consolidation of all digitization initiatives will support the Z Lab business unit in developing digital solutions more expediently and providing customers more quickly with technologies that optimize the processes of a construction site.

Z VOICE EMPLOYEE OPINION SURVEY

Get involved!

In March 2017, the Zeppelin Group carried out the Z VOICE employee opinion survey with the aid of the geva-institut, a German consultancy institution specializing in employee opinion surveys. Employees in Germany, Austria, Switzerland, Russia, Ukraine, the Czech Republic and Slovakia were asked to give their feedback on management, collaboration, culture and working conditions at Zeppelin.

Of the 7,069 employees invited to participate, 4,511 shared their views with Zeppelin. This amounts to a **participation rate of 64%**. The results of the survey were very pleasing, and the high degree of motivation among employees should be highlighted as a particular positive: 75% are willing to go the extra mile for the company, while 74% fully identify with Zeppelin and would like to continue working here for some time. 89% of the employees surveyed are proud of their work and 83% would recommend Zeppelin as an employer. Confidence in the Management Boards in the Group is also at a very high level. Another great result is the clear affirmation that Zeppelin's corporate culture is not only set out on paper, but also that the "Grafensätze" (our principles for cultivating relationships with one another based on trust) are being put into practice.

On the other hand, findings from the employee opinion survey also showed very clearly where employees see room for improvement. Three central, group-wide action areas were defined on this basis. Networking within the Group must be strengthened and inter-departmental collaboration encouraged, among other measures. These objectives are supported by the "WE are Zeppelin" internal initiative. The establishment of a fundamental reference framework for remuneration within the Group is another action area. In addition, a solution concept is being developed with the aim of reducing consistently high workloads. Alongside these three central action areas, key aspects were also defined at local level.

Compared to the results of the previous employee opinion survey carried out in Germany in 2013, the Group has improved in the key action areas. For example, the Z IDEA idea management system was launched in 2016.

GROWING WITH ZEPPELIN

A strong employer

The Zeppelin Group's motto as an employer is "Growing with Zeppelin". Employees develop together with the company, and benefit from its international presence and diverse Group-wide career opportunities.

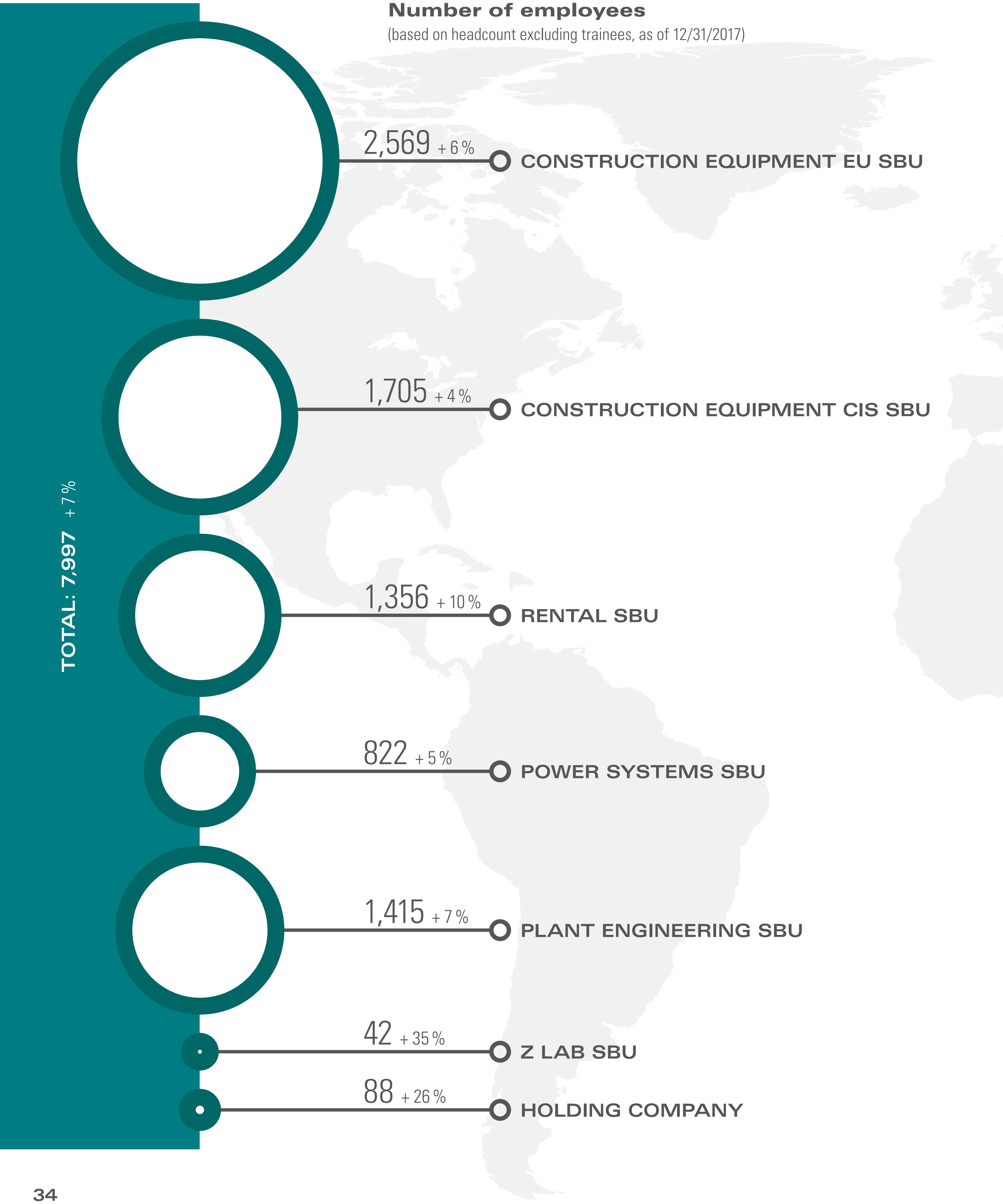
The HR strategy is derived from the corporate strategy and focuses consistently on employees. Three outstanding goals of HR work within the Group as a whole are to find talent, support employees and awaken in them a long-term enthusiasm for Zeppelin. The HR division is constantly developing to ensure success in this area in the future,

And various initiatives have been taken in 2017 to further strengthen Zeppelin's attractiveness as an employer. One priority is achieving an improved work-life balance. In 2015, Zeppelin GmbH was awarded the prestigious "berufundfamilie" work and family quality mark by berufundfamilie Service GmbH. The patrons of the audit are the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth, and the Federal Ministry for Economic Affairs and Energy. The appraisal considers measures that are already in place to support employees, such as flexible working hours and additional employee benefits. The audit was extended to include all Group companies in Germany by the end of 2017.

There was also a strategic HR focus on developing a coordinated, uniform talent management system. The aim is for key positions to be filled from within the company where possible. Selected employees will also be encouraged to remain with the company through targeted career development and promotion. Opportunities for development will be made more transparent, and talent visibility will be increased across departments and on a Group-wide scale. In order to achieve this, the Z Talent initiative was set up in 2017 and a central platform established for internal succession planning.

Other measures aimed at improving employer attractiveness include the introduction of a digital applicant management system and the founding of Z NOW (Zeppelin Network of Women). The goal is to encourage female skilled staff and managers, and to increase Zeppelin's attractiveness as an employer. The proportion of women in the company is set to increase from its current level of 17% to 25% by 2025.

WORKFORCE FIGURES



Workforce by countries

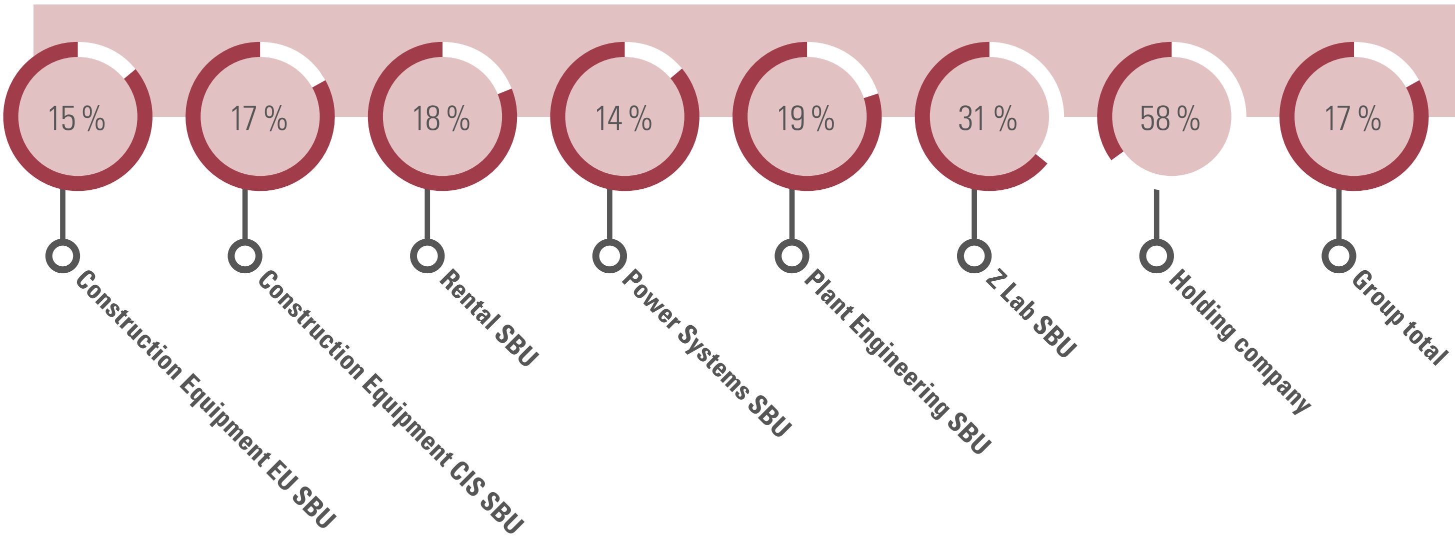
(based on headcount)

Dated 12/31/2017, percentage change compared to 12/31/2016

WORKFORCE FIGURES

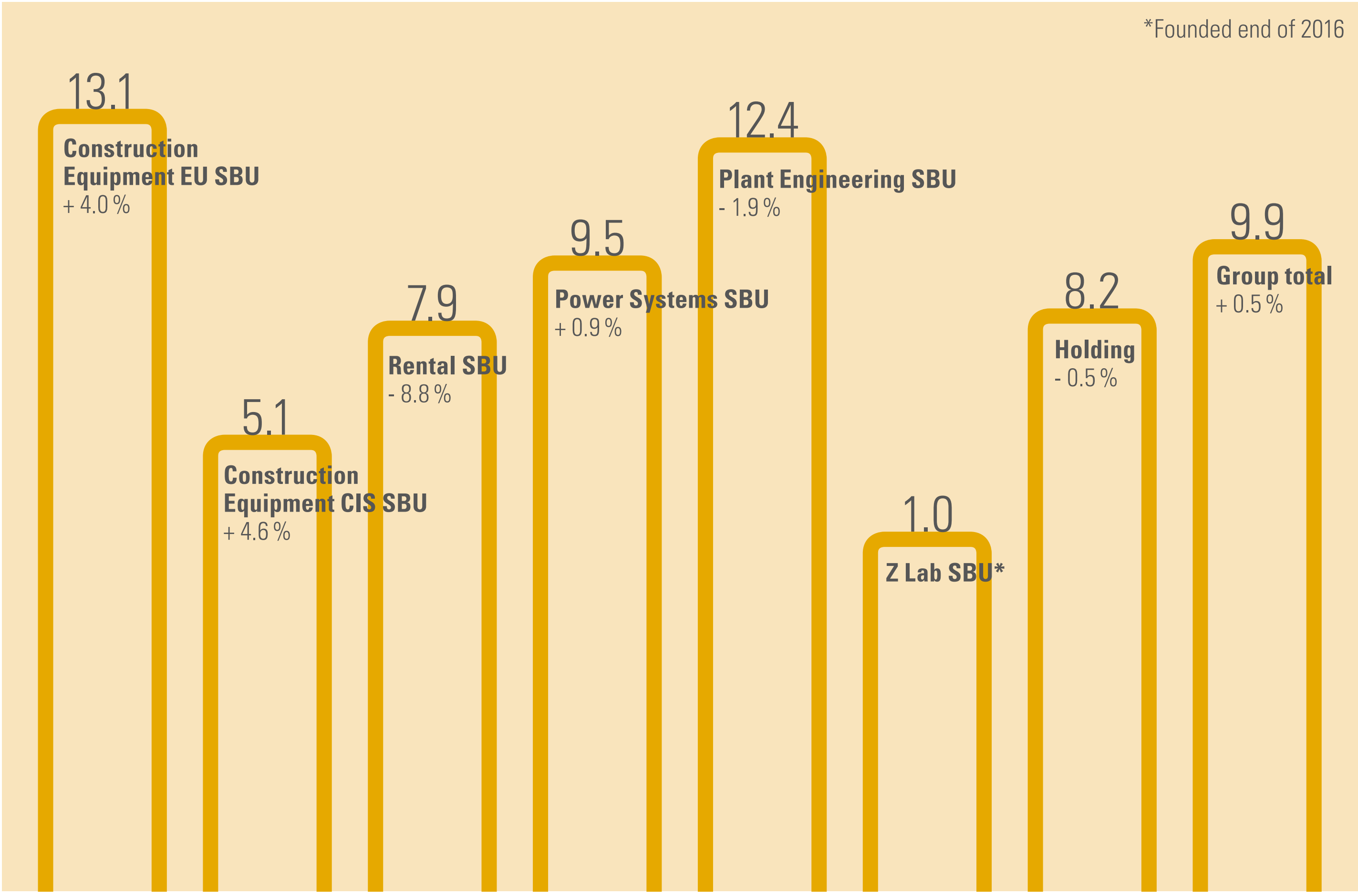
Proportion of women employees

(in %), ☐ proportion of women, ■ proportion of men



Average period of employment with the company

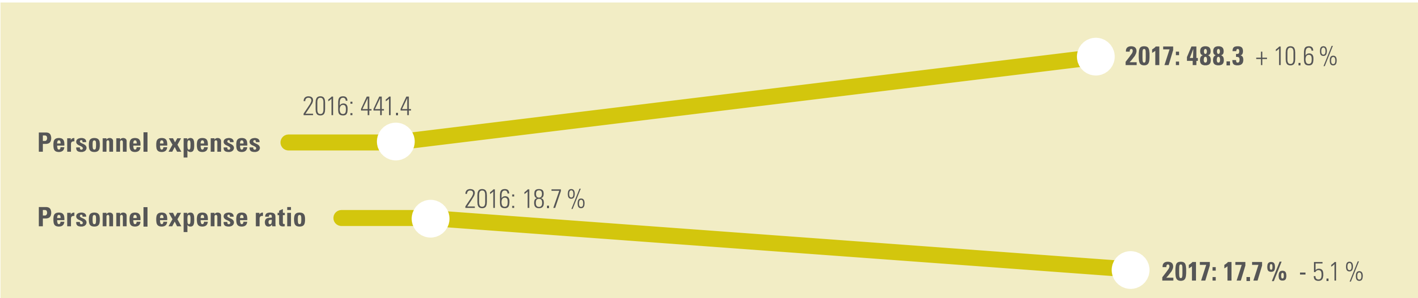
(in years)



Dated 12/31/2017, percentage change compared to 12/31/2016

Personnel expenses and personnel expense ratio

(in millions of euros, based on revenue)



Age structure

(in %)

Years	Construction Equipment EU SBU	Construction Equipment CIS SBU	Rental SBU	Power Systems SBU	Plant Engineering SBU	Z Lab SBU	Holding company	Group total
<= 25	8	3	6	4	6	5	1	6
26 – 30	11	17	11	9	12	31	19	13
31 – 35	12	28	14	18	13	26	16	17
36 – 40	12	23	15	16	12	14	14	15
41 – 45	10	15	12	13	9	10	16	12
46 – 50	14	7	14	14	13	12	13	13
51 – 55	16	4	14	14	15	2	7	13
56 – 60	12	2	10	9	13	–	8	9
60 >	5	1	4	3	6	–	7	4
Average age	**42.8**	**37.1**	**42.1**	**42.2**	**43.3**	**34.8**	**41.5**	**41.4**

Health rate

(in %)

Construction Equipment EU SBU	Construction Equipment CIS SBU	Rental SBU	Power Systems SBU	Plant Engineering SBU	Z Lab SBU	Holding company	Group total
96.4 %	99.4 %	95.1 %	96.3 %	95.8 %	97.1 %	97.0 %	96.7 %

CONSTRUCTION EQUIPMENT EU

Review of 2017

The Construction Equipment EU business unit continued its growth from the 2017 fiscal year. It managed to exceed its sales figures from the previous year and further expand its leading market position. The outstanding business development was supported by the extraordinary condition of the construction industry in Germany. Burgeoning construction demand was also noticeable in Austria. Growth on the market for new construction machines was just moderate in the Czech Republic and Slovakia.

"Still growing – that's true of the Construction Equipment EU business unit and its markets in Germany, Austria and the Czech Republic. Spurred on by the thriving construction industry, the business unit managed to surpass its record sales level from the previous year, which had been the highest result in the company's history. This high level of order entry was achieved thanks to a focus on additional sales territories, improved market penetration as a result of the repartition of individual territories served, and the optimization of sales and service processes as part of the digitization strategy so that products and services could be supplemented and expanded."

Fred Cordes, Head of the Construction Equipment EU strategic business unit

The business unit achieved a new sales record in the new machines sector. The used machines sector also grew thanks to strong domestic demand in Germany. Thanks to the high utilization of service capacity and a strong market presence, potential in the areas of customer service and spare parts sales was tapped at unprecedented levels in Germany.

There was a strategic focus on the further development of the digital transformation initiatives. Sales processes were enhanced on a digital basis and additional sales opportunities created parallel to the analog and established construction machine business model. Customers can use the machine configurator to create their desired machine online, based on their requirements, and then send a request directly to the Sales team.

There was also a focus on the further development of activities for agricultural machines. Sales and service activities for the machines were enhanced with the help of independent agricultural machine dealers.

On 6/26/2017, the business unit acquired shares in INTRAC Polska Sp. z o.o. As part of the acquisition, Zeppelin took over sales for machinery and spare parts, as well as servicing for specialized forklifts and Grove autocranes at five sites in Poland. This allowed the company to expand its portfolio and its network of branches in Poland, thereby strengthening its market position.

The business unit enjoyed great success at the NordBau trade fair, Europe's largest compact trade fair for the construction sector. Revenue far surpassed expectations, at 14.3 million euros. The trade fair stand focused on new technologies, such as integrated machine control, the construction machine configurator and the online customer portal for spare parts. The business unit enjoyed similar success at the steinexpo trade fair for the mining industry, achieving record sales of 12.3 million euros.

Caterpillar awarded the "Most successful Cat sales and service partner in Europe" award to the companies in the Czech Republic and Slovakia.

A new building covering a total area of around 14,000 m² was opened in Oberhausen in July. In addition to the complete renovation of the site, the project also marked a new beginning in branch architecture. The central spare parts warehouse in Cologne and the branch in Garching celebrated their 50th anniversaries, while the company celebrated 70 years of business in Austria.

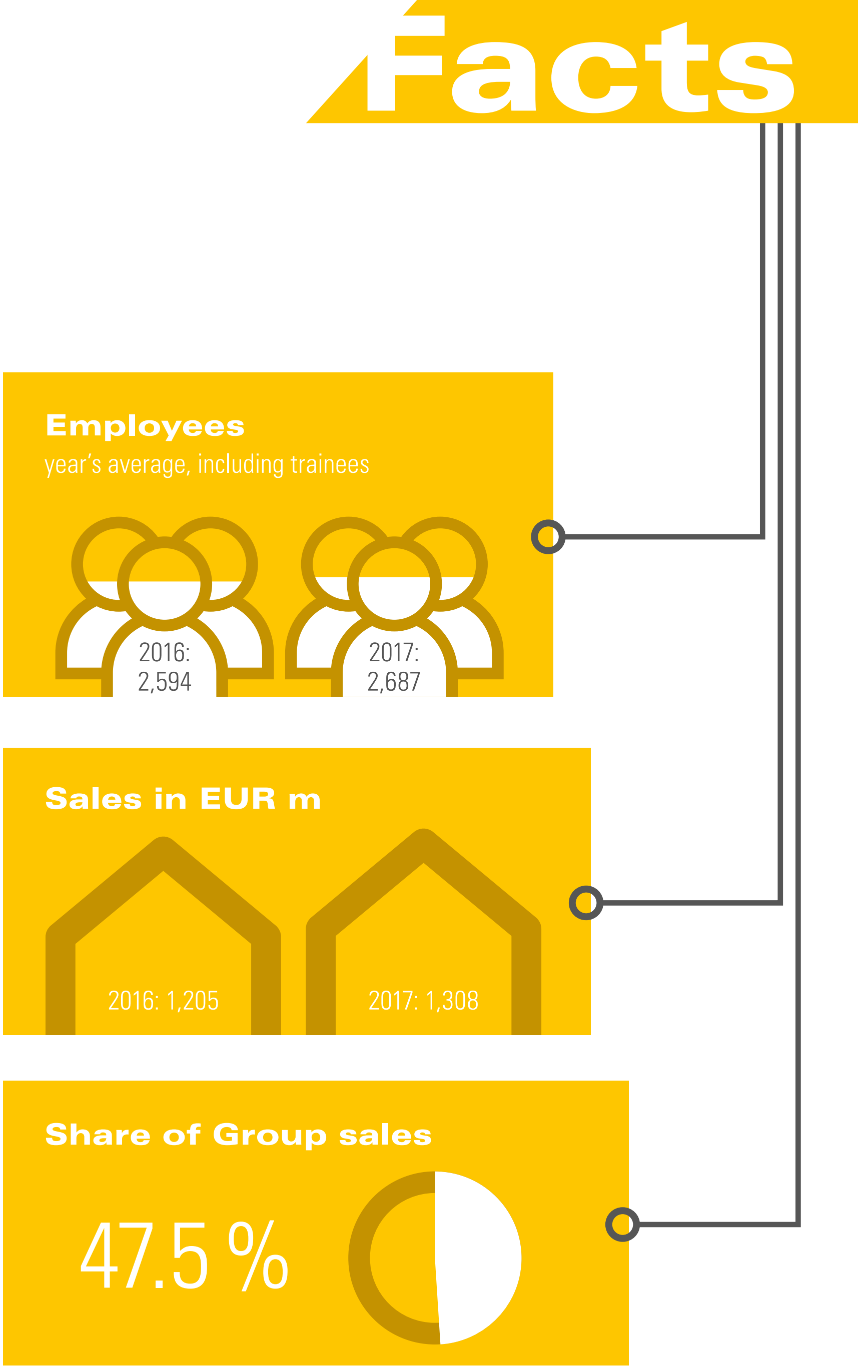
The four core countries forged ahead with the rollout of the SAP IT system to harmonize processes.

Outlook for 2018

Forecasts for 2018 are based the assumption that the construction industry will continue to grow. Experts at the ifo Institute expect a further increase of 6% by 2020. The good customer order situation is due to the turnaround in investment in the road construction sector and the continued high demand on the housing market. However, construction demand is also being boosted by willingness to invest within the economy. The mood in the construction sector in Austria is better than it has been for a long time, and those in the construction industry in the Czech Republic remain optimistic about the future, particularly because the economy in the country achieved record growth in 2017.

In order to ensure that the Construction Equipment EU business unit can continue to benefit significantly from this development, the product range will be expanded to suit market requirements in 2018. The new partnership with Wacker Neuson, which focuses on compact mobile excavators, will help achieve this. There are also plans to enter the two-way excavator market in order to be able to serve the railway construction sector. The business unit will step up its efforts in the sale of construction and industrial machines to tap into additional sales channels.

It will also push ahead with the networking of construction equipment and construction sites in 2018, particularly because a new generation of construction equipment is due to come to the market. The business unit is setting new standards, not only in the drive area, but also with regard to control and integrated assistance systems. New user interfaces will relieve drivers and applications will be made as user-friendly as possible. In addition, the business unit will expand its digital range of products in the areas of sales and service, in order to make collaboration with the customer as simple as possible, from the initial quote to signing of the contract.



CONSTRUCTION EQUIPMENT CIS

Review of 2017

The markets of the Construction Equipment CIS business unit recovered slightly in 2017. Notwithstanding still difficult market conditions, the business unit successfully defended its position as a leading supplier of construction and mining equipment. Major projects in Armenia and Ukraine and further projects in Russia contributed to high order entry levels.

The construction industry in Russia experienced slight growth, while the positive trend in Ukraine continued in 2017. The increase in revenue was due largely to the new machine business, which was considerably stronger than in the previous year, as well as a successful spare parts and customer service business.

"In the wake of the severe 75% market decline in 2014 and 2015, followed by stabilization in 2016, the CIS markets recovered slightly in 2017. Thanks to the wonderful commitment and strong customer relationships of our teams, it was possible to expand the customer service and spare parts business significantly, which made a major contribution to the result. Sales of new machines increased after three years of stagnation. Demand increased for machines, most notably in the mining industry. Larger projects involving the use of mining trucks were completed in Ukraine and Armenia. Business in the underground mining sector was highly successful in Russia."

Frank Janas, Head of the Construction Equipment CIS strategic business unit

Business operations developed especially positively in the mining sector. The company concluded the largest single contract in its history in Armenia: it is to supply mining equipment worth 65 million USD to Lydian International and its subsidiary Lydian. Cat machines are required for the Amulsar project, a gold mine around 170 km south of the Armenian capital, Yerevan. A major order for mining equipment to the value of 18 million euros was secured with a steel producer in Ukraine, while a Ukrainian coal company placed an underground mining order worth 3.5 million euros with the Zeppelin Group.

In April, the business unit became the official Mercedes-Benz dealer in the truck sector for parts of Russia. The collaboration includes the sale and maintenance of commercial vehicles as well as the sale of spare parts. This groundbreaking partnership has strengthened the business unit's market position and opened up new sales opportunities.

Despite increased sales, the earnings before taxes decreased slightly. This is due in particular to currency-related effects on the spare parts margin in Russia, as well as weak sales in Turkmenistan linked to the market and insufficient profitability in the agricultural machine business in Russia.

In order to ensure as strong a customer focus as possible, the business unit opened new branches in Velsk, Kotlas and Belgorod, Russia, as well as a new Sales Center in Odessa, Ukraine. The construction of a new sales, service and logistics center in St. Petersburg, Russia, continued as planned.

Outlook for 2018

Following the substantial market decline in the CIS countries in recent years and their slight recovery in 2017, moderate growth is expected in the main markets of Russia and Ukraine in 2018. The economies of these countries are expected to grow (GDP) by approximately 2% for these markets. The customer mood in the construction and mining sectors is largely optimistic.

Due to cautious investment behavior during the past four years, demand for new and used machines is expected to increase and successively resolve the investment backlog. Project activity is expected to be high in the construction and road construction equipment sector thanks to state-sponsored projects aimed at expanding the infrastructure in both countries.

Development is positive, particularly in the mining sector, thanks to high global demand for raw materials and relatively stable raw material prices. A number of projects for replacement and expansion investments in large machinery are currently in negotiation. The high level of machine utilization in the mining sector will continue to support the spare part and customer service business. Tailor-made customer solutions and service agreements will form the basis for further strengthening the business unit's market position.

Demand for agricultural machinery in Ukraine and forestry equipment in Russia remains high. The business unit is extremely well-positioned within these markets with Fendt and Ponsse premium products.

Geopolitical tensions in the region are not expected to escalate, but no solution is in sight for the short term. The existing sanctions against Russia, which are having an adverse effect on the business, will remain in place in 2018.

The business unit expects positive business development in Armenia, Uzbekistan and Tajikistan as a result of various larger projects involving mining equipment. Both the supply of comprehensive machinery packages and strong growth in customer service will also contribute to this development.

The business unit is focusing closely on digitization. An online spare parts sales portal will be launched in January 2018. The "Heavy Fair" online platform for the supra-regional trading of used machines and auctions is already eliciting a growing response on the market. The introduction of the AMT asset management tool has raised collaboration with mining customers to the highest international standards. Digital solutions are also being rolled out in the areas of process optimization and interaction with customers.

Facts

Employees
year's average, including trainees

2016: 1,605

2017: 1,673

Sales in EUR m

2016: 299

2017: 430

Share of Group sales

15.6 %

RENTAL

Review of 2017

The Rental business unit achieved a high operating result in 2017 as a result of the positive environment in the German construction sector. The rental market also developed well in Austria and the Czech Republic thanks to consistent construction growth.

The business unit acquired 100% of the shares in Limes Mobil GmbH & Co. KG with retroactive effect from 1/1/2017. These were then merged with Zeppelin Rental GmbH & Co. KG and fully integrated later in 2017. This has strengthened the business unit's market position in the site and traffic guidance sector, and expanded its product range.

"The Rental business unit once again achieved a record result in 2017, continuing to grow. The merging of Zeppelin Rental and Zeppelin Streif Baulogistik in the middle of the year has helped to support this development. Our customers benefit from a portfolio that is unrivaled in the industry, ranging from equipment rental and temporary infrastructure to construction logistics. More than 1,300 expertly trained employees breathe life into this portfolio on a daily basis."

Arne Severin, Head of the Rental strategic business unit

The company law structures of the business unit were streamlined in Germany and Austria in 2017. The structures for considerably faster and more efficient collaboration within the individual areas were created and the market position strengthened through mergers. Customers benefit from a portfolio that is unrivaled in the industry, and enjoy tailored solutions in the areas of rental, construction logistics, modular room systems and construction site security.

The business unit also completed the integration of the rental division of STAPLER-RENT 2000 GmbH, which was acquired in late 2016 as part of the growth strategy and has helped to strengthen skills in the area of telehandler rental.

As part of its digitization strategy, the business unit further expanded its digital offerings in 2017. The new container configurator allows users to plan and visualize custom container systems at https://container-konfigurator.zeppelin-rental.de. New features, such as online contract administration and faster, more straightforward 24/7 processing, have been added to the online contract management system. At the same time, traditional service and value creation processes were also expanded. For example, the business unit further extended its ecoRent portfolio, which features particularly environmentally friendly and economic rental equipment, adding the 5055e from manufacturer Kramer – the first all-wheel drive, fully electric wheel loader.

The European Rental Association (ERA), a body representing the interests of national rental associations and rental companies at a European level, presented the Rental business unit with the Large Rental Company of the Year Award and the Digital Innovation Award, presented for the first time in 2017, in recognition of its outstanding success.

Outlook for 2018

The Rental business unit expects further positive development in its markets for 2018. According to forecasts, the strong economy within the construction industry is set to continue until 2019, while the economic upturn in Austria and the related high level of investment are ensuring a good order situation in the construction industry and sustained slight growth in the rental sector. Thanks to numerous positive developments, the rental market in Czech Republic and Slovakia is expected to achieve strong growth.

Further growth is expected in the established business segments. The Rental business unit will also focus on acquisitions to further strengthen its market position, close regional gaps and extend its skills. For example, it acquired German traffic guidance company Baustellen-Verkehrs-Technik GmbH with sites in Barleben, Landsberg OT Queis (Halle-Leipzig region) Genthin and Schorfheide (Brandenburg) with effect from 1/1/2018. Fast Rent GmbH was integrated into Zeppelin Rental GmbH with effect from 2/1/2018.

Digitization remains a core focus. The Rental business unit will continue to develop innovative solutions for its customers and will work together with them to take the next steps on the path to the intelligent construction site, on which machines and maintenance groups are networked. Existing processes will be optimized and digitized, and systems harmonized. This will be achieved through the implementation of uniform software to support the tender, allocation and account processes for the project business, to name one example. Awareness of operational excellence throughout the organization as a whole will be increased through various projects and trainings, so that the quality promise to customers can be fulfilled sustainably.

Facts

Employees
year's average, including trainees

2016: 1,236

2017: 1,336

Sales in EUR m

2016: 363

2017: 410

Share of Group sales

14.9 %

POWER SYSTEMS

Review of 2017

The Power Systems business unit enjoyed good order entry levels in 2017 and improved its operating result slightly on the previous year. The market environment varied depending on the country and segment.

Development in the industrial engines market in Germany was positive. Emissions requirements will tighten from 2019, and as a result plans have been made with major German OEMs (Original Equipment Manufacturers) to equip future series with new Level V Cat engines.

"We have improved our result slightly and can therefore say that 2017 has been a successful year. Growing demand for comprehensive system solutions, particularly in the marine and energy sectors, is a confirmation of the business unit's strategic focus. The service business achieved record levels for the second year in a row. Thanks to new developments in the areas of digital solutions and environmentally friendly drives, we are in a good position with respect to the current market requirements."

Volker Poßögel, Head of the Power Systems strategic business unit

Demand for flexible energy solutions, such as highly efficient combined heat and power plants, is developing in a stable manner. Due to the changed legislation concerning cogeneration systems, predominantly larger systems in the ten to 25 MW range are being planned. Positive conditions in the decentralized energy supply sector have given rise to increased project activities involving medium output range gas engines in the Czech Republic and Slovakia. The "Blue Energy" initiative awarded the business unit's cogeneration systems a quality mark used to distinguish highly efficient systems that do not use coal or nuclear power to create energy, and which make an active contribution to the energy transition.

The business unit achieved high order entry levels in the cruise ship segment and secured an order from the Carnival Group for the supply of seven new cruise ships. The ships run on Caterpillar MaK dual-fuel engines powered by environmentally friendly liquefied natural gas (LNG). In addition, the business unit has concluded a full service maintenance contract in Germany and Austria with Viking River Cruises AG, the largest provider of river cruises worldwide. The contract covers a 24-hour service for more than 40 vessels with more than 200 Cat engines, plying the river link from Amsterdam to the Black Sea.

In July, the Power Systems business unit and German Dry Docks AG founded MWB Marine Services GmbH. The joint venture provides maintenance and repair services that are not dependent on a specific manufacturer, as well as spare parts for marine engines. Its activities will be internationalized on a gradual basis.

In the areas of standby power supply systems and critical power applications, the business unit benefited from the trend towards comprehensive digitization and the related expansion in emergency power supplies for data centers. By contrast, the oil and gas applications market was slack. The locomotive engine business remained below expectations.

In Russia and Ukraine, projects in the marine and gas compression segments developed successfully. Decentralized energy supply using natural gas and biogas further increased in importance. Business activities in the other CIS countries were adversely affected by a lack of financing, export restrictions and increased local competition.

The service segment enjoyed very positive development across all segments thanks to strengthened marketing and concentration on the conclusion of maintenance contracts. As part of the digitization initiative, the remote maintenance center in Hamburg was expanded and analytical tools were developed for the purposes of assessing the status of systems.

Outlook for 2018

Demand for drive, propulsion, traction, and energy systems is expected to remain good. In particular, high demand for primary products and in the service segment for the marine and energy sectors will contribute towards increasing revenue, with industrial applications also acting as a driver. The trend towards cruises on oceans and inland waterways will also increase demand. Demand is growing in the diesel power generation sector, particularly in the data center segment, in the form of fully equipped emergency power container solutions. Demand for drive-train, emergency power and complete energy systems also remains high. At an international level, diverse drive solutions for industry OEMs and the recovering gas engine business for the generation of power based on natural gas and alternative gases will determine demand. On the other hand, the rail vehicles sector will stagnate at the level from the previous year.

The highly promising order situation should become visible in 2018, in the form of improved capacity utilization. Positive developments can be expected, including in new business and product fields, due in particular to growing interest in online-based service solutions and alternative drives.

In 2018, customers in the service sector will be able to benefit from digital plant and fleet management solutions as well as predictive maintenance. The existing range will be expanded to include new container systems such as the LNG Power Pack for the maritime sector and specialized ATEX solutions for oil and gas applications.

In addition, environmentally friendly and alternative drives, such as Level V engines in the lower power range, and gas, diesel-hybrid and battery-powered solutions will be a core focus. At the same time, digital solutions competence for plant and fleet management and the service business will become increasingly important. The development of online-based platform applications and the introduction of an e-commerce solution for spare parts are planned in this area. Internal technical process will be reinstalled through the implementation of a PLM or PDM system in order to fulfill digital requirements with regard to process and system integration as effectively as possible in the long term.

Facts

Employees

year's average, including trainees

2016: 793

2017: 823

Sales in EUR m

2016: 307

2017: 351

Share of Group sales

12.7 %

PLANT ENGINEERING

Review of 2017

The high level of orders from the previous year continued in the 2017 fiscal year for the Plant Engineering business unit. Development was positive in all market segments. The business unit's markets were concentrated on Europe, the USA and Asia. Extraordinarily high order entry levels secured high levels of utilization and allowed a record sales volume to be achieved.

Expectations were far exceeded in the plastic and rubber plants segment (processing plants for the plastics, rubber and tire industry) in terms of orders secured, sales volume and profitability. The business unit positioned itself extremely well and proved its expertise, especially in the new rubber recycling market. The order for the construction of the world's largest tire recycling plant was truly a milestone. The business unit is constructing an ultra-modern plant, for its long-standing partner Pyrolyx AG, that will recover Carbon Black from old tires. This closes the reusable material cycle for Carbon Black, reducing the strain on the environment in the long term.

"The Plant Engineering business unit had a successful fiscal year 2017 overall. We were able to utilize the consistently positive market conditions to assert our position and expand it further within the individual markets. This resulted in above average order entry levels and a record sales volume."

Axel Kiefer, Head of the Plant Engineering strategic business unit

A high order backlog at the beginning of the fiscal year contributed to high capacity utilization and thereby to the improvement in earnings in the polyolefin plants (plastic-producing plants) business area. A cutting-edge plant was delivered with the construction of a plastics plant for Russian corporate group ZapSip Neftekhim in Tobolsk, Western Siberia, with an order volume of around 60 million euros.

Demand for projects in the food processing plants area remained stable at a high level. Due to political conditions, it was not possible to serve all markets, with operations proving particularly challenging in the Middle East and Iran.

The business unit fell short of expectations in the product area of silos, components and service.

The business unit forged ahead with digitization in 2017. Digital solutions should offer customers real added value and help them to optimize production using the data acquired during processing. The business unit developed the PLANT.GATE application for this purpose. The app supports maintenance fitters and service technicians by automatically identifying components and providing specific information, e.g. regarding service intervals on mobile terminals.

In August, the business unit entered into a joint venture in the field of control technology with Indian automation company Smart Controls, thereby expanding its expertise in the area of processing and control technology. The partnership is the perfect addition to the strategic concept in favor of digitization.

In addition to expanding our product portfolio, the acquisition of the aeronautics division of Mauderer Alutechnik GmbH also increased welding production capacity. The business unit also expanded its existing joint venture with Dekai in the plastics production field to include plant component production services in order to better serve the Chinese market in the future.

Outlook for 2018

Project activity for the 2018 fiscal year in the markets relevant to the Plant Engineering business unit remains at a high level. Only a small number of important market regions in the Middle East and South America are suffering from political or economic difficulties.

Strategically, the business unit will continue to position itself as a plant engineering business and system supplier for the handling of high-quality bulk materials, concentrating on the core markets of the plastics, rubber and tires, and food industries. The main focus will be on the completion of internal projects for the sustainable improvement of the competitive situation. In particular, these include projects involving the reorganization of production at the Friedrichshafen site, the further expansion of the Rödermark site and the restructuring of the Kassel site.

The business unit will also focus on the further development and expansion of the subsidiaries. The central objective is the use of the same development systems, the exchange of resources and cross-site collaboration for customer projects.

The consistent driving of the digital transformation will also be a central topic. This includes supporting, training and empowering employees in this area as well as developing and implementing digital business models.

Facts

Employees
year's average, including trainees

2016: 1,332
2017: 1,366

Sales in EUR m

2016: 262
2017: 326

Share of Group sales

11.9 %

Z LAB

Review of 2017

The Z Lab business unit commenced operations in October 2016 and supports the digital transformation of the Group to a significant extent. The business unit is forging ahead with its strategic objectives through the development of new digital business models and the digitization of the existing product portfolio within a standardized technical infrastructure. The Z Lab portfolio includes work on its own digital ideas and solutions, collaboration with universities and partners, investments and M&A activities as well as the development of a digital touchpoint for all customers. New, independent and autonomous business models are founded in subsidiaries or integrated into existing business units.

In 2017, structures were created for the purposes of developing digital products from ideas, quickly and in a customer-focused manner. Customer challenges were evaluated and digital solutions for the construction industry identified in workshops and discussions with construction experts. The customer is included in the development of new services from the outset, and Z Lab looks for regular exchange so that it can improve products continuously. In addition, agile processes allow new ideas to be structured and implemented in a targeted, transparent manner. A central service structure was created for marketing, the IT infrastructure and sales, while employee capacity was expanded in order to boost synergies between the individual product ideas and to be able to act more quickly.

In response to customer feedback on its quality, the klickrent online platform, a construction equipment rental portal, was enhanced with an intuitive filter function and an integrated add-on parts management feature. Collaborations with existing customers are being expanded, additional rental partners are being acquired and the rental portfolio extended. Z Lab offers a digital marketplace for the brokering of construction machine operators, in the form of its maschinator platform. In order to improve the perception of Z Lab on the market, to present its initiatives and also expand its network on an international scale, the business unit participated in trade fairs and events such as the TOA festival in Berlin, the NordBau exhibition in Neumünster and London Digital Construction Week. Z Lab bases its work on the latest standard of knowledge, and works with other start-ups and universities to jointly address the current challenges encountered every day on construction sites.

"Whenever a construction industry customer thinks of digitization, or needs assistance or digital solutions, the first thing that comes to mind should be Z Lab. We came closer to achieving this goal in 2017, creating the foundation that will allow us to launch our digital markets with a new structure, clear responsibilities and fresh energy. Finding motivated, committed talented individuals remains a great challenge. However, we can proudly say that we already have a wonderful team of experts on board,"

Wolfgang Hahnenberg, Head of the Z Lab strategic business unit

Outlook for 2018

The Z Lab business unit will further expand its development of digital business models, thereby enabling customers to increase productivity and profitability. To this end, it is currently creating a technical platform for the construction industry: zeppelin.com. Existing infrastructures will be integrated into this digital hub. The portfolio of all business units within the Zeppelin Group will then be available online.

In 2018, Z Lab will invest further in the klickrent and maschinator online platforms, develop solutions for asset and machine tracking tools in various product groups, and thereby become the digital workbench and planning tool for construction site and construction process monitoring. The goal is to develop a comprehensive, independent platform for digital solutions and services for the construction industry.

Z Lab sees itself as a service provider, but especially as an innovator, a specialist and developer within the construction sector, which reacts to trends and actively helps design and shape the future. In all aspects of its work, Z Lab uses new, innovative technologies and agile process methods. In order to develop trailblazing digital business models with speed and flexibility, the business unit will continue to pursue collaborations with start-ups and integrate the models of success of digital benchmarks into its daily operations.

Facts

Employees
year's average, including trainees

2016:
22

2017:
39

GROUP MANAGEMENT REPORT AND GROUP FINANCIAL STATEMENTS

2017

GROUP MANAGEMENT REPORT FOR THE 2017 FISCAL YEAR

A. Business Activities of Zeppelin GmbH and the Group

The following management report is the consolidated management report and Group Management Report for Zeppelin GmbH. It presents the business performance of the Group and Zeppelin GmbH, including the results for the fiscal year from January 1 to December 31, 2017 as well as the position of the Group and Zeppelin GmbH as at December 31, 2017.

Corporate Purpose of Zeppelin GmbH

The corporate purpose of Zeppelin GmbH comprises the holding of participations in companies with a net carrying amount of EUR 431.4m (previous year: EUR 432.3m), the management of land, buildings and technical equipment and their rental, particularly to Group companies (net carrying amount December 31, 2017: EUR 113.6m, previous year: EUR 110.0m), the provision of various services for Group companies and the financing of Group companies. At the end of 2017, 84 people were employed (previous year: 67).

The shareholding structure of Zeppelin GmbH remained unchanged in 2017. Luftschiffbau Zeppelin GmbH holds 96.25 % and Zeppelin-Stiftung, foundation managed by the City of Friedrichshafen, holds 3.75 % of the subscribed capital of Zeppelin GmbH of EUR 100.0m.

The Supervisory Board consists of 12 members, who represent the shareholders and the employees in equal numbers in accordance with Section 7 of the German Codetermination Act.

Strategic Business Units of the Zeppelin Group

The Zeppelin Group is operationally and strategically managed in five strategic business units (SBUs). This organizational structure ensures its ability to focus on individual markets, customer groups, and product segments while managing activities across multiple countries and companies. The SBUs are divided into Construction Equipment EU, Construction Equipment CIS, Rental, Power Systems, Plant Engineering, and Z Lab. Zeppelin's business activities include sales and servicing of Caterpillar construction machines, mining equipment, components, and diesel and gas engines, MaK marine engines, and agricultural and forestry equipment of the AGCO, Ponsse and DEUTZ-FAHR brands. In Germany and various countries of Central and Eastern Europe and Central Asia, Zeppelin is the sales partner of Caterpillar Inc. headquartered in Peoria, Illinois (USA). The other brands are sold in Central and Eastern European countries. The Rental business unit rents out construction machines as well as a wide range of construction equipment, space systems, construction site and traffic guidance systems, aerial work platforms and lifts, and vehicles. It also offers an extensive range of services.

The activities of the Plant Engineering business unit involve developing, implementing, and selling systems for producing and processing high-quality bulk materials for plastics, rubber and tires, food, and fine chemicals. Zeppelin is the world market leader in the handling of high-quality bulk materials.

The Z Lab business unit was established in fiscal 2016 in order to develop new digital business models and combine activities in this area.

B. Business Report

1. Economic Conditions

There were a number of political events in 2017. In addition to the elections in various countries of the European Union as well as Germany's Bundestag, there was also a paradigm shift in the role of the US following US President Donald Trump's inauguration. Following the Bundestag elections, the change in the political landscape was evident in Germany as well. Despite these unfavorable conditions, the global economy rose by 3.6% in 2017 (previous year: 3.1%) . Growth reached 2.1% in the euro area (previous year: 1.7%). Germany also had growth of 2.1%, pushing it above the previous year's figure (1.7%). The US posted higher growth of 2.2% (previous year: 1.6%). The Russian economy continued to stabilize, posting growth of 1.8% in fiscal 2017 (previous year: a decline of 0.8%). Ukraine saw growth of 2.0%, which is also above the figure for the previous year (1.5%). The Czech Republic grew again in 2017 (3.5%; previous year: 2.5%), while Slovakia, at 3.3%, was slightly below the previous year (3.4%).[1] Growth accelerated to 3.8% in Poland (previous year: 3.1%) and 6.8% in China (previous year: 6.6%), while India saw its economic development slow somewhat as growth slipped to 6.7% (previous year: 7.6%). Growth in Brazil was slightly positive again in 2017 for the first time in two years (0.75%; previous year: -3.3%).

The European Central Bank (ECB) left its key rate for the euro area unchanged in 2017 at 0% p.a., and it kept the deposit rate at -0.4% p.a. In October 2017, the ECB provided the first sign that it was set to abandon its accommodative monetary policy when it announced a change to its asset purchasing program. Starting in January 2018, the ECB will purchase only EUR 30 billion in bonds instead of its previous EUR 60 billion in monthly purchases. In the US, interest rates were already increased twice in 2017 and are now between 1.0% and 1.25%. According to the Federal Reserve, economic conditions are favorable and it expects to increase rates further.

[1] Cf. IMF World Economic Outlook Database, October 2017

The main foreign currencies for the Zeppelin Group are the U.S. dollar (USD), the Russian ruble (RUB), and the Ukrainian hryvnia (UAH). The U.S. dollar started 2017 at an exchange rate of 1.05 USD/EUR and, following a further increase in the value of the euro over the course of the year, it ended at 1.19 USD/EUR. The RUB/EUR exchange rate was 63.73 at the start of 2017 and following fluctuations at the end of 2017, ended the year 69.00 RUB/EUR. The exchange rate of the Ukrainian hryvnia was 28.03 UAH/EUR at the beginning of the year, before falling to 33.54 UAH/EUR by the end of 2017.

2. Market Development

The development of the Zeppelin Group's key markets was largely positive during the current year:

The German construction industry continued to develop very well in 2017, with negative construction reports continuing to be the exception. At 3.8 months, the order backlog is at a record level (previous year: 3.5 months). The Ifo business climate index for the construction trades was also very high in 2017. According to estimates by the Ifo Institute, construction investments rose in 2017 by 3.8%, year-on-year. All construction sectors did well, but residential construction and civil engineering, in particular, saw good performance again. These two sectors saw a year-on-year increase of 4.5% and 4.3%, respectively. Investments in public and commercial structural engineering increased by 1.8% year-on-year.

Thanks to the very good performance of the construction industry, the German construction machine market was in excellent shape in 2017. A total of 31,129 units were brought to market in Germany in all of 2017. This represents a market volume of more than EUR 2.5b (previous year: EUR 2.4b). By contrast, the momentum of the overall market fell over the course of the year, with the growth of the overall market only amounting to 0.8% as of December 2017, although it was at a very high level in 2016. The retail market (transactions with end customers) saw positive development, with an increase of 5.8%. By contrast, the rental market (initial rental of new machines by rental companies) fell by 9.5%. As of the end of October 2017, the retail/rental split shifted in favor of retail, 71/29 (previous year: 67/33). Zeppelin sold a total of 4,718 units (retail) on the German market in fiscal 2017, which is 144 more new machines than in the previous year (4,574). Thus, Zeppelin once again successfully defended its leading market position in fiscal 2017.

At 29.9 points, the index providing an assessment of the current situation of the Austrian construction industry reached a new high in December 2017. In Austria, the market rose over the first three quarters of 2017 by 14.2% to 1,370 units (prior-year period: 1,200). Zeppelin increased sales by 19.4% to 234 units, continuing to expand its market share despite competition that remains strong.

In the Czech Republic, construction rose by 1.9% in real terms as of November 2017 compared to the previous year. Civil engineering increased by 3.1% in November, while structural engineering fell by 0.5%. In Slovakia, construction once again improved considerably and as of November 2017 it had increased by 10.3% year-on-year. Civil engineering rose by 8.6%, while structural engineering increased by a hefty 13.2%. The market for new construction machines in the Czech Republic is seeing robust growth. As of September 2017, 2,060 machines had been sold in the market (previous year: 1,533 machines[2]), which corresponds to market growth of 34.4%. In Slovakia, the total market as of the end of September 2017 was 489 units (previous year: 551 machines[2]), which corresponds to decrease of 11.3 %. Because of lower investments in rental fleets and increased utilization of the Zeppelin Rental fleet in Germany, Zeppelin's total market share fell. In its business with end customers, Zeppelin largely maintained its very good market position.

The market environment for CIS countries continues to be difficult, although it is somewhat more positive than the previous year. Some of the main factors in this market environment are the ongoing conflict between Russia and Ukraine, the continuation of Western sanctions against Russia and oil and commodity prices that are either stagnant or rising slightly. Overall, the construction industry in Russia grew by 2.8% during the reporting year, while it grew by a robust 8.2% in Ukraine. The volume of the Ukrainian mining industry fell by 5.8% in 2017. In line with the general economic situation in the countries of the CIS, the market for new construction machines was largely positive in the territories served by the Construction Equipment CIS business unit. In Russia, the number of units sold rose by 56% in 2017, and in Ukraine they increased by 37%. Zeppelin's market share in the countries of the CIS fell slightly. The decline was primarily due to a lack of Caterpillar machines.

The rental market in Germany developed positively during the fiscal year. The rental market in Austrian improved significantly over the course of the year as well. Thanks to positive developments, the Czech rental market saw sales growth of 16% in 2017. In Slovakia, the rental market grew by a substantial 35% through September 2017.

The German locomotive market remained at a low level in 2017. Nevertheless, Zeppelin was able to ensure capacity utilization with existing orders in the area of specialized rail vehicles and series locomotives and conclude a major order for service locomotives in France. The energy sector continues to see dynamic and brisk market growth as a result of Germany's shift in favor of renewable energy. Project activity in the area of combined heat and power plants is at a high level. The global shipping markets were once again very uneven in the current year. While demand in the cargo ship market and offshore area were stagnant, orders in German ship construction rose as a result of niche markets that were tapped successfully, including yachts and cruise ships. Zeppelin concluded another major order for three cruise ships during the fiscal year. The market for oil and gas applications continues to be shaped by the price of oil and the related investments in finding new oil fields and expanding existing ones.

[2] Prior-year figure adjusted; previously based on all of 2016.

German machine and plant engineering posted an 8.0% increase in order entries through November 2017 compared to the previous year. During the year, most of this increase came from foreign markets (+10.0%). Domestically, orders rose by 20.0%, with a spike coming in November. The German chemical industry had a very good year in 2017. While production rose by about 2.5% over the course of the year, revenue increased to nearly EUR 195m, year-on-year. In addition to the positive quantity business, the increase in revenue of 5.5% was also due to rising producer prices of 3%. German manufacturers of plastics and rubber machines posted an increase in orders of 21% in the first half of 2017. Output also increased during this period (+5.4%). Manufacturers of food processing and packaging machines also reported an increase in order entries of 4% in November. This was mainly due to foreign orders, which rose by 7%, while the domestic business slumped by almost 9%.

3. Development of the Zeppelin Group's Business

Development of Revenues and Orders

Fiscal 2017 was a very successful year for Zeppelin. Despite the continuing challenging market conditions in the CIS, the Zeppelin Group substantially increased both its revenues and its earnings year-on-year in 2017.

Group revenues rose by EUR 389.9m, or 16.5%, to EUR 2.751b (previous year: EUR 2.362b). The share of revenue from foreign companies increased slightly to 44.5% (previous year: 41.2%).

The strategic business units of the Zeppelin Group that rent, sell, and service construction machines and engines saw their revenues increase in fiscal 2017 by EUR 324.7m, or 14.9%. The Plant Engineering business unit increased revenues by EUR 64.5m, or 24.6%.

Revenues by Strategic Business Unit

BREAKDOWN OF GROUP REVENUES (EURM)	2017	2016	CHANGE (%)
Construction Equipment EU SBU	1,308	1,205	8
Construction Equipment CIS SBU	430	299	44
Rental SBU	410	363	13
Power Systems SBU	351	307	14
Plant Engineering SBU	326	262	25
SBU Z Lab	0	0	-
Zeppelin GmbH Group (consolidated)	**2,751**	**2,362**	**17**

A total of 15,413 machines and engines were brought to market in fiscal 2017, about the same number of units as the previous year. While sales of new construction equipment and forklifts fell by 351 units (-5%) and 116 units (-12%), respectively, the number of used machines sold rose by 162 units (+4%) and the number of engines sold increased by 154 units (+7%).

Order entries for all Group companies rose over the previous year (EUR 2.5b) to EUR 2.8b. At EUR 704.2m at year-end, the order backlog is also above the previous year (EUR 647.9m). Of this, EUR 263.2m is in the Plant Engineering business unit (previous year: EUR 271.4m).

Workforce

The number of Zeppelin Group employees increased in fiscal 2017 to 8,167 as of December 31, 2017, of which 318 were trainees (previous year: 7,697/324). In the Construction Equipment EU and Plant Engineering business units, the number of personnel increased by 140 and 85, respectively, and the number of staff in the Rental and Power Systems business units rose by 119 and 38, respectively. At the end of 2017, the foreign companies of the Zeppelin Group had 3,458 employees, corresponding to 42.3% of the overall workforce (previous year: 42.4%).

Since 2015, Zeppelin GmbH has borne the “berufundfamilie” quality mark, which is issued by berufundfamilie Service GmbH. In 2017, the other domestic Group companies of Zeppelin were also led through the certification process, further increasing the work/life balance.

Employees by Strategic Business Units

AT END OF YEAR	2017	2016	CHANGE (%)
Construction Equipment EU SBU	2,527	2,387	6
Construction Equipment CIS SBU	1,689	1,623	4
Rental SBU	1,316	1,197	10
Power Systems SBU	823	785	5
Plant Engineering SBU	1,368	1,283	7
SBU Z Lab	42	31	-
Trainees in the Group	318	324	-2
Zeppelin GmbH Group [1)]	**8,167**	**7,697**	**6**
Germany	4,709	4,437	6
Overseas	3,458	3,260	6

[1)] incl. Zeppelin GmbH

Information about the Quota for Women

In accordance with the "Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector Act", Zeppelin GmbH has set targets for increasing the proportion of women on the Supervisory Board, on the Management Board and at the senior management level. Because of its holding function, there is only one management level below the Management Board at Zeppelin GmbH.[3] As of the balance sheet date June 30, 2017, 16.7% of the Supervisory Board was comprised of women (target: 8.33%), while the Management Board had no women (target: 0%) and 25% of department managers were women (target: 25%). The new quotas for the Supervisory Board and the Management Board as well as the deadline for achieving these quotas was set in 2017 and, on the recommendation of the Management Board, will be approved by the Supervisory Board on March 22, 2018. The current quota of 25% for department managers was retained. The deadline that was set is the same as the deadline for the Supervisory Board and the Management Board that will be approved at the meeting of the Supervisory Board on March 22, 2018.

Important Activities During the Current Year

Organizing and managing the Zeppelin Group on the basis of strategic business units is the best way to respond to the growing differentiation of international markets and the steadily increasing demands of customers. The management organization of the business units is defined in terms of structure and personnel, and the Zeppelin Group-level management

[3] The senior management level involves Zeppelin GmbH division managers.

process is institutionalized in a clearly identified Group Management Board.

The navigation tools that were defined for measuring achievement of the objectives as part of the GPS strategy (growth, performance and stability) remain unchanged. Caterpillar’s “grow with our customers” strategy developed by the new management team was also adapted by Zeppelin in 2017 in close alignment with its strategic focus. Zeppelin was one of the few retailers that was substantially involved in the structuring of Caterpillar’s new group strategy.

The Construction Equipment EU business unit grew its network in Poland significantly with the acquisition of key parts of INTRAC Polska Sp. z.o.o and expanded its product range to include MANITOU Fördertechnik and Grove Autokrane, including the corresponding services. In addition, the founding of the joint venture IBS Bauvermessung GmbH helped to advance marketing in the data collection and data modeling segment and expand the product range, including the corresponding consultancy services.

Retroactive to January 1, 2017, Zeppelin Rental GmbH & Co. KG was merged with Zeppelin Streif Baulogistik GmbH and then renamed Zeppelin Rental GmbH. Before its acquisition as of January 1, 2017, Limes Mobil GmbH was first merged with Zeppelin Rental GmbH & Co. KG. In addition, Zeppelin Streif Baulogistik Österreich GmbH was also merged with Zeppelin Rental Österreich GmbH & Co. KG. As a result, the corporate reorganization of the Rental business unit has been completed ahead of schedule.

At the start of 2017, Zeppelin Group received the largest single order in the company’s history, from Armenia. The Construction Equipment CIS business unit will supply mining equipment worth 65 million US dollars to Lydian International and its subsidiary Lydian Armenia. The machines from manufacturing partner Caterpillar are needed for the Amulsar project, a gold mine around 170 km south of the Armenian capital, Yerevan.

At the Friedrichshafen site, the Plant Engineering business unit expanded its aviation industry product portfolio in the Quality Service area. With the acquisition of the High Tech Welding Aviation (HTWA) division from Mauderer Alutechnik GmbH, the business unit has entered the market for series production of high-quality components for the aviation industry.

MWB Marine Services GmbH was founded as a joint venture between German Dry Docks AG and Zeppelin Power Systems GmbH & Co. KG at the beginning of July 2017. Zeppelin Power Systems is the majority shareholder, with 60% of the shares in MWB. This strategic partnership represents another step in the expansion of global services as part of the company’s internationalization efforts, particularly in the area of cruise ships.

The Plant Engineering business unit, through Zeppelin Systems Pvt. Ltd., India, took a 40% stake in Smart Controls, based in Gwalior, India with effect as of August 1, 2017. This company focuses on automation solutions as well as control technology for the rubber, carbon black and tire industry. It also serves as a production location for switch cabinet construction. In addition, the existing sales and engineering joint venture in Shanghai, China was expanded to include component production.

The “WE are Zeppelin” global Zeppelin initiative was launched in December 2017. The aim of this initiative is to foster closer collaboration, greater dialog and better global networking within the Group. It will therefore help to make the Zeppelin Group better prepared for all future challenges. The first joint project in this connection was the launch of Z CONNECT. Z CONNECT is a social collaboration platform that allows all Zeppelin employees worldwide to connect and exchange ideas.

The **Construction Equipment EU business unit** further expanded its position as a leader in innovating sales and services for construction machines in fiscal 2017. The online configuration tool for Caterpillar construction equipment in the category mini excavators, zero tail swing excavators, mobile excavators and tracked excavators as well as compact and medium-sized wheel loaders provides more than a thousand configuration options. The ability to create visuals of the products with their configuration options increases transparency and allows for greater scheduling flexibility, providing customers with another efficient and quick purchase option in the digital era.

In addition to its core markets, such as the construction and mining industries, the Construction Equipment EU business unit is also expanding its position in the agricultural sector. One example of this is the collaboration with BayWa AG started in 2017. As an experienced partner, BayWa will assume responsibility for sole distribution in selected territories in the agricultural and municipal segments for compact Caterpillar wheel loaders, telehandlers, compact loaders and mini-excavators as well as maintenance and service. The acquisition of major parts of INTRAC Polska Sp. z.o.o. rounds out the product and service portfolio and substantially improves market coverage in Poland.

The business unit presented its diverse range of innovative and powerful products at trade fairs for construction and building material machines as well as trade fairs for the structural engineering and recycling sectors. In the area of machine and equipment technology for materials handling related to recycling and the disposal of materials, Caterpillar’s MH3024 and MH3022 handling excavators proved especially persuasive at the “recycling aktiv” and “Tiefbau Live” trade fairs with their performance and high number of strokes. And the “Nordbau” construction trade fair focused on innovations such as the construction equipment configuration tool, fleet management, integrated machine control and data collection and analysis with the help of drones. At the “Steinexpo”, Zeppelin demonstrated its expertise in extracting raw materials using machine demonstrations. Among other things, the company presented its new Caterpillar 988K XE wheel loader with a diesel electric drive and the Caterpillar 972M XE with its continuous variable and power split transmission. As with the Caterpillar 336F XE, which has hydraulics based on hybrid technology, all of these technologies stand out for their very low fuel consumption. The trade fair presence was rounded out by products and services to support the optimization of construction sites based on drones with comprehensive analysis and assessment capabilities. Zeppelin was also pleased to post a new record at the “Steinexpo”, with 60 new machines sold.

To celebrate the 70th anniversary of the collaboration between Caterpillar and Zeppelin in Austria, the Austrian branches invited their colleagues to an in-house exhibition where there was an interesting discussion about modern Caterpillar construction machines as well as about Schäffer compact wheel loaders and Thwaites dumpers. The expansion of the new building at the Oberhausen branch was an important event in 2017. Customers are now offered a comprehensive range of services in a spacious workshop with more than 13,900 square meters of total space, including a metalworking shop and a welding shop.

In fiscal 2017, the longtime Chairman of the Management Board of Zeppelin Baumaschinen GmbH and head of the business unit handed over responsibility to Mr. Fred Cordes and assumed the role of Chairman of the Supervisory Board of Zeppelin Baumaschinen GmbH.

The **Construction Equipment CIS business unit** continued construction of the new branch in St. Petersburg in fiscal 2017, with work expected to be completed by the end of 2018. Zeppelin will invest a total of up to EUR 17.5m in the new location, which will be shared with the Power Systems business unit.

In April 2017, the business unit became the official retailer of Mercedes-Benz Trucks for the Russian Republic of Karelia and the region of Arkhangelsk. The cooperation includes the sale and maintenance of Mercedes commercial vehicles as well as the sale of spare parts. With this partnership, the business unit has strengthened its market presence and tapped new sales opportunities.

The decision to merge Zeppelin Russia (ZRS) and Prime Machinery (PRM) was made in November 2017. The merger is expected to be completed at the end of the first quarter of 2018. Along with the decision to merge the two companies, it was also decided to withdraw the SBU from the sale of agricultural machines in Russia and to concentrate on the spare parts and service business for agricultural customers.

The **Rental business unit** further expanded its integrated offering successfully in fiscal 2017 and it now has a unique range of services, especially in Germany. The changes in corporate law further bolstered collaboration among departments. The service portfolio was also successfully expanded and integrated in Austria. A high level of successful equipment utilization also ensured a very good market position in the Czech Republic and Slovakia.

The integration of systems and processes as part of the merger was advanced successfully, and at the same time digital document processing was introduced in the rental organization for nearly all sites.

The integration of the rental activities taken over from Stapler Rent 2000 GmbH as of December 1, 2016 was concluded successfully in 2017.

With the purchase agreement of January 12, 2017, Zeppelin Rental GmbH & Co. KG acquired all shares of Limes Mobil GmbH Verkehrssicherung, Berlin. This company was merged with Zeppelin Rental GmbH & Co. KG, with effect as of January 1, 2017. With this acquisition, the company has further strengthened its expertise in the area of site and traffic guidance.

Subsidiary Zeppelin Streif Baulogistik Österreich GmbH in Himberg, near Vienna, Austria, was sold within the Zeppelin Group to Zeppelin Rental Österreich GmbH and then merged with this company. As part of other corporate restructuring measures, Fast Rent GmbH, which was founded in the previous year, will be merged with Zeppelin Rental GmbH in 2018.

In addition to continuing organic growth, the Rental business unit also plans to make a further acquisition in 2018. As of January 1, 2018, Zeppelin Rental GmbH acquired all shares in Baustellen-Verkehrs-Technik GmbH, Barleben. With this acquisition, the company's offering in the area of site and traffic guidance was expanded to include another 52 qualified employees in Brandenburg, Thuringia, Saxony and Saxony-Anhalt. As of July 1, 2017, Arne Severin took over as the Chairman of the Management Board of Zeppelin Rental GmbH and head of the business unit from Wolfgang Hahneberg, who will now focus on running the Z Lab business unit.

The **Power Systems business unit** operated in a largely positive market environment in 2017. In the CIS countries this trend was only overshadowed by the ongoing sanctions. Demand for flexible energy solutions, such as highly efficient combined heat and power plants (CHP) is developing steadily in Germany. The trend toward decentralized power supplies for industry and municipalities continued. In the Czech Republic and Slovakia, the increased level of project activity in the area of CHP plants was sustained. The company in Germany continues to function as a center of excellence. In the area of island mode systems and critical power applications, Zeppelin Power Systems continues to benefit from the trend toward comprehensive digitalization and the related expansion of emergency power supplies for data centers.

The oil and gas market has been moderately positive and is benefiting from the continuing rise of crude oil prices. The major project won by the companies in Germany and Turkmenistan, working in collaboration, involving gas flares on oil platforms in the Caspian Sea is still in development.

The industrial engines market, which is highly influenced by exports, grew again in 2017. Engine sales in this segment are in line with expectations. Based on the tightening of emissions requirements in 2019 and the provision of new Cat engines that meet the V standard, plans have already been made with major German original equipment manufacturers (OEMs) on equipping future product lines.

In the Marine segment, the Power Systems business unit posted high order entries for a total of three cruise ships. Overall, however, global ship construction remained at a low level.

The performance of the locomotive engines sector fell short of expectations. The OEM market in Germany and the Czech Republic experienced a downturn. Nearly all project developments are being provided by the major system vendors Bombardier, Alstom and Siemens. The trend involving the use of smaller, certified industrial engines with particle filters is continuing.

The service business has developed positively. The business unit increased its service revenues substantially during the reporting period, with greater marketing efforts, sales campaigns and a focus on maintenance contracts. One highlight worth noting is the order for a maintenance contract in the Cat Marine area in Germany, which is for a period of five years and involves 42 ships. There continues to be competitive pressure on margins in the service and spare parts business. MWB Marine Services GmbH, a joint venture that was established in 2017, offers additional growth potential for the business unit’s service and spare parts business.

As part of the Group’s Outlook 2025 strategy process, there were intense discussions about growth in the market for drive concepts. In addition to the transition from diesel to gas fuels, there is also a strong trend toward battery-electric drives. Intensive discussions have already been held with Caterpillar on this topic and an initial project carried out with a cooperation partner.

The **Plant Engineering business unit** further improved its operating profitability in fiscal 2017 thanks to a sharp increase in revenues. It will continue along the path of sustainable positive profitability. The measures introduced to improve efficiency along the entire value chain have borne their first fruits, although some measures have purposely been postponed due to the very high level of overall utilization within the company. The successful project to improve global marketing for the Food Processing Plants business area can be seen in the increase in order entries as well as the volume of project inquiries.

In addition to the investment in Smart Controls in India, the current joint venture Zeppelin Systems China (Shanghai) Co. Ltd. was expanded to include production activities in 2017. This was achieved through the operational involvement of the Chinese partner and by moving Zeppelin’s production location from Beijing to Shanghai. The realignment of the global mixing business (mixing technologies) at the Kassel site was continued. In particular, the measures being implemented aim to strengthen sales and to deepen manufacturing by utilizing procurement channels. Implementation of the measures was not completed during the reporting year.

Within the **Z Lab business unit**, lead company Zeppelin Lab GmbH (formerly known as Klickrent GmbH) generated its first revenues from rentals booked via its “Klick-Rent” platform in fiscal 2017. A structured innovation process is used to methodically evaluate and assess ideas and projects based on an internal system in a timely manner in order to develop key issues in a focused manner based on a large pool of ideas. The Zeppelin Group’s overall digitalization strategy has been concentrated in the business unit.

4. Results of Operations, Financial Position, Net Assets of the Zeppelin Group

The Zeppelin Group mainly judges its performance by means of three indicators: revenues, earnings before tax, and return on capital employed ROCE).

Its overall operating performance rose by 16.5 % year on year. The balance sheet total was up by 9.9%, mainly as a result of the increase in property, plant and equipment and financial assets as well as receivables. The equity ratio is 43.5%, falling slightly from the previous year (44.9%) due to the relatively sharp increase in the balance sheet total despite an appreciable increase in equity.

Results of Operations

With revenues up by 16.5% (EUR 2.751b; previous year: EUR 2.362b) and a positive change in inventories (EUR 2.2m; previous year: EUR 2.1m), the overall operating performance increased to EUR 2.755b (previous year: EUR 2.365b). Other operating income amounted to EUR 85.2m and, at EUR 0.7m or 0.8%, is slightly higher than in the previous year (EUR 84.5m). Although currency exchange gains, refunds and credits were higher, income from returns of replacement parts fell.

The cost of materials rose slightly faster than total operating performance, increasing by 18.9%, to EUR 1.938b (previous year: EUR 1.630b); costs for materials increased to 70.3% of the total operating performance (previous year: 68.9%). As a result, the gross profit[4] increased by EUR 83.2m (11.3%) to EUR 817.7m (previous year: EUR 734.6m).

Personnel expenses were EUR 488.4m, an increase of EUR 46.9m, or 10.6%, over the previous year (EUR 441.4m). This is largely due to the increase in personnel capacities, higher variable compensation components and general wage and salary increases as well as the special payment made to employees in 2017. The personnel expense ratio fell compared to the total operating performance to 17.7% (previous year: 18.7%).

Depreciation of intangible assets and property, plant, and equipment increased by EUR 3.6m to EUR 42.6m compared to the previous year (EUR 39.0m). The depreciation of tangible assets for rentals (rental fleet) increased to EUR 60.1m (previous year: EUR 50.1m). It is included in the cost of materials.

Other operating expenses rose to EUR 260.6m (previous year: EUR 230.7m). Operating costs were EUR 59.1m, administrative expenses EUR 63.5m, sales-related costs EUR 59.6m, fleet costs EUR 24.0m, and additional staff costs EUR 11.5m.

The financial result improved by EUR 4.4m to EUR -15.1m (previous year: EUR -19.5m). The net interest result amounted to EUR -15.9m, EUR 2.5m less than the EUR -18.4m for

[4] Revenues + changes in inventory and other own work capitalized / the cost of materials

the previous year. The primary reasons for this were lower interest expenses from interest rate swaps and the syndicated credit facility from Zeppelin GmbH. Investment earnings improved by EUR 1.2m to EUR -0.5m (previous year: EUR -1.8m). Earnings from associated companies were EUR 1.3m and relate to CZ LOKO a.s. and Smart Controls India Ltd.

The Group's earnings from operations before tax rose to EUR 93.5m (previous year: EUR 85.9m). The net operating margin amounted to 3.4% (previous year: 3.6%). The return on equity[5] before taxes amounted to 14.3% (previous year: 14.3%), while the total return on assets[6] was 7.6% (previous year: 7.8%). The ROCE[7] was 7.8% (previous year: 8.2%).

After deducting taxes on income and earnings of EUR 35.9m (previous year: EUR 26.7m), net income of EUR 57.6m (previous year: EUR 59.1m) was generated in the 2017 fiscal year. The 2017 tax ratio amounted to 38.4% (previous year: 31.1%). The increase compared to the previous year is the result of the tax estimation risks in connection with the ongoing audit in the amount of EUR 5.9m.

Result of Ordinary Operations by Strategic Business Units

BREAKDOWN OF GROUP RESULT IN EURK	2017	2016	CHANGE (%)
Construction Equipment EU SBU	52,230	42,573	23
Construction Equipment CIS SBU	20,957	21,819	-4
Rental SBU	27,242	23,467	16
Power Systems SBU	20,328	19,459	4
Plant Engineering SBU	6,219	7,818	-20
Z Lab SBU	-5,519	-2,690	-
Zeppelin GmbH Group (consolidated)	**96,313**	**88,537**	**9**
Thereof, foreign companies	55,611	46,923	19

[5] Earnings before tax / (equity in current year + equity in current year) / 2
[6] (Earnings before tax + interest expenses) / (balance sheet total of previous year + balance sheet total of current year) / 2
[7] Earnings before taxes and interest (working capital + fixed assets + off-balance assets [in each case, the average of the last four quarters])

Financial Position

The financial demands on the Zeppelin Group are defined by long-term fixed assets (including a large rental fleet), which account for around 41 % of net assets, and other stocks and receivables needed in order to trade in construction equipment and other high-value capital goods, which have relatively high turnover.

Taking account of negative currency translation differences of EUR 6.2m, which is largely the result of changes in the exchange rates for the Russian ruble and the US dollar, Zeppelin Group equity increased by EUR 41.0m to EUR 674.4m in fiscal 2017 (previous year: EUR 633.4m). With net assets rising by 9.9% to EUR 1.55b, the equity ratio decreased to 43.5% (previous year: 44.9%). As of the balance sheet date, the total long-term assets amounted to EUR 1,139.8m (previous year: EUR 989.6m) – comprising equity (EUR 674.4m), pension accruals (EUR 107.8m) and other long-term provisions (EUR 24.4m) as well as liabilities to banks and institutional investors due to be liquidated in more than one year (EUR 333.2m) – and thus exceeded the fixed assets and the portion of current assets that are tied up on a long-term basis, which together amounted to EUR 648.0m (previous year: EUR 553.1m) by EUR 491.7m (previous year: EUR 436.5m). They therefore also covered 120.1% of the Zeppelin Group's inventories. The increase in long-term assets is due to the increase in equity (EUR +41.0m) and a reduction of liabilities to banks and institutional investors with a future benefit exceeding one year (EUR +105.1m). Long-term refinancing of EUR 65m was secured for bonded loans of EUR 67m that matured in 2017.

The short-term provisions and liabilities as of December 31, 2017 amounted to EUR 400.3m (previous year: EUR 411.5m), down EUR 11.1m. They mostly consist of trade liabilities amounting to EUR 109.9m (previous year: EUR 82.3m), liabilities to banks amounting to EUR 5.2m (previous year: EUR 72.9m), tax and other provisions of EUR 182.4m (previous year: EUR 168.8m) as well as down payments received and other liabilities of EUR 102.8m (previous year: EUR 87.5m). Short-term liabilities to banks fell by EUR 67.7m and trade liabilities increased by EUR 27.6m over the previous year.

At the end of 2017, a syndicated credit facility that was originally taken out in 2011 and extended early in 2015 was available to the Zeppelin Group as a major financing instrument. The term of the syndicated credit facility is five years and includes an option to extend it by one year on two occasions (5+1+1 term). Zeppelin GmbH availed itself of this option in 2017 and in June of that year it extended the largest portion of the syndicated credit facility to 2022. The credit facility is available for cash drawdowns (EUR 375m) and for providing guarantees (EUR 125m). As of the end of 2017, a total of EUR 273.6m (including EUR 131.2m for guarantees), or 54.7% (previous year: 40.7%) had been utilized. In addition, at the end of 2017 the Zeppelin Group had additional bank credit lines of around EUR 56m, of which it utilized EUR 7.5m. An ABS (asset-backed securities) program with EUR 25m in funding and current Group cash and cash equivalents continue to be available as other sources of financing.

Furthermore, the Zeppelin Group finances itself over the long term through the issuance of bonded loans. At year-end, the total volume of outstanding bonded loans was EUR 184.5m. Long-term financing in the amount of EUR 65m was secured for two bonded loans totaling EUR 67m that became due in 2017. The Group again adhered to the financial covenants that were agreed and determined on the basis of its financial data in connection with the syndicated credit facility and bonded loans in 2017. In August 2017, Creditreform Rating AG confirmed Zeppelin Group's “A-” rating with a stable outlook. The positive assessment by the rating agency is based on the Group's market position, its financial strength, stable and solid key financial ratios, prudent financial management and the future-oriented nature of Zeppelin's operational business. The companies of the Construction Equipment EU, Construction Equipment CIS and Power Systems business units continued to have access to extensive credit facilities at Caterpillar Financial Services and other sales financing and leasing companies in order to finance sales in Germany and abroad. In addition, it also uses asset leasing to finance vehicles as well as IT hardware and software. The extensive investments in the rental fleets in fiscal 2017 were financed from current cash flow and debt recognized in the balance sheet as well as sale-and-leaseback transactions.

The additions to the Group's assets of EUR 236.9m (including EUR 169.5m in rental assets) were offset by depreciation of EUR 103.6m in the current year (of which EUR 60.1m were on the rental fleet, contained in material expenses), which thus covered 43.7% of the capital expenditures made (previous year: 53.4%). The total investments rose, mainly as a result of the increase in investments in rental assets (EUR +60.6m) by EUR 66.7m.

Development of Group Investments (on-balance sheet)

EURK	2017	2016	2015	2014	2013
Intangible assets	15,024	9,889	16,712	14,886	14,461
Tangible assets	216,944	149,127	167,290	139,475	99,580
Land and buildings	9,299	11,073	5,841	4,632	6,927
Plant, machinery and operating and business equipment	30,414	19,495	15,039	15,120	20,767
Rental assets	169,549	108,969	132,966	108,929	63,405
Down payments made and assets under construction	7,681	9,591	13,444	10,794	8,481
Financial assets	4,903	11,190	743	2,900	4,167
Total investments [1)]	**236,871**	**170,207**	**184,745**	**157,261**	**118,208**
[1)] Additionally: changes to the group of consolidated companies	0	0	-5,829	1,471	76

The net cash flow of the Zeppelin Group rose by EUR 16.4m in 2017, or 9.2%, compared with the previous year to EUR 195.5m (previous year: EUR 179.1m). The cash flow ratio[8] was 7.1% of revenues (previous year: 7.6%).

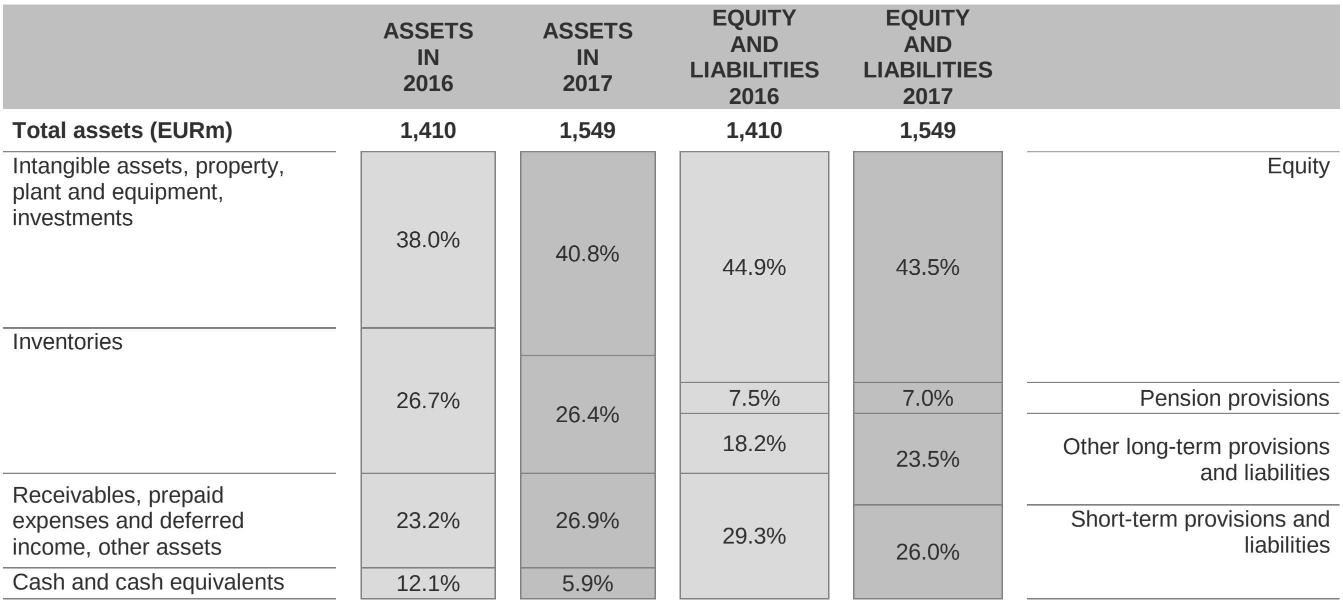
Net Assets

The net assets of the Zeppelin Group increased in the 2017 fiscal year by EUR 139.2m (9.9%) to EUR 1.55b (previous year: EUR 1.41b). This was mainly because of the increase in fixed assets of EUR 96.4m (previous year: EUR 42.9m) and the increase in receivables and other assets of EUR 87.9m (previous year: EUR 16.3m) and inventories of EUR 33.1m (previous year: EUR -18.7m). By contrast, cash and cash equivalents fell by EUR 79.4m (previous year: EUR +44.1m). In fiscal 2017, nearly all investments in the rental fleet were carried out using existing liquidity, cash flow or corresponding loans, with only a limited number of sale-and-leaseback transactions used as a financing instrument.

The asset structure of the Group Balance Sheet changed compared to the previous year as follows: the share of assets (EUR 631.9m) increased from 38.0% to 40.8%. At the same time, the share of inventories (EUR 409.5m) fell to 26.4% (previous year: 26.7%) and the share of receivables, prepaid expenses and deferred income and other assets (EUR 327.2m) fell to 26.9% (previous year: 23.2%) because of the high level of sales performance in December 2017. The share of cash and cash equivalents fell to 5.9% (previous year: 12.1%).

[8] Net cash flow / revenues

Breakdown of Group Assets, Equity and Liabilities



At 1.9 p.a., the capital turnover is slightly above the previous year (1.7 p.a.). Because of the high level of sales performance at the end of 2017, the calculated collection period for trade receivables increased as of the balance sheet date to 50 days (previous year: 44 days).

Apart from the balance sheet assets, the companies of the Zeppelin Group leased assets (motor pool, computer hardware and software) and machines for the rental fleet for a total of EUR 209.5m (previous year: EUR 217.7m), of which EUR 173.9m is attributed to the rental parks (previous year: EUR 183.1m).

Comparison of Current Situation with Forecast

Revenues increased sharply in fiscal 2017 compared to the forecast from the previous year, due in particular to the Rental and Construction Equipment EU business units. Accordingly, earnings before taxes as of December 31, 2017, also increased sharply over last year’s forecast. The main contribution here came from the Construction Equipment EU business unit. The Construction Equipment CIS, Rental and Plant Engineering business units also posted much better earnings than what had been forecast. The Power Systems business unit achieved the expected earnings before taxes. The ROCE was slightly higher than forecast.

At EUR 36.8m, the net income of Zeppelin GmbH is less than forecast. This was due, in particular, to lower profit transfers as a result of the corporate changes made to the Rental business unit as well as the inclusion of tax estimating risks for the ongoing audit in fiscal 2017.

5. Results of Operations, Financial Position, Net Assets of Zeppelin GmbH

Results of Operations

In 2017, Zeppelin GmbH's revenues decreased by EUR 0.2m to EUR 25.7m (previous year: EUR 25.8m). Revenues from internal leases for properties and buildings (EUR 17.3m) increased by EUR 0.3m and those from IT services rose by EUR 0.4m (EUR 2.4m), while the management contribution fell by EUR 0.6m (EUR 4.3m).

Other operating income amounted to EUR 3.2m, rising by EUR 0.9m compared with the previous year (EUR 2.2m). This is primarily due to a settlement for asserted claims for damages in the amount of EUR 0.8m.

Investment earnings are EUR 36.4m (previous year: EUR 60.0) and fell by EUR 23.6m as a result of lower dividend distributions.

At EUR 18.6m, personnel expenses rose compared to the previous year (EUR 16.7m). This is due to the increase in personnel capacities, higher variable compensation components and general wage and salary increases as well as the reversal of pension provisions and accruals in fiscal 2016 as a result of higher discount rates and the allocation this year to the pension provision.

Amortization of intangible assets and depreciation of property, plant and equipment came to EUR 6.4m, slightly below the level from the previous year (EUR 6.6m).

Other operating expenses in the amount of EUR 18.2m rose by EUR 4.5m compared to the previous year (EUR 13.7m). Administrative costs rose by EUR 1.7m (EUR 5.9m) due to higher consulting and training costs and other expenses increased by EUR 3.0m (EUR 6.7m) as a result of various services connected with the increasing digitalization of the business models. Neutral expenses fell by EUR 0.2m (EUR 1.6m) as a result of lower losses on disposals of property, plant and equipment and additional staff costs were also down EUR 0.2m (EUR 0.2m) because of a decline in temporary help. By contrast, operating costs (EUR 2.3m; previous year: EUR 1.9m) rose by EUR 0.4m as a result of higher maintenance and repair costs for buildings. Sales costs amounted to EUR 1.3m (previous year: EUR 1.5m).

The net interest result – excluding income from loans classified as fixed financial assets –

amounted to EUR -4.2m in 2016 and improved by EUR 4.7m on the previous year. This is mainly due to lower interest expenses from rate swaps as well as an increase in interest income from affiliated companies.

Earnings before taxes decreased to EUR 48.8m (previous year: EUR 67.1m), which was mainly due to the one-off lack of dividends as a result of the corporate changes that were implemented as well as the earnings from Zeppelin Rental GmbH.

The net income is EUR 36.8m (previous year: EUR 58.4m). This figure includes taxes on income and earnings of EUR 12.0m (previous year: EUR 8.7m), which increased because of the inclusion of the tax estimation risks from the ongoing audit.

A dividend of 18.0% of net group income for the 2017 fiscal year will be proposed to the shareholders, with the remaining profits that are not retained of EUR 357.3m being carried forward to new account.

Financial Position

The financial strategy is derived from the corporate purpose of Zeppelin GmbH (the holding of participations, rental of land, buildings and technical equipment owned by the company to affiliated companies and the financing of the Group). The long-term commitment of funds to property, plant and equipment and financial assets (61.4% of assets) should correlate as far as possible with matching financing on the liabilities side of the balance sheet. Here, the creation of equity from retained profits is an important source of funding.

The equity of Zeppelin GmbH has increased to EUR 569.0m (previous year: EUR 542.2m) because of the net income for the year and amounts to 58.5% of net assets (previous year: 61.4%). The long-term funds come to EUR 308.0m (31.6% of net assets) and consist of accruals for pensions (EUR 33.4m), liabilities to banks (EUR 274.5m)[9] as well as other liabilities (EUR 47k). Current funds include liabilities to banks (EUR 1.4m)[10], trade liabilities (EUR 1.9m), liabilities to affiliated companies (EUR 62.5m, mainly from investing affiliated companies' funds and cash-pooling) as well as other liabilities (EUR 10.2m).

Zeppelin GmbH invested EUR 13.5m in fiscal 2017 (previous year: EUR 34.7m). Of this figure, EUR 10.6m was attributable to property, plant and equipment and EUR 2.9m to intangible assets. Write-downs amounted to EUR 7.3m (previous year: EUR 8.2m). Of this amount, EUR 0.9m was for a write-down on an investment.

[9] This figure includes EUR 184.5m in bonded loans, of which EUR 59.5m was subscribed by institutional investors.
[10] It does not include any bonded loans.

Net Assets

The assets of Zeppelin GmbH mainly consist of participations amounting to EUR 431.4m (previous year: EUR 432.3m) as well as land, buildings and assets under construction of EUR 112.0m (previous year: EUR 109.3m). These assets therefore account for 55.8 % (previous year: 61.4%) of net assets, which have increased to EUR 973.3m (previous year: EUR 882.5m). Receivables from affiliated companies fell by EUR 172.1m to EUR 323.7m (previous year: EUR 151.5m). At the same time, credit balances at banks fell by EUR 84.9m to EUR 43.9m. The long-term assets of EUR 602.8m (previous year: EUR 597.7m) were offset by long-term liabilities as of December 31, 2017 of 877.0m (previous year: 754.4m). The latter mainly consist of equity, accruals for pensions and long-term liabilities. Long-term asset coverage rose from 126.2% to 145.5%, mainly as a result of the long-term refinancing in 2017 of bonded loans that matured.

Investment in property, plant and equipment amounted to EUR 10.6m (previous year: EUR 9.4m). Of this amount, EUR 9.5m (previous year: EUR 9.2m) related to land, buildings, equipment and assets under construction, which are rented to investment companies. This mainly involves investments in properties and buildings that are leased to Zeppelin Rental GmbH and Zeppelin Baumaschine GmbH.

C. Opportunity and Risk Report

1. Risk Report

General Aspects

As an internationally active corporate group, Zeppelin is exposed to various risks. In particular, macroeconomic and industry-specific risks, performance-related, personnel-related and financial risks must be taken into account. The risks presented below apply equally to Zeppelin GmbH and the Zeppelin Group.

Macroeconomic and Industry-Specific Risks

Because of the broad range of countries, industries and business models in which the Zeppelin Group is active, the macroeconomic and industry-specific risks are broadly distributed.

Zeppelin is one of the largest dealers selling Caterpillar construction and mining equipment as well as engines. Although the dealership agreement between Caterpillar and Zeppelin can be terminated at relatively short notice, no substantial risk is seen here because of the extremely successful partnership between the two companies for more than 60 years. Zeppelin is also the market leader in leasing a broad array of construction machines and equipment, including complementary products and services in the relevant markets. In its target industries, including construction, energy, and shipping, there is some risk of defaults on receivables, which is countered by effective receivables and credit management. Appropriate account is taken of existing currency risks through currency hedging activities and proactive currency management.

The markets served by the Plant Engineering business unit are very diversified and include companies in the international rubber and tire industry, plastics producers and processors and the food industry around the world. In order to reduce its risks from defaults on receivables, the Group concludes agreements regarding down payments and interim payments as well as collateral. In order to protect itself against economic and political risks, the Group takes advantage of German government-backed trade export credit guarantees.

Performance-Related Risks

Caterpillar’s delivery capacity and ability to deliver on time is the main risk to performance. Zeppelin and Caterpillar work together to continuously increase availability, for example, by making logistical improvements, maintaining inventories in interim storage facilities, and preconfiguring machines. In order to ensure delivery, it also maintains sufficient inventories to balance out delivery bottlenecks and delays.

The risks are further minimized through international collaboration and management by strategic business units and inventory optimization.

Personnel Risks

Because of the strong economic situation in Germany and demographic change within Zeppelin, the company will be losing a number of experienced employees over the next 5 to 10 years and finding replacements for them on the labor market will require considerable effort. At the same time, the ongoing pace of digitalization poses a challenge for Zeppelin and all other companies.

Zeppelin is responding to this challenge with a number of strategic projects and initiatives in the area of human resources (HR) that aim to maintain the company’s productivity in the future. The work carried out by HR involves retaining as many employees as possible and preparing them for the future challenges of an increasingly digital working world. HR will also focus on creating a strong employer brand in order to make the company an even more attractive and competitive employer in the hard-fought labor market.

These efforts will be based on measuring Zeppelin Group employee satisfaction. In order to determine the level of satisfaction a Group-wide international employee opinion survey was conducted in 2017. The results, particularly in the areas of loyalty, identification, engagement and commitment reveal a very high level of employee loyalty that has improved in absolute terms since the last employee opinion survey in 2013.

The rate of voluntary resignations rose slightly in 2017 (4.89% average Group-wide) compared to 2016 (4.58%), but it continues to confirm the high level of loyalty of Zeppelin employees.

A number of Group projects were initiated in the area of Human Resources in order to further increase the attractiveness of Zeppelin as an employer. An IT-supported talent management system shows employees career paths and trains specialists and managers for key management positions. Thanks to the Group-wide certification obtained with the “audit berufundfamilie” quality mark issued by the Federal Ministry for Economic Affairs and the Federal Ministry for Family Affairs Zeppelin has improved the work/life balance of its employees. In addition, a consistent follow-up process supported by HR after the survey ensures improvements to working conditions and management behavior at the level of individual managers.

The aim of Zeppelin’s efforts in the area of digital change is to take advantage of the opportunities presented by digitalization for HR work, too. In this way, the negative impact of demographic change change be offset somewhat thanks to the introduction of IT-supported, efficient processes and systems. As a trading and service company with extensive solutions competence, Zeppelin also needs as many employees as possible to be excited about the challenges of the digital working world and to retain their high level of productivity for the long term. A comprehensive, interdisciplinary set of measures has been developed to prepare employees for these challenges.

Financial Risks

Financial risks are limited by, among other things, maintaining a solid capital base and through long-term Group financing. In 2017, the Zeppelin Group's equity ratio was 43.5 % (previous year: 44.9%). In addition, Zeppelin GmbH and its German subsidiaries also have access to long-term financing from pension accruals in the amount of EUR 107.8m.

The Zeppelin Group’s financial leeway at any time is also primarily ensured by the syndicated credit facility that was set up in 2011 and then extended early in 2015. This syndicated credit facility has a maximum term until 2022. In addition, in order to diversify its outside sources of capital, the Group issues bonded loans and makes use of sales financing via several specialized institutions, and an ABS (asset-backed securities) program. Extensive credit facilities are also available for sale-and-leaseback transactions, especially for financing the rental fleet.

At EUR 331.6m, the proportion of long-term liabilities to banks and institutional investors in the Zeppelin Group rose to 98.5% (previous year: 75.6%) in relation to total liabilities and to 21.4% (previous year: 16.1%) in relation to net assets, which is mainly due to the refinancing in 2017 of bonded loans that came due. All drawdowns under the syndicated credit facility are classified as long-term.

In accordance with the Zeppelin Group’s financial strategy of hedging a large share of its average financial liabilities against interest rate risks, the Zeppelin Group makes use of interest rate swaps. These hedging transactions secure Zeppelin GmbH against an increase in interest expenses in the event of drawdowns under the syndicated loan as well as for bonded loans. Hedging transactions have been concluded that expire in 2023, 2024 and 2025. These transactions provide the Group with long-term protection against the risk that rates will rise again. The Zeppelin Group’s business activities in emerging markets and developing countries expose it to currency risks. To contain them, cash flows in other currencies from individual transactions or projects are hedged with currency forwards and futures. In addition, the Zeppelin Group limits currency risks by financing its subsidiaries in emerging economies and developing countries in local currencies and by employing sophisticated asset management techniques. For monitoring currency risks, the Zeppelin Group operates a value-at-risk limit system that is integrated in the Group-wide treasury management system and continuously monitored with action areas being highlighted. Consistent risk management and the lower volatility of the Russian ruble and Ukrainian hryvnia helped to keep overall foreign currency losses low in 2017. Additional information regarding interest rate changes and currency risks is included in Section VI. of the Notes to the Group Financial Statements.

At EUR 1.2m, or 0.04% of revenues, the default rate by external customers for all Group companies was below the figure for the previous year, which was EUR 3.2m, or 0.14% of revenues. This was influenced by a few large insolvencies. The low figure of 0.04% of revenues confirms the success of the measures in the area of credit checks and claims management. Corresponding risks were also prevented by collaborating extensively with sales financing companies and securing down payments from customers for projects and plants.

To protect itself against the financial consequences of large liability risks and substantial damages when it bears limited risks, the Group takes out insurance policies. Special attention is paid to claims management and the related prevention of claims through precautionary measures. Within the scope of an international insurance management system, coverage is continually monitored and adjusted as required. In addition, insurance coverage is centrally coordinated and managed for the entire Group. The real estate investments in Russia underway in St. Petersburg were insured in against political risks by obtaining German government-backed guarantees for direct investments in other countries.

Risk Management System

As a global company, the Zeppelin Group is exposed to a number of risks. The Zeppelin Group counters these risks and meets the applicable operational, market-related and legal requirements with a comprehensive risk management system. Risk management is part of the Group's business and decision-making processes and aims to identify, quantify, and report risks at an early stage. The focus here is to counter the risks that have been identified and to avoid risks that jeopardize the survival of the Group.

Dedicated planning and reporting is a key aspect of risk management. The goal here is to ensure comprehensive recording of risks. All managers are involved in the identification, analysis and evaluation of risks. Countermeasures to avoid or reduce risks are initiated as needed.

The quarterly reporting system comprises the assessment of the identified risks according to their magnitude and likelihood of occurrence based on 12 risk categories and documents the countermeasures taken and their effectiveness over time.

In addition, the ad-hoc risk reporting process ensures that adequate measures are initiated in a timely manner if material risks occur. The Group's established Risk Panel is responsible for monitoring all risks and tracking the measures that have been initiated.

At Zeppelin, country-specific risks are evaluated on the basis of established country risk reports. The management team and risk manager in every country in which Zeppelin is active have access to a report with information about economic, political and business area-specific risks. This information also serves as the basis for controlling and the initiation of adequate measures to avoid risks.

In January 2018, an external review was initiated by Zeppelin in connection with potential violations of export regulations. The final results of this review have not yet been submitted. To date, there have been no findings that might have a significant impact on the Group's assets, financial position or earnings.

In 2017, the Group auditing department conducted several standard audits. These audits mainly took place in the operational Group companies Zeppelin Russia OOO, Zeppelin Ukraine TOV, Zeppelin Baumaschinen GmbH (branch audit), Zeppelin Rental GmbH (rental location audit), Zeppelin Systems China (Beijing) Co. Ltd., Zeppelin CZ s.r.o. and Zeppelin GmbH (two audits) as well as additional audits in the area of fraud and compliance. In addition, there were four follow-up audits at Zeppelin Baumaschinen GmbH, Zeppelin CZ s.r.o., BIS Inspection Service GmbH and Sitech Deutschland GmbH. Furthermore, the activities and measures developed for the Power Systems business unit based on the “Culture Dialog” (which involves a review of non-financial areas, including the strategy, risk management, organization and culture of the business unit).

Assessment of Risk Categories

The above-mentioned risk types are contained in the following four risk categories:

- Asset risks (inventories / stocks, receivables, risks to the rental fleet)
- Currency risks (currency transaction and translation risks)
- Contractual risks (contract risk, warranty risks, risks in connection with agreements with financing companies, so-called rental purchase options)
- Financial risks (order backlog risks, sales risks, risks from taxes, market-related earning risks, other risks)

A matrix is used to assess risks in terms of their probability of occurrence and their potential impacts on earnings. The definitions used are explained below.

Definitions

Degrees of Impact

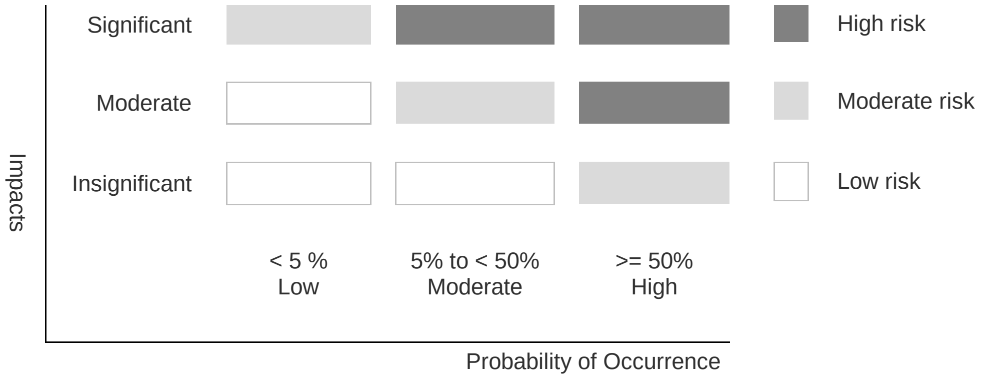
DEGREE OF IMPACT	DEFINITION OF IMPACT
Insignificant	Only insignificant, limited negative impacts on the earnings situation (net losses < EUR 10m[1)])
Moderate	Some negative impacts on the earnings situation (net losses >= EUR 10m and < EUR 20m[1)])
Significant	Considerable negative impacts on the earnings situation (net losses >= EUR 20m[1)])

[1)] Depending on risk category

Probability of Occurrence

PROBABILITY OF OCCURRENCE	Description
< 5%	Low
5 % to < 50 %	Moderate
>= 50 %	High

Evaluation Matrix



Relative Importance of Risk Categories

RISK CATEGORY	RISK OF OCCURRING	IMPACT ON EARNINGS [1]	RISK ASSESSMENT
Asset risks	Moderate	Insignificant	Low
Currency risks	N/A	Insignificant	Low/moderate
Contractual risks	Low	Insignificant	Low
Financial Risks	Moderate	Insignificant	Low

[1] Depending on risk category

Overall Assessment of the Risk Situation

The implemented risk management system is highly regarded within the Group and is an integral component of the business processes. It ensures that control mechanisms and measures to avoid and reduce risk are effective.

The Group's management controlling department and risk panel continuously monitor the risk reporting system and take steps to keep improving the quality of risk management, which is checked and assessed by the auditor each year to ensure that it is being properly and effectively practiced.

No risks that could endanger the continued existence of Zeppelin GmbH or its subsidiaries existed during the current year, nor are any such risks now discernible for the future.

2. Opportunities

Actively searching for and taking advantage of opportunities while simultaneously weighing the associated risks is a key task of entrepreneurial activity and thus also of the management of Zeppelin GmbH and all its subsidiaries. The goal is to strengthen and further expand Zeppelin's position as one of the leading and outstandingly successful providers of forward-looking solutions in the areas of construction equipment, rentals, construction logistics, drives and energy, plant engineering and new digital business models across Zeppelin's competencies. In this respect, Zeppelin implemented a number of strategic initiatives in 2017 that will ensure the profitability of the Zeppelin Group over the long term. The main initiatives include strategic acquisitions of companies, the establishment of joint ventures and the negotiation of strategic partnerships and collaborations.

The Rental strategic business unit acquired Limes Mobil GmbH at the beginning of the year to strengthen its competitive position in the area of site and traffic guidance. The company has been successfully active on the market since 1997 and is one of the top ten providers of concrete safety barriers in Germany thanks to its large stock of concrete safety barriers. The acquisition helps Zeppelin to expand its presence and reach in North Rhine-Westphalia, where large investments in infrastructure are expected in the next few years. The company was merged with what is now known as Zeppelin Rental GmbH retroactively to January 1, 2017.

Thanks to MWB Marine Services GmbH, the Power Systems strategic business unit's joint venture with German Dry Docks AG, Zeppelin will substantially expand its business activities with respect to the repair and maintenance of marine engines and continue the planned internationalization in this area within the Zeppelin network. The expansion of the Quality Services business area in the aviation industry area with the acquisition of the High Tech Welding Aviation division from Mauderer Alutechnik GmbH has enabled the Plant Engineering strategic business unit to enter the market for series production of high-quality components for the aviation industry.

In order to further expand the Zeppelin Group's market portfolio the Construction Equipment EU strategic business unit acquired parts of the company INTRAC Polska Sp z.o.o. As part of the acquisition, Zeppelin took over the sales of machinery and spare parts, as well as servicing for Manitou and Grove equipment at selected sites in Poland. The Polish market offers substantial growth potential and the new site network provides better proximity to new and existing customers. The establishment of the IBS Bauvermessung GmbH joint venture advances the marketing efforts in the area of data collection and data modeling. Thanks to a partnership with Daimler Kamaz Russia, the Construction Equipment CIS business unit is the official retailer of Mercedes Benz trucks in the Russian Republic of Karelia and the region of Arkhangelsk. By entering into this partnership, Zeppelin has diversified its current brand and service portfolio in order to generate additional opportunities for the profitability of the Zeppelin Group.

An important step toward the implementation of the Construction Equipment CIS business unit's digital strategy is the launch of the Heavy Fair online platform. This platform enables the online purchase and sale of used machines for the agricultural, freight traffic, road construction and forestry industries, among others. The Plant Engineering business unit has created a sound basis for moving forward with the gradual digitalization of work processes through its joint venture with Indian automation specialist Smart Controls India Ltd. The expansion of the Plant Engineering business unit's joint venture Zeppelin Systems China (Shanghai) Co. Ltd., which was completed in August 2017, will make it possible to carry out final assembly of selected components for the Asian market in Shanghai. The future expansion of production activities for the plastics and food markets is planned.

Additional measures to digitalize current Zeppelin Group business models will be carried out in coming years. Customers will thus be able to process all major and relevant transactions with Zeppelin digitally. Digitalization will make it much easier to handle current processes and will create the resources for other, more consulting-intensive businesses. In the future, the two models – digital and analog – will work hand in hand to ensure the success of Zeppelin as a company.

3. Compliance

Compliance at Zeppelin is based on the conviction that social responsibility, observance of the law, and ethical conduct are essential for long-term business success. Complying with legal requirements, official regulations, and internal corporate guidelines is a key part of Zeppelin's management and corporate culture. The Zeppelin Group joined the UN Global Compact underscoring its clear commitment to human rights and sustainable corporate management.

The Zeppelin Group's code of conduct is the cornerstone of its compliance program. Employees can contact the internal compliance organization via the Zeppelin Intranet or a special email address. Alternatively, external lawyers also act as contacts. Regular compliance training is supplemented with a multilingual compliance e-learning program. Individual compliance workshops were also conducted in 2017 for an expanded group of managers in collaboration with the Konstanz Institute of Corporate Governance (KICG) at Konstanz University.

The Zeppelin Group's compliance program was strengthened further by expanding compliance management within the strategic business units. The compliance officers and employees responsible for implementing the program receive special training on an ongoing basis to train and qualify them for their roles. The compliance officers responsible for the strategic business units have been certified for this position.

D. Forecast

The International Monetary Fund has forecast GDP growth of 3.7% for the global economy. Growth in the euro area is expected to be 1.9% and 1.8% in Germany, which is below the level in 2017. In the USA, GDP is forecast to grow by 2.3%. In Russia, GDP growth in 2018 will be 1.6% and in Ukraine it will be 3.2%. In this respect, the economy has stabilized somewhat. Economic growth in the Czech Republic and Slovakia is expected to be 2.6% and 3.7%, respectively, in 2018.[11]

Uncertainty regarding global economic development in 2018 is rising. Particularly worth noting in this connection are political and geopolitical risks, terrorism threats, the ongoing unresolved debt crisis in Europe, rising interest rates and volatile commodity prices.

The development of Zeppelin's core markets is expected to vary in 2018. The construction trades in Germany are very optimistic about 2018 and estimates of the business outlook for the coming six months are once again more positive. In the construction equipment industry, most manufacturers and retailers expect the market to remain robust in 2018 at a very high quantity level, but with only a modest amount of growth. In general, the Verband Deutscher Maschinen- und Anlagenbau (VDMA) shares this view, but it believes that the market reached its highpoint in 2017 and that it will decline slightly in 2018. The European Rental Association expects the German rental market to grow by 3.2% in 2018. Following the significant market growth in 2017 because of the good overall economic situation, Zeppelin once again anticipates that there will be a solid market for new machines in Austria in 2018 with a similar quantity level as in the previous year (around 1,990 units). The market will likely continue to be affected by the trend toward rentals and small devices as well as strong competition. The rental market in Austria is forecast to grow by 3.4%. The Czech and Slovakian construction industry continues to be assessed positively. According to Zeppelin's estimates, the construction machine market in the Czech Republic will once again benefit in 2018 from the good sentiment in the construction industry and the enormous momentum in 2017 (2,377 units), with moderate growth of around 3%. Zeppelin anticipates a similar development in Slovakia, where it expects an increase of around 3% over the previous year (753 units). The rental market in both countries will also develop positively. The construction industry in Russia is expected to see further substantial growth of 4.6%. Sales of new construction equipment are expected to grow by 22%. The Ukrainian construction industry is expected to see growth of 3.5%, while the country's mining industry

[11] Cf. IMF World Economic Outlook Database, October 2017

is forecast to decline by 4.5%. The construction equipment market is expected to see a slight decline of -3%.

The Power Systems business unit does not expect to see major momentum in the marine and oil and gas segments. The energy sector is expected to see continued dynamic growth. The locomotive market is stuck at a fairly low level in Germany. In the industrial area, consistent and constant utilization of production capacities will create the basis for continuous series production in 2018 and beyond.

The Plant Engineering business unit expects the market volume to remain at the high level of the reporting year in 2018. For this reason, it anticipates stable and healthy markets in all three of its main business segments.

As a result of the conversion of the Group's accounting to International Financial Reporting Standards (IFRS) as of December 31, 2018, Group and business unit planning and controlling will be carried out on the basis of key figures based on IFRS. Accordingly, the Zeppelin Group expects revenues in 2018 of EUR 2.5b and earnings before taxes of EUR 87.5m. The return on capital employed (ROCE) is forecast to be 6.2%. Zeppelin GmbH is expected to have net income according to IFRS of EUR 45.1m in 2018. There are no major differences with respect to the net income in the financial statement for Zeppelin GmbH between IFRS and the German Commercial Code.

E. Proposed allocation of profits

Based on the net retained profits of EUR 367.7m, the Management Board proposes distributing a regular dividend of 18% of net income (EUR 57.6m) from the net retained profits of Zeppelin GmbH, or EUR 10.4m, for fiscal year 2017 and carrying EUR 357.3m forward to new account.

Friedrichshafen, February 28, 2018

The Management Board of Zeppelin GmbH

Peter Gerstmann	Michael Heidemann	Christian Dummler

GROUP BALANCE SHEET AS OF DECEMBER 31, 2017

EURK ASSETS	12/31/17	12/31/16
A. Fixed Assets		
I. Intangible assets		
1. Purchased industrial and intellectual property, similar rights and assets, and licenses for rights of these kinds	16,240	10,598
2. Goodwill	10,006	13,682
3. Down payments made	4,930	2,324
	31,176	**26,604**
II. Property, plant and equipment		
1. Land, land rights, and buildings, including buildings on third-party land	196,103	191,199
2. Plant and machinery	22,424	20,892
3. Other operating and business equipment, furniture, and fixtures	41,102	35,392
4. Rental assets	299,293	219,341
5. Down payments made and assets under construction	11,352	12,981
	570,275	**479,805**
III. Financial assets		
1. Investments in affiliated companies	13,812	12,373
2. Loans to affiliated companies	409	229
3. Investments in associated companies	15,357	13,753
4. Participations	679	1,586
5. Securities held as fixed assets	14	934
6. Other loans	192	214
	30,461	**29,090**
	631,912	**535,499**
B. Current Assets		
I. Inventories		
1. Raw materials, consumables and supplies	23,788	22,811
2. Work in progress	88,911	76,253
3. Finished goods and merchandise	344,845	340,911
4. Down payments made	68,163	53,349
5. Down payments received on orders	-116,243	-117,001
	409,464	**376,323**
II. Receivables and Other Assets		
1. Trade receivables	373,553	283,844
2. Receivables from affiliated companies	748	460
3. Receivables from companies with which a participation relationship exists	4,488	2,700
4. Other assets	26,004	29,904
	404,794	**316,908**
III. Cash on hand, bank balances, checks	91,220	170,615
	905,477	**863,846**
C. Deferred Income	9,188	7,961
D. Deferred Tax Assets	954	738
E. Net Plan Assets for Post-Employment Benefits	1,251	1,565
	1,548,783	**1,409,610**

EQUITY AND LIABILITIES EURK		12/31/17	12/31/16
A.	**Equity**		
I.	Subscribed capital	100,000	100,000
II.	Capital reserves	60,000	60,000
III.	Revenue reserves		
1.	Reserve for shares of a controlling company	11,276	11,276
2.	Other revenue reserves	497,473	457,395
		508,748	468,671
IV.	Minority interests	5,656	4,687
		674,404	**633,357**
B.	**Provisions**		
1.	Accruals for pensions and other post-employment benefits	107,825	106,176
2.	Tax provisions	13,630	5,708
3.	Other provisions	193,084	184,894
		314,539	**296,777**
C.	**Liabilities**		
1.	Liabilities to banks	336,805	299,425
2.	Down payments received on orders	38,801	29,185
3.	Trade payables	110,025	82,515
4.	Liabilities to affiliated companies	61	4
5.	Other liabilities	65,393	59,768
		551,084	**470,897**
D.	**Deferred Income**	1,751	1,664
E.	**Deferred Tax Liabilities**	7,004	6,914
		1,548,783	**1,409,610**

GROUP INCOME STATEMENT FOR THE 2017 FISCAL YEAR

EURK		Jan. 1, 2017 to Dec. 31, 2017	Jan. 1, 2016 to Dec. 31, 2016
1.	Revenues	2,751,460	2,361,534
2.	Increase (+) / decrease (-) in finished goods and work in progress	2,212	2,101
3.	Other own work capitalized	1,770	1,044
4.	Other operating income	85,170	84,511
		2,840,613	**2,449,190**
5.	Cost of materials		
	a) Cost of raw materials, consumables, supplies, and purchased merchandise	1,768,061	1,482,230
	b) Cost of purchased services	169,657	147,882
		1,937,718	**1,630,112**
6.	Personnel expenses		
	a) Wages and salaries	403,930	369,811
	b) Social security and other benefits	76,137	67,404
	c) Pension costs	8,203	4,187
		488,270	**441,402**
7.	Amortization, depreciation, and write-downs of intangible assets and property, plant, and equipment	42,621	38,972
8.	Other operating costs	260,566	230,661
		111,438	**108,043**
9.	Income from participations	378	0
10.	Income from associated companies	1,327	704
11.	Income from other securities and loans classified as fixed financial assets	4	5
12.	Other interest and similar income	3,316	3,014
13.	Write-downs on financial assets and securities held as current assets	926	1,787
14.	Interest and similar expenses	19,223	21,442
		96,313	**88,537**
15.	Income taxes	35,947	26,730
16.	**Earnings after taxes**	**60,366**	**61,808**
17.	Other taxes	2,769	2,676
18.	**Net Group income**	**57,597**	**59,131**
19.	Income attributable to minority interests	1,321	2,064
20.	**Group share of income for the year**	**56,276**	**57,067**
21.	Allocation to Group's revenue reserves	-56,276	-57,067

GROUP CASH FLOW STATEMENT FOR 2017

EURK	2017	2016	CHANGE
Net income/loss	57,597	59,131	-1,535
Income taxes	35,947	26,730	9,218
Earnings before income taxes	93,544	85,861	7,683
BALANCE OF WRITE-DOWNS (+)/WRITE-UPS (-)			
Intangible assets	10,473	14,122	-3,650
Property, plant, and equipment excluding rented-out construction machinery	32,185	24,850	7,336
Rented-out construction machinery (fixed and current assets)	70,555	60,289	10,265
Financial assets	866	1,787	-921
Change in pension accruals (+ increase / - decrease)	1,650	-2,132	3,781
Change in long-term provisions (+ increase / - decrease)	2,469	1,073	1,396
Unrealized currency exchange losses (+) / gains (-)	361	157	204
Interest expenses (+) / interest income (-)	15,903	18,423	-2,519
Other participation income (-)	-378	0	-378
Other non-cash expenses (+) / income (-)	-4,067	4,395	-8,462
Gross cash flow	**223,562**	**208,826**	**14,736**
Income taxes paid	-28,025	-29,698	1,672
Net cash flow	**195,536**	**179,128**	**16,408**
Loss (+) / gain (-) resulting from disposals of fixed assets	-274	-980	706
Decrease (+) / increase (-) in inventories	-43,753	8,414	-52,168
Decrease (+) / increase (-) in trade receivables	-89,709	-16,639	-73,070
Increase (-) / decrease (+) in other receivables and assets	1,226	635	591
Decrease (+) / increase (-) in trade payables and other liabilities	48,253	34,358	13,895
= Cash flow from operating activities	**111,280**	**204,916**	**-93,636**
PAYMENTS (-) FOR INVESTMENTS IN			
Intangible assets	-15,024	-9,415	
Property, plant, and equipment excluding rental assets	-47,395	-40,158	
Rental assets (balance of payments received for disposals/payments for investments)	-139,922	-73,842	
Financial assets	-4,114	-2,312	
PAYMENTS (-) RECEIVED (+) FOR DISPOSALS OF			
Intangible assets	106	652	
Property, plant, and equipment excluding rental assets	3,953	3,957	
Financial assets	3,236	496	
Interest received (+)	3,320	3,019	
Dividends received (+)	378	0	
= Cash flow from investing activities	**-195,463**	**-117,603**	
Dividends	-10,000	-7,000	
Dividends / payments to minority interests	-49	-1,517	
Proceeds (+) from long-term borrowing	38,124	16,122	
Repayment (-) of long-term financial liabilities	0	0	
Proceeds (+) / repayment (-) of short-term financial liabilities	-762	-30,970	
Change in loan receivables / liabilities from / to affiliated companies	-549	487	
Interest paid (-)	-18,990	-20,732	
= Cash flow from financing activities	**7,774**	**-43,610**	
Change in cash and cash equivalents	-76,409	43,703	
Cash and cash equivalents at start of fiscal year	170,572	126,496	
Consolidation group-related changes in cash and cash equivalents	0	-3	
Exchange rate-related changes in cash and cash equivalents	-3,003	376	
= Cash and cash equivalents at end of fiscal year	**91,159**	**170,572**	

STATEMENT OF CHANGES IN THE GROUP'S FIXED ASSETS 2017

		ACQUISITION AND PRODUCTION COSTS						
	EURK	**1/1/17**	**Currency differences**	**Additions**	**Disposals**	**Disposals from consolidation group**	**Reclassifi-cations**	**12/31/17**
I.	INTANGIBLE ASSETS							
1.	Purchased industrial and intellectual property, similar rights and assets, and licenses for rights of these kinds	49,923	-794	9,232	-315		245	58,290
2.	Goodwill	74,856	417	2,891				78,164
3.	Down payments made	2,325		2,901	-4		-292	4,931
		127,103	**-378**	**15,024**	**-318**		**-47**	**141,384**
II.	PROPERTY, PLANT AND EQUIPMENT							
1.	Land, land rights, and buildings, including buildings on third-party land	336,170	295	9,299	-1,108		5,443	350,099
2.	Plant and machinery	65,989	-1,091	4,099	-3,816		1,894	67,074
3.	Other operating and business equipment, furniture, and fixtures	129,006	-2,933	26,316	-13,139		237	139,487
4.	Rental assets	354,592	1,700	169,549	-54,672		121	471,289
5.	Down payments made and assets under construction	13,075	-518	7,681	-1,153		-7,647	11,439
		898,833	**-2,548**	**216,944**	**-73,888**		**47**	**1,039,387**
III.	FINANCIAL ASSETS							
1.	Investments in affiliated companies	13,074		2,732	-1,356			14,450
2.	Loans to affiliated companies	4,280		180				4,460
3.	Investments in associated companies	13,753	196	1,962	-538			15,374
4.	Participations	15,816						15,816
5.	Securities held as fixed assets	934	1		-921			14
6.	Other loans	214		29	-51			192
		48,072	**197**	**4,903**	**-2,866**			**50,306**
		1,074,008	**-2,728**	**236,871**	**-77,073**			**1,231,078**

[1] Settled against expenses for materials

DEPRECIATIONS							APPRE-CIATIONS	NET BOOK VALUES	
1/1/17	Currency differences	Additions	Disposals	Disposals from consolidation group	Reclassifi-cations	12/31/17	12/31/17	12/31/17	12/31/16
39,325	-747	3,785	-310		-3	42,049		16,240	10,598
61,174	296	6,688				68,158		10,006	13,682
1						1		4,930	2,324
100,500	**-451**	**10,473**	**-310**		**-3**	**110,208**		**31,176**	**26,604**
144,972	-170	9,878	-789		69	153,996	-37	196,103	191,199
45,097	-793	3,879	-3,734		201	44,649		22,424	20,892
93,614	-1,966	18,331	-11,347		-248	98,385		41,102	35,392
135,251	994	60,080 [1]	-24,242		51	171,996	139	299,293	219,341
94	2	60			-69	86		11,352	12,981
419,027	**-1,932**	**92,229**	**-40,113**		**3**	**469,112**	**102**	**570,275**	**479,805**
701			-3			639	60	13,812	12,373
4,051						4,051		409	229
		17				17		15,357	13,753
14,229		908				15,137		679	1,586
		1				1		14	934
								192	214
18,982		**926**	**-3**			**19,845**	**60**	**30,461**	**29,090**
538,509	**-2,383**	**103,627**	**-40,425**			**599,166**	**162**	**631,912**	**535,499**

STATEMENT OF CHANGES IN GROUP EQUITY 2017

	PARENT COMPANY		
EURK	SUBSCRIBED CAPITAL	CAPITAL RESERVES	EQUITY EARNED BY GROUP
1/1/16	100,000	60,000	465,201
Dividend payments			-7,000
First-time consolidation			8,600
Other changes			-407
	100,000	**60,000**	**466,394**
Net Group income			57,067
Other Group results			
Total Group result			**57,067**
12/31/16	**100,000**	**60,000**	**523,462**
1/1/17	100,000	60,000	523,462
Dividend payments			-10,000
First-time consolidation			
Other changes			-1
	100,000	**60,000**	**513,460**
Net Group income			56,276
Other Group results			
Total Group result			**56,276**
12/31/17	**100,000**	**60,000**	**569,737**

[1)] As in the previous year, the reported sum includes EUR 29,354k of goodwill from capital consolidation.

			MINORITY INTERESTS			GROUP EQUITY
OTHER ACCUMULATED GROUP RESULTS				OTHER ACCUMULATED GROUP RESULTS		
ADJUSTMENTS FROM FOREIGN CURRENCY TRANSLATION	OTHER NEUTRAL TRANS-ACTIONS	EQUITY	MINORITY INTERESTS	ADJUSTMENTS FROM FOREIGN CURRENCY TRANSLATION	EQUITY	
-46,578	-14,617	564,007	2,000	293	2,293	566,300
		-7,000	-9		-9	-7,009
	-978	7,622				7,622
		-407	348	69	417	10
-46,577	**-15,595**	**564,222**	**2,338**	**363**	**2,701**	**566,923**
		57,067	2,064		2,064	59,131
7,381		7,381		-78	-78	7,303
7,381		**64,449**	**2,064**	**-78**	**1,986**	**66,434**
-39,196	**-15,595**	**628,671**	**4,402**	**284**	**4,687**	**633,357**
-39,196	-15,595	628,671	4,402	284	4,687	633,357
		-10,000	-49		-49	-10,049
	-19	-19				-19
		-1	-2		-2	-3
-39,196	**-15,614**	**618,650**	**4,351**	**284**	**4,635**	**623,286**
		56,276	1,321		1,321	57,597
-6,178		-6,178		-300	-300	-6,478
-6,178		**50,098**	**1,321**	**-300**	**1,021**	**51,118**
-45,374	**-15,614**	**668,748**	**5,672**	**-16**	**5,656**	**674,404**

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE 2017 FISCAL YEAR

I. General

These Group Financial Statements have been prepared in accordance with Sections 290 et seqq. of the German Commercial Code (HGB), as amended by the Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetzes, or BilRUG). The figures in the Group Financial Statements are stated in thousands of euros (EURk).

The Group Income Statement is presented using the “nature of expense” method.

For greater clarity, these Group Financial Statements include notes indicating when figures are also included in other items, as well as detailed breakdowns.

Zeppelin GmbH, as the parent company domiciled in Friedrichshafen, is entered in Commercial Register B of the District Court of Ulm under number HRB 630217.

Reporting and valuation assume that the Group is a going concern.

II. Accounting and Valuation Methods

The financial statements of Zeppelin GmbH and the other included companies have been prepared according to consistent accounting and valuation principles.

Acquired intangible assets and property, plant, and equipment are recognized at cost and, when depreciable, reduced by scheduled and, where necessary, unscheduled amortization and depreciation.

The customary useful life of intangible assets is generally assumed to be between three and five years. Amortization of the goodwill resulting from initial consolidation through December 31, 2009 is recorded on a straight-line basis over a period of five or 10 years. On the date (January 1, 2010) of the transition to the German Accounting Law Modernization Act (BilMoG), all goodwill had a remaining useful life of less than five years. Goodwill acquired since January 1, 2010 has been amortized in principle on a straight-line basis over a period of five years. The customary useful life of five years is based on an estimate of the returns on income over time on the basis of the identified components of goodwill. In particular, these represent customer bases and the expertise (employees, processes) that must be acquired. The income potential of these components is expected to be exhausted over a period of five years.

Property, plant, and equipment have been reduced in value by systematically depreciating them based on their expected useful lives. The scheduled depreciations are based on the following useful lives:

Land and buildings: 10 to 50 years

Plant and machinery: 3 to 15 years

Other operating and business equipment, furniture, and fixtures:3 to 10 years

Low-value assets with a net individual value of up to EUR 410.00 are fully depreciated, i.e. entered as expenses, in their year of acquisition, while assuming that they were immediately disposed of. Individual assets with a net value of more than EUR 410.00 are capitalized in their year of acquisition and depreciated over their expected useful lives.

The recognized assets designated for rental (rental fleet) are depreciated using the straight-line method over their expected useful lives. Total depreciations of EUR 60,080k (previous year: EUR 50,103k) are included in the cost of materials.

Down payments made are recognized at their nominal value.

Shares in nonconsolidated affiliated companies and subsidiaries are recognized at cost value or their market value if lower.

Loans and securities classified as fixed assets are recognized at cost value. Required depreciations are made to their lower market values as of the balance sheet date.

Raw materials, consumables, supplies, and merchandise included in the inventories are measured at cost value or the net achievable price if lower. Work in progress and finished goods are measured at production cost, while taking into account a proportional share of material and product overheads and depreciation as well as directly attributable material, labor, and special costs. Adequate write-downs have been applied to account for loss-free valuation and market- ability risks. Interest on borrowed capital and general administrative costs have not been capitalized.

Adequate impairments have been recorded to account for all identifiable inventory risks associated with longer-than-average storage, reduced marketability, or lower replacements costs. Payments made and received are measured at their nominal value.

Wherever possible, down payments received are deducted up to the amount of the loss on inventories.

Receivables and other assets are recognized at their nominal values. Sufficient specific and general bad debt allowances have been made to account for existing default risks.

Cash and cash equivalents are recognized at their nominal value on the balance sheet date.

Payments made before the balance sheet date are recognized as prepaid expenses, provided they represent an expenditure for a particular period of time after this date.

Equity is recognized in the balance sheet at nominal value.

Under the generally accepted German accounting principles, accruals for pensions and other post-employment benefits are determined in accordance with the projected unit credit method using the “2005 G mortality tables” by Prof. Dr. Klaus Heubeck. The average market interest rate for the previous ten financial years was applied for discounting. The average market interest rate for a remaining term of 15 years is 3.68% (based on 10-year average) (previous year: 4.00%) and 2.81% (based on a 7-year average) (previous year: 3.22%), respectively, in accordance with the German Regulation on Discounting of Provisions (Rückstellungsabzinsungsverordnung, or RückAbzinsV). Expected salary and wage increases of 2.5% and expected pension increases of 1.0% have been taken into account. A fluctuation of 0% was taken into account. The change in the interest rate results in a negative effect on earnings of EUR 3,208k, which is reported in the pension costs. The difference between the amount based on the average market interest rate over the past ten financial years and the amount based on the average market interest rate over the past seven financial years to be recognized in accordance with Section 253, para.6 HGB is EUR 9,756k.

Provisions for taxes and other purposes account for all contingent liabilities and potential losses from pending transactions. They are recognized at the settlement values dictated by good business sense, taking account of expected price and cost increases. Provisions due to be liquidated in more than one year have been discounted at the average market interest rate. The average rate has been calculated on the basis of the seven years prior to the remaining term of each obligation.

Provisions for obligations arising from phased early retirement programs have been formed in accordance with the block model. An actuarial interest rate of 1.27% was applied for discounting in accordance with the German Regulation on Discounting of Provisions (previous year: 1.58%). Expected wage increases of 2.5% were taken into account. Provisions for semi-retirement were formed for semi-retirement agreements that had already been concluded as at the balance sheet date as well as for future agreements. These provisions include supplementary amounts as well as performance obligations accrued through the balance sheet date.

Assets that are intended exclusively for meeting pension or comparable long-term post-employment obligations and are exempt from attachment by all other creditors (plan assets in the sense of Section 246, para. 2, sentence 2 of the German Commercial Code) have been netted against provisions at their fair values. Pension obligations were paid into a pension trust (CTA) within the framework of an asset purchase agreement. The pension trust was measured at fair value and netted against the pension accruals. In addition, a contractual trust arrangement (CTA) was concluded in the financial year 2017 in order to finance pension liabilities. The pension liabilities will be netted against these assets, which will be used solely to meet the pension obligations and cannot be accessed by third parties (plan assets pursuant to Section 246, para. 2, sentence 2 HGB). Earmarked plan assets are valued at their market value.

The valuation of the provisions for anniversaries was carried out on the basis of the projected unit credit method using the “2005 G mortality tables”. An average market interest rate of 2.81% (previous year: 3.22%) has been applied as the flat discount rate for a remaining term of 15 years in accordance with the German Regulation on Discounting of Provisions. Expected salary and wage increases of 2.5% and an increase in the contribution limit of 2.0% have been taken into account. A fluctuation of 0% was taken into account.

Liabilities are recorded at their settlement amount.

Deferred income items are recognized for income before the balance sheet date, provided they represent earnings for a particular period of time after this date.

For calculating taxes deferred because of temporary or differences between the book values of assets, liabilities, deferred income, and prepaid expenses in accordance with commercial law and their tax valuations, or to tax losses carried forward, the amounts of the tax burden or relief are valued at the company-specific tax rates on the date when the differences are eliminated and are not discounted. Differences based on consolidation entries in accordance with Sections 300 to 307 of the German Commercial Code are also taken into account, but differences for the initial recognition of goodwill or negative goodwill from capital consolidation are not considered. Deferred tax assets and liabilities are not offset against one other. Deferred taxes resulting from differences in the annual financial statements of consolidated companies are not capitalized, in accordance with the relevant disclosure option.

Where hedging relationships are designated in accordance with Section 254 of the German Commercial Code, the following accounting and valuation principles are applied: economic hedges are accounted for by designating hedging relationships. In cases in which it is possible to use either the “net hedge presentation method”, in which the offsetting changes in value from the hedged risk are not accounted for, or the “gross hedge presentation method”, in which the offsetting changes in value from the hedged risk of both the hedged item and the hedging instrument are accounted for, the net hedge presentation method is used. The offsetting positive and negative changes in value are recognized without affecting the income statement. If no hedging relationships can be designated, derivatives are measured at fair value based on market prices. If a fair value is negative, it will be taken into account as a special provision; in accordance with the prudence principle, positive fair values may not be recognized.

The realization of revenues for the provision of services or delivery of goods.

III. Consolidation Group

The group of consolidated companies comprises – in addition to Zeppelin GmbH – 12 (previous year: 13) German and 30 (previous year: 32) foreign subsidiaries. As in the previous year, no figures at all are given for two included companies pursuant to Section 313, para. 3, sentence 1 of the German Commercial Code.

The consolidation group comprises the following companies:

COMPANY NAME AND LOCATION	OWNERSHIP SHARE IN %	1)
Zeppelin GmbH, Friedrichshafen	-	2)
Zeppelin Immobilien Russland OOO, Moscow, Russia	100.0	
Zeppelin Baumaschinen GmbH, Garching near Munich	100.0	
AT Baumaschinentechnik Beteiligungs GmbH, Munich	100.0	
Zeppelin Struktur GmbH, Garching near Munich	100.0	
Zeppelin Österreich GmbH, Fischamend near Vienna, Austria	100.0	
Zeppelin Rental Österreich GmbH & Co. KG, Fischamend near Vienna, Austria	100.0	
Zeppelin Rental Österreich GmbH, Fischamend near Vienna, Austria	100.0	
Zeppelin CZ s.r.o., Modletice near Prague, Czech Republic	100.0	
Zeppelin SK s.r.o., Banska Bystrica/Slovak Republic	100.0	
Zeppelin Polska Sp. z o.o., Warsaw, Poland	100.0	
Zeppelin International AG, Steinhausen, Switzerland	100.0	
Zeppelin Russland OOO, Moscow, Russia	100.0	
PRIME Machinery OOO, Moscow, Russia	100.0	
Zeppelin Ukraine TOV, Kiev, Ukraine	100.0	
Zeppelin Turkmenistan JV, Ashgabat, Turkmenistan	100.0	
Zeppelin Central Asia Machinery OOO, Tashkent/Uzbekistan	100.0	
Zeppelin Tadschikistan OOO, Dushanbe, Tajikistan	100.0	
Zeppelin Belarus OOO, Minsk, Belarus	100.0	
Zeppelin Armenien OOO, Abovyan, Armenia	100.0	
Zeppelin Rental GmbH, Garching near Munich	100.0	
Zeppelin Verwaltungs GmbH, Garching near Munich	100.0	
BIS Inspection Service GmbH, Hamburg	100.0	
Zeppelin Lab GmbH (formerly: Klickrent GmbH), Berlin	100.0	
Fast Rent GmbH, Friedrichshafen	100.0	
Zeppelin Power Systems GmbH & Co. KG, Hamburg	100.0	
Zeppelin Power Systems Verwaltungs GmbH, Hamburg	100.0	3)
Zeppelin Power Systems Russland OOO, Moscow, Russia	100.0	
Zeppelin Systems GmbH, Friedrichshafen	100.0	
Zeppelin Systems France S.A.R.L., Vénissieux Cedex, France	100.0	
Zeppelin Systems USA Inc., Odessa, Florida, USA	100.0	
Zeppelin Systems Korea Corporation, Gyeonggi-do, Korea	100.0	
Zeppelin Systems Benelux N.V., Genk, Belgium	100.0	

Zeppelin Systems Italy S.r.l., Milan, Italy	90.0
Zeppelin Systems UK Limited, Nottingham, United Kingdom	100.0
DIMA service for plant engineering s r.o., Bratislava, Slovak Republic	100.0
Zeppelin Systems Latin America Equipamentos Industriais Ltda., São Paulo, Brazil	100.0
Zeppelin Systems China (Beijing) Co. Ltd., Beijing, China	100.0
Zeppelin Systems China (Shanghai) Co. Ltd., Shanghai, China	60.0
Zeppelin Systems India Pvt. Ltd., Vadodara, India	100.0
Zeppelin Systems Singapore Pte. Ltd., Singapore	100.0
Zeppelin Systems Gulf Co. Ltd., Al Jubail, Saudi Arabia	100.0

[1)] Directly and indirectly owned

[2)] Parent company

[3)] Fully liable partner in a partnership

During the reporting year, Zeppelin Ukraine Technologies TOV was merged with Zeppelin Ukraine TOV. Zeppelin Rental GmbH & Co. KG was merged with Zeppelin Streif Baulogistik GmbH and renamed Zeppelin Rental GmbH. Zeppelin Streif Baulogistik Österreich GmbH was sold to Zeppelin Rental Österreich GmbH & Co. KG by Zeppelin Rental GmbH & Co. KG and the merged with the acquiring company.

Four (previous year: three) German and three (previous year: four) foreign companies with only a small business volume were not included in the Group Financial Statements pursuant to Section 296, para. 2 of the German Commercial Code. Overall, they are of negligible importance for meeting the requirement to present a true and fair picture of the Group’s net assets, financial position, and operating results. The information required by Section 313, para. 2, no. 4 of the German Commercial Code is given in the table below. The information on two (previous year: two) unconsolidated companies has been completely omitted in accordance with Section 313, para. 3, sentence 1 of the German Commercial Code.

COMPANY NAME AND LOCATION	OWNERSHIP SHARE IN % [1]	EQUITY EURK	RESULT FOR YEAR EURK	
PJSC "Ukrcukorteploizolyaciya" (UCTI), Vishneve, Ukraine	98.0	560	-27	
Fehmarnbelt Solution Services A/S, Greve, Denmark	50.0	1,283	-85	
MWB Marine Services GmbH, Bremerhaven	60.0	2,291	-327	
SkySails Holding GmbH & Co. KG, Hamburg	1.45	639	-3	[2]
Zeppelin SkySails Sales & Service GmbH & Co. KG, Hamburg	75.04	25	-105	[3]
Zeppelin SkySails Sales & Service Verwaltungs GmbH, Hamburg	67.0	34	1	[3]
Reimelt Ltda., São Paulo/Brazil	90.0	-379	-1	[4]

[1] Directly and indirectly owned

[2] Annual financial statement for the year ending on Dec. 31, 2014; the company has announced its insolvency

[3] Annual financial statement for the year ending on Dec. 31, 2016

[4] Company has ceased operations.

Zeppelin Logistics Sp z.o.o. was liquidated in October 2017. MWB Marine Services GmbH was founded as a joint venture during the financial year, with an investment by Zeppelin Power Systems GmbH & Co. KG.

Investments in associated companies

The shares in CZ LOKO a.s. were included in the consolidation group at equity, with the value of the shares as at the balance sheet date recognized as the proportionate equity, increased or decreased in line with the proportionate results. These shares rose by EUR 752k during the financial year.

The shares in Smart Controls India Ltd. were included in the consolidation group at equity for the first time in fiscal 2017. In this case, too, the value of the shares as at the balance sheet date was recognized as the proportionate equity, increased or decreased in line with the proportionate results. The difference between the investment book value and the proportionate equity is EUR 673k.

COMPANY NAME AND LOCATION	OWNERSHIP SHARE IN % [1]	EQUITY EURK	RESULT FOR YEAR EURK
CZ LOKO a.s., Česká Třebová/Czech Republic[2]	49.0	31,349	2,832
Smart Controls India Ltd., Madhya Pradesh, India[3]	40.0	1,122	93

[1] Indirect

[2] Fiscal year from Oct. 1, 2016 to Sept. 30, 2017.

[3] Financial statement from Aug. 1 to Dec. 31, 2017.

Participations

COMPANY NAME AND LOCATION	OWNERSHIP SHARE IN % [1]	EQUITY EURK [2]	RESULT FOR YEAR EURK [2]
Energyst B.V., Breda/Netherlands	4.5	54,421	-14,263

[1] Direct

[2] Annual financial statement for the year ending on Dec. 31, 2016.

IV. Consolidation Principles

Until December 31, 2000, business agglomerations were consolidated using the book value method (Section 301, para. 1, sentence 2 of the German Commercial Code (old version)) as of the date of acquisition or the date of a subsidiary's initial consolidation. A Brazilian subsidiary that was included in the Group financial statements for the first time in the 1998 fiscal year was consolidated using the revaluation method as of its date of acquisition (Section 301, para. 1, sentence 2 of the German Commercial Code) in order to take advantage of this method, which was already part of the generally accepted German accounting principles for preparing financial statements, for consolidation purposes as well.

Acquisitions made since January 1, 2001 have been consolidated using the revaluation method as of the date of acquisition.

If, in connection with the initial consolidation of a subsidiary according to the book value method, the acquisition cost exceeded the fair value of the net assets acquired, this was allocated to individual assets of the subsidiary that were worth more than their book values as stated in its financial statements. Any remaining discrepancy or, when applying the revaluation method, excess of acquisition cost over fair value of net assets acquired was treated as goodwill and amortized pursuant to Section 309, para. 1, sentence 1 of the German Commercial Code (old version) or offset against the Group's revenue reserves.

Minority interests in equity and net income are accounted for in the balance sheet under "minority interests" and in the income statement under "income attributable to minority interests.” The amount disclosed in the income statement under “income attributable to minority interests” amounting to EUR 1,321k (previous year: EUR 2,064k) is the result of attributing profits or losses to two minority shareholders.

The other revenue reserves contain the accumulated results of the companies included in the Group financial statements, to the extent that they were not distributed, as well as consolidation entries affecting income. They also contain accumulated currency translation differences and, when exercising the option provided by Section 309, para. 1, sentence 3 of the German Commercial Code (old version), goodwill that has been offset without affecting the operating result and/or negative sums resulting from profit retention in connection with capital consolidations that are allocated to other revenue reserves, also without affecting the operating result.

The share of profits attributable to shareholders of Zeppelin GmbH in 2017 was allocated to other revenue reserves.

Receivables and liabilities between consolidated companies were eliminated in the course of consolidating their intercompany balances. Differences were recognized directly in equity.

Income and expenses between consolidated companies were offset against each other or reclassified.

Intercompany profits from inventories were eliminated.

V. Currency Translation

All assets and liabilities denominated in foreign currencies have been translated at the mean spot exchange rate on the balance sheet date. For assets and liabilities due in more than one year, the realization principle (Section 298, para. 1 in conjunction with Section 252, para. 1, no. 4, clause 2 of the German Commercial Code) and the historical cost principle (Section 298, para. 1 in conjunction with Section 253, para. 1, sentence 1 of the German Commercial Code) were applied.

The assets and liabilities in the annual financial statements that are denominated in foreign currencies, with the exception of equity (subscribed capital, reserves, and profit carried forward at historical rates), have been translated into euros at the mean spot exchange rate on the balance sheet date. The items in the income statement have been translated into euros at the average exchange rate. The resulting translation difference is reported in Group equity in the reserves under the heading “adjustment items from currency translation.”

VI. Notes to the Group Balance Sheet

Fixed Assets

The development of the individual fixed asset items is presented separately in the “Statement of Changes in the Group’s Fixed Assets.”

The intangible assets mainly consist of software, licenses and similar rights, and goodwill and similar assets.

As a consequence of eliminating the old version of Section 308, para. 3 from the German Commercial code, it has been necessary to reverse transfers of special items containing a share of reserves and special depreciations made in earlier years under the German Law on Development Areas (Fördergebietsgesetz). This required an additional EUR 469k to be depreciated in 2017. The associated adjustments to the book values of property, plant, and equipment result in additional write-downs of EUR 3,350k in subsequent years.

The shares in affiliated companies include shares in a controlling company, Luftschiffbau Zeppelin GmbH, Friedrichshafen, worth EUR 11,276k. A decontrol agreement was concluded with Luftschiffbau Zeppelin GmbH, Friedrichshafen, on November 7, 2011. The shares correspond to 10 % of the subscribed capital of EUR 35,000k.

The participations include shares in one German company and two foreign companies.

Receivables and Other Assets

The breakdown of assets due to mature in more than one year is as follows:

	TIME TO MATURITY > 1 YEAR	TOTAL
12/31/17	**EURK**	**EURK**
Trade receivables	12,741	373,553
Receivables from affiliated companies	0	748
Receivables from companies with which a participation relationship exists	0	4,488
Other assets	3,354	26,004
	16,095	**404,794**

12/31/16	TIME TO MATURITY > 1 YEAR EURK	TOTAL EURK
Trade receivables	14,303	283,844
Receivables from affiliated companies	0	460
Receivables from companies with which a participation relationship exists	0	2,700
Other assets	3,252	29,904
	17,554	**316,908**

The receivables from affiliated companies include EUR 0k (previous year: EUR 9k) of receivables from the controlling company. The receivables from affiliated companies include trade receivables (EUR 560k; previous year: EUR 316k) as well as loan receivables (EUR 188k; previous year: EUR 144k). The receivables from companies with which a participation relationship exists are comprised, as in the previous year, exclusively of trade receivables.

Deferred Income

The prepaid expenses include costs from eight (previous year: eight) bonded loans amounting to a total of EUR 250k (previous year: EUR 192k) that were placed in the years 2007 through 2009, 2012, 2015 and 2017. The costs are being depreciated according to plan over the term of the loans. Also recorded are arrangement and participation fees amounting to EUR 726k (previous year: EUR 959k) that were paid when concluding the syndicated credit facility in 2011 and when extending it through July 31, 2020, as well as prepayments for guarantees EUR 94k (previous year: EUR 1,876k), services EUR 1,130k (previous year: EUR 1,026k) and pensions EUR 849k (previous year: EUR 922k).

Deferred Tax Assets

Deferred tax assets from consolidation entries are recognized. They are valued at average tax rates of 10 % and 29 %, respectively.

Net Plan Assets for Post-Employment Benefits

For the fiscal year, obligations for phased early retirement programs were netted against assets that are designated exclusively for settling these obligations and are exempt from attachment by all other creditors (plan assets in the sense of Section 246, para. 2, sentence

2 of the German Commercial Code) pursuant to Section 298, para. 1 in conjunction with Section 246, para. 2, sentence 2 of the German Commercial Code.

In total, the excess of plan assets in fiscal 2017 amounts to EUR 1,251k (previous year: EUR 1,565k) and were the result of the following matters.

As part of a carve-out, provisions and the plan assets of the relevant employees were transferred in the fiscal year 2015 on a pro-rata basis from Zeppelin Streif Baulogistik GmbH to Zeppelin Rental GmbH & Co. KG. Following the merger of Zeppelin Rental GmbH & Co. KG with Zeppelin Streif Baulogistik GmbH in fiscal 2017, both the provisions and the pro-rata plan assets for Zeppelin Streif Baulogistik GmbH and Zeppelin Rental GmbH & Co. KG from the assumption of major business activities of Streif Baulogistik GmbH in 2014 are now held by Zeppelin Rental GmbH. As of Dec. 31, 2017, the pension liabilities will be netted against these assets, which will be used solely to meet pension and other similar obligations and cannot be accessed by third parties (plan assets pursuant to Section 246, para. 2, sentence 2 of the German Commercial Code as part of a so-called contractual trust arrangement (CTA)). Plan assets that are earmarked, pledged and protected against insolvency are valued at their market value. The resulting excess of plan assets is EUR 1,200k.

In addition, other CTAs to finance new pension obligations were also concluded in fiscal 2017 as well. In such cases, the CTA fiduciary, as the legal owner, manages the assets for the relevant Group companies. The pension liabilities will be netted against these assets, which will be used solely to meet the pension obligations and cannot be accessed by third parties (plan assets pursuant to Section 246, para. 2, sentence 2 HGB). Earmarked plan assets are valued at their market value. The resulting excess of plan assets is EUR 51k.

Total netting figures according to Section 298, para. 1 in conjunction with Section 246, para. 2, sentence 2 of the German Commercial Code:

	EURK
Settlement value of netted liabilities	2,415
Acquisition cost of assets	3,230
Fair value of assets	3,259
Netted expenses	0
Netted income	3

Of which, information about new CTAs concluded in 2017:

	EURK
Settlement value of netted liabilities	224
Acquisition cost of assets	280
Fair value of assets	276
Netted expenses	0
Netted income	3

Equity

The reserve for shares of a controlling company concerns Zeppelin GmbH’s participation in Luftschiffbau Zeppelin GmbH, Friedrichshafen. The other revenue reserves include the revenue reserves and net results of the affiliated companies belonging to the Group, as well as those of the parent company. The equity also includes amounts from offsetting other consolidation entries. The development of the individual Group equity items is presented separately in the “Statement of Changes in Group Equity.” As of December 31, 2017, EUR 367,711k were available for distribution to the parent company’s shareholders (net retained profits of the parent company).

Accruals for Pensions and Other Post-Employment Benefits as well as Other Provisions

The other provisions are mainly for personnel costs (EUR 75,285k; previous year: EUR 66,740k), warranty obligations (EUR 23,572k; previous year: EUR 23,821k), outstanding invoices (EUR 54,032k; previous year: EUR 52,345k), potential losses from pending transactions (EUR 9,367k; previous year: EUR 10,366k), and obligations in connection with full-service contracts (EUR 13,626k; previous year: EUR 11,776k).

Information about netting of plan assets and pension obligations in accordance with Section 298, para. 1 in conjunction with Section 246, para. 2, sentence 2 of the German Commercial Code:

	EURK
Settlement value of netted liabilities	5,258
Acquisition cost of assets	4,587
Fair value of assets	4,587
Netted expenses	13
Netted income	63

Information about netting of plan assets and phased early retirement programs in accordance with Section 298, para. 1 in conjunction with Section 246, para. 2, sentence 2 of the German Commercial Code:

	EURK
Settlement value of netted liabilities	1,932
Acquisition cost of assets	1,040
Fair value of assets	1,040
Netted expenses	0
Netted income	0

Tax provisions

In the fiscal year, tax provisions amounted to EUR 13,630k (previous year: EUR 5,708k) and include a provision for tax estimation risks from the current tax audit of EUR 5,900k.

Liabilities

Grouped by the time remaining until they come due, the breakdown of liabilities is as follows:

		TIME REMAINING		TOTAL
Dec. 31, 2017	**<1 YEAR**	**>1 YEAR**	**OF WHICH >5 YEARS**	
	EURK	**EURK**	**EURK**	**EURK**
Liabilities to banks[1)]	5,178	147,127	0	152,305
Liabilities from issuing bonded loans[1)]	0	184,500	115,000	184,500
Down payments received on orders	38,801	0	0	38,801
Trade payables	109,859	166	0	110,025
Liabilities to affiliated companies	61	0	0	61
Other liabilities	64,000	1,393	0	65,393
	217,899	**333,186**	**115,000**	**551,084**

Dec. 31, 2017	<1 YEAR	TIME REMAINING >1 YEAR	OF WHICH >5 YEARS	TOTAL
	EURK	EURK	EURK	EURK
Liabilities to banks[1)]	5,922	107,002	0	112,925
Liabilities from issuing bonded loans[1)]	67,000	119,500	85,000	186,500
Down payments received on orders	29,185	0	0	29,185
Trade payables	82,283	233	0	82,515
Liabilities to affiliated companies	4	0	0	4
Other liabilities	58,274	1,494	0	59,768
	242,668	**228,229**	**85,000**	**470,897**

1) The two items are combined in the balance under “liabilities to banks”.

As in the previous year, the “liabilities from issuing bonded loans” includes EUR 5,000k to the shareholder.

The “liabilities to affiliated companies” include EUR 28k (previous year: EUR 4k) to the shareholder.

Of the “other liabilities”, EUR 32,066k (previous year: EUR 27,145k) are for taxes and EUR 2,132k (previous year: EUR 1,995k) for social security.

Deferred Income

Deferred income mainly concerns marketing services as well as other prepayments.

Deferred Tax Liabilities

Of these, EUR 2,771k (previous year: EUR 2,518k) consists of deferred taxes pursuant to Section 274, para. 1 of the German Commercial Code (deferred tax liabilities from separate financial statements) and EUR 4,233k (previous year: EUR 4,396k) of deferred tax liabilities from consolidation entries. They have been determined by applying average income tax rates of 10 % and 29 %, respectively.

The following table shows the changes in deferred tax assets and deferred tax liabilities over the course of the fiscal year and the deferred tax assets and deferred tax liabilities at the end of the fiscal year in accordance with Section 285, no. 30 of the German Commercial Code, as amended by the BilRUG:

	2017 EURK	2016 EURK	Change EURK
Deferred Tax Assets	954	738	216
Deferred Tax Liabilities	7,004	6,914	90

The change in deferred tax assets is primarily the result of the elimination of intercompany profit. Deferred tax liabilities mainly involve write-downs and depreciations carried out as part of the consolidation and the valuation of inventories and the depreciation of tangible assets.

Derivative Financial Instruments and Hedging Relationships

Currency Hedges

The Zeppelin Group's business activities expose it to currency exchange risks. Its policy is to limit or eliminate these risks by carrying out hedging transactions. Most of the required hedging activities are centrally performed or coordinated by the Group treasury department, which is part of Zeppelin GmbH.

To hedge exchange rate risks in connection with assets and liabilities denominated in foreign currencies as well as contractual agreements (known as firm commitments) that were previously not included in the balance sheet, the company concludes forward exchange contracts and swaps. They are individually assigned their fair values as of the balance sheet date. The forward exchange contracts and swaps together with the underlying transactions form micro-hedging relationships.

The transactions in the hedging relationships are subject to the same risk. It is therefore expected that the offsetting changes in value of the underlying and hedging transactions will be almost completely offset in the future for each hedged risk. The prospective effectiveness of the instrument is determined using the "critical terms match" method. In doing so, we ensure that the value-determining factors (nominal value, term, currency) match for the underlying transaction and the hedging instrument. The individual hedging relationships are therefore always classified as effective for the entire hedging period. The same holds when retroactively determining past effectiveness, because all value-determining factors are consistent between the transactions and the hedging instrument. In these cases, no discrepancies of relevance for accounting purposes can arise in the hedging relationships.

Overview of the forward exchange contracts and swaps that form hedging relationships with assets, liabilities and fixed contractual agreements denominated in foreign currencies:

		NOMINAL IN EURK/	FAIR VALUES IN EURK		MAXIMUM
	CURRENCY	DERIVATIVE	POSITIVE	NEGATIVE	MATURITY
Foreign exchange purchase	USD/EUR	14,844	-	-57	March 2018
Foreign exchange sale	USD/EUR	14,710	462	-4	July 2019
Total		**29,554**	**462**	**-61**	

The assets, liabilities and fixed contractual agreements denominated in foreign currency designated as underlying transactions have been included in the hedging relationships in the same amount.

As of the balance sheet date, the amount of the risks hedged using the hedging relationships from the deferred depreciation of the assets or the expected favorable changes in cash flows is EUR 462k, and the amount from the deferred appreciation of liabilities in foreign currency or the expected unfavorable changes in cash flows of future liabilities is EUR -61k.

In addition to the forward exchange contracts and swaps included in the hedging relationships, the Zeppelin Group also uses forward exchange contracts and swaps to hedge against Group-internal fixed contractual agreements denominated in foreign currencies. Forward exchange contracts and swaps are also used to hedge against future transactions in the local currency of subsidiaries. In this connection, the repayments of intercompany financing provided by the Group treasury department or assets received from Group companies in their local currency will be hedged by Group treasury department using derivatives. In these cases, the underlying transaction is omitted at Group level as a result of the consolidation of intercompany balances.

In addition, foreign exchange risks in connection with assets and liabilities denominated in EUR are hedged within the Zeppelin Group at the level of subsidiaries that maintain their balance sheets in foreign currencies. In doing so, the Zeppelin Group is not exposed to foreign currency risk, as a result of which the underlying transaction is also omitted at the Group level.

The following overview contains information in accordance with Section 285, no. 19 of the German Commercial Code for derivatives that are not presented in the hedging relationships:

		NOMINAL IN EURK/	FAIR VALUES IN EURK	
	CURRENCY	DERIVATIVE	POSITIVE	NEGATIVE
Foreign exchange purchase	GBP/EUR	2,250	3	-
	USD/RUB	2,443	-	-162
Foreign exchange sale	CZK/EUR	8,187	-	-41
	PLN/EUR	4,778	-	-25
	RUB/EUR	8,850	219	-42
	USD/EUR	47,673	488	-
Total		**74,181**	**710**	**-270**

The market values of these forward exchange contracts and swaps were determined on the basis of market information available on the balance sheet date, i.e., on the basis of discounted, future expectations of cash flows. In doing so, the applicable market interest rates were used for the remaining term of the financial instruments.

The book value of the forward exchange contracts and swaps with a negative market value of EUR -270k is included in “other provisions”.

Hedging Relationships for Interest Rate Swaps

Because of its external financing, Zeppelin GmbH is subject to risks associated with fluctuating interest rates. The objective of the Zeppelin GmbH risk strategy is to hedge the risk of fluctuating interest rates for some two-thirds of the planned Group financial liabilities for a period of five years. To this end, the treasury department concludes interest rate swaps (payer and receiver rate swaps). Each interest rate swap and the underlying transaction together constitute a hedging relationship. The underlying transactions involve existing and diversified as well as anticipated bank loans and bonded loans with variable and fixed interest rates. In general, there is a variable-rate liability and a payer rate swap; in some cases there is also a base rate swap. In some cases, there is also a fixed-rate liability with a receiver swap.

INTEREST HEDGING TRANSACTIONS			FAIR VALUES IN EURK		MAXIMUM MATURITY
	CURRENCY	NOMINAL IN EURK	POSITIVE	NEGATIVE	
Payer interest rate swaps	(EUR)	185,000	-	-9,710	June 2025
Receiver interest rate swaps	(EUR)	25,000	1,080	-	August 2022
		210,000	**1,080**	**-9,710**	

The loans designated as underlying transactions were included in the hedging relationships in the same amount.

As of the balance sheet date, the amount of the risks hedged using the hedging relationships from the expected unfavorable changes in cash flows of future interest payments is EUR 1,080k, and the amount from the expected favorable changes in cash flows of future interest payments is EUR -9,710k.

The prospective effectiveness of the instrument is determined using the “critical terms match” method. In doing so, we ensure that the value-determining factors (nominal value, term, currency) match for the underlying transaction and the hedging instrument. The individual hedging relationships are therefore always classified as effective for the entire hedging period. The same holds when retroactively determining past effectiveness, because all value-determining factors are consistent between the transactions and the hedging instrument. In these cases, no discrepancies of relevance for accounting purposes can arise in the hedging relationships.

The transactions in the hedging relationships are subject to the same risk. It is therefore expected that the offsetting changes in value of the underlying and hedging transactions will be almost completely offset in the future for each hedged risk.

VII. Notes to the Income Statement

Revenues are recognized in line with the definition of Section 277, para. 1 of the German Commercial Code, as amended by the BilRUG, and are broken down into the following categories:

EURK	2017	2016
Earthmoving equipment (new)	926,151	763,751
Earthmoving equipment (used)	260,300	246,421
Rental business	194,649	183,485
Forklifts, including rentals	49,519	41,366
Power systems, including rentals	194,863	168,995
Agricultural machines, including rentals	16,117	16,711
Production plants	111,285	59,133
Processing plants and mixers	94,560	83,144
Systems for the food industry and liquids handling	62,861	63,487
Components, construction site equipment incl. rentals	56,943	49,324
Spare parts	450,148	399,987
Aftersales service	284,411	241,010
Other[1)]	49,228	44,352
Zeppelin GmbH	425	367
	2,751,460	**2,361,534**

[1)] Thereof sales at Zeppelin Rental GmbH EUR 31,057k (previous year: ZRD EUR 18,885k & ZBL EUR 8,685k) and BilRUG EUR 4,449k (previous year: EUR 4,979k)

Revenues in Germany accounted for 55.5% (previous year: 58.8%) and revenues in other countries for 44.5% (previous year: 41.2%) of the total.

Other operating income includes the following significant items:

Income from the reversal of provisions and accruals, book gains from the disposal of fixed assets, gains from sale-and-leaseback transactions, reversal of valuation allowances, cost refunds, currency exchange gains, insurance compensation payments and compensation for damages.

Other operating income also includes income related to other periods amounting to EUR 19,178k (previous year: EUR 24,837k), mainly from the reversal of provisions and accruals.

It also includes income from currency translations pursuant to Section 256a of the German Commercial Code amounting to EUR 3,957k (previous year: EUR 3,211k).

Other operating expenses primarily consist of administrative expenses, operating, sales and distribution costs, additions to write-downs for receivables, bad debts, currency exchange losses, and donations. This item also includes expenses for currency translation pursuant to Section 256a of the German Commercial Code amounting to EUR 4,319k (previous year: EUR 3,368k). Expenses related to other periods are EUR 3,368k (previous year: EUR 5,036k).

Income from participations contains EUR 394k from affiliated companies (previous year: EUR 0k).

Income from associated companies amounts to EUR 1,327k (previous year: EUR 704k) and is a result of the consolidation of CZ LOKO a.s. as well as the initial consolidation of Smart Controls India Ltd. in fiscal 2017 under the equity method.

None of the **income from other securities and loans classified as fixed financial assets** is from affiliated companies.

Affiliated companies account for EUR 17k (previous year: EUR 53k) of **other interest and similar income**. The interest income includes EUR 57k (previous year: EUR 46k) on the discounting of provisions.

The **write-downs on financial assets and securities held as current assets** amounting to EUR 908k (previous year: EUR 1,544k) are for the full write-down on shares in Energyst B.V.

Affiliated companies account for EUR 47k (previous year: EUR 108k) of **interest and similar expenses**. Interest expenses include accrued interest on provisions of EUR 4,087k (previous year: EUR 4,175k).

The **income taxes** include deferred tax expenses of EUR 474k (previous year: EUR 673k). For calculating the deferred taxes for the German companies, the corporate income tax rate of 15.0% applicable since January 1, 2008 has been applied. Factoring in the solidarity surcharge (5.5%) and trade tax (average multiplier in 2017 of 383%), the average income tax rate during the fiscal year is 29.23% (previous year: 29.27%). The calculated Group tax rate in 2017 is 38.4%. This is due to the provision for tax estimation risks from the current audit in the amount of EUR 5,900k, which are included in the income taxes. Without this effect, the tax rate for the period would have been 32.2%.

The tax reconciliation statement reconciling the differences between expected and reported income tax expense comprises the following:

	2017 EURK	2016 EURK
Earnings before taxes	93,544	85,861
Expected tax rate	29.23%	29.27 %
Expected income tax expense	**27,343**	**25,127**
Tax effects from different tax rates	-8,178	-12,569
Tax rebates / expenses from previous years	1,599	183
Tax effects from adjustments of the commercial balance sheet to the tax balance sheet	4,213	1,578
Tax effects from non-deductible operating expenses, losses or losses carried forward	5,297	5,458
Tax effects from tax-neutral Group entries	3,087	6,650
Change in deferred taxes	1,947	-301
Other tax effects	640	605
Reported income tax expense	**35,947**	**26,730**

VIII. Notes on the Group Cash Flow Statement

The Group cash flow statement shows how the Group's cash and cash equivalents changed over the course of the fiscal year as a result of inflows and outflows. Cash flows are distinguished depending on whether they result from operating activities or investing and financing activities.

The cash and cash equivalents shown in the cash flow statement comprise all of the liquid assets disclosed in the Group balance sheet, i.e., cash on hand, checks, and bank balances as well as bank liabilities with a remaining term of less than three months from the date of acquisition.

Cash flows from investing and financing activities are recorded on a payment basis. By contrast, cash flow from operating activities is derived indirectly from the Group's net income for the year.

The base value in the cash flow statement is translated to the Group's net income for the year as follows:

	EURK
Result before income tax	93,544
Income taxes	35,947

The total interest received in fiscal 2017 was EUR 3,320k (previous year: EUR 3,019k), and the total interest paid amounted to EUR 18,990k (previous year: EUR 20,732k). The net interest result therefore amounted to EUR 15,670k (previous year: EUR -17,713k). The difference with the interest expenses is the result of the delimitation of the costs of the syndicated loan (upfront fee) over the term.

IX. Notes and Other Information

Contingent Liabilities and Other Financial Commitments

	2017 EURK	2016 EURK
1. GUARANTEES AND OTHER COMMITMENTS		
Credit sale and acceptance liabilities	0	0
Guarantees	73,100	69,494
	73,100	**69,494**
2. FINANCIAL COMMITMENTS		
Rental and leasing commitments		
Due in 2018	40,811	53,905
Due between 2019 and 2022	40,444	53,578
Due after 2023	2,881	3,749
Purchase commitments from investments	92,690	64,654
Repurchase agreements	70,059	149,979
Shared commitments	36,415	40,472
Commitments to make donations	7,500	7,500
Other commitments	0	0
	290,800	**373,838**

In addition to the warranty obligations of subsidiaries that cannot be recognized as liabilities, the guarantees include other types of guarantees that were assumed in favor of banks for certain subsidiaries and for which the guaranteeing banks may submit a claim to Zeppelin GmbH. The risk of claims being made against these guarantees is considered to be low, owing to the healthy asset, financial, and revenue situation of the subsidiaries concerned.

The repurchase obligations are contractually agreed preemptive tender rights of leasing companies mainly for construction equipment from sale-and-leaseback agreements to finance the rental fleet of Zeppelin Rental GmbH. The repurchase of rental fleet assets is a component of Zeppelin's business model and an essential basis of the Zeppelin Group's successful business involving second-hand machines.

The shared commitment obligations are to sales financing companies and relate to the residual obligations of customers of Zeppelin Baumaschinen GmbH from existing financing agreements, particularly for construction equipment on the balance sheet date. These residual obligations are matched by the market values of the construction equipment for which finance was provided of approximately EUR 35.2m (previous year: 38.2m). The risks from shared commitment obligations are classified as low in the vast majority of cases.

Off-Balance-Sheet Transactions

Sale-and-Leaseback Transactions

It is standard practice in Zeppelin's industry to refinance rental business operations by concluding sale-and-lease- back agreements for movable assets (rental assets). In 2017, this practice freed up total liquid assets of EUR 9,744k (previous year: EUR 84,231k). Since lease payments will encumber existing lines of credit in the future, this can negatively affect the Group's liquidity when the cash inflows of the rental business fluctuate due to slumps in demand, late payments, or increased default rates, although this risk is lower due to the reduced financing of rental assets and sale-and-leaseback transactions. In 2017, sale-and-leaseback agreements generated an operating result of EUR 305k (previous year: EUR 2,197k).

Factoring

Receivables for new and used machinery are sold to finance sales in the short term. Factoring is an integral part of the range of financing measures available to manufacturing and trading companies. It takes the form of asset- backed financing involving the sale of a portfolio of receivables. The selling company continues to administer the receivables in return for an appropriate fee. The receivables sold are no longer reported in the Group's financial statements.

The total volume of receivables sold for asset-backed financing amounted to EUR 8.9m as of December 31, 2017 (previous year: EUR 9.2m).

The resulting earlier influx of liquidity gives the Group greater latitude. At the same time, the improved liquidity situation improves its credit standing and the ratings it receives from rating agencies.

Audit Fees

The breakdown of the audit fees is as follows:

	2017 EURK	2016 EURK
Statutory audit	507	475
Other services	1,337	1,496
	1,844	**1,971**

The item “statutory audit” comprises the fees for auditing the annual and Group financial statements of Zeppelin GmbH (including the audit of the IFRS opening balance sheet as of Jan. 1, 2017 because of the conversion of the Group’s accounting to IFRS as of Dec. 31, 2018) and the separate annual financial statements of the Group’s German companies included in the Group financial statements, as well as for reviewing the reporting packages of several included foreign companies of the Group. The auditing fee for the Zeppelin Group amounts to a total of EUR 1,100k (previous year: EUR 1,052k).

The item “other services” comprises the fees for Zeppelin GmbH and the Group’s German companies that are included in the Group financial statements. As in the previous year, consultancy services were used mainly in connection with the conversion of Group accounting to IFRS (International Financial Reporting Standards) as well as the introduction of the cost of sales procedure.

Personnel

The Zeppelin Group’s average numbers of employees during the year were:

	2017	2016
Sales, marketing	1,508	1,410
Machine operators	0	27
Service employees (spare parts and aftersales)	3,679	3,482
Engineering, order processing, materials management, logistics	826	776
Production, assembly, QM	644	630
Administration	1,060	1,031
Trainees and apprentices	288	290
	8,004	**7,646**

Remuneration of Governing Bodies

In the 2017 fiscal year, Zeppelin GmbH awarded the following sums to its governing bodies in accordance with Section 314, para. 1, no. 6 of the German Commercial Code:

2017	EURK
Total remuneration for members of the Management Board	2,632
Total remuneration for members of the Supervisory Board	454
Pension benefits for former members of the Management Board	476
Amount of pension provision for former members of the Management Board	8,275

Other Notes

Zeppelin GmbH prepares (Sub-)Group Financial Statements, which is the smallest consolidation group and must be submitted to the Federal Gazette. These Sub-Group Financial Statements are included in the Sub-Group Financial Statements for Luftschiffbau Zeppelin GmbH, Friedrichshafen, which is the largest consolidation group. The latter must also be submitted to the Federal Gazette.

The following four subsidiaries do not publish their annual financial statements in exercise of Section 264, para. 3 and Section 264b of the German Commercial Code:
Zeppelin Baumaschinen GmbH, Garching near Munich,
Zeppelin Systems GmbH, Friedrichshafen,
Zeppelin Power Systems GmbH & Co. KG, Hamburg, and
Zeppelin Rental GmbH, Friedrichshafen.

X. Events Subsequent to the Balance Sheet Date

With the purchase agreement of Jan. 29, 2018, Zeppelin Rental GmbH acquired all of the shares in Baustellen-Verkehrs-Technik GmbH, Barleben, with retroactive economic effect to Jan. 1, 2018. The provisional purchase price was paid in full on Jan. 30, 2018.

In addition, with the purchase agreement of Feb. 15, 2018, Zeppelin Systems GmbH acquired Italian plant engineering company Nuova Ciba SpA. The purchase price was paid on Feb. 16, 2018.

Otherwise, no significant events occurred after the conclusion of the 2017 fiscal year that would have had a major impact on or jeopardized the Zeppelin Group's situation.

Friedrichshafen, February 28, 2018

The Management Board of Zeppelin GmbH

Peter Gerstmann Michael Heidemann Christian Dummler

INDEPENDENT AUDITOR'S STATEMENT

To Zeppelin GmbH, Friedrichshafen

Audit opinion

We have audited the Group Financial Statements for Zeppelin GmbH, Friedrichshafen, and its subsidiaries (the Group) – comprised of the Group Balance Sheet as of December 31, 2017, the Group Income Statement for 2017, the Statement of Changes in Group Equity for 2017 and the Group Cash Flow Statement for 2017 as well as the Notes to the Group Financial Statements for fiscal 2017, including the presentation of the accounting and valuation methods. In addition, we also audited the Group Management Report for Zeppelin GmbH, which is included with the company's management report, for the fiscal year from January 1 to December 31, 2017. In accordance with German statutory provisions, we did not review the content of the corporate governance statement pursuant to Section 289 f., para. 4 of the German Commercial Code (HGB) (information about the share of women).

In our opinion, based on the information gathered during the audit,

- the accompanying Group Financial Statements comply with the provisions of German commercial law in all major respects and, in compliance with German generally accepted accounting principles, they provide a true and fair view of the Group's net assets and financial position as of December 31, 2017 as well as its earnings for the fiscal year from January 1 to December 31, 2017 and

- overall, the accompanying Group Management Report provides an accurate picture of the Group's position. This Group Management Report is consistent with the Group Financial Statements in all material respects, it complies with German statutory requirements and it accurately presents the opportunities and risks of future development. Our opinion of the Group Management Report does not extend to the content of the aforementioned corporate governance statement.

In accordance with Section 322, para. 3, sentence 1 HGB, we declare that our audit has not led to any objections regarding the correctness of the Group Financial Statements and the Group Management Report.

Basis for the audit opinion

We have conducted our audit of the Group Financial Statements and the Group Management Report in accordance with Section 317 HGB and German generally accepted accounting principles for auditing financial statements as formulated by the Institute of Public Auditors in Germany (IDW). Our responsibility under these rules and principles is described further in the section "Auditor's Responsibility for Auditing the Group Financial Statements and the Group Management Report" of our Auditor's Statement. We are independent of the Group companies in accordance with the German commercial and professional regulations and have fulfilled our other German professional duties in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate for serving as the basis of our opinion of the Group Financial Statements and Group Management Report.

Other information

The legal representatives are responsible for the other information. The other information includes the corporate governance statement pursuant to Section 289 f., para. 4 HGB (information about the share of women).

Our audit opinion of the Group Financial Statements and the Group Management Report does not extend to the other information and accordingly we do not offer an opinion or any other type of conclusion on such information.

In connection with our audit, it is our responsibility to read the other information and to assess whether the other information

- contains material inconsistencies with the Group Financial Statements or the Group Management Report or the findings we made during the audit or

- otherwise appears materially false.

Responsibility of the legal representatives and the Supervisory Board

The legal representatives are responsible for preparing Group Financial Statements that comply with German commercial law in all material respects and for ensuring that the Group Financial Statements, in compliance with German generally accepted accounting principles, provide a true and fair view of the Group’s net assets, financial position and earnings. In addition, the legal representatives are responsible for the internal controls that they have determined, in compliance with German generally accepted accounting principles, to be necessary to facilitate the preparation of Group Financial Statements that are free from material misstatements, intentional or unintentional.

In preparing the Group Financial Statements, the legal representatives are responsible for assessing the Group’s ability to remain a going concern. They are also responsible for disclosing matters that relate to the continuation of business activities, if relevant. In addition, they are responsible for accounting for the continuation of business activities on the basis of accounting principles, unless there are factual or legal circumstances that prevent them from doing so.

In addition, the legal representatives are responsible for preparing a Group Management Report, which provides an overall picture of the Group's position, is consistent in all material respects with the Group Financial Statements, complies with German statutory requirements and accurately presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) that they have deemed necessary to enable the preparation of a Group Management Report in accordance with the applicable German statutory requirements and to provide sufficiently suitable evidence for the statements in the Group Management Report.

The Supervisory Board is responsible for monitoring the Group's accounting process for preparing the Group Financial Statements and the Group Management Report.

Auditor's responsibility for auditing the Group Financial Statements and the Group Management Report

Our objective is to obtain reasonable certainty as to whether the Group Financial Statements as a whole are free from material misstatement, intentional or unintentional, and whether the Group Management Report as a whole provides a true and fair view of the Group's position and is consistent in all material respects with the Group Financial Statements and with the information gathered during the audit, that it complies with German statutory requirements and that it accurately presents the opportunities and risks of future development, and to also issue an auditor's statement that includes our audit opinion of the Group Financial Statements and the Group Management Report.

Reasonable certainty is a high degree of certainty, but is no guarantee that an audit conducted in accordance with Section 317 HGB and in compliance with German generally accepted accounting principles for auditing financial statements as formulated by the Institute of Public Auditors in Germany (IDW) will always reveal a material misrepresentation. Misstatements can result from violations or inaccuracies and are viewed as material if they could reasonably be expected to influence, individually or in total, the economic decisions of recipients made on the basis of these Group Financial Statements and the Group Management Report.

During the audit, we exercise professional judgment and maintain a critical attitude. In addition,

- We identify and assess the risks of material misstatements, intentional or unintentional, in the Group Financial Statements and the Group Management Report, and plan and execute audit actions in response to those risks and obtain audit evidence that is sufficient and appropriate to serve as the basis of our audit opinion. The risk that material misrepresentations will not be identified is higher for violations than for inaccuracies, as violations may include fraudulent actions, falsifications, intentional omissions, misrepresentations, or suspension of internal controls.

- We gain an understanding of the internal control system that is relevant for the audit of the Group Financial Statements and of the precautions and measures that are relevant for the audit of the Group Management Report in order to plan audit procedures that are appropriate in the given circumstances, but not with the aim of providing an audit opinion of the effectiveness of these systems.

- We assess the appropriateness of the accounting methods applied by the legal representatives as well as the reasonableness of the estimated values and related information provided by the legal representatives.

- We draw conclusions about the appropriateness of the accounting principles applied by the legal representatives for accounting for the continuation of business activities and, on the basis of the audit evidence obtained, whether there is material uncertainty in connection with events or circumstances that may raise significant doubts about the Group’s ability to to continue as a going concern. If we conclude that there is material uncertainty, we are required to make a note in the auditor's report of the related information in the Group Financial Statements and in the Group Management Report or, if such information is inadequate, to modify our audit opinion. We draw our conclusions on the basis of the audit evidence that we obtain by the date we prepare our Auditor's Statement. However, future events or circumstances may result in the Group being unable to continue its business activities.

- We assess the overall presentation, structure and contents of the Group Financial Statements, including the information and whether the Group Financial Statements present the underlying transactions and events in such a way that the Group Financial Statements, taking account of German generally accepted accounting principles, provide a true and fair view of the Group’s net assets, financial position and earnings.

- We obtain sufficiently suitable audit evidence for the accounting information of the companies or business activities within the Group in order to submit audit opinions on the Group Financial Statements and Group Management Report. We are responsible for providing guidelines for, overseeing and carrying out the audit of the Group Financial Statements. We are solely responsible for our audit opinion.

- We assess the consistency of the Group Management Report and the Group Financial Statements, compliance with the relevant legislation and the picture it provides of the Group’s situation.

- We conduct audits of the forward-looking statements presented by the legal representatives in the Group Management Report. On the basis of sufficiently suitable audit evidence, in particular we confirm the major assumptions on which the forward-looking statements made by the legal representatives are based and determine whether the forward-looking statements have been derived properly from these assumptions. We do not provide an independent opinion of the forward-looking statements or the underlying assumptions. There is considerable unavoidable risk that future events will differ substantially from the forward-looking statements.

Among other things, we discuss the planned scope and schedule of the audit with those responsible for overseeing it, as well as any significant audit findings, including any deficiencies in the internal control system that we identify during our audit.

Munich, February 28, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Petra Justenhoven	Klaus Schuster
German Public Auditor	German Public Auditor

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Annual reports and further information about Zeppelin are available online at zeppelin.com

The annual report was published in April 2018. It is also available in German.

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Picture credits
Reiner Freese: Page 8 (above), page 17

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