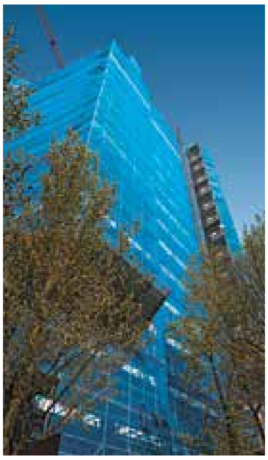
Muehlhan





Annual Report 2016

Our services

Surface Protection

We protect your assets under most severe conditions

Insulation

Professional solutions for heat and cold insulation

Scaffolding

Engineered solutions to fit your purpose

2,800+ Employees
30+ Subsidiaries
4 Business segments
3 Continents

Specialty Access

Special requirements need special solutions

Steel Construction

Competence and quality first time right

Passive Fire Protection

Experienced specialist for all kind of projects

Vision

We continuously improve our technologies and services to remain the quality leader in our markets and to improve our position in the industry continuously. Our customers, suppliers and employees value us as a professional and dependable partner.

Values

As a company, we are firmly rooted in our tradition of Hanseatic German values. Muehlhan stands for quality, integrity, reliability and respect.

As one of the few full-service providers in its industry, the **Muehlhan Group** offers its customers a broad spectrum of industrial services and high-quality surface protection. Our very strong organizational skills, in-depth technical expertise and more than 130 years of experience enable us to satisfy our customers' exacting quality requirements.

Our **Ship, Oil & Gas, Renewables** and **Industry/Infrastructure** business segments offer first-class solutions for surface protection, insulation, passive fire protection, access technology, as well as scaffolding and steel construction. With **more than 2,800 employees at over 30 locations** worldwide, we generated €254 million of sales revenues in 2016.

We will continue to focus our efforts on steadily improving our technologies and services while actively developing new markets in order to continue expanding our business going forward.

Group key figures

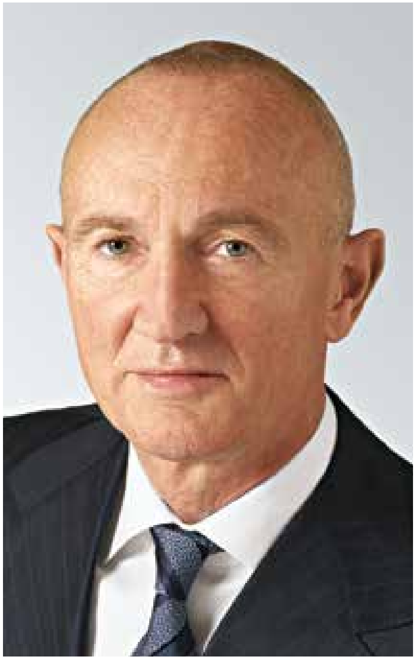
in kEUR		2016	2015
Result			
Sales		254,326	238,991
EBITDA[1]		14,244	11,957
EBIT[2]		6,882	5,217
EBT[3]		5,396	3,341
Consolidated earnings after non-controlling interests		1,979	1,399
Earnings per share from continuing operations 2016	in EUR	0.09	0.05
Cash flow from operating activities		8,879	12,670
Investments for fixed assets		9,156	10,790
Balance sheet		**31.12.2016**	**31.12.2015**
Balance sheet total		146,454	137,952
Fixed assets[4]		53,721	53,074
Equity		68,109	65,948
Equity ratio	in %	46.5	47.8
Employees		**2016**	**2015**
Annual average headcount people	Number	2,881	2,844

1 EBITDA: Profit from operations and depreciation
2 EBIT: Profit from operations
3 EBT: Earnings before taxes
4 Fixed assets: Total of non-current assets less deferred tax assets

Content

01 Management

Taskforce supply ship “Berlin” of the German Navy, Hamburg



Executive Board

Stefan Müller-Arends
Chairman of the Executive Board, CEO
Hamburg, Germany

Stefan Müller-Arends has a degree in business administration. Following positions as Controller and CFO, including at Rheinbraun AG and the French DMC Group, he served as CEO of packaging group Mauser AG. Since 2011, he has been leading the Muehlhan Group as Chief Executive Officer.

Dr Andreas C. Krüger
Member of the Executive Board, CSO
Hamburg, Germany

Dr Andreas C. Krüger has a doctorate degree in engineering. He has many years of management experience at both German and foreign industrial companies. Previously a Director of Friatec AG in Mannheim, in 2002 he accepted a position as Interim Manager before joining the Muehlhan Group‘s Executive Board in 2005. Dr Andreas C. Krüger has been the Head of the Marketing/Sales division since 2011.

James West
Member of the Executive Board
Aberdeenshire, Great Britain

James West is an engineer. Before he joined Muehlhan Surface Protection Ltd in Aberdeen as Managing Director in 2010, he worked in various positions in the oil and gas industry, most recently as Managing Director. Mr West is responsible for the Oil & Gas segment.

Dear Shareholders,

After a difficult year in 2015, during which Muelhhan was very negatively affected by the low price of oil, the company managed to significantly increase earnings in 2016, building on the steady earnings growth of previous years. However, as is often the case in our business, 2016 included both good and bad news: a large number of successful projects were finalized in an increasingly professional manner, but these were offset to an extent by some long-running major projects which were finally completed during the year under review but again posted losses, thereby negatively affecting Group earnings. These projects primarily affected the Renewable segment. As a result, despite the otherwise profitable business activities in this growing market segment, it once again posted a loss. Another negative impact was again caused by the oil business in the North Sea: having contributed €2.0 million to Group EBIT as recently as 2014, it reported a loss of €0.3 million in 2016.

The Group‘s sales revenues increased 6.4% year on year to €254.3 million during the year under review – slightly higher than our forecast. EBIT jumped 31.9% above the prior-year figure to €6.9 million. This figure has been adjusted for the Singapore businesses which are being sold; they are presented separately, in accordance with IFRS. Without this elimination, earnings were significantly higher than in 2014 and 2015. Except for a few legal formalities, the sale of the Singapore businesses was completed during the reporting year.

The increase in EBIT and especially in the EBIT margin clearly demonstrate that Muehlhan is on the right path: expanding the range of services we offer and focusing on markets outside of the shipping industry should ensure that in the future the company will be more resilient to volatility in individual markets. To date, we have implemented this strategy mainly through organic growth, with a few smaller acquisitions. The reason for this approach was the disparity between the prices demanded by those selling companies and the risks that accompany an acquisition in our asset-poor, labor-intensive industry.

In spite of the continuing weakness in the oil and gas market, we see no reason to change our strategic focus. Unlike the maritime sector, which has seen the permanent relocation of standard shipbuilding to Asia, we assume that the oil and gas industry has since bottomed out. And it is “merely” a matter of time, i.e., how long the sideways trend in prices will persist before the price of oil will increase, bringing the situation in this market back to normal.

In addition to the strategic focus of our business, in recent years we have paid particular attention to operational measures designed to improve operations by avoiding or minimizing project losses. These include a number of measures that have a few things in common: they encompass every aspect of an organization, they are mostly quite ordinary in nature and it will take some time before they have become firmly established in the organization and begin to bear fruit.

We would like to thank our more than 2,800 employees for their steadfast commitment in an environment that continues to be challenging. We also want to thank our shareholders, partners and business associates, many of whom have placed their trust in us for many years. We hope that you will continue to accompany and support us on our journey, and we will do everything in our power to fulfill your expectations to the best of our abilities.

Hamburg, March 2017

Your Executive Board

Stefan Müller-Arends
Dr Andreas C. Krüger
James West



Supervisory Board

Philip Percival
London, Great Britain

Chairman of the Supervisory Board
Managing Director of
Syntegra Capital Limited, London

Dr. Gottfried Neuhaus
Hamburg, Germany

Deputy Chairman of the Supervisory Board
Managing Partner
of Neuhaus Partners GmbH, Hamburg

Andrea Brandt (maiden name Greverath)
Hamburg, Germany

Member of the Supervisory Board
Managing Partner of
GIVE Capital GmbH, Hamburg

2016 marked the return to the positive trend in sales revenues and, above all, earnings that Muehlhan regularly reported in the years prior to 2015. Although the environment continued to be turbulent and difficult, almost every business segment contributed to the jump in profits during the year under review. The only exception was the Renewables segment, which continued to suffer from two big loss-making projects during the reporting year; however, these have now been completed. As a result, we expect this segment to turn in sustainable, positive results in the future as well.

The strategic challenges we face in our various markets likewise did not change in 2016 and will continue to occupy the Executive Board and Supervisory Board in fiscal year 2017.

- Europe's maritime sector appears to have completed its process of consolidation and contraction and to be heading for a phase of relative stability, albeit at a low level. The loss of the ship newbuilding industry, as well as the bulk of the repair business, is generally considered to be a long-term fait accompli for European shipyards.
- Since mid-2016, there have been signs of a sustainable stabilization in the oil and gas market; however, this has not yet affected market participants' investment or spending behavior. Nevertheless, we assume that this market has bottomed out and that the medium-term trend here will also be positive.
- We also perceive a cautious stabilization of the wind energy market, with correspondingly positive effects on Muehlhan's future business in this young market.
- In the Industry/Infrastructure segment, it was again almost exclusively the still "young" markets in the Middle East that supported Muehlhan's growth during the year under review. Muehlhan is not expecting any significant boost to growth from European markets in the future.

Focal points of Supervisory Board deliberations

As in previous years, in fiscal year 2016, the Supervisory Board performed the duties assigned to it by law and the Articles of Association. It regularly consulted with the Executive Board and carefully supervised its work. The Supervisory Board and the Executive Board remained in close contact, even between meetings. For example, the Chairman of the Supervisory Board regularly exchanged information about current business performance and major transactions with the Chairman of the Executive Board.

In 2016, the Executive Board's regular written and oral reports to the Supervisory Board concerning business developments within the Muehlhan Group and at Muehlhan AG once again formed the core of the cooperation between the two management bodies. Special attention continued to be given to the direction of the Muehlhan Group and to making adjustments to adapt to the current and expected future market situation. The Executive Board also provided the Supervisory Board with comprehensive reports regarding the financial position, earnings performance as well as short and medium-term business plans of Muehlhan AG and it's subsidiaries.

A total of six meetings were held in 2016 and attended by the Executive Board: on 2 February, 22 March, 23 May, 13 July, 8 November and 13 December 2016. Regular topics of discussion at the Supervisory Board meetings included the `trend in sales revenues, earnings and employment, as well as the financial position and liquidity trend of Muehlhan AG and the Group.

The meetings also featured discussions of trends in the company's main business segments, taking into account the business situation in each of its international markets.

In cases where the Supervisory Board required further information, this was quickly supplied both verbally and in writing by the Executive Board. Regular exchanges of information and consultations between the Executive Board and the Supervisory Board, including between meetings, ensured that specific questions about important developments and business transactions at Muehlhan could be discussed and dealt with at any time.

In addition to the regular issues, the following topics, in particular, were discussed in detail at the 2016 meetings of the Supervisory Board:

Attendees of the Supervisory Board meeting on 2 February 2016 focused their discussions primarily on the current trend in the Oil & Gas segment.

The main focus of the Supervisory Board meeting on 22 March 2016 was on the 2015 consolidated financial statements and its audit.

Current results were discussed at the meeting held on 23 May 2016, the day before the Annual General Meeting.

The Supervisory Board meeting held on 13 July 2016 provided information about the Market Abuse Regulation [Marktmissbrauchsverordnung/MAR] that went into effect on 3 July 2016, as well as about current results.

The Supervisory Board meeting held on 8 November 2016 focused on current results and measures implemented by the Muehlhan Group to address project losses in the past. The Executive Board provided detailed information on existing and newly implemented processes, control tools and guidelines for limiting project losses in the future.

The last Supervisory Board meeting of the year on 13 December 2016 discussed and approved the 2017 budget and introduced new project management software.

No committees were set up.

Separate and consolidated financial statements

The separate financial statements and the management report for Muehlhan AG were prepared in accordance with the requirements of the German Commercial Code (HGB), while the consolidated financial statements and the Group management report were prepared in accordance with International Financial Reporting Standards (IFRS).

For the first time, the Supervisory Board commissioned Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Hamburg, to audit the separate financial statements of Muehlhan AG and of the Group pursuant to the resolution adopted by Muehlhan AG's Annual General Meeting on 24 May 2016. Warth & Klein Grant Thornton has audited the consolidated financial statements for the period ending on 31 December 2016 and the Group management report for the fiscal year beginning on 1 January and ending on 31 December 2016, the separate financial statements of Muehlhan AG for the period ending on 31 December 2016 and the management report for Muehlhan AG for the fiscal year beginning on 1 January and ending on 31 December 2016 and has given them an unqualified audit opinion. The audit focused on the following:

- Scope of consolidation
- Testing goodwill for impairment
- Provisions have been adequately recognized
- Valuation of deferred taxes
- Evaluation and presentation of hedging relationships.

Pursuant to Section 317, Paragraph 4 HGB, the auditors reviewed and found that the Executive Board has set up a monitoring system, that the statutory requirements for early detection of risks posing a threat to the company as a going concern have been met and that the Executive Board has taken appropriate steps to ensure that it can detect trends and counter risks at an early stage.

Muehlhan AG's separate financial statements and the consolidated financial statements, the management report for Muehlhan AG's separate financial statements and the management report for the consolidated financial statements, the proposal for the use of unappropriated retained earnings and the associated audit reports were sent to each member of the Supervisory Board for their independent review. At the meeting on 21 March 2017, the Supervisory Board once again thoroughly discussed and reviewed all the documents in the presence of the auditors. Upon completion of this review, no objections were raised.

Based on the final results of its reviews, the Supervisory Board has no objections to the separate financial statements for Muehlhan AG prepared by the Executive Board, the consolidated financial statements or the results of the financial statement audits, and it approves Muehlhan AG's separate financial statements and the consolidated financial statements dated 31 December 2016. The annual financial statements are therefore adopted. The Supervisory Board agrees with the proposal by the Executive Board regarding the appropriation of net income.

Review of the Affiliated Companies Report pursuant to Section 314, Paragraphs 2 and 3 of the German Stock Corporation Act (AktG)

The auditors also reviewed the report on relationships with affiliated companies (Affiliated Companies Report) prepared by the Executive Board pursuant to Article 312 AktG and issued the following opinion:

"We have duly examined and assessed the report and hereby certify that
1. the information in the report is correct, and
2. the payments made by the corporation in the transactions listed in the report were not unduly high."

The auditors submitted the audit report to the Supervisory Board. The Supervisory Board examined the Affiliated Companies Report and the audit report for completeness and accuracy. Based on the final results of its examination, the Supervisory Board agrees with the results of the review by the auditors and raises no objections to the statement by the Executive Board at the end of the report, which is reproduced in the Group management report.

Acknowledgments and outlook

For the Muehlhan Group, fiscal year 2016 was a successful stage on the road to stable and sustainably profitable business performance. In addition to making improvements in the important area of project management, the Executive Board continued its successful work to diversify markets and services, laying a good foundation for facing future challenges.

The Supervisory Board looks forward to continuing to wholeheartedly support the Executive Board's strategy to secure the future of the Muehlhan Group in a sustainable way. We thank the Executive Board and the Group's employees for their work and high level of commitment and we also would like to thank Muehlhan's customers and business partners for their continued confidence during the past fiscal year.

Hamburg, March 2017

Philip Percival
Chairman of the Supervisory Board of Muehlhan AG

Oakland Bay Bridge, California/USA

02 Our Share

Transformer platform “DolWin”, Rostock


LIEBHERR

In a year marked by volatile trading, shares ended up 2% for the year.

After ending 2015 at €1.712, the first quarter was mixed. During the first days of trading, the share price managed to defy the weak stock market environment by climbing slightly, but then came under pressure and slumped temporarily to €1.511 at the end of January. Over the next two months, the share price trend was positive, ending the quarter at €1.800. Compared to the share price at the end of 2015, this was equal to an increase of 5%.

When the company's 2015 figures were published on 5 April 2016, the share came under pressure. With low daily trading, the share price dropped to €1.700, but quickly recovered, reaching the year's high of €1.988 on 9 May – shortly after results for the first quarter of 2016 were published. By mid-June, profit-taking led to a slight decrease in the share price. Britain's surprise vote to leave the European Union then caused turbulence in global equity markets, causing Muehlhan AG's share price to drop to its low for the year of €1.401. By the end of the second quarter, it had made up for some of the loss, ending trading at €1.712 on 30 June – a 5% decline from the first quarter.

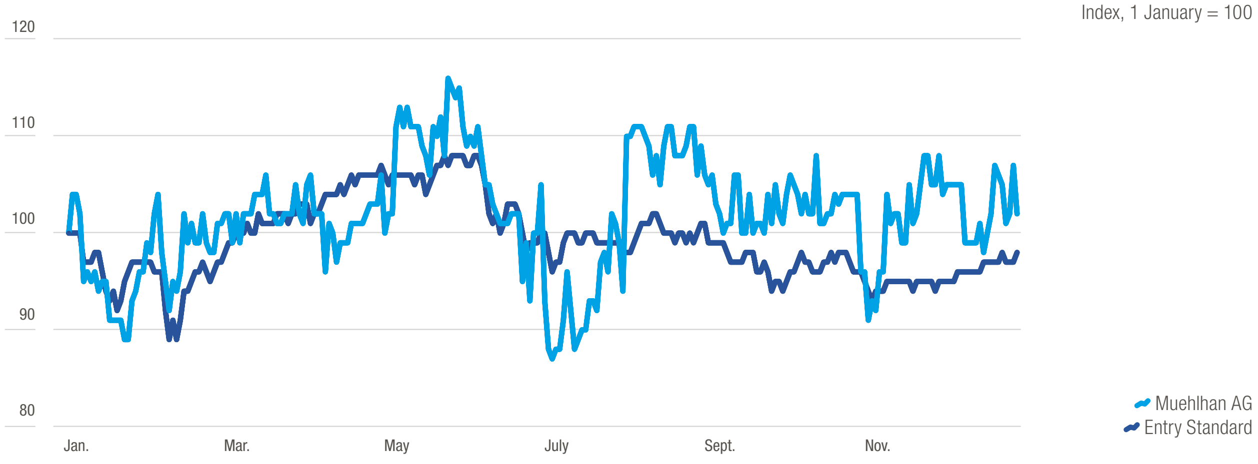
The announcement by the shareholder Syntegra that it was going to sell its stake at a price of €1.200 per share led to market uncertainty. Initially, the share price dropped significantly in early July, but recovered by the end of August, closing at €1.860. In September, the share's performance reflected the general market uncertainty. At the end of the quarter, the share ended trading at €1.731 – 1% higher than in the second quarter.

October was mixed, with the share price initially falling, then surpassing the €1.800 mark when third-quarter results were published on 10 November. With above-average trading volume, the share price then fluctuated, ending the year at €1.750 – 1% higher than at the end of the third quarter.

For the year as a whole, the share price rose €0.038 to €1.750, a 2% increase. Compared with the previous year, market capitalization increased by €0.7 million to €34.1 million.

As of the editorial deadline, the market capitalization stood at €40.0 million (Xetra closing price on 23 March 2017: €2.049).

Share performance 2016



Key figures for the share

Nominal (accounting) value	No-par-value bearer shares
Number of shares issued	19,500,000
Initial listing	26.10.2006
Issue price	5.80 EUR
Highest price (Xetra) in 2016	1.988 EUR
Lowest price (Xetra) in 2016	1.401 EUR
Designated Sponsor	equinet Bank AG, Frankfurt
Coverage	M.M. Warburg Research, Hamburg
Share buyback handled by	equinet Bank AG, Frankfurt
Market capitalization as of 31 December 2016 (Xetra: €1.750)	34,125,000 EUR

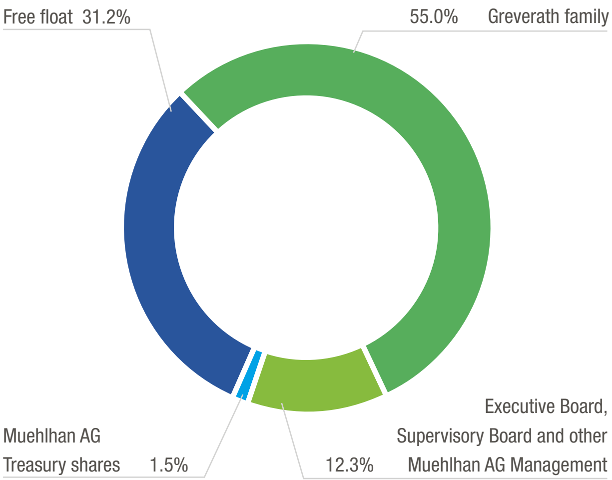
Since 1 March 2017, Muehlhan's share has been trading on the Basic Board of the Frankfurt Stock Exchange (formerly: the Entry Standard segment of the Frankfurt Stock Exchange).

Changes in shareholder structure

On 4 July 2016, Muehlhan AG reported that the shareholder Syntegra Investments I S.à.r.l. wanted to sell its 17.2% stake, because Syntegra intended to liquidate its investment by the end of 2016. Syntegra offered the shares at €1.20 per share to the Greverath family and then almost exclusively to Muehlhan Group executives. Holding periods of three or six months applied to buyers for 50% of the purchased shares in each case. The transactions were completed in the third quarter of 2016. At year end, Syntegra no longer held any shares in Muehlhan AG.

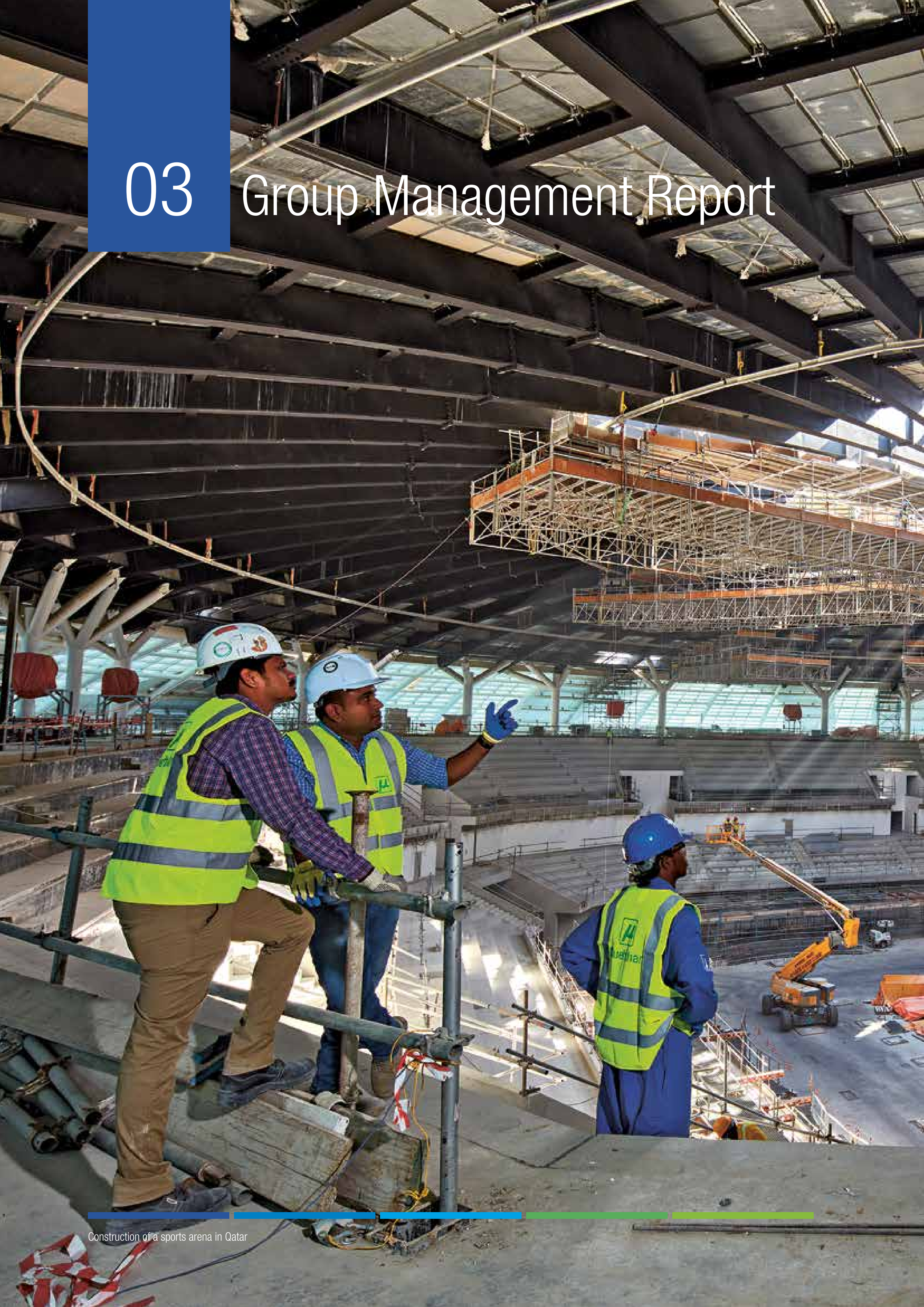
Shareholder structure as of 31 December 2016

	Number of shares held	Shareholding in %
Greverath Family	10,716,378	55.0
Executive Board, Supervisory Board and other Muehlhan AG Management	2,392,576	12.3
Muehlhan AG Treasury shares	300,513	1.5
Free float	6,090,533	31.2
	19,500,000	100.0

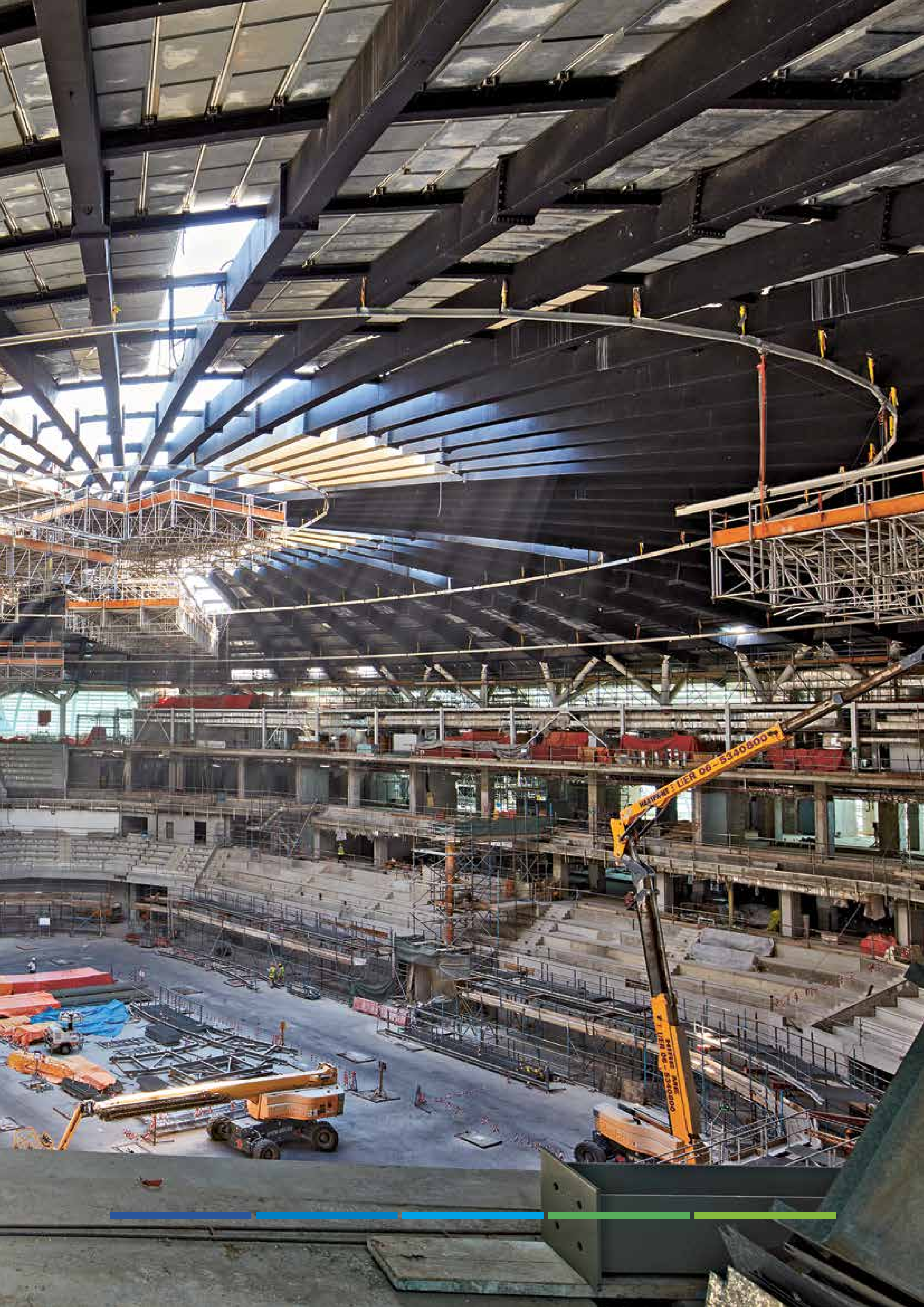


The Greverath Family's stake primarily includes Greverath Investment Verwaltungs- und Erhaltungs-GbR, GIVE Maritime & Industrial Services GmbH, GIVE Capital GmbH and the shares held directly by Supervisory Board member Mrs. Andrea Brandt (maiden name Greverath). Muehlhan AG's Management mainly includes shares held by the managing directors of the subsidiaries.

03 Group Management Report



Construction of a sports arena in Qatar



Oil rig “Thistle” in the North Sea

I. Overview

In 2016, the Muehlhan Group successfully proceeded with its transformation process and was able to maintain the upward trend of recent years that was interrupted in 2015. While sales revenues increased 6.4% to €254.3 million, EBIT jumped 32% to €6.9 million and consolidated net income rose 35% to €2.8 million. Consolidated net income included a €0.2 gain from the business segment in Singapore, which is being sold. Aside from some legal formalities, the exit was completed during the year under review.

The Group‘s improved – but still unsatisfactory – level of profitability can be traced back to the continuing difficulties in the Muehlhan Group‘s core markets. For many years, the maritime markets have been experiencing massive structural changes. Since the price of oil dropped at the end of 2014, another one of the Group‘s main markets – the Oil & Gas segment – has been gripped by a crisis that persists to this day.

However, the significant improvement in results during the year under review demonstrates that the strategic measures implemented by management in recent years, as well as day-to-day work on countless operating parameters, are bearing fruit.

The Muehlhan Group‘s strategic focus continues to be on replacing the company‘s historic dependence on maritime surface protection with a broad portfolio of services covering different markets. Despite current difficulties, the oil and gas market retains its position as a long-term growth market for the Group. To implement this strategy, management will continue to rely on a combination of organic growth and selective acquisitions.

The Executive Board is confident that the Group‘s upward trend will continue in the future, despite the difficult conditions that still prevail in some markets. This confidence is based, on the one hand, on its now broader portfolio of services and the growing significance of newly tapped markets for future growth. In addition, day-to-day work on measures to improve operations will help reduce project risks and thereby stabilize earnings.

II. Group Fundamentals

1. Group structure

Muehlhan AG (MYAG), Hamburg, is the holding company for a total of 36 directly and indirectly held companies in Europe, the Middle East, North America and the Rest of the World. Of this number, 34 companies are currently included in the consolidated financial statements.

As a listed joint-stock corporation (Aktiengesellschaft), Muehlhan AG's shares have been traded in the Frankfurt Stock Exchange's Entry Standard subsegment since 2006.

As one of the few full-service providers in its industry, the Muehlhan Group offers its customers a broad spectrum of industrial services and high-quality surface protection services. Muehlhan combines very strong organizational skills, extensive technical expertise, more than 130 years of experience and exacting quality standards into a professional industrial approach that satisfies the highest quality demands of our customers in a competitive environment still largely characterized by small workshops run by traditional niche craftsmen.

The services we provide range from work on ships, offshore and onshore oil and gas installations, offshore and onshore wind turbines, and industrial sites to work on construction and infrastructure projects.

2. Services

Specifically, the Muehlhan Group offers the following services:

Surface protection: Muehlhan provides surface protection services in all markets. These play a major role in the creation and maintenance of maritime and industrial infrastructure. They include:

- Cleaning and steel preparation
- Various blasting processes, including ultra-high-pressure water jet blasting, dry blasting and sponge jet blasting
- Surface metallization
- Using paint systems and adhesive films to coat surfaces
- Asbestos removal and remediation

Passive fire protection: Passive fire protection has become increasingly important in recent years. Applications include industry, infrastructure, and the oil and gas industry. Structures with static loads are protected using cementitious, intumescent materials that ensure their stability as long as possible in the event of fire. This keeps load-bearing structures with emergency exits, stairways and roof structures accessible to emergency teams and firefighters for a longer period of time, thereby saving lives.

Scaffolding and specialty access technology: Scaffolding and the closely related specialty access technology are one of the Group's growth areas, because both services are closely linked to the expansion of the Oil & Gas and Industry/Infrastructure business segments. Accordingly, Muehlhan provides both onshore and offshore scaffolding and access technology services. Muehlhan is an important partner for construction companies involved in civil engineering and façade construction, for oil and gas exploration companies and for shipyards. Muehlhan is one of the few companies capable of satisfying the high technical demands placed on the construction of offshore transformer stations and foundations for offshore wind farms, and provides special access technologies such as hydraulic lifts, hydraulic work platforms and rope-assisted access systems. In addition, Muehlhan has the know-how and the technical skills to install complex, customized scaffolding and tribune structures.

Steel construction: The company provides steel construction services for both shipyard and industrial/infrastructure customers. Steel construction services encompass welding work on ships, bridges and offshore facilities, as well as installation work on wind turbines, smokestacks, ships and other industrial facilities. Because of its high skill level, Muehlhan also provides training programs and courses.

Insulation: Thermal insulation and soundproofing, as well as full coatings and insulation remediation, are particularly important for industrial plants and construction projects, and over the long term help to lower costs and to comply with environmental standards.

III. Objectives and Strategy

In recent years, the structural shift in the maritime markets and the resulting increase in competition prompted management to refocus its strategy on reducing dependence on the traditional ship newbuilding segment. This strategy includes the following elements:

1. Focusing on expanding the Oil & Gas and Industry/Infrastructure business segments

The core of the strategy is shifting business to industry- and infrastructure-oriented business segments and to the oil and gas sector. Muehlhan still believes that the current phase of low oil prices – which in some cases has had dramatic consequences for this industry's value chain – is a temporary phenomenon. At the same time, it is an opportunity for the company to expand its position in this previously overheated market. In the Industry/Infrastructure segment, the focus is on major industrial and, in particular, infrastructure projects outside of Europe. The major sporting events in the Middle East in the next few years could especially signal continued growth for Muehlhan in this region.

2. Adjustment and expansion of the range of services

Expanding the Oil & Gas and Industry/Infrastructure business segments requires adjusting and expanding the range of services offered. In the maritime segment, customers normally request surface protection as a standalone service, while the oil and gas markets, as well as industrial clients generally demand a complete package of services that includes scaffolding, insulation, surface protection and fire protection. In order to satisfy the new requirements, where it is possible and makes sense, Muehlhan is expanding its range of services, adapting them to meet customer needs, and improving connections between individual services in order to provide customers with an optimal package of services.

3. Profitability and leading market position

The Group's business is concentrated primarily in Europe, North America, and the Middle East. Every local commitment is measured against strict criteria such as profitability, sustainability, and minimum size. If these are not satisfied over the long term, a site will be sold or shut down, as is currently being done with the business segment in Singapore. The goal is to increase profitability and, along with it, the Group's shareholder value over the long term.

The Group will pursue both organic growth and growth through acquisitions, as in the prior-year acquisition of the MSI Group and the acquisition in early 2017 of the Degraform Company in the Netherlands. All of these measures are subject to the same strict criteria as existing commitments.

The goal set by Management and the Supervisory Board is for the company to achieve a market leadership position in every segment within five to seven years. In what is overwhelmingly a fragmented competitive environment, Muehlhan uses long-term investments in employee training and continuing education, reserve capacity that is available on short notice, technical innovations, higher quality and productivity, as well as the financial options available to a Group with international operations, to offset the structural cost advantages enjoyed by some smaller competitors.

4. Quality, safety and environmental protection

Along with traditional customer requirements such as price, efficiency and productivity, short project turnaround times and reliable implementation, other increasingly important competitive criteria include extensive and proper documentation of the steps involved in completing a major project, and compliance with all legal provisions regarding environmental protection and occupational safety. Muehlhan does everything in its power to ensure that it is always in compliance with all provisions regarding environmental protection and occupational safety, and to reduce accidents to an absolute minimum.

These goals are accomplished through effective, regular training, as well as a proactive approach in every area.

All of this has been receives into the Muehlhan Group's Integrated Management System, which is ISO 9001:2008, DIN EN ISO 14001:2009 and OHSAS 18001: 2007 certification on a regular basis by Bureau Veritas.

This enables Muehlhan to satisfy constantly increasing worldwide customer demands and government regulatory requirements in the areas of quality, on-time delivery, occupational safety, accident prevention, and sustainable environmental protection – and therefore competitiveness – at all times.

5. Financial stability and strong organizational skills

The key characteristics that distinguish the Group from its competitors are its financial stability and its strong organizational skills. The Group works hard to maintain a stable financial position at all times and to expand it over the long term. From our customers' standpoint, this makes us a reliable, financially stable partner that can assume a portion of the risk associated with a major project. This allows us to improve our already strong organizational skills, and to take better advantage of synergy and best-practice effects. Muehlhan guarantees that employees and subcontractors will be treated fairly and in accordance with the law.

IV. Control of the Group

1. Financial and non-financial performance indicators

The Muehlhan Group is managed by a three-member Executive Board. The Supervisory Board consists of three members. It advises and supports the Executive Board in the latter's management of the company and regularly discusses major topics such as planning, strategy, business performance, opportunities and risks.

The Muehlhan Group is managed from the Group's Hamburg headquarters on the basis of traditional key financials net assets, financial position and result of operation that are provided on a monthly basis. The main financial performance indicators are sales revenues and EBIT (earnings before interest and taxes). The Group's operations management is handled primarily by region, while strategic management focuses on business segments.

Within the Muehlhan Group, particular attention is paid to compliance with accident-prevention regulations, and therefore to avoiding accidents. One of the non-financial performance indicators used by Muehlhan is the accident rate, an internal accident statistic which is defined as the number of accidents per 1 million working hours. Every month, all the operating companies report occupational accidents and the number of hours worked by employees, and subcontractors to the Corporate Manager for QHSE (Quality, Health, Safety and Environment) in Hamburg.

2. Regions

The Muehlhan Group currently operates on three continents. The Group has 17 subsidiaries in **Europe**. In the **Middle East**, the Muehlhan Group has two operating companies in the United Arab Emirates and in Qatar, and is planning to expand its activities in the region. In **North America**, Muehlhan operates mainly in the states of California and Washington. The region **Rest of the World** refers mainly to the two subsidiaries of MSI that are working on offshore oil rigs off the coast of Brazil and Africa.

3. Business segments

The **Ship** segment encompasses both the Ship Newbuilding segment and the Ship Repair segment. In the ship newbuilding market, which has undergone a dramatic contraction and is therefore highly competitive, Muehlhan has established a name for itself as a coating specialist for the demanding specialty shipbuilding industry. In the equally competitive market for ship repairs, Muehlhan provides a broad spectrum of surface coating maintenance and renovation services to shipping companies and ship repair yards, ranging from short-notice repair work on hull plankings to the complete restoration of water, ballast, fuel and cargo tanks.

Surface protection check of a bridge

The **Oil & Gas** business segment combines both offshore and onshore business with customers in the oil and gas industry. Muehlhan works as a partner to major companies in the offshore oil and gas and petrochemical industries. The Group is continuously expanding the high level of expertise in surface protection, fire protection, insulation and scaffolding it has acquired from its work in these areas.

Muehlhan provides surface protection services to the growing market for **Renewables** – i.e., renewable energy from offshore and onshore wind farms – especially for wind turbines and transformer platforms. In recent years, the Group has become a specialist provider of coatings for wind towers, and thus a coveted partner for leading wind turbine manufacturers.

In the **Industry/Infrastructure** business segment, Muehlhan provides long-lasting coating solutions and scaffolding to industrial customers, for new bridge construction and renovation work, locks, water utility and transportation infrastructure projects, as well as specialty machinery. In addition to working at customers' premises, Muehlhan also operates its own fixed blasting and coating facilities. One increasingly important service is passive fire protection, which is used in large steel structures such as airports, bridges, skyscrapers and industrial buildings.

V. Research and Development

Traditionally, the Muehlhan Group has been a pioneer in developing and applying innovative technologies, and is one of the few companies operating in the surface protection segment that is actively engaged in research and development in this field. Its R&D work not only includes in-house projects on improving productivity and profitability, but also collaboration within international standard-setting organizations and cooperative arrangements with various research institutions.

Muehlhan views itself as a market leader in the area of surface protection technology. In addition to holding numerous patents and licenses, the Group is actively working on projects and equipment aimed at further developing sustainable, environmentally friendly surface protection techniques. The Group has two employees working on a full-time basis in this area and brings in other employees when needed. In addition, the Group works closely with renowned research institutes and other specialized third-party companies. R&D expenses totaled €0.4 million and consisted mainly of personnel expenses.

VI. Economic Report

1. Macroeconomic conditions

While the global economy bottomed out at year end, growth is still at a very moderate level. The global economy grew by around 3% in 2016, slightly less than in the previous year. While output in the USA increased 1.6% (previous year: 2.6%), Germany managed a 1.7% increase (previous year: 1.5%) and China reported a 6.6% increase in production (previous year: 6.9%).[1]

The reasons for moderate growth of the global economy are basically unchanged from the previous year. Along with the lingering effects of the 2008–2009 financial crisis, geopolitical flashpoints played a role, especially in the Middle East.

The price of oil recovered from its low point at the end of 2015/beginning of 2016 and remained largely stable from the summer of 2016. It was only after OPEC decided in December 2016 to curb oil production that the price of crude oil rose.

For the coming year, a slightly positive trend and a growth rate of around 3.5% are expected for the global economy. In the USA, growth of around 2.6% is expected – significantly higher than the approximately 1.7% expected in the Euro zone. In China, economic growth is expected to slow, because the expansionary fiscal and monetary measures implemented in 2016 will have an adverse impact on the long-term goal of promoting sustainable growth. In the emerging economies, growth is expected to resume, despite persistently high risks.

However, given the current political changes, we should emphasize that the forecast of future trends currently involves additional uncertainties. The new administration in the USA has already announced, among other things, that its economic policy decisions will be different from those of previous administrations. In addition, several important countries in Europe, including Germany and France, are facing elections.

On top of this, one must take into account geopolitical trouble spots, especially in the Middle East, which will continue to influence the trend in 2017.

At the present time, the oil-price recovery is not expected to continue, as the reduction in output is not likely to be fully implemented and a higher oil price could very quickly cause production capacity to rise again, especially in the USA.[2]

[1] International Monetary Fund: Global Economic Outlook, October 2016
[2] Kiel Institute for the World Economy: Kiel economic reports, Global economy 2016

2. Industry-specific conditions

In the **Ship** segment, the situation has remained difficult, and could remain so for the foreseeable future. There was still significant overcapacity, especially in container shipping, which is proving to be a big challenge to the major shipbuilding countries in Asia: Korea, Japan and China. In view of the persistent weak order book for new ships, the tough situation in the industry looks likely to continue. The remaining German shipyards have adapted to the structural change by successfully establishing themselves as manufacturers of specialty ships. This allows them to offset their Asian competitors' lower labor costs with higher added value. They primarily serve niche markets such as naval shipbuilding, cruise ships, roll-on/roll-off ships and megayachts.

The price of crude oil, which continues to be low when compared to the level over the past ten years, also presented major challenges during the year under review to all companies that are dependent on the **Oil & Gas** industry. Cost-cutting measures, including job cuts and postponements of capital expenditures and maintenance work, increased pressure on margins throughout the value chain. Only OPEC's year-end decision to cut production led to a noticeable increase in the price of oil, but it is unclear whether this change in trend is sustainable. It is doubtful that all OPEC members will fully implement the decision to trim output. In addition, the USA, in particular, can increase oil production at short notice, which would quickly moderate any price increase.

As a company supplying this market, Muehlhan is preparing itself for a continuation of the tough market situation in 2017. However, there is an investment backlog from which Muehlhan will benefit in the medium term.

In the **Renewables** segment, in the first half of 2016 the newly installed capacity in Germany was increased 73% above the prior-year level. The segment's performance in other European countries was similarly positive. Now that market-based mechanisms in Germany's wind-energy environment are – albeit very slowly – finally returning to normal, there seems to be reason for cautious optimism. For Muehlhan, the gradual stabilization of the offshore business represents an opportunity to apply the ample experience it has gained in surface protection, scaffolding and steel construction.

The **Industry/Infrastructure** segment provides services to the most diverse markets and customers. During the year under review, construction, which is an important market for scaffolding and passive fire protection services, benefited from the persistently high level of demand in Europe and the Middle East. In the USA, Muehlhan took advantage of the continual demand for professional coating work on the steel-construction bridges that are widespread there.

3. Business trend

Below, we will discuss the business trend, including special developments and events, through reference to the results of operations, financial position and net assets.

3.1. Results of operations

3.1.1. Group's earnings performance

For the Muehlhan Group, 2016 performance was positive and in line with expectations. During the year under review, sales revenues totaled €254.3 million, 6.4% higher than in the previous year. The increase in sales revenues was attributable to major projects in the Middle East and North America.

The cost of materials and purchased services accordingly increased by 7.6% to €96.0 million. Personnel expenses decreased 0.5% from €106.6 million to €106.0 million. Gross profit, defined as sales revenues minus cost of materials and labor costs, improved 21.0%. The increase was partly due to measures to improve operations implemented in recent years and partly to the fact that more restrictive project selection, including a strong focus on rejecting adhesion contracts, resulted in lower project losses and therefore to better average project results.

Because of the high level of capital expenditures in the previous year and in the year under review, depreciation and amortization increased from €6.7 million to €7.4 million. After taking into account other operating income and expenses, EBIT from continuing business segments totaled €6.9 million. The expenses for closing the business in Le Havre, France due to inadequate future prospects were included in EBIT.

As in the previous year, the Singapore business segment is shown separately in accordance with IFRS 5. The 2015 decision to sell the business segment was largely implemented in 2016. The segment ceased operations in the second quarter of 2016. The only things remaining to be done are some final formal legal acts over which the company has no control. Earnings from discontinued operations were positive at €0.2 million and included completion of the last orders, as well as the disposal of assets. The sale should be finalized in the first half of 2017. The Malaysian company that belonged to the Singapore business segment was deconsolidated effective 31 December 2016. There will be no material effects from the sale and deconsolidation of the other companies belonging to the business segment.

EBIT from continuing business segments of €6.9 million (€+1.7 million compared to the previous year) was slightly higher than the Executive Board's published earnings outlook of €5.0 to €7.0 million, which comprises all business activities, including the discontinued business segment in Singapore.

Consolidated net income rose €0.7 million to €2.8 million, of which €0.9 million was attributable to non-controlling interests (in the previous year,

€0.7 million of consolidated net income was attributable to non-controlling interests).

3.1.2. Results of operations, by region

A regional breakdown shows that sales revenues in **Europe** declined slightly during the year under review, decreasing 1% from €188.4 million to €186.2 million. However, two major successfully completed projects and the overall reduction in project losses led to a significant improvement in profitability, with EBIT increasing from €3.1 million in the previous year to €4.9 million in the year under review.

In the **Middle East**, which for Muehlhan means the United Arab Emirates and Qatar, fire protection and scaffolding work again yielded positive earnings during the year under review. This trend is being driven by continuing investment in the construction sector, thanks to the building boom in Dubai, and by the major upcoming sporting events in the region. Overall, the Middle East generated a significant increase in sales revenues from €13.1 million to €29.9 million. However, due to special effects, such as impairments of receivables and inventories, EBIT decreased by €1.2 million to €0.5 million.

During the year under review, sales revenues in **North America** rose €3.7 million year-on-year to €26.8 million and primarily reflected revenues from the project to renovate the Richmond Bridge across San Francisco Bay. This major project started in the previous year and will be completed in 2017. Sales in the refinery business exceeded expectations, enabling the segment to substantially increase EBIT from €0.4 million to €1.3 million.

In the **Rest of the World**, Oil & Gas projects generated €11.4 million of sales revenues (previous year: €11.1 million) and EBIT of €1.6 million (previous year: €1.6 million).

3.1.3. Results of operations, by business segment

In the **Ship** business segment, sales revenues decreased, as expected, from €82.9 million in the previous year to €63.5 million. The decrease was caused by the completion of some major projects, a more restrictive approach to screening follow-up projects and the decision to avoid contracts with excessive risks or risks that are unilaterally unfavorable to Muehlhan. Thanks to these measures, EBIT increased from €3.8 million to €5.0 million.

Despite a difficult environment, the **Oil & Gas** segment managed to increase sales revenues from €53.0 million in the previous year to €63.2 million. Cost-cutting measures in Scotland and two successful major projects resulted in a substantial €2.3 million increase in EBIT to €6.5 million.

In the **Renewables** business segment, Muehlhan managed to increase sales revenues by €10.3 million to €34.0 million, but nevertheless posted a negative EBIT figure of €-2.5 million (previous year: €-2.5 million). The losses were mainly attributable to a project to build an offshore platform for wind farms in Germany that Muehlhan terminated during the year under review. All risks from canceling the project have been included in the figures.

Thanks to several major orders, including in the USA, sales revenues in the **Industry/Infrastructure** business increased by €14.3 million to €93.6 million. However, EBIT decreased €0.9 million year-on-year to €3.3 million due to expenses for shutting down a subsidiary in the Industry segment in France.

3.1.4. Orders on hand

As of the reporting date, the order book had decreased by 13% compared to the previous year to €109 million. The €27 million major order to coat the Richmond Bridge in San Francisco, USA, the bulk of which was still included in orders on hand in the previous year, was largely completed and has not yet been replaced by a follow-up project of a similar size.

3.1.5. Employees

The average number of employees stood at 2,881, almost unchanged from the previous year (2,844).

3.1.6. Accident rate

One of the non-financial performance indicators used by Muehlhan is the accident rate, an internal accident statistic which is defined as the number of accidents per one million working hours. The working environment and the demands on Muehlhan's employees are not without risks; consequently, while Muehlhan can apply a broad set of measures to reduce occupational accidents, it cannot eliminate them entirely. During the year under review, 49 accidents were reported, yielding an accident rate of 5.0 (previous year: 6.3). Compared to other companies with similar working conditions and risks, these figures are low.

3.2. Net assets and financial position

3.2.1. Capital structure

The Muehlhan Group's financing is supported by its strong capital base. As of the balance sheet date, the Group's equity had increased again to €68.1 million (previous year €66.0 million). However, dividing this by total assets (the balance sheet total), which increased disproportionately to €146.4 million (previous year: €138.0 million), yields a slightly lower equity ratio of 46.5% (previous year: 47.8%). Trade and other payables totaled €41.6 million (28.4% of the balance sheet total) (previous year: €41.7 million; 30.2% of the balance sheet total). Financial liabilities amounted to €26.2 million (17.9% of the balance sheet total) (previous year: €23.7 million; 17.2% of the balance sheet total). The second pillar of our financing and the main item included under financial liabilities is the syndicated loan agreement for €21.0 million, €7.0 million of which is current and €14.0 million of which is non-current. The non-current portion of financial liabilities totaled €14.3 million.

The company was in compliance with the financing terms at all times during the past year.

3.2.2. Capital expenditures

During the year under review, Muehlhan invested €9.4 million (previous year: €10.9 million). The capital expenditures were concentrated mainly on buying scaffolding materials for Germany, Scotland and the Netherlands, on a production line for coating the latest-generation wind towers in Denmark and on the expansion of a blasting and coating facility in Scotland.

3.2.3. Liquidity

The Muehlhan Group's financial management is handled centrally by the holding company. Financial management includes managing liquidity, arranging financing, and managing financial and economic risks. Because the local operating units often are required to undergo a prequalification process for major projects, sufficient liquidity and bonding capacity must be maintained on the balance sheet date, including at individual company level, especially in the USA.

The Group's €8.9 million of cash flow from operating activities remained below the prior-year level of €12.7 million.

During the fiscal year, Muehlhan invested a total of €9.2 million in tangible assets (previous year: €10.8 million). Cash flow from financing activities amounted to €0.2 million (previous year: cash used in financing activities totaled €2.6 million). On the balance sheet date, cash and cash equivalents stood at €8.5 million, i.e., €0.3 million lower than in the previous year (€8.8 million). Unutilized overdraft and guarantee facilities totaled €79.0 million on the balance sheet date (previous year: €85.8 million). Thus, in 2016, the Muehlhan Group was at all times in a position to satisfy its payment obligations.

3.2.4. Net assets

As of the balance sheet date, non-current assets (excluding deferred tax assets) totaled €53.7 million, compared to €53.0 million the previous year. Tangible assets totaled €33.7 million (previous year: €32.7 million), yielding a fixed-assets-to-total-assets ratio of 23.0% (previous year: 23.7%), including scaffolding with a carrying amount of €14.2 million (previous year: €13.1 million). Non-current assets (excluding deferred tax assets) accounted for 36.7% of total assets (previous year: 38.5%). On the balance sheet date, trade receivables stood at €67.8 million (46.3% of total assets) and were therefore €13.3 million higher than in the previous year (€54.5 million; 39.5% of total assets). The main reasons behind the increase in trade receivables were the expansion of sales revenues in the Middle East and a significantly higher average collection period. The currency translation difference on the change in trade receivables totaled €0.5 million (previous year: €0.6 million).

3.2.5 Overall statement on the Group's situation

To summarize, business performance was satisfactory during the year under review. The measures implemented have resulted in an improvement in EBIT and consolidated net income, as well as a balanced asset and capital structure. Cash flow from operating activities decreased, reflecting the increase – mainly in the Middle East – in sales revenues, accompanied by the long payment terms typical in the region.

VII. Events after the Balance Sheet Date

At the beginning of January 2017, Muehlhan took over the business operations of Degraform Bekistingen en Steigers BV, strengthening its scaffolding business in the Netherlands. In March 2017, Muehlhan's Danish subsidiary, Muehlhan A/S, and Maersk concluded a multi-year agreement with an order volume of €100 to €130 million over the next five years. The contract covers stable, steady work volumes without any major risks. As a result, the contribution to the Muehlhan Group's earnings will be below average.

Aside from that, there were no events or new information after the balance sheet date of material significance for the business and/or for assessing the business.

VIII. Forecast and Report on Opportunities and Risks

1. Forecast report

1.1. Forecast by region

In **Europe**, we expect sales revenues to decrease in 2017, due to the overall downward trend in ship newbuilding and the price of oil, which is expected to remain low. This could cause customers in the oil and gas industry to further postpone capital expenditures and maintenance projects. At the same time, Muehlhan is now much more restrictive when selecting major projects and has decided to forgo projects with an insufficient opportunity/risk profile. Such a decision entails accepting that sales revenues will be lower. The more restrictive project selection process and additional progress in increasing productivity should lead to a slight increase in EBIT in 2017.

After reporting very high sales revenues for several years, the Group companies in the **Middle East** expect to see a drop in sales in 2017 as projects in the United Arab Emirates wind down. On the other hand, EBIT is expected to increase, as the prior-year figure was lower due to special effects.

In **North America**, stable performance is expected. Because the company regularly participates in tenders for bridge construction and renovation projects, winning a contract may lead to substantial changes in the original budget and may, accordingly, affect EBIT.

In the **Rest of the World**, sales revenues and EBIT are expected to increase slightly.

1.2. Forecast by business segment

During the year under review, the **Ship** business segment returned to the negative path of development that typifies the industry, after having posted an increase in sales revenues in previous years as a result of some major projects. This trend will continue in 2017. Along with the general negative trend, a more restrictive approach of project selection will also result in lower sales revenues. However, despite the decrease in sales revenues, operating profit should remain constant – thanks to the measures introduced to increase profitability and our more restrictive project selection process.

In the **Oil & Gas** segment, sales are expected to remain stable with a slightly lower EBIT due to the continuing difficult market conditions and the expiry of major projects.

Sales revenues are also expected to decline in the **Renewables** segment. However, the elimination of loss-making projects should yield a positive EBIT.

Sales revenues in the **Industry/Infrastructure** business segment are expected to decline, mainly because major projects in the Middle East are nearing completion. The projected EBIT will increase thanks to the absence of special effects recorded during the year under review.

1.3. Acquisitions

As in the past, acquisitions and cooperative arrangements will continue to be an option for advancing and implementing our strategic objectives. However, we will apply strict standards in measuring the appropriateness of the purchase price, as well as the strategic and cultural fit.

1.4. Group forecast

In summary, the Executive Board and the Supervisory Board expect a slightly improved profitability for 2017. With a Group turnover of around €250 million, which is constant in comparison to the year under review, a slightly higher Group EBIT of between €6.5 million and €8.5 million is expected.

The accident rate, a non-financial performance indicator, should be low, on the same level as this year.

As a project business service provider, Muehlhan cannot completely eliminate exposure to risks that reduce earnings. These may be both operating and strategic risks. If they are operating risks, they are an unavoidable part of our business. We counter such risks through an appropriate risk management system. Strategic risks result from changes in external factors to which we did not respond properly or in a timely manner in the past, or to which it was impossible to respond. We counter such risks by taking decisive corrective actions; however, such actions may entail non-recurring expenses. Emblematic of these are the trend in the Asian shipyard market and, specifically, the withdrawal from Singapore. The Muehlhan Group took such strategic corrective measures into account on the balance sheet date, in accordance with IFRS accounting rules. Based on currently available information, we do not expect any further significant strategic corrective actions to be necessary in the future. However, one should keep in mind that the company may need to make further adjustments if the economic environment in specific markets should deteriorate.

This outlook contains forward-looking statements that do not describe past events but rather reflect our assumptions and expectations. These statements are based on plans, estimates and forecasts currently available to the Executive Board of Muehlhan AG. As a result, the statements are subject to risks and uncertainties. Actual results and performance may deviate significantly from the assumptions made by us today. We assume no obligation to update such statements to take into account more recent information or future events.

2. Risk management system

2.1. No risks that could threaten the Group as a going concern

From the company's perspective, there are no risks that could threaten its existence as a going concern. Listed below are risks that could have a material influence on the Group's net assets, financial position and results of operations. Both our organization and control systems are designed to optimize the way we deal with existing risks and to address newly emerging risks in a timely manner.

2.2. Maintaining a functioning risk management system

In accordance with Article 91, Paragraph 2 of the German Stock Corporation Act (Aktiengesetz/AktG), the Executive Board must take appropriate steps to set up and/or manage a monitoring system that will identify in a timely manner any risks that might threaten the company as a going concern. The company must have an adequate reporting system for this purpose that reports directly to the Executive Board, and is continuously expanded and updated.

The Executive Board gives regular updates to the Supervisory Board on the company's ongoing business activities and significant risks.

Muehlhan's risk management process consists of a standardized risk identification and reporting system at the individual company level. The reported risks are aggregated and consolidated at Group level and presented to the Executive Board. Any material changes from previously reported and/or identified risks are also reported separately, i.e., outside of the regular reporting schedule. The Executive Board evaluates and controls risks on this basis. The risk management process includes deciding, on a case-by-case basis, whether the risk must be avoided, reduced, transferred to others or accepted.

3. Discussion of major individual risks and associated opportunities

3.1. Market and competitor risks and opportunities

Our company is subject to general market risks that may arise from the introduction of new technologies and coating processes, changing customer needs, or increasing competition from market players from related industries or service sectors. In recent years, in particular, our business has also been affected by general economic trends. The Executive Board systematically monitors the relevant markets around the world with risks in mind. The local Managing Directors and Regional Managers support the Executive Board in these efforts.

As a service provider, Muehlhan currently is more or less locked into existing sites and their economic environment. However, in principle it is always possible to follow markets on short notice to any geographic region, to set up sites there within a short period of time, and to provide flexible support to customers using our own resources – even at the new sites. In turn, this is an opportunity for Muehlhan to generate additional business.

3.2. Risks and opportunities of strategic importance to the company

In recent years, the permanent shift to Asia of large-scale shipbuilding and the bulk of the ship repair market came to represent a strategic risk to the Muehlhan Group. The Group is responding to this structural change by closing or decommissioning sites and by expanding regional focal points, developing niche markets and diversifying the range of services it offers. Muehlhan combines its own very strong organizational skills and extensive technical expertise into a professional industrial approach that increases the company's opportunities for developing new markets in specific countries and products.

3.3. Risks and opportunities associated with economic performance

By increasing reliability, further improvements in coating materials will lead to longer surface maintenance intervals, giving rise to the basic risk of a declining demand for surface protection work. On the other hand, this risk may be offset by another opportunity: Due to ship size, the number of ships and the safety equipment installed (e.g., double-hulled ships), the volume of steel surfaces in the maritime business segments will increase. The same applies to the industrial segments. Above all, an end to the moratorium on transportation infrastructure maintenance and renovation projects in Europe and the USA – especially in steel bridge construction – will lead to a strong recovery in this market in the years to come.

Where technically feasible, Muehlhan uses steel grit for surface preparation blasting. Muehlhan would be directly affected by an increase in the price of this process material, but even here only to a very limited extent, since this material can be recycled. There would continue to be a price advantage over a non-reusable material such as copper slag.

Muehlhan has an advanced inventory of equipment that was developed in the past with the help of only a few manufacturers. In principle, there is a risk that one of these manufacturers might cease production. In this case, Muehlhan can find new solutions on short notice. As we worked closely with our suppliers on the development of the equipment in the past and performed a significant share of our own development work, we also have a high degree of in-house expertise. This means that we can produce equipment that is compatible with our existing inventory of equipment within a short period of time, even with new suppliers.

Surface protection is quite labor-intensive. However, energy is also required for air conditioning in large steel structures while work is being performed, for running air compressors that transport abrasives and for powering pumps to generate high-pressure water. Accordingly, Muehlhan is directly affected by higher energy costs. The only way we can counter such developments is by increasing prices for our own services. However, since Muehlhan uses environmentally friendly and energy-saving technologies, any increase in energy costs tends to improve our competitiveness.

3.4. Personnel risks and opportunities

Competition for qualified executives and quality-conscious technical personnel continues to be high in the industries in which Muehlhan is active. Experience from previous fiscal years has demonstrated that the submarkets in which Muehlhan operates are "people businesses" in which individual employees can affect the success of the Group. Our future success therefore depends in part on the extent to which we are successful over the long term at competing with other industries to recruit the required technical professionals from outside the company, integrating them into existing work processes and retaining them over the long term. One prong of our strategy to ensure that we recruit qualified young talent is our participation in academic training programs at universities in Hamburg and in Gdansk, Poland.

At the same time, we intend to take advantage of our employees' already high level of identification with our company and its services, and to systematically prepare suitable employees from our own ranks for strategically important assignments within the company.

3.5. Financial risks

The companies of the Muehlhan Group also work at fixed prices and sometimes carry out a large portion of their services in advance of payment. Our customers expect this type of (pre-)financing, which has developed into a major component of the services we offer. When the financial crisis started, customers began increasingly to exceed our already generous payment terms, especially in the Middle East; such customer credits have remained at a high level ever since. As a result, between 2008 and 2012, there was a significant increase in customer bankruptcies and the associated bad debt losses. Muehlhan carefully checks customers' liquidity situation before accepting orders, manages receivables in a regular, systematic way and selectively insures credit risks. We plan to continue this practice in the future. However, bad debt losses – including large losses – cannot be ruled out.

Short-term utilizations of overdraft facilities are subject to variable interest and the normal risk of interest rate fluctuations. The syndicated loan agreement concluded in 2014 entails the risk that future variable-rate interest payments will change, with corresponding negative effects on the company's cash flows. In the previous year, Muehlhan countered the risk by concluding interest rate swaps, including floors, with the same maturity to hedge against negative effects on cash flows. As of the balance sheet date, the total volume of interest rate swaps was €9.9 million, and therefore covered a significant portion of the €21.0 million utilized under the loan facility as of the balance sheet date and/or the associated risks. Failure to comply with the covenants contained in the syndicated loan agreement would also entail risks. There are no indications that the covenants cannot be fully complied with at all times.

Loans to and from subsidiaries outside of the Euro zone are subject to a basic exchange rate risk which, where possible, is countered by measures aimed at equity financing.

Tax risks have been adequately covered in the consolidated financial statements. Nevertheless, additional tax claims could emerge if the tax authorities' opinion of the law differs from that of the taxed company in particular cases.

Liquidity planning systems ensure early detection of any risks from cash flow fluctuations.

3.6. Company-specific risks and opportunities

Muehlhan Group companies offer surface protection application services on a project basis. These are often provided in conjunction with other technical work and frequently under considerable time pressure. In some cases, the full scope of the services to be provided only emerges after the work has begun. Muehlhan protects itself from these contingencies by assessing the likelihood of additional costs, such as those resulting from a change in the services required or a change in scope, even in the early stages of the contract negotiations. This assessment is taken into consideration in determining the price for the quotation and subsequently in preparing the final contract documents.

At the same time, the local project managers can count on capable support from the holding company. In many projects, the deployment of Group specialists to address technical, business or legal issues has proven its worth, enabling the company to respond much more quickly and in a more personalized manner to the respective customer's needs than would have been the case with external support.

3.7. Legal and litigation risks

As a company working on international projects and/or as a group of companies with international operations, Muehlhan is aware that claims by or even against Muehlhan may require a court settlement. In the past, Muehlhan has taken legal action against other market players, including customers.

Aside from this, at present the company has no knowledge of any legal risks that could threaten the assets of the Muehlhan Group.

IX. Legal Disclosures

1. Existing branch offices

In Germany, in addition to subsidiaries, the Muehlhan Group maintains operating facilities via the Polish subsidiary, Muehlhan Polska Sp. z.o.o., Szczecin. The Polish company also maintains operating facilities in France and Denmark. Our Greek subsidiary, Muehlhan Hellas S.A., Athens, has one independent branch office in Turkey and one in Romania.

2. Relationships with affiliated companies

Pursuant to Article 312 of the German Stock Corporation Act (Aktiengesetz), the Executive Board has prepared a report on relationships with affiliated companies that includes the following Final Declaration:

“We declare that Muehlhan AG and its subsidiaries received appropriate consideration for all the legal transactions listed, in accordance with the circumstances known to them on the date when the legal transactions were entered into.”

3. Basic features of the compensation system for the Executive Board and the Supervisory Board

The Executive Board‘s compensation consists of a fixed and a variable component. The variable component is based on a Balanced Scorecard System that includes a short-term component and a long-term component. The short-term component is based on the extent to which the Group‘s EBIT target has been met. The long-term component is based on the long-term increase in value for shareholders.

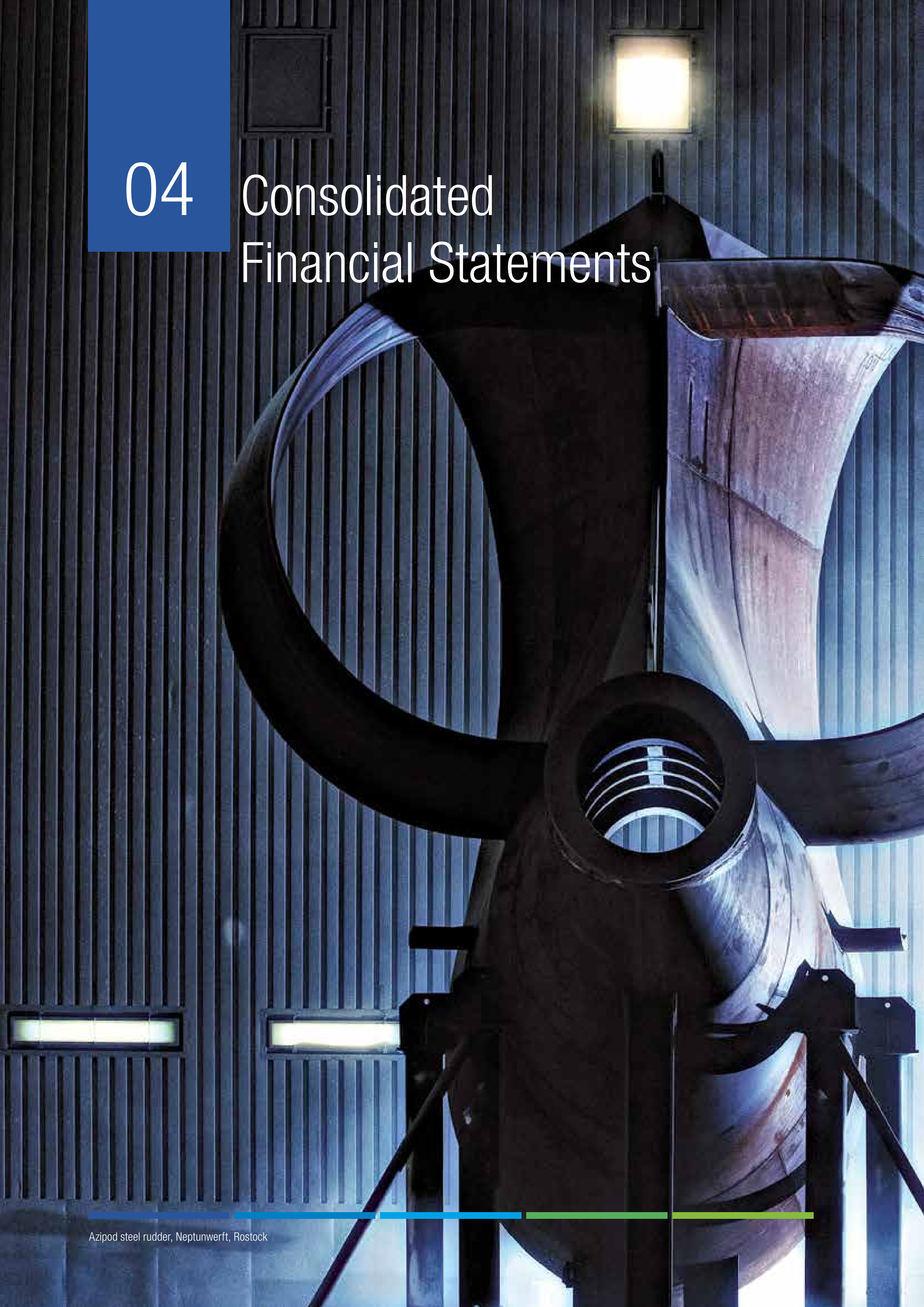
The Supervisory Board’s compensation consists of a fixed compensation component and a variable component that depends on the level of consolidated earnings achieved.

Hamburg, 21 March 2017

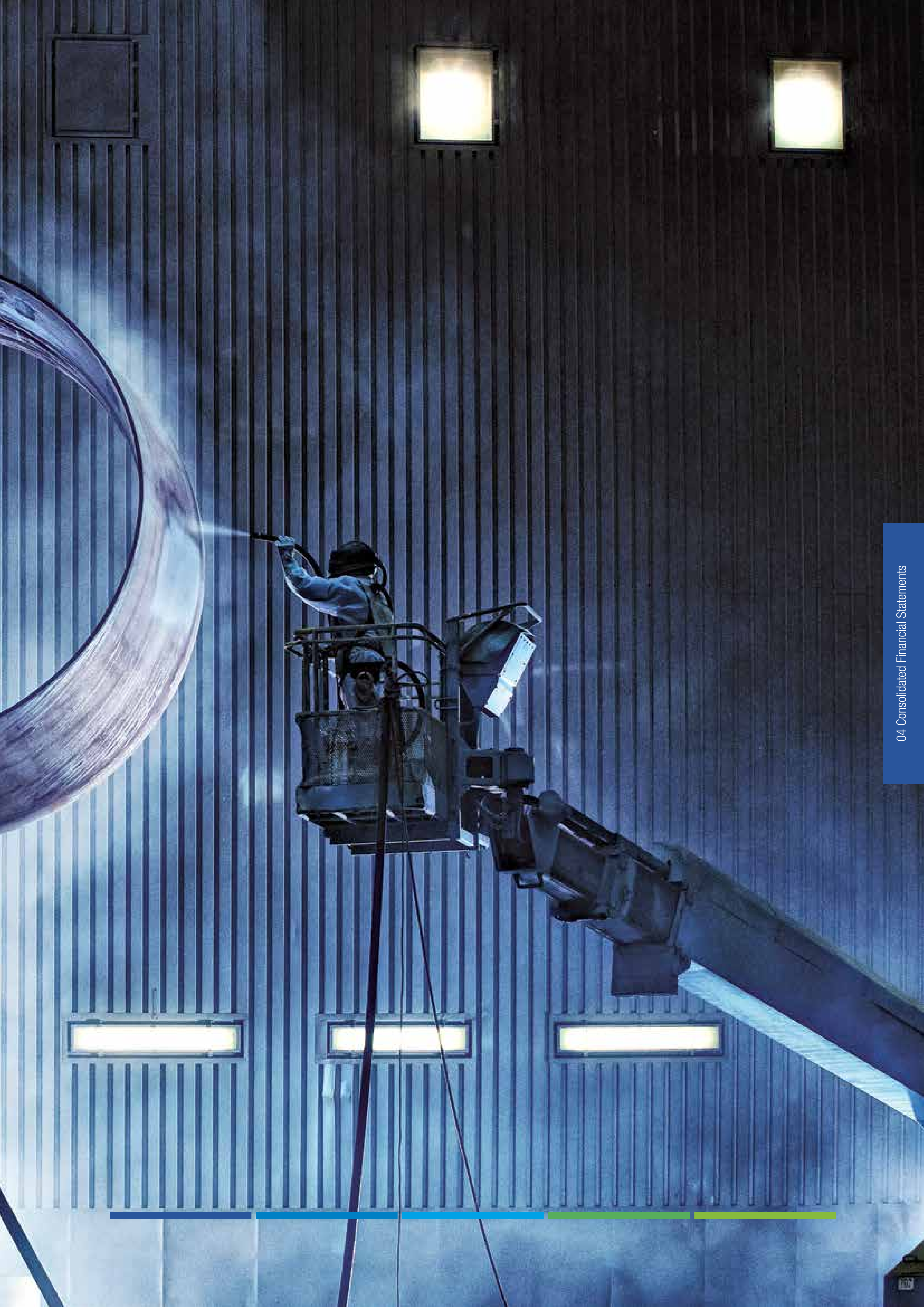
The Executive Board

Stefan Müller-Arends | Dr. Andreas C. Krüger | James West

04 Consolidated Financial Statements



Azipod steel rudder, Neptunwerft, Rostock



CONSOLIDATED BALANCE SHEET

ASSETS in kEUR	Notes	31.12.2016	31.12.2015
NON-CURRENT ASSETS			
Intangible assets	1	19,958	20,369
Tangible assets	2	33,733	32,675
Financial assets		30	30
Deferred tax assets	3	3,902	3,094
Total non-current assets		**57,623**	**56,168**
CURRENT ASSETS			
Inventories	4	4,361	5,881
Trade receivables	5	67,818	54,480
Cash and cash equivalents	6	8,476	8,780
Income tax receivables	7	2,433	1,143
Other assets	8	5,602	9,006
Total current assets		**88,690**	**79,290**
Non-current assets and disposal groups held for sale	9	141	2,494
BALANCE SHEET TOTAL		**146,454**	**137,952**

Rounding differences may occur.

EQUITY AND LIABILITIES in kEUR	Notes	31.12.2016	31.12.2015
EQUITY	10		
Subscribed capital		19,500	19,500
Capital reserve		13,555	14,149
Treasury shares		-708	-1,535
Other reserves		11,450	11,702
Retained earnings		20,614	19,204
Non-controlling interests		3,698	2,928
Total equity		**68,109**	**65,948**
NON-CURRENT LIABILITIES			
Pension provisions	11	635	806
Non-current financial liabilities	12, 13	14,321	15,271
Deferred tax liabilities	14	1,149	0
Total non-current liabilities		**16,105**	**16,077**
CURRENT LIABILITIES			
Provisions	15	7,081	2,183
Current financial liabilities	12	11,954	8,476
Trade payables	16, 24	22,564	24,145
Liabilities for current income tax	7	1,439	1,028
Other current liabilities	17	19,073	17,576
Total current liabilities		**62,111**	**53,408**
Liabilities directly associated with non-current assets and disposal groups held for sale	9	129	2,519
BALANCE SHEET TOTAL		**146,454**	**137,952**

Rounding differences may occur.

CONSOLIDATED INCOME STATEMENT FOR FISCAL YEAR 2016

in kEUR		Notes	2016	2015
Sales revenues		18	254,326	238,991
Other operating income		21	5,317	4,670
Cost of materials and purchased services		19	-96,039	-89,268
Personnel expenses		20	-106,058	-106,573
Depreciation and amortization			-7,362	-6,740
Other operating expenses		21	-43,302	-35,863
Profit from operations			**6,882**	**5,217**
Financial result		22	-1,486	-1,876
Earnings before taxes			5,396	3,341
Tax result		23	-2,784	-1,779
Result from continuing operations			2,612	1,562
Result from discontinued operations		9	225	545
Consolidated profit			**2,837**	**2,107**
Thereof attributable to				
non-controlling interests			858	708
equity holders of Muehlhan AG			**1,979**	**1,399**
EARNINGS PER SHARE IN EUR		25		
Shares	Number		19,046,566	18,899,399
in continuing operations				
basic			0.09	0.05
diluted			0.09	0.05
in discontinued operations				
basic			0.01	0.03
diluted			0.01	0.03

Rounding differences may occur.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in kEUR	Notes	2016	2015
Consolidated profit	26	**2,837**	**2,107**
Recyclable items			
Currency translation differences (legally independent entities abroad)		547	2,135
Currency translation differences reclassified to the consolidated income statement		-15	0
Future cash flow hedge (effective cash flow hedge)		3	-21
Non-recyclable items			
Remeasurement of defined benefit plans		11	-95
Other comprehensive income		**546**	**2,019**
Income taxes on other comprehensive income		-4	34
Other comprehensive income after taxes		**542**	**2,053**
Total comprehensive income		**3,380**	**4,160**
Thereof attributable to non-controlling interests		1,054	564
Equity holders of Muehlhan AG		**2,326**	**3,597**
Total result from continuing operations		3,380	4,160

Rounding differences may occur.

CONSOLIDATED CASH FLOW STATEMENT

in kEUR	Notes	2016	2015
Consolidated net income to equity holders of Muehlhan AG		1,979	1,399
Depreciation of fixed assets		7,362	6,740
Loss/gain on disposal of fixed assets	1, 2	20	-706
Non-cash expenses/income from the allocation of gains/losses to non-controlling interests		858	708
Other non-cash expenses/income		5,327	5,064
Increase in provisions	11, 15	4,739	1,944
Cash flow		**20,286**	**15,149**
Increase in inventories, trade receivables and other assets	4 ff	-7,244	-13,405
Decrease/increase in trade payables and other liabilities	16 ff	-810	12,232
Income taxes paid	23	-3,353	-1,306
Cash flow from operating activities		**8,879**	**12,670**
from discontinued operations	9	-185	53
Proceeds from disposals of fixed assets			
of which proceeds for tangible assets		193	823
Capital expenditures			
for intangible assets	1	-205	-140
for tangible assets	2	-9,156	-10,790
Cash used to purchase consolidated companies		0	-2,403
Interest received	22	268	67
Cash used in investment activities		**-8,899**	**-12,443**
from discontinued operations	9	0	540
Payments to company owners and non-controlling shareholders (dividends)	10	-796	-410
Cash flow from borrowings under/cash used to repay current financial liabilities	12	3,479	-521
Cash used to repay non-current financial liabilities	12	-949	-55
Interest paid	22	-1,562	-1,654
Cash flow from/cash used in financing activities		**171**	**-2,640**
from discontinued operations	9	0	0
Currency, scope of consolidation and valuation-related changes in cash and cash equivalents		-455	2,152
Total changes in cash and cash equivalents		-305	-261
Cash and cash equivalents at the beginning of the period	6	8,780	9,041
Cash and cash equivalents at the end of the period	6	**8,476**	**8,780**

Cash and cash equivalents correspond to the balance sheet item “Cash and cash equivalents”.

Rounding differences may occur.

CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

	Equity applicable to equity holders of the parent company					
	Subscribed capital	Capital reserve	Other reserves			
in kEUR			Revenue reserves	Conversion reserve	Cash flow hedge reserve	Adjustment resulting from currency translation
On 1 January 2015	**19,500**	**14,174**	**9,888**	**589**		**-355**
Changes in treasury shares						
Contribution to share-based payment		-25				
Contribution to retained earnings			-33			
Dividends paid						
Other changes						-584
Total comprehensive income			-70		-14	2,281
On 31 December 2015	**19,500**	**14,149**	**9,785**	**589**	**-14**	**1,342**
Issue of shares						
Changes in treasury shares						
Contribution to share-based payment		22				
Dividends paid						
Other changes		-616	-406			-192
Other consolidated income			8		2	337
On 31 December 2016	**19,500**	**13,555**	**9,387**	**589**	**-12**	**1,486**

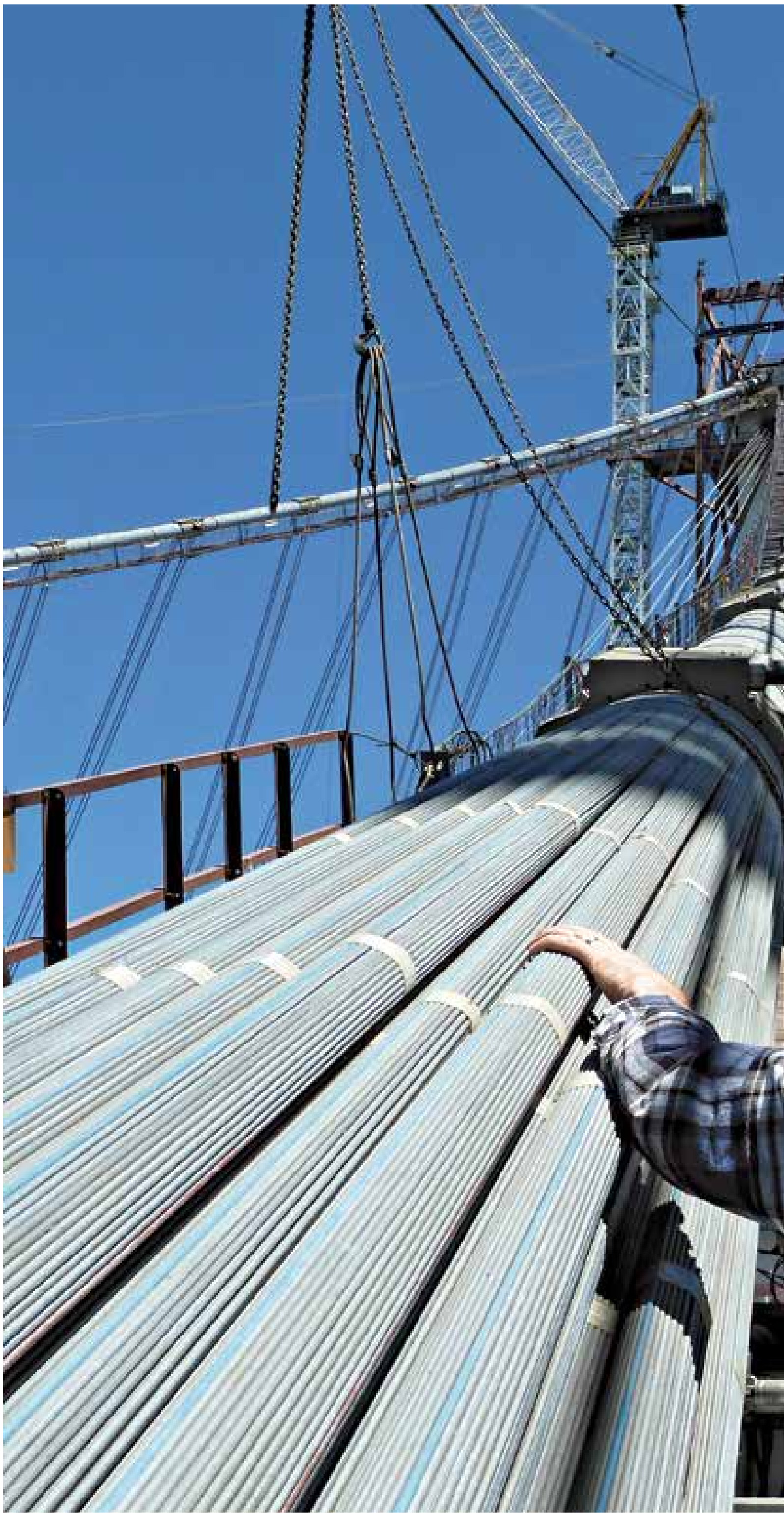
Rounding differences may occur.

	Retained earnings	Treasury shares	Equity	Non-controlling interests	Group equity
	17,190	**-1,731**	**59,255**	**2,013**	**61,268**
		196	196		196
			-25		-25
	32		-1		
				-410	-410
	584			761	761
	1,398		3,595	564	4,159
	19,204	**-1,535**	**63,020**	**2,928**	**65,949**
				1	1
		211	211		211
			22		22
	-762		-762	-34	-796
	192	616	-406	-251	-657
	1,979		2,326	1,054	3,380
	20,614	**-708**	**64,411**	**3,698**	**68,109**

I. Company

Muehlhan AG (hereinafter “MYAG” or “the company”) and its subsidiaries operate in the Ship, Oil & Gas, Renewables and Industry/Infrastructure segments, where they provide surface protection, passive fire protection, scaffolding, steel construction and insulation services.

The company is headquartered at Schlinckstrasse 3, 21107 Hamburg, Germany and is recorded in the Commercial Register at the Hamburg Municipal Court under No. HRB 97812.



Oakland Bay Bridge, California/USA

II. Application of IFRS

The consolidated financial statements of MYAG as of 31 December 2016 were prepared in accordance with the International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB), as adopted by the European Union, including the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the complementary provisions of German commercial law applicable under Section 315a, Paragraph 1 of the German Commercial Code [HGB].

The consolidated financial statements follow all IFRS adopted as of the balance sheet date whose application is mandatory in the European Union. Compliance with the standards and interpretations ensures that the financial statements present a true and fair view of the Group's net assets, financial position and results of operations.

By preparing the consolidated financial statements in accordance with IFRS, MYAG availed itself of the option stipulated in Section 315a, Paragraph 3 of the HGB to prepare the consolidated financial statements in accordance with internationally recognized accounting principles and simultaneously to forgo preparing a set of consolidated financial statements in accordance with the accounting principles set forth in the HGB.

III. General comments

In preparing the consolidated financial statements, assets and liabilities are shown at amortized cost, with the exception of certain financial instruments which are measured at fair value. The income statement within the statement of comprehensive income is prepared using the total cost method ("type of expenditure" format). Assets and liabilities are broken down by maturity.

The consolidated financial statements were prepared in Euro in accordance with the going concern principle.

Because the calculations of the individual items included are based on the full figures, rounding differences may occur where amounts are shown in millions or thousands of Euros.

Muehlhan employee grinds steel construction.

IV. New accounting standards

The consolidated financial statements covering the period ending on 31 December 2016 are in compliance with all the mandatory IFRS and interpretations of the IFRIC adopted by the EU commission as of the balance sheet date.

These are listed below:

Standard/Interpretation	Note	Effective date	Effect
Amendments to IAS 19 Employee Benefits	Amendments regarding rules for employer contributions to defined benefit retirement plans and clarifications concerning recognition of deferred compensation	01.02.2015	No material effect
Annual Improvements to IFRS 2010-2012 Cycle	Amendments and/or clarifications to IFRS 2 – Share-based Payment; IFRS 3 – Business Combinations; IFRS 8 – Operating Segments; IFRS 13 – Fair Value Measurement; IAS 16 – Tangible assets and IAS 24 – Related Party Disclosures	01.02.2015	No material effect
Amendments to IAS 1 Presentation of Financial Statements	Clarifications regarding materiality, the presentation of the financial statements, in particular with regard to subtotals and the order of presentation of items disclosed in the notes	01.01.2016	The principle of materiality was taken into account for various items disclosed in the notes
Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets	Amendments to guidelines clarifying which methods of depreciation and amortization are acceptable	01.01.2016	No material effect
Annual Improvements to IFRS 2012 – 2014 Cycle	Amendments to IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations; IFRS 7 – Financial Instruments: Disclosures; IAS 19 – Employee Benefits; and IAS 34 – Interim Financial Reporting	01.01.2016	No material effect
Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture	Amendments to the accounting for bearer plants	01.01.2016	No effect
Amendments to IAS 27 Separate Financial Statements	Amendments regarding the use of the equity method in separate financial statements	01.01.2016	No effect
Amendments to IFRS 10 Consolidated Financial Statements IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates	Amendments regarding application of the investment entities consolidation exception	01.01.2016	No effect
Amendments to IFRS 11 Joint Arrangements	Amendments regarding the accounting for acquisitions of interests in joint ventures and joint operations	01.01.2016	No effect

The following new, amended and/or revised published standards and interpretations adopted by the EU commission have not yet been applied during the reporting year:

Standard/Interpretation	Note
IFRS 9 Financial Instruments	Final version of the new rules for financial instruments, including significant updates on creating a new classification model and impairment rules
IFRS 15 Revenue from Contracts with Customers	Revision of the approach for recognizing sales revenues from customer contracts. The revenue recognized by a company is equal to the amount it can expect in exchange for transferring goods and services to a customer. The standard also stipulates requirements for the disclosure of performance surpluses or obligations at contract level (recognition of contract assets and liabilities). In addition, IFRS 15 requires additional disclosures, including a breakdown of total sales revenues, performance obligations, reconciliation statements and the main discretionary decisions and estimates.

The following new, amended and/or revised published standards and interpretations, which have not yet been adopted by the EU commission, had not yet been applied during the reporting year:

Standard/Interpretation	Note
Amendments to IAS 12 Income Taxes	Clarifications on the recognition of deferred tax assets for unrealized gains
Amendments to IAS 7 Statement of Cash Flows	Disclosure Initiative; clarifications to improve disclosures about an entity's financing activities
Amendments to IFRS 2 Share-based Payment	Clarifications on the classification and measurement of certain share-based payment transactions
Amendments to IFRS 15 Revenue from Contracts with Customers	Clarifications of IFRS 15
IFRS 16 Leases	New lease accounting standard affecting recognition, presentation and disclosures in the notes. In contrast to IAS 17, IFRS 16 will result in the recognition of all lease assets and liabilities on the balance sheet, with the exception of leases with a lease term of 12 months or less and leases of low-value assets. In the income statement, depreciation and interest will be shown instead of other operating expenses from leases.

The IASB has adopted additional (amendments to) accounting rules not listed here which have not been applied and which will not affect the presentation of Muehlhan's net assets, financial position and results of operations.

First-time application of the respective standards is planned for the date when they go into effect. The Group has decided not to avail itself of the right to apply the standards and interpretations earlier.

Effective date	Effect
01.01.2018	The Group is currently reviewing what impact application will have on the consolidated financial statements. At a minimum, it is expected to affect how financial assets are categorized and to result in expanded disclosures in the notes.
01.01.2018	The Group is currently reviewing what impact application will have on the consolidated financial statements. No material changes relating to construction contracts are expected because even under IFRS 15, control may be transferred over time. Because various questions (regarding interpretations) are still unanswered, a final assessment is not yet possible. Due to the new requirements, there will be more disclosures in the notes. The Group has not yet decided which of the available transfer methods and simplifications should be applied.

IASB Effective date	Likely effect
01.01.2017	The Group is currently reviewing what impact application will have on the consolidated financial statements.
01.01.2017	The Group is currently reviewing what impact application will have on the consolidated financial statements.
01.01.2018	The Group is currently reviewing what impact application will have on the consolidated financial statements.
01.01.2018	See above
01.01.2019	The Group is currently reviewing what impact application will have on the consolidated financial statements. Basically, the new requirements apply to all leasing issues covered under Section 30 of the notes, Operating Lease Commitments. Although at this point we are unable to provide quantitative disclosures, at the date of initial application, assets and liabilities will increase significantly, thereby reducing the equity ratio. The covenants with which we are obliged to comply as part of loan agreements must be adjusted.

Taskforce supply ship “Berlin” of the German Navy, Hamburg

V. Consolidated Group and reporting date for the consolidated financial statements

Consolidated Group

The consolidated financial statements include the financial statements of the parent company, MYAG, and the 34 subsidiaries it controls (previous year: 34). MYAG has control if it controls rights at these companies that give it the ability to direct the relevant activities of these companies in order to influence the companies' returns. Control further requires MYAG to be exposed to variable returns from the subsidiaries and to have the ability to affect those variable returns through its decision-making power. Subsidiaries are included in the consolidated financial statements (full consolidation) from the date on which control is established over the subsidiary and until the date on which control over the subsidiary ends. Accordingly, the results of operations of the subsidiaries acquired or sold during the year are included in the consolidated income statement and in the Group's other comprehensive income from the date of acquisition and/or until the date of disposal.

The consolidated Group has not changed since 31 December 2015. Except for receiving formal notice of confirmation, closure of the company in Malaysia (MM) that belonged to the Singapore business segment was completed by the end of the year and the company was therefore deconsolidated effective 31 December 2016. The effect of deconsolidating MM totaled €-15,000 and is included under other operating expenses.

The deconsolidation will not limit comparability with the prior-year financial statements.

The other companies belonging to the Singapore business segment – HSG, MSG and MSPS – are also being wound down and the companies are being sold. However, because the sale process has not yet been completed, they were not deconsolidated at the end of the fiscal year. The business segment is shown pursuant to the requirements of IFRS 5.

The list of shareholdings is presented below. In addition, each company is assigned to a cash-generating unit (CGU) and a geographic segment, as well as to the business segments and services.

Symbol	Company	Shareholding in %	Shareholding in %	Held by	CGU
		2016	2015		
MYAG	Muehlhan AG, Hamburg, Germany	Parent company	Parent company		–
GMH	Gerüstbau Muehlhan GmbH, Hamburg, Germany	100	100	MYAG	GMH
MES	Muehlhan Equipment Services GmbH, Hamburg, Germany	100	100	MYAG	–
MD	Muehlhan Deutschland GmbH, Bremen, Germany	100	100	MYAG	MD
MRN	Muehlhan Renewables GmbH, Hamburg, Germany	100	100	MD	MD
MDK	Muehlhan A/S, Middelfart, Denmark	100	100	MYAG	MDK
MPL	Muehlhan Polska Sp. z o.o., Szczecin, Poland	100	100	MYAG	MPL
AJS	Allround Job Services Sp. z o.o., Szczecin, Poland	100	100	MPL	MPL
MF	Muehlhan S.A.R.L., St. Nazaire, France	100	100	MYAG	MF
MIF	Muehlhan Industrial France S.A.R.L., Le Havre, France	100	100	MF	MF
MMF	Muehlhan Morflot OOO, St. Petersburg, Russia	70	70	MYAG	MMF
MNL	Muehlhan B.V., Vlaardingen, Netherlands	100	100	MYAG	MNL
MGB	Muehlhan Industrial Services Ltd., Aberdeen, Scotland, Great Britain	100	100	MYAG	MGB
MGR	Muehlhan Hellas S.A., Athens, Greece	51	51	MYAG	MCL
MCL	Muehlhan Cyprus Limited, Limassol, Cyprus	51	51	MYAG	MCL
MRO	Muehlhan S.R.L., Galati, Romania	51	51	MYAG	MCL
MCZ	Muehlhan CR s.r.o., Sviadnov, Czech Republic	100	100	MYAG	MCZ
MBL	Muehlhan Bulgaria Ltd, Varna, Bulgaria	100	100	MYAG	MD
MSPU	Muehlhan Surface Protection Inc., Fairfield, CA, USA	100	100	MYAG	–
SSP	Sipco Surface Protection Inc., Scott, LA, USA	100	100	MSPU	–
CCC	Certified Coatings Company, Fairfield, CA, USA	100	100	MSPU	MCC
MCC	Muehlhan Certified Coatings Inc., Fairfield, CA, USA	100	100	MSPU	MCC
MCA	Muehlhan Canada Inc., Windsor, Ontario, Canada	100	100	MYAG	–
HSG	Haraco Services Pte. Ltd., Singapore	100	100	MYAG	HSG
MSG	Muehlhan Pte. Ltd., Singapore	100	100	HSG	HSG
MSPS	Muehlhan Surface Protection Singapore Pte. Ltd., Singapore	100	100	HSG	HSG
MM*	Muehlhan Malaysia SDN BHD, Johor Bahru, Malaysia	100	100	MYAG	HSG
MME	Muehlhan Surface Protection Middle East L.L.C., Dubai, UAE	100	100	MYAG	–
MDQ	Muehlhan Dehan Qatar W.L.L., Doha, Qatar	100	100	MME	MDQ
MMEH	Muehlhan Middle East Holding Limited, Dubai, UAE	100	100	MYAG	–
PRA	Procon Emirates L.L.C., Abu Dhabi, UAE	100	100	MMEH	PRA
PRD	Procon Emirates L.L.C., Dubai, UAE	100	100	MMEH	PRA
MSI	Marine Service International AS, Drøbak, Norway	60	60	MYAG	MSI
MSIB	MSI do Brasil Serviços Marítimos Ltda. Brasil, Rio de Janeiro, Brazil	99.8	99.8	MSI	MSI
MSIS	MSI Coating Services PTE Ltd., Singapore	100	100	MSI	MSI

* deconsolidated effective 31 December 2016

As a rule, companies were assigned to CGUs and to the geographic segments based on geographic criteria.

The Group took advantage of its exemption from the disclosure requirement for the subsidiaries included in the consolidated financial statements in the case of Muehlhan Deutschland GmbH, Bremen, Muehlhan Equipment Services GmbH, Hamburg, Muehlhan Renewables GmbH, Hamburg, and Gerüstbau Muehlhan GmbH, Hamburg, pursuant to Section 264, Paragraph 3 of the HGB, in conjunction with Section 325 HGB.

Geographic segment	Business segment	Service
Holding	–	–
Europe	Ship, Renewables, Industry/Infrastructure	Scaffolding
Holding company	–	–
Europe	Ship, Renewables, Oil & Gas, Industry/Infrastructure	Surface protection
Europe	Ship, Renewables, Oil & Gas	Surface protection
Europe	Renewables, Oil & Gas, Industry/Infrastructure	Surface protection
Europe	Ship, Renewables, Oil & Gas, Industry/Infrastructure	Surface protection, Scaffolding, Steel construction
Europe	Ship, Renewables, Oil & Gas, Industry/Infrastructure	Surface protection, Scaffolding, Steel construction
Europe	Ship, Oil & Gas, Industry/Infrastructure	Surface protection
Europe	Ship, Oil & Gas, Industry/Infrastructure	Surface protection
Europe	Ship, Oil & Gas, Industry/Infrastructure	Surface protection, Fire protection
Europe	Ship, Renewables, Oil & Gas, Industry/Infrastructure	Surface protection, Scaffolding
Europe	Oil & Gas, Industry/Infrastructure	Surface protection, Scaffolding, Fire protection, Insulation
Europe	Ship, Renewables, Oil & Gas	Surface protection, Scaffolding
Europe	Ship, Renewables, Oil & Gas	Surface protection, Scaffolding
Europe	Ship, Renewables, Oil & Gas	Surface protection, Scaffolding
Europe	Industry/Infrastructure	Surface protection
Europe	Ship, Renewables, Oil & Gas	Surface protection
North America	–	–
North America	–	–
North America	Renewables, Oil & Gas, Industry/Infrastructure	Surface protection
North America	Renewables, Oil & Gas, Industry/Infrastructure	Surface protection
North America	–	–
IFRS 5	Ship	Surface protection
IFRS 5	Ship	Surface protection
IFRS 5	Ship	Surface protection
IFRS 5	Ship	Surface protection
Middle East	–	–
Middle East	Ship, Industry/Infrastructure	Surface protection, Scaffolding, Fire protection
Middle East	–	–
Middle East	Industry/Infrastructure	Fire protection
Middle East	Industry/Infrastructure	Fire protection
Rest of the World	Oil & Gas	Surface protection, Insulation
Rest of the World	Oil & Gas	Surface protection, Insulation
Rest of the World	Oil & Gas	Surface protection, Insulation

04 Consolidated Financial Statements

The following companies are not included in the consolidated financial statements:

Symbol	Company	Shareholding in %		Equity in kEUR		Profit in kEUR	
		31.12.2016	31.12.2015	31.12.2016	31.12.2015	2016	2015
MFP	Muehlhan Grand Bahama Ltd., Nassau, Bahamas	100	100	0.1	0.1	0.0	0.0
AIS	Muehlhan Project Management GmbH, Hamburg (formerly: AIS-Allround Industrie-Service GmbH, Hamburg)	51	51	107.7	45.4	62.5	11.4

As in previous years, Muehlhan Grand Bahama Ltd., Bahamas, and Muehlhan Project Management GmbH, Hamburg, (formerly: AIS-Allround Industrie-Service GmbH, Hamburg) are not included in the consolidated Group. The two companies are immaterial for an assessment of the net assets, financial position and results of operations of the Group, because both individually and in aggregate, the balance sheet and income statement items for these entities comprise less than 1% of the corresponding items in the consolidated financial statements of Muehlhan AG.

The investment in AIS is held indirectly via MGR.

Reporting date for the consolidated financial statements

The fiscal year of the Group, the parent company and all subsidiaries included in the consolidated financial statements coincides with the calendar year.

Access technology with ropes

VI. Consolidation methods

Capital consolidation of the subsidiaries

The equity of the subsidiaries is consolidated using the purchase method of accounting. The cost of the acquisition is measured at the fair value of the assets acquired and the liabilities incurred and/or assumed on the transaction date. In the initial consolidation, assets, liabilities and contingent liabilities identifiable within the scope of a business combination are recognized at the fair value on the acquisition date, irrespective of the size of any non-controlling interests. The excess of the purchase price over the Group's share in the fair value of the net assets is recognized as goodwill. If, upon remeasurement, the purchase price is lower than the fair value of net assets attributable to the acquired subsidiary, the resulting gain is recognized in profit or loss for the period in question. Acquisition-related transaction costs are expensed when they are incurred.

Elimination of intercompany accounts

Intercompany receivables and payables are eliminated. Any currency translation differences arising from such intercompany eliminations during the reporting period are added to/charged against income for the period.

Expense and income consolidation and elimination of intercompany profit and loss

When consolidating the results of operations, intercompany sales and Group internal earnings are offset against the related expenses. Unrealized intercompany profits and losses are eliminated with a corresponding effect on net income.

Deferred taxes

Deferred taxes are recorded to reflect consolidation effects.

Blasting, Danzig/Poland

Currency translation

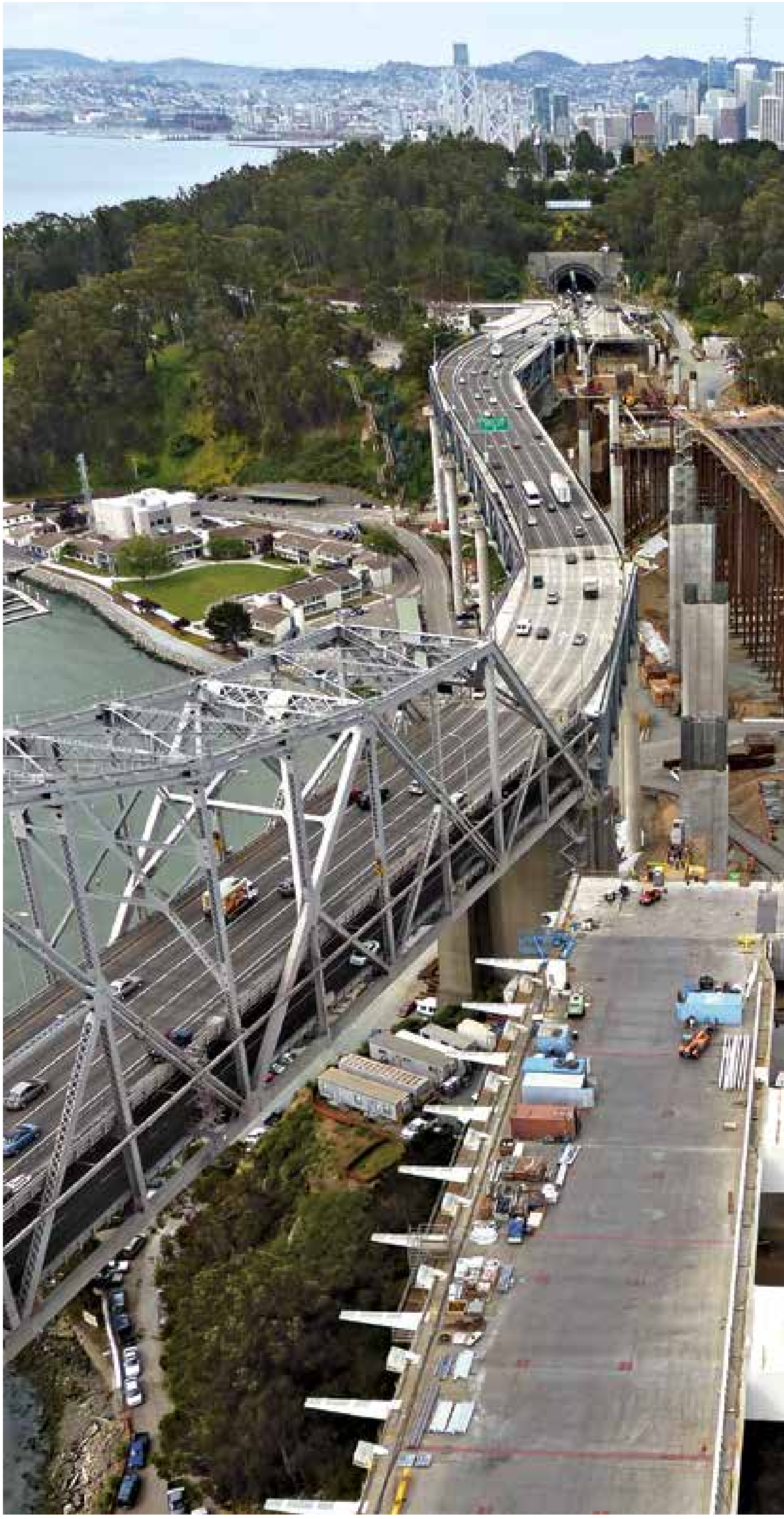
Foreign currency transactions in the separate financial statements of consolidated Group companies are translated at the exchange rate applicable on the date of the transaction. On the balance sheet, non-derivative (monetary) items denominated in foreign currencies are translated at the mid-rate on the balance sheet date; exchange rate gains and losses are recognized as income or expenses on the income statement. Non-monetary items in a foreign currency that are measured at fair value are translated at the rate applicable at the time the fair value is determined. Non-monetary items measured at acquisition or production cost are converted at the exchange rate on the initial recognition date.

The assets and liabilities of foreign subsidiaries with a functional currency other than the Euro are translated into Euro at the mid-rates on the balance sheet date. Income and expenses are translated at average annual rates. Differences arising from the translation of net assets at exchange rates different from those in the previous year are recognized in other comprehensive income and are reported separately under Equity in the currency translation reserve. When disposing of a foreign operation, all currency translation differences aggregated under Equity that are allocable to the Group from that operation will be reclassified to the income statement. Goodwill from the initial consolidation of foreign subsidiaries is translated into Euro and carried forward accordingly. The resulting exchange differences are reported in the currency translation reserve.

Income statement items are translated into Euro using the weighted average rate of exchange for the year.

The Euro exchange rates for the main currencies are shown in the following table:

	ISO Code	Exchange rate on the balance sheet date	Average rate	Exchange rate on the balance sheet date	Average rate
		31.12.2016	2016	31.12.2015	2015
United Arab Emirates Dirham	AED	3.87	4.05	4.01	4.06
Brazilian Real	BRL	3.43	3.80	4.33	3.75
Danish Krone	DKK	7.43	7.44	7.46	7.46
British Pound	GBP	0.85	0.82	0.74	0.72
Polish Zloty	PLN	4.41	4.37	4.24	4.18
Qatar Rial	QAR	3.84	4.02	3.98	4.02
Singapore Dollar	SGD	1.52	1.52	1.55	1.52
US Dollar	USD	1.05	1.10	1.09	1.10



Oakland Bay Bridge, California/USA

Other consolidation methods

The gain or loss, and every component of other comprehensive income, are allocated to the shareholders of MYAG and to the non-controlling shareholders. This applies even if it results in a negative balance for the non-controlling shareholders.

The separate financial statements of domestic and foreign companies included in the consolidated Group are prepared in accordance with uniform accounting and valuation methods.

The significant accounting and valuation methods applied during preparation of the consolidated financial statements are presented below. The methods described are used consistently, unless indicated otherwise.

Amendments pursuant to IAS 8

During the reporting year, for the first time, treasury shares were valued at the average rate, causing the value to drop by €616,000 compared to the prior-year figure. Additional paid-in capital (capital reserves), from which treasury shares must be deducted, decreased by the same amount. As a result, the revaluation had no effect on profit or loss.

VII. Significant accounting and valuation principles

Intangible assets

Intangible assets with an identifiable useful life are recognized at cost and amortized on a straight-line basis over their expected useful lives. The useful life is usually between three and 17 years. At a minimum, the residual values and useful lives of intangible assets are reviewed on every consolidated balance sheet date. If expectations deviate from current estimates, any adjustments are accounted for as changes in accounting estimates, in accordance with IAS 8.

If an intangible asset is disposed of or if no further economic benefit can be expected from use of the asset or its disposal, the carrying amount of the intangible asset will be derecognized. The gain or loss from disposal of the intangible asset is the difference between the net realizable value and the carrying amount and is recognized in profit or loss on the date of derecognition.

Goodwill and intangible assets with an unidentifiable useful life

The positive difference between the cost of acquiring a company and the fair value of the Group's interest in the net assets of the acquired company at the time of acquisition is defined as goodwill. Any goodwill arising from a company acquisition is recorded under intangible assets pursuant to IFRS 3 and, in accordance with IAS 38.107, is not subject to scheduled amortization. An impairment test is carried out at least once a year and may lead to a write-down.

There are no other intangible assets with an unidentifiable useful life.

Tangible assets

Tangible assets are valued at the cost of acquisition or production less scheduled depreciation and, if applicable, unscheduled write-downs. The depreciation period is based on the expected useful life and within the Group depends on the type of asset:

Type of tangible assets	Useful life
Buildings	5 to 50 years
Technical equipment and machinery	2 to 15 years
Other equipment, operating and office equipment	2 to 15 years

Depreciation is not carried out on a straight-line basis only if another depreciation method would more closely reflect the actual future economically useful life.

If expectations deviate from current estimates, any adjustments are accounted for as changes in accounting estimates, in accordance with IAS 8.

Tangible fixed assets are tested for impairment if there is reason to believe that the assets may be impaired, but in any case on each consolidated balance sheet date.

If a fixed asset is disposed of or if no further economic benefit can be expected from use of the asset or its disposal, the carrying value of the asset will be derecognized. The gain or loss from disposal of the fixed asset is the difference between the net realizable value and the carrying value and is recognized in profit or loss on the date of derecognition.

Repair and maintenance costs are expensed when incurred. Major renovations and improvements are capitalized if the criteria for the recognition of an asset are met. In principle, leased assets classified as finance leases on the basis of the respective lease agreements are shown as tangible assets at the lower of the fair value or the present value of the minimum lease payments, and net of accumulated depreciation in subsequent accounting periods.

Impairment of non-financial assets

Assets with an unidentifiable useful life, as well as goodwill, are not subject to scheduled depreciation and amortization; they are tested for impairment at least once a year. Impairment tests are performed on tangible fixed assets and other intangible assets with a identifiable useful life if there is reason to believe that write-downs are necessary. In order to determine whether there is a requirement to record the impairment of an asset, the recoverable amount of the respective asset (the higher of the fair value less costs to sell and the value in use) is compared with the carrying amount of the asset. If the recoverable value is lower than the carrying amount, the difference is recognized as an impairment loss. If the recoverable amount for the individual asset cannot be estimated, then the calculation will be carried out at the level of the cash-generating unit (CGU) to which the respective asset is allocated. The amount is allocated to the specific cash-generating units and/or to the smallest group of cash-generating units on a reasonable and consistent basis. If the reason for the recognized impairment no longer applies, a reversal of the impairment loss not exceeding the amortized cost is recorded. No such write-up is made with respect to goodwill. For the impairment test, the acquired goodwill associated with a merger is allocated to the cash-generating unit or the group of cash-generating units expected to benefit from the synergies of the combination. Muehlhan AG determines a cash-generating unit's recoverable amount on the basis of the discounted cash flow as value in use.

Financial assets

Recognition and classification

Financial assets are recognized and/or derecognized on the settlement date. This is the date of purchase or sale of an asset on which the contractual terms and conditions provide for delivery of the asset within the time frame that is customary for the market in question.

On first-time recognition, the asset is stated at the fair value plus transaction costs. Excluded from this are financial assets that are "measured at fair value through profit or loss". Here, the first-time recognition at fair value does not include transaction costs.

Financial assets are divided into various categories; categorization depends on the respective purpose for which the financial assets were acquired. Management determines the categorization of the financial assets at the time of initial recognition and reviews the categorization on every reporting date. The Muehlhan Group divides financial assets into the following categories:

- Loans and receivables
- Financial assets measured at fair value through profit or loss
- Financial assets available for sale
- Held-to-maturity assets.

Financial assets are categorized according to their type and purpose at the time of acquisition.

a) Loans and receivables

Trade receivables, loans, cash and cash equivalents and other receivables that have fixed or determinable payments that are not quoted on an active market are classified as loans and receivables. They qualify as current assets as long as they are not due more than twelve months after the balance sheet date. Loans and receivables are measured at amortized cost using the effective interest rate method, less any impairments. Interest income is calculated using the effective interest method, with the exception of current receivables, for which the interest effect would be insignificant.

b) Financial assets measured at fair value through profit or loss

Financial assets are measured at fair value through profit or loss if the financial asset is either held for trading or is designated as "measured at fair value through profit or loss". The assets are measured at fair values derived from the market or calculated using valuation models.

Financial assets measured at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net profit or loss recognized includes any interest relating to the financial asset.

c) Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that were either allocated to this category or which have not been allocated to any of the other categories described. They are classified as non-current assets, provided that management does not intend to sell them within twelve months of the balance sheet date.

Gains and losses resulting from fluctuations in the fair value are recognized in Other comprehensive income and shown cumulatively under Equity in Other reserves. Excluded from the above are impairment losses and foreign exchange gains and losses on monetary assets, which are recognized in income or loss. If a financial investment is sold or found to be impaired, the cumulative gains or losses for financial investments shown in the other reserve are recognized in net income/loss for the period.

The fair value of monetary financial instruments denominated in foreign currencies that are classified as financial assets available for sale is determined in the foreign currency and then converted at the spot rate on the balance sheet date. Changes in the fair value that are attributable to foreign currency translation and result from the change in the asset's amortized cost are recognized in profit or loss; any other changes in value are recognized directly in equity with no effect on the income statement.

If the fair value of unlisted equity instruments cannot be determined with sufficient reliability, the shares are valued at amortized cost (less impairment losses, if any). Interest received from these financial assets is included as interest income and recognized in profit or loss using the effective interest method. Dividends are reported on the income statement in the period in which the legal right to payment is established.

During the year under review, equity investments in unlisted companies were allocated to this category. Equity investments shown under financial assets were stated at amortized cost, because the fair value cannot be determined with adequate certainty.

d) Held-to-maturity assets

The Group has no held-to-maturity assets.

e) Effective interest method

The effective interest method is a method for calculating the amortized cost of a financial asset and allocating interest income to the relevant periods. The effective interest rate is the interest rate used to discount estimated future cash receipts (including all fees that are part of the effective interest rate, transaction costs and other premiums and discounts) to the carrying amount over the expected life of the financial instrument or a shorter period, if applicable. Income is recognized on an effective interest basis for debt instruments, except for instruments that are classified as "measured at fair value through profit or loss".

f) Impairments of financial assets

Financial assets, other than those measured at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, the estimated future cash flows from the financial investment have been impacted.

For financial assets measured at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial asset's original effective interest rate.

An impairment loss on trade receivables is recognized if there is objective evidence that the overdue receivable amounts cannot be collected in full. A debtor with significant financial problems, an increased probability that a borrower will become insolvent or enter into another type of restructuring process, as well as a breach of contract, e.g., a default or delay in payment of interest or principal, all count as indicators of an impairment loss.

g) Derecognition of financial assets

The Group only derecognizes a financial asset if the contractual rights to cash flows from a financial asset expire or the Group transfers the financial asset and essentially all the risks and rewards of ownership of the asset to a third party. If the Group neither transfers nor retains essentially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its remaining interest in the asset and an associated liability for amounts it may have to pay. If the Group retains essentially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset, as well as a collateralized loan for the consideration received.

Derivative financial instruments

The Muehlhan Group uses derivative financial instruments only in exceptional cases and only for hedging purposes, i.e., to reduce interest-rate risks associated with operations and/or the resulting financing requirements.

Derivative financial instruments are initially recognized at their fair values, which are measured on the day the derivative contract is concluded. They are also revalued at the relevant fair value on each balance sheet date. The method for recording gains and losses depends on whether the derivative financial instrument was designated as a hedging instrument. Muehlhan designates certain derivative financial instruments as hedges against certain risks of fluctuating cash flows associated with a recognized asset or a recognized liability (cash flow hedges).

On concluding a transaction, the Group documents the hedging relationship between the hedging instrument and the underlying transaction, the objective of risk management and the underlying strategy when entering into hedging transactions. Furthermore, at the beginning of the hedging relationship and subsequently, it documents on an ongoing basis the assessment of whether the derivatives used in the hedging relationship are highly effective in offsetting the changes in the fair value or in the cash flows of the underlying transactions. The full fair value of the derivative financial instruments designated as a hedging instrument is presented as a non-current asset or non-current liability if the residual term of the underlying transaction covered by the hedge is longer than 12 months after the balance sheet date and is presented as a current asset or current liability if the residual term is shorter. Derivative financial instruments held for trading purposes are shown as current assets or liabilities.

Changes in market values of derivative financial instruments which are accounted for using hedge accounting are either recognized as income/expense or recorded in Equity under the revaluation reserve, depending on whether a fair-value hedge or a cash flow hedge is involved. In the case of a fair-value hedge, the results of the market valuation of derivative financial instruments and the underlying transactions are reported as gains or losses in the income statement. In the event of changes in the market value of cash flow hedges used to offset future cash flow risks from already existing underlying transactions or from planned transactions, the unrealized gains and losses are initially recorded in Equity under the revaluation reserve at an amount equal to the underlying transaction covered by the hedge, with no effect on the income statement. This amount is reclassified as income/loss in the same period in which the underlying hedged transaction affects earnings. The portion of the change in market value that is not covered by the underlying transaction is immediately recognized as income/loss.

Inventories

Inventories are stated at the lower acquisition costs and net realizable value. If the net realizable value of inventories on the reporting date is lower than the carrying amount, inventories are written down to the net realizable value and an impairment loss is reported on the income statement. If the net realizable value of previously impaired inventories rises, the resulting recovery in value is recognized as a reduction in the cost of materials or as an increase in inventories. The net realizable value is the estimated amount of proceeds that can be obtained from disposal in the normal course of business, less any costs of disposal and distribution expenses incurred.

Construction contracts

Customer-specific construction contracts are accounted for under the percentage-of-completion method (PoC method), provided that the preconditions stipulated in IAS 11 have been met.

If the results of a construction contract can be reliably estimated, revenues and costs are recognized in accordance with the percentage-of-completion method on the balance sheet date. The percentage-of-completion is calculated as the ratio of the contract costs incurred through the balance sheet date to the estimated total contract costs, unless this approach does not result in a proper estimate of the percentage-of-completion. If the results of a long-term construction contract cannot be reliably estimated, the amount of contract revenues that can be recognized is limited to the amount of contract costs incurred that are likely to be reimbursed. In addition to direct costs, contract costs include a reasonable share of the indirect production, material and material overhead costs and production-related administrative overhead costs allocable to the respective contracts. Contract costs are recognized as expenses in the period in which they are incurred.

If it is likely that the total contract costs will exceed the total contract revenues, the expected loss is recognized as an expense immediately and valuation allowances and/or provisions are set up.

(Advance) payments received for construction contracts are deducted from receivables calculated using the PoC method, less any required valuation allowances, or are recognized as provisions. Any advance payments on customer-specific construction contracts received before processing are reported as advance payments received.

Cash and cash equivalents

Cash and cash equivalents include cash-on-hand, bank balances and other highly liquid financial assets, as well as current account liabilities with a maturity not exceeding three months. At the present time, bank balances not required immediately to finance current assets are invested for a term of up to three months. The carrying amount shown on the balance sheet for cash and cash equivalents is equal to their market value. The total amount of cash and cash equivalents, excluding current liabilities, is equal to the total sources of funds shown in the cash flow statement. Utilized overdraft facilities are shown on the balance sheet under current financial liabilities.

Non-current assets and disposal groups held for sale

This item is recognized if specific non-current assets or groups of assets (disposal groups) are available for sale in their present condition and their sale within one year is highly probable. The prerequisite for the existence of a disposal group is that the assets be designated for disposal in a single transaction or as part of an overall plan. A discontinued operation is a business segment (component of an entity) that either has been disposed of or is classified as held for sale and both operationally and for financial reporting purposes can be clearly distinguished from the entity's other activities. Moreover, to qualify as a discontinued operation, the component must represent a separate, major line of business or a specific geographic business segment of the Group. Non-current assets designated for sale individually or as part of a disposal group or belonging to a discontinued operation are no longer subject to scheduled depreciation. They are stated at the lower of the original carrying amount or fair value less any costs of disposal that may yet be incurred. If the fair value is below the carrying amount, an impairment loss is recognized. The result from the fair-value measurement of business segments designated for sale, less any selling costs that may yet be incurred, and gains and losses from the disposal of discontinued operations, as well as the result from these business segments' normal operating activities, are reported separately as "Result from discontinued operations" on the Group's income statement. The relevant assets are reported in a separate balance sheet item.

Other financial liabilities

Financial liabilities (financial debts, trade payables and other liabilities) are categorized either as financial liabilities measured at fair value through profit or loss after deducting transaction costs or as other financial liabilities. Liabilities are classified as current unless the Group has an unconditional right to postpone repayment of the liability to a date at least twelve months after the balance sheet date.

a) Financial liabilities measured at fair value through profit or loss

Financial liabilities are classified as financial liabilities measured at fair value through profit or loss if they are either held for trading purposes or have voluntarily been designated "as measured at fair value through profit or loss".

These financial liabilities are stated at their fair values on the initial recognition date. Transaction costs are immediately expensed. During subsequent remeasurements, they are also stated at fair value. All gains or losses resulting from the measurement are recognized in profit or loss.

b) Other financial liabilities

Other financial liabilities are initially stated at fair value, including transaction costs.

Financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on the basis of the effective interest rate. The effective interest method is a method for calculating the amortized cost of an item classified under other financial liabilities and for allocating interest expense to the relevant periods. The effective interest rate is the interest rate used to discount estimated future payments to the carrying amount over the expected life of the financial instrument or a shorter period, if applicable (see also the comments on the effective interest method for financial assets and income under Financial assets).

c) Derecognition of financial liabilities

The Group derecognizes financial liabilities when the Group's obligations have been settled, canceled or have expired.

Pension provisions and similar obligations

In addition to defined contribution plans which, apart from current contributions, do not involve any further pension commitment, there are also defined benefit plans, for which the required provision in Germany relates almost exclusively to a pension commitment to a retired former managing director of a subsidiary. In addition, in some countries – for example, in France and Poland – there are statutory requirements to set up provisions for pension commitments. A defined benefit pension plan generally specifies the amount of pension benefits an employee will receive upon retirement; this amount depends on one or more factors, such as age, length of service or salary. An independent actuary calculates the pension provision based on the projected unit credit method and the amount reported on the balance sheet date is the present value of the defined benefit obligation (DBO). This actuarial determination of the present value of accumulated plan benefits takes into account not only current pension payments and vested rights to future pension payments as of the balance sheet date, but also expected future increases in salaries and pensions.

Actuarial gains and losses are recognized immediately in "Other comprehensive income" in the equity section of the balance sheet, with no effect on the income statement.

The provision is reduced by the amount of any plan assets.

Current and past service costs are shown under personnel expenses, while net interest expense relating to interest payments on the defined benefit obligation and any plan assets is shown under financing costs.

The present value of the defined benefit obligation (DBO) is calculated by discounting the expected future payments at the interest rate applicable to top-rated corporate bonds denominated in the currency in which payments have to be made and at maturities matching those of the pension obligations.

Contribution payments made under defined contribution plans are shown under personnel expenses; a provision is recorded only for the amounts outstanding on the balance sheet date.

Other provisions and contingent liabilities

In accordance with IAS 37, other provisions are set up for any risks discernible on the balance sheet date or obligations to third parties based on past transactions or events whose amounts or maturities are uncertain. The amounts reported under provisions are the best estimates of the settlement amounts; these amounts are not netted against positive performance contributions. Provisions are set up only if the Group has a legal or de facto obligation to a third party. They are also set up for onerous contracts. A contract is deemed to be onerous if the unavoidable costs exceed the economic benefit expected from the contract.

If the interest effect from discounting is material, non-current provisions are stated at their discounted settlement amount on the balance sheet date. Any increases in provisions resulting purely from the compounding of interest are recognized as interest expense on the income statement. The settlement value also includes cost increases that must be recognized on the reporting date pursuant to IAS 37.

Contingent liabilities are potential or current obligations for which an outflow of resources with economic benefits is unlikely or for which the amount of the obligation cannot be estimated with adequate certainty. Contingent liabilities are generally not recognized on the balance sheet.

Income taxes

Income taxes include both current income taxes payable immediately and deferred taxes. Current or deferred taxes are recognized in the consolidated income statement unless they relate to items that are recognized either in other comprehensive income or directly in Equity. In the latter case, the current and deferred taxes are also recognized in other comprehensive income or directly in Equity.

Deferred taxes resulting from temporary differences in the amounts shown in the separate balance sheets prepared for tax purposes and the corresponding figures for the individual companies calculated in accordance with IFRS, as well as from consolidation entries, are netted separately for each taxable entity and shown either as deferred tax assets or liabilities. Moreover, deferred tax assets may also include claims for tax reductions deriving from the expected utilization of existing loss carryforwards in future years if there is sufficient certainty that they will be realized. Deferred taxes are calculated using the tax rates for reversal that apply and will enter into force or have been adopted in the respective countries on the balance sheet date. No deferred taxes are recognized for temporary differences relating to shares in subsidiaries if the date of reversal of the temporary differences can be controlled by the Group and it is likely that these will not be reversed in the foreseeable future. Deferred taxes may also arise in connection with accounting entries that do not affect the income statement. Deferred tax assets are recorded only to the extent that the respective tax benefits are likely to materialize. Valuation allowances are set up based on past earnings and business expectations for the foreseeable future if this criterion is not met.

Deferred taxes were calculated for domestic Group companies' corporate tax and trade tax loss carryforwards at a rate of around 15% in each case (previous year: around 15%). The foreign deferred tax rates ranged from 9.0% to 33.0% (previous year: 10.0% to 40.0%) and the domestic deferred-tax rate was 31.5% (previous year: 31.5%).

Provided that the preconditions set forth in IAS 12.74 have been met, deferred tax assets and liabilities are netted. Basically, this applies if the deferred taxes relate to income taxes that are levied by the same taxing authority on the same taxable entity within the meaning of IAS 12.74 and the current taxes can be netted against each other.

Share based payments

The Group has granted a number of share based payments to employees for settlement using equity instruments of the parent company.

When share based compensation is granted that will be settled through equity instruments, the fair value calculated is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity. The amount posted for the expense is based on the fair value of the share options granted.

Research and development costs

Any intangible asset resulting from research is not recognized. The IAS 38 requirements for capitalizing development costs are not satisfied, because it is generally impossible to separate research and development costs, marketability and/or technical feasibility cannot be assumed and there is no guarantee of a future economic benefit.

Expenses for research and development work are recognized as expenses in the period in which they are incurred.

Government grants

Government grants for tangible fixed assets are treated as deferred income and recognized as income over the expected useful life of the related asset.

Leases

The determination as to whether an agreement is or includes a lease is made on the date when the agreement is concluded, based on the economic substance of the agreement. It requires assessing whether the fulfillment of the contractual agreement is dependent on use of a specific asset or assets and whether the agreement grants a right to use the asset, even if this right is not expressly stated in the agreement.

Leases are classified as finance leases if essentially all of the rewards and risks typically associated with ownership are transferred to the lessee. All other leases are classified as operating leases.

At the beginning of the lease term, finance leases are reported as an asset and a liability at the lower of the fair value of the asset and the present value of the minimum lease payments. The minimum lease payments must be divided into a financing portion and a principal repayment portion in order to produce a constant interest rate for the remaining liability. The asset should be depreciated over the shorter of the lease term or the useful life of the asset.

The Group has no major finance leases.

With operating leases, the leased property is not capitalized. Instead, the lease payments are expensed on a straight-line basis over the lease term. The Group's main operating leases are for the rental of business offices, technical equipment and vehicles.

Income recognition

Income is reported at the fair value of the consideration that has been or will be received or the fair value of the receivable and includes amounts for the services rendered in the course of normal operations, less any discount, value-added tax and other taxes incurred in connection with sales revenues. Virtually all sales revenues are generated by providing services. To the extent such sales revenues are derived from services relating to long-term construction contracts, they are recognized in accordance with internal Group accounting and valuation methods for long-term construction contracts. Income is recorded without value-added tax, discounts or price reductions and after the elimination of intragroup sales.

Revenues from the sale of goods are recognized in accordance with the criteria stipulated in IAS 18.14 (revenue is generally recognized upon transfer of the significant risks and rewards of ownership).

Interest is recognized as expense and/or income on an accrual basis. Interest expenses and income are recognized on a pro-rata basis, applying the effective interest method.

Dividends are reported on the date of the decision to make a distribution.

Income and losses from financial assets, including interest income, are reported on the income statement in the period in which they accrue.

Deep water building platform "Saipem 7000", Eemshaven, the Netherlands

VIII. Notes to the balance sheet

1. Intangible assets

FIXED ASSETS MOVEMENTS SCHEDULE 2016

	Acquisition and production costs					
in kEUR	Balance 01.01.2016	Additions	Currency difference	Disposals	Transfer	Balance 31.12.2016
I. Intangible assets						
1. Concessions, industrial and similar rights and assets	3,109	205	18	8	0	3,288
2. Goodwill	36,397	0	0	0	0	36,397
	39,506	205	18	8	0	39,685
II. Tangible assets						
1. Land, land rights and buildings including buildings on third-party land	9,959	183	368	5	0	9,768
2. Technical equipment and machinery	71,182	5,726	197	6,524	3,148	73,728
3. Other equipment, operating and office equipment	12,176	2,209	45	1,246	47	13,141
4. Prepayments and assets under construction	2,623	1,038	11	0	3,195	477
	95,939	9,156	205	7,776	0	97,114

Rounding differences may occur.

FIXED ASSETS MOVEMENTS SCHEDULE 2015

	Acquisition and production costs							
in kEUR	Balance 01.01.2015	Additions	Additions initial consolidation	Currency differences	Reclassification in accordance with IFRS 5	Disposals	Reclassifications	Balance 31.12.2015
I. Intangible assets								
1. Concessions, industrial and similar rights and assets	2,962	140	0	7	0	0	0	3,109
2. Goodwill	34,741	0	1,656	0	0	0	0	36,397
	37,703	**140**	**1,656**	**7**	**0**	**0**	**0**	**39,506**
II. Tangible assets								
1. Land, land rights and buildings including buildings on third-party land	9,050	1,447	0	126	0	664	0	9,959
2. Technical equipment and machinery	65,131	6,157	203	1,428	0	1,741	4	71,182
3. Other equipment, operating and office equipment	11,399	1,389	56	308	-135	839	-3	12,175
4. Prepayments and assets under construction	1,356	1,797	0	9	0	538	-1	2,623
	86,936	**10,790**	**259**	**1,871**	**-135**	**3,782**	**0**	**95,939**

Rounding differences may occur.

	Accumulated depreciation and amortisation					Net book values	
	Balance 01.01.2016	Additions	Currency difference	Disposals	Balance 31.12.2016	Balance 31.12.2016	Previous Year
	2,502	395	18	8	2,872	416	607
	16,634	220	0	0	16,854	19,542	19,762
	19,137	**615**	**18**	**8**	**19,726**	**19,958**	**20,369**
	4,645	389	37	3	4,994	4,774	5,314
	48,881	5,098	361	5,559	48,782	24,946	22,301
	9,572	1,259	34	1,193	9,605	3,536	2,604
	166	0	1	166	0	477	2,457
	63,264	**6,747**	**292**	**6,922**	**63,381**	**33,733**	**32,675**

	Accumulated depreciation and amortization							Net book values	
	Balance 01.01.2015	Additions	Additions initial consolidation	Currency differences	Reclassification in accordance with IFRS 5	Disposals	Balance 31.12.2015	Balance 31.12.2015	Previous year
	2,253	242	0	7	0	0	2,502	607	709
	16,635	0	0	0	0	0	16,635	19,762	18,106
	18,888	**242**	**0**	**7**	**0**	**0**	**19,137**	**20,369**	**18,815**
	4,659	450	0	33	0	497	4,645	5,314	4,391
	44,876	4,833	60	261	0	1,149	48,881	22,301	20,255
	8,678	1,049	10	561	-108	618	9,572	2,603	2,721
	0	166	0	0	0	0	166	2,457	1,356
	58,213	**6,498**	**70**	**855**	**-108**	**2,264**	**63,264**	**32,675**	**28,722**

Goodwill

In accordance with IAS 36, an impairment test was performed during the past fiscal year. This involved allocating goodwill to cash-generating units (CGUs).

An overview of the allocation of the Group companies to CGUs and an allocation to geographic segments and services can be found under 'Consolidated Group' in Section V.

Sales revenues and EBIT broken down by CGUs, grouped into geographic segments, are listed under Note 18, 'Sales revenues and segment reporting'.

The following table shows the changes by geographic segment:

In EUR million	31.12.2016	Impairment	31.12.2015
Europe	17.2	-0.2	17.4
Middle East	0.6	0.0	0.6
Rest of the World	1.8	0.0	1.8
TOTAL	**19.6**	-0.2	19.8

During the year under review, a full goodwill impairment loss of €0.2 million was recognized in connection with the shutdown of the business in Le Havre, France.

Based on the carrying amount of the goodwill allocated to the CGUs, two major items stand out: the MD CGU, with €7.2 million of goodwill (previous year: €7.2 million), and the MPL CGU, with €6.3 million of goodwill (previous year: €6.3 million). Together, the two CGUs accounted for 69.0% (previous year: 68.2%) of total goodwill as of 31 December 2016.

Goodwill for the respective units was tested for impairment by applying the DCF (discounted cash flow) method based on four-year business plans (Level III valuation). The business plans were drawn up in the fourth quarter of 2016 and have been approved by the Executive Board and the Supervisory Board. They are based on historic data and incorporate assumptions about market trends. To the extent possible, projections are based on expected sales and earnings for each customer.

There are uncertainties regarding the underlying assumptions used in calculating the fair value less costs to sell (using the DCF method) of the CGUs, particularly with respect to: sales revenue growth during the budget period, the trend in the EBIT margin during the budget period, the discount factor (interest rate) and the growth rate on which the cash flow extrapolation beyond the budget period are based.

The discount rate used in the calculations was the weighted-average cost of capital (WACC) for each unit after taxes. The discount rates used for the units fell into the following ranges:

Region	2016	2015
Germany	6.9 %	7.3 %
Poland	8.4 %	9.0 %
Rest of Europe	7.0 % – 20.3 %	7.5 % – 19.5 %
Middle East	9.3 % – 10.5 %	9.6 %
Rest of the World	8.1 %	7.4 %

The weighted average cost of capital rates reflect the current market estimates of the specific risks allocable to the respective cash-generating units. These were determined on the basis of the weighted average cost of capital customary for the respective industries. The interest rate was further adjusted to take into account market estimates of all risks specifically allocable to the CGUs for which estimates of future cash flows were not adjusted. We assumed terminal growth rates of 0.5% for Europe (previous year: 0.5%), 1.5% for the Middle East (previous year: 1.5%) and 0.0% for the Rest of the World (previous year: 0.0%). Only for Russia was a higher growth rate of 2.5% assumed (previous year: 2.5%). The growth rates are based on the nominal growth rates used and reflect long-term, market-specific inflation rates that were adjusted to reflect the specific business segments' expected trends.

Sensitivity of assumptions used

As part of a sensitivity analysis for CGUs to which substantial goodwill has been allocated, the particularly sensitive parameters – EBIT margin and discount rate (weighted average cost of capital/WACC) – were tested. A 1% decrease in the EBIT margin or a 1% increase in the WACC would lead to a €0.3 million impairment loss in each case for the PRA CGU (Procon Emirates L.L.C.).

After careful consideration, management has concluded that the negative changes tested for are unlikely to occur.

2. Tangible assets

During the year under review, impairment losses of €0.5 (previous year: €0.0 million) were recognized for technical equipment and machinery. This amount is included under depreciation. As in the previous year, there were no reversals of impairment losses during the year under review. Borrowing costs were not capitalized.

Tangible assets included leased assets (finance leases) in the amount of €0.0 million (previous year: €0.1 million).

The gross carrying amount of prepayments and assets under construction included €1.0 million (previous year: €1.4 million) for tangible assets under construction.

Order commitments for tangible assets totaled €0.7 million (previous year: €0.0 million) on the balance sheet date.

3. Deferred tax assets

The company's deferred tax assets pertain to the following items:

in kEUR	31.12.2016	31.12.2015
Accumulated tax loss carryforwards	3,412	3,872
Intangible assets	0	10
Tangible assets	541	323
Trade accounts receivable	186	84
Pension provisions	80	76
Provisions	55	10
Trade payables	68	143
Other liabilities	89	99
Settlement according to IAS 12.74	-529	-1,523
TOTAL	3,902	3,094

In Germany, there were €14.9 million of trade-tax loss carryforwards (previous year: €16.5 million) and €13.5 million of corporate income tax loss carryforwards (previous year: €14.8 million) as of the balance sheet date. There were €21.3 million of tax loss carryforwards (previous year: €15.1 million) abroad.

According to the medium-term forecasts of the companies involved, a tax benefit in the amount of €3.4 million (previous year: €3.9 million) will accrue over the next five years which we have already capitalized since there is a high probability that the companies in question will have taxable profit against which the deferred tax assets can be utilized. Overall, in Group companies that reported a loss in the prior or the current year, a surplus of deferred tax assets totaling €2.9 million was recognized (previous year: €2.4 million). The future use of these tax benefits depends exclusively on the generation of future taxable income. There is substantial evidence that this income will be generated, including long-term customer loyalty, detailed budgets, and long-term contracts. In addition to the deferred tax assets recognized for loss carryforwards, there are also domestic corporation tax losses in the amount of €9.9 million (previous year: €11.2 million) and trade tax losses of €11.5 million (previous year: €13.1 million) whose realization is not sufficiently guaranteed and for which therefore no deferred tax assets have been recognized. Based on current laws, the loss carryforwards cannot expire. As of the balance sheet date, foreign loss carryforwards for which no deferred tax assets have been recognized totaled €11.3 million (previous year: €6.8 million) and in most cases may be utilized without restriction within 15 years.

4. Inventories

Inventories may be broken down as follows:

in kEUR	31.12.2016	31.12.2015
Raw materials, consumables and supplies	3,943	5,281
Prepayments	418	600
TOTAL	4,361	5,881

Impairment losses of €790,000 (previous year: €0,000) were recognized for raw materials, consumables and supplies.

5. Trade receivables

Trade receivables include the following items:

in kEUR	31.12.2016	31.12.2015
Trade receivables from services rendered	61,446	47,183
Trade receivables from production contracts	16,587	35,406
of which construction contracts with a credit balance	16,819	35,707
of which construction contracts with a debit balance	-232	-301
Prepayments received on account of work in progress	-10,215	-28,109
TOTAL	67,818	54,480

As a rule, accounts receivable from services rendered are due and payable within 30 days. In exceptional cases, the time to maturity may be up to one year. Accounts receivable from construction contracts have the same maturities. As agreed with customers, prepayments are due on construction contracts that will not be invoiced until 2018, meaning that a maturity of less than one year can be assumed in such instances, as well. Sales totaled

€254.3 million (previous year: €239.0 million) and included contract revenues (additions to work in progress during the fiscal year) of €14.3 million (previous year: €23.4 million). The aggregate costs relating to construction contracts in progress on the balance sheet dated amounted to €14.9 million (previous year: €31.3 million) and aggregate profits totaled €2.6 million (previous year: €4.8 million).

Overdue trade receivables for which no impairment loss has been recognized totaled €24.0 million as of the balance sheet date (previous year: €11.9 million).

Regarding trade receivables that are due or not due and those for which no impairment loss has been recognized there is no evidence, as of the balance sheet date, that the debtors will not satisfy their payment obligations. Any change in creditworthiness since the payment terms were granted is taken into account when testing trade receivables for impairment. There is currently no significant concentration of the default risk.

The value adjustments on trade receivables that are recognized through profit or loss on the income statement:

in kEUR	2016	2015
Allowance for doubtful accounts – Balance on 1 January	-1,759	-1,962
Additions (Bad debt expense)	-3,782	-663
Reversals (Other operating income)	265	490
Write-off of impaired receivables	477	324
Currency translation differences	28	52
Allowance for doubtful accounts – balance on 31 December	**-4,771**	-1,759

As of the balance sheet date, the company had credit insurance for €7.1 million (previous year: €4.2 million) of trade receivables.

6. Cash and cash equivalents

Cash and cash equivalents amounted to €8.5 million at 31 December 2016 (previous year: €8.8 million) and aside from available cash and sight balances also included overnight deposits. Interest on overnight deposits averaged 0.1% (previous year: 0.05%) on the balance sheet date. As of the balance sheet date, there were no drawing restrictions.

7. Income tax receivables and liabilities

All income tax refund claims and income tax liabilities are due within one year.

8. Other assets

The other financial assets can be broken down as follows:

in kEUR	31.12.2016	31.12.2015
Security deposits	952	834
Receivables due from damage claims/ insurance compensation payments	663	301
Receivables from employees	347	665
Credits with suppliers/bonuses	344	448
Other financial assets	493	62
TOTAL	**2,799**	2,310

Other non-financial assets consist of the following:

in kEUR	31.12.2016	31.12.2015
Other tax receivables	1,308	4,969
Prepaid expenses	831	1.024
Other non-financial assets	664	703
TOTAL	**2,803**	6,696

All other financial and non-financial assets are due within one year. For fair values and carrying amounts, see the additional disclosures on financial instruments in Note 24, ‘Financial instruments’.

During the year under review, impairments of €0.4 million (previous year: €0.1 million) were made to other financial assets. No additional impairments were necessary for financial or non-financial assets that were neither overdue nor impaired. There were no other financial or non-financial assets that were significantly overdue but not impaired. Additions to and reversals of impairments are recognized through profit or loss in other operating income or expenses.

9. Discontinued operations held for sale

In the previous year, the decision was made to cease the Group's operations in Singapore and Malaysia and to sell the companies. As a result of the decisions made, the business segment meets all the criteria for classification as "discontinued operations held for sale" within the meaning of IFRS 5 and is reported as such as of 31 December 2016.

The disposal group's assets include only current assets (previous year: €0.3 million of non-current assets).

As in the previous year, the disposal Group's liabilities in the year under review fall due and payable within the short term.

The other financial assets can be broken down as follows:

in kEUR	31.12.2016	31.12.2015
Sales revenues	606	4.784
Other operating income	334	979
Cost of materials and purchased services	230	-1,888
Personnel expenses	-183	-2,024
Depreciation and amortization	-17	-206
Other operating expenses	-285	-1,199
EBIT	225	446
Net interest result	0	2
Tax result	0	97
Result from discontinued operations	**225**	545

The last business activities were concluded during the year under review. These business activities and the disposal of assets resulted in €0.2 million of EBIT. The Malaysian company that belonged to the business segment was deconsolidated effective 31 December 2016. Aside from some legal formalities, the Group also managed to conclude the sale of the other companies during the year under review. They will be deconsolidated in 2017.

10. Equity

Subscribed capital

The share capital reported for the parent company is equal to the share capital reported for the Group. It is divided into 19,500,000 no-par value bearer shares, each with a proportional amount of the share capital of €1.00 per share. The share capital is fully paid in.

Pursuant to the resolution adopted by the Annual General Meeting on 24 May 2016, the parent company's authorized capital amounts to €9,750,000 (previous year: €9,250,000).

Treasury shares

Muehlhan AG's Annual General Meeting on 19 May 2015 passed a resolution again authorizing the Executive Board to acquire treasury shares with a nominal value of up to €1.95 million. As in the previous year, no shares were purchased during the year under review. In 2016, 153,444 shares were transferred (previous year: 146,644 shares) under the Employee Program. The treasury shares are shown separately as deduction items totaling €708,000 (previous year: €1,535,000) in the equity section. During the reporting year, for the first time, treasury shares were valued at the average rate, causing the value to drop by €616,000. Additional paid-in capital (capital reserves), from which treasury shares must be deducted, decreased by the same amount. As a result, the revaluation had no effect on profit or loss.

In January 2010, Muehlhan AG introduced a new compensation program for the Group's top management level. The program has two components: a performance bonus and a value bonus. A balanced scorecard is used to measure eligibility for the performance bonus. If various agreed criteria are met at the level of the company and the Group, a cash bonus is paid. The amount of the value bonus is based on measurement of the sustainable increase in the equity of both the respective company and the Group. The beneficiary is allocated a virtual share portfolio with a value equal to the identified amount of value bonus for previous years. The shares are transferred to the recipient of the bonus in four equal tranches in the years following the year of assessment. For any transfer to take place in subsequent years, the beneficiary must still be employed by the Group. Any future negative virtual share allocations will be netted against existing claims. Once a year, the agreement can be terminated. The value bonus is recognized in accordance with IFRS 2 – Share-based Payment. In 2016, a tranche of 153,444 shares (previous year: 146,644 shares) with a value of €211,000 (previous year: €196,000) was transferred to the bonus creditors. The fair value of the shares to be issued is measured at the share price on the grant date. The total cost of the value bonus will be divided over the four periods from the grant date until the shares vest. In 2016, the Group recognized an associated expense of €47,000 (previous year: €171,000). The issuance of rights to shares is recognized in Equity under capital reserves. As of balance sheet date, there were 300,513 treasury shares (previous year: 453,957 treasury shares).

Retained earnings

In fiscal year 2016, a dividend per share of €0.04 was distributed. There was no dividend in 2015. With the Supervisory Board's approval, the Executive Board proposes that for fiscal year 2017, the Annual General Meeting distribute a dividend of €0.06 per share on the €19,500,000.00 of shares with dividend rights. As a result, the total dividend distribution will be €1,170,000.00, less the dividend on treasury shares. Payment of this dividend will be dependent on approval by the Annual General Meeting on 16 May 2017. The dividend liability will be recognized after approval by the Annual General Meeting in fiscal year 2017. As of balance sheet date, there were 300,513 treasury shares (previous year: 453,957 treasury shares).

Non-controlling interests

MGR, MMF, MCL, MRO and MSI had non-controlling interests as of the balance sheet date. Muehlhan AG holds a 70% stake in MMF, a 60% stake in MSI and 51% stakes in MGR, MCL and MRO. These shareholdings were unchanged from the previous year.

The following table shows the balance sheet and income statement items, including after-tax results, of the principal companies with non-controlling interests for the fiscal year, pursuant to IFRS 12:

in kEUR	MCL	MMF	MSI
	31.12.2016	**31.12.2016**	**31.12.2016**
Non-current assets	523	311	94
Current assets	4,247	2,896	4,648
Equity	2,140	1,072	2,802
Non-current liabilities	0	206	1
Current liabilities	2,630	1,929	1,939
	2016	**2016**	**2016**
Sales revenues	13,888	6,533	9,841
EBIT	1,244	425	117
After-tax result	1,075	267	2,241
After-tax result, previous year	188	110	-683

The after-tax results must be allocated to the other shareholders in accordance with their respective shareholdings. During the year under review, distributions of €34,000 were made to non-controlling interests.

11. Pension provisions

Pension provisions totaled €0.6 million (previous year: €0.8 million). There are no plan assets.

Defined benefit pension commitments

There is a defined benefit pension commitment for a retired former managing director of a subsidiary in Germany. In addition, there are some minor pension commitments under defined benefit plans in Poland.

The calculation of the provision for defined benefit retirement plans is based on the projected unit credit method, in accordance with IAS 19. The present value of the defined benefit obligation (DBO) is calculated by actuaries based on assumptions about life expectancy, increases in salary and retirement income, employee turnover, changes in the interest rate and other computational parameters. After deducting unrecognized service costs, the obligation is accrued under pension provisions.

Actuarial gains and losses based on experience and changes in actuarial assumptions are recognized in equity under other comprehensive income in the period in which they occur, with no effect on the income statement. Past service costs are recognized immediately on the income statement.

The discount factor is an important parameter for calculating the amount of the provision for pensions and similar obligations. For pension obligations, it is determined based on the yields on senior fixed-interest corporate bonds observable in the financial markets on the balance sheet date.

Through pension plans, the Group is normally exposed to the following actuarial risks:

Interest rate risk

A decline in the coupon rate will result in an increase in the plan liability.

Longevity risk

The present value of the defined benefit obligation under the plan is determined based on the best possible estimate of the expected mortality of the employee beneficiary, both during the employment contract and after it has ended. An increase in the life expectancy of the employee beneficiary will lead to an increase in the plan liability.

Salary risk

The present value of the defined benefit obligation under the plan is determined based on the future salaries of the employee beneficiaries. Therefore, increases in the salaries of the employee beneficiaries will lead to an increase in the plan liability.

Inflation risk

Some pension benefits are indexed to inflation and higher inflation will lead to an increase in the plan liability.

The present value of pension commitments under all domestic pension plans is calculated by actuaries based on an assumed discount rate of 1.49% (previous year: 1.49%) in Germany and 3.0% in Poland (previous year: 3.0%), and on future increases in retirement income and salaries of 2.0% (previous year: 2.0%). Employee turnover was taken into account.

The assumptions used to calculate the pension obligation in Germany are based on the “2005G Actuarial Tables” of Klaus Heubeck. A retirement age of 65 is assumed. The assumptions used to calculate the pension obligation in Poland are based on assumptions by Poland’s Central Statistical Office (GUS) and the Government Social Insurance Agency (ZUS). The assumed retirement age is 65 for men and 60 for women.

The Group’s pension provisions changed as follows:

in kEUR	2016	2015
Balance on 1 January	806	797
Interest result with respect to earned pension entitlements	11	11
Benefits paid	-193	-44
Actuarial gains and losses	16	7
Exchange differences	-5	35
Balance on 31 December	635	806

The actuarial gains and loss resulted from the change in financial assumptions.

Sensitivity analyses

Holding the calculation method constant, a 1% change in the aforementioned actuarial assumptions would not result in any material change in the DBO. As a result, we will dispense with a detailed presentation of the sensitivity analysis.

Risk-balancing strategy

Because the amount of the obligation is low, Muehlhan AG has dispensed with a detailed risk management strategy for pension provisions, instead applying the general risk management concept.

Future payments

For 2017 and the following years, the pension payment is expected to be at the same level as in 2016.

Defined contribution pension commitments and government pension plans

Aside from the ongoing contribution payment, defined-contribution pension commitments will not lead to any further pension obligation. Expenditures for defined-contribution pension plans in Germany did not exceed €50,000 (previous year: not more than €50,000). In addition, in France and Poland there are statutory requirements to pay benefits to employees at retirement. The ongoing contributions are included in personnel expenses; any obligations on the balance sheet date are included in personnel provisions (see Section 15, ‘Provisions’).

12. Financial liabilities

The carrying amounts of financial liabilities can be broken down as follows:

in kEUR	31.12.2016	31.12.2015
Non-current		
Liabilities to banks	14,321	15,271
TOTAL	14,321	15,271
Current		
Liabilities to banks	11,954	8,396
Lease liabilities	0	80
TOTAL	11,954	8,476

In 2014, Muehlhan AG rearranged the Group’s financing by concluding a syndicated loan agreement for €42.5 million with Commerzbank AG as the lead bank. The loan is divided into 3 tranches. Tranche A (term loan for €10 million maturing in 2019) was used to redeem the existing bond, plus incidental expenses. Tranche B (term loan for €17.5 million maturing in 2019) was used for growth projects such as company acquisitions. Tranche C (€15.0 million) is a revolving loan that is available until the end of 2017 to finance working capital, with the option of renewing until 2019. All tranches bear interest at EURIBOR plus a margin of between 3.0% and 4.0%, depending on the financial ratios. The main subsidiaries have provided guarantees to the banking syndicate as collateral for the loan. No tangible collateral was provided. Muehlhan AG has committed to comply with terms and conditions for the financing. In addition to obligations to notify the banking syndicate, these primarily include compliance with an equity ratio, a net debt ratio and an interest coverage ratio. The financing terms and conditions were satisfied in the previous year and during the fiscal year. The loans were recorded at amortized cost after allowing for the transaction costs (€1.1 million). The loans totaled €20.7 million on the balance sheet date (previous year: €17.7 million). In addition, the subsidiaries had other non-current and current liabilities to banks.

The MYAG Group has at its disposal master credit lines totaling €44.0 million (previous year: €49.7 million) that include loans that are repaid according to a repayment schedule, as well as freely available cash credit lines which in some cases can also be used for guarantees. In addition, it has guarantee facilities totaling €115.1 million (previous year: €110.6 million), primarily from Euler Hermes Kreditversicherungs AG, Zurich Versicherung Aktiengesellschaft and Zurich Insurance Public Limited Company, USA. In addition to €26.3 million of liabilities to banks (previous year: €23.7 million), guarantee lines totaling €53.6 million were available on 31 December 2016 (previous year: €49.8 million). On 31 December 2016, aside from cash and cash equivalents, the company had at its disposal unutilized loan, overdraft and guarantee facilities in the amount of €79.0 million (previous year: €85.8 million). The effective interest rate on financial liabilities averaged 5.0% during the fiscal year (previous year: 5.2%). Because the effective-interest method was applied, the figures shown on the balance sheet were equal to the fair value.

The term loans will result in cash outflows of €7.3 million in 2017 (previous year, for 2016: €4.0 million) and €7.4 million in 2018 (previous year, for 2017: €5.3 million). Thereafter (up to 5 years), the cash outflow will total €7.2 million (previous year: €10.1 million).

Liabilities under finance leases totaled €0,000 on the balance sheet date (previous year: €80,000). The scope of the Group's finance leases is insignificant.

Application of fire protection on steel construction

13. Derivative financial instruments

As cash flow hedges, Muehlhan AG has entered into interest rate swap transactions to hedge the variable interest rate on the syndicated loan. As of the balance sheet date, the fair value of the interest rate swap was €-17,000 (previous year: €-21,000). The interest rate swaps and the syndicated loan have matching maturities. On the consolidated statement of comprehensive income, the effect of the interest rate swap in the year under review was €2,000 (previous year: €-21,000).

14. Deferred tax liabilities

The company's deferred tax liabilities pertain to the following items:

in kEUR	31.12.2016	31.12.2015
Tangible assets	926	9
Trade receivables	724	1,409
Financial liabilities and provisions	28	105
Settlement according to IAS 12.74	-529	-1,523
TOTAL	**1,149**	0

There are taxable temporary differences relating to investments in subsidiaries (outside basis differences) totaling €1,361,000 (previous year: €1,278,000; corrected) for which no deferred taxes have been recognized in accordance with IAS 12.39 because there are no plans to either distribute profits or to dispose of the investments.

15. Provisions and contingent liabilities

The changes in provisions are shown in the following table:

in kEUR	Balance on 01.01.2016	Utilization	Reversal	Addition	Currency effect	Balance on 31.12.2016
Personnel	516	167	208	1,696	28	1,864
Warranty	602	252	12	1,120	-1	1,457
Tax risks	0	0	0	889	0	889
Litigation	0	0	0	323	-1	322
Anticipated losses	76	0	0	65	0	141
Other	989	293	636	2,300	46	2,408
TOTAL	2,183	712	856	6,392	72	7,081

Provisions for warranties mature within the next two years. All other provisions mature within one year. Other provisions mainly include provisions for outstanding invoices.

On the balance sheet date, there was a contingent liability associated with a damage claim by a customer. This damage claim is based on a service provided by a Group company in 2016. If it is responsible for the damages, Muehlhan has a constructive obligation to pay compensation for the damages it caused. This would involve an outflow of financial resources. Muehlhan is currently working with the customer and the supplier of material to determine the source and cause of the damage. A provision has been set up to cover the estimated constructive obligations. Among other things, the provision includes the fees for an expert opinion and travel expenses. As of the date on which the financial statements were prepared, it was not possible to determine, with adequate reliability, whether remedying the damage will entail a further outflow of funds from Muehlhan or the possible amount of the outflow. Therefore, pursuant to IAS 37.27, no provision was set up to cover expenses exceeding the aforementioned estimated amount.

16. Trade payables

All liabilities have a term to maturity of one year or less. For fair values and carrying amounts, see Note 24, 'Financial instruments'.

17. Other liabilities

The other financial liabilities can be broken down as follows:

in kEUR	31.12.2016	31.12.2015
Liabilities to personnel	8,876	7,374
Sales bonuses/bonuses	887	821
Security deposits	151	250
Other financial liabilities	767	0
TOTAL	10,681	8,445

Other non-financial liabilities can be broken down as follows:

in kEUR	31.12.2016	31.12.2015
Deferrals	2,766	2,072
Liabilities relating to social security	2,293	2,358
Liabilities for other taxes	1,798	2,736
Payments received	664	1,175
Other non-financial liabilities	871	790
TOTAL	8,393	9,131

All other financial and non-financial liabilities are due within one year. For fair values and carrying amounts, see the additional disclosures on financial instruments in Note 24, 'Financial instruments'.

IX. Notes to the income statement

18. Sales revenues and segment reporting

Muehlhan generates sales revenues by providing services in the areas of surface protection, passive fire protection, scaffolding and specialty access technology, steel construction and insulation. For a more detailed description of the geographic segments, please refer to the comments in the Consolidated Management Report. The overview in Section V, 'Consolidated Group', shows which services are provided by each geographic segment.

Segment reporting is based on the management approach, in accordance with IFRS 8. Management control and, therefore, internal reporting are both organized primarily by geographic region. The Group's activities are broken down into the geographic segments of Europe, North America, the Middle East and the Rest of the World. Central functions and consolidation effects are shown separately in order to ensure that they are allocated to the Group as a whole. The Muehlhan Group's internal reporting distinguishes among the following business segments: Ship, Oil & Gas, Renewables and Industry/Infrastructure. Reporting is broken down by external sales revenues and EBIT (operating income) in line with the accounting and valuation methods discussed in these notes.

Assets and liabilities are not broken down by segment, as this information is not collected for internal reporting purposes. The same applies to income taxes paid/income tax refunds. The financial result is primarily allocated to the holding company.

Intersegment sales and revenues are always reported at prices that would also apply to arm's-length transactions. Depending on where the respective companies are headquartered, external sales come primarily from:

in kEUR	2016	2015
Germany	49,959	70,101
Netherlands	30,118	18,907
Poland	27,751	31,822
Denmark	27,710	26,168
USA	26,807	23,122
Great Britain	24,401	28,476
Other	67,580	40,395
TOTAL	254,326	238,991

Other countries each account for less than 10% of the Group's external sales revenues.

Breakdown by geographic segment

2016

in kEUR	Europe	Middle East	North America	Rest of the World	Holding company	Reconciliation	Group
External revenues	186,153	29,884	26,807	11,450	32	0	254,326
Intersegment sales	56	0	0	0	3,690	-3,746	0
Sales revenues	186,209	29,884	26,807	11,450	3,722	-3,746	254,326
EBITDA	10,104	1,119	2,138	1,710	-827	0	14,244
Depreciation and amortization	-5,190	-620	-885	-86	-581	0	-7,362
EBIT	4,914	499	1,253	1,624	-1,408	0	6,882
Capital expenditures	**7,743**	**513**	**414**	**0**	**691**	**0**	**9,361**

2015

in kEUR	Europe	Middle East	North America	Rest of the World	Holding company	Reconciliation	Group
External revenues	188,383	16,756	23,122	10,675	55	0	238,991
Intersegment sales	100	0	0	421	6,385	-6,906	0
Sales revenues	**188,483**	**16,756**	**23,122**	**11,096**	**6,439**	**-6,906**	**238,991**
EBITDA	8,043	2,200	1,220	1,643	-1,452	303	11,957
Depreciation and amortization	-4,934	-524	-835	-45	-402	0	-6,740
EBIT	**3,109**	**1,676**	**385**	**1,598**	**-1,854**	**303**	**5,217**
Capital expenditures	9,427	395	672	2,192	159	0	12,845

The MSI Group, which is allocated to the Rest of the World, generally provides offshore services in international waters.

Deep water building platform “Saipem 7000”, Eemshaven, the Netherlands

Breakdown by business segment

	External revenues		EBIT	
in kEUR	2016	2015	2016	2015
Ship	63,475	82,940	5,030	3,750
Oil & Gas	63,233	52,960	6,499	4,167
Renewables	33,969	23,695	-2,476	-2,472
Industry/Infrastructure	93,619	79,342	3,305	4,186
Central divisions/ Consolidation	30	54	-5,475	-4,414
TOTAL	254,326	238,991	6,882	5,217

The companies are allocated to business segments and services based on business activities during the year under review. Knowledge and the necessary materials and equipment can be transferred quickly within the Group, meaning it is generally quite feasible to enter new business segments and to provide additional services. Such flexibility means we are well equipped to satisfy customer needs.

19. Cost of materials and purchased services

This item may be broken down as follows:

in kEUR	2016	2015
Expenditures for raw materials, consumables and supplies	51,328	41,430
Cost of purchased services	44,711	47,838
TOTAL	96,039	89,268

20. Personnel expenses

The average number of employees was:

Number	2016	2015
Europe (incl. Central divisions)	2,223	1,996
North America	134	142
Middle East	511	508
Rest of the World	13	198
TOTAL	2,881	2,844

Personnel expenses include:

in kEUR	2016	2015
Wages and salaries	87,906	88,170
Social security and post-employment benefit costs	18,152	18,403
TOTAL	106,058	106,573

The expenditure for research and development, which consists mainly of personnel expenses, totaled €0.4 million for the fiscal year (previous year: €0.3 million).

21. Other operating income and expenses

Other operating income (2016: €5,317,000; previous year: €4,670,000) primarily included gains from the disposal of fixed assets, income from non-cash benefits and reversals of provisions. Exchange gains totaled €1,101,000 (previous year: €870,000).

Other operating expenses (2016: €43,302,000; previous year: €35,863,000) primarily included travel expenses, rentals and incidental expenses, motor vehicle expenses, repairs, legal and consulting expenses, staff training expenses, insurance expenses, impairment losses of trade receivables and lease expenses under operating leases. Expenses for exchange losses totaled €1,652,000 (previous year: €1,634,000).

The aforementioned exchange gains and losses relate to translation adjustments within the meaning of IAS 21.52a.

22. Financial result

The financial result included €268,000 (previous year: €65,000) of interest income and total financing expenses of €1,754,000 (previous year: €1,941,000) consisting of interest expense and guarantee fees.

23. Tax result

Taxes on income may be broken down as follows:

in kEUR	2016	2015
Current income tax expense	2,442	1,752
Deferred taxes (expense)	341	27
TOTAL	2,784	1,779

Reconciliation of theoretical and actual tax expenses:

in kEUR	2016	2015
Earnings before taxes from continuing operations	5,396	3,341
Theoretical tax expense at the tax rate of MYAG: 31.5%	-1,700	-1,052
Differing foreign tax rates	809	914
Tax-free income and non-deductible expenses	48	-133
Change in valuation allowance resp. non-capitalization of deferred tax assets	-1,961	-2,052
Effects of amortization of goodwill	-17	0
Effects of changes in tax rates	0	15
Adjustments as a result of tax refunds and utilization of unrecognized loss carryforwards	445	215
Prior period tax expenses (previous year: income)	-291	41
Other	-117	273
Income tax expense for continuing operations recognized in the income statement	**-2,784**	**-1,779**
Effective tax rate	51.6%	53.3%

24. Financial instruments

The fair values of financial instruments were determined on the basis of market information available on the balance sheet date and the methods and assumptions described below.

The fair value of financial instruments traded in the active market is based on the quoted market price on the balance sheet date. The market is deemed to be active if quoted prices can be obtained easily and regularly from a dealer, a broker, an industry group, a pricing service or a regulatory authority and such prices represent current market transactions that occur on a regular basis as arm's-length transactions (Level 1).

The fair value of financial instruments not traded in an active market (e.g., forward exchange transactions, commodity futures) is determined using customary market valuation models, taking into account the observable data available on the valuation date. To determine the fair value of forward exchange transactions, the contracted forward rate is compared with the forward rate on the balance sheet date for the residual term of the respective contract. The fair value is thus estimated on the basis of the results of a valuation method that to the greatest extent possible is based on market data and to the least extent possible on company-specific data. If all the data required to calculate the fair value are observable, the instrument is assigned to Level 2.

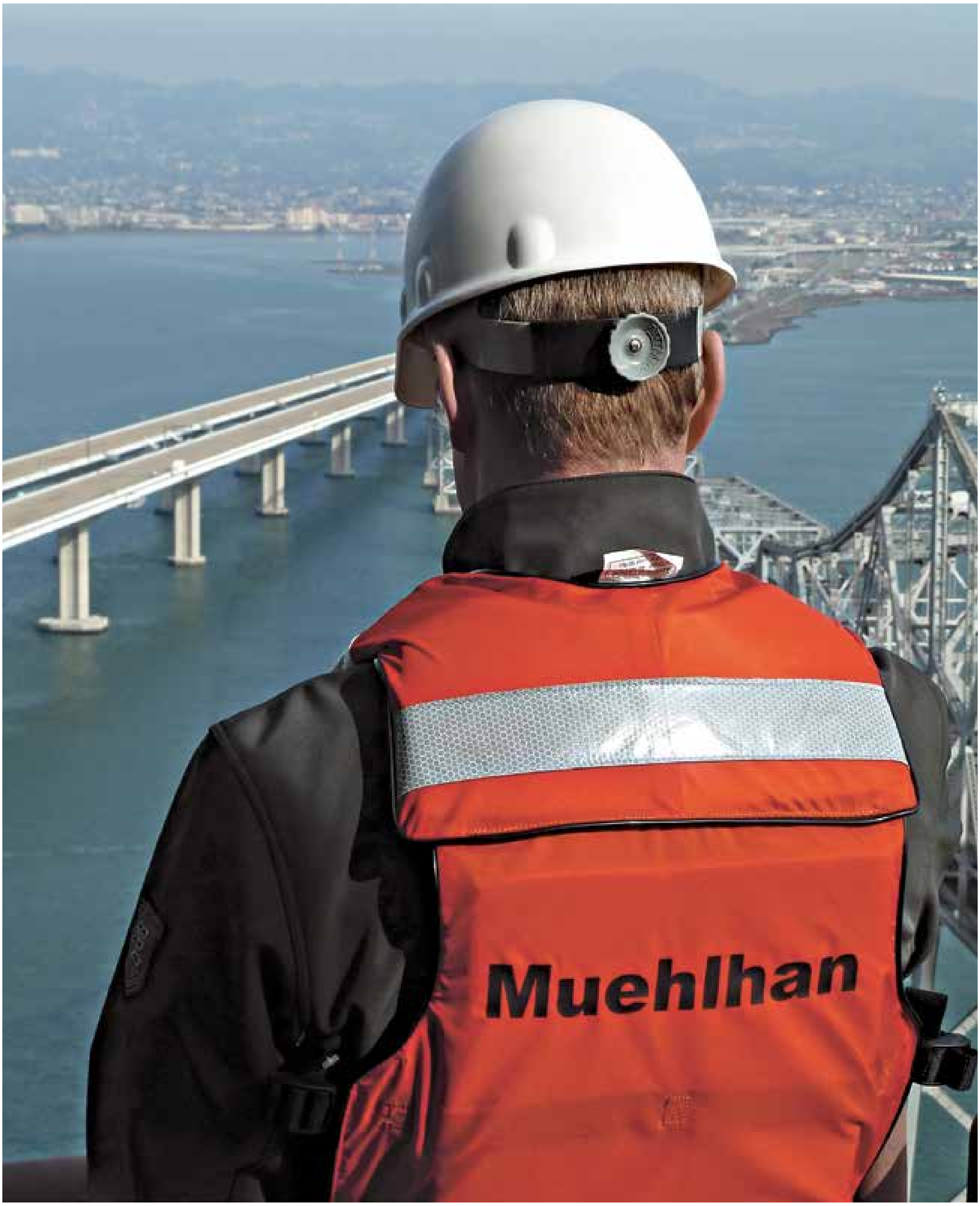
If one or more significant data points is/are not based on observable market data, the instrument is assigned to Level 3.

The fair value of bonds that are not actively traded is determined by discounting the future cash flows. The discounting is carried out by applying currently customary market interest rates over the residual term of the financial instruments.

For current trade receivables, cash and cash equivalents and other current receivables, it is assumed that, because of their short residual terms, the nominal amount less impairment losses is equal to the fair value.

The fair values of non-current liabilities to banks and other non-current financial liabilities are calculated as present values by discounting future cash flows. Any necessary discounting is carried out by applying current customary market interest rates over the residual term of the financial instruments. For trade payables and other current financial liabilities, it is assumed that, because of their short residual terms, fair values are equal to the carrying amounts.

As it is impossible to reliably determine their fair value, equity investments that qualify as "available for sale" (AfS) are stated at acquisition cost. There is no active market for any of the equity investments. In the absence of information about future cash flows, it is impossible to reliably calculate a fair value either using valuation models or on the basis of comparable transactions. There were no signs of a permanent impairment on the balance sheet date. There are currently no plans for large-scale disposals of equity investments.



Richmond Bay Bridge, California/USA

The carrying amounts and/or fair values of the financial instruments are shown below:

in kEUR	Valuation category according to IAS 39	Carrying amounts 31.12.2016	Carrying amounts 31.12.2015	Fair values 31.12.2016	Fair values 31.12.2015
Non-current financial assets					
Other financial assets/investments	(AfS)	30	30	n/a	n/a
Total non-current financial assets		**30**	**30**	**n/a**	**n/a**
Current financial assets					
Trade receivables	(LaR)	67,818	54,480	67,818	54,480
Cash and cash equivalents	(LaR)	8,476	8,780	8,476	8,780
Other financial assets	(LaR)	2,799	2,310	2,799	2,310
Total current financial assets		**79,093**	65,570	**79,093**	65,570

AfS = Available for Sale
LaR = Loan and Receivables

in kEUR	Valuation category according to IAS 39	Carrying amounts 31.12.2016	Carrying amounts 31.12.2015	Fair values 31.12.2016	Fair values 31.12.2015
Non-current financial liabilities					
Loans and other non-current financial liabilities	(FLAC)	14,321	15,271	14,643	15,592
Total non-current financial liabilities		**14,321**	**15,271**	**14,643**	**15,592**
Current financial liabilities					
Current financial liabilities	(FLAC)	11,954	8,396	11,954	8,396
Lease liabilities	(FLAC)	0	80	0	80
Trade payables	(FLAC)	22,564	24,145	22,564	24,145
Other financial liabilities	(FLAC)	10,681	8,445	10,681	8,445
Total current financial liabilities		**45,199**	41,066	**45,199**	41,066

FLAC = Financial liabilities measured at amortised cost

Liabilities to banks are valued at amortized cost using the effective interest method. If they were measured at fair value pursuant to IAS 39, the Level 2 valuation method would be used.

25. Earnings per share

The earnings per share figure is calculated as follows:

		2016	2015
Consolidated net income allocable to equity investors of Muehlhan AG	in € thousand	1,979	1,399
less result from discontinued operations	in € thousand	-225	-545
Net income/loss	in € thousand	**1,754**	**854**
Average number of ordinary shares	Quantity	19,046,566	18,899,399
Earnings per share from continuing operations	€	**0.09**	**0.05**

Since there were no potential ordinary shares as of the balance sheet date, basic and diluted earnings per share are identical.

26. Consolidated statement of comprehensive income

The items "Remeasurement of defined benefit plans" and "Future cash flow hedge" contain a tax component of €-3,000 and €-1,000, respectively (previous year: €27,000 and €7,000). As in the previous year, the item "Currency translation differences" does not contain a tax component.

The currency translation differences reclassified and recognized in the consolidated income statement resulted from the deconsolidation of Muehlhan Malaysia (MM).

X. Other disclosures

27. Risk management

Capital risk management

The Muehlhan Group pursues the goal of securing the entire amount of equity reported on the balance sheet for the long term while generating a reasonable return on capital employed. At the same time, minimum capital requirements are taken into account. In order to secure the equity shown on the balance sheet, the Group may, among other things, change dividend payments to shareholders (see Section 10, 'Equity'). The objectives, guidelines and procedures are the same as in the previous year. The Group pursues the goal of generating a reasonable return on capital by continually adjusting and expanding the range of services offered, through efficient corporate management and through organic growth and acquisitions.

As of 31 December 2016, the Group had a consolidated equity ratio of 46.5% (previous year: 47.8%). Every month, external minimum capital requirements are reviewed in connection with the syndicated loan agreement (see Section 12, 'Financial liabilities').

Financial risk management

The parent company performs various treasury services for the Group companies. On the one hand, it prepares a rolling liquidity forecast at regular intervals; on the other hand, a cash pooling system is used whenever it is structurally possible to do so. In addition, the parent company administers, monitors and issues loans and provides bonding capacity, both on its own and in cooperation with specialized outside companies. We assess the specific risk exposures as follows:

Default risk

Default or credit risks exist when contractual partners do not meet their obligations. Muehlhan regularly analyzes the creditworthiness of every major debtor and grants credit limits on this basis. Because the Muehlhan Group operates worldwide and has a diversified customer base, there are no significant concentrations of default risk. The Muehlhan Group's maximum default risk is equal to the carrying amount of all financial assets plus the not yet invoiced portion of contract performance bonds issued minus receivables covered by credit insurance and prepayments received (see Section 5, 'Trade receivables').

Interest rate risk

Most of the Group's financial liabilities are long-term and hedged against changes in interest rates through swap transactions (see Section 13, 'Derivative financial instruments'). The Group therefore has no significant interest rate risk exposure.

Liquidity risk

Liquidity planning systems ensure early detection of any risks from cash flow fluctuations. The syndicated loan agreement concluded in 2014 has improved the Group's long-term liquidity situation and provides flexibility for financing growth projects (see Section 12, 'Financial liabilities').

Currency risk

More than 51% (previous year: 61%) of the Group's sales revenues are generated in Euros or Danish Krone, which scarcely fluctuate in relation to the Euro. Basically, the remaining sales revenues generated in foreign currencies are offset by expenses in the same currencies, meaning that the currency risk from operations for the other Group companies is limited to the respective companies' contribution to earnings. This does not apply to the MSI Group, whose operating business has exposure to foreign currency risks involving the Brazilian Real, the Norwegian Krone and the Euro. The Polish companies are exposed to currency risks between the Polish Zloty and the currencies of the countries in which they operate. The issuance of internal Group loans from the holding company to foreign subsidiaries, and vice-versa, also involves currency risks.

As a matter of principle, the Group does not hedge this risk. The Group posted a net currency loss of €0.6 million in 2016 (previous year: €0.7 million).

28. Assumptions and estimates

To fulfill our duties when preparing the consolidated financial statements, we sometimes have to make discretionary decisions, assumptions and estimates that affect the amounts of assets and liabilities, income, expenses and contingent liabilities reported, as well as how these are classified. Estimates and discretionary decisions are reassessed continually and are based on historical experience and other factors, including expectations about future events that appear reasonable given the circumstances. The Group makes assumptions and estimates about the future. Actual values may differ from the assumptions and estimates in particular instances. Adjustments are reported as gains or losses on the date when better information becomes available.

On the balance sheet date, management essentially made the following future-oriented assumptions and identified discretionary decisions and major sources of uncertainty relating to estimates which may give rise to a significant risk that a substantial adjustment will have to be made within the next fiscal year to the assets and liabilities shown:

- Testing goodwill for impairment: The impairment test for goodwill is based on future-oriented assumptions. The Group conducts these tests annually and more often if there is evidence that a goodwill impairment might have occurred. In such a case, the cash-generating unit's recoverable amount – equal to the greater of the fair value less costs to sell and the value in use – must be determined. Calculating the value in use involves making adjustments and estimates relating to the projection and discounting of future cash flows. Although the company believes the assumptions used to calculate the recoverable amount are appropriate, any unforeseeable changes in these assumptions could result in impairment losses which could adversely affect the net assets, financial position and results of operations.

- Impairments: The Group tests its non-current assets for impairment. Above all, such a test involves making estimates of future cash flows. A future change in economic and financial circumstances may lead to lower cash flows and thus to impairment losses.

- Valuation allowances: The Group sets up valuation allowances for doubtful accounts to reflect expected losses due to customers' insolvency. The Group bases its assessment of the appropriateness of valuation allowances for doubtful accounts on the maturity structure of receivable balances and past empirical data on the derecognition of receivables, customers' creditworthiness and changes in payment terms. If the customers' financial situation deteriorates, the actual amounts that have to be derecognized could exceed expectations.

- Taxes on income: The Group has a duty to pay income taxes in various countries. Key assumptions are therefore required to calculate the worldwide provision for income taxes. For some business transactions and calculations, the ultimate level of taxation cannot be determined conclusively during the normal course of business. If the ultimate level of taxation of these business transactions differs from the initial assumptions, this will affect actual and deferred taxes in the period in which the level of taxation is determined conclusively.

  Estimates are required in order to set up tax receivables and provisions and to assess the recoverability of deferred tax assets resulting from loss carryforwards. In particular, when judging the recoverability of deferred tax assets, there is uncertainty regarding the amount and probability of future taxable income.

  Deferred tax assets and liabilities are measured on the basis of statutory tax rates for the future fiscal years in which the Group expects the temporary differences to reverse. If the tax rate changes, the effect of the new tax rate on deferred tax assets and liabilities is recognized in profit or loss in the reporting period in which the tax rate change is enacted.

- Fair value of derivative financial instruments and other financial instruments: The fair values of derivatives and other financial instruments not traded in an active market are determined using appropriate measurement techniques selected from numerous methods. The valuation parameters required to value the instruments on the balance sheet date are based as far as possible on available market terms and conditions and as little as possible on company-specific data. The Group uses the present value method to determine the fair value of financial assets available for sale that are not traded in active markets.

- Pension provisions: Pension obligations for benefits to employees are covered by plans that are classified and reported as defined benefit plans. Retirement pension expenses are calculated in accordance with actuarial methods based on assumptions about the interest rate, life expectancy, salary and pension trends, employee turnover and other calculation parameters. Changes in assumptions may affect the future amount of pension expenses.

- Other provisions: Other provisions are recognized on the date when an obligation to external third parties is probable and can be reliably estimated. The Group measured provisions in accordance with IAS 37. For other provisions, estimates are made regarding the amount and likely utilization.

- Revenue recognition: Some revenues from the provision of services are reported using the percentage-of-completion method. Here, the Group estimates the ratio of services already performed as of the balance sheet date to the total amount of services to be performed.

- Accounting for acquisitions: When acquiring equity stakes, estimates are required in order to determine the fair value of assets and liabilities.

- Useful lives: The expected useful life of fixed assets is based on assumptions and estimates.

29. Related party transactions

Transactions between affiliated companies have been eliminated upon consolidation and are not discussed in these notes. Transactions with related parties are conducted at terms that would also apply to arm's-length transactions. Only a small number of transactions involved unconsolidated Group companies (sales revenues of unconsolidated companies with consolidated companies: €0.2 million [previous year: €0.2 million]).

The composition of the Executive Board and the Supervisory Board is discussed in Sections 33 and 34. Supervisory Board member Mrs Andrea Brandt (maiden name: Greverath) is also a related party within the meaning of IAS 24.9. Mrs Greverath and the companies controlled by her are referred to as the "Greverath Property" in the following comments. In 2016, the Group's expenses relating to the Greverath Property totaled €253,000 (previous year: €277,000) and consisted of rent, real-estate taxes and Supervisory Board compensation (see Section 34, 'Supervisory Board').

As of the balance sheet date, trade payables owed to the Greverath Property totaled €1,000 (previous year: €0,000).

30. Obligations under operating leases

The company rents/leases office space, production halls, technical equipment, office equipment and vehicles. Agreements have remaining lease terms of up to five years. Some contracts contain a renewal option under which the term of the agreement may be extended if the contractually agreed term has not yet expired. In most cases, premature termination is also possible. Existing price adjustment clauses merely refer to passing on tax and operating cost adjustments. Some contracts contain an option to purchase the asset at the current market price at the end of the contract. The agreements are customary in the industry. The respective obligations to make lease payments will lead to cash outflows of €3.3 million in 2017 (previous year: €4.0 million) and €9.9 million for the following period (up to 5 years) (previous year: €8.5 million). At issue here are minimum lease payments.

31. Other financial commitments and contingent liabilities

On the balance sheet date, consortium memberships and performance bonds issued entailed the customary contingent liabilities.

There were no other financial obligations of material significance as of the balance sheet date.

32. Auditors' fee

The Annual General Meeting appointed Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Hamburg, to audit the consolidated financial statements for fiscal year 2016. In 2016, the auditors' total fees for financial statement auditing services amounted to €122,000 (previous year: €138,000) and for other audit-related services, €2,000 (previous year: €2,000), bringing the total amount charged for all services to €124,000 (previous year: €213,000). The fee for auditing MYAG's separate financial statements totaled €38,000 (previous year: €40,000).

The decrease in total services invoiced was due to the change in auditors in 2016. The previous auditing firm had also charged for tax advisory services and other services in the previous year. Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Hamburg, did not perform such services during the year under review.

33. Executive Board

The following persons were members of the parent company's Executive Board:

– Mr Stefan Müller-Arends Chairman of the Executive Board, St Augustin
– Dr Andreas C. Krüger, Executive Board member in charge of Marketing and Sales, Hamburg
– Mr James West, Executive Board member with responsibility for the Oil & Gas segment, Aberdeenshire, Great Britain

One Executive Board member may represent the company jointly with another Executive Board member or an authorized signatory (Prokurist), with the authority to enter into legal transactions on behalf of the company, including legal transactions with a third party where he is acting as the legal representative of such third party. The compensation for the Executive Board covered by Muehlhan AG totaled €1,036,000 for the fiscal year, including €732,000 of ongoing fixed compensation, €195,000 of ongoing variable compensation and €109,000 of expenses for the bonus program (previous year: €1,279,000, including €924,000 of fixed compensation, €166,000 of variable compensation and €189,000 of expenses for the bonus program). The allocation of total compensation to individual components during the previous year was corrected during the year under review. Expenses relating to the bonus program constitute share-based compensation; the other compensation consists of payments that are due in the short term.

34. Supervisory Board

During the year under review, the following persons were members of the Supervisory Board:

– Mrs Andrea Brandt, (maiden name: Greverath), Managing Partner of GIVE Capital GmbH, Hamburg
– Dipl.-Ing. Dr Gottfried Neuhaus, Managing Partner of Neuhaus Partners GmbH, Hamburg
– Mr Philip Percival, Managing Director of Syntegra Capital Limited, London, Great Britain (Chairman)

The Supervisory Board was paid €55,000 for reimbursement of expenses for the fiscal year (previous year: €53,000), of which the fixed component accounted for €50,000 (previous year: also €50,000) and the variable component for €5,000 (previous year: €3,000). Payments to reimburse expenses are due within the short term.

35. Events after the reporting date

At the beginning of January 2017, Muehlhan took over the business operations of Degraform Bekistingen en Steigers BV, strengthening its scaffolding business in the Netherlands. In March 2017, Muehlhan's Danish subsidiary, Muehlhan A/S, and Maersk concluded a multi-year agreement with an order volume of €100 to €130 million over the next five years. The contract covers stable, steady work volumes without any major risks. As a result, the contribution to the Muehlhan Group's earnings will be below average.

Apart from that, there were no events or new information after the balance sheet date of material significance for the business and/or for assessing the business.

36. Approval of the financial statements

The consolidated financial statements and the Group management report of Muehlhan AG are published in the electronic version of the Federal Gazette [Bundesanzeiger]. On 21 March 2017, the consolidated financial statements and the Group management report were approved for publication by the Executive Board.

Hamburg, 21 March 2017
The Executive Board

Stefan Müller-Arends | Dr Andreas C. Krüger | James West

05 Additional Information

AUDITORS' REPORT*

"We have audited the consolidated financial statements prepared by Muehlhan AG, Hamburg, comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement, and the notes to the consolidated financial statements, together with the group management report for the financial year from 1 January 2016 to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. [paragraph] 1 HGB and supplementary provisions of the articles of incorporation are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements for the financial year from 1 January 2016 to 31 December 2016 of the Muehlhan AG, Hamburg, comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements as well as with the relevant legal and regulatory requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Hamburg, 21 March 2017

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

von Oertzen	Pritsch
Wirtschaftsprüfer	Wirtschaftsprüfer

* Translation of the German Auditors' Report

CONTACT

Muehlhan AG
Schlinckstrasse 3
21107 Hamburg, Germany
Phone +49 (0)40 752 71-0
Fax +49 (0)40 752 71-123
www.muehlhan.com

Investor Relations
Stefan Müller-Arends
Phone +49 (0)40 752 71-150
investorrelations@muehlhan.com

FINANCIAL CALENDAR

4 May 2017	Publication of 1st quarter figures 2017
16 May 2017	Annual General Meeting Muehlhan AG
31 July 2017	Publication of half-yearly report 2017
9 November 2017	Publication of nine-month figures 2017

IMPRINT

Publisher: The Executive Board of Muehlhan AG
Editing and Coordination: Frithjof Dorowski
Concept and Design: Berichtsmanufaktur GmbH, Hamburg
Photography: Muehlhan Group
Printing: Dräger+ Wullenwever print+media Lübeck GmbH & Co. KG
Translation: Thomas Carlsen Fachübersetzungen
Status: March 2017

NOTES

The Annual Report is published in German and English. The German version is authoritative.
For further information about the company visit the website at www.muehlhan.com.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements related to the prospects and progress of Muehlhan AG. These statements reflect the current views of the management and are based on projections, estimates and expectations. Our assumptions are subject to risks and uncertainties, and actual results may vary materially. Although we believe these forward-looking statements to be realistic, there can be no guarantee.

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