

Muehlhan



Annual Report 2013

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

We offer top-rate solutions for surface protection, scaffolding and steel construction in our Ship Newbuilding, Ship Repair, Energy, Industry and Other Services business segments. With more than 2,300 employees at over 30 locations worldwide, we generated €208 million of sales revenues in 2013.

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

Group Key Figures

in kEUR		2013	2012
Result			
Sales		207,817	186,154
EBITDA ¹		13,440	10,721
EBIT ²		5,151	4,501
EBT ³		3,227	2,218
Earnings per share	in EUR	0.10	0.01
Consolidated earnings after non-controlling interests		1,804	222
Cash flow		12,556	9,882
Investments for fixed assets		-6,562	-5,218
Depreciation		-8,289	-6,220
Balance sheet			
Balance sheet total		112,744	113,547
Current assets		70,153	67,618
Fixed assets ⁴		39,749	42,369
Equity		58,303	57,761
Employees			
Annual average headcount people	number	2,390	2,266

¹ EBITDA: Profit from operations and depreciation

² EBIT: Profit from operations

³ EBT: Earnings before taxes

⁴ Fixed assets: Total of non-current assets less deferred tax assets

2,300+
Employees

5
Business segments

30+
Subsidiaries

4
Continents

1 Name:

Muehlhan

Vision

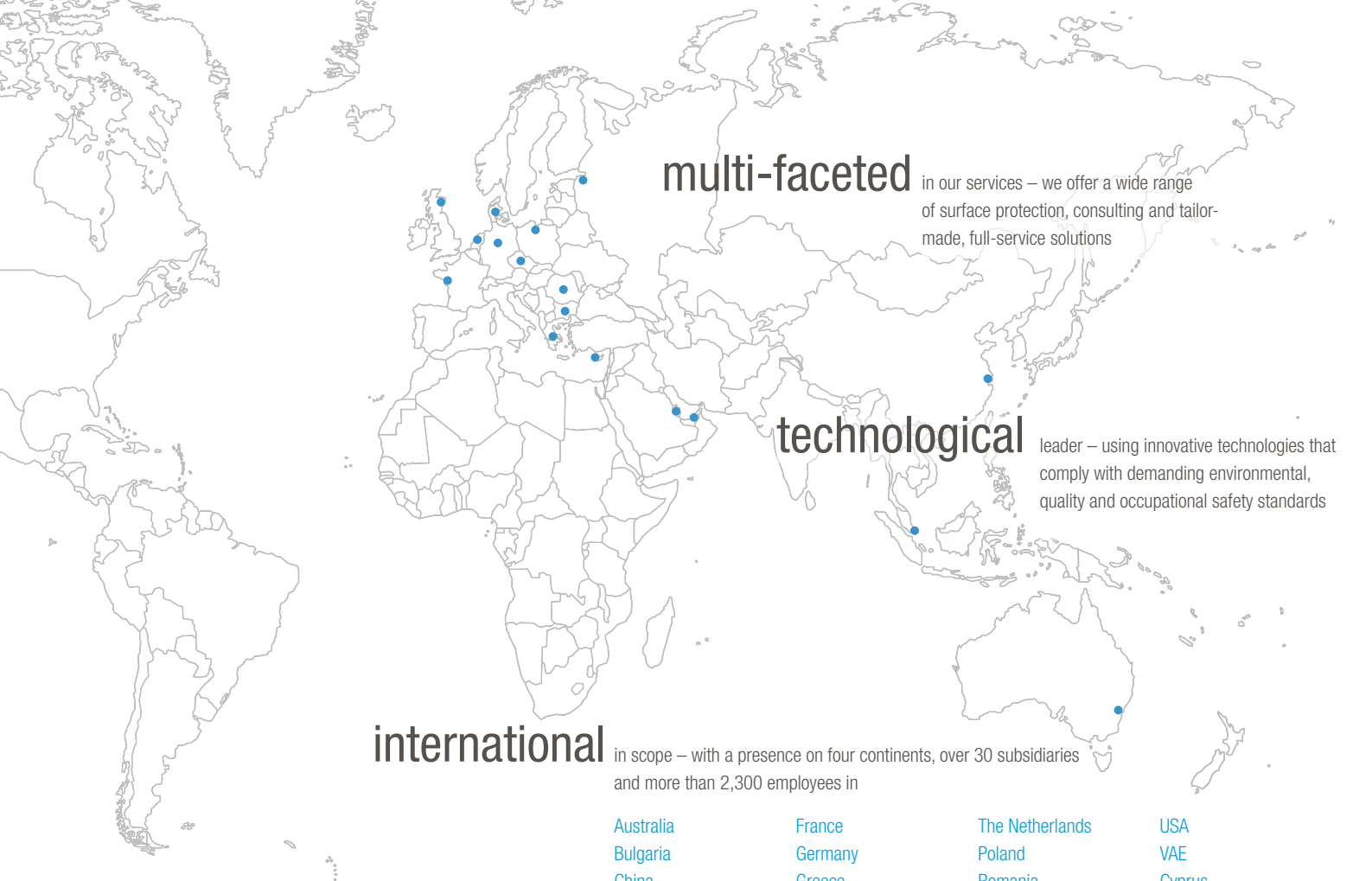
We continuously improve our technologies and services to remain the quality leader in our markets and to keep our number one position in the industry. Our customers, suppliers and employees value us as a professional and dependable partner.

Values

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

>>





multi-faceted

in our services – we offer a wide range of surface protection, consulting and tailor-made, full-service solutions

technological

leader – using innovative technologies that comply with demanding environmental, quality and occupational safety standards

international

in scope – with a presence on four continents, over 30 subsidiaries and more than 2,300 employees in

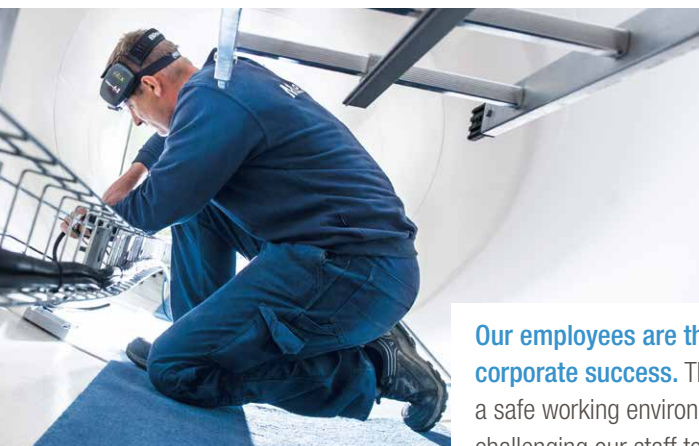
Australia
Bulgaria
China
Czech Republic
Denmark

France
Germany
Greece
Great Britain
Qatar

The Netherlands
Poland
Romania
Russia
Singapore

USA
VAE
Cyprus

Our markets are global. But our responsibility starts locally. Muehlhan is a “Global Player”, but our sites act as local partners in their communities. We aim to be good neighbors and responsible citizens in our different homes, acting with sustainable values.



Our employees are the foundation of our corporate success. This is why we create a safe working environment, supporting and challenging our staff to act with responsibility, competence, efficiency, and on the basis of excellent training. Muehlhan provides its staff with all the necessary opportunities for this. We believe in two-way communication – talking as well as listening.

Our customers are our raison d'être. We keep our promises, no matter what challenges our customers present to us. As the industry leader, we demonstrate to our customers every day how important they are for us, and how much added value we generate for them.



The quality of our service is our strongest argument. Our services ensure long-term, comprehensive protection of our customers' investments. As a quality leader we leverage our creativity, research and innovation – to be the best today, and to become even better tomorrow.

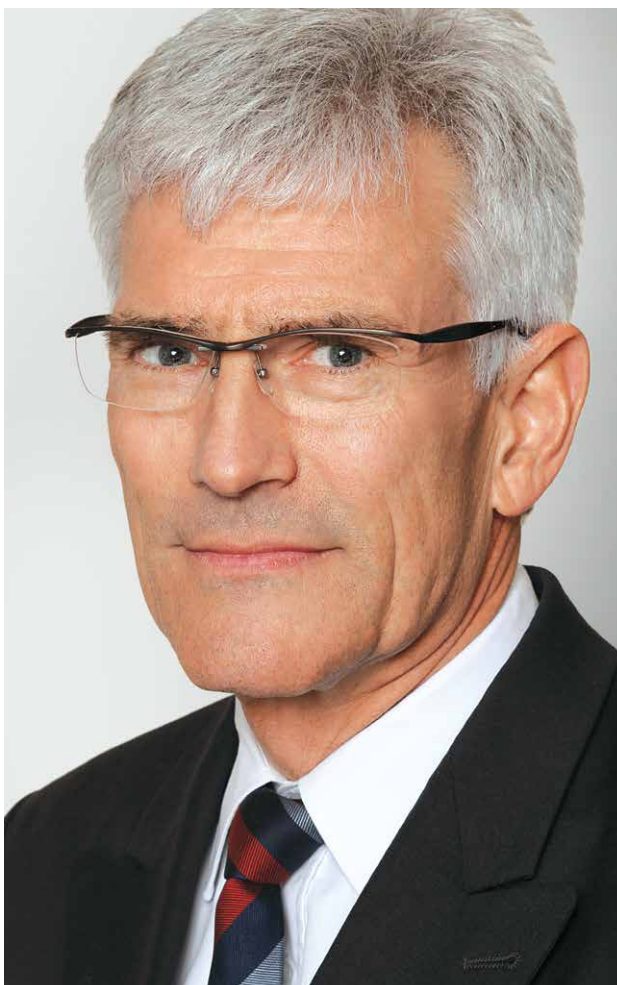
Content

01 Management	02	04 Group Consolidated Financial Statements	20
Executive Board	02	Consolidated Balance Sheet	20
Foreword	03	Consolidated Income Statement	22
Supervisory Board	04	Consolidated Statement of	
Supervisory Board Report	05	Comprehensive Income	22
		Consolidated Cash Flow Statement	23
02 Our Share	08	Consolidated Statement of	
		Changes in Group Equity	24
03 Group Management Report	10	Fixed Assets Movements Schedule	26
Overview	10	Notes	30
Group Fundamentals	10		
Economic Report	12	05 For more information	48
Forecast and Report on Opportunities		Statement of the Auditors' Report	48
and Risks	15	Contact and Financial Calendar	
Legal Disclosures	19		



Storage Silo, Muehlhan Certified Coatings, USA

01 Management



Executive Board

Stefan Müller-Arends

Chairman of the Executive Board, CEO
Hamburg, Germany

Stefan Müller-Arends is a graduate in business administration. Following positions as controller and CFO, for example at the Rheinbraun AG and the French DMC S.A., Mr Müller-Arends became CEO of the Mauser AG, a company of the packaging industry sector. Since 2011 he has been leading the Muehlhan Group as Chief Executive Officer.

Dr. Andreas C. Krüger

Member of the Executive Board, CSO
Hamburg, Germany

Dr. Andreas C. Krüger has an engineering doctorate degree. He has many years of management experience in both German and foreign industrial companies, among others as a Director of Friatec AG, Mannheim. He has served as CEO of the Muehlhan Group since 2005. Dr. Krüger has been responsible for the sector Marketing/Sales since 2011.

*Dear share holders,
esteemed business partners, friends and employees!*

Restructuring a company is like hiking through rough terrain. There may be setbacks and surprises and some detours may be necessary.

This scenario also applies to the Muehlhan Group. Despite some setbacks and surprises during the year under review, our Group's restructuring is on the right track. Having restored profitability in 2012, the Group again managed to increase earnings in 2013. As measured by EBIT, the Group reported profits of €5.2 million for the year under review. This earnings figure already reflects substantial non-recurring expenses associated with the shutdown of loss-making businesses in China and Qatar, as well as operating losses at both companies. Sales revenues of €208 million once again reached the record high level set in 2008, almost 12% above the prior-year figure.

We tenaciously pursued our strategy of shifting our business activities from our traditional focus on shipping to the oil & gas and industrial markets, even though our oil & gas business suffered a setback from the flight ban on transport helicopters in the North Sea.

In 2014, we will continue to work on transforming what essentially has been a project-based business into a company with a balanced risk profile. While this process will take several years to complete, some initial success is already evident, especially as regards the systematic reassessment of our portfolio. We believe that the Group will continue to experience moderate organic growth, but at the same time we will continue to pursue acquisition targets that fit our strategy. As part of this process, we examined several potential acquisitions during the year under review, but did not complete any deals during that period. We will continue to explore opportunities for external growth, but only at a reasonable price.

We would like to thank our almost 2,400 employees for their loyalty and commitment during these difficult times. We also want to thank our shareholders, partners and business associates, some of whom have placed their trust in us for many years. We hope that you will continue to support us going forward.

Hamburg, March 2014

Your Executive Board



Stefan Müller-Arends



Dr. Andreas C. Krüger



Supervisory Board

Philip Percival

London, Great Britain

Deputy Chairman of the Supervisory Board
Managing Director of the
Syntegra Capital Limited, London

Dr Wulf-Dieter H. Greverath

Hamburg, Germany

Chairman of the Supervisory Board

From 1981 to 2005
Managing Partner and chairman of the
Muehlhan Group holding company's
management board

Dr Gottfried Neuhaus

Hamburg, Germany

Member of the Supervisory Board
Managing Partner of Neuhaus Partners GmbH,
Hamburg

The Muehlhan Group is still in the midst of the process of adjusting to changing markets. This applies, in particular, to our traditional core markets in the maritime segment, but also to new markets such as offshore wind energy, which is still evolving. Against this backdrop, Muehlhan has consistently pursued a strategy of managing risks in a professional manner and as proactively as possible, reducing its dependence on the maritime sector and transforming itself into a broad-based supplier of industrial services. The developments of the past two years confirm that, by following this strategy, the company's management is on the right track.

During the past year, management has also made efforts to improve operations. At the same time, important strategic measures were adopted in consultation with the Supervisory Board. As a result, 2013 earnings figures improved further— even if they have not yet reached the level targeted by the Executive and Supervisory Boards. The Supervisory Board believes that, by continuing to pursue the measures already introduced, the Muehlhan Group will remain on the right track.

Supervisory Board's review of the company's management and support of the Executive Board

As in previous years, the Supervisory Board strongly supported the work of the corporate management team during fiscal year 2013. In so doing, it fulfilled the support, audit and control duties prescribed by law and the Articles of Incorporation. The Supervisory Board and the Executive Board remained in close contact, even between meetings. For example, the Chairman of the Supervisory Board regularly exchanged information about current business performance and major transactions with the Chairman of the Executive Board.

In 2013, the Executive Board's regular written and oral reports to the Supervisory Board concerning business developments within the Muehlhan Group and at Muehlhan AG once again were the focus of the cooperation between the two management bodies. Special attention was again given to the direction of the Muehlhan Group and to making adjustments to the current and expected future market situation. The Executive Board also provided the Supervisory Board with comprehensive reports regarding the financial position, earnings performance and medium-term corporate planning of Muehlhan AG and of the subsidiary companies.

The Supervisory Board held a total of six meetings in 2013, attended by the Executive Board, at which the Supervisory Board and the Executive Board discussed personnel and business policy issues. In addition, the three members of the Supervisory Board held several in-house teleconferences to discuss the Group's situation. All of the meetings focused on the strategic orientation, operational implementation and financial situation of the Muehlhan Group. The meetings also featured discussions of trends in the company's main business segments, taking into account the business situation in each of its international markets.

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

Highlights of the 2013 meetings

In addition to the regular issues, the following topics, in particular, were discussed in detail at the 2013 sessions of the Supervisory Board:

- Termination of the maritime business in Qatar:
Muehlhan's shipyard customer in Qatar was unable to deliver on its previous promises regarding capacity. When it became clear that this situation was likely to persist, the Executive Board, with the Supervisory Board's approval, decided in July 2013 to terminate the agreement with the customer in order to avoid further losses.
- Termination of the maritime business in China:
Due to extensive overcapacity at Chinese shipyards, the performance of the Ship Newbuilding and Ship Repair segments in China has been

unsatisfactory. A sustainable improvement in this situation in the foreseeable future is unlikely. Consequently, the Executive Board, with the Supervisory Board's approval, decided in July 2013 to terminate the maritime business in China immediately.

- Structural changes at Muehlhan Deutschland GmbH:
The Supervisory Board is supporting the successful implementation of a package of reorganization measures developed by management, about which it received detailed reports at several meetings.
- In R&D and technology, Muehlhan will continue the successful strategy begun in recent years to defend and expand the company's leadership position in technology and in quality, on-time delivery. In the future, Muehlhan will also position itself as a "green" company, based on its lower energy consumption and more efficient technologies and processes.
- The future minimum wage of €8.50/hour is considered to be unproblematic, as Muehlhan has always been a guarantor for appropriate compensation, room and board, even for subcontractors. To the contrary: we hope that, as a result of the new laws, competitors who have dealt with this issue differently than Muehlhan in the past will, beginning now, have to behave differently, and Muehlhan in turn could benefit from this.

Annual financial statements and consolidated financial statements

The Supervisory Board commissioned BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, to audit the financial statements of Muehlhan AG and of the Group pursuant to the resolution adopted by Muehlhan AG's Annual General Meeting on 28 May 2013. BDO has audited the consolidated financial statements for the period ending on 31 December 2013 prepared by the Executive Board in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a, para. 1 of the German Commercial Code (HGB = Handelsgesetzbuch) and the Group management report for the fiscal year beginning on 1 January 2013 and ending on 31 December 2013 and the annual report of Muehlhan AG for the period ending on 31 December 2013 prepared by the Executive Board in accordance with the requirements of German commercial law and the management report for Muehlhan AG for the fiscal year beginning on 1 January 2013 and ending on 31 December 2013 and has given them an unqualified audit opinion.

Muehlhan AG's annual report and the consolidated financial statements, the management report for Muehlhan AG's annual report and the management report for the consolidated financial statements, the proposal for the use of the unappropriated retained earnings and the associated audit reports were sent to each member of the Supervisory Board for their independent

review. At the meeting on 25 March 2014, the Supervisory Board once again thoroughly discussed and reviewed all the documents in the presence of the auditors.

Based on the audits and reviews, the Supervisory Board has concluded that the representations in the consolidated financial statements and the Group management report of Muehlhan AG are in compliance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a, para. 1 of the German Commercial Code, and that they convey a true and accurate picture of the Group's net assets, financial position and results of operations. The same applies to the representations in Muehlhan AG's annual report and the management report for Muehlhan AG, which comply with legal requirements and likewise convey a true and accurate picture of Muehlhan AG's net assets, financial position and results of operations in accordance with generally accepted accounting principles.

Based on the final results of its reviews, the Supervisory Board has no objections to the Muehlhan AG annual report prepared by the Executive Board, the consolidated financial statements or the results of the financial statement audits, and it approves Muehlhan AG's annual report and the consolidated financial statements dated 31 December 2013. The annual financial statements are therefore adopted. The Supervisory Board agrees with the proposal by the Executive Board regarding the appropriation of net income: instead of a possible, but small, dividend payment, the Supervisory Board endorsed the Executive Board's proposal to resume the share buyback program up to an amount of €1 million, in accordance with the resolution by the Annual General Meeting.

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

"We have duly examined and assessed the report and hereby certify that:

1. the information contained in the report is correct,
2. the payments made by the corporation in the transactions listed in the report were not unduly high."

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

Although market conditions continued to be difficult, fiscal year 2013 was a successful one for the Muehlhan Group from an operating standpoint, inasmuch as we achieved our internal targets and the extraordinary expenses incurred during the past year did not prevent us from reaching our targets.

Moreover, those charges did not affect the Group's healthy liquidity position. Consequently, Muehlhan is well placed to successfully deal with the persistent challenges that lie ahead.

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

Hamburg, March 2014



Dr Wulf-Dieter H. Greverath
Chairman of the Supervisory Board of Muehlhan AG



Oakland Bay Bridge, San Francisco

02 Our Share

For Muehlhan's share, 2013 was a mixed year. A good spring was followed by a weak summer; the share then recovered by year-end. For the year as a whole, Muehlhan's share slightly outperformed the Entry Standard.

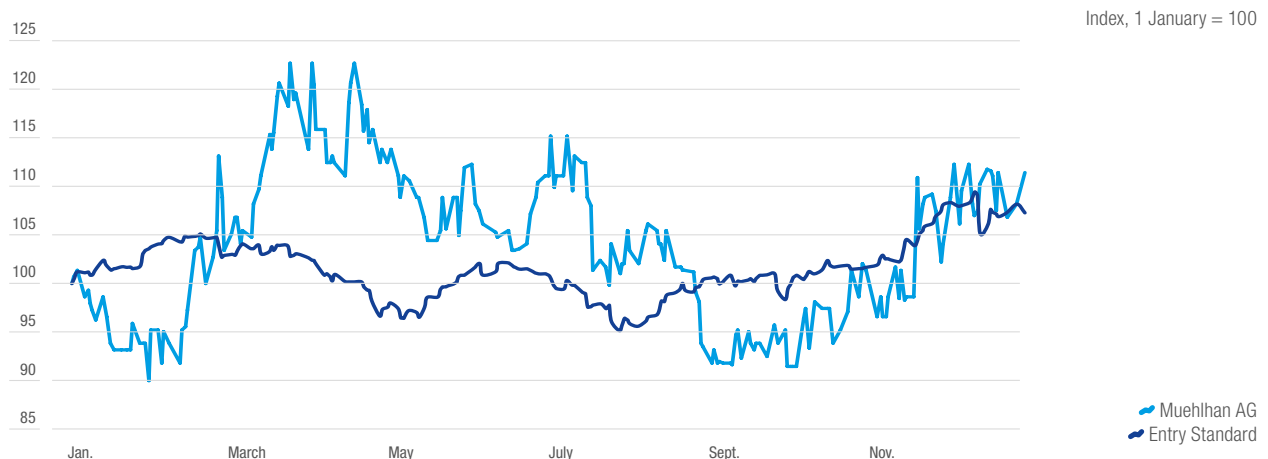
Muehlhan AG's share experienced a slightly negative start in 2013. At the end of January, despite the company's press releases and a very positive overall market environment, the share reached its low for the year of €1.275.

From mid-February, the stock price broke through the 38-day moving average, gaining significantly on noticeably higher trading volume after a positive article appeared in the magazine "Der Aktionär" ("The Shareholder"). The closing price of €1.55 at the end of February represented a 21% share price gain over the previous low.

Despite increasing uncertainty within the Euro zone, among other things because of the Cyprus issue, the share price jumped again beginning in mid-March, reaching what proved to be the year's high of €1.75 on 26 March. The share ended the month at €1.706.

Trading was initially calmer in April and the share price stabilized. The presentation of the latest company figures on 3 April 2013 did not influence the share price at all. Although a sell-off mood prevailed in the overall market by this time, the share price again reached the annual high of €1.75 on both 3 April and 19 April, before retreating somewhat to €1.62 by the end of April.

Share Performance 2013



For the first time in a long while, the overall market reached record highs in May 2013. However, Muehlhan AG's share did not benefit from this development, as publication of the latest company figures placed the share price under pressure. The closing price in May stood at €1.59. Muehlhan's share price continued to be restrained in June. Because of renewed overall market uncertainty and significant price volatility, the share price declined slightly. After a brief recovery at the end of June, the share's closing price was almost unchanged at €1.57. From a technical standpoint, Muehlhan AG's share performance in July was negative. In mid-July, it dipped below the 38-day support level and the share price came under selling pressure.

When the semi-annual report was released on 30 July 2013, the share price increased slightly, closing at €1.45. August performance did not reverse the trend. Toward the end of the month, both because of the Syrian crisis and the fact that the share price had fallen below the 200-day moving average, the share price declined further, ending the month at €1.325. In September, Muehlhan's share price reached its low of €1.30. In spite of new record highs in the overall market and a predominantly positive market sentiment, the share ended the month at a price of only €1.35.

In October, the DAX cleared the 9000-point mark for the first time despite continued debates about the U.S. budget and the debt ceiling. In the wake of this development, and with chart support, the Muehlhan AG share rose, closing at €1.44 at the end of October. When third-quarter figures were published in November, the 200-day moving average of €1.475 was exceeded and the share price climbed to its high for the month of €1.60. As the month progressed, though, the share was unable to sustain the trading level of €1.50 and ended November slightly lower, at €1.48.

During the last month of the year, the share price rose, following the market trend of recent months. Nevertheless, the annual high of €1.75 reached in March and April remained out of reach, despite the fact that the environment continued to be very positive. Muehlhan's share ended the year with a closing price of €1.586, a 14.1% increase over the 2012 closing price of €1.390. Compared with the previous year, market capitalization increased €3.8 million to €30.9 million.

As of the editorial deadline, Muehlhan AG's market capitalization stood at €41.0 million (Xetra closing price on March 25, 2014: €2.10).

Share key figures

Nominal (accounting) value	No-par-value bearer shares
Number of shares issued	19,500,000
Initial listing	26 October 2006
Issue price	EUR 5.80
Highest price (Xetra) in 2013	EUR 1.75
Lowest price (Xetra) in 2013	EUR 1.275
Designated Sponsor	equinet Bank AG, Frankfurt
Coverage	M.M. Warburg Research, Hamburg; Hauck & Aufhäuser, Hamburg
Share buyback handled by	equinet Bank AG, Frankfurt
Market capitalization as of 31 December 2013 (Xetra: EUR 1.586)	EUR 30,927,000

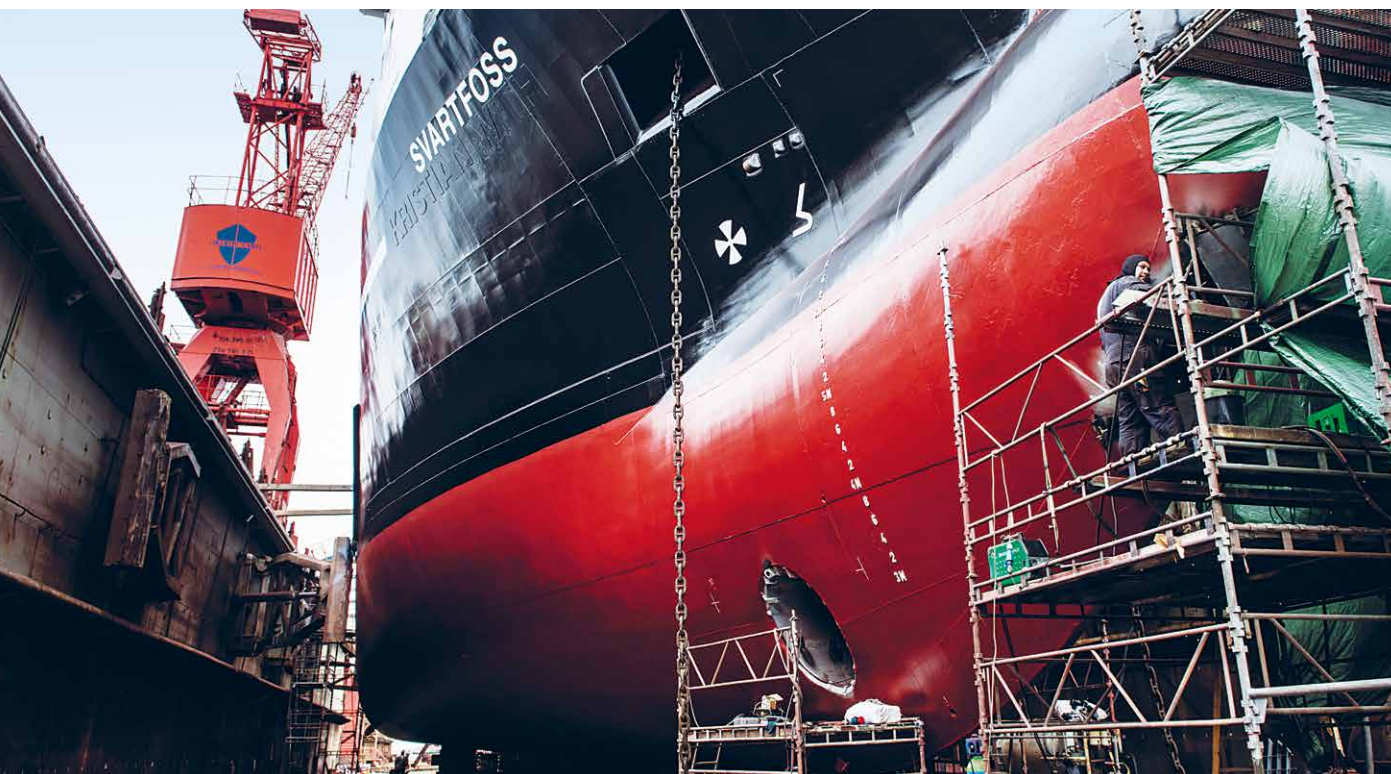
No significant changes in shareholder structure

Aside from the major shareholders, around 30% of our shares are in free float, held primarily by institutional investors.

Shareholder structure as of 31 December 2013

	Number of shares held	Sharehold- ings in %
Greverath Investment Verwaltungs- und Erhaltungs-GbR	4,650,000	23.85
Syntegra Investments I S.a.r.l.	4,110,847	21.08
GIVE Maritime & Industrial Services GmbH	2,686,472	13.78
GIVE Capital GmbH	502,500	2.58
Management and Supervisory Board		
Stefan Müller-Arends	253,867	1.30
Dr Andreas C. Krüger	221,653	1.14
Dr Wulf-Dieter H. Greverath	634,364	3.25
Dr Gottfried Neuhaus	74,000	0.38
Muehlhan AG Treasury shares	486,869	2.50
Free Float	5,879,428	30.15
	19,500,000	100.00

03 Group Management Report



Frederikshavn, Denmark

Overview

The Muehlhan Group maintained its upward trend in 2013, despite the fact that the overall situation in the maritime markets continued to be difficult. With higher sales in all regions, the Group reported earnings of €1.5 million. Consolidated sales increased 12% to €207.8 million and EBIT improved by €0.7 million, from €4.5 million in 2012 to €5.2 million.

The improved earnings data confirm the decisions by the Executive Board and the Supervisory Board to compensate for the decline in the maritime segment by shifting the Group's focus to the Oil & Gas and Industry segments. At the same time, the positive earnings trend reflects management's persistent, albeit unglamorous, work on numerous operating parameters.

For 2014 and the coming years, the Executive Board believes that the Group will be able to continue to build on the upward trend in sales and earnings.

Group Fundamentals

The Group's business model

High-quality provider of surface protection and industrial services

Muehlhan AG (MYAG), Hamburg, is the holding company for a total of 37 directly and indirectly held companies in Europe, North America, Asia and Australia. Of this number, 35 companies are currently included in the consolidated financial statements. Worldwide, the Group is one of the few providers of maritime and industrial surface protection services and protection for complex steel structures. Muehlhan combines very strong organizational skills and extensive technical expertise into a professional industrial approach in a competitive environment that largely is still characterized by small workshops run by traditional niche craftsmen. The spectrum of businesses we engage in ranges from work on ships, offshore and industrial sites and wind turbines to work on construction and infrastructure projects.

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

The Muehlhan Group is managed on the basis of traditional key financial, asset and earnings figures from the Group's Hamburg headquarters. The Group is managed by a two-member Executive Board. The Supervisory Board consists of three members. It advises and supports the Executive Board in the latter's management of the company and regularly discusses major topics such as planning, strategy, business performance and opportunities and risks.

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

The company's operations management is handled primarily by region. The Muehlhan Group currently has operations on four continents, mainly along the great shipping routes in Europe, Asia, Australia and North America. The Group has 17 subsidiaries in Europe. Its business in Asia is handled by eight companies. At the present time, the U.S. business is focused on one active company in California. At the start of 2013, Muehlhan launched a joint venture in Australia with a local partner.

The Group is broken down into business segments for the purpose of strategic management: Ship Newbuilding, Ship Repair, Energy, Industry and Other Services, which also correspond to the secondary level of operations management:

Ship Newbuilding: In this declining market, which at the same time is fiercely competitive and burdened with overcapacity, Muehlhan is consolidating its position as a coating specialist for the highly demanding specialty shipbuilding sector. The company's services satisfy the most exacting demands of shipyard customers for commercial shipping and, in particular, for the megayacht, cruise ship and naval shipbuilding segments.

Ship Repair: In this segment, which is also fiercely competitive, Muehlhan provides a broad spectrum of surface-coating maintenance and renovation services to shipping companies and ship repair yards, ranging from last-minute repair work on exterior walls to the complete restoration of ballast and cargo tanks.

Energy: Muehlhan provides surface-protection services to the growing renewable energy market, especially for wind turbines. In recent years, the Group has become a specialist provider of coatings for wind towers and thus a partner for leading European wind turbine manufacturers. At the same time, Muehlhan works as a partner to big companies in the offshore Oil & Gas and Petrochemical segments. The Group will continue to expand the high level of expertise in surface protection developed from its work in these areas.

Industry: Muehlhan's onshore Industry segment provides long-lasting solutions to industrial customers and for new bridge construction and renovation projects, locks, water utility projects, transportation infrastructure projects

and specialty machinery. One service we offer, passive fire-proofing, has developed into an increasingly attractive niche market that is becoming more and more important to the Group.

Other Services: Muehlhan has combined two additional areas of importance to the Group into this category: scaffolding and steel construction.

Muehlhan provides both onshore and offshore **scaffolding services**. Muehlhan is an important partner to construction companies and in Germany, in particular, continues to benefit from a high level of construction demand. At the same time, Muehlhan is one of the few companies capable of satisfying the high technical demands for the construction of offshore transformer stations and foundations for offshore wind farms.

The company provides **steel construction services** for both shipyard and industrial customers.

Goals and strategy

Dealing with competitive pressure by switching services and developing new service areas

In the past, tougher competition and shrinking maritime markets have prompted Muehlhan to actively develop new markets that may also include niche markets. This has caused the company to shift its business focus to industry-oriented areas and to the oil & gas sector. This strategic realignment involves working to ensure that the company attains a market leadership position in every segment within five to seven years. In what is still overwhelmingly a fragmented competitive environment, Muehlhan uses long-term investments in employee training and continuing education, a high level of training, technical innovations, higher quality and higher productivity to offset the structural cost advantages enjoyed by some smaller competitors.

Stable financial position and strong organizational skills as preconditions for competitiveness

Two of the key characteristics that distinguish the Group from its competitors are its financial stability and its strong organizational skills. These enable us to satisfy constantly increasing customer demands and government regulatory requirements in the areas of occupational safety, accident prevention, quality, on-time delivery and sustainable environmental protection. Along with traditional customer requirements such as productivity, short project turnaround times and reliable implementation, extensive and proper documentation of the steps involved in a major project and data measurements collected to evaluate such a project are becoming important competitive variables. All of this has been combined into the Muehlhan Group's Integrated Management System, which was ISO 9001:2008, ISO 14001:2004 and BS OHSAS 18001:2007 certified by Germanischer Lloyd back at the beginning of 2009. As a result, Muehlhan is able to offer its clients a consistently high level of quality worldwide at competitive prices.

Focused approach to developing new markets

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

- In the coming years, Muehlhan will further reduce its dependence on traditional ship newbuilding and shift its focus to expanding the other business segments.
- To accomplish this, Muehlhan will strive to develop a global presence, provided that the relevant submarkets fulfill criteria such as adequate profitability, sustainability and minimum size.
- The company will pursue both organic growth and growth through acquisitions.
- Muehlhan will work to develop new niches, such as the aircraft industry and services for wind turbines, power plant construction and decommissioning, and passive fire-proofing.

Research and development

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

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

To maintain its position as the market's technological leader, in addition to its existing patents and licenses for μ -jet, μ -arc and other products for sustainable and eco-friendly surface protection, Muehlhan is determined to single-mindedly pursue additional developments. Within the Group, four employees are dedicated to this objective. In addition, the Group works closely with renowned research institutes and other specialized third parties. R&D expenses totaled €0.3 million and consisted mainly of personnel expenses.

Economic Report

Macroeconomic and industry-specific conditions

Global market trend is mixed

After a weak 2012, the global economy was still subdued in 2013, although quite mixed from region to region. This was due in part to the fact that there was a shift in growth between the developed countries, on the one hand, and developing countries and emerging markets, on the other. Although the pace of growth was quite high in the latter in 2012, the established developed countries once again moved to the forefront in 2013. At this time, full-year 2013 growth rates are projected at 1.6% for the USA, 2.0% for Japan and around 7.5% for China. According to the IMF, the Euro zone (which is Muehlhan's principal market, accounting for around 80%) is expected to see another 0.4% decline in total economic output. At the same time, Germany is experiencing above-average growth rates of 0.5%.

The **Ship Newbuilding** and **Ship Repair** segments did not report any major improvement over the weak performance of previous years. This market continues to be characterized by the shipping companies' tight earnings situation and their consequent reluctance to invest in ship newbuilding. Because of higher unit labor costs, Europe and the USA can no longer compete globally with Asian countries such as South Korea in large-scale shipbuilding and even when global trade recovers to its pre-crisis level, they will not regain their former positions. More and more German shipyards are reacting to the structural change by establishing themselves as manufacturers of specialty ships, offering higher added value to offset the fact that their labor costs are higher than those of their Asian competitors. They primarily serve niche markets such as naval shipbuilding, cruise ships, roll-on/roll-off ships and megayachts.

In the **Wind Energy** segment, the delay in the expansion of offshore wind farms continued due to the lack of pipeline infrastructure, the lack of policy frameworks and, consequently, the lack of financing. The result is a high level of risk for everyone involved in this value chain. Nevertheless, building foundations for offshore wind turbines and the required transformer platforms for offshore wind farms is taking on increasing importance and is helping to revitalize, or at least to bring new hope to, some derelict former shipyard sites on the German coastline. For Muehlhan, the nascent momentum in the offshore business represents a great opportunity to utilize the international experience it has gained in surface protection, scaffolding and steel construction.

The **energy market**, especially oil & gas, is enjoying high demand. New oil and gas fields continue to be developed in Europe. Many rigs have reached the end of their lifespan and are either being dismantled, replaced or reno-

vated. The repair and maintenance business in this area will continue to be brisk for some time.

Business trend

Restructuring efforts at Muehlhan Deutschland GmbH that had begun in 2012 were quickly and successfully completed during fiscal year 2013.

A new company was set up in the Czech Republic in mid-2013 to serve the Czech market for surface-protection services. This move resulted from a cooperative arrangement with a customer in that market with which the Group has been doing business for many years.

At the beginning of the year, a 50:50 joint venture was created with a local partner in Australia to provide services to the Oil & Gas segment. Muehlhan will be in charge of the joint venture's operations management.

Subsidiaries in China and Qatar are being reduced to profitable business segments. These measures will entail recognizing goodwill impairment losses and the costs of shutting down unprofitable operations.

Situation

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

Earnings performance

Fiscal year satisfactory from an operating standpoint; consolidated sales and EBIT expanded significantly; positive consolidated earnings

For the Muehlhan Group, 2013 was a satisfactory year. Although EBIT of €5.2 million was still significantly below the return expected by shareholders, the Executive Board and the Supervisory Board, the previous year's positive trend continued, confirming the operating and strategic measures implemented. Among other things, these included expanding the core business to include additional services and accelerating the shift toward the oil & gas market segment and the industrial sector.

During the year under review, sales increased by 11.6%, from €186.2 million to €207.8 million. Sales increased in all regions, but again mainly in the core European market. Consolidated after-tax income improved from €0.1 million to €1.5 million. The Group generated EBIT of €5.2 million – an improvement of €0.7 million from the prior-year figure of €4.5 million. The improvement in earnings was primarily due to the increase in sales. The production costs relevant to Muehlhan (materials, use of subcontractors and

wages) increased slightly in percentage terms, causing the gross margin to decline by 1.1% to 30.4%. However, because of higher sales, the gross margin increased by €4.4 million in absolute terms. This was partially offset by a slight increase in overhead expenses (+ €1.7 million) and greater depreciation and amortization (+ €2.1 million), resulting in a €0.7 million improvement in EBIT.

The reorganization of the Group meant there were again exceptional items during the year under review; however, these were partially offset by extraordinary earnings. Essentially, €3.3 million of charges for the closure of Group companies in Qatar and China (including impairment losses to goodwill of €2.0 million) were offset by income from settlements that were reached in two pending lawsuits (€2.3 million).

Europe continues to be the main driver of profits

A regional review shows that, once again, the substantial increase in sales was generated mainly in Europe, where sales rose 11.1% from €150.9 million to €167.7 million. EBIT, which came in at €10.7 million in 2012, continued at a high level of €9.8 in 2013. Growth in Europe came primarily from the subsidiary Muehlhan Deutschland GmbH, which reported significant increases in both sales and earnings after its speedy, successful restructuring. In addition, the Danish subsidiary reported strong growth in 2013 after its expertise in the wind-energy market attracted new customers. The offshore business in the U.K. was hard hit by the reduced availability of transport helicopters. However, following the end of the flight ban, the prospects for the offshore business continue to be positive. Expanding this company's service portfolio to include scaffolding, fire protection, insulation and asbestos removal is allowing the Group to tap into new customer potential. As expected, the Dutch company was unable to repeat the high level of sales reported the previous year, as there was no comparable large-scale project on the market. Still, Muehlhan Netherlands acquired the business of a small scaffolding company and quickly signed a framework agreement with a regular customer.

Business in Greece and in southern Europe in general continues to be very negatively impacted by the shipping crisis and the associated loss of the domestic markets.

Stabilization of the U.S. business

The U.S. business performed according to expectations. The big New Oakland Bay Bridge project was completed on time. Post-completion repair work further improved the sales and earnings from this construction project. The refinery business in the USA also went according to plan. There were no further charges relating to the closure of the subsidiaries in the Gulf of Mexico and in Canada. Overall, despite the closure of the aforementioned companies, the **Americas region** reported sales of €19.2 million, representing a

€2.9 million increase over the 2012 sales figure. EBIT improved from -€0.6 million to €2.9 million, €2.3 million of which represented the aforementioned settlements of two pending lawsuits.

Divergent trends in Asia/Middle East

The business performance in **China** was disappointing and there was no prospect of the market trend in the Ship Newbuilding and Ship Repair segments improving enough for the company to be able to restore profitability. As a result, the decision was made to withdraw from the maritime business in China while continuing to operate in the successful industrial business. Most of the fixed assets freed up are being transferred to Singapore, where they will be used for substitute investments and investments in expansion. Losses from the Chinese operations totaled €1.2 million in 2013. Combined with impairment losses to goodwill and closure costs, the total charge against consolidated earnings was €3.7 million.

In **Qatar**, after years of waiting in vain on the capacity utilization promised by the customer to materialize, the decision was made to withdraw from the shipyard segment and to reduce our activities there to the industrial and fire-protection segments. Combining impairment losses to goodwill and closure costs with 2013 losses from operations of €0.6 million in Qatar, the total charge to consolidated earnings was €1.4 million.

The ship repair business in Singapore and the fire-protection business in the United Arab Emirates both turned in a positive performance. While the upswing in the fire-protection business in the Middle East is obviously related to the new (construction) boom in the United Arab Emirates and is expected to last for several years, it is not clear whether the recovery in Singapore will be similarly long-lived. The economic upturn in the Middle East is also reflected in the reduction of most of the old debts outstanding. Of the €3 million of total receivables outstanding for more than 2 years, €1.7 million were settled during the year under review. Overall, the **Asia/Middle East** region increased sales from €18.8 million to €20.4 million, in spite of the problems in China and Qatar.

At the beginning of 2013, a joint venture was set up in **Australia** with an Australian partner to provide services in the Oil & Gas segment. The company had not yet generated a level of sales worth mentioning during the year under review.

All business segments except Ship Newbuilding contributed to operating income

The **Ship Newbuilding** business segment continued to be negatively impacted by poor market conditions and did not recover until the second half of the year; this recovery was also attributable to the successful restructuring of Muehlhan Deutschland. However, overall, the segment will report a loss of €0.8 million on sales of €28.9 million.

The **Ship Repair** segment was unable to repeat its 2012 sales performance and result. Ship Newbuilding and Ship Repair together now account for only 32% of consolidated sales; due to the impairment loss to goodwill, their contribution to earnings was a negative €0.5 million. The **Energy** business segment reported the biggest increase in earnings, despite the negative impact of the loss of helicopter capacity in the North Sea. Its contribution to earnings rose from -€0.1 million to €2.7 million.

In the **Industry** segment, sales again increased by 37% to €49.7 million, placing it on the same level as the Energy business segment. During the year under review, the return was an unsatisfactory 1%.

Both of the businesses included in the **Other Services** segment, Scaffolding and Steel Construction, reported stable sales and earnings, contributing €40.6 million to consolidated sales and €5.3 million to EBIT. During 2013, the company once again invested in the scaffolding segment so that it can offer a package including both surface-protection and scaffolding.

Orders on hand

On the reporting date, the order book of slightly more than €100 million was significantly higher than in the previous year, around half of total sales. Thanks to longer-term contracts, both the Ship Newbuilding and Energy business segments accounted for a disproportionate share of orders on hand. In the Ship Repair segment, contract lead times are very short. The same applies to the industrial project business. For framework and cooperation agreements, only that portion that has been firmly awarded and normally covers a three-month period will be included in the order book.

Employees

The headcount increased 5.5% to 2,390 employees. Personnel expenses rose 8.6% to €75.6 million.

Net assets and financial position

Currently, the Muehlhan Group is financed mainly through its strong capital base. As of the balance sheet date, the Group's equity had increased slightly to €58.3 million (previous year: €57.8 million). Dividing this by total assets (the balance sheet total) of €112.7 million (previous year: €113.5 million) yields an equity ratio of 51.7% (previous year: 50.9%). Trade and other payables totaled €32.1 million (28.5% of the balance sheet total) (previous year: €28.5 million; 25.1% of the balance sheet total). Financial liabilities amounted to €20.3 million (18.0% of the balance sheet total; previous year: €24.6 million; 21.7% of the balance sheet total). The main item in financial liabilities was the €12.1 million bond issue which matures in 2016, the non-current portion of which amounted to €8.0 million. The total non-current portion of financial liabilities was €9.4 million.

During the past year, the bond covenants and the terms of the working capital loan were satisfied at all times, as during the previous year. Efforts to refinance were suspended, as the high cost of redeeming the existing bond would be justifiable only if this would result in a significant increase in financial flexibility. That is not necessary at this time.

The Muehlhan Group's financial management is handled centrally by the holding company. Financial management includes managing liquidity, arranging financing and managing financial and economic risks in order to assure that we can satisfy our payment obligations as we have in the past.

Group cash flow increased to €12.6 million (previous year: €9.9 million).

During the fiscal year, Muehlhan invested a total of €6.6 million in property, plant and equipment (previous year: €5.2 million). Cash used in financing activities amounted to €4.3 million, mainly due to the scheduled bond repayment of €4.0 million. On the balance sheet date, cash and cash equivalents stood at €8.7 million, €1.3 million lower than in the previous year (€10.0 million). Unutilized overdraft and guarantee facilities totaled €39.5 million on the balance sheet date (previous year: €36.4 million). Thus, in 2013 the Muehlhan Group was at all times in a position to satisfy its payment obligations.

On the balance sheet date, fixed assets totaled €39.7 million, compared to €42.4 million the previous year. The fixed-assets-to-total-assets ratio stood at 35.3% (previous year: 37.3%) and the equity-to-fixed-assets ratio was 146.7% (previous year: 136.3%). On the balance sheet date, trade receivables stood at €50.8 million (45.0% of total assets) and were therefore €2.9 million higher than in the previous year (€47.8 million; 42.1% of total assets). The increase was attributable to expansion of the business.

Financial and non-financial performance indicators

In managing the Group, in addition to the aforementioned financial indicators, particular attention is paid to compliance with accident-prevention regulations as a non-financial performance indicator. In 2013, the Group's record in this area was better than in the previous year.

Supplementary statement: events of material significance after the reporting period

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

Forecast and Report on Opportunities and Risks

Outlook

Positive business trend forecast for all geographic regions

Based on current information, we expect the **Europe** region's sales and earnings in 2014 to at least be on a par with the past year. In the **USA**, the HR groundwork for successfully developing the various markets has been laid in recent years. Future business developments will depend on the company's ability to successfully conclude contracts on several major projects for which the company has submitted or will submit bids. In the **Middle East**, we expect earnings to improve due to further recovery of the industrial business and the elimination of the loss-making shipyard business. Construction work for the 2022 FIFA World Cup in Qatar should ensure additional orders in the coming years. Following our withdrawal from the shipyard business in China, business in the **Asia** region is now limited to work in the industrial segment in southern China and to Singapore. There, Muehlhan has been invited to provide surface-protection services at another shipyard; based on this, plus the slow shift toward a positive underlying trend, we are fairly optimistic.

Energy, Industry and Other Services business segments are becoming even more important

Because the **Ship Newbuilding** business has been very weak for years, we assume that sales and earnings in this business segment will continue to be unsatisfactory in 2014. We expect the **Repair** business to slowly pick up speed in the near future, but it is too early to predict whether that will be in 2014 or 2015. In Singapore, there were some initial signs of an improvement during the year under review, but these are not necessarily transferable to Europe. The basic fact remains that there is now a huge maintenance backlog in the shipping industry that cannot be postponed too much longer.



Heating plant Lichterfelde

Meanwhile, the strategic reorganization of the Group means that the other business segments – **Energy, Industry and Other Services** – are now capable of counterbalancing the decline in the shipping sector. These segments will become increasingly important going forward. For example, the offshore segment and expansion of wind energy in Europe should lead to an expansion of our activities in the **Energy** segment. In the Industry business segment, we plan to push ahead with the growth of the past few years. With the exception of a few companies, the Industry segment's growth initiatives will affect all Group locations.

In addition to its strategically important diversification into different regions and different business segments – which ensures greater stability for the Group in the face of cyclical submarkets – Muehlhan must further expand its most promising business segments in the coming years. With this in mind, Muehlhan expects its offshore and wind energy businesses to make increasingly larger contributions to earnings.

Acquisitions and cooperative arrangements are always an option for pressing ahead with and implementing our strategic objectives. Here, we apply strict standards to various criteria, such as sustainability and stability.

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

As a project business service provider, Muehlhan cannot completely eliminate exposure to risks that reduce earnings. These may be operating risks or strategic risks.

If they are operating risks, they are an unavoidable part of our business. We counter such risks through an appropriate risk management system.

Strategic risks result from changes in external factors to which we did not respond properly or in a timely manner in the past or to which it was impossible to respond. We counter such risks by taking decisive corrective actions; however, such actions, inevitably, entail non-recurring expenses. As an example, we could mention the developments in the Chinese shipyard market, which required major corrective actions during the year under review. The Muehlhan Group took such strategic corrective measures into account on the balance sheet date. Based on currently available information, we do not believe that any further significant strategic corrective measures, such as the need to recognize an impairment loss to equity investments, are impending. However, an adverse change in the economic environment in specific markets may in general require a further adjustment.

For 2014, the Executive Board and the Supervisory Board are forecasting earnings before interest and taxes (EBIT) of between €3.5 million and €6.5 million, compared to last year's forecast of earnings of between €3.0 and €6.0 million for 2013.

This outlook contains forward-looking statements that do not describe past events but rather reflect our assumptions and expectations. These statements are based on plans, estimates and forecasts currently available to the Executive Board of Muehlhan AG. As a result, the statements are subject to risks and uncertainties. Actual results and performance may deviate signifi-

cantly from the assumptions made by us today. We assume no obligation to update such statements to take into account more recent information or future events.

General assessment and risk management system

No foreseeable risks that could threaten the Group as a going concern

From today's perspective, aside from the risks enumerated below, we are not aware of any risks that could have a material influence on the Group's net assets, financial position and results of operations, thereby jeopardizing its existence as a going concern. Both our organization and our control systems are optimally targeted to deal with existing risks and to address newly emerging risks as quickly as possible.

Maintaining a functioning risk management system

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

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

Discussion of major individual risks and associated opportunities

Market and competitor risks and opportunities

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

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

Risks and opportunities of strategic importance to the company

In recent years, the permanent shift to Asia of large-scale shipbuilding and the bulk of the ship repair market has come to represent a strategic risk to the Muehlhan Group. The Group has responded to this structural change by expanding its global presence while simultaneously expanding its regional focus, developing new niche markets and asserting a newly enhanced claim to technical leadership. Muehlhan combines its own very strong organizational skills and extensive technical expertise into a professional industrial approach that increases the company's opportunities for developing new markets.

Risks and opportunities associated with economic performance

Further improvements in coatings will lead to longer surface maintenance intervals, giving rise to the basic risk of a declining demand for surface protection work. On the other hand, due to ship size, the number of ships and the safety equipment installed (e.g., double-hulled ships), there is an opportunity in the fact that the volume of steel surfaces in the maritime segments will increase. The same applies to the industrial segments. Above all, when the moratorium on maintenance and renovation work ends in the years to come – especially in steel bridge construction – this market will enjoy huge growth.

Where technically feasible, Muehlhan uses steel grit for surface-preparation blasting. Muehlhan would be directly affected by a price increase in the materials used for operations, but even here only to a very limited extent, since this material can be recycled. There would continue to be a price advantage over a non-reusable material such as copper slag.

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

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

Personnel risks and opportunities

Despite the crisis, competition for qualified executives and quality-conscious technical personnel continues to be high in the industries in which Muehlhan operates. Experience from previous fiscal years has demonstrated that the submarkets in which Muehlhan operates are „people businesses“ in which individual employees can affect the success of the Group. Our future success therefore depends in part on the extent to which we are successful over the long term at competing with other industries to recruit the required technical professionals from outside the company, integrating them into existing work processes and retaining them over the long term.

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

Financial and economic risks

The companies of the Muehlhan Group work primarily at fixed prices and sometimes carry out a large portion of their services in advance of payment. Our customers expect this type of (pre-)financing, which has developed into a major component of the services we offer. When the financial crisis started, customers began increasingly to exceed our already generous payment terms, especially in the Middle East. This raises the risk of customer bankruptcy, as well as credit risk, primarily in the case of larger contracts. Between 2008 and 2012, these risks materialized again and again. The risk of customer bankruptcy and bad debt losses will remain significantly higher for the duration of the financial and economic crisis. We counteract this risk through regular and systematic receivables management.

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

All accounts with credit balances invested in the money market and short-term utilizations of overdraft facilities are subject to the normal risk of interest-rate fluctuations. However, most of our financing is long-term with fixed interest rates. Loans to and from subsidiaries outside of the Euro zone are subject to a basic exchange-rate risk which, where possible, is countered by measures aimed at equity financing.

Tax risks have been adequately covered in the annual report. Nevertheless, additional tax claims could emerge if the tax authorities' opinion of the law differs from that of the taxed company in specific cases. This applies in particular to two cases involving our Greek subsidiary, Muehlhan Hellas S.A., Athens (MGR), dating from 1998-1999 and 2005-2010. The Greek tax au-

thorities have questioned several million Euros of expenses that MGR paid for the services of three subcontractors. According to the tax authorities, the subcontractors failed to keep adequately detailed records. The judge referred the first case back to the regulatory authority because of flawed work on the case by the regulatory authority. In our view, the second case again represents deficient processing and analysis of the facts; consequently, we expect this proceeding before the tax court to be decided in our favor as well.

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

Company-specific risks and opportunities

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

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

During the year under review, the U.S. subsidiary successfully completed a major project and currently is bidding on follow-up projects. This requires human resources with relevant skills. If none of the several bids for major projects is successful, the company will have to reduce structural costs by adjusting the size of the organization so that it is commensurate with the lower volume of business.

During the recent past, the subsidiaries in Russia and Greece have suffered from the structural crises in their home countries. In Russia, several markets have recovered significantly, so business performance is expected to improve substantially in 2014. If such an improvement does not materialize, the Executive Board will institute restructuring measures. Due to the difficult conditions in its domestic market in recent years, the Greek subsidiary has replaced its own business (direct business) with work as a subcontractor for other companies, including Group companies. This carries a higher risk of losing a contract to a lower-priced competitor.

Legal risks/litigation risks

As a company working on international projects and/or as a group of companies with international operations, Muehlhan is aware that claims by or even against Muehlhan may require a court settlement. In the past, Muehlhan has taken legal action against other market players, including customers. As of the balance sheet date, two major U.S. lawsuits from prior years are no longer included, because the company managed to successfully settle these during the year under review.

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

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

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

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

Legal Disclosures

Existing branch offices

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

Relationships with affiliated companies

Pursuant to Article 312 of the German Stock Corporation Law (Aktiengesetz), the Executive Board has prepared a report on relationships with affiliated companies that includes the following Final Declaration: "We declare that Muehlhan AG and its subsidiaries received appropriate consideration for all the legal transactions listed, in accordance with the circumstances known to them on the date when the legal transactions were entered into.

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

Hamburg, 14 March 2014

The Executive Board



Stefan Müller-Arends



Dr Andreas C. Krüger

04 Group Consolidated Financial Statement

for the fiscal year from 1 January 2013 to 31 December 2013

CONSOLIDATED BALANCE SHEET

ASSETS in kEUR	Notes	31.12.2013	31.12.2012
NON-CURRENT ASSETS			
Intangible assets	1	19,736	21,668
Property, plant and equipment	2	19,982	20,671
Financial assets	3	30	30
Deferred tax assets	4	2,842	3,560
Total non-current assets		42,591	45,930
CURRENT ASSETS			
Inventories	5	4,353	3,865
Trade receivables	6	50,765	47,828
Cash and cash equivalents	7	8,658	9,990
Assets for current income tax		485	594
Other current assets	8	5,893	5,340
Total current assets		70,153	67,618
BALANCE SHEET TOTAL		112,744	113,547

Rounding differences may occur.

EQUITY & LIABILITIES in kEUR	Notes	31.12.2013	31.12.2012
EQUITY	9		
Subscribed capital		19,500	19,500
Capital reserves		28,395	28,293
Treasury shares		-1,294	-1,480
Other reserves		8,544	9,787
Retained earnings		1,658	-144
Non-controlling interests		1,500	1,805
Total equity		58,303	57,761
NON-CURRENT LIABILITIES			
Pension accruals	10	776	882
Non-current financial liabilities	11	9,380	14,084
Deferred tax liabilities	14	150	188
Total non-current liabilities		10,307	15,154
CURRENT LIABILITIES			
Provisions	15	410	447
Current financial liabilities	11	10,939	10,561
Trade payables	16	17,791	15,702
Liabilities for current income tax	12	659	1,125
Other current liabilities	13	14,335	12,798
Total current liabilities		44,134	40,633
BALANCE SHEET TOTAL		112,744	113,547

Rounding differences may occur.

CONSOLIDATED INCOME STATEMENT

in kEUR	Notes	2013	2012
Sales		207,817	186,154
Other operating income	21	5,459	4,799
Cost of materials and purchased services	18	-92,462	-80,178
Personnel expenses	19	-75,638	-69,647
Depreciation and amortization		-8,289	-6,220
Other operating expenses	21	-31,736	-30,407
Profit from operations		5,151	4,501
Income from investments		0	0
Interest income		24	63
Financing costs	20	-1,948	-2,346
Financial result		-1,924	-2,283
Earnings before taxes		3,227	2,218
Income tax expense	22	-1,724	-2,070
Consolidated profit		1,503	148
Thereof attributable to non-controlling interests		-301	-74
equity holders of Muehlhan AG		1,804	222
NET EARNINGS PER SHARE	23		
Shares	number	18,891,317	18,848,028
basic	in EUR	0.10	0.01
diluted	in EUR	0.10	0.01

Rounding differences may occur.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in kEUR	Notes	2013	2012
Consolidated profit		1,503	148
Recyclable items			
Currency translation differences (legally independent entities abroad)		-1,084	352
Non-recyclable items			
Remeasurement of defined-benefit plans		-142	0
Other result	24	-1,226	352
Income taxes on other results		41	0
Other result after tax		-1,186	352
Total result		317	500
Thereof attributable to non-controlling interests		-425	-73
equity holders of Muehlhan AG		742	573

Rounding differences may occur.

CONSOLIDATED CASH FLOW STATEMENT

in kEUR	2013	2012
Profit from operations	5,151	4,501
Depreciation/amortization (+) on non-current assets	8,289	6,220
Gain (-) on disposal of fixed assets	-204	-1,161
Unrealized currency gains, losses	-537	1
Decrease (-)/increase (+) in provisions	-143	321
Cash flow	12,556	9,882
Increase (-) in inventories, trade receivables and other assets	-3,977	-4,424
Increase (+)/decrease (-) in trade payables and other liabilities	3,728	-1,290
Cash generated by operating activities	12,308	4,168
Payments of income taxes	-1,360	-2,208
Payments of interest	-1,938	-2,400
Net cash inflow / outflow from operating activities	9,009	-440
Receipts of interest	24	63
Proceeds from disposals of non-current assets (+) in respect of		
intangible assets	6	0
tangible assets	1,188	4,103
financial assets	0	7
Capital expenditures (-) in respect of		
intangible assets	-365	-412
tangible assets	-6,562	-5,218
Payments (-) for purchase of consolidated entities	0	-603
Cash used (-) in investing activities	-5,709	-2,060
Capital expenditures (-) for bond redemption	-4,000	-4,000
Proceeds (+) from payments received in respect of		
current bank liabilities	368	4,983
Capital expenditures (-) for redemption /proceeds (+) from payments received in respect of		
non-current bank liabilities	-703	321
Cash outflow (-)/inflow (+) from financing activities	-4,335	1,304
Effect of exchange rate related fluctuations of cash and cash equivalents*	-297	238
Effect of consolidated group related fluctuations of cash and cash equivalents*	0	79
Total changes in cash and cash equivalents*	-1,332	-879
Cash and cash equivalents* at the beginning of the period	9,990	10,869
Cash and cash equivalents* at the end of the period	8,658	9,990

* Cash and cash equivalents correspond to the balance sheet item "Cash and cash equivalents".

Rounding differences may occur.

CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

in kEUR	Equity applicable to equity holders of the parent company				
	Subscribed capital	Capital reserves	Other reserves		
			Revenue reserves	Translation adjustments	Adjustment resulting from currency translation
On 1 January 2012	19,500	28,176	9,876	589	-1,028
Changes in treasury shares					
Contribution share-based payment		117			
Other changes					-1
Total result					351
On 31 December 2012	19,500	28,293	9,876	589	-678
Changes in treasury shares					
Contribution share-based payment		102			
Acquisition of non-controlling interests			-183		
Dividends paid					
Other changes					2
Total result			-101		-961
On 31 December 2013	19,500	28,395	9,591	589	-1,637

On 31 December 2013 an amount of kEUR 9,755 (previous year: kEUR 5,370) was available for distribution to shareholders of the parent company.

Rounding differences may occur.

				Non-controlling interests	Group equity
	Retained earnings	Treasury shares	Equity		
	-366	-1,549	55,197	1,865	57,062
		69	69		69
			117		117
	1			12	12
	222		573	-73	500
	-144	-1,480	55,956	1,805	57,761
		186	186		186
			102		102
			-183	183	0
				-63	-63
	-2				
	1,804		742	-425	317
	1,658	-1,294	56,803	1,500	58,303

FIXED ASSETS MOVEMENTS SCHEDULE 2013

in KEUR	Acquisition and production costs						Balance 31.12.2013
	Balance 01.01.2013	Additions	Additions initial consolidation	Translation differences	Disposals	Reclas- sifications	
I. Intangible assets							
1. Concessions, industrial and similar rights and assets	2,603	365	0	-5	45	0	2,918
2. Goodwill	34,741	0	0	0	0	0	34,741
	37,344	365	0	-5	45	0	37,659
II. Property, plant and equipment							
1. Land, land rights and buildings including buildings on third-party land	7,494	615	0	-108	557	21	7,464
2. Technical equipment and machinery	60,958	4,642	0	-1,011	4,157	186	60,618
3. Other equipment, operating and office equipment	10,720	1,116	0	-183	907	-2	10,744
4. Prepayments and assets under construction	526	189	0	-9	338	-206	162
	79,697	6,562	0	-1,311	5,959	0	78,988
III. Financial assets							
1. Shares in affiliated companies	29	0	0	0	0	0	29
2. Investments	1	0	0	0	0	0	1
	30	0	0	0	0	0	30
	117,071	6,928	0	-1,316	6,005	0	116,677

Rounding differences may occur.

Accumulated depreciation / amortization				Net book values		
Balance 01.01.2013	Additions	Translation differences	Disposals	Balance 31.12.2013	Balance 31.12.2013	Previous year
1,842	252	4	39	2,051	867	761
13,833	2,038	0	0	15,872	18,869	20,908
15,676	2,290	4	39	17,923	19,736	21,668
4,357	551	69	506	4,333	3,131	3,136
46,703	4,325	833	3,641	46,553	14,065	14,255
7,965	1,124	142	827	8,120	2,624	2,754
0	0	0	0	0	162	526
59,026	5,999	1,044	4,974	59,006	19,982	20,671
0	0	0	0	0	29	29
0	0	0	0	0	1	1
0	0	0	0	0	30	30
74,701	8,289	1,048	5,014	76,929	39,749	42,369

FIXED ASSETS MOVEMENTS SCHEDULE 2012

in KEUR	Acquisition and production costs						Balance 31.12.2012
	Balance 01.01.2012	Additions	Additions initial consolidation	Translation differences	Disposals	Reclas- sifications	
I. Intangible assets							
1. Concessions, industrial and similar rights and assets	2,402	192	0	16	8	0	2,603
2. Goodwill	34,521	220	0	0	0	0	34,741
	36,923	412	0	16	8	0	37,344
II. Property, plant and equipment							
1. Land, land rights and buildings including buildings on third-party land	8,089	406	29	121	1,152	0	7,494
2. Technical equipment and machinery	59,328	2,965	796	176	4,669	2,362	60,958
3. Other equipment, operating and office equipment	10,218	1,304	51	231	1,129	45	10,720
4. Prepayments and assets under construction	2,383	542	0	9	0	-2,408	526
	80,017	5,218	875	537	6,950	0	79,697
III. Financial assets							
1. Shares in affiliated companies	51	0	0	0	21	0	29
2. Investments	1	0	0	0	0	0	1
	51	0	0	0	21	0	30
	116,991	5,630	875	553	6,979	0	117,071

Rounding differences may occur.

	Accumulated depreciation / amortization					Net book values	
	Balance 01.01.2012	Additions	Translation differences	Disposals	Balance 31.12.2012	Balance 31.12.2012	Previous year
	1,640	194	-15	8	1,842	761	761
	13,833	0	0	0	13,833	20,908	20,688
	15,474	194	-15	8	15,676	21,668	21,449
	4,632	570	-65	909	4,357	3,136	3,457
	44,362	4,296	-159	2,114	46,703	14,255	14,966
	7,615	1,159	-190	999	7,965	2,754	2,602
	0	0	0	0	0	526	2,383
	56,609	6,025	-414	4,022	59,026	20,671	23,408
	0	0	0	0	0	29	51
	0	0	0	0	0	1	1
	0	0	0	0	0	30	51
	72,083	6,220	-429	4,030	74,701	42,369	44,908

NOTES

I. General comments

The core business of Muehlhan AG (hereinafter "MYAG" or "the company") and its subsidiaries is providing surface protection for industrial plants, ship newbuilding, ship repair and offshore facilities. The core business is complemented by access technologies, steel construction and welding services. The company is headquartered at Schlinckstrasse 3, Hamburg, Federal Republic of Germany. The competent registration court is in Hamburg.

On 31 December 2006, the Group consolidated financial statements of MYAG and its subsidiaries were prepared for the first time in accordance with the International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB), including the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the complementary provisions of German commercial law applicable under Section 315a, paragraph 1 of the German Commercial Code (HGB).

The Group consolidated financial statements covering the period ending on 31 December 2013 are in compliance with all the mandatory IFRS and interpretations of the IFRIC adopted by the EU commission as of the balance sheet date.

For fiscal years beginning on 1 January 2013 and/or 1 July 2012, the following new mandatory standards went into effect:

Amendment to IAS 1, "Presentation of Items of Other Comprehensive Income"
 Amendment to IFRS 7, "Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities"
 Improvements to IFRS (May 2012)
 IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine"
 Amendment to IAS 12, "Deferred Tax: Recovery of Underlying Assets"
 Amendment to IFRS 1, "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"
 Amendment to IFRS 1, "Government Loans"

These standards, amendments of standards and the new interpretation had no noteworthy impact on the financial statements.

Another mandatory standard that went into effect for fiscal years beginning on 1 January 2013 is the amendment to IAS 19 containing changes relating to defined-benefit plans. A major change is that in the future, actuarial gains and losses from remeasurement of claims cannot be distributed using the corridor approach or recognized directly in profit or loss, but instead must be recognized immediately in "Other comprehensive income". As a general

rule, changes due to IAS 19 (as revised in 2011) apply retroactively. In this case, however, in line with the materiality principle, they were not applied retroactively, as the impact on the Group's net assets, financial position and results of operations was (absolutely) immaterial. Changes due to IAS 19 were fully included in 2013:

The following must be applied for fiscal years from 1 January 2014 onward:

Amendment to IAS 27, "Separate Financial Statements"
 Amendment to IAS 28, "Investments in Associates"
 Amendment to IAS 32, "Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities"
 IFRS 10, "Consolidated Financial Statements"
 IFRS 11, "Joint Arrangements"
 IFRS 12, "Disclosure of Interests in Other Entities"
 IFRS 13, "Fair Value Measurement"
 Amendment to IFRS 10, "Consolidated Financial Statements"
 Amendment to IFRS 12, "Disclosure of Interests in Other Entities"
 Amendment to IAS 27, "Separate Financial Statements – Investment Entities"
 Amendment to IAS 36, "Impairment of Assets"
 Amendment to IAS 39, "Novation of Derivatives and Continuation of Hedge Accounting"

We do not expect these new standards and amendments to have a material impact on future financial statements.

The consolidated financial statements were prepared in Euro in accordance with the going-concern principle. Because the calculations of the individual items included are based on the full figures, rounding differences may occur where amounts are shown in millions or thousands of Euros.

II. Significant consolidation, accounting and valuation principles

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

The equity of the subsidiaries is consolidated using the purchase method of accounting. The cost of the acquisition is measured at the fair value of the assets acquired and the liabilities incurred and/or assumed on the transaction date. In the initial consolidation, assets, liabilities and contingent liabilities identifiable within the scope of a business combination are recognized at the fair value on the acquisition date, irrespective of the size of any non-controlling interests. The excess of the purchase price over the Group's share in the fair value of the net assets is recognized as goodwill. If, upon

remeasurement, the purchase price is lower than the fair value of net assets attributable to the acquired subsidiary, the resulting gain is recognized in profit or loss for the period in question.

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

When consolidating the results of operations, intercompany sales and Group internal earnings are offset against the related expenses. Unrealized intercompany profits and losses are eliminated with a corresponding effect on net income.

Deferred taxes are recorded to reflect consolidation effects.

Consolidated group and associated companies

In addition to MYAG, the consolidated financial statements include 35 subsidiaries in which MYAG directly or indirectly holds a majority of voting rights or exercises control over financial and business policies. There are no significant associated companies as defined by the IFRS.

The consolidated group has not changed materially since 31 December 2012.

On 29 April 2013, Muehlhan Australia Pty Limited (MAA) was founded as a wholly owned subsidiary of Muehlhan AG and is headquartered in Ultimo, Australia. On 12 June 2013, MAA acquired 50% of the shares in Muehlhan Eptec Pty Ltd., headquartered in Parramatta, Australia, at a purchase price of 250 AUD. According to the Articles of Incorporation, Muehlhan has the right to set the business policies for MEP. On 31 May 2013, Muehlhan CR s.r.o. was founded and is headquartered in Sviadnov, Czech Republic.

The company is a wholly owned subsidiary of Muehlhan AG. On 3 August 2013, Muehlhan Bulgaria Ltd. was founded as a wholly owned subsidiary of Muehlhan AG and is headquartered in Varna, Bulgaria. The consolidation of these companies will not limit comparability with the prior-year financial statements.

Effective 29 May 2013, Muehlhan AG increased its stake in Maritime Scaffolding Limited, of Aberdeen (MSC) from 60% to 100%. The shares were acquired free of charge in a transaction that led to a reduction in retained earnings totaling €183,000. On 4 June 2013, the MSC shares were transferred to Muehlhan Surface Protection Ltd., of Aberdeen.

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

The Group took advantage of its exemption from the disclosure requirement for the subsidiaries included in the consolidated financial statements in the case of Muehlhan Deutschland GmbH, in Bremen, and Gerüstbau Muehlhan GmbH, in Hamburg, pursuant to Section 264, paragraph 3 of the German Commercial Code (HGB).

As a result, the following companies are included in the consolidated financial statements as of 31 December 2013:

Symbol	Company	Shareholding in %	Held by
MYAG	Muehlhan AG, Hamburg, Germany	Parent company	
GMH	Gerüstbau Muehlhan GmbH, Hamburg, Germany	100	MYAG
MES	Muehlhan Equipment Services GmbH, Hamburg, Germany	100	MYAG
MD	Muehlhan Deutschland GmbH, Bremen, Germany	100	MYAG
MRN	Muehlhan Renewables GmbH, Hamburg, Germany	100	MD
MDK	Muehlhan A/S, Middelfart, Denmark	100	MYAG
MPL	Muehlhan Polska Sp. z o.o., Szczecin, Poland	100	MYAG
AJS	Allround Job Services Sp. z o.o., Szczecin, Poland	100	MPL
MF	Muehlhan S.A.R.L., St. Nazaire, France	100	MYAG
MIF	Muehlhan Industrial France S.A.R.L., Le Havre, France	100	MF
MMF	Muehlhan Morflot OOO, St Petersburg, Russia	70	MYAG
MNL	Muehlhan B.V., Vlaardingen, Netherlands	100	MYAG
MGB	Muehlhan Surface Protection Ltd., Aberdeen, Scotland, Great Britain	100	MYAG
MSC	Muehlhan Scaffolding Ltd., Aberdeen, Scotland, Great Britain	100	MGB
ASC	Allround Scaffolding Ltd., Aberdeen, Scotland, Great Britain	100	MSC
MGR	Muehlhan Hellas S.A., Athens, Greece	51	MYAG
MCL	Muehlhan Cyprus Limited, Limassol, Cyprus	100	MGR
MCZ	Muehlhan CR s.r.o., Sviadnov, Czech Republic	100	MYAG
MBL	Muehlhan Bulgaria Ltd, Varna, Bulgaria	100	MYAG
MSPU	Muehlhan Surface Protection Inc., Fairfield, CA, USA	100	MYAG
SSP	Sipco Surface Protection Inc., Scott, LA, USA	100	MSPU
CCC	Certified Coatings Company, Fairfield, CA, USA	100	MSPU
MCC	Muehlhan Certified Coatings Inc., Fairfield, CA, USA	100	MSPU
MCA	Muehlhan Canada Inc., Windsor, Ontario, Canada	100	MYAG
MAA	Muehlhan Australia Pty Ltd. Ultimo, Australia	100	MYAG
MEP	Muehlhan Eptec Pty Ltd, Parramatta, Australia	50	MAA
HSG	Haraco Services Pte. Ltd., Singapore	100	MYAG
MSG	Muehlhan Pte. Ltd., Singapore	100	HSG
MSPS	Muehlhan Surface Protection Singapore Pte. Ltd., Singapore	100	HSG
MM	Muehlhan Malaysia SDN BHD, Johor Bahru, Malaysia	100	MYAG
MME	Muehlhan Surface Protection Middle East L.L.C., Dubai, UAE	100	MYAG
MDQ	Muehlhan Dehan Qatar W.L.L., Doha, Qatar	100	MME
MMEH	Muehlhan Middle East Holding Limited, Dubai, UAE	100	MYAG
PRA	Procon Emirates L.L.C., Abu Dhabi, UAE	100	MMEH
PRD	Procon Emirates L.L.C., Dubai, UAE	100	MMEH
MCN	Muehlhan Surface Protection (Shanghai) Co. Ltd., Shanghai, China	100	MYAG

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

Symbol	Company	Shareholding in %	Equity on 31.12.2012 in kEUR	Profit 2012 in kEUR
MFP	Muehlhan Grand Bahama Ltd., Nassau, Bahamas	100	0.1	0.0
AIS	AIS-Allround Industrie-Service GmbH, Appel, Germany	51	49.7	11.8

The investment in AIS is held indirectly via MGR.

Currency translation

In the individual financial statements of the Group companies included in the consolidated financial statements, non-derivative (monetary) items denominated in foreign currencies are always translated at the exchange rate on the balance sheet date. The resulting exchange gains and losses are immediately recognized on the income statement as income or expenses.

The assets and liabilities of foreign subsidiaries with a functional currency other than the Euro are translated into Euro at the mid-rates on the balance sheet date. Income and expenses are translated at average annual rates. Differences arising from the translation of net assets at exchange rates different from those in the prior year are not recognized on the income statement but rather are reported separately under equity. Goodwill arising from the initial consolidation of foreign subsidiary acquisitions is translated into Euro and carried forward accordingly.

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

	Exchange rate on the balance sheet date		Average rate	
	31.12.2013	31.12.2012	2013	2012
AED	5.07	4.86	4.89	4.75
CNY	8.37	8.24	8.18	8.16
DKK	7.46	7.46	7.46	7.44
GBP	0.84	0.82	0.85	0.81
PLN	4.15	4.08	4.21	4.17
QAR	5.02	4.82	4.84	4.71
RUB	45.35	40.20	42.49	40.04
SGD	1.75	1.61	1.67	1.61
USD	1.38	1.32	1.33	1.29

Cash and cash equivalents

Cash and cash equivalents include cash-in-hand and bank balances. At the present time, bank balances not required immediately to finance current assets are invested for a term of up to three months. The carrying amount shown on the balance sheet for cash and cash equivalents is equal to their market value. The total amount of cash and cash equivalents shown on the balance sheet is equal to the total sources of funds shown in the cash flow statement.

Inventories

Inventories are stated at the lower of cost (acquisition cost) and net realizable value, as derived from the selling price on the balance sheet date.

Production orders

If the results of a construction contract can be reliably estimated, revenues and costs are recognized in accordance with the percentage-of-completion method on the balance sheet date. The percentage of completion is calculated as the ratio of the contract costs incurred through the balance sheet date to the estimated total contract costs, unless this approach does not result in a proper estimate of the percentage of completion.

If the results of a construction contract cannot be reliably estimated, the amount of contract revenues that can be recognized is limited to the amount of contract costs incurred that are likely to be reimbursed. Contract costs include direct costs and a reasonable share of production, material and production-related administrative overhead costs. Contract costs are recognized as expenses in the period in which they are incurred. If it is likely that the total contract costs will exceed the total contract revenues, the expected loss is recognized as an expense immediately.

Receivables and other assets

Receivables and other assets are financial assets in accordance with IAS 39.45 and are classified as loans and receivables.

Receivables and other assets are initially stated at their fair values and are subsequently reported at amortized cost less impairment losses. Write-downs adequately take into account all discernible risks by assessing risks individually on the basis of empirical values. Stated amounts are written off only if the loss is definitively recognized.

Income recognition

Income is reported at the fair value of the consideration received or the fair value of the receivable and includes amounts for the services rendered in the course of normal operations, less any discount, value-added tax and other taxes incurred in connection with sales. Virtually all sales revenues are generated by providing services. To the extent such sales revenues are derived from services relating to long-term make-to-order production, they are recognized in accordance with internal Group accounting and valuation methods for long-term production orders (see above).

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

Property, plant and equipment

Property, plant and equipment are valued at the cost of acquisition or production less accumulated depreciation. The depreciation period is based on the expected useful life. Assets are generally depreciated using the straight-line method. The expected useful life depends on the type of asset:

Buildings: 5 to 50 years

Technical equipment, machinery, other equipment and operating and office equipment: 2 to 15 years

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

Tangible fixed assets are tested for impairment if there is reason to believe that write-downs are warranted. In an impairment test, the recoverable amount (the higher of the net realizable value [net selling price] and the value in use) is compared with the asset's carrying amount (book value). If the recoverable value is lower than the carrying amount, the difference is recognized as an impairment loss. If the reason for the recognized impairment no longer applies, a reversal of the impairment loss not exceeding the amortized cost is recorded.

Goodwill and intangible fixed assets with an indeterminate useful life

Goodwill is reported at acquisition cost and pursuant to IFRS 3 no scheduled amortization has been recorded since 1 January 2005. An impairment test is carried out at least once a year and may lead to a write-down. There are no other intangible fixed assets with an indeterminate useful life.

Other intangible assets

Purchased intangible assets include mainly concessions, industrial property rights and similar rights. They are stated at acquisition cost less accumulated amortization. They are amortized on a straight-line basis over their useful lives, which range from three to 17 years.

Financial assets

Shares in unconsolidated affiliated companies and investments are recorded at acquisition cost or fair value in accordance with IAS 39.

Impairment of assets

Assets with an indeterminate useful life are not subject to scheduled depreciation; instead, an impairment test is carried out on such assets annually. Impairment tests are performed on tangible fixed assets and other intangible assets with a defined useful life if there is reason to believe that write-downs are warranted. In order to determine whether a write-down is required for a specific asset, the recoverable amount (the higher of the net realizable value [net selling price] and the value in use) is compared with the asset's carrying amount. If the recoverable value is lower than the carrying amount, the difference is recognized as an impairment loss. If the recoverable amount for the individual asset cannot be estimated, then the recoverable amount of the cash-generating unit (CGU) to which the respective asset is allocated will be determined. The amount is allocated to the specific cash-generating units and/or to the smallest group of cash-generating units on a reasonable and consistent basis. If the reason for the recognized impairment no longer applies, a reversal of the impairment loss not exceeding the amortized cost is recorded. No such write-up is made with respect to goodwill. For the impairment test, the goodwill associated with a merger is allocated to the cash-generating unit or the group of cash-generating units expected to benefit from the synergies of the combination. Muehlhan AG determines a CGU's recoverable amount on the basis of the fair value less costs to sell. The fair value less costs to sell is determined using an appropriate valuation model (discounted cash flow (DCF) method). This relies on valuation multiples, share prices of listed shares in subsidiaries or other available indicators of fair value, to the extent such observable data are available.

Pension accruals and similar obligations

In addition to defined-contribution plans which, apart from current contributions, do not involve any further pension commitment, there are also defined-benefit plans, for which one of the required provisions relates almost exclusively to a pension commitment to a now-retired former managing director of a subsidiary. In addition, in some countries – for example, in France and Greece – there are statutory requirements to set up provisions for pension commitments. Pension accruals for the defined-benefit plans are calculated using the projected unit credit method. This actuarial determination of the present value of accumulated plan benefits takes into account not only current pension payments and vested rights to future pension payments as of the balance sheet date, but also expected future increases in salaries and pensions. Actuarial gains and losses are recognized immediately in “Other comprehensive income” in the shareholders’ equity section of the balance sheet. The accrual is reduced by the amount of potential plan assets. Current and past service costs are shown under personnel expenses, while net interest expense relating to interest payments on the defined-benefit obligation and any plan assets is shown under financing costs. The present value of the defined-benefit obligation (DBO) is calculated by discounting the expected future payments at the interest rate applicable to top-rated corporate bonds denominated in the currency in which payments have to be made and at maturities matching those of the pension obligations. Contribution payments made under defined-contribution plans are shown under personnel expenses; pension accruals are recorded only for the amounts outstanding on the balance sheet date.

Other provisions

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

Financial liabilities

In principle, financial liabilities are stated at their fair value less transaction costs and are recorded at amortized cost in subsequent periods. Non-interest-bearing and low-interest liabilities with a maturity of one year or more are recorded at their present values using an appropriate market interest rate. Financial lease obligations are reported at the lower of the fair value or

the present value of the minimum lease payments at the beginning of the lease and are reduced by the principal repayments included in the lease installment payments.

In principle, short-term financial liabilities include that portion of long-term loans with a time to maturity of one year or less.

Derivative financial instruments are used by the Muehlhan Group only in exceptional cases and only for hedging purposes, i.e., in order to reduce exchange-rate, interest-rate and market-value risks associated with operations and/or the resulting financing requirements. Pursuant to IAS 39, all derivative financial instruments such as interest-rate, exchange-rate and combined interest- and exchange-rate swaps, as well as forward exchange operations, must be stated at market value, regardless of the reason or intention behind the decision to enter into such arrangements. Market values of derivative financial instruments are determined using market data and recognized valuation methods. Changes in market values of derivative financial instruments which are accounted for using hedge accounting are either recognized as income/expense or recorded in equity under the revaluation reserve, depending on whether a fair-value hedge or a cash-flow hedge is involved. In the case of a fair-value hedge, the results of the market valuation of derivative financial instruments and the underlying transactions are reported as gains or losses in the income statement. In the event of changes in the market value of cash-flow hedges used to offset future cash-flow risks from already existing underlying transactions or from planned transactions, the unrealized gains and losses are initially recorded in equity under the revaluation reserve at an amount equal to the underlying transaction covered by the hedge, with no effect on the income statement. This amount is reclassified as income/loss in the same period in which the underlying hedged transaction affects earnings. The portion of the change in market value that is not covered by the underlying transaction is immediately recognized as income/loss.

Research and development cost

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

Trade and other payables

Liabilities are non-interest-bearing and are stated at their settlement amounts. Liabilities with a residual value of more than one year are stated at the present value of the fulfillment cash flows (discounted settlement amounts) on the balance sheet date.

Deferred taxes

Deferred taxes resulting from temporary differences in the amounts shown in the separate balance sheets prepared for tax purposes and the corresponding figures calculated in accordance with IFRS, as well as from consolidation entries, are netted separately for each fiscal jurisdiction and shown either as deferred tax assets or liabilities. Moreover, deferred tax assets may include claims for tax reductions deriving from the expected utilization of existing loss carryforwards in future years if there is sufficient certainty to ensure their realization. Deferred taxes are calculated using the tax rates for reversal that either apply or will have been adopted in the respective countries on the balance sheet date. In addition, deferred taxes may arise in connection with accounting procedures that do not affect income. Deferred tax assets are recorded only to the extent that the respective tax advantage is likely to materialize. If this criterion is not met, provisions are set up that take into account past earnings and business expectations for the foreseeable future.

Assumptions and estimates

In preparing the consolidated financial statements, it is sometimes necessary to make assumptions and estimates that affect the amounts of assets and liabilities, income, expenses and contingent liabilities, as well as how these are classified. Actual values may differ from the assumptions and estimates in particular instances. Adjustments are reported as gains or losses on the date when better information becomes available. Estimates and assumptions are a fundamental part of testing goodwill for impairment. More details on this can be found in this section under "Impairment of assets" and in the notes to the balance sheet under "Intangible assets". However, estimates and assumptions about future events based on empirical values are also used to measure bad debt losses and to measure deferred taxes relating to tax loss carryforwards.

Government grants

Government grants for tangible fixed assets are treated as deferred income and recognized as income over the expected useful life of the related assets.

III. Notes to the balance sheet

1. Intangible assets

Intangible fixed assets include the following items:

in kEUR	31.12.2013	31.12.2012
Concessions, industrial property rights and similar rights and assets	867	761
Goodwill	18,869	20,908
TOTAL	19,736	21,668

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

in EUR million	31.12.2012	Depreciation and amortization	31.12.2013
Europe	17.4	0.0	17.4
Asia	3.4	2.0	1.4
TOTAL	20.9	2.0	18.9

Based on the carrying value of the goodwill allocated to the CGUs, two major items stand out: the MD CGU, with €7.2 million of goodwill, and the MPL CGU, with €6.3 million of goodwill. Together, the two CGUs accounted for 71.5% of total goodwill as of 31 December 2013.

Goodwill is tested for impairment based on the net realizable value (net selling price) of the respective units. As the values cannot currently be determined from existing offers or sales and as there is no discernible market that could be used as a benchmark for determining the values, valuations are based on the alternative discounted cash flow (DCF) method using 4-year business plans for the units in question. The business plans were drawn up in the fourth quarter of 2013 and have been approved by the Executive Board and the Supervisory Board. The business plans are based on historic data and incorporate assumptions about market trends. To the extent possible, projections are based on expected sales and earnings for each customer. A description of the business activity of the CGUs can be found in the Management Report under the section entitled "Business Trend". The sales

revenues and EBIT of the regions and segments comprising the CGUs are listed here under Note 17. In 2013, the EBIT margins for the CGUs before write-downs were: Europe: 5.8% and Asia: -12.8%. There are uncertainties regarding the underlying assumptions used in calculating the fair value less costs to sell (using the DCF method), particularly with respect to: sales revenue growth during the budget period, the trend in the EBIT margin during the budget period, the discount factor (interest rate) and the growth rate on which the cash flow projections beyond the budget period are based.

In business planning, it is assumed that both sales revenues and the EBIT margin will grow. However, this does not apply to the MDQ CGU. Withdrawal from the Ship Newbuilding and Ship Repair maritime segments reduces future prospects; the impairment test indicates the need to recognize an impairment loss of €200,000, equivalent to writing off goodwill in its entirety. The MCN CGU's withdrawal from the maritime businesses likewise resulted in a significant reduction in future prospects and, therefore, the need to recognize an impairment loss, which the impairment test put at €1.9 million – also resulting in a complete write-off of goodwill.

The discount rate used in the calculations was the weighted-average cost of capital (WACC) for each unit after taxes. The discount rates used for the units fell into the following ranges: Russia and Greece: 13.2% - 13.7% (previous year: 12.0%-13.0%) Germany 6.5% (previous year: 5.9%), Poland 8.7% (previous year: 7.9%). The rest of Europe: 6.1%-6.6% (previous year: 5.9%-6.0%); and Asia: 10.0%-13.4% (previous year: 10.0%-11.5%). The weighted average cost of capital rates reflect the current market estimates of the specific risks allocable to the respective cash-generating units. These were determined on the basis of the weighted average cost of capital customary for the respective industries. The interest rate was further adjusted to take into account market estimates of all risks specifically allocable to the CGUs for which estimates of future cash flows were not adjusted. We assumed terminal growth rates of 0.5% for Europe (previous year: 0.5%) and 1.5% for Asia (previous year: 1.5%). Only for Russia (2013: 2.5%; previous year: 4.5%) and Qatar and China (previous year: 2.5%) were higher growth rates assumed. The growth rates are based on the nominal growth rates used and reflect long-term, market-specific inflation rates that were adjusted to reflect the specific business segments' expected trends.

Sensitivity of assumptions used

The parameters to which the realizable value is particularly sensitive are the EBIT margin and the WACC. Management believes that no changes that could reasonably be made to the basic assumptions used for determining the realizable value (net selling price) of the CGUs not subject to a write-down will cause the carrying amounts (book values) of the CGUs to materially

exceed their recoverable amounts. A 1% increase in the discount rate and a simultaneous 1% reduction in the EBIT return would require recognition of a €283 thousand impairment loss for the HSG CGU and a €119 thousand impairment loss for the MGR CGU.

However, the HSG CGU performed according to expectations in fiscal year 2013 and thanks to improved macroeconomic conditions its performance will continue to be positive in 2014. Although the MGR CGU continues to suffer from the sluggish economy in Greece, its domestic market, this is more than offset by the increasing internationalization of its businesses.

Changes in fiscal years 2013 and 2012 are shown in the "Fixed Assets Movement Schedule" included in the Group consolidated financial statements.

2. Property, plant and equipment

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

in kEUR	31.12.2013	31.12.2012
Land, land rights and buildings including buildings on third-party land	3,131	3,136
Technical equipment and machinery	14,065	14,255
Other equipment, operating and office equipment	2,624	2,754
Prepayments and assets under construction	162	526
TOTAL	19,982	20,671

Net book values of tangible fixed assets are determined from their purchase costs. Accumulated depreciation of fixed assets totaled €59.0 million (previous year: €59.0 million).

Tangible fixed assets included €1.5 million of leased assets (previous year: €1.1 million) relating to technical equipment.

Capital expenditures amounted to €6.6 million in 2013 (previous year: €5.2 million).

Changes in fiscal years 2013 and 2012 are shown in the "Fixed Assets Movement Schedule" included in the Group consolidated financial statements.

3. Financial assets

Financial assets include the following items:

in kEUR	31.12.2013	31.12.2012
Shares in affiliated companies	29	29
Investments	1	1
TOTAL	30	30

Shares in affiliated companies pertain to companies that are not included in the consolidation group because they would not have a material effect on the assessment of the Group's net assets, financial position and results of operations.

Changes in fiscal years 2013 and 2012 are shown in the "Fixed Assets Movement Schedule" included in the Group consolidated financial statements.

4. Deferred tax assets

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

in kEUR	31.12.2013	31.12.2012
Accumulated tax-loss carryforwards	2,868	3,192
Non-current assets	240	405
Current assets	233	421
Provisions and other liabilities	106	80
Reserve in connection with the remeasurement of defined-benefit plans	41	0
Settlement through netting by fiscal jurisdiction	-647	-537
TOTAL	2,842	3,560

In Germany, there were trade-tax loss carryforwards of €9.9 million and corporate income tax loss carryforwards of €7.2 million as of the balance sheet date. There were tax-loss carryforwards of €17.7 million abroad.

According to the medium-term forecasts of the companies involved, a tax benefit in the amount of €2,868 thousand will accrue over the next five years which we have already capitalized since there is a high probability that the companies in question will have taxable profit against which the deferred tax assets can be utilized. Capitalized tax benefits totaling €291 thousand relate to tax jurisdictions in which losses were posted in 2013 or 2012. The future use of these tax benefits depends exclusively on the generation of future taxable income. There are plenty of indications that such income will be generated.

On the other hand, €3.8 million of tax benefits (basis: €24.0 million) were not capitalized for unutilized loss carryforwards. The loss carryforwards utilized will not expire for at least 15 years.

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

in kEUR	2013	2012
Balance on 1 January	3,560	3,786
Currency translation differences	-87	-40
Allocation affecting other result	41	0
Allocation affecting net income in the Group consolidated income statement	-563	-195
Settlement through netting by fiscal jurisdiction	-109	9
Balance on 31 December	2,842	3,560

5. Inventories

Inventories may be broken down as follows:

in kEUR	31.12.2013	31.12.2012
Raw materials, consumables and supplies	4,334	3,714
Prepayments	19	152
TOTAL	4,353	3,865

6. Trade receivables

Trade receivables include the following items:

in kEUR	31.12.2013	31.12.2012
Accounts receivable from services rendered	40,920	38,200
Accounts receivable from work in progress	26,456	27,373
Prepayments received on account of work in progress	-16,612	-17,746
TOTAL	50,765	47,828

Accounts receivable from services rendered have a time to maturity of less than one year. In general, accounts receivable from work in progress also are due within one year. As agreed with customers, we have already received or will receive prepayments for construction contracts that will not be invoiced until 2015, meaning that a maturity of up to one year can be assumed in such instances, as well. Sales amounting to €207,817 thousand (previous year: €186,154 thousand) include contract revenues from long-term make-

to-order production (additions to work in progress during the fiscal year) amounting to €23,962 thousand (previous year: €26,434 thousand). The accumulated costs pertaining to construction contracts in progress on the balance sheet date amounted to €24,574 thousand (previous year: €25,673 thousand) and the accumulated profits/losses amounted to €2,123 thousand (previous year: €2,119 thousand).

7. Cash and cash equivalents

Cash and cash equivalents amounted to €8.7 million at 31 December 2013 (previous year: €10.0 million) and aside from available cash and sight balances also included call money. On average, overnight money carried interest at 0.3% on the balance sheet date. As of the balance sheet date, there were no drawing restrictions.

8. Other receivables

Other receivables consist of the following:

in kEUR	31.12.2013	31.12.2012
Other tax receivables	2,088	1,778
Prepaid expenses	619	771
Other	3,186	2,791
TOTAL	5,893	5,340

Other receivables mature within one year. The fair value is equal to the carrying amount (book value).

9. Equity

Subscribed capital

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

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

Capital reserves

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

Treasury shares

Muehlhan AG's Annual General Meetings held on 19 May 2009 and 18 May 2010 passed resolutions authorizing the Executive Board to acquire treasury shares with a nominal value of up to €1.95 million. The buyback began in the fourth quarter of 2009. No shares were acquired in 2013 or 2012. In 2013, 131,965 shares were disposed of (previous year: 35,900 shares) under the Employee Program (see Note 19 as well). The treasury shares were shown separately as deduction items totaling €1,294,331 (previous year: €1,480,144) in the equity section. As of the balance sheet date, there were 486,869 treasury shares, corresponding to 2.5% of MYAG's share capital.

Other reserves

Other reserves include the following items:

in kEUR	31.12.2013	31.12.2012
Revenue reserves	9,876	9,876
Currency translation reserve	-1,637	-678
Reserve in connection with the acquisition of non-controlling interests	-183	0
Reserve in connection with the remeasurement of defined-benefit plans	-101	0
Reserve in connection with the first-time application of IFRS	589	589
TOTAL	8,544	9,787

The reserve in connection with the acquisition of non-controlling interests reflects the acquisition of the 40% minority interest in MSC. The reserve from the remeasurement of defined-benefit plans is connected to the entry into force of the amendment to IAS 19 as revised in 2013, under which actuarial gains and losses from the remeasurement of claims under defined-benefit plans are recognized immediately in "Other comprehensive income" in the shareholders' equity section of the balance sheet.

Retained earnings

In fiscal year 2013, as in the previous year, no dividends were paid.

Non-controlling Interests

MGR, MMF and MEP had non-controlling interests as of the balance sheet date. MYAG holds a 70% stake in MMF, a 51% stake in MGR and, indirectly via MAA, a 50% stake in MEP. In the 2013 reporting year, results totaling -€301 thousand (previous year: -€74 thousand) were allocated to other shareholders.

10. Pension accruals

Pension accruals totaled €776 thousand (previous year: €882 thousand). There are no plan assets.

In addition to these defined-contribution plans which, apart from current contributions, do not involve any further pension commitment, there are also defined-benefit plans, for which one of the required provisions relates primarily to the commitment to a now-retired former managing director of a subsidiary. In addition, in France, Poland and Greece there are statutory requirements to pay benefits to employees at retirement.

The calculations for this provision are based fundamentally on the "2005G" actuarial tables of Dr Klaus Heubeck. In accordance with IAS 19, the valuation was performed using the projected unit credit method. A domestic discount rate of 3.48% (previous year: 3.6%), a foreign discount rate of between 2% and 4% and future pension payment and wage increases of 2.0% (previous year: 2.0%) were assumed. Employee turnover was taken into account.

The Group's pension accruals changed as follows:

in kEUR	2013	2012
Balance on 1 January	882	826
Interest with respect to earned pension entitlements	15	20
Benefits paid	-40	-36
Actuarial gains and losses	142	0
Change in accruals – defined-contribution plans	-223	72
Balance on 31 December	776	882

It is expected that pension payments in 2014 will be at the same level as in the previous year.

11. Financial liabilities

Financial liabilities include the following items, shown by maturity:

	Total	Time to maturity		
in kEUR	2013	0-1 year	1-5 years	> 5 years
Bond	12,124	4,124	8,000	0
Liabilities to banks	7,324	6,248	1,077	0
Lease liabilities	871	567	303	0
TOTAL	20,319	10,939	9,380	0

	Total	Time to maturity		
in kEUR	2012	0-1 year	1-5 years	> 5 years
Bond	16,114	4,114	12,000	0
Liabilities to banks	7,858	6,237	1,621	0
Lease liabilities	672	210	462	0
TOTAL	24,644	10,561	14,084	0

On 28 March 2006, Muehlhan AG issued a bond with an original amount of €35 million, of which €15 million has since been repaid prematurely and €8 million has been repaid as scheduled. The bond matures in 2016. The bond issue was subscribed by The Prudential Insurance Company of America. The coupon stood at 8.77% at the beginning of 2013, payable as before every six months in arrears. The remainder will be repaid in three equal annual installments beginning in 2014. The bond was recorded at amortized cost after allowing for the transaction costs. The bond will involve annual outflows of funds totaling €4,877 thousand in 2014, €4,526 thousand in 2015 and €4,175 thousand thereafter. The main bond (and primary bank loan) covenants the Group has to satisfy include achieving a minimum EBITDA, minimum cash and cash equivalents and a minimum equity ratio and complying with the following ratios: EBIT/interest balance and net debt and/or net debt plus guarantees/EBITDA. To the best of our knowledge, there is no active market for this bond, so as far as we know, the fair value is most likely equivalent to its carrying amount (book value).

Liabilities under finance leases totaled €871 thousand on the balance sheet date (previous year: €672 thousand). The scope of the Group's finance leases is insignificant.

The MYAG Group has at its disposal credit lines totaling €12.6 million (previous year: €11.9 million), which can be used at its discretion as cash loans and loan guarantees. In addition, it has guarantee facilities totaling €49.1 million (previous year: €50.3 million) from Euler Hermes Kreditversicherungs AG, Zurich Versicherung Aktiengesellschaft and Zurich Insurance Public Limited Company, USA. Apart from liabilities to banks in the amount of €7.3 million (previous year: €7.9 million), guarantee credits totaled €14.2 million (previous year: €19.0 million) as of 31 December 2013. On 31 December 2013, aside from cash and cash equivalents, the company had at its disposal unutilized overdraft and guarantee facilities in the amount of €39.5 million (previous year: €36.4 million). The effective interest rate on financial liabilities averaged 7.8% during the fiscal year.

12. Tax liabilities

Tax liabilities totaling €659 thousand (previous year: €1,125 thousand) are all due within one year and their fair value is equal to their carrying amount (book value).

13. Other liabilities

Other liabilities include the following items, shown by maturity:

	Total	Time to maturity		
in kEUR	2013	0-1 year	1-5 years	> 5 years
Liabilities for other taxes	2,558	2,558	0	0
Liabilities relating to social security	1,922	1,922	0	0
Liabilities to personnel	6,765	6,765	0	0
Deferred income	522	522	0	0
Other liabilities	2,568	2,568	0	0
Other liabilities	14,335	14,335	0	0

	Total	Time to maturity		
in kEUR	2012	0-1 year	1-5 years	> 5 years
Liabilities for other taxes	2,757	2,757	0	0
Liabilities relating to social security	1,330	1,330	0	0
Liabilities to personnel	6,161	6,161	0	0
Deferred income	735	735	0	0
Other liabilities	1,815	1,815	0	0
Other liabilities	12,798	12,798	0	0

The fair value of "Other liabilities" is equal to the carrying amount (book value).

14. Deferred tax liabilities

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

in kEUR	31.12.2013	31.12.2012
Non-current assets	146	182
Current assets	523	417
Provisions and other liabilities	128	125
Settlement through netting by fiscal jurisdiction	-647	-537
TOTAL	150	188

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

in TEUR	2013	2012
Balance on 1 January	188	142
Currency translation differences	-1	1
Increase due to first-time consolidation	0	30
Allocation affecting net income in the Group consolidated income statement	72	6
Settlement through netting by fiscal jurisdiction	-109	9
Balance on 31 December	150	188

There are taxable temporary differences relating to investments in subsidiaries (outside basis differences) totaling €28 thousand (previous year: €22 thousand) for which no deferred tax liabilities have been recognized, in accordance with IAS 12.39, because there are no plans to either distribute profits or to dispose of the investments.

15. Provisions and contingent liabilities

The changes in other provisions are shown in the following table:

in kEUR	Balance on 01.01.2013	Utilization	Addition	Balance on 31.12.2013
Warranties	447	-217	179	410

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

There are no contingent liabilities which are likely to result in an outflow of funds. The main pending litigation against us is the lawsuit by a former managing director for bonus payments (amount in dispute: €250 thousand). We have already obtained a final judgment against that managing director in an earlier proceeding, so we expect this lawsuit to be dismissed. The legal costs for this trial, as well as for lawsuits that we have initiated as plaintiff, are recognized as expenses for the respective pending cases in the financial statements.

16. Trade payables

The fair value of trade payables is equal to the carrying amount (book value). All liabilities have a term to maturity of one year or less.

IV. Segment reporting

17. Segment reporting

Segment reporting is based on the management approach, in accordance with IFRS 8. Management and, therefore, internal reporting is organized primarily by geographic region. Here, the Group's results are broken down into the European, American and Asian regions. Central functions and consolida-

tion effects are shown separately in order to ensure that they are allocated to the Group as a whole. Since 2011, the Muehlhan Group's internal reporting has continued to distinguish among the business segments Ship Newbuilding, Ship Repair, Energy, Industry and Other Services, which are broken down by external revenues and EBIT (Earnings before interest and taxes/operating income).

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

Intersegment sales and revenues are always reported at prices that would also apply to arm's-length transactions. The company's main sources of revenue were Germany with €68.9 million, Poland with €23.1 million and Denmark with €23.5 million. Apart from this, no country accounted for more than 10% of Group sales revenues. In no case do external sales to customers account for more than 10% of Group sales revenues.

Breakdown by segments 2013

in KEUR	Europe	America	Asia	Holding company	Reconciliation	Group
External revenues	167,706	19,223	20,443	445	0	207,817
Intersegment sales	614	0	7	4,547	-5,169	0
SALES	168,319	19,223	20,451	4,993	-5,169	207,817
EBITDA	13,269	3,309	-543	-2,559	-36	13,440
Depreciation and amortization	-3,511	-382	-2,071	-457	171	-6,250
Goodwill impairment loss			-2,039			-2,039
EBIT	9,758	2,927	-4,652	-3,016	134	5,151
Capital expenditures	5,720	613	156	439	0	6,928

Breakdown by segments 2012

in kEUR	Europe	America	Asia	Holding company	Recon-ciliation	Group
External revenues	150,902	16,261	18,838	153	0	186,154
Intersegment sales	182	0	13	3,965	-4,160	0
SALES	151,084	16,261	18,851	4,118	-4,160	186,154
EBITDA	14,096	200	211	-3,908	122	10,721
Depreciation and amortization	-3,373	-783	-1,679	-508	123	-6,220
Goodwill impairment loss	0	0	0	0	0	0
EBIT	10,723	-583	-1,468	-4,416	245	4,501
Capital expenditures	4,257	754	365	253	0	5,630

Breakdown by business segments:

in kEUR	External revenues		EBIT	
	2013	2012	2013	2012
Ship Newbuilding	28,857	25,796	-771	-1,654
Ship Repair	38,065	42,842	238	2,808
Energy	50,157	42,208	2,702	-131
Industry	49,658	36,187	575	2,744
Other Services	40,634	38,967	5,289	4,904
Central Divisions / Consolidation	445	153	-2,882	-4,171
TOTAL	207,817	186,154	5,151	4,501

V. Notes to the income statement

18. Cost of materials and purchased services

This item may be broken down as follows:

in kEUR	2013	2012
Costs of raw materials, consumables and supplies	38,710	34,930
Cost of purchased services	53,752	45,248
TOTAL	92,462	80,178

19. Personnel expenses

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

Number	2013	2012
Europe (incl. Central divisions)	1,628	1,422
America	83	155
Asia	678	688
TOTAL	2,390	2,266

Personnel expenses include:

in kEUR	2013	2012
Wages and salaries	62,974	59,154
Social security and post-employment benefit costs	12,664	10,493
TOTAL	75,638	69,647

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

Employee incentive plan

In January 2010, Muehlhan AG introduced a new compensation program for the Group's top management level. The program has two components: a performance bonus and a value bonus. A balanced scorecard is used to measure eligibility for the performance bonus. If various agreed criteria are met at the level of the company and the Group, a cash bonus is paid. The amount of the value bonus is based on measurement of the sustainable increase in the equity of both the respective company and the Group. The beneficiary is allocated a virtual share portfolio with a value equal to the identified amount of value bonus for previous years. The shares are transferred to the recipient of the bonus in four equal tranches in the years following the year of assessment. For any transfer to take place in subsequent years, the beneficiary must still be employed by the Group. Any future negative virtual share allocations may be netted against existing claims. Once a year, the agreement can be terminated. The value bonus is recognized in accordance with IFRS 2, "Share-based Payment". Approximately 200,000 virtual shares may be allocated Group-wide for 2013. In 2013, a tranche of 131,965 shares (previous year: 35,900 shares) was transferred to the bonus creditors. The total cost of the value bonus will be divided over the four periods from the grant date until the shares vest. In 2013, the Group recognized an associated expense of €288 thousand ((previous year: €186 thousand). The fair value of the shares to be issued is measured at the share price on the grant date. The issuance of rights to shares is recognized in equity under capital reserves.

20. Financing costs

In addition to interest expense and guarantee fees, 2013 financing costs also included €98 thousand of expenses related to the valuation of the bond at amortized cost (previous year: €118 thousand).

Borrowing costs were expensed pursuant to IAS 23. No borrowing costs were capitalized, since these costs could not be attributed directly to a qualifying asset.

21. Other operating income and other operating expenses

Other operating income (2013: €5,459 thousand; previous year: €4,799 thousand) primarily includes proceeds from the settlement of two lawsuits (2013: €2,251 thousand; previous year: €0 thousand), exchange gains (2013: €625 thousand; previous year: €1,298 thousand) and gains from the disposal of fixed assets (2013: €354 thousand; previous year: €1,186 thousand).

Other operating expenses (2013: €31,736 thousand; previous year: €30,407 thousand) primarily include travel expenses (€5,723 thousand; previous year: €5,288 thousand), rentals and incidental expenses (€3,767 thousand; previous year: €3,957 thousand), write-downs and losses of receivables (€730 thousand; previous year: €1,216 thousand), legal and consulting expenses (€2,042 thousand; previous year: €1,774 thousand), repairs (€3,747 thousand; previous year: €3,108 thousand), motor vehicle expenses (€3,303 thousand; previous year: €3,294 thousand), exchange losses (€810 thousand; previous year: €1,529 thousand), insurance premiums (€1,342 thousand; previous year: €1,575 thousand) and staff training and other personnel costs (€1,488 thousand; previous year: €1,429 thousand). Minimum lease payments under operating lease agreements totaled €1,968 thousand (previous year: €1,304 thousand). The aforementioned exchange gains and losses related to translation adjustments within the meaning of IAS 21.52a.

22. Taxes on income

Taxes on income may be broken down as follows:

in kEUR	2013	2012
Current tax expense	-1,089	-1,868
Deferred taxes	-635	-201
TOTAL	-1,724	-2,070

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

Reconciliation of theoretical and actual tax expenses:

in kEUR	2013	2012
Earnings before taxes	3,227	2,218
Theoretical tax refund / expense at the tax rate of MYAG: 31.5%	-1,017	-699
Adjustments as a result of the utilization or capitalization of hitherto unused tax-loss carryforwards	-9	-1,385
Effects of impairment to goodwill	-642	0
Effects of differing tax rates	-72	-5
Adjustments as a result of prior-period tax refunds and tax expenses	16	19
Actual tax expenses	-1,724	-2,070
Effective tax rate	53.4%	93.3%

23. Earnings per share

The earnings per share calculation is based on the net income allocable to Muehlhan AG's equity investors and the average number of ordinary shares outstanding during the fiscal year. The number of shares used in calculating earnings per share was 18,891,317 shares for 2013 (previous year: 18,848,028). Since there were no potential ordinary shares as of the balance sheet date, basic and diluted earnings per share are identical.

24. Statement of comprehensive income

The item Remeasurement of defined-benefit plans contains a tax component, while the item Currency translation differences does not.

VI. Other disclosures

25. Risk management

Capital risk management

The Muehlhan Group pursues the goal of securing its capital base for the long term while generating an appropriate return on capital employed. At the same time, minimum capital requirements are taken into account. During the year under review, the Group was required by the bond covenants to maintain a minimum consolidated equity ratio of 45%. As of 31 December 2013, the Group had a consolidated equity ratio of 51.7% (previous year: 50.9%).

Financial risk management

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

Default risk

Default or credit risks exist when contractual partners do not meet their obligations. Muehlhan regularly analyzes the creditworthiness of every major debtor and grants credit limits on this basis. Because the Muehlhan Group operates worldwide and has a diversified customer base, there are no significant concentrations of default risk. The Muehlhan Group's maximum default risk is equal to the carrying amount (book value) of all financial assets plus the nominal value of contingent liabilities, not including potential warranty obligations. To the extent that default risks are foreseeable for financial assets, impairment losses are recognized.

Interest-rate risk

Most of the Group's financial liabilities are long-term and carry a fixed rate of interest. The Group therefore has no significant interest-rate risk exposure.

Liquidity risk

Liquidity planning systems ensure early detection of any risks from cash flow fluctuations. The bond issue and the issue of new shares in 2006 improved the Group's liquidity position on a long-term basis.

Currency risk

More than 60% of the Group's sales revenues are generated in Euros or Danish Kroner, which scarcely fluctuate in relation to the Euro. For the most part, the remaining revenues generated in foreign currencies are offset by expenses in the same currencies, meaning that the currency risk from operations is limited to the profit contribution from the companies concerned. As a matter of principle, the Group does not hedge this risk. The Group posted a net currency loss of €0.2 million for 2013 (previous year: loss of €0.2 million). The change in the Group's financing structure in 2007 substantially reduced the impact of exchange-rate fluctuations on the income statement.

26. Transactions with related companies and persons

Transactions between the company and subsidiaries deemed to be related parties have been eliminated on consolidation and are not commented on in these notes. Transactions with related parties are conducted at terms that would also apply to arm's-length transactions. Only a small number of transactions involved unconsolidated subsidiaries.

The composition of the Executive Board and the Supervisory Board is discussed in Notes 30 and 31. The Chairman of the Supervisory Board, Dr Wulf-Dieter H. Greverath, is also a related person within the meaning of IAS 24.9, since he is simultaneously a major shareholder of Muehlhan AG through the companies he controls. Dr Greverath and the companies controlled by him are referred to as the "Greverath Property" in the following comments. In 2013, the Group's expenses relating to the Greverath Property totaled €359 thousand (previous year: €343 thousand) and consisted of rent, real estate taxes and Supervisory Board compensation. Earnings from services in 2013 totaled €1 thousand (previous year: €0 thousand).

On the balance sheet date, the Greverath Property owed the company € 41 thousand in trade payables (previous year: €44 thousand). These liabilities pertain to Supervisory Board compensation and property taxes

27. Financial instruments

For trade receivables, other receivables and other assets, loans, cash and cash equivalents, trade payables and other liabilities, the carrying amount (book value) is approximately equal to the market value due to their short term to maturity, to the extent they are financial instruments. The bond issued in 2006 is also valued at amortized cost. For more information, please refer to Section II of these notes, "Significant consolidation, accounting and valuation principles".

28. Audit

The Annual General Meeting appointed BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, to audit the consolidated financial statements for fiscal year 2013. In 2013, total fees for financial statement auditing services within the Group amounted to €120 thousand (previous year: €116 thousand); for tax advisory services, €27 thousand (previous year: €17 thousand) and for other services, €10 thousand (previous year: €10 thousand), bringing the overall amount charged for all services to €157 thousand (previous year: €143 thousand). The fee for auditing MYAG's separate financial statements totaled €30 thousand (previous year: €27 thousand).

29. Other financial commitments and contingent liabilities

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

The company rents and leases office space, production halls, technical equipment, office equipment and its fleet of vehicles. The various contracts have remaining lease terms of up to five years. Some contracts contain a renewal option under which the term of the agreement may be extended if the contractually agreed term has not yet expired. Existing price-adjustment clauses merely refer to passing on tax and operating-cost adjustments. Some contracts contain an option to purchase the asset at the current market price at the end of the contract. The agreements reflect customary terms in their respective industries.

Other financial commitments consisting mainly of rental and lease payments amounted to €6,441 thousand, of which €3,221 thousand is due in 2014, €1,851 thousand in 2015 and €1,368 thousand at a later date.

30. Executive Board

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

Mr Stefan Müller-Arends, businessman, St Augustin (Chairman)

Dr Andreas C. Krüger, engineer, Hamburg

One Executive Board member may represent the company jointly with another Executive Board member or an authorized signatory (Prokurist), with the authority to enter into legal transactions on behalf of the company, including legal transactions with a third party where he is acting as the legal representative of such third party. The compensation of the parent company's Executive Board totaled €971 thousand for the fiscal year, including €683 thousand of ongoing fixed compensation, €268 thousand of ongoing variable compensation and €20 thousand of expenses for the bonus program (previous year: €821 thousand, including €671 thousand of fixed compensation and €150 thousand of variable compensation).

31. Supervisory Board

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

Dr Wulf-Dieter H. Greverath (Chairman), businessman, of Hamburg
 Dipl.-Ing. Dr Gottfried Neuhaus, businessman, of Hamburg
 Mr Philip Percival, businessman, of London, Great Britain

The Supervisory Board was paid €55 thousand for reimbursement of expenses for the fiscal year (previous year: €51 thousand), of which the fixed component accounted for €50 thousand (previous year: also €50 thousand) and the variable component accounted for €5 thousand (previous year: €1 thousand).

32. Corporate Governance

The Executive Board and the Supervisory Board have issued and made available to shareholders on Muehlhan AG's website the Declaration of Conformity required under Article 161 of the German Stock Corporation Law (Aktengesetz/AktG). The full text of the Declaration of Conformity can be found in the "Investor Relations" section, under "Corporate Governance", on Muehlhan AG's website (www.muehlhan.com).

33. Events after the balance sheet date

There were no significant events after the balance sheet date.

Hamburg, 14 March 2014

The Executive Board



Stefan Müller-Arends



Dr. Andreas C. Krüger

05 For more information

STATEMENT OF THE AUDITORS' REPORT*

"We have audited the consolidated financial statements prepared by Muehlhan AG, Hamburg, comprising the balance sheet, the consolidated statement of comprehensive income, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the financial year from 1 January 2013 to 31 December 2013. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. [paragraph] 1 HGB and supplementary provisions of the articles of incorporation are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 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 our 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 comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Hamburg, 14 March 2014

BDO AG Wirtschaftsprüfungsgesellschaft

zu Inn- u. Knyphausen
Wirtschaftsprüfer

ppa. Rüdiger
Wirtschaftsprüfer

* Translation of the German Auditors' Report

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FINANCIAL CALENDAR

14 May 2014	Publication of 1st quarter figures 2014
20 May 2014	General Meeting Muehlhan AG
30 July 2014	Publication of half-yearly report 2014
14 November 2014	Publication of nine-month figures 2014

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NOTES

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

FORWARD-LOOKING STATEMENTS

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

