

2015

## SHARE INFORMATION

ISIN: DE0007830572

WKN: 783057

Exchange Segment: Open Market Entry Standard of the Frankfurt Stock Exchange

Ticker Symbol: 4DS

Fiscal Year End: 31 December

## SHAREHOLDER STRUCTURE AS AT 31/12/2015

Number of Shares:	5,445,000	100.0 %
Daldrup Family:	3,563,190	65.44 %
Free Float:	1,881,810	34.56 %

Josef Daldrup	5.69 %
Karl Daldrup	17.98 %
Bernd Daldrup	18.02 %
Thomas Daldrup	18.02 %
Michaela Daldrup	5.73 %
Streubesitz	34.56 %

**DALDRUP FAMILY: 65.44 %**

**FREE FLOAT: 34.56 %**





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## GROUP MANAGEMENT REPORT FOR THE FISCAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2015

### A. COMPANY – BUSINESS ACTIVITIES, COMPETITIVE POSITION AND ENVIRONMENT

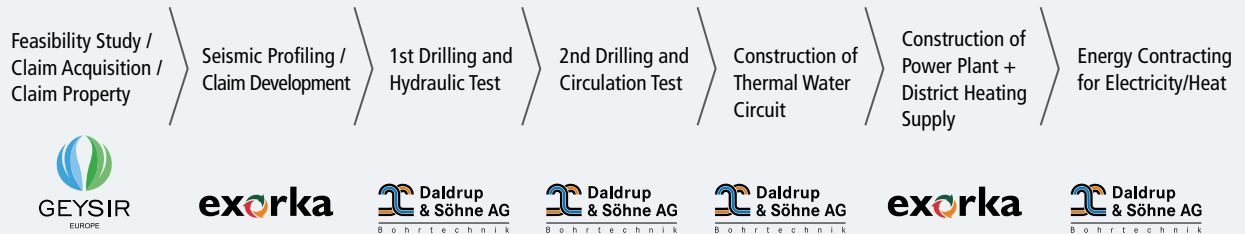
#### 1. GROUP STRUCTURE AND BUSINESS ACTIVITIES

Daldrup & Söhne AG, a company whose history goes back decades, is one of the leading providers of drilling and environmental services, deep geothermal power plant projects and, through its Group companies, power plant operators in Germany and in Central Europe. The Company's activities are organised into the business units of Geothermics, Raw Materials & Exploration, Water Procurement as well as Environment, Development & Services (EDS). As a result of building up strategic investments and partnerships, the Daldrup Group now occupies all positions in the value chain for geothermal projects, from

holding the permits for exploration of geothermal energy in a particular area, from field development through to drill readiness, from execution of the drilling, constructing the power station through to energy contracting and power plant operation.

The aim of the Daldrup Group is to promote and drive forward the development of energy supplies using geothermal renewable energy sources in order to ultimately provide a competitive alternative to the increasingly scarce fossil fuels.

#### VALUE CHAIN OF A DEEP GEOTHERMAL ENERGY PROJECT

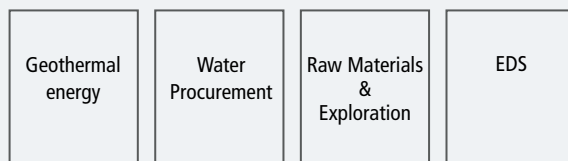


The Daldrup Group's range of services enables it to offer turnkey geothermal energy power plant projects at a fixed price "from a single source".

#### PROVIDER OF DRILLING SERVICES



Daldrup provides numerous customers from industry, suppliers, municipal/government bodies and private customers with comprehensive drilling and environmental services.



#### GEOTHERMAL PROJECT DEVELOPER & IPP<sup>1</sup>

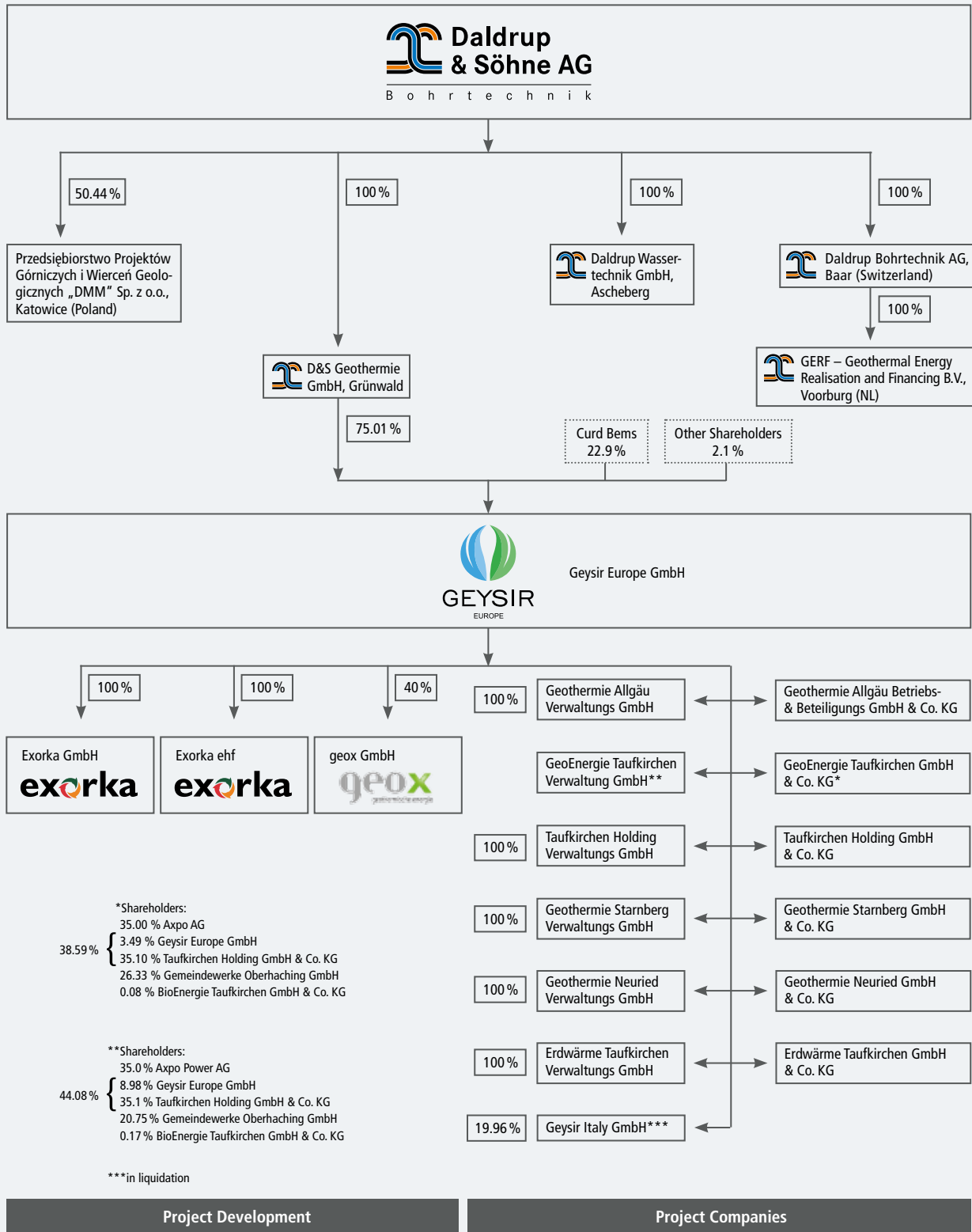


- The Company's own exploration rights (claims) for the active implementation of its own deep geothermal projects regarding electricity and heat generation
- Worldwide licence to use the power plant technology of the Kalina process and exclusive rights to use it in Germany
- The Daldrup Group combines the expertise of the entire value chain for a deep geothermal energy project

Through partnerships and cooperative ventures with energy supply companies, public services and investors, Daldrup will develop its own geothermal energy projects (participation in power plant operation) and obtain stable long-term income from the generation of electricity and heat.

<sup>1</sup>IPP = Independent Power Producer

GROUP STRUCTURE AS AT 31/12/2015





### **ORGANISATION**

All Group companies are bound by rules of procedure and/or by catalogues of transactions requiring approval and are subject to the strategic orientation of the Daldrup Group.

### **BUSINESS ACTIVITIES**

Services within the Daldrup Group are brought together at two levels. One level relates to Daldrup & Söhne AG with its direct equity investments, while the second level groups the activities of Geysir Europe GmbH and its direct subsidiaries. In this respect, the Geysir-Europe Group forms a subgroup within the Daldrup Group.

The company operations of Daldrup & Söhne AG include the Geothermal Energy, Raw Materials & Exploration, Water Procurement and Environment, Development & Services (EDS) business units.

The Geothermal Energy business unit provides drilling services for near-surface geothermal energy (particularly geothermal probes for heat pumps) but above all, drilling services for deep geothermal energy. The utilisation of deep geothermal energy requires drilling to depths of up to 6,000 metres so that the geothermal energy that then becomes accessible can be used for electricity and/or heat generation. Geothermics is becoming increasingly important globally in terms of the generation of heat and electricity as a component of renewable energies within the overall energy mix. Particular preference here is given to countries that have high enthalpy deposits (sites in which high temperatures (over 200 °C) and/or pressures can be found at relatively shallow depths (< 2,000 m)). In low enthalpy regions such as Germany, deeper wells and so-called binary power plant circulation processes are used to generate electricity from geothermal energy.

Furthermore, the direct use of geothermal energy for heating and cooling superstructures in terms of both new construction projects and as part of energy-efficient building renovation in Germany cannot be ignored. Reservoirs with thermal water temperatures that are lower than 110 degrees Celsius and that generally require drilling depths of between 1,000 and 3,000 metres can be used in this manner.





In addition to this, during the last few years in Germany the regulatory framework to promote the use of heat from renewable energy sources has continued to be extended and improved by measures which include the new Renewable Energies Heat Act (EEWärmeG), the Market Incentive Programme (MAP) and the Energy Saving Ordinance (EnEV). Further details of this can be found in Chapter 2, "Market and Competition".

The main focus of the Daldrup & Söhne AG German operations is currently in the Bavarian Molasse basin around Munich, the Upper Rhine Rift Valley, and at a later stage, in the North German Plain. During the 2015 fiscal year international activities particularly focussed on the Netherlands, Belgium, Switzerland and Poland. Daldrup & Söhne AG's activities across Europe shall focus in future on sites with especially good geothermal energy potential and corresponding sales opportunities for electricity and heat. Deep wells down to a depth of 6,000 metres represent a challenge for both teams and technology. Daldrup & Söhne AG has successfully drilled more than 30 wells in various geological formations during the course of the Company's history and has executed projects in every phase. The Geothermal Energy business unit achieved a 30.3 % share of the Daldrup Group revenue for 2015 (previous year: 74.1 %).

During fiscal year 2015, the Daldrup Group was involved in the following geothermal power plant projects in which it holds its own shares:

#### **Taufkirchen geothermal power plant**

As part of the planning permission procedure for the deep geothermal energy power plant in Taufkirchen, where there have been significant delays since 2012, planning permission was granted in August 2013 and was implemented from December 2013. Questions regarding the site dependency and thus the privileging of the overall project externally therefore had to be discussed and explained in depth with the licensing authorities. After the dismantling of the drilling site and the construction of a provisional district heating solution (supply of heat from the geothermal reservoir from December 2013 to March 2015), the foundation works for the power plant were started in 2014. Towards the end of 2014, the civil engineering works were almost finished and the superstructure was near completion in the reporting period, including the power plant technology installations. In September

2015 production unit tests for heat extraction and electricity production were commenced. Since the end of 2015, heat directed from the new cogeneration plant has been fed into the district heating networks of the communities of Taufkirchen and Oberhaching. The plant shall be accepted in 2016 and pass into the ownership of GeoEnergie Taufkirchen GmbH & Co. KG. The power generating unit is not yet in operation because hidden defects were discovered on externally supplied modules. These need to be removed by the manufacturers. When it is fully completed, the installed capacity of the geothermal cogeneration plant will total approximately 35 MW for thermal energy and about 4.3 MW for electricity.

#### **Landau in der Pfalz geothermal power plant**

In August 2013, Daldrup acquired 40% of the shares in the geox GmbH (Landau/Pfalz) power plant company from EnergieSüdwest AG via Geysir Europe. The parties also agreed on an option for Geysir Europe to purchase an additional 10 %. The power plant, equipped with ORC technology with a capacity of max. 3.6 MW for electricity and max. 7 MW for thermal energy, has been in operation since 2007, and used EnergieSüdwest to supply consumers in that region with electricity and heat. On 2 January 2014 Daldrup acquired an additional 50 % of shares in geox from Pfalzwerke AG, through Geysir Europe. In the meantime, Geysir Europe GmbH has not increased its shares by an additional 50 %, to 90 % because the share purchase agreement with Pfalzwerke AG was rescinded on 2 December 2013. The rescission means it is as if the contract had never existed. A court case is pending. After a leakage, the cause of which clearly predates the acquisition of shares and the take-over of operational management by the Daldrup Group, geox shut the power plant down as a precaution to avoid damage to the environment and technology and to help investigate the causes. geox GmbH has worked closely together with the local authorities and, in particular, the relevant water regulators as well as the State Agency for Geology and Mining in order to determine the cause of the soil displacements and to be able to make an assessment based on reliable data. With regards to this, the company drilled numerous exploratory boreholes, took samples and completed the review of the re-injection boreholes during 2014. In 2015, the power plant was upgraded in terms of safety and economical operation in coordination with the authorities, so that it could become operational again at short notice. Daldrup aims to restart the power plant as soon as possible.



### Neuried geothermal power plant

All the necessary steps to gain the permits and approvals for the deep geothermal power plant project in Neuried have been set in motion. Planning permission has been granted and the drill permit which was granted in June 2013 is in effect on a provisional basis. The whole process has proven to be very slow. There is already a cover letter headed by R+V Versicherung for exploration risk and installation insurance. The state of Baden-Württemberg has approved a grant totalling EUR 1 million for the project as a default guarantee for the first deep well. The town of Kehl has filed a law suit with the Freiburg Administrative Court, against the federal state of Baden-Württemberg in opposition to the existing drill permit. Geysir Europe GmbH purchased the power plant site at the end of the 2014. After statutory changes were made to the Baden-Württemberg water laws in 2014, the operating company has obtained additional permits in order to execute the project. The start of the work depends on the outcome of the lawsuit filed by Kehl.

In the **Raw Materials & Exploration** business unit, Daldrup & Söhne AG carries out drilling operations on behalf of national and international mining companies for the exploration of deposits of fossil fuels (especially hard coal, oil and gas) as well as mineral raw materials (e.g., salts, ores, copper, nickel, zinc and limestone). Another major area comprises activities in respect of the exploration and securing of the substratum in mining areas. The share of the Daldrup Group revenue generated in 2015 by this business unit amounts to 32.8 % (previous year: 9.9 %).

The **Water Procurement** business unit represents the entrepreneurial origins of Daldrup & Söhne AG. It includes drilling wells to obtain drinking water, process water, thermal and mineral water, boiler feed-water and cooling water as well as thermal brine. Alongside the actual drilling, Water Procurement also uses a number of special building techniques; from stainless steel piping supplying drinking and mineral water to the professional development of well systems, right through to the installation of modern filtration and pump systems. In global terms, water is an expensive commodity in short supply. Water management will be of major importance in future: The water distribution networks of the industrialised nations are dilapidated. A large proportion of the world's population has no access to supplies of drinking water and drink waste water that has been inadequately treated. The Water

Procurement business unit represents 26.5 % (previous year: 13.7 %) of the Daldrup Group revenue for 2015.

The fourth business unit, **EDS**, brings together special environmental technology services for a broad range of clients. Daldrup & Söhne AG's expertise has been repeatedly demonstrated in relation to the hydraulic remediation of contaminated sites, the planning and construction of gas extraction wells for obtaining landfill gas, the provision of groundwater quality measurement points or the construction of water purification plants. The EDS business unit contributed a 10.4 % (previous year: 2.3 %) share to the Daldrup Group revenue generated during the 2015 fiscal year.

The experience derived from the three other business units apart from Geothermal Energy have consistently resulted in refinement of drilling know-how and the training of young and new employees. In addition, employment fluctuations in the operation of major installations can be absorbed by staff pooling. All of the business segments are strategically valuable and will continue to be developed, operated and staffed.

An average of 115 employees were employed by the Daldrup Group in 2015 (previous year: 127). In addition to this, other companies made up to about 30 further employees available to Daldrup & Söhne AG on a flexible basis.

**EMPLOYEES AT DALDRUP & SÖHNE AG  
AS AT 31 DECEMBER 2015**

<b>EMPLOYEES</b> on 31 December 2015, according to function	<b>2015</b>	<b>2014</b>
Drilling	53	57
Administration (excluding Directors)	14	13
Persons in minor employment	2	1
Daldrup & Söhne AG	69	71
Exorka GmbH	8	7
Przedsiębiorstwo Projektów Goniczych i Wiercen Geologicznych "DMM" Sp. z o.o.	31	38
<b>Group – total</b>	<b>108</b>	<b>116</b>







## 2. MARKET AND COMPETITION

The long-standing market presence, the expertise, the financial strength and the existing reference sites with drilling depths of up to 6,000 metres have absolutely strengthened the competitive position of Daldrup & Söhne AG.

High technical, financial and regulatory/administrative barriers to market entry as well as the limited availability of qualified drilling capacity by companies with sufficient experience with geothermal drilling and the limited amount of claims (drilling rights) all underline the good position of Daldrup & Söhne AG. In addition, the Company has a healthy order book in all business units, which guarantees capacity utilisation and planning security until 2017.

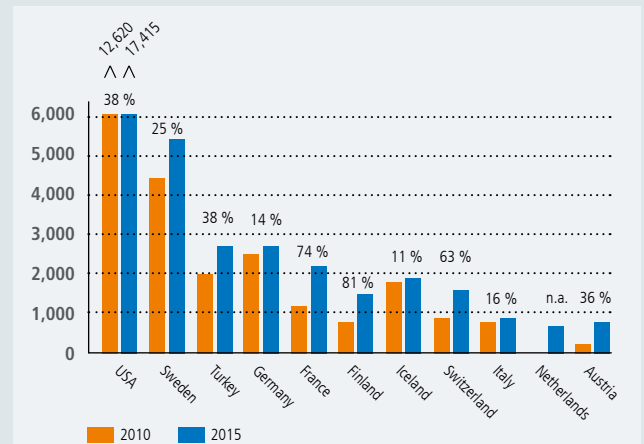
Geothermal energy is a renewable energy source that can be used on a continual basis, compared to wind and solar energy that have fluctuating availability. Therefore, according to the Federal Ministry for Economic Affairs and Energy (BMWi) in Germany, it has an important role to play as part of a renewable energy mix in order to cover the basic requirements and gaps in energy supply. Overall, geothermal energy use has significant potential which can theoretically be used to cover the German energy needs many times over. Currently, power generation by means of deep geothermal energy is even more expensive than comparable renewable energy sources.

Through the Renewable Energy Sources Act (EEG), the German Federal Government has promoted geothermal plants for the generation of electricity. The EEG offers a great deal of planning and investment security by offering fixed tariffs to be paid for a period of 20 years. There is an entitlement to feed-in tariffs or, since the EEG amendment of 1 August 2014, sponsored direct marketing for the electricity generated and with respect to the relevant grid operator (power supply company) or the direct marketing company. The production of deep geothermal energy units to generate electricity and/or heat also receives additional support through the German Market Incentive Programme. Research funding also plays an important part in the deep geothermal energy sector. For additional information on this, please refer to chapter 5, "Research and Development".

Electricity production from deep geothermal energy is still a relatively young niche market in Germany. According to the German Federal Geothermal Association (GtV – Bundesverband Geothermie), there are currently 33 deep geothermal power plants (which are predominantly hydrothermal) located in Germany with a capacity of 37.7 MW for electricity and 280.7 MW for thermal energy. A further 46 deep geothermal energy projects are currently under way or in the planning stages. Unlike deep geothermal energy, near-surface geothermal energy (drilling depth below 400 m) has already achieved greater market penetration. The GtV estimates that 333,000 units are in operation and provide approximately 3,900 MW. In 2015, 17,000 units were installed. For Germany, the GtV anticipates an installed geothermal heat output of deep and near-surface geothermal energy of approximately 4,181 MW.

According to surveys conducted by the GtV (data based on 2015 versus 2010), other European countries, such as Finland (+ 81 %), France (+ 74 %), Switzerland (+ 63 %) and Sweden (+ 25 %) in particular, displayed strong growth in geothermal energy use. Projects in Switzerland and the Benelux countries in particular offer the Daldrup Group a number of attractive business opportunities.

### CHANGE TO INSTALLED OUTPUT (MW) GEOTHERMAL ENERGY IN % 2010 VS. 2015



Source: German Federal Geothermal Association, heat generation through geothermal energy worldwide, 14 May 2016

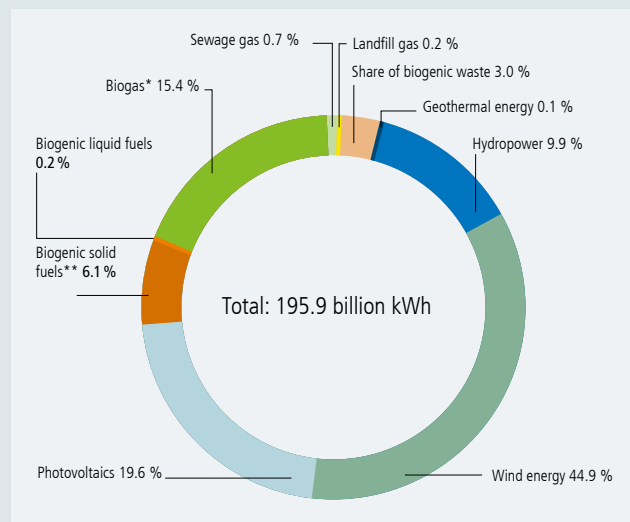


The limited availability of drilling capacity and the limited possibilities of developing this capacity are culminating in high demand. The result is stable drilling prices and low competitive intensity. Particular competitors in the area of deep geothermal wells include drilling companies that are primarily engaged in the oil and gas business and occasionally participate in invitations to tender for geothermal projects. When crude oil prices are low, the competition is greater because there is an additional supply of drilling capacity, as was the case in the reporting period.

The German government is committed to the move towards alternative energy. The last nuclear power plant will be removed from the grid in Germany in 2022. With the EEG amendment which took effect on 1 August 2014, the renewable energies are to be extended to provide 40 to 45 % of the electricity by 2025 and 55 to 60 % by 2035. The National Action Plan for Renewable Energy (2010) stipulates that the generation of electricity from geothermal energy should total 1,654 GWh. Geothermal energy should provide around 14,400 GWh of heat.

The increase in the proportion of renewable energies in Germany's gross electricity consumption in 2015 recorded the highest ever increase – by more than five percentage points to 32.6 % (2014: 27.4 %). Electricity generation from renewable energy rose compared to the previous year (162.5 billion kWh) by 20% to 195.9 billion kWh. Renewable energies have thus significantly expanded their status as the most important source of power ahead of lignite. However, further dynamic growth and a conducive market environment are both necessary if the target of 40 to 45 % of gross electricity consumption is to be met by 2025. The importance of geothermal energy production in Germany is low, but is slowly increasing. The increase in the reporting period amounted to approximately 33 % with an estimated 130 million kWh – more electricity from geothermal energy than ever before fed into the grid. The share of geothermal energy in the electricity production of renewable energies was thus around 0.1 %.

## ELECTRICITY GENERATED BY RENEWABLE ENERGY SOURCES IN GERMANY IN 2015



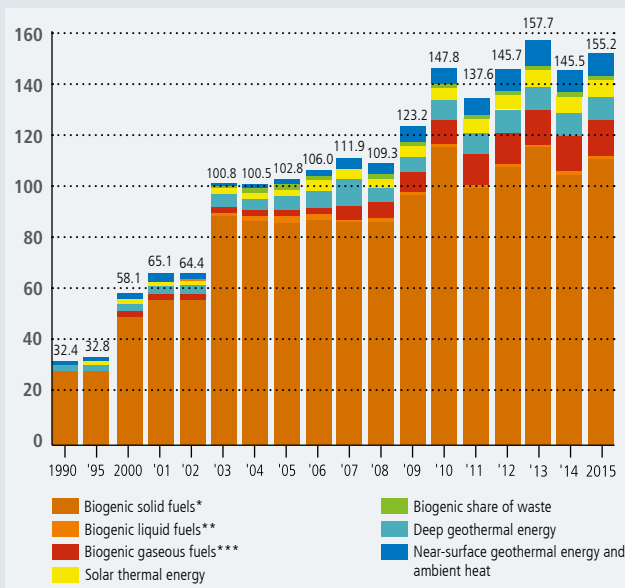
\*incl. bio-methane \*\*incl. sewage sludge

Fig.: Electricity generated by renewable energy sources in Germany during 2015, totalling 195.9 billion kWh; as at February 2016, preliminary data  
Source: Renewable energy sources in Germany, data on the development in 2015, Federal Ministry for Economic Affairs and Energy

Heat has the highest impact in Germany in terms of energy consumption. According to the German Federal Environment Agency, around 50 % of the total final energy consumption (electricity, heating, mobility) is used for generating heat. It is used in many ways, for space heating/air-conditioning, for hot water and process heat/refrigeration.



### PROVISION OF HEAT IN BILLIONS OF KILOWATT-HOURS



\*incl. biogenic share of waste, incl. sewage sludge from 2013

\*\*incl. biodiesel consumption for agriculture

\*\*\* biogas, bio-methane, gas from purification plants and landfill

Fig.: Development of heat consumption from renewable energy in Germany from 1990 to 2015, as at February 2016, based on provisional data

Source: Renewable energy sources in Germany, data on the development in 2015, Federal Ministry for Economic Affairs and Energy

The heat consumption from renewable energy sources increased to 155.2 billion kWh in 2015 (previous year: 145.5 billion kWh). As a result of somewhat colder weather, overall heat consumption increased slightly compared to the mild previous year. The share of renewable energy in the total German energy consumption increased compared to the previous year from 12.5 % to 13.2 %. To summarise, however, the growth of renewable energy in the heat market needs to be accelerated to 14 % of total heat consumption by 2020 in order to achieve the target that was self-imposed as part of the Integrated Energy and Climate Programme of the German Federal Government.

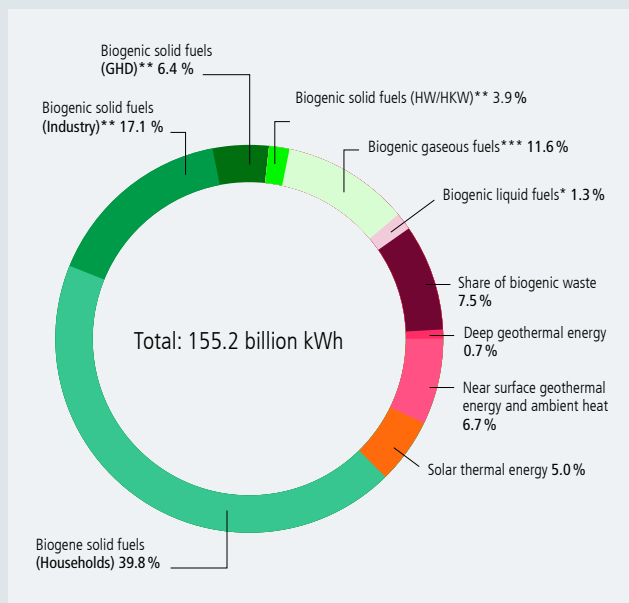
From geothermal energy sources, a total of 11,408 GWh (previous year: 10,661 GWh) of heat was able to be provided in 2015, which represents an increase of 7 %. In terms of total heat consumption from renewable energy sources, that is similar to the level of 2014 at slightly more than 7.3 %. In addition to supplying heat, deep geothermal energy can also be used for generating electricity. The generation of electricity, e.g. by using the latest Kalina technology, becomes viable once temperatures reach in excess of 110 degrees Celsius.







## HEAT CONSUMPTION FROM RENEWABLE ENERGY SOURCES IN GERMANY IN 2015



\*incl. biodiesel consumption for agriculture  
\*\*incl. sewage sludge  
\*\*biogas, bio-methane

Fig.: Development of electricity provision from renewable energy in Germany in 2015, total 155.2 billion kilowatt-hours; as at February 2016, based on provisional data  
Source: Renewable energy sources in Germany, data on the development in 2015, Federal Ministry for Economic Affairs and Energy

The advantage of geothermal energy is its constant availability. This means it can be predicted by network operators and can therefore also be used as a residual and controlled variable to offset the fluctuating wind and photovoltaic systems. Other benefits include the parallel generation of electricity and heat generation, virtually CO<sub>2</sub>-free production and ability to be stored.

The generation and use of renewable energy is promoted in many ways by both German and European legislators. The various Acts are continuously being developed further and specified.

As part of the national action plan for energy efficiency, the amended guideline on the funding of measures regarding the use of renewable energy in the district heating market (Market Incentive Programme, or MAP) came into effect on 1 April 2015. The MAP is to be a key element for speeding up the expansion of renewable energy from the sun, biomass and geothermal energy in the district heating market by offering improved incentives.

Within the scope of the guidelines, the new construction of larger district heating plants that use renewable energy will be supported by deep geothermal systems or local heating networks to supply heat generated from renewable resources, such as for heating solutions for local authority districts. The maximum grant amount available for deep geothermal energy has been significantly increased. As a result, the investment incentives and the framework conditions for the financial feasibility of geothermal energy projects have improved.

In November 2015, the Energy Efficiency Strategy for Buildings (ESG) was adopted by the Federal Cabinet. The ESG is the central strategy paper on alternative energy in the building sector in Germany. It shows what can be achieved by improving energy efficiency in buildings and what contribution renewable energy can provide in meeting the thermal and energy requirements. For the implementation of the ESG in concrete instruments and measures, please refer to the Forecast Report.

### 3. STRATEGY, OBJECTIVES AND COMPANY MANAGEMENT

Daldrup & Söhne AG's strategies and objectives remain unchanged, expressed as the intention to achieve sustainable growth on the one hand and to expand the Company's leading market position in Germany and Europe as an experienced drilling technology specialist. The Company is now also engaged in geothermal power plant projects to generate additional returns from supplying the grid and the sale of electricity and heat through feed-in tariffs and direct marketing premiums provided by the 2014 Renewable Energy Sources Act (EEG 2014). The two objectives are closely linked strategically. The medium-term goal is to develop the Daldrup Group into a medium-sized independent energy supply company. Decisive steps in this direction were already taken in 2009 and 2010 in the form of a majority holding in Geysir Europe GmbH, Grünwald. In the Taufkirchen power plant project, the thermal water well system was successfully created in 2012 with a thermal capacity of approx. 38 MW. The construction of the power plant was almost finished in the reporting year. In September 2015 production unit tests for heat extraction and electricity production were commenced. Since the end of 2015, heat directed from the new cogeneration plant has been fed into the district heating networks of the customers. The plant shall become operational in 2016 and pass into the ownership of GeoEnergie Taufkirchen GmbH & Co. KG. The power generating unit is not yet in operation because hidden defects were discovered on externally supplied modules. These need to be removed by the manufacturers.

In the reporting period, the Daldrup Group held a 40 % share in the existing geothermal power plant at Landau in der Pfalz, which achieved a thermal capacity of max. 7 MW and an electrical capacity of max. 3.6 MW. On 1 March 2014, geox GmbH took over the operational management of the Landau power plant from the engineering firm used by the previous shareholders Energie-Südwest und Pfalzwerke. After a leakage, the cause of which clearly predates the acquisition of shares and the take-over of operational management by the Daldrup Group, geox shut the power plant down as a precaution to avoid damage to the environment and technology and to help investigate the causes. Soil displacements were detected on the power plant site as well as in the urban area of Landau. geox GmbH has worked closely together with the local authorities and, in particular, the relevant water regulators as well as the State Agency for Geology and Mining in order to determine the cause of the soil displacements and to be able to make an assessment based on reliable data. With regards to this, the company drilled numerous exploratory boreholes, took samples and completed the review of

the re-injection boreholes during 2014. In 2015, the power plant was upgraded in terms of safety and economical operation in coordination with the authorities, so that it can become operational again at short notice. Daldrup aims to restart the power plant as soon as possible.

In 2014, the Daldrup Group in Neuried (the district of Ortenau) acquired the site on which the Neuried geothermal power plant is to be built as soon as the boreholes have produced a positive result. The power plant is planned to have an output of 1.95 MWe. Heat can also be provided to supply local industry or residential property if required.

### 4. INVESTMENTS AND STRATEGIC PARTNERSHIPS

The purpose of Daldrup & Söhne AG's long-term equity investments and strategic partnerships is the direct and active pursuit of the corporate objectives, from establishing its market position as a drilling technology specialist to the development and implementation of its own deep geothermal energy projects, right through to the marketing of electricity and/or heat. In this respect, Daldrup & Söhne AG will benefit from the forecast growth in the market/sector.

#### **Daldrup Bohrtechnik AG, Baar (Switzerland)**

Daldrup Bohrtechnik AG operates independently within the interesting Swiss market. In addition to wells for the exploration of geothermal energy, special wells, for example, for brine production are of particular interest. The necessary drilling technology and qualified operators are provided, as needed, by Daldrup & Söhne AG.

#### **GERF – Geothermal Energy Realisation and Financing B.V., Voorburg (Netherlands)**

The use of geothermal energy as a resource-conserving energy source is being well received by industrial greenhouse operators (vegetables, flowers, plants) in the Netherlands. The Dutch Ministry of Economics and the regional provinces are supporting this development through a programme of subsidies for investment in self-sustaining geothermal heating plants. Acting as representative in the Netherlands is Daldrup Boortechniek Nederland B.V., Voorburg, founded in 2011, which since November 2015 has been operating under the name of GERF Geothermal Energy Implementation and Financing B.V.

### **Przedsiębiorstwo Projektów Górniczych i Wierceń Geologicznych "DMM" Sp. z o.o., Katowice (Poland)**

Daldrup & Söhne AG holds 51 % of shares in the Polish company "Przedsiębiorstwo Projektów Górniczych i Wierceń Geologicznych "DMM" Sp. z o.o." (project company for mining and geological drilling activities) set up in 2012 by two Polish partners for the acquisition and execution of drilling activities (in the coal mining sector, for the shale gas business and the exploration of minerals). The company operates for larger exploration projects involving hard coal and has established itself in the Polish market with an excellent order book, including for flat geothermal and exploratory drilling projects. The company combines the geological knowledge, technical equipment and professional staff of the group of shareholders.

### **Daldrup Wassertechnik GmbH, Ascheberg**

During the fiscal year, Daldrup & Söhne AG continued to consider outsourcing business activities regarding Water Procurement to Daldrup Wassertechnik GmbH. Plans regarding this are currently on hold. The company is not currently in operation.

### **D&S Geothermie GmbH, Grünwald**

The main investment activities of Daldrup & Söhne AG are combined together as D&S Geothermie GmbH. 75.01 % of the capital shares of Geysir Europe GmbH with its national and international subsidiaries are held here. The operational project planning and development company trades under the Exorka brand. The regional geothermal projects in their different development phases and the licences are grouped together in the existing domestic and international subsidiaries. The decision was taken as part of project development in Italy to cease expanding any activities for the time being and sell any shares held, as well as to finish developing its own permit areas.

## **5. RESEARCH AND DEVELOPMENT**

Generally speaking, there are three types of heat extraction from underground in the area of deep geothermal energy:

- **Deep geothermal energy probes:**

Closed circuit within a U tube or a coaxial probe with a circulating heat transfer medium (e.g. geothermal energy project for electricity plants for the city of Zurich, Switzerland, in the Triemli District).

- **Hydrothermal systems:**

Closed circuit in which thermal water is pumped from production wells and fed back into natural aquifers via re-injection wells.

- **Petrothermal systems**

(or EGS = enhanced geothermal systems):

Open or closed circuit where hydraulic stimulation measures are used to generate or enhance fissures and gaps in the dry subsoil, through which artificially introduced/injected water is able to flow.

While Daldrup has successfully executed the first two systems and taken the projects into operation on several occasions, there is no petrothermal geothermal energy project in regular operation in Europe. There is, however, a European research project being undertaken in Alsace as well as a project in Groß-Schönebeck undertaken by the GFZ German Research Centre for Geosciences in Potsdam. The technology is essentially proven and is currently being further developed.

BMW i supports the geothermal energy research projects through the sixth energy research programme which was renewed at the end of 2014. The development of exploration methods to facilitate the selection of suitable locations is a focus for research funding for the BMW i. In view of the high costs of the drilling, the BMW i feels that the risk of the inability to find a suitable water reservoir or rock which is sufficiently hot should be minimised. A reduction in the exploration risk would then also make the technology more attractive to investors.





## 6. OVERVIEW OF BUSINESS DEVELOPMENT

The Kiel Institute for World Economy (IfW) in its economic forecast published in September 2015 anticipated a moderate economic recovery for the euro area at a low level in 2015. It maintained that the upswing had gained in breadth and would be driven increasingly by the domestic economy. Economic development will be supported by low interest rates and falling oil prices, but also by the still relatively low value of the euro. After years of economic stagnation and crisis associated with great uncertainty about monetary stability, the euro area will be heading towards safer waters with signs of recovery, according to the experts. However, the prospects for individual Member States are very different and uncertainties of the still unresolved euro crisis, declining will to reform and the continued weakness of the emerging countries are putting a strain on the overall atmosphere. For 2015, the Kiel experts anticipate a growth of 1.5 % in the gross domestic product (previous year: 0.9 %).

According to the economic experts of the IfW in March 2016, the economic situation in Germany has continued to improve overall during the reporting period. The upturn was driven by private consumption. Despite an investment-friendly framework environment for exports also, due to the uncertain development in China, industrial production showed weaknesses in some emerging markets and in some euro states. The construction industry reported a rising capacity utilisation rate. In the last quarter the confidence of many companies took a significantly upturn due to the continued favourable environment such as the expansionary monetary policy, the attractive exchange rate to the US dollar and declining oil prices. For 2015, the Kiel experts anticipate a GDP growth of 1.7 % (previous year: 1.6 %).

It was only towards the end of the fiscal year 2014 that readiness to invest for the implementation of geothermal energy projects began to recover again slowly after the entry into force of the EEG 2014. Investors returned because funding remained stable at 25.2 cents/kWh. Power plants which received an operating plan approval for the first time before 1 January 2017 and are to be put into operation before 1 January 2021 will receive fixed feed-in tariffs. Due to the long tender process and lead times for deep geothermal projects, however, Daldrup was only able to conclude large contracts during the second quarter. During the fiscal year, three major contracts were concluded. The greater willingness of banks to make financing available for projects also played a part in this. The usual lengthy tendering and authorisation procedures for drilling projects typical in this industry were performance-limiting factors in the drilling and project business in 2015.

At the end of July 2015, the Federal Government furthermore decided that remuneration of geothermal energy will also not be determined by tenders in future. For wind and photovoltaic systems, such tendering systems are already being introduced. Policies have also recognised the advantages of geothermal energy for the upcoming electricity market 2.0. The BMWi justifies its decision with the fact that there is currently not enough competition between geothermal projects and the current and projected expansion figures are still too low. Geothermal power plants provide predictable energy independent of weather and times of day and thus fulfil a stabilising system function. In addition, the high regional electricity need coincides with the regions suitable for deep geothermal systems in the Upper Rhine Valley, the North German Basin and the Bavarian Molasse. Geothermal power can be produced where it is needed and does not rely on cross-regional power lines. This system-stabilising role was confirmed by the EEG amendment.

Taking this economic environment into account, the Daldrup Group managed to achieve revenues of EUR 17.3 million (previous year: EUR 52.3 million) and an overall performance of EUR 26.4 million (previous year: EUR 44.0 million) during the 2015 fiscal year. The following contributions to revenue were made by the individual business units of Daldrup & Söhne AG:

• Geothermal Energy:	EUR 5.2 million	(30.3 %)
• EDS:	EUR 1.8 million	(10.4 %)
• Raw Materials & Exploration:	EUR 5.7 million	(32.8 %)
• Water Procurement:	EUR 4.6 million	(26.5 %)

Revenues of 75.1 % (previous year: 58.3 %) were achieved in Germany in 2015, together with revenues of 24.9 % (previous year: 41.7 %) abroad (the Netherlands, Belgium, Poland, Switzerland). The order book in the area of drilling rigs for shallow and medium-depth drilling in Germany, Poland and Switzerland was well distributed over the fiscal year. Because of long tendering procedures for major projects however, the large drilling rigs were not working to full capacity until the end of the year. Deep geothermal wells were drilled by Daldrup in Germany, the Netherlands and Belgium.



## B. RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

### 1. RESULTS OF OPERATIONS

THE RESULTS OF OPERATIONS OF THE DALDRUP GROUP ARE DESCRIBED BELOW:

INCOME STATEMENT	2015 EUR k	2014 EUR k
Sales	17,255	52,327
Gross revenue	26,398	44,010
Other operating income and tax refunds	8,028	1,051
Cost of materials	15,203	23,905
Personnel expenses	6,145	7,037
Amortisation and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets	3,714	12,060
Other operating expenses	8,558	20,238
<b>EBITDA</b>	<b>4,520</b>	<b>- 6,344</b>
<b>EBIT</b>	<b>806</b>	<b>- 18,404</b>

The Daldrup Group's value creation and production process, which is typical of the industry and project-dependent, requires regular measurement of work in process. In accordance with the principle of prudence, deductions for calculated risk, profit and sales costs are made from the earned value achieved. These income components are therefore not realised until after completion, approval and final billing of a project. Project and operating costs, however, are recognised immediately they are incurred. In this respect, the income statement of the Daldrup Group is heavily influenced by project activities fluctuating over the course of time. As the sales revenue only presents an incomplete picture of the performance during the financial year due to the long-term project agreements, the overall performance has also been included.

The gross revenue generated during the 2015 fiscal year consists of sales revenues amounting to EUR 17.3 million (previous year: EUR 52.3 million) and increases in inventories amounting to EUR 9.1 million (previous year: decrease of EUR 8.3 million). The stockpile of inventories results from incomplete, ongoing drilling projects during the 2015 fiscal year that have not yet been finally invoiced. In the relevant Geothermal Energy business unit, those are in particular the geothermal drilling projects in Belgium for Vito N.V., Mol, and in the Netherlands for Nature's Heat B.V., Kwintsheul.

Other operating income of EUR 7.9 million (previous year: EUR 0.9 million) consists primarily of one-off income from sales of fixed assets, the activation of a guarantee claim and insurance compensation.

The cost of materials with a traditionally high proportion of services purchased from third-party companies (for example, borehole measurements, directional drilling services, flush drilling services and outsourced personnel services) fell to EUR 15.2 million during the reporting period (previous year: EUR 23.9 million) due to the lower overall performance that had been reported. Based on the overall performance, the gross profit ratio amounted to 42.4 % (previous year: 45.7 %). The cost of purchased services totalling EUR 7.7 million decreased significantly compared to the same period of the previous year (EUR 16.1 million). Essentially, those are external services of subcontractors and services for repairs as well as construction services.

The personnel costs for the Group in the reporting period also fell considerably from EUR 7.0 million during the previous year to EUR 6.1 million. The reason for this was a reduction in staff numbers. This was accompanied by the lack of orders for the deep geothermal energy business in the first half of the year. The average number of staff employed by the Group during the 2015 fiscal year fell to 115 employees (previous year: 127 employees) due to redundancies.

Other operating expenses decreased significantly to EUR 8.6 million (previous year: EUR 20.2 million). The costs include items such as the hire of necessary drilling equipment, residue and waste disposal, insurance premiums (especially to hedge the exploration risk), consultancy costs as part of the planning for the geothermal energy heating power plant, travel expenses and logistics costs incurred as a result of the mobilisation and demobilisation of drilling rigs as well as currency and bad debt losses. Please see the Notes to the Consolidated Financial Statements for further details. Lower individual value adjustments and bad debt losses contributed to the improvement.

Scheduled depreciation in the amount of EUR 3.7 million (previous year: EUR 12.1 million) includes depreciation on drilling rigs and the vehicle fleet. The deep drilling rigs are depreciated on the basis of an average useful life of 15 years.

Group earnings before interest, income taxes (EBIT) for Daldrup & Söhne AG totalled EUR 0.8 million (previous year: minus EUR 18.4 million). This results in an EBIT margin in relation to the overall performance (percentage of EBIT to overall performance) of 3.1% (previous year: - 41.8%).

The financial result amounts to EUR -0.8 million (previous year: € - 0.5 million) and mainly includes income from deposits and lending, partially offset by interest expense on loans and the utilisation of overdraft facilities with banks and affiliated companies as well as expenses from the equity valuation of the associated companies.

Group earnings after tax for fiscal year 2015 are EUR 175k (previous year: consolidated net loss EUR 18.9 million). Daldrup & Söhne AG's share of these earnings is EUR 304k (previous year: annual loss EUR 7.9 million).

<b>SUBGROUP EARNINGS</b> in EUR million	<b>2015</b>	<b>2014</b>
Daldrup & Söhne AG	0.3	- 7.9
Daldrup Bohrtechnik AG, Switzerland	0.5	- 0.4
Daldrup Wassertechnik GmbH	0.0	0.0
"DMM" Sp. z o.o., Poland	0.1	0.1
D&S Geothermie GmbH	0.1	0.1
GERF BV, Netherlands	0.1	-
Geysir Europe GmbH (subgroup)	-1.2	- 10.9
Consolidating Entries	0.4	- 0.1
<b>Group Earnings</b>	<b>0.2</b>	<b>- 18.9</b>

GERF BV was included in the consolidated financial statements for the first time in 2015.

Given the aforementioned project delays and lower utilisation of large drilling rigs during the fiscal year 2015, the Daldrup Group missed the forecast target of generating an overall performance of € 30 million, mainly due to the weak first half of 2015. The planned EBIT margin of 4 % to 5 % was also not attainable.





## 2. NET ASSETS

### OVERVIEW OF THE NET ASSETS OF THE DALDRUP GROUP

ASSETS	31/12/2015 EUR k	31/12/2014 EUR k
<b>A. Fixed assets</b>		
I. Intangible Fixed Assets	2,016	2,657
II. Property, plant and equipment	26,519	28,896
III. Financial assets	22,733	24,371
<b>B. Current Assets</b>		
I. Inventories	12,542	2,149
II. Receivables and other assets	21,589	16,243
IV. Liquid funds	3,165	4,520
<b>C. Prepaid Expenses</b>	130	32
<b>D. Deferred Tax Assets</b>	178	146
<b>BALANCE SHEET TOTAL</b>	<b>88,872</b>	<b>79,016</b>



<b>LIABILITIES</b>	<b>31/12/2015 EUR k</b>	<b>31/12/2014 EUR k</b>
<b>A. Equity</b>	46,463	46,399
I. Subscribed Capital	5,441	5,441
II. Reserves	30,792	30,726
III. Equity Difference from Currency Translation	- 782	- 672
IV. Consolidated net retained profits	10,496	10,123
V. Minority Interests	516	781
<b>B. Provisions</b>	3,121	3,765
<b>C. Liabilities</b>		
I. Liabilities to Banks	11,917	9,436
II. Trade payables	4,211	4,964
III. Liabilities towards Participating Interests	13	11
IV. Other liabilities	23,087	14,352
<b>D. Deferred Income</b>	4	5
<b>E. Deferred Tax Liabilities</b>	55	83
<b>BALANCE SHEET TOTAL</b>	<b>88,872</b>	<b>79,016</b>



The total assets of the Daldrup Group amounted to EUR 88.9 million as at the balance sheet date 31/12/2015. This represents a balance sheet extension of 12.5 % compared to the previous year. Fixed assets amounting to EUR 51.3 million (previous year: EUR 55.9 million) consist of intangible assets of EUR 2.0 million (previous year: EUR 2.7 million), which essentially represent the value of the permits for the exploration of geothermal energy (claims) in a particular area in the respective stage of development (including seismic profiling) and the Kalina licence. This is a heat transfer process for generating steam using a mixture of ammonia and water at low temperatures for energy production. The Daldrup Group holds the worldwide license for exploitation of the Kalina process and, in particular, the exclusive rights to its use in Germany.

Land and building structures for business purposes and directly related to drilling and power plant projects, amount to EUR 1.0 million (previous year: EUR 0.7 million) and are recognised as tangible assets. Machinery, technical and other equipment to the value of EUR 14.2 million (previous year: EUR 16.1 million) particularly refers to the drilling rigs and the vehicle fleet. The necessary operating and office equipment which is subject to scheduled depreciation, amounts to EUR 3.3 million (previous year: EUR 4.0 million). In addition, payments were made to assets under construction totalling EUR 8.1 million (previous year: EUR 8.1 million) which mainly related to the geothermal energy project in Mauerstetten.

The long-term financial assets totalling EUR 22.7 million (previous year: EUR 24.4 million) include shares in associated companies totalling EUR 20.8 million. These mainly include the indirect 38.59 % stake in GeoEnergie Taufkirchen GmbH & Co. KG. The 40 % stake in geox GmbH, the operator of the Landau geothermal power plant is valued at one euro in the balance sheet. Details are broken down in the notes and in the analysis of the assets. Both holdings have been included at equity in the consolidated financial statements. There is also a loan to a customer issued to the value of EUR 1.9 million (as at 31 December 2014: EUR 2.3 million).

In Current Assets, the value of raw materials, consumables and supplies totalling EUR 3.1 million (previous year: EUR 3.2 million) corresponds to the inventory required for the operation of a drilling

business. In view of suppliers' ability and readiness to deliver, it is not necessary to hold a larger inventory. Work in progress valued in accordance with commercial prudence represent a value of EUR 51.8 million on the balance sheet date (previous year: EUR 42.7 million) and primarily stems from works on the Taufkirchen power plant (EUR 41.9 million) and geothermal project construction sites/drilling rigs in Belgium that have not yet been finally invoiced. Services in progress are measured by means of reverse costing from the order value, taking into account the degree of completion on the balance sheet date and a flat-rate deduction of 12.5 % for the share of profit not yet realised and non-capitalisable costs. Payments received in the amount of EUR 51.8 million (previous year: EUR 43.7 million) were deducted from the unfinished orders on the face of the balance sheet.

A reporting date-related further increase in receivables to EUR 21.6 million (previous year: EUR 16.2 million) can be noted. While trade receivables were at € 5.7 million below the level of the previous year (€ 6.5 million), receivables against companies in which an interest is held increased by € 0.5 million to € 2.1 million via a loan issued. They are composed of receivables from GeoEnergie Taufkirchen GmbH & Co. KG (€ 0.3 million) and geox GmbH (€ 1.8 million). Other assets totalling EUR 13.9 million (previous year: EUR 8.3 million) mainly include claims for damages against insurers/suppliers, the activation of a guarantee claims against one customer, claims from reinsurance policies as well as outstanding tax and loans.

Liquid funds (cash in hand/bank) are EUR 3.2 million as at the reporting date (previous year: EUR 4.5 million). The Daldrup Group companies were solvent at all times throughout the fiscal year and, if required, banks would make sufficient credit lines available.

Equity in the Daldrup Group as at 31/12/2015 is EUR 46.5 million (previous year: EUR 46.4 million) and the equity ratio on the reporting date was 52.3 % (previous year: 58.7 %).

Obligations that are regarded as fixed, for example for warranties in accordance with the business prudence concept, have been taken into account when recognising provisions for pensions (EUR 0.8 million) and other provisions (EUR 2.4 million).



The increase in liabilities results primarily from higher liabilities to banks and other liabilities. Amounts owed to banks – Loans from main banks with an initial maturity of 8 years – and overdraft facilities rose from EUR 9.4 million during the previous year to EUR 11.9 million. The former have been collateralised, as is customary practice for banks, by assigning a drilling rig as security. Repayment commenced in the middle of 2013. On the reporting date, there is a remaining debt of € 4.3 million (previous year: € 5.7 million). The existing overdraft facilities have been extended on the balance sheet date to € 7.6 million (previous

year: € 3.7 million). Existing credit lines at banks are sufficient to cover the sureties, guarantees, letters of credit customary in the industry and for forming a potential liquidity reserve. Other liabilities totalling € 23.1 million (previous year: € 14.4 million) result from current wage and tax liabilities, social security contributions, and also exist towards other shareholders of Geysir Europe GmbH in the amount of EUR 12.0 million as well as a promissory note loan for the Taufkirchen power plant project for € 10.0 million from a pension fund.

### 3. FINANCIAL POSITION

THE FOLLOWING ABBREVIATED CASH FLOW STATEMENT SHOWS THE FINANCIAL POSITION OF THE DALDRUP GROUP:

CASH FLOW STATEMENT	2015 EUR k	2014 EUR k
Consolidated net income/loss	175	- 18,944
Depreciation, amortisation and write-downs	3,714	12,060
Other changes in cash from operating activities (balance)	- 21,121	10,367
Cash flow from ongoing operating activities	- 17,233	3,484
Cash inflows and outflows from investing activities	4,111	- 4,187
Net cash provided by financing activity	11,984	2,272
Change in liquid funds	- 1,139	1,568
Effect on cash funds of exchange rate movements and changes in reporting entity structure	- 216	- 615
Liquid funds 1 Jan	4,520	3,567
<b>Liquid funds as at 31 Dec.</b>	<b>3,165</b>	<b>4,520</b>

The values for 2015 were determined according to the new DRS 21, the values for 2014 still according to DRS 2.

The cash inflow from investing activities is primarily attributable to the sale of fixed assets (€ 2.8 million) and the disposal and/or repayment of financial assets (€ 2.4 million). The cash flow from financing activities is primarily influenced by the inclusion of a promissory note (€ 10.0 million) as well as the utilisation of overdraft facilities (€ 3.8 million). Bank loans (€ 4.3 million) are collateralised by the pledge

of a large-scale rig and the promissory note (€ 10.0 million) by the pledging of limited partner shares in the project company GeoEnergie Taufkirchen GmbH & Co. KG. In addition, there are covenants rules for the promissory note. The financial solvency of Daldrup Group was assured at all times. Free overdraft facilities are also available with banks, if required.





#### 4. OVERALL ASSERTION IN RESPECT OF THE ECONOMIC POSITION

The existing economic uncertainties outside Europe, the still unresolved euro crisis, and geopolitical uncertainties barely affect the economic and financial development of Daldrup & Söhne AG. With the amended EEG, which came into force on 1 August 2014, stable framework conditions for investors have emerged again for geothermal projects. Policy, too, has recognised the importance of geothermal energy in the energy mix and has extended funding for the production of heat via the EEG for the generation of electricity as well as via the Energy Efficiency Strategy for Buildings (ESG) and related instruments such as the market incentive program (MAP), the Energy Conservation Law for Buildings as well as the Renewable Energy Heat Act (EEWärmeG).

During the reporting period, the order book of the Daldrup Group significantly improved for deep geothermal projects in Germany, the Netherlands and Belgium. In summary, it can be stated that the business development, the position, and the earnings of Daldrup & Söhne AG have been positively affected by the regulatory situation and overall economic development within the target markets of Germany, Austria, Switzerland and the Benelux countries. In consideration of the economic environment, the Board still considers the economic development of the Company to be satisfactory against the background of the forecasting errors due to lower capacity utilisation.

#### C. NON-FINANCIAL PERFORMANCE INDICATORS

Daldrup & Söhne AG has undertaken to maintain high standards of health, safety and environmental protection. Great importance is attached to the fact that all employees and companies that work for Daldrup & Söhne AG know and adhere to the standards, laws and regulations in terms of health and safety and environmental protection. The management, information and security system installed by the appropriate Divisional Management Board of Daldrup & Söhne AG ensures that these objectives are implemented effectively.

The foundations of daily activities are:

- The **safety and health protection document** in accordance with the relevant legal provisions and directives of the European Union,
- The **HSE Case** in accordance with the IADC template,
- The internal guideline issued by Daldrup & Söhne AG on **personnel management and professional development**,
- The internal guideline issued by Daldrup & Söhne AG on **drug prevention**,
- The internal guideline issued by Daldrup & Söhne AG on **service and maintenance**.

The identification of dangers, the improvement of procedures, documentation and communication are all key issues and establish a line of action that has been put in place, resulting in the constant improvement of the activities.

A high level of quality across all company divisions of Daldrup & Söhne AG is a decisive factor in ensuring success and customer satisfaction. SCC certification (SCC: Safety Certificate for Contractors) is therefore as much a matter of course as the performance and regular revision of quality management in accordance with DIN ISO 9001.



## D. REPORT ON POST-BALANCE SHEET DATE EVENTS

The following events took place after the balance sheet date, 31/12/2015, which were of major importance for Daldrup & Söhne AG.

The full commissioning of the Taufkirchen geothermal power plant has been delayed. Exorka GmbH, Grünwald, a subsidiary of Daldrup & Söhne AG, did indeed put the district heating system in the power plant into operation in December 2015 and has since been supplying the two local bulk purchasers BioEnergy Taufkirchen and Gemeindewerke Oberhaching with geothermal heating. Before complete commissioning including the production of electricity, however, warranty work still needs to be carried out by external companies. In particular, the evaporator/heat exchanger unit needs to be improved. Only after successful testing of the electricity-generating facility can full commissioning take place. From the current perspective, no date can yet be given.


A date for the reopening of the Landau geothermal energy plant cannot be predicted in spite of close cooperation with the relevant water authorities and the local mining authority as well as the fulfilment of all requirements and the preparation of an exemplary safety concept for the operation of the power station. The Daldrup Group have met all the conditions for the safe, economically viable operation of the power station during the reporting period and during the current financial year. The power plant is ready for operation and could start production of electricity at short notice.

The borehole drilled by Daldrup for Vito N.V., Mol in the autumn/winter of 2015 in Belgium, produced a positive result in February 2016. The thermal water temperature is 120 degrees Celsius, meaning that the client Vito can use the generated thermal energy as intended, among other things, for the heating of a large office complex. The second borehole started in February 2016 to a depth of 4,600 metres shall be drilled by August. The thermal energy shall then be delivered to local consumers via a heating plant. An investigation is currently under way in northern Belgium as to whether the geological conditions there may allow similar projects. In the case of corresponding findings, Vito is planning to build more heating and cogeneration plants in Belgium in the next few years. With the second borehole the order volume for Daldrup will together rise to € 15 million. Three further boreholes may follow. The contract value of all five possible holes is approximately € 31 million.

Geysir Europe AG, in which Daldrup & Söhne AG holds a majority stake, has together with the operator of the Puchheim district heating network Bayern Natur GmbH agreed to work together with the municipality of Puchheim on a geothermal heat project. Conditions have been contractually agreed, under which in the case of a successful outcome of the drilling of a deep geothermal borehole in the Puchheim area the geothermal heat shall be fed into the existing district heating network. Preparations are currently being made to implement the project.

The 100% subsidiary of Daldrup & Söhne AG, Daldrup Boortechnik Nederland B.V. has with its parent company concluded a guarantee agreement to hedge the geothermal Nature's Heat project in Kwintseul, Netherlands vis-à-vis the client Nature's Heat B.V. The agreement covers the risks assumed in the case of failure to meet the agreed minimum thermal performance of the project in the amount of 12.05 MW<sub>th</sub> or failure to complete the project. The guarantee sum amounts, depending upon the achieved project phases, to a maximum of € 12 million.

Daldrup & Söhne AG signed a binding letter of intent, a so-called "Term sheet", in April 2016 for the planning and construction of a geothermal energy project in the southern Molasse basin (Bavaria). The contract value for the boreholes would be approximately € 50 million. The contract partner is a renowned international investor. The beginning of the work, including the planning, the drilling site construction, the drilling as well as the testing of the boreholes is planned for the fourth quarter of 2016. The parties are negotiating an EPC-based contract (Engineering, Procurement, Construction) for the expected 20-month drilling project. Daldrup expects to conclude a contract within the next few weeks.





## E. RISK AND OPPORTUNITIES REPORT

The deliberate and controlled management of opportunities and risks is a key element of corporate management within Daldrup & Söhne AG. Increasing complexity and volatility in a globalised world means that the opportunities and risk system needs to be regularly adapted to changes in the underlying conditions. The risk system, the risk environment and potential threats to the Daldrup Group are described below:

### 1. STRATEGIC RISKS

Rapid corporate growth carries risks on account of new personnel, adjustments to organisational structures and a change in the risk environment. Integration and optimisation processes are a part of day-to-day business. A continuing fall in crude oil prices has resulted in a greater supply in the deep well sector and increased pressure on competitors.

Equity investments and joint ventures may, as a result of misdirected investments and misjudgement of opportunities and risks, have a very negative, integration-related impact on the net assets, financial position and results of operations of Daldrup & Söhne AG. Careful and detailed audits in advance of such commitments are designed to minimise the risks.

In the Taufkirchen geothermal power plant project, the full commissioning may continue to be delayed due to technical problems, resulting among other things in possible penalties being incurred. The financial requirements could rise in the time up until completion.

The Landau geothermal power plant could be inactive for some time still due to regulatory requirements. This would result in increased financial requirements.

Delays occurring in projects could accordingly result in lower than planned revenues from electricity sales also.





## 2. BUSINESS RISKS

### RISKS INVOLVED IN OPERATIONAL DRILLING ACTIVITIES AND PROJECT DEVELOPMENT

There are basically three threat/risk areas that may be associated with deep boreholes and the project business:

- a. The **subsoil risk**, i.e. the risk of known and unforeseeable effects and difficulties originating from the subsoil (all underground, geological risks), is in (legal) building practice regulated in the contracts between the parties. This is generally within the sphere of responsibility of the client. Daldrup & Söhne AG as the contractor in drilling contracts bears the risk for technical drilling operations. In the deep drilling carried out by Daldrup, this risk can generally be absorbed by project-related machinery breakdown and so-called Lost-in-Hole-insurance. Within the scope of the self-monitoring by trained/certified staff, the use of modern drilling technology and in close cooperation with the relevant authorities and third-party supervisors, the Daldrup Group generally also makes active provision for risks. For openly discernible risks Daldrup fulfils its duties to examine, notify and perform due diligence. Additional security is achieved by sub-contracting complex planning and engineering services to correspondingly insured service providers.
- b. The **operational and environmental liability risks** as well as the risks of equipment breakdown and business interruption can be insured. The Group is covered for personal injury, material and environmental damage through the business and product liability insurance taken out with an insurance company. A separate machine insurance policy (including lost in hole) provides first-loss protection against potential damage to the deep drilling equipment and to all peripheral machinery and appliances. The risk of business interruption due to damage can be insured normally. Blowout risks are, in principle, to be assigned to the subsoil risk, but can also be covered, in individual cases, via increased cover as part of business liability insurance. The best insurance against blowout is to use modern and functional blowout preventers (BOPs), which Daldrup regularly uses. No special risk areas exist beyond the scope of normal business liability risks. Using a rigorous and certified quality and safety concept to avoid risk and damage is accorded high importance in the operational business of the Daldrup Group. We undertake fair, corrective measures ourselves in isolated cases.

- c. Risk of unsuccessful exploration associated with a drilling project. Special policies from insurance consortia now cover the risk of a deep borehole being unsuccessful. The parameters for successful exploration here are defined unambiguously with the quantity of fill, the temperature and the lowering of the static water level. In assessing the insurance risk, the insurability and the level of premiums for a project, the experience and references of the drilling company commissioned and the likelihood of a strike as confirmed by external reports all play a critical role. Geothermal projects planned, drilled and implemented by the Daldrup Group have regularly been commercially insurable. Whether corresponding insurance cover has been chosen is ultimately at the discretion of the project sponsor in each case.

The existing and functional insurance concepts cover the main risks involved in geothermal drilling, thereby smoothing the way for the future technology of geothermal energy to enjoy growth in the niche market. Alternative risk transfer solutions will also be offered in future.

There are also additional risks such as the loss of drilling tools, the failure to receive permits (the repercussions of this are usually delays and possible additional costs), accidents at work, geological problems when conducting exploration work and drilling and disruptions to operations caused by unforeseeable wear and tear. The internal risk management system has strategies in place which deal with these issues so that damage as a result of such risks can be avoided.





### COMPETITIVE RISKS

New, lucrative and growing markets are attracting additional market players. The efforts of companies in related sectors to enter the geothermal energy market are distinctly visible in spite of high barriers to market entry. The Daldrup Group's high degree of specialisation, the numerous reference sites, the fact that it has been well known for a number of years and its market position give it an important competitive advantage.

Additional risks exist in terms of a decline in demand as a result of changes in the market or amortisations which have been lost, as well as the fact that changes in the law can result in project delays for our clients as well as project postponements.

### PROCUREMENT RISKS

Up to this point in time, the procurement of equipment technology, raw materials, consumables and supplies, and the procurement of external services have not had a negative impact on Daldrup's performance process. Procurement risks are limited by diversification on the purchasing front and by the availability of alternative sources. The Group has core suppliers based on good terms and conditions, product quality and reliability of delivery. There continue to be no special supplier dependencies to report. Daldrup has identified and implemented new challenges and opportunities through the expansion of the vertical and horizontal value chain. The drilling technology specialist is thus continuing to develop into a fully integrated geothermal energy group.

### PERSONNEL RISKS

The Daldrup Group employs key personnel across all Company divisions (e.g. project managers, engineers and experienced machine operators), whose long-standing contacts and specialist knowledge are important for the success of the Company. The loss of key employees e.g. due to being enticed away or illness might leave a gap, at least temporarily. It is not possible either to eliminate the traditional dearth of professionals with the skills to operate our wide range of drilling equipment through internal training and qualification programmes. Strategic investments and acquisitions are therefore being closely monitored.

In addition, the international growth of Daldrup & Söhne AG and its responsibility as a Group parent company require a foresighted organisation. Additional areas of activity in the technical and commercial domains are being created; information and communication channels as well as organisational and personnel resources must be permanently adapted to these requirements.

### FINANCIAL RISKS / USE OF FINANCIAL INSTRUMENTS

Foreign currency risks are avoided as far as possible by using the EURO as the basis for contract and price negotiations. Currency/exchange rate hedging instruments such as forward exchange contracts and currency option contracts are used for planned orders and procurements in foreign currencies (mainly Swiss francs in 2015). The Daldrup Group enters into these derivative transactions only with banks that have a very good credit rating. However, it is impossible to precisely predict monetary policies in the individual countries and therefore negative effects cannot be avoided in spite of using such financial instruments.

No speculative interest, currency and/or commodity transactions exist at present and none are planned.

On the reporting date there were no derivative financial instruments.

If required, the Group avails itself of the practice, customary in international business, of using guarantees and letters of credit to hedge credit rating, payment and delivery risks.

The financial and state crisis and the lack of willingness to provide loans on the part of the banks make it difficult, on the whole, to implement drill-ready geothermal energy projects. This could give rise to further impediments to growth for the geothermal market.

The clients are required to provide guarantees wherever possible in order to limit any damage due to default of payment. In terms of suppliers, a non-delivery can result in project delays and increased costs. Strategies for dealing with this include a choice of possible, alternative suppliers and monitoring the critical components within the production process, such as by means of quality assurance measures and checking the production process.



### 3. TECHNOLOGICAL RISKS

The drilling technology used is state of the art and is not subject to rapid technological change, meaning therefore that there is no specific risk potential. The Kalina power plant technology used in particular in the geothermal energy power plant in Husavik, Iceland, as well as on German soil in Unterhaching and Bruchsal, is particularly suitable for generating electricity, especially in the low temperature range. The Daldrup Group is a licensee of this process and is firmly of the opinion that the combined use of geothermal energy and Kalina technology can help make a significant contribution towards securing global energy supplies.

The IT systems are generally an external target. For this reason there are safeguards against unauthorised access and data is regularly backed up.

### 4. LEGAL RISKS

However legal disputes may arise from the performance process as well as within the framework of guarantees. It is particularly the case with the project business that a number of different issues are contentious. Disputes can be settled for the most part without legal advice. However, for certain issues, legal disputes cannot be avoided. External specialist lawyers are regularly entrusted with the task of representing the interests of the Daldrup Group. In active processes there is a risk that claims brought before the court will not be enforceable and value adjustments would thus be required.

The contract management is organised in such a way that there is a balanced distribution of opportunities and risks for Daldrup & Söhne AG as a result of integrating legal, technical and commercial activities. The current order book is subject to these aspects of contract management.

Civic initiatives and also opponents to technology can influence policies. This can be disadvantageous during the licensing procedure and can result in having to approach the courts which will clearly delay measures.

The Company has taken out a D&O insurance for the members of the management board and the supervisory board in order to provide a recourse where appropriate, if there are breaches of stock exchange rules or other breaches.

From 2018, the feed-in regulations are expected to change for geothermal electricity (EEG 2014) and the industry-wide learning curve will be compensate for this. However, there is always the threat of disadvantages to the Company due to legal changes.

### 5. OVERALL ASSERTION IN RESPECT OF THE RISK SITUATION

The company management is geared towards organisational and, above all, financial stability when there is an intentional risk strategy with an eye for an opportunity, rapid access and willingness to adjust planning. At present there are no risks to the continued existence of the Company. The commercial opportunities available far outweigh the potential risks.

### 6. OPPORTUNITIES REPORT

Geothermics is becoming increasingly important globally in terms of the generation of heat and electricity as a component of renewable energies within the overall energy mix. Furthermore, the direct use of geothermal energy for heating and cooling superstructures in terms of both new construction projects and as part of energy-efficient building renovation in Germany cannot be ignored. In addition to this, during the last few years in Germany the regulatory framework to promote the use of heat from renewable energy sources has continued to be extended and improved by measures which include the new Renewable Energies Heat Act (EEWärmeG), the Market Incentive Programme (MAP) and the Energy Saving Ordinance (EnEV). Further legislative initiatives on energy efficiency and energy conservation are planned. With the EEG 2014, investment security and predictability, particularly for geothermal energy power plant projects, have returned. Daldrup can benefit from this as a specialised drilling service provider and a provider of turnkey geothermal heating and power plants and as the owner and shareholder of these power plants.

The Daldrup Group is anticipating continued correspondingly favourable conditions and an increasing demand for geothermal heating and power plants.



## F. FORECAST REPORT

### 1. FUTURE CORPORATE STRATEGY

The Daldrup Group is continuing to transform itself from a pure drilling services provider into a fully integrated geothermal energy group and is therefore building up its national and international market position as an end-to-end supplier of geothermal power plant projects. In the geothermal project of the group company GeoEnergie Taufkirchen GmbH & Co. KG, following the successful drilling phase and creation of a doublet, the underground engineering and building construction of the power plant is expected to be completed in the summer of 2016. The commissioning and the first regular supply of electricity into the grid is envisaged for the late summer after the elimination of warranty defects to the evaporator and heat exchange unit. Since December 2015, heat has been regularly fed into the district heating network of the communities of Oberhaching and Taufkirchen. Only after successful testing of the electricity-generating facility can full commissioning take place.

The Management Board are working intensively to reopen the Landau geothermal energy power station. The power station can according to current assessment and after the safety and improvement measures which were put in place during the last quarter start operating again at the end of 2016. Action against authorities for failure to act cannot be excluded.

The drilling for the Neuried power plant project depends on the outcome of the Kehl lawsuit from 2014. This involved a lawsuit filed with the Freiburg Administrative Court against the drilling permit granted by the federal state of Baden-Württemberg.

Additional geothermal power station projects in the Bavarian Molasse basin and in the Upper Rhine Rift are already being developed.

### 2. FUTURE ECONOMIC ENVIRONMENT

In its spring forecast in mid-March of this year, the IfW predicts a healthy upswing for 2016 and 2017 in Germany. The Kiel experts expect a GDP growth rate of 2.0% and 2.2% respectively.

Private consumption is particularly decisive for the economic dynamism. The experts are, however, also expecting increasing investments. In particular, construction investments should increase due to the favourable environment. During the year, the global economy should, according to the IfW, finally overcome its weak phase, meaning that sales oppor-

tunities for German exports will also improve again. The expansive monetary policy of the ECB will also have a stimulating effect.

In contrast, the economic outlook has deteriorated slightly in the euro area according to the IfW. For the GDP in the euro area, they expect only an expansion by 1.5 % this year and 1.9 % in 2017. According to the IfW, increased political uncertainty, turmoil in the European financial markets and the continuing weakness of the emerging economies will put a strain on further prospects for the euro area. The economy should, however, stabilise again during the year; the positive mood in companies points towards this. The outlook for individual Member States is very varied, because structural problems such as in France and Italy are still hindering stronger expansion.

The forecast presented by the IfW also points to a number of significant risks that run alongside any such economic recovery. Downside risks arise for the current and the coming year mainly because of the uncertain economic environment. Thus, according to the IfW, uncertainty about the robustness of the economy in the emerging markets and the world economy still prevails overall. Questions about the political stability of the EU also play a role. Likewise, evidence that monetary policy is increasingly reaching its limits as well as the phasing out of monetary expansion could prove very difficult. In this complex situation, to which the continually high level of geopolitical risks must be added, the German economy may suffer repeated setbacks, the experts believe.

The social consensus to withdraw from nuclear power as well as the necessary change in direction to a secure, affordable and environmentally friendly energy supply based on renewable energy remains unchanged on the part of the German government and the population. Renewables now account for a quarter of the energy market. They have become part of this market and should therefore no longer be considered separately from the rest of the market. There are lively public discussions about the economic efficiency of the move towards alternative energy (network expansion, subsidies and cost-sharing via the EEG reallocation charge) and the design of the electricity market of the future. The amendment to EEG 2014, the publication of the green paper on the design of the electricity market of the future as well as the national action plan on energy efficiency and additional initiatives that have been planned by the German government organise the move towards alternative energy and set targets.



## EEG DEFINES ENVIRONMENT

The role of geothermal energy in the renewable energy mix is also being increasingly acknowledged in the world of politics thanks to its base load capacity and controllability. When accepting the role as patron of the 2015 German Geothermal Conference (DGK 2015), held by the German Geothermal Energy Association, Sigmar Gabriel, the federal economics minister spoke about geothermal energy: "The continued expansion in geothermal energy to supply heat is an essential part of the move towards alternative energy in order to regenerate our energy supply in Germany." The regulatory environment for the geothermal energy sector has been strengthened through EEG 2014 and contributes to the economic viability of large power station projects. The provisions included in EEG 2014 have supported the development of the industry by stabilising the feed-in tariff for electricity generated from geothermal energy and have provided security of investment.

As of 2017 a new EEG is likely to apply. The BMWi benchmark paper published in April 2016 provides for a transition from state-specified funding to invitations to tender. The guiding principles behind this measure are according to the BMWi to keep the costs low for the EEG and thus break the cost dynamics, observe the development corridor, expand the market in a plannable way and offer fair opportunities for all stakeholders. Overall, the competition in the individual energy sectors will thus accelerate with the construction of new plants. According to the information currently available, the geothermal industry will remain excluded from the tendering rules. In the words of the BMWi, one cannot assume "given the small number of planned individual projects" that there is "sufficient competition". The plan is to leave the funding of geothermal power plants in accordance with the EEG 2014.

What is new, however, is the reduction of funding for geothermal energy (degression) envisaged from 1 January 2018. Accordingly, the feed-in tariff of 25.2 cents/kWh for electricity from geothermal energy (§ 48 of the draft bill) shall be reduced as of 1 January 2018 by 5 % annually. The BvG sees the discontinuation of any protection of investment or legitimate expectation as justified. As the implementation periods for geothermal projects usually take many years, investors would at the time of commissioning still have to be able to invoke the rules applicable at the time of the investment decision, as the BvG writes in a press release.

In the current 2016 fiscal year, the implementation of the Energy Efficiency Strategy for Buildings (ESG) is according to the 10-Point Energy Agenda (2nd update) of the BMWi pending in concrete instruments and measures. The overall strategy for the building sector integrates electricity, heat and efficiency areas and incorporates measures necessary for this, including a CO<sub>2</sub> Building Rehabilitation Programme, continuation of the Market Incentive Programme (MAP), development of Energy Conservation Act for Buildings (EnEG) and the Energy Saving Ordinance (EnEV), Renewable Energy Heat Act (EEWärmeG), to create an aligned system.

The requirements of the EU Energy Efficiency Directive work along the same lines. It is based on a decision of the EU Member States from 2007 to reduce primary energy consumption by 20 % by 2020. Germany implemented the Directive partially as of 15 April 2015 with the Energy Services Act (EDL-G). According to EDL-G, large companies are now obliged to perform an energy audit for the first time by 5 December 2015 and thereafter regularly every four years. This can provide incentives for energy efficiency investments for companies, housing associations or public clients as part of its energy management, to switch in future to resource-conserving and climate-friendly renewable energy. Geothermal energy can benefit from this as a decentralised energy source. There is a great deal of untapped potential for climate protection purposes (reduction of CO<sub>2</sub> emissions) as well as for becoming self-sufficient in terms of resources.





### DEMAND FOR ELECTRICITY AND HEAT FROM GEOTHERMAL ENERGY WILL GROW

BVG experts expect significant growth in the use of geothermal energy in the future. According to predictions made by the German Renewable Energy Federation (BEE), electricity generated from geothermal energy in Germany will increase to 3,750 GWh per year by 2020. The figure in 2013 was 8 TWh, which corresponded to the annual electricity needs of 8,300 two-person households. The federal government is also looking to significantly expand in this area: In its "National Action Plan for Renewable Energy" which was finalised in August 2010, it set a target of 1,654 GWh of electricity to be generated from geothermal energy by 2020. This figure is not quite as much as the one stipulated by the representatives of the renewable energy sector, but it is nevertheless much more than at present. It is a similar case for heat, where the German Renewable Energy Federation (BEE) expects to achieve a capacity of 26,000 GWh by 2020. The federal government has stipulated 14,400 as a target, which is based in particular on rapid growth in deep geothermal energy.

### HEAT GENERATION FROM GEOTHERMAL ENERGY AND AMBIENT HEAT AND SHARE OF HEAT CONSUMPTION

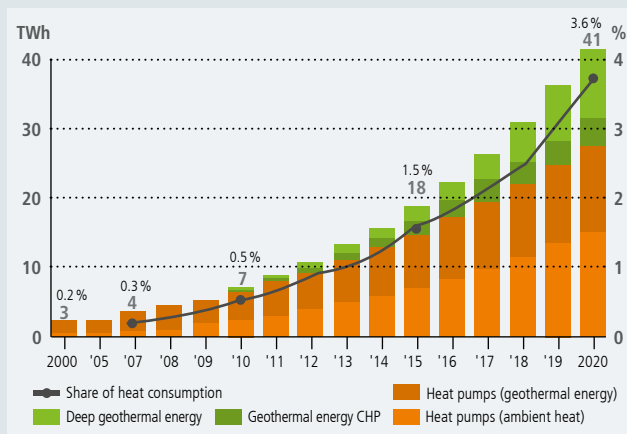


Fig.: Heat generation from geothermal energy and heat pumps and share of heat consumption in Germany  
Source: German Renewable Energy Federation (Bundesverband Erneuerbare Energie e. V.), Wege in die moderne Energiewirtschaft, Part 2: Wärmeversorgung, October 2009, p. 12

Heat generation by way of renewable energies is a "sleeping giant" that has a great deal of potential for climate protection purposes as well as for becoming self-sufficient in terms of resources. According to forecasts made by the German Renewable Energy Federation (BEE), bioenergy is expected to provide the largest proportion of heat supplies by 2020; however, the contribution made by geothermal energy, solar thermal energy and heat pumps is expected to grow significantly in the coming years. The volume of electricity derived from renewable energies within the heat sector is expected to increase by two and a half times due to the rapidly growing share of renewable energies in the production of electricity.

### INSTALLED CAPACITY FOR ELECTRICITY GENERATION FROM RENEWABLE ENERGIES IN GERMANY BY 2020

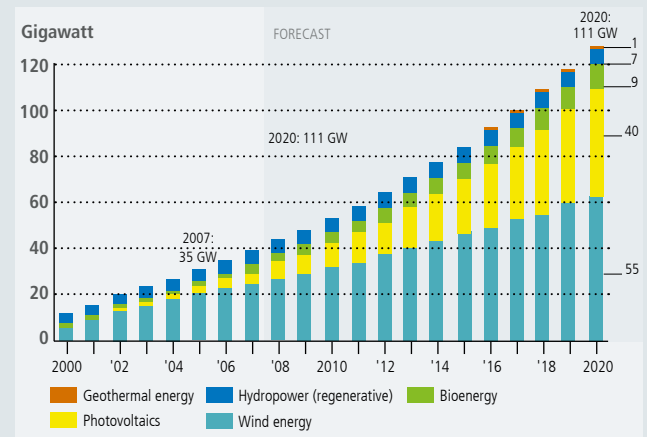


Fig.: Installed capacity for electricity generation from renewable energies according to sector in Germany  
Source: German Renewable Energy Federation (Bundesverband Erneuerbare Energie e. V.), Wege in die moderne Energiewirtschaft, Part 1: Wärmeversorgung 2020, October 2009, p. 7

The aim is thus for renewable energies to become the mainstay of electricity and heat supply. The rate of expansion and the specific growth of the geothermal energy industry are determined on the one hand by the development and organisation of funding instruments in Germany and Europe, but are also dependent on various crucial economic issues on the other hand. The increase in prices for fossil fuels, economic stability, a robust employment situation on the labour market and the consolidation of state and bank finances in the eurozone are the cornerstones, promising opportunities for higher growth.

## HEAT GENERATION FROM RENEWABLE ENERGIES AND SHARE OF HEAT CONSUMPTION

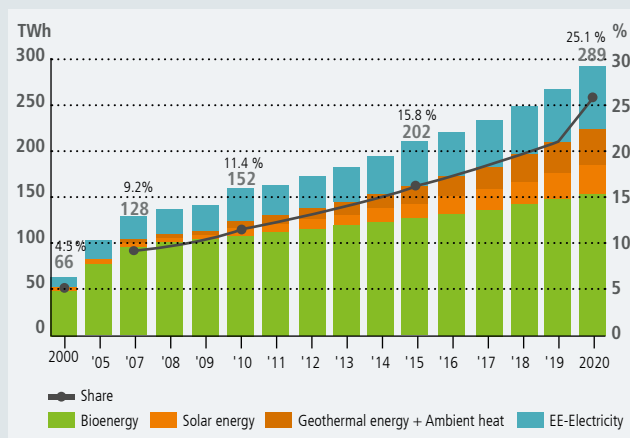


Fig.: Development of heat generation from renewable energies and share of heat consumption in Germany  
Source: Renewable Energies Agency, Renewables Spezial, Edition 63, Jan 2013, p. 9

The positioning of geothermal energy for the future direction of energy supplies is very good. It is decentralised and does not require any overly expensive expansion of the grid. It is almost inexhaustible and an inexpensive resource. It can supply base load (i.e., regardless of time of the day, season and weather conditions), and makes a relatively large contribution to environmental and climate protection and provides an outstanding CO<sub>2</sub> footprint. The potential to reduce costs can be increased by pending projects, so that the costs of geothermal electricity and heat generation are rapidly approaching the market level. Furthermore, high levels of skill and expertise mean that it is now possible to meet the high safety requirements demanded by the licensing authorities and, above all, the public. The EEG promotion of geothermal energy is thus fulfilling its proper purpose: the granting of temporary transition/bridge financing.

### GEOTHERMAL ENERGY IN EUROPE

The importance attached to geothermal energy as an alternative source of heat and power production is increasing significantly outside of Germany also: both in the context of a turnaround in energy policy as well

as to reduce dependency on fossil primary energy sources such as gas. For example, the Dutch government has presented plans to reduce dependence on gas and to invest more in heat supply for households and industry based on renewable energies. Just recently in May 2016 the funding programme "Kas als Energiebron" (Greenhouses as energy source) between the trade association LTO Glaskracht Nederland and the Dutch Ministry of Economic Affairs was renewed. Within the scope of the funding programme, expertise and cultivation methods are to be developed in order to save energy and to use more renewable energy, such as deep geothermal energy also. The aim is to reduce CO<sub>2</sub> emissions and save energy. By 2020, the intention is for all new greenhouses to be carbon neutral and also cost-efficient and for existing systems to reduce the use of fossil energy by half compared to 2011. The whole sector is expected to produce energy with neutral climate effects by 2050. The programme provides € 5 million each year for research and development in this field. In addition, the Ministry provides another € 13 million annually for subsidised and basic research projects. Daldrup & Söhne AG is one of the largest suppliers in the Netherlands of geothermal wells specifically for greenhouse operators. During the reporting period it received a general contractor order from the Dutch Nature's Heat B.V., Kwintsheul. The contract is worth around € 15 million. Nature's Heat is a consortium of ten greenhouse operators in the region of South Holland. Daldrup has been commissioned to drill the borehole of the doublet down to approximately 3,000 metres as well as to build the heating plant and the district heating distribution network. The greenhouse operators are at the same time the consumers of the heat.

In Belgium in autumn 2015 the first geothermal project in the country was launched with the participation of Daldrup & Söhne AG. In February 2016, the borehole produced a positive result. The first geothermal borehole in Belgium has thus been very successful and is looking very promising. The client Vito confirmed the considerable potential for geothermal energy for Belgium as a step on the way to a power supply that relies more and more on renewables. An investigation on behalf of Vito is currently under way in northern Belgium as to whether the geological conditions there may allow similar projects.





The French Ministry of the Environment has announced a recovery fund for the development of geothermal energy with a volume of € 50 million, with which project developer shall be compensated for failed exploration, production and injection wells. The intention is to hedge investment risks and further strengthen the expansion of renewable energies in France. A little later, the French gas supplier ENGIE (formerly GDF Suez) and the energy company EDF announced the further expansion of geothermal heat utilisation in the Paris Basin. The geothermal heat output is to be doubled to 100 MW within a short period in the region. In the Greater Strasbourg region at least three geothermal power plant are also to be built. They are to provide hot deep groundwater from 160 to 200 degrees Celsius, which will be conveyed from 3,500 - 4,500 metres depth to the surface as well as heat and electricity.

In Switzerland, a power plant project with a maximum of 5 MW has been approved in the canton of Jura. Using petrothermal geothermal energy, water permeability is to be generated with hydraulic stimulation at a depth of between 4,000 - 5,000 metres. The canton of Thurgau is also preparing a corresponding legislative initiative.

In Germany the number of project plans for geothermal power plants has increased. In the Bavarian Molasse basin more and more municipalities are opting for energy supply by means of geothermal energy. Stadtwerke München conducted extensive seismic investigations from November 2015 to March 2016 in the city and surrounding area of Munich to develop further geothermal reservoirs. By 2040, Munich wants to become the first German city that obtains district heating from 100 % renewable energy sources. Geothermal energy shall play a major role in that. Further projects are being prepared in the Upper Rhine Graben. In addition, the green-black coalition in Baden-Württemberg formed in May 2016 intends to further promote geothermal energy. In the coalition agreement, the future state government declared it would increase funding for hedging prospecting risks with deep geothermal projects. Preliminary tests for deep geothermal projects are also being conducted in the North German Basin. The state of Lower Saxony wants to support a promising project in Bad Bevensen as guarantor with a volume of € 20 million.

Two clinics, the thermal spring and the spa building shall then be supplied with the energy from a 2.4 km deep borehole. In addition to the project in Bad Bevensen, the project Heede/Dersum in Emsland on the German-Dutch border is also considered promising; the approval for exploration was requested in February 2016.

The value and growth-oriented objectives of Daldrup & Söhne AG and the strategic transformation process regarding the further development from only providing drilling services to an being an independent, medium-sized, energy supply company have continued to be pursued.

Owing to the specific technical and personnel requirements placed on deep drilling, the high capital requirements for drilling rigs and special equipment, the mining regulations and the complex approval procedures, Daldrup & Söhne AG fundamentally benefits from the high market entry barriers for deep geothermal energy. However, due to the fall in oil prices, an increasing number of drilling and exploration companies from the oil and gas business have moved into the geothermal energy market and this has led to more intense competition.





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### 3. EXPECTED RESULTS OF OPERATIONS AND FINANCIAL POSITION

The drilling and project business continues to be accompanied by many natural unknown factors, as delays and fluctuations can occur based on planning, approval and tendering processes, the geology, particular infrastructural conditions and the demands of project financing. It is still not possible to preclude such changes from impacting the results of operations and financial position of the Daldrup Group.

Daldrup & Söhne AG anticipates new growth in its business and the company due to the expansion in the value-added chain in its drilling and project business. The Daldrup Group will receive the first income from electricity feed-in and heat supply from 2016.

In addition to the orders booked, additional new drilling contracts are to be expected in the course of the 2016 fiscal year from municipal and private clients in Germany as well as orders from the Benelux countries. Institutional investors are increasingly interested in having geothermal power plants in their portfolio.

Since December 2010, the Taufkirchen geothermal project, in which the Daldrup Group has a majority holding, has moved into the implementation phase with Exorka GmbH, also part of the Daldrup Group, as general contractor. After the successful completion of the drilling phase, which exceeded expectations, the controlled operation of the heat extraction and delivery into the regional district heating network was started in winter 2015 after the construction of the above-ground geothermal heating power plant. Before complete commissioning including the production of electricity, warranty work still needs to be carried out by external companies. In particular, the evaporator/heat exchanger unit still needs to be improved. Only after successful testing of the electricity-generating facility can full commissioning take place. However, there are signs that the recoverable amount of thermal water is significantly higher than the originally planned amount (140 l/sec instead of 120 l/sec), which should have a positive effect.

The recommissioning of the Landau power plant may be carried out in the current 2016 fiscal year in coordination with the competent authorities and with the latter's approval. The power plant is ready for production from a technical standpoint. The plant ran superbly in 2013 with availability in excess of 98 % on average throughout the year. The power plants in Taufkirchen and Landau ensure the first major milestone in the transformation of the Company's business activities from a pure drilling services provider to an independent medium-sized

energy supply company will then have been achieved. Consistent returns from the sale of electricity and heat will stabilise the Daldrup Group's earnings and liquidity situation in the long term and strengthen its financial independence. At the same time, Daldrup & Söhne AG has accrued revenue from power plant operations due to its 75.01 % stake in Geysir Europe GmbH via Daldrup & Söhne Geothermie GmbH.

With the possibility of geothermal multiple use of an approved drilling area in the Munich area and the start of work for the Neuried geothermal project in 2017, the value creation, growth and earnings potential for the Daldrup Group as claim owners and power plant operators is improving significantly.

With the current level of orders in 2016, the Management Board of Daldrup & Söhne AG expects to see an overall Group performance of approximately EUR 33 million for the 2016 fiscal year combined with an EBIT margin of 2 % to 5 %. Earnings for the year 2016 from the Landau and Taufkirchen geothermal power plant projects were not included for precautionary reasons and may improve the result.

## G. MANAGEMENT BOARD'S CONCLUDING STATEMENT ON THE DEPENDENT COMPANY REPORT

In conclusion, we state that Daldrup & Söhne Aktiengesellschaft, based on the circumstances known to us at the point in time at which legal transactions were carried out or actions taken or omitted, received reasonable consideration for every legal transaction and was not disadvantaged by actions being taken or omitted.

Grünwald, 13 May 2016

**Daldrup & Söhne AG**  
The Management Board



Josef Daldrup  
(CEO)



Curd Bems  
(CFO)



Peter Maasewerd  
(Management Board)



Andreas Tönies  
(Management Board)







**CONSOLIDATED FINANCIAL STATEMENTS** for the Fiscal Year 2015

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**AUDITOR'S OPINION ON CONSOLIDATED FINANCIAL STATEMENTS**

and Group Management Report of Daldrup & Söhne Aktiengesellschaft,  
Grünwald, for the Fiscal Year from 1 January to 31 December 2015







## GROUP INCOME STATEMENT

FOR THE FISCAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2015

	01/01/2015 - 31/12/2015 EUR	01/01/2014 - 31/12/2014 EUR
1. Sales revenue	17,255,286.92	52,327,342.89
2. Increase/decrease in work in progress	9,142,613.46	- 8,317,246.62
3. Other operating income	7,902,075.66	933,846.86
– including currency translation: EUR 347,958.34 (PY: EUR 119,743.60)		
4. Cost of materials		
a) Cost of raw materials, consumables and supplies, and of purchased merchandise	7,490,913.88	7,834,813.11
b) Cost of purchased services	7,712,033.87	16,070,654.62
	15,202,947.75	23,905,467.73
5. Personnel expenses	5,217,873.44	6,042,230.15
a) Wages and salaries	927,065.60	994,941.38
b) Social security, post-employment and other employee benefit costs		
– including retirement benefit: EUR 79,251.14 (PY: EUR 43,752.63)	6,144,939.04	7,037,171.53
6. Amortisation of intangible fixed assets and depreciation of property, plant, and equipment	3,713,550.69	12,060,069.70
7. Other operating expenses	8,558,473.55	20,238,381.95
– including currency translation: EUR 253,862.64 (PY: EUR 32,938.86)		
8. Income from other securities and long-term loans	157,756.45	146,460.61
9. Other interest and similar income	174,005.43	317,992.14
– including the discounting of provisions: EUR 0.00 (PY: EUR 3,604.95)		
10. Expenses from long-term investments in associates	39,645.82	521,546.85
11. Interest and similar expenses	1,072,115.16	425,856.38
– including interest accumulation from provisions: EUR 27,879.65 (PY: EUR 25,521.00)		
12. Result from ordinary activities	- 99,934.09	- 18,780,098.26
13. Extraordinary expenses = extraordinary result	0.00	- 223,456.44
14. Taxes on income	148,212.57	- 57,137.31
– including deferred taxes: earnings, EUR 58,773.80 (PY: earnings, EUR 22,605.99)		
15. Other taxes	126,397.50	116,903.97
16. Consolidated net income/loss	174,675.98	- 18,943,788.04
17. Minority interests	198,024.74	2,678,864.21
18. Retained income	10,123,398.09	26,388,321.92
19. Net retained profits	10,496,098.81	10,123,398.09





## GROUP BALANCE SHEET

### GROUP BALANCE SHEET AS AT 31 DECEMBER 2015

ASSETS	31/12/2015 EUR	31/12/2014 EUR
<b>A. Fixed assets</b>		
I. Intangible fixed assets		
Acquired concessions, industrial property rights and similar rights and assets, and licences for such rights and assets	2,015,659.56	2,657,304.37
II. Property, plant and equipment	975,958.96	736,814.79
1. Land, land rights and buildings, including buildings on third-party land		
2. Technical equipment and machinery	14,155,474.48	16,058,705.62
3. Other equipment, factory and office equipment	3,325,052.17	4,036,386.46
4. Prepayments and assets under construction	8,062,050.90	8,064,062.40
	<b>26,518,536.51</b>	<b>28,895,969.27</b>
III. Financial assets		
1. Shares in affiliated companies	0.00	18,000.00
2. Loans to affiliated companies	0.00	36,800.00
3. Shares in associates	20,846,285.25	21,987,566.07
4. Investments	0.00	6,285.90
6. Long-term securities	181.00	181.00
7. Other loans	1,886,585.43	2,322,424.84
	<b>22,733,051.68</b>	<b>24,371,257.81</b>
	<b>51,267,247.75</b>	<b>55,924,531.45</b>
<b>B. Current Assets</b>		
I. Inventories		
1. Raw materials, consumables and supplies	3,074,853.05	3,165,132.63
2. Work in progress	51,783,457.58	42,665,744.77
3. Prepayments	9,442,437.42	0.00
4. Payments received on account of orders	- 51,758,366.04	- 43,681,573.26
	<b>12,542,382.01</b>	<b>2,149,304.14</b>
II. Receivables and other assets		
1. Trade receivables	5,661,342.79	6,453,161.17
2. Receivables from associated companies	2,065,889.95	1,504,616.23
3. Other receivables and other assets – of which due after more than one year: EUR 707,085.37 (PY: EUR 658,905.70)	13,861,995.42	8,285,629.66
	<b>21,589,228.16</b>	<b>16,243,407.06</b>
III. Cash on hand and credit balances at banks	<b>3,165,184.71</b>	<b>4,519,905.09</b>
	<b>37,296,794.88</b>	<b>22,912,616.29</b>
<b>C. Prepaid Expenses</b>	<b>129,909.75</b>	<b>32,103.67</b>
<b>D. Deferred Tax Assets</b>	<b>177,676.32</b>	<b>146,402.52</b>
<b>BALANCE SHEET TOTAL</b>	<b>88,871,628.70</b>	<b>79,015,653.93</b>



<b>LIABILITIES</b>	<b>31/12/2015 EUR</b>	<b>31/12/2014 EUR</b>
<b>A. Equity</b>		
I. Subscribed capital	5,445,000.00	5,445,000.00
Treasury shares	- 4,017.00	- 4,017.00
	<b>5,440,983.00</b>	<b>5,440,983.00</b>
II. Capital reserves	30,502,500.00	30,502,500.00
III. Retained earnings		
1. Legal reserve	25,000.00	66,583.50
2. Other revenue reserves	264,013.96	156,460.50
IV. Currency translation adjustments	- 781,747.63	- 671,985.84
V. Net retained profits	10,496,098.81	10,123,398.09
VI. Minority interests	<b>516,178.87</b>	<b>781,499.12</b>
	<b>46,463,027.01</b>	<b>46,399,438.37</b>
<b>B. Provisions</b>		
1. Provisions for pensions	761,765.00	644,807.00
2. Tax provisions	7,691.10	6,726.94
3. Other provisions	2,351,611.55	3,113,657.12
	<b>3,121,067.65</b>	<b>3,765,191.06</b>
<b>C. Liabilities</b>		
1. Liabilities to banks	11,917,089.73	9,435,643.16
– of which due within one year: EUR 8,915,089.73 (PY: EUR 5,033,176.20)		
– of which are due between one and five years: EUR 3,002,000.00 (PY: EUR 4,334,800.00)		
2. Trade payables	4,211,423.68	4,964,471.91
– of which due within one year: EUR 4,211,423.68 (PY: EUR 4,964,471.91)		
3. Liabilities to associated companies	12,812.22	11,335.29
– of which due within one year: EUR 12,812.22 (PY: EUR 11,335.29)		
4. Other liabilities	23,086,845.83	14,351,993.25
– of which due within one year: EUR 753,450.17 (PY: EUR 919,816.13)		
– of which are due between one and five years: EUR 14,517,395.66 (PY: EUR 1,378,066.62)		
– of which due after more than five years: EUR 7,816,000.00 (PY: EUR 12,054,110.50)		
– including taxes: EUR 162,700.16 (PY: EUR 1,529,986.74)		
– including social security: EUR 19,692.88 (PY: EUR 12,252.74)		
	<b>39,228,171.46</b>	<b>28,763,443.61</b>
<b>D. Deferred Income</b>	<b>4,362.58</b>	<b>5,080.89</b>
<b>E. Deferred Tax Liabilities</b>	<b>55,000.00</b>	<b>82,500.00</b>
<b>BALANCE SHEET TOTAL</b>	<b>88,871,628.70</b>	<b>79,015,653.93</b>





## GROUP STATEMENT OF ASSETS

### GROUP STATEMENT OF ASSETS FOR THE FISCAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2015

	ACQUISITION COSTS				As at 31/12/2015 EUR
	As at 01/01/2015 EUR	Exchange rate differences EUR	Accruals EUR	Outgoings EUR	
I. Intangible fixed assets					
Acquired concessions, industrial property rights and similar rights and assets, and licences for such rights and assets	6,965,837.81	95,912.80	0.00	0.00	7,061,750.61
	<b>6,965,837.81</b>	<b>95,912.80</b>	<b>0.00</b>	<b>0.00</b>	<b>7,061,750.61</b>
II. Property, plant and equipment					
1. Land, land rights and buildings	1,709,364.27	0.00	273,251.82	0.00	1,982,616.09
2. Technical equipment and machinery	27,331,910.39	3,464.40	800.75	1.00	27,336,174.54
3. Other equipment, operating and office equipment	12,697,876.62	455.94	340,467.55	20,700.50	13,018,099.61
4. Prepayments and assets under construction	14,946,190.83	0.00	0.00	2,011.50	14,944,179.33
	<b>56,685,342.11</b>	<b>3,920.34</b>	<b>614,520.12</b>	<b>22,713.00</b>	<b>57,281,069.57</b>
III. Financial assets					
1. Shares in affiliated companies	18,000.00	0.00	0.00	18,000.00	0.00
2. Loans to affiliated companies	36,800.00	0.00	0.00	36,800.00	0.00
3. Shares in associates	23,350,058.11	0.00	862,758.00	2,004,038.82	22,208,777.29
4. Investments	25,948.00	0.00	0.00	25,948.00	0.00
5. Long-term securities	95,054.80	0.00	0.00	0.00	95,054.80
6. Other loans	2,322,424.84	0.00	0.00	433,006.55	1,889,418.29
	<b>25,848,285.75</b>	<b>0.00</b>	<b>862,758.00</b>	<b>2,517,793.37</b>	<b>24,193,250.38</b>
	<b>89,499,465.67</b>	<b>99,833.14</b>	<b>1,477,278.12</b>	<b>2,540,506.37</b>	<b>88,536,070.56</b>



DEPRECIATION AND AMORTISATION			
As at 01/01/2015 EUR	Accruals EUR	Outgoings EUR	As at 31/12/2015 EUR
4,308,533.44	737,557.61	0.00	5,046,091.05
<b>4,308,533.44</b>	<b>737,557.61</b>	<b>0.00</b>	<b>5,046,091.05</b>
972,549.48	34,107.65	0.00	1,006,657.13
11,273,204.77	1,907,495.29	0.00	13,180,700.06
8,661,490.16	1,031,557.28	0.00	9,693,047.44
6,882,128.43	0.00	0.00	6,882,128.43
<b>27,789,372.84</b>	<b>2,973,160.22</b>	<b>0.00</b>	<b>30,762,533.06</b>
0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00
1,362,492.04	0.00	0.00	1,362,492.04
19,662.10	0.00	19,662.10	0.00
94,873.80	0.00	0.00	94,873.80
0.00	2,832.86	0.00	2,832.86
<b>1,477,027.94</b>	<b>2,832.86</b>	<b>19,662.10</b>	<b>1,460,198.70</b>
<b>33,574,934.22</b>	<b>3,713,550.69</b>	<b>19,662.10</b>	<b>37,268,822.81</b>

BOOK VALUES	
As at 31/12/2015 EUR	As at 31.12.2014 EUR
2,015,659.56	2,657,304.37
<b>2,015,659.56</b>	<b>2,657,304.37</b>
975,958.96	736,814.79
14,155,474.48	16,058,705.62
3,325,052.17	4,036,386.46
8,062,050.90	8,064,062.40
<b>26,518,536.51</b>	<b>28,895,969.27</b>
0.00	18,000.00
0.00	36,800.00
20,846,285.25	21,987,566.07
0.00	6,285.90
181.00	181.00
1,886,585.43	2,322,424.84
<b>22,733,051.68</b>	<b>24,371,257.81</b>
<b>51,267,247.75</b>	<b>55,924,531.45</b>





## GROUP EQUITY STATEMENT

### GROUP EQUITY STATEMENT FOR THE FISCAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2015

	PARENT COMPANY					
	Subscribed capital EUR	Treasury shares EUR	Capital reserves EUR	Self-Generated Group Equity EUR	Accumulated other comprehensive income EUR	Accumulated other comprehensive income EUR
					Currency translation adjustments	Other items recognised directly in equity
As at 01/01/2015	5,445,000	- 4,017	30,502,500	5,985,309	- 671,986	4,361,133
Group annual net income				372,701		
Other Group Earnings					- 109,762	65,970
<b>As at 31/12/2015</b>	<b>5,445,000</b>	<b>- 4,017</b>	<b>30,502,500</b>	<b>6,358,010</b>	<b>- 781,748</b>	<b>4,427,103</b>

	MINORITY SHAREHOLDERS				GROUP EQUITY
Equity EUR	Minorities capital EUR	Accumulated other comprehensive income EUR	Accumulated other comprehensive income EUR	Equity EUR	EUR
		Currency translation adjustments	Other items recognised directly in equity		
45,617,939	777,440	286	3,773	781,499	46,399,439
372,701	- 198,025			- 198,025	174,676
- 43,792		- 67,295		- 67,295	- 111,087
<b>45,946,848</b>	<b>579,415</b>	<b>- 67,009</b>	<b>3,773</b>	<b>516,179</b>	<b>46,463,027</b>





## CONSOLIDATED CASH FLOW STATEMENT

### CONSOLIDATED CASH FLOW STATEMENT AS AT 31 DECEMBER 2015

	2015 EUR
<b>1. Cash flow from ongoing operating activities</b>	
Result for the period including third-party shares before extraordinary items	174,675.98
Scheduled depreciation of fixed assets	3,713,550.69
Increase/reduction in provisions	- 672,003.06
Other non-cash expenses and income	65,969.96
Increase/decrease in inventories, trade receivables and other assets that are not attributable to investing or financing activities	- 15,836,705.05
Increase/decrease in liabilities from trade receivables and other liabilities that are not attributable to investing or financing activities	- 2,563,980.01
Profit/loss from disposal of fixed assets	- 2,796,308.02
Interest expenses	1,072,115.16
Interest income	- 174,005.43
Other investment income	- 157,756.45
Income tax expense/income	- 148,212.57
Income tax refunds/payments	89,438.77
<b>Cash flow from ongoing operating activities</b>	<b>- 17,233,220.03</b>
<b>2. Cash flow from investment activities</b>	
Inflows from disposals of fixed assets	2,819,021.02
Outflows for investments into fixed assets	- 614,520.12
Inflows from disposals of financial assets	2,437,045.37
Outflows for investments into financial assets	- 862,758.00
Interest received	174,005.43
Dividends received	157,756.45
<b>Cash flow from investment activities</b>	<b>4,110,550.15</b>
<b>3. Cash flow from financing activities</b>	
Inflows from the issuance of bonds and raising of (financial) loans	13,814,246.57
Outflows from the repayments of bonds and (financial) loans	- 1,332,800.00
Interest paid	- 497,692.53
<b>Cash flow from financing activities</b>	<b>11,983,754.04</b>
<b>4. Financial fund at the end of the period</b>	
Changes of the financial fund with a cash effect (Sub-totals 1 - 3)	- 1,138,915.84
Changes of the financial fund in the fixed assets due to effects of exchange rate and valuation	- 99,833.14
Changes of the financial fund in the equity capital due to effects of exchange rate and valuation	- 177,057.30
Changes of the financial fund due to effects of consolidated entities	61,085.90
Financial fund at the start of the period	4,519,905.09
<b>Financial fund at the end of the period</b>	<b>3,165,184.71</b>
<b>5. Composition of the financial fund</b>	
Cash on hand and credit balances at banks	3,165,184.71

According to DRS 21 No. 54 the Company has permissibly waived the disclosure of prior year amounts, as these have been prepared in accordance with DRS 2 as part of the consolidated financial statements as at 31 December 2014.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2015

### GENERAL DISCLOSURES ON THE CONSOLIDATED FINANCIAL STATEMENTS

The Group parent company, Daldrup & Söhne AG, based in Grünwald, is a provider of drilling and environmental services.

Daldrup & Söhne AG is entered in the Munich District Court commercial register under HRB 187005. It is a company which was set up in Germany, with limited liability and with its registered office in 82031 Grünwald, Bavariafilmplatz 7.

Where it is possible to exercise options with regard to disclosures in the balance sheet, the income statement or the notes, it was chosen to make comments in the balance sheet or in the income statement. Presentation of the analysis of consolidated fixed assets has taken the form of Appendix 1 to the notes.

The Company is required, pursuant to section 290(1) of the German Commercial Code (HGB), to prepare consolidated financial statements and a group management report.

The consolidated financial statements are prepared on the basis of the accounting standards of the German Commercial Code and the German Stock Corporation Act.

### CONSOLIDATION METHODS

Not only the parent company, but all major domestic and foreign subsidiaries under the legal control of Daldrup & Söhne AG are included in the consolidated financial statements.

The annual financial statements of subsidiary companies are prepared on the same balance sheet date as the annual financial statements of the parent company, using standard accounting policies.

The effects of intercompany transactions are eliminated. Receivables and payables between the companies included are consolidated.

The negative goodwill from capital consolidation stems from earnings retained at subsidiaries following the acquisition of investments, but prior to the reporting date of the first-time consolidation. It has therefore been recognised directly in equity without affecting net income.

The accounting of the shares in those companies on which the Group has no dominant but a significant influence, is carried out using the equity method. Initially, these associated companies are recognised at cost. The Group's share of the profits and losses of these companies is recognised in the income statement from the moment of their acquisition. The cumulative changes are offset against the investment value.

Accounting is carried out in accordance with a standard policy for the Group, in order to ensure that there is uniform accounting amongst all included companies and associated companies.



## CONSOLIDATION COMPANIES

IN ADDITION TO THE PARENT COMPANY, 17 DOMESTIC AND 4 FOREIGN SUBSIDIARIES AND ASSOCIATED COMPANIES ARE INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2015. THESE ARE MADE UP AS FOLLOWS:

NAME AND REGISTERED OFFICE OF THE COMPANY	Direct capital share	Indirect capital share
Daldrup Bohrtechnik AG, Baar/Switzerland	100.00	
D&S Geothermie GmbH, Grünwald	100.00	
Daldrup Wassertechnik GmbH, Ascheberg	100.00	
Przedsiębiorstwo Projektów Gorniczych i Wiercen Geologicznych "DMM" Sp. z o.o., Katowice/Poland	50.44	
GERF B.V., Voorburg/Netherlands		100.00
Geysir Europe GmbH, Grünwald		75.01
Exorka GmbH, Grünwald		100.00
Exorka ehf, Husavik/Iceland		100.00
geox GmbH, Landau i. d. Pfalz (associated company)		40.00
Geothermie Allgäu Betriebs- und Beteiligungs GmbH & Co. KG, Grünwald		100.00
Geothermie Allgäu Verwaltungs GmbH, Grünwald		100.00
Geothermie Starnberg GmbH & Co. KG, Grünwald		100.00
Geothermie Starnberg Verwaltungs GmbH, Grünwald		100.00
Erdwärme Taufkirchen GmbH & Co. KG, Grünwald		100.00
Erdwärme Taufkirchen Verwaltungs GmbH, Grünwald		100.00
GeoEnergie Taufkirchen GmbH & Co. KG, Grünwald (associated company)		38.59
GeoEnergie Taufkirchen Verwaltungs GmbH, Grünwald (associated company)		44.08
Taufkirchen Holding GmbH & Co. KG, Grünwald		100.00
Taufkirchen Holding Verwaltungs GmbH, Grünwald		100.00
Geothermie Neuried GmbH & Co. KG, Neuried		100.00
Geothermie Neuried Verwaltungs GmbH, Neuried		100.00

In addition to this there is still a 19.96 % stake in Geysir Italy GmbH i.L., Grünwald through Geysir Europe GmbH.

The liquidation of the company was completed on 20/01/2016. The holding in GeoEnergie Taufkirchen GmbH & Co. KG was reduced in 2015 fiscal year from 41.95 % to 38.59 %.



## FOREIGN CURRENCY TRANSLATION

Assets and liabilities of foreign subsidiaries are translated at the mid-spot exchange rates on the balance sheet date and income statement items at the average exchange rates for the year. The parts of equity to be included in the capital consolidation as well as the retained profits and accumulated losses brought forward are translated at historical exchange rates. Any differences in the balance sheet to which this gives rise are recognised directly in equity as "currency translation adjustments".

FOREIGN CURRENCY TRANSLATION	Exchange rate EUR 1 =	Average exchange rate for the year as at 31/12/2015	Closing rate as at 31/12/2015
Swiss francs	CHF	1.06545	1.0827
Icelandic Krona	ISK	146.6276	142.6534
Polish Zloty	PLN	4.1749	4.2900





## ACCOUNTING POLICIES

### ASSETS

Acquired intangible fixed assets and fixed assets have been recognised at cost and, if liable to depreciation/amortisation, have been reduced by scheduled depreciation/amortisation.

Depreciation is calculated linearly according to the expected useful life. Low-value assets between € 150 and € 1,000 are entered in a collective item and amortised linearly over a period of 5 years. Assets under € 150 are recorded directly as expenses.

Shares in associated companies were valued using the equity method.

Securities classified as fixed assets have been accounted for at their nominal value.

Extraordinary depreciation of assets of the fixed assets was made where a permanent impairment exists.

Raw materials, consumables and supplies have been recognised at cost. If the daily values were lower on the balance sheet date, these values have been recognised.

Services in progress are measured by means of reverse costing from the order value, taking into account the degree of completion on the balance sheet date and a flat-rate deduction of 12.5 % for the share of profit not yet realised and non-capitalisable costs.

Receivables and other assets have been recognised at their nominal value.

In the case of receivables, individual risks have been taken into account by means of adequately measured specific valuation allowances and the general credit risk by means of appropriate flat-rate deductions of 1 %.

Cash in hand and bank balances have been recognised at their nominal value. Balances in foreign currency are translated at the mean spot exchange rate on the balance sheet date.

Prepaid expenses and accrued income include expenses before the balance sheet date which will only become expenses in the following year.

Deferred tax assets and liabilities are, in principle, measured using the tax rates valid as at the balance sheet date. Future tax rate changes are taken into account if, within the scope of a legislative procedure, substantial prerequisites for its future applicability have been met on the balance sheet date. In this case, a flat rate of 30.0 %, which includes the standard corporation tax rate of 15 %, the solidarity surcharge of 5.5 % and an average trade tax rate of 14.2 %, is used.

### LIABILITIES

Subscribed capital has been recognised at par value.

The calculated par value of acquired treasury shares has been deducted from subscribed capital on the face of the balance sheet.

Provisions have been recognised for uncertain liabilities from pension obligations. Recognition was based on actuarial calculations using the PUC (Projected Unit Credit) method.

Other provisions have been recognised for any other uncertain liabilities at the settlement amount dictated by prudent business judgement. All identifiable risks have been taken into account here. If the liabilities were due after more than one year, maturity-matched discounting was carried out using the interest rates published by the Deutsche Bundesbank.

Liabilities have been recognised at their settlement amount.

Deferred income and accrued expenses include inflows before the balance sheet date which will only become income in the following year.

### CURRENCY CONVERSION

Receivables and payables in foreign currency are measured using the initial exchange rate on the day of the business transaction. Losses from changes in exchange rates up to the reporting date are always taken into account, while gains from changes in exchange rates are taken into account only if they are due within one year or less.

## CONSOLIDATED BALANCE SHEET AND CONSOLIDATED INCOME STATEMENT DISCLOSURES

### I. BALANCE SHEET

#### FIXED ASSETS

The analysis of the assets as at 31/12/2015 is presented on page 58 et seq. of this report.

Shares in associates totalling EUR 20,846k relate to the following companies:

- a) GeoEnergie Taufkirchen GmbH & Co. KG (EUR 60,380k limited partnership contribution). The Group has a 38.59 % share in the share capital. The company was founded for the construction of a geothermal energy power plant. The carrying amount as at 31/12/2015 is EUR 20,837k. The Group has an indirect 44.08 % share in the limited liability company GeoEnergie Taufkirchen Verwaltungs GmbH (EUR 25k of subscribed capital). The carrying amount as at 31/12/2015 is EUR 9k.
- b) geoX GmbH (EUR 1,200k share capital). The Group has a 40 % share in the share capital. geoX GmbH operates a geothermal power plant in Landau i. d. Pfalz. The carrying amount as at 31/12/2015 is EUR 1.

#### CURRENT ASSETS

##### INVENTORIES

Payments received are openly deducted from inventories.

Services in progress are measured by means of reverse costing from the order value, taking into account the degree of completion on the balance sheet date and a flat-rate deduction of 12.5 % for the share of profit not yet realised and non-capitalisable costs.

##### RECEIVABLES

The remaining term of receivables is less than one year.

##### ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES

This includes receivables from GeoEnergie Taufkirchen GmbH & Co. KG (EUR 258k) and geoX GmbH (EUR 1,808k), Landau i. d. Pfalz.





## OTHER ASSETS

<b>OTHER ASSETS AS AT 31/12/2015 IN EUR K</b>				
Description	Total amount	due within one year	due after more than one year	Total amount in previous year
1. Claims for damages against client/suppliers	0	0	0	1,405
2. Insurance compensation	5,675	5,675	0	5,021
3. Guarantee claims against customers	1,000	1,000	0	0
4. Claims from reinsurance cover	699	0	699	642
5. Tax receivables	1,680	1,680	0	190
6. Receivables from associated companies	670	670	0	0
7. Loans receivable	3,455	3,455	0	321
8. Receivables from reversal of purchase price associated companies	500	500	0	0
9. Other	183	175	8	706
<b>Total of other assets</b>	<b>13,862</b>	<b>13,155</b>	<b>707</b>	<b>8,285</b>

5. includes input tax receivables in the amount of EUR 276k which will be incurred only in 2016.

### PREPAID EXPENSES AND ACCRUED INCOME

Prepaid expenses and accrued income include expenses before the balance sheet date which will only become expenses in the following year.

### DEFERRED TAX ASSETS

The deferred taxes were calculated using a tax rate of 30.0 %. The deferred taxes were calculated based on a corporation tax rate of 15.0 %. A solidarity surcharge of 5.5 % on any corporation tax as well as an average trade tax rate of 14.2 % were also used as the basis for this calculation. Owing to different measurement of the provision for annual leave which has not been taken and the pension provision, liability items in the tax accounts are lower than in the financial statements, resulting in deferred tax assets (EUR 178k).

### EQUITY

Changes in equity are presented in the statement of changes in equity, which forms part of the consolidated financial statements.

### SHARE CAPITAL

The share capital amounts to EUR 5,445k; it is split into 5,445,000 no-par value bearer shares with no par value (ordinary shares). Authorised capital as at 31/12/2015 amounts to EUR 2,723k.

The calculated no-par value of acquired treasury shares (EUR 4k) has been deducted from subscribed capital on the face of the balance sheet. There were 4,017 treasury shares during the reporting year. No sales took place.





### **CAPITAL RESERVES**

Capital reserves consist of the premium for issuing shares (EUR 30,503k) obtained in the context of the IPO.

### **LEGAL RESERVE**

The legal reserve pursuant to section 150 of the German Stock Corporation Act (AktG) amounts to EUR 25k.

### **OTHER REVENUE RESERVES**

Other revenue reserves amount to EUR 264k.

### **CONSOLIDATED NET RETAINED PROFITS**

Consolidated net retained profits developed as follows:

• Retained income as on 01/01	EUR 10,124k
• Consolidated net income	EUR 175k
• Minority interests	EUR 198k
• Net retained profits	EUR 10,497k

The Management Board does not propose to pay a dividend to shareholders for the past fiscal year.

It is, in principle, not the consolidated net retained profits, but the net retained profits from the individual financial statement of the parent company that are available for distribution purposes. The latter amounts to EUR 7,555k as at 31/12/2015.

The total amount subject to the payout block pursuant to section 268 (8) of the German Commercial Code is EUR 178k. This amount is due to the capitalisation of deferred tax receivables in the parent company's single-entity financial statements.

### **PENSION PROVISIONS**

The pension provision for the CEO, Josef Daldrup, is calculated according to actuarial principles. The calculations are performed on the basis of the 2005 G actuarial tables for pension insurance by Prof. Klaus Heubeck. This is a generation table that reflects transition probabilities in the Company pension scheme, such as mortality rate, invalidity or frequency of marriage, according to age, gender and year of birth. The interest rate of 3.89 % p.a., published by the Deutsche Bundesbank as at the balance sheet date of 31/12/2015, was used as the discount rate. A 2.0 % rate of benefit increase during the benefit period and a 0.0 % rate of benefit increase during the qualifying period of were taken as a basis. The individual calculations were performed according to the PUC method (projected unit credit method).

### **TAX PROVISIONS**

Tax provisions amount to EUR 8k (previous year: EUR 7k).



## OTHER PROVISIONS

<b>STATEMENT OF PROVISIONS AS AT 31/12/2015 IN EUR K</b>					
Description	01/01/2015	Utilisation	Closing	Transfer	31/12/2015
Personnel provisions	749	728	11	786	796
Global provision for warranties	240	0	58	1,853	185
Other provisions	2,125	1,019	779	1,043	1,370
<b>Total other provisions</b>	<b>3,114</b>	<b>1,747</b>	<b>848</b>	<b>1,832</b>	<b>2,352</b>

The global provision for guarantees was based on 0.5 % of the average revenue of the last five years. This took into account a different weighting of the individual years as well as discounting.

Other provisions were recognised for outstanding invoices, litigation costs, audit of annual financial statements, archiving costs etc.

## LIABILITIES

<b>STATEMENT OF LIABILITIES AS AT 31/12/2015 IN EUR K</b>					
Type of liability	Total amount	due within one year	due within one to five years	due after more than five years	Total amount in previous year
1. Liabilities to banks	11,917	8,915	3,002	0	9,435
2. Trade payables	4,211	4,211	0	0	4,964
3. Liabilities to affiliated companies	13	13	0	0	11
4. Other liabilities to minority shareholders	12,334	0	12,334	0	12,002
5. Other liabilities to pension funds	10,215	215	2,184	7,816	0
6. Other liabilities – Remaining	538	538	0	0	2,351
	<b>39,228</b>	<b>13,892</b>	<b>17,520</b>	<b>7,816</b>	<b>28,763</b>

Total amount of liabilities secured by liens and similar rights:

- to banks: EUR 4,334k
- other liabilities to pension funds: EUR 10,215k
- Total: EUR 14,549k



The **liabilities to banks** essentially include WGZ BANK AG (EUR 2,167k) and Sparkasse Westmünsterland (EUR 2,167k), where a drilling rig has been used as security in accordance with standard banking practice. Liabilities amounting to EUR 7,583k from the use of overdraft loans.

**Other liabilities towards pension funds** are owed to the Ärzteversorgung Westfalen-Lippe and are used to finance Geothemal projects. The loan has a term until 30/06/2022. The interest rate is 5 %. Collateral security is provided by a pledge of limited partnership shares in GeoEnergie Taufkirchen GmbH & Co. KG.

**Other liabilities** contain liabilities from wages and salaries (EUR 191k), liabilities from wage and church tax (EUR 78k), and VAT liabilities (EUR 14k).

There is a qualified subordination agreement attached to liabilities to minority shareholders and interest has been deferred until 2019.







## II. INCOME STATEMENT

The total cost format was selected for the Income Statement.

The total sales revenue of EUR 17,255k (previous year: EUR 52,327k) was composed of EUR 12,965k (corresponding to 75.14 %) at home (previous year: EUR 30,524k / 58.33 %) and EUR 4,290k (24.86 %) abroad (previous year: EUR 21,803k / 41.67 %). Due to the long-term project agreements, the sales revenue only present an incomplete picture of the performance during the financial year. Therefore, the overall performance is additionally stated as EUR 13,043k (corresponding to 47.22 %) at home (previous year: EUR 33,026k / 75.04 %) and EUR 14,580k (52.78 %) abroad (previous year: EUR 10,984k / 24.96 %).

Other operating income is broken down as follows:

• Profit/loss from disposal of fixed assets:	EUR 2,809k
• Insurance compensation:	EUR 1,496k
• Income from the utilisation of guarantees:	EUR 1,000k
• Income from the reduction of individual write-downs on receivables:	EUR 930k
• Income from the utilisation of provisions:	EUR 837k
• Income from currency conversion:	EUR 388k
• Other:	EUR 422k
<b>Total:</b>	<b>EUR 7,902k</b>

Other operating expenses are broken down as follows:

• Legal and consultancy fees:	EUR 652k
• Bad debt losses:	EUR 1,865k
• Insurance policies and contributions:	EUR 137k
• Advertising and travel:	EUR 628k
• Residue and waste disposal:	EUR 462k
• Rent for movable property:	EUR 601k
• Repairs and maintenance work:	EUR 307k
• Occupancy costs:	EUR 629k
• Vehicle costs:	EUR 546k
• Construction site costs:	EUR 141k
• Construction site fuels:	EUR 387k
• Contract penalties:	EUR 650k
• Other:	EUR 1,553k
<b>Total:</b>	<b>EUR 8,558k</b>

## III. OTHER DISCLOSURES

### OTHER FINANCIAL OBLIGATIONS

Daldrup & Söhne AG has other financial obligations arising from rental and lease agreements totalling EUR 194k. The obligations have a remaining term of up to one year.

In addition, there are other financial obligations for rent and leasing in the amount of EUR 58k in relation to Exorka GmbH, in the amount of EUR 5k in relation to Geothermie Allgäu Betriebs und Beteiligungs GmbH & Co. KG, and in the amount of EUR 0.2k in relation to TOSCA-NA GEO S.r.l.. Of these, EUR 43k are liabilities due within one year, and the remaining EUR 20k are due within 1 to 5 years.

### CONTINGENT LIABILITIES

Daldrup & Söhne AG has an obligation, as a joint debtor of a fixed liability guarantee in the amount of EUR 1,000k, to the Thuringian Ministry for Agriculture, Nature Conservation and Environment. The purpose of this guarantee, which expires on 31.12.2017, is to secure a capital expenditure obligation on a remediated plot of land in Thuringia and the creation of permanent jobs.

The guarantee is not expected to be called in, as the project has already been successfully completed and there are no indications of a call on the guarantee.

Within the context of the purchase of 50 % of the shares in geox GmbH by Geysir Europe GmbH from Pfalzwerke Aktiengesellschaft, Daldrup & Söhne AG has acted as guarantor for the purchaser and has provided the LBBW with an independent guarantee for 50 % of the amount borrowed for geox GmbH, the purchase price as well as ongoing financial futures transactions. This also included the obligation to make own funds available with regard to a third borehole in Landau which was supported by the German Federal Ministry for the Environment. The total liability for Daldrup & Söhne AG amounts to EUR 2,700k.

Geysir Europe GmbH has not increased its stake in geox GmbH by an additional 50 %, to 90 % because the share purchase agreement was rescinded on 2 December 2013. The rescission means it is as if the contract had never existed. There are various judicial proceedings in process against the party that sold the shares and the former geox GmbH service providers. Furthermore, Daldrup & Söhne AG has appealed against the guarantee provided in connection with this.

It is not reasonably probable that a claim will be made against the guarantee because the geox GmbH geothermal power plant in Landau will become operational again in 2016 so that the Company will be able to finance the debt service out of its own funds.

Pursuant to section 285, sentence 1 no. 11a of the German Commercial Code (HGB), Daldrup & Söhne AG is the personally liable partner in the context of involvement in the following joint ventures:

- "Arnstadt" consortium (company under civil law), registered office in 46238 Bottrop
- The joint venture "Geothermie Thüringen", registered office in 82031 Grünwald

No claim is expected to be made under the personal liability, as the joint venture projects have already been successfully completed or are on schedule in terms of contract processing and there are no indications of any claim.

#### **TRANSACTIONS NOT CONTAINED IN THE BALANCE SHEET**

Daldrup & Söhne AG sold an already fully amortised, overhauled drilling rig for € 2.8 million as part of a sale-and-lease-back transaction in the fiscal year 2015 and has since been renting it back for a monthly rent of € 17,000. The advantage of the transaction is to strengthen the profitability of the Company. The purchase price has initially been deferred for the purchaser until 31 December 2016 at an interest rate of 2 %.

#### **FINANCIAL STATEMENT AUDITOR'S TOTAL FEE**

The auditing fee for the financial statement auditing services payable to the Warth & Klein Grant Thornton AG accountancy firm, Düsseldorf for the 2015 fiscal year is EUR 48k (EUR 3k of this is retrospectively for 2014), and EUR 2k for other services.



## OTHER MANDATORY DISCLOSURES

### NAMES OF MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

During the past fiscal year, the following persons were members of the **Management Board**:

<b>Name:</b>	<b>Role, occupation</b>
Josef Daldrup:	CEO
Dipl.-Geologe Peter Maasewerd:	Member of the Management Board and holder of a master's degree in geology (COO)
Andreas Tönies:	Member of the Management Board (COO)
Curd Bems:	Member of the Management Board (CFO)

The following were members of the **Supervisory Board**:

<b>Name, role:</b>	<b>Administrative, Management or Supervisory Board appointments and/or partner positions</b>
Wolfgang Clement, Bundesminister a. D.: Chairman of the Supervisory Board:	Member of the Supervisory Boards of the following companies: <ul style="list-style-type: none"><li>• Member of the Board of Trustees for the Dussmann Group and Chairman of the Supervisory Board for Dussmann Stiftung &amp; Co. KGaA, Berlin</li><li>• Member of the Supervisory Board for Deutsche Wohnen AG, Berlin</li><li>• Member of the Supervisory Board for Landau Media Monitoring AG &amp; Co. KG, Berlin</li><li>• Member of the Supervisory Board for DIS AG, Düsseldorf</li><li>• Member of the Supervisory Board for RWE Power AG, Essen</li></ul>
Dipl.-Ing. Wolfgang Quecke: Member of the Supervisory Board:	Member and/or Managing Director of the following companies: <ul style="list-style-type: none"><li>• Member of the Management Board of Rudimo AG, Marl</li><li>• Managing Director of "terra-concept GmbH", Marl</li><li>• Managing Director of Ewald Solar GmbH, Marl</li><li>• Managing Director of Ewald Energie GmbH &amp; Co. KG, Marl</li></ul>
Joachim Rumstadt: Member of the Supervisory Board:	Member and/or Managing Director of the following companies: <ul style="list-style-type: none"><li>• Chairman of the Management Board, STEAG GmbH, Essen</li><li>• Chairman of the Advisory Board, STEAG EVN Walsum 10 Kraftwerksgesellschaft mbH, Essen</li><li>• Chairman of the Supervisory Board, STEAG New Energies GmbH, Saarbrücken</li><li>• Chairman of the Board Iskenderun Enerji Üretim ve Ticaret A.Ş., Turkey</li><li>• Member of the Advisory Board of Wessling Holding GmbH &amp; Co. KG Altenberge</li></ul>









#### REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The total remuneration paid to the Management Board for its work in fiscal year 2015 amounted to EUR 1,173k. The total remuneration paid to the Supervisory Board for its work in fiscal year 2015 amounted to EUR 80k.

There is a clearing account with the Chairman of the Management Board, Josef Daldrup, which shows a receivable of EUR 5k as at 31/12/2015. Interest on the clearing account is charged at 6 % annually.

#### AVERAGE NUMBER OF STAFF EMPLOYED DURING THE CURRENT YEAR

The following groups of staff were employed in the Company on average during the fiscal year:

GROUPS OF STAFF	2015	2014
Waged employees	90	104
Salaried employees	23	21
Persons in minor employment	2	2
<b>Total</b>	<b>115</b>	<b>127</b>

Grünwald, 12 May 2016

**Daldrup & Söhne AG**  
The Management Board




Josef Daldrup  
(CEO)



Peter Maasewerd  
(Management Board)



Andreas Tönies  
(Management Board)



Curd Bems  
(Management Board)

## AUDITOR'S OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT

We have audited the consolidated financial statements prepared Daldrup & Söhne Aktiengesellschaft, Grünwald – comprising the consolidated balance sheet, the consolidated profit and loss account, the notes to the consolidated financial statements, the consolidated cash flow statement, the consolidated statement of changes in equity – and the group management report for the financial year from 1 January to 31 December 2015. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of Daldrup & Söhne Aktiengesellschaft, Grünwald, for the financial year from 1 January to 31 December 2015 comply with legal requirements and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with German principles of proper accounting. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitable presents the opportunities and risks of future development.

Düsseldorf, 13 May 2016

Warth & Klein Grant Thornton AG  
Wirtschaftsprüfungsgesellschaft

Carsten Carstens  
Wirtschaftsprüfer  
[German Public Auditor]

Thorsten Esser  
Wirtschaftsprüfer  
[German Public Auditor]

## FISCAL CALENDAR for Daldrup & Söhne AG

- 31 May 2016:** Consolidated Annual Report as at 31/12/2015
- 31 August 2016:** Annual General Meeting, Munich
- 30 September 2016:** Consolidated Interim Report as at 30/06/2016
- 21 - 23 November 2016:** Equity Forum 2016, Frankfurt

## INVESTOR RELATIONS Contact

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This Annual Report is also available online at  
www.daldrup.eu.

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# Romina Quellen

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### A BRIEF OVERVIEW OF DALDRUP

	31/12/2015	31/12/2014
Sales	EUR 17.3 million	EUR 52.3 million
Gross revenue	EUR 26.4 million	EUR 44.0 million
EBITDA	EUR 4.5 million	EUR - 6.3 million
EBIT	EUR 0.8 million	EUR - 18.4 million
Net income for the year	EUR 0.2 million	EUR - 18.9 million
Equity ratio	52.3 %	58.7 %
Total assets	EUR 88.9 million	EUR 79.0 million

