Muehlhan

Annual Report 2015

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 world-wide, we generated €239 million of sales revenues in 2015.

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[1]

in kEUR		2015	2014[2]
Result			
Sales		238,991	213,068
EBITDA[3]		11,957	13,185
EBIT[4]		5,217	7,529
EBT[5]		3,341	5,169
Result from continuing operations		1,562	3,810
Result from discontinued operations		545	-1,486
Earnings per share from continuing operations	in EUR	0.05	0.16
Consolidated earnings after non-controlling interests		1,399	1,560
Cash flow		12,670	12,116
Investments for fixed assets		10,790	13,673
Depreciation		6,740	5,656
Balance sheet		**31.12.2015**	**31.12.2014**
Balance sheet total		137,952	118,517
Current assets		79,290	67,643
Fixed assets[6]		53,074	47,567
Equity		65,948	61,268
Employees		**2015**	**2014**
Annual average headcount people	number	2,844	2,675

[1] Due to the closure of the Singapore business segment, the separate financial statements prepared in accordance with IFRS 5 break earnings down into earnings from continuing operations and earnings from discontinued operations.
[2] Figures adjusted according to IFRS 5
[3] EBITDA: Profit from operations and depreciation
[4] EBIT: Profit from operations
[5] EBT: Earnings before taxes
[6] Fixed assets: Total of non-current assets less deferred tax assets

Our services

Surface Protection

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

5 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.

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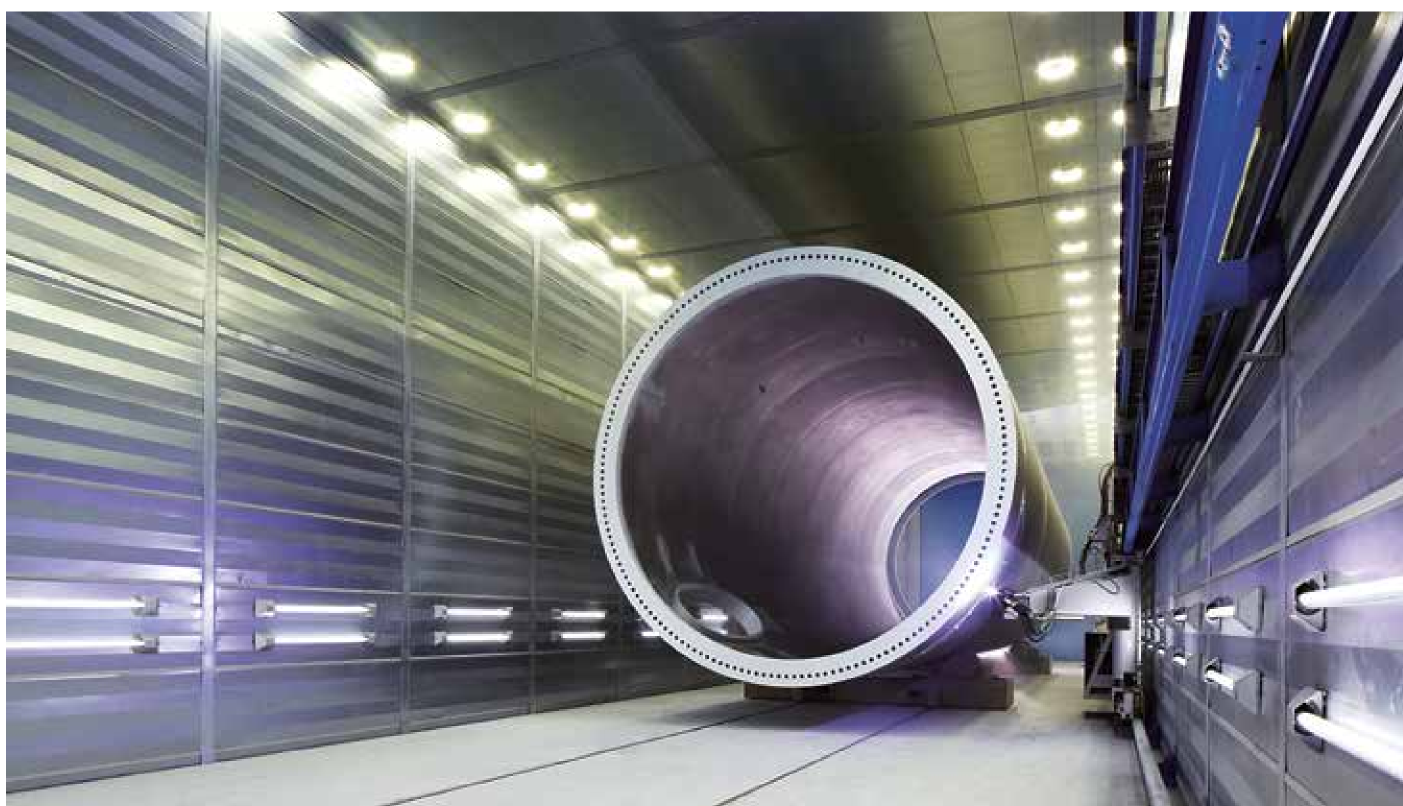
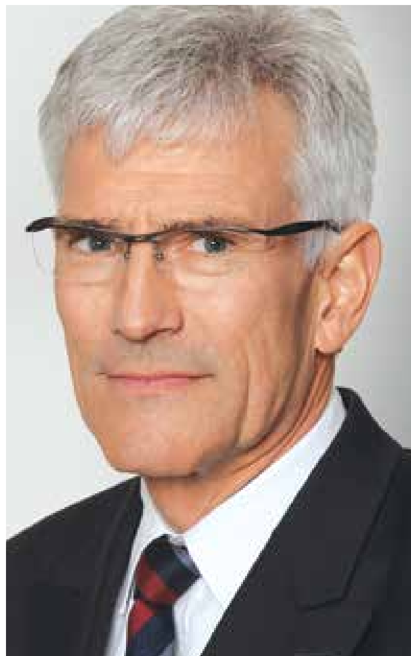


01 Management



Executive Board

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

Stefan Müller-Arends is a graduate in business administration. Following positions as controller and CFO, for example at the Rheinbraun AG and the French DMC S.A., Mr Müller-Arends became CEO of the Mauser AG, a company of the packaging industry sector. 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 an engineering doctorate degree. He has many years of management experience in both German and foreign industrial companies, among others as a Director of Friatec AG, Mannheim. He has served as CEO of the Muehlhan Group since 2005. Dr Krüger has been responsible for the sector Marketing / Sales since 2011.

James West
Member of the Executive Board
Aberdeenshire, Great Britain

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

Dear Shareholder,

During the closing weeks of 2014, we discussed the extent to which the oil-price trend might affect our business in 2015. Although we had adjusted our budget for the reporting year to take this into account, the impact of the drastic drop in the oil price and the dramatic reaction to it by our customers only became clear over the course of the year. Looking back, it is obvious that we underestimated the magnitude of this development. Muehlhan's traditional business – the maritime sector – presented additional challenges. Having already decided the previous year to withdraw from Singapore as prices were no longer adequate, we were forced to reach the same conclusion regarding a major customer in Germany from which we had been unable to earn any money for a number of years despite productivity increases.

With 2015 undoubtedly deserving to be called a "difficult" year, although our €5.2 of EBIT was considerably lower than the prior-year figure of €7.5 million, it nevertheless demonstrates that diversifying services and markets is the right approach to stabilizing Muehlhan against upheavals and distortions in the market. The significant decrease in earnings is also attributable to the adjustments for the results of the business segment in Singapore, which we are currently shutting down following substantial losses. Thanks to some large projects, as well as growth in the low-margin – but risk-free – labour supply, sales revenues jumped 12% year-on-year to a record high of €239 million.

In 2015, we continued to work on implementing and pursuing our strategy. This involves diversifying the markets in which Muehlhan offers its services in order to reduce dependence on the crisis-ridden maritime sector. At the same time, we are expanding the range of services we offer while focusing on scaffolding, fire protection and insulation. Our acquisition during the first quarter of a majority stake in the company Maritime Services International ("MSI") is one component of this diversification. MSI provides offshore services to customers in the oil and gas business and has been very successful despite the tough market environment.

In spite of the current weakness in the oil and gas market, we see no reason to change our strategic focus. Unlike in the maritime sector, where most of the European shipbuilding industry has permanently relocated to Asia, we assume that the situation in the oil and gas industry will return to normal when the price of oil increases.

We would like to thank our more than 2,800 employees for their steadfast commitment in a difficult environment. We also want to thank our shareholders, partners and business associates, some 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.

Hamburg, March 2016

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 Greverath
Hamburg, Germany

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

Muehlhan is in the midst of an extensive, lengthy process of change. It affects the markets in which the Group operates, the range of services it offers to its customers and the regions in which the Group would like to maintain a presence. In the maritime sector, the challenge is to counter the transfer of large swathes of the shipbuilding industry from Europe and America to Asia by entering new markets. This must be accompanied by an expansion of the services offered. Increasingly, Muehlhan's traditional core area, surface protection, is being supplemented by scaffolding, fire protection and insulation services. When the Singapore site closes during the first quarter of 2016, the withdrawal from the Far East will have been completed. Muehlhan will then concentrate on markets where it possesses the required critical mass: Europe, North America and the Middle East.

The collapse in the price of oil is yet another event that has adversely affected the company's performance to an extent that could not have been foreseen. In light of these particular challenges, the Supervisory Board continues to view the performance of the Muehlhan Group as positive, although the difficulties in the oil and gas market may also negatively affect this year.

During the past year, management continued to work on internal improvements. At the same time, additional new decisions on the strategic course for the company were adopted in consultation with the Supervisory Board. One example is the acquisition of the offshore service company Marine Services International ("MSI").

Focal points of Supervisory Board deliberations

As in previous year, in fiscal year 2015, 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 2015, 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 and medium-term business plans of Muehlhan AG and of the subsidiaries.

A total of five meetings were held in 2015 and attended by the Executive Board: on 24 March, 18 May, 21 July, 5 November and 15 December 2015. In addition, a Supervisory Board meeting was conducted via teleconference on 14 January 2015. 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 2015 meetings of the Supervisory Board:

During the Supervisory Board's teleconference on 14 January 2015, the participants mainly discussed and approved the 2015 budget and dealt with the procedure for and status of the acquisition of Marine Services International ("MSI").

The main focus of the Supervisory Board meeting on 24 March 2015 was on the consolidated financial statements and the audit of the consolidated financial statements.

At the meeting following the Annual General Meeting on 18 May 2015, current events were discussed and the decision was made to shut down the operations in Singapore.

The Supervisory Board meeting on 21 July 2015 discussed the consequences of the oil-price trend for the Muehlhan Group and options for countering the negative impact. In addition, the Executive Board gave the Supervisory Board a detailed briefing on the background to the plans to end the Group's collaboration with a major German client.

The Supervisory Board meeting held on 5 November 2015 considered potential acquisitions of other companies that could support the Group's growth strategy. At each meeting, the Supervisory Board and the Executive Board discussed potential acquisitions and how they should be prioritized. In addition, the current status of efforts to terminate activities in Singapore was addressed. The Executive Board continued to work on selling the property there and on the separate sale of shares in the operating company.

The last Supervisory Board meeting of the year on 15 December 2015 discussed and approved the 2016 budget.

No committees were set up.

Separate financial statements 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).

The Supervisory Board commissioned BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, to audit the financial statements of Muehlhan AG and of the Group pursuant to the resolution adopted by Muehlhan AG's Annual General Meeting on 19 May 2015. BDO has audited the consolidated financial statements for the period ending on 31 December 2015 and the Group management report for the fiscal year beginning on 1 January 2015 and ending on 31 December 2015 and the separate financial statements of Muehlhan AG for the period ending on 31 December 2015 and the management report for Muehlhan AG for the fiscal year beginning on 1 January 2015 and ending on 31 December 2015 and has given them an unqualified audit opinion. The audit focused on the following:

- Measurement of assets and liabilities
- Completeness of provisions, accruals/deferrals and liabilities
- Risk provisions have been adequately recognized
- Expenses and income are recognized in the period in which they are incurred/earned
- Complete and accurate presentation of the net assets, financial position and results of operations of Muehlhan AG and the Group.

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 22 March 2016, 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 2015. 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 contained in the report is correct,
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

Fiscal year 2015 was a successful one for the Muehlhan Group in that it was largely able to offset the adverse impacts of a difficult market environment by increasingly diversifying its markets and services. Consequently, Muehlhan has built a strong foundation that will likewise enable it to successfully meet the challenges that lie ahead.

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 2016

Philip Percival
Chairman of the Supervisory Board of Muehlhan AG

02 Our Share

2015 was a difficult year on the stock market for Muehlhan's share. For the year as a whole, the share price lost 35%.

After ending 2014 at a closing price of €2.649, Muehlhan's share had a positive first quarter of 2015. From a technical point of view, it cleared the important €2.7 mark and held there in January. In the same month, it also reached €3.070, its high point for the year. Subsequently, the share's price trend was mixed, initially remaining above the €2.7 boundary at the end of the day on 17 March, then trading at an intraday low of €2.661 on 30 March and ending the quarter at €2.729. Compared to the share price at the end of 2014, this was equal to an increase of 3%.

When the company's figures were published on 2 April, the share came under considerable pressure. Subsequent selling after it fell below the 200-day line then caused the share price to drop as low as €2.201 in April. In June, Muehlhan's share price was negatively affected by the general equity-market decline. The Greek crisis, in particular, caused Muehlhan's share price to decrease, ending the second quarter at €2.12 – down 22% from the first quarter.

This was followed by a drop in prices on global equity markets in September to which the Muehlhan share was not immune, with the downward trend leading Muehlhan's share price to close at €1.96 at the end of the third quarter – an 8% decline from the second quarter.

The share's performance at the beginning of the fourth quarter was uneven. Following publication of figures for the first nine months, the share price fell amidst high trading to €1.736 Analysts at M.M. Warburg confirmed their "buy" recommendation for Muehlhan's share in November, but with the price target reduced from €3.30 to €2.80. Although the share price initially stabilized, it again came under pressure in December in the wake of the general trend on the equity markets. The share closed the year at a price of €1.712 – 13% lower than at the end of the third quarter.

For the year as a whole, the share price decreased by €0.937 to €1.712 – a 35% drop in value. Compared with the previous year, market capitalization decreased by €18.3 million to €33.4 million.

As of the editorial deadline, the market capitalization stood at €35.1 million (Xetra closing price on 30 March 2016: €1.800).

Share performance 2015

Share key figures

Nominal (accounting) value	No-par-value bearer shares
Number of shares issued	19,500,000
Initial listing	26.10.2006
Issue price	EUR 5.80
Highest price (Xetra) in 2015	EUR 3.070
Lowest price (Xetra) in 2015	EUR 1.601
Designated Sponsor	equinet Bank AG, Frankfurt
Coverage	M.M. Warburg Research, Hamburg Hauck & Aufhäuser, Hamburg
Share buyback handled by	equinet Bank AG, Frankfurt
Market capitalization as of 31 December 2015 (Xetra: EUR 1.712)	33,384,000

Changes in shareholder structure

On 12 June 2015, GIVE Capital GmbH purchased 750,000 shares (3.85% of the total of 19,500,000 shares) from Syntegra Investments I S.à.r.l. As a result, the founding family now holds 50.1% of the shares and voting rights. There were no other relevant transactions. In addition to the major shareholdings, around 27% of the shares are in free float, held primarily by institutional investors.

Shareholder structure as of 31 December 2015

	Number of shares held	Shareholdings in %
Greverath Investment Verwaltungs- und Erhaltungs-GbR	4,650,000	23.85
Syntegra Investments I S.à.r.l.	3,360,847	17.24
GIVE Maritime & Industrial Services GmbH	2,713,000	13.91
GIVE Capital GmbH	1,270,000	6.51
Management and Supervisory Board		
Angelika Ebba Greverath	100,000	0.51
Dr Kira Menz	3,645	0.02
Stefan Müller-Arends	373,876	1.92
Dr Andreas C. Krüger	191,653	0.98
James West	70,708	0.36
Dr Wulf-Dieter H. Greverath	1,049,107	5.38
Andrea Greverath	3,645	0.02
Muehlhan AG Treasury shares	453,957	2.33
Free Float	5,259,562	26.97
	19,500,000	**100.00**

03 Group Management Report

Overview

In 2015, the Muehlhan Group successfully proceeded with its transformation process, but was unable to maintain the upward trend in earnings seen in recent years to the extent intended. Sales revenues increased 12% to €239.0 million and although EBIT dropped 30% to €5.2 million, consolidated net income nevertheless remained virtually unchanged at €2.1 million. The different performance at the two earnings levels reflected the elimination of the Singaporean businesses that are currently being shut down. Pursuant to IFRS requirements, these are eliminated from EBIT and added back below operating income. In 2014, the company reported EBIT of €-1.5 million in Singapore, compared to a gain of €0.5 million during the year under review from the disposal of assets related to the shutdown.

The Muehlhan Group's continuing unsatisfactory level of profitability can be traced back to its historic roots in the maritime markets, which for years have been undergoing a profound structural change. In 2015, another one of the Muehlhan Group's core markets came under pressure due to the drop in the price of oil. The company had not expected the decline in the price of oil or the impact thereof to be of this magnitude. Although the Executive Board and the Supervisory Board believe that the critical developments in the two markets need to be evaluated differently in terms of their duration and future course, both events do highlight the necessity of the strategy being pursued by management to diversify Muehlhan and to make it more resilient in the face of setbacks in individual markets. To accomplish this, the company is expanding the range of services offered, de-emphasizing corrosion-protection services and emphasizing other services such as scaffolding, fire protection and insulation. Such a transformation process takes time and is the result of continuous internal work combined with corporate acquisitions in cases where the tradeoff between strategic match, earnings and price is appropriate.

The Executive Board is convinced that it can continue the Group's upward trend – which, in EBIT terms, was interrupted during the year under review – in 2016 and the years to come and accelerate the trend through increases in efficiency and acquisitions in the strategically defined growth areas of Oil & Gas and Industry/Infrastructure. Although the Oil & Gas segment can be expected to suffer for some time from the still very low oil price and the resulting unwillingness of customers to undertake capital expenditures or spend money on maintenance work, the Executive and Supervisory Boards nevertheless view this as a countercyclical opportunity to benefit from this trend.

Group Fundamentals

The Group's business model

High-quality provider of surface protection, scaffolding, steel construction and industrial services

Muehlhan AG (MYAG), Hamburg, is the holding company for a total of 36 directly and indirectly held companies in Europe, North America and Asia. Of this number, 34 companies are currently included in the consolidated financial statements. Worldwide, the Group is one of a small number of providers of maritime and industrial surface protection services with international operations. Muehlhan combines very strong organizational skills and extensive technical expertise into a professional industrial approach in a competitive environment that largely is still characterized by small workshops run by traditional niche craftsmen. The spectrum of businesses Muehlhan engages in ranges from work on ships, offshore and onshore oil and gas installations and offshore and onshore wind turbines through industrial sites to work on construction and infrastructure projects.

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

The Muehlhan Group is managed from the Group's Hamburg headquarters on the basis of traditional key financial, asset and earnings figures. The 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 and opportunities and risks.

International market development by geographic area as well as through four business segments

The company's operations management is handled primarily by region. The Muehlhan Group currently operates on three continents. The Group has 19 subsidiaries in **Europe**. In the **Middle East**, the Muehlhan Group has two operating companies in the United Arab Emirates and in Qatar. In **North America**, the company's businesses are concentrated in an operating company in California (USA) and a company in Canada. The planned market entry there has been postponed for the time being because of the situation in the oil and gas industry. The region referred to as the **"Rest of the World"** includes the companies in Singapore and Malaysia currently being shut down and the MSI company acquired during the year under review, along with its two subsidiaries.

For strategic management purposes, the Group is divided into business segments. The Ship segment encompasses both the Ship Newbuilding segment and the **Ship** Repair segment. The **Oil & Gas** business segment combines both offshore and onshore business with customers in the oil and gas industry. Work on wind turbines is reported under a separate business segment, **Renewables**. This segment includes work on all offshore and onshore components (wind towers, transformer platforms and miscellaneous). Work in the industry and infrastructure sector is reported in the **Industry/Infrastructure** business segment.

Business segments

Ship: In a ship newbuilding market that 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 last-minute repair work on exterior walls to the complete restoration of ballast and cargo tanks.

Oil & Gas: Muehlhan works as a partner to big 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.

Renewables: Muehlhan provides surface-protection services to the growing renewable energy market, 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.

Industry/Infrastructure: In this 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 and specialty machinery. One increasingly important service is passive fire protection, which is used in large steel structures such as airports, bridges, skyscrapers and industrial buildings.

Services

Surface protection: Muehlhan provides maritime and industrial surface protection services worldwide.

Fire protection: Passive fire protection has become increasingly important in recent years. Applications include industry, infrastructure and the oil and gas industry.

Scaffolding: Scaffolding is one of the Group's growth areas, because it is closely linked to the expansion of the Oil & Gas and Industry/Infrastructure business segments. Accordingly, Muehlhan provides both onshore and offshore scaffolding services. Muehlhan is an important partner for construction companies and shipyards. In Germany, the scaffolding business benefits from a persistently high level of construction demand. 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.

Steel construction: The company provides steel construction services for both shipyard and industrial customers. Steel construction services encompass welding work on ships, bridges, offshore facilities and roller coasters, as well as installation work on wind turbines, smokestacks, ships and other industrial facilities.

Objectives and strategy

Dealing with competitive pressure by shifting to other services and developing new business areas

In recent years, the structural shift in the maritime markets and the resulting sharp increase in competition impelled Muehlhan to develop new markets. Repositioning our business to industry-oriented segments and to the oil and gas industry also requires adjusting and expanding the portfolio of services we offer. In the maritime segment, customers normally request surface protection as a stand-alone service, while the oil and gas markets and industrial clients generally demand a complete package of services that includes scaffolding, insulation, surface protection and fire protection. Muehlhan addresses this not only by working to develop new markets, but also by simultaneously broadening the range of services it offers. Muehlhan regards the current weakness of the oil price and the occasionally dramatic impact this is having on the value chain as a temporary phenomenon and an opportunity to gain a foothold in this market. The goal set by the Executive and Supervisory Boards 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 higher productivity to offset the structural cost advantages enjoyed by some smaller competitors.

Stable financial position and strong organizational skills as preconditions for competitiveness

The key characteristics that distinguish the Group from its competitors are its financial stability and its strong organizational skills. These enable Muehlhan at all times to satisfy constantly increasing customer demands and government regulatory requirements in the areas of occupational safety, accident prevention, quality, on-time delivery and sustainable environmental protection.

Along with traditional customer requirements such as productivity, short project turnaround times and reliable implementation, extensive and proper documentation of the steps involved in a major project and data measurements collected to evaluate such a project are increasingly important competitive criteria. All of this has been combined into the Muehlhan Group's Integrated Management System, which was ISO 9001:2008, ISO 14001:2004 and BS OHSAS 18001:2007 certified by Germanischer Lloyd back at the beginning of 2009. As a result, Muehlhan is able to offer its clients a consistently high level of quality worldwide at competitive prices.

Focused approach to developing new markets

In past years, reflecting the dominance of the maritime business segments, Muehlhan had positioned itself on the major maritime trading and transportation routes. Due to the crisis in shipping that has persisted since 2008, this approach has been readjusted. The core aspects of Muehlhan's strategy can be summarized as follows:

- In the coming years, Muehlhan will further reduce its dependence on traditional ship newbuilding and shift its focus to expanding the other business segments. The Oil & Gas and Industry/Infrastructure segments will play a central role in this regard.

- The range of services offered, which was heavily weighted toward corrosion protection in the past, will increasingly shift to a focus on scaffolding, insulation and fire protection.

- The Group's business is concentrated primarily in Europe, North America and the Middle East. Every local commitment is strictly measured against criteria such as profitability, sustainability, minimum size, etc. If these are not satisfied over the long term, a site will be sold or shut down, as the Group is currently doing in Singapore and previously did in China and Australia.

- The company will pursue both organic growth and growth through acquisitions, as in the 2015 acquisition of the MSI Group.

Research and development

Muehlhan will push ahead with its own developments and the use of innovative technologies.

The Muehlhan Group 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, 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

(e.g., for µ-jet and µ-arc), the Group continues to actively work 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 €0.3 million and consisted mainly of personnel expenses.

Economic Report

Macroeconomic and industry-specific conditions

Global market trends are mixed, but the familiar trends continue

The global economy grew slightly in 2015 compared to the previous year. The trends observed in prior years persisted: international trade ceased to be a driver of the global economy. The Euro zone continued to suffer from high levels of government debt and past-due structural reforms in most member countries but ultimately still managed growth of around 1.5%, mainly thanks to Germany. With GDP growth of 2.5%, the USA further distanced itself from Europe, and with a current growth rate of only 6.9%, it will be increasingly harder for China to achieve the growth necessary for the country's development. The global economy is expected to grow by around 3.4% in 2016, while the USA is expected to see 2.6% growth and China growth of 6.3%. Projections put the growth rate in the Euro zone, which is important to Muehlhan, at 1.7% – slightly above the 2015 figure[1].

In addition to the aforementioned trends, 2016 economic performance will continue to be affected by geopolitical crises such as those in the Middle East and Ukraine and the continued low price of oil.

In the **Ship** segment, 2015 was dominated by overcapacity and a low number of new orders. This further exacerbated the situation at shipyards worldwide. Big shipbuilding groups in Korea, Japan and China reported losses in the billions. The resulting low level of orders for new ships is becoming an existential threat to shipyards on every continent. Increasingly, German shipyards are reacting to the structural change by establishing themselves as manufacturers of specialty ships, offering higher added value to offset the fact that their labor costs are higher than those of their Asian competitors. They primarily serve niche markets such as naval shipbuilding, cruise ships, roll-on/roll-off ships and megayachts.

The **Renewables** segment was able to report several success stories during the past year following the full commissioning of nine offshore wind farms in Germany. Nevertheless, the companies involved continue to suffer from the unpredictability of Germany's energy policy, which is reflected in a lack of planning certainty and heavy burdens on everyone involved. For Muehlhan, the momentum expected in the offshore business over the medium term represents an opportunity to apply the international experience it has gained in surface protection, scaffolding and steel construction.

The unexpected extent of the decrease in the oil price hit companies that are dependent on the **oil and gas industry** hard during the year under review. As a result, companies' reactions have been equally drastic, with cost-cutting measures, job cuts and postponements of capital expenditures increasing the pressure on suppliers' margins. Some experts argue that the glut will persist, given that, to date, only a few American shale-oil producers have declared bankruptcy despite the fact that production costs significantly exceed the current oil price; moreover, a potentially large producer – Iran – is about to re-enter the market. At the same time, though, there are also plausible arguments for an imminent recovery in the price of oil: Saudi Arabia is probably the only country that can cover its costs while producing at an oil price of less than USD 30.00 per barrel. However, it needs a significantly higher oil price in order to halt its rapidly increasing budget deficit. Added to this are political risks that could very quickly provoke an increase in the price of oil. As a company supplying this market, Muehlhan is preparing itself for a continuation of the tough market situation in 2016.

The **Industry/Infrastructure** segment provides services to the most diverse markets and customers. Construction, which is important to the scaffolding and passive fire protection services, is benefiting from the persistently high level of demand in Europe and the Middle East. In the USA, Muehlhan takes advantage of the continual demand for professional coating work on the steel-construction bridges that are customary there.

Business trend

The Group's financial position, results of operations and performance indicators are discussed below.

Earnings performance

Fiscal year in line with expectations, consolidated sales revenues higher, EBIT lower, consolidated net income higher

For the Muehlhan Group, 2015 performance was in line with expectations – which were modest from the outset. The earnings presentation was affected by the separate presentation of the Singapore business segment, which is being shut down in 2016. The figures for Singapore have been eliminated from the prior-year figures shown. Pursuant to IFRS 5, the Singapore amounts are shown separately for both years.

[1] International Monetary Fund: Global Economic Outlook, January 2016

During the reporting year, sales revenues rose by 12.2%, from €213.1 million to €239.0 million. The increase in revenues affected all regions, but especially the region referred to as "Rest of the World", thanks to the acquisition of MSI. This region includes all markets outside of Muehlhan's core markets of Europe, North America and the Middle East.

By contrast, the cost of materials and purchased services increased by only 9.5%, to €89.3 million. In part, this was attributable to the lower level of purchased services and greater use of the company's own employees in order to maintain work quality at a constantly high level. As a result, personnel expenses jumped 19.6%, from €89.1 million to €106.6 million. Thanks to the high level of capital expenditures in 2014 and 2015, depreciation and amortization charges rose from €5.6 million to €6.7 million. After taking into account other operating income and expenses, EBIT from continuing business segments totaled €5.2 million.

Earnings from discontinued business segments amounted to a positive €0.5 million, due to orders processed during the year under review and positive effects from the sale of a building in connection with the closure that is already underway.

While EBIT from continuing business segments totaled €5.2 million in 2015 (€-2.3 million less than in 2014), in the middle of the Executive Board's published range of earnings projections of €4.0 million to €6.0 million, the figure was nonetheless disappointing to the Executive Board and the Supervisory Board and substantially lower than the targets set internally. The positive trend of previous years was interrupted by the slump in the North Sea **Oil & Gas** business and by project losses, particularly in Germany. In the wake of these project losses, the Group instituted organizational measures that will help to further reduce the probability of loss-making projects, although they can never be ruled out completely. From a strategic standpoint, the difficult market environment once again underscores the necessity of the steps the company has taken to diversify its markets and services.

Europe continues to be the main driver of profits

A regional breakdown shows that sales revenues in **Europe** continued to increase during the reporting year, rising 4% from €181.9 million to €188.4 million. This growth was driven mainly by large projects in the Ship and Renewables business segments. EBIT dropped sharply from €10.2 million in 2014 to €3.1 million in 2015. On the one hand, this was due to the significantly lower margins – already anticipated in 2014 – in the UK offshore business due to the lower price of oil. On the other hand, these were reinforced by project losses at the German and Scottish subsidiaries. These losses related to two transformer stations for wind turbines and projects in the Ship segment.

Stabilization of the U.S. business

During the year under review, the business in **America** posted €23.1 million of sales revenues, an increase of €4.9 million over the prior-year figure. In 2015, renovation work started on the Richmond Bridge over San Francisco Bay. This major contract will take several years to complete. Sales in our refinery business exceeded expectations, while projected sales revenues in the maritime segment almost completely failed to materialize – the main reason for the deterioration in EBIT from €0.7 million to €0.4 million.

Sale of companies in the Far East; good earnings in the Middle East; acquisition in Norway

In the **Middle East**, which for Muehlhan means the United Arab Emirates and Qatar, the fire protection and scaffolding segments yielded positive earnings during the year under review. These results were driven by continuing investment in the construction sector, thanks to the building boom in Dubai, and by the major upcoming sporting events in Qatar. Overall, the Middle East generated €1.7 million of EBIT on €16.8 million of sales revenues (a €2.6 million increase in sales over the previous year).

MSI Group (Marine Service International Group), which was acquired at the beginning of 2015, reported €11.1 million of sales revenues and €1.6 million of EBIT from Oil & Gas projects.

The withdrawal from Singapore, which was discussed in 2014 and approved in 2015, is going according to plan and should be completed during the first half of 2016. Overall, the shutdown and deconsolidation are expected to have a positive effect on earnings, with most of the expected positive effects already having been achieved during the year under review.

The Ship, Industry and Oil & Gas segments contributed to operating income

Thanks to several major orders in Germany, France and Poland, the **Ship** business segment managed to increase sales revenues for the third consecutive year. This positive development can be explained by major fixed-term contracts and is not attributable to a general positive trend in the new-

building market. The Ship business segment reported €3.8 million of EBIT on €82.9 million of sales revenues (previous year: €2.3 million of EBIT on €78.8 million of sales revenues). This included the aforementioned project losses at the German company.

In the **Renewables** business segment, Muehlhan managed to increase sales by €8.9 million to €23.7 million. In EBIT terms, however, this segment reported a loss of €-2.5 million, compared to a gain of €0.9 million in 2014. This was caused by the closure of a site in Denmark that processed components for wind turbines and by project losses on offshore wind-farm platforms in Scotland and Germany.

The **Oil & Gas** business segment managed to increase sales revenues slightly from €48.1 million in 2014 to €53.0 million in 2015 through the acquisition of the MSI Group. Also because of MSI, EBIT rose €0.6 million to €4.2 million.

Thanks to several major orders, including in the USA, sales revenues in the **Industry/Infrastructure business** increased by €8.1 million to €79.3 million. Earnings dropped €2.1 million from the prior-year level to €4.2 million in 2015, mainly because a large, profitable contract in Qatar expired and was not replaced by enough follow-up orders.

Capital expenditures

During the year under review, Muehlhan invested €10.9 million – below the prior-year figure (€13.8 million), but far above the figures in previous years. Capital expenditures primarily included the acquisition of the MSI Group, the purchase of additional scaffolding materials, a new production line for coating the latest generation of wind towers in Denmark and the construction of a blasting and coating facility in Scotland.

Orders on hand

On the reporting date, the order book of more than €125 million was 5% lower than in the previous year, equivalent to around 52% of total sales revenues generated during the current fiscal year. Thanks to longer-term contracts, the Oil & Gas and Industry/Infrastructure business segments accounted for a disproportionate share of orders on hand.

Employees

Because of the increase in sales revenues and the increased use of the company's own employees instead of subcontractors, the average number of employees rose by 6.3% to 2,844. Personnel expenses increased 19.6% to €106.6 million.

Net assets and financial position

As of the balance-sheet date, non-current assets (excluding deferred tax assets) totaled €53.0 million, compared to €47.6 million the previous year. Property, plant and equipment totaled €32.7 million, which is equal to a fixed-assets-to-total-assets ratio of 23.7% (previous year: 24.2%). Non-current assets (excluding deferred tax assets) accounted for 38.5% of total assets (previous year: 40.1%). On the balance-sheet date, trade receivables stood at €54.5 million (39.5% of total assets) and were therefore €8.5 million higher than in the previous year (€46.0 million; 38.8% of total assets).

Currently, the Muehlhan Group is financed through its strong capital base. As of the balance-sheet date, the Group reported higher shareholders' equity of €66.0 million (previous year: €61.3 million). Dividing this by total assets (the balance sheet total), which likewise increased, to €138.0 million (previous year: €118.5 million), yields a slightly lower equity ratio of 47.8% (previous year: 51.7%). Trade and other payables totaled €41.7 million (30.2% of shareholders' equity and liabilities [the balance-sheet total]) (previous year: €30.5 million; 25.7% of the balance-sheet total). Financial liabilities amounted to €23.7 million (17.2% of the balance-sheet total) (previous year: €24.4 million; 20.6% of the balance-sheet total). The main component of financial liabilities is the €17.7 million of long-term financing. The non-current portion of financial liabilities totaled €15.3 million.

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

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 in order to assure that we can satisfy payment obligations as we have in the past.

The Group's cash flow from operating activities remained almost unchanged at €12.7 million (previous year: €12.1 million).

During the fiscal year, Muehlhan invested a total of €10.8 million in property, plant and equipment (previous year: €13.7 million). Cash used in financing activities amounted to €2.6 million (previous year: cash flow from financing activities totaled €1.6 million), most of which (€1.6 million) went on interest payments for the utilization of credit lines. On the balance-sheet date, cash and cash equivalents stood at €8.8 million, €0.2 million lower than in the previous year (€9.0 million). Unutilized overdraft and guarantee facilities totaled €85.8 million on the balance-sheet date (previous year: €58.9 million). Thus, in 2015, the Muehlhan Group was at all times in a position to satisfy its payment obligations.

Financial and non-financial performance indicators

In managing the Group, in addition to the aforementioned financial indicators, particular attention is paid to compliance with accident-prevention regulations as a non-financial performance indicator. In 2015, the company managed to maintain the very high score achieved in the previous year.

Supplementary Statement: events of material significance after the reporting period

There were no events or new information after the balance-sheet date of material significance for the business and/or for assessing the business.

Forecast and Report on Opportunities and Risks

Outlook

Improvements expected in all regions

In **Europe**, we expect sales revenues to decrease slightly in 2016. One reason for this is that the oil price is expected to remain very low. This could cause customers in the oil and gas industry to further postpone capital expenditures and maintenance projects. Another reason is that some large projects in the Ship business segment are coming to an end. In the future, Muehlhan will be more selective in the follow-up projects it accepts and will avoid projects with excessively thin margins. Such a decision entails accepting that sales revenues will be lower. The elimination of major project losses and additional progress in increasing productivity should lead to a slight increase in EBIT in 2016.

In **North America**, the trend observed in 2015 is expected to continue. 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.

The Group companies in the **Middle East** expect strong sales and earnings growth in 2016. In the United Arab Emirates, Muehlhan should benefit from continuing strong investment activities in the construction and transport sectors. Construction work for the 2022 FIFA World Cup in Qatar will begin at the end of 2016 and will ensure additional orders.

Ship business segment declines in importance; Industry business segment increases

Because the completion of some large projects has resulted in performance that is contrary to the market trend, in 2016 the **Ship** business segment is expected to resume the negative path of development that typifies the industry. However, the return should improve thanks to the measures implemented and the absence of the project losses that affected 2015.

Continuous growth of the other business segments – **Oil & Gas**, **Renewables** and **Industry/Infrastructure** – will offset the decline in the Ship sector. Management expects sales revenues and earnings in the oil and gas business to increase slightly, despite the tough market situation. In the Renewables business segment, which saw an increase in sales revenues in 2015, sales are expected to decrease slightly in 2016. As in the Ship segment, the return in this segment should improve considerably too, because improvement measures have been implemented and no further project losses or site closings are expected.

The **Industry/Infrastructure** segment expects to see a continuation of the growth in both sales revenues and earnings observed in recent years.

Acquisitions and cooperative arrangements

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 and the strategic and cultural fit.

Continuation of stable, positive earnings as a result of the measures we are implementing

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 did not respond 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 inevitably entail non-recurring expenses. Emblematic of this are the shutdown of the site in Denmark and trends in the Asian shipyard market, 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.

The Executive and Supervisory Boards expect sales revenues in 2016 to be unchanged from 2015 and earnings before interest and taxes (EBIT) to improve to between €5.0 million and €7.0 million.

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 signifi-

cantly 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.

General assessment and risk management system

There are no foreseeable risks that could threaten the Group as a going concern

From today's perspective, aside from the risks enumerated below, we are not aware of any risks that could have a material influence on the Group's net assets, financial position and results of operations, thereby jeopardizing its existence. Both our organization and our control systems are designed to optimize the way we deal with existing risks and to address newly emerging risks in a timely manner.

Maintaining a functioning risk-management system

Through ongoing market screening and regular exchanges within and outside of the Group, we ensure that we are able to recognize and take advantage of opportunities in our submarkets as quickly as possible. In addition, control measures are used to review and support the company's mandatory internal codes of conduct.

In accordance with Article 91, paragraph 2 of the German Stock Corporation Law (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.

Discussion of major individual risks and associated opportunities

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.

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.

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, due to ship size, the number of ships and the safety equipment installed (e.g., double-hulled ships), there is an opportunity in the fact that 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 a price increase in these process materials, 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, we 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 expertise in-house. 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.

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.

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.

Financial and economic risks

The companies of the Muehlhan Group work primarily 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. By carefully checking customers' liquidity situation before accepting orders and managing receivables in a regular, systematic way, we have managed since that time to keep bad-debt losses to a minimum. We plan to continue this practice in the future. However, bad-debt losses – including large losses – cannot be ruled out.

Further hedging the risk with bad-debt loss insurance would only be of limited value. In those cases where receivables are insurable, the default risk is generally small. At the same time, the cost of premiums is generally higher than the cost incurred from a statistically probable bad-debt loss.

All accounts with credit balances and short-term utilizations of overdraft facilities are subject to the normal risk of interest-rate fluctuations. Financing within the Muehlhan Group generally is subject to variable interest. In order to largely avoid the risk of a change in the interest rate, at the start of 2015 Muehlhan AG took advantage of the low-interest-rate environment and hedged the longer-term portion of the syndicated loan. 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 specific cases. In particular, this applies to a situation involving our subsidiary in Greece and the German scaffolding subsidiary. In the case of the Greek company, the Greek tax authorities have questioned expenditures by the company's subcontractors because the subcontractors failed to keep adequately detailed records. A similar case was closed during the year under review without any additional expenses for the Greek subsidiary and we likewise do not expect any major charges in the outstanding case. In the case of the German subsidiary, there is a risk that the tax authorities could refuse to allow claimed input-tax deductions on formal grounds.

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

The Master 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. During the period under review, Muehlhan countered the risk by concluding interest-rate swaps, including floors, with the same maturity to hedge any negative effects on cash flows. As of the balance-sheet date, the volume of interest-rate swaps totaled €12.5 million and therefore covered most of the €18.0 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 master syndicated loan agreement would also entail risks. There are no indications that the covenants were not satisfied completely at all times.

Company-specific risks and opportunities

The 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.

Legal risks/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, the company has no knowledge of any legal risks that could threaten the assets of the Muehlhan Group.

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

The Executive Board's compensation consists of a fixed component 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 several goals have been met, with a focus on Group EBIT. The long-term component is based on the long-term increase in value for shareholders.

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

Legal disclosures

Existing branch offices

In Germany, the Muehlhan Group has no legally independent branch offices besides the subsidiaries. Abroad, our Greek subsidiary Muehlhan Hellas S.A., Athens, maintains independent branch offices in Turkey and Romania.

Relationships with affiliated companies

Pursuant to Article 312 of the German Stock Corporation Law (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.

No actions were taken or omitted at the behest of or on behalf of Dr Wulf-Dieter H. Greverath, Syntegra Investments I S.à.r.l, GIVE Maritime & Industrial Services GmbH or Greverath Investment Verwaltungs- und Erhaltungs-GbR or their subsidiaries that could have been to the detriment of Muehlhan AG or its subsidiaries."

Hamburg, 16 March 2016

The Executive Board

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

04 Group Consolidated Financial Statement

for the fiscal year from 1 January 2015 to 31 December 2015

CONSOLIDATED BALANCE SHEET

ASSETS in kEUR	Notes	31.12.2015	31.12.2014
NON-CURRENT ASSETS			
Intangible assets	1	20,369	18,815
Property, plant and equipment	2	32,675	28,722
Financial assets	3	30	30
Deferred tax assets	4	3,094	3,307
Total non-current assets		**56,168**	**50,874**
CURRENT ASSETS			
Inventories	5	5,881	4,691
Trade receivables	6	54,480	46,021
Cash and cash equivalents	7	8,780	9,041
Assets for current income tax	8	1,143	1,521
Other current assets	9	9,006	6,369
Total current assets		**79,290**	**67,643**
Non-current assets and disposal groups held for sale	10	2,494	0
BALANCE SHEET TOTAL		**137,952**	**118,517**

Rounding differences may occur.

EQUITY & LIABILITIES in kEUR	Notes	31.12.2015	31.12.2014
EQUITY	11		
Subscribed capital		19,500	19,500
Capital reserves		14,149	14,174
Treasury shares		-1,535	-1,731
Other reserves		11,702	10,122
Retained earnings		19,204	17,190
Non-controlling interests		2,928	2,013
Total equity		**65,948**	**61,268**
NON-CURRENT LIABILITIES			
Pension accruals	12	806	797
Non-current financial liabilities	13	15,271	15,661
Deferred tax liabilities	14	0	138
Total non-current liabilities		**16,077**	**16,596**
CURRENT LIABILITIES			
Provisions	15	2,183	441
Current financial liabilities	13	8,476	8,694
Trade payables	16	24,145	15,329
Liabilities for current income tax	8	1,028	990
Other current liabilities	17	17,576	15,199
Total current liabilities		**53,408**	**40,653**
Liabilities directly associated with non-current assets held for sale	10	2,519	0
BALANCE SHEET TOTAL		**137,952**	**118,517**

Rounding differences may occur.

CONSOLIDATED INCOME STATEMENT FOR FISCAL YEAR 2015

in kEUR		Notes	2015	2014
Sales		18	238,991	213,068
Other operating income		21	4,670	2,023
Cost of materials and purchased services		19	-89,268	-81,523
Personnel expenses		20	-106,573	-89,124
Depreciation and amortization			-6,740	-5,656
Other operating expenses		21	-35,863	-31,259
Profit from operations			**5,217**	**7,529**
Interest income		22	65	14
Financing costs		22	-1,941	-2,374
Financial result			**-1,876**	**-2,360**
Earnings before taxes			**3,341**	**5,169**
Tax result		23	-1,779	-1,359
Result from continuing operations			1,562	3,810
Result from discontinued operations		10	545	-1,486
Consolidated profit			**2,107**	**2,324**
Thereof attributable to				
non-controlling interests			708	764
equity holders of Muehlhan AG			**1,399**	**1,560**
NET EARNINGS PER SHARE		24		
Shares	number		18,899,399	18,855,779
in continuing operations				
basic	in EUR		0.05	0.16
diluted	in EUR		0.05	0.16
in discontinued operations				
basic	in EUR		0.02	-0.08
diluted	in EUR		0.02	-0.08

Rounding differences may occur.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in kEUR	Notes	2015	2014
Consolidated profit		**2,107**	**2,324**
Recyclable items	25		
Currency translation differences (legally independent entities abroad)		2,135	1,213
Future cash-flow hedge (effective cash-flow hedge)		-21	0
Non-recyclable items			
Remeasurement of defined-benefit plans		-95	-87
Other result		**2,019**	**1,126**
Income taxes on other results		34	25
Other result after tax		**2,053**	**1,151**
Total result		**4,160**	**3,475**
Thereof attributable to non-controlling interests		564	728
Equity holders of Muehlhan AG		**3,597**	**2,747**
Total result from continuing operations		4,160	3,475
Total result from discontinued operations		0	0

Rounding differences may occur.

CONSOLIDATED CASH FLOW STATEMENT

in kEUR	Notes	2015	2014
Profit from operations		1,399	1,560
Depreciation on non-current assets		6,740	5,656
Gain on disposal of fixed assets	2	-706	-4
Non-cash expenses / income from the allocation of gains / losses to non-controlling interests		708	764
Other non-cash expenses / income		5,064	3,539
Increase / decrease in provisions	12, 15	1,944	51
Cash flow		**15,149**	**11,566**
Decrease / increase in inventories, trade receivables and other assets	5 ff	-13,405	3,782
Decrease / increase in trade payables and other liabilities	16 ff	12,232	-698
Payments of income taxes	23	-1,306	-2,534
Cash flow from operating activities		**12,670**	**12,116**
of which from discontinued operations	10	53	-679
Proceeds from disposals of non-current assets in respect of			
tangible assets		823	86
Capital expenditures in respect of			
intangible assets	2	-140	-107
tangible assets	2	-10,790	-13,673
Capital expenditures / proceeds for acquisition / from sale of consolidated companies		-2,403	121
Interest received	22	67	22
Cash used in investing activities		**-12,443**	**-13,551**
of which from discontinued operations	10	540	-280
Capital expenditures for bond redemption		0	-12,000
Capital expenditures for purchase of treasury shares		0	-688
Capital expenditures to company owners and to non-controlling shareholders (dividends)	11	-410	-215
Proceeds from payments received in respect of current bank liabilities	13	-521	2,139
Proceeds from payments received / capital expenditures for redemption in respect of non-current bank liabilities	13	-55	14,736
Payments of interest	22	-1,654	-2,402
Cash inflow / outflow from financing activities		**-2,640**	**1,570**
Currency-, scope of consolidation- and valuation-related changes in cash and cash equivalents	10	2,152	248
Total changes in cash and cash equivalents		-261	338
Cash and cash equivalents at the beginning of the period	7	9,041	8,658
Cash and cash equivalents at the end of the period	7	**8,780**	**9,041**

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 reserves	Other reserves			
in kEUR			Revenue reserves	Conversion reserve	Cash-flow hedge reserve	Adjustment resulting from currency translation
On 31 December 2014	**19,500**	**28,395**	**9,591**	**589**	**0**	**-1,637**
Changes in treasury shares						
Contribution share-based payment		-41				
Withdrawal from capital reserve		-14,181				
Acquisition of non-controlling interests			183			
Contribution to retained earnings			176			
Dividends payed						
Other changes						33
Total result			-62			1,249
On 31 December 2014	**19,500**	**14,174**	**9,888**	**589**	**0**	**-355**
Changes in treasury shares						
Contribution share-based payment		-25				
Contribution to retained earnings			-33			
Dividends payed						
Other changes						-584
Total result			-70		-14	2,281
On 31 December 2015	**19,500**	**14,149**	**9,785**	**589**	**-14**	**1,342**

Rounding differences may occur.

		Non-controlling interests	Group equity
Retained earnings	Treasury shares	Equity		
1,658	**-1,294**	**56,803**	**1,500**	**58,303**
	-437	-437		-437
		-41		-41
14,181				
		183		183
-176				
			-215	-215
-33				
1,560		2,747	728	3,475
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**	**65,948**

FIXED ASSETS MOVEMENTS SCHEDULE 2015

in kEUR	Acquisition and production costs						
	Balance 01.01.2015	Additions	Additions initial consolidation	Translation 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. Property, plant and equipment								
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
III. Financial assets								
1. Shares in affiliated companies	29	0	0	0	0	0	0	29
2. Investments	1	0	0	0	0	0	0	1
	30	0	0	0	0	0	0	30
	124,669	10,930	1,915	1,878	-135	3,782	0	135,475

Rounding differences may occur.

Accumulated depreciation / amortization							Net book values	
Balance 01.01.2015	Additions	Additions initial consolidation	Translation 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**
0	0	0	0	0	0	0	29	29
0	0	0	0	0	0	0	1	1
0	**0**	**0**	**0**	**0**	**0**	**0**	**30**	**30**
77,101	**6,740**	**70**	**862**	**-108**	**2,264**	**82,401**	**53,074**	**47,568**

FIXED ASSETS MOVEMENTS SCHEDULE 2014

in kEUR	Acquisition and production costs						
	Balance 01.01.2014	Additions	Disposals initial consolidation	Translation differences	Disposals	Reclas-sifications	**Balance 31.12.2014**
I. Intangible assets							
1. Concessions, industrial and similar rights and assets	2,918	107	45	3	21	0	2,962
2. Goodwill	34,741	0	0	0	0	0	34,741
	37,659	**107**	**45**	**3**	**21**	**0**	**37,703**
II. Property, plant and equipment							
1. Land, land rights and buildings including buildings on third-party land	7,464	1,641	0	21	82	5	9,050
2. Technical equipment and machinery	60,618	9,456	3,425	1,222	2,829	89	65,131
3. Other equipment, operating and office equipment	10,744	1,226	127	143	644	57	11,399
4. Prepayments and assets under construction	162	1,35	0	-3	2	-151	1,356
	78,988	**13,673**	**3,552**	**1,384**	**3,558**	**0**	**86,935**
III. Financial assets							
1. Shares in affiliated companies	29	0	0	0	0	0	29
2. Investments	1	0	0	0	0	0	1
	30	**0**	**0**	**0**	**0**	**0**	**30**
	116,677	**13,780**	**3,597**	**1,387**	**3,578**	**0**	**124,668**

Rounding differences may occur.

	Accumulated depreciation / amortization						**Net book values**	
	Balance 01.01.2014	Additions	Disposals initial consolidation	Translation differences	Disposals	**Balance 31.12.2014**	**Balance 31.12.2014**	**Previous year**
	2,051	266	45	-1	21	2,253	709	867
	15,872	764	0	0	0	16,635	18,106	18,869
	17,923	**1,030**	**45**	**-1**	**21**	**18,888**	**18,815**	**19,736**
	4,333	374	0	-3	52	4,659	4,391	3,131
	46,553	3,316	3,124	-859	2,729	44,876	20,255	14,065
	8,120	1,121	104	-105	563	8,678	2,721	2,624
	0	0	0	0	0	0	1,356	162
	59,006	**4,811**	**3,228**	**-967**	**3,344**	**58,213**	**28,722**	**19,982**
	0	0	0	0	0	0	29	29
	0	0	0	0	0	0	1	1
	0	**0**	**0**	**0**	**0**	**0**	**30**	**30**
	76,929	**5,841**	**3,273**	**-969**	**3,364**	**77,100**	**47,568**	**39,749**

NOTES

I. General comments

Companies

The core business of Muehlhan AG (hereinafter “MYAG” or “the company”) and its subsidiaries is providing surface protection for the Ship, Oil & Gas, Renewables and Industry/Infrastructure segments. The core business is complemented by access technologies, fire protection and steel construction/welding services. The company is headquartered at Schlinckstrasse 3, Hamburg, Germany. The competent registration court is in Hamburg.

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

By preparing the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), MYAG availed itself of the option stipulated in Section 315a paragraph 3 of the German Commercial Code (HGB) to prepare the consolidated financial statements in accordance with internationally recognized accounting principles and simultaneously to forego preparing a set of consolidated financial statements in accordance with the accounting principles set forth in the HGB.

Statement of Compliance

The Group consolidated financial statements of MYAG and its subsidiaries as of 31 December 2015 were prepared in accordance with the 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 HGB.

II. Consolidated group and consolidation methods

Consolidated group and associated companies

The consolidated financial statements include the separate financial statements of the parent company, MYAG, and the 34 subsidiaries it controls. MYAG has control if it can exercise power over the investee, is exposed to variable returns from its investment and can affect the amount of those returns through its power over the investee. 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 materially since 31 December 2014.

In a purchase agreement dated 26 February 2015, 60% of the shares in Marine Service International AS, Drøbak, Norway, and its subsidiaries in Brazil and Singapore were acquired at a purchase price of €2.4 million. The purchase was financed with the acquisition line that is part of the long-term financing entered into in 2014. This will reinforce the Group’s activities in the Oil & Gas segment.

The acquisition increased non-current assets by €0.3 million, current assets by €3.0 million and current liabilities by €2.0 million.

The first-time consolidations will not limit comparability with the prior-year financial statements.

Muehlhan Grand Bahama Ltd., Bahamas, and AIS-Allround-Industrie-Service GmbH, Hamburg, are not included in the consolidated group because they would not have a material effect on the assessment of the Group’s net assets, financial position and results of operations. Both individually and collectively, the balance sheet and income statement items of both of these unconsolidated companies comprise less than 1% of the corresponding items in Muehlhan AG’s consolidated financial statements.

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.

As a result, the following companies are included in the consolidated financial statements as of 31 December 2015:

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

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

Symbol	Company	Share-holding in %	Equity on 31.12.2015 in kEUR	Profit 2015 in kEUR
MFP	Muehlhan Grand Bahama Ltd., Nassau, Bahamas	100	0.1	0.0
AIS	AIS-Allround Industrie-Service GmbH, Hamburg, Germany	51	45.4	11.2

The investment in AIS is held indirectly via MGR.

The gain or loss and every component of other comprehensive income are allocated to the share-holders of MYAG and to the non-controlling share-holders. 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 and where nec-essary have been adjusted to ensure consistent Group-wide reporting.

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 prior year are recognized in other comprehensive income and are reported separately under equity. 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 arising from the initial consolidation of foreign subsidiary acquisitions 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.

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

	Exchange rate on the balance-sheet date 31.12.2015	Average rate 2015	Exchange rate on the balance-sheet date 31.12.2014	Average rate 2014
AED	4.01	4.06	4.47	4.85
BRL	4.33	3.75	–	–
DKK	7.46	7.46	7.44	7.45
GBP	0.74	0.72	0.78	0.80
PLN	4.24	4.18	4.30	4.19
QAR	3.98	4.02	4.44	4.81
SGD	1.55	1.52	1.61	1.68
USD	1.09	1.10	1.22	1.32

Going-concern assumption

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.

III. Significant consolidation, accounting and valuation principles

Basis for preparation of the financial statements

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.

The Group consolidated income statement was prepared using the total-cost method.

The Group consolidated financial statements covering the period ending on 31 December 2015 are in compliance with all the mandatory IFRS and interpretations of the IFRIC adopted by the EU commission as of the balance-sheet date. For fiscal years beginning on 1 July 2014, 1 January 2015 and/or 1 February 2015, the following new mandatory standards apply:

Amendments to IAS 19, "Employee Benefits – Defined-Benefit Plans: Employee Contributions"
IFRS Annual Improvements Cycle 2011–2013, specifically:
Amendment to IFRS 1, "First-Time Adoption of International Financial Reporting Standards"
Amendment to IFRS 3, "Business Combinations"
Amendment to IFRS 13, "Fair-Value Measurement"
Amendment to IAS 40, "Investment Property"
IFRS Annual Improvements Cycle 2010–2012, specifically:
Amendment to IFRS 2, "Share-based Payment"
Amendment to IFRS 3, "Business Combinations"
Amendment to IFRS 8, "Operating Segments"
Amendment to IFRS 13, "Fair-Value Measurement"
Amendment to IAS 16, "Property, Plant and Equipment"
Amendment to IAS 24, "Related Party Disclosures"
IAS 38, "Intangible Assets".

IAS 19 provides new rules for employee contributions to defined-benefit plans. IAS 40 clarifies the requirements for transfers to or from investment property. IAS 40 describes the interrelationship between IFRS 3 and IAS 40 when classifying property. IFRS 1 contains clarifications of other IFRS. IFRS 3 governs the scope exceptions for joint ventures and IFRS 13 explains portfolio exceptions in conjunction with IAS 39. IFRS 2 amends definitions and adds some definitions. IFRS 3 covers accounting for contingent consideration in a business combination. IFRS 8 covers the aggregation of operating segments and reconciliation of the total of the reportable segment's assets to the entity's assets. IFRS 13 clarifies the fair-value measurement of short-term receivables and payables. IAS 16 and IAS 38 clarify the revaluation method. IAS 24 defines the term "Related Parties" for situations involving services provided to key management.

The following new, amended and/or revised published standards and interpretations that have not yet been adopted as mandatory had not yet been applied during the reporting year:

Amendment to IFRS 11, "Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations"[1)]
Amendment to IAS 1, "Presentation of Financial Statements – Disclosure Initiative"[1)]
Amendment to IAS 16, "Property, Plant and Equipment" and IAS 41, "Agriculture: Bearer Plants"[1)]
Amendment to IAS 27, "Consolidated Financial Statements and Separate Financial Statements – Equity Method in Separate Financial Statements"[1)]
IFRS Annual Improvements Cycle 2012–2014, with 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"[1)].

The following new, amended and/or revised published standards and interpretations have not yet been adopted:

IFRS 9, "Financial Instruments – Financial Instruments"[2)]
IFRS 15, "Revenues from Contracts with Customers" – Sales revenues from customer contracts, including amendment of the date on which application of the standard becomes mandatory[2)]
Amendments to IFRS 10, "Consolidated Financial Statements", IFRS 12, "Disclosure of Interests in Other Entities" and IAS 28, "Investments in Associates" – Investment Companies – Application of the Consolidation Exception[1)]
Amendments to IFRS 10, "Consolidated Financial Statements" and IAS 28, "Investment in Associates" – Sale of an investor's assets to and/or contribution to its associate or joint venture[3)]
Amendments to IAS 12, "Recognition of Deferred Tax Assets for Unrealized Losses"[4)]
IFRS 16, "Leases"[5)].

[1)] Applications are mandatory for the first time during the first reporting period of a fiscal year beginning on or after 1 January 2016
[2)] Application is mandatory for the first time during the first reporting period of a fiscal year beginning on or after 1 January 2018
[3)] Date of first-time application has been postponed indefinitely
[4)] Planned for Q4 2016
[5)] Mandatory first-time application still undecided

Early application of the standards and interpretations is permitted, but not yet planned.

We are reviewing the impact of the new standards and amendments but at the present time do not expect them to materially affect future financial statements. The new standards and amendments have not affected the current financial statements.

Amendments pursuant to IAS 8

During the reporting year, the format of the Consolidated Cash Flow Statement was amended in order to present more reliable and more relevant information on cash flows in accordance with IAS 8.14 (b). According to IAS 7, the Consolidated Cash Flow Statement begins with the net income allocable to Muehlhan AG's equity investors. Therefore, it is no longer necessary to calculate Group profit from operations. Moreover, cash flows from interest payments are now classified under financing activities and items have been combined.

The prior-year figures have been adjusted accordingly.

Consolidation methods

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 profits

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.

Accounting methods

Income recognition

Income is reported at the fair value of the consideration 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. Virtually all sales revenues are generated by providing services. To the extent such sales revenues are derived from services relating to long-term make-to-order production, they are recognized in accordance with internal Group accounting and valuation methods for long-term production orders. 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 owner-ship).

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

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

Intangible assets

Intangible assets with a finite useful life are recognized at cost and amortized on a straight-line basis over their expected useful lives, which usually range from three to 17 years. At a minimum, the residual values and useful lives of intangible assets are reviewed on every consolidated balance-sheet date. Should expectations deviate from current estimates, any adjustments will be 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 indeterminate 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 indeterminate useful life.

Property, plant and equipment

Property, plant and equipment 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 property, plant and equipment	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.

Should expectations deviate from current estimates, any adjustments will be 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 the 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 property, plant and equipment (tangible fixed 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.

Financial assets

Shares in unconsolidated affiliated companies and investments are recorded at amortized cost or fair value in accordance with IAS 39. Income and losses from financial assets, including interest income, are reported on the income statement in the period in which they accrue.

Impairment of non-financial assets

Assets with an indeterminate 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 definable useful life if there is reason to believe that write-downs are warranted. In order to determine whether a write-down is required for a specific asset, the recoverable amount (the higher of the net realizable value and the value in use) is compared with the asset's carrying amount. 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 recoverable amount of the cash-generating unit (CGU) to which the respective asset is allocated will be determined. 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 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 fair value less costs of disposal. The fair value less costs to sell is determined using an appropriate valuation model (discounted cash flow (DCF) method). This relies on valuation multiples, share prices of listed shares in subsidiaries or other available indicators of fair value, to the extent such observable data are available.

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, except for 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; classification depends on the respective purpose for which the financial assets were acquired. Management determines the classification of the financial assets at the time of initial recognition and reviews the classification 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 classified 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 or 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, interest calculated using the effective interest method and foreign-exchange gains or 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 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 other 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 a 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 instrument 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 or 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 of cost (acquisition cost) 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 changes 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. Contract costs include direct costs and a reasonable share of production, material and production-related administrative overhead costs. 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 longer-term, customer-specific construction contracts are deducted from receivables calculated using the PoC method, less any required valuation allowances or 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-in-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 shown on the balance sheet 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 prior-year income-statement figures are adjusted accordingly. The relevant assets are reported in a separate balance-sheet item. However, no adjustment is made to the prior-year balance sheet.

Financial liabilities

Financial liabilities (financial debts, trade payables and other liabilities) are classified 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 if the Group does not have 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". All 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) Financial liabilities

Financial liabilities are initially stated at fair value, less transaction costs.

Financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective-yield basis. The effective interest method is a method for calculating the amortized cost of a financial liability and 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.

Finance lease liabilities are stated at the present value of the lease installment payments.

Liabilities are classified as current if the Group does not have an unconditional right to postpone repayment of the liabilities to a date at least twelve months after the balance-sheet date. Liabilities denominated in foreign currencies are measured using the mid-rates on the balance-sheet date.

c) Derecognition of financial liabilities

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

Pension accruals 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 one of the required provisions relates almost exclusively to a pension commitment to a now-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 usually 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 shareholders' equity section of the balance sheet, with no effect on the income statement.

The accrual 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; pension accruals are recorded only for the amounts outstanding on the balance-sheet date.

Other provisions

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.

Current income tax expense

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

Deferred taxes resulting from temporary differences in the amounts shown in the separate balance sheets prepared for tax purposes and the corresponding figures 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 include claims for tax reductions deriving from the expected utilization of existing loss carryforwards in future years if there is sufficient certainty to ensure their realization. Deferred taxes are calculated using the tax rates for reversal that either apply or will have been adopted in the respective countries on the balance-sheet date. No deferred taxes are recognized for temporary differences relating to 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. In addition, deferred taxes may arise in connection with accounting procedures that do not affect income. Deferred tax assets are recorded only to the extent that the respective tax advantage is likely to materialize. If this criterion is not met, valuation allowances are set up that take into account past earnings and business expectations for the foreseeable future.

Deferred taxes were calculated for domestic Group companies' corporate-tax and trade-tax loss carryforwards at a rate around 15% in each case. Foreign deferred taxes were at rates ranging from 10.0% to 40.0% (previous year: 22.3% to 47.3%) and domestic deferred-tax rates ranged from 31.5% (previous year: 30% to 32%).

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 options

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

The employee services for which the share options were granted are expensed and a corresponding adjustment is made to equity. The amount posted for the expense is based on the fair value of the share options granted. The total amount of the expense is recorded over the vesting period. This includes the period during which all specified vesting conditions must be satisfied.

Research and development costs

Research expenses and development costs are recognized as expenses in the period in which they are incurred. Development plays a minor role. The IAS 38 requirements for capitalizing development costs are not satisfied, because the marketability of the asset for sale or use has not been established and there is no certainty that it can be used. Measuring the development costs with certainty would also be disproportionately time-consuming compared to the size of the development projects.

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

Leases are classified as operating leases if, under the terms of the lease, a major portion of the risks and rewards of ownership of the leased property is retained by the lessor. Payments made under an operating lease (net of incentive payments made by the lessor) are recognized on the income statement on a straight-line basis over the lease term.

Leases are classified as finance leases if the terms of the lease transfer a major portion of the risks and rewards of ownership of the leased property to the lessee. Muehlhan only enters into such leases in exceptional cases.

IV. Notes to the balance sheet

1. Intangible assets

Intangible fixed assets include the following items:

in kEUR	31.12.2015	31.12.2014
Concessions, industrial property rights and similar rights and assets	607	709
Goodwill	19,762	18,106
TOTAL	20,369	18,815

Pursuant to IFRS 3, no scheduled amortization of goodwill has been recorded since 1 January 2005. In accordance with IAS 36, an impairment test was performed during the past fiscal year. This involved allocating goodwill to a total of fourteen cash-generating units at the company level. The following table provides a breakdown of changes in goodwill by region:

in EUR million	31.12.2014	Write-downs/ acquisitions	31.12.2015
Europe	17.4	0.0	17.4
Asia	0.6	0.0	0.6
Rest of the World	0.0	1.8	1.8
TOTAL	18.0	1.8	19.8

Based on the carrying value of the goodwill allocated to the CGUs, two major items stand out: the MD CGU, with €7.2 million of goodwill, and the MPL CGU, with €6.3 million of goodwill. Together, the two CGUs accounted for 68.2% of total goodwill as of 31 December 2015. The MSI CGU was added thanks to the acquisition of the MSI Group during the reporting year.

Goodwill is tested for impairment based on the net realizable value (net selling price) of the respective units. As the values cannot currently be determined from existing offers or sales and as there is also no discernible market that could be used as a benchmark for determining the values, valuations are based on the alternative discounted cash flow (DCF) method using fouryear business plans for the units in question (Level III valuation). The business plans were drawn up in the fourth quarter of 2015 and have been approved by the Executive Board and the Supervisory Board. The business plans 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. A description of the business activity of the CGUs can be found in the Management Report under the section entitled "Business Trend". The sales revenues and EBIT of the segments comprising the CGUs are listed here under Note 18. In 2015, the EBIT margins for the CGUs were 2.9% for Europe and 3.9% for the Middle East. There are uncertainties regarding the underlying assumptions used in calculating the fair value less costs to sell (using the DCF method), 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 projections 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: Russia and Greece: 17.6%–19.5% (previous year: 12.4%–14.4%); Germany: 7.3% (previous year: 5.5%); Poland: 9.0% (previous year: 7.1%); the rest of Europe: 7.5%–8.1% (previous year: 5.6%–6.7%); Asia: 9.6% (previous year: 8.2%–11.1%) and Rest of the World: 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 Asia (previous year: 1.5%) and 0.0% for the Rest of the World. 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

The parameters to which the realizable value is particularly sensitive are the EBIT margin and the WACC. Management believes that no changes that could reasonably be made to the basic assumptions used for determining the realizable value of the CGUs not subject to a write-down will cause the carrying amounts (book values) of the CGUs to materially exceed their recoverable amounts. A 1% increase in the discount rate would lead to a €250 thousand impairment loss for the MGR CGU and a 5% reduction in the EBIT margin would lead to a €100 thousand impairment loss.

Changes in fiscal years 2015 and 2014 are shown in the "Fixed Assets Movement Schedule" included in the Group consolidated financial statements.

2. Property, plant and equipment

The item "Property, plant and equipment" includes the following items:

in kEUR	31.12.2015	31.12.2014
Land, land rights and buildings including buildings on third-party land	5,314	4,391
Technical equipment and machinery	22,301	20,255
Other equipment, operating and office equipment	2,603	2,721
Prepayments and assets under construction	2,457	1,356
TOTAL	32,675	28,722

The carrying amounts of the items under property, plant and equipment are determined from their acquisition costs. Accumulated depreciation for property, plant and equipment totaled €63.3 million (previous year: €58.2 million). There were no impairment losses or additions to property, plant and equipment during the reporting year. Borrowing costs were not capitalized.

Tangible fixed assets included €0.1 million of leased assets (previous year: €1.4 million). These were motor vehicles.

Capital expenditures amounted to €10.8 million in 2015 (previous year: €13.7 million). The first-time consolidation of the MSI Group increased property, plant and equipment by €0.3 million.

Changes in fiscal years 2015 and 2014 are shown in the "Fixed Assets Movement Schedule" included in the Group consolidated financial statements.

Of the prior-year figure for depreciation and amortization, €185 thousand related to the business segment in Singapore, which is shown separately during the year under review pursuant to IFRS 5.

3. Financial assets

Financial assets include the following items:

in kEUR	31.12.2015	31.12.2014
Shares in affiliated companies	29	29
Investments	1	1
TOTAL	30	30

Shares in unconsolidated affiliated companies pertain to companies that are not included in the consolidated group because they would not have a material effect on the assessment of the Group's situation.

Changes in fiscal years 2015 and 2014 are shown in the "Fixed Assets Movement Schedule" included in the Group consolidated financial statements.

4. Deferred tax assets

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

in kEUR	31.12.2015	31.12.2014
Accumulated tax-loss carryforwards	3,872	3,895
Non-current assets	333	445
Current assets	84	217
Provisions and other liabilities	328	170
Settlement according to IAS 12.74	-1,523	-1,419
TOTAL	3,094	3,307

In Germany, there were trade-tax loss carryforwards of €16.5 million and corporate income tax loss carryforwards of €14.8 million as of the balance-sheet date. There were tax-loss carryforwards of €15.1 million abroad.

According to the medium-term forecasts of the companies involved, a tax benefit in the amount of €3,872 thousand 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. Capitalized tax benefits totaling €219 thousand relate to tax jurisdictions that posted losses in 2014 and 2015 (€190 thousand in Germany and €29 thousand in Russia). 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. On the other hand, €4.9 million of tax benefits (calculation basis: €31.1 million) were not capitalized for unutilized loss carryforwards. Up to €0.1 million of the used loss carryforwards can still be utilized for at least fifteen years. As of 31 December 2015, €76 thousand of deferred tax assets (previous year: €66 thousand) were recognized in other comprehensive income, with no effect on the income statement.

The changes in deferred tax assets are shown in the following table:

in kEUR	2015	2014
Balance on 1 January	3,307	2,842
Currency-translation differences	-73	121
Allocation to other comprehensive income	34	25
Allocation affecting net income in the Group consolidated income statement	1.349	1,091
Settlement according to IAS 12.74	-1,523	-772
Balance on 31 December	**3,094**	**3,307**

5. Inventories

Inventories may be broken down as follows:

in kEUR	31.12.2015	31.12.2014
Raw materials, consumables and supplies	5,281	4,674
Prepayments	600	16
TOTAL	**5,881**	**4,691**

6. Trade receivables

Trade receivables include the following items:

in kEUR	31.12.2015	31.12.2014
Accounts receivable from services rendered	47,183	36,470
Accounts receivable from work in progress	35,406	34,591
Prepayments received on account of work in progress	-28,109	-25,040
TOTAL	**54,480**	**46,021**

Accounts receivable from services rendered have a time to maturity of less than one year. In general, accounts receivable from work in progress also are due within one year. As agreed with customers, prepayments are due on construction contracts that will not be invoiced until 2017, meaning that a maturity of less than one year can be assumed in such instances, as well. Sales amounting to €238,991 thousand (previous year: €213,068 thousand) include contract revenues (additions to work in progress during the fiscal year) amounting to €23,407 thousand (previous year: €29,072 thousand). The accumulated costs pertaining to construction contracts in progress on the balance-sheet date amounted to €31,268 thousand (previous year: €30,735 thousand) and the accumulated profits/losses amounted to €4,843 thousand (previous year: €4,096 thousand).

Regarding a potentially overdue portfolio of trade receivables 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. Management considers the impairments of trade receivables already recognized to be sufficient. Additions and reversals of impairments are recognized through profit or loss in other operating income or expenses.

7. Cash and cash equivalents

As of 31 December 2015, cash and cash equivalents totaled €8.8 million (previous year: €9.0 million) and aside from available cash and sight balances also included overnight deposits. Interest on overnight deposits averaged 0.05% on the balance-sheet date. As of the balance-sheet date, there were no drawing restrictions. On the date of MSI's first-time consolidation, cash and cash equivalents increased by €1.5 million.

8. Income tax receivables and income tax liabilities

All income tax refund claims and income tax liabilities are due within one year; for fair values and carrying amounts, see Note 28.

9. Other assets

The other financial assets included in other assets can be broken down as follows:

in kEUR	31.12.2015	31.12.2014
Security deposits	834	639
Receivables from employees	665	650
Credits with suppliers/bonuses	448	531
Other financial assets	363	731
TOTAL	**2,310**	**2,551**

Other non-financial assets consist of the following:

in kEUR	31.12.2015	31.12.2014
Other tax receivables	4,969	1,980
Prepaid expenses	1,024	1,092
Other non-financial assets	703	746
TOTAL	**6,696**	**3,818**

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 28.

10. Discontinued operations held for sale

During the fiscal year, the decision was made to cease the Group's operations in Singapore and Malaysia and to shut down 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 recognized as such as of 31 December 2015.

As of the balance-sheet date, the four affected companies' non-current assets totaled €0.3 million, current assets totaled €2.2 million and current liabilities totaled €2.5 million. During the year under review, the business segment reported €0.5 million of EBIT (€4.8 million of sales revenues; €1.9 million of other operating income; €2.0 million for cost of materials and purchased services; €2.0 million of personnel expenses; €0.2 million of depreciation and amortization; €1.2 million of other operating expenses and €0.1 million of tax income; previous year: €4.9 million of sales revenues; €0.6 million of other operating income; €2.5 million for cost of materials and purchased services; €2.1 million of personnel expenses; €0.2 million of depreciation and amortization; €2.2 million of other operating expenses and €0.1 million of tax expenses), a large portion of which was attributable to the sale of a building. The Group expects the segment to shut down all business activities by the end of the first half of 2016. The results will be allocated to the Group.

The prior-year income-statement figures have been adjusted in accordance with the requirements of IFRS 5.

11. Shareholders' equity

Subscribed capital

The parent company's issued capital amounted to €19,500 thousand on the balance-sheet date. This corresponds to the issued capital shown in the Group balance sheet. It is divided into 19,500,000 no-par-value bearer shares, each with a proportional amount of the issued capital of €1.00 per share.

The parent company's authorized capital amounts to €9,250 thousand.

Additional paid-in capital (Capital reserves)

In 2006, the premium from the issuance of 4 million new shares totaling €19,200 thousand was allocated to capital reserves. Expenses relating to the issuance of treasury shares less the related tax component in the net amount of €1,205 thousand were netted against the capital reserves.

Treasury shares

Muehlhan AG's Annual General Meetings held on 19 May 2009 and 18 May 2010 passed resolutions authorizing the Executive Board to acquire treasury shares with a nominal value of up to €1.95 million. The buyback began in the fourth quarter of 2009. No shares were purchased during the year under review. In 2014, 295,407 shares worth a total of €687,617 were acquired. In 2015, 146,644 shares were disposed of (previous year: 181,675 shares) under the Employee Program (see Note 20 as well). The treasury shares are shown separately as deduction items totaling €1,534,701 (previous year: €1,731,081) in the equity section. As of the balance-sheet date, there were 453,957 treasury shares, corresponding to 2.3% of Muehlhan AG's share capital.

Other reserves

Other reserves include the following items:

in kEUR	31.12.2015	31.12.2014
Revenue reserves	9,853	10,051
Currency-translation reserve	1,342	-355
Cash-flow hedge reserve	-14	0
Reserve in connection with the remeasurement of defined-benefit plans	-68	-163
Reserve in connection with the first-time application of IFRS	589	589
TOTAL	**11,702**	**10,122**

The reserve in connection with the remeasurement of defined-benefit plans is related to the entry into force of the amendment to IAS 19 as revised in 2013, under which actuarial gains and losses from the remeasurement of claims under defined-benefit plans are recognized immediately in "Other comprehensive income" in the shareholders' equity section of the balance sheet. The cash-flow hedge reserve results from the hedging transaction amounts recognized in Other comprehensive income and aggregated in equity, pursuant to IAS 39.

Retained earnings

In fiscal year 2015, as in the previous year, no dividends were paid.

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, 51% stakes in MGR, MCL and MRO and a 60% stake in MSI, which was acquired during the year under review. In the 2015 reporting year, results totaling €708 thousand (including €479 thousand for MSI, €138 thousand for MRO and €92 thousand for MCL; previous year: €764 thousand, including €444 thousand for MCL, €199 thousand for MGR and €97 thousand for MMF) were allocated to other shareholders.

The following table shows the balance-sheet and income-statement items of the principal companies with non-controlling interests pursuant to IFRS 12:

in kEUR	MGR	MRO	MSI
Non-current assets	775	135	190
Current assets	4,328	651	4,783
Equity	2,637	287	2,194
Non-current liabilities	0	0	0
Current liabilities	2,466	499	2,779
Sales	7,509	1,523	8,703
EBIT	29	328	1,711

12. Pension accruals

Pension accruals totaled €806 thousand (previous year: €797 thousand). There are no plan assets.

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 one of the required provisions relates primarily to the commitment to a now-retired former managing director of a subsidiary. In addition, in France and Poland there are statutory requirements to pay benefits to employees at retirement.

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 recognized under pension accruals.

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. 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 the defined-benefit obligation for all domestic pension obligations is calculated by actuaries based on an assumed discount rate of 1.49% (previous year: 1.60%) in Germany and between 1.8% and 3.6% abroad, 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 are based on the "2005G Actuarial Tables" of Klaus Heubeck. A retirement age of 65 is assumed.

The Group's pension accruals changed as follows:

in kEUR	2015	2014
Balance on 1 January	797	776
Interest with respect to earned pension	11	16
Benefits paid	-44	-40
Actuarial gains and losses	7	87
Change in accruals – defined-contribution plans	35	-42
Balance on 31 December	**806**	**797**

It is expected that pension payments in 2016 will be at the same level as in the previous year.

During the year under review, the expense for defined-contribution plans totaled €23 thousand.

13. Financial liabilities

Financial liabilities include the following items, shown by maturity:

	Total	Time to maturity		
in kEUR	2015	0–1 year	1–5 years	> 5 years
Liabilities to banks	23,667	8,396	14,907	364
Lease liabilities	80	80	0	0
TOTAL	**23,747**	**8,476**	**14,907**	**364**

	Total	Time to maturity		
in kEUR	2014	0–1 year	1–5 years	> 5 years
Liabilities to banks	24,051	8,390	15,233	427
Lease liabilities	304	304	0	0
TOTAL	**24,355**	**8,694**	**15,233**	**427**

On 21 August 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) can be used for growth projects such as company acquisitions. Tranche C (€15 million) is a revolving loan that is available until 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% that depends 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 netdebt ratio and an interest-coverage ratio. The financing terms and conditions were satisfied during the fiscal year. The loans were recorded at amortized cost after allowing for the transaction costs (€1.1 million). The loans totaled €17.7 million on the balance-sheet date.

The term loans will result in cash outflows of €4,011 thousand in 2016, €5,282 thousand in 2017 and €10,054 thousand thereafter. To the best of our knowledge, there is no active market for the loans, so as far as we know, the fair value is most likely equivalent to its carrying amount (book value).

Liabilities under finance leases totaled €80 thousand on the balance-sheet date (previous year: €304 thousand). The scope of the Group's finance leases is insignificant.

The MYAG Group has at its disposal master credit lines totaling €49.7 million (previous year: €54.0 million) which can be used as cash loans and, in some cases, as loan guarantees. In addition, it has guarantee facilities totaling €110.6 million, primarily from Euler Hermes Kreditversicherungs AG, Zurich Versicherung Aktiengesellschaft and Zurich Insurance Public Limited Company, USA. Apart from liabilities to banks totaling €23.7 million, guarantee credits totaled €49.8 million as of 31 December 2015. On 31 December 2015, aside from cash and cash equivalents, the company had at its disposal unutilized loan, overdraft and guarantee facilities in the amount of €85.8 million. The effective interest rate on financial liabilities averaged 5.2% during the fiscal year.

14. Deferred tax liabilities

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

in kEUR	31.12.2015	31.12.2014
Non-current assets	9	81
Current assets	1,409	1,119
Provisions and other liabilities	105	357
Settlement according to IAS 12.74	-1,583	-1,419
TOTAL	**0**	**138**

Changes in deferred tax liabilities are shown in the following table:

in kEUR	2015	2014
Balance on 1 January	138	150
Currency-translation differences	9	-1
Allocation affecting net income in the Group consolidated income statement	1,376	760
Settlement according to IAS 12.74	-1,523	-772
Balance at 31 December	**0**	**138**

There are taxable temporary differences relating to investments in subsidiaries (outside basis differences) totaling €1,136 thousand (previous year: €871 thousand) for which no deferred tax liabilities have been recognized in accordance with IAS 12.39 because there are no plans to either distribute profits or to dispose of the investments. The prior-year figure for outside basis differences was adjusted from €33 thousand to €871 thousand to correct for an error in addition in the previous year. This will have no further impact on the consolidated financial statements, including disclosures.

15. Provisions and contingent liabilities

The changes in provisions for warranties contained in other provisions are shown in the following table:

in kEUR	Balance on 1.1.2015	Utilization	Reversal	Addition	Currency effect	Balance on 31.12.2015
Warranty	**441**	**137**	**3**	**284**	**17**	**602**

For the most part, the provisions are expected to result in an outflow of funds in the following fiscal year.

There are no contingent liabilities which are likely to result in an outflow of funds.

16. Trade payables

All liabilities have a term to maturity of one year or less. For fair values and carrying amounts, see Note 28.

17. Other liabilities

The other financial liabilities included in other liabilities can be broken down as follows:

in kEUR	31.12.2015	31.12.2014
Security deposits	250	146
Liabilities to personnel	7,374	7,279
Sales bonuses/bonuses	821	593
TOTAL	8,445	8,018

Die sonstigen nicht finanziellen Verbindlichkeiten gliedern sich wie folgt:

in kEUR	31.12.2015	31.12.2014
Liabilities for other taxes	2,736	2,240
Liabilities relating to social security	2,358	2,065
Other deferrals	2,072	1,643
Advance payments received	1,175	307
Other non-financial liabilities	790	926
TOTAL	9,131	7,181

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 28.

V. Notes to the income statement

Pursuant to IFRS 5.34, prior-year figures have been adjusted due to the application of IFRS 5.

18. Sales revenues and segment reporting

Segment reporting is based on the management approach, in accordance with IFRS 8. Management and, therefore, internal reporting are both organized primarily by geographic region. The Group's results are broken down into the regions of Europe, 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. Until the end of 2014, the company was divided into the business segments Ship Newbuilding, Ship Repair, Energy, Industry and Other Services. For a more detailed description of the segments, please refer to the comments in the Consolidated Management Report, where reporting is broken down by external revenues and EBIT (earnings before interest and taxes).

Assets and liabilities are not broken down by segment, as this information is not collected for internal reporting purposes. The same applies to interest income/interest expense and to income taxes paid/income tax refunds.

Intersegment sales and revenues are always reported at prices that would also apply to arm's-length transactions. The company's main sources of revenue were Germany with €70.1 million, Poland with €31.8 million, Great Britain with €28.5 million and Denmark with €26.2 million. Apart from this, no country accounted for more than 10% of Group sales revenues. In no case do external sales to customers account for more than 10% of Group sales revenues.

Breakdown by segment (new):

2015

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

2014

in kEUR	Europe	America	Middle East	Rest of the World	Holding Company	Reconciliation	Group
External revenues	180,702	18,240	14,088	0	38	0	213,068
Intersegment sales	1,235	0	69	0	3,484	-4,788	0
Sales revenues	**181,937**	**18,240**	**14,157**	**0**	**3,522**	**-4,788**	**213,068**
EBITDA	13,957	1,128	2,430	0	-4,551	221	13,185
Depreciation and amortization	-3,786	-411	-528	0	-518	351	-4,892
Goodwill impairment loss	0	0	0	0	-764	0	-764
EBIT	**10,171**	**717**	**1,902**	**0**	**-5,833**	**572**	**7,529**
Capital expenditures	**10.349**	**2.742**	**90**	**166**	**433**	**0**	**13.780**

In the previous year, the Rest of the World segment only showed the companies in Singapore. The associated amounts are shown separately on the income statement pursuant to IFRS 5. The good-will impairment loss recognized in 2014 relates to the companies in Singapore.

Breakdown by segment (old):

2015

in kEUR	Europe	America	Asia	Holding Company	Reconcili-ation	Group
External revenues	188,383	23,122	27,431	55	0	238,991
Intersegment sales	100	0	421	6,385	-6,906	0
Sales revenues	**188,484**	**23,122**	**27,852**	**6,440**	**-6,906**	**238,991**
EBITDA	8,043	1,220	3,843	-1,452	303	11,957
Depreciation and amortization	-4,934	-835	-569	-402	0	-6,740
EBIT	**3,109**	**385**	**3,274**	**-1,854**	**303**	**5,217**
Capital expenditures	**9,427**	**672**	**2,587**	**159**	**0**	**12,845**

2014

in kEUR	Europe	America	Asia	Holding Company	Reconcili-ation	Group
External revenues	180,702	18,229	14,089	38	0	213,068
Intersegment sales	1,235	0	69	3,484	-4,788	0
Sales revenues	**181,937**	**18,239**	**14,158**	**3,523**	**-4,788**	**213,068**
EBITDA	13,957	1,128	2,430	-4,551	221	13,185
Depreciation and amortization	-3,786	-411	-528	-518	351	-4,892
Goodwill impairment loss	0	0	-764	0	0	-764
EBIT	**10,171**	**717**	**1,138**	**-5,069**	**572**	**7,529**
Capital expenditures	**10,349**	**2,742**	**256**	**433**	**0**	**13,780**

Breakdown by business segment (new):

	External revenues		EBIT	
in kEUR	2015	2014	2015	2014
Ship	82,940	78,818	3,750	2,296
Oil & Gas	52,960	48,146	4,167	3,544
Renewables	23,695	14,776	-2,472	890
Industry/Infrastructure	79,342	71,289	4,186	6,260
Central divisions/Consolidation	54	38	-4,414	-5,461
TOTAL	**238,991**	**213,068**	**5,217**	**7,529**

Information on current amounts aggregated according to the old segments is not available.

19. Cost of materials and purchased services

This item may be broken down as follows:

in kEUR	2015	2014
Costs of raw materials, consumables and supplies	41,430	36,191
Cost of purchased services	47,838	45,332
TOTAL	**89,268**	**81,523**

20. Personnel expenses

The average number of people employed (including the Executive Board) was as follows:

Number	2015	2014
Europe (incl. Central divisions)	1,996	1,932
America	142	97
Middle East	508	425
Rest of the World	198	221
TOTAL	**2,844**	**2,675**

Personnel expenses include:

in kEUR	2015	2014
Wages and salaries	88,170	74,475
Social security and post-employment benefit costs	18,403	14,649
TOTAL	**106,573**	**89,124**

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

Employee incentive plan

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 may 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 2015, a tranche of 146,644 shares (previous year: 181,675 shares) was transferred to the bonus creditors. The total cost of the value bonus will be divided over the four periods from the grant date until the shares vest. In 2015, the Group recognized an associated expense of €171 thousand (previous year: €210 thousand). The fair value of the shares to be issued is measured at the share price on the grant date. The issuance of rights to shares is recognized in equity under capital reserves.

21. Other operating income and other operating expenses

Other operating income (2015: €4,670 thousand; previous year: €2,023 thousand) primarily includes exchange gains (2015: €870 thousand; previous year: €532 thousand), gains from the disposal of fixed assets (2015: €839 thousand; previous year: €98 thousand) and income from non-cash benefits (2015: €670 thousand; previous year: €338 thousand).

Other operating expenses (2015: €35,863 thousand; previous year: €31,259 thousand) primarily include travel expenses (€7,044 thousand; previous year: €6,617 thousand); rentals and incidental expenses (€5,370 thousand; previous year: €4,259 thousand); motor vehicle expenses (€3,215 thousand; previous year: €3,367 thousand); repairs (€2,854 thousand; previous year: €3,266 thousand); legal and consulting expenses (€2,843 thousand; previous year: €2,419 thousand); staff training and other personnel costs (€1,843 thousand; previous year: €1,682 thousand); exchange losses (€1,634 thousand; previous year: €746 thousand); and insurance premiums (€1,793 thousand; previous year: €1,542 thousand). Minimum lease payments under operating lease agreements totaled €1,362 thousand (previous year: €1,704 thousand). The aforementioned exchange gains and losses relate to translation adjustments within the meaning of IAS 21.52a.

22. Interest income and financing expenses

During the year under review, interest income totaled €65 thousand (previous year: €14 thousand) and interest expenses totaled €1,941 thousand (previous year: €2,374 thousand).

2015 financing costs included interest expense and guarantee fees.

23. Tax result

Tax result may be broken down as follows:

in kEUR	2015	2014
Current income tax expense	1,752	1,690
Deferred taxes	27	-331
TOTAL	**1,779**	**1,359**

In principle, MYAG and its German subsidiaries are subject to the corporate tax, the solidarity levy and the trade tax.

Reconciliation of theoretical and actual tax expenses:

in kEUR	2015	2014
Earnings before taxes from continuing operations	3,341	5,169
Theoretical tax expense at the tax rate of MYAG: 31.5%	-1,052	-1,628
Differing foreign tax rates	914	766
Tax-free income and non-deductible expenses	-133	-52
Change in valuation allowance for deferred tax assets	-2,052	-310
Effects of amortization of goodwill	0	-170
Effects of changes in tax rates	15	0
Adjustments as a result of tax refunds and utilization of unrecognized loss carryforwards	215	0
Prior-period tax expenses	41	44
Other	273	-10
Income tax expense for continuing operations recognized in the income statement	**-1,779**	**-1,360**
Effective tax rate	53,3%	26,3%

24. Earnings per share

The earnings per share calculation is based on the net income allocable to Muehlhan AG's equity investors and the average number of ordinary shares outstanding during the fiscal year. The number of shares used in calculating earnings per share was 18,899,399 shares for 2015 (previous year: 18,855,779). Since there were no potential ordinary shares as of the balance-sheet date, basic and diluted earnings per share are identical.

25. Statement of comprehensive income

The items "Remeasurement of defined-benefit plans" and "Future cash-flow hedge" contain a tax component of €28 thousand and €6 thousand, respectively (previous year: €25 thousand and €0 thousand). The item "Currency-translation differences" does not contain a tax component, as in the previous year.

VI. Other disclosures

26. Risk management

Capital risk management

The Muehlhan Group pursues the goal of securing its capital base for the long term while generating an appropriate return on capital employed. At the same time, minimum capital requirements are taken into account. As of 31 December 2015, the Group had a consolidated equity ratio of 47.8% (previous year: 51.7%).

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 (book value) of all financial assets plus the nominal value of contingent liabilities, not including potential warranty obligations. To the extent default risks are foreseeable for financial assets, impairment losses are recognized.

Interest-rate risk

Most of the Group's financial liabilities are long-term and carry a fixed rate of interest. 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.

Currency risk

More than 61% of the Group's sales revenues are generated in Euros or Danish Kroner, which scarcely fluctuate in relation to the Euro. For the most part, the remaining revenues generated in foreign currencies are offset by expenses in the same currencies, meaning that the currency risk from operations is limited to the profit contribution from the companies concerned. As a matter of principle, the Group does not hedge this risk. Overall, the Group posted a net currency loss of €0.7 million for 2015.

Assumptions and estimates

In preparing the consolidated financial statements, it is sometimes necessary to make assumptions and estimates that affect the amounts of assets and liabilities, income, expenses and contingent liabilities, as well as how these are classified. Estimates and related assumptions are revalued 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 the primary sources of uncertainties 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 that case, the cash generating unit's recoverable amount must be determined. This is the greater of the fair value less costs to sell and the value in use. 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 bad-debt losses to reflect expected losses due to customers' insolvency. The Group bases its assessment of the appropriateness of valuation allowances for bad-debt losses 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 assumptions applied here are predominantly based on the market conditions on the balance-sheet date. The Group uses present-value method to determine the fair value of numerous financial assets available for sale that are not traded in active markets.

- Pension accruals: Pension obligations for benefits to employees are fully 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 and, to a limited extent, projected earnings from plan assets. Estimates regarding projected earnings from plan assets only have a limited impact on pension expenses. Additional important assumptions relating to pension expenses are based in part on actuarial measurements, which in turn are based on assumptions such as the interest rates used to calculate the amount of our pension obligation. Assumptions about projected earnings from plan assets are made in a consistent manner, taking into account long-term historical returns in the past, the investment strategy and estimates of long-term investment returns. If further changes in assumptions about interest rates or projected earnings from plan assets are required, this could significantly affect the amount of future pension expenses.

- Other provisions: Other provisions are recognized on the date when an obligation to external third parties is probable and can be reliably esti-

mated. 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 life: The expected useful life of fixed assets is based on estimates.

27. Transactions with related parties

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.

The composition of the Executive Board and the Supervisory Board is discussed in Notes 31 and 32. Ms Andrea Greverath, a Supervisory Board member (since December 2014), is also a related party within the meaning of IAS 24.9. Ms Greverath and the companies controlled by her are referred to as the "Greverath Property" in the following comments. In 2015, the Group's expenses relating to the Greverath Property totaled €277 thousand (previous year: €360 thousand) and consisted of rent, real-estate taxes and Supervisory Board compensation.

On the balance-sheet date, there were no trade payables owed to the Greverath Property (previous year: the company owed the Greverath Property €21 thousand in trade payables).

28. 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 market data available on the valuation date. To determine the market 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 maturities, the nominal amount less impairment losses is equal to the fair value. For shares in unlisted companies, no fair value could be determined because exchange or market values were not available. These are shares for which there were no signs of a permanent impairment as of the balance-sheet date and for which the fair values cannot be reliably determined. For these financial instruments, it is assumed that the fair values are equal to the carrying amounts. The Group is not planning to sell the shares.

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 maturities, fair values are equal to the carrying amounts.

Investments that qualify as "available for sale" are not assigned to any valuation class because, in the absence of reliably determined fair values, they 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 are currently no plans for large-scale disposals of equity investments.

This year, for the sake of clarity, the carrying amounts and/or fair values of the financial instruments are presented in the table format shown below for the first time:

	Valuation category according to IAS 39	Carrying amounts		Fair values	
in kEUR		31.12.2015	31.12.2014	31.12.2015	31.12.2014
Non-current financial assets					
Other financial assets/investments	(Afs)	30	30	30	30
Total non-current financial assets		**30**	**30**	**30**	**30**
Current financial assets					
Trade receivables	(LaR)	54,480	46,021	54,480	46,021
Cash and cash equivalents	(LaR)	8,780	9,041	8,780	9,041
Other financial assets	(LaR)	2,310	2,551	2,310	2,551
Total current financial assets		**65,570**	**57,613**	**65,570**	**57,613**

Afs = Available für sale Financial assets
LaR =Loan and Receivables

	Valuation category according to IAS 39	Carrying amounts		Fair values	
in kEUR		31.12.2015	31.12.2014	31.12.2015	31.12.2014
Non-current financial liabilities					
Loans and other non-current financial liabilities	(FLAC)	15,271	15,661	15,592	16,116
Total non-current financial liabilities		**15,271**	**15,661**	**15,592**	**16,116**
Current financial assets					
Current financial liabilities	(FLAC)	8,396	8,390	8,396	8,390
Lease liabilities	(FLAC)	80	304	80	304
Trade payables	(FLAC)	24,145	15,329	24,145	15,329
Other financial liabilities	(FLAC)	8,445	8,018	8,445	8,018
Total current financial liabilities		**41,066**	**32,041**	**41,066**	**32,041**

FLAC = Financial liabilities measured at amortised cost

The interest-rate hedge contracts that are measured at fair value are measured using the Level 2 valuation method.

29. Auditors' fee

The Annual General Meeting appointed BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, to audit the consolidated financial statements for fiscal year 2015. In 2015, total fees for financial statement auditing services within the Group amounted to €138 thousand (previous year: €122 thousand); for other audit-related services, €2 thousand (previous year: €0 thousand); for tax advisory services, €55 thousand (previous year: €40 thousand) and for other services, €18 thousand (previous year: €3 thousand), bringing the total amount charged for all services to €213 thousand (previous year: €165 thousand). The fee for auditing MYAG's separate financial statements totaled €40 thousand (previous year: €24 thousand).

30. Other financial commitments and contingent liabilities

On the balance sheet date, consortium memberships entailed the customary contingent liabilities.

The company rents and leases office space, production halls, technical equipment, office equipment and vehicles. The various contracts 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. 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 reflect customary terms in their respective industries.

Other financial commitments consisting mainly of rental and lease payments amounted to €10.9 million, of which €2.4 million is due in 2016, €0.7 million in 2017 and €7.8 million in future years.

31. Executive Board

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

Mr Stefan Müller-Arends, Businessman, St Augustin (Chairman)
Dr Andreas C. Krüger, Engineer, Hamburg
Mr James West, Engineer, Aberdeenshire, UK

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 of the parent company's Executive Board totaled €1,279 thousand for the fiscal year, including €1,118 thousand of ongoing fixed compensation, €74 thousand of ongoing variable compensation and €87 thousand of expenses for the bonus program (previous year: €1,319 thousand, including €839 thousand of fixed compensation, €285 thousand of variable compensation and €195 thousand of expenses for the bonus program).

32. Supervisory Board

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

Ms Andrea Greverath, Businesswoman, Hamburg
Dipl.-Ing. Dr Gottfried Neuhaus, Businessman, Hamburg
Mr Philip Percival, Businessman, London (Chairman)

The Supervisory Board was paid €53 thousand for reimbursement of expenses for the fiscal year (previous year: €54 thousand), of which the fixed component accounted for €50 thousand, as in the previous year, and the variable component accounted for €3 thousand (previous year: €3 thousand).

33. Dividend per share

With the Supervisory Board's approval, the Executive Board proposes that the Annual General Meeting distribute a dividend of €0.04 per share on the €19,500,000.00 of shares with dividend rights. The total amount of the dividend distribution will therefore be €780,000.00, less the dividends on treasury shares.

This dividend is shown as a component of equity in the consolidated financial statements. The dividend liability will be recognized after approval by the Annual General Meeting in fiscal year 2016.

34. Events after the reporting date

There were no significant events after the balance-sheet date.

Hamburg, 16 March 2016

The Executive Board

Stefan Müller-Arends

Dr Andreas C. Krüger

James West

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FINANCIAL CALENDAR

6 May 2016	Publication of 1st quarter figures 2016
24 May 2016	General Meeting Muehlhan AG
28 July 2016	Publication of half-yearly report 2016
10 November 2016	Publication of nine-month figures 2016

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NOTES

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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.