

# Group management report

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# 1. Fundamental information about the Group

## 1.1. Business model

The Lenze Group focuses its business activities on the development, production and marketing of drive and automation technology for use in mechanical engineering. True to our corporate slogan “As easy as that.”, we position ourselves as a customer-focused solution partner for machine automation. With 70 years of successful business in the field of drive technology, Lenze’s industry experience is matched only by its power to innovate. Lenze has acquired a wealth of know-how about customer applications and markets, and can draw on mature solutions expertise in factory automation.

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We are a customer-focused solution partner with core expertise in Motion Centric Automation.

One of Lenze’s particular competitive strengths is its service portfolio. Our customers have a broad, tightly integrated and highly qualified network of sales and application engineers at their disposal, which enables us to offer a comprehensive spectrum of services throughout all phases of the product life cycle. Our experts work closely with customers to develop the ideal automation solution for the individual machine project. In addition, we also offer complete, turnkey automation projects for machinery.

We supply our expertise to the various industries and application areas of relevance for factory automation. The universal machinery and application know-how we gain in the process gives us a high level of cross-industry penetration with our technologically innovative, efficient and customer-specific solutions. Our focus industries are those that will see a sharp rise in the need for automation, and include automotive, consumer goods, converting and printing, intralogistics and textiles.

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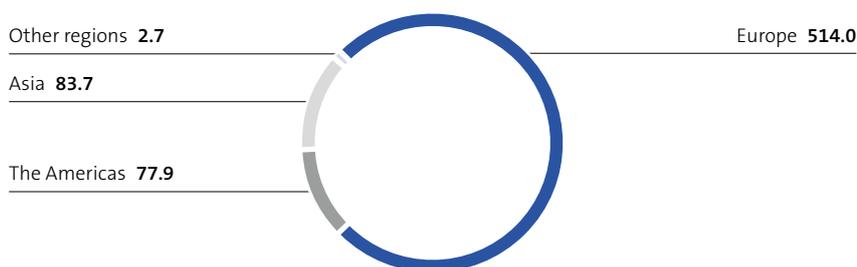
We offer our customers comprehensive support throughout all life cycle phases of their machines.

Lenze is also one of the few providers currently able to supply the market with an extensive portfolio of carefully coordinated and scalable system components – from control or visualisation units and electronic drive systems to geared motors, application software and engineering tools, as well as service provision from a single source. This modular approach means our customers benefit from a solution that is perfectly tailored to their specific application. For further development of existing solutions, we prioritise innovation, reliability, simple usability and long-term viability for our customers.

We call this comprehensive portfolio of products and services Motion Centric Automation.

Europe is the Lenze Group's traditional domestic market, with around three-quarters of consolidated revenue being generated in this region. North America and Asia are key growth regions for us. Machinery equipped with our drive and automation technology is in operation all over the world.

Revenue by region in € million



We ensure on-site support is provided to our customers worldwide with highly qualified sales and service teams based in over 60 countries. After-sales is handled by seasoned service technicians who ensure the prompt supply of spare parts, provide expert emergency remote support and ensure services are coordinated effectively. These services range from our global helpline to field service call-outs that involve inspection, preventive maintenance and optimisation directly at the machinery installation site. All our service activities are designed to ensure the reliability of machinery and to improve its level of performance, or to restore these capabilities quickly and seamlessly in an emergency.

## 1.2. Strategy and goals

The primary goal for the Lenze Group is to ensure profitable growth by means of our basic long-term strategic focus. In this way, we can continue to secure the independence of Lenze as a family-run business. Key factors here include our power to innovate and our close relationships with our customers all over the world. Our prudent finance and accounting policy safeguards the long-term viability of the Lenze Group.

The Company's primary goals are sustainable profitable growth and financial independence.

To achieve our strategic goals, we pursue the policy of using our portfolio of products and services to support our customers throughout the development process, from the first idea to after-sales – and from the control unit to the drive shaft. This enables us to differentiate ourselves from the competition as a global specialist in the promising market of factory automation. We cooperate closely with our customers, working together to lay the foundations for intelligent, future-proof solutions at an early stage. This focus on teamwork also means our customers can integrate value creation processes efficiently.

All our activities are inspired by our vision: The best machines and production facilities around the world use Lenze.

Looking to the future, we believe businesses will face three major challenges where Lenze can make an important difference.

The most important external factor impacting the factory automation market is digitalisation. This is being driven worldwide by the progressive individualisation of products, which is affecting more and more kinds of applications, and ensuring that lot sizes are continuously shrinking in the direction of individual, one-off products. This is having a significant impact on the production of goods and the flow of materials. Today, a factory needs to be capable of effective and efficient production down to a lot size of 1. One solution to this problem is to deploy sophisticated information and communication technologies – an approach often generally referred to as “Industrie 4.0” (the Fourth Industrial Revolution) or the “Smart Factory”.

In the long term, the challenges that digitalisation creates for manufacturing are only likely to grow more complex. As digital structures continue to permeate through all areas of business, the market climate will experience dynamic change, and create a new, tougher competitive environment. We will rise to meet these new challenges and are already focusing today on tackling the digitalisation tasks for tomorrow – offering our customers tailor-made solutions, complemented by made-to-measure consultancy and support.

In this context, we are investing continually in the expansion of our software expertise and of our portfolio. Our products and services are designed to support a system-oriented approach. Alongside hardware and software, our comprehensive engineering expertise also plays a particularly important role here. One challenge is to encapsulate our machine process knowledge so that it is as easy as possible for our customers to deploy.

With our Lenze FAST application software toolbox, our customers now have a way to access this process knowledge. The software toolbox provides frequently required machine functions in the form of standardised technology modules, giving our customers an easy and reliable way to integrate even complex machine functions into their machines. This results in a significantly leaner engineering process, and reduces development time while simultaneously offering new opportunities for data usage and the generation of information for use in process optimisation.

Key prerequisites for Industrie 4.0 and the Smart Factory are secure data connections between a production facility or machine and the cloud, and the protection of the data transferred from misuse. These requirements are fully satisfied by our market-proven, all-in-one solutions. Complementary software applications can then be used to analyse the data collected and reprocess it for a number of purposes – from basic data monitoring and performance visualisation to condition monitoring and advanced topics like predictive maintenance.

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Lenze offers mechatronic products, systems and digital services for tomorrow's automated production.

The Lenze Group possesses extensive expertise in the management of Big Data, and in the development of IT and software. For a number of years now, our Bremen-based software development company encoway GmbH has been offering customers software solutions for the intelligent marketing of modular products. These CPQ solutions for product configuration and quote preparation work to boost the efficiency of sales and marketing at machinery manufacturers and companies in related industries. The software, which is based on research findings from the field of artificial intelligence, integrates tightly with the customer's existing system architecture for deployment in sales operations. Any size business can benefit from this increased efficiency – from SMEs to large corporations. The expertise developed at encoway is being applied and rapidly expanded within the Lenze Group as a key driver for our core business.

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Even today, Lenze already offers the prerequisites for managing Big Data.

The majority shareholding we acquired this financial year in the software company logicline GmbH (Sindelfingen, Germany) will also work to enhance our solution expertise in cloud and mobile environments.

We believe we are already in a position to offer our customers high-performance Industrie 4.0 solutions.

Another challenge we see is the continual striving for greater energy efficiency in production. Our products with high energy conversion efficiency – and our Lenze BlueGreen Solutions in particular – significantly reduce machine energy consumption, thereby decisively cutting down on the application's climate-relevant emissions.

The third challenge, which is one being faced by businesses in many modern industrial nations, is demographic change and the skills shortages that accompany it. Both of these factors create a higher demand for machine automation and the need to seek out competent partners for implementation. With its comprehensive, integrated portfolio of products and services, Lenze is already offering solutions today for the automation tasks of tomorrow.

### 1.3. Legal and organisational structure

Founded in 1947 by Hans Lenze as Stahlkontor Weser GmbH in Hameln, the Lenze Group is now represented in more than 60 countries by its own sales companies, development sites and production facilities as well as a network of service partners. The Group encompasses 46 companies controlled by a holding company, Lenze SE, headquartered in Aerzen, near Hameln, in the German state of Lower Saxony. Lenze SE is a family-owned non-listed stock corporation under European law. It is primarily responsible for the strategic orientation and development of the Group, corporate finance, risk management and fundamental brand development decisions. The Company is led by an Executive Board consisting of three members and overseen by a Supervisory Board made up of six members.

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Lenze has a global presence and operates in all relevant regions.

In addition to the parent company Lenze SE, the Lenze Group's basis of consolidation includes all significant subsidiaries over which Lenze SE has a decisive influence. The way the Group is structured provides optimal cover for the broadly-diversified structure of our customers and markets. In order to be geographically close to our customers, our competence and production centres are located in all of the world's key regions for mechanical engineering. The regional businesses are managed by our sales companies, who support our customers along their entire value chain.

## **1.4. Company management**

Lenze SE is primarily responsible for the strategic orientation and development of the Group, corporate finance, risk management and fundamental brand development decisions. Among its other key tasks are internal and external communication as well as maintaining contact with banks and other providers of finance.

The subsidiaries run the Lenze Group's operating business. This organisational structure, with defined responsibility for revenue and earnings, enables decentralised management of business processes and promotes entrepreneurial thinking within the subsidiaries. The model also maximises responsiveness to local customer requests and requirements.

In order to assess the performance of the business, refine its strategy and make investment decisions, the Lenze Group applies a management system that uses key business volume and earnings-based indicators as control parameters in addition to other indicators. These are calculated on a monthly basis and reported to senior management, allowing them to intervene and take appropriate countermeasures in a timely manner.

### **1.4.1. Key company management indicators**

#### **Business volume-based indicators and control variables**

Revenue trends are regularly analysed to evaluate the performance of the business. Business volumes are reviewed both during the year and as part of multi-year planning together with performance across different sales regions, focus industries and product groups.

#### **Earnings-based indicators**

EBIT and EBIT margin are used to analyse and manage our results of operations. The former stands for earnings before interest and taxes, while the EBIT margin indicates the ratio between this figure and revenue.

#### 1.4.2. Other indicators

##### Other financial indicators

In addition to the aforementioned control parameters, the Lenze Group uses additional key financial performance indicators such as cost ratio development in our core functions of product development, production and sales. We compare the profit contributions generated with customer revenues achieved over time. We also plan and monitor the development of our current assets.

To ensure liquidity, we measure and plan our net debt, which results from deducting non-current and current financial liabilities from our cash balance.

##### Non-financial indicators

In addition to financial indicators, processes within the Lenze Group are managed by a process indicator system. These indicators always take into account basic variables such as the quality, deadline and costs of each process.

An automatic reporting system has also been set up for these indicators, enabling process owners worldwide to directly control local processes on site.

##### Leading indicators

Lastly, we also use leading indicators to help us draw conclusions about the future performance of the business.

Key indicators in this area include customer potential development in the sales funnel, daily incoming orders and trends in the development of focus industries and regional markets.

### 1.5. Research and development

In recent years, we have invested significant sums in research and development with the aim of actively shaping the trend towards increasing integration in control and drive technology.

The goal of our development work is to offer our customers a consistently usable modular set of coordinated system components. By doing this, we are enabling mechanical engineering companies to have an integrated perspective of motion and control functions and to find an overall system that is perfectly tailored to their specific requirements. New developments and the optimisation of our products and systems are focused on great innovative power and reliability, simple usability and long-term viability.

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We develop a consistently usable modular set of coordinated system components.

One milestone here was the steady expansion of our modular product system in the reporting year. Our established g500 gearbox series now features torques of up to 20,000 Nm (newton metres). By doubling the maximum torque from the earlier Lenze series, our new two- and three-stage helical, helical-bevel and shaft-mounted helical gearboxes in grey cast iron offer potential in new applications. Our Smart Energy Recovery Unit r700 is a technically and economically attractive contribution to energy efficiency. It is a scalable power recovery unit, which can be easily integrated into existing installations through retrofitting.

Our development work focuses on application-specific solutions. The new g350 combined with the m300 represents the market launch of a new, compact mechatronic drive package in three performance classes. Comprising gearbox, motor, electronics and software, this fully integrated mechatronic solution is the perfect choice for material flow applications. The same can also be said for the electronics and software, which offers variable configuration of the motor's constant speed with a user-friendly, NFC-powered smartphone app. This approach means that speeds at the gearbox output can be user-selected from 42 to 216 rpm while maintaining the same torque – significantly simplifying the design-in process.

Our new c250-S safety controller enables the integrated design and planning of the entire drive, control and safety subsystem for a machine or plant. In this way, our customers can parameterise overall machine safety with just a single engineering tool, based on the PLCopen standard. This deep integration of functional safety with the automation system simplifies design engineering and improves diagnostic options while also reducing the number of interfaces and components.

Alongside the conventional development of technical products and systems for machine automation, software now plays a key role in driving the digital transformation. We are continually expanding both our modular software library Lenze FAST and our engineering toolchain. In March 2017, we acquired a majority interest in logicline GmbH (Sindelfingen). Logicline specialises in software solutions for the digitalisation of processes in sales, marketing and services, as well as the Internet of Things (IoT). This step has enhanced our expertise in the field of enterprise cloud applications, mobile apps and innovative IoT solutions based on the latest platforms (Salesforce, Heroku). We can now provide our customers with end-to-end support for the digitalisation of all their value chain processes.

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We support our customers in the digitalisation of all their value chain processes.

Companies all over the world are increasingly focusing on the topic of Industrie 4.0, which is evolving into a major driving force for modernisation and investment decisions in industrial production. Consequently, Industrie 4.0 is increasingly becoming the main focal point of development work in German industry. The importance of this trend is being underlined by government funding. In the year under review, Lenze was again actively involved in a number of individual Industrie 4.0 projects with selected universities, and we played a major role in the Intelligent Technical Systems cluster of excellence (also known as "it's OWL").

## 1.6. Value chain

Our products and services are provided by a network of ten production and logistics facilities. Our ultimate goal is always to supply our customers with Lenze products in the specified quality, at a competitive price, and with lead times, reliability and a choice of models as demanded by the market.

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Lenze is represented worldwide along all stages of value creation.

As a technology company operating on a global scale, Lenze is also represented worldwide at every stage in the value chain.

At the Lenze Group, our core business output is dependent on order fulfilment, which comprises four key activities in the value chain:

- PLAN (supply chain planning)
- SOURCE (purchasing)
- MAKE (production)
- DELIVER (logistics)

The coordination and control of these processes is handled by our Supply Chain Management unit.

### PLAN

Planning processes involve balancing available capacity against demand, as well as creating the framework conditions for supporting the core processes of SOURCE, MAKE and DELIVER.

### SOURCE

In the field of global purchasing, Lenze pursues the goal of providing all of the resources necessary for the creation and supply of our products and services in a reliable and timely manner while keeping the total cost of ownership (TCO) as low as possible. With sites in Europe, Asia and the Americas, Global Purchasing is responsible for the worldwide management of our supplier portfolio. Activities here include the procurement of production material and capital goods, as well as non-production material and services.

Other goals include the selection, approval and development of quality-capable suppliers, and providing overall process support up to the award stage. Supplier selection is performed according to the premise that goods and service provision must be reliable and timely while also keeping costs low in terms of TCO. This requires cross-functional teamwork, especially between our internal business departments for Material Management/Logistics, Quality and Engineering.

Categories of goods sourced globally with a significant procurement volume include in particular: passive and active electronic components; electronic assemblies from external electronic manufacturing service (EMS) providers; motors and motor parts; gearboxes and gearbox parts; and machined and blank cast parts.

#### MAKE

The Lenze Group operates five production facilities worldwide based in Europe, Asia and the Americas. This approach enables us to ensure a high level of product availability and quality for our customers worldwide. At the same time, we can exploit regional factors to support our goals and strategies, and respond locally to specific customer requests.

Our production portfolio includes the manufacture of electronics, electric motors and mechanical components. In our supply chain management work, we also strive to achieve an optimal cost structure by leveraging economies of scale.

#### DELIVER

The last activity in the value chain involves the delivery of Lenze products to our customers. Our modular product system lets us offer maximum variation while simultaneously maintaining low levels of stock. This in turn results in high product availability and short lead times. These lead times are further optimised by our centrally located logistics centres that are local to all of our key regions worldwide.

The scope of services provided by our logistics centres ranges from the customer-specific assembly of our geared motors and customisation of our electronics to meet customer requirements to the handling of order logistics up to goods receipt at the customer and, last but not least, guaranteeing the operational capability of our products with repairs and the timely provisioning of replacement parts.

In designing all of the corporate functions mentioned and their processes, we aim for operational excellence at all times. To achieve this, we work continually on the implementation of a lean philosophy and other techniques for improving excellence – such as Six Sigma and Total Productive Management (TPM).

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We aim for operational excellence in all of our processes.

## 2. Non-financial declaration

### 2.1. Corporate Social Responsibility

As a family business, it goes without saying that sustainability and efficiency are vital to Lenze and are firmly entrenched in our corporate philosophy and culture.

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Sustainability is essential  
for Lenze as a family-owned  
business.

Our understanding of sustainability encompasses a total of five areas:

- Corporate governance and compliance
- Economic responsibility
- Responsibility for people
- Climate and environmental responsibility
- Community engagement

#### 2.1.1. Corporate governance and compliance

We take our corporate social responsibility seriously and are committed to acting sustainably and responsibly for the sake of future generations. Integrity and good corporate governance are as integral to our management as the ethical conduct of each and every manager and employee.

Respect for human rights in our business activities and relationships forms the cornerstone of our corporate social responsibility. Similarly, Lenze does not tolerate any legal violations. To address this, the Lenze Group has established clear compliance rules against corruption and bribery applicable to all managers and employees. Observance of these rules is monitored. In accordance with corporate strategy, the Executive Board, Compliance Officer and the appropriate managers in each functional area are responsible for sustainable management within the Lenze Group. Special employee-related issues are managed by Human Resources, which replaces a separate sustainability organisation.

As a successful family business, we are aware of the different roles within the Company and are committed to addressing our stakeholders' wide range of interests in Lenze. As part of our responsibilities, we also maintain continuous, trust-based communication with the Company's stakeholders along the entire value chain. This enables us to identify changing trends and demands affecting the Company at an early stage and incorporate this into our management. We tailor the frequency and nature of our dialogue to suit each of our key stakeholders' specific expectations and requirements. These key stakeholder groups can be divided into providers of finance (owners, banks), partners (customers, employees, suppliers, service providers, researchers), the public sector (lawmakers, authorities, associations) and society (media, culture, local organisations).

### 2.1.2. Economic responsibility

A healthy economic foundation and positive long-term business performance are essential for sustainable corporate development. At Lenze, sustainability is primarily driven by economic responsibility, which means ensuring strong performance based on successful customer relationships. Only by achieving this kind of commercial success can we create measurable value for our Company and stakeholders.

The financial performance of the Lenze Group during the 2016/2017 financial year was satisfactory, as we achieved and sometimes exceeded our strategic and financial objectives. The Company's financial performance during the year under review is presented and outlined in detail starting on page 30.

### 2.1.3. Responsibility for people

Skilled personnel are a key success factor in the implementation of our growth-oriented corporate strategy for the Lenze Group. At a time when competition for well-qualified personnel is increasingly fierce, the primary task entrusted to our HR team is therefore hiring suitable employees, systematically developing their skills and retaining this workforce for the Lenze Group in the long term.

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Employees are a key success factor for the Lenze Group.

In the 2016/2017 reporting year, growth in the Lenze Group resulted in the further expansion of our workforce, with the number of people employed in the entire Group rising by 160 from 3,297 (as at 30 April 2016) to 3,457 at the end of the reporting year. We employed an average of 3,394 people during the reporting year (2015/2016: 3,354 employees). The average number of people employed in our German companies rose by 51 to 1,762 in the 2016/2017 financial year. This means that the proportion of our global workforce employed in Germany remained almost unchanged at 53%.

#### Employees

	30.04.2017	30.04.2016	Change
Germany	1,816	1,692	+ 124 (7.3%)
Abroad	1,641	1,605	+ 36 (2.2%)
<b>Group</b>	<b>3,457</b>	<b>3,297</b>	<b>+ 160 (4.9%)</b>

#### Employee recruitment and employer awards

Lenze positions itself worldwide as an attractive employer to recruit and retain the skilled personnel who are key to its long-term success. In 2017, Lenze was once again named Top Employer Germany and Top Employer Engineers by the independent Top Employers Institute.

Lenze is also a member of the Fair Company Initiative for interns. Fair Company businesses make a commitment to recognised quality standards and auditable codes of conduct for internships. In appreciation of this responsible and transparent corporate culture, these companies are annually awarded the Fair Company seal. Lenze was also recognised by Focus Business magazine in its annual Germany's Top Employer awards.

Alongside offering company internships, key activities aimed at acquiring new high potentials and skilled personnel in the 2016/2017 reporting year included participation in external events such as job fairs at schools and universities. Lenze also actively presents itself as an employer in social media.

#### **Vocational training and continuing professional development**

At Lenze, we actively support the continuing professional development of our employees and management staff. With the help of an HR development programme tailored carefully to the needs of our corporate strategy, we assist and promote the achievement of our corporate goals.

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Continuing professional development and fostering our employees are key to our business success.

One particular point of focus is the in-house training we provide to junior employees with the aim of meeting our demand for young talent. A total of 66 trainees and 39 students in work-study programmes began training with Lenze in the 2016/2017 reporting year in Germany – the country with the largest portion of our trainees overall. Vocational training in Germany is audited, making Lenze a certified Best Place to Learn company. Focus Business magazine also recognised Lenze as Best Vocational Training Company in Germany.

Key apprenticeships in our company include those leading to professions such as mechatronics technician, IT specialist or electronics technician for equipment and systems, as well as eight work-study programmes for a B.Sc./M.Sc. in electrical engineering or IT. We also provide support to young research scientists by offering scholarships and subject-related internships, and by supervising students completing their bachelor's, master's or doctoral thesis.

At Lenze, we emphasise continuing professional development. Responsibility for completing needs assessments and implementing the resulting further training activities rest with the individual national subsidiaries. In the 2016/2017 financial year, for example, a total of 272 seminars were held with 1,727 participants in Germany, while all 375 employees working in the US completed at least one business-related or subject-specific further training course. On a case-by-case basis, we also provide financial support or approve sabbaticals for staff studying for postgraduate degrees – such as an MBA course in China. Lastly, we also offer modular programmes attended by an international group of participants and held at various sites within the Lenze Group. These events help to develop strategic skills and promote networking among our young talent.

### **Health and safety at work**

Lenze is a technology company involved in industrial production. Ensuring a high level of occupational safety is one of our core goals as a company and an important aspect of our corporate culture. To implement this health and safety policy as well as legal requirements in terms of occupational health and safety, Lenze applies a health and safety management system modelled on the ISO 18001 standard. By providing regular information, training courses and CPD programmes, we promote the skills of our employees and raise their awareness for occupational safety in all units and at all sites within our group of companies.

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Lenze places great value on occupational safety and the health of all of its employees.

This is accompanied by various occupational health programmes to promote employee health, covering topics such as fitness or nutrition. At many of our sites worldwide, employees are given fresh fruit at work, use their breaks to actively engage in ergonomic exercises, organise sporting activities with their colleagues or join one of our official company sports teams. Employees returning to work from a long-term illness are given professional support for their vocational rehabilitation. In countries lacking adequate government-funded healthcare, we provide emergency support for staff in the event of a serious illness. We also offer employees a range of health programmes – such as an annual health check-up in China.

### **Fair, performance-based compensation**

We offer our employees a competitive level of pay that fairly reflects the work they do. Where collective agreements apply, we compensate our employees according to their terms.

Lenze also uses a company suggestion scheme to reward targeted feedback from employees that leads to improvements within our company.

### **Family friendly**

One of the most fundamental aspects of our family-oriented company culture is helping staff achieve a work-life-balance. Lenze offers a varied range of programmes here: apart from options for part-time employment, flexitime and working from home, members of staff can also apply for a leave of absence or make use of company-run care services for their relatives. We also help our employees organise day care for their young children. In Austria, for example, we offer our employees a three-week child care programme during the holidays to help relieve the burden on parents. At many of our sites, we also provide financial support to young families – in the form of a “welcome bonus”, for example, or an allowance, as in China.

#### 2.1.4. Climate and environmental responsibility

Environmental protection and the conservation of resources throughout the value chain form an integral part and an ever-present aspect of day-to-day work at Lenze. The Group's long-established environmental management system combines ecological, social and economic approaches to the ultimate goal of sustainability. Our own product portfolio itself and our Lenze BlueGreen solutions are demonstrably effective in achieving decisive reductions to environmentally relevant emissions at the point of use.

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Compliance with environmental protection regulations is part of everyday life at Lenze.

By reducing our energy consumption wherever possible and limiting our use of raw materials and consumables, we are also making every effort to reduce our own ecological footprint. These efforts have included implementing the EU Ecodesign Directive, reducing material inputs for our products, and minimising the use of chemicals. We also invest regularly in state-of-the-art technology. We participate in global efforts to reduce environmental pollutants and harmful substances in electrical and electronic products, and comply with country-specific RoHS regulatory frameworks. The European REACH Regulation is also an integral part of our development, procurement and production activities.

Environmental protection is integrated into business processes at all Lenze sites. As part of Lenze's environmental policy, binding targets for reducing our environmental impact and increasing our resource efficiency are set in our annual environmental programme. Progress is reviewed regularly by internal environmental audits. Lenze's environmental management system for product-related and occupational environmental protection is certified to the global environmental standard ISO 14001 and audited externally every year.

At a local level, we show our commitment to the environment by active involvement in various working groups and initiatives. For example, Lenze is part of the Energy Efficiency Network run by the German Mechanical Engineering Industry Association (VDMA), and a member of the Lower Saxony Sustainability Alliance. We also received an award for "energy-efficient intralogistics" presented by the industry initiative KlimaExpo North Rhine-Westphalia and Ostwestfalen-Lippe University of Applied Sciences (OWL). Last but not least, Lenze is also a member of Energy Scouts, a project aimed at raising environmental awareness among vocational trainees, and empowering them to discover and implement opportunities for improvement in administration and production.

#### 2.1.5. Community engagement

By paying our company dues and taxes, we make a direct financial contribution to the wellbeing of society at large. As a successful family-run business that is not based at the centre of a large urban or metropolitan area, the Lenze Group also bears an important social responsibility as a primary employer and integral part of its community. Our company lives up to this responsibility in many different ways.

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We support regional and local projects at our national and international sites.

Our numerous social activities are not subject to any overall, centrally managed control process. Instead, they are organised and implemented as individual programmes within our sites' social surroundings.

Our primary focus is on supporting regional and local projects and initiatives. Activities here vary widely by location. In India, for example, several roads in neighbouring villages have been supplied with street lighting, while our companies in the USA and China support families in need or orphanages with campaigns and financial aid. Our Swiss colleagues sponsor a Formula Student Team among other activities – which ultimately saw them contributing to a new acceleration world record for electric vehicles. In Germany, our community projects focus primarily on helping children and young people in the regions in which we are based.

Typically, these projects will promote social cohesion, integration, culture and healthy living, or will seek to help those who are disadvantaged or suffering from physical or mental illness. Outside the Company's official community engagement work, many of Lenze's employees are also active in local schools, kindergartens, sports clubs, higher education institutions and cultural or community organisations.

## 2.2. Participation Act

### **Lenze SE: Proportion of women on the Supervisory Board and the Executive Board, proportion of women on the two management levels below the Executive Board**

In 2015, legislators in Germany passed the so-called Participation Act. This law is intended to enable equal participation of men and women in leadership positions in the private and public sector. The Supervisory Board companies required to have co-determination establishes the target figures and the deadlines for achieving a specific proportion of women on their supervisory board and executive board (section 111 (5) German Stock Corporation Act – AktG). The executive board of companies required to have co-determination decides on the proportion of women on the two levels of management below the executive board (section 76 (4) AktG). The deadlines set for achieving the targets must not be longer than five years, with the first deadline not to exceed 30 June 2017.

The Supervisory Board and the Executive Board of Lenze SE have discussed this topic in depth. Both boards are open to the participation of women in leadership positions. The current and traditionally observed procedure for appointments to the boards and leadership positions is based on a strict focus on knowledge, skills and professional competence and therefore in principle independent of gender. The Supervisory Board and the Executive Board regard this procedure as absolutely essential, even though at present no women are represented in the governing bodies. A commitment to any additional criteria by 30 June 2017 would lead to an unreasonable restriction in the selection of candidates. The target percentage for now is therefore set at 0%.

### Lenze Operations GmbH: Proportion of women on the Supervisory Board and among the Executive Management, proportion of women on the two management levels below the Executive Management

The Shareholders' Meeting and the Executive Management of Lenze Operations German GmbH have also discussed this topic in depth. The shareholders' meeting of companies required to have co-determination has to establish the relevant target figures and the deadlines for achieving a specific proportion of women on the supervisory board and among the executive management (section 52 (2) German Limited Liability Company Law – GmbHG). The executive management of companies required to have co-determination have to establish the proportion of women on the two levels of management below the executive management (section 36 GmbHG). The deadlines set for achieving the targets must not be longer than five years, with the first deadline not to exceed 30 June 2017.

The shareholders and the Executive Management are open to the participation of women in leadership positions. It is always possible for men and for women to take up leadership positions and participate in the governing bodies on the basis of the same criteria that apply at Lenze SE. In view of the obligation to stipulate target figures by 30 June 2017, the target percentage has initially been set at 0%.

## 3. Report on economic position

### 3.1. Macroeconomic environment

#### General environment

The global economy continued to experience only modest growth in 2016. While macroeconomic growth was once again driven by consumer spending in many countries, international trade and investment remained weak. Structural change in China, regional wars and conflicts, terror attacks, structural problems in certain EU member states, heavily indebted companies in emerging markets, the United Kingdom's vote to withdraw from the EU and the election campaign in the USA all had an adverse effect on growth prospects and investment confidence among key economic stakeholders.

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The global economy once again grew only moderately in 2016.

Actual price-adjusted global growth totalled 3.1% in 2016, down from 3.2% in 2015. In industrialised nations, expansion slowed significantly from 2.1% in 2015 to 1.6% in 2016. By contrast, the growth rate in emerging and developing countries remained steady year-on-year at 4.1%.<sup>1)</sup>

<sup>1)</sup> Source: GDP figures: IMF World Economic Outlook Update January 2017  
Additional, more detailed information: VDMA Konjunktur International, November 2016.

### Important regional customer markets

The eurozone economy also exhibited moderate growth during the course of 2016, with significant variation once again evident between individual member states. Overall, gross domestic product (GDP) rose by 1.7% in real terms. Specifically, the economy benefited from the increase in consumer spending as the ECB continued its expansive monetary policy and unemployment fell further. While investments in machinery and equipment also showed modest signs of recovery, growth rates in this area remain low. Exports once again benefited from a slight tailwind caused by the comparatively weak euro exchange rate.<sup>2)</sup>

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Key economic regions saw slower growth than in 2016.

The German economy recorded robust growth in 2016. Overall, GDP grew by 1.9% on average for the year, continuing the upward trajectory of previous years.

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The German economy continued on its solid growth trajectory in 2016.

The US economy was relatively weak in 2016. Growth reached 1.6% in the year of the presidential election, a percentage point lower than the previous year. In particular, weak corporate investment activity dampened growth not only in the oil and gas sector but across a wide range of industries. The macroeconomic situation brightened slightly at the end of the year.

While the economy in the People's Republic of China exhibited less momentum in 2016, it remained on its self-imposed growth trajectory at 6.7%. After a disappointing start to the year, flagging growth in gross capital investments was offset by state investment. While the pace of growth remained high in India, at 6.6% in real terms for the 2016/2017 fiscal year, this figure was one percentage point lower than the previous year. In November 2016, the Indian government withdrew the 500 and 1,000 rupee notes from circulation to combat corruption and the black market, putting the brakes on consumer spending across the country.

Brazil and Russia, two countries dependent upon commodity exports, were in a state of recession during 2016.<sup>3)</sup>

## 3.2. Sector-specific environment

### International mechanical engineering sector

The global mechanical engineering sector lacked positive momentum in 2016. Although the industry continued to expand in China, its growth rate of 3% was the lowest for the past decade and was only achieved as a result of government measures. In the USA, machinery revenue in important sectors such as oil and gas, construction machinery and agricultural engineering contracted sharply to

<sup>2)</sup> Source: GDP figures: IMF World Economic Outlook Update January 2017  
Additional, more detailed information: VDMA Konjunktur International, November 2016.

<sup>3)</sup> Source: GDP figures: IMF World Economic Outlook Update January 2017  
Additional, more detailed information: VDMA Konjunktur International, November 2016.  
Also: Annual Report 2016/2017 of the German Council of Economic Experts; Federal Statistical Office

fall short of the previous year's figure, while the Japanese mechanical engineering sector also reported markedly lower sales. The industry fared better in Germany and Italy, where revenue remained steady year-on-year.

### German machinery production

Machinery production also stagnated in Germany in 2016. According to the preliminary findings of the German Federal Statistical Office, price-adjusted growth was 0%, thus confirming the original forecast of the German Mechanical Engineering Industry Association (VDMA). According to an estimate by the VDMA's economists, non-price-adjusted revenue reached a volume of € 219.5 billion last year.

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The German mechanical and plant engineering sector stagnated again in 2016.

In 2016, incoming orders were 2% lower than the previous year in real terms. Domestic incoming orders fell by 1%, while orders from outside Germany decreased by 3% year-on-year. There were some slight discrepancies within this figure. While orders from EU partner states fell 8% short of the previous year's level, orders from countries outside the eurozone dropped by just 1%.<sup>4)</sup>

### Lenze Group focus industries

We are generally seeing an encouraging trend across all five of our focus industries. Business in intralogistics, consumer goods, textiles and converting and printing in particular was strong worldwide during the 2016 calendar year. As usual, the automotive industry was driven by portfolio-related investment cycles and project postponements from car manufacturers.<sup>5)</sup>

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Most of the Lenze Group's focus industries continued on their growth trajectory in 2016.

## 3.3. Forecast/actual comparison

For the 2016/2017 financial year, we predicted that the Lenze Group's revenue growth would rise slightly compared to the previous year.

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The key financial targets for 2016/2017 have been met.

In fact, Group revenue rose by 4.9% to € 678.3 million during the year under review, moderately exceeding our original expectations. At the start of the year under review, we also forecast that profitability (EBIT margin) would improve slightly further during the 2016/2017 financial year due to the large number of efficiency measures put in place. We also achieved this objective with a 1.1 percentage point increase in the EBIT margin to 8.6% (previous year: 7.5%).

## 3.4. Executive Board's overall assessment of economic position

Amid challenging conditions, the Lenze Group can look back on a successful year in 2016/2017.

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2016/2017 was yet another successful financial year for the Lenze Group.

Despite a difficult and challenging environment shaped by high levels of instability and reticent investing around the world, we continued our growth trajectory in line with corporate strategy and met our financial targets.

<sup>4)</sup> Source: Federal Statistical Office, VDMA  
Additional, more detailed information: VDMA Konjunktur International, November 2016.

<sup>5)</sup> Source: Internal research, Lenze Group

Revenue growth, which was primarily realised in the aforementioned focus industries, reflects the Lenze Group's competitive success. In particular, we have brought innovation to the market with the new i500 series of frequency inverters, further consolidating our market position in the process. We also implemented efficiency measures in 2016/2017 as planned, which had a positive effect on our results of operations.

Good starting point for the further development of the Lenze Group.

Our balance sheet remains very robust. With an equity ratio of 64.1% and a further-improved net financial balance of € 59.4 million, we are well positioned to maintain our independence as a family-owned business in a difficult environment in future and remain capable of acting in our best entrepreneurial interests.

Overall, the Executive Board believes the results of operations, financial position and net assets of the Lenze Group are satisfactory and represent a good starting point for the further development of the Group.

### 3.5. Results of operations

Results of operations were as follows:

#### Results of operations

	2016/2017		2015/2016		Change	
	in € million	in %	in € million	in %	in € million	in %
Revenue	678.3	99	646.4	101	31.9	5
Changes in inventory	3.0	1	-3.9	-1	6.9	177
Own work capitalised	1.2	0	0.6	0	0.6	100
<b>Total operating revenue</b>	<b>682.5</b>	<b>100</b>	<b>643.1</b>	<b>100</b>	<b>39.4</b>	<b>6</b>
Cost of materials	-278.3	-41	-269.1	-42	-9.2	3
<b>Gross margin</b>	<b>404.2</b>	<b>59</b>	<b>374.0</b>	<b>58</b>	<b>30.2</b>	<b>8</b>
Personnel expenses	-224.7	-33	-217.8	-34	-6.9	3
Depreciation/amortisation	-16.7	-2	-15.6	-2	-1.1	7
Other expenses and income	-104.3	-15	-92.1	-14	-12.2	13
<b>Earnings before interest and taxes (EBIT)</b>	<b>58.5</b>	<b>9</b>	<b>48.5</b>	<b>8</b>	<b>10.0</b>	<b>21</b>
Financial result	-1.5	-1	-1.8	-1	0.3	-17
<b>Earnings before taxes (EBT)</b>	<b>57.0</b>	<b>8</b>	<b>46.7</b>	<b>7</b>	<b>10.3</b>	<b>22</b>
Income taxes	-18.1	-2	-15.4	-2	-2.7	18
<b>Earnings after tax</b>	<b>38.9</b>	<b>6</b>	<b>31.3</b>	<b>5</b>	<b>7.6</b>	<b>24</b>

#### Revenue performance

During the 2016/2017 financial year, Group revenue rose by € 31.9 million or 4.9% year-on-year to € 678.3 million.

Organic revenue growth – i.e. adjusted for currency and acquisition effects – totalled 5.8%. Our intensified sales activities had a positive effect across all regions. We also achieved our first market success with innovative products such as the i500. One key growth driver was the Automation business, where we experienced several market successes. Revenue development in the drive technology business was also positive.

The Lenze Group posted record revenues.

In regional terms, the largest contribution to Lenze Group revenue in absolute terms came from Europe, where revenue increased by € 17.9 million (+3.6%). Revenue in America rose by € 4.7 million to € 77.9 million (+6.4%). In Asia, revenue reached € 83.7 million, significantly higher than last year's figure of € 74.5 million (+12.3%).

### Revenue by region

in € million	2016/2017	2015/2016	Change
Europe	514.0	496.2	3.6%
The Americas	77.9	73.2	6.4%
Asia	83.7	74.5	12.3%
Other regions	2.7	2.5	7.3%
<b>Total</b>	<b>678.3</b>	<b>646.4</b>	<b>4.9%</b>

Total operating revenue rose during the year under review to € 682.5 million (previous year: € 643.1 million).

### Development of costs

In contrast, costs rose only moderately during the 2016/2017 financial year.

The cost of materials ratio, which measures the ratio of cost of materials to total operating revenue, fell to 40.8% in the year under review (previous year: 41.8%). This decline was the result of factors such as the product mix and exchange rate effects.

Efficiency gains resulted in a disproportionately low increase in cost of materials.

In the 2016/2017 financial year, personnel expenses rose by € 6.9 million or 3.1% to € 224.7 million (previous year: € 217.8 million). While the effects of wage and salary adjustments remained moderate, foreign currency effects had a positive impact on this figure.

Although the average number of employees rose slightly, the personnel expenses ratio dropped from 33.9% in the previous year to 32.9% in the year under review.

Depreciation and amortisation of property, plant and equipment and intangible assets rose only slightly year-on-year to € 16.7 million. This was due to investment activity remaining virtually stable.

Other income and expenses, including net investment income, increased by €12.2 million during the year under review. This rise was primarily attributable to higher levels of investment in sales activities as well as warranty expenses and exchange rate effects. Net investment income remained almost unchanged year-on-year during the year under review.

### Operating profit (EBIT)

During the 2016/2017 financial year, operating profit, i.e. earnings before interest and taxes (EBIT), rose to €58.5 million (previous year: €48.5 million). The EBIT margin improved in 2016/2017 to 8.6% (previous year: 7.5%). This is primarily due to revenue growth and the reduced cost of materials ratio as well as factors including mix effects and a lower personnel expenses ratio.

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EBIT as a key control parameter was further improved.

### Group earnings after tax

The financial result improved during the year under review to reach €-1.5 million (previous year: €-1.8 million). This was due to lower interest expense as a result of using the Company's strong liquidity situation to reduce its financial liabilities, as well as the low interest rate environment. The net financial balance also improved further in 2016/2017 to have a positive effect on the Lenze Group.

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Profit after tax increased moderately.

Tax expenses totalled €18.1 million when taking into account deferred tax assets for the 2016/2017 financial year. The tax ratio has been steadily reduced from 35.8% in 2012/2013 to 31.8% in the year under review (previous year: 32.9%). The improved operating results of Group companies with favourable local tax rates were pivotal in reducing the tax ratio.

During the year under review, consolidated profit before the deduction of minority interests was €38.9 million, up from €31.3 million the previous year.

## 3.6. Financial position

Financial management within the Lenze Group is aligned with corporate strategy in the long term and geared towards the demands of the operating business in particular in the short and medium term. Our objective is to ensure that Lenze has sufficient liquidity reserves for further corporate development at all times. Operating cash flow and the existing bank credit lines are important sources of financing in this respect.

## Cash flow statement

	2016/2017	2015/2016	Change	
	in € million	in € million	in € million	in %
Gross cash flow	56.1	47.9	8.2	17
Change in working capital	-6.9	-8.5	1.6	-19
<b>Cash flow from operating activities</b>	<b>49.2</b>	<b>39.4</b>	<b>9.8</b>	<b>25</b>
Net capital expenditures	-10.9	-6.8	-4.1	-60
Acquisitions	-1.9	0.0	-1.9	-
<b>Cash flow from investing activities</b>	<b>-12.8</b>	<b>-6.8</b>	<b>-6.0</b>	<b>-88</b>
<b>Cash flow from financing activities</b>	<b>-37.4</b>	<b>-24.5</b>	<b>-12.9</b>	<b>-53</b>
<b>Change in cash and cash equivalents (incl. effect of exchange rate changes)</b>	<b>1.0</b>	<b>7.8</b>	<b>-6.8</b>	<b>-87</b>
Cash at 1 May	79.6	71.8	7.8	11
<b>Cash at 30 April</b>	<b>80.6</b>	<b>79.6</b>	<b>1.0</b>	<b>1</b>

### Cash flow from operating activities

During the 2016/2017 financial year, the Lenze Group generated gross cash flow of € 56.1 million (previous year: € 47.9 million). This increase is primarily attributable to the improvement in operating profit. The change in net working capital is mainly influenced by an increase in inventories arising as a result of business expansion as well as the introduction and stockpiling of new products worldwide. In contrast, the terms of receivables and liabilities were improved by consistent working capital management. During the 2016/2017 financial year, the Group generated total cash flow from operating activities of € 49.2 million, compared to cash flows of € 39.4 million the previous year.

Continued increase in operating cash flow.

### Capital expenditures

During the 2016/2017 financial year, the Lenze Group invested € 11.5 million (previous year: € 10.3 million) in property, plant and equipment and intangible assets. The net capital expenditures figure in the cash flow statement includes cash generated from the disposal of fixed assets. The significant difference in the previous year primarily results from the sale of land. During the reporting year, as in the previous year, investments in property, plant and equipment focused on replacement investments, rationalisation investments and investments in tools and machinery for new products.

Stable level of capital expenditures for PPE and intangible assets.

During the year under review, Lenze SE acquired a majority interest in logicline GmbH, Sindelfingen.

### Free cash flow

During the 2016/2017 financial year, Lenze Group increased its free cash flow – defined as the difference between cash flow from operating activities and capital expenditures – by 11.7% to € 36.4 million (previous year: € 32.6 million). The net cash flow generated by the operating business illustrates how the Company is continuing to improve its financial self-reliance.

Financial self-reliance strengthened by higher free cash flow.

### Cash flow from financing activities

Cash flow from financing activities was negative at € –37.4 million (previous year: € –24.5 million). While the utilisation of credit lines generated cash totalling € 3.4 million (previous year: € 2.8 million), the repayment of loans and distributions to shareholders resulted in a net outflow of funds. The Lenze Group continued to utilise its current account lines to a limited extent and repaid its outstanding loans. The increase in free cash flow also further reduced the Company's external financing requirements.

Financing requirements reduced.

Overall, cash (including changes in exchange rates) rose by € 1.0 million during the 2016/2017 financial year.

## 3.7. Net assets

As of the balance sheet date of 30 April 2017, the net assets of the Lenze Group were characterised by positive developments in the Company's profit and financing, further strengthening key balance sheet ratios. As of the reporting date, the Group's total assets amounted to € 466 million (previous year: € 450 million).

### Net assets

	30.04.2017		30.04.2016		Change	
	in € million	in %	in € million	in %	in € million	in %
<b>Assets</b>						
Non-current assets	148.7	32	152.2	34	–3.5	–2
Current assets	317.6	68	298.2	66	19.4	7
Inventories	121.3	26	99.1	22	22.2	22
Trade receivables	105.7	23	103.1	23	2.6	3
Cash	80.6	17	79.6	18	1.0	1
Other assets	9.9	2	16.3	3	–6.4	–39
<b>Total assets</b>	<b>466.3</b>	<b>100</b>	<b>450.4</b>	<b>100</b>	<b>15.9</b>	<b>4</b>
<b>Equity and liabilities</b>						
Equity	299.0	64	286.8	64	12.2	4
Non-current liabilities	44.3	10	48.2	10	–3.9	–8
Current liabilities	123.0	26	115.3	26	7.7	7
<b>Total equity and liabilities</b>	<b>466.3</b>	<b>100</b>	<b>450.4</b>	<b>100</b>	<b>15.9</b>	<b>4</b>

## Equity

As of 30 April 2017, the Lenze Group reported equity totalling € 299 million (previous year: € 287 million). As a result, the equity ratio increased to 64.1% (previous year: 63.7%). The fixed assets are completely covered by equity. In addition, 67.5% of the inventories, receivables and other assets are financed long-term by equity (previous year: 66.7%). This is evidence that the Lenze Group is continuing its financial strategy of having at its disposal a sustainable level of capital resources.

Equity ratio climbs to 64.1%.

## Equity ratio in %

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2016/2017	64.1
2015/2016	63.7
2014/2015	62.2
2013/2014	61.7
2012/2013	62.0

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## Liabilities

Non-current liabilities fell by € 3.9 million to € 44.3 million (previous year: € 48.2 million), primarily because of the reduction in non-current liabilities to credit institutions. The sum total of equity and non-current liabilities covers 73.6% of total assets at the balance sheet date (previous year: 74.4%). Current liabilities rose by € 7.7 million to € 123.0 million (previous year: € 115.3 million).

Non-current financial liabilities reduced.

Current liabilities increased further due to a rise in provisions and trade payables, representing 26.4% of the balance sheet total (previous year: 25.6%) as of the reporting date.

## Assets

The Lenze Group's capital is linked to value creation in line with strategy. As part of this approach, vertical integration is actively managed within the supply chain strategy and is geared towards core competencies as well as competitive goals and flexibility objectives. As a result, the asset side of the balance sheet continues to be dominated by current assets, which comprised 68.2% of total assets (previous year: 66.2%) at the end of the year under review.

More than two thirds of assets are current.

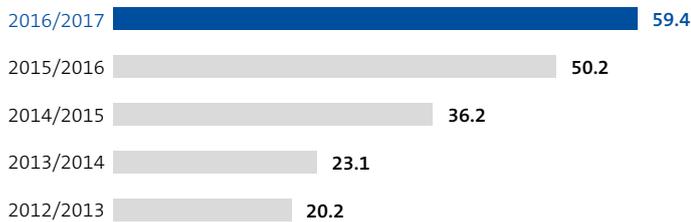
Non-current assets as of the reporting date were € 148.7 million (previous year: € 152.2 million). Current assets rose by € 19.4 million to € 317.6 million. This is due mainly to a higher level of inventories, which rose as a result of the increase in business volume and the introduction and worldwide stockpiling of new products. At the end of the 2016/2017 financial year, the Lenze Group has at its disposal cash totalling € 80.6 million (previous year: € 79.6 million).

### Net financial balance

By reducing its borrowings further during the 2016/2017 financial year, the Lenze Group reported financial debt (short and long-term) of € 21.2 million as of 30 April 2017. This was offset by an increased level of liquidity totalling € 80.6 million. As a result, the Lenze Group reported net financial balance of € 59.4 million (previous year: € 50.2 million).

Net financial balance increased further.

### Net financial balance in € million



## 4. Report on risks and opportunities

### 4.1. Risks and opportunities policy

The Lenze Group is exposed to a variety of risks and opportunities when conducting its business activities. The aim of risk and opportunity management is to recognise, control and take appropriate action to counter these risks as part of a closely supervised management process. It also enables the Group to consistently identify any long-term opportunities that arise in order to benefit fully from them within the context of corporate strategy without neglecting the associated risks. An acceptable risk profile must be maintained. Transparency, a systematic approach and appropriate awareness among the responsible managers also enable us to recognise risks and exploit opportunities at a local level. Short-term opportunities arising from day-to-day operations are evaluated and implemented by our subsidiaries. Our risk and opportunities policy therefore helps to ensure the sustainable and profitable growth of the Company.

Balanced risks and opportunities policy.

## 4.2. Risk and opportunity management system

A purposeful and responsible approach to business opportunities and risks is part of our day-to-day work. The Lenze Group seeks to exploit market opportunities while simultaneously avoiding risks that could lead to asset losses or even threaten the continued existence of the Company. With this in mind, the Lenze Group operates an active risk and opportunity management system and uses various control cascades to guarantee its effectiveness.

The key priorities of the management system are to ensure the systematic recognition, assessment and management of risks and opportunities. The Executive Board is ultimately responsible for efficient risk and opportunity management. Strategic risks and opportunities are managed in close cooperation with the Supervisory Board, while operating risks and opportunities are controlled by managers in local companies based on Lenze's process management approach.

Lenze categorises its risk into two different groups. Risks affecting and addressed by individual operating units are grouped together as operating risks, while risks affecting the Group or several companies within it are classed as strategic risks. Similarly, Company-wide opportunities are categorised as strategic opportunities.

All risks and opportunities and associated corporate decisions arising from business processes in each area are managed as part of operational risk management.

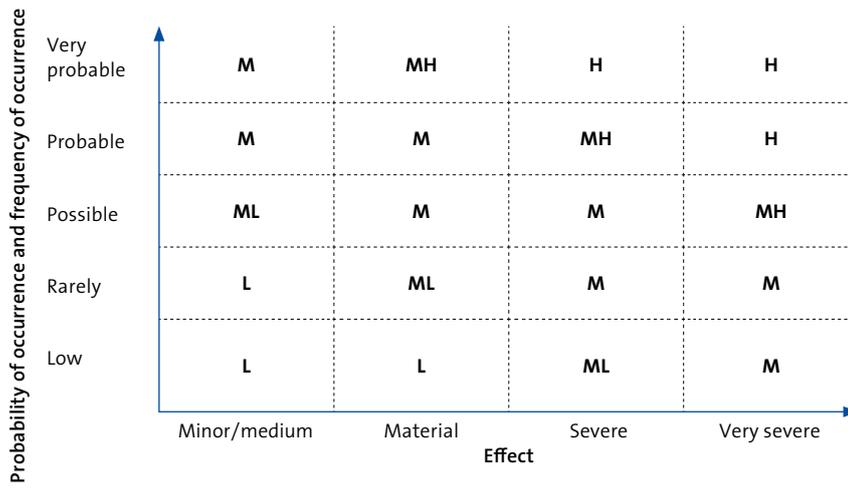
The extent of operating risks is assessed by quantifying the impact of any loss or damage they may cause as well as the probability and estimated frequency of their occurrence. Four standardised grades are stipulated for operating risks, with each risk then assigned to one of five categories (Low-L, Low/Medium-ML, Medium-M, Medium/High-MH, High-H).

Risks assessed across all functional areas and business units are then collated and incorporated into a risk map.

Lenze has an established and effective risk management system.

The following risk matrix explains the assessment system applied by the Lenze Group:

**Risk matrix**



**Classification of risks and opportunities: Effects**

Minor/medium		up to 2,000,000 €
Material	from 2,000,000 €	up to 10,000,000 €
Severe	from 10,000,000 €	up to 50,000,000 €
Very severe	from 50,000,000 €	

Qualitative criteria: strategy, reputational damage, compliance violation, secondary damage within the organisation

**Classification of risks and opportunities: Probability and frequency of occurrence**

Low		up to 10%
Rarely	from 10%	up to 20%
Possible	from 20%	up to 50%
Probable	from 50%	up to 80%
Very probable	from 80%	up to 100%

The actions and responsibilities for key risks are defined and documented for risk management purposes. The latest business developments are also reported to the Supervisory Boards on a quarterly basis together with major deviations from targets, updated forecasts for the financial year and key operating risks.

The risk management system was audited by the auditor of the Lenze Group’s financial statements. The audit showed “that the Executive Board has taken the appropriate measures as required by section 91 (2) of the German Stock Corporation Act, especially with regard to setting up a monitoring system; and that the monitoring system is suitable for the early detection of developments that threaten the continued existence of the Company as a going concern”.

### 4.3. Internal risk control system relevant to the financial reporting process (ICS)

The Lenze Group's internal risk control system relevant to the financial reporting process ensures that bookkeeping and accounting are carried out correctly and that financial reporting in the consolidated financial statements and Group management report is reliable. As an integral part of the Group financial reporting process, it includes security and control measures designed for prevention, monitoring and detection.

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Reliable Group financial reporting ensured by professional, multi-level system.

One key element is the principle of functional separation to deliberately separate relevant business processes. This ensures that employees can only access processes and data relating to their work.

The Company remains in close contact with auditors throughout the year to stay abreast of new statutory provisions and innovative or unusual business transactions. The consolidated financial statements are prepared centrally by in-house employees with many years of experience and specific expertise in consolidation issues and IFRS financial reporting using certified consolidation software. Subsidiaries report to the parent company using standardised reporting tools that submit all of the information required to prepare full IFRS consolidated financial statements.

Compliance with the regulations and measures of the ICS is monitored by a systematic and independent audit programme. When preparing the annual financial statements, the IFRS reporting packages submitted by all key subsidiaries are reviewed and certified by auditors.

### 4.4. Risk and opportunity position

The quantitative assessment of strategic and operating risks and strategic opportunities largely takes place on an ongoing basis.

#### 4.4.1. Strategic risks

##### Competitive position (risk level: ML)

Competitive risks are defined as the risk that the Lenze Group will not achieve its expected market shares, margins and growth targets due to increasing competitive pressure.

Lenze addresses these competitive risks by employing a structured strategy process as well as continuously analysing its market environment, competitive situation and the statutory framework in each division and region. The information gathered enables Lenze to develop and offer products that address market needs, further improve its competitive position and steadily increase its visibility.

**Macroeconomic risks (risk level: M)**

Weak economic development can have a negative impact on customer demand as a whole and demand for Lenze Group products in particular. This can cause sales to decline and put margins under pressure. Economic reports are periodically evaluated to enable the Group to react to changes in a timely fashion.

Economic conditions for the 2017/2018 planning period are still dominated by palpable uncertainty in the markets, particularly in Europe. Cyclical fluctuations in macroeconomic activity have an impact on the Lenze Group's primary sales market of mechanical engineering. The investment decisions made by customers of Lenze customers largely depend on macroeconomic trends, specific capacity utilisation rates and the overall situation in each customer sector.

**4.4.2. Operating risks**

**Sales (risk level: ML)**

Failure to achieve the intended level of incoming orders as a result of economic or political changes or market volatility, for example, represents a risk to the Lenze Group.

The Company is exposed to different country-specific risks. The economic, political and legal environment in some of the Lenze Group's sales countries differs from that found in Western Europe. The situation in Western Europe could become less stable due to geopolitical risks.

The methods Lenze uses to address these risks includes analysing trends in our relevant markets while also taking external market research data into account.

**Product development (risk level: ML)**

Development risks arise when product technology ages and becomes obsolete or if insufficient protection is provided for development work.

Lenze addresses this risk using modern product portfolio management techniques that organise and manage the relevance and performance of products and services. Any action areas identified are then transferred into projects managed via a global project portfolio management system using consistent and harmonised methods. Lenze also provides sufficient development capacity and hires highly-trained, innovative employees.

**Procurement (risk level: M)**

Changes in the price of raw materials and changing competitive situation in the market lead to latent procurement risks. Lenze safeguards the supply of materials and services by means of the centrally controlled organisational unit called Global Sourcing. The Global Sourcing team enables the Lenze Group to secure a high level of quality and supply performance and at the same time to benefit from the advantages of global procurement markets.

**Inventory utilisation risks (risk level: L)**

In order to guarantee our ability to supply our customers while at the same time minimising the risk of having to write down or scrap inventories, we make inventory monitoring a key component of our risk limitation strategies. The monitoring involves measures such as defining inventory objectives and optimising inventory management processes by continuously maintaining the pre-defined minimum inventory levels for preproduction materials and end products. In the financial year just ended, we also continued our policy of transferring outlying inventories to our centralised logistics centres.

**Production (risk level: ML)**

Regular maintenance work and risk inspections combined with damage prevention measures minimise the risk of downtimes on production lines. A Group-wide insurance policy for material damage and operational downtimes serves to cover potential financial losses.

**Quality (risk level: ML)**

If a customer uses faulty products, it can lead to damage, unscheduled repair work or product recalls, which can trigger liability claims or damage reputations.

To avoid such risks, the Lenze Group has implemented a certified quality management system. This system includes strict quality assurance measures and continual process improvements to minimise guarantee- and liability-related risks.

In addition, a Group-wide product liability insurance with worldwide validity serves to cover potential financial risks.

**Logistics (risk level: ML)**

Violating national and international export restrictions or air freight safety regulations results in significant trading constraints and can therefore lead to lost revenue or significantly delayed deliveries at higher costs.

The export management system deployed by Lenze is designed to prevent these risks. The system consists of an efficient export management unit with trained employees and specific export management software.

**Finances (risk level: ML)**

*Loss of receivables*

Customer receivables are monitored globally in accordance with established standards that apply throughout the Group. We deal with overdue payments by using a set of clear specifications, which also cover the necessary safeguard measures to be taken. We also take advantage of the insurance protection available for customer receivables.

*Liquidity risks*

Safeguarding the capacity to meet payment obligations at all times is an indispensable prerequisite for sustaining a company's ability to survive. In order to meet all our financial obligations throughout the Group, cash totalling approximately € 80.6 million was made available at the balance sheet date. Lenze SE also has firmly agreed credit lines in place with its financing partners.

Lenze prepares revolving liquidity plans and daily liquidity reports to provide an overview of cash inflows and outflows over both the short and medium term. During the year under review, Lenze was able to meet its payment obligations at all times.

*Currency risks and opportunities*

Currency risks result from the international scope of the Lenze Group's business activities, which include procuring and distributing goods in several different currencies. Exchange rate fluctuations can significantly impact the results of operations, financial position and net assets of the Group. The US dollar, British pound, Chinese renminbi and Swiss franc should all be regarded as high-risk foreign currency positions.

We specifically reduce our currency risks using 'natural hedging', which involves flexibly adjusting production capacities and purchasing at our international sites. Hedging transactions are used to limit specific currency risks.

*Risks relating to the use of financial instruments*

As an international corporation, the Lenze Group also bears financial risks arising from changes to interest and exchange rates.

Our fundamentally conservative approach to managing these financial risks is reflected by our systematic financial management, which uses appropriate management and control systems to measure, manage and monitor risks. The derivative financial instruments used are solely intended to hedge underlying transactions. For further information, please refer to the details provided in the notes.

#### Personnel (risk level: ML)

Personnel risks primarily arise due to a lack of high-performing staff, insufficient employee qualifications and the risk of employees leaving. The Lenze Group is particularly dependent upon its Executive Board as well as managers and employees in key positions. Departure and recruiting risks can have a negative impact on business development.

The Lenze Group addresses this risk by positioning itself as an attractive employer and thus offering its employees good career prospects. The Company has been repeatedly recognised as a 'top employer' by independent institutions.

#### IT (risk level: M)

The Lenze Group is dependent upon the good availability and functionality of its IT systems. These systems are vital for business process management and effective cost control. A failure of or disruption to our IT systems or an external attack can significantly compromise our business processes. To address the aforementioned risks, the Lenze Group will continue to make targeted investments in the expansion and further development of IT systems and ensure the continuous operational readiness and efficiency of these systems in future. The IT systems are also subject to external audits by KPMG.

#### Compliance (risk level: L)

The Lenze Group classifies all risks that both put the Company in danger of failing to comply with laws and/or internal guidelines and risks that could arise directly from the compliance management system as compliance risks. Violating these laws or guidelines can lead to penalties, sanctions or court orders. Financial effects could include legal action against and/or fines for the Lenze Group.

Lenze employs a Compliance Officer to monitor these compliance risks. Management is obliged to confirm compliance with the applicable guidelines by making an annual compliance declaration. There were no significant risks during the year under review.

#### 4.4.3. Strategic opportunities

Opportunities for the Lenze Group depend on four key factors.

##### Digitisation

The continuing digital transformation is generating increasingly large volumes of data, and thus information whose provisioning, analysis and effective usage forms a core challenge for modern production. The Bremen-based software development company encoway GmbH, a subsidiary of Lenze SE, specialises in the management of Big Data. Encoway develops software solutions for variant management and enjoys a well-established position in the market. The Lenze Group plans to make greater use of this expertise in its core business. With its majority stake in logicline GmbH (Sindelfingen), Lenze has expanded its portfolio with enterprise cloud applications, mobile apps and innovative IoT solutions.

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Digitisation is a key  
opportunity for Lenze.

#### Industrie 4.0

The term Industrie 4.0 refers to the combined application of various technological developments, and Lenze has now been monitoring this trend for several years. For Lenze's core customers – innovative mechanical engineering companies – the demands being made by Industrie 4.0 are especially complex. For modern machinery, steps in innovation cycles are not only accelerated but also run in parallel. The degree of automation for machinery and equipment is also continually increasing.

The Lenze Group has the right portfolio to match this complexity and to seize the topic of Industrie 4.0 as an opportunity in the years to come.

#### Attractive focus industries

With their dynamism, competitive intensity and demanding requirements in terms of technologies, efficiency and project management complexity, focus industries also set the standards for many other industries. The Lenze Group's orientation on these attractive focus industries is an important driver for the Company's stable growth and the basis of its strong market position. This orientation, and the specific expertise that powers it, enables Lenze to work on developing innovations and specific application solutions together with its customers. Industries that will continue to exhibit above-average growth in the future – and thus require sophisticated technological solutions – include automotive, consumer goods, intralogistics, textiles, and converting and printing.

#### Internationalisation and globalisation

Our overall business strategy focuses on the expansion of our customer and product base while continuing to pursue globalisation and internationalisation. This strategic orientation offers the Lenze Group a wealth of opportunities.

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Machines' degree of automation will continue to increase within the context of Industrie 4.0.

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Lenze occupies a strong market position in its focus industries.

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Lenze is in a good position given its global presence.

### 4.5. Overall assessment of risks and opportunities

The aforementioned risks and opportunities do not threaten the existence of the Group either individually or as a whole. Overall, it can be said that there were no significant changes to the risk situation in the 2016/2017 financial year.

The Executive Board and Supervisory Board are regularly informed about the Company's current risk situation. The latest assessment concluded that the risks are manageable overall. There are currently no risks that could threaten the continued existence of the Company as a going concern. Similarly, no future going-concern risks have been identified. The Executive Board of Lenze SE does not currently expect the risk situation to change fundamentally.

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No going-concern risks discernible.

## 5. Report on expected developments

### 5.1. Future environment

#### Global economy

The International Monetary Fund (IMF) expects the global economy to grow moderately by 3.5% in real terms in 2017. It predicts that growth will accelerate to 4.5% for emerging and developing nations as a whole, driven in particular by positive developments in India and China, where structural reforms and state lending and investments are expected to provide a boost. A recovery in commodity prices would also raise the prospect of Russia and Brazil coming out of recession. Growth in industrialised countries is expected to accelerate slightly to 2.0%. This should be made possible by an upswing in the USA (+2.2%) and Canada (+1.9%) and virtually unchanged growth in the eurozone (+1.9%). Despite this rather positive forecast, there is still a great deal of uncertainty. Back in January 2017, the IMF acknowledged that there was an unusually broad array of upside and downside risks. In particular, further development in the USA and United Kingdom was difficult to predict at the time of publication. While tax cuts and higher infrastructure spending are expected in the USA under President Trump, increased protectionism could also have negative consequences.<sup>6)</sup>

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Global economy in 2017 expected to see moderate growth and high level of uncertainty.

#### German economy

The German economy is expected to grow at a moderate rate in 2017, with the German Council of Economic Experts predicting price-adjusted GDP of 1.3%. However, this is due to a calendar effect rather than indicating a slowdown in the economic upturn, and recovery is set to continue. The increase is largely attributable to robust consumer spending and residential construction. The rise in employment will also continue, increasing by 431,000. Gross capital investments continue to exhibit moderate growth. After a 2.5% increase in 2016, this figure is only expected to rise by 2.0% in 2017. Investments in machinery and equipment are not expected to grow significantly.<sup>7)</sup>

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German economy to experience slight uptick in 2017.

#### International mechanical engineering sector

Mechanical engineering companies made a positive start to 2017 in numerous countries, with revenue figures largely on track for growth. This expansion is expected to continue during the year, resulting in moderate growth in global mechanical engineering. However, diverse developments are expected in several individual countries. High levels of government spending in 2016 continue to leave their mark on growth rates in the Chinese mechanical engineering sector, which began 2017 with a high single-digit gain. It remains to be seen whether this rate of growth can be maintained throughout the year. Although a backlog in demand is expected in the USA after investments in machinery and equipment and machinery revenue both

<sup>6)</sup> Source: VDMA; Oxford Economics, IMF  
Additional, more detailed information: VDMA Konjunktur International, November 2016 and June 2017

<sup>7)</sup> Source: Annual Report 2016/2017 of the German Council of Economic Experts; Federal Statistical Office

fell during the 2016 election year, the country's current political landscape means this cannot be guaranteed. The industry is expected to grow by 3% in Germany and 1% in Italy. A rise of 4% is currently forecast for the Japanese mechanical engineering sector, which is primarily expected to benefit from the improved economic situation in emerging Asian markets and higher domestic revenue in 2017. Further growth of 4% is anticipated in both India and Russia, while a gain of 1% is predicted for Brazil after the slump of recent years.<sup>8)</sup>

### German mechanical engineering industry

The VDMA anticipates that German machinery production will grow by 3% in real terms in 2017. This increase is primarily attributable to the fact that the fall in exports is easing in many developing and emerging countries and some of these markets are predicted to return to growth. In particular, significant improvement is expected in Asian markets, especially China. This is indicated by both the recovery in crude oil and gas prices and national factors. In India, for example, the introduction of a nationwide sales tax could provide the economy with a boost. In Russia, the ruble's still relatively undervalued exchange rate is helping the economy to improve its price competitiveness, while the recession in Brazil could be overcome this year, not least because of reforms implemented by the government.

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German mechanical engineering industry to see production growth in 2017.

Apart from this, orders from the domestic market and European Union partner states are expected to continue the growth they exhibited in 2016. Capacity utilisation in the manufacturing industry has continued to rise in Germany, enabling greater investment in capacity expansion than in the previous year. Furthermore, a backlog in demand is being consistently observed with regard to modernisation measures. Due to the broad array of uncertainties worldwide, the forecast of 3% is currently subject to a certain degree of risk.

It is unclear whether German mechanical engineering will be positively or negatively impacted by events in the United Kingdom. Even if the British economy not only has to cope with the negative effects of its eventual withdrawal from the EU but also feels the positive effects of the devaluation of the British pound and the improved price competitiveness that this would bring, it remains unclear what impact all of these factors will ultimately have on demand for machinery from Germany. The high degree of uncertainty about the UK's future economic development alone may already cause investments to be postponed initially.

<sup>8)</sup> Source: VDMA Konjunktur International June 2017; Prognosespiegel International 07/2017

It is also unclear whether exports to the USA will contribute to growth this year or deteriorate. Suggested changes in tax and customs policy could adversely affect sales opportunities for the German mechanical engineering industry. At the same time, rising infrastructure spending, corporation tax cuts and the increasing location of production within the USA could have a positive impact on German mechanical engineering sales in the short term. In the long term, however, the consequences of this policy, or at least the way in which these objectives will be achieved, are questionable. A restrained attitude to the awarding of new contracts among investors who take a negative view of the future development of the USA in the long term cannot be ruled out.<sup>9)</sup>

### Lenze Group focus industries

With regard to the focus industries and markets relevant for Lenze, we continue to expect global growth in the low single-digit percentage range for 2017. Consumer goods, textiles and converting and printing in particular are benefitting from changes in consumer behaviour. We are expecting additional momentum in the area of Industrie 4.0 as well as the ongoing increasing automation of machinery and equipment.

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Increasing degree of automation provides additional momentum.

Lenze also expects to encounter challenges in the automotive sector in 2017. The lack of positive effects from growth driver China cannot be fully offset by the slight upward trends in Europe and the USA. However, the significant trend towards digitalisation and connectivity in this focus industry will continue to stimulate growth in the long term.<sup>10)</sup>

## 5.2. Executive Board's overall assessment of future development

We are reinforcing our position in the most important mechanical engineering markets and continuing to systematically expand our global presence. With our proximity to customers, our innovations and trend-setting products and services along with our good financial basis, we are well equipped to continue the good corporate development that we have seen in the past years. We are closely watching the economic and political changes in our regional sales markets so that we can quickly take steps, where necessary, to either avoid risks or exploit opportunities.

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The Lenze Executive Board expects slight growth in revenue and earnings.

Summing up: on the basis of the information available today, we expect an increase in revenue for the Lenze Group in the 2017/2018 financial year that is slightly higher than the growth recorded in the reporting year. Our profitability (EBIT margin) will again improve slightly due to the numerous efficiency measures taken in the 2017/2018 financial year. Furthermore, we will continue to focus on targeted investments in our sales channels, infrastructure, research and development, and our range of services.

<sup>9)</sup> Source: VDMA Maschinenbau Konjunktur aktuell and VDMA Konjunktur International June 2017

<sup>10)</sup> Source: Internal research, Lenze Group