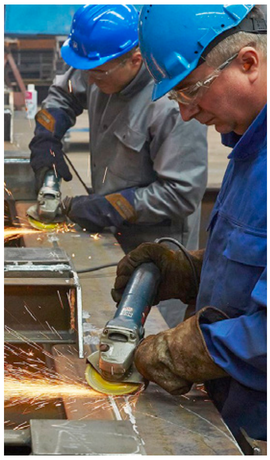
Muehlhan



Interim report for the first half of 2020

The **Muehlhan Group** is one of a few full-service providers that offer their customers a broad spectrum of industrial services with professional industrial quality standards. Our customers benefit from our exceptional organizational skills, on-time delivery, the technical expertise that differentiates us from our competitors, and our more than 135 years of experience.

Our **Ship, Oil & Gas, Renewables** and **Industry / Infrastructure** business segments offer first-class solutions for surface protection, insulation, passive fire protection, access technology, and scaffolding and steel construction. With **more than 3,000 employees at over 30 locations** worldwide, we generated revenues of €295 million in 2019.

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		1st half of 2020	1st half of 2019
Results			
Revenues		131,116	138,512
Earnings from operations before depreciation and amortization (EBITDA)		5,907	8,833
Earnings from operations (EBIT)		198	4,480
Earnings before income taxes (EBT)		-626	3,673
Consolidated income attributable to shareholders of Muehlhan AG		-790	1,627
Earnings per share from continuing operations	in EUR	-0.04	0.15
Cash flow from / cash used in operating activities		16,874	-5,202
Investment in property, plant and equipment (without leases)		1,360	3,323
Balance sheet		**06/30/2020**	**12/31/2019**
Total assets		172,513	175,370
Fixed assets[1]		65,848	68,634
Equity		69,623	71,761
Equity ratio	in %	40.4	40.9
Employees		**1st half of 2020**	**1st half of 2019**
Employees (annual average)	number	2,857	3,067

[1] Fixed assets: total of non-current assets less deferred tax assets

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Application of surface protection on a German navy taskforce supply ship

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Dear shareholders,
business partners and employees!

The Muehlhan Group can look back on an unusual first half of 2020.

From mid-March 2020, the Muehlhan Group was heavily impacted by the COVID-19 pandemic. Revenues fell by 5.3% to €131.1 million, while EBIT fell by €4.4 million to €0.2 million. The consolidated income after the first six months attributable to investors of Muehlhan AG fell by €2.4 million year-over-year to €-0.8 million. Meanwhile, cash flow from operating activities improved considerably to €16.9 million, compared with €-5.2 million in the previous year. This positive development is mainly the result of a decline in receivables due to lower revenues year-over-year. In addition, various measures were introduced in the course of the pandemic in order to protect liquidity.

Revenues rose in **Europe** in spite of the pandemic. EBIT slumped due to the effects of the pandemic and non-recurring expenses related to the withdrawal from a project in our wind power segment. Revenues and earnings (EBIT) in **North America**, the **Middle East** and the **Rest of the World** to some extent fell well short of the prior year's figures. In North America, the beginning of project construction work was delayed and our offshore activities ground to a halt as workers were unable to make it to the oil rigs off the shores of Africa and Brazil due to the travel restrictions.

Maritime business, which is pooled in the **Ship** segment, recorded a slight increase in revenues, but likewise saw its EBIT dip. In the **Oil & Gas segment**, both revenues and EBIT fell. The **Renewables** segment recorded higher revenues and a significant increase in EBIT thanks to the expansion of its activities and the relatively low impact of the COVID-19 pandemic. The pandemic really made its mark on the **Industry/Infrastructure** business segment. Revenues slumped and its EBIT was negative.

The Muehlhan Group's financial position has remained stable even throughout the COVID-19 pandemic. Its financing is solid. It has a healthy ratio of equity to borrowing, and its liquidity is safeguarded.

It remains to be seen how the rest of 2020 pans out. The unforeseeable developments in relation to the pandemic mean it is impossible to make a forecast. We would like to take this opportunity to thank our shareholders, customers and suppliers for the trust they have placed in us, and our employees for their dedication over the last six months.

Stay healthy!

Hamburg, July 2020

The Executive Board

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

02 Our Share

Share price following stock market trend

The Muehlhan share was not immune from the ups and downs in the stock markets caused by the COVID-19 pandemic in the first half of 2020 and fell considerably in value.

The year got off to a quiet start. At the end of February, share prices were constant and in some cases were well above €3.00 per share. The share price then hovered between €2.80 and €2.96 per share from the end of February until mid-March, only to drop to €2.20 per share on March 16, 2020, as a result of the general stock market losses.

These losses could not be recouped by the end of the first half of 2020, and the €2.50 per share mark was not passed. The closing price of the Muehlhan share on June 30, 2020, was €2.20.

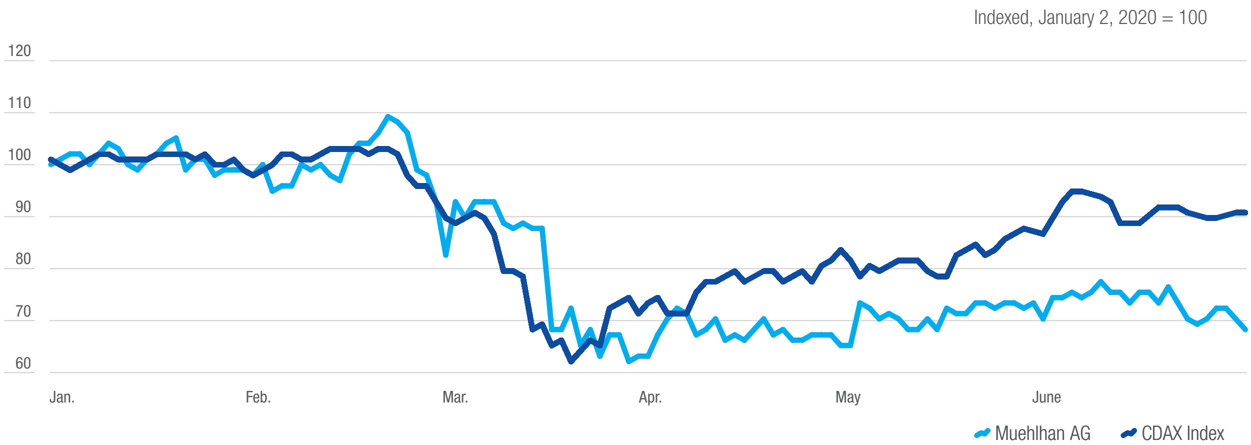
The Muehlhan share price fell by 31.3% over the course of the first half of 2020 against December 30, 2019.

Shareholder structure as of June 30, 2020

There were no major changes to the shareholder structure as of June 30, 2020, in comparison with December 31, 2019. More than 50% of the shares remain in the possession of the family that founded the company.

Scaffolding in Hamburg

Share performance in the first half of 2020



03 Group Interim Management Report

for the first half of 2020

Application of surface protection and corrosion protection coating on a ship

Economic Report

Business performance and results of operations

Performance in first half of 2020 seriously hit by COVID-19 pandemic

The first quarter lived up to expectations in terms of revenues and EBIT in spite of the initial impact of the COVID-19 pandemic. However, the first quarter is always rather muted due to seasonal influences. The pandemic very much made itself felt in the second quarter. Revenues were significantly down year-over-year and fell well short of internal expectations. However, with our industry having a lower fixed costs basis than others and due to resolutely and swiftly implemented cost reduction programs including management salary reductions, it was possible for the effects of the pandemic to be mitigated. Government support measures such as funds for short-time work were drawn on only to a very limited degree. Consolidated earnings from operations did decline by €4.4 million year-over-year, but remained positive at €0.2 million.

Revenues of €131.1 million were generated between January and the end of June 2020. This represents a decrease of 5.3% or €7.4 million compared with the prior-year period. **EBITDA** (earnings before interest, taxes, depreciation and amortization) amounted to €5.9 million as of June 30, 2020 (previous year: €8.9 million). **EBIT** (earnings before interest and taxes) amounted to €0.2 million and was therefore €4.4 million below the prior year (previous year: €4.6 million). **Consolidated income** after taxes from continuing operations after the first six months of the year decreased by €2.9 million to €-0.5 million. Consolidated income after taxes after the first six months of the year decreased by €2.9 million to €-0.5 million. The consolidated income after the first six months attributable to investors of Muehlhan AG fell by €2.4 million to €-0.8 million. Cash flow from operating activities amounted to €16.9 million compared with €-5.2 million in the comparison period. The highly positive cash flow is essentially the result of a decline in receivables due to lower revenues year-over-year. In addition, various measures were introduced in the course of the pandemic in order to protect liquidity.

Decrease in revenues can be partially offset by a reduction in expenses

The **cost of materials and purchased services** remained unchanged year-over-year at €45.7 million.

The Group's **personnel expenses** fell to €62.3 million (previous year: €66.3 million) due to a lower average number of employees of 2,857 (first half of 2019: 3,067). This decline was caused by the reduced number of hours worked by wage earners, internal salary cuts – in particular at the management level – and, to a small degree, government assistance such as funds for short-time work. Redundancies were avoided as far as possible.

At €20.0 million, **other operating expenses** for the first half of the year remained level with the prior-year period (€20.0 million). These include non-recurring expenses related to the withdrawal from a project on Germany's North Sea coast due to a negative outlook.

At €5.7 million, **depreciation and amortization** were €1.4 million above the prior-year level. This was primarily due to the conclusion of new lease agreements and the impairment of the goodwill attributable to the Middle East business segment (PRA CGU).

The **income tax result** was positive at €0.1 million thanks to tax loss carryforwards being capitalized.

Consolidated income from discontinued operations relates to MGR, a Greek subsidiary which was sold shortly after the reporting date. The company was inactive in the reporting period, while income of €-1.2 million was recorded in the previous year due to the recognition of a tax liability.

Breakdown by region

1st half of 2020

in kEUR	Europe	Middle East	North America	Rest of the World	Holding company	Reconciliation	Group
External revenues	116,727	8,238	3,422	2,603	0	125	131,116
Intersegment revenues	221	0	0	121	1,381	-1,722	0
Revenues	**116,948**	**8,238**	**3,422**	**2,724**	**1,381**	**-1,597**	**131,116**
Earnings from operations before depreciation and amortization (EBITDA)	8,744	156	-78	-58	-2,857	0	5,907
Depreciation and amortization of intangible assets and property, plant and equipment	-4,013	-717	-481	-32	-466	0	-5,709
Earnings from operations (EBIT)	**4,731**	**-561**	**-559**	**-91**	**-3,322**	**0**	**198**
Investment in property, plant and equipment	**1,147**	**45**	**9**	**0**	**159**	**0**	**1,360**

1st half of 2019

in kEUR	Europe	Middle East	North America	Rest of the World	Holding company	Reconciliation	Group
External revenues	108,633	11,928	10,988	6,836	127	0	138,512
Intersegment revenues	122	0	0	0	2,140	-2,262	0
Revenues	**108,755**	**11,928**	**10,988**	**6,836**	**2,267**	**-2,262**	**138,512**
Earnings from operations before depreciation and amortization (EBITDA)	9,552	852	954	1,056	-3,491	0	8,923
Depreciation and amortization of intangible assets and property, plant and equipment	-3,259	-285	-503	-7	-295	0	-4,349
Earnings from operations (EBIT)	**6,293**	**567**	**451**	**1,049**	**-3,786**	**0**	**4,574**
Investment in property, plant and equipment	**2,783**	**67**	**29**	**0**	**444**	**0**	**3,323**

Rounding differences may occur.

As in the past, Group revenues – amounting to €131.1 million – were generated largely through European business, for which the share of revenues was up on the prior year by 7.4% at €116.7 million. EBIT in **Europe** fell from €6.3 million to €4.7 million due to the impact of the pandemic and non-recurring expenses relating to the withdrawal from a project on Germany's North Sea coast. The holding company's revenues result from services rendered for all subsidiaries.

Revenues in the **Middle East** fell by €3.7 million to €8.2 million in the reporting period. EBIT fell from €0.6 million to €-0.6 million as a result of the pandemic and due to the impairment of goodwill.

In **North America**, some larger-scale projects neared completion last year and were then concluded in the first half of 2020. At the same time, the COVID-19 pandemic prevented construction work for follow-up projects from commencing. Revenues consequently slumped from €11.9 million in the previous year to a mere €3.4 million in the reporting period. EBIT fell correspondingly from €0.5 million to €-0.6 million.

In the **Rest of the World**, revenues fell by €4.2 million year-over-year to €2.6 million in the first half of 2020. EBIT fell by €1.1 million to €-0.1 million. Travel restrictions meant that workers could not be taken to the offshore oil rigs.

Breakdown by market

In the **Ship** segment, revenues rose slightly from €32.3 million to €33.8 million. In contrast, EBIT fell by €1.1 million to €3.4 million.

In the **Oil & Gas** segment, revenues sank by €5.4 million to €32.9 million. EBIT fell from €2.3 million to €0.5 million.

In the **Renewables** segment, revenues rose by a significant €7.3 million to €27.7 million due to expanding activities and the relatively low impact of the COVID-19 pandemic. Likewise, EBIT improved considerably to €0.9 million, having been negative in the previous year because of start-up losses incurred in the wind turbine service business.

The pandemic really made its mark on the **Industry/Infrastructure** business. Revenues of €36.5 million were generated between January and the end of June 2020, compared with €48.2 million in the same period last year. EBIT fell by €3.2 million to €-0.9 million.

Net assets and financial position

Cautious investing activities

Capital expenditure in the first half of 2020 amounted to €1.4 million and mainly consisted of replacement investments for scaffolding and surface protection equipment. The capital expenditure of the prior-year period amounted to €3.3 million.

Significantly reduced debt

The Muehlhan Group's **net debt** was significantly reduced to €8.7 million compared with €24.2 million as of December 31, 2019. This was partly due to high incoming payments for projects completed in the previous year. Additionally, due to COVID-19, the high revenues usually seen in the summer months, which to some extent had to be financed in advance in previous years, did not materialize in full. Furthermore, measures to protect liquidity were also implemented, such as the decision not to pay dividends to the shareholders, the postponement or reduction of management bonuses, use of the option to defer payments to the authorities and the reduction of investments in property, plant and equipment.

The conditions of the syndicated loan agreement have so far been complied with in spite of the impact of the COVID-19 pandemic.

Foreign currency effects and the negative consolidated income for the shareholders of Muehlhan AG brought **equity** down by €2.1 million to €69.6 million.

Forecast and Report on Opportunities and Risks

Outlook

In line with the Executive Board's expectations, the months from April to June posted significantly lower results than in the prior-year period due to the restrictions on public and business life. The ongoing development of the COVID-19 pandemic and the resulting restrictions will continue to have an impact on the Muehlhan Group's operations in the second half of 2020. However, demand for Muehlhan's services will remain strong. In contrast to the services of industries such as gastronomy and tourism, most of Muehlhan's work will be caught up on later. As there is as yet no clear picture of how things will develop, it is still not possible to provide a forecast. It is clear that revenues and income in 2020 will be significantly lower than the previous year's figures.

Opportunities and risks

From the company's perspective, there are no risks that could threaten its existence as a going concern.

The COVID-19 pandemic places a considerable burden on the Muehlhan Group in the short term. The restrictions on public and business life are causing revenues to slump considerably. Not all of the revenues lost can be offset in the short term by making savings. There are liquidity risks in the short to medium term due to the increased risk of defaults on the payment of receivables. When business picks up again, there will be a greater need for liquidity to finance working capital. However, the pandemic offers the Muehlhan Group opportunities in the medium to long term. Many revenues have simply been delayed and will be recouped. There may also be market shakeouts in some segments, from which Muehlhan can benefit as a financially stable company.

Project losses can generally not be excluded. However, there is currently nothing to indicate that such losses could occur to any major extent over the rest of the year.

As in the past, the regions and markets of relevance to the Muehlhan Group continue to vary greatly. The Oil & Gas business segment, for instance, is dependent on developments in the price of oil and the impact that this has on the willingness of our customers to invest, particularly in the North Sea. The political developments in the Middle East, particularly the blockade of Qatar, have an effect on the revenue and income prospects in the Middle East region.

Competition for qualified executives and quality-conscious technical employees remains high in the industries in which Muehlhan is active. Muehlhan's future success therefore depends in part on the extent to which we are successful over the long term in recruiting the required professionals, integrating them into existing work processes and retaining them over the long term.

There are no other material changes to the Group's opportunities and risks in comparison with the 2019 financial year. We therefore refer you to the detailed report published in the 2019 Annual Report.

04

Consolidated Financial Statements

as of June 30, 2020

CONSOLIDATED BALANCE SHEET

ASSETS in kEUR	06/30/2020	12/31/2019
Non-current assets		
Intangible assets	17,429	18,233
Property, plant and equipment	43,274	45,043
Financial assets	165	166
Other non-current assets	4,979	5,192
Deferred tax assets	2,038	1,954
Total non-current assets	**67,886**	**70,588**
Current assets		
Inventories	6,865	6,169
Trade receivables and contract assets	62,763	73,232
Cash and cash equivalents	23,297	9,999
Other current assets	11,203	14,862
Total current assets	**104,128**	**104,263**
Assets and disposal groups held for sale	499	519
TOTAL ASSETS	**172,513**	**175,370**

Rounding differences may occur.

EQUITY AND LIABILITIES in kEUR	**06/30/2020**	**12/31/2019**
EQUITY		
Subscribed capital	19,500	19,500
Capital reserve	14,178	14,178
Treasury shares	-959	-679
Other reserves	2,484	3,747
Retained earnings	31,459	32,260
Non-controlling interests	2,961	2,755
Total equity	**69,623**	**71,761**
NON-CURRENT LIABILITIES		
Pension provisions and similar obligations	876	879
Other non-current provisions	884	1,389
Non-current borrowings	24,462	26,285
Other non-current liabilities	7,036	5,897
Deferred tax liabilities	429	300
Total non-current liabilities	**33,687**	**34,749**
CURRENT LIABILITIES		
Current provisions	5,632	4,871
Current borrowings	7,540	7,912
Trade payables and contract liabilities	21,322	27,312
Other current liabilities	33,673	27,648
Total current liabilities	**68,167**	**67,743**
Liabilities directly associated with non-current assets and disposal groups classified as held for sale	1,035	1,117
TOTAL EQUITY AND LIABLITIES	**172,513**	**175,370**

Rounding differences may occur.

CONSOLIDATED INCOME STATEMENT FOR FINANCIAL HALF-YEAR 2020

in kEUR	1st half of 2020	1st half of 2019
Revenues	131,116	138,512
Other operating income	2,812	2,251
Cost of materials and purchased services	-45,654	-45,645
Personnel expenses	-62,344	-66,251
Other operating expenses	-20,023	-19,944
Earnings from operations before depreciation and amortization (EBITDA)	**5,907**	**8,923**
Depreciation and amortization of intangible assets and property, plant and equipment	-5,709	-4,349
Earnings from operations (EBIT)	**198**	**4,574**
Financial result	-824	-807
Earnings before income taxes (EBT)	-626	3,767
Income tax result	105	-1,415
Consolidated income from continuing operations	-521	2,352
Consolidated income from discontinued operations	0	-1,194
Consolidated income	**-521**	**1,158**
Consolidated income attributable to non-controlling interests	269	-469
Consolidated income attributable to shareholders of Muehlhan AG	**-790**	**1,627**
EARNINGS PER SHARE in EUR		
Shares	19,189,768	19,260,245
from continuing operations		
basic	-0.04	0.15
diluted	-0.04	0.15
from discontinued operations		
basic	0.00	-0.06
diluted	0.00	-0.06

Rounding differences may occur

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in kEUR	1st half of 2020	1st half of 2019
Consolidated income	**-521**	**1,158**
Recycable items		
Currency translation differences (legally independent entities abroad)	-1,328	494
Future cash flow hedge (effective cash flow hedge)	3	10
Other comprehensive income	**-1,325**	**504**
Income taxes on other comprehensive income	-1	9
Other comprehensive income after taxes	**-1,326**	**513**
Total comprehensive income	**-1,847**	**1,671**
of which attributable to non-controlling interests	206	-364
Shareholders of Muehlhan AG	**-2,053**	**2,035**
Total comprehensive income from continuing operations	-1,847	1,671
Total comprehensive income from discontinued operations	0	0

Rounding differences may occur

CONSOLIDATED CASH FLOW STATEMENT

in kEUR	1st half of 2020	1st half of 2019
Consolidated income attributable to shareholders of Muehlhan AG	-790	1,627
Depreciation of fixed assets	5,709	4,353
Loss from the disposal of fixed assets	45	630
Non-cash income/expenses from the allocation of gains/losses to non-controlling interests	-320	-469
Other non-cash income/expenses	-2,450	988
Increase/decrease in provisions	259	-263
Cash flow	**2,452**	**6,866**
Decrease/increase in inventories, trade receivables, contract assets and other assets	13,872	-14,674
Increase in trade payables, contract liabilities and other liabilities	1,773	4,987
Income taxes paid	-1,223	-2,381
Cash flow from/cash used in operating activities	**16,874**	**-5,202**
from discontinued operations	1	-9
Proceeds from disposals of fixed assets		
in property, plant and equipment	66	849
Capital expenditures		
in intangible assets	-17	-26
in property, plant and equipment	-1,343	-3,323
Interest received	8	11
Cash used in investment activities	**-1,286**	**-2,489**
from discontinued operations	0	0
Payments to shareholders and non-controlling shareholders (dividends)	0	-1,971
Cash flow from repayment/taking up borrowings under current financial liabilities*	370	-4,735
Cash flow from taking up/repayment of non-current borrowings*	-1,961	13,155
Interest paid	-624	-692
Cash used in/cash flow from financing activities	**-2,215**	**5,757**
from discontinued operations	0	0
Currency, scope of consolidation and valuation-related changes in cash and cash equivalents	-76	189
Total changes in cash and cash equivalents	13,298	-1,745
Cash and cash equivalents at the beginning of the period	9,999	9,900
Cash and cash equivalents at the end of the period	**23,297**	**8,155**

*Proceeds and payments are shown on a net basis.

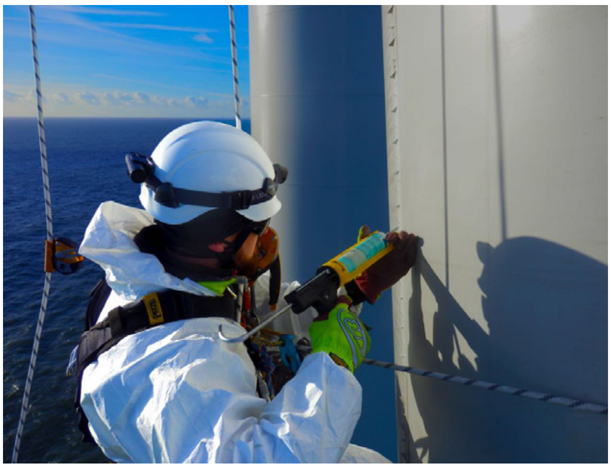
Cash and cash equivalents correspond to the balance sheet item “Cash and cash equivalents”.

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			Profit reserves	Conversion reserve	Cash flow hedge reserve	Adjustment from currency translation
As of 01/01/2019	**19,500**	**13,826**	**5,586**	**-91**	**-17**	**-576**
Changes in treasury shares						
Dividends paid						
Withdrawal from retained earnings		195	99			
Other changes						
Total comprehensive income					19	389
As of 06/30/2019	**19,500**	**14,021**	**5,685**	**-91**	**2**	**-187**
As of 01/01/2020	**19,500**	**14,178**	**5,036**	**-91**	**-2**	**-1,196**
Changes in treasury shares						
Other changes						
Total comprehensive income					2	-1,265
As of 06/30/2020	**19,500**	**14,178**	**5,036**	**-91**	**0**	**-2,461**

Rounding differences may occur.



Servicing work on an offshore wind turbine

Retained earnings	Treasury shares	Equity	Non-controlling interests	Equity
27,788	**-537**	**65,479**	**2,779**	**68,258**
	-184	-184		-184
-1,924		-1,924	-47	-1,971
-294		0		0
-15		-15		-15
1,627		2,035	-364	1,671
27,182	**-721**	**65,391**	**2,368**	**67,759**
32,260	**-679**	**69,006**	**2,755**	**71,761**
	-280	-280		-280
-12		-12		-12
-789		-2,052	206	-1,846
31,459	**-959**	**66,662**	**2,961**	**69,623**

Servicing work on an offshore wind turbine

Surface coating of tower segments of wind turbines

Notes

Company

Muehlhan AG is headquartered at Schlinckstrasse 3, Hamburg, Germany, and registered in the Commercial Register of the Municipal Court of Hamburg under HRB 97812. Muehlhan AG and its subsidiaries ("Muehlhan Group") provide surface protection, passive fire protection, scaffolding and access technology, steel construction and insulation services.

Consolidated group

The consolidated group did not change against December 31, 2019.

Principles for the preparation of the interim consolidated financial statements

The interim consolidated financial statements for the period from January 1 to June 30, 2020, were prepared in accordance with IAS 34 Interim Financial Reporting and were not subject to any audit or review by an auditor. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the period ending December 31, 2019.

Significant accounting and valuation principles

The figures for this interim report were determined in accordance with International Financial Reporting Standards (IFRS). The financial statements were prepared based on the going-concern premise.

The following matters are worthy of mention in comparison to the consolidated financial statements as of December 31, 2019:

In relation to the COVID-19 pandemic, Muehlhan made use of government assistance such as funds for short-time work only to a very limited degree. Accounting will not be performed in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance as this has no bearing on the net assets, financial position and results of operations of the consolidated financial statements.

The exemptions to IFRS 16 Leases that were introduced due to COVID-19 pandemic were not applied.

In the 2019 financial year, the decision was taken to sell the Greek business segment as represented by the subsidiary MGR, along with all existing assets and liabilities. Due to this decision, the company met the criteria for being included in the "assets and disposal groups held for sale" classification within the meaning of IFRS 5 and was consequently recognized as such as of December 31, 2019. This classification had not changed as of June 30, 2020.

The result from the fair-value measurement of business segments or disposal groups designated for sale, less any costs of disposal that may yet be incurred, and gains and losses from the disposal of discontinued operations, as well as the earnings from these business segments' normal operating activities, are reported separately as "Earnings from discontinued operations" on the Group's income statement. The prior-year figures in the income statement have been modified accordingly. The corresponding assets are reported in a separate balance sheet item.

The Greek business segment was sold on July 16, 2020.

Discretionary decisions and estimates

To fulfill our duties when preparing the interim consolidated financial statements, we sometimes have to make discretionary decisions, assumptions and estimates that affect the amounts of assets and liabilities, income, expenses and contingent liabilities reported, as well as how these are classified. Estimates and discretionary decisions are reassessed continually and are based on historical experience and other factors, including expectations about future events that appear reasonable given the circumstances. The Group makes assumptions and estimates about the future. Actual values may differ from the assumptions and estimates in particular instances. Adjustments are recognized in profit or loss on the date that more information becomes available. On the reporting date, management mainly 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 forward-looking assumptions. The Group conducts these tests annually and more often if there is evidence that a goodwill impairment might have occurred. It entails measuring the recoverable amount for the cash-generating unit, which is the higher of fair value less costs of disposal and the value in use. Calculating the value in use involves making adjustments and estimates relating to the projection and discounting of future cash flows. Although 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.

The COVID-19 pandemic served as an indication that goodwill as of June 30, 2020, should be tested for impairment.

Goodwill for the respective units was tested for impairment by applying the DCF (discounted cash flow) method to the value in use based on four-year business plans (Level III valuation). The business plans were implemented in the fourth quarter of 2019 and extensively revised in May 2020 due to the pandemic and its impact. The business plans are based on historical data, such as experience with existing customer relationships, and incorporate assumptions regarding market trends. The plans were drawn up under the assumption that the impact of the pandemic would abate in the second half of 2020, but that there would be significant declines in revenues and EBIT. The markets are expected to recover further in 2021, but a return to the levels before the pandemic outbreak is not expected until 2022 at the earliest.

There are uncertainties regarding the underlying assumptions used in the CGU calculations, particularly with respect to the development of revenues 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 estimation uncertainties are significantly greater than on December 31, 2019, as a result of the pandemic.

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	06/30/2020	12/31/2019
Germany	6.7%	7.8%
Poland	9.4%	10.3%
Rest of Europe	6.8% – 10.8%	7.9% – 12.7%
Middle East	8.2% – 8.3%	8.2% – 9.6%
Rest of the World	7.5%	8.5%

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.

The impairment test resulted in the full impairment of the €0.3 million in goodwill attributable to the company Procon Emirates L.L.C. in Dubai and Abu Dhabi (UAE), which operates in the Middle East.

As part of a sensitivity analysis for CGUs to which substantial goodwill has been allocated, the particularly sensitive parameters EBIT margin and discount rate (WACC) were tested. A decrease in the EBIT margin of 1.0% or an increase in the WACC of 1.0% would result in an impairment loss at the MD CGU of €1.1 million. A lower decrease in the EBIT margin and/or a lower increase in the WACC would not lead to any impairment loss. As of December 31, 2019, there was a need for impairment of €1.0 million to the EBIT margin and €0.7 million to the WACC when applying the same percentages (1.0% reduction/increase).

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

- Impairment of non-current assets:

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 an impairment.

There were no indications at the reporting date of any significant changes in comparison to December 31, 2019.

- Impairment of current assets:

The Group recognizes impairments for credit-impaired receivables to reflect expected losses due to customer insolvency. The Group bases its assessment of the appropriateness of impairments for credit-impaired receivables 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.

Application of fire protection

There were no indications as of the reporting date of any significant changes in comparison to December 31, 2019.

- 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 and in particular in the course of the year. 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. It is assumed that the tax losses incurred in the short term due the COVID-19 pandemic can be offset by future taxable income and thus that deferred tax assets are recoverable from tax loss carryforwards.

- Deferred taxes:

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.

- 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.

Remarks

For the purpose of preparing the interim consolidated financial statements, the Executive Board makes judgments, estimates and assumptions that affect the application of accounting principles in the company and the reporting of assets and liabilities and of income and expenses. The actual amounts may differ from the estimates. The business results for the first six months of the financial year are not necessarily indicative of the results that may be expected for the entire year, particularly in light of the fact that impairment testing, especially for goodwill, is only performed at the end of the year and takes into consideration the budgeting for the next few financial years, which is performed in the fourth quarter.

Expenses regularly incurred during the financial year are only recognized or deferred in the consolidated financial statements to the extent that the deferral would also be appropriate at the end of the year.

Events after the reporting date

The Greek business segment was recognized pursuant to IFRS 5. The Greek business segment was sold on July 16, 2020.

There were no other events or new information of material significance for the business and/or for assessing the business after June 30, 2020.

Hamburg, July 29, 2020

Muehlhan AG
The Executive Board

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

Responsibility statement

We confirm that, to the best of our knowledge, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with the generally accepted accounting principles for interim financial reporting and that the Group interim management report includes a fair review of the business performance including the business results and position of the Group together with a description of the main opportunities and risks associated with the expected development of the Group for the remainder of the financial year.

Hamburg, July 29, 2020

Muehlhan AG
The Executive Board

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

05 Additional Information

CONTACT

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

Investor Relations
Frithjof Dorowski
Phone +49 (0)40 752 71-166
investorrelations@muehlhan.com

FINANCIAL CALENDAR

October 30, 2020	Publication of results for the third quarter of 2020

IMPRINT

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NOTES

This interim financial report is published in German and English. The German version is authoritative.
For further information about the company, please visit www.muehlhan.com.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements regarding the future development of Muehlhan AG. These statements reflect the management's current views and are based on the corresponding plans, estimates and expectations. We would like to point out that the statements contain certain risks and uncertainties that may lead to the actual results differing significantly from those forecast. Although we are certain that the statements we have made are realistic, we cannot guarantee that future developments will match these statements.