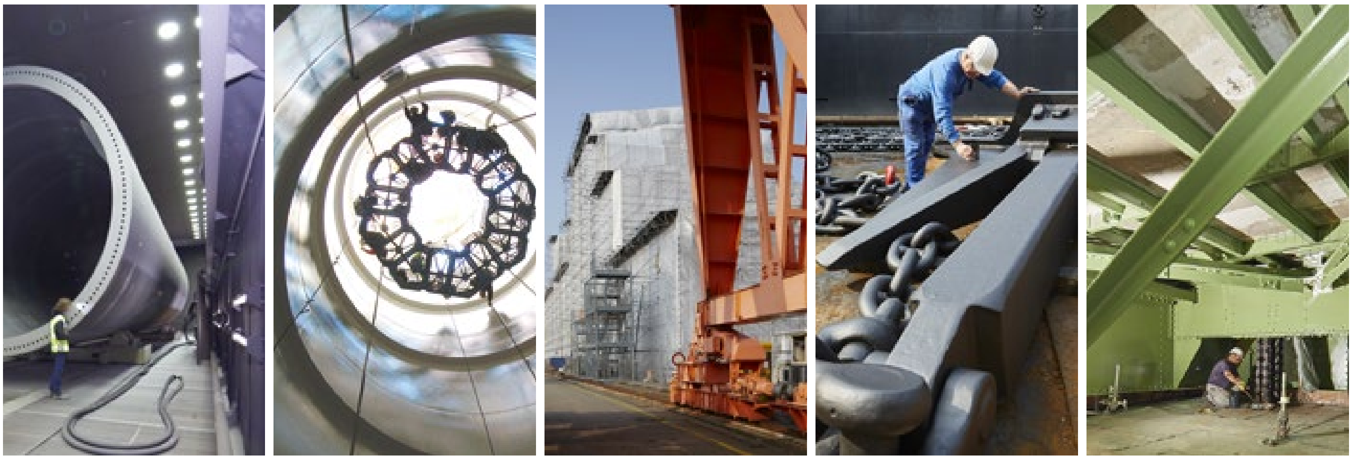
Muehlhan



Annual Report 2017

Our services

Surface Protection

We protect your assets under the most severe conditions

Insulation

Professional solutions for heat and cold insulation

Scaffolding

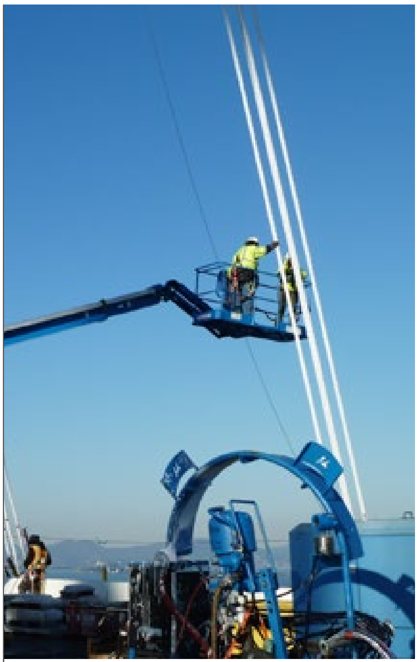
Engineered solutions to fit your purpose

2,900+ Employees

30+ Subsidiaries

4 Business segments

3 Continents



Specialty Access

Special requirements need special solutions

Steel Construction

Competence and quality first time right

Passive Fire Protection

Experienced specialist for all kinds of projects

Vision

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

Values

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

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

Our **Ship, Oil & Gas, Renewables** and **Industry/Infrastructure** business segments offer first-class solutions for surface protection, insulation, passive fire protection, access technology, as well as scaffolding and steel construction. With **more than 2,900 employees at over 30 locations** worldwide, we generated €248 million of sales revenues in 2017.

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

Group key figures

in kEUR		2017	2016
Result			
Sales		247,718	254,326
EBITDA[1]		16,029	14,244
EBIT[2]		8,529	6,882
EBT[3]		6,373	5,396
Consolidated earnings after non-controlling interests		4,074	1,979
Earnings per share from continuing operations	in EUR	0.22	0.09
Cash flow from operating activities		15,407	8,879
Investment for property, plant and equipment		13,171	9,156
Balance sheet		**31/12/2017**	**31/12/2016**
Total assets		145,458	146,454
Fixed assets[4]		61,703	53,721
Equity		65,270	63,699*
Equity ratio	in %	44.9	43.5*
Employees		**2017**	**2016**
Employees (annual average)	number	2,929	2,881

* adjusted in accordance with IAS 8.41 et seq.

[1] EBITDA: Earnings before interest, taxes, depreciation and amortization
[2] EBIT: Profit from operations (Earnings before interest and taxes)
[3] EBT: Earnings before taxes
[4] Fixed assets: Total non-current assets less deferred tax assets

Content

01

Surface protection of
container cranes

Dear Shareholders,

The year 2017 was a successful one for Muehlhan. Many of the measures introduced in recent years are proving effective and have resulted in a further improvement in earnings, continuing the steady upward trend we have seen over the past years. The results show that while we are on the right path, we still have work to do.

Executive Board

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

Stefan Müller-Arends has a degree in business administration. Following positions as Controller and CFO, including at Rheinbraun AG and the French DMC Group, he served as CEO of packaging group Mauser AG for 11 years. Since 2011, he has been leading the Muehlhan Group as Chief Executive Officer.

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

Dr. Andreas C. Krüger has a doctorate degree in engineering. As a manager and chairman, he previously headed several German and foreign industrial companies, among them Friatec AG, Mannheim. In 2004, he became a member of the Executive Board in Muehlhan and is responsible for the operating business.

James West
Member of the Executive Board
Aberdeenshire, UK

James West is an engineer. Before he joined Muehlhan Surface Protection Ltd in Aberdeen as Managing Director in 2011, he worked in various positions in the international and British oil and gas industry. Mr West is responsible for the Oil & Gas segment.

The Group's sales revenues decreased by 2.6 % year-on-year to €247.7 million during the reporting year – in line with our forecast. EBIT increased 23.9 % year-on-year to €8.5 million – one of the best earnings for the past 10 years. The EBIT margin improved from 2.7% to 3.4 %. Consolidated annual net income also increased significantly (by €1.8 million) to €4.6 million. At €15.4 million, cash flow from operating activities also showed a positive trend.

On the one hand, using more selective criteria to screen projects as part of our strict risk management approach caused a slight decrease in sales revenues, but on the other hand, it also helped us to avoid project losses, thereby yielding an improved EBIT. This – combined with numerous measures to improve operations, continuous expansion of the services we offer and our focus on growth markets – explains the steady improvement in earnings that Muehlhan has shown for the past six years. We have further enhanced and rounded out our portfolio of services with three smaller acquisitions in Germany, the Netherlands and Denmark. Once again, we made no major company acquisitions due to the mismatch between the prices demanded by parties selling companies and the risks that accompany an acquisition in our labor-intensive industry. However, at mid-year, the remaining 40 % share of Marine Service International (MSI) was acquired from the minority shareholder and company founder.

During the reporting year, the Renewables business segment for the first time was able to generate a level of earnings that was no longer negatively affected by loss-making projects from the past. The result was a clear improvement in earnings. As in the previous year, the Ship business segment contributed stable positive earnings. The Oil & Gas and Industry/Infrastructure business segments made positive, albeit lower, contributions to earnings. The declines were partly project-related and partly attributable to a loss event that was caused by a supplier and affected especially the Oil & Gas segment.

We view the Oil & Gas and wind power (Renewables) business segments as particular growth markets for our company. We believe that the oil and gas industry has now begun to recover and that the situation will gradually return to normal and improve as the oil price continues to increase. Positive trends in investment and spending by oil and gas exploration companies confirm this assessment.

After some turbulent years, the Renewables segment is showing clear signs of more steady, stable growth. As a full-service provider which supports both wind power station manufacturers and offshore wind farm operators throughout the entire lifecycle of the equipment, we believe Muehlhan is very well positioned to benefit from growth in this exciting market.

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

We would like to thank our approximately 3,000 employees for their steadfast commitment in a challenging environment. We also want to thank our shareholders, partners and business associates, many of whom have placed their trust in us for many years. We hope that you will continue to accompany and support us on our journey, and we will do everything in our power to fulfill your expectations to the best of our abilities.

Hamburg, March 2018,

your Executive Board

Stefan Müller-Arends

Dr. Andreas C. Krüger

James West



Supervisory Board

Philip Percival
London, UK

Chairman of the Supervisory Board

Dr. Gottfried Neuhaus
Hamburg, Germany

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

Andrea Brandt (maiden name Greverath)
Hamburg, Germany

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

In 2017, Muehlhan continued the upward trend of recent years, achieving internal targets and fully satisfying expectations with €8.5 million of EBIT and an improvement in the EBIT margin from 2.7 % to 3.4 %. At €15.4 million, cash flow from operating activities also showed a positive trend. As expected, the Renewables segment – which posted losses in recent years due to unprofitable projects – managed to generate very positive earnings during the reporting year. The Ship segment made a stable positive contribution to earnings, while earnings contributions from the Oil & Gas and Industry/Infrastructure business segments, albeit positive, were lower than in the previous year. This was due to the project structure during the reporting year and to damage caused by a supplier that affected especially the Oil & Gas segment. Despite challenging market conditions in some places, we expect all business segments to continue their positive performance in the future.

The strategic challenges we face in our various markets did not change substantially in 2017 and will continue to occupy the Executive Board and Supervisory Board in the current financial year:

- The process of consolidation and shrinkage in Europe's maritime sector has largely run its course. For European shipyards, the loss of the standard shipbuilding industry and most of the repair business is permanent. Nevertheless, by focusing on the construction of specialty ships, in particular megayachts, cruise ships and naval vessels, and on orders from the wind energy industry, the shipyards have been able to ensure a sustainable level of capacity utilization. As a highly specialized and professional service provider that is known for its exceptionally strong organizational skills, Muehlhan will be able to benefit from this environment.
- Thanks to the slight increase in oil prices, the oil and gas market stabilized in 2017, with initial signs that this is positively affecting market participants' behavior in terms of investment and spending. We assume that the market will remain stable and that the positive trend will continue.
- In the wind power market, we also see a very positive trend that will have a positive impact on Muehlhan's future business. Muehlhan is very well positioned to expand its market position over the long term, having formed a company during the reporting year that turns it into a full-service provider for the wind power industry.
- In the Industry/Infrastructure segment, the Group's range of services was expanded regionally through three company acquisitions. In southwestern Germany, the purchase of a major blasting and coating hall gives the company access to industrial customers in the tri-state area where Germany, Switzerland and France meet. An asset deal in the Netherlands allowed the Group to reinforce its scaffolding business there and another asset deal in Denmark also expanded our Danish subsidiary's scaffolding service portfolio.

Focal points of Supervisory Board deliberations

As in previous years, in financial year 2017, the Supervisory Board performed the duties assigned to it by law and the Articles of Association. It regularly consulted with the Executive Board and carefully supervised its work. The Supervisory Board and the Executive Board remained in close contact, even between meetings. For example, the Chairman of the Supervisory Board regularly exchanged information about current business performance and major transactions with the Chairman of the Executive Board.

In 2017, the Executive Board's regular written and oral reports to the Supervisory Board concerning business developments within the Muehlhan Group and at Muehlhan AG once again formed the core of the cooperation between the two management bodies. Special attention continued to be given to the direction of the Muehlhan Group and to making adjustments to adapt to the current and expected future market situation. The Executive Board also provided the Supervisory Board with comprehensive reports regarding the financial position, earnings performance and short-term and medium-term business plans of Muehlhan AG and of the subsidiaries.

A total of seven meetings were held in 2017 and attended by the Executive Board: on 31 January, 21 March, 15 May, 7 June, 11 July, 18 October and 13 December 2017. At the meeting on 7 June, two Board members were excused; aside from that, all Supervisory Board members and Executive Board members attended the meetings. Regular topics of discussion at the Supervisory Board meetings included the trend in sales revenues, earnings and employment, as well as the financial position and liquidity trend of Muehlhan AG and the Group.

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

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

In addition to the regular issues, the following topics, in particular, were discussed in detail at the 2017 meetings of the Supervisory Board:

In addition to discussing the past financial year, the Supervisory Board meeting held on 31 January 2017 approved the takeover of the business activities of Degraform Bekistingen en Steigers BV in the Netherlands and the takeover of a division of ISS Evantec GmbH in Germany.

The main focus of the Supervisory Board meeting on 21 March 2017 was on the consolidated financial statements 2016 and the audit of the 2016 consolidated financial statements.

At the meeting held on 15 May 2017, the day before the Annual General Meeting, current results were discussed and preparations were made for the Annual General Meeting on the next day.

At the Supervisory Board meeting held on 7 June 2017, strategic topics were discussed.

Current results and trends were discussed at the Supervisory Board meeting on 11 July 2017.

The Supervisory Board meeting held on 18 October 2017 dealt with current results, strategic issues and the aforementioned loss event at the Dutch subsidiary.

The last Supervisory Board meeting of the year on 13 December 2017 discussed and approved the 2018 budget. The damage claim at the Dutch subsidiary was also discussed at this meeting.

No committees were set up.

Separate financial statements and consolidated financial statements

The separate financial statements and the management report for Muehlhan AG were prepared in accordance with the requirements of the German Commercial Code (HGB), while the consolidated financial statements and the Group management report were prepared in accordance with International Financial Reporting Standards (IFRS) in connection with § 315e of the German Commercial Code (HGB).

The Supervisory Board commissioned Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Hamburg, to audit the financial statements of Muehlhan AG and of the Group pursuant to the resolution adopted by Muehlhan AG's Annual General Meeting on 16 May 2017. Warth & Klein Grant Thornton has audited the consolidated financial statements for the period ending on 31 December 2017 and the Group management report for the financial year beginning on 1 January and ending on 31 December 2017 and the separate financial statements of Muehlhan AG for the period ending on 31 December 2017 and the management report for Muehlhan AG for the financial year beginning on 1 January and ending on 31 December 2017 and has given them an unqualified audit opinion. The audit focused on the following:

- Revenue recognition, especially for long-term construction contracts
- Trade receivables from construction contracts
- Valuation of trade receivables and the recognition and valuation of amounts held as security deposits by customers
- Recognition and measurement of income taxes
- Measurement of goodwill

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

Muehlhan AG's separate financial statements and the consolidated financial statements, the management report for Muehlhan AG's separate financial statements and the management report for the consolidated financial statements, the proposal for the use of unappropriated retained earnings and the associated audit reports were sent to each member of the Supervisory Board for their independent review. At the meeting on 20 March 2018, the Supervisory Board once again thoroughly discussed and reviewed all the documents in the presence of the auditors. Upon completion of this review, no objections were raised.

Based on the final results of its reviews, the Supervisory Board has no objections to the separate financial statements for Muehlhan AG and the consolidated financial statements prepared by the Executive Board, or the results of the financial statement audits, and it approves Muehlhan AG's separate financial statements and the consolidated financial statements dated 31 December 2017. The separate financial statements are therefore adopted. The Supervisory Board agrees with the proposal by the Executive Board regarding the appropriation of annual net income.

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

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

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

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

Acknowledgments and outlook

For the Muehlhan Group, financial year 2017 was another successful stage on the road to stable and sustainably profitable business performance. In addition to making improvements in project management, the Executive Board continued its successful work to diversify markets and services, laying a good foundation for facing future challenges.

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

Hamburg, March 2018,

Philip Percival
Chairman of the Supervisory Board of Muehlhan AG

02 Our Share

Scaffolding in Hamburg, Germany

Share price performs very well, increasing 53 % over the course of the year

Muehlhan's shares performed very well in 2017. At the very beginning of the year, there was a sharp increase in the share price, followed by a sideways movement. After publication of the 2016 Annual Report at the end of March 2017, the share price once again climbed significantly during the second quarter, briefly exceeding the €3.0 mark. The share price then ended trading at €2.938 on 30 June 2017, having increased by 67.9 % during the first half of 2017.

During the second half of the year, it basically followed a sideways movement with occasionally heavy trading. Profit-taking at the end of the year resulted in a slight decrease in the share price, which ended trading on 29 December 2017 at €2.680 per share. The share's performance over the year as a whole was quite positive, with an increase of 53.1 %.

As of the editorial deadline, Muehlhan AG's market capitalization stood at €57.7 million (XETRA closing price on 20 March 2017: €2.960).

Key figures for the share

Nominal (accounting) value	No-par-value bearer shares
Number of shares issued	19,500,000
Initial listing	26/10/2006
Issue price	€5.80
Highest price (XETRA) in 2017	€3.112
Lowest price (XETRA) in 2017	€1.762
Designated sponsor	equinet Bank AG, Frankfurt
Coverage	M.M. Warburg Research, Hamburg
Share buyback handled by	equinet Bank AG, Frankfurt
Market capitalization as of 31 December 2017 (XETRA: €2.680)	€52,260,000

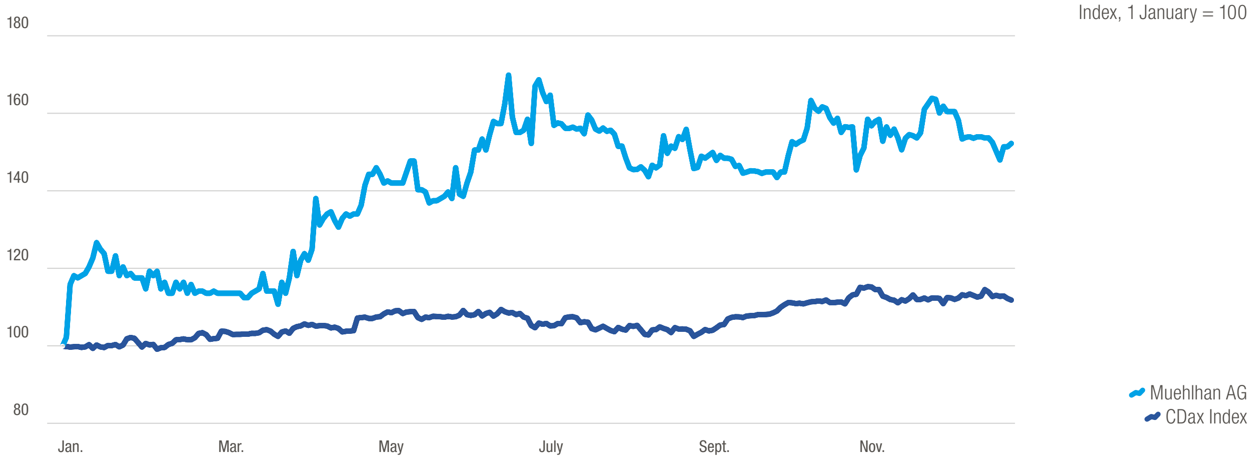
Since 1 March 2017, Muehlhan's share has been trading on the Basic Board of the Frankfurt Stock Exchange (formerly: the Entry Standard segment of the Frankfurt Stock Exchange).

Shareholder structure as of 31 December 2017

There were no material changes in the shareholder structure between 31 December 2016 and 31 December 2017. The founding family continues to own more than 50 % of the shares. Management also holds shares.

Share performance in 2017

Index, 1 January = 100



03 Group Management Report

Surface protection of components for generator housing for wind power stations in Cuxhaven, Germany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Scaffolding in Hamburg, Germany

I. Overview

In 2017, the Muehlhan Group continued its steady upward trend of recent years. While sales revenues decreased slightly (by €-6.6 million compared to 2016) to €247.7 million, EBIT jumped 23.9% to €8.5 million, increasing the EBIT margin from 2.7% to 3.4%. Consolidated annual net income increased by 64.0% to €4.6 million. After minority interests, the Group generated net income allocable to equity holders of €4.1 million in reporting year 2017, more than twice the prior-year figure. Cash flow from operating activities also showed a positive trend, increasing from €8.9 million in the previous year to €15.4 million.

The significant improvements in results in recent years underscore the value of the strategic measures implemented by management over the past few years. Slowly but surely, steady work on numerous operating parameters is also having an impact.

The strategic measures include focusing on growth markets and expanding and rounding out the array of services we offer in as many markets as possible. The acquisitions completed during the reporting year support both goals: our purchase of the remaining shares of the MSI Group and the establishment of Muehlhan Wind Service A/S will reinforce the growth markets Oil & Gas and Renewables (wind power). Smaller company acquisitions in the Netherlands, Germany and Denmark expand the portfolio of services we offer in those countries.

At the operations level, management is working on numerous parameters: more precise selection criteria for projects and the strict application of risk management measures will help to avoid project losses. Improved, system-based project controls will enable us to detect variations from the plan and to enact countermeasures at an earlier stage.

In the Oil & Gas segment, we expect the stabilization and largely positive trend we saw in 2017 to continue if the price of oil increases. As one of the longstanding full-service providers in this market, Muehlhan stands to benefit from this development.

The first few years were turbulent ones for the Renewables segment, but for some time now it has shown a clear trend toward steady, stable growth. As a full-service provider in this market which supports both wind power station manufacturers and offshore wind farm operators throughout the entire lifecycle of the equipment, Muehlhan is exceedingly well positioned for continued growth in the various submarkets in the future.

The Executive Board is confident that the Group's upward trend will continue in the future. Our confidence is based both on the greater resilience the Group has developed through strategic restructuring in recent years and on the increasingly wide range of services we offer. From an operating standpoint, our strict risk management and continuous improvements contribute to the Group's success.

II. Group Fundamentals

1. Group structure

Muehlhan AG (MYAG), Hamburg, is the holding company for a total of 34 directly and indirectly held companies in Europe, the Middle East, North America and the Rest of the World. Of this number, 32 companies are currently included in the consolidated financial statements.

Muehlhan AG is a listed corporation whose shares have been trading in the Frankfurt Stock Exchange's Open Market (previously: Entry Standard) subsegment since March 2017.

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

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

2. Services

The Muehlhan Group offers the following services:

Surface protection: Muehlhan provides surface protection services in all markets. These play a major role in protecting and maintaining maritime and industrial infrastructure. They include:

- cleaning and steel preparation,
- a wide array of blasting processes, including ultra-high-pressure water-jet blasting, dry blasting, ultra-high-pressure wet blasting and sponge-jet blasting,
- surface metallization,
- using paint systems and adhesive films to coat surfaces.

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

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

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

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

With the establishment of the Danish subsidiary Muehlhan Wind Service A/S, Middelfart, Denmark, Muehlhan also began offering a full range of services for wind power stations this year. The company's portfolio includes assembly work, installation, services, electrical work and surface protection.

III. Objectives and Strategy

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

1. Focusing on expanding the Oil & Gas and Renewables business segments

A major part of the strategy is shifting business away from maritime surface protection to the Oil & Gas and Renewables (wind power) business segments. The phase of low oil prices in recent years has had a deep impact on the value chain in the oil and gas industry. Because of the oil price increase in 2017 and the resulting increase in investment activity by exploration companies, as well as adjustments to the market situation, Muehlhan continues to see potential for expanding the company's position in this market. The market for renewable energy sources, in particular the offshore wind power segment, will open up new growth areas for Muehlhan in Europe. Muehlhan is working to expand its position as a recognized specialist in surface protection and to leverage its position as a full-service provider – both for wind power station manufacturers and offshore wind farm operators – so that it can benefit from growth in this market.

2. Adjustment and expansion of the range of services offered

Expanding the Oil & Gas, Renewables and Industry/Infrastructure business segments requires adjusting and expanding the range of services offered. In the maritime sector, customers normally want surface protection as a standalone service, whereas the oil and gas markets and industrial customers generally demand a complete package of services that includes scaffolding, insulation, surface protection, fire protection, industrial cleaning and non-destructive materials testing. In the Renewables segment, major wind power station manufacturers and wind farm operators are also looking for companies that can offer the broadest possible array of services from a single source. In order to satisfy the new requirements, where it is possible and makes sense, Muehlhan is expanding its range of services, adapting them to meet customer needs and improving connections between individual services in order to provide customers with an optimal package of services. An example is the establishment of our subsidiary Muehlhan Wind Service A/S in Denmark, which enables us to significantly expand the range of services Muehlhan offers in the wind power station segment.

3. Profitability and leading market position

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

During the reporting year, Muehlhan grew both organically and through acquisitions. Muehlhan Wind Service A/S in Denmark and Ruwad Al Athaiba International LLC in Oman are start-up companies. We also acquired the Dutch company Degraform Bekistingen en Steigers BV, the business operations of ISS Evantec GmbH in Wyhlen, Germany, and the Danish company Stjerne Stilladser A/S, as well as the remaining 40 % of the shares of the MSI Group. All growth measures are subject to the same strict criteria as existing commitments.

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

4. Quality, safety and environmental protection

Along with traditional customer requirements such as price, efficiency and productivity, short project turnaround times and reliable implementation, other increasingly important competitive criteria include extensive and proper documentation of the steps involved in implementing and completing a major project and compliance with all legal provisions regarding environmental protection and occupational safety. Muehlhan does everything in its power to ensure that it is always in compliance with all provisions regarding environmental protection and occupational safety and to reduce accidents to a minimum. These goals are accomplished through effective, regular training and a proactive approach in every segment.

All of this has been combined into the Muehlhan Group's integrated management system, which is ISO 9001:2015, DIN EN ISO 14001:2015 and OHSAS 18001:2007 certified on a regular basis by Bureau Veritas.

This enables Muehlhan to satisfy constantly increasing worldwide customer demands and government regulatory requirements in the areas of quality, on-time delivery, occupational safety, accident prevention and sustainable environmental protection – and therefore competitiveness – at all times. In addition, Muehlhan practices fair forms of communication in line with legal standards with its employees and sub-contractors.

5. Financial stability and strong organizational skills

The key characteristics that distinguish the Group from its competitors are its financial stability, financial flexibility for growth initiatives and strong organizational skills. The Group works hard to maintain a stable financial position at all times and to expand it over the long term. From our customers' standpoint, Muehlhan is a reliable, financially stable partner that can be trusted with a major project. This allows us to constantly improve our strong organizational skills and to take better advantage of synergy and best-practice effects.

IV. Control of the Group

1. Financial and non-financial performance indicators

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

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

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

2. Regions

The Muehlhan Group currently operates on three continents. The Group has 18 subsidiaries in **Europe.** In the **Middle East,** the Muehlhan Group has three operating companies in the United Arab Emirates, Qatar and Oman and is preparing to expand its activities in the region. In **North America,** Muehlhan operates mainly in the states on the West Coast. The region **Rest of the World** refers mainly to the two subsidiaries of MSI that are working on offshore oil rigs off the coasts of Brazil and Africa.

3. Business segments

The **Ship** segment encompasses both the Ship Newbuilding segment and the Ship Repair segment in Europe. The process of consolidation and shrink-

Steel bridge construction in Poland

age in this market has largely run its course. The loss of the standard shipbuilding industry and most of the repair business is permanent. The remaining shipyards concentrate on building specialty ships, in particular megayachts, cruise ships and naval vessels, and in this way have been able to ensure a sustainable level of capacity utilization. Muehlhan provides shipping companies and shipyards with high-grade surface coatings for newbuilds and a wide array of surface coating maintenance and renovation services, ranging from last-minute repair work on exterior walls to the complete restoration of water, ballast, fuel and cargo tanks.

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

Muehlhan provides surface protection services to the growing market for **Renewables** – i.e., renewable energy from offshore and onshore wind farms – especially for wind power stations and transformer platforms. In recent years, the Group has become a specialist provider of surface protection for wind towers and thus a coveted partner for leading wind power station manufacturers. Since 2017, Muehlhan has been a full-service provider in this area, offering additional services such as installation and service work.

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

V. Research and Development

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

Muehlhan views itself as a market leader in the area of surface protection technology. In addition to holding numerous patents and licenses, the Group is actively working on products and equipment aimed at further developing sustainable, environmentally friendly surface protection techniques. The Group has two employees working on a full-time basis in this area and brings in other employees when needed. In addition, the Group works closely with renowned research institutes and other specialized third-party companies. R&D expenses totaled €0.3 million and consisted mainly of personnel expenses.

VI. Economic Report

1. Macroeconomic conditions

The global economy has recovered from years of recession and is currently enjoying an upswing. The global economy grew by around 3.6 % in 2017, more than in the previous year (3.2 %). While output in the USA increased 2.2 % (previous year: 1.5 %), Germany achieved a 2.0 % increase (previous year: 1.9 %) and China reported a 6.8 % increase in production (previous year: 6.7%).[1]

After experiencing the lowest increase last year since the financial crisis, global economic growth increased substantially in 2017 to 3.6 %. In particular, Europe, Japan, Russia and the emerging economies in Asia are showing signs of improvement, more than offsetting negative trends such as the developments in the UK. Nevertheless, the effects of the financial crisis have not yet been fully overcome, as demonstrated, for example, by the historically low level of interest rates. Geopolitical trouble spots, especially in the Middle East, as well as hard-to-predict political decisions in the USA also influence global economic growth.

During reporting year 2017, the price of oil recovered. After dropping to a low of around $30/barrel at the end of 2015/beginning of 2016 and increasing to around $57/barrel by the end of 2016, the oil price increased significantly in the second half of 2017, trading at around $66/barrel on 31 December 2017. This was, in part, attributable to tensions in the Kingdom of Saudi Arabia.

[1] International Monetary Fund: Global Economic Outlook, October 2017

The global economy is expected to grow by about 3.7% in the coming year. The USA is expected to see growth of around 2.3 %, somewhat higher than the Eurozone, where a 1.9 % increase is expected. In China, economic growth is expected to be slightly lower, because the expansionary fiscal and monetary measures implemented in recent years will have an adverse impact on the long-term goal of creating sustainable growth. In the emerging economies, growth is expected to resume, despite persistently high risks.

OPEC and other countries such as Russia have largely implemented the plan to cut oil production adopted at the end of 2016, and at the end of 2017 they resolved to extend the cut until the end of 2018. However, the simultaneous increase in oil production in the USA guaranteed that the markets would be supplied with plenty of crude oil. Consequently, only a moderate increase in the oil price is expected in 2018.[2]

It should be noted that, given the changes in the current political landscape, all forecasts of future trends are subject to particularly high levels of uncertainty. Geopolitical developments in the Middle East, in particular, as well as hard-to-predict political developments in the USA, such as the tax reform passed just before the end of 2017, may affect the year 2018.

2. Industry-specific conditions

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

The price of oil, which continues to be low when compared to the level over the past ten years, also presented major challenges during the reporting year to all companies that are dependent on the **Oil & Gas** industry. Cost-cutting measures, including job cuts and postponements of capital expenditures and maintenance work, increased pressure on margins throughout the value chain. In the meantime, oil exploration companies have adapted to the new market conditions. These adjustments and a higher oil price have led to the first investment activity after two years of an almost complete halt to capital expenditures.

As a supplier to this market, Muehlhan has also adapted its organization to the realities of lower demand and higher cost pressures and believes that it is now well equipped to benefit from a resurgence in investment activity.

[2] Kiel Institute for the World Economy: Kiel Economic Reports, Global Economy, Winter 2017

In the **Renewables** segment, the installed capacity of wind power stations in Germany stood at more than 55 GW in 2017, with the contribution from offshore facilities exceeding 5 GW for the first time. The segment's performance in other European countries was similarly positive.[3] The positive trend is expected to continue in 2018 – an opportunity for Muehlhan to capitalize on its extensive experience in surface protection, scaffolding and steel construction. In addition, the establishment of Muehlhan Wind Service will offer growth potential in the installation and service business.

The **Industry/Infrastructure** segment provides services to a variety of markets and customers. In the construction sector, Muehlhan has provided scaffolding and passive fire protection services, primarily in the Middle East and Europe. The Group's local subsidiary in the USA is benefiting from a multi-billion-dollar program to repair the steel bridges that are common there, which require new corrosion protection coatings.

3. Business trend

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

3.1. Results of operations

3.1.1. Group's earnings performance

For the Muehlhan Group, 2017 performance was positive and in line with expectations. During the reporting year, sales revenues totaled €247.7 million, 2.6 % lower than in the previous year. The slight decline in sales was attributable to the relatively high number of major projects and the focus on profitability.

The cost of materials and purchased services dropped by a substantial 17.2 % from €96.0 million to €79.6 million. By contrast, there was a disproportionately low (9.7%) increase in personnel expenses to €116.4 million. The shift in expenses to personnel expenses was the result of the increased use of company employees in order to ensure consistently high quality. Moreover, in the countries in which Muehlhan has acquired and founded companies – in the Netherlands, Germany and Denmark –, wages and salaries are disproportionately high compared to the average Group wage or salary. EBITDA (earnings before interest, taxes, depreciation and amortization) rose 12.5 % from €14.2 million to €16.0 million.

Because of the high level of capital expenditures in the previous year and in the reporting year, depreciation and amortization increased slightly, from €7.4 million to €7.5 million.

After taking into account other operating income and expenses, EBIT from continuing business segments increased by €1.6 million year-on-year to €8.5 million. In addition to an improved market environment, the increase

[3] The Fraunhofer Institute's "Wind Monitor"

in EBIT reflected the benefits to Muehlhan from the operating improvements introduced in recent years and from using more selective criteria to screen projects in order to reduce the risk of project losses. The €8.5 million of EBIT generated by continuing business segments was at the upper end of the projected earnings range of €6.5 million to €8.5 million (previous year: €5.0 million to €7.0 million) published by the Executive Board.

The financial result deteriorated by €0.7 million to €-2.2 million, mainly because of the first-time discounting of project-related security deposits and accruals and deferrals. Without this effect, the financial result would have been slightly higher than in the previous year.

As in the previous year, the Singapore business segment was shown separately in accordance with IFRS 5. The companies were deconsolidated during the reporting year. Due to administrative expenses, the business segment reported a net loss of €0.1 million.

Consolidated annual net income increased by €1.8 million to €4.7 million, of which €0.6 million was attributable to non-controlling interests (previous year, €0.9 million), leaving €4.1 million of net income allocable to equity holders of Muehlhan AG (previous year: €1.9 million).

3.1.2. Results of operations, by region

A regional review shows that sales revenues in **Europe** increased by 3% from €186.2 million to €192.5 million in the reporting year. Despite the damage caused by a supplier in the Netherlands, the successful completion of major projects, operating improvements and the reduction in project losses led to a further improvement in profitability, with EBIT increasing from €4.9 million in the previous year to €7.5 million in the reporting year.

In the **Middle East** – which for Muehlhan's purposes includes the United Arab Emirates, Qatar and, since 2017, Oman – there was a steep €9.0 million drop in sales revenues to €20.8 million, compared to the situation in recent years in which major projects had resulted in significant increases in sales revenues. One key reason for the decrease is the fact that the Emirate of Qatar is being blockaded by neighboring countries, resulting in significant delays and cancellations of construction projects. By contrast, this region's EBIT almost tripled to €1.3 million, because in the previous year earnings had been negatively affected by non-recurring items such as the recognition of impairment losses for receivables and inventories.

In **North America,** business lagged behind the previous year, with sales revenues declining by €5.8 million year-on-year to €21.1 million in the reporting year. The decrease was due to the completion of the major contract to renovate the Richmond Bridge in San Francisco at the beginning of the year. The follow-up project – renovation of the Rio Vista Bridge in the San Francisco metropolitan area – only started at the end of the year. Sales revenues in the refinery business were within the expected range. EBIT rose by a total of €0.8 million to €2.1 million.

In the **Rest of the World,** oil and gas projects generated €13.2 million of sales revenues (previous year: €11.4 million) and €1.4 million of EBIT (previous year: €1.6 million).

3.1.3. Results of operations, by business segment

In the **Ship** business segment, sales revenues decreased, as expected, from €63.5 million in the previous year to €56.2 million. The decrease was caused by the completion of some major projects and more selective criteria for screening follow-up projects as part of our strict risk management approach. Profitability increased, as demonstrated by the increase in EBIT from €5.0 million in the previous year to €5.7 million.

The **Oil & Gas** business segment managed to increase sales revenues from €63.2 million in 2016 to €73.3 million in 2017 thanks to a slightly improved market environment. High pressure on margins in the industry, the negative impact of the mentioned damage suffered in the Netherlands and negative foreign currency effects brought about a significant €4.5 million decrease in EBIT to €2.0 million.

In the **Renewables** business segment, sales revenues decreased slightly (by €1.4 million) to €32.6 million. EBIT, on the other hand, increased by €5.5 million to €3.0 million. The significant improvement in earnings was attributable both to operating improvements and to the completion of two major loss-making projects.

The **Industry/Infrastructure** business reported an €8.1 million decrease in sales revenues to €85.5 million, compared to the situation in the previous year, when it posted exceptionally high sales revenues from several major contracts, including in the USA. Due to project-related reasons, EBIT also dropped year-on-year from €3.3 million to €2.3 million.

3.1.4. Orders on hand

As of the reporting date, the order book had more than doubled to €215 million compared to the previous year. This was mainly the result of a framework agreement signed with the the oil and gas production company Maersk Oil in March 2017 covering a fabric maintenance program with a five-year term and an order backlog of €96.0 million as of the reporting date.

3.1.5. Employees

The average number of employees stood at 2,929, almost unchanged from the previous year (2,881 employees).

3.1.6. Accident rate

As non-financial performance indicator Muehlhan uses the accident rate, an internal accident statistic which is defined as the number of accidents per 1 million working hours. The working environment and the demands on Muehlhan's employees are not without risks; consequently, while Muehlhan can apply a broad set of measures to reduce occupational accidents, it cannot eliminate them entirely. During the reporting year, 45 accidents were reported, yielding an accident rate of 5.5 (previous year: 5.0). Compared to other companies with similar working conditions and risks, these figures are low.

3.2. Net assets and financial position

3.2.1. Capital structure

The Muehlhan Group's financing is supported by its strong capital base. As of the reporting date, the Group's equity had increased slightly to €65.3 million (previous year €63.7 million, adjusted). Because total assets decreased by €1.0 million to €145.5 million, the equity ratio increased slightly to 44.9 % (previous year: 43.5 %, adjusted). Trade and other payables totaled €41.5 million (28.6 % of total equity and liabilities; previous year: €46.1 million, or 31.5 % of total equity and liabilities, adjusted). Financial liabilities amounted to €31.8 million (21.8 % of total equity and liabilities; previous year: €26.3 million; 17.9 % of total equity and liabilities). Financial liabilities consisted mainly of borrowings totaling €25.6 million under the syndicated loan agreement, €12.0 million of which is current and €13.6 million of which is non-current. The non-current portion of financial liabilities under the syndicated loan agreement and other bank loans totaled €14.1 million. After deducting cash and cash equivalents, net debt totaled €23.0 million (previous year: €17.8 million).

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

3.2.2. Capital expenditures

During the reporting year, Muehlhan invested €13.7 million in intangible assets and property, plant and equipment (previous year: €9.4 million). The capital expenditure funds were used mainly to buy scaffolding materials in Germany and to acquire companies in the Netherlands and Denmark. In the USA, the company invested in replacements and more environmentally friendly equipment. It also spent €4.4 million to purchase the remaining 40 % of the MSI Group.

3.2.3. Liquidity

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

The Group's €15.4 million of cash flow from operating activities was considerably higher than the prior-year level of €8.9 million.

During the financial year, Muehlhan invested a total of €13.2 million in property, plant and equipment (previous year: €9.2 million). Cash used in financing activities amounted to €1.5 million (previous year: cash flow from financing activities totaled €0.2 million). On the reporting date, cash and cash equivalents stood at €8.8 million, i.e., €0.3 million higher than in the previous year (€8.5 million). Unutilized overdraft and guarantee facilities totaled €71.8 million on the reporting date (previous year: €79.0 million). Thus, in 2017, the Muehlhan Group was at all times in a position to satisfy its payment obligations.

3.2.4. Net assets

As of the reporting date, non-current assets (excluding deferred tax assets) totaled €61.7 million, compared to €53.7 million the previous year. The increase reflected capital expenditures for property, plant and equipment and the first-time recognition of project-related customer security deposits as non-current assets. Property, plant and equipment totaled €37.0 million (previous year: €33.7 million), yielding a fixed-assets-to-total-assets ratio of 25.4 % (previous year: 23.0 %), including scaffolding with a carrying amount of €19.1 million (previous year: €14.2 million). Non-current assets (excluding deferred tax assets) accounted for 42.4 % of total assets (previous year: 36.7%). On the reporting date, trade receivables stood at €57.3 million (39.4 % of total assets) and were therefore €10.5 million lower than in the previous year (€67.8 million; 46.3 % of total assets). The decrease reflected better receivables management and the change in the accounting treatment for project-related security deposits.

3.2.5. Overall statement on the Group's situation

To summarize, business was positive during the reporting year. The strategic and operating measures implemented in recent years have resulted in an improvement in consolidated net income and a balanced asset and capital structure. Cash flow from operating activities also improved.

VII. Events after the Reporting Date

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

VIII. Forecast and Report on Opportunities and Risks

1. Forecast report

1.1. Forecast by region

In **Europe,** we expect a slight project-related decrease in sales revenues in 2018, in part because we are applying more selective project screening criteria. At the same time, however, this will have a positive effect on EBIT.

In the **Middle East,** we expect sales revenues to increase in 2018, after decreasing in the reporting year. The lower sales in Qatar caused by the political situation will presumably persist, requiring us to consider whether to remain in that country. However, the performance in Qatar is likely to be more than offset by higher sales revenues in Dubai and, especially, by new business in Oman. EBIT will improve accordingly.

In **North America,** we expect a slight increase in sales revenues to be accompanied by lower EBIT. The expected decrease in EBIT is project-driven. Because Muehlhan regularly participates in tenders for bridge construction and renovation projects, winning a contract may lead to substantial changes in the original budget and may affect EBIT accordingly.

In the **Rest of the World,** sales revenues and EBIT are expected to remain constant.

1.2. Forecast by business segment

In the **Ship** business segment, operating measures and more selective project screening criteria have been implemented. After some rough years, the market has consolidated. We therefore expect sales revenues to be at the same level as in 2017 while earnings will decrease slightly for project-related reasons.

In the **Oil & Gas** segment, 2018 sales revenues are expected to decline after a strong showing in 2017, but this should be offset by an increase in EBIT. Because this segment is highly dependent on the price of oil, a significant change in the oil price can result in significant deviations from the plan.

In the **Renewables** business segment, both sales revenues and EBIT are expected to increase slightly. In this fast-growing market, major orders and new projects may have a negative impact on earnings in the short term due to capital expenditures, but should result in significant improvements in earnings over the medium term.

In the **Industry/Infrastructure** business segment, sales revenues are expected to be higher than in 2017. EBIT is projected to be slightly higher than in 2017.

1.3. Acquisitions

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

1.4. Group forecast

In summary, the Executive Board and the Supervisory Board expect profitability to further improve in 2018. Management expects Group sales revenues to remain at around €250 million, the same level as in the reporting year, with Group EBIT increasing slightly to between €8.5 million and €9.5 million.

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

As a project business service provider, Muehlhan cannot completely eliminate exposure to risks that reduce earnings. These may be operating or strategic risks. Operating risks are an unavoidable part of our business. We counter such risks through an appropriate risk management system. Strategic risks result from changes in external factors to which we did not respond properly in a timely manner in the past or to which it was impossible to respond. We counter such risks by taking decisive corrective actions; however, such actions may entail non-recurring expenses. Emblematic of these are the trend in the Asian shipyard market and, specifically, the withdrawal from Singapore in 2015. The Muehlhan Group took such strategic corrective measures into account on the reporting date, in accordance with IFRS accounting rules. Based on currently available information, we do not expect any further significant strategic corrective actions to be necessary in the future. However, one should keep in mind that the company may need to make further adjustments if the economic environment in specific markets should deteriorate.

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

2. Risk management system

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

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

2.2. Maintaining a functioning risk management system

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

The Executive Board regularly notifies the Supervisory Board about the company's ongoing business activities and significant risks.

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

3. Discussion of major individual risks and associated opportunities

3.1. Market and competitor risks and opportunities

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

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

3.2. Risks and opportunities of strategic importance to the company

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

3.3. Risks and opportunities associated with economic performance

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

Where technically feasible, Muehlhan uses steel grid for surface-preparation blasting. Muehlhan would be directly affected by an increase in the price of this process material, but even here only to a very limited extent, since this material can be recycled. There would continue to be a price advantage over a non-reusable material such as copper slag. A previously unimaginable risk hit the Dutch group company in the final quarter of 2017. Along with numerous other companies in the industry, it was supplied with blasting grit that was contaminated with asbestos. As a result, the holding company, with outside assistance, is currently evaluating preventive measures in order to avoid any repetition in the future to the extent possible.

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

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

3.4. Personnel risks and opportunities

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

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

3.5. Financial risks

The companies of the Muehlhan Group also work at fixed prices and sometimes carry out a large portion of their services in advance of payment. Our customers expect this type of (pre-)financing, which has developed into a major component of the services we offer. When the financial crisis started, customers began increasingly to exceed our already generous payment terms, especially in the Middle East; such customer credits have remained at an unacceptably high level ever since. Muehlhan operates in the project business. With major projects, there is always a risk that the contractor will suffer a loss and become insolvent. In Muehlhan's case, this especially affected shipyards in the past. As a result, Muehlhan carefully reviews customers' liquidity situation before accepting orders, manages receivables in a regular, systematic way and insures credit risks on a case-by-case basis, to the extent they are insurable. We plan to continue this practice in the future. However, as was the case in the reporting year, bad-debt losses – including large losses – cannot be ruled out.

Short-term utilizations of overdraft facilities are subject to variable interest and the normal risk of interest-rate fluctuations.

The Master Syndicated Loan Agreement renewed in July 2017 entails the risk that future variable-rate interest payments will change, with corresponding negative effects on the company's cash flows. Muehlhan countered the risk by entering into an interest-rate cap with the same maturity that limits negative effects on cash flow to a certain amount. As of the reporting date, the interest-rate cap had a total volume of €18.0 million and therefore covered a significant portion of the €26.0 million utilized under the loan facility and/or the associated risks as of the reporting date. Failure to comply with the ratios ("covenants") contained in the Master Syndicated Loan Agreement would also entail risks. There are no indications that the covenants cannot be complied with in full at all times.

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

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

Appropriate liquidity planning systems are used to deal with risks from cash flow fluctuations at an early stage.

3.6. Company-specific risks and opportunities

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

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

3.7. Legal and litigation risks

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

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

IX. Legal Disclosures

1. Existing branch offices

In Germany, in addition to subsidiaries, the Muehlhan Group maintains operating facilities via the Polish subsidiary, Muehlhan Polska Sp. z.o.o., Szczecin. In addition, the Polish company maintains operating facilities in France and Denmark. The Cypriot subsidiary, Muehlhan Cyprus Limited, Limassol, has a stand-alone branch office in Greece.

2. Relationships with affiliated companies

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

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

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

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

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

Hamburg, 20 March 2018,

the Executive Board

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

04 Consolidated Financial Statements

Transport vessel for offshore wind power stations in Esbjerg, Denmark


BOLD TERN
Olsen Windcarrier

CONSOLIDATED BALANCE SHEET

ASSETS in kEUR	Notes	31/12/2017	31/12/2016	01/01/2016
NON-CURRENT ASSETS				
Intangible assets	1	20,245	19,958	20,369
Property, plant and equipment	1, 2	36,974	33,733	32,675
Financial assets	24	30	30	30
Other non-current assets	3, 24	4,454	0	0
Deferred tax assets	4	3,944	3,902	3,094
Total non-current assets		**65,647**	**57,623**	**56,168**
CURRENT ASSETS				
Inventories	5	4,080	4,361	5,881
Trade receivables	6, 24	57,303	67,818	54,480
Cash and cash equivalents	7, 24	8,766	8,476	8,780
Income tax receivables	8	1,409	2,433	1,143
Other assets	9, 24	8,253	5,602	9,006
Total current assets		**79,811**	**88,690**	**79,290**
Non-current assets and disposal groups held for sale	10	0	141	2,494
TOTAL ASSETS		**145,458**	**146,454**	**137,952**

Rounding differences may occur.

EQUITY AND LIABILITIES in kEUR	Notes	31/12/2017	31/12/2016*	01/01/2016*
EQUITY	11			
Subscribed capital		19,500	19,500	19,500
Capital reserve		13,694	13,555	14,149
Treasury shares		-355	-708	-1,535
Other reserves		6,416	7,010	7,262
Retained earnings		23,630	20,614	19,204
Non-controlling interests		2,385	3,698	2,928
Total equity		**65,270**	**63,669**	**61,508**
NON-CURRENT LIABILITIES				
Pension provisions	12	755	635	806
Non-current financial liabilities	13, 14, 24	14,068	14,321	15,271
Other non-current liabilities		25	0	4,440
Deferred tax liabilities	4	934	1,149	0
Total non-current liabilities		**15,782**	**16,105**	**20.517**
CURRENT LIABILITIES				
Provisions	15	4,122	7,081	2,183
Current financial liabilities	13, 14, 24	17,685	11,954	8,476
Trade payables	16, 24	22,442	22,564	24,145
Liabilities for current income tax	8	1,059	1,439	1,028
Other current liabilities	17, 24	19,098	23,513	17,576
Total current liabilities		**64,406**	**66,551**	**53,408**
Liabilities directly associated with non-current assets held for sale	10	0	129	2,519
TOTAL EQUITY AND LIABILITIES		**145,458**	**146,454**	**137,952**

* adjusted, see Notes, Section VI. Consolidation methods, Changes pursuant to IAS 8

Rounding differences may occur.

CONSOLIDATED INCOME STATEMENT FOR FINANCIAL YEAR 2017

in kEUR		Notes	2017	2016
Sales revenues		18	247,718	254,326
Other operating income		21	10,271	5,317
Cost of materials and purchased services		19	-79,560	-96,039
Personnel expenses		20	-116,387	-106,058
Depreciation and amortization			-7,500	-7,362
Other operating expenses		21	-46,013	-43,302
Profit from operations (EBIT)			**8,529**	**6,882**
Financial result		22	-2,156	-1,486
Earnings before taxes			6,373	5,396
Tax result		23	-1,645	-2,784
Earnings from continuing operations			4,728	2,612
Earnings from discontinued operations		10	-75	225
Consolidated annual net income			**4,653**	**2,837**
of which attributable to				
non-controlling interests			579	858
equity holders of Muehlhan AG			**4,074**	**1,979**
EARNINGS PER SHARE IN EUR		25		
Shares	number		19,211,021	19,046,566
in continuing operations				
basic			0.22	0.09
diluted			0.22	0.09
in discontinued operations				
basic			0.00	0.01
diluted			0.00	0.01

Rounding differences may occur.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in kEUR	Notes	2017	2016
Consolidated annual net income	26	**4,653**	**2,837**
Recyclable items			
Currency translation differences (legally independent entities abroad)		-2,525	547
Currency translation differences reclassified to the consolidated income statement		271	-15
Future cash flow hedge (effective cash flow hedge)		-74	3
Non-recyclable items			
Remeasurement of defined benefit plans		26	11
Other comprehensive income		**-2,302**	**546**
Income taxes on other comprehensive income		24	-4
Other comprehensive income after taxes		**-2,277**	**542**
Total comprehensive income		**2,376**	**3,380**
of which attributable to non-controlling interests		508	1,054
Equity holders of Muehlhan AG		**1,868**	**2,326**
Total comprehensive income from continuing operations		2,376	3,380

Rounding differences may occur.

CONSOLIDATED CASH FLOW STATEMENT

in kEUR	Notes	2017	2016
Consolidated net income to equity holders of Muehlhan AG	27	4,074	1,979
Depreciation of fixed assets		7,500	7,362
Gain/loss from disposal of fixed assets	1, 2	-239	20
Non-cash expenses/income from the allocation of gains/losses to non-controlling interests		579	858
Other non-cash expenses/income		1,464	5,327
Decrease/increase in provisions	15	-2,767	4,739
Cash flow		**10,611**	**20,286**
Decrease/increase in inventories, trade receivables and other assets	5 ff	7,120	-7,244
Decrease/increase in trade payables and other liabilities	16 ff	347	-810
Income taxes paid	23	-2,671	-3,353
Cash flow from operating activities		**15,407**	**8,879**
from discontinued operations	10	-138	-185
Proceeds from disposals of fixed assets			
for property, plant and equipment		576	193
Capital expenditures			
for intangible assets	1	-484	-205
for property, plant and equipment	2	-13,171	-9,156
Interest received	22	71	268
Cash used in investment activities		**-13,008**	**-8,899**
from discontinued operations	10	0	0
Payments to company owners and non-controlling shareholders (dividends)		-1,152	-796
Payments for acquisition of non-controlling interests		-4,447	0
Cash flow from borrowings under/cash used to repay current financial liabilities*	13, 27	5,966	3,479
Cash used to repay non-current financial liabilities*	13, 27	-183	-949
Interest paid	22	-1,648	-1,562
Cash flow from/cash used in financing activities		**-1,464**	**171**
from discontinued operations	10	0	0
Currency, scope of consolidation and valuation-related changes in cash and cash equivalents		-645	-455
Total changes in cash and cash equivalents		290	-305
Cash and cash equivalents at the beginning of the period	7	8,476	8,780
Cash and cash equivalents at the end of the period	7	**8,766**	**8,476**

*Proceeds and payments are shown on a net basis. Unnetted amounts are explained in the notes to the consolidated financial statements.

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

Rounding differences may occur.

CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

	Equity applicable to equity holders of the parent company					
	Subscribed capital	Capital reserve	Other reserves			
in kEUR			Retained earnings	Conversion reserve	Cash flow hedge reserve	Currency translation adjustments
On 31/12/2015	**19,500**	**14,149**	**9,785**	**589**	**-14**	**1,342**
Adjustment pursuant to IAS 8			-4,440			
On 01/01/2016	**19,500**	**14,149**	**5,345**	**589**	**-14**	**1,342**
Issue of shares						
Changes in treasury shares						
Contribution to share-based payment		22				
Dividends paid						
Other changes		-616	-406			-192
Total comprehensive income			8		2	337
On 31/12/2016	**19,500**	**13,555**	**4,947**	**589**	**-12**	**1,486**
Issue of shares						
Changes in treasury shares			-113			
Contribution to share-based payment		138				
Dividends paid						
Changes in non-controlling interests			1,811			11
Other changes		1	-96			
Total comprehensive income			25		-49	-2,183
On 31/12/2017	**19,500**	**13,694**	**6,574**	**589**	**-61**	**-686**

Rounding differences may occur.

			Non-controlling interests	Group equity
Retained earnings	Treasury shares	Equity		
19,204	**-1,535**	**63,020**	**2,928**	**65,949**
		-4,440		-4,440
19,204	**-1,535**	**58,580**	**2,928**	**61,509**
			1	1
	211	211		211
		22		22
-762		-762	-34	-796
192	616	-406	-251	-657
1,979		2,326	1,054	3,379
20,614	**-708**	**59,971**	**3,698**	**63,669**
			1	1
	353	240		240
		138		138
-1,152		-1,152	-147	-1,299
		1,822	-1,674	148
94		-1		-1
4,074		1,867	508	2,375
23,630	-355	62,885	2,386	65,271

I. Company

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

The company is headquartered at Schlinckstrasse 3, 21107 Hamburg, Germany, and is recorded in the Commercial Register at the Hamburg Municipal Court under HRB 97812.

Steel construction in Szczecin, Poland

II. Application of IFRS

The consolidated financial statements of MYAG as of 31 December 2017 were prepared in accordance with the International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB), as adopted by the European Union, including the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the complementary provisions of German commercial law applicable under Article 315a, paragraph 1 of the German Commercial Code (HGB).

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

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

III. General comments

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

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

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

Offshore transformer platform in Saint-Nazaire, France

IV. New accounting standards

The consolidated financial statements covering the period ending on 31 December 2017 are in compliance with all the mandatory IFRSs and IFRIC interpretations adopted by the EU Commission whose application is mandatory as of the reporting date.

These are listed below:

Standard/Interpretation	Note	Effective date	Effect
Amendments to IAS 7 Statement of Cash Flows	Disclosure Initiative; clarifications to improve disclosures about an entity's financing activities	01/01/2017	additional presentation in the notes
Amendments to IAS 12 Income Taxes	Clarifications on the recognition of deferred tax assets for unrealized losses	01/01/2017	no material effect
Annual Improvements to IFRSs 2014–2016 Cycle	Amendments and/or clarifications on IFRS 12 Disclosure of Interests in Other Entities	01/01/2017	no material effect

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

Standard/Interpretation	Note	Effective date	Effect
Annual Improvements to IFRSs 2014–2016 Cycle	Amendments and/or clarifications on IAS 28 Investments in Associates and Joint Ventures and IFRS 1 First-time Adoption of IFRS	01/01/2018	no material effect
Amendments to IFRS 2 Share-based Payment	Clarifications on the classification and measurement of certain share-based payment transactions	01/01/2018	no material effect
IFRS 9 Financial Instruments	Final version of the new rules for financial instruments, including significant updates on creating a new classification model and impairment rules	01/01/2018	detailed description following overview table
IFRS 15 Revenue from Contracts with Customers	Revision of the approach for recognizing sales revenues from customer contracts. The revenue recognized by a company is equal to the amount it can expect in exchange for transferring goods and services to a customer. The standard also stipulates requirements for the disclosure of performance surpluses or obligations at contract level (recognition of contract assets and liabilities). IFRS 15 also requires additional disclosures, including a breakdown of total sales revenues, performance obligations, reconciliation statements and the main assumptions and estimates.	01/01/2018	detailed description following overview table
Amendments to IFRS 15 Revenue from Contracts with Customers	Clarifications on IFRS 15	01/01/2018	detailed description following overview table
IFRS 16 Leases	New lease accounting standard affecting recognition, presentation and disclosures in the notes. In contrast to IAS 17, IFRS 16 will result in the recognition of all lease assets and liabilities on the balance sheet, with the exception of leases with a lease term of twelve months or less and leases of low-value assets. In the income statement, depreciation and interest will be shown instead of other operating expenses from leases.	01/01/2019	detailed description following overview table

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

Standard/Interpretation	Note	IASB Effective date	Effect
Annual Improvements to IFRSs 2015–2017 Cycle	Amendments and/or clarifications on IAS 12 Income Taxes, IAS 23 Borrowing Costs, IFRS 3 Business Combinations and IFRS 11 Joint Arrangements	01/01/2019	No material effect
Amendments to IFRS 9 Financial Instruments	Amendments and/or clarifications on prepayment features with negative compensation	01/01/2019	No material effect

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

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

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments amends the accounting requirements for classification and measurement of financial assets, for impairment losses on financial assets and for hedge accounting.

Classification and measurement of financial assets will depend on the business model within which the assets are held and the structure of the cash flows. On first-time application, a financial asset is classified either "at amortized cost", "at fair value through other comprehensive income" or "at fair value through profit or loss".

The classification of a financial asset is made at the time it is initially recognized, in accordance with the business model. During financial year 2017, Muehlhan analyzed its financial assets and determined which ones are held to collect, which ones are held to collect and sell and which ones are not allocable to either category (other).

Based on current information, we found that in the future, almost all financial assets will be classified as "held to collect". As a result, these receivables are measured at amortized cost. This will not result in an accounting change.

In addition to the business model classification, we analyzed the features of contractual cash flows from the underlying financial assets based on so-called SPPI (solely payments of principal and interest) criteria. This involved examining whether the contractual cash flows represent only payments of principal and interest on the outstanding amount.

Muehlhan did not identify any material impact on the accounting presentation or measurement based on the amended classification of financial assets under IFRS 9. The classification of financial assets under IFRS 9 is largely unchanged from the current accounting rules under IAS 39.

For identifying impairments and setting up risk provisions, there is a change in approach from a model in which credit defaults have already occurred ("incurred loss model") to an expected credit default model ("expected credit loss model"). The general approach calls for a 3-step process for determining risk provisions. The extent of the impairment losses (loss allowances) required by the model at the various levels will vary depending on the customer's credit default risk. For certain financial instruments, such as trade receivables, the impairment losses are measured using a simplified approach. Under this simplified approach, a lifetime loss allowance for expected credit losses (ECLs) is set up for the financial assets right from origination.

In financial year 2017, Muehlhan conducted a study to determine risk provisions for the simplified approach based on the past two financial years. For the analysis, we applied actual historical bad debt losses to outstanding receivables, taking forward-looking information into account.

The expected credit loss model will also be applied to other financial instruments that were measured at amortized cost, such as bank balances and other financial assets.

While considering materiality, we also reviewed the single loss rate approach, under which only a simplified default rate is applied to the population.

Currently, preliminary calculations show that the effect from application of the expected credit loss model will be in the low seven-figure range.

The extension of designation options is covered by hedge accounting. In addition, under IFRS 9, the quantitative limits for measuring effectiveness no longer apply. Documentation and disclosure requirements are more extensive.

Since Muehlhan has only entered into one hedge to limit the interest rate risk on the renewed syndicated loan agreement, we do not expect IFRS 9 to have any material impact.

Any effects identified in the future will lead to separate, additional disclosures in the notes to Muehlhan's financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 specifies when to recognize and how to measure sales revenues from contracts with customers, as well as the extent of the disclosures required in the notes to the financial statements. The new standard does not distinguish between different types of contracts and services; instead, it lists uniform criteria for when sales revenues from satisfying a performance obligation should be recognized. According to IFRS 15, sales revenues must be recognized when control over the agreed goods and services passes to the customer, i.e., when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. However, for construction contracts, under both IAS 11 and IFRS 15, control may be transferred over time. Sales revenues must be measured at the amount of consideration the company expects to receive. Sales revenues are determined on the basis of a five-step model to be applied to all contracts with customers.

Specifically, this may affect the following areas:

- Consignment warehouses
- Transfer of control upon delivery to customer
- Return rights
- Customer loyalty programs
- Extended guarantees/warranty
- Product plus service and small batches
- (Volume) discounts
- Licenses and software
- Customer canvassing programs
- Disclosure in the Notes

In the previous financial year, management began to analyze the effects of the new rules on individual areas that might be affected. During the past financial year, we continued these impact analyses by conducting qualitative analyses and/or reviews of contracts and surveys of Muehlhan companies.

In the process, we identified the main types of contracts from the companies. Along with other available data, these were evaluated in terms of potential accounting changes under IFRS 15 and the results of the analysis were documented. Based on the above, we identified specific areas in need of adjustments and implemented the required adjustments.

The analysis yielded the following results for individual areas requiring attention:

Area	Result
Consignment warehouses	Muehlhan has no significant consignment warehouses.
Transfer of control upon delivery to customer	Under IFRS 15, control may be transferred over time.
Return rights	Muehlhan is a service provider. As a result, return rights do not apply.
Customer canvassing and customer loyalty programs	Muehlhan does not use any customer canvassing or customer loyalty programs.
(Volume) discounts	Muehlhan has no volume business.
Licenses and software	Muehlhan generates no sales revenues from licenses or software.

Consequently, Muehlhan is not affected in these areas under IFRS 15.

Area	Result
Extended guarantees/warranty	In specific cases, Muehlhan grants extended guarantees and warranties of up to five years and is therefore affected by the new rule. Granting extended guarantees/warranties results in later recognition of sales revenues.
Product plus service and small batches	Muehlhan accepts orders for small batches, such as the application of surface protection coatings to wind power stations. Moreover, a contract may include providing various services such as steel work, steel cleaning and the subsequent application of a surface protection coating. These types of contracts are affected by the new provisions of IFRS 15 and will cause shifts in the recognition of sales revenues over the production period. Based on currently available information, the total impact will be minor, as only a relatively small number of contracts will be affected. As a general rule, service and maintenance contracts are concluded separately from construction contracts and therefore are not affected.
Disclosure in the Notes	The effects identified will lead to separate, additional disclosures under sales revenues in the notes to Muehlhan's financial statements in the future.

All in all, management believes that application of IFRS 15 will not have any material impact on the Muehlhan Group, because the transfer of control over time continues to be possible. Based on the above analyses and calculations, Muehlhan assumes that the overall effect will not exceed 1% of Group sales revenues.

The requirements stipulated in IFRS 15 will be applied for the first time in the 2018 consolidated financial statements. Previous amounts reported under the previously applicable standards will not change. The cumulative effects from the first-time application of IFRS 15 will be recognized as an adjustment to the opening balance of equity at the beginning of financial year 2018.

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and three related interpretations. Under IFRS 16, all rental and lease agreements that satisfy the criteria set forth in the standard are recognized as rights of use and lease liabilities on the balance sheet.

IFRS 16 is effective for all reporting periods beginning on or after 1 January, 2019.

Muehlhan is currently reviewing what impact application of the standard will have on the consolidated financial statements. The review includes:

- recording and auditing all existing lease agreements and evaluating the accounting for these agreements under IFRS 16;
- deciding whether the full retrospective approach under IAS 8 or a modified retrospective approach will be used on first-time application. The latter would simplify the transition, in that comparative figures do not have to be restated and lease agreements with a residual term of less than 12 months do not have to be revalued under IFRS 16;
- determining whether, and to what extent, simplified accounting rules are admissible and can be implemented;
- assessing whether, and to what extent, new IT systems are required for the new lease accounting and;
- the extent and impact of the disclosures required under IFRS 16.

Muehlhan currently believes that the new requirements apply to all leases listed under Note 31, Obligations under Operating Leases. Although at this point we are unable to provide quantitative disclosures, at the date of initial application, assets (rights of use) and liabilities (lease liabilities) will increase significantly, thereby reducing the equity ratio. The new requirements will also affect the consolidated income statement. The covenants the Group has to satisfy under the loan agreements will continue to be calculated at the currently valid level using retroactive accounting.

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

Consolidated group

The consolidated financial statements include the financial statements of the parent company, MYAG, and the 32 subsidiaries it controls (previous year: 34). MYAG has control if it controls rights at these companies that give it the ability to direct the relevant activities of these companies in order to influence the companies' earnings. Control further requires MYAG to be exposed to variable returns from the subsidiaries and to have the ability to affect those variable returns through its decision-making power. Subsidiaries are included in the consolidated financial statements (full consolidation) from the date on which control is established over the subsidiary and until the date on which control over the subsidiary ends. Accordingly, the results of operations of the subsidiaries acquired or sold during the year are included in the consolidated income statement and in the Group's other comprehensive income from the date of acquisition and/or until the date of disposal.

Since 31 December 2016, the consolidated group has changed as follows: The newly established Ruwad Al Athaiba International LLC, Muscat, Oman (MOM), has been fully consolidated since 1 January 2017. In May 2017, Muehlhan Wind Service A/S, Middelfart, Denmark (MWS), was founded together with experienced specialists from the wind power industry. Muehlhan initially held 100 % of the shares. As of year-end, Muehlhan holds 51 % of the company's shares and partners from the wind power industry hold 49 % of the shares. The companies belonging to the former Singapore division – Haraco Services Pte (HSG), Muehlhan Pte. Ltd. (MSG) and Muehlhan Surface Protection Singapore Pte. Ltd. (MSPS; all in Singapore) – were deconsolidated in the fourth quarter of 2017. The deconsolidation effect totaled €-31 thousand and is included under other operating expenses. The Malaysian company (MM) that belonged to the business segment had already been deconsolidated effective 31 December 2016. The discontinued Singapore division is accounted for in accordance with the requirements of IFRS 5.

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

On 1 January 2017, the subsidiary Muehlhan B.V., Vlaardingen, Netherlands (MNL), took over the business activities of Degraform Bekistingen en Steigers BV, Raamsdonksveer, Netherlands, thereby reinforcing the scaffolding business in the Netherlands. The allocation of the €1.7 million purchase price to the acquired assets – technical equipment and machinery (scaffolding materials) – had been completed as of the reporting date. Because of expected synergy effects, the purchase price allocation resulted in €0.3 million of goodwill, all of which is tax deductible.

Effective 1 May 2017, the subsidiary Beschichtungswerk Wyhlen GmbH, Wyhlen, Germany (MWY), acquired a surface treatment business in Wyhlen from ISS Evantec GmbH, Aschheim, by purchasing the assets and liabilities, thereby expanding its portfolio of services. The allocation of the negative purchase price of €0.5 million to the acquired assets and liabilities had been completed as of the reporting date. The acquired assets were valued at a fair value of zero, while the assumed liabilities (provisions) were valued at a fair value of €0.1 million. The €0.4 million of negative goodwill resulting from the purchase price allocation was recognized on the income statement under other operating income during the reporting year. The negative difference resulted from the measurement on the purchase date of risks which subsequently did not materialize.

On 29 December 2017, the subsidiary Muehlhan A/S, Middelfart, Denmark (MDK), acquired the business activities of Stjerne Stilladser A/S, Odense, Denmark, thereby entering the scaffolding business in Denmark. Of the €1.4 million purchase price, €1.1 million was allocated to technical equipment and machinery (scaffolding materials) and €0.3 million to other equipment, operating and office equipment. For timing reasons, in line with IFRS 3.45, the purchase price allocation was provisional.

The acquisition of the assets and liabilities listed does not change the consolidated group.

The list of shareholdings as of 31 December 2017 is presented below. In addition, each company is assigned to a cash-generating unit (CGU) and a geographic segment, as well as to the business segments and services.

Symbol	Company	Shareholding in % 2017	Shareholding in % 2016	Held by	CGU
MYAG	Muehlhan AG, Hamburg	Parent company	Parent company		–
AJS	Allround Job Services Sp. z o.o., Szczecin, Poland	100	100	MPL	MPL
CCC	Certified Coatings Company, Fairfield, CA, USA	100	100	MSPU	MCC
GMH	Gerüstbau Muehlhan GmbH, Hamburg, Germany	100	100	MYAG	GMH
MBL	Muehlhan Bulgaria Ltd, Varna, Bulgaria	100	100	MYAG	MD
MCA	Muehlhan Canada Inc., Windsor, Ontario, Canada	100	100	MYAG	–
MCC	Muehlhan Certified Coatings Inc., Fairfield, CA, USA	100	100	MSPU	MCC
MCL	Muehlhan Cyprus Limited, Limassol, Cyprus	51	51	MYAG	MCL
MCZ	Muehlhan CR s.r.o., Sviadnov, Czech Republic	100	100	MYAG	MCZ
MD	Muehlhan Deutschland GmbH, Bremen, Germany	100	100	MYAG	MD
MDK	Muehlhan A/S, Middelfart, Denmark	100	100	MYAG	MDK
MDQ	Muehlhan Dehan Qatar W.L.L., Doha, Qatar	100*	100*	MME	MDQ
MES	Muehlhan Equipment Services GmbH, Hamburg, Germany	100	100	MYAG	–
MF	Muehlhan S.A.R.L., Saint-Nazaire, France	100	100	MYAG	MF
MGB	Muehlhan Industrial Services Ltd., Aberdeen, Scotland, UK	100	100	MYAG	MGB
MGR	Muehlhan Hellas S.A., Athens, Greece	51	51	MYAG	MCL
MIF	Muehlhan Industrial France S.A.R.L., Le Havre, France	100	100	MF	MF
MME	Muehlhan Surface Protection Middle East L.L.C., Dubai, UAE	100*	100*	MYAG	–
MMEH	Muehlhan Middle East Holding Limited, Dubai, UAE	100	100	MYAG	–
MMF	Muehlhan Morflot OOO, St. Petersburg, Russia	70	70	MYAG	MMF
MNL	Muehlhan B.V., Vlaardingen, Netherlands	100	100	MYAG	MNL
MOM	Ruwad Al Athaiba International LLC, Muscat – Oman	100*	–	MMEH	PRA
MPL	Muehlhan Polska Sp. z o.o., Szczecin, Poland	100	100	MYAG	MPL
MRO	Muehlhan S.R.L., Galati, Romania	51	51	MYAG	MCL
MSI	Marine Service International AS, Drøbak, Norway	100	60	MYAG	MSI
MSIB	MSI do Brasil Serviços Marítimos Ltda. Brasil, Rio de Janeiro, Brazil	99.8	99.8	MSI	MSI
MSIS	MSI Coating Services PTE Ltd., Singapore	100	100	MSI	MSI
MSPU	Muehlhan Surface Protection Inc., Fairfield, CA, USA	100	100	MYAG	–
MWS	Muehlhan Wind Service A/S, Middelfart, Denmark	51	–	MDK	MWS
MWY	Beschichtungswerk Wyhlen GmbH, Wyhlen, Germany (formerly: Muehlhan Renewables GmbH, Hamburg)	100	100	MD	MD
PRA	Procon Emirates L.L.C., Abu Dhabi, UAE	100*	100*	MMEH	PRA
PRD	Procon Emirates L.L.C., Dubai, UAE	100*	100*	MMEH	PRA
SSP	Sipco Surface Protection Inc., Scott, LA, USA	100	100	MSPU	–

* 49 % of the shares in MME, PRA and PRD are held directly or indirectly via a subsidiary and 51 % are managed for the Group by a trustee. 70 % of the shares in MOM are held indirectly via a subsidiary and 30 % are managed for the Group by a trustee.

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

The Group took advantage of its exemption from the disclosure requirement for the subsidiaries included in the consolidated financial statements pursuant to Article 264, paragraph 3 of the German Commercial Code (HGB), in conjunction with Article 325 of the HGB, in the case of Muehlhan Deutschland GmbH, Bremen, Muehlhan Equipment Services GmbH, Hamburg, Beschichtungswerk Wyhlen GmbH, Wyhlen (formerly: Muehlhan Renewables GmbH, Hamburg) and Gerüstbau Muehlhan GmbH, Hamburg.

Geographic segment	Business segment	Service
Holding company	–	–
Europe	Ship, Renewables, Oil & Gas, Industry/Infrastructure	Surface protection, scaffolding, steel construction
North America	Renewables, Oil & Gas, Industry/Infrastructure	Surface protection
Europe	Ship, Renewables, Industry/Infrastructure	Scaffolding
Europe	Ship, Renewables, Oil & Gas	Surface protection
North America	–	–
North America	Renewables, Oil & Gas, Industry/Infrastructure	Surface protection
Europe	Ship, Renewables, Oil & Gas	Surface protection, scaffolding
Europe	–	–
Europe	Ship, Renewables, Oil & Gas, Industry/Infrastructure	Surface protection
Europe	Renewables, Oil & Gas, Industry/Infrastructure	Surface protection, scaffolding
Middle East	Ship, Industry/Infrastructure	Surface protection, scaffolding, fire protection
Holding company	–	–
Europe	Ship, Oil & Gas, Industry/Infrastructure	Surface protection
Europe	Oil & Gas, Industry/Infrastructure	Surface protection, scaffolding, fire protection
Europe	Ship, Renewables, Oil & Gas	Surface protection, scaffolding
Europe	–	–
Middle East	–	–
Middle East	–	–
Europe	Ship, Oil & Gas, Industry/Infrastructure	Surface protection, fire protection
Europe	Ship, Renewables, Oil & Gas, Industry/Infrastructure	Surface protection, scaffolding
Middle East	Industry/Infrastructure	Fire protection
Europe	Ship, Renewables, Oil & Gas, Industry/Infrastructure	Surface protection, scaffolding, steel construction
Europe	Ship, Renewables, Oil & Gas	Surface protection, scaffolding
Rest of the World	Oil & Gas	Surface protection
Rest of the World	Oil & Gas	Surface protection
Rest of the World	Oil & Gas	Surface protection
North America	–	–
Europe	Renewables	Wind service
Europe	Industry/Infrastructure	Surface protection
Middle East	Industry/Infrastructure	Fire protection
Middle East	Industry/Infrastructure	Fire protection
North America	–	–

04 Consolidated Financial Statements

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

Symbol	Company	Shareholding in %		Equity in kEUR		Result in kEUR	
		31/12/2017	31/12/2016	31/12/2017	31/12/2016	2017	2016
MFP	Muehlhan Grand Bahama Ltd., Nassau, Bahamas	100	100	0.1	0.1	0.0	0.0
MPM	Muehlhan Project Management GmbH, Hamburg	51	51	64.0	107.7	18.0	62.5

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

The shareholding in MPM is held indirectly via MCL.

Reporting date for the consolidated financial statements

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

Steel construction in Szczecin, Poland

VI. Consolidation methods

Consolidation of the subsidiaries

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

Elimination of intercompany accounts

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

Expense and income consolidation and elimination of intercompany profit and loss

To eliminate intercompany profit and loss, intercompany sales and Group internal earnings are offset against the related expenses. Unrealized intercompany profits and losses are eliminated with a corresponding effect on net income.

Deferred taxes

Deferred taxes are recorded to reflect consolidation effects.

Application of surface protection on tower segment of wind power station in Give, Denmark

Currency translation

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

The assets and liabilities of foreign subsidiaries with a functional currency other than the euro are translated into euro at the mid-rates on the reporting date. Income and expenses are translated at average annual rates. Differences arising from the translation of net assets at exchange rates different from those in the previous year are recognized in other comprehensive income and are reported separately under equity in the currency-translation reserve. When disposing of a foreign operation, all currency-translation differences aggregated under equity that are allocable to the Group from that operation will be reclassified to the income statement. Since 1 January 2005, the goodwill of foreign subsidiaries is shown in local currency. Differences arising from the conversion into euro are reported in the currency translation reserve.

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

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

	ISO code	Exchange rate on reporting date	Average rate	Exchange rate on reporting date	Average rate
		31/12/2017	2017	31/12/2016	2016
United Arab Emirates dirham	AED	4.40	4.18	3.87	4.05
Brazilian real	BRL	3.97	3.65	3.43	3.80
Danish krone	DKK	7.45	7.44	7.43	7.44
British pound	GBP	0.89	0.88	0.85	0.82
Polish zloty	PLN	4.19	4.24	4.41	4.37
Qatar rial	QAR	4.38	4.20	3.84	4.02
US dollar	USD	1.20	1.14	1.05	1.10

Other consolidation methods

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

The separate financial statements of domestic and foreign companies included in the consolidated group are prepared in accordance with accounting and valuation methods that are applied consistently throughout the Group.

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

Changes pursuant to IAS 8

During the previous year, treasury shares were measured at the average price for the first time, causing the value to drop by €616 thousand compared to the prior-year figure. The capital reserve, from which treasury shares must be deducted, decreased by the same amount. As a result, the remeasurement had no effect on profit or loss.

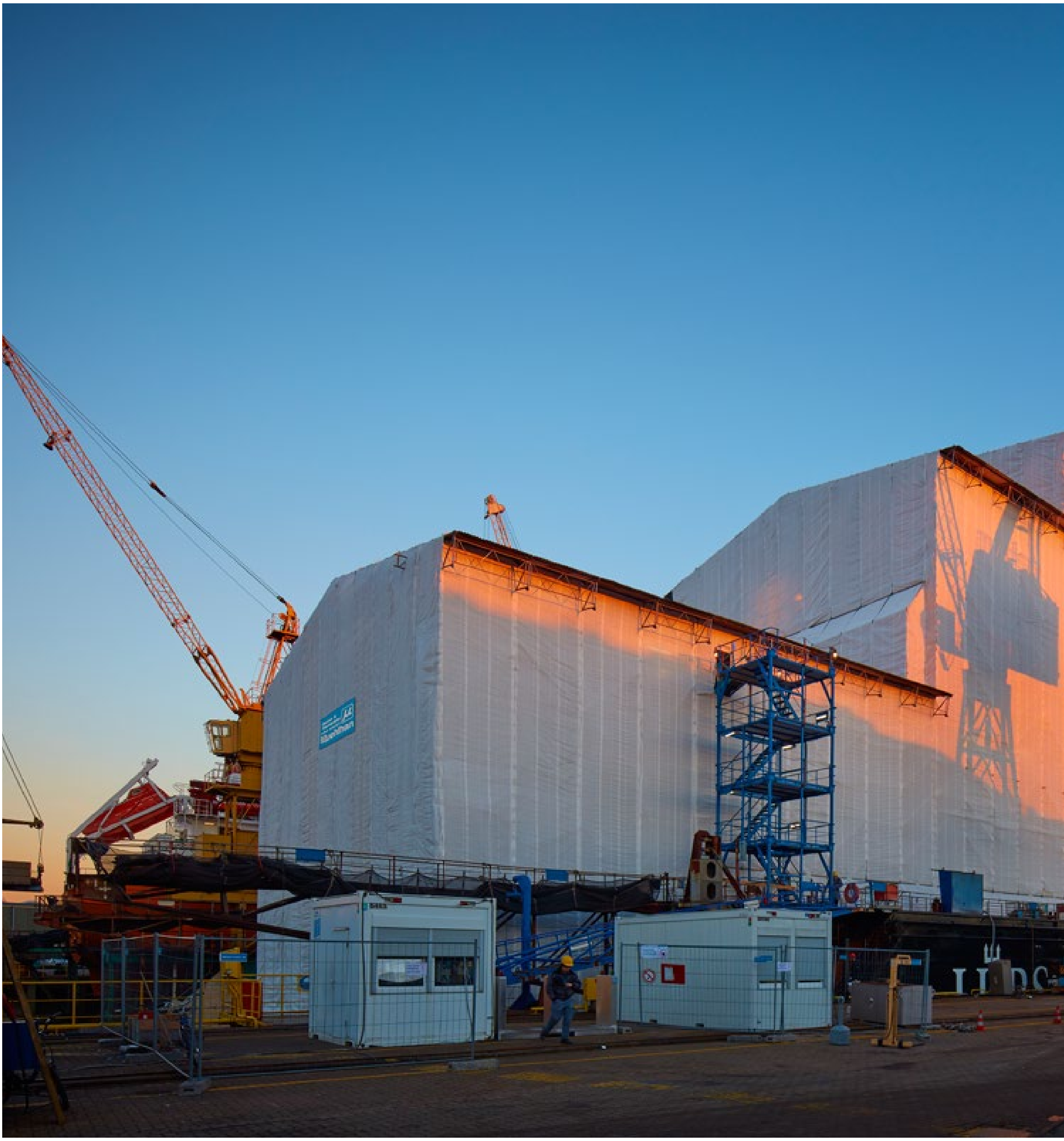
During the preparation of the 2017 consolidated financial statements and the final accounting for the purchase of the remaining 40 % of the shares of MSI, it was determined that in 2015, when 60 % of the shares of MSI were purchased and consolidated for the first time, a put option included in the purchase agreement was not reported. The put option requires recognition of a liability which must be remeasured on every subsequent reporting date until the option expires.

The adjustment changes the equity and liabilities side of the balance sheet on 1 January 2016 and 31 December 2016. The adjustments are shown in the following table:

	31/12/2016		01/01/2016	
in kEUR	After adjustment	Before adjustment	After adjustment	Before adjustment
Other reserves	7,010	11,450	7,262	11,702
Other equity	56,659	56,659	54,246	54,246
Total equity	**63,669**	**68,109**	**61,508**	**65,948**
Other non-current liabilities	0	0	4,440	0
Miscellaneous non-current liabilities	16,105	16,105	16,077	16,077
Total non-current liabilities	**16,105**	**16,105**	**20,517**	**16,077**
Other liabilities	23,513	19,073	17,576	17,576
Miscellaneous current liabilities	43,038	43,038	35,832	35,832
Total current liabilities	**66,551**	**62,111**	**53,408**	**53,408**
Liabilities directly associated with non-current assets held for sale	129	129	2,519	2,519
TOTAL EQUITY AND LIABILITIES	**146,454**	**146,454**	**137,952**	**137,952**

Recognition of the put option did not result in any changes to the asset side of the balance sheet, the income statement or the statement of comprehensive income. Earnings per share likewise did not change. Pursuant to IAS 8.41 et seq., in conjunction with IAS 1.10 et seq., the adjusted balance sheets for the reporting dates 1 January 2016 and 31 December 2016 are included in these consolidated financial statements. Since the remaining 40 % of the shares of MSI were purchased and the adjustment was made, this issue is now closed. The correction will have no impact on 2017.

For project-related security deposits, the time period between the signing of the contract and the payment of the deposits was reviewed during the reporting year. In the past, project-related security deposits were always estimated as current receivables and were reported accordingly under trade receivables. Beginning with the 2017 reporting year, because of payment delays, a portion of the project-related security deposits is estimated as non-current and discounted and reported as non-current assets accordingly. The current portion of project-related security deposits is shown under other assets. The effect of the first-time discounting of non-current security deposits totaled €0.5 million and is shown under interest expense. Pursuant to IAS 8.32 et seq., this change in estimates is being applied prospectively and prior-year figures will not be restated.



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

VII. Significant accounting and valuation principles

Intangible assets

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

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

Goodwill and intangible assets with an indefinite useful life

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

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

Property, plant and equipment

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

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

Depreciation is carried out on a straight-line basis unless another depreciation method would more closely reflect the actual future useful life.

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

Property, plant and equipment are tested for impairment if there is reason to believe that the assets may be impaired.

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

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

Impairment of non-financial assets

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

Financial assets

Recognition and classification

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

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

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

- loans and receivables
- financial assets measured at fair value through profit or loss
- financial assets available for sale
- held-to-maturity assets

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

a) Loans and receivables

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

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

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

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

c) Financial assets available for sale

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

Until the assets are sold, gains and losses resulting from fluctuations in the fair value are recognized in other comprehensive income and shown cumulatively under equity in other reserves. If a financial asset is sold, gains or losses accumulated up to that date in the other reserve for financial investments are reclassified to the income statement. Permanent impairment losses are reported on the income statement.

If the fair value of unlisted equity instruments cannot be determined with sufficient reliability, the shares are measured at acquisition cost (less impairment losses, if any). Dividends are reported on the income statement in the period in which the legal right to payment is established. During the reporting year, equity investments in unlisted companies were allocated to this category. Equity investments shown under financial assets were stated at amortized cost, because the fair value cannot be determined with adequate certainty.

Interest received from financial assets available for sale is included as interest income and recognized in profit or loss using the effective interest method.

d) Held-to-maturity assets

The Group has no held-to-maturity assets.

e) Effective interest method

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

f) Impairments of financial assets

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

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

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

g) Derecognition of financial assets

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

Derivative financial instruments

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

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

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

Changes in market values of derivative financial instruments which are accounted for using hedge accounting are either recognized through profit or loss or in other comprehensive income as a revaluation reserve, depending on whether a fair value hedge or a cash flow hedge is involved. In the case of a fair value hedge, the results of marking to market derivative financial instruments and the underlying transactions are recognized through profit or loss. In the event of changes in the market value of cash flow hedges used to offset future cash flow risks from already existing underlying transactions or from planned transactions, the cumulative unrealized gains and losses are initially recorded in other comprehensive income or in equity under other reserves at an amount equal to the underlying transaction covered by the hedge. This amount is reclassified as income/loss in the same period in which the underlying hedged transaction affects earnings. The portion of the change in market value that is not covered by the underlying transaction is immediately recognized as income/loss.

Inventories

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

Construction contracts

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

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

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

(Pre)payments received for construction contracts are deducted from receivables calculated using the PoC method, less any required impairment losses. If the (pre)payments exceed the receivables calculated using the PoC method, a liability is recorded. Any prepayments on customer-specific construction contracts received before processing are reported as prepayments received.

Transport of wind power station segments

Cash and cash equivalents

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

Non-current assets and disposal groups held for sale

This item is recognized if specific non-current assets or groups of assets (disposal groups) are available for sale in their present condition and their sale within one year is highly probable. The prerequisite for the existence of a disposal group is that the assets be designated for disposal in a single transaction or as part of an overall plan. The relevant assets are reported in a separate balance sheet item. The same applies to liabilities directly related to these assets that are transferred as part of the transaction. No adjustment is made to the prior-year balance sheet.

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

Other financial liabilities

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

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

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

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

b) Other financial liabilities

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

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

c) Derecognition of financial liabilities

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

Pension provisions and similar obligations

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

Any effects from remeasurement of defined benefit pension plans are recognized immediately in other comprehensive income.

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

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

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

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

Other provisions and contingent liabilities

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

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

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

Income taxes

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

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

Deferred taxes for domestic Group companies were calculated at a corporate tax rate of 15.5 % (previous year: 15.5 %) and a trade tax rate of 15.8 % (previous year: 15.8 %). Foreign deferred tax rates ranged from 8.84 % to 33.0 % (previous year: 9.0 % to 33.0 %) and the domestic deferred tax rate was 31.5 % (previous year: 31.5 %).

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

Share-based payment

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

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

Research and development costs

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

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

Government grants

Government grants for property, plant and equipment are treated as deferred income and recognized as income over the expected useful life of the related asset.

Leases

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

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

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

The Group has no major finance leases.

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

Income recognition

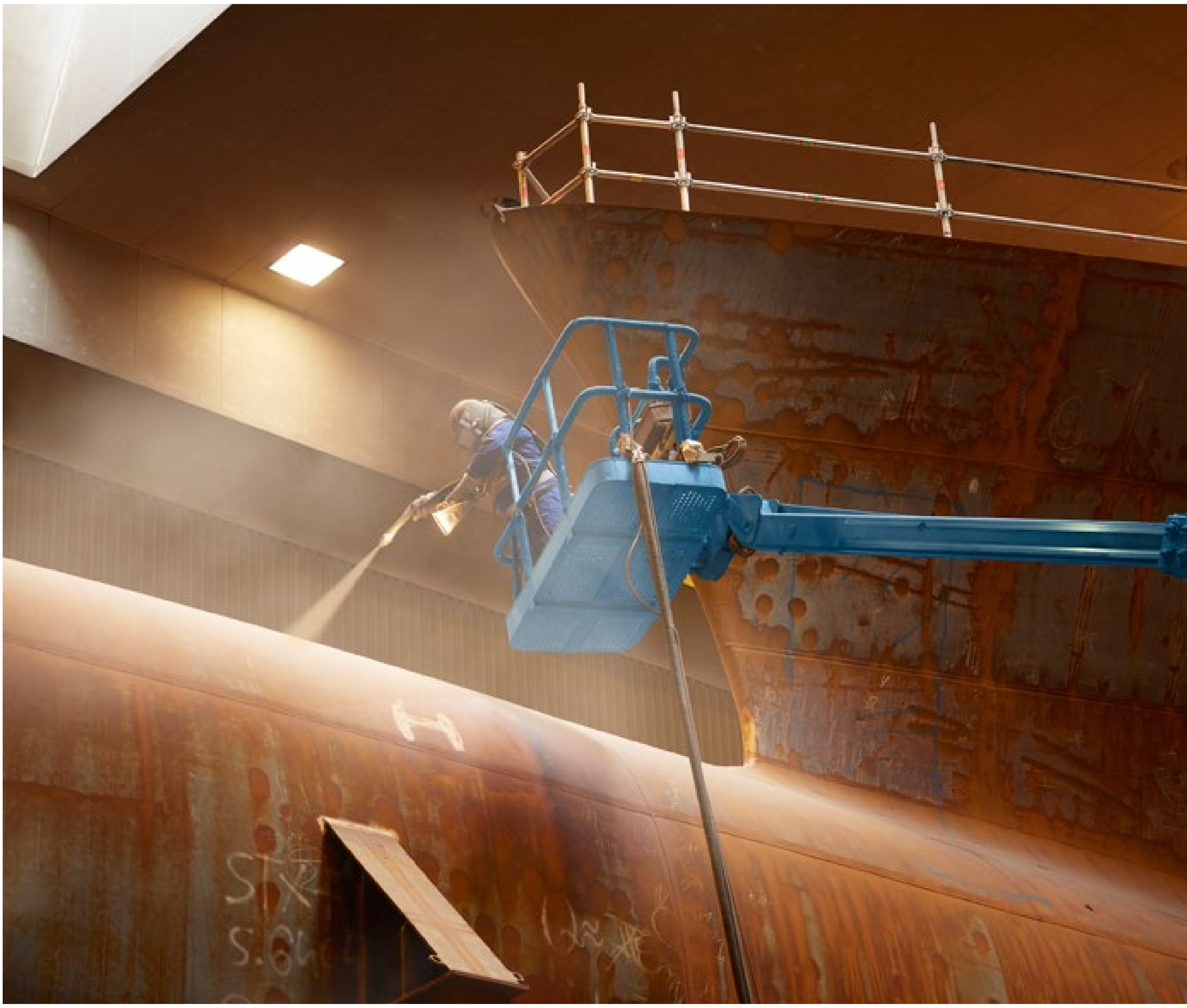
Income is measured at the fair value of the consideration that has been or will be received or the fair value of the receivable and includes amounts for the services rendered in the course of normal operations, less any discounts, value-added tax and other taxes incurred in connection with sales revenues.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

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

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

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

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



Blasting work on the bow of a cruise ship in Saint-Nazaire, France

VIII. Notes to the balance sheet

1. Intangible assets

2017 FIXED ASSETS MOVEMENT SCHEDULE

in kEUR	Acquisition and production costs					
	Balance 01/01/2017	Additions	Currency translation differences	Disposals	Transfer	Balance 31/12/2017
I. Intangible assets						
1. Concessions, industrial property rights and similar rights and assets	3,288	157	5	-516	0	2,934
2. Goodwill	36,397	327	0	0	0	36,724
	39,685	**484**	**5**	**-516**	**0**	**39,658**
II. Tangible assets						
1. Land, land rights and buildings, including buildings on third-party land	9,768	802	-44	-531	877	10,872
2. Technical equipment and machinery	73,728	10,741	-1,882	-2,356	324	80,555
3. Other equipment, operating and office equipment	13,141	931	-487	-4,930	-40	8,615
4. Prepayments and assets under construction	477	697	1	0	-1,161	14
	97,114	**13,171**	**-2,412**	**-7,817**	**0**	**100,056**

Rounding differences may occur.

2016 FIXED ASSETS MOVEMENT SCHEDULE

in kEUR	Acquisition and production costs					
	Balance 01/01/2016	Additions	Currency translation differences	Disposals	Transfer	Balance 31/12/2016
I. Intangible assets						
1. Concessions, industrial property rights and similar rights and assets	3,109	205	-18	-8	0	3,288
2. Goodwill	36,397	0	0	0	0	36,397
	39,506	**205**	**-18**	**-8**	**0**	**39,685**
II. Tangible assets						
1. Land, land rights and buildings, including buildings on third-party land	9,959	183	-368	-5	0	9,768
2. Technical equipment and machinery	71,182	5,726	197	-6,524	3,148	73,728
3. Other equipment, operating and office equipment	12,176	2,209	-45	-1,246	47	13,141
4. Prepayments and assets under construction	2,623	1,038	11	0	-3,195	477
	95,939	**9,156**	**-205**	**-7,776**	**0**	**97,114**

Rounding differences may occur.

Accumulated depreciation and amortisation					Carrying amounts	
Balance 01/01/2017	Additions	Currency translation differences	Disposals	Balance 31/12/2017	Balance 31/12/2017	Previous Year
-2,872	-166	-6	485	-2,559	375	416
-16,854	0	0	0	-16,854	19,870	19,542
-19,726	-166	-6	485	-19,413	20,245	19,958
-4,994	-444	-27	290	-5,175	5,697	4,774
-48,782	-5,875	722	1,601	-52,334	28,221	24,946
-9,605	-1,015	419	4,628	-5,573	3,042	3,536
0	0	0	0	0	14	477
-63,381	-7,334	1,114	6,519	-63,082	36,974	33,733

Accumulated depreciation and amortization					Carrying amounts	
Balance 01/01/2016	Additions	Currency translation differences	Disposals	Balance 31/12/2016	Balance 31/12/2016	Previous year
-2,502	-395	18	8	-2,872	416	607
-16,634	-220	0	0	-16,854	19,542	19,762
-19,137	**-615**	**18**	**8**	**-19,726**	**19,958**	**20,369**
-4,645	-389	37	3	-4,994	4,774	5,314
-48,881	-5,098	-361	5,559	-48,782	24,946	22,301
-9,572	-1,259	34	1,193	-9,605	3,536	2,604
-166	0	1	166	0	477	2,457
-63,264	**-6,747**	**292**	**6,922**	**-63,381**	**33,733**	**32,675**

Goodwill

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

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

Sales revenues and EBIT summarized by CGU and geographic segment are listed under Note 18, “Sales revenues and segment reporting”.

The following table shows the changes by geographic segment:

In EUR million	31/12/2017	Impairment/ additions	31/12/2016
Europe	17.5	0.3	17.2
Middle East	0.6	0.0	0.6
Rest of the World	1.8	0.0	1.8
TOTAL	19.9	0.3	19.6

Acquisition of the business activities of Degraform Bekistingen en Steigers BV in the Netherlands in 2017 resulted in €0.3 million of goodwill.

Truss structure from scaffolding in Hamburg, Germany

Based on the carrying amount of the goodwill allocated to the CGUs, two major items stand out: the MD CGU, with €7.2 million of goodwill (previous year: €7.2 million), and the MPL CGU, with €6.3 million of goodwill (previous year: €6.3 million). Together, the two CGUs accounted for 67.9 % (previous year: 69.0 %) of total goodwill as of 31 December 2017.

Goodwill for the respective units was tested for impairment by applying the DFC (discounted cash flow) method to the value in use based on four-year business plans (Level III valuation). The business plans were drawn up in the fourth quarter of 2017 and have been approved by the Executive Board and the Supervisory Board. The business plans are based on historic data such as experience with existing customer relationships and incorporate assumptions regarding market trends. To the extent possible, projections are based on expected sales and earnings for each customer.

There are uncertainties regarding the underlying assumptions used in the CGU calculations, particularly with respect to: sales revenue growth during the budget period, the trend in the EBIT margin during the budget period, the discount factor (interest rate) and the growth rate on which the cash flow projections beyond the budget period are based.

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

Region	2017	2016
Germany	7.3 %	6.9 %
Poland	9.1 %	8.4 %
Rest of Europe	6.8 % – 17.7 %	7.0 % – 20.3 %
Middle East	9.5 % – 9.6 %	9.3 % – 10.5 %
Rest of the World	8.5 %	8.1 %

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

Sensitivity of assumptions used

As part of a sensitivity analysis for CGUs to which substantial goodwill has been allocated, the particularly sensitive parameters – EBIT margin and discount rate (weighted average cost of capital/WACC) – were tested. A 4 % decrease in the EBIT margin would result in impairment losses to the MPL and MMF CGUs of €0.8 million and €0.2 million, respectively. A 9 % increase in the WACC would lead to a €0.1 million impairment loss to the MPL CGU. A lower decrease in the EBIT margin and/or a lower increase in the WACC would not lead to any impairment loss. In the previous year, the threshold for recognition of an impairment loss was 1 % in each case.

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

2. Property, plant and equipment

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

As in the previous year, no finance leases are included under property, plant and equipment.

The gross carrying amount of prepayments and assets under construction included €0.1 million (previous year: €1.0 million) for property, plant and equipment under construction.

There were no order commitments for property, plant and equipment as of the reporting date (previous year: €0.7 million).

3. Other non-current assets

Other non-current assets refer to the non-current project-related customer security deposits reported for the first time in the reporting year.

4. Deferred tax assets and liabilities

The company's deferred taxes pertain to the following items:

	Deferred tax assets		Deferred tax liabilities	
in kEUR	Balance 31/12/2017	31/12/2016	Balance 31/12/2017	31/12/2016
Accumulated tax loss carryforwards	3,682	3,412	0	0
Intangible assets	44	0	0	0
Property, plant and equipment	393	541	615	926
Trade receivables	76	186	726	724
Other assets	61	0	20	0
Pension provisions	82	80	0	0
Financial liabilities	5	0	261	0
Provisions	15	55	0	28
Trade payables	90	68	0	0
Other liabilities	186	89	4	0
Settlement according to IAS 12.74	-691	-529	-691	-529
TOTAL	3,944	3,902	934	1,149

In Germany, there were €14.8 million of trade tax loss carryforwards (previous year: €14.9 million) and €13.9 million of corporate income tax loss carryforwards (previous year: €13.5 million) as of the reporting date. There were €17.0 million of tax loss carryforwards (previous year: €21.3 million) abroad.

According to the medium-term forecasts of the companies involved, a tax benefit in the amount of €3.7 million (previous year: €3.4 million) will accrue over the next five years which we have already capitalized since there is a high probability that the companies in question will have taxable profit against which the deferred tax assets can be utilized. Overall, in Group companies that reported a loss in the previous year or the current year, a surplus of deferred tax assets totaling €2.1 million was recognized (previous year: €2.9 million). The future use of these tax benefits depends exclusively on the generation of future taxable income. There is substantial evidence that this income will be generated, including long-term customer loyalty, detailed budgets and long-term contracts. In addition to the deferred tax assets recognized for loss carryforwards, there are also domestic corporation tax losses in the amount of €7.5 million (previous year: €9.9 million) and trade tax losses of €8.5 million (previous year: €11.5 million) whose realization is not sufficiently guaranteed and for which therefore no deferred tax assets have been recognized. Based on current laws, the loss carryforwards cannot expire. As of the reporting date, foreign loss carryforwards for which no deferred tax assets have been recognized totaled €6.8 million (previous year: €11.3 million) and in most cases may be utilized without restriction within three to 15 years.

There are taxable temporary differences relating to investments in subsidiaries (outside basis differences) totaling €1.0 million (previous year: €1.4 million) for which no deferred tax liabilities have been recognized in accordance with IAS 12.39 because there are no plans to either distribute profits or to dispose of the investments.

5. Inventories

Inventories may be broken down as follows:

in kEUR	31/12/2017	31/12/2016
Raw materials, consumables and supplies	4,013	3,943
Prepayments	67	418
TOTAL	4,080	4,361

Impairment losses of €0.1 million (previous years: €0.8 million) were recognized for raw materials, consumables and supplies.

6. Trade receivables

Trade receivables include the following items:

in kEUR	31/12/2017	31/12/2016
Trade receivables from services rendered	47,525	61,446
Trade receivables from construction contracts	21,991	16,587
of which construction contracts with a credit balance	22,025	16,819
of which construction contracts with a debit balance	-34	-232
Prepayments received on work in progress	-12,212	-10,215
TOTAL	**57,303**	67,818

As a rule, trade receivables from services rendered are due and payable within 30 days. In exceptional cases, the time to maturity may be up to one year. Trade receivables from construction contracts have the same maturities. As agreed with customers, prepayments are due on construction contracts that will not be invoiced until 2019, meaning that a maturity of less than one year can be assumed in such instances, as well. Sales revenues totaled €247.7 million (previous year: €254.3 million) and included contract revenues (additions to work in progress during the financial year) of €19.0 million (previous year: €14.3 million). The aggregate costs relating to construction contracts in progress on the reporting date amounted to €18.8 million (previous year: €14.9 million) and aggregate profits/losses totaled €2.7 million (previous year: €2.6 million).

Overdue trade receivables for which no impairment loss has been recognized totaled €17.1 million as of the reporting date (previous year: €24.0 million).

Project-related customer security deposits are shown for the first time in the reporting year as other non-current or current assets. As a result, security deposits totaling €5.3 million before discounting are no longer included under trade receivables from services rendered.

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

The following table shows impairment losses to trade receivables that are recognized through profit or loss on the consolidated income statement:

in kEUR	2017	2016
Impairment losses – balance on 1 January	-4,771	-1,759
Additions (bad debt expense)	-3,477	-3,782
Reversals (other operating income)	1,720	265
Write-off of impaired receivables	805	477
Currency translation differences	79	28
Impairment losses – balance on 31 December	**-5,644**	-4,771

As of the reporting date, the company had credit insurance for €5.7 million (previous year: €7.1 million) of trade receivables.

7. Cash and cash equivalents

Cash and cash equivalents amounted to €8.8 million as of 31 December 2017 (previous year: €8.5 million) and aside from available cash and sight balances also included overnight deposits. Interest on overnight deposits averaged 0.1% (previous year: 0.1%) on the reporting date. As of the reporting date, there were no drawing restrictions.

8. Income tax receivables and liabilities

All income tax receivables and income tax liabilities are due within one year.

9. Other assets

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

in kEUR	31/12/2017	31/12/2016
Security deposits	1,490	952
Receivables due from damage claims/insurance compensation payments	1,380	663
Receivables related to employees	833	347
Creditors with debit balances	223	
Credits with suppliers/bonuses	185	344
Other financial assets	1,189	493
TOTAL	**5,300**	2,799

For the first time, current project-related security deposits were shown under security deposits in the reporting year. Receivables due from damage claims primarily consist of a claim against a supplier that had delivered blasting material contaminated with asbestos, leading to significant cleaning and disposal expenses as well as downtime costs.

Other non-financial assets consist of the following:

in kEUR	31/12/2017	31/12/2016
Deferrals and accruals	1,353	831
Other tax receivables	1,311	1,308
Other non-financial assets	289	664
TOTAL	2,953	2,803

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

During the reporting year, impairment losses of €0.2 million (previous year: €0.4 million) were recognized for other financial assets. No additional impairment losses were necessary for financial or non-financial assets that were neither overdue nor impaired. There were no other significant financial or non-financial assets that were overdue but not impaired. Additions to and reversals of valuation allowances are recognized through profit or loss in other operating income or expenses.

10. Discontinued operations

During the previous year, the Singapore division met all the criteria for classification as a “discontinued operation” within the meaning of IFRS 5 and was accounted for accordingly. In the reporting year, the companies MSG, MSPS and HSG that were still included in the Singapore division were deconsolidated. As a result, there were no assets or liabilities as of the reporting date. The €-0.1 million result from discontinued operations (previous year: €0.2 million) reflected closure costs such as local fees and advisory services.

11. Equity

Subscribed capital

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

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

Treasury shares

Muehlhan AG’s Annual General Meeting on 19 May 2015 passed a resolution again authorizing the Executive Board to acquire treasury shares with a nominal value of up to €1.95 million. As in the previous year, no shares were purchased during the reporting year. In 2017, 149,943 shares (previous year: 153,544 shares) were transferred under the Employee Program. Treasury shares are shown separately as deduction items totaling €355 thousand (previous year: €708 thousand) in the consolidated statement of changes in equity. Treasury shares are measured at the average price on the reporting date.

In January 2010, Muehlhan AG introduced a new compensation program for the Group’s top management level. The program has two components: a performance bonus and a value bonus. A balanced scorecard is used to measure eligibility for the performance bonus. If various agreed criteria are met at the level of the company and the Group, a cash bonus is paid. The amount of the value bonus is based on measurement of the sustainable increase in the equity of both the respective company and the Group. The beneficiary is allocated a virtual share portfolio with a value equal to the identified amount of value bonus for previous years. The shares are transferred to the recipient of the bonus in four equal tranches in the years following the year of assessment. For any transfer to take place in subsequent years, the beneficiary must still be employed by the Group. Any future negative virtual share allocations will be netted against existing claims. Once a year, the agreement can be terminated. The value bonus is recognized in accordance with IFRS 2 – Share-based Payment. In 2017, a tranche of 149,943 shares (previous year: 153,544 shares) with a value of €240 thousand (previous year: €211 thousand) was transferred to the bonus creditors. The fair value of the shares to be issued is measured at the share price on the grant date. The total cost of the value bonus will be divided over the four periods from the grant date until the shares vest. In 2017, the Group recognized an associated expense of €402 thousand (previous year: corrected to €233 thousand). The issuance of rights to shares is recognized in equity under capital reserves. As of the reporting date, Muehlhan AG held 150,570 treasury shares (previous year: 300,513 treasury shares).

Retained earnings

In 2017, a dividend of €0.06 per share for the financial year 2016 was distributed (previous year: a dividend of €0.04 per share was distributed). With the Supervisory Board’s approval, the Executive Board will propose to the Annual General Meeting that for financial year 2017, a dividend of €0.08 per share be distributed on the €19,500,000.00 of shares with dividend rights. As a result, the total dividend distribution will be €1,560,000.00, less the dividend on treasury shares. Payment of this dividend will be dependent on approval by the Annual General Meeting on 15 May 2018. The dividend liability will be recognized after approval by the Annual General Meeting in financial year 2018.

Non-controlling interests

MMF, MGR, MCL, MRO and MWS had non-controlling interests as of the reporting date. Muehlhan AG holds a 70% stake in MMF and 51% stakes in MGR, MCL and MRO each. These shareholdings were unchanged from the previous year. MWS was founded during the reporting year. The percentage of shares held on the reporting date was 51%.

In 2015, Muehlhan acquired 60 % of the shares in the MSI Group. In July 2017, it acquired the remaining 40 % of the shares; as a result, the MSI Group is now a wholly owned subsidiary of Muehlhan AG. As of the reporting date, therefore, MSI had no non-controlling interests (see Section VI., Consolidation methods, Changes pursuant to IAS 8).

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

in kEUR	MCL	MMF
	31/12/2017	31/12/2017
Non-current assets	1,795	202
Current assets	4,259	2,183
Equity	2,337	1,257
of which non-controlling interests	1,445	377
Non-current liabilities	0	3
Current liabilities	3,717	1,125
	2017	2017
Sales revenues	14,228	6,276
EBIT	434	428
Income after taxes	196	271
of which non-controlling interests	96	81
Income after taxes, previous year	1,075	267
of which non-controlling interests	527	80

The income after taxes must be allocated to the other shareholders in accordance with their respective shareholdings. During the reporting year, €147 thousand of dividends were distributed to non-controlling interests (previous year: €34 thousand).

12. Pension provisions

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

Defined benefit pension commitments

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

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

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

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

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

Interest rate risk

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

Longevity risk

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

Salary risk

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

Inflation risk

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

The present value of the defined benefit obligation under pension commitments was calculated based on the following assumptions:

in %	Germany		Poland		France	
	2017	2016	2017	2016	2017	2016
Discount rate	1.2	1.5	3.3	3.0	2.5	2.5
Future increases in salary and pension income	2.0	2.0	3.0	3.0	-	-
Inflation rate	-	-	2.5	2.5	2.0	2.0

Employee turnover was taken into account.

Oil rig in the North Sea

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

The Group’s pension provisions changed as follows:

in kEUR	2017	2016
Balance on 1 January	635	806
Current service cost	112	0
Interest expense for earned pension entitlements	43	11
Pension benefits paid	-64	-193
Actuarial gains and losses	21	16
Exchange differences	8	-5
Balance on 31 December	**755**	635

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

Sensitivity analyses

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

Risk-balancing strategy

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

Future payments

For 2018 and the following years, the pension payment is expected to be at the same level as in the reporting year.

Pension commitments under defined contribution pension plans and government pension plans

Aside from the ongoing contribution payment, defined contribution pension commitments will not lead to any further pension obligation. Expenditures for defined contribution pension plans in Germany did not exceed €50 thousand (previous year: did not exceed €50 thousand).

13. Financial liabilities

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

in kEUR	31/12/2017	31/12/2016
Non-current		
Liabilities to banks	14,068	14,321
TOTAL	**14,068**	14,321
Current		
Liabilities to banks	17,685	11,954
TOTAL	**17,685**	11,954

In July 2017, Muehlhan AG replaced its existing syndicated loan agreement for Group financing with a new syndicated loan agreement with a total credit line of €65.0 million (previous syndicated credit line: €42.5 million), with Commerzbank AG as the lead bank. The loan is divided into three tranches. Tranche A is a term loan for €20.0 million maturing in 2022. Tranche B is a bullet loan for €20.0 million maturing in 2022 with a one-year renewal option. Tranche C (€25.0 million, with the option of increasing by up to €25.0 million) is a revolving loan that is available until mid-2022 to finance working capital requirements, with the option of renewing until mid-2023. All tranches bear interest at EURIBOR plus a margin of 2.0 % to 3.5 %, depending on the financial ratios (previous syndicated loan agreement: a margin of between 3.0 % and 4.0 %, depending on the financial ratios). The main subsidiaries have provided guarantees to the banking syndicate as collateral for the loan. No tangible collateral was provided. Muehlhan AG has committed to comply with terms and conditions for the financing. In addition to obligations to notify the banking syndicate, these primarily include compliance with an equity ratio, a net debt ratio and an interest coverage ratio. The financing terms and conditions were satisfied in the previous year and during the financial year. The loans were recorded at amortized cost after allowing for the transaction costs (€0.5 million). The loans totaled €25.6 million on the reporting date (previous year: €20.7 million). In addition, the subsidiaries had other non-current and current liabilities to banks.

The MYAG Group has credit lines totaling €70.5 million (previous year: €44.0 million). These include loans with scheduled monthly payments of principal and interest, as well as freely available bank credit lines, some of which can also be used for guarantees. Additionally, it has guarantee facilities totaling €108.5 million (previous year: €115.1 million) from Euler Hermes Kreditversicherungs AG, Zurich Versicherung Aktiengesellschaft and Zurich Insurance Public Limited Company, USA. In addition to liabilities to banks totaling €31.8 million (previous year: €26.3 million), guarantee credits totaled €75.0 million as of 31 December 2017 (previous year: €53.6 million). On the reporting date, aside from cash and cash equivalents, the company had at its disposal unutilized loan, overdraft and guarantee facilities in the amount of €71.8 million (previous year: €79.0 million). The effective interest rate on financial liabilities averaged 3.16 % during the financial year (previous year: 5.0 %). Because the effective-interest method was applied, the figures shown on the balance sheet were equal to the fair value.

The term loans will result in cash outflows of €4.2 million in 2018 (previous year, for 2017: €7.3 million) and €4.1 million in 2019 (previous year, for 2018: €7.4 million). In the period thereafter (up to 5 years), the cash outflow will total €10.3 million (previous year: €7.2 million).

The scope of the Group's finance leases is insignificant.

14. Derivative financial instruments

As a cash flow hedge, Muehlhan AG has entered into an interest rate cap transaction ("cap") to limit the variable interest rate on a portion of the syndicated loan. As of the reporting date, the fair value of the cap was €-89 thousand (previous year: €-17 thousand for interest rate swap transactions to hedge the syndicated loan agreement that has been replaced). The cap and the syndicated loan have matching maturities. On the consolidated statement of comprehensive income, the effect of the cap and the repaid interest rate swaps in the reporting year was €-74 thousand (previous year: €3 thousand). The interest rate swaps we had in the previous year were replaced when the old syndicated loan agreement was replaced, with the change recognized on the income statement.

15. Provisions and contingent liabilities

The changes in provisions are shown in the following table:

in kEUR	Balance on 01/01/2017	Utilization	Reversal	Change in consolidated group	Addition	Currency translation effect	Balance on 31/12/2017
Tax risks	889	-321	0	0	745	-6	1,307
Personnel	1,864	-1,620	-207	-27	1,370	-132	1,248
Warranty	1,457	-813	-232	0	727	8	1,147
Anticipated losses	141	-56	-57	0	115	0	143
Litigation	322	-39	-215	0	19	4	91
Other	2,408	-1,193	-981	-100	145	-93	186
TOTAL	7,081	-4,042	-1,692	-127	3,121	-219	4,122

The provisions have the following maturities:

in kEUR	Balance on 31/12/2017	Due < 1 year	Due 1–5 years	Due > 5 years
Tax risks	1,307	1,307	0	0
Personnel	1,248	600	28	620
Warranty	1,147	606	541	0
Anticipated losses	143	99	44	0
Litigation	91	91	0	0
Other	186	186	0	0
TOTAL	4,122	2,889	613	620

16. Trade payables

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

17. Other liabilities

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

in kEUR	31/12/2017	31/12/2016
Liabilities to personnel	8,560	8,876
Liabilities from the purchase of property, plant and equipment	462	0
Debtors with credit balances	299	368
Security deposits	130	151
Sales bonuses/bonuses	0	887
Other financial liabilities	1,217	4,838*
TOTAL	10,668	15,120*

*Amount adjusted in accordance with IAS 8.41 et seq.

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

in kEUR	31/12/2017	31/12/2016
Liabilities for other taxes	3,101	1,798
Liabilities relating to social security	1,685	2,293
Deferrals	1,507	2,766
Liabilities to personnel	884	432
Prepayments received	723	664
Other non-financial liabilities	530	439
TOTAL	8,430	8,393

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

Jacket construction for offshore wind power station in Saint-Nazaire, France

IX. Notes to the income statement and the cash flow statement

18. Sales revenues and segment reporting

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

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

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

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

in kEUR	2017	2016
Germany	47,366	49,959
Denmark	45,069	27,710
Poland	24,666	27,751
UK	23,935	24,401
Netherlands	23,134	30,118
USA	20,956	26,807
Other	62,592	67,580
TOTAL	247,718	254,326

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

Breakdown by geographic segment

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

2017

in kEUR	Europe	Middle East	North America	Rest of the World	Holding company	Reconciliation	Group
External revenues	192,524	20,748	21,056	13,221	168	0	247,718
Intersegment sales	15	57	2	0	6,627	-6,701	0
Sales revenues	**192,540**	**20,806**	**21,058**	**13,221**	**6,795**	**-6,701**	**247,718**
EBITDA*	12,958	1,910	2,879	1,401	-3,119	0	16,029
Depreciation and amortization	-5,496	-614	-826	-45	-518	0	-7,500
EBIT**	**7,462**	**1,296**	**2,052**	**1,356**	**-3,637**	**0**	**8,529**
Investment for property, plant and equipment	**11,834**	**318**	**683**	**11**	**324**	**0**	**13,171**

2016

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

* EBITDA: Earnings before interest, taxes, depreciation and amortization
** EBIT: Earnings before interest and taxes

Scaffolding and surface protection work on a bridge construction in St. Petersburg, Russia

Breakdown by business segment

The following table provides a breakdown of external revenues and EBIT by business segment:

	External revenues		EBIT	
in kEUR	2017	2016	2017	2016
Ship	56,165	63,475	5,740	5,030
Oil & Gas	73,260	63,233	1,977	6,499
Renewables	32,572	33,969	2,991	-2,476
Industry/Infrastructure	85,504	93,619	2,272	3,305
Central divisions/ Consolidation	217	30	-4,451	-5,475
TOTAL	247,718	254,326	8,529	6,882

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

19. Cost of materials and purchased services

This item may be broken down as follows:

in kEUR	2017	2016
Costs of raw materials, consumables and supplies	-42,550	-51,328
Cost of purchased services	-37,010	-44,711
TOTAL	-79,560	-96,039

20. Personnel expenses

The average number of employees was:

Number	2017	2016
Europe (incl. Central divisions)	2,265	2,223
Middle East	545	511
North America	104	134
Rest of the World	15	13
TOTAL	2,929	2,881

Personnel expenses include:

in kEUR	2017	2016
Wages and salaries	-96,520	-87,906
Social security and post-employment benefit costs	-19,866	-18,152
TOTAL	-116,387	-106,058

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

21. Other operating income and expenses

Other operating income (2017: €10.3 million; previous year: €5.3 million) primarily included gains from the reversal of impairment losses to trade receivables, reversals of provisions, the recognition of a receivable from a damage claim, compensation for damage claims and income from payments in kind. Exchange gains totaled €1.3 million (previous year: €1.1 million).

Other operating expenses (2017: €46.0 million; previous year: €43.3 million) primarily included travel expenses, building rent and incidental expenses, legal and consulting expenses, impairment losses to trade receivables, expenses for eliminating the asbestos damage (see Note 9, Other assets), motor vehicle expenses, repairs, insurance expenses, staff training expenses and lease expenses under operating leases. Expenses for exchange losses totaled €1.2 million (previous year: €1.7 million).

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

22. Financial result

The financial result included €0.1 million (previous year: €0.3 million) of interest income and total financing expenses of €2.2 million (previous year: €1.8 million) consisting of interest expense and guarantee fees. Interest expense included €0.5 million from the first-time discounting of project-related security deposits.

23. Tax result

Taxes on income may be broken down as follows:

in kEUR	2017	2016
Current income tax expense	-2,004	-2,442
Deferred taxes (income; previous year: expense)	359	-341
TOTAL	**-1,645**	-2,784

Reconciliation of theoretical and actual tax expenses:

in kEUR	2017	2016
Earnings before taxes from continuing operations	6,373	5,396
Theoretical tax expense at MYAG's 31.5 % tax rate	-2,007	-1,700
Differing foreign tax rates	797	809
Tax-free income and non-deductible expenses	205	48
Impairment loss to and/or non-recognition of deferred tax assets	-491	-1,961
Effects of amortization of goodwill	-16	-17
Effects of changes in tax rates	-397	0
Effects of previously unrecognized deferred tax assets on tax loss carryforwards and temporary differences	210	445
Prior period tax income (previous year: expense)	93	-291
Withholding tax effects	-5	0
Other	-34	-117
Income tax expense for continuing operations recognized on the income statement	**-1,645**	**-2,784**
Effective tax rate	25.8 %	51.6 %

24. Financial instruments

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

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

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

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

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

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

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

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

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

in kEUR	Valuation category according to IAS 39	Carrying amounts 31/12/2017	Carrying amounts 31/12/2016	Fair values 31/12/2017	Fair values 31/12/2016
Non-current financial assets					
Other financial assets/investments	(AfS)	30	30	n/a	n/a
Other non-current assets	(LaR)	4,454	n/a	4,953	n/a
Total non-current financial assets		**4,484**	**30**	**4,953**	**n/a**
Current financial assets					
Trade receivables	(LaR)	57,303	67,818	57,303	67,818
Cash and cash equivalents	(LaR)	8,766	8,476	8,766	8,476
Other financial assets	(LaR)	5,300	2,799	5,300	2,799
Total current financial assets		**71,369**	**79,093**	**71,369**	**79,093**

AfS = Available for Sale
LaR = Loans and Receivables

in kEUR	Valuation category according to IAS 39	Carrying amounts 31/12/2017	Carrying amounts 31/12/2016*	Fair values 31/12/2017	Fair values 31/12/2016*
Non-current financial liabilities					
Loans and other non-current financial liabilities	(FLAC)	14,093	14,321	14,474	14,643
Total non-current financial liabilities		**14,093**	**14,321**	**14,474**	**14,643**
Current financial liabilities					
Current financial liabilities	(FLAC)	17,685	11,954	17,685	11,954
Trade payables	(FLAC)	22,442	22,564	22,442	22,564
Other financial liabilities	(FLAC)	10,668	15,120	10,668	15,120
Total current financial liabilities		**50,795**	**49,638**	**50,795**	**49,638**

FLAC = Financial liabilities measured at amortized cost
* adjusted in accordance with IAS 8.41 et seq.

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

25. Earnings per share

The earnings per share figure is calculated as follows:

		2017	2016
Consolidated net income attributable to equity holders of Muehlhan AG	in kEUR	4,074	1,979
Plus/minus result from discontinued operations	in kEUR	74	-225
Net income/loss	in kEUR	**4,149**	**1,754**
Average number of ordinary shares	Quantity	19,211,021	19,046,566
Earnings per share from continuing operations	in EUR	**0.22**	**0.09**

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

26. Consolidated statement of comprehensive income

The item "Future cash flow hedge" amounting to €-98 thousand contains a tax component of €24 thousand (previous year: €-4 thousand). As in the previous year, the item "Currency translation differences" does not contain a tax component. The currency translation differences reclassified and recognized in the consolidated income statement resulted, inter alia, from the deconsolidation of the Singapore division (HSG, MSG and MSPS).

27. Consolidated cash flow statement

The following table shows the reconciliation of the items contained under cash used in and cash flow from financing activities, in accordance with IAS 7.44A et seq.:

		Changes affecting cash flow		Non-cash changes		
in kEUR	31/12/2016	Repayments	Borrowings	Changes due to fluctuations in exchange rates	Change in fair value	31/12/2017
Non-current financial liabilities	14,321	-13,866	13,683	-9	-60	14,068
Current financial liabilities	11,954	-10,325	16,291	-235	0	17,685
Total liabilities from financing activities	**26,275**	**-24,191**	**29,974**	**-244**	**-60**	**31,754**

X. Other disclosures

28. Risk management

Capital risk management

The Muehlhan Group pursues the goal of securing the entire amount of shareholders' equity reported on the balance sheet for the long term while generating a reasonable return on capital employed. At the same time, minimum capital requirements are taken into account. In order to secure the equity shown on the balance sheet, the Group may, among other things, change dividend payments to shareholders (see Note 11, Equity). The objectives, guidelines and procedures are the same as in the previous year. The Group pursues the goal of generating a reasonable return on capital by continually adjusting and expanding the range of services offered, through efficient corporate management and through organic growth and acquisitions.

As of 31 December 2017, the Group had a consolidated equity ratio of 44.9 % (previous year: 43.5 % adjusted). Every month, external minimum capital requirements are reviewed in connection with the syndicated loan agreement (see Note 13, Financial liabilities).

Financial risk management

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

Fire protection coating

Default risk

Default or credit risks exist when contractual partners do not meet their obligations. Muehlhan regularly analyzes the creditworthiness of every major debtor and grants credit limits on this basis. Because the Muehlhan Group operates worldwide and has a diversified customer base, there are no significant concentrations of default risk. The Muehlhan Group's maximum default risk is equal to the carrying amount of all financial assets plus the not yet invoiced portion of contract performance bonds issued minus receivables covered by credit insurance and prepayments received (see Note 6, Trade receivables).

Currency risk

More than 67% (previous year: more than 51%) of the Group's sales revenues are generated in euros or Danish krone, which scarcely fluctuate in relation to the euro. Basically, the remaining sales revenues generated in foreign currencies are offset by expenses in the same currencies, meaning that the currency risk from operations for the other Group companies is limited to the respective companies' contribution to earnings. This does not apply to the MSI Group, whose operating business has exposure to foreign currency risks involving the Brazilian real, the Norwegian krone and the euro. The Polish companies are exposed to currency risks between the Polish zloty and the currencies of the countries in which they operate. The issuance of internal Group loans from the holding company to foreign subsidiaries, and vice-versa, also involves currency risks.

The Group generally does not hedge this risk. The Group posted a net currency gain of €0.1 million for 2017 (previous year: loss of €0.6 million).

IFRS 7 requires a sensitivity analysis of each type of market risk to which the company is exposed; in addition, the materiality principle must be observed, in line with IAS 1. Sensitivity analyses are used to determine what effects a change in the respective risk variables would have on profits/losses and on equity on the reporting date. The periodic effects are determined by relating the hypothetical changes in the risk variables to the position on the reporting date. It is assumed that the position on the reporting date is representative of the entire year. For materiality reasons, a sensitivity analysis has been omitted.

Liquidity risk

Liquidity planning systems ensure early detection of any risks from cash flow fluctuations. The new syndicated loan agreement concluded in the reporting year has improved the Group's long-term liquidity situation and provides flexibility for financing growth projects (see Note 13, Financial liabilities).

Interest rate risk

Interest rate risk exists because of potential changes in the market rate of interest; such risk may lead to a change in the fair value of financial instruments with fixed interest and to fluctuating interest payments on financial instruments with variable interest. The Group has no fixed interest financial instruments. Financial instruments with variable interest primarily include the syndicated loan (see Note 13, Financial liabilities) and cash and cash equivalents. A portion of the syndicated loan is hedged against additional interest rate increases above a defined interest rate (see Note 14, Derivative financial instruments).

The main variable interest rate risk positions are shown in the following table:

in kEUR	31/12/2017	Up to 1 year	1 to 5 years	More than 5 years
Cash and cash equivalents	8,766	8,766	0	0
Financial liability	31,753	17,684	13,922	146
Net risk position	**22,987**	**8,918**	**13,922**	**146**

Pursuant to IFRS 7, the table below shows the interest rate risk based on a sensitivity analysis that illustrates the effects of a change in market interest rates on consolidated annual net income.

A 100 basis point (50 basis point) increase/decrease in the relevant interest rates would have changed annual net income as of 31 December 2017 as follows:

	31/12/2017	
in kEUR	**+ 100 BP**	**- 50 BP**
Effect on earnings	-350	233

The negative or positive effect of a 100 basis point (50 basis point) increase/decrease in the base rate is mainly due to the discounting of non-current assets and liabilities.

29. Assumptions and estimates

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

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

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

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

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

- Income taxes: The Group has a duty to pay income taxes in various countries. Key assumptions are therefore required to calculate the worldwide provision for income taxes. For some business transactions and calculations, the ultimate level of taxation cannot be determined conclusively during the normal course of business. If the ultimate level of taxation of these business transactions differs from the initial assumptions, this will affect actual and deferred taxes in the period in which the level of taxation is determined conclusively. Estimates are required in order to set up tax receivables and provisions and to assess the recoverability of deferred tax assets resulting from loss carryforwards. In particular, when judging the recoverability of deferred tax assets, there is uncertainty regarding the amount and probability of future taxable income.

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

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

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

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

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

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

- Useful life: The expected useful life of property, plant and equipment is based on assumptions and estimates.

30. Related party transactions

Transactions between affiliated companies have been eliminated upon consolidation and are not discussed in these notes. Transactions with related parties are conducted at terms that would also apply to arm's length transactions. Only a small number of transactions involved unconsolidated Group companies (sales revenues of unconsolidated companies with consolidated companies: €0.1 million [previous year: €0.2 million]).

The composition of the Executive Board and the Supervisory Board is discussed in Note 34, Executive Board, and Note 35, Supervisory Board. Supervisory Board member Mrs Andrea Brandt (maiden name: Greverath) is also a related party within the meaning of IAS 24.9. Mrs Brandt and the companies controlled by her are referred to as "Greverath Property" in the following paragraphs. In 2017, the Group's expenses relating to Greverath Property totaled €268 thousand (previous year: €253 thousand) and consisted of rent, real estate taxes and Supervisory Board compensation (see Note 35, Supervisory Board).

As of the reporting date, trade payables owed to Greverath Property totaled €11 thousand (previous year: €1 thousand).

31. Obligations under operating leases

The company rents and leases office space, production halls, technical equipment, office equipment and vehicles. The lease agreements generally have residual terms not exceeding five years. Some contracts contain a renewal option under which the term of the agreement may be extended if the contractually agreed term has not yet expired. In most cases, premature termination is also possible. Existing price adjustment clauses merely refer to passing on tax and operating cost adjustments. Some contracts contain an option to purchase the asset at the current market price at the end of the contract. The agreements are customary in the industry. The respective obligations to make lease payments will lead to cash outflows of €2.3 million over the next year (previous year: €3.2 million, adjusted) and cash outflows totaling €6.8 million for the following period (up to 5 years) (previous year: €4.1 million, adjusted). At issue here are minimum lease payments.

There is a leasehold agreement with a residual term of 93 years for a site in the UK. The lease payments total €5.8 million, of which €63 thousand will fall due over the next year and €5.4 million after five years. In the previous year, the amounts were still included in the disclosures for the previous paragraph.

32. Other financial commitments and contingent liabilities

On the reporting date, performance bonds issued entailed the customary contingent liabilities. There were no other financial obligations of material significance as of the reporting date.

33. Auditors' fees

The Annual General Meeting appointed Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Hamburg, to audit the consolidated financial statements for financial year 2017. In 2017, the auditors' total fees amounted to €124 thousand for financial statement auditing services (previous year: €122 thousand) and €4 thousand for other audit-related services (previous year: €2 thousand), bringing the total amount charged for all services to €126 thousand (previous year: €124 thousand). The fee for auditing MYAG's separate financial statements totaled €39 thousand (previous year: €38 thousand).

34. Executive Board

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

– Mr Stefan Müller-Arends, Chairman of the Executive Board, St Augustin
– Dr. Andreas C. Krüger, Member of the Executive Board, COO, Hamburg
– Mr James West, Member of the Executive Board, responsible for the Oil & Gas segment, Aberdeenshire, UK

One Executive Board member may represent the company jointly with another Executive Board member or an authorized signatory (Prokurist), with the authority to enter into legal transactions on behalf of the company, including legal transactions with a third party where he is acting as the legal representative of such third party. The compensation for the Executive Board covered by Muehlhan AG totaled €1,351 thousand for the financial year, including €823 thousand of ongoing fixed compensation, €323 thousand of ongoing variable compensation and €205 thousand of expenses for the bonus program (previous year: €1,036 thousand, including €732 thousand of fixed compensation, €195 thousand of variable compensation and €109 thousand of expenses for the bonus program). Expenses relating to the bonus program constitute share-based compensation; the other compensation consists of payments that are due in the short term.

35. Supervisory Board

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

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

The Supervisory Board was paid €63 thousand for reimbursement of expenses for the financial year (previous year: €55 thousand), of which the fixed component accounted for €50 thousand (previous year: also €50 thousand) and the variable component accounted for €13 thousand (previous year: €5 thousand). Payments to reimburse expenses are due within the short term.

36. Events after the reporting date

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

37. Approval of the financial statements

The consolidated financial statements and the Group management report of Muehlhan AG are published in the electronic version of the Federal Gazette [Bundesanzeiger]. On 20 March 2018, the consolidated financial statements and the Group management report were approved for publication by the Executive Board.

Hamburg, 20 March 2018,
the Executive Board

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

05 Additional Information

AUDITORS' REPORT*

"We have audited the consolidated financial statements prepared by Muehlhan AG, Hamburg, comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement, consolidated statement of changes in group, and the notes to the consolidated financial statements, together with the group management report for the financial year from 1 January 2017 to 31 December 2017. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and/or the additional requirements of German commercial law pursuant to Article 315e, Paragraph 1 of the HGB and supplementary provisions of the articles of incorporation are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Article 317 of the HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform our audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements under consideration of the principles of standard accounting practices 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 spot-check basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements for the financial year from 1 January 2017 to 31 December 2017 of the Muehlhan AG comply with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Article 315e, Paragraph 1 of the HGB and supplementary commercial regulations, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements as well as with the relevant legal and regulatory requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Hamburg, 20 March 2018,

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

von Oertzen	Pritsch
Wirtschaftsprüfer	Wirtschaftsprüfer

* Translation of the German Auditors' Report

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FINANCIAL CALENDAR

4 May 2018	Publication of 1st quarter figures 2018
15 May 2018	Annual General Meeting Muehlhan AG
2 August 2018	Publication of half-yearly report 2018
8 November 2018	Publication of nine-month figures 2018

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NOTES

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

FORWARD-LOOKING STATEMENTS

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

Annual Report 2017

Muehlhan

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