



**ANNUAL REPORT 2016**

2016



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B o h r t e c h n i k

## SHARE INFORMATION

ISIN: DE0007830572

WKN: 783057

Exchange Segment: Open Market Entry Standard of the Frankfurt Stock Exchange until February 28th.

Since 1 March 2017 shares are traded through the newly created "Scale" segment of the Frankfurt Stock Exchange's Open Market.

Ticker Symbol: 4DS

Fiscal Year End: 31 December

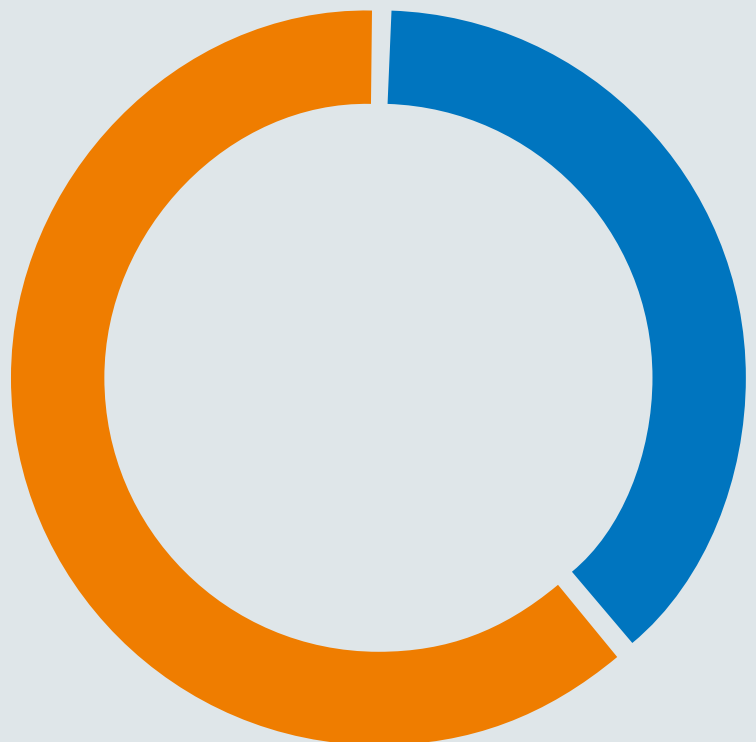
## SHAREHOLDER STRUCTURE AS AT 31/12/2016

Number of Shares:	5,445,000	100.0 %
Daldrup Family:	3,563,190	65.21 %
Free Float:	1,881,810	34.79 %

Josef Daldrup	5.69 %
Karl Daldrup	17.98 %
Bernd Daldrup	18.02 %
Thomas Daldrup	18.02 %
Michaela Daldrup	5.73 %
Free Float	34.79 %

**DALDRUP FAMILY: 65.21 %**

**FREE FLOAT: 34.79 %**





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# GROUP MANAGEMENT REPORT

FOR THE FISCAL YEAR FROM  
1 JANUARY TO 31 DECEMBER 2016

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

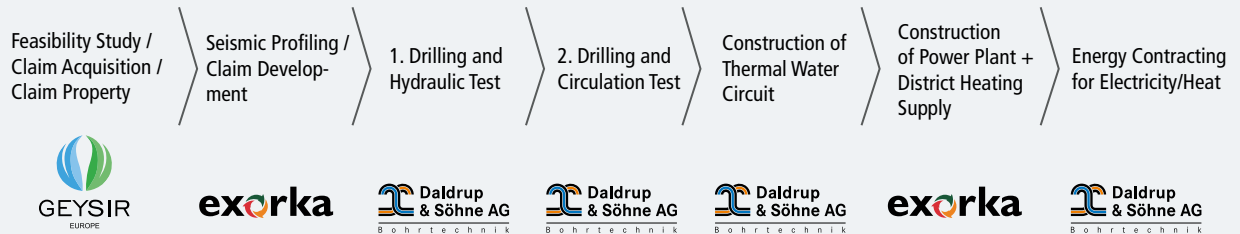
### 1. GROUP STRUCTURE AND BUSINESS ACTIVITIES

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

permits for the exploration of geothermal energy in a particular area (claims), develops the claims through to drill readiness, executes the drillings, constructs the power plant and takes care of energy contracting and power plant operations.

The aim of the Daldrup Group is to promote and drive forward the development of energy supplies using renewable energy sources in order to provide a competitive, climate-friendly alternative to fossil fuels, the world's primary energy source.

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



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

#### PROVIDER OF DRILLING SERVICES



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



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

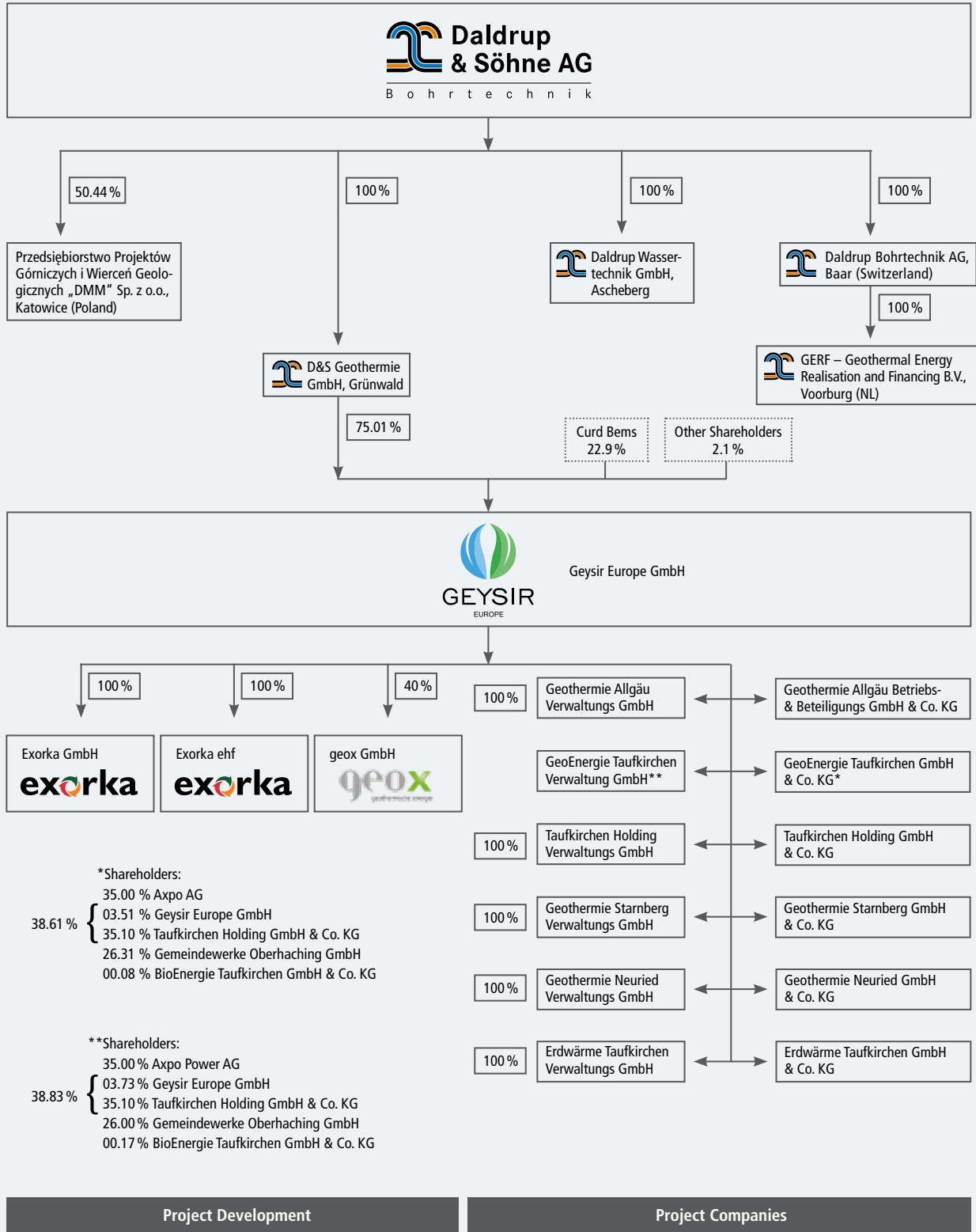


- The Company's own exploration rights (claims) for the active implementation of its own deep geothermal projects regarding electricity and heat generation
- Worldwide licence to use Kalina Power Cycle Technology and exclusive rights to use it in Germany
- The Daldrup Group combines the expertise of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

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

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

GROUP STRUCTURE AS AT 31/12/2016





### **ORGANISATION**

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

### **BUSINESS ACTIVITIES**

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

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

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

Furthermore, the direct use of geothermal energy for heating and cooling superstructures in terms of both new construction projects and as part of energy-efficient building renovation in Germany cannot be ignored. Reservoirs with thermal water temperatures that are lower than 110 °C and that generally require drilling depths of between 1,000 and 3,000 metres can be used in this manner. In addition to this, during the last few years in Germany the regulatory framework to promote the use of heat from renewable energy sources has continued to be extended and improved.





These notably include the National Energy Efficiency Action Plan (NAPE) and the Buildings' Energy Efficiency Strategy (ESG), designed to enhance and strengthen existing laws and measures such as the Renewable Energies Heat Act (EEWärmeG), the Market Incentive Programme (MAP) and the Energy Saving Ordinance (EnEV). Further details of this can be found in Chapter 2, "Market and Competition".

The main focus of the Daldrup & Söhne AG German operations is currently in the Bavarian Molasse basin around Munich, the Upper Rhine Rift Valley, and at a later stage, in the North German Plain. During the 2016 fiscal year international activities particularly focussed on the Netherlands, Belgium, Switzerland and Poland. Daldrup & Söhne AG's activities across Europe shall focus in future on sites with especially good geothermal energy potential and corresponding sales opportunities for electricity and heat. Deep wells down to a depth of 6,000 metres represent a challenge for both teams and technology. Daldrup & Söhne AG has successfully drilled more than 10.000 wells in various geological formations during the course of the Company's history, including the sinking of over 50 wells for deep geothermal projects. The Geothermal Energy business unit achieved a 52.7 % share of the Daldrup Group revenue for 2016 (previous year: 30.3 %).

During fiscal year 2016, the Daldrup Group was involved in the following geothermal power plant projects in which it holds its own shares:

#### **TAUFKIRCHEN GEOTHERMAL POWER PLANT**

In the Taufkirchen power plant project, the thermal water well system was successfully created in 2012 with a thermal capacity of approx. 38 MW. As part of the planning permission procedure for the deep geothermal energy power plant in Taufkirchen, where there have been significant delays since 2012, planning permission was granted in August 2013 and implemented from December 2013. Questions regarding the site dependency and thus the privileging of the overall project externally therefore had to be explained in depth with the licensing authorities. The foundation work for the power plant began in 2014 after the well site had been dismantled. The superstructure was near completion in 2015, including the power plant technology. In September 2015 production unit tests for heat extraction and

electricity production were commenced. Since the end of 2015, heat directed from the new cogeneration plant has been fed into the district heating networks of the communities of Taufkirchen and Oberhaching. The power generating unit is not yet in operation because defects were discovered on externally supplied heat exchangers. New heat exchangers have been ordered from the company Kelvion Holding GmbH, Bochum (formerly GEA Heat Exchangers). They are expected to be delivered and installed in summer 2017. Electricity production can then commence following a period of testing. When it is fully completed, the installed capacity of the geothermal cogeneration plant will total approximately 35 MW for thermal energy and about 4.3 MW for electricity.

#### **LANDAU IN DER PFALZ GEOTHERMAL POWER PLANT**

In August 2013, Daldrup acquired 40 % of the shares in the geox GmbH (Landau/Pfalz) power plant company from EnergieSüdwest AG via Geysir Europe. The Parties also agreed on an option for Geysir Europe to purchase an additional 10 %. The power plant, equipped with ORC technology has a capacity of max. 3.6 MW for electricity and max. 7 MW for thermal energy. On 1 March 2014, geox GmbH took over the operational management of the Landau power plant from the engineering firm used by the previous shareholders EnergieSüdwest and Pfalzwerke Aktiengesellschaft. After a leakage, the cause of which clearly predates the acquisition of shares and the take-over of operational management by the Daldrup Group, geox GmbH shut the power plant down as a precaution to avoid damage to the environment and technology and to help investigate the causes. In 2015 and 2016 the power plant was upgraded in terms of safety and economical operation in coordination with the authorities. In July 2016 the federal state authority for geology and mining (LGB) extended the permit for the main operating plan of geox GmbH, operator of the Landau geothermal energy power plant. The Office has stated that it will approve the re-commissioning of the power plant for the generation of electricity as soon as the final maintenance and modernisation work has been completed and the corresponding acceptance tests and documentation pursuant to the special operating plan have been provided. Daldrup aims to restart the power plant as soon as possible, with a period of testing swiftly followed by a return to regular operations.



### NEURIED GEOTHERMAL POWER PLANT

All the necessary steps to gain the permits and approvals for the deep geothermal power plant project in the municipality of Neuried (district of Ortenau) have been set in motion. The power plant has a projected capacity of 1.95 MWe. Heat can also be provided to supply local industry or residential property if required. Planning permission has been granted and the drill permit which was granted in June 2013 is in effect on a provisional basis. There is already a cover letter headed by R+V Versicherung for exploration risk and installation insurance. The state of Baden-Württemberg has approved a grant totalling EUR 1 million for the project as a default guarantee for the first deep well. Geysir Europe GmbH purchased the power plant site at the end of the 2014. The project development team failed to make substantial progress during the reporting period. This was due above all to a claim, filed with the federal state of Baden-Württemberg by the town of Kehl at the administrative court in Freiburg in July 2014, against the approval under mining law of the main operating plan for the four geothermal wells. The town of Kehl's claim was rejected by the administrative court of Freiburg in the first quarter of 2017. In the context of Geysir Europe GmbH's current application to have the permit for its main operating plan extended, the regional council of Freiburg will take into consideration the result of a preliminary environmental impact assessment. If necessary Geysir Europe GmbH will also need to produce a full environmental impact assessment.

### THE DALDRUP GROUP ALTERNATIVE RISK TRANSFER CONCEPT

Together with partners Daldrup & Söhne AG has recently developed a so-called Alternative Risk Transfer structure to hedge the exploration risks inherent in the preparation of deep geothermal projects. It outlines a unique, integrated insurance model which ensures, within the framework of a reinsurance structure, that geothermal drilling and energy projects can be facilitated and financed at an early stage with a high degree of leverage. In addition to hedging exploration risks this structure comes with the added side effect of significantly reducing the equity requirements of the client at the scouting stage. For project developers and investors this therefore means that geothermal wells – including the initial well which entails the highest exploration risk – can be financed by way of bank loans right from the outset. Daldrup acts neither as a financier nor insurer and also takes no risks onto its books.

Daldrup implemented the ART concept for the first time in 2015/16, on a turnkey geothermal energy project for Dutch greenhouse operators (Nature's Heat B.V., Kwintshuyl). This project is to a large extent financed by an international Dutch bank. Thanks to this new, integrated insurance concept the client's equity stake remained low. This innovative concept which the Daldrup Group is able to offer its customers is an important market opener for the company for further geothermal projects in Germany and Central Europe. It also acts as a unique selling point. Also in the reporting year Daldrup actively implemented the ART concept in project development and as a result acquired its first major geothermal project in Germany in 2017.

In the **Raw Materials & Exploration** business unit, Daldrup & Söhne AG carries out drilling operations on behalf of national and international mining companies for the exploration of deposits of fossil fuels (especially hard coal, oil and gas) as well as mineral raw materials (e.g., salts, ores, copper, nickel, zinc and limestone). Another major area comprises activities in respect of the exploration and securing of the substratum in mining areas. The share of the Daldrup Group revenue generated in 2016 by this business unit amounts to 38.7 % (previous year: 32.8 %).

The **Water Procurement** business unit represents the entrepreneurial origins of Daldrup & Söhne AG. It includes drilling wells to obtain drinking water, process water, thermal and mineral water, boiler feed-water and cooling water as well as thermal brine. Alongside the actual drilling, Water Procurement also uses a number of special building techniques; from stainless steel piping supplying drinking and mineral water to the professional development of well systems, right through to the installation of modern filtration and pump systems. In global terms, water is an expensive commodity in short supply. Water management will be of major importance in future: The water distribution networks of the industrialised nations are dilapidated. A large proportion of the world's population has no access to supplies of drinking water and drink waste water that has been inadequately treated. The Water Procurement business unit represents 1.0 % (previous year: 26.5 %) of the Daldrup Group revenue for 2016.

The fourth business unit, **EDS**, brings together special environmental technology services for a broad range of clients. Daldrup & Söhne AG's expertise has been repeatedly demonstrated in relation to the hydraulic remediation of contaminated sites, the planning and construction of gas extraction wells for obtaining landfill gas, the provision of groundwater quality measurement points or the construction of water purification plants. The EDS business unit contributed a 7.6 % (previous year: 10.4 %) share to the Daldrup Group revenue generated during the 2016 fiscal year.

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

An average of 143 employees were employed by the Daldrup Group in 2016 (previous year: 115). In addition to this, other companies made up to about 30 further employees available to Daldrup & Söhne AG on a flexible basis.



## 2. MARKET AND COMPETITION

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

High technical, financial and regulatory/administrative barriers to market entry as well as the limited availability of qualified drilling capacity by companies with sufficient experience with geothermal drilling and the limited amount of claims (drilling rights) in Germany all underline the good position of Daldrup & Söhne AG. In addition, the Company has a healthy order book in all business units, which guarantees capacity utilisation and planning security until 2018.

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

Through the Renewable Energy Sources Act (EEG), the German Federal Government has promoted geothermal plants for the generation of electricity. The EEG offers a great deal of planning and investment security by offering fixed tariffs to be paid for a period of 20 years. There is an entitlement to feed-in tariffs or sponsored direct marketing for the electricity generated and with respect to the relevant grid operator (power supply company) or the direct marketing company. This is embedded even further in the EEG 2017, passed in the middle of 2016. Moreover, the geothermal industry remains exempt from the tendering procedure intended for wind and solar projects. The feed-in tariffs for electricity will remain at 25.2 cent/kWh for the next 20 years for plants that have been approved under mining law by 31/12/2019 and put into operation by 31/12/2022. The production of deep geothermal energy units to generate electricity and/or heat also receives additional support through the German Market Incentive Programme. Research funding also plays an important part in the deep geothermal energy sector. For additional information on this, please refer to chapter 5, "Research and Development".

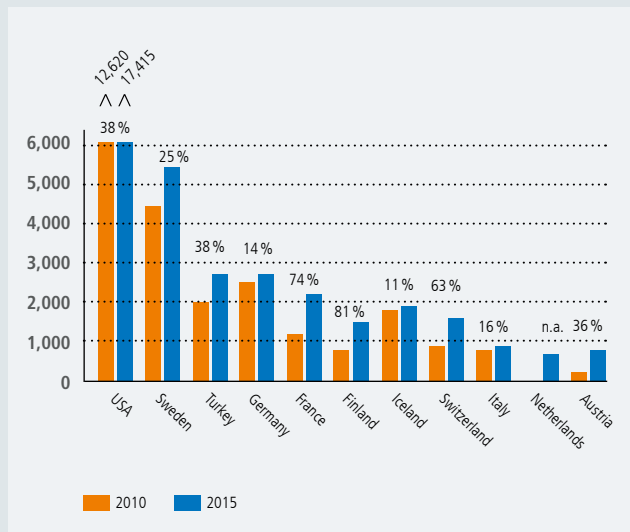
Electricity production from deep geothermal energy is still a relatively young niche market in Germany. The generation of electricity, e.g. by using Kalina technology, becomes viable once temperatures reach in excess of 110 °C. According to the German Federal Geothermal Association (BVG), deep geothermal power plants in Germany have an installed output of 36.9 MW. There are currently 33 deep geothermal power plants in operation, the vast majority of which are hydrothermal.

In addition to the electrical output they generate a thermal capacity of 303.7 MW. A further 32 deep geothermal energy projects are currently under way or in the planning stages. Unlike deep geothermal energy, near-surface geothermal energy (drilling depth below 400 m) has already achieved greater market penetration. The BVG estimates that 350,000 units (e.g. geothermal energy probes or collectors in conjunction with heat pumps) are in operation and provide approximately 4,100 MW. In 2016, 20,700 units were installed. For Germany, the BVG anticipates an installed geothermal heat output of deep and near-surface geothermal energy of approximately 4,400 MW.

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



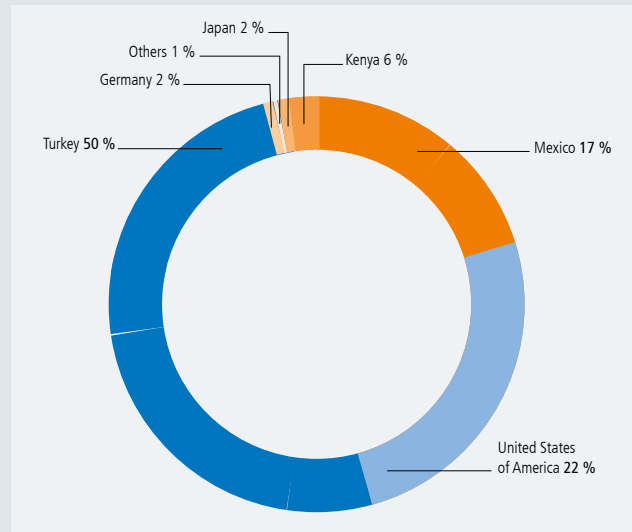
### CHANGE TO INSTALLED OUTPUT (MW) GEOTHERMAL ENERGY IN % 2010 VS. 2015



Source: German Federal Geothermal Association, heat generation through geothermal energy worldwide, [www.geothermie.de/aktuelles/geothermie-in-zahlen/weltweit.html](http://www.geothermie.de/aktuelles/geothermie-in-zahlen/weltweit.html), 17 May 2017

The report on global developments in renewable energies "Renewables 2016 – Global Status Report" assumes a geothermal energy production capacity for the geothermal industry of 151 TWh in 2015. This is equally accounted for by electricity generation and geothermal direct use. In 2015 the report states that 315 MW of new geothermal capacity was installed, taking world's available capacity to around 13.2 GW. The graph depicts the contribution of individual countries to this growth in capacity. At the end of 2015, the countries with the largest amounts of geothermal power generating capacity were the USA with 3.6 GW, the Philippines with 1.9 GW, Indonesia with 1.4 GW, Mexico with 1.1 GW, New Zealand with 1.0 GW, as well as Italy with 0.9 GW and Iceland with 0.7 GW.

### EXPANDING GLOBAL CAPACITY FOR GEOTHERMAL ELECTRICITY GENERATION, SHARE OF INDIVIDUAL COUNTRIES 2015



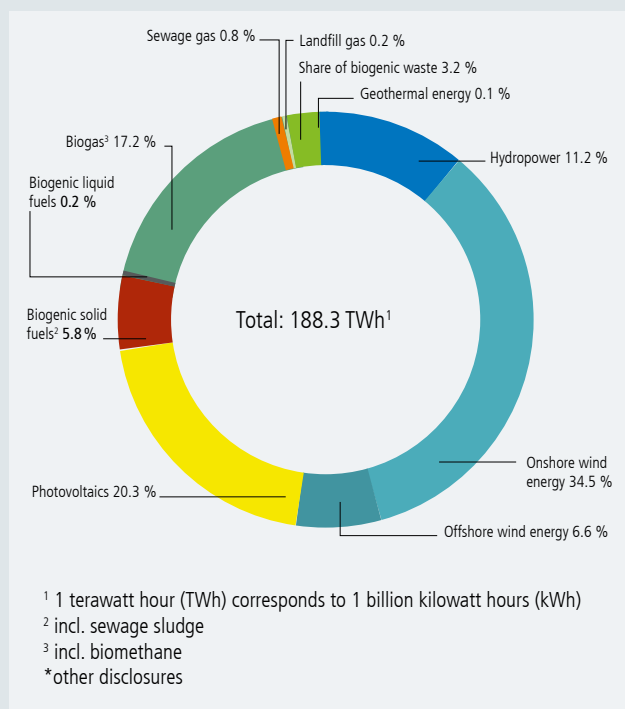
Source: Renewable Energy Policy Network for the 21st Century, Renewables 2016 – Global Status Report, page 51

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

The German government is committed to the move towards alternative energy. The last nuclear power plant will be removed from the grid in Germany in 2022 and CO<sub>2</sub> emissions must be reduced by 40 % (base year 1990) by 2020. With the EEG amendment which took effect on 1 August 2014, the renewable energies are to be extended to provide 40 to 45 % of the electricity by 2025 and 55 to 60 % by 2035. The National Action Plan for Renewable Energy (2010) stipulates that the generation of electricity from geothermal energy should total 1,654 GWh. Geothermal energy should provide around 14,400 GWh of heat.

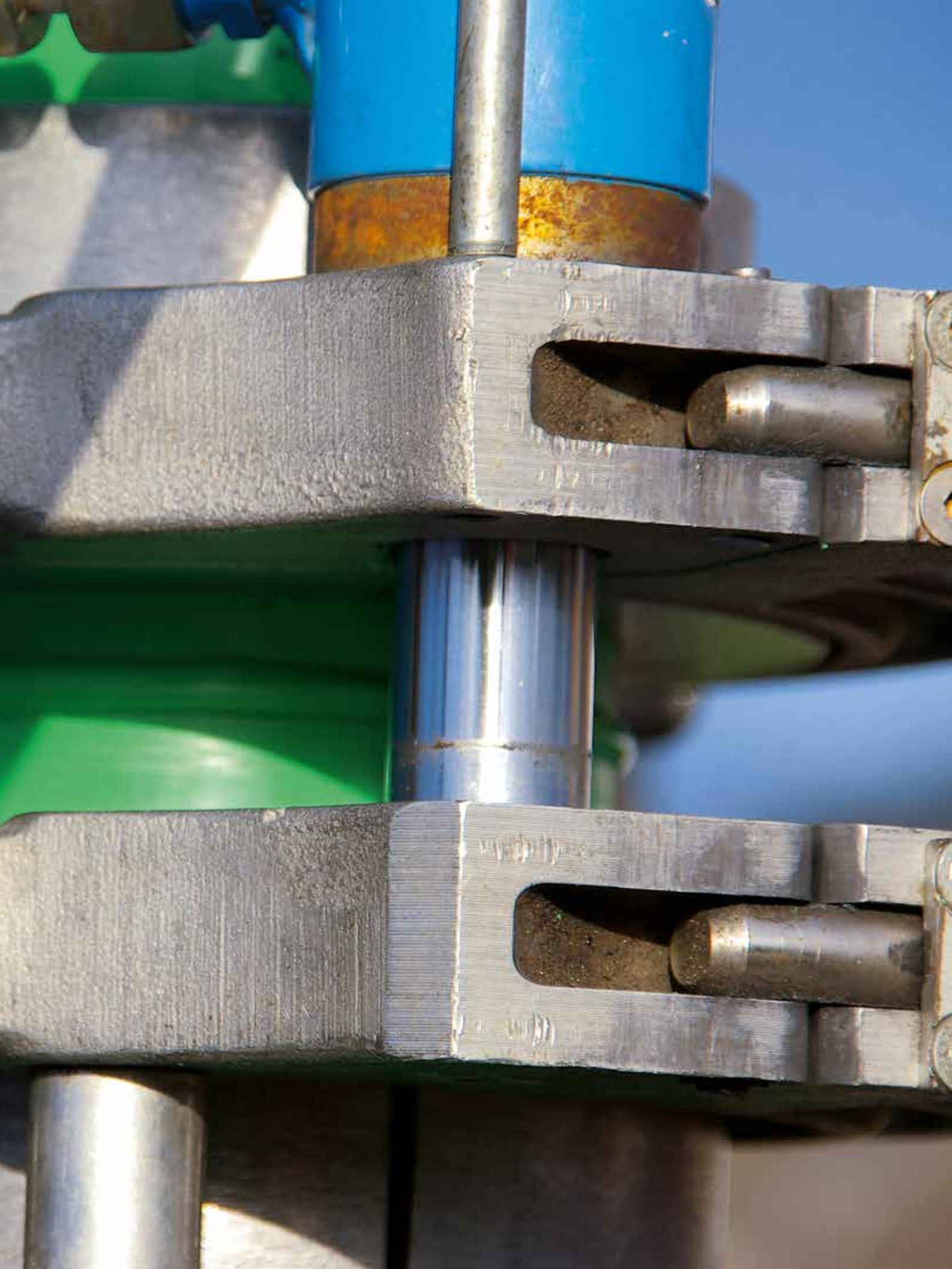
The share in renewable energy in terms of German gross electricity consumption showed a slight increase in 2016 to 31.7 % (2015: 31.5 %). At 188.3 billion kWh the generation of electricity from renewable energy sources was only slightly higher compared to the previous year (187.4 billion kWh). However the stable share in 2016 does not mean that the expansion of renewable energies slowed in Germany. These recent developments are exclusively attributable to a downturn in power generation brought about by the weather. Renewable energies have thus consolidated their status as the most important source of power. However, further dynamic growth and a conducive market environment are both necessary if the target of 40 to 45 % of gross electricity consumption is to be met by 2025. As ever the importance of geothermal energy production in Germany is low, but is steadily increasing. The increase in the reporting period amounted to approximately 13 % with an estimated 151 million kWh according to the Federal Environment Agency. Never before has this amount of electricity from geothermal energy been fed into the grid. The share of geothermal energy in the electricity production of renewable energies was thus around 0.03 % (previous year: 0.02 %).

### ELECTRICITY GENERATED BY RENEWABLE ENERGY SOURCES IN GERMANY IN 2016\*



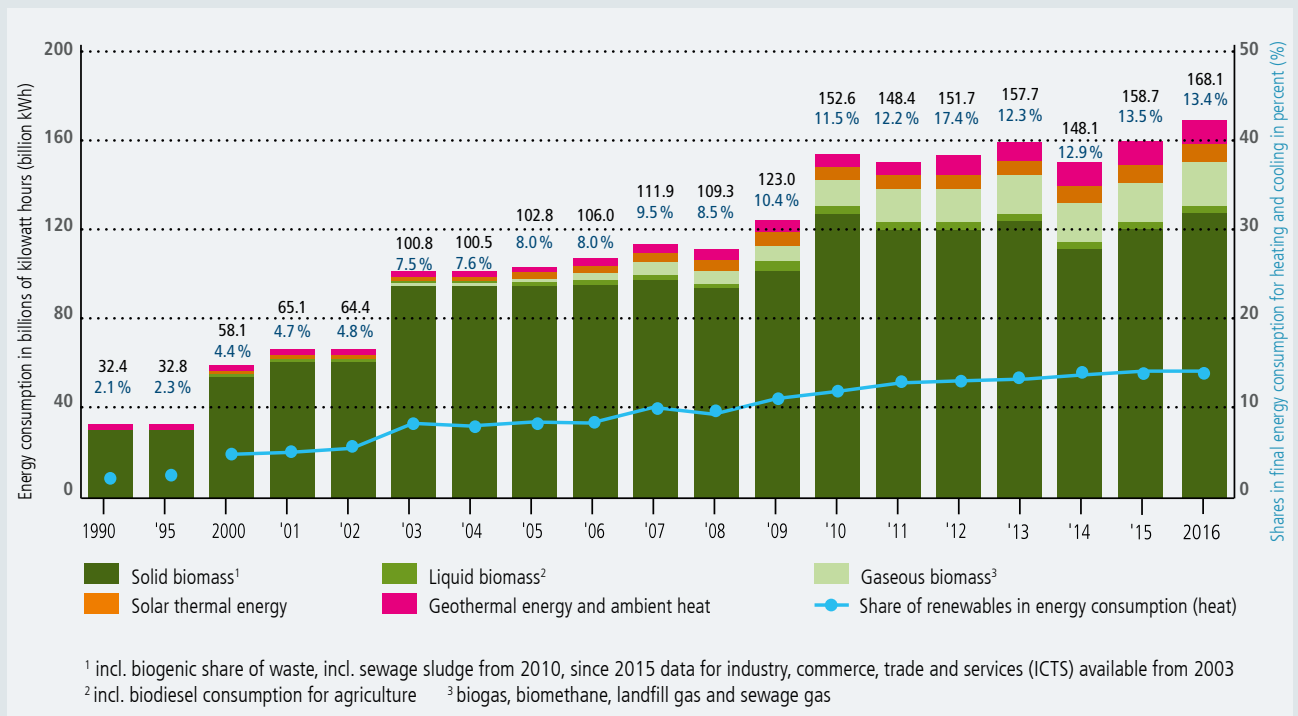
Source: Renewable energy sources in Germany, data on the development in 2016, Federal Environment Agency, February 2017

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





### PROVISION OF HEAT FROM RENEWABLE ENERGIES IN GERMANY FROM 1990 - 2016 IN BILLION KWH



Source: Renewable energy sources in Germany, data on the development in 2016, Federal Environment Agency, February 2017

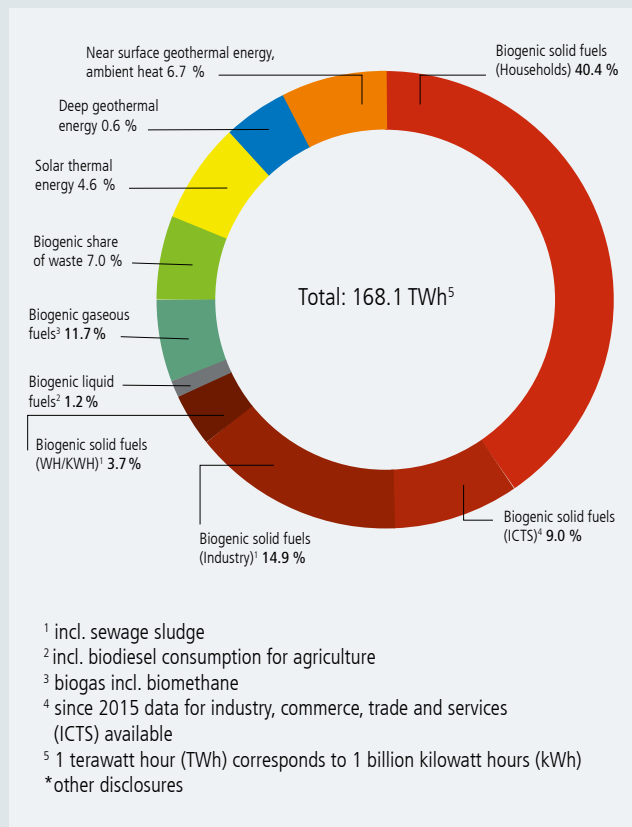
The heat consumption from renewable energy sources increased by around 6 % to 168.1 billion kWh in 2016 (previous year: 158.7 billion kWh). As a result of somewhat colder weather, overall heat consumption increased slightly compared to the previous year. At 13.4 %, the share of renewable energy in terms of the total German energy consumption has remained on a par with the previous year's level (13.5 %). To summarise, however, the growth of renewable energy in the heat market needs to be accelerated to 14 % of total heat consumption by 2020 in order to achieve the target that was self-imposed as part of the Integrated Energy and Climate Programme of the German Federal Government.

From geothermal energy sources (deep geothermal energy, near-surface geothermal energy and ambient heat), a total of 12,273 GWh (previous year: 11,320 GWh) of heat was used in 2016, which represents an increase of 8 %. In terms of total heat consumption from renewable energy sources, the share of geothermal energy remains the same as the previous year at 7.3 %.





### HEAT CONSUMPTION FROM RENEWABLE ENERGY SOURCES IN GERMANY IN 2016\*



Source: Renewable energy sources in Germany, data on the development in 2016, Federal Environment Agency, February 2017



### 3. STRATEGY, OBJECTIVES AND COMPANY MANAGEMENT

Daldrup & Söhne AG's strategies and objectives remain unchanged, expressed as the intention to achieve sustainable growth on the one hand and to expand the Company's leading market position in Germany and Europe as an experienced drilling technology specialist. The Company is now also engaged in geothermal power plant projects to generate additional revenue from supplying the grid and the sale of electricity and heat through feed-in tariffs and direct marketing premiums provided by the EEG. The two objectives are closely linked strategically.

The medium-term goal is to develop the Daldrup Group into a medium-sized independent energy supply company. Decisive steps in this direction were already taken in 2009 and 2010 in the form of a majority holding in Geysir Europe GmbH, Grünwald. Through this investment Daldrup acquired both geothermal expertise along the value chain and claims for geothermal development. The Group launched its first geothermal power plant project in Taufkirchen, near Munich. The thermal water well system was successfully created in 2012 with a thermal capacity of approx. 38 MW. Since the end of 2015, heat directed from the new cogeneration plant has been fed into the district heating networks of the customers. The commissioning of the power generating unit is scheduled for summer 2017 following the delivery and installation of two heat exchangers.

In August 2013, the Daldrup Group held a 40 % share in the existing geothermal power plant at Landau in der Pfalz, which achieved a thermal capacity of max. 7 MW and an electrical capacity of max. 3.6 MW. On 1 March 2014, geox GmbH took over the operational management of the Landau power plant from the engineering firm used by the previous shareholders EnergieSüdwest und Pfalzwerke. After a leakage, the cause of which clearly predates the acquisition of shares and the take-over of operational management by the Daldrup Group, geox GmbH shut the power plant down as a precaution. In 2015 and 2016 the power plant was upgraded in terms of safety and economical operation in coordination with the authorities. In July 2016 the federal state authority for geology and mining (LGB) extended the permit for the main operating plan of geox GmbH, operator of the Landau geothermal energy power plant. The Office has stated that it will approve the re-commissioning of the power plant for the generation of electricity as soon as the final maintenance and modernisation work has been completed and the corresponding acceptance tests and documentation pursuant to the special operating plan have been provided. Daldrup aims to restart the power plant as soon as possible, with a period of testing swiftly followed by a return to regular operations.

In 2014, the Daldrup Group acquired a site in Neuried (district of Ortenau) on which the Neuried geothermal power plant is to be built. The power plant has a projected capacity of 1.95 MWe. Heat can also be provided to supply local industry or residential property if required. The project was put on hold for several years due to a claim, filed with the federal state of Baden-Württemberg by the town of Kehl at the administrative court in Freiburg, against the approval under mining law of the main operating plan for the four geothermal wells. The town of Kehl's claim was rejected by the administrative court of Freiburg in the first quarter of 2017. In the context of Geysir Europe GmbH's current application to have the permit for its main operating plan extended, the regional council will take into consideration the result of a preliminary environmental impact assessment. If necessary Geysir Europe GmbH will also need to produce a full environmental impact assessment.

### 4. INVESTMENTS AND STRATEGIC PARTNERSHIPS

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

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

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

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

The use of geothermal energy as a resource-conserving energy source is being well received by industrial greenhouse operators (vegetables, flowers, plants) in the Netherlands. The Dutch Ministry of Economics and the regional provinces are supporting this development through a programme of subsidies for investment in self-sustaining geothermal heating plants. Daldrup has had a presence in the Netherlands since 2011 through its representative office GERF – Geothermal Energy Realisation and Financing B.V.

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

Daldrup & Söhne AG holds 50.44 % of shares in the Polish company "Przedsiębiorstwo Projektów Górniczych i Wierceń Geologicznych "DMM" Sp. z o.o." (project company for mining and geological drilling activities) set up in 2012 by two Polish partners for the acquisition and execution of drilling activities (in the coal mining sector, for the shale gas business and the exploration of minerals). The company operates for larger exploration projects involving hard coal and has established itself in the Polish market with an excellent order book, including for flat geothermal and exploratory drilling projects. The company combines the geological knowledge, technical equipment and professional staff of the group of shareholders.

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

During the fiscal year, Daldrup & Söhne AG continued to consider outsourcing business activities regarding Water Procurement to Daldrup Wassertechnik GmbH. Plans regarding this are currently on hold. The vast majority of company employees thus largely work for Daldrup & Söhne AG.

### **D&S Geothermie GmbH, Grünwald**

The main investment activities of Daldrup & Söhne AG are combined together as D&S Geothermie GmbH. 75.01 % of the capital shares of Geysir Europe GmbH with its national and international subsidiaries are held here. The operational project planning and development company trades under the Exorka brand. The regional geothermal projects in their different development phases and the licences are grouped together in the existing subsidiaries.

## **5. RESEARCH AND DEVELOPMENT**

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

- **Deep geothermal energy probes:**  
Closed circuit within a U tube or a coaxial probe with a circulating heat transfer medium (e.g. geothermal energy project for electricity plants for the city of Zurich, Switzerland, in the Triemli District).
- **Hydrothermal systems:**  
Closed circuit in which thermal water is pumped from production wells and fed back into natural aquifers via re-injection wells.
- **Petrothermal systems**  
(or EGS = enhanced geothermal systems):  
Open or closed circuit where hydraulic stimulation measures are used to generate or enhance fissures and gaps in the dry subsoil, through which artificially introduced/injected water is able to flow.

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

BMW i supports the geothermal energy research projects through the 6th Energy Research Programme which was renewed at the end of 2014. The development of exploration methods to facilitate the selection of suitable locations is a focus for research funding for the BMW i. In view of the high costs of the drilling, the BMW i feels that the risk of the inability to find a suitable water reservoir or rock which is sufficiently hot should be minimised. A reduction in the exploration risk would then also make the technology more attractive to investors.

For the Taufkirchen geothermal power plant the indirect subsidiary Exorka GmbH has received a subsidy in the amount of EUR 900k from the Bavarian Ministry of Economics for a new research project.



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## 6. OVERVIEW OF BUSINESS DEVELOPMENT

The Kiel Institute for World Economy (IfW) in its economic forecast published in December 2016 anticipated a further moderate economic recovery for the euro area at a low level in 2016. This would be driven increasingly by the domestic economy. All in all the upswing is set to continue in the euro area – unemployment is still declining, many leading indicators are showing clear upward trends and the economy will continue to be supported by low interest rates and the low external value of the Euro. Monetary policy remained very expansive. The economic experts anticipate a growth of 1.8 % in the gross domestic product (previous year: 1.9 %).

According to the economic experts of the IfW in December 2016, the economic situation in Germany continued to improve overall during the reporting period. The upturn was driven by building investments and private consumption. Investment gained increasing importance due to continued favourable financing conditions. German exports performed well thanks to brighter company prospects in the German and European sales markets. Price competitiveness in international business was supported by a weak euro. For 2016, the Kiel experts anticipate a GDP growth in Germany of 1.9 % (previous year: 1.7 %).

### DEMAND FOR GEOTHERMAL ENERGY ON THE UP

In Germany the geothermal project environment continued to improve during the reporting year. This was mainly due to the fact that economic conditions are expected to remain stable for the foreseeable following the passing of the EEG 2017. What this means for investors is that planning and legal security are guaranteed for the next few years. Particularly in respect of the typically lengthy implementation periods for geothermal projects, there must be no doubt for investors that the remuneration provided for by current law shall also apply during the commissioning of a plant. The feed-in tariffs for geothermal electricity will remain at 25.2 cent/kWh for plants that have been approved under mining law by 31/12/2019 and put into operation by 31/12/2022. The eligibility period remains unchanged at 20 years and the feed-in tariffs will start to decline from 2021 onwards. Moreover, the geothermal industry remains exempt from the tendering procedure intended for wind and solar projects.

This framework has also indirectly contributed to a greater willingness of banks to make financing available for projects. Major infrastructure investors are showing an interest in power plant projects which they can acquire on a turnkey basis from Daldrup & Söhne AG. Particularly in the region around Munich in the so-called Molasse basin, there was increased demand once again including from municipalities. These municipalities rely on climate-friendly, decentralised energy supply based on local resources. The usual lengthy tendering and authorisation procedures for drilling projects typical in this industry were performance-limiting factors in the drilling and project business in 2016.

Taking this economic environment into account, the Daldrup Group managed to achieve revenues of EUR 31.1 million (previous year: EUR 17.3 million) and an overall performance of EUR 39.5 million (previous year: EUR 26.4 million) during the 2016 fiscal year.

The following contributions to revenue were made by the individual business units of Daldrup & Söhne AG:

• Geothermal Energy:	EUR 16.4 million	(52.8 %)
• EDS:	EUR 2.4 million	(7.6 %)
• Raw Materials & Exploration:	EUR 12.0 million	(38.7 %)
• Water Procurement:	EUR 0.3 million	(1.0 %)

Revenues of 45.2 % (previous year: 75.1 %) were achieved in Germany in 2016, together with revenues of 54.8 % (previous year: 24.9 %) abroad (the Netherlands, Belgium, Poland, Switzerland). The order book in the area of drilling rigs for shallow and medium-depth drilling in Germany, Poland and Switzerland was well distributed over the fiscal year. Because of long tendering procedures for major projects however, the large drilling rigs were not working to full capacity until the end the year. Deep geothermal wells were drilled by Daldrup in Germany, the Netherlands and Belgium.



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

### 1. RESULTS OF OPERATIONS

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

INCOME STATEMENT	2016 EUR k	2015 EUR k
Sales	31,137	17,255
Gross revenue	39,458	26,398
Other operating income and tax refunds	8,673	8,028
Cost of materials	24,586	15,203
Personnel expenses	7,617	6,145
Amortisation and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets	3,605	3,714
Other operating expenses	11,372	8,558
<b>EBITDA</b>	<b>4,557</b>	<b>4,520</b>
<b>EBIT</b>	<b>951</b>	<b>806</b>

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

The gross revenue generated during the 2016 fiscal year consists of sales revenues amounting to EUR 31.1 million (previous year: EUR 17.3 million) and increases in inventories amounting to EUR 8.3 million (previous year: EUR 9.1 million). The stockpile of inventories results from drilling projects not yet finished and thus finally settled during the fiscal year 2016. This include, in particular, final superstructures for a pumping station in the Netherlands as part of the Nature's Heat project, the construction of a drilling site for the thermal water borehole in Bad Bellingen and a raw materials drilling project.

Other operating expenses including refunds of other taxes amount to EUR 8.7 million (previous year: EUR 8.0 million). They are largely made up of one-off income from currency conversions, income from prior periods and proceeds from the sale of a patent to J.D. Apparate- und Maschinenbau GmbH, Ascheberg, which brought in EUR 5.4 million.

The cost of materials with a traditionally high proportion of services purchased from third-party companies (for example, borehole measurements, directional drilling services, flush drilling services and outsourced personnel services) rose to EUR 24.6 million during the reporting period (previous year: EUR 15.2 million) due to the higher overall performance that had been reported. Based on the overall performance, the gross profit ratio amounted to 37.7 % (previous year: 42.4 %). Costs of purchased services totalling EUR 16.7 million increased significantly compared to the same period of the previous year (EUR 7.7 million) against a backdrop of a lively order book. Essentially, those are external services of subcontractors and services for repairs as well as construction services.

The personnel costs for the Group increased in the reporting year from EUR 6.1 million during the previous year to EUR 7.6 million. The reason for this was a recruitment drive in the context of the growing order book that took hold particularly in the second half of the year with the beginning of two deep geothermal drilling projects. The average Group headcount in the fiscal year 2016 thus rose to 143 employees (previous year: 115 employees).

Other operating expenses increased significantly to EUR 11.4 million (previous year: EUR 8.6 million). The costs include items such as the hire of necessary drilling equipment, residue and waste disposal, insurance premiums (especially to hedge the exploration risk), consultancy costs as part of the planning for the geothermal energy heating power plant, travel expenses and logistics costs incurred as a result of the mobilisation and demobilisation of drilling rigs and bad debt losses. Please see the Notes to the Consolidated Financial Statements for further details.

Scheduled depreciation in the amount of EUR 3.6 million (previous year: EUR 3.7 million) includes depreciation on drilling rigs and the vehicle fleet. The deep drilling rigs are depreciated on the basis of an average useful life of 15 years.

Group earnings before interest and income taxes (EBIT) for Daldrup & Söhne AG totalled EUR 1.4 million (previous year: EUR 0.8 million). This results in an EBIT margin in relation to the overall performance (percentage of EBIT to overall performance) of 2.4 % (previous year: 3.1 %).

The financial result comes to EUR 0.7 million (previous year: EUR 0.8 million) and mainly includes income from deposits and lending, partially offset by interest expense on loans and the utilisation of overdraft facilities with banks and affiliated companies as well as expenses from the equity valuation of the associated companies.

Group earnings after tax for the fiscal year 2016 are EUR 152k (previous year: EUR 175k).

<b>SUBGROUP EARNINGS</b> in EUR k	<b>2016</b>	<b>2015</b>
Daldrup & Söhne AG	2,809	304
Daldrup Bohrtechnik AG, Switzerland	156	485
Daldrup Wassertechnik GmbH	16	0
"DMM" Sp. z o.o., Poland	93	58
D&S Geothermie GmbH	41	118
GERF BV, Netherlands	- 411	64
Geysir Europe GmbH (subgroup)	- 1,429	- 1,208
Consolidating Entries	- 1,123	354
<b>Group Earnings</b>	<b>152</b>	<b>175</b>

In view of the significantly improved order book and the growing use of personnel and machinery, the Daldrup Group exceeded its projected total earnings of EUR 33 million by more than 20 % at EUR 39.5 million. At 2.4 % the Group also achieved EBIT within the targeted range of 2 to 5 % with the EBIT result increasing by more than 18 % compared to the previous year.



## 2. NET ASSETS

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

ASSETS	31/12/2016 EUR k	31/12/2015 EUR k
<b>A. Fixed Assets</b>		
I. Intangible fixed assets	1,347	2,016
II. Property, plant and equipment	24,580	26,519
III. Financial assets	23,387	22,733
<b>B. Current Assets</b>		
I. Inventories	17,001	12,542
II. Receivables and other assets	24,107	21,589
IV. Liquid funds	755	3,165
<b>C. Prepaid Expenses</b>	48	130
<b>D. Deferred Tax Assets</b>	158	178
<b>Balance Sheet Total</b>	<b>91,384</b>	<b>88,872</b>





<b>LIABILITIES</b>	<b>31/12/2016 EUR k</b>	<b>31/12/2015 EUR k</b>
<b>A. Equity</b>	46,057	46,463
I. Subscribed capital	5,441	5,441
II. Reserves	30,792	30,792
III. Equity Difference from Currency Translation	- 1,181	- 782
IV. Consolidated net retained profits	10,877	10,496
V. Minority interests	128	516
<b>B. Provisions</b>	3,180	3,121
<b>C. Liabilities</b>		
I. Liabilities to Banks	8,618	11,917
II. Trade payables	7,889	4,211
III. Liabilities towards Participating Interest	317	13
IV. Other liabilities	25,280	23,087
<b>D. Deferred Income</b>	16	4
<b>E. Deferred Tax Liabilities</b>	28	55
<b>Balance Sheet Total</b>	<b>91,384</b>	<b>88,872</b>



The total assets of the Daldrup Group amounted to EUR 91.4 million as at the balance sheet date 31/12/2016. This represents a balance sheet extension of 2.8 % compared to the previous year. Fixed assets amounting to EUR 49.3 million (previous year: EUR 51.3 million) consist of intangible assets of EUR 1.3 million (previous year: EUR 2.0 million), which essentially represent the value of the permits for the exploration of geothermal energy (claims) in a particular area in the respective stage of development (including seismic profiling) and the Kalina licence. This is a heat transfer process for generating steam using a mixture of ammonia and water at low temperatures for energy production. The Daldrup Group holds the worldwide license for the use of Kalina Power Cycle Technology, and the exclusive rights to its use in Germany.

Land and building structures for business purposes and directly related to drilling and power plant projects, amount to EUR 0.9 million (previous year: EUR 1.0 million) and are recognised as tangible assets. Machinery, technical and other equipment to the value of EUR 12.3 million (previous year: EUR 14.2 million) particularly refers to the drilling rigs and the vehicle fleet. The necessary operating and office equipment which is subject to scheduled depreciation, amounts to EUR 3.2 million (previous year: EUR 3.3 million). In addition, payments were made to assets under construction totalling EUR 8.1 million (previous year: EUR 8.1 million) which mainly related to the geothermal energy project in Mauerstetten.

The long-term financial assets totalling EUR 23.4 million (previous year: EUR 22.7 million) include shares in associated companies totalling EUR 21.9 million. These mainly include the indirect 38.6 % stake in GeoEnergie Taufkirchen GmbH & Co. KG. The 40 % stake in geox GmbH, the operator of the Landau geothermal power plant is valued at one euro in the balance sheet. Details are broken down in the notes and in the analysis of the assets. Both holdings have been included at equity in the consolidated financial statements. There is also a loan to a customer issued to the value of EUR 1.5 million (as at 31 December 2015: EUR 1.9 million).

In Current Assets, the value of raw materials, consumables and supplies totalling EUR 3.1 million (previous year: EUR 3.1 million) corresponds to the inventory required for the operation of a drilling business. In view of suppliers' ability and readiness to deliver, it is not necessary to hold a larger inventory. Work in progress valued in accordance with commercial prudence represent a value of EUR 62.9 million on the balance sheet date (previous year: EUR 51.8 million) and primarily stems from works on the Taufkirchen power plant

(EUR 46.7 million) and geothermal project construction sites/drilling rigs in Belgium, the Netherlands, Switzerland and Germany that have not yet been finally invoiced. Drilling contract services in progress are measured by means of reverse costing from the order value, taking into account the degree of completion on the balance sheet date and a flat-rate deduction of 12.5 % for the share of profit not yet realised and non-capitalisable costs. Work in progress from power plant construction is the result of incurred production costs. Payments received in the amount of EUR 56.0 million (previous year: EUR 51.8 million) were deducted from the unfinished orders on the face of the balance sheet.

A reporting date-related further increase in receivables to EUR 24.1 million (previous year: EUR 21.6 million) can be noted. While trade receivables were at EUR 4.9 million below the level of the previous year (EUR 5.7 million), receivables against companies in which an interest is held increased by EUR 1.6 million to EUR 3.7 million. They are composed of receivables from GeoEnergie Taufkirchen GmbH & Co. KG (EUR 0.1 million) and geox GmbH (EUR 3.5 million). Other assets totalling EUR 15.6 million (previous year: EUR 13.9 million) mainly include the activation of guarantee claims against one customer, repayment claims from advance payments already made, as well as receivables from an associated company from a rescission of contract and subsequent repayment of the purchase price, as well as outstanding tax and loans particularly from J.D. Apparate- und Maschinenbau GmbH amounting to EUR 8.6 million, from the sale of a patent (EUR 5.4 million) and a drilling rig.

Liquid funds (cash in hand/bank) are EUR 0.8 million as at the reporting date (previous year: EUR 3.2 million). The Daldrup Group companies were solvent at all times throughout the fiscal year and, if required, banks would make sufficient credit lines available.

Equity in the Daldrup Group as at 31/12/2016 is EUR 46.1 million (previous year: EUR 46.5 million) and the equity ratio on the reporting date was 50.4 % (previous year: 52.3 %).



Obligations that are regarded as fixed, for example for warranties in accordance with the business prudence concept, have been taken into account when recognising provisions for pensions (EUR 0.8 million) and other provisions (EUR 2.3 million).

The increase in liabilities results primarily from higher trade payables brought about by an increase in business activity during the reporting year. Amounts owed to banks – loans from main banks with an initial maturity of 8 years – and overdraft facilities decreased from EUR 11.9 million during the previous year to EUR 8.6 million. The former have been collateralised, as is customary practice for banks, by assigning a drilling rig as security. Repayment commenced in the middle of 2013.

On the reporting date, there is a remaining debt of EUR 3.0 million (previous year: EUR 4.3 million). The existing overdraft facilities have been reduced on the balance sheet date to EUR 5.6 million (previous year: EUR 7.6 million). Existing credit lines at banks are sufficient to cover the sureties, guarantees, letters of credit customary in the industry and for forming a potential liquidity reserve. Other liabilities totalling EUR 25.3 million (previous year: EUR 23.1 million) result from current wage and tax liabilities, social security contributions, and also exist towards other shareholders of Geysir Europe GmbH in the amount of EUR 12.6 million as well as a promissory note loan for the Taufkirchen power plant project for EUR 10.3 million from a pension fund.

### 3. FINANCIAL POSITION

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

CASH FLOW STATEMENT	2016 EUR k	2015 EUR k
Consolidated net income/loss	152	175
Depreciation, amortisation and write-downs	3,605	3,714
Other changes in cash from operating activities (balance)	- 103	- 21,122
Cash flow from ongoing operating activities	3,654	- 17,233
Cash inflows and outflows from investing activities	- 1,130	4,111
Net cash provided by financing activity	- 2,304	8,170
Change in cash and cash equivalents	220	- 4,953
Change in cash and cash equivalents due to effects of exchange rates and the consolidated entities	- 664	- 216
Cash and cash equivalents 01/01/2016	- 4,417	752
<b>Cash and cash equivalents 31/12/2016</b>	<b>- 4,861</b>	<b>- 4,417</b>

Cash and cash equivalents comprise combined liquid funds (EUR 0.8 million) less current account liabilities (EUR 5.6 million).

The cash outflow from investing activities is primarily attributable to the sale of fixed assets (EUR 0.8 million) and the disposal and/or repayment of financial assets (EUR 1.1 million). The cash outflow from financing activities results from the repayment of bank loans (EUR 1.3 million) and interest paid on loans and a bank overdraft (EUR 1.0 million). Bank loans (EUR 3.0 million) are collateralised by the pledge of a large-scale rig and the promissory note (EUR 10.0 million) by the pledging of limited partner shares in the project company GeoEnergie

Taufkirchen GmbH & Co. KG. In addition, there are covenants rules for the promissory note. The financial solvency of Daldrup Group was assured at all times. Free overdraft facilities are also available with banks, if required.



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

Already at the beginning of the reporting period, the order book of the Daldrup Group was showing a significant improvement compared with the previous year both for deep geothermal projects in Germany, the Netherlands and Belgium, as well as for the business units Water Procurement, Raw Materials & Exploration and EDS. This trend continued during the fiscal year. In summary, it can be stated that the business development, the position, and the earnings of Daldrup & Söhne AG have been positively affected by the regulatory situation and overall economic development within the target markets of Germany, Austria, Switzerland, the Benelux countries and Poland. The company's Management Board assesses the economic development as satisfactory based on the economic environment.

#### **C. NON-FINANCIAL PERFORMANCE INDICATORS**

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

The foundations of daily activities are:

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

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

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



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

Given the changes to sections 313 – 315 HGB brought about by the Accounting Directive Implementation Act (BilRUG), the notes to the report on post-balance sheet events must as of this fiscal year be recorded in the Notes to the Consolidated Financial Statements.



## E. RISK AND OPPORTUNITIES REPORT

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

### 1. STRATEGIC RISKS

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

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

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

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

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

## 2. BUSINESS RISKS

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

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

- a. The **subsoil risk**, i.e. the risk of known and unforeseeable effects and difficulties originating from the subsoil (all underground, geological risks), is in (legal) building practice regulated in the contracts between the parties. This is generally within the sphere of responsibility of the client. Daldrup & Söhne AG as the contractor in drilling contracts bears the risk for technical drilling operations. In the deep drilling carried out by Daldrup, this risk can generally be absorbed by project-related machinery breakdown and so-called Lost-in-Hole-insurance. Within the scope of the self-monitoring by trained/certified staff, the use of modern drilling technology and in close cooperation with the relevant authorities and third-party supervisors, the Daldrup Group generally also makes active provision for risks. For openly discernible risks Daldrup fulfils its duties to examine, notify and perform due diligence. Additional security is achieved by sub-contracting complex planning and engineering services to correspondingly insured service providers.
- b. The **operational and environmental liability risks** as well as the risks of equipment breakdown and business interruption can be insured. The Group is covered for personal injury, material and environmental damage through the business and product liability insurance taken out with an insurance company. A separate machine insurance policy (Lost-in-Hole-insurance) provides first-loss protection against potential damage to the deep drilling equipment and to all peripheral machinery and appliances. The risk of business interruption due to damage can be insured normally. Blowout risks are, in principle, to be assigned to the subsoil risk, but can also be covered, in individual cases, via increased cover as part of business liability insurance. The best insurance against blowout is to use modern and functional blowout preventers (BOPs), which Daldrup regularly uses.



No special risk areas exist beyond the scope of normal business liability risks. Using a rigorous and certified quality and safety concept to avoid risk and damage is accorded high importance in the operational business of the Daldrup Group. We undertake fair, corrective measures ourselves in isolated cases.

**c. Unsuccessful exploration for a drilling project**

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

**d. Procurement Risks**

Up to this point in time, the procurement of equipment technology, raw materials, consumables and supplies, and the procurement of external services have not had a negative impact on the Daldrup Group's performance process. There are different contractor and supplier emphases in all business units given the favourable purchasing conditions and qualities, which are subject to regular monitoring by the quality management system. Under the risk-based approach to supplier management, procurement risks are being kept low through the diversification of business partners and spreading of groups of suppliers and contractors. Daldrup has identified and implemented new challenges into its systems through the further expansion of the vertical and horizontal value chain. There continue to be no special supplier dependencies to report.

**e. Permit Risks**

Every extraction plant and well for the exploration and extraction of natural resources, whether for geothermal energy, water extraction or raw materials exploration, is subject to comprehensive preliminary approval procedures carried out by the competent supervisory authorities. The granting of approvals for the various types of extraction wells and plants, e.g. for the construction and/or operation of a power plant, is subject to the Federal Mining Act (BBergG), the Excavation Act, the provisions of the Federal Water Act (WHG), as well as regional water laws and construction planning and building regulations. The resulting requirements imposed on the Daldrup Group are regularly updated (see section C above) and agreed on by the regional councils, federal state authorities for geology and mining and the water supply agencies. Approval procedures can be costly and lengthy and can result in project delays. With decades of experience in dealing with the authorities, the Daldrup Group is well-versed in the requirements specifications for the approval documents. Continuous dialogue with the different authorities across the entire project phase and close, solutions-oriented coordination help us to achieve a quick consensus and avoid lengthy delays.

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

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



### **COMPETITIVE RISKS**

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

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

### **PERSONNEL RISKS**

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

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

### **FINANCIAL RISKS /**

#### **USE OF FINANCIAL INSTRUMENTS**

Foreign currency risks are avoided as far as possible by using the Euro as the basis for contract and price negotiations. Currency/exchange rate hedging instruments such as forward exchange contracts and currency option contracts are used for planned orders and procurements in foreign currencies (mainly the Swiss franc and US dollar in 2016). The Daldrup Group enters into these derivative transactions only with banks that have a very good credit rating. However, it is impossible to precisely predict monetary policies in the individual countries and therefore negative effects cannot be avoided in spite of using such financial instruments.

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

On the reporting date there were no derivative financial instruments.

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

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

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





### 3. TECHNOLOGICAL RISKS

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

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

### 4. LEGAL RISKS

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

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

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

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

From 2021, the feed-in regulations are expected to change for geothermal electricity (EEG 2017) and the industry-wide learning curve will be compensated for this. However, there is always the threat of disadvantages to the Company due to legal changes.

### 5. REGULATORY AND POLITICAL RISKS

As a company with international operations, Daldrup & Söhne AG is subject to political and regulatory changes in many countries and markets. The trend towards the active promotion of renewable energies that began in the year 2000 is subject to country-specific fluctuations and changes determined by the legislation of the respective government. Economic crises and new political power structures can also influence priorities.

The uncertainty and complexities inherent in the legal provisions for the promotion of geothermal drilling projects and geothermal power plants and heating plants, as well as changes or significant curtailments to subsidies for generating electricity and supplying heat from geothermal energy can have a negative bearing on the profitability of geothermal projects and delay or freeze investments or make them obsolete.

Moreover the actionism and cheap propaganda of citizens' initiatives against geothermal projects can delay or endanger project development and approval procedures and deter investors.

Close communication with political decision-makers and active measures such as participation in public hearings, the public presentation of projects and discussions with the media to broaden awareness of the advantages of geothermal energy are preventative instruments designed to avoid risks. Diversification of regional sales markets serves to mitigate potential negative effects. The Daldrup Group operates in Germany as well as the Netherlands, Belgium and Switzerland, all with very different subsidy regimes. In the Netherlands, geothermal as a thermal energy is already in a position to compete with conventional energy sources without the need for subsidies.





## 6. OPPORTUNITIES REPORT

Geothermal energy is increasingly gaining in importance in Germany and throughout the world as a component of renewable energies. Its advantage lies in its base load capacity. As for Germany subsidies are being awarded not only for generating electricity but also for heating and cooling superstructures, whether as new construction projects or as part of energy-efficient building renovation. During the last few years in Germany the regulatory framework to promote the use of heat from renewable energy sources has continued to be extended and improved. A central target of the German government is to achieve an almost climate-neutral building stock by 2050. As early as 2020 14 % of end energy consumption for heating and cooling is expected to come from renewable energies.

With the amended EEG, which came into force on 1 January 2017, framework conditions for investors in geothermal projects have stabilised and there is planning and legal security for clients and operating companies.

As a specialised provider along the value chain of turnkey geothermal heating and power plants, the Daldrup Group stands to profit from these developments. Further opportunities are opening up as a drilling services provider for deep geothermal wells and as a developer, operator and owner of geothermal power plants. With over 35 successful deep geothermal wells and its own plants, the Company is one of the most experienced players in the Central European market. The structures of a medium-sized company and well-trained employees also mean we can extend a high degree of flexibility and problem-solving expertise to customers and to the respective deep geological formations. The Daldrup Group is anticipating continued correspondingly favourable conditions, an increasing demand for geothermal heating and power plants and drilling services.

## 7. OVERALL STATEMENT ON THE RISK AND OPPORTUNITY SITUATION

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



## F. FORECAST REPORT

### 1. FUTURE CORPORATE STRATEGY

The Daldrup Group is continuing to transform itself from a pure drilling services provider into a fully integrated geothermal energy group and is therefore building up its national and international market position as an end-to-end supplier of geothermal power plant projects.

On the geothermal project of the Group company GeoEnergie Taufkirchen GmbH & Co. KG, the above-ground construction of the power plant is nearing completion. Since the end of 2015, heat directed from the new cogeneration plant has been fed into the district heating networks of the customers. The commissioning of the Kalina Cycle-based power generating unit is scheduled for summer 2017 following the delivery and installation of two heat exchangers. Following a trial operations phase the power plant is then swiftly expected to provide an ongoing maximum capacity of 21,000 MWh electricity and 61,000 MWh heat. This step will mark a significant milestone in the history of the company. Additional geothermal power plant projects in the Bavarian Molasse basin and in the Upper Rhine Rift are already being developed.

The Management Board are continuing to work intensively to reopen the Landau geothermal energy power plant. Subsequent to the extension in July 2016 of the permit for the main operating plan of geox GmbH, operator of the Landau geothermal energy power plant, by the Rhineland Palatinate Federal State Authority For Geology And Mining (LGB), the latter has stated that it will approve the re-commissioning of the power plant for the generation of electricity as soon as the final work has been completed and the corresponding acceptance tests and documentation pursuant to the special operating plan have been provided. For its part Daldrup & Söhne AG has met all the requirements and undertaken all the necessary surveys and audits under the special operating plan and will soon be able to enter trial operations with the power plant. Daldrup & Söhne AG aims to restart the power plant as soon as possible, with a period of testing swiftly followed by a return to regular operations. The start-up date for the power plant is however subject to approval by the LGB.

On the Neuried (district of Ortenau) power plant project, the previous forced standstill has now been lifted following the rejection of the town of Kehl's claim filed with the federal state of Baden-Württemberg by the administrative court of Freiburg. In the context of medium-sized subsidiary Geysir Europe GmbH's current application to have the permit for its main operating plan extended, the regional council will take into consideration the result of a pending preliminary environmental impact assessment. Daldrup & Söhne AG must first wait for this outcome. If necessary Geysir Europe GmbH will then also need to produce a full environmental impact assessment. Further administrative hurdles cannot be excluded.

### 2. FUTURE ECONOMIC FRAMEWORK

In its spring forecast during the middle of March of this year, the IfW predicts a strong upturn for 2017 and 2018 in Germany. Germany's economic upturn is entering its fifth year with abandon. Various leading indicators are showing significant upward trends, the industry's order books are full. GDP growth is expected to be 1.7 % in 2017 and 2.0 % in 2018. This is no longer being driven by consumption, which is losing momentum, but by exports and investments. Overall this robust upward trend is set to continue according to IfW experts, with drivers of this expansion much broader than in previous years.

The economic outlook is slightly brighter for the euro area according to the IfW, with the economy continuing to rebound. While a moderate increase in GDP is forecast for the next two years, the upswing is not expected to pick up traction according to the economic experts. In view of increased uncertainty and waning impulses from decreasing oil prices, the economy of the euro area will expand only at a moderate rate. The IfW predicts a GDP growth of 1.6 %, and 1.5 % for next year.

The forecast presented by the IfW also points to significant risks that run alongside any such economic recovery. Downside risks arise for the current and the coming year mainly because of the unresolved structural problems of certain countries and banks in the euro area. The IfW also states that increased political uncertainty, such as that resulting from the decision in Great Britain to leave the EU, and protectionist tendencies in the economic policies of important EU trading partners could have a negative impact on the economy in the coming months.



### **ENERGY CONSUMPTION RISING WORLDWIDE**

In the energy sector the signs once again point to increased demand for energy. It is clear from the International Energy Outlook (IEO) 2016 report that global energy consumption will increase during the period from 2012 to 2040. According to the report this is being fuelled above all by non-OECD countries particularly in Asia. The IEO forecasts a 71 % increase in energy consumption for the non-OECD countries by 2040, while the increase in OECD countries is put at 18 %. With this rise the IEO study predicts that the consumption of all primary energy sources will continue to increase until 2040. In the period under consideration renewable energies are set to experience the greatest growth in energy consumption with a CAGR of 2.6 %. This will be supported, says the report, by the progressive climate policies of an increasing number of countries geared towards reducing CO<sub>2</sub> emissions. Thus countries will be attempting to both meet the increasing demand for energy as well as hit their CO<sub>2</sub> reduction targets laid down by the Paris climate agreement.

### **FRAMEWORK FOR THE ENERGY REVOLUTION WILL BE FURTHER DEVELOPED**

The social consensus to withdraw from nuclear power as well as the necessary change in direction to a secure, affordable and environmentally friendly energy supply based on renewable energy remains unchanged on the part of the German government and the population. The German government has also signed the Paris climate agreement of December 2015, which aims to limit global warming to max. 2°C by 2050 and put an end to the use of fossil fuels. The EU, too, has set itself high targets for the expansion of renewable energies and the reduction of CO<sub>2</sub> emissions. By 2020, it wants 20 % of energy consumption in the EU Member States to come from renewable sources. By 2030 this value should increase to 27 %.

In Germany renewable energies represent almost half of its power-generating capacity and in 2016 they achieved a 31.7 % share in its gross energy consumption. They have become part of this market. Renewable energies are expected to contribute the main share to the energy supply in future. By 2025 their share in gross energy consumption is expected to increase to between 40 % and 45 %. Renewable energies must therefore continually be integrated into the energy supply system so that they increasingly replace conventional fossil fuels. With the passing of the Electricity Market 2.0 Act in summer 2016, the German government lay the foundations for competition geared towards synchronising production and demand and guaranteeing sufficient reserves.

The expansion of renewable energies in the heating market is also crucial to the energy revolution. More than half of our energy is spent on heating and cooling. Through the National Energy Efficiency Action Plan (NAPE) and other planned initiatives, the German government aims to implement its central target of achieving an almost climate-neutral building stock by 2050. As early as 2020 14 % of end energy consumption for heating and cooling is expected to come from renewable energies.



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

Bundesverband Geothermie experts expect significant growth in the use of geothermal energy in the future. According to predictions made by the German Renewable Energy Federation (BEE), electricity generated from geothermal energy in Germany will increase to 3,750 GWh per year by 2020. The figure in 2015 was 134 TWh according to the BVG, which corresponded to the annual electricity needs of 38,000 two-person households. The amount of heat supplied stood at 8,800 GWh, which corresponds to the annual heating needs of 630,000 two-person households. The federal government is also looking to significantly expand in this area: In its "National Action Plan for Renewable Energy" it set a target of 1,654 GWh of electricity to be generated from geothermal energy by 2020. This figure is not quite as much as the one stipulated by the representatives of the renewable energy sector, but it is nevertheless much more than at present. It is a similar case for heat, where the German Renewable Energy Federation (BEE) expects to achieve a capacity of 26,000 GWh by 2020. The federal government has stipulated 14,400 as a target, which is based in particular on rapid growth in deep geothermal energy.

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

The aim is thus for renewable energies to become the mainstay of electricity and heat supply. The rate of expansion and the specific growth of the geothermal energy industry are determined on the one hand by the development and organization of funding instruments in Germany and Europe, but are also dependent on various crucial economic issues on the other hand. The increase in prices for fossil fuels, the introduction of palpable sanctions for CO<sub>2</sub> emissions, economic stability, a robust employment situation on the labour market and the consolidation of state and bank finances in the euro area are the cornerstones, promising opportunities for higher growth.

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

Owing to the specific technical and personnel requirements placed on deep drilling, the high capital requirements for drilling rigs and special equipment, the mining regulations and the complex approval procedures, the Daldrup Group fundamentally benefits from the high market entry barriers for deep geothermal energy and geothermal power plant projects. Owing to persistently low oil prices in recent quarters of around USD 55 per barrel for Brent oil, there are occasional surges of individual drilling and exploration companies exiting the oil and gas market and gravitating towards the geothermal market. While this can lead to ad hoc increases in the levels of competition, lasting change in the competitive structure of the niche sector is not foreseen at the present time.





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

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

Daldrup & Söhne AG anticipates new growth in its business and the company due to the expansion in the value-added chain in its drilling and project business.

In addition to already high number of orders booked, additional new drilling contracts are to be expected in the course of the 2017 fiscal year from municipal and private clients in Germany as well as orders from the Benelux countries. Institutional investors, private sector cooperation associations and municipalities are showing increasing interest in geothermal heating and power plants both as a returns-oriented investment objects and as climate-friendly, decentralised and economical supply units. Negotiations to this end will be led by Daldrup & Söhne AG with respect to pre-developed projects, in the Munich area and in the Netherlands for example.

Take the municipal utilities of Munich, for example, which is aiming to become the first German city to supply 100 % of its district heating through renewable energies by 2040 under its so-called District Heating Vision. Geothermal energy from hot thermal water is expected to make the greatest contribution to heating. Munich is sitting on a vast supply of this environmentally friendly energy source tucked away in highly porous limestone layers (Malm) in the geological rock formations beneath the city. To tap into these resources and extract geothermal energy Daldrup was awarded a major contract in the double-digit million range to drill two doublets (four deep wells). This is one of the largest contracts in the company's history. The wells will be sunk to a depth of over 4,000 metres. Work is expected to begin in the coming year.

Since December 2010, the Taufkirchen geothermal project, in which the Daldrup Group has a holding, has moved into the implementation phase with Exorka GmbH, also part of the Daldrup Group, as general contractor. After the successful completion of the drilling phase, which exceeded expectations, the controlled operation of the heat extraction and delivery into the regional district heating network was started in winter 2015 after the construction of the above-ground geothermal

heating power plant. The plant and electricity production cannot enter into operation until two purchased heat exchangers are delivered and installed. After successful testing of the electricity-generating facility, scheduled to take place in summer 2017, it can gradually start to enter full operations.

The Lindau power plant can be re-commissioned at any time subject to the approval of the special operating plan by the competent authorities. Daldrup & Söhne AG has met all the requirements. It has undertaken a complex retrofit of the power plant with security technology in recent years and modernised its production technology. The power plant is effectively ready for operation.

With the power plants in Taufkirchen and Landau the first major milestone in the transformation of the Company's business activities from a pure drilling services provider to an independent medium-sized energy supply company will then have been achieved. Consistent returns from the sale of electricity and heat will stabilise the Daldrup Group's earnings and liquidity situation in the long term and strengthen its financial independence. At the same time, Daldrup & Söhne AG has accrued revenue from power plant operations due to its 75.01 % stake in Geysir Europe GmbH via Daldrup & Söhne Geothermie GmbH.

With the possibility of geothermal multiple use of an approved drilling area in the Greater Munich area and the further development of the Neuried geothermal project following the pending clarification of the results of a preliminary environmental impact assessment within the framework of the extension of the permit for the main operating plan by the regional council of Freiburg, the value creation, growth and earnings potential for the Daldrup Group as claim owners and power plant operators may significantly improve in the next two years.

With the current level of orders safeguarding utilisation well in 2018, the Management Board of Daldrup & Söhne AG is confident that an overall Group performance of approximately EUR 40 million for the 2017 fiscal year combined with an EBIT margin of 2 % to 5 % can be achieved. In the context of the dominant project business this forecast is subject to the successful completion of some major drilling contracts and their effects on revenues and results as reported in the accounts at the latest by the balance sheet date. Earnings for the year 2017 from the Landau and Taufkirchen geothermal power plant projects were not included for precautionary reasons and may improve the result.



## G. DISCLOSURES RELATING TO TREASURY SHARES PURSUANT TO SECTION 160(1) NO. 2 (AKTG)

Disclosures relating to treasury shares pursuant to section 160(1) no. 2 (AktG) and section 289(2) sentence 2 HGB are listed in the appendix.

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

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

Grünwald, 22 May 2017

**Daldrup & Söhne AG**  
The Chairperson

Josef Daldrup (CEO)

Curd Bems (CFO) was unable to sign  
due to illness.

Peter Maasewerd  
(Management  
Board)

Andreas Tönies  
(Management Board)





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**AUDITOR'S OPINION**



## GROUP INCOME STATEMENT

FOR THE FISCAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2016

	01/01/2016 - 31/12/2016 EUR	01/01/2015 - 31/12/2015 EUR
1. Sales revenue	31,137,030.40	17,255,286.92
2. Increase/decrease in work in progress	8,321,177.72	9,142,613.46
3. Other operating income	8,292,410.47	7,902,075.66
– of which from currency translation: EUR 651,173.81 (previous year: EUR 347,958.34)		
4. Cost of materials		
a) Cost of raw materials, consumables and supplies, and of purchased merchandise	7,899,157.99	7,490,913.88
b) Cost of purchased services	16,686,891.93	7,712,033.87
	24,586,049.92	15,202,947.75
5. Personnel expenses		
a) Wages and salaries	6,447,512.41	5,217,873.44
b) Social security, post-employment and other employee benefit costs	1,169,170.76	927,065.60
– including retirement benefit: EUR 15,536.85 (previous year: EUR 79,251.14)		
	7,616,683.17	6,144,939.04
6. Amortization and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets	3,605,101.69	3,713,550.69
7. Other operating expenses	11,371,518.42	8,558,473.55
– of which from currency translation: EUR 4,833.33 (previous year: EUR 253,862.64)		
8. Income from long-term investments in associates	207,198.90	0.00
9. Income from other securities and long-term loans	31,852.94	157,756.45
10. Other interest and similar income	386,991.95	174,005.43
11. Expenses from long-term investments in associates	0.00	39,645.82
12. Interest and similar expense	1,354,040.48	1,072,115.16
– of which from interest accumulation from provisions: EUR 30,547.00 (previous year: EUR 27,879.65)		
13. Taxes on income	- 71,637.50	148,212.57
– of which from deferred taxes: EUR 7,332.52 (previous year: EUR 58,773.80)		
14. Net earnings	- 228,368.80	48,278.48
15. Other taxes	380,169.46	126,397.50
16. Consolidated net income	151,800.66	174,675.98
17. Minority interests	229,541.75	198,024.74
18. Retained income	10,496,098.81	10,123,398.09
19. Consolidated net retained profits	10,877,441.22	10,496,098.81



DALDRUP AG  
BOHRTECHNIK

DALDRUP  
BOHRTECHNIK AG

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## GROUP BALANCE SHEET

### CONSOLIDATED BALANCE SHEET AS ON 31 DECEMBER 2016

ASSETS	31/12/2016 EUR	31/12/2015 EUR
<b>A. Fixed Assets</b>		
I. Intangible fixed assets		
Acquired concessions, industrial property rights and similar rights and assets, and licences for such rights and assets	1,347,208.64	2,015,659.56
II. Property, plant and equipment		
1. Land, land rights and buildings, including buildings on third-party land	938,110.23	975,958.96
2. Technical equipment and machinery	12,333,981.01	14,155,474.48
3. Other equipment, operating and office equipment	3,212,740.45	3,325,052.17
4. Prepayments and assets under construction	8,095,664.34	8,062,050.90
	<b>24,580,496.03</b>	<b>26,518,536.51</b>
III. Financial assets		
1. Shares in associates	21,932,544.15	20,846,285.25
2. Long-term securities	181.00	181.00
3. Other loans	1,454,760.42	1,886,585.43
	<b>23,387,485.57</b>	<b>22,733,051.68</b>
	<b>49,315,190.24</b>	<b>51,267,247.75</b>
<b>B. Current Assets</b>		
I. Inventories		
1. Raw materials, consumables and supplies	3,143,496.47	3,074,853.05
2. Work in progress	62,903,702.20	51,783,457.58
3. Prepayments	6,983,686.51	9,442,437.42
4. Payments received on account of orders	- 56,029,493.47	- 51,758,366.04
	<b>17,001,391.71</b>	<b>12,542,382.01</b>
II. Receivables and other assets		
1. Trade receivables	4,896,016.65	5,661,342.79
2. Receivables from associated companies	3,655,005.87	2,065,889.95
3. Other assets	15,555,655.61	13,861,995.42
– of which due after more than one year: EUR 746,922.76 (previous year: EUR 707,085.37)		
	<b>24,106,678.13</b>	<b>21,589,228.16</b>
III. Cash on hand and credit balances at banks	755,339.05	3,165,184.71
	<b>41,863,408.89</b>	<b>37,296,794.88</b>
<b>C. Prepaid Expenses</b>	<b>47,798.81</b>	<b>129,909.75</b>
<b>D. Deferred Tax Assets</b>	<b>157,508.84</b>	<b>177,676.32</b>
<b>Balance Sheet Total</b>	<b>91,383,906.78</b>	<b>88,871,628.70</b>



<b>LIABILITIES</b>	<b>31/12/2016 EUR</b>	<b>31/12/2015 EUR</b>
<b>A. Equity</b>		
I. Subscribed capital	5,445,000.00	5,445,000.00
Treasury shares	- 4,017.00	- 4,017.00
	<b>5,440,983.00</b>	<b>5,440,983.00</b>
II. Capital reserves	30,502,500.00	30,502,500.00
III. Retained earnings		
1. Legal reserve	25,000.00	25,000.00
2. Other revenue reserves	264,013.96	264,013.96
IV. Currency translation adjustments	- 1,180,674.79	- 781,747.63
V. Net retained profits	10,877,441.22	10,496,098.81
VI. Minority interests	127,558.78	516,178.87
	<b>46,056,822.17</b>	<b>46,463,027.01</b>
<b>B. Provisions</b>		
1. Provisions for pensions	811,516.00	761,765.00
2. Tax provisions	40,799.45	7,691.10
3. Other provisions	2,327,417.87	2,351,611.55
	<b>3,179,733.32</b>	<b>3,121,067.65</b>
<b>C. Liabilities</b>		
1. Liabilities to banks	8,618,077.92	11,917,089.73
– of which due within one year: EUR 6,929,367.72 (previous year: EUR 8,915,089.73)		
– of which due between one and five years: EUR 1,669,200.00 (previous year: EUR 3,002,000.00)		
2. Trade payables	7,888,993.56	4,211,423.68
– of which due within one year: EUR 7,888,993.56 (previous year: EUR 4,211,423.68)		
3. Liabilities to associated companies	317,039.91	12,812.22
– of which due within one year: EUR 317,039.91 (previous year: EUR 12,812.22)		
4. Other liabilities	25,280,028.61	23,086,845.83
– of which due within one year: EUR 2,859,400.43 (previous year: EUR 753,450.17)		
– of which due between one and five years: EUR 18,512,628.18 (previous year: EUR 14,517,395.66)		
– of which due after more than five years: EUR 3,908,000.00 (previous year: EUR 7,816,000.00)		
– of which from taxes: EUR 1,369,528.97 (previous year: EUR 162,700.16)		
– of which from social security: EUR 27,828.15 (previous year: EUR 19,692.88)		
	<b>42,104,140.00</b>	<b>39,228,171.46</b>
<b>D. Deferred Income</b>	<b>15,711.29</b>	<b>4,362.58</b>
<b>E. Deferred Tax Liabilities</b>	<b>27,500.00</b>	<b>55,000.00</b>
<b>Balance Sheet Total</b>	<b>91,383,906.78</b>	<b>88,871,628.70</b>



## GROUP EQUITY STATEMENT

### GROUP EQUITY STATEMENT FOR THE FISCAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2016

	PARENT COMPANY					
	Subscribed capital EUR	Treasury shares EUR	Capital reserves EUR	Self-generated group equity EUR	Accumulated other comprehensive income EUR	Accumulated other comprehensive income EUR
					Currency translation adjustments	Other items recognised directly in equity
As at 01/01/2016	5,445,000	- 4,017	30,502,500	6,358,010	- 781,748	4,427,103
Group annual net income				381,342		
Other group earnings					- 398,927	
<b>As at 31/12/2016</b>	<b>5,445,000</b>	<b>- 4,017</b>	<b>30,502,500</b>	<b>6,739,352</b>	<b>- 1,180,675</b>	<b>4,427,103</b>



	MINORITY SHAREHOLDERS				GROUP EQUITY
Equity EUR	Minorities capital EUR	Accumulated other comprehensive income EUR	Accumulated other comprehensive income EUR	Equity EUR	EUR
		Currency translation adjustments	Other items recognised directly in equity		
45,946,848	579,415	- 67,009	3,773	516,179	46,463,027
381,342	- 229,542			- 229,542	151,801
- 398,927	47,110	- 202,416	- 3,773	- 159,079	- 558,006
<b>45,929,263</b>	<b>396,984</b>	<b>- 269,425</b>	<b>0</b>	<b>127,559</b>	<b>46,056,822</b>





## CONSOLIDATED CASH FLOW STATEMENT

### CONSOLIDATED CASH FLOW STATEMENT AS AT 31 DECEMBER 2016

	01/01/-31/12/2016 EUR	01/01/-31/12/2015 EUR
<b>1. Cash flow from ongoing operating activities</b>		
Result for the period including third-party shares before extraordinary items	151,800.66	174,675.98
Scheduled depreciation of fixed assets	3,605,101.69	3,713,550.69
Increase/reduction in provisions	5,221.40	- 672,003.06
Other non-cash expenses and income	0.00	65,969.96
Increase/decrease in inventories, trade receivables and other assets that are not attributable to investing or financing	- 6,894,348.73	- 15,836,705.05
Increase/decrease in liabilities from trade receivables and other liabilities that are not attributable to investing or financing activities	5,834,292.44	- 2,563,980.01
Profit/loss from disposal of fixed assets	1,066.00	- 2,796,308.02
Interest expenses	1,354,040.48	1,072,115.16
Interest income	- 386,991.95	- 174,005.43
Other investment income	- 31,852.94	- 157,756.45
Income tax expense/income	- 71,637.50	- 148,212.57
Income tax refunds/payments	87,202.25	89,438.77
<b>Cash flow from ongoing operating activities</b>	<b>3,653,893.80</b>	<b>- 17,233,220.03</b>
<b>2. Cash flow from investment activities</b>		
Inflows from disposals of fixed assets	0.00	2,819,021.02
Outflows for investments into fixed assets	- 894,005.01	- 614,520.12
Inflows from disposals of financial assets	436,847.45	2,437,045.37
Outflows for investments into financial assets	- 1,091,281.34	- 862,758.00
Interest received	386,991.95	174,005.43
Dividends received	31,852.94	157,756.45
<b>Cash flow from investment activities</b>	<b>- 1,129,594.01</b>	<b>4,110,550.15</b>
<b>3. Cash flow from financing activities</b>		
Inflows from the issuance of bonds and raising of (financial) loans	0.00	10,000,000.00
Outflows from the repayments of bonds and (financial) loans	- 1,332,800.00	- 1,332,800.00
Interest paid	- 971,456.86	- 497,692.53
<b>Cash flow from financing activities</b>	<b>- 2,304,256.86</b>	<b>8,169,507.47</b>
<b>4. Cash and cash equivalents at the end of the period</b>		
Changes of the financial fund with a cash effect (Sub-totals 1 - 3)	220,042.93	- 4,953,162.41
Changes of the financial fund in the fixed assets due to effects of exchange rate and valuation	- 105,671.28	- 99,833.14
Changes in cash and cash equivalents in the equity capital due to effects of exchange rates and valuation	- 398,927.16	- 177,057.30
Changes in cash and cash equivalents due to effects of consolidated entities	- 159,078.34	61,085.90
Cash and cash equivalents at the start of the period	- 4,417,105.02	751,861.93
<b>Cash and cash equivalents at the end of the period</b>	<b>- 4,860,738.87</b>	<b>- 4,417,105.02</b>
<b>5. Composition of cash and cash equivalents</b>		
Cash in hand and credit balances at banks	755,339.05	3,165,184.71
Liabilities to banks (current account liabilities)	- 5,616,077.92	- 7,582,289.73
<b>Cash and cash equivalents at the end of the period</b>	<b>- 4,860,738.87</b>	<b>- 4,417,105.02</b>



  
Daldrup  
& Söhne AG  
ESTABLISHED 1872

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DALDRUP  
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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR FROM 1 JANUARY  
TO 31 DECEMBER 2016

### GENERAL DISCLOSURES ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

The auditing of the consolidated financial statements is not a statutory audit as the relevant criteria of section 293 HGB have not been exceeded for two years in succession.

The contract is awarded as a voluntary audit of the consolidated financial statements.

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

In the annual financial statements as at 31/12/2016 the Company has applied the commercial law regulations amended by the Accounting Directive Implementation Act (BilRUG) for the first time. On this note, there was no need to amend the balance sheet and income statement during the fiscal year.

### CONSOLIDATION METHODS

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

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

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

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

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

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

## CONSOLIDATED ENTITIES

IN ADDITION TO THE PARENT COMPANY, 17 DOMESTIC AND 4 FOREIGN SUBSIDIARIES AND ASSOCIATED COMPANIES ARE INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016. THESE ARE MADE UP AS FOLLOWS:

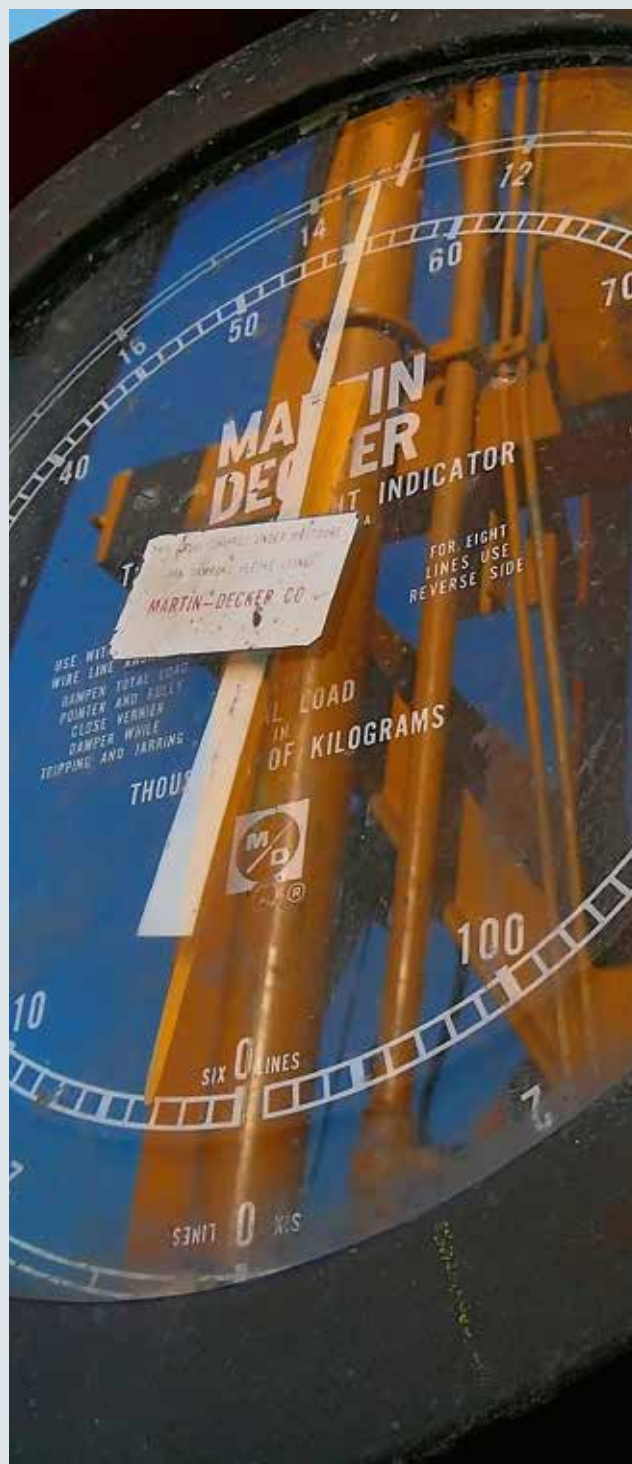
NAME AND REGISTERED OFFICE OF THE COMPANY	Indirect capital share	Indirect capital share
Daldrup Bohrtechnik AG, Baar/Switzerland	100.00	
D&S Geothermie GmbH, Grünwald	100.00	
Daldrup Wassertechnik GmbH, Ascheberg	100.00	
Przedsiębiorstwo Projektów Gorniczych i Wiercen Geologicznych "DMM" Sp. z o.o., Katowice/Poland	50.44	
GERF B.V., Voorburg/Netherlands		100.00
Geysir Europe GmbH, Grünwald		75.01
Exorka GmbH, Grünwald		100.00
Exorka ehf, Husavik/Iceland		100.00
geox GmbH, Landau i. d. Pfalz (associated company)		40.00
Geothermie Allgäu Betriebs- und Beteiligungs GmbH & Co. KG, Grünwald		100.00
Geothermie Allgäu Verwaltungs GmbH, Grünwald		100.00
Geothermie Starnberg GmbH & Co. KG, Grünwald		100.00
Geothermie Starnberg Verwaltungs GmbH, Grünwald		100.00
Erdwärme Taufkirchen GmbH & Co. KG, Grünwald		100.00
Erdwärme Taufkirchen Verwaltungs GmbH, Grünwald		100.00
GeoEnergie Taufkirchen GmbH & Co. KG, Grünwald (associated company)		38.61
GeoEnergie Taufkirchen Verwaltungs GmbH, Grünwald (associated company)		38.83
Taufkirchen Holding GmbH & Co. KG, Grünwald		100.00
Taufkirchen Holding Verwaltungs GmbH, Grünwald		100.00
Geothermie Neuried GmbH & Co. KG, Neuried		100.00
Geothermie Neuried Verwaltungs GmbH, Neuried		100.00

There has been no change in the consolidated entities compared to the previous year.

## FOREIGN CURRENCY TRANSLATION

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

FOREIGN CURRENCY TRANSLATION	Exchange rate EUR 1 =	Average exchange rate for the year as on 31/12/2016	Closing rate as at 31/12/2016
Swiss francs	CHF	1.09	1.08
Icelandic Krona	ISK	133.87	119.19
Polish Zloty	PLN	4.36	4.44





## ACCOUNTING POLICIES

### ASSETS

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

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

Shares in associated companies were valued using the equity method.

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

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

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

Drilling contract services in progress are measured by means of reverse costing from the order value, taking into account the degree of completion on the balance sheet date and a flat-rate deduction of 12.5 % for the share of profit not yet realised and non-capitalisable costs. Project business services in progress (construction of the Taukirchen power plant) are measured by means of attributable manufacturing costs.

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

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

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

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

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

### LIABILITIES

Subscribed capital has been recognised at par value.

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

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

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

Liabilities have been recognised at their settlement amount.

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

### CURRENCY TRANSLATION

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

## CONSOLIDATED BALANCE SHEET AND CONSOLIDATED INCOME STATEMENT DISCLOSURES

### I. BALANCE SHEET

#### FIXED ASSETS

The statement of changes in fixed assets has been attached as Appendix 1 to the notes.

Shares in associates totalling EUR 21,933k relate to the following companies:

- a) GeoEnergie Taufkirchen GmbH & Co. KG (EUR 57,523k limited partnership contribution). The Group has a 38.61 % share in the share capital. The company was founded for the construction of a geothermal energy power plant. The carrying amount as at 31/12/2016 is EUR 21,929k. The Group has an indirect 38.43 % share in the limited liability company GeoEnergie Taufkirchen Verwaltungs GmbH (EUR 25k of subscribed capital). The carrying amount as at 31/12/2016 is EUR 4k.
- b) geox GmbH (EUR 1,200k share capital). The Group has a 40 % share in the share capital. geox GmbH operates a geothermal power plant in Landau i. d. Pfalz. The carrying amount as at 31/12/2016 is EUR 1. The negative equity value not recognised in the balance sheet amounts to EUR 2,617k.

#### CURRENT ASSETS

##### INVENTORIES

Payments received are openly deducted from inventories.

##### RECEIVABLES

The remaining term of receivables is less than one year.

##### RECEIVABLES FROM ASSOCIATED COMPANIES

This includes loans receivable from GeoEnergie Taufkirchen GmbH & Co. KG (EUR 107k) and geox GmbH, Landau (EUR 3,547k), and others (EUR 1k).







## OTHER ASSETS

<b>OTHER ASSETS AS AT 31/12/2016 IN EUR K</b>				
Description	Total amount	due within one year	due after more than one year	Total amount in previous year
1. Loans receivable	8,576	8,576	0	3,455
2. Repayment claims from advance payments already made	1,605	1,605	0	0
3. VAT receivables	1,237	1,237	0	1,680
4. Receivables from reversal of purchase price of associated companies	1,000	1,000	0	500
5. Guarantee claim from a drilling contract	1,000	1,000	0	1,000
6. Claims from reinsurance cover	747	0	747	699
7. Receivables from associated companies	670	670	0	670
8. Insurance compensation	419	419	0	5,675
9. Other	301	301	0	183
<b>Total of other assets</b>	<b>15,555</b>	<b>14,808</b>	<b>747</b>	<b>13,862</b>

5. includes input tax receivables in the amount of EUR 45k which will be incurred only in 2017.

### DEFERRED TAX ASSETS

The deferred taxes were calculated using a tax rate of 30.0 %. The deferred taxes were calculated based on a corporation tax rate of 15.0 %. A solidarity surcharge of 5.5 % on any corporation tax as well as an average trade tax rate of 14.2 % were also used as the basis for this calculation. Owing to different measurement of the provision for annual leave which has not been taken and the pension provision, liability items in the tax accounts are lower than in the financial statements, resulting in deferred tax assets (EUR 158k).

### EQUITY

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

### SHARE CAPITAL

Share capital amounts to EUR 5,445 K. It is divided into 5,445,000 no-par bearer shares (no-par shares). Authorised capital as at 31/12/2016 amounts to EUR 2,723k.

As in the previous year the subsidiary Daldrup Bohrtechnik AG, Baar, still holds 4,017 shares in Daldrup & Söhne AG, which corresponds to EUR 4,017 of the share capital or 0.1 % of the share capital.



### CAPITAL RESERVES

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

### LEGAL RESERVE

The legal reserve pursuant to section 150 AktG amounts to EUR 25k, unchanged compared to the previous year.

### OTHER REVENUE RESERVES

Other revenue reserves amount to EUR 264k, unchanged compared to the previous year.

### CONSOLIDATED NET RETAINED PROFITS

Consolidated net retained profits developed as follows:

• Retained profits as at 01/01	EUR 10,497k
• Consolidated net income	EUR 152k
• Minority interests	EUR 230k
• Net retained profits*	EUR 10,877

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

It is, in principle, not the consolidated net retained profits, but the net retained profits from the individual financial statement of the parent company that are available for distribution purposes. The latter amounts to EUR 10,364k as at 31/12/2016.

The total amount pursuant to section 268(8) HGB (the payout block) is EUR 239k. This amount is due to the capitalisation of deferred tax receivables amounting to EUR 158k plus the payout block from the difference in pension provisions amounting to EUR 81k.

### PENSION PROVISIONS

The pension provision for the CEO, Josef Daldrup, is calculated according to actuarial principles. The calculations are performed on the basis of the 2005 G actuarial tables for pension insurance by Prof. Klaus Heubeck. This is a generation table that reflects transition probabilities in the Company pension scheme, such as mortality rate, invalidity or frequency of marriage, according to age, gender and year of birth. The interest rate of 4.01 % p.a. (10-year average), published by the Deutsche Bundesbank as on the balance sheet date of 31/12/2016, was used as the discount rate. A 2.0 % rate of benefit increase during the benefit period and a 0.0 % rate of benefit increase during the qualifying period of were taken as a basis. The individual calculations were performed according to the PUC method (projected unit credit method).

Between the estimate derived from the average market interest rate of the past ten fiscal years (4.01 %) and the estimate derived from the average market interest rate of the past seven fiscal years (3.24 %) there is a difference in pension provisions the present fiscal year amounting to EUR 81k. The difference in pension provisions excluded from distribution is the result of the calculation laid down in the German Commercial Code (HGB) in the version of 16/03/2016 and pursuant to the Accounting Law Modernisation Act (BilMoG).

### TAX PROVISIONS

Tax provisions amount to EUR 41k (previous year: EUR 8k).



## OTHER PROVISIONS

<b>STATEMENT OF PROVISIONS AS AT 31/12/2016 IN EUR K</b>					
Description	01/01/2016	Utilisation	Closing	Transfer	31/12/2016
Personnel provisions	796	796	0	883	883
Global provision for warranties	185	0	15	1	171
Other provisions	1,370	248	1	152	1,273
<b>Total other provisions</b>	<b>2,352*</b>	<b>1,044</b>	<b>16</b>	<b>1,036</b>	<b>2,327</b>

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

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

## LIABILITIES

<b>STATEMENT OF LIABILITIES AS AT 31/12/2016 IN EUR K</b>					
Type of liability	Total amount	due within one year	due within one to five years	due after more than five years	Total amount in previous year
1. Liabilities to banks	8,619	6,949	1,669	0	11,917
2. Trade payables	7,889	7,889	0	0	4,211
3. Liabilities to associated companies	317	317	0	0	13
4. Other liabilities to minority shareholders	12,620	0	12,620	0	12,334
5. Other liabilities to pension funds	10,278	478	5,893	3,908	10,215
6. Liabilities from rescission of contracts and subsequent repayment of purchase prices by associated companies	500	500	0	0	0
7. Other liabilities	1,370	1,370	0	0	162
8. Other liabilities - Remaining	512	512	0	0	376
	<b>42,104*</b>	<b>18,014*</b>	<b>20,182</b>	<b>3,908</b>	<b>39,228</b>

Total amount of liabilities secured by liens and similar rights:

- to banks: EUR 4,334k
- other liabilities to pension funds: EUR 10,278k
- Total: EUR 14,612k



The **liabilities to banks** essentially include DZ BANK AG (EUR 1,501k) and Sparkasse Westmünsterland (EUR 1,501k), where a drilling rig has been used as security in accordance with standard banking practice. Liabilities amounting to EUR 5,617k from the use of overdraft loans.

The **liabilities to associated companies** are made up of other liabilities amounting to EUR 317k.

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

The **other liabilities** comprise liabilities from wages and salaries (EUR 266k), liabilities from social security (EUR 28k), loan obligations to related companies (EUR 46k) and other liabilities (EUR 159k).

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

The **deferred tax liabilities** result from the disclosure of hidden reserves in the framework of initial consolidation. These fell by EUR 27,500 in the fiscal year.



## II. INCOME STATEMENT

The total cost format was selected for the Income Statement.

The sales revenues of Daldrup & Söhne AG can be broken down as follows:

<b>TURNOVER SPREAD BY AREA OF ACTIVITY IN EUR K</b>				
Business Unit	2016	Share in %	2015	Share in %
Geothermal Energy	16,422	53	5,227	30
Raw Materials/Exploration	12,043	38	5,658	33
Water Procurement	308	1	4,568	27
EDS	2,364	8	1,802	10
<b>Total</b>	<b>31,137</b>	<b>100</b>	<b>17,255</b>	<b>100</b>

<b>TURNOVER SPREAD BY MARKET GEOGRAPHY IN EUR K</b>				
Business Unit	2016	Share in %	2015	Share in %
Domestic	14,071	45	12,965	75
Foreign	17,066	55	4,290	25
<b>Total</b>	<b>31,137</b>	<b>100</b>	<b>17,255</b>	<b>100</b>

Due to the long-term project agreements, the sales revenue only present an incomplete picture of the performance during the fiscal year. Therefore, the overall performance is additionally stated as EUR 22,030k (corresponding to 55.8 %) at home (previous year: EUR 13,043k / 49.4 %) and EUR 17,428k (44.12 %) abroad (previous year: EUR 13,354k / 50.6 %).

Other operating income is broken down as follows:

• Patent sale	EUR 5,400k
• Income from prior periods	EUR 1,655k
• Income from currency translation	EUR 651k
• Other	EUR 587k

**Total** EUR 8,292k\*

Other operating expenses are broken down as follows:

• Bad debts	EUR 3,318k
• Rent for mobile assets	EUR 1,057k
• Advertising and travel	EUR 985k
• Legal and consultancy costs	EUR 974k
• Premises	EUR 702k
• Residue and waste disposal	EUR 580k
• Repairs and maintenance	EUR 521k
• Vehicle costs	EUR 504k
• Construction site costs	EUR 448k
• Insurance policies and premiums	EUR 352k
• Guarantee commissions	EUR 254k
• Construction site fuel	EUR 210k
• Other	EUR 1,467k

**Total** EUR 11,372k

The income from prior periods largely comprises insurance settlements and income from the reversal of accruals.

The other operating income includes extraordinary income from the one-off sale of a patent amounting to EUR 5,400k.

The other operating expenses include extraordinary expenses from bad debts incurred from a settlement agreement with a customer concluded in 2016 and an insurance policy for a drilling project amounting to EUR 3,318k.

\* rounding difference

### III. OTHER DISCLOSURES

#### OTHER FINANCIAL OBLIGATIONS

Daldrup & Söhne AG has other financial obligations arising from rental and lease agreements totalling EUR 88k. The obligations have a remaining term of up to one year. Moreover there are obligations stemming from a licensing agreement (see below) amounting to EUR 5,950k, of which EUR 350k are due within one year, EUR 1,400k within one and five years and EUR 4,200k within more than five years.

In addition, there are other financial obligations for rent and leasing in the amount of EUR 70k in relation to Exorka GmbH and in the amount of EUR 154k in relation to Geothermie Allgäu Betriebs und Beteiligungs GmbH & Co. KG. Of these, EUR 80k are liabilities due within one year, EUR 40k are due within 1 to 5 years and the remaining EUR 104k are due within more than 5 years.

The total amount of other group financial obligations thus amounts to EUR 6,262k, of which:

- due within one year: EUR 508k
- due between one and five years: EUR 1,440k
- due within more than five years: EUR 4,304k

#### CONTINGENT LIABILITIES

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

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

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

Geysir Europe GmbH has not increased its stake in geox GmbH by an additional 50 %, to 90 % because the share purchase agreement was rescinded on 2 December 2013. The rescission means it is as if the contract had never existed. There are various judicial proceedings in process against the party that sold the shares and the former geox GmbH service providers. Furthermore, Daldrup & Söhne AG has appealed against the guarantee provided in connection with this. It is not reasonably probable that a claim will be made against the guarantee because the geox GmbH geothermal power plant in Landau will become operational again in 2017 so that the Company will be able to finance the debt service out of its own funds.

Pursuant to section 313(2) no. 6 HGB, Daldrup & Söhne AG is the **personally liable partner** in the context of involvement in the following joint ventures:

- The joint venture "Arnstadt" (company under civil law), registered office in 46238 Bottrop
- The joint venture "THV Smet-Daldrup", registered office in Dessel (Belgium) until 12/2016

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



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

In the fiscal year 2016 Daldrup & Söhne AG sold a patent relating to production tubing for use in a borehole heat exchanger for the recovery of geothermal energy and method of installation of such a production tubing for EUR 5,400k and has since been leasing it back for an annual licensing fee of EUR 350k. The patent has a term until January 2034. The advantage of the transaction is to strengthen the profitability of the Company.

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

The fee for financial statement audit services charged by Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf for fiscal year 2016 is EUR 51k. This is attributed to audit services amounting to EUR 50k (including the late payment of EUR 5k for 2015) and other services amounting to EUR 1k.

#### **REPORT ON POST-BALANCE SHEET DATE EVENTS**

The following events took place after the balance sheet date, 31/12/2016, which were of major importance for Daldrup & Söhne AG.

On the Neuried (district of Ortenau) geothermal power plant project, the administrative court of Freiburg rejected the claim filed by the town of Kehl against the approval under mining law of the main operating plan for four geothermal wells in the municipality of Neuried. The court did not permit an appeal. This means the forced standstill has been lifted for the time being. In the context of medium-sized subsidiary Geysir Europe GmbH's current application to have the permit for its main operating plan extended, the regional council will take into consideration the result of a pending preliminary environmental impact assessment. Daldrup & Söhne AG must first wait for this outcome. If necessary Geysir Europe GmbH will then also need to produce a full environmental impact assessment.

Daldrup & Söhne AG has been awarded a contract by Enex Geothermieprojekt Geretsried Nord GmbH & Co. KG, Gelting, to sink two wells for the extraction of thermal water at its site in Geretsried, south of Munich. The contract is worth around EUR 19 million. By incorporating the "Dolomitluft" (fracture-dominated dolomite aquifer) research project, the 6,036 metre-long bore hole create in 2013 should become economically useful.

Daldrup was awarded a major contract in the double-digit million range by Stadtwerke München GmbH (SWM) to drill two doublets (four deep wells) for the extraction of geothermal energy. This is one of the largest contracts in the company's history. The wells will be sunk to a depth of over 4,000 metres. Work is expected to begin in the coming year. The boreholes are part of the SWM's District Heating Vision: Munich is aiming to become the first German city to supply 100 % of its district heating through renewable energy sources by 2040. Geothermal energy from hot thermal water is expected to make the greatest contribution to heating.

Since 1 March 2017 shares in Daldrup & Söhne AG are traded through the newly created "Scale" segment of the Frankfurt Stock Exchange's Open Market.





## OTHER MANDATORY DISCLOSURES

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

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

Name	Function, occupation
Josef Daldrup	CEO (responsible for the Strategy, Key Accounts, Communication, HR and Legal Affairs divisions)
Dipl.-Geologe Peter Maasewerd	Member of the Management Board (responsible for the Raw Materials & Exploration, Water Procurement, EDS and Near-Surface & Medium-Depth Geothermal Energy business units and the IT and Contract & Claims Management divisions)
Andreas Tönies	Member of the Management Board (responsible for the Deep Geothermal Energy business unit and the Logistics/Merchandise Management and Purchasing divisions)
Curd Bems	Member of the Management Board (responsible for the Controlling, Finance, IR and Business Development divisions)

In the period under review the following were members of the **Supervisory Board**:

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







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

The total remuneration paid to the Management Board for its work in fiscal year 2016 amounted to EUR 1,060k.

The total remuneration paid to the Supervisory Board for its work in fiscal year 2016 amounted to EUR 80k.

There is a clearing account with the Chairman of the Management Board, Josef Daldrup, which shows a receivable of EUR 28k as at 31/12/2016. Interest on the clearing account is charged at 6 % annually.

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

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

GROUPS OF STAFF	2016	2015
Waged employees	117	90
Salaried employees	25	23
Persons in minor employment	1	2
<b>Total</b>	<b>143</b>	<b>115</b>

Grünwald, 22 May 2017

#### Daldrup & Söhne AG

The Chairperson



Josef Daldrup (CEO)



Peter Maasewerd  
(Management Board)



Andreas Tönies  
(Management Board)

Curd Bems (CFO)  
was unable to sign  
due to illness.



Appendix 1 to the Notes

## GROUP STATEMENT OF ASSETS

### GROUP STATEMENT OF ASSETS REPORT FOR THE FISCAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2016

	ACQUISITION COSTS				As at 31/12/2016 EUR
	As at 01/01/2016 EUR	Currency translation EUR	Accruals EUR	Outgoings EUR	
I. Intangible fixed assets					
Acquired concessions, industrial property rights and similar rights and assets, and licences for such rights and assets	7,061,750.61	106,698.82	1,038.00	0.00	7,169,487.43
	<b>7,061,750.61</b>	<b>106,698.82</b>	<b>1,038.00</b>	<b>0.00</b>	<b>7,169,487.43</b>
II. Property, plant and equipment					
1. Land, land rights and buildings	1,982,616.09	0.00	0.00	0.00	1,982,616.09
2. Technical equipment and machinery	27,336,174.54	-76.24	34,587.00	0.00	27,370,685.30
3. Other equipment, operating and office equipment	13,018,099.61	-951.30	824,766.57	1,066.00	13,840,848.88
4. Prepayments and assets under construction	14,944,179.33	0.00	33,613.44	0.00	14,977,792.77
	<b>57,281,069.57</b>	<b>-1,027.54</b>	<b>892,967.01</b>	<b>1,066.00</b>	<b>58,171,943.04</b>
III. Financial assets					
1. Shares in affiliated companies	22,208,777.29	0.00	1,091,281.34	5,022.44	23,295,036.19
2. Long-term securities	95,054.80	0.00	0.00	0.00	95,054.80
3. Other loans	1,889,418.29	0.00	0.00	431,825.01	1,457,593.28
	<b>24,193,250.38</b>	<b>0.00</b>	<b>1,091,281.34</b>	<b>436,847.45</b>	<b>24,847,684.27</b>
	<b>88,536,070.56</b>	<b>105,671.28</b>	<b>1,985,286.35</b>	<b>437,913.45</b>	<b>90,189,114.74</b>



DEPRECIATION AND AMORTISATION			
As at 01/01/2016 EUR	Accruals EUR	Outgoings EUR	As at 31/12/2016 EUR
5,046,091.05	776,187.74	0.00	5,822,278.79
<b>5,046,091.05</b>	<b>776,187.74</b>	<b>0.00</b>	<b>5,822,278.79</b>
1,006,657.13	37,848.73	0.00	1,044,505.86
13,180,700.06	1,856,004.23	0.00	15,036,704.29
9,693,047.44	935,060.99	0.00	10,628,108.43
6,882,128.43	0.00	0.00	6,882,128.43
<b>30,762,533.06</b>	<b>2,828,913.95</b>	<b>0.00</b>	<b>33,591,447.01</b>
1,362,492.04	0.00	0.00	1,362,492.04
94,873.80	0.00	0.00	94,873.80
2,832.86	0.00	0.00	2,832.86
<b>1,460,198.70</b>	<b>0.00</b>	<b>0.00</b>	<b>1,460,198.70</b>
<b>37,268,822.81</b>	<b>3,605,101.69</b>	<b>0.00</b>	<b>40,873,924.50</b>

BOOK VALUES	
As at 31/12/2016 EUR	As at 31/12/2015 EUR
1,347,208.64	2,015,659.56
<b>1,347,208.64</b>	<b>2,015,659.56</b>
938,110.23	975,958.96
12,333,981.01	14,155,474.48
3,212,740.45	3,325,052.17
8,095,664.34	8,062,050.90
<b>24,580,496.03</b>	<b>26,518,536.51</b>
21,932,544.15	20,846,285.25
181.00	181.00
1,454,760.42	1,886,585.43
<b>23,387,485.57</b>	<b>22,733,051.68</b>
<b>49,315,190.24</b>	<b>51,267,247.75</b>



Appendix 2 to the notes

## SHAREHOLDINGS

### LIST OF SHAREHOLDINGS PURSUANT TO SECTION 285(11) HGB FOR THE FISCAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2016

NAME AND REGISTERED OFFICE OF THE COMPANY	Direct share of capital	Indirect share of capital	Equity	Result	Currency	Year	Exchange rate 31/12/2016 1 EUR =
Daldrup Bohrtechnik AG, Baar/Switzerland	100.00		852,385.82	170,711.76	CHF	2016	1.075 CHF
D&S Geothermie GmbH, Grünwald	100.00		668,385.19	41,348.07	EUR	2016	
Daldrup Wassertechnik GmbH, Ascheberg	100.00		40,544.28	15,720.49	EUR	2016	
Przedsiębiorstwo Projektów Górniczych i Wierceń Geologicznych "DMM" Sp. z o.o., Katowice/Poland	50.44		1,670,841.08	404,014.02	PLN	2016	4.4357 PLN
GERF B.V., Voorburg/Netherlands		100.00	- 37,746.00	- 67,418.00	EUR	2016	
Geysir Europe GmbH, Grünwald		75.01	9,515,550.70	- 345,546.44	EUR	2016	
Exorka GmbH, Grünwald		100.00	54,631.36	21,582.10	EUR	2016	
Exorka ehf, Husavik/Iceland		100.00	- 407,943,434.00	12,361,616.00	ISK	2016	119.19 ISK
geox GmbH, Landau i. d. Pfalz		40.00	- 2,973,122.11	- 1,021,594.51	EUR	2016	
Geothermie Allgäu Betriebs- und Beteiligungs GmbH & Co. KG, Grünwald		100.00	- 12,233,357.10	- 403,381.17	EUR	2016	
Geothermie Allgäu Verwaltungs GmbH, Grünwald		100.00	- 492.14	- 3,551.39	EUR	2016	
Geothermie Starnberg GmbH & Co. KG, Grünwald		100.00	204,864.16	- 17,363.96	EUR	2016	
Geothermie Starnberg Verwaltungs GmbH, Grünwald		100.00	- 3,220.56	- 3,511.32	EUR	2016	
Erdwärme Taufkirchen GmbH & Co. KG, Grünwald		100.00	- 122,686.98	- 15,070.34	EUR	2016	
Erdwärme Taufkirchen Verwaltungs GmbH, Grünwald		100.00	14,484.35	- 2,449.62	EUR	2016	
GeoEnergie Taufkirchen GmbH & Co. KG, Grünwald		38.61	57,876,588.19	353,745.56	EUR	2016	
GeoEnergie Taufkirchen Verwaltungs GmbH, Grünwald		38.83	2,446.37	- 11,393.92	EUR	2016	
Taufkirchen Holding GmbH & Co. KG, Grünwald		100.00	13,813,421.62	- 527,105.96	EUR	2016	
Taufkirchen Holding Verwaltungs GmbH, Grünwald		100.00	3,438.77	- 2,186.34	EUR	2016	
Geothermie Neuried GmbH & Co. KG, Neuried		100.00	- 15,097.48	- 24,561.50	EUR	2016	
Geothermie Neuried Verwaltungs GmbH, Neuried		100.00	11,489.08	- 2,991.57	EUR	2016	







## AUDITOR'S OPINION

To Daldrup & Söhne Aktiengesellschaft, Grünwald:

We have audited the consolidated financial statements prepared Daldrup & Söhne Aktiengesellschaft, Grünwald – comprising the consolidated balance sheet, the consolidated profit and loss account, the notes to the consolidated financial statements, the consolidated cash flow statement, the consolidated statement of changes in equity – and the group management report for the financial year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of Daldrup & Söhne Aktiengesellschaft, Grünwald, for the financial year from 1 January to 31 December 2016 comply with legal requirements and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with German principles of proper accounting. The group management report is consistent with the consolidated financial statements, complies with the legal requirements, as a whole provides a suitable view of the Group's position and suitable presents the opportunities and risks of future development.

Düsseldorf, 23 Mai 2017

Warth & Klein Grant Thornton AG  
Wirtschaftsprüfungsgesellschaft

Carsten Carstens  
Wirtschaftsprüfer  
[German Public Auditor]

Thorsten Esser  
Wirtschaftsprüfer  
[German Public Auditor]

## FISCAL CALENDAR for Daldrup & Söhne AG

- 31 May 2017:** Consolidated Annual Report as at 31/12/2016
- 30 August 2017:** Annual General Meeting, Munich
- 29 September 2017:** Consolidated Interim Report as at 30/06/2017
- 27-28 November 2017:** Equity Forum, Frankfurt/Main airport

## INVESTOR RELATIONS Contact

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This Annual Report is also available online at  
[www.daldrup.eu](http://www.daldrup.eu).

### Design and setting

DESIGNRAUSCH Kommunikationsdesign, Herten | Susanne Frisch-Hirse  
[www.designrausch.eu](http://www.designrausch.eu)

# Romina Quellen

## Bohrschema 3

### A BRIEF OVERVIEW OF DALDRUP

	31/12/2016	31/12/2015
Sales	EUR 31.1 million	EUR 17.3 million
Gross revenue	EUR 39.5 million	EUR 26.4 million
EBITDA	EUR 4.6 million	EUR 4.5 million
EBIT	EUR 1.0 million	EUR 0.8 million
Net income for the year	EUR 0.2 million	EUR 0.2 million
Equity ratio	50.4 %	52.3 %
Total assets	EUR 91.4 million	EUR 88.9 million

